



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 Senior Preferred Notes, Senior Non-Preferred Notes, Subordinated Notes and Deposit Notes (each as defined in the Trust Deed (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 8 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, as amended (the **UK Listing Authority**) for Senior Preferred Notes, Senior Non-Preferred 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 Directive 2014/65/EU (**MiFID II**).

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 Aa3/P-1/Baa1 by Moody's Investors Service Limited (**Moody's**), A/A-1/BBB by S&P Global Ratings Europe Limited (**S&P**) and A/F1/A- by Fitch Ratings Ltd. (**Fitch**). The long-term ratings assigned by each of Moody's and S&P are senior preferred ratings (i.e. relating to obligations equivalent to Senior Preferred Notes), whereas the long-term rating assigned by Fitch is a senior non-preferred rating (i.e. relating to obligations equivalent to Senior Non-Preferred Notes). Moody's, S&P and Fitch are each established in the European Union (**EU**) and registered under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). 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. 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
NatWest Markets
RBC Capital Markets

BNP PARIBAS
Citigroup
Credit Suisse
Deutsche Bank
HSBC
Morgan Stanley
Nomura

Société Générale Corporate & Investment Banking

UBS Investment Bank

IMPORTANT INFORMATION

This Base Prospectus comprises a base prospectus for the purposes of Article 5.4 of the Prospectus Directive. When used in this Base Prospectus, **Prospectus Directive** means Directive 2003/71/EC (as amended or superseded), and includes any relevant implementing measure in a relevant Member State of the European Economic Area (EEA).

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 56) 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.

DISTRIBUTION

MiFID II product governance / target market – The Final Terms in respect of any Notes will include a legend entitled “*MiFID II Product Governance*” which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a **distributor**) should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue of Notes about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the **MiFID Product Governance Rules**), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

PRIIPs Regulation / EEA retail investors – If the Final Terms in respect of any Notes includes a legend entitled “*Prohibition of Sales to EEA Retail Investors*”, the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a **retail investor** means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the **Insurance Mediation Directive**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the **PRIIPs Regulation**) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been or will be prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

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 EEA 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 EEA (including the United Kingdom), Australia, Canada, Hong Kong, Japan, Singapore and Switzerland (see “*Subscription and Sale*”).

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, or for the account or benefit of, U.S. persons as defined in Regulation S under the Securities Act (see “*Subscription and Sale*”).

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.

BENCHMARKS REGULATION

Amounts payable on Floating Rate Notes issued under the Programme may be calculated by reference to LIBOR, EURIBOR or SONIA as specified in the applicable Final Terms, and amounts payable on Reset Notes issued under the Programme may in certain circumstances be determined in part by reference to such benchmarks. The applicable Final Terms will indicate whether or not the benchmark is provided by an administrator included in the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority (**ESMA**) pursuant to Article 36 of Regulation (EU) No. 2016/1011 (the **Benchmarks Regulation**). Transitional provisions in the Benchmarks Regulation may have the result that the administrator of a particular benchmark is not required to appear in the register of administrators and benchmarks at the date of the Final Terms. The registration status of any administrator under the Benchmarks Regulation is a matter of public record and, save where required by applicable law, the Issuer does not intend to update the Final Terms to reflect any change in the registration status of the administrator.

NOTICE TO CANADIAN INVESTORS

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Base Prospectus or any applicable supplement (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal adviser.

SINGAPORE: SECTION 309B(1)(C) NOTIFICATION

In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the **SFA**) and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the **CMP Regulations 2018**), the Issuer has, unless otherwise specified before an offer of Notes, determined the classification of all Notes to be issued under the Programme as prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

STABILISATION

In connection with the issue of any Tranche of Notes, one or more relevant Dealers acting as the Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation 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, stabilisation may not necessarily occur. 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 cease 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 Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

FORWARD LOOKING STATEMENTS

Some statements in this Base Prospectus may be deemed to be forward looking statements. Forward looking statements include statements concerning the Issuer's plans, objectives, goals, strategies, future operations and performance and the assumptions underlying these forward looking statements. When used in this Base Prospectus, words such as "anticipates", "estimates", "expects", "believes", "intends", "plans", "aims", "seeks", "may", "will", "should" and any similar expressions generally identify forward looking statements. Forward looking statements are based on the current view of the Issuer's management with respect to future events and financial performance. Although the Issuer believes that the expectations, estimates and projections reflected in its forward looking statements are reasonable as at the date of this Base Prospectus, the Issuer's actual results of operation may vary materially from those expected, estimated or predicted.

Any forward looking statements contained in this Base Prospectus speak only as at the date of this Base Prospectus. Without prejudice to any requirements under applicable laws and regulations, the Issuer expressly disclaims any obligation or undertaking to disseminate after the date of this Base Prospectus any updates or revisions to any forward looking statements contained in it to reflect any change in expectations or any change in events, conditions or circumstances on which any such forward looking statement is based.

CERTAIN DEFINED TERMS

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 re-enactment thereof or any statutory instrument, order or regulation made thereunder or under any statutory modification or re-enactment.

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.

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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 £229 billion as at 4 April 2018.

Issuer Legal Entity Identifier (LEI): 549300XFX12G42QIKN82

Risk Factors: Certain factors may affect the Issuer's ability to fulfil its obligations under Notes issued under the Programme. 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, and prospective investors should carefully read, “Risk Factors” below.

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
- NatWest Markets Plc
- Nomura International plc
- RBC Europe Limited
- Société Générale
- UBS AG, London Branch
- UBS Limited

Issuing and Principal Paying Agent: Citibank, N.A., London Branch

Amount: 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.

Distribution:	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies:	<p>Subject to any applicable legal or regulatory restrictions, Notes may be denominated in Sterling, euro, U.S. dollars, Yen or any other currency, 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>
Denominations:	The Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer(s), save that (i) 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 (ii) the minimum denomination of each Note will be not less than €100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency).
Maturities:	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, (b) in the case of Senior Non-Preferred Notes, the minimum maturity will be one year and one day, (c) in the case of Deposit Notes, the maximum maturity will be five years less one day, and (d) notwithstanding (a), (b) and (c) 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.
Issue Price:	Notes may be issued at par or at a premium or discount to par and will be issued on a fully-paid basis.
Form:	The Notes will be issued in bearer form.
Terms of the Notes:	The final terms of the Notes will be specified in the applicable Final Terms, which must be read together with the Terms and Conditions of the Notes set out in this Base Prospectus (as amended, if applicable).
Interest:	The following types of Note may be issued: (i) Notes which bear interest at a fixed or floating rate; (ii) Notes which bear interest at the initial rate specified in the applicable Final Terms, which may be reset thereafter; (iii) Notes which bear interest on the basis of a combination of fixed and floating rates; and (iv) Notes which do not bear interest. 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.
Benchmark discontinuation:	If so specified in the applicable Final Terms for a Series of Notes, then in

the event that a Benchmark Event occurs, such that any rate of interest (or any component part thereof) cannot be determined by reference to the original benchmark or screen rate (as applicable) specified in the applicable Final Terms, then the Issuer may (subject to certain conditions) be permitted to substitute such benchmark and/or screen rate (as applicable) with a successor, replacement or alternative benchmark and/or screen rate (with consequent amendment to the terms of such Series of Notes and, potentially, the application of an adjustment spread (which could be positive or negative)). See Condition 4.4 for further information.

Redemption:

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, if applicable, in the case of Subordinated Notes, following the occurrence of a Regulatory Event or, if applicable, in the case of Senior Non-Preferred Notes, following the occurrence of a Loss Absorption Disqualification Event) 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.

Subject to certain exceptions, Subordinated Notes may not be redeemed prior to five years from the issue date thereof.

Substitution and Variation in respect of Senior Non-Preferred Notes:

If so specified in the applicable Final Terms for a Series of Senior Non-Preferred Notes, upon the occurrence of a Loss Absorption Disqualification Event or an Alignment Event, the Issuer may, subject to certain conditions and without the consent of the Noteholders, either substitute all (but not some only) of the relevant Series of Senior Non-Preferred Notes for, or vary the terms of such Series of Senior Non-Preferred Notes so that they remain or become, Loss Absorption Compliant Notes.

Denomination of Notes:

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.

Taxation:

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 9) pay such additional amounts:

- (i) in the case of (A) all Senior Preferred Notes, (B) all Deposit Notes and (C) each Series of Senior Non-Preferred Notes unless the applicable Final Terms expressly specifies “*Senior Non-Preferred Notes: Gross-up of principal*” as “Not Applicable”, in respect of interest or principal; or

- (ii) in the case of (A) all Subordinated Notes and (B) each Series of Senior Non-Preferred Notes for which the applicable Final Terms expressly specifies “*Senior Non-Preferred Notes: Gross-up of principal*” as “Not Applicable”, in respect of interest only,

as will result in Noteholders receiving such amounts as they would have received in respect of the Notes had no such withholding been required.

For the avoidance of doubt, in the case of (A) all Subordinated Notes and (B) each Series of Senior Non-Preferred Notes for which the applicable Final Terms expressly specifies “*Senior Non-Preferred Notes: Gross-up of principal*” as “Not Applicable”, the Issuer will not pay any additional amounts in respect of principal (including premium and other payments akin to principal, as more fully described in the Terms and Conditions of the Notes).

Status of the Senior Preferred Notes and Deposit Notes:

The Senior Preferred Notes, the Deposit Notes and any relative Coupons will constitute direct, unconditional and (subject to the provisions of Condition 3) unsecured obligations of the Issuer and will rank *pari passu* and without any preference among themselves and (subject to any applicable statutory exceptions or preferences and the provisions of Condition 3) equally with all other unsecured obligations (other than Senior Non-Preferred Notes and other obligations which rank or are expressed to rank junior to the Senior Preferred Notes or Deposit Notes) of the Issuer.

Upon *The Banks and Building Societies (Priorities on Insolvency) Order 2018* (the **Hierarchy Order**, which term shall mean the final version of the draft Order (however designated) of that name published by HM Treasury for consultation in September 2018) coming into force (presently expected to be 1 December 2018), the Senior Preferred Notes, the Deposit Notes and any relative Coupons relating thereto are intended to form part of the class of ‘ordinary non-preferential debts’ referred to in the draft Hierarchy Order (or such other designation as may be attributed to the equivalent such class of debts in the final Hierarchy Order).

Status of the Senior Non-Preferred Notes:

The Senior Non-Preferred Notes and any relative Coupons will constitute direct and unsecured obligations of the Issuer and will rank *pari passu* and without any preference among themselves and junior to the Senior Preferred Notes and the Deposit Notes. The claims in respect of principal, interest and any other amount (including, without limitation, any damages awarded for breach of the Issuer’s obligations) in respect of the Senior Non-Preferred Notes and any relative Coupons will, in the event of the winding up or dissolution of the Issuer (other than an Excluded Dissolution), rank in the manner provided in the Trust Deed and as specified in Condition 2.2.

Upon the Hierarchy Order coming into force, the Senior Non-Preferred Notes and any relative Coupons relating thereto are intended to form part of the class of ‘secondary non-preferential debts’ referred to in the draft Hierarchy Order (or such other designation as may be attributed to the equivalent such class of debts in the final Hierarchy Order).

Status of the Subordinated Notes:

The Subordinated Notes and any relative Coupons will constitute direct and unsecured obligations of the Issuer and will rank *pari passu* and without any preference among themselves and be subordinated to the Senior Non-Preferred Notes. The claims in respect of principal, interest and any other amount (including, without limitation, any damages awarded for breach of the Issuer's obligations) in respect of Subordinated Notes and any relative Coupons will, in the event of the winding up or dissolution of the Issuer (other than an Excluded Dissolution), be subordinated in the manner provided in the Trust Deed and as specified in Condition 2.3.

Upon the Hierarchy Order coming into force, the Subordinated Notes and any relative Coupons relating thereto are intended to form part of the class of 'tertiary non-preferential debts' referred to in the draft Hierarchy Order (or such other designation as may be attributed to the equivalent such class of debts in the final Hierarchy Order).

Cross Default:

The Notes (other than Restricted Default Senior Non-Preferred Notes and Subordinated Notes) will contain a cross default clause in respect of indebtedness for moneys borrowed or raised by the Issuer.

Negative Pledge:

The Notes (other than Senior Non-Preferred Notes and 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.

Rating:

Series of Notes issued under the Programme 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 for Senior Preferred Notes, Deposit Notes and Unrestricted Default Senior Non-Preferred Notes:

The terms of the Senior Preferred Notes, Deposit Notes and Unrestricted Default Senior Non-Preferred Notes will contain, amongst others, the following events of default (as more fully set out at Condition 10):

- (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 of the Notes 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; and

- (e) events relating to the administration, liquidation, insolvency or winding up of the Issuer or any of its Principal Subsidiaries.

Events of Default for Subordinated Notes and Restricted Default Senior Non-Preferred Notes:

The Events of Default and enforcement rights in respect of Subordinated Notes and Restricted Default Senior Non-Preferred Notes are restricted (as more fully set out at Condition 11).

If default is made for a period of seven days or more in the payment of any principal due on any Subordinated Notes or Restricted Default Senior Non-Preferred Notes or for a period of 14 days or more in the payment of any interest due on any Subordinated Notes or Restricted Default Senior Non-Preferred Notes, the Trustee may institute proceedings for the winding up of the Issuer in England (but not elsewhere) and prove in such winding up but may take no other action in respect of such default.

In the event of a winding up or dissolution of the Issuer (other than an Excluded Dissolution), the Trustee may give notice to the Issuer accelerating the Subordinated Notes or Restricted Default Senior Non-Preferred Notes and may prove in such winding up or dissolution in respect of such Notes (such claim ranking, in the case of Subordinated Notes, as provided in Condition 2.3 or, in the case of Restricted Default Senior Non-Preferred Notes, Condition 2.2).

Listing:

Application has been made for Senior Preferred Notes, Senior Non-Preferred Notes and the Subordinated Notes issued under the Programme to be listed on the London Stock Exchange.

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*”.

United States Selling Restrictions:

Regulation S, Category 2. TEFRA C, TEFRA D or TEFRA not applicable, as specified in the applicable Final Terms.

MiFID II product governance:

The Final Terms in respect of any Notes will include a legend entitled “*MiFID II Product Governance*” which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate.

PRIIPs Regulation:

If the Final Terms in respect of any Notes includes a legend entitled “*Prohibition of Sales to EEA Retail Investors*”, the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA, and no key information document under the PRIIPs Regulation will be prepared.

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 UK Banking Act 2009 confers substantial powers on a number of UK authorities designed to enable them to take a range of actions in relation to UK deposit-taking institutions which are considered to be at risk of failing. The exercise of any of these actions in relation to the Issuer or any Notes could materially adversely affect the value of any Notes and/or the rights of Noteholders

Under the UK Banking Act 2009 as amended (the **Banking Act**), substantial powers are granted to HM Treasury, the Bank of England (the **BoE**) acting as the Prudential Regulation Authority through its Prudential Regulation Committee (the **PRA**), the FCA and the BoE (together, the **Authorities**) as part of a special resolution regime (the **SRR**). These powers enable the Authorities to deal with, amongst other entities, a UK bank or building society (each a **relevant entity**) in circumstances in which the Authorities consider that the resolution conditions are satisfied, through a series of stabilisation options.

The stabilisation options which may be commenced by the Authorities are: (i) private sector transfer of all or part of the business of the relevant entity; (ii) transfer of all or part of the business of the relevant entity to a “bridge bank” established by the BoE; (iii) transfer to an asset management vehicle; (iv) temporary public ownership (nationalisation) of the relevant entity as well as powers to convert a building society into a company in connection with a bail-in; and (v) a bail-in tool which permits the BoE to (a) cancel, modify or convert the form of a liability owed by a relevant entity or provide that a contract under which, amongst others, a relevant entity has a liability is to have effect as if a specified right had been exercised under it or (b) transfer securities issued by a relevant entity to a bail-in administrator.

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

The EU Bank Recovery and Resolution Directive (Directive 2014/59/EU) (the **BRRD**) also provides that a Member State as a last resort, after having assessed and used the above resolution tools to the maximum extent practicable whilst maintaining financial stability, and where certain other mandatory conditions of the BRRD have been satisfied, may provide extraordinary public financial support through additional financial

stabilisation tools. These consist of the public equity support and temporary public ownership tools. Any such extraordinary financial support must be provided in accordance with the EU state aid framework.

In addition, the Banking Act contains a separate power, often referred to as the “capital write-down tool”, enabling the Authorities to cancel or transfer common equity tier 1 instruments away from the original owners, or write down (including to nil) an institution’s Additional Tier 1 and Tier 2 capital instruments, or to convert them into common equity tier 1 instruments (which, in the case of the Issuer, could be core capital deferred shares), if the Authorities consider that the institution or the group is at the “point of non-viability” and certain other conditions are met. The capital write-down tool must be applied before any of the stabilisation options provided for in the SRR may be used and may be used whether or not the institution subsequently enters into resolution. Subordinated Notes issued under the Programme may be Tier 2 capital instruments, and any such Subordinated Notes would be subject to the capital write-down tool.

Accordingly, the use of any stabilisation powers in respect of the Issuer may have an adverse effect on the Issuer’s ability to perform its obligations in respect of Notes issued under the Programme, and the use of any stabilisation powers and/or (in the case of Subordinated Notes) the capital write-down tool in respect of Notes themselves may impact the market price of the Notes and/or may adversely affect the rights of Noteholders in respect of their Notes. These risks are discussed further in the following paragraphs.

The SRR and/or capital write-down tool may be triggered prior to insolvency of the Issuer

The purpose of the stabilising options and the capital write-down powers is to address the situation where all or part of a business of a relevant entity has encountered, or is likely to encounter, financial difficulties, giving rise to wider public interest concerns. Accordingly, the stabilisation options may be exercised if (i) the relevant Authority is satisfied that a relevant entity (such as the Issuer) is failing or is likely to fail, (ii) having regard to timing and other relevant circumstances, the relevant Authority determines that it is not reasonably likely that (ignoring the stabilising options) action will be taken that will enable the relevant entity to satisfy those conditions, (iii) the relevant Authority consider the exercise of the stabilisation options to be necessary, having regard to certain public interest considerations (such as the stability of the UK financial system, public confidence in the UK banking system and the protection of depositors) and (iv) the relevant Authority considers that the specific resolution objectives would not be met to the same extent by the winding up of the relevant entity.

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

The European Banking Authority (the **EBA**) has published guidelines on the circumstances in which an institution shall be deemed as “failing or likely to fail” by supervisors and resolution authorities. The guidelines set out the objective criteria which should apply when supervisors and Authorities make such a determination.

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

Various actions may be taken under the SRR in relation to the Notes without the consent of the Noteholders

If the Issuer were made subject to the SRR, HM Treasury or the BoE may exercise extensive share transfer powers (applying to a wide range of securities) and property transfer powers (including powers for partial

transfers of property, rights and liabilities) in respect of the Issuer and/or its securities (subject to certain protections).

Exercise of these powers could involve taking various actions in relation to any securities issued by the Issuer (including any Notes issued under the Programme) without the consent of the Noteholders, including (among other things):

- transferring the Notes out of the hands of the holders;
- delisting the Notes;
- writing down (which may be to nil) the Notes or converting the Notes into another form or class of securities; and/or
- modifying or disapplying certain terms of the Notes, which could include modifications to (without limitation) the maturity date (which may be to extend the maturity date), the interest provisions (including reducing the amount of interest payable, the manner in which interest is calculated and/or the scheduled interest payment dates, including by suspending payment for a temporary period), and/or the redemption provisions (including the timing of any redemption options and/or the amount payable upon redemption), and may result in the disapplication of acceleration rights or events of default under the terms of the Notes or the effect thereof.

The relevant Authorities may exercise the bail-in tool under the Banking Act to recapitalise a relevant entity in resolution by allocating losses to (amongst others) its capital providers and unsecured creditors (which would include Noteholders) in a manner that (i) ought to respect the hierarchy of claims in an ordinary insolvency and (ii) is consistent with shareholders and creditors not receiving a less favourable treatment than they would have received in ordinary insolvency proceedings of the relevant entity (known as the “no creditor worse off” safeguard). Accordingly, the ranking of Notes in insolvency can be expected to have a direct impact on the relative losses imposed on Noteholders in a resolution. For further information with respect to the ranking of Notes, see *“The Senior Non-Preferred Notes and the Subordinated Notes rank junior to most of the Issuer’s liabilities”* and *“Certain liabilities of the Issuer will by law rank in priority to the Senior Preferred Notes and the Deposit Notes in the event of a winding up of the Issuer”* below.

The bail-in tool includes the power to cancel a liability or modify the terms of contracts for the purposes of reducing or deferring the liabilities of the relevant entity under resolution and the power to convert a liability from one form or class to another. There is also the power to convert a building society into a company in connection with a bail-in. The exercise of such powers may result in the cancellation of all, or a portion, of the principal amount of, interest on, or any other amounts payable on, the Notes and/or the conversion of all or a portion of the principal amount of, interest on, or any other amounts payable on, the Notes into equity securities (which, in the case of the Issuer, could be core capital deferred shares) or other securities or other obligations of the Issuer or another person, including by means of a variation to the terms of the Notes.

The taking of any such actions could materially adversely affect the rights of Noteholders, the price or value of their investment in the Notes, the liquidity and/or volatility of any market in the Notes and/or the ability of the Issuer to satisfy its obligations under the Notes. In such circumstances, Noteholders may have a claim for compensation under one of the compensation schemes existing under, or contemplated by, the Banking Act. However, such compensation will be limited to the return the Noteholder might otherwise have received on an insolvency of the Issuer (less the value already received through resolution), and there can be no assurance that Noteholders will have such a claim or, if they do, that they would thereby recover compensation promptly or equal to any loss actually incurred.

In addition, if the market perceives or anticipates that any action may be taken under the Banking Act in respect of the Issuer or any of its securities (including any Notes issued under the Programme), this may have a

significant adverse effect on the market price of the Notes and/or the liquidity and/or volatility of any market in the Notes, whether or not such powers are ultimately exercised. In such case, investors may experience difficulty in selling their Notes, or may only be able to sell their Notes at a loss.

Mandatory write-down and conversion of capital instruments may affect the Subordinated Notes

As noted above, in addition to the stabilisation options which may be used in a resolution of an institution, the Banking Act contains a capital write-down tool which enables (and, if the institution enters into resolution, requires) the relevant Authorities permanently to write-down, or convert into common equity tier 1 instruments (which, in the case of the Issuer, could be core capital deferred shares), any Tier 1 capital instruments and Tier 2 capital instruments (including Subordinated Notes issued under the Programme) at the point of non-viability of the relevant entity and before or together with the exercise of any stabilisation power.

For the purposes of the application of such mandatory write-down and conversion power, the point of non-viability is the point at which (i) the relevant Authority determines that the relevant entity meets the conditions for resolution (but no resolution action has yet been taken), (ii) the relevant Authority determines that the relevant entity or its group will no longer be viable unless the relevant capital instruments are written-down or converted or (iii) extraordinary public financial support is required by the relevant entity other than, where the entity is an institution, for the purposes of remedying a serious disturbance in the economy of an EEA member state and to preserve financial stability.

Subordinated Notes issued under the Programme may therefore be subject to write-down or conversion into equity on application of such powers (without requiring the consent of the holders thereof), which may result in the holders losing some or all of their investment. The “no creditor worse off” safeguard would not apply in relation to an application of such powers in circumstances where resolution powers are not also exercised.

The exercise of such mandatory write-down and conversion power under the Banking Act could, therefore, materially adversely affect the rights of holders of Subordinated Notes, and such exercise (or the perception that such exercise may occur) could materially adversely affect the price or value of their investment in Subordinated Notes and/or the ability of the Issuer to satisfy its obligations under the Notes, and/or may adversely affect liquidity and/or volatility in any market for such Subordinated Notes.

The circumstances under which the relevant Authorities would exercise resolution powers are uncertain, which may affect the value of the Notes

There is considerable uncertainty regarding the specific factors beyond the goals of addressing banking crises pre-emptively and minimising taxpayers' exposure to losses (for example, by writing down relevant capital instruments before the injection of public funds into a financial institution) which the relevant Authorities would consider in deciding whether to exercise the Banking Act resolution powers with respect to the relevant financial institution and/or securities, such as the Notes, issued by that institution. While the Banking Act provides some guidance as to how and when the resolution powers may be utilised by the relevant Authorities, the Banking Act and the BRRD (which has been transposed into English Law by amendments to the Banking Act) allow for discretion and there is no certainty as to how the relevant Authorities will exercise any resolution powers with respect to a financial institution and/or securities issued by that institution. As there may be many factors, including factors outside of the Issuer's control or not directly related to it, which could result in such a determination, holders of the Notes may not be able to refer to publicly available criteria in order to anticipate a potential exercise of any such resolution powers.

Accordingly, the threat of resolution powers being used may affect trading behaviour, including prices and volatility, and, as a result, the Notes are not necessarily expected to follow the trading behaviour associated with other types of securities.

The Senior Non-Preferred Notes and the Subordinated Notes rank junior to most of the Issuer's liabilities

Whilst the Issuer's Senior Non-Preferred Notes and Senior Preferred Notes both share the 'senior' designation under the Programme, the Senior Non-Preferred Notes rank junior to the Senior Preferred Notes (which, in turn, rank junior to those of the Issuer's obligations which are by law given priority over its Senior Preferred Notes, including its retail member deposits – see "*Certain liabilities of the Issuer will by law rank in priority to the Senior Preferred Notes and Deposit Notes in the event of a winding-up of the Issuer*" below) and other unsecured and unsubordinated liabilities. Accordingly, prospective investors in Notes issued under the Programme should note that, in the event of the Issuer's insolvency or resolution, investors in the Senior Non-Preferred Notes would generally be expected to lose their entire investment before losses are imposed on holders of the Senior Preferred Notes or Deposit Notes. The Subordinated Notes rank junior to the Senior Non-Preferred Notes, and the Issuer may also issue other securities which rank junior to the Senior Non-Preferred Notes and in priority to the Subordinated Notes. Further, investors in the Subordinated Notes and (if so specified in the applicable Final Terms) Senior Non-Preferred Notes will not be entitled to exercise any rights of set-off against the Issuer in respect of such Notes.

If the Issuer is declared insolvent and a winding up is initiated the Issuer will be required to meet its obligations to all of its creditors (including all of its retail member deposits) that are afforded higher-priority status under the UK insolvency rules in full before it can make any payments on the Senior Preferred Notes or Deposit Notes, and thereafter to pay in full the holders of its Senior Preferred Notes and Deposit Notes and other senior-ranking debt (including unsecured creditors but excluding any obligations that it may have with respect to its Senior Non-Preferred Notes, other Senior Non-Preferred Claims and Subordinated Claims including subordinated debt and deferred shares, including the Issuer's core capital deferred shares) before it can make any payments on the Senior Non-Preferred Notes. In turn, the Issuer would be required to pay the holders of its Senior Non-Preferred Notes, all other Senior Non-Preferred Claims and any more senior-ranking Subordinated Claims (if any) in full before the Issuer can make any payments on the Subordinated Notes. Accordingly, on a winding up or dissolution of the Issuer, the Issuer may not have enough assets remaining after paying higher-priority creditors to pay amounts due under the relevant Notes.

The ranking of Notes in a winding up or dissolution of the Issuer can also be expected to have a direct impact on the relative losses imposed on Noteholders in a resolution of the Issuer or capital write-down under the Banking Act, as such resolution and capital write-down powers ought to be used in a manner that respects the hierarchy of claims in an ordinary insolvency - see "*The UK Banking Act 2009 confers substantial powers on a number of UK authorities designed to enable them to take a range of actions in relation to UK deposit-taking institutions which are considered to be at risk of failing. The exercise of any of these actions in relation to the Issuer or any Notes could materially adversely affect the value of any Notes and/or the rights of Noteholders*" above.

On 28 December 2017, Directive (EU) 2017/2399 (the **Article 108 Amending Directive**) entered into force, amending Article 108 of BRRD and designed to create a new category of unsecured debt for banks and other credit institutions. Whilst the Commission considers this new category as "*still being part of the senior unsecured debt category (only as an un-preferred tier senior debt)*", it nevertheless ranks junior to ordinary unsecured creditors and other senior unsecured and preferred debts. Accordingly, the Article 108 Amending Directive differentiates between a class of 'ordinary unsecured claims' and a new, lower-ranking 'un-preferred' senior class.

In September 2018, HM Treasury launched a consultation on the proposed implementation of the Article 108 Amending Directive into UK insolvency law and published a related draft Order entitled "*The Banks and Building Societies (Priorities on Insolvency) Order 2018*". Under the draft Hierarchy Order, and in relation to insolvency proceedings which are commenced on or after the date on which the final Hierarchy Order comes into effect (which the draft Hierarchy Order currently anticipates will be 1 December 2018), it is proposed that those debts of a relevant institution (which would include the Issuer) which are 'non-preferential' debts (i.e.

those debts which are not presently given priority over ordinary unsecured claims under UK insolvency law) will no longer be treated as a single *pari passu* class, and instead will be split into three distinct tiers:

- (1) 'ordinary non-preferential debts' (broadly equating to ordinary senior unsecured liabilities);
- (2) 'secondary non-preferential debts' (which equates to the new un-preferred senior class under the Article 108 Amending Directive); and
- (3) 'tertiary non-preferential debts' (which would include liabilities in respect of tier 1 and tier 2 own funds instruments and other subordinated liabilities).

