Registered Number 2537970

Nationwide Syndications Limited

Annual Report and Financial Statements

for the year ended 31 March 2013

Contents Page

Directors and auditors

Directors
B Glover
H Leatherland
M Webster
M Rennison

Company secretary
J Lindsey

Independent auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
1 Embankment Place
London
WC2N 6RH

Registered office
Nationwide House
Pipers Way
Swindon
Wiltshire
SN38 1NW

Registered number
2537970

Directors' report for the year ended 31 March 2013

The directors have pleasure in presenting their annual report and the audited financial statements for the year ended 31 March 2013

As set out in the statement of accounting policies, the annual report and financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

All financial information given in this directors' report is taken solely from the statutory results prepared on the above basis

Business objectives, review and principal activities

Nationwide Syndications Limited (the Company) is a wholly owned subsidiary of Nationwide Building Society (the Group)

The principal activity of the Company continues to be the management of its portfolio of mortgages specialising in syndicated commercial loans to registered social landlords

The Company made a loss before tax of £0 7 million (2012 profit before tax of £4 4 million) The main driver for the loss is an increase in the interest charged to the Company on the funding provided by the Group through intercompany loans following a revision of the Group's methodology for funds transfer pricing In addition, interest receivable has reduced year on year as loans and advances to customers continue to gradually decrease on a closed book The Company's loans and advances to customers are to registered social landlords Amounts owed to the parent undertaking have decreased during the year as mortgage receipts were used to repay funding from the Group

Future developments

The Company will continue to maintain its portfolio and support existing customers At this time there are no plans to recommence new lending through the Company

Strategic goals

Strategic goals are set at Group level The KPIs in relation to last year's strategic goals are set out below

- Number 1 for service satisfaction
- Deepening our customer relationships to at least 7 million valuable customers by 2017
- Core Tier 1 ratio in the top quartile of our peer group comparison
- Other income of £600 million by 2017
- Underlying profitability of £1 billion
- Employee enablement and engagement scores in line with external high performance benchmarks

Further information on the Group's performance against these, and also the strategic goals for the next five years can be found in the Overview section of the Group Annual Report and Accounts

Results and dividends

The loss after tax was £0 5 million (2012 profit after tax of £4 4 million) No dividends were proposed or paid during the year or in the prior year The retained earnings carried forward are £101 7 million (2012 £102 2 million)

Creditor payment policy

The Creditor payment policy is operated at Group level, reflecting the use of the central Group accounts payable function The Group's policy is to agree the terms of payment with suppliers at the start of trading, ensure suppliers are aware of the terms of payment and pay in accordance with its contractual and other legal obligations. The Group's policy is to settle the supplier's invoice for the complete provision of goods and services (unless there is