The draft Hierarchy Order provides that, in an insolvency of a relevant institution, ordinary non-preferential debts will be paid in priority to secondary non-preferential debts, which in turn will be paid in priority to tertiary non-preferential debts.

As further set out at Condition 2.4, once the Hierarchy Order is in force, the Issuer intends (and by acquiring any Notes, investors will be deemed to acknowledge and agree) that:

- (i) claims in respect of Senior Preferred Notes and Deposit Notes issued under the Programme and any relative Coupons will constitute part of the class of 'ordinary non-preferential debts' (or such other designation as may be attributed to the equivalent class of debts) under the Hierarchy Order, corresponding to the class of 'ordinary unsecured claims' under the Article 108 Amending Directive;
- (ii) claims in respect of Senior Non-Preferred Notes issued under the Programme and any relative Coupons will constitute part of the class of 'secondary non-preferential debts' (or such other designation as may be attributed to the equivalent class of debts) under the Hierarchy Order, corresponding to the new un-preferred senior class under the Article 108 Amending Directive; and
- (iii) claims in respect of Subordinated Notes issued under the Programme and any relative Coupons will constitute part of the class of 'tertiary non-preferential debts' (or such other designation as may be attributed to the equivalent class of debts) under the Hierarchy Order.

The new class of 'secondary non-preferential debts' is designed to contribute towards institutions' 'eligible liabilities' for the purposes of their minimum requirement for own funds and eligible liabilities (**MREL**). MREL is designed to be available to resolution authorities for write-down, write-off or conversion to equity in order to absorb losses and recapitalise a failing institution in the event of resolution action being taken, and before more senior-ranking creditors suffer losses. The amount of MREL the Issuer is required to maintain over time will be based on the expected required capacity to resolve and, if appropriate, recapitalise the Issuer in the event of its failure. Accordingly, if such calibration is accurate, it may be the case that, in a resolution, investors in Senior Non-Preferred Notes may lose all or substantially all of their investment whilst investors in Senior Preferred Notes and Deposit Notes suffer lower (or no) losses (although there can be no assurance that investors in Senior Preferred Notes and Deposit Notes will not also suffer substantial losses). The market value of the Senior Non-Preferred Notes may therefore be more severely adversely affected and/or more volatile if the Issuer's financial condition deteriorates than the market value of the Senior Preferred Notes and Deposit Notes. Accordingly, holders of Senior Non-Preferred Notes may bear significantly more risk than holders of Senior Preferred Notes (notwithstanding that both share the 'senior' designation under the Programme) and Deposit Notes. Investors should ensure they understand the relative ranking of Notes issued under the Programme – including as between Senior Preferred Notes and Deposit Notes, Senior Non-Preferred Notes and Subordinated Notes - and the risks consequent thereon, before investing in any Notes.

Certain liabilities of the Issuer will by law rank in priority to the Senior Preferred Notes and Deposit Notes in the event of a winding-up of the Issuer

Prior to 1 January 2015, the claims of holders in respect of Senior Preferred Notes and Deposit Notes and the claims of other unsubordinated creditors of the Issuer would, in an insolvency of the Issuer, have ranked ahead of the claims of investing members of the Issuer as regards the principal and interest due on their share investments, including retail member share accounts (which, in turn, ranked ahead of subordinated liabilities) in the creditor hierarchy of the Issuer.

As a result of changes to the United Kingdom building societies legislation (as described briefly below), from 1 January 2015 holders of Senior Preferred Notes, Deposit Notes and other unsubordinated creditors of the Issuer rank in an insolvency of the Issuer junior to member share accounts which are given preferential status (as described below). Senior Non-Preferred Notes and Subordinated Notes will continue to rank junior to all such members and creditors, as well as ranking junior to Senior Preferred Notes and Deposit Notes.

Section 90B of the Building Societies Act 1986, as amended (the **Act**) (which was inserted by the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007) was brought into force with effect from 20 November 2014. HM Treasury exercised the power which was granted to it under Section 90B and powers conferred on it by section 2(2) of the European Communities Act 1972 by making the Banks and Building Societies (Depositor Preference and Priorities) Order 2014 (the **Depositor Preference Order**), which entered into force on 1 January 2015. As a result of these changes, provision has been made by HM Treasury 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 member share account holders (other than liabilities in respect of preferential debts and deferred shares) are applied in satisfying those liabilities *pari passu*.

The Depositor Preference Order (i) extended the scope of preferential debts in respect of deposits and (ii) further aligned creditor hierarchy in United Kingdom building societies with the depositor preference requirements introduced in consequence of the BRRD to ensure that any sums due to building society members in relation to their investment shares in respect of deposits (but not, for the avoidance of doubt, deferred share investments) that do not benefit from the depositor preference requirements will nevertheless rank *pari passu* with all other senior unsecured creditors that are not afforded preferential status.

These changes also have the effect of granting:

- (i) a first-ranking preference to those deposits and share accounts (or a relevant part thereof) of natural persons and micro, small and medium enterprises, which are actually protected by the Financial Services Compensation Scheme (the **FSCS**) (i.e. are eligible for protection and do not exceed the FSCS coverage limit (being, as at the date of this Base Prospectus, £85,000), which will rank equally with all other preferential debts; and
- (ii) a second-ranking preference to deposits and share accounts (or a relevant part thereof) of natural persons and micro, small and medium enterprises, which would be eligible for FSCS protection but for the fact that they either (a) exceed the coverage limit of the FSCS (being, as at the date of this Base Prospectus, £85,000) or (b) were made through a branch outside the EU. Such deposits and share accounts (or the relevant part thereof) will rank after the preferential debts referred to in paragraph (i) above but in priority to the claims of ordinary unsecured creditors that are not afforded preferential status in the event of an insolvency.

The claims of the holders of Senior Preferred Notes and Deposit Notes (as well as claims in respect Senior Non-Preferred Notes and Subordinated Notes) therefore rank junior to the claims in respect of liabilities afforded preferential status under (i) or (ii) above and, accordingly, in the event of insolvency or resolution of

the Issuer, Senior Preferred Notes and Deposit Notes would all be available to absorb losses ahead of liabilities which benefit from such first-ranking or second-ranking preference (and Subordinated Notes would be available to absorb losses ahead of Senior Non-Preferred Notes, which in turn would be available to absorb losses ahead of Senior Preferred Notes and Deposit Notes).

As a result, in the event of insolvency or winding up of the Issuer:

- (a) the assets of the Issuer would be applied first to satisfying in full all claims in respect of those deposits and share accounts which enjoy preferential status (as described above) before any recovery would be made on claims in respect of Senior Preferred Notes or Deposit Notes (and the claims in respect of Senior Preferred Notes and Deposit Notes would rank *pari passu* with those deposits and share accounts (other than claims in respect of deferred shares which are not afforded preferential status);
- (b) no recovery would be made on claims in respect of Senior Non-Preferred Notes unless and until the claims in respect of all deposit and share accounts (other than claims in respect of deferred shares), as well as claims in respect of Senior Preferred Notes and Deposit Notes and any other unsubordinated liabilities ranking *pari passu* with or in priority to Senior Preferred Notes and Deposit Notes, have first been satisfied in full; and
- (c) no recovery would be made on claims in respect of Subordinated Notes unless and until the claims in respect of all Senior Non-Preferred Notes, any other Senior Non-Preferred Claims and any more senior-ranking Subordinated Claims (if any) have first been satisfied in full.

The priority of claims under the draft Hierarchy Order, if implemented in the draft form published in September 2018, is not expected to affect the above hierarchy.

It is further expected that this ranking would be respected in the event that resolution action were to be taken in respect of the Issuer pursuant to the Banking Act (as further described above under “*The UK Banking Act 2009 confers substantial powers on a number of UK authorities designed to enable them to take a range of actions in relation to UK deposit-taking institutions which are considered to be at risk of failing. The exercise of any of these actions in relation to the Issuer or any Notes could materially adversely affect the value of any Notes and/or the rights of Noteholders*”).

Therefore, in the event of an insolvency, winding up or resolution of the Issuer, there is a real risk that investors in Senior Preferred Notes, Deposit Notes, Senior Non-Preferred Notes and/or Subordinated Notes would lose some or the entire amount of their investment. Furthermore, the market price of Senior Preferred Notes, Deposit Notes, Senior Non-Preferred Notes and Subordinated Notes can be expected to be materially adversely affected if the Issuer’s financial condition deteriorates such that the market anticipates the insolvency, winding-up or resolution of the Issuer.

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 is likely to limit the market value of Notes. During any period when the Issuer may elect, or is perceived to be able to 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.

It may be commercially rational for the Issuer 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.

In addition to any optional redemption right of the Issuer pursuant to Condition 5.5, Notes may also be redeemable at the option of the Issuer (subject, in the case of Senior Non-Preferred Notes and Subordinated Notes, to compliance with applicable prudential rules):

- (i) in the case of Senior Preferred Notes and Deposit Notes, if the Issuer becomes required to pay additional amounts in respect of the Notes under Condition 9 or 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; or
- (ii) in the case of Senior Non-Preferred Notes and Subordinated Notes, following the occurrence of a Tax Event, including if, as a result of a Tax Law Change;
 - (A) the Issuer becomes required to pay additional amounts in respect of the Notes under Condition 9;
 - (B) the Issuer is no longer, or will no longer be, entitled to claim a deduction in respect of any payments in respect of the Senior Non-Preferred Notes or the Subordinated Notes in computing its taxation liabilities or the amount of such deduction is or will be materially reduced;
 - (C) the Senior Non-Preferred Notes or the Subordinated Notes are or will be prevented from being treated as loan relationships for United Kingdom tax purposes; or
 - (D) the Issuer is not, or will not be, able to have losses or deductions set against any profits or gains, or profits or gains offset by any losses or deductions, of companies with which it is or would otherwise be so grouped for applicable United Kingdom tax purposes (whether under the group relief system current as at the date of issue of the relevant Senior Non-Preferred Notes or Subordinated Notes or any similar system or systems having like effect as may from time to time exist); or
- (iii) in the case of Subordinated Notes, following the occurrence of a Regulatory Event, including a change in the regulatory classification of the relevant Series of Subordinated Notes after issue that results, or would be likely to result, in the entire principal amount of such Series of Subordinated Notes (or, if so specified in the applicable Final Terms, any part thereof) being excluded from the Tier 2 Capital of the Issuer (whether on an individual or consolidated basis); or
- (iv) in the case of Senior Non-Preferred Notes, following the occurrence of a Loss Absorption Disqualification Event (as further described under “*Redemption of Senior Non-Preferred Notes following a Loss Absorption Disqualification Event*” below).

The circumstances in which any of the foregoing events may occur may be difficult to predict, and are based on factors outside the Issuer’s control. Any proposed changes in law or regulation which may affect the Issuer’s ability to redeem any Notes may impact the market price of such Notes, whether or not those proposed changes materialise, or if the relevant proposals are ultimately implemented in a form other than that originally proposed. If any events or circumstances occur such that the Issuer may elect to redeem the Notes, or if the market anticipates that any such events or circumstances may occur, the market value of the relevant Notes generally will not rise substantially above the price at which they can be redeemed, and this also may be true prior to any redemption period.

Redemption of Senior Non-Preferred Notes following a Loss Absorption Disqualification Event

If so specified in the applicable Final Terms, the Issuer may redeem the Senior Non-Preferred Notes upon the occurrence of a Loss Absorption Disqualification Event. If such Senior Non-Preferred Notes are to be so redeemed or there is a perception that they may be so redeemed, this may impact the market price of such Notes.

A Loss Absorption Disqualification Event shall be deemed to have occurred in respect of a Series of Senior Non-Preferred Notes if, as a result of any amendment to, or change in, any Loss Absorption Regulations, or any change in the application or official interpretation of any Loss Absorption Regulations, in any such case becoming effective on or after the issue date of such Series of Senior Non-Preferred Notes, such Senior Non-Preferred Notes are or (in the opinion of the Issuer or the relevant Supervisory Authority (as defined in the Terms and Conditions of the Notes)) are likely to become fully or (if so specified in the applicable Final Terms) partially excluded from the Issuer's, or the Group's, minimum requirements for (A) own funds and eligible liabilities and/or (B) loss absorbing capacity instruments, in each case as such minimum requirements are applicable to the Issuer or the Group and determined in accordance with, and pursuant to, the relevant Loss Absorption Regulations; provided that a Loss Absorption Disqualification Event shall not occur where the exclusion of the Senior Non-Preferred Notes from the Issuer's, or the Group's, minimum requirement(s) is due to the remaining maturity of such Senior Non-Preferred Notes being less than any period prescribed by any applicable eligibility criteria for such minimum requirements under the relevant Loss Absorption Regulations effective with respect to the Issuer on the issue date of such Series of Senior Non-Preferred Notes.

As the implementation of the minimum requirements for eligible liabilities under the BRRD is subject to the adoption of further legislation and implementation, including further legislative proposals in the EU with respect to (amongst other things) the necessary features of eligible liabilities, it is not possible to predict whether the Senior Non-Preferred Notes will be fully or partially excluded from the Issuer's or the Group's minimum requirements referred to above. If any of the Senior Non-Preferred Notes are to be redeemed as a result of a Loss Absorption Disqualification Event or there is a perception that such Senior Non-Preferred Notes may be so redeemed, this may impact the market price of such Senior Non-Preferred Notes. In addition, there can be no assurance that Noteholders will be able to reinvest the amounts received upon redemption at a rate that will provide the same rate of return as their investment in the Senior Non-Preferred Notes.

Substitution and variation of Senior Non-Preferred Notes following a Loss Absorption Disqualification Event or an Alignment Event

If so specified in the applicable Final Terms, the Issuer may, following a Loss Absorption Disqualification Event or an Alignment Event in respect of any Series of Senior Non-Preferred Notes, without the need for any consent of the Noteholders, substitute all (but not some only) of such Series of Senior Non-Preferred Notes for, or vary the terms of such Series so that they remain or become, Loss Absorption Compliant Notes (as defined in the Terms and Conditions of the Notes). Whilst Loss Absorption Compliant Notes are required to have terms not materially less favourable to Noteholders than the terms of the relevant Senior Non-Preferred Notes (as reasonably determined by the Issuer in consultation with an independent adviser of recognised standing), no assurance can be given that any such substitution or variation will not adversely affect any particular holder. In addition, the tax and stamp duty consequences of holding such Loss Absorption Compliant Notes could be different for some categories of Noteholders from the tax and stamp duty consequences for them of holding the Senior Non-Preferred Notes prior to such substitution or variation.

Limitation on gross-up obligation under the Subordinated Notes and certain Senior Non-Preferred Notes

The Issuer's obligation to pay additional amounts in respect of any withholding or deduction in respect of taxes under the terms of (i) each Series of Subordinated Notes and (ii) any Series of Senior Non-Preferred Notes for which the applicable Final Terms specifies "*Senior Non-Preferred Notes: Gross-up of principal*" as "Not Applicable", applies only to payments of interest due and paid under such Notes and not to payments of principal (which term, for these purposes, includes any premium, Final Redemption Amount, Early

Redemption Amount, Optional Redemption Amount and Amortised Face Amount and any other amount (other than interest) payable in respect of such Notes).

As such, the Issuer would not be required to pay any additional amounts under the terms of any Series of Subordinated Notes or any such Series of Senior Non-Preferred Notes to the extent any withholding or deduction applied to payments of principal. Accordingly, if any such withholding or deduction were to apply to any payments of principal under any Series of Subordinated Notes or any such Series of Senior Non-Preferred Notes, holders of such Notes would, upon repayment or redemption of such Notes, be entitled to receive only the net amount of such redemption or repayment proceeds after deduction of the amount required to be withheld. Therefore, holders may receive less than the full amount due under such Notes, and the market value of such Notes may be adversely affected as a result.

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.

If the Notes include a feature to convert the interest basis 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 may convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Such a feature to effect a conversion, and any conversion of the interest basis, may affect the secondary market and the market value of the Notes as the change of interest basis may result in a lower interest return for Noteholders. Where the Notes convert from a fixed rate to a floating rate, 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. Where the Notes convert from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing market rates and could affect the market value of an investment in such Notes. Furthermore, if any Notes are issued upon terms providing for automatic conversion of the interest rate on any Notes from a fixed rate to a floating rate or *vice versa*, this may also affect the secondary market and the market value of the Notes concerned if the rate or basis to which the interest rate is required to switch is lower than the interest rate prevailing up to such time.

The rate of interest of Reset Notes will be reset, which may affect the secondary market for and the market value of such Reset Notes

In the case of any Series of Reset Notes, the rate of interest on such Reset Notes will be reset by reference to the Reset Reference Rate, as adjusted for any applicable margin, on the reset dates specified in the relevant Final Terms. This is more particularly described in Condition 4.3. The reset of the rate of interest in accordance with such provisions may affect the secondary market for and the market value of such Reset Notes. Following any such reset of the rate of interest applicable to the Notes, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest on the relevant Reset Notes may be lower than the Initial Rate of Interest, the First Reset Rate of Interest and/or any previous Subsequent Reset Rate of Interest.

The regulation and reform of benchmarks may adversely affect the value of Notes referencing such benchmarks

Interest rates and indices which are deemed to be “benchmarks” are the subject of recent national and international regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Notes referencing such a benchmark.

The Benchmarks Regulation was published in the Official Journal of the EU on 29 June 2016 and was applied as of 1 January 2018. The Benchmarks Regulation applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the EU. It, among other things, (i) requires benchmark administrators to be authorised or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognised or endorsed) and (ii) prevents certain uses by EU supervised entities (such as the Issuer) of benchmarks of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed).

The Benchmarks Regulation could have a material impact on any Notes linked to or referencing a benchmark, in particular, if the methodology or other terms of the relevant benchmark are changed in order to comply with the requirements of the Benchmarks Regulation. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of the relevant benchmark.

More broadly, any of the international or national reforms, or the general increased regulatory scrutiny of benchmarks, could increase the costs and risks of administering or otherwise participating in the setting of a benchmark and complying with any such regulations or requirements. For example, the sustainability of the London interbank offered rate (**LIBOR**) has been questioned as a result of the absence of relevant active underlying markets and possible disincentives (including possibly as a result of regulatory reforms) for market participants to continue contributing to such benchmarks. On 27 July 2017, the FCA announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 (the **FCA Announcement**). The FCA Announcement indicated that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. On 24 November 2017, the FCA confirmed that all 20 of the panel banks have agreed to support the LIBOR benchmark until 2021, although Société Générale will cease submissions to the U.S. Dollar panel and Crédit Agricole Corporate and Investment Bank will cease submissions to the Japanese Yen panel. Both banks will continue to submit to all other panels to which they currently contribute. The FCA has stated that it does not expect to see any further changes to the LIBOR panels until the end of 2021. In a further speech on 12 July 2018, the chief executive officer of the FCA, Andrew Bailey, emphasised that market participants should not rely on the continued publication of LIBOR after the end of 2021.

In addition, on 29 November 2017, the BoE and the FCA announced that, from January 2018, its Working Group on Sterling Risk-Free Rates has been mandated with implementing a broad-based transition to the Sterling Overnight Index Average (**SONIA**) over the next four years across sterling bond, loan and derivative markets, so that SONIA is established as the primary sterling interest rate benchmark by the end of 2021 (as further described under “*The market continues to develop in relation to SONIA as a reference rate*” below).

Separate workstreams are also underway in Europe to reform the euro interbank offered rate (**EURIBOR**) using a hybrid methodology and to provide a fallback by reference to a euro risk-free rate (based on a euro overnight risk-free rate as adjusted by a methodology to create a term rate).

It is not possible to predict with certainty whether, and to what extent, LIBOR and/or EURIBOR will continue to be supported going forwards. This may cause LIBOR and/or EURIBOR to perform differently than they have done in the past, and may have other consequences which cannot be predicted. The potential transition from LIBOR to SONIA or the elimination of LIBOR, EURIBOR or any other benchmark, or changes in the manner of administration of any benchmark, could require an adjustment to the Terms and Conditions of the Notes, or result in other consequences, in respect of any Notes referencing such benchmark. Such factors may have (without limitation) the following effects on certain benchmarks: (i) discouraging market participants from continuing to administer or contribute to a benchmark; (ii) triggering changes in the rules or methodologies used in the benchmark and/or (iii) leading to the disappearance of the benchmark. Any of the above changes or any other consequential changes as a result of international or national reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on any Notes linked to, referencing, or otherwise dependent (in whole or in part) upon, a benchmark.

If “*Benchmark Replacement*” is specified to be “Applicable” in the applicable Final Terms, the Terms and Conditions of the Notes provide for certain fallback arrangements in the event that a Benchmark Event occurs, including if an inter-bank offered rate (such as LIBOR or EURIBOR) or other relevant reference rate (which could include, without limitation, any mid-swap rate), and/or any page on which such benchmark may be published, becomes unavailable, or if the Issuer, the Calculation Agent, any Paying Agent or any other party responsible for the calculation of the Rate of Interest (as specified in the applicable Final Terms) are no longer permitted lawfully to calculate interest on any Notes by reference to such benchmark under the Benchmarks Regulation or otherwise. Such fallback arrangements include the possibility that the rate of interest could be set by reference to a Successor Rate or an Alternative Rate (both as defined in the Terms and Conditions), with or without the application of an adjustment spread (which, if applied, could be positive or negative, and would be applied with a view to reducing or eliminating, to the fullest extent reasonably practicable in the circumstances, any economic prejudice or benefit (as applicable) to investors arising out of the replacement of the relevant benchmark), and may include amendments to the Terms and Conditions of the Notes to ensure the proper operation of the successor or replacement benchmark, all as determined by the Issuer (acting in good faith and in consultation with an Independent Adviser).

In certain circumstances, the ultimate fallback for the purposes of calculation of the Rate of Interest for a particular Interest Period may result in the Rate of Interest for the last preceding Interest Period being used. This may result in the effective application of a fixed rate for Floating Rate Notes based on the rate which was last observed on the Relevant Screen Page or, in the case of Reset Notes, the application of the previous reset Rate of Interest for a preceding Reset Period, or for the First Reset Rate of Interest, the application of the Initial Rate of Interest applicable to such Notes on the Interest Commencement Date or a rate based on the Mid-Swap Fallback Rate. Due to the uncertainty concerning the availability of Successor Rates and Alternative Rates, the involvement of an Independent Adviser, the potential for further regulatory developments and the fact that the provisions of Condition 4.4 will not be applied if and to the extent that, in the determination of the Issuer, the same could reasonably be expected to prejudice the qualification of the relevant Series of Notes as regulatory capital or eligible liabilities, where applicable, there is a risk that the relevant fallback provisions may not operate as intended at the relevant time.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the Benchmarks Regulation reforms and the possible application of the benchmark replacement provisions of the Notes in making any investment decision with respect to any Notes referencing a benchmark.

The market continues to develop in relation to SONIA as a reference rate

Where the applicable Final Terms for a Series of Floating Rate Notes identifies that the Rate of Interest for such Notes will be determined by reference to SONIA, the Rate of Interest will be determined on the basis of Compounded Daily SONIA (as defined in the Terms and Conditions of the Notes). Compounded Daily SONIA differs from LIBOR in a number of material respects, including (without limitation) that Compounded Daily SONIA is a backwards-looking, compounded, risk-free overnight rate, whereas LIBOR is expressed on the basis of a forward-looking term and includes a risk-element based on inter-bank lending. As such, investors should be aware that LIBOR and SONIA may behave materially differently as interest reference rates for Notes issued under the Programme. The use of Compounded Daily SONIA as a reference rate for Eurobonds is nascent, and is subject to change and development, both in terms of the substance of the calculation and in the development and adoption of market infrastructure for the issuance and trading of bonds referencing Compounded Daily SONIA.

Accordingly, prospective investors in any Notes referencing Compounded Daily SONIA should be aware that the market continues to develop in relation to SONIA as a reference rate in the capital markets and its adoption as an alternative to Sterling LIBOR. For example, in the context of backwards-looking SONIA rates, market participants and relevant working groups are currently assessing the differences between compounded rates and weighted average rates, and such groups are also exploring forward-looking ‘term’ SONIA reference rates

(which seek to measure the market's forward expectation of an average SONIA rate over a designated term). The adoption of SONIA may also see component inputs into swap rates or other composite rates transferring from LIBOR or another reference rate to SONIA.

The market or a significant part thereof may adopt an application of SONIA that differs significantly from that set out in the Terms and Conditions of the Notes as applicable to Notes referencing a SONIA rate that are issued under this Base Prospectus. Furthermore, the Issuer may in future issue Notes referencing SONIA that differ materially in terms of interest determination when compared with any previous SONIA-referenced Notes issued by it under the Programme. The nascent development of Compounded Daily SONIA as an interest reference rate for the Eurobond markets, as well as continued development of SONIA-based rates for such market and the market infrastructure for adopting such rates, could result in reduced liquidity or increased volatility or could otherwise affect the market price of any SONIA-referenced Notes issued under the Programme from time to time.

Furthermore, the Rate of Interest on Notes which reference Compounded Daily SONIA is only capable of being determined at the end of the relevant Observation Period and immediately prior to the relevant Interest Payment Date. It may be difficult for investors in Notes which reference Compounded Daily SONIA to estimate reliably the amount of interest which will be payable on such Notes, and some investors may be unable or unwilling to trade such Notes without changes to their IT systems, both of which factors could adversely impact the liquidity of such Notes. Further, in contrast to LIBOR-based Notes, if Notes referencing Compounded Daily SONIA become due and payable as a result of an Event of Default under Condition 10 or Condition 11 (as applicable), or are otherwise redeemed early on a date which is not an Interest Payment Date, the final Rate of Interest payable in respect of such Notes shall only be determined immediately prior to the date on which the Notes become due and payable.

In addition, the manner of adoption or application of SONIA reference rates in the Eurobond markets may differ materially compared with the application and adoption of SONIA in other markets, such as the derivatives and loan markets. Investors should carefully consider how any mismatch between the adoption of SONIA reference rates across these markets may impact any hedging or other financial arrangements which they may put in place in connection with any acquisition, holding or disposal of Notes referencing Compounded Daily SONIA.

Investors should carefully consider these matters when making their investment decision with respect to any such Notes.

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.

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 investors could sell their 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. If a market for the Notes does develop, it may not be very liquid and may be sensitive to changes in financial markets. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This may in particular be the case should the Issuer be in financial distress, which may result in any sale of the Notes having to be at a substantial discount to their principal amount.

Investors who hold less than the minimum Specified Denomination may be unable to sell their Notes and 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 in excess of the minimum Specified Denomination 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 its account with the relevant clearing system would not be able to sell the remainder of such holding without first purchasing a principal amount of Notes at or in excess of the minimum Specified Denomination such that its holding amounts to a Specified Denomination. Further, a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in its 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 at or in excess of the minimum Specified Denomination 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.

If investors hold Notes which are not denominated in the investors' home currency, they will be exposed to movements in exchange rates adversely affecting the value of their 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 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. Further, one or more credit rating agencies may from time to time release unsolicited credit ratings reports in relation to the Notes without the consent or knowledge of the Issuer. The Issuer does not have any control over such reports or analyses and any adverse credit rating of any Notes could adversely affect the value 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, subject to transitional provisions that apply in certain circumstances). 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.

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 Trust Deed also provides that a resolution in writing signed by or on behalf of the holders of not less than three-fourths in nominal amount of the relevant Notes for the time being outstanding, or consent given by way of electronic consents through the relevant clearing systems by or on behalf of the holders of not less than three-fourths in nominal amount of the relevant Notes for the time being outstanding, shall also be effective as an extraordinary resolution binding on all Noteholders, whether or not such Noteholders voted voting in favour of the relevant resolution.

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 14.

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

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

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

The Issuer has benefitted from generally positive economic conditions in each of the financial years ended 4 April 2018 and 4 April 2017, which have helped it grow its core lending and savings operations and also beneficially impacted its underlying impairment charges. The outlook for the UK economy is, however, uncertain, particularly in light of the UK's decision to leave the European Union.

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

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

Worsening economic conditions in the UK could also create uncertainty in relation to the cash flows of the Issuer's borrowers in the commercial real estate (CRE) market and in relation to the value of their collateral, leading to further loan loss provisions against the Issuer's CRE lending. Any weakening in tenant performance and investor appetite could result in increased commercial loan losses which would adversely impact the Issuer's financial and operational performance. Any further loan loss provisions recorded against the Issuer's CRE lending could adversely affect the Issuer's profitability in the future.

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

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

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

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

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

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

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

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

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

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

Retail depositors are a significant source of funding for the Issuer and, under current legislation, a minimum of 50 per cent. of its aggregate shares and borrowings (calculated in accordance with the Act) is required to be in the form of deposits accepted from members of the public and which are classified as “shares” on the balance sheet as they confer member status on the depositors. The Issuer's retail deposits classified as shares totalled £148 billion as at 4 April 2018, £145 billion as at 4 April 2017 and £139 billion as at 4 April 2016, equal to 71.4 per cent., 71.7 per cent. and 73.3 per cent., respectively, of its total shares and borrowings (for the purposes of the Act) as at each such date.

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

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

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

The maintenance and growth of the Issuer's lending activities depends in large part on the availability of retail deposit funding on appropriate terms. Increases in the cost of such funding in the wake of the financial crisis together with the low base rate environment have had a negative impact on the Issuer's margins and profit. Such pressures could re-emerge and, in extreme circumstances, a loss of consumer confidence could result in

high levels of withdrawals from the Issuer's retail deposit base, upon which it relies for lending and which could have a material adverse effect on its business, financial position and results of operations.

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

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

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

In such extreme circumstances the Issuer 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 Issuer'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 Issuer may prove to be inefficient, giving rise to a level of funding cost that is not sustainable in the long-term for the Issuer to grow its business or even maintain it at current levels. The Issuer's ability to access retail and wholesale funding sources on satisfactory economic terms is subject to a variety of factors, including a number of factors outside of the Issuer's control, such as liquidity constraints, general market conditions, regulatory requirements and loss of confidence in the UK banking system.

The UK government (the **Government**) has provided significant support to UK financial institutions, including the BoE's Term Funding Scheme (**TFS**) which opened on 19 September 2016 and closed on 28 February 2018. If the TFS were to be reopened or replaced with other Government schemes designed to support lending, this may increase or perpetuate competition in the retail lending market, resulting in sustained or intensifying downward pricing pressures and consequent reductions in net interest margins.

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

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

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

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

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

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

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

UK financial industry. The Issuer's business, financial performance, net interest income and margin may continue to be adversely affected by the low interest rate environment.

The Issuer is exposed to future changes in UK house prices.

The value of the Issuer's mortgage portfolio is influenced by UK house prices, and a significant portion of the Issuer's revenue is derived from interest and fees paid on its mortgage portfolio. As at 4 April 2018, £144 billion, or 75.1 per cent., of the Issuer's loans and advances to customers were UK prime residential mortgages. A decline in house prices in the UK could lead to a reduction in the recovery value of real estate assets held as collateral in the event of a customer default, and could lead to higher impairment provisions, which could reduce the Issuer's capital and its ability to engage in lending and other income-generating activities. A significant increase in house prices over a short period of time could also have a negative impact on the Issuer by reducing the affordability of homes for buyers, which could lead to a reduction in demand for new mortgages. Sustained volatility in house prices could also discourage potential homebuyers from committing to a purchase, thereby limiting the Issuer's ability to grow its residential mortgage portfolio. The UK's planned exit from the EU has caused considerable uncertainty about the near-term prospects for UK house prices, and significant downwards pressure cannot be discounted.

In addition, the Issuer also has a significant portfolio of specialist mortgages, which amounted to £33.1 billion, or 17.3 per cent., of the Issuer's loans and advances to customers as at 4 April 2018. Buy-to-let mortgages constitute the vast majority of the Issuer's specialist mortgages portfolio. The buy-to-let market in the UK is predominantly dependent upon yields from rental income to support mortgage interest payments and capital gains from capital appreciation. Falling or flat rental rates and decreasing capital values, whether coupled with higher mortgage interest rates or not, could reduce the potential returns from buy-to-let properties. In addition, the Government has passed legislation restricting the amount of income tax relief that individual landlords can claim for residential property finance costs (such as mortgage interest) to the basic rate of tax, which may result in lower yields on buy-to-let property investments. This restriction is being introduced gradually until fully in place on 6 April 2020, the first stage of changes having become applicable from 6 April 2017. The BoE has also stated that it is considering increasing the regulatory capital requirements of banks holding buy-to-let mortgages on their balance sheets, although no specific proposals have been made. From 1 April 2016, a higher rate of stamp duty land tax (**SDLT**) has been applied to the purchase of additional properties (such as buy-to-let properties). The current additional rate is 3 per cent. above the previous SDLT rates. These factors could make the purchase of buy-to-let properties and/or second homes a less viable investment proposition and reduce the demand for related mortgages, which may also affect the resale value of relevant or similar properties.

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

In addition, following the Mortgage Market Review, the FCA published new rules in April 2014. In April 2015, the FCA began a further thematic review on responsible lending in the mortgage sector on which it reported in May 2016. In December 2016, the FCA launched a market study into first charge residential mortgages, focusing on whether competition in the mortgage market sector is healthy and working to the benefit of consumers, including whether commercial arrangements between lenders, brokers and other third parties give rise to conflicts of interest or misaligned incentives to the detriment of consumers. The FCA published an interim report on the Mortgage Market Study in May 2018. Whilst this found that the mortgage market is working well in many respects, the report illustrated a number of areas for improvement relating to customer choice and the ability of customers to switch mortgage providers. The FCA expects to publish its final report on the Mortgage Market Study during the fourth quarter of 2018. It is possible that further changes

may be made to the FCA's Mortgages and Home Finance: Conduct of Business sourcebook as a result of these and future reviews, studies and regulatory reforms. Any failure to comply with these rules may entitle a borrower to claim damages for loss suffered or set-off the amount of the claim against monies owing under a regulated mortgage contract and the new rules may also negatively affect mortgage supply and demand.

The future impact of these initiatives on the UK housing market and other regulatory changes or Government programmes, such as the recent implementation of the European Union Mortgage Credit Directive in the UK on 21 March 2016, is difficult to predict. Volatility in the UK housing market occurring as a result of these changes, or for any other reason, could have a material adverse effect on the Issuer's business, financial condition and results of operations.

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

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

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

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

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

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

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

Asset valuations in future periods, reflecting prevailing market conditions, may result in further negative changes in the fair values of the Issuer's investment assets and these may also translate into increased impairments, particularly with respect to its exposure to residential mortgage backed securities (**RMBS**) and covered bonds collateralised on assets originated in weaker European countries. 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 impairment charges and negative fair value adjustments, which may have a material adverse effect on its operating results, financial condition or prospects.

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

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

The Issuer's long-term ratings are currently "A (positive)" from S&P, "Aa3 (negative)" from Moody's and "A (stable)" from Fitch (January 2018: "A (stable)", "Aa3 (stable)" and "A+ (negative)", respectively) and its short-term ratings are currently "A-1" from S&P, "P-1" from Moody's and "F1" from Fitch (January 2018: "A-1", "P-1" and "F1", respectively). The long-term ratings assigned by each of Moody's and S&P are senior preferred ratings (i.e. relating to obligations equivalent to Senior Preferred Notes), whereas the long-term rating assigned by Fitch is a senior non-preferred rating (i.e. relating to obligations equivalent to Senior Non-Preferred Notes).

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

- Fitch (February 2018): downgraded the Issuer's long-term Issuer Default Rating (**IDR**) from "A+" to "A" with a stable outlook. The senior preferred unsecured debt rating was unchanged at "A+". The downgrade followed the Issuer's inaugural issuance of senior non-preferred debt which, in accordance with Fitch's methodology, became the reference obligation for the Issuer's IDR.
- S&P (February 2018): revised the Issuer's outlook to positive and affirmed the "A"/"A-1" long- and short-term ratings reflecting S&P's expectations that the Issuer's buffer of bail-in instruments could exceed their threshold for two notches of Additional Loss Absorbing Capital (**ALAC**) uplift over their 18-24 month forecast horizon, following the Issuer's inaugural issuance of senior non-preferred debt.
- Moody's (October 2018): affirmed the ratings of unsecured debt and deposits at "Aa3"/"P-1" but changed the outlook to negative from stable. This change in outlook reflects the uncertainties embedded in Moody's forward looking view on the loss given failure of the Society's senior debt.

Any declines in those aspects of the 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 negative ratings actions. Any downgrade in the Issuer's credit ratings could:

- adversely affect its liquidity and competitive position, particularly through cash outflows to meet collateral requirements on existing contracts;
- undermine confidence in its business;

- increase its borrowing costs;
- limit its access to the capital markets; or
- limit the range of counterparties willing to enter into transactions with it.

The 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 the Issuer's 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, it could result in a 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. Any downgrade in the Issuer's ratings 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. For example, as at 4 April 2018, the Issuer would have needed to provide additional collateral amounting to £3.1 billion in the event of a one notch downgrade by external credit rating agencies.

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

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

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

The Issuer is currently the third largest household savings provider and the second largest provider of residential mortgages in the United Kingdom, with estimated market shares of approximately 10.0 per cent. (as calculated by the Issuer based on BoE data) and 12.9 per cent. (according to BoE data), respectively, as at 4 April 2018.

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. In addition, recent technological advances have allowed new competitors to emerge both from within the traditional financial services arena and from outside it, and continued advances in technology may lead to further new entrants from the prolific fintech sector.

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

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

In the UK, most major retail banks see the mortgage market as an attractive and high priority focus for expansion. This applies to both the prime mortgage market and the buy-to-let mortgage market. Additionally, smaller institutions are also seeking to build a share of the mortgage market, including new ventures and businesses with a base outside the traditional financial services industry. The ending of the TFS in February 2018 may make it harder for those participants who have placed heaviest reliance upon it to continue rapid recent levels of loan growth. However, other participants less reliant on TFS are likely to retain their growth appetites. Consequently, competition for the highest quality mortgages may well remain intense, with continued downward pressure on the returns available for the lowest risk-weighted mortgage assets.

Competition for deposits has intensified as TFS has been withdrawn and as lenders with higher yielding non-mortgage loan books have helped bid up deposit rates. These trends could continue alongside further interest rates rises, particularly if the NSI were to adopt a more active stance in the market. The personal current account market is currently the focus of intense competition. A range of institutions see the personal current account as the key to broader customer relationships and are seeking to make inroads into the large market share of the established major banking groups, often by harnessing the potential of mobile access. The major incumbents have reacted with competitive propositions designed to retain customers, and have fully embraced mobile banking.

Parallel with these developments, price comparison websites and other personal financial management tools emerging from the fintech sector have become more popular and widely used, allowing customers to compare products more easily and make buying decisions based on price. As a consequence, there is a risk that it will create downward pressure on prices, negatively impacting the Issuer's ability to deliver its strategic income targets and its financial performance. Competition may also intensify in response to consumer demand, further technological changes and the impact of consolidation amongst the Issuer's competitors. The Issuer also faces potential competition from new banks in the UK, such as TSB, from banking businesses developed by large non-financial companies, such as Tesco and Virgin Money, from "challenger bank" entrants, such as Metro Bank and Aldermore, and from fundamentally new entrants into the UK banking sector, such as peer-to-peer lending platforms or mobile-only banks such as Atom Bank, Starling and Monzo.

Regulatory action might also increase competitive pressures. For example, the Competition and Markets Authority (the **CMA**) undertook a market investigation into competition in the personal current accounts and small and medium-sized enterprises (**SME**) retail banking markets. The CMA published its final report on 9 August 2016 which identified features of the markets for the supply of personal current accounts, business current accounts and SME lending that are having an adverse effect on competition. The CMA decided on a comprehensive package of remedial measures which included, among other things, the introduction of requirements to prompt customers to review the services that they receive from their bank at certain trigger points and to promote public awareness of account switching. The remedial measures were to be implemented by orders, undertakings to be given by banks and further work by the FCA and HM Treasury, including further work on overdraft charges by the FCA, which remains under political scrutiny. On 2 February 2017, the CMA made the Retail Banking Market Investigation Order 2017 to implement the remedial measures. On 31 May 2018 the FCA published Consultation Paper CP18/13 entitled "*High-cost Credit Review: Overdrafts*" aimed at encouraging competition as well as proposing interventionist measures in relation to pricing and repeated overdraft use. CP18/13 closed for comments on 31 August 2018 and the FCA expects to publish final rules and

guidance towards the end of 2018. There can be no assurance that the Issuer's customer base, levels of deposits or market share will not be adversely affected by the remedial measures and other regulatory actions arising out of the investigation and consultation.

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

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

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

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

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

In addition, if the Issuer's customer service levels were perceived by the market to be materially below those of competitor UK financial institutions, it could lose existing and potential new business. If the Issuer is not successful in retaining and strengthening customer relationships, it may lose market share, incur losses on

some or all of its activities or fail to attract new deposits or retain existing deposits, which could have a material adverse effect on its business, financial condition and results of operations.

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

The Issuer's success as a financial institution depends on its ability to process a very large number of transactions efficiently and accurately. Operational risk and losses can result from a range of internal and external factors. Internal factors include fraud, errors by employees, failure to document transactions properly or to obtain proper internal authorisation, failure to comply with regulatory requirements and conduct of business rules and equipment failures, particularly in relation to electronic banking applications. External factors include natural disasters, war, terrorist action or the failure of external systems, for example, those of its suppliers or counterparties. These could, for example, prevent the Issuer's customers from withdrawing cash from the Issuer's automatic telling machines (ATMs) or from having their salary credited to their accounts with the Issuer and, if customers associate their problem with the Issuer rather than with the institution causing the problem, this would have an operational and financial impact on the Issuer's performance. A feature of operational risk is that financial institutions rely on systems and controls such as standard form documentation and electronic banking applications to process high volumes of transactions. As a result, any error in the Issuer's standard documentation or any defect in its electronic banking applications can be replicated across a large number of transactions before the error or defect is discovered and corrected and this could significantly increase the cost to the Issuer of remediating the error or defect, could expose it to the risk of regulatory sanction, unenforceability of contracts and, in extreme cases, could result in significant damage to its reputation.

In particular, increased digital interconnectivity across the Group, its customers and suppliers, and the need for resilient IT systems, including hardware and software, and cyber-security, remains an evolving risk to financial institutions including the Issuer. The Issuer's implementation of new systems, infrastructures and processes, alongside the maintenance of legacy systems, introduces a level of operational complexity. In an increasingly digital world, customer expectations are rising, with a significantly lower tolerance of service disruption. Ensuring a highly reliable and widely available service requires resilient IT, business systems and processes. Furthermore, the sharing of customer data, and the enabling of direct payments by third party providers from a customer's account as a result of Open Banking, may give rise to significant risks associated with cyber security, fraud, IT resilience and data protection, as well as increased compliance costs and risks associated with the Issuer becoming liable for, or otherwise being required to protect customers against, the costs and/or liabilities of other third party providers and/or losses caused by the actions of such other third party providers. Any loss in the integrity and resilience of key systems and processes, data thefts, cyber-attacks, denial of service attacks or breaches of data protection requirements could significantly disrupt its operations and cause significant financial loss and reputational damage to the Issuer. This could in turn result in a loss of confidence in the Issuer, potentially resulting in existing customers withdrawing deposits and/or deterring prospective new customers.

Meanwhile the exponential rise in data used in digital services increases the complexity and cost of managing data securely and effectively. Further, the maturity and sophistication of organised cyber-crime continues to increase and has been highlighted by a number of recent attacks in the financial and non-financial sectors, including payment services. Such attacks have also increased the public awareness of cyber-threats. As a result of the continued increasing threat from cyber-crime, security controls have needed to keep pace to prevent, detect and respond to any threats or attacks. The constant threat posed by a cyber-attack directly impacts the existing risks associated with external fraud, data loss, data integrity and availability. Although the Issuer maintains measures designed to ensure the integrity and resilience of key systems and processes, it may be the victim of cyber-attacks, including denial of service attacks which could significantly disrupt the Issuer's operations and the services it provides to its customers, or attacks designed to obtain an illegal financial

advantage. Any such attack or any other failure in the Issuer's IT systems could, could, amongst other things, cause significant financial loss and reputational damage to the Issuer, and could result in a loss of confidence in the Issuer, potentially resulting in existing customers withdrawing deposits and/or deterring prospective new customers.

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

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

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

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

- liquidity and funding risk, see “—*Risks that reduce the availability or increase the cost of the Issuer's sources of funding, such as retail deposits and wholesale money markets, may have an adverse effect on the Issuer's business and profitability*” above;
- credit risk, which is the risk that a borrower or a counterparty fails to pay interest or to repay the principal on a loan or other financial instrument;
- market risks, in particular interest rate risk as well as foreign exchange and bond and equity price risks. Changes in interest rate levels, yield curves and spreads may affect the Issuer's interest rate margin realised between lending and borrowing costs. Changes in currency rates, particularly in the sterling-dollar and sterling-euro exchange rates, affect the value of assets and liabilities denominated in foreign currencies and may affect income from assets and liabilities denominated in foreign currency. The performance of financial markets may also cause changes in the value of the Issuer's investment and liquidity portfolios. See also, “—*Changes to interest rates or monetary policy, whether by the UK, U.S. or other central banking authorities, could affect the financial condition of the Issuer's customers, clients and counterparties, which could in turn adversely affect the Issuer*” above and “—*Market risks may adversely impact the Issuer's business*” above; and
- operational risk, see “—*If the Issuer does not control its operational risks, including, in particular, maintaining cyber security and managing the pace of change around digital products and services, it may be unable to manage its business successfully*” above.

The Issuer has a range of tools designed to measure and manage the various risks which it faces. Some of these methods, such as value-at-risk analyses, are based on historic market behaviour. The methods may therefore prove to be inadequate for predicting future risk exposure, which may prove to be significantly greater than what is suggested by historic experience. Historical data may also not adequately allow prediction of circumstances arising due to Government interventions and stimulus packages, which increase the difficulty of evaluating risks. Other methods for risk management are based on evaluation of information regarding markets, customers or other information that is publicly known or otherwise available to the Issuer. Such

information may not always be correct, updated or correctly evaluated. In addition, even though the Issuer constantly measures and monitors its exposures, there can be no assurance that its risk management methods will be effective, particularly in unusual or extreme market conditions. It is difficult to predict with accuracy changes in economic or market conditions and to anticipate the effects that such changes could have on the Issuer's financial performance and business operations.

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

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

The Issuer has developed a financial performance framework based on the fundamental principle of maintaining its capital at a prudent level in excess of regulatory requirements. The framework provides parameters which allow it to calibrate future performance and help ensure that it achieves the right balance between distributing value to members, investing in the business and maintaining financial strength. The most important of these parameters is underlying profit which is a key component of the Issuer's capital. In this context, the Issuer currently believes that generating underlying profit of approximately £0.9 billion to £1.3 billion per annum over the medium-term would meet the Board's objective for sustainable capital strength. This range is based on its current assumptions around the size of the mortgage market and maintaining a UK leverage ratio in excess of 4.0 per cent. This range will vary from time to time, and whether the Issuer's profitability falls within or outside this range in any given financial year or period will depend on a number of external and internal factors, including conscious decisions to return value to members or to make investments in the business. This range should not be construed as a forecast of the likely level of the Issuer's underlying profit for any financial year or period within a financial year, and there can be no assurance that the Issuer will generate profits within its target range.

In addition, the Issuer is seeking to ensure that its financial performance will be supported by a renewed focus on efficiency. Whilst cost income ratio has previously been the Issuer's main measure of efficiency, the Issuer introduced sustainable cost savings targets in 2017. As at 4 April 2018 the Issuer reported that it was on course to deliver its target of £300 million of sustainable cost savings by 2021, a target which has since been extended to £500 million of sustainable cost savings by 2023. These savings are expected to be delivered across a range of initiatives, including 'right first time' member service, targeted reductions in third party spend, process simplification and automation including digitised service delivery, driving efficiency to the way the Issuer delivers change as well as targeted organisational simplification activities. However, there can be no assurance that such targeted cost savings will be achieved.

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

Market risks may adversely impact the Issuer's business

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

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

unusual or extreme market conditions. It is difficult to predict with accuracy changes in economic or market conditions and to anticipate the effects that such changes could have on the Issuer's financial performance and business operations.

Concentration risks may adversely impact the Issuer's business

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

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

The Issuer's reputation is one of its most important assets and its ability to attract and retain customers and conduct business with its counterparties could be adversely affected to the extent that the Issuer's reputation or the reputation of the Issuer's brand is damaged. Failure to address, or appearing to fail to address, various issues that could give rise to reputational risk could cause harm to the Issuer and its business prospects. Reputational issues include, but are not limited to:

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

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

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

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

- certain aspects of the Issuer's business may be determined by the BoE, the PRA, the FCA, HM Treasury, the CMA, the Financial Ombudsman Service (the **FOS**) or the courts as not being conducted in accordance with applicable laws or regulations, or, in the case of the FOS, with what is fair and reasonable in the FOS's opinion;
- the alleged mis-selling of financial products, including as a result of having sales practices and/or rewards structures that are deemed to have been inappropriate, may result in disciplinary action (including significant fines) or requirements to amend sales processes, withdraw products, or provide restitution to affected customers, all of which may require additional provisions to be recorded in the 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 UK High Court or elsewhere. For example, in August 2010, the Financial Services Authority (the **FSA**) published a Policy Statement (PS10/12) on "The Assessment and Redress of Payment Protection Insurance Complaints" (the **Statement**). The Statement applies to all types of Payment Protection Insurance (**PPI**) policies and followed the Consultation Paper (CP10/06). Following publication of the Statement, the British Bankers Association (**BBA**) and others requested a judicial review of the FSA's proposed approach to the assessment and redress of complaints in respect of sales of PPI. On 20 April 2011, the High Court ruled in favour of the FSA. The BBA chose not to appeal this ruling and the obligation for firms to comply with PS10/12 resulted in very significant provisions for customer redress being made by several UK financial services providers. The Group made a charge for customer redress of £26 million in the year ended 4 April 2018, compared to a charge for customer redress of £136 million in the year ended 4 April 2017, with the increase primarily relating to PPI. Although there have been no significant PPI product sales since 2007, the Issuer continues to see a number 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.

In November 2014, the UK Supreme Court ruled in *Plevin v. Paragon Personal Finance Ltd [2014] UKSC 61* (**Plevin**) that a failure to disclose to a client a large commission payment on a single premium PPI policy made the relationship between a lender and the borrower unfair under section 140A of the Consumer Credit Act 1974 (the **CCA**). As a result and following an industry consultation, in March 2017 the FCA published final rules and guidance which may result in an increase in the volume of 'Plevin-based' unfair relationship claims brought against the lenders who failed to disclose significant PPI commissions when entering into credit agreements. A key aspect of the FCA's final rules is a PPI complaints deadline of 29 August 2019 for remaining PPI complaints to financial services firms or the FOS. There can be no assurance that the final rules and guidance will not result in further costs or requirements in relation to customer redress by institutions which have historically sold PPI.

On 4 July 2018, the FCA published a further Consultation Paper CP 18/18 entitled "*Guidance on regular premium PPI complaints and recurring non-disclosure of commission*" (**CP 18/18**). Broadly speaking, the guidance in CP 18/18 proposes that in the case of regular premium PPI complaints, recurring non-disclosure of commission is a kind of omission or omissions that can make a credit relationship unfair, and accordingly

should be assessed by firms when they handle regular premium PPI complaints, notwithstanding the focus of point of sale in Plevin and in the FCA's PPI-specific rules and guidance. Assessment of recurring non-disclosure should be done under the FCA's general, non-PPI specific compliant handling rules within the FCA Handbook and recurring non-disclosure after 6 April 2007 would bring complaints within complaint handling rules even if PPI was sold before that date, provided the credit agreement is within scope of section 140A of the CCA. CP 18/18 closed for comments on 4 September 2018 and the FCA plans to issue a policy statement with finalised guidance in late autumn 2018. It is proposed that the 29 August 2019 complaints deadline applies equally to regular premium PPI complaints.

Ongoing reviews and analysis of the Issuer's own documentation and processes relating to consumer protection and sales practices are constantly being undertaken. As a result, a number of other areas have been identified which require remediation, which also contributed to the £26 million charge in the year ended 4 April 2018. No assurance can be given that the Issuer will not incur liability in connection with any past, current or future non-compliance with legislation regulation, and any such non-compliance could be significant and materially adversely affect the Issuer's results of operations and financial position or its reputation.

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

Given the high level of interdependence between financial institutions, the Issuer is and will continue to be subject to the risk of deterioration of the commercial and financial soundness, or perceived soundness, of other financial services institutions. Within the financial services industry, the default of any one institution could lead to defaults by other institutions. Concerns about, or a default by, one institution could lead to significant liquidity problems, losses or defaults by other institutions, as was the case after the bankruptcy of Lehman Brothers in 2008, because the commercial and financial soundness of many financial institutions may be closely related as a result of their credit, trading, clearing or other relationships. Even the perceived lack of creditworthiness of, or questions about, a counterparty may lead to market-wide liquidity problems and losses or defaults by the Issuer or by other institutions. This risk is sometimes referred to as "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with whom the Issuer interacts on a daily basis. Systemic risk could have a material adverse effect on the Issuer's ability to raise new funding and on its business, financial condition, results of operations, liquidity and/or prospects.

The Issuer routinely executes a high volume of transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, insurance companies and other institutional clients, resulting in large daily settlement amounts and significant credit exposure. As a result, the Issuer faces concentration risk with respect to specific counterparties and customers. A default by, or even concerns about the creditworthiness of, one or more financial services institutions could therefore lead to further significant systemic liquidity problems, or losses or defaults by other financial institutions.

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

From time to time, the International Accounting Standards Board (the **IASB**) and/or the European Union change the international financial reporting standards issued by the IASB, as adopted by the European Commission for use in the European Union, (**IFRS**) that govern the preparation of the Issuer's financial statements. These changes could materially impact how the Issuer records and reports its financial condition and results of operations. In some cases, the Issuer could be required to apply a new or revised standard retroactively, resulting in restating prior period financial statements.

For example, IFRS 9: "*Financial Instruments*" is the new standard to replace IAS 39: "*Financial Instruments: Recognition and Measurement*". It will change the classification and measurement of some financial assets, the

recognition and the financial impact of impairment and hedge accounting. IFRS 9 is required to be implemented in the Issuer's financial statements for the financial year ending 4 April 2019.

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

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

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

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

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

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

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

The Issuer has identified certain accounting policies in the notes to its audited consolidated financial statements for the year ended 4 April 2018 (the **2018 Financial Statements**) incorporated by reference in this Base Prospectus in respect of which significant judgement is required in determining appropriate assumptions and estimates when valuing assets, liabilities, commitments and contingencies. These judgements relate to the assumptions used in the determination of impairment provisions on customer loans and advances (see note 10 to the 2018 Financial Statements), the estimates underlying its determination of provisions for customer redress (see note 27 to the 2018 Financial Statements) and the assumptions underlying its calculations of retirement benefit obligations (see note 30 to the 2018 Financial Statements).

A variety of factors could affect the ultimate value that is obtained either when earning income, recognising an expense, recovering an asset or reducing a liability. The Issuer has established detailed policies and control procedures that are intended to ensure that these judgements (and the associated assumptions and estimates) are well controlled and applied consistently. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. Because of the uncertainty surrounding the Issuer's judgements and the estimates pertaining to these matters, the Issuer cannot guarantee

that it will not be required to make changes in accounting estimates or restate prior period financial statements in the future and any such changes or restatements could be material in nature.

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

The Issuer maintains defined benefit and defined contribution pension schemes for past and current employees. The defined benefit scheme has been closed to new entrants since 2007. The assets of the pension funds are held and managed by trustees separate from the Issuer's assets. Contributions to the funds are assessed by independent actuaries and agreed between the trustees and the Issuer. Risk arises from the schemes because the value of their asset portfolios and returns from them may be less than expected and because there may be greater than expected increases in the estimated value of the schemes' liabilities. In these circumstances, the Issuer could be obliged, or may choose, to make additional contributions to its pension schemes. In the year ended 4 April 2018, the year ended 4 April 2017 and the year ended 4 April 2016, the Issuer made additional employer deficit contributions of £152 million, £149 million and £49 million, respectively, to its pension schemes. As at 4 April 2018, it had a deficit of £345 million (£423 million as at 4 April 2017) in its pension schemes. Depending on the pace and nature of any future macro-economic recovery, the Issuer may be required or may elect to make further contributions to its pension schemes, which could be significant and have a negative impact on its results of operations.

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

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

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

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

The Senior Managers and Certification Regime (the **SM&CR**) came into force on 7 March 2016 and is intended to govern the individual accountability and conduct of senior persons within UK banks, building societies, credit unions, PRA designated investment firms and branches of foreign banks operating in the UK. The FCA and the PRA have now published the majority of their rules and guidance on the SM&CR. Among other things, the SM&CR introduced: (i) requirements on financial institutions to allocate and map senior management responsibilities and reporting lines across all areas of the organisation's activities; (ii) a new senior persons regime governing the conduct of bank staff approved by the PRA and FCA to perform senior management functions (including certain non-executive directors); (iii) new rules requiring financial institutions to certify the ongoing suitability of a wide range of staff performing certain functions; (iv) the extension (from March 2017) of conduct rules (enforceable by PRA and/or FCA disciplinary action, including financial penalties and public censure) previously only applicable to Senior Managers and certified staff to all bank staff other than those undertaking purely ancillary functions; and (v) the introduction of a criminal offence for reckless misconduct by senior bank staff. Rules regarding regulatory references for Senior Managers and staff within the SM&CR also came into force from 7 March 2017. The PRA and FCA continue to publish guidance and consult on future changes to the SM&CR. The SM&CR will continue to have a substantial impact on banks and building societies in the UK generally, including the Issuer.

Risks related to Regulations/the Regulatory Environment

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

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

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

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

- Directive 2004/39/EC (**MiFID**) and its various implementing measures have been recast as a revised directive (**MiFID II**) and a new regulation (Regulation 600/2014/EU, the Markets in Financial Instruments Regulation or **MiFIR**), which entered into force on 2 July, 2014, which together regulate the provision of investment services and activities in relation to a range of customer-related areas, including customer classification, conflicts of interest, client order handling, investment research and financial analysis, suitability and appropriateness, transparency obligations and transaction reporting. The changes to MiFID include expanded supervisory powers that include the ability to ban specific products, services or practices. The majority of the provisions of MiFID II and MiFIR and the implementing laws and regulations have applied since 3 January 2018.
- PSD2 came into force on 12 January 2016 and member states, including the UK, were required to transpose it into national law by 13 January 2018. In the UK, PSD2 has been transposed in the Payment Services Regulations 2017. Key changes include the requirement for account information services and payment initiation services to be regulated, new security requirements, increased reporting obligations and increased focus on consumer protection. There are also changes to the scope of the conduct of business rules and the list of exemptions.
- The General Data Protection Regulation came into force in May 2018 and applies to personal data. Its definition is more detailed than the Data Protection Act (**DPA**) and makes it clear that information such as an online identifier, e.g. an IP address, can be personal data. It applies to both automated personal data and to manual filing systems where personal data is accessible according to specific criteria. This is wider than the DPA's definition and could include chronologically ordered sets of manual records containing personal data. A significant programme of work is in place to make the changes necessary to meet the requirements.
- In November 2016 the European Commission published two new legislative proposals to amend the current European capital regime. These proposals are together referred to as **CRDV**. CRDV is still

being developed and finalised but includes, among other things, reforms to EU holding company structures, total loss absorbing capacity (TLAC), the net stable funding ratio and internal risk models. It is not currently clear when CRDV will be implemented.

- In July 2018, the BoE, PRA and FCA published a joint discussion paper on their intended approach to improve the operational resilience of firms (supervised by the FCA/PRA) and Financial Market Infrastructures (**FMI**s) (supervised by the BoE). The discussion paper introduces a concept of “impact tolerance”, encouraging firms to ensure key business services are sufficiently resilient to a wide range of threats. The deadline for responses to the paper was 5 October 2018. The FCA, PRA and BoE will work to develop proposals for their respective supervisory approaches, but it is not yet clear what effect rules on operational resilience will have on the Issuer’s operations.

As at the date of this Base Prospectus, it is difficult to predict the effect that any of these changes will have on the Issuer's operations, business and prospects or how any of the proposals discussed above will be implemented in light of the fundamental changes to the regulatory environment proposed by the Government and/or the European Commission. Depending on the specific nature of the requirements and how they are enforced, such changes could have a significant impact on the Issuer's operations, structure, costs and/or capital requirements. Accordingly, the Issuer cannot assure investors that the implementation of any of the foregoing matters will not have a material adverse effect on its operations, business, results, financial condition or prospects.

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

The Issuer is also subject to a number of EU and UK proposals and measures targeted at preventing financial crime (including anti-money laundering and terrorist financing). This includes the EU’s Fourth Anti-Money Laundering Directive, which Member States were required to transpose into law by June 2017. The EU’s Fifth Anti-Money Laundering Directive entered into force in July 2018 and aims to enhance processes to counter money laundering and terrorist financing (including illicit activities related to cryptocurrencies). The Fifth Anti-Money Laundering Directive must be transposed into law by Member States by January 2020. The Issuer is committed to operating a business that prevents, deters and detects money laundering and terrorist financing, and will introduce any changes required in line with the new directive and industry guidance. However, if there are breaches of these measures or existing law and regulation relating to financial crime, the Issuer could face significant administrative, regulatory and criminal sanctions as well as reputational damage which may have a material adverse effect on its operations, financial condition and prospects.

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

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

In Europe, the BRRD introduced a package of minimum early intervention and resolution-related tools and powers for relevant authorities and provided for special rules for cross-border groups. The UK implemented

the majority of the measures under the BRRD into English law, by way of amendment to the Banking Act on 1 January 2015.

As described in more detail above under *“The UK Banking Act 2009 confers substantial powers on a number of UK authorities designed to enable them to take a range of actions in relation to UK deposit-taking institutions which are considered to be at risk of failing. The exercise of any of these actions in relation to the Issuer or any Notes could materially adversely affect the value of any Notes and/or the rights of Noteholders”*, the Banking Act, as amended to implement the BRRD requirements, affords the Authorities significant powers to deal with failing UK banks or building societies.

The taking of any actions under the Banking Act in respect of Notes issued under the Programme could directly adversely affect the rights of holders in respect of such Notes. However, whether or not such powers are used directly in respect of Notes, the use of any such powers in respect of the Issuer could materially adversely affect the ability of the Issuer to perform its obligations in respect of any Notes, and the use of such powers (or any anticipated use of such powers, whether or not ultimately used) could materially adversely affect the price or value of Notes and/or the liquidity and/or volatility of any market in any Notes.

For example, if the Issuer were made subject to the SRR and a partial transfer of its business to another entity were effected, the quality of the assets and the quantum of the liabilities not transferred and remaining with the Issuer (which may include the Notes) may result in a deterioration in the creditworthiness of the Issuer and, as a result, increase the risk that it may be unable to meet its obligations in respect of the Notes and/or eventually become subject to administration or insolvency proceedings pursuant to the Banking Act. In such circumstances, Noteholders may have a claim for compensation under one of the compensation schemes existing under, or contemplated by, the Banking Act, but there can be no assurance that Noteholders will have such a claim or, if they do, that they would thereby recover compensation promptly or equal to any loss actually incurred.

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

There is considerable uncertainty about the scope of the powers afforded to the Authorities under the Banking Act and related legislation and how the Authorities may choose to exercise them. As at the date of this Base Prospectus, the Authorities have not made an instrument or order under the Banking Act in respect of the Issuer or any of its securities and there has been no indication that they will make any such instrument or order. However, there can be no assurance that this will not change and/or that Noteholders will not be adversely affected by any such order or instrument if made.

The Issuer is subject to regulatory capital and liquidity requirements which are subject to change

The Issuer is subject to regulatory capital and liquidity requirements that could have an impact on its operations. Changes to the regulatory capital and liquidity requirements under which the Issuer operates could hinder growth by prescribing more stringent requirements than those with which it currently complies. UK regulators and international policymakers are finalising a number of areas of the regulatory capital framework, with a view to making changes as appropriate. These areas include MREL, capital requirements for residential mortgages and review of the IRB (as defined below) model framework, use of the standardised approach for credit risk and use of the revised standardised approach for operational risk.

Since the global financial crisis, there has been a significant overhaul of the regulatory capital and liquidity regimes with which the Issuer must remain compliant, and there continue to be significant developments in this respect. These changes have resulted, amongst other things, in significant increases in the amount and

quality of capital which financial institutions such as the Issuer are required to maintain. Further substantial changes to the regime, including (without limitation) the phasing in of MREL requirements, the introduction of capital floors for institutions which calculate risk exposures using Internal Ratings Based (**IRB**) approaches, revisions to IRB models to reduce ‘point in time’ volatility and PRA requirements to align firms’ IRB modelling approaches for residential mortgage risk weighted assets could result in further increases in the level of capital which the Issuer is required to hold and could cause it to incur additional costs in order to ensure implementation of, and continued compliance with, the evolving prudential regime. This could have a material adverse effect on its profitability or results of operations and could hinder growth.

The Basel Committee published their final reforms to the Basel III framework in December 2017. The amendments include changes to the standardised approaches for credit and operational risks and the introduction of a new RWA output floor. The rules are subject to a transitional period from 2022 to 2027. In addition, the PRA’s revised expectations for IRB models for residential mortgages will be effective from the end of 2020. These reforms will lead to a significant increase in the Issuer’s risk weights over time and it currently expects the consequential impact on its reported CET1 ratio ultimately to be a reduction of approximately 45-50 per cent. relative to its current methodology. However, organic earnings through the transition are expected to mitigate the impact such that the Issuer’s reported CET1 ratio will in practice remain well in excess of the *proforma* levels imposed by this change and leverage requirements will remain the Issuer’s binding constraint based on latest projections. These reforms represent a re-calibration of regulatory requirements with no underlying change in the capital resources the Issuer holds or the risk profile of its assets. Final impacts are subject to uncertainty for future balance sheet size and mix, and because the final detail of some elements of the regulatory changes remain at the PRA’s discretion. Whilst the Issuer currently expects that the leverage ratio will continue to be its binding capital constraint in the near-term, it is possible that these changes will, over time, result in risk-weighted capital requirements becoming the binding constraint.

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

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

In addition, since 2014, the BoE has conducted concurrent stress tests of the UK banking system on an annual basis. The annual cyclical scenario includes all major UK banks and building societies with total retail deposits equal to, or greater than, £50 billion on an individual or consolidated basis, at a firm’s financial year-end date. At present, this group also comprises the Issuer. The findings from the 2017 stress test showed that the Issuer would remain profitable, with capital levels well above regulatory requirements despite the severity of the scenario. However, there is a risk that the Issuer may fail the annual stress test (which would have the effect of damaging the Issuer’s reputation and other associated adverse consequences) and be subject to future regulatory developments to the BoE’s stress testing framework which could lead to, amongst others, a requirement to raise further capital. In addition, the EBA has conducted its own stress tests for certain European financial institutions. Although the Issuer has not to date been involved in the EBA’s stress tests, if it were to be included in the future, as with the BoE’s stress tests there is a risk that it would be subject to any future regulatory developments affecting the evolution of the EBA’s stress testing framework.

Effective management of the Issuer’s capital is critical to its ability to operate and grow its business and to pursue its strategy. Any change that limits the Issuer’s ability to effectively manage its balance sheet and

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

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

The FSMA established the FSCS, which pays compensation to eligible customers of authorised financial services firms which are unable, or are likely to be unable, to pay claims against them. Based on its share of protected deposits, the Issuer paid levies to the FSCS to enable the scheme to meet claims against it. While it is anticipated that the substantial majority of future 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 Issuer's profits. In March 2012, the FSCS and HM Treasury agreed the refinancing of £20.4 billion in loans made to the FSCS by HM Treasury to fund the compensation payments made by the FSCS to customers whose savings were put at risk by bank failures in 2008 and 2009. As a result, the FSCS is required to pay a significantly increased amount of interest which it recovers through additional levies on the financial services industry.

In common with other financial institutions which are subject to the FSCS, the Issuer also has a potential exposure to future levies resulting from the failure of other financial institutions and consequential claims which arise against the FSCS as a result of such failure. For example, the administration of the Dunfermline Building Society resulted in levies on the industry, in addition to levies due to the banking failures of 2008 and 2009, amounting to £365 million, of which £42 million was paid by the Group during the years ended 4 April 2015 and 4 April 2016.

There can be no assurance that there will be no further actions taken under the Banking Act that may lead to further claims against the FSCS, and concomitant increased FSCS levies payable by the 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 may also arise from discussions at governmental levels around the future design of financial services compensation schemes, such as increasing the scope and level of protection and moving to pre-funding of compensation schemes.

In April 2014, the new EU directive on deposit guarantee schemes (the **DGSD**) was adopted and EU Member States were required to implement it into national law on or before 3 July 2015. The DGSD requires EU Member States to ensure that by 3 July 2024 the available financial means of the deposit guarantee schemes regulated by it reach a minimum target level of 0.8 per cent. of the covered deposits of credit institutions; the schemes are to be funded through regular contributions before the event (ex-ante) to the deposit guarantee schemes. (The UK has previously operated an ex-post financing where fees are required after a payment to depositors has occurred.) In case of insufficient ex-ante funds, the deposit guarantee scheme will collect immediate after the event (ex-post) contributions from the banking sector, and, as a last resort it will have access to alternative funding arrangements such as loans from public or private third parties. HMT and the PRA have brought into force final requirements on the UK implementation of the DGSD. These requirements provide, among other things, that the ex-ante contributions are met by funds already collected under the UK bank levy (with the ability, in the case of insufficient funds, to collect immediate ex-post contributions) and changes to the FSCS include the introduction of temporary high balance deposit protection, up to £1 million, for up to six months for certain limited types of deposits and changes to the types of depositors that are eligible

for compensation. It is possible, as a result of the DGSD and UK requirements, that future FSCS levies on the Issuer may differ from those it has incurred historically, and that such reforms could result in the Issuer incurring additional costs and liabilities, which may adversely affect its business, financial conditions and/or results of operations.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents, 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:

- (i) the auditors' report and audited consolidated annual financial statements of the Issuer for the year ended 4 April 2017 (contained on pages 137 to 214 (inclusive) of the Issuer's 2017 Annual Report and Accounts);
- (ii) the auditors' report and audited consolidated annual financial statements of the Issuer for the year ended 4 April 2018 (contained on pages 159 to 231 (inclusive) of the Issuer's 2018 Annual Report and Accounts);
- (iii) the following sections of the interim management statement of the Issuer for the three-month period ended 30 June 2018, published on 10 August 2018 (the **Q1 IMS**):
 - (a) the second table under the heading "Financial performance" on page 3 of the Q1 IMS; and
 - (b) Appendix 1 on pages 6 to 8 of the Q1 IMS; and
- (iv) the Terms and Conditions of the Notes contained in the previous Base Prospectuses dated 9 August 2002 (pages 19-39 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), 2 October 2012 (pages 38-61 inclusive), 2 October 2013 (pages 42-65 inclusive), 2 October 2014 (pages 45-69 inclusive), 28 September 2015 (pages 48-80 inclusive), 31 August 2016 (pages 48-79 inclusive) as supplemented by the supplement dated 17 July 2017, 31 August 2017 (pages 60-92 inclusive) and 16 February 2018 (pages 64-106 inclusive), in each case prepared by the Issuer in connection with the Programme.

The tables below set out the relevant page references in (i) the Issuer's Annual Report and Accounts for the year ended 4 April 2017 for the Issuer's audited consolidated annual financial statements for the year ended 4 April 2017 and auditors' report thereon and (ii) the Issuer's Annual Report and Accounts for the year ended 4 April 2018 for the Issuer's audited consolidated annual financial statements for the year ended 4 April 2018 and auditors' report thereon:

Audited consolidated annual financial statements for the year ended 4 April 2017

Independent Auditors' Report	Page 137-145
Income statements	Page 146
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Balance sheets	Page 148
Group statement of movements in members' interests and equity	Page 149
Society statement of movement in members' interests and equity	Page 150
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Audited consolidated annual financial statements for the year ended 4 April 2018

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Income statements	Page 168
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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, the applicable Final Terms will also indicate whether or not 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 exchange of a permanent global Note for definitive Notes upon notice from Euroclear and/or Clearstream (acting on the instructions of any holder) or at any time at the request of the Issuer should not be expressed to be applicable in the applicable Final Terms if the Notes are issued with a minimum Specified Denomination such as €100,000 (or its equivalent in another currency) plus one or more higher integral multiples of another smaller amount such as €1,000 (or its equivalent in another currency). Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Notes which is to be represented on issue by a temporary global Note exchangeable for definitive Notes.

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.

[MiFID II product governance/target market – Solely for the purposes of [the/each] manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, **MiFID II**); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a **distributor**) should take into consideration the manufacturer[’s/s’] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer[’s/s’] target market assessment) and determining appropriate distribution channels.]

[Prohibition of sales to EEA retail investors – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (**EEA**). For these purposes, a **retail investor** means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of [Directive 2014/65/EU (**MiFID II**)]**[MiFID II]**; or (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the **Insurance Mediation Directive**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the **PRIIPs Regulation**) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]

[In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the **SFA**) and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the **CMP Regulations 2018**), the Issuer has determined the classification of the Notes as [prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products)]/[].]

[Date]

Nationwide Building Society

Legal entity identifier (LEI): 549300XFX12G42QIKN82

[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 31 October 2018 [and the supplemental Prospectus dated [date]] which [together] constitute[s] a base prospectus (the **Base Prospectus**) for the purposes of Directive 2003/71/EC (as amended or superseded) (the **Prospectus Directive**). 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 the supplement to it dated [*date*]] and incorporated by reference into the Base Prospectus dated 31 October 2018. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of Directive 2003/71/EC (as amended or superseded) (the **Prospectus Directive**) and must be read in conjunction with the Base Prospectus dated 31 October 2018 [and the supplemental Prospectus dated [*date*]] which [together] constitute[s] a base prospectus (the **Base Prospectus**) for the purposes of the Prospectus Directive, 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. | Status of the Notes: | [Senior Preferred / Deposit / Senior Non-Preferred / Subordinated] |
| | (a) [Senior Non-Preferred Notes: Waiver of Set-off: | [Applicable / <i>specify if Not Applicable</i>] |
| | (b) Senior Non-Preferred Notes: Restricted Events of Default: | [Applicable / <i>specify if Not Applicable</i>] |
| | (c) Senior Non-Preferred Notes: Gross-up of principal: | [Applicable / <i>specify if Not Applicable</i>] |
| 2. | Interest Basis: | [Fixed Rate / Reset / Floating Rate / Zero Coupon / Combination (see paragraph[s] [12]/[13]/[14]/[15] below)] |

DESCRIPTION OF THE NOTES

- | | | |
|----|------------------|--|
| 3. | New Global Note: | [Yes/No] |
| 4. | Form of Notes: | <p>[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]]</p> <p>[Temporary Global Note exchangeable for Definitive Notes]</p> <p>[Permanent Global Note exchangeable for Definitive Notes [on not less than 45 days' notice/only upon an Exchange Event]]</p> <p>[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</p> |

accordance with article 4 of the Belgian Law of 14 December 2005.]¹

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: []
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

12. **Fixed Rate Note Provisions** [Applicable/Not Applicable]
 - (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): [] per Calculation Amount
 - (e) Broken Amount(s): [[] per Calculation Amount, payable on the Fixed

¹ Include for Notes that are to be offered in Belgium.

- Interest Date falling [in/on] [] [Not Applicable]
- (f) Final Broken Amount per []
denomination:
- (g) Day Count Fraction: [[Actual/Actual (ICMA)]
[30/360]
[Actual/Actual (ISDA)] [Actual/Actual]
Actual/365 (Fixed)
Actual/365 (Sterling)
Actual/360
[360/360] [Bond Basis]
[30E/360] [Eurobond Basis]
30E/360 (ISDA)]
- (h) Business Day Convention: [Following Business Day/Modified Following
Business Day/Preceding Business Day]
- Adjusted: [Applicable/Not Applicable]
 - Non-Adjusted: [Applicable/Not Applicable]
- (i) Additional Business Centre(s): []
- (j) Determination Date(s): [[] in each year] [Not Applicable]
13. **Zero Coupon Note Provisions** [Applicable/Not Applicable]
- (a) Accrual Yield: []
- (b) Reference Price: []
- (c) Calculation Agent (if any): []
14. **Floating Rate Note Provisions** [Applicable/Not Applicable]
- (a) Party responsible for calculating the Rate of Interest 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: [Compounded Daily SONIA] / [] month [[] LIBOR/EURIBOR]
Specified Time: [11.00 a.m./[]]
Relevant Financial Centre: [London/Brussels]
- (ii) Interest Determination Date: [] [TARGET/[]] Business Days [in []] prior to the [] day in each Interest Period/each Interest Payment Date][The [first/[]] London Banking Day falling after the last day of the relevant Observation Period] []
- (iii) Relevant Screen Page: [] [Not Applicable]
- (iv) SONIA Lag Period (*p*): [5 / [] London Banking Days] [Not Applicable]
- (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 Rate of Interest (if any): [] per cent. per annum [in respect of the period from (and including) [the Interest Commencement Date]/[] to (but excluding) []]
- (l) Maximum Rate of Interest (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)]

15. **Reset Note Provisions**

[Applicable/Not Applicable]

- (a) Initial Rate of Interest: [] per cent. per annum payable in arrear on each

	Interest Payment Date
(b) First Margin:	[+/-][] per cent. per annum
(c) Subsequent Margin:	[[+/-][] per cent. per annum] [Not Applicable]
(d) Interest Payment Date(s):	[[] [and []]] in each year up to and including the Maturity Date
(e) Fixed Coupon Amount to (but excluding) the First Reset Date:	[] per Calculation Amount
(f) Broken Amount(s):	[[] per Calculation Amount, payable on the Interest Payment Date falling [in/on] []][Not Applicable]
(g) Reset Reference Rate:	[Mid-Swaps/Reference Bond]
(h) First Reset Date:	[]
(i) Second Reset Date:	[]/[Not Applicable]
(j) Subsequent Reset Date(s):	[] [and []]] [Not Applicable]
(k) Relevant Screen Page:	[]
(l) Mid-Swap Rate:	[Single Mid-Swap Rate/Mean Mid-Swap Rate] [Not Applicable]
(m) Fixed Leg Swap Duration:	[12 months / 6 months / []]] [Not Applicable]
(n) Floating Leg Swap Duration:	[12 months / 6 months / 3 months / []]] [Not Applicable]
(o) Mid-Swap Fallback Rate in respect of the first Reset Determination Date:	[[] per cent.] [Not Applicable]
(p) Reference Bond Reset Rate Time:	[] [Not Applicable]
(q) Reference Bond Fallback Price in respect of the first Reset Determination Date:	[] [Not Applicable]
(r) Day Count Fraction:	[30/360] [Actual/Actual (ICMA)]
(s) Determination Date(s):	[[] in each year][Not Applicable]
(t) Business Centre(s):	[]
(u) Business Day Convention:	[Following Business Day/Modified Following Business Day/Preceding Business Day]
• Adjusted:	[Applicable/Not Applicable]

- Non-Adjusted: [Applicable/Not Applicable]
- (v) Calculation Agent: []
16. **Benchmark Replacement:** [Applicable/Not Applicable]
- PROVISIONS REGARDING REDEMPTION/MATURITY**
17. Maturity Date: []
18. 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
19. Regulatory Event (Subordinated Notes only): [Full Exclusion / Full or Partial Exclusion / Not Applicable]
20. (a) Senior Non-Preferred Notes: Loss Absorption Disqualification Event Redemption: [Applicable / *specify if Not Applicable*]
- (b) Loss Absorption Disqualification Event: [Full Exclusion / Full or Partial Exclusion / Not Applicable]
- (c) Senior Non-Preferred Notes: Substitution and Variation: [Applicable / *specify if Not Applicable*]
21. 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

22. 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
23. Early Redemption Amount payable on [] per Calculation Amount redemption for taxation reasons or (for Subordinated Notes only) following a Regulatory Event or (for any Note) on an Event of Default:

GENERAL PROVISIONS APPLICABLE TO THIS ISSUE OF NOTES

24. 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/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 [].]
- (b) Estimated of total expenses related to admission to trading: []

2. RATINGS

- Ratings: The Notes to be issued [have been/are expected to be] been rated:
- [Moody's Investors Service Limited: []]
[S&P Global Ratings Europe Limited: []]
[Fitch Ratings Ltd.: []]

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: []
- [The yield is calculated on the basis of the Rate of Interest [applicable up to (but excluding) the First Reset Date] and the Issue Price as at the Issue Date. It is not an indication of future yield.]

5. OPERATIONAL INFORMATION

- (a) ISIN: []
- (b) Common Code: []
- (c) CFI: []/Not Applicable]
- (d) FISN: []/Not Applicable]
- (e) Any clearing system(s) other than Euroclear and Clearstream, [Not Applicable/[]]

Luxembourg and the relevant identification number(s):

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

(g) Intended to be held in a manner which would allow Eurosystem eligibility: [Yes. Note that the designation “yes” simply means that the Notes are intended upon issue to be deposited with one of the International Central Securities Depositories (**ICSDs**) as common safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the European Central Bank (**ECB**) being satisfied that Eurosystem eligibility criteria have been met.] / [No. Whilst the designation is specified as “no” at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

(h) Relevant Benchmark[s]: [[*specify benchmark*] is provided by [*administrator legal name*]]. As at the date hereof, [[*administrator legal name*][appears]/[does not appear]] in the register of administrators and benchmarks established and maintained by ESMA pursuant to Article 36 (Register of administrators and benchmarks) of the Benchmarks Regulation]/[As far as the Issuer is aware, as at the date hereof, [*specify benchmark*] does not fall within the scope of the Benchmarks Regulation]/[Not Applicable]

6. DISTRIBUTION

Prohibition of Sales to EEA Retail Investors: [Applicable/Not Applicable]

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 each 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 31 October 2018 (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 Branch, 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 31 October 2018 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**, which term will, unless the context otherwise requires, include any successor to such currency under applicable law) 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 Reset 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 is also a Senior Preferred Note, a Deposit Note, a Senior Non-Preferred 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 SA/NV (**Euroclear**) and/or Clearstream Banking S.A. (**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 Creation Online 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, Ranking and Subordination

2.1 Status of Senior Preferred Notes and Deposit Notes

The Senior Preferred Notes and the Deposit Notes and any relative Coupons are direct, unconditional and (subject to the provisions of Condition 3) unsecured obligations of the Issuer and rank *pari passu* and without any preference among themselves and (subject to any applicable statutory exceptions or preferences and subject to the provisions of Condition 3) equally with all other unsecured obligations (other than Senior Non-Preferred Notes and other obligations which rank or are expressed to rank junior to the Senior Preferred Notes or Deposit Notes) of the Issuer.

2.2 Status and Ranking of Senior Non-Preferred Notes

(a) Status and Ranking

The Senior Non-Preferred Notes and any relative Coupons are direct and unsecured obligations of the Issuer, ranking junior to the Senior Preferred Notes and the Deposit Notes and conditional as described below, and rank *pari passu* and without any preference among themselves. The claims in respect of principal, interest and any other amount (including, without limitation, any damages awarded for breach of the Issuer's obligations) in respect of the Senior Non-Preferred Notes and any relative Coupons will, in the event of the winding up or dissolution of the Issuer (other than an Excluded Dissolution), rank:

- (i) junior in right of payment in the manner provided in the Trust Deed to all Senior Claims;
- (ii) *pari passu* with all other Senior Non-Preferred Claims; and
- (iii) in priority to all Subordinated Claims.

Accordingly, if the Issuer is at any time in a winding up or dissolution (other than an Excluded Dissolution), then no principal, interest or other amounts in respect of the Senior Non-Preferred Notes and any relative Coupons (whether or not already due or accrued prior to the commencement of such winding up or dissolution) shall be payable by, nor shall any claim in respect thereof be provable against, the Issuer in such winding up or dissolution, 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 2.2(a), the Issuer shall be deemed to be **solvent** if it is able to pay its Senior Claims in full or the liquidator or other insolvency official of the Issuer determines that it will be able to do so within a period not exceeding twelve months, in each case disregarding obligations which are not provable in the winding up or dissolution.

(b) *Waiver of Set-off*

This Condition 2.2(b) applies unless “*Senior Non-Preferred Notes: Waiver of Set-off*” is expressly specified to be “Not Applicable” in the applicable Final Terms.

Subject to applicable law, no holder of a Senior Non-Preferred Note or any relative Coupon 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 Senior Non-Preferred Notes or any relative Coupons, and each Noteholder and Couponholder shall, by virtue of being the holder of any such Senior Non-Preferred Note or relative 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 a Senior Non-Preferred Note or relative Coupon against the Issuer is discharged by set-off, such Noteholder or Couponholder will immediately pay an amount equal to the amount of such discharge to the Issuer or, in the event of winding up or dissolution of the Issuer, the liquidator or other insolvency official of the Issuer, and accordingly such discharge will be deemed not to have taken place.

2.3 Status and Subordination of Subordinated Notes

(a) *Status and Subordination*

The Subordinated Notes and any relative Coupons are direct and unsecured obligations of the Issuer, subordinated and conditional as described below, and rank *pari passu* and without any preference among themselves. The claims in respect of principal, interest and any other amount (including, without limitation, any damages awarded for breach of the Issuer’s obligations) in respect of the Subordinated Notes and any relative Coupons will, in the event of the winding up or dissolution of the Issuer (other than an Excluded Dissolution):

- (i) be subordinated in right of payment in the manner provided in the Trust Deed to (x) all Senior Claims, (y) all Senior Non-Preferred Claims and (z) any Subordinated Claims (if any) which rank, or are expressed to rank, in priority to claims in respect of the Subordinated Notes;
- (ii) rank at least *pari passu* with claims in respect of obligations of the Issuer which constitute, or would but for any applicable limitation on the amount of such capital constitute, Tier 2 Capital; and
- (iii) rank in priority to claims in respect of obligations of the Issuer which constitute, or would but for any applicable limitation on the amount of such capital constitute, Additional Tier 1 Capital (including, without limitation, the Issuer’s permanent interest bearing shares) or CET1 Capital (including the Issuer’s core capital deferred shares) and in priority to any other claims ranking, or expressed to rank, junior to claims in respect of the Subordinated Notes.

Accordingly, if the Issuer is at any time in a winding up or dissolution (other than an Excluded Dissolution), then no principal, interest or other amounts in respect of the Subordinated Notes and any relative Coupons (whether or not already due or accrued prior to the commencement of such winding up or dissolution) shall be payable by, nor shall any claim in respect thereof be provable against, the Issuer in such winding up or dissolution 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 2.3(a), the Issuer shall be deemed to be **solvent** if it is able to pay its Senior Claims, Senior Non-Preferred Claims and more senior-ranking Subordinated Claims (if any) in full, or the liquidator or other insolvency official of the Issuer determines that it will be able to do so within a period not exceeding twelve months, in each case disregarding obligations which are not provable in the winding up or dissolution.

(b) *Waiver of Set-off*

Subject to applicable law, no holder of a Subordinated Note or any relative Coupon 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 or 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 a Subordinated Note or relative Coupon against the Issuer is discharged by set-off, such Noteholder or Couponholder will immediately pay an amount equal to the amount of such discharge to the Issuer or, in the event of winding up or dissolution of the Issuer, the liquidator or other insolvency official of the Issuer and accordingly such discharge will be deemed not to have taken place.

2.4 Insolvency Priority

If, at any time (the **Effective Time**), any law or regulation (a **Senior Creditors Hierarchy Law**) becomes (or has become) effective which amends (or has amended) the United Kingdom insolvency laws or rules as they apply to the Issuer (including, without limitation, The Banks and Building Societies (Priorities on Insolvency) Order 2018 or any other law or regulation implementing the amendments to Article 108 of Directive 2014/59/EU made pursuant to Directive (EU) 2017/2399) to provide that, in normal insolvency proceedings, ordinary senior unsecured claims which are not otherwise preferred by law (**Ordinary Non-Preferential Debts**) shall nevertheless have a higher priority ranking than other unsecured claims resulting from a debt instrument which meets certain specified conditions (which may, but need not, include a requirement that such debt instrument (i) has an original contractual maturity of at least one year, (ii) contains no embedded derivatives and is not a derivative itself and/or (iii) is issued under terms and/or other documentation which explicitly refers to such lower ranking) (**Secondary Non-Preferential Debts**), then the Issuer and, by virtue of its holding of any Note or any beneficial interest therein, each Noteholder and Couponholder acknowledges and agrees that (unless the relevant insolvency laws or rules provide otherwise), in the event of a winding up or dissolution of the Issuer (other than an Excluded Dissolution) which occurs at or after the Effective Time:

- (a) claims in respect of Senior Preferred Notes, Deposit Notes and any relative Coupons will constitute part of the class of Ordinary Non-Preferential Debts;
- (b) claims in respect of Senior Non-Preferred Notes and any relative Coupons will constitute part of the class of Secondary Non-Preferential Debts; and
- (c) claims in respect of Subordinated Notes and any relative Coupons will be subordinated to Secondary Non-Preferential Debts (and, if so provided by the Senior Creditors Hierarchy Law, will constitute part of the class of tertiary non-preferential debts (however designated) under the Senior Creditors Hierarchy Law).

2.5 Certain definitions

As used in these Terms and Conditions:

deferred share investments has the meaning ascribed thereto in the rules of the Issuer (and includes the Issuer's permanent interest bearing shares and core capital deferred shares);

Excluded Dissolution means each of (i) a winding up or dissolution of the Issuer for the purpose of a reconstruction, union, transfer, merger or amalgamation or the substitution in place of the Issuer of a successor in business the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution of the Noteholders, and (ii) a dissolution of the Issuer following, or in connection

with, a Permitted Reorganisation whereby the Successor Entity is substituted in place of the Issuer as principal debtor under the Trust Deed, the Notes and any relative Coupons;

investing members has the meaning ascribed thereto in the rules of the Issuer;

Regulatory Capital Requirements means, at any time, any requirement contained in the law, regulations, requirements, guidelines and policies then in effect relating to capital adequacy and prudential supervision and applicable to the Issuer, including (without limitation to the generality of the foregoing), those applicable laws, regulations, requirements, guidelines and policies relating to capital adequacy and prudential supervision then in effect of the United Kingdom or the relevant Supervisory Authority and/or any applicable regulation, directive or other binding rules, standards or decisions adopted by the institutions of the European Union;

Senior Claims means the aggregate amount of all claims admitted in the winding up or dissolution of the Issuer which are:

- (i) claims of depositors of the Issuer;
- (ii) claims of investing members of the Issuer as regards the principal and interest due on share investments other than deferred share investments; and
- (iii) claims of creditors in respect of unsubordinated obligations (including, without limitation, Senior Preferred Notes, Deposit Notes and other Ordinary Non-Preferential Debts) of the Issuer (excluding Senior Non-Preferred Claims);

Senior Non-Preferred Claims means the aggregate amount of all claims admitted in the winding up or dissolution of the Issuer which are claims of creditors in respect of obligations (including, without limitation, Senior Non-Preferred Notes and any other Secondary Non-Preferential Debts) which rank or are expressed to rank junior to (or have or are expressed to have a lower priority ranking compared to) claims in respect of the Senior Preferred Notes, the Deposit Notes and all Senior Claims of the Issuer, other than Subordinated Claims;

Subordinated Claims means the aggregate amount of all claims admitted in the winding up or dissolution of the Issuer which rank, or are expressed to rank, junior to claims in respect of the Senior Non-Preferred Notes or other Senior Non-Preferred Claims, including (without limitation) claims of creditors (i) in respect of obligations of the Issuer which constitute, or would but for any applicable limitation on the amount of such capital constitute, Tier 2 Capital, Additional Tier 1 Capital (including, without limitation, the Issuer's permanent interest bearing shares) or CET1 Capital (including the Issuer's core capital deferred shares);

Supervisory Authority means, from time to time, the Bank of England acting as the Prudential Regulation Authority through its Prudential Regulation Committee or such other authority having for the time being primary supervisory authority and/or responsibility with respect to prudential or resolution matters concerning the Issuer and/or its group, as may be relevant in the context; and

Tier 1 Capital, CET1 Capital, Additional Tier 1 Capital and Tier 2 Capital have the respective meanings given thereto (or to a successor or equivalent term) in the Regulatory Capital Requirements.

3. Negative Pledge

This Condition 3 does not apply to Senior Non-Preferred Notes or Subordinated Notes.

So long as any of the Senior Preferred 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 Senior Non-Preferred Notes, 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 equal to 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.

4. Interest

4.1 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.

If “*Business Day Convention—Adjusted*” is specified in the applicable Final Terms, (a) any Fixed Interest Date otherwise falling on a day which is not a Business Day (as defined in Condition 4.2 below) will be postponed or brought forward (as applicable) in accordance with the Business Day Convention (as described in Condition 4.2(a)) set out in the applicable Final Terms which, for the avoidance of doubt, shall not be the Floating Rate Convention and (b) the amount of interest payable on a Fixed Interest Date will be the amount accrued during the Fixed Interest Period ending immediately prior to such Fixed Interest Date, and the provisions of Condition 4.2(d) (excluding the determination of the Rate of Interest) and Condition 4.2(f) (excluding the notification of the Rate of Interest) shall apply, *mutatis mutandis*, as though references therein (and, if applicable, in the description of the relevant Business Day Convention (as set out in Condition 4.2(a)) to (A) “Floating Rate Notes” were to “Fixed Rate Notes”; (B) “Interest Amounts” were to amounts of interest payable in respect of Fixed Rate Notes; (C) “Interest Payment Date” were to “Fixed Interest Date”; and (D) “Interest Period” were to “Fixed Interest Period”.

If “*Business Day Convention—Non-Adjusted*” is specified in the applicable Final Terms, any Fixed Interest Date otherwise falling on a day which is not a Business Day will be postponed or brought forward (as applicable) in accordance with the Business Day Convention set out in the applicable Final Terms (as described below) which, for the avoidance of doubt, shall not be the Floating Rate Convention but there will be no corresponding adjustment of the amount of interest payable on such Fixed Interest Date.

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 sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate 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 this Condition, **Fixed Interest Period** means the period from (and including) a Fixed Interest Date (or the Interest Commencement Date) to (but excluding) the next (or first) Fixed Interest Date.

4.2 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 4.2(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:

- 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 (other than TARGET2 System) specified in the applicable Final Terms;
- II. if TARGET2 System is specified as an Additional Business Centre in the applicable Final Terms, a day on which the TARGET2 System is open; and
- III. 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.

In these Terms and Conditions:

euro means 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; and

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

(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 4.2(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 4.2(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 not referencing Compounded Daily SONIA**

(A) Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, and unless the Reference Rate in respect of the relevant Series of Floating Rate Notes is specified in the applicable Final Terms as being “Compounded Daily SONIA”, the Rate of Interest for each Interest Period will, subject to Condition 4.4 and as provided below, be either:

- I. the offered quotation (if there is only one quotation on the Relevant Screen Page); or
- II. 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 or other party responsible for the calculation of the Rate of Interest as specified in the applicable Final Terms (and references in this Condition 4.2(b)(ii) to “Agent” shall be construed accordingly). 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.

(B) If the Relevant Screen Page is not available or if sub-paragraph (A)(I) above applies and no such offered quotation appears on the Relevant Screen Page or if sub-paragraph (A)(II) above applies and fewer than three such offered quotations appear on the Relevant Screen Page, in each case as at the time specified above, the Agent shall, if applicable, request each of the Reference Banks to provide the Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate as at approximately 11.00 a.m. (London time, if the Reference Rate is LIBOR, or Brussels time, if the Reference Rate is EURIBOR) or (if otherwise specified) the Specified Time in the Relevant Financial Centre (each as indicated in the applicable Final Terms) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Agent with such offered quotations, the Rate of Interest for such Interest Period shall be the arithmetic mean (rounded as provided above) of such offered quotations (excluding, if four or more of the Reference Banks provide the Agent with such quotations and the offered quotations of all such Reference Banks are not the same, the highest and lowest quotations and, if the highest quotation and/or the lowest quotation applies in respect of more than one such Reference Bank, excluding such highest and/or lowest quotation in respect of one such Reference Bank) plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Agent.

- (C) If on any Interest Determination Date one only or none of the Reference Banks provides the Agent with such an offered quotation as provided in the preceding paragraph, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Agent determines as being either:
- (i) the arithmetic mean (rounded as provided above) of the rates, as communicated to (and at the request of) the Agent by the Reference Banks or any two or more of them, which such banks were offered, at approximately 11.00 a.m. (London time, if the Reference Rate is LIBOR, or Brussels time, if the Reference Rate is EURIBOR) or (if otherwise specified) the Specified Time in the Relevant Financial Centre (each as indicated in the applicable Final Terms) on the relevant Interest Determination Date (or if such date is not a Business Day, on the immediately preceding Business Day), deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) or otherwise the inter-bank market of the Relevant Financial Centre for the relevant Reference Rate, in each case plus or minus (as indicated in the applicable Final Terms) the Margin (if any); or
 - (ii) in the event that the Agent can determine no such arithmetic mean, the lowest lending rate for lending amounts in the Specified Currency for a period equal to that which would have been used for the Reference Rate at which at approximately 11.00 a.m. (London time, if the Reference Rate is LIBOR, or Brussels time, if the Reference Rate is EURIBOR) or (if otherwise specified) the Specified Time in the Relevant Financial Centre (each as indicated in the applicable Final Terms) on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for such purpose) informs the Agent it is quoting to leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) or otherwise the inter-bank market of the Relevant Financial Centre, in each case plus or minus (as indicated in the applicable Final Terms) the Margin (if any),

provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions, the Rate of Interest shall be:

- I. that determined as at the last preceding Interest Determination Date on which the Rate of Interest was so determined (though substituting, where a different Margin, Maximum Rate of Interest and/or Minimum Rate of Interest is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin, Maximum Rate of Interest and/or Minimum Rate of Interest (as the case may be) relating to the relevant Interest Period in place of the Margin, Maximum Rate of Interest and/or Minimum Rate of Interest (as applicable) relating to that last preceding Interest Period) or;
- II. if there is no such preceding Interest Determination Date, the initial Rate of Interest or, in the case of Notes with an Interest Basis that converts from a Fixed Rate to a Floating Rate, the Fixed Rate of Interest applicable to such Notes immediately prior to conversion of the Interest Basis.

Reference Banks means, in the context of Condition 4.2(b)(ii)(A)(I), those banks whose offered rates were used to determine the offered quotation referred to in such Condition when such

offered quotation last appeared on the Relevant Screen Page and, in the context of Condition 4.2(b)(ii)(A)(II), those banks whose offered quotations last appeared on the Relevant Screen Page when no fewer than three such offered quotations appeared.

(iii) **Screen Rate Determination for Floating Rate Notes referencing Compounded Daily SONIA**

- (A) Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined and the Reference Rate in respect of the relevant Series of Floating Rate Notes is specified in the applicable Final Terms as being “Compounded Daily SONIA”, the Rate of Interest for an Interest Accrual Period will, subject as provided below, be Compounded Daily SONIA with respect to such Interest Accrual Period plus or minus (as indicated in the applicable Final Terms) the applicable Margin.

Compounded Daily SONIA means, with respect to an Interest Accrual Period, the rate of return of a daily compound interest investment during the Observation Period corresponding to such Interest Accrual Period (with the daily Sterling overnight reference rate as reference rate for the calculation of interest) as calculated by the Agent (or such other party responsible for the calculation of the Rate of Interest, as specified in the applicable Final Terms) as at the relevant Interest Determination Date in accordance with the following formula (and the resulting percentage will be rounded if necessary to the nearest fifth decimal place, with 0.000005 being rounded upwards):

$$\left[\prod_{i=1}^{d_o} \left(1 + \frac{SONIA_{i-pLBD} \times n_i}{365} \right) - 1 \right] \times \frac{365}{d}$$

where:

d is the number of calendar days in the relevant Interest Accrual Period;

d_o is the number of London Banking Days in the relevant Interest Accrual Period;

i is a series of whole numbers from one to d_o, each representing the relevant London Banking Day in chronological order from, and including, the first London Banking Day in the relevant Interest Accrual Period;

London Banking Day or **LBD** means any day on which commercial banks are open for general business (including dealing in foreign exchange and foreign currency deposits) in London;

n_i, for any London Banking Day “i”, means the number of calendar days from (and including) such London Banking Day “i” up to (but excluding) the following London Banking Day;

Observation Period means the period from (and including) the date falling “p” London Banking Days prior to the first day of the relevant Interest Accrual Period to (but excluding) the date falling “p” London Banking Days prior to (A) (in the case of an Interest Period) the Interest Payment Date for such Interest Period or (B) (in the case of any other Interest Accrual Period) the date on which the relevant payment of interest falls due;

p is the number of London Banking Days by which an Observation Period precedes the corresponding Interest Accrual Period, being the number of London Banking Days specified as the “SONIA Lag Period (p)” in the applicable Final Terms (or, if no such number is so specified, five London Banking Days);

the **SONIA reference rate**, in respect of any London Banking Day (LBD_x), is a reference rate equal to the daily Sterling Overnight Index Average (**SONIA**) rate for such LBD_x as provided by the administrator of SONIA to authorised distributors and as then published on the Relevant Screen Page (or, if the Relevant Screen Page is unavailable, as otherwise published by such authorised distributors) on the London Banking Day immediately following LBD_x ; and

SONIA_{i-pLBD} means the SONIA reference rate for the London Banking Day (being a London Banking Day falling in the relevant Observation Period) falling “ p ” London Banking Days prior to the relevant London Banking Day “ i ”.

- (B) If, in respect of any London Banking Day in the relevant Observation Period, the applicable SONIA reference rate is not made available on the Relevant Screen Page or has not otherwise been published by the relevant authorised distributors, then (unless the Agent (or other party responsible for the calculation of the Rate of Interest, as specified in the applicable Final Terms) has been notified of any Successor Rate or Alternative Rate (and any related Adjustment Spread and/or Benchmark Amendments) pursuant to Condition 4.4, if applicable) the SONIA reference rate in respect of such London Banking Day shall be: (i) the Bank of England’s Bank Rate (the **Bank Rate**) prevailing at 5.00 p.m. (or, if earlier, close of business) on such London Banking Day; plus (ii) the mean of the spread of the SONIA reference rate to the Bank Rate over the previous five London Banking Days on which a SONIA reference rate has been published, excluding the highest spread (or, if there is more than one highest spread, one only of those highest spreads) and lowest spread (or, if there is more than one lowest spread, one only of those lowest spreads).
- (C) In the event that the Rate of Interest cannot be determined in accordance with the foregoing provisions, the Rate of Interest shall be:
- (i) that determined as at the last preceding Interest Determination Date (though substituting, where a different Margin, Maximum Rate of Interest and/or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin, Maximum Rate of Interest and/or Minimum Rate of Interest (as the case may be) relating to the relevant Interest Accrual Period, in place of the Margin, Maximum Rate of Interest and/or Minimum Rate of Interest (as applicable) relating to that last preceding Interest Accrual Period); or
 - (ii) if there is no such preceding Interest Determination Date, the initial Rate of Interest which would have been applicable to such Series of Notes for the first scheduled Interest Period had the Notes been in issue for a period equal in duration to the first scheduled Interest Period but ending on (and excluding) the Interest Commencement Date (applying the Margin and, if applicable, any Maximum Rate of Interest and/or Minimum Rate of Interest, applicable to the first scheduled Interest Period).
- (D) As used herein, an **Interest Accrual Period** means (i) each Interest Period and (ii) any other period (if any) in respect of which interest is to be calculated, being the period from

(and including) the first day of such period to (but excluding) the day on which the relevant payment of interest falls due (which, if the relevant Series of Notes becomes due and payable in accordance with Condition 10 or Condition 11 (as applicable), shall be the date on which such Notes become due and payable).

- (E) If the relevant Series of Notes becomes due and payable in accordance with Condition 10 or Condition 11 (as applicable), the final Rate of Interest shall be calculated for the Interest Accrual Period to (but excluding) the date on which the Notes become so due and payable, and such Rate of Interest shall continue to apply to the Notes for so long as interest continues to accrue thereon as provided in Condition 4.5 and the Trust Deed.

(c) Minimum and/or Maximum Rate of Interest

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period and if, but for this Condition 4.2(c), the Rate of Interest determined for such Interest Period would be less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be equal to such Minimum Rate of Interest.

If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period and if, but for this Condition 4.2(c), the Rate of Interest for such Interest Period would be greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be equal to such Maximum Rate of Interest.

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

The Agent (or such other party responsible for the calculation of the Rate of Interest, as specified in the applicable Final Terms) 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 (or other Interest Accrual Period).

The Agent (or such other party as aforesaid) will calculate the amount of interest (each an **Interest Amount**) for the relevant Interest Period (or other Interest Accrual 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.

(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 (or such other party responsible for the calculation of the Rate of Interest, as specified in the applicable Final Terms) 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 (or such other party as aforesaid) 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**

(A) Except where the Reference Rate in respect of the relevant Series of Notes is specified in the applicable Final Terms as being “Compounded Daily SONIA”, the Agent (or such other party responsible for the calculation of the Rate of Interest, as specified in the applicable Final Terms) will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the 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 18 as soon as possible after their determination but in no event later than the fourth Business Day (as defined in Condition 4.2(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 18.

(B) Where the Reference Rate in respect of the relevant Series of Floating Rate Notes is specified in the applicable Final Terms as being “Compounded Daily SONIA”, the Agent (or such other party responsible for the calculation of the Rate of Interest, as specified in the applicable Final Terms) will cause the Rate of Interest and each Interest Amount for each Interest Accrual Period and the relevant 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 18 as soon as possible after their determination but in no event later than the second London Banking Day thereafter. Each Rate of Interest, 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 relevant Interest Accrual 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 18.

(g) **Certificates to be final**

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4.2, whether by the Agent (or such other party responsible for the calculation of the Rate of Interest, as specified in the applicable Final Terms, as applicable) 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 (or such other party as aforesaid), 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.

4.3 Interest on Reset Notes

(a) Rates of Interest and Interest Payment Dates

Each Reset Note bears interest:

- (i) from (and including) the Interest Commencement Date specified in the applicable Final Terms to (but excluding) the First Reset Date at the rate per annum equal to the Initial Rate of Interest;
- (ii) from (and including) the First Reset Date to (but excluding) the Second Reset Date or, if no such Second Reset Date is specified in the applicable Final Terms, the Maturity Date at the rate per annum equal to the First Reset Rate of Interest; and
- (iii) if applicable, from (and including) the Second Reset Date to (but excluding) the first Subsequent Reset Date (if any), and each successive period from (and including) any Subsequent Reset Date to (but excluding) the next succeeding Subsequent Reset Date (if any) (each a **Subsequent Reset Period**) at the rate per annum equal to the relevant Subsequent Reset Rate of Interest,

(in each case rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) payable, in each case, in arrear on the Interest Payment Date(s) in each year and on the Maturity Date so specified if that does not fall on an Interest Payment Date.

The Rate of Interest and the amount of interest (the **Interest Amount**) payable shall be determined by the Calculation Agent, (A) in the case of the Rate of Interest, at or as soon as practicable after each time at which the Rate of Interest is to be determined, and (B) in the case of the Interest Amount in accordance with the provisions for calculating amounts of interest in Condition 4.1 and, for such purposes, references in Condition 4.1 to “Fixed Rate Notes” and “Fixed Interest Date” shall be deemed to be to “Reset Notes” and “Interest Payment Date”, respectively, and Condition 4.1 shall be construed accordingly.

In this Condition 4.3:

First Margin means the margin specified as such in the applicable Final Terms;

First Reset Date means the date specified as such in the applicable Final Terms;

First Reset Period means the period from (and including) the First Reset Date until (but excluding) the Second Reset Date or, if no such Second Reset Date is specified in the applicable Final Terms, the Maturity Date;

First Reset Rate of Interest means, in respect of the First Reset Period and subject to Conditions 4.3(b) and (if applicable) 4.4, the rate of interest determined by the Calculation Agent on the relevant Reset Determination Date as the sum, converted (if not already on the same basis) from a basis equivalent to the Fixed Leg Swap Duration or the Reference Bond Yield, as the case may be, to a basis equivalent to the frequency with which scheduled interest payments are payable on

the Notes during the relevant Reset Period (such calculation to be determined by the Issuer in conjunction with a leading financial institution selected by it), of (A) the relevant Reset Reference Rate and (B) the First Margin;

Fixed Leg Swap Duration has the meaning specified in the applicable Final Terms;

Floating Leg Swap Duration has the meaning specified in the applicable Final Terms;

Initial Rate of Interest has the meaning specified in the applicable Final Terms;

Mid-Market Swap Rate means, subject to Conditions 4.3(b) and (if applicable) 4.4, for any Reset Period the mean of the bid and offered rates for the fixed leg payable with a frequency equivalent to the Fixed Leg Swap Duration (calculated on the basis of the Day Count Fraction as specified in the applicable Final Terms as determined by the Calculation Agent) of a fixed-for-floating interest rate swap transaction in the Specified Currency which transaction (i) has a term equal to the relevant Reset Period and commencing on the relevant Reset Date, (ii) is in an amount that is representative for a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market and (iii) has a floating leg based on the Mid-Swap Floating Leg Benchmark Rate for the Floating Leg Swap Duration (calculated on the basis of the Day Count Fraction as specified in the applicable Final Terms as determined by the Calculation Agent);

Mid-Market Swap Rate Quotation means a quotation (expressed as a percentage rate per annum) for the relevant Mid-Market Swap Rate;

Mid-Swap Floating Leg Benchmark Rate means (subject to Condition 4.4, if applicable) EURIBOR if the Specified Currency is euro or LIBOR for the Specified Currency if the Specified Currency is not euro;

Mid-Swap Rate means, in relation to a Reset Determination Date and subject to Conditions 4.3(b) and (if applicable) 4.4, either:

(i) if “*Single Mid-Swap Rate*” is specified in the applicable Final Terms, the rate for swaps in the Specified Currency:

(A) with a term equal to the relevant Reset Period; and

(B) commencing on the relevant Reset Date,

which appears on the Relevant Screen Page or such replacement page on that service which displays the information; or

(ii) if “*Mean Mid-Swap Rate*” is specified in the applicable Final Terms, the arithmetic mean (expressed as a percentage rate per annum and rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards)) of the bid and offered swap rate quotations for swaps in the Specified Currency:

(A) with a term equal to the relevant Reset Period; and

(B) commencing on the relevant Reset Date,

which appear on the Relevant Screen Page or such replacement page on that service which displays the information,

in either case, as at approximately 11.00 a.m. in the principal financial centre of the Specified Currency on such Reset Determination Date, all as determined by the Calculation Agent provided, however, that if there is no such rate appearing on the Relevant Screen Page for a term equal to the relevant Reset Period, then the Mid-Swap Rate shall be determined through the use of straight-line interpolation by reference to two rates, one of which shall be determined in accordance with the above provisions, but as if the relevant Reset Period were the period of time for which rates are available next shorter than the length of the actual Reset Period and the other

of which shall be determined in accordance with the above provisions, but as if the relevant Reset Period were the period of time for which rates are available next longer than the length of the actual Reset Period;

Mid-Swap Reference Banks means the principal office in the principal financial centre of the Specified Currency of four major banks in the swap, money, securities or other market most closely connected with the relevant Mid-Swap Rate as selected by the Issuer on the advice of an investment bank of international repute or an Independent Adviser;

Rate of Interest means the Initial Rate of Interest, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest, as applicable;

Reference Bond means for any Reset Period a government security or securities issued by the state responsible for issuing the Specified Currency (which, if the Specified Currency is euro, shall be Germany) selected by the Issuer on the advice of an investment bank of international repute or an Independent Adviser as having an actual or interpolated maturity comparable with the relevant Reset Period that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities denominated in the same currency as the Notes and of a comparable maturity to the relevant Reset Period;

Reference Bond Price means, with respect to any Reset Determination Date, (A) if the Calculation Agent obtains four or five Reference Bond Dealer Quotations, the arithmetic average of the Reference Bond Dealer Quotations for such Reset Determination Date, after excluding the highest (or, in the event of equality, one of the highest) and lowest (or, in the event of equality, one of the lowest) such Reference Bond Dealer Quotations, or (B) if the Calculation Agent obtains fewer than four but more than one such Reference Bond Dealer Quotations, the arithmetic average of all such quotations, or (C) if the Calculation Agent obtains one such Reference Bond Dealer Quotations, the amount of such quotation, or (D) if the Calculation Agent obtains no such Reference Bond Dealer Quotations, the Reference Bond Price determined on the immediately preceding Reset Determination Date or, in the case of the first Reset Determination Date, the Reference Bond Fallback Price specified in the applicable Final Terms;

Reference Bond Reset Rate Time means the time specified in the applicable Final Terms;

Reference Bond Yield means the yield to maturity or interpolated yield to maturity (on the relevant day count basis) of the relevant Reference Bond;

Reference Bond Dealer means each of five banks (selected by the Issuer on the advice of an investment bank of international repute), or their affiliates, which are (A) primary government securities dealers, and their respective successors, or (B) market makers in pricing corporate bond issues;

Reference Bond Dealer Quotations means, with respect to each Reference Bond Dealer and the relevant Reset Determination Date, the arithmetic average, as determined by the Calculation Agent, of the bid and offered prices for the relevant Reference Bond (expressed in each case as a percentage of its nominal amount) at or around the Reference Bond Reset Rate Time on the relevant Reset Determination Date quoted in writing to the Calculation Agent by such Reference Bond Dealer;

Relevant Screen Page means the screen page specified in the applicable Final Terms (or any successor or replacement screen displaying the relevant information);

Reset Business Day means 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 any Business Centre specified in the applicable Final Terms;

Reset Date means the First Reset Date, the Second Reset Date and each Subsequent Reset Date (as applicable);

Reset Determination Date means, in respect of the First Reset Period, the second Reset Business Day prior to the First Reset Date, in respect of the first Subsequent Reset Period, the second Reset Business Day prior to the Second Reset Date and, in respect of each Subsequent Reset Period thereafter, the second Reset Business Day prior to the first day of each such Subsequent Reset Period;

Reset Period means the First Reset Period or a Subsequent Reset Period, as the case may be;

Reset Reference Rate means either (i) if “*Mid-Swaps*” is specified in the applicable Final Terms the Mid-Swap Rate, or (ii) if “*Reference Bond*” is specified in the applicable Final Terms, the Reference Bond Yield, assuming a price for such Reference Bond (expressed as a percentage of its nominal amount) equal to the relevant Reference Bond Price;

Second Reset Date means the date specified as such in the applicable Final Terms;

Subsequent Margin means the margin specified as such in the applicable Final Terms;

Subsequent Reset Date means the date or dates specified as such in, or determined in accordance with, the applicable Final Terms; and

Subsequent Reset Rate of Interest means, in respect of any Subsequent Reset Period and subject to Conditions 4.3(b) and (if applicable) 4.4, the rate of interest determined by the Calculation Agent on the relevant Reset Determination Date as the sum, converted (if not already on the same basis) from a basis equivalent to the Fixed Leg Swap Duration specified in the applicable Final Terms or the Reference Bond Yield, as the case may be, to a basis equivalent to the frequency with which scheduled interest payments are payable on the Notes during the relevant Reset Period (such calculation to be determined by the Issuer in conjunction with a leading financial institution selected by it), of (A) the relevant Reset Reference Rate and (B) the relevant Subsequent Margin.

(b) **Fallbacks for Mid-Swap Rate**

If on any Reset Determination Date the Relevant Screen Page is not available or the Mid-Swap Rate does not appear on the Relevant Screen Page, the Calculation Agent shall request each of the Mid-Swap Reference Banks to provide the Calculation Agent with its Mid-Market Swap Rate Quotation as at approximately 11.00 a.m. in the principal financial centre of the Specified Currency on the Reset Determination Date in question.

If two or more of the Mid-Swap Reference Banks provide the Calculation Agent with Mid-Market Swap Rate Quotations, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) for the relevant Reset Period shall be the sum (converted as set out in the definition of such term above) of the arithmetic mean (rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards)) of the relevant Mid-Market Swap Rate Quotations and the First Margin or Subsequent Margin (as applicable), all as determined by the Calculation Agent.

If on any Reset Determination Date only one of the Mid-Swap Reference Banks provides the Calculation Agent with a Mid-Market Swap Rate Quotation as provided in the foregoing provisions of this paragraph, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) shall be the sum (converted as set out in the definition of such term above) of (rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards)) of the relevant Mid-Market Swap Rate Quotation and the First Margin or Subsequent Margin (as applicable), all as determined by the Calculation Agent.

If on any Reset Determination Date none of the Mid-Swap Reference Banks provides the Calculation Agent with a Mid-Market Swap Rate Quotation as provided in the foregoing provisions of this Condition 4.3(b), the First Reset Rate of Interest or the relevant Subsequent Reset Rate of Interest (as applicable) shall be determined by the Calculation Agent as if, and on the assumption that, the relevant Reset Reference Rate were equal to (i) the Mid-Swap Rate

determined as at the last preceding Reset Date or (ii) for the purpose of determining the First Reset Rate of Interest on the first Reset Determination Date, the Mid-Swap Fallback Rate specified in the applicable Final Terms.

(c) **Notification of First Reset Rate of Interest, Subsequent Reset Rate of Interest and Interest Amount**

The Calculation Agent will cause the First Reset Rate of Interest, any Subsequent Reset Rate of Interest and, in respect of a Reset Period, the Interest Amount payable on each Interest Payment Date falling in such Reset Period to be notified to the Issuer, the Agent, the Trustee and any competent authority or stock exchange by or on which the relevant Reset Notes are for the time being listed and notice thereof to be published in accordance with Condition 18 as soon as possible after their determination but in no event later than the fourth London Business Day (as defined in Condition 4.2(d)) thereafter.

(d) **Determination or Calculation by an agent appointed by the Trustee**

If for any reason the Calculation Agent defaults in its obligation to determine the Rate of Interest or calculate any Interest Amount in accordance with Condition 4.3(a), the Trustee may (subject to it being indemnified and/or secured and/or prefunded to its satisfaction) appoint an agent to do so and such determination shall be deemed to have been made by the Calculation Agent. In doing so, such agent shall apply the foregoing provisions of this Condition 4.3 with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances. Without prejudice to the provisions of Condition 4.3(e) below, the Trustee shall have no liability to any person in connection with any determination or calculation made by any agent so appointed pursuant to this Condition.

(e) **Certificates to be final**

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4.3 by the Calculation Agent or any agent appointed by the Trustee shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Trustee, the Calculation Agent, 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 Calculation Agent or the Trustee or any agent appointed by the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

4.4 Benchmark Discontinuation

This Condition 4.4 applies only if “*Benchmark Replacement*” is specified to be “Applicable” in the applicable Final Terms.

If a Benchmark Event occurs in relation to an Original Reference Rate at any time when the Terms and Conditions of any Notes provide for any remaining rate of interest (or any component part thereof) to be determined by reference to such Original Reference Rate, then the following provisions shall apply.

(a) **Independent Adviser**

The Issuer shall use reasonable endeavours to appoint and consult with an Independent Adviser, as soon as reasonably practicable, with a view to the Issuer determining a Successor Rate, failing which an Alternative Rate (in accordance with Condition 4.4(b)) and, in either case, an

Adjustment Spread, if any (in accordance with Condition 4.4(c)) and any Benchmark Amendments (in accordance with Condition 4.4(d)).

An Independent Adviser appointed pursuant to this Condition 4.4 shall act in good faith as an expert and (in the absence of bad faith or fraud) shall have no liability whatsoever to the Trustee, the Paying Agents, the Agent, Calculation Agent, any other party responsible for determining the Rate of Interest specified in the applicable Final Terms, or the Noteholders or Couponholders for any determination made by it or for any advice given to the Issuer in connection with any determination made by the Issuer pursuant to this Condition 4.4.

(b) Successor Rate or Alternative Rate

If the Issuer, following consultation with such Independent Adviser, determines in good faith that:

- (i) there is a Successor Rate, then such Successor Rate shall (subject to adjustment as provided in Condition 4.4(c)) subsequently be used in place of the Original Reference Rate to determine the relevant Rate(s) of Interest (or the relevant component part(s) thereof) for all relevant future payments of interest on the Notes (subject to the further operation of this Condition 4.4); or
- (ii) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate shall (subject to adjustment as provided in Condition 4.4(c)) subsequently be used in place of the Original Reference Rate to determine the relevant Rate(s) of Interest (or the relevant component part(s) thereof) for all relevant future payments of interest on the Notes (subject to the further operation of this Condition 4.4).

(c) Adjustment Spread

If the Issuer, following consultation with the Independent Adviser, determines in good faith (i) that an Adjustment Spread is required to be applied to the Successor Rate or the Alternative Rate (as the case may be) and (ii) the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Adjustment Spread shall be applied to the Successor Rate or the Alternative Rate (as the case may be) for each subsequent determination of a relevant Rate of Interest (or a relevant component part thereof) by reference to such Successor Rate or Alternative Rate (as applicable).

(d) Benchmark Amendments

If any Successor Rate, Alternative Rate or Adjustment Spread is determined in accordance with this Condition 4.4 and the Issuer, following consultation with the Independent Adviser determines in good faith (A) that amendments to the Terms and Conditions of the Notes and/or the Trust Deed (including, without limitation, amendments to the definitions of Day Count Fraction, Business Days, Reset Determination Date, or Relevant Screen Page) are necessary to ensure the proper operation of such Successor Rate, Alternative Rate and/or Adjustment Spread (such amendments, the **Benchmark Amendments**) and (B) the terms of the Benchmark Amendments, then the Issuer shall, subject to giving notice thereof in accordance with Condition 4.4(e), without any requirement for the consent or approval of Noteholders or Couponholders, vary the Terms and Conditions of the Notes and/or the Trust Deed to give effect to such Benchmark Amendments with effect from the date specified in such notice.

At the request of the Issuer, but subject to receipt by the Trustee of a certificate signed by two authorised signatories of the Issuer pursuant to Condition 4.4(e), the Trustee shall (at the Issuer's expense), without any requirement for the consent or approval of the Noteholders or

Couponholders, be obliged to concur with the Issuer in effecting any Benchmark Amendments (including, *inter alia*, by the execution of a deed supplemental to or amending the Trust Deed) and the Trustee shall not be liable to any party for any consequences thereof, provided that the Trustee shall not be obliged so to concur if in the sole opinion of the Trustee doing so would impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce or amend rights and/or the protective provisions afforded to the Trustee in the Terms and Conditions of the Notes or the Trust Deed (including, for the avoidance of doubt, any supplemental trust deed) in any way.

In connection with any such variation in accordance with this Condition 4.4, the Issuer shall comply with the rules of any stock exchange on which the Notes are for the time being listed or admitted to trading.

(e) **Notices, etc.**

The Issuer shall notify the Trustee, the party responsible for determining the Rate of Interest (being the Agent, the Calculation Agent or such other party specified in the applicable Final Terms, as applicable), the Paying Agents and, in accordance with Condition 18, the Noteholders, promptly of any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments, determined under this Condition 4.4. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

No later than notifying the Trustee of the same, the Issuer shall deliver to the Trustee a certificate signed by two authorised signatories:

- (i) confirming (x) that a Benchmark Event has occurred, (y) the Successor Rate or, as the case may be, the Alternative Rate and (z) where applicable, any Adjustment Spread and/or the specific terms of any Benchmark Amendments, in each case as determined in accordance with the provisions of this Condition 4.4;
- (ii) certifying that the Benchmark Amendments are necessary to ensure the proper operation of such Successor Rate, Alternative Rate and/or Adjustment Spread; and
- (iii) certifying that (i) the Issuer has duly consulted with an Independent Adviser with respect to each of the matters above or, if that is not the case, (ii) explaining, in reasonable detail, why the Issuer has not done so.

The Trustee shall be entitled to rely on such certificate (without inquiry and without liability to any person) as sufficient evidence thereof. The Successor Rate or Alternative Rate and the Adjustment Spread (if any) and the Benchmark Amendments (if any) specified in such certificate will (in the absence of manifest error in the determination of the Successor Rate or Alternative Rate and the Adjustment Spread (if any) and the Benchmark Amendments (if any) and without prejudice to the Trustee's ability to rely on such certificate as aforesaid) be binding on the Issuer, the Trustee, the party responsible for determining the Rate of Interest (being the Agent, the Calculation Agent, or such other party specified in the applicable Final Terms, as applicable), the Paying Agents and the Noteholders and Couponholders.

(f) **Survival of Original Reference Rate**

Without prejudice to the Issuer's obligations under the provisions of this Condition 4.4, the Original Reference Rate and the fallback provisions provided for in Conditions 4.2 and 4.3, as applicable, will continue to apply unless and until the party responsible for determining the Rate of Interest (being the Agent, the Calculation Agent or such other party specified in the applicable

Final Terms, as applicable) has been notified of the Successor Rate or the Alternative Rate (as the case may be), and of any Adjustment Spread and/or Benchmark Amendments.

(g) **Regulatory Capital / Eligible Liabilities**

Notwithstanding any other provision of this Condition 4.4, no Successor Rate, Alternative Rate or Adjustment Spread will be adopted, nor will any Benchmark Amendments be effected, if and to the extent that, in the determination of the Issuer, the same could reasonably be expected either (i) to prejudice the qualification of the relevant Series of Notes as Tier 2 Capital and/or as eligible liabilities or loss absorbing capacity instruments for the purposes of any Loss Absorption Regulations or (ii) (in the case of Senior Non-Preferred Notes only) to result in the relevant Supervisory Authority treating the Interest Payment Date or Reset Date, as the case may be, as the effective maturity date of the Notes, rather than the relevant maturity date.

(h) **Fallbacks**

If, following the occurrence of a Benchmark Event and in relation to the determination of the Rate of Interest on the immediately following Interest Determination Date or Reset Determination Date (as applicable), no Successor Rate or Alternative Rate (as applicable) is determined pursuant to this provision, the original benchmark or screen rate (as applicable) will continue to apply for the purposes of determining such Rate of Interest on such Interest Determination Date or Reset Determination Date (as the case may be), with the effect that the fallback provisions provided elsewhere in these Terms and Conditions will continue to apply to such determination.

In such circumstances, the Issuer will be entitled (but not obliged), at any time thereafter, to elect to re-apply the provisions of this Condition 4.4, *mutatis mutandis*, on one or more occasions until a Successor Rate or Alternative Rate (and, if applicable, any associated Adjustment Spread and/or Benchmark Amendments) has been determined and notified in accordance with this Condition 4.4 (and, until such determination and notification (if any), the fallback provisions provided elsewhere in these Terms and Conditions will continue to apply).

(i) **Definitions**

In this Condition 4.4:

Adjustment Spread means either a spread (which may be positive or negative), or the formula or methodology for calculating a spread, in either case, which the Issuer, following consultation with the Independent Adviser and acting in good faith, determines is required to be applied to the Successor Rate or the Alternative Rate (as the case may be) to reduce or eliminate, to the fullest extent reasonably practicable in the circumstances, any economic prejudice or benefit (as the case may be) to Noteholders or Couponholders as a result of the replacement of the Original Reference Rate with the Successor Rate or the Alternative Rate (as the case may be) and is the spread, formula or methodology which:

- (A) in the case of a Successor Rate, is formally recommended, or formally provided as an option for parties to adopt, in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body;
- (B) in the case of an Alternative Rate (or in the case of a Successor Rate where (A) above does not apply), is in customary market usage in the international debt capital market for transactions which reference the Original Reference Rate, where such rate has been replaced by the Alternative Rate (or, as the case may be, the Successor Rate); or

- (C) if no such recommendation or option has been made (or made available), or the Issuer determines there is no such spread, formula or methodology in customary market usage, the Issuer, in its discretion, following consultation with the Independent Adviser and acting in good faith, determines to be appropriate;

Alternative Rate means an alternative benchmark or screen rate which the Issuer determines in accordance with this Condition 4.4 has replaced the Original Reference Rate in customary market usage in the international debt capital markets for the purposes of determining rates of interest (or the relevant component part thereof) for a commensurate interest period and in the same Specified Currency as the Notes;

Benchmark Event means, with respect to an Original Reference Rate:

- (A) the Original Reference Rate ceasing to exist or be published;
- (B) the later of (i) the making of a public statement by the administrator of the Original Reference Rate that it will, on or before a specified date, cease publishing the Original Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Original Reference Rate) and (ii) the date falling six months prior to the date specified in (B)(i);
- (C) the making of a public statement by the supervisor of the administrator of the Original Reference Rate that the Original Reference Rate has been permanently or indefinitely discontinued;
- (D) the later of (i) the making of a public statement by the supervisor of the administrator of the Original Reference Rate that the Original Reference Rate will, on or before a specified date, be permanently or indefinitely discontinued and (ii) the date falling six months prior to the date specified in (D)(i);
- (E) the making of a public statement by the supervisor of the administrator of the Original Reference Rate that means the Original Reference Rate will be prohibited from being used or that its use will be subject to restrictions or adverse consequences, in each case within the following six months; or
- (F) it has or will prior to the next Interest Determination Date or Reset Determination Date, as applicable, become unlawful for the Issuer, the party responsible for determining the Rate of Interest (being the Agent, the Calculation Agent or such other party specified in the applicable Final Terms, as applicable), or any Paying Agent to calculate any payments due to be made to any Noteholder or Couponholder using the Original Reference Rate (including, without limitation, under the Benchmarks Regulation (EU) 2016/1011, if applicable);

Independent Adviser means an independent financial institution of international repute or an independent adviser of recognised standing with appropriate expertise appointed by the Issuer at its own expense under Condition 4.4(a) and approved in writing by the Trustee.

Original Reference Rate means the benchmark or screen rate (as applicable) originally specified for the purpose of determining the relevant Rate of Interest (or any relevant component part(s) thereof) on the Notes;

Relevant Nominating Body means, in respect of a benchmark or screen rate (as applicable):

- (A) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or
- (B) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (i) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, (ii) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable), (iii) a group of the aforementioned central banks or other supervisory authorities or (iv) the Financial Stability Board or any part thereof; and

Successor Rate means a successor to or replacement of the Original Reference Rate which is formally recommended by any Relevant Nominating Body.

4.5 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.

4.6 Day Count Fractions

In this Condition 4:

Day Count Fraction means, in respect of the calculation of an amount for any period of time in accordance with the applicable Final Terms for any Fixed Rate Note, Reset Note, or Floating Rate Note, as applicable:

- (A) if **Actual/Actual (ICMA)** is specified in the applicable Final Terms:
 - (ii) 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
 - (iii) 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:
 - I. 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
 - II. 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;
- (B) 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);

- (C) if **Actual/365 (Fixed)** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (D) 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;
- (E) if **Actual/360** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (F) 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 D₁ is greater than 29, in which case D₂ will be 30;

- (G) 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

- (H) 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:

“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 (i) that day is the last day of February or (ii) 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 (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D₂ will be 30.

and if no Day Count Fraction for Fixed Rate Notes or Reset 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. Redemption, Purchase, Substitution and Variation

5.1 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.

5.2 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:

- (a) (if this Note is a Senior Preferred Note or a Deposit Note) on the date of the next payment due in respect of the Notes, the Issuer would be required (i) to pay additional amounts as provided under Condition 9 or (ii) 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; or
- (b) (if this Note is a Subordinated Note or a Senior Non-Preferred Note) a Tax Event has occurred,

and, in any such case, the Issuer cannot avoid the foregoing by taking reasonable measures available to it, then the Issuer may in its sole discretion (subject, if this Note is a Subordinated Note, to compliance with Condition 5.11 or, if this Note is a Senior Non-Preferred Note, to compliance with Condition 5.12), having given not less than 15 nor more than 30 days' notice to the Trustee, the ^{Agent} and, in accordance with Condition 18, the Noteholders (which notice shall be irrevocable), redeem at any time (if this Note is not a Floating Rate Note) or on any 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 5.8 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.

Prior to the publication of any notice of early redemption pursuant to this Condition 5.2, the Issuer shall deliver to the Trustee a certificate signed by any two authorised signatories of the Issuer stating that the relevant requirement or circumstance giving rise to the right to redeem has been satisfied. The Trustee shall be entitled, without liability to any person, to accept and rely on such certificate without any further inquiry as sufficient evidence of the satisfaction of the relevant requirement or circumstance, in which event it shall be conclusive and binding on the Trustee and the Noteholders and Couponholders.

A **Tax Event** will be deemed to have occurred if, as a result of a Tax Law Change:

- (i) in making any payments on the Subordinated Notes or the Senior Non-Preferred Notes, the Issuer has paid or will or would on the next payment date be required to pay additional amounts as provided under Condition 9;
- (ii) the Issuer is no longer, or will no longer be, entitled to claim a deduction in respect of any payments in respect of the Subordinated Notes or the Senior Non-Preferred Notes in computing its taxation liabilities or the amount of such deduction is or will be reduced;
- (iii) the Subordinated Notes or the Senior Non-Preferred Notes are or will be prevented from being treated as loan relationships for United Kingdom tax purposes; or
- (iv) the Issuer is not, or will not be, able to have losses or deductions set against any profits or gains, or profits or gains offset by any losses or deductions, of companies with which it is or would otherwise be so grouped for applicable United Kingdom tax purposes (whether under the group relief system current as at the date of issue of the Subordinated Notes or the Senior Non-Preferred Notes or any similar system or systems having like effect as may from time to time exist).

As used herein, **Tax Law Change** means any change in, or amendment to, the laws or regulations of the United Kingdom (including any treaty to which it is a party) or any political subdivision or any authority thereof or therein having power to tax, or any change in the official interpretation thereof by the relevant tax authority or in the application of such laws or regulations by a decision of any court or tribunal that provides

for a position with respect to such laws or regulations that differs from the previously generally accepted position in relation to similar transactions or any pronouncement of a tax authority in the United Kingdom, which change or amendment becomes effective or, in the case of a change in law, if such change is enacted by a UK Act of Parliament or by Statutory Instrument, on or after the Issue Date.

5.3 Redemption following a Regulatory Event

This Condition 5.3 applies in respect of Subordinated Notes only.

If a Regulatory Event has occurred, then the Issuer may in its sole discretion, subject to compliance with Condition 5.11, and having given not less than 15 nor more than 30 days' notice to the Trustee, the Agent and, in accordance with Condition 18, the Noteholders (which notice shall be irrevocable), redeem at any time (if this Note is not a Floating Rate Note) or on any 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 5.8 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.

Prior to the publication of any notice of early redemption pursuant to this Condition 5.3, the Issuer shall deliver to the Trustee a certificate signed by any two authorised signatories of the Issuer confirming that a Regulatory Event has occurred. The Trustee shall be entitled, without liability to any person, to accept and rely on such certificate without any further inquiry as sufficient evidence of the satisfaction of such occurrence, in which event it shall be conclusive and binding on the Trustee and the Noteholders and Couponholders.

A **Regulatory Event** is deemed to have occurred in respect of a Series of Subordinated Notes if there is a change (which has occurred or which the relevant Supervisory Authority considers to be sufficiently certain) in the regulatory classification of such Series of Subordinated Notes which becomes effective after the Issue Date of such Series of Subordinated Notes and that results, or would be likely to result, in:

- (i) if “*Regulatory Event (Subordinated Notes only): Full Exclusion*” is specified in the applicable Final Terms, the entire principal amount of such Series of Subordinated Notes being excluded from the Tier 2 Capital of the Issuer (whether on an individual or consolidated basis); or
- (ii) if “*Regulatory Event (Subordinated Notes only): Full or Partial Exclusion*” is specified in the applicable Final Terms, the entire principal amount of such Series of Subordinated Notes or any part thereof being excluded from the Tier 2 Capital of the Issuer (whether on an individual or consolidated basis).

5.4 Redemption following a Loss Absorption Disqualification Event

This Condition 5.4 applies in respect of all Series of Senior Non-Preferred Notes except for any Series where “*Senior Non-Preferred Notes: Loss Absorption Disqualification Event Redemption*” is expressly specified to be “Not Applicable” in the applicable Final Terms.

If a Loss Absorption Disqualification Event has occurred, then the Issuer may in its sole discretion, subject to compliance with Condition 5.12, and having given not less than 15 nor more than 30 days' notice to the Trustee, the Agent and, in accordance with Condition 18, the Noteholders (which notice shall be irrevocable), redeem at any time (if this Note is not a Floating Rate Note) or on any 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 5.8 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.

Prior to the publication of any notice of early redemption pursuant to this Condition 5.4, the Issuer shall deliver to the Trustee a certificate signed by any two authorised signatories of the Issuer confirming that a Loss Absorption Disqualification Event has occurred. The Trustee shall be entitled, without liability to any person, to accept and rely on such certificate without any further inquiry as sufficient evidence of the satisfaction of such occurrence, in which event it shall be conclusive and binding on the Trustee and the Noteholders and Couponholders.

A **Loss Absorption Disqualification Event** shall be deemed to have occurred in respect of a Series of Senior Non-Preferred Notes if, as a result of any amendment to, or change in, any Loss Absorption Regulations, or any change in the application or official interpretation of any Loss Absorption Regulations, in any such case becoming effective after the Issue Date of such Series of Senior Non-Preferred Notes, either:

- (i) if “*Loss Absorption Disqualification Event: Full Exclusion*” is specified in the applicable Final Terms, the entire principal amount of such Series of Senior Non-Preferred Notes; or
- (ii) if “*Loss Absorption Disqualification Event: Full or Partial Exclusion*” is specified in the applicable Final Terms, the entire principal amount of such Series of Senior Non-Preferred Notes or any part thereof,

is or (in the opinion of the Issuer or the relevant Supervisory Authority) is likely to be excluded from the Issuer’s minimum requirements (whether on an individual or consolidated basis) for (A) own funds and eligible liabilities and/or (B) loss absorbing capacity instruments, in each case as such minimum requirements are applicable to the Issuer (whether on an individual or consolidated basis) and determined in accordance with, and pursuant to, the relevant Loss Absorption Regulations; provided that a Loss Absorption Disqualification Event shall not occur where the exclusion of the Senior Non-Preferred Notes from the relevant minimum requirement(s) is due to the remaining maturity of such Senior Non-Preferred Notes being less than any period prescribed by any applicable eligibility criteria for such minimum requirements under the relevant Loss Absorption Regulations effective with respect to the Issuer on the Issue Date of such Series of Senior Non-Preferred Notes.

As used herein, **Loss Absorption Regulations** means, at any time, the laws, regulations, requirements, guidelines, rules, standards and policies relating to minimum requirements for own funds and eligible liabilities and/or loss absorbing capacity instruments of the United Kingdom, any relevant Supervisory Authority and/or of the European Parliament or of the Council of the European Union then in effect in the United Kingdom and applicable to the Issuer (whether on an individual or consolidated basis) including, without limitation to the generality of the foregoing, any applicable delegated or implementing acts (such as regulatory technical standards) adopted by the European Commission and any regulations, requirements, guidelines, rules, standards and policies relating to minimum requirements for own funds and eligible liabilities and/or loss absorbing capacity instruments adopted by any relevant Supervisory Authority from time to time (whether such regulations, requirements, guidelines, rules, standards or policies are applied generally or specifically to the Issuer).

5.5 Redemption at the option of the Issuer

If so specified in the applicable Final Terms, the Issuer may in its sole discretion (subject, if this Note is a Subordinated Note, to compliance with Condition 5.11 or, if this Note is a Senior Non-Preferred Note, to compliance with Condition 5.12) 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 18 (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, together, if applicable, with interest accrued to (but excluding) the relevant Optional Redemption Date. 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 18 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 5.5 and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 18 at least 15 days prior to the Selection Date.

5.6 Redemption at the option of the Noteholders

This Condition 5.6 does not apply to Subordinated Notes.

If and to the extent specified in the applicable Final Terms, upon the holder of this Note giving to the Issuer, in accordance with Condition 18, 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 4.2(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.

5.7 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 5.1, 5.2, 5.3, 5.4, 5.5 or 5.6 above or upon its becoming due and repayable as provided in Condition 10 or Condition 11 (as applicable) 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 5.8 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 18 or individually.

5.8 Early Redemption Amounts

For the purposes of Conditions 5.2, 5.3 and 5.4 above and Condition 10 (if this Note is a Senior Preferred Note, a Deposit Note or an Unrestricted Default Senior Non-Preferred Note) or Condition 11 (if this Note is a

Subordinated Note or a Restricted Default Senior Non-Preferred 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 specified in the applicable Final Terms, or, if no such amount is so set out:
 - (i) in the case of Fixed Rate Notes or Reset 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 4 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.

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).

5.9 Purchases

The Issuer or any of its Subsidiaries (as defined in the Trust Deed) may (subject, if this Note is a Subordinated Note, to compliance with Condition 5.11 and prevailing Regulatory Capital Requirements or, if this Note is a Senior Non-Preferred Note, to compliance with Condition 5.12 and prevailing Loss Absorption Regulations) 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. Notes purchased by the Issuer or any of its Subsidiaries may, at the option of the Issuer or such Subsidiary, be held, reissued, resold or surrendered for cancellation.

5.10 Cancellation

All Notes which are (a) redeemed in full or (b) purchased by or on behalf of the Issuer or any Subsidiary of the Issuer and surrendered for cancellation, 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.

5.11 Preconditions to Redemption and Purchase of Subordinated Notes

This Condition 5.11 applies to Subordinated Notes only.

Any redemption or purchase of the Subordinated Notes in accordance with Conditions 5.2, 5.3, 5.5 or 5.9 is subject to:

- (a) the Issuer having obtained Relevant Supervisory Consent therefor;
- (b) either: (A) the Issuer having replaced the Subordinated Notes with own funds instruments of equal or higher quality at terms that are sustainable for the income capacity of the Issuer; or (B) the Issuer having demonstrated to the satisfaction of the relevant Supervisory Authority that the own funds of the Issuer would, following such redemption or purchase, exceed its minimum capital requirements (including any capital buffer requirements) by a margin that the relevant Supervisory Authority considers necessary at such time; and
- (c) in the case of any redemption prior to the fifth anniversary of the Issue Date, (A) in the case of redemption upon a Tax Event, the Issuer having demonstrated to the satisfaction of the relevant Supervisory Authority that the change in tax treatment is material and was not reasonably foreseeable as at the Issue Date, or (B) in the case of redemption upon the occurrence of a Regulatory Event, the Issuer having demonstrated to the satisfaction of the relevant Supervisory Authority that the relevant change in the regulatory classification of the Notes was not reasonably foreseeable as at the Issue Date,

Notwithstanding the foregoing, if, at the time of any redemption or purchase, the prevailing Regulatory Capital Requirements permit a repayment or purchase only after compliance with one or more additional or alternative preconditions to those set out above in this Condition 5.11, the Issuer shall comply (in addition or in the alternative, as the case may be) with such additional and/or alternative precondition(s).

In these Terms and Conditions, **Relevant Supervisory Consent** means, in relation to any action, such permission or waiver of the relevant Supervisory Authority as is then required for such action under prevailing Regulatory Capital Requirements and/or Loss Absorption Regulations, as the case may be.

5.12 Preconditions to Redemption, Purchase, Substitution or Variation of Senior Non-Preferred Notes

This Condition 5.12 applies to Senior Non-Preferred Notes only.

Any redemption, purchase, substitution or variation of Senior Non-Preferred Notes in accordance with Conditions 5.2, 5.4, 5.5, 5.6, 5.9 or 5.13 is subject to:

- (a) the Issuer having obtained Relevant Supervisory Consent therefor (if and to the extent required by a relevant Supervisory Authority or the Loss Absorption Regulations at such time); and
- (b) compliance with any other pre-conditions to, or requirements applicable to, such redemption, purchase, substitution or variation as may be required by the relevant Supervisory Authority or the Loss Absorption Regulations at such time.

5.13 Substitution and Variation of Senior Non-Preferred Notes

This Condition 5.13 applies to each Series of Senior Non-Preferred Notes unless “*Senior Non-Preferred Notes: Substitution and Variation*” is expressly specified to be “Not Applicable” in the applicable Final Terms.

Upon the occurrence of a Loss Absorption Disqualification Event or an Alignment Event in respect of a Series of Senior Non-Preferred Notes, the Issuer (in its sole discretion but subject to Condition 5.12), having given notice of not more than 30 days nor less than 15 days prior to the date of substitution or variation (as the case may be) to the Trustee and, in accordance with Condition 18, the Noteholders (which notice shall be irrevocable and shall specify the date fixed for substitution or variation, as applicable) may, without any requirement for the consent or approval of the Noteholders or Couponholders, either substitute all (but not some only) of the Senior Non-Preferred Notes of such Series for, or vary the terms of the Senior Non-Preferred Notes of such Series so that they remain or, as appropriate, become, Loss Absorption Compliant Notes. Upon the expiry of the notice referred to above, the Issuer shall either substitute or, as the case may be, vary the terms of the relevant Senior Non-Preferred Notes and, subject as set out below, the Trustee shall agree to such substitution or variation.

In connection with any substitution or variation in accordance with this Condition 5.13, the Issuer shall comply with the rules of any stock exchange on which the relevant Senior Non-Preferred Notes are for the time being listed or admitted to trading.

Any substitution or variation in accordance with this provision is subject to the following conditions:

- (a) the Issuer complying with Condition 5.12;
- (b) such substitution or variation not resulting in any event or circumstance which at or around that time gives the Issuer a redemption right in respect of the resulting Loss Absorption Compliant Notes; and
- (c) prior to the publication of any notice of substitution or variation, the Issuer having delivered to the Trustee a certificate signed by two authorised signatories of the Issuer stating that the Loss Absorption Disqualification Event or, as the case may be, the Alignment Event giving rise to the right to substitute or vary the Senior Non-Preferred Notes has occurred as at the date of the certificate and that the conditions set out in (a) and (b) immediately above have been satisfied, and the Trustee shall be entitled to accept and rely on such certificate without liability to any person and without any further inquiry as sufficient evidence thereof, in which event it shall be conclusive and binding on the Trustee and all Noteholders and Couponholders.

The Trustee shall, subject to the Issuer’s compliance with the foregoing conditions and the provision of the certificate signed by two authorised signatories of the Issuer as referred to in the definition of Loss Absorption Compliant Notes, and at the expense and cost of the Issuer, use reasonable endeavours to assist the Issuer in any substitution or variation of the relevant Senior Non-Preferred Notes in accordance with this provision, except that the Trustee shall not be obliged to assist in any such substitution or variation if either such substitution or variation itself or the terms of the proposed Loss Absorption Compliant Notes would, in the Trustee’s opinion, impose more onerous obligations upon it or expose the Trustee to any additional duties, responsibilities or liabilities in any material respect or reduce or amend the protective provisions afforded to the Trustee in these Conditions or the Trust Deed (including, for the avoidance of doubt, any supplemental trust deed) in any material respect.

In connection with any such substitution or variation, the Trustee may rely without liability to any Noteholders or Couponholders on a report, confirmation, certificate or any advice of any accountants, financial advisers, financial institutions or any other experts, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by

the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation, certificate or advice and such report, confirmation, certificate or advice shall be binding on the Issuer, the Trustee and the Noteholders and Couponholders.

In these Terms and Conditions:

An **Alignment Event** is deemed to have occurred if, following the implementation of any Senior Creditors Hierarchy Law or any subsequent amendment to such Senior Creditors Hierarchy Law, either (i) the requisite features for Secondary Non-Preferential Debts are different in any respect from the terms and conditions of any Senior Non-Preferred Notes issued prior to the date of the relevant implementation or amendment (as the case may be), or (ii) the Senior Creditors Hierarchy Law requires that only securities issued on or following a certain date, which is after the Issue Date for the relevant series of Senior Non-Preferred Notes, may qualify as Secondary Non-Preferential Debts;

EEA regulated market means a market as defined by Article 4.1(21) of Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments, as amended;

Loss Absorption Compliant Notes means securities that comply with the following (which compliance has been certified to the Trustee in a certificate signed by two authorised signatories of the Issuer and delivered to the Trustee prior to the relevant substitution or variation):

- (a) such securities are issued by the Issuer or any wholly-owned direct or indirect subsidiary of the Issuer with a guarantee of such obligations by the Issuer;
- (b) such securities and any relative coupons rank (or, if guaranteed by the Issuer, benefit from a guarantee that ranks) equally with the ranking of the relevant Senior Non-Preferred Notes;
- (c) such securities have terms not materially less favourable to Noteholders and Couponholders than the terms of the relevant Senior Non-Preferred Notes and relative Coupons (as reasonably determined by the Issuer in consultation with an independent adviser of recognised standing);
- (d) (without prejudice to (c) above) such securities (1) contain terms such that they comply with the then applicable Loss Absorption Regulations in order to be eligible to qualify in full towards the Issuer's minimum requirements (on an individual or consolidated basis) for own funds and eligible liabilities and/or loss absorbing capacity instruments; (2) bear the same rate of interest from time to time applying to the relevant Senior Non-Preferred Notes and preserve the same interest payment dates; (3) do not contain terms providing for deferral of payments of interest and/or principal; (4) preserve the obligations (including the obligations arising from the exercise of any right) of the Issuer as to redemption of the relevant Senior Non-Preferred Notes, including (without limitation) as to timing of, and amounts payable upon, such redemption; (5) do not contain terms providing for loss absorption through principal write-down or conversion to common equity tier 1 instruments; and (6) preserve any existing rights to any accrued and unpaid interest and any other amounts payable under the relevant Senior Non-Preferred Notes and relative Coupons which has accrued to Noteholders or Couponholders and not been paid;
- (e) such securities are listed on the same stock exchange or market as the relevant Senior Non-Preferred Notes or the London Stock Exchange or any EEA regulated market or any market in an Organisation for Economic Co-operation and Development (OECD) member state selected by the Issuer; and
- (f) where the relevant Senior Non-Preferred Notes which have been substituted or varied had a published rating solicited by the Issuer from one or more Rating Agencies immediately prior to their substitution or variation, such securities benefit from (or will, as announced, or otherwise confirmed

in writing, by each such relevant Rating Agency, benefit from) an equal or higher published rating from each such Rating Agency as that which applied to the relevant Senior Non-Preferred Notes; and

Rating Agency means any of S&P Global Ratings Europe Limited, Moody's Investors Service Limited and Fitch Ratings Ltd. and each of their respective affiliates or successors.

6. Payments

6.1 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 9, and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto.

6.2 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 or a Senior Non-Preferred 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 9) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 12) 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, Reset Note or Subordinated Note or Senior Non-Preferred 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.

6.3 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 (other than TARGET2 System) specified in the applicable Final Terms;
- (b) if TARGET2 System is specified as an Additional Financial Centre in the applicable Final Terms, a day on which the TARGET2 System is open; and
- (c) 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.

6.4 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 9 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 9 or pursuant to any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed.

7. 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 12.

8. 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 Europe; and
- (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.

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 6.2.

Notice of any such variation, termination, appointment or change will be given by the Issuer to the Noteholders in accordance with Condition 18.

9. 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 or on behalf of the United Kingdom or any political subdivision thereof or by or on behalf of 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:

- (i) in the case of (A) all Senior Preferred Notes, (B) all Deposit Notes and (C) each Series of Senior Non-Preferred Notes unless the applicable Final Terms expressly specifies “*Senior Non-Preferred Notes: Gross-up of principal*” as “Not Applicable”, in respect of payments of interest (if any) and principal; or
- (ii) in the case of (A) all Subordinated Notes and (B) each Series of Senior Non-Preferred Notes for which the applicable Final Terms expressly specifies “*Senior Non-Preferred Notes: Gross-up of principal*” as “Not Applicable”, in respect of payments of interest (if any) only,

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 (in the case of Notes falling within (i) above only) principal and (in the case of any Notes) 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 6.3); or
- (d) where the holder is able to avoid such withholding or deduction by presenting an appropriate certificate.

Notwithstanding any other provision of these Terms and Conditions, in no event will additional amounts be payable by (or on behalf of) the Issuer under this Condition 9 or otherwise in respect of any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations or agreements thereunder or any official interpretations thereof) or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof or any law implementing such an intergovernmental agreement.

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 18.

For the avoidance of doubt, if this Note is a Subordinated Note, or a Senior Non-Preferred Note for which the applicable Final Terms expressly specifies “*Senior Non-Preferred Notes: Gross-up of principal*” as “Not Applicable”, the Issuer will not pay any additional amounts under this Condition 9 in respect of principal of this Note.

10. Events of Default and enforcement relating only to Senior Preferred Notes, Deposit Notes and Unrestricted Default Senior Non-Preferred Notes

This Condition 10 applies only if this Note is:

- (i) a Senior Preferred Note or a Deposit Note; or
- (ii) a Senior Non-Preferred Note for which the applicable Final Terms expressly specifies “*Senior Non-Preferred Notes: Restricted Events of Default*” as being “Not Applicable” (an **Unrestricted Default Senior Non-Preferred Note**),

and references in this Condition 10 to Notes shall be construed accordingly.

10.1 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 and/or secured and/or prefunded 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 ceases or threatens to cease to carry on all or substantially all of its business except in any case:
 - (i) in connection with a Permitted Reorganisation or other substitution pursuant to Condition 14; or
 - (ii) for the purpose of a reconstruction, union, transfer, merger or amalgamation effected with the prior written consent of the Trustee or with the approval (by way of Extraordinary Resolution) of the Noteholders; or
 - (iii) (in the case of a Principal Subsidiary) where all or the major part of the business, undertaking and assets of such Principal Subsidiary is either (A) transferred to the Issuer and/or one or more Subsidiaries of the Issuer or (B) sold to one or more third party purchasers on arm's length terms; 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:
 - (i) in connection with a Permitted Reorganisation or other substitution pursuant to Condition 14; or
 - (ii) for the purposes of a reconstruction, union, transfer, merger or amalgamation effected with the consent of the Trustee or with the approval (by way of Extraordinary Resolution) of the Noteholders; or
 - (iii) (in the case of a Principal Subsidiary) where all or the major part of the business, undertaking and assets of such Principal Subsidiary is either (A) transferred to the Issuer and/or one or more Subsidiaries of the Issuer or (B) sold to one or more third party purchasers on arm's length terms.

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 inquiry or evidence and, if so relied upon, shall, in the absence of manifest or proven error, be conclusive and binding on all parties.

- 10.2 If the Notes become due and repayable pursuant to this Condition 10, they shall be repayable at the Early Redemption Amount together (where applicable) with accrued interest as provided in the Trust Deed.
- 10.3 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 and/or secured and/or prefunded to its satisfaction.
- 10.4 No Noteholder or Couponholder may proceed directly against the Issuer unless the Trustee, having become bound to proceed, (i) fails to do so, or (ii) is unable for any reason to do so, and such failure or inability is continuing.

11. Events of Default and enforcement relating only to Subordinated Notes and Restricted Default Senior Non-Preferred Notes

This Condition 11 applies only if this Note is:

- (i) a Subordinated Note; or
- (ii) a Senior Non-Preferred Note unless the applicable Final Terms expressly specifies “*Senior Non-Preferred Notes: Restricted Events of Default*” as being “Not Applicable” (a **Restricted Default Senior Non-Preferred Note**),

and references in this Condition 11 to Notes shall be construed accordingly.

- 11.1 *Non-payment when due:* 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, 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 and/or secured and/or prefunded to its satisfaction), 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, but may take no other action in respect of such default (except as provided in Condition 11.2).
- 11.2 *Winding up or dissolution:* In the event of a winding up or dissolution of the Issuer (other than an Excluded Dissolution), whether or not instituted by the Trustee pursuant to Condition 11.1, 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 and/or secured and/or prefunded to its satisfaction), give notice to the Issuer (or the relevant official presiding over such winding up or dissolution) that the Notes are, and they shall accordingly immediately become, due and repayable at their Early Redemption Amount together (if applicable) with accrued interest as provided in the Trust Deed, and shall claim and/or prove in such winding up or dissolution in respect of the Notes (such claim ranking as provided in Condition 2.2(a) or Condition 2.3(a), as applicable).
- 11.3 *Enforcement:* Without prejudice to Conditions 11.1 and 11.2, the Trustee may at its discretion and without notice institute such steps, actions or proceedings against the Issuer as it may think fit to enforce any term or condition binding on the Issuer under the Trust Deed or the Notes (other than any payment obligation of the Issuer under or arising from the Notes or the Trust Deed, including,

without limitation, payment of any principal or interest in respect of the Notes, including any damages awarded for breach of any obligations) and in no event shall the Issuer, by virtue of the institution of any such steps, actions or proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it pursuant to these Terms and Conditions and the Trust Deed, nor will the Trustee accept the same, otherwise than during or after a winding up or dissolution of the Issuer.

- 11.4 *Rights of holders:* No Noteholder or Couponholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, (i) fails to do so, or (ii) is unable for any reason 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 or dissolution of the Issuer, except that if the Trustee, having become bound to proceed against the Issuer as aforesaid, fails to do so or is unable for any reason to do so, or, being able to prove in any winding up or dissolution 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 or dissolution 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.
- 11.5 *Extent of remedy:* No remedy against the Issuer, other than the institution of proceedings for the winding up in England of the Issuer and/or the proving or claiming in any winding up or dissolution of the Issuer, shall be available to the Trustee, the Noteholders or the Couponholders 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.
- 11.6 *Rights of the Trustee:* The Trustee may at its discretion institute such proceedings as are contemplated by this Condition 11 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 and/or secured and/or prefunded to its satisfaction.

12. 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 6.

13. 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.

The Trust Deed provides that (i) a resolution passed at a meeting duly convened and held in accordance with the Trust Deed by a majority consisting of not less than three-fourths of the votes cast on such resolution, (ii) a resolution in writing signed by or on behalf of the holders of not less than three-fourths in nominal amount of the Notes for the time being outstanding or (iii) consent given by way of electronic consents through the relevant clearing system(s) (in a form satisfactory to the Trustee) by or on behalf of the holders of not less than three-fourths in nominal amount of the Notes for the time being outstanding, shall, in each case, be effective as an Extraordinary Resolution of the Noteholders. 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. In addition, the Trustee shall be obliged to concur with the Issuer in effecting any Benchmark Amendments in the circumstances and as otherwise set out in Condition 4.4 without the consent of the Noteholders or Couponholders. 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 18.

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 9 and/or any undertaking given in addition to, or in substitution for, Condition 9 pursuant to the Trust Deed.

14. Substitution

14.1 Substitution in connection with a Permitted Reorganisation

- (a) In the event of a Permitted Reorganisation, the Successor Entity will be substituted in place of the Issuer as principal debtor under the Trust Deed, the Notes and any relative Coupons and, unless such substitution is effected automatically by operation of law, the Issuer and (subject as provided below) the Trustee shall enter into one or more trust deeds supplemental to the Trust Deed to give effect to and/or to reflect such substitution, provided that:
 - (i) prior to the entry into such trust deed(s) supplemental to the Trust Deed, the Issuer shall deliver to the Trustee a certificate signed by two authorised signatories of the Issuer stating that (A) the substitution of the Successor Entity in place of the Issuer as principal debtor under the Trust Deed, the Notes and any relative Coupons is being made pursuant to a Permitted Reorganisation and specifying details of such Permitted Reorganisation and (B) the Successor Entity has obtained all necessary governmental and regulatory approvals and consents necessary for its assumption of the obligations and liability as principal debtor under the Trust Deed in respect of the relevant Notes and Coupons and

in respect of such Notes and Coupons themselves in place of the Issuer and that such approvals and consents are at the time of substitution in full force and effect (and the Trustee shall be entitled to accept and rely on such certificate without liability to any person and without any further inquiry as sufficient evidence thereof, in which event it shall be conclusive and binding on the Trustee and all Noteholders and Couponholders); and

- (ii) the Trustee shall not be obliged to enter into such trust deed(s) supplemental to the Trust Deed if such substitution pursuant to a Permitted Reorganisation would, in the Trustee's opinion, impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities in any material respect or reduce or amend the protective provisions afforded to the Trustee in these Conditions or the Trust Deed (including, for the avoidance of doubt, any supplemental trust deed) in any material respect.
- (b) Save as expressly provided in Condition 14.1(c) below, a Permitted Reorganisation and any substitution of the Issuer in connection therewith shall be effected without the need or requirement for any consent or approval from the Trustee, the Noteholders or the Couponholders.
- (c) 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 or pursuant to an order made under section 3 of the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007, as amended (the **2007 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 (ii) such transfer is approved by an Extraordinary Resolution of the Noteholders.
- (d) For the purposes of these Terms and Conditions:

Permitted Reorganisation means any of:

- (i) an amalgamation of the Issuer and one or more other building societies under section 93 of the Act (or any successor provision thereto);
- (ii) a transfer by the Issuer of all or substantially all of its engagements under section 94 of the Act (or any successor provision thereto);
- (iii) a transfer by the Issuer of the whole of its business to a company under sections 97 to 102D of the Act (or any successor provisions thereto);
- (iv) a transfer by the Issuer of the whole of its business to a subsidiary of a mutual society pursuant to any order made by HM Treasury under section 3 of the 2007 Act (or any successor provisions thereto); or
- (v) an alteration in the status of the Issuer by virtue of any statute or statutory provision which alters, or permits the alteration of, the status of building societies generally or building societies which meet specified criteria to another type of body authorised under the Financial Services and Markets Act 2000 as amended, consolidated or re-enacted from time to time (the **FSMA**) or to a body which is regulated on a similar basis to an authorised person under the FSMA; and

Successor Entity means:

- (i) (in respect of an amalgamation of the Issuer and one or more other building societies under section 93 of the Act (or any successor provision thereto)), the resulting building society;

- (ii) (in respect of a transfer by the Issuer of all or substantially all of its engagements under section 94 of the Act (or any successor provision thereto), a transfer by the Issuer of the whole of its business to a company under sections 97 to 102D of the Act (or any successor provisions thereto) or a transfer of the whole of its business to a subsidiary of a mutual society pursuant to any order made by HM Treasury under section 3 of the 2007 Act (or any successor provisions thereto)), the relevant transferee; or
- (iii) (in respect of an alteration in the status of the Issuer by virtue of any statute or statutory provision which alters, or permits the alteration of, the status of building societies generally or building societies which meet specified criteria to another type of body authorised under the FSMA or to a body which is regulated on a similar basis to an authorised person under the FSMA), the resulting authorised person under the FSMA or, as the case may be, the resulting body which is regulated on a similar basis to an authorised person under the FSMA.

14.2 Substitution other than in connection with a Permitted Reorganisation

In circumstances other than a Permitted Reorganisation, and 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 in place of the Issuer as principal debtor under the 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.

14.3 Additional provisions relating to Subordinated Notes and Senior Non-Preferred Notes

This Condition 14.3 applies only if this Note is a Subordinated Note or a Senior Non-Preferred Note, and references in this Condition 14.3 to Notes shall be construed accordingly.

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 2006 as amended (or any successor thereto or re-enactment thereof) or to a body corporate which is incorporated in another European Economic Area (**EEA**) state other than the United Kingdom pursuant to Section 97 of the Act or pursuant to an order made under section 3 of the 2007 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 an EEA firm qualifying for authorisation under Schedule 3 to the FSMA 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 one or more deeds 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 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 Notes and any relative Coupons:
 - (A) are subordinated and postponed (or otherwise rank junior) to the claims of the persons who are holders of share investments (other than deferred share

investments) 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 and unsubordinated creditors of the Transferee Company (save that the rights of the holders of Senior Non-Preferred Notes may rank *pari passu* with any Secondary Non-Preferential Debts in respect of the Transferee Company or any other claims which rank, or are expressed to rank, *pari passu* therewith);

- (B) (if such Notes are Subordinated Notes) are subordinated and postponed to the claims in respect of the Senior Non-Preferred Notes; and
- (C) 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:

- (1) any qualifying own funds or capital resources of the Issuer for the purposes of the Regulatory Capital Requirements prevailing at that time to be excluded from such own funds or capital resources; or
- (2) any liabilities of the Issuer which, for the purposes of the Loss Absorption Regulations prevailing at that time, qualify towards the Issuer's minimum requirements for own funds and eligible liabilities and/or loss absorbing capacity instruments to be excluded from such minimum requirements for own funds and eligible liabilities and/or loss absorbing capacity instruments.

14.4 Effect of substitution

Any substitution pursuant to this Condition 14 shall be binding on the Issuer, the Trustee, 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 18.

15. Further Issues

The Issuer is at liberty from time to time without the consent of the Trustee, 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.

16. 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 18, 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.

17. 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 and/or secured and/or prefunded 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.

18. Notices

Subject to the following paragraph, 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 (including publication on the website of the relevant stock exchange or relevant authority if required by those rules and regulations). 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. 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 18.

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 and/or any other clearing system approved by the Trustee, be substituted for such publication as aforesaid the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or such other clearing system (as the case may be) 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 and/or such other clearing system, 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 and/or any other clearing system approved by the Trustee in which the relevant Notes are cleared, as the case may be, in such manner as the Agent and Euroclear and/or Clearstream, Luxembourg and/or such other clearing system, as the case may be, may approve for this purpose.

19. 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 are governed by, and will be construed in accordance with, English law.

20. 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.

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.

DESCRIPTION OF THE SOCIETY

Overview

The Society is a building society, incorporated in England and Wales under the United Kingdom Building Societies Act 1986, as amended, and authorised by the PRA and regulated by the FCA in relation to conduct of business matters and by the PRA in relation to prudential requirements. The Society's FCA Mutuals Public Register Number is 355B. The principal office of the Society is Nationwide Building Society, Nationwide House, Pipers Way, Swindon, SN38 1NW (phone number +44 (0) 1793 656 363). The Society is the largest building society in the United Kingdom in terms of total assets, with £229 billion of assets as at 4 April 2018. The Society has approximately 620 branches and 15 million customers as at the date of this Base Prospectus.

The Society's core business is providing personal financial services, including:

- residential mortgage loans;
- retail savings; and
- personal current accounts.

In addition, the Society maintains a portfolio of debt securities for its own account for liquidity management purposes.

As at 4 April 2018, the Society held approximately 12.9 per cent. (according to BoE data) of total UK residential mortgage balances and approximately 10 per cent. (as calculated by the Issuer based on BoE data) of total UK retail savings balances.

As a mutual organisation, the Society is managed for the benefit of its members, who are primarily its current account, retail savings and residential mortgage customers. The main focus of the Society is serving its members' interests while retaining sufficient profit to increase and further develop its business and meet regulatory requirements. The Society returns value to its members by offering typically higher interest rates on savings and lower interest rates on loans than those offered by its main competitors. As a result of returning value to its members, the Society earns lower pre-tax profits than its main competitors, which are typically banks or other non-mutual organisations.

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

The Society benchmarks its products and performance against a group of leading retail banks operating in the UK (Barclays, Halifax, HSBC, Lloyds Banking Group, NatWest and Santander UK) and seeks to offer more consistent long-term good value on savings and prime mortgages than is offered by this peer group. In addition to returning value to members through its competitive products, the Society believes that it provides better service to its customers than that offered by most of its competitors and this is a key component of the Society's strategy.

Strategy

As a mutual, owned by its members, the Society is driven by a strong sense of social purpose, based on its history and founding principles. As the Society exists primarily for the benefit of its members, the Society organises itself around their needs, as the Society sets out in its Society "Plan" at the start of the financial year.

'Building society, nationwide' describes its purpose, which is to grow the Society in a sustainable way that benefits its members, customers, colleagues, and society more generally.

The Society's strategy is founded upon a rigorous evaluation of its strengths and an assessment of the way in which the financial services industry has evolved in recent years. The Society has engaged its members through live 'talkbacks', suggestion schemes and through its 5,000 strong online 'member connect' community.

The Society's focus on mortgages and savings remains as relevant today as it was when it was founded in the 19th century. Additionally, it believes that increasing the size of its current account base remains a logical extension of its purpose by fulfilling its members' day to day financial needs and strengthening their mutual relationship. The Society intends to continue to offer a broad range of financial services that complement its core products of mortgage, savings and current accounts.

The Society's core purpose is 'building society, nationwide' and it has defined the following five interconnected cornerstones which support its purpose and strategy. Its strategic targets and key performance indicators have also been reviewed and amended in line with the strategy and are re-assessed at least annually to ensure they remain relevant to the Society in achieving the required outcomes.

Built to last

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

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

The Society has developed a financial performance framework based on the fundamental principle of maintaining its capital at a prudent level in excess of regulatory requirements. The framework provides parameters which allow it to calibrate future performance and help ensure that it achieves the right balance between distributing value to members, investing in the business and maintaining financial strength. The most important of these parameters is underlying profit which is a key component of the Society's capital. In this context, the Society currently believes that generating underlying profit of approximately £0.9 billion to £1.3 billion per annum over the medium-term would meet its objective for sustainable capital strength. This range is based on its current assumptions around the size of the mortgage market and goal of maintaining a UK leverage ratio in excess of 4.0 per cent. This range will vary from time to time, and whether the Society's profitability falls within or outside this range in any given financial year or period will depend on a number of external and internal factors, including conscious decisions to return value to members or to make investments in the business. It should not be construed as a forecast of the likely level of the Society's underlying profit for any financial year or period within a financial year.

In addition, the Society is seeking to ensure that its financial performance will be supported by a renewed focus on efficiency. Whilst cost income ratio has previously been the Issuer's main measure of efficiency, the Issuer introduced sustainable cost savings targets in 2017. As at 4 April 2018 the Issuer reported that it was on course to deliver its target of £300 million of sustainable cost savings by 2021, a target which has since been extended to £500 million of sustainable cost savings by 2023. These savings are expected to be delivered across a range of initiatives, including 'right first time' member service, targeted reductions in third party

spend, process simplification and automation including digitised service delivery, driving efficiency to the way the Issuer delivers change as well as targeted organisational simplification activities.

Building PRIDE

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

- Putting members and their money first.
- Rising to the challenge.
- Inspiring trust.
- Doing the right thing in the right way.
- Excelling at relationships.

And in delivering on these values, the Society equips its people by:

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

The Issuer is, and intends to remain, one of the UK's best places to work, which is in keeping with its mutual ethos of care, which is the backbone behind the service its members receive. Having engaged and enabled employees is a key source of competitive advantage as the Society strives to have industry leading levels of customer satisfaction and grow its business. The Society measures engagement and enablement through ViewPoint, conducted by Karin & Box.

Building legendary service

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

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

Delivering leading levels of member satisfaction is a key point of differentiation to the Society's peers and an important driver in helping to grow its membership. The Society measures its service satisfaction performance using an independent survey conducted by market research experts, GfK. Its performance is currently benchmarked against a peer group of high street competitors with a main current account market share greater than 4 per cent. To ensure that the Society continues to focus on its members' satisfaction and to further support the Society in its core purpose: 'building society, nationwide', the Society has set a strategic target for

the year ending 31 March 2019 to be first for customer satisfaction with a lead of at least 4 per cent. over the next best competitor within its peer group.

Building thriving membership

The Society can help its members to achieve their goals, whether home ownership or saving for the future and the Society will deliver real value to its membership by:

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

Growing its base of engaged members allows the Society to bring the benefits of mutuality to a wider population. In recent years the Society has measured its performance through the number of engaged members, defined as those who hold a mortgage or savings account with them (with a balance greater than £5,000) or those who hold their main personal current account with them. As at 4 April 2018, the Society had 14 million engaged members, up from 7.8 million as at 4 April 2017 and 7.47 million as at 4 April 2016. Going forward, the Society will target a new membership metric. By the end of the year ending 31 March 2019 the Society would like to reach 3.4 million committed members, up from 3.2 million as at 4 April 2018. A committed member is one who holds at least two engaged membership products with the Society (current account, £1,000 in savings, mortgage) or one engaged membership product plus either a personal loan, credit card, home insurance, or an investment and protection product.

Building a national treasure

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

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

The Society's brand is the sum of how its members and others perceive them. A strong brand, effective both in digital and traditional media, is essential to attract new members. In the year ended 31 March 2018, the Society scored second among its peer group for prompted brand consideration (1.3 per cent. behind the leading peer group score) and first for trust (3.8 per cent. ahead of its nearest peer)². For the year ending 31 March 2019, the Society's strategic targets are to lead in both measures.

History and Development

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

Over the past 30 years, many building societies have merged with other building societies or demutualised and transferred their businesses to existing or specially formed banks. Further, in one case, a society transferred its business to the subsidiary of another mutual organisation. As a result, the number of building societies in the United Kingdom has fallen dramatically over the same period. One consequence of this decrease is that the majority of the Society's competitors are banks. The Society believes that its mutual status allows it to compete successfully with banks, and it is the strategy of the Society to remain a building society.

In 1997, when many of the competitors of the Society that were building societies demutualised, the Society experienced a sharp increase in the number of new United Kingdom member retail savings accounts. It believes that many of these accounts were opened because customers expected the Society to demutualise and wanted to receive any associated windfall distributions. At its annual general meeting in 1998, its members voted against a proposal to demutualise and no subsequent motion to demutualise has since been proposed at a general meeting of the Society. In order to prevent the disruption caused by speculative account opening, the Society has generally required all new members opening accounts after November 1997 to assign to charity any windfall benefits they might otherwise have received as a result of a future demutualisation. As such, a majority of members would not benefit personally from either a demutualisation or takeover of Nationwide, significantly lessening the incentive to vote for demutualisation or any proposed takeover of the Society by a competitor which is incorporated as a limited liability company.

The Society has been involved in a number of mergers and acquisitions in recent years. It merged with Portman Building Society in August 2007 and with Cheshire Building Society and Derbyshire Building Society in December 2008. In March and June 2009, it also acquired selected assets and liabilities of Dunfermline Building Society. It believes these developments have added value to the Society, improved its distribution footprint 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.

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

Group Structure and Principal Subsidiaries

² Source: Nationwide Brand and Advertising tracker – compiled by Independent Research Agency, based on all consumer responses, (3 months ending March 2018). Financial brands included Nationwide, Barclays, Co-operative Bank, First Direct, Halifax, HSBC, Lloyds, NatWest, TSB and Santander. For 'prompted brand consideration' data includes consumer responses of 'first choice' or 'seriously considered' brand.

The Society is the principal holding entity of the Group and the main business of the Group is conducted by the Society. The Society's interests in its principal subsidiary undertakings, all of which are consolidated, as at 4 April 2018 are set out below:

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

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

Nationwide Syndications Limited is a wholly owned mortgage lender specialising in syndicated commercial loans to registered social landlords. Nationwide Syndications Limited has ceased to offer new lending. As at 4 April 2018, it held mortgage assets of £0.5 billion.

The Mortgage Works (UK) plc (**TMW**) is a wholly owned centralised mortgage lending subsidiary, specialising mainly in residential buy to let lending to individuals. As at 4 April 2018, it had mortgage assets of £33.1 billion. In the year ended 4 April 2018, TMW's gross lending was £3.6 billion, representing 11 per cent. of its total gross residential mortgage lending in that year.

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

The Society also has interests in structured entities. A structured entity is an entity in which voting or similar rights are not the dominant factor in deciding control. Structured entities are consolidated when the substance of the relationship indicates control.

The table below provides details of these entities as at 4 April 2018.

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

Business of the Society

Retail business

The Society's retail business aims to offer its customers a full range of personal financial services products comprising residential mortgage lending, a range of savings products as well as investments and general insurance solutions, both directly and through intermediary sales channels.

Residential mortgage lending

The vast majority of the lending portfolio of the Society consists of United Kingdom residential mortgage loans to individuals. These loans are secured on the residential property of the borrower on terms which allow for repossession and sale of the property if the borrower breaks the terms and conditions of the loan. This lending can take the form of either prime residential lending (where the borrower is the owner and occupier of the mortgaged property and meets the Society's credit requirements for prime lending) or specialist residential lending (which are loans advanced to borrowers who intends to let the mortgage property). The Society's policy is for all residential mortgage loans to individuals to be fully secured first priority loans on the mortgaged property, to ensure that the Society's claim to the property, in the event of default, is senior to those of other potential creditors. As a result, its residential mortgage lending to individuals carries lower risk than many other types of lending.

As at 4 April 2018, the Group was the second largest mortgage lender in the United Kingdom (as measured by total loans outstanding and calculated by the Society based on BoE data and publicly available financial information). Its residential mortgages are generally for terms of 20 to 30 years. While many customers remain with the Society for much or all of this term, some customers redeem their mortgage earlier than this in order to remortgage to another lender or for other reasons. The minimum life of a mortgage is usually between two and five years, depending on the terms of the customer's initial product, although the Society generally retains approximately 70 to 80 per cent. of customers when they reach the end of a product.

The table below shows a breakdown of the Society's prime and specialist residential mortgage lending outstanding balances as at 4 April 2018.

	As at 4 April 2018
	<i>(£ billion)</i>
Prime	144
Specialist	33
of which:	
Buy-to-let	30
Self-certified	2
Near prime	1
Sub prime	0

Source: Nationwide Building Society – Audited financial statements for the year ended 4 April 2018

The Society offers specialist UK residential mortgage lending to individuals, comprising lending to private landlords (buy-to-let) and other non-conforming lending. As at 4 April 2018, the Society's outstanding specialist UK residential mortgage lending to individuals was £33 billion. The specialist residential mortgage balance is made up of advances made through its specialist lending brands, including TMW. Its outstanding specialist lending loans were advanced primarily in the buy-to-let and self-certification markets. New specialist lending is restricted to buy-to-let through TMW with the Society having withdrawn from the self-certified lending market in 2009.

The Society's specialist mortgages continue to perform well with cases three months or more in arrears representing only 0.83 per cent. of the total mortgage book as at 4 April 2018, which compares favourably to the overall Council of Mortgage Lenders (CML) industry measure, which is inclusive of prime lending, of 0.81 per cent. as at 4 April 2018.

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

The table below shows the geographical distribution of the Society's United Kingdom residential mortgage loans as at 4 April 2018:

	UK residential mortgage lending to individuals as at 4 April 2018
	%
Region	
Greater London	34
Central England	18
Northern England.....	15
South East England (excluding London)	13
South West England.....	9
Scotland	6
Wales and Northern Ireland.....	5
Total	100

Source: Nationwide Building Society – Audited financial statements for the year ended 4 April 2018

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

To reduce the costs associated with early repayment of mortgages and to recover a portion of the costs of mortgage incentives, the Society imposes early repayment charges on some products. The early repayment charges generally apply for repayment, made prior to the expiration of the fixed or tracker rate for the particular product. The 2017-2018 financial year was the Society's strongest ever for gross prime mortgage lending at £29.4 billion (2017: £29.1 billion), reflecting the competitively priced products and good long-term value that the Society offers its members. Total gross mortgage lending was £33.0 billion (2017: £33.7 billion) and represented a market share of 12.8 per cent. (2017: 14.0 per cent.). The Society's total net mortgage lending decreased by £3.0 billion to £5.8 billion (2017: £8.8 billion) due to a reduction in gross buy-to-let lending following the affordability criteria changes the Society made last year and increased prime mortgage redemptions from ongoing market competition driving highly competitive new business rates.

The LTV profile of new lending, weighted by value, remained at 71 per cent. as at 4 April 2018 compared to 4 April 2017. The indexed LTV for the whole residential portfolio increased to 56 per cent. as at 4 April 2018 from 55 per cent. as at 4 April 2017 on a value basis.

The Group believes that asset quality has remained strong as a result of our continued prudent approach to lending. The proportion of mortgage accounts three months or more in arrears has reduced to 0.43 per cent. as at 4 April 2018, which compares favourably with the CML industry average of 0.81 per cent. as at the same date.

The table below shows the Group's residential mortgage loans which are three months or more in arrears as a percentage of its total residential mortgage loans as at each of 4 April 2018, 4 April 2017 and 4 April 2016 and the UK finance average.

	As at 4 April		
	2018	2017	2016
	%		
Prime	0.34	0.36	0.35
Specialist.....	0.83	0.89	0.90
Group	0.43	0.45	0.45
CML industry average	0.81	0.91	1.04

Source: Audited financial statements for the years ended 4 April 2018, 2017 and 2016.

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

The Society focuses its residential mortgage sales efforts on first-time buyers, subsequent purchasers moving home and the remortgage market. The Society is particularly keen to support its existing members and it has introduced products to support first-time buyers. First-time buyers offer a significant potential for additional sources of income through the distribution of insurance and personal investment products. The proportion of new lending to first time buyers increased to 38 per cent. during the year ended 4 April 2018 with 62 per cent. to experienced buyers (compared to 36 per cent. of residential mortgage advances to first-time buyers and 64 per cent. to experienced buyers during the year ended 4 April 2017).

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

Consumer lending

The Society engages in consumer lending, which accounted for 2 per cent. of its total loan assets as at 4 April 2018. Almost all of its consumer loans are made on an unsecured basis.

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

There is a greater risk of loss on unsecured consumer lending than there is on residential mortgage lending because the Society has no security if the borrower defaults on the loan. Accordingly, unsecured consumer

lending products bear higher interest rates than the residential mortgage products of the Society. To manage this risk, it uses an automated credit scoring system that is designed to evaluate a borrower's ability to repay the loan. In addition, the Society assesses all unsecured consumer loans to ensure they remain affordable alongside any mortgage.

Savings

The great majority of the Society's retail savings are in the form of UK retail member deposits. In addition, the Society has historically accepted offshore deposits and deposits which do not convey member status. As at 4 April 2018, the Society had UK retail member deposits of £148 billion. UK retail member deposits represented 65 per cent. of the Society's total members' interests, equity and liabilities at 4 April 2018.

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 savings products than those set by its main competitors. The Society gathers UK retail member deposits from a number of sources, chiefly from its branch network but also by mail and internet-based deposit accounts.

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

Its retail business also manages a range of business savings accounts that are offered to UK-domiciled small- and medium-sized enterprises, including companies, housing associations, charities and educational organisations. The Society provides a wide range of savings products that may be repayable on demand or on notice and which may pay a variable or fixed rate of interest. On all business savings products, the Society determines variable interest rates at its discretion according to market conditions. Generally, the more restrictions on withdrawal of business savings, the higher the rate of interest. As at 4 April 2018, its business savings balances were £3.2 billion.

Personal banking

The Society has a growing base of current account customers, which it estimates accounts for a 7.9 per cent. share of main standard and package current accounts in the United Kingdom. A record 816,000 current accounts were opened with the Society over the year to 4 April 2018, an increase of 3 per cent. over the previous year ended 4 April 2017. The Society continues to perform well on switching through the Current Account Switch Service. The Society is also Which? 'Banking Brand of the Year 2018'.

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

Credit card lending had overall balances of £1.8 billion at 4 April 2018.

Other retail services

The Society's other retail services principally comprise insurance business and investment business.

Insurance

In conjunction with its core business of providing residential mortgage loans and retail savings, the Society develops and markets insurance products branded with its name that are underwritten by third-party insurers and distributes insurance products of other companies.

The insurance products marketed by the Society are:

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

The Society typically uses leading insurers as third-party underwriters for these insurance products. It receives a commission and, in some cases, participates in the profits, but not the losses, from third-party underwritten insurance products that it markets. This provides the Society with a significant source of non-interest income and, in the years ended 4 April 2018 and 4 April 2017, it earned £76 million and £81 million, respectively, from insurance fees. It generally markets its insurance products to new and existing customers, and it is the Society's policy to offer insurance products at competitive prices and with more comprehensive coverage than those products generally offered by the main competitors of the Society.

Investments

The Society's income from the distribution of protection and investments was £65 million for the year ended 4 April 2018.

Distribution network

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

The Society distributes its products primarily through:

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

The Society also maintains a network of ATMs. As at 4 April 2018, the Society had 1,369 ATMs.

Branches

The branch network of the Society continues to be a major source of its mortgage lending and retail funding. As at 4 April 2018, it had approximately 620 branches of Nationwide Building Society in the United Kingdom.

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

Call centres

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

Mail

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

Internet and mobile banking

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

Intermediaries

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

ATMs

The Society's customers have access to its own network of ATMs (1,368 as at 4 April 2018), as well as access to ATMs in the United Kingdom through the LINK network and Cirrus networks and world-wide through the VISA network.

Commercial business

The Society's commercial business manages three commercial secured lending portfolios, which as at 4 April 2018 accounted for 6 per cent. of total loans and advances to customers.

Following a strategic review of the commercial lending business, the Society concluded that this business is no longer a good fit with its core purpose. The strategy for commercial lending is now to hold and actively manage the portfolios to maturity in line with contractual terms.

The table below shows the amount and types of loans in the commercial lending portfolio as at 4 April 2018.

As at 4 April 2018

	<i>(£ billion)</i>	<i>(percentage of total commercial loans)</i>
Registered social landlords	6,820	71
Commercial real estate.....	1,868	20
Private finance initiative	906	9
Total	9,594	100

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

CRE portfolio is well diversified by industry type and by borrower, with no significant exposure to development finance.

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

Head office functions

The Society's head office functions comprise the executive management and the treasury function together with a range of support functions such as legal and secretariat services, human resources, strategic planning and external relations, finance, risk management, property services and internal audit.

The treasury function centrally manages liquid asset portfolios as well as most of the financial risk exposures and is responsible for wholesale funding activities.

The Board of Directors

The business is under the control of the Society's Board of Directors. Each director is elected annually by the members. The executive directors are the Chief Executive, the Chief Financial Officer, the Deputy CEO and the Chief Products and Propositions Officer. All other directors are non-executive directors. The business address of all of the directors and officers is Nationwide House, Pipers Way, Swindon SN38 1NW, England.

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

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

Management and Director Changes

Gunn Waersted was appointed to the Board on 1 June 2017 and was elected at the Society's annual general meeting held on 19 July 2018.

The following table presents information with respect to current directors:

Name	Age	Position	Other Directorships
David Roberts	56	Chairman	Beazley plc Beazley Furlonge Limited Campion Willcocks Limited NHS England NHS Improvement
Joe Garner	49	Chief Executive	British Triathlon Foundation Trust UK Finance
Mark Rennison	58	Chief Financial Officer	Arkose Funding Limited Confederation Mortgage Services Limited Exeter Trust Limited First Nationwide LBS Mortgages Limited Nationwide Anglia Property Services Limited Nationwide Housing Trust Limited Nationwide Investments (No.1) Limited Nationwide Lease Finance Limited Nationwide Mortgage Corporation Limited Nationwide Syndications Limited NBS Fleet Services Limited NBS Ventures Management Limited Piper Javelin Holding Company Limited Piper Javelin No 1 Limited Staffordshire Leasing Limited
Chris Rhodes	55	Chief Products and Propositions Officer	at.home nationwide Limited Derbyshire Home Loans Limited E-Mex Home Funding Limited Jubilee Mortgages Limited National Numeracy (Trustee) NBS Ventures Management Limited The Lending Standard Board Limited The Mortgage Works (UK) plc U C B Home Loans Corporation Limited
Tony Prestedge	48	Deputy CEO	Dunfermline BS Nominees Limited Monument (Sutton) Limited Nationwide Anglia Property Services Limited NBS Ventures Limited NBS Ventures Management Limited The Derbyshire (Premises) Limited The Nationwide Foundation
Rita Clifton	60	Non-Executive Director	Ascential plc ASOS plc

Name	Age	Position	Other Directorships
			BrandCap Limited Henley Festival Trust (Trustee) Rita Clifton Limited The Green Alliance Trust
Mitchel Lenson	64	Non-Executive Director	Eclipse Film Partners No.39 LLP (Designated Member) The Invicta Film Partnership No.37, LLP (Designated Member) The Currency Cloud Group Limited
Lynne Peacock	64	Non-Executive Director	Hawkins Residents Limited Jardine Lloyd Thompson Group plc Serco Group plc The Westminster Society for People with Learning Disabilities
Mai Fyfield	49	Non-Executive Director	Roku Inc
Tim Tookey	56	Non-Executive Director	Quilter plc Westmoreland Court Management (Beckenham) Limited
Kevin Parry	56	Company Director	Aberdeen Asset Management plc Daily Mail and General Trust plc Elevate Portfolio Services Limited Intermediate Capital Group plc KAH Parry Limited Royal National Children's Springboard Foundation Standard Life Aberdeen plc Standard Life Investment (Holdings) Limited Standard Life Savings Limited
Baroness Usha Prashar	70	Member of House of Lords Non-Executive Director	British Council (Trustee) UK Community Foundations (Honorary President)
Gunn Waersted	63	Non-Executive Director	Petoro AS Telenor ASA

Recent developments

On 14 September 2018, the Issuer published a regulatory news service announcement entitled “*Redefining service for a digital world*” (the **Announcement**), in which the Issuer announced an additional technology investment of £1.3 billion, taking its overall investment plans to £4.1 billion over the next five years.

This investment is intended to enable the Issuer to simplify its technology estate and build new technology platforms to enable growth and diversification, and to drive forward digital, data and analytic strategies. At the same time, the Issuer intends to continue to transform member experience on the high street through investment in branches and other channels. Through this programme, the Issuer will seek to take advantage of the opportunities to grow its membership and revenue in existing and new propositions, to further enhance service, to simplify operations and to build new skills for the future. As part of this overall investment, the Issuer anticipates creating an additional technology hub in the UK and employing between 750 and 1000 people over time.

The Issuer expects to recognise an additional charge of between £200 million to £250 million in the current financial year in light of the incremental technology investment, approximately half of which is expected to be recognised within the first half of the financial year. The Issuer considers that the full year range represents a reasonable estimate for the on-going annualised impact on profits over the period to 2023 as the Issuer delivers the programme.

The Issuer considers that it is making this investment from a position of financial strength, with present capital levels higher than at any point during its history. The Issuer remains committed to its financial performance framework and expects to continue to improve its capital ratios over the period (excluding the impact of any capital calls it chooses to make and proposed regulatory changes). The investment strategy is designed to enable greater efficiencies, and the Issuer has extended its sustainable saves target from £300 million by 2021 to £500 million by 2023. Furthermore, the Board reaffirmed its commitment to its existing Core Capital Deferred Shares distribution policy, and confirmed that it does not envisage any impact on its approach to, or level of, Core Capital Deferred Share distributions as a result of the additional technology investment.

Key strategic priorities for the Issuer's five-year investment plan

The Issuer recognises that customer expectations of service are rapidly changing in a digital world, and believes its members want a combination of human service on the high street, as well as digital convenience. As a building society, the Issuer considers itself well placed to deliver both - continuing to invest in its branches alongside its significant investment in technology and operational capabilities.

In 2016, the Issuer's strategy refresh focused on core purpose with mutuality and members at the centre. 'Building society, nationwide', is underpinned by five cornerstones: built to last, building thriving membership, building legendary service, building PRIDE and building a national treasure. In its Announcement, the Issuer reaffirmed its commitment to:

- continuing to build **thriving membership** by growing membership and revenues in new and existing propositions;
- ensuring the Issuer is **built to last** by simplifying its operations and increasing its efficiency – supported by the extension of its sustainable saves target to £500 million by 2023;
- building **legendary service** capability for a digital age, combining digital convenience with a human touch - targeting 60 per cent. of active current account members using mobile and launching new member propositions enabled by the introduction of Open Banking in the UK;
- building new skills and talent for the future, remaining true to its **PRIDE** values which define its member-focused culture - creating an additional technology hub employing between 750 and 1,000 people; and
- continuing its aspirations to be recognised as a **national treasure** by remaining true to its core purpose of 'building society, nationwide'.

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 tax law as applied in England and Wales 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 interest (as that term is understood for United Kingdom tax purposes) 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). The comments assume that no security will be created for the benefit of the Notes, that there will be no substitution of the Issuer and do not address the consequences of such substitution (notwithstanding that such substitution is permitted by the terms and conditions of the Notes), 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 Income Tax Act 2007. Noteholders who are in any doubt as to their tax position should consult their professional advisers.

United Kingdom Withholding Tax on Payments of Interest on the Notes

- (a) Senior Preferred Notes, Senior Non-Preferred 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. Provided the Senior Preferred Notes, Senior Non-Preferred 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) Payments of interest on Subordinated Notes that are not so listed on a “recognised stock exchange” may nevertheless be made without deduction of or withholding on account of United Kingdom income tax provided that such Subordinated Notes constitute “regulatory capital securities” pursuant to the Taxation of Regulatory Capital Securities Regulations 2013 (the **RCS Regulations**). The Subordinated Notes will be “regulatory capital securities” if they qualify, or have qualified, as Tier 2 instruments under Article 63 of Commission Regulation (EU) No 575/2013 and such Subordinated Notes form, or have formed, a component of Tier 2 capital for those purposes. This is subject to there being no arrangements the main purpose, or one of the main purposes, of which is to obtain a tax advantage (as

defined in section 1139 of Corporation Tax Act 2010) for any person as a result of the application of the RCS Regulations in respect of such Subordinated Notes.

- (c) In the case of Deposit Notes, interest may be paid without withholding or deduction on account of United Kingdom income tax if such Notes constitute “qualifying certificates of deposit” or “qualifying uncertificated eligible debt security units” within the meaning of sections 985 and 986 ITA 2007 respectively.
- (d) Deposit Notes will be “qualifying certificates of deposit” within the meaning of section 985 ITA 2007 provided 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) the obligation of the Issuer to pay that amount arises after a period of not more than five years beginning with the date on which the deposit was made.

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 other cases, if the Notes are capable of being listed on a “recognised stock exchange” at the time the interest on the Notes becomes payable an amount must generally be withheld from such payments on account of United Kingdom income tax at the basic rate (currently 20 per cent.) subject to any other available exemptions and reliefs. 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 for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

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.

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 6.4). Payments of interest are subject to United Kingdom withholding tax.

The references to “interest”, “discount” or “premium” in this section headed “*United Kingdom Taxation*” mean respectively **interest**, **discount** or **premium** 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 6.4 of the Notes).

THE PROPOSED FINANCIAL TRANSACTIONS TAX (FTT)

On 14 February 2013, the European Commission published a proposal (the **Commission's 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**). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, 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 expected to be exempt.

Under the Commission's Proposal 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.

However, the FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of Notes are advised to seek their own professional advice in relation to the FTT.

FOREIGN ACCOUNT TAX COMPLIANCE ACT

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a **foreign financial institution** (as defined by FATCA) may be required to withhold on certain payments it makes (**foreign passthru payments**) to persons that fail to meet certain certification, reporting or related requirements. The Issuer is a foreign financial institution for these purposes. A number of jurisdictions (including the United Kingdom) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (**IGAs**), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as Notes, such withholding would not apply prior to 1 January 2019 and Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining foreign passthru payments are filed with the U.S. Federal Register generally would be grandfathered for purposes of FATCA withholding unless materially modified after such date. Holders should consult their own tax advisers regarding how these rules may apply to their investment in Notes.

SUBSCRIPTION AND SALE

The Dealers have in an amended and restated Programme Agreement dated 31 October 2018 (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 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 or the securities laws of any state or other jurisdiction of the United States and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from, or not subject to, 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, U.S. 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, U.S. persons except in accordance with Regulation S of the Securities Act. 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 U.S. 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 U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended (the **Code**) and Treasury regulations promulgated thereunder. The applicable Final Terms

will identify whether U.S. Treasury Regulations Section 1.163-5(c)(2)(i)(C) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the Code) (**TEFRA C**) or U.S. Treasury Regulations Section 1.163-5(c)(2)(i)(D) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the Code) (**TEFRA D**) applies or whether the United States Tax Equity and fiscal Responsibility Act of 1982 (**TEFRA**) is not applicable.

Prohibition of sales to EEA Retail Investors

Unless the Final Terms in respect of any Notes specifies “Prohibition of Sales to EEA Retail Investors” as “Not Applicable”, 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 offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by the Base Prospectus as completed by the Final Terms in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

- (a) The expression **retail investor** means a person who is one or more of the following:
 - (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, MiFID II); or
 - (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the Insurance Mediation Directive), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; and
- (b) the expression an **offer** includes 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.

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.

Australia

This Base Prospectus and offers of Notes are only made available in Australia to persons to whom a disclosure document such as a prospectus or product disclosure statement is not required to be given under either Chapter 6D or Part 7.9 of the Australian Corporations Act 2001 (Cth) (the **Australian Corporations Act**). This document is not a prospectus, product disclosure or any other form of formal “disclosure document” for the purposes of Australian law, and is not required to, and does not, contain all the information which would be required in a product disclosure statement or prospectus under Australian law. No prospectus or other disclosure document (as defined in the Australian Corporations Act) in relation to the Programme or any Notes has been, or will be, lodged with the Australian Securities and Investments Commission (**ASIC**), or the ASX Limited or any other regulatory body or agency in Australia. The persons referred to in this document may not

hold Australian financial services licenses. No cooling off regime applies to an acquisition of the Notes. In no circumstances is this document to be used by a “retail client” (for the purposes of the Australian Corporations Act) for the purposes of making a decision about a financial product.

This Base Prospectus contains general advice only and does not take into account the investment objectives, financial situations or needs of any particular person.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that, unless the relevant Final Terms (or a relevant supplement to this Base Prospectus) otherwise provides, it:

- (a) has not made or invited, and will not make or invite, an offer of the Notes for issue or sale in Australia (including an offer or invitation which is received by a person in Australia); and
- (b) has not distributed or published, and will not distribute or publish, this Base Prospectus or any other offering material or advertisement relating to the Notes in Australia,

unless:

- (i) the aggregate consideration payable by each offeree is at least A\$500,000 (or its equivalent in an alternative currency, in either case, disregarding moneys lent by the offeror or its associates) or the offer or invitation does not otherwise require disclosure to investors under Parts 6D.2 or 7.9 of the Australian Corporations Act;
- (ii) the offer or invitation does not constitute an offer to a “retail client” for the purposes of section 761G and 761GA of the Australian Corporations Act;
- (iii) such action complies with any applicable laws, regulations and directives (including without limitation, the licensing requirements set out in Chapter 7 of the Australian Corporations Act) in Australia; and
- (iv) such action does not require any document to be lodged with ASIC.

There may be restrictions on the offer for re-sale of any Notes in Australia for a period of 12 months after their issue. Because of these restrictions, investors are advised to consult legal counsel prior to making any offer for re-sale of any Notes in Australia.

Canada

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Notes may be sold only to purchasers in Canada purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 *Prospectus Exemptions* or subsection 73.3(1) of the *Securities Act* (Ontario), and are permitted clients, as defined in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. Any resale of the Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Hong Kong

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

- (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes except for Notes which are a “structured product” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the **SFO**) other than (a) to “professional investors” as defined in the SFO and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the **C(WUMP)O**) or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and
- (ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made under the SFO.

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.

Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Base Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. 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 offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Base Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

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

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- (i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law; or
- (iv) as specified in Section 276(7) of the SFA.

Any reference to the **SFA** is a reference to the Securities and Futures Act, Chapter 289 of Singapore and a reference to any term as defined in the SFA or any provision in the SFA is a reference to that term as modified or amended from time to time including by such of its subsidiary legislation as may be applicable at the relevant time.

In connection with Section 309B of the SFA and the CMP Regulations 2018, the Issuer has, unless otherwise specified before an offer of Notes, determined the classification of all Notes to be issued under the Programme as prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Switzerland

This Base Prospectus is not intended to constitute an offer or solicitation to purchase or invest in the Notes described herein. The Notes may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Base Prospectus nor any other offering or marketing material relating to the Notes constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations, and neither this Base Prospectus nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this Base Prospectus nor any other offering or marketing material relating to the offering, nor the Notes have been or will be filed with or approved by any Swiss regulatory authority. The Notes are not subject to the supervision by any Swiss regulatory authority, such as the Swiss Financial Markets Supervisory Authority FINMA (**FINMA**), and investors in the Notes will not benefit from protection or supervision by such authority.

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 Senior Preferred Notes, Senior Non-Preferred 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 Senior Preferred Notes, Senior Non-Preferred 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 Senior Preferred Notes, Senior Non-Preferred 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 Senior Preferred Notes, Senior Non-Preferred Notes and Subordinated Notes is expected to be granted on or about 31 October 2018.

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 and no material adverse change in the financial or trading position or prospects of the Issuer or the Group since 4 April 2018, being the date to which the latest audited accounts were made up.

Auditors

The accounts of the Group for the two years ended 4 April 2018 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.

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 1 December 2016.

Litigation

There are no, and have not been, 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 2018 and 4 April 2017 in each case together with the audit report prepared in connection therewith and the unaudited interim management statement of the Issuer for the three months ended 30 June 2018;
- (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, and the most recently published interim management statement of the Issuer;
- (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

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Citigroup Global Markets Limited

Citigroup Centre
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Commerzbank Aktiengesellschaft

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United Kingdom

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Nomura International plc

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UBS AG, London Branch

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United Kingdom

UBS Limited

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United Kingdom

TRUSTEE

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United Kingdom

ISSUING AND PRINCIPAL PAYING AGENT AND AGENT BANK

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United Kingdom

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to the Dealers and the Trustee

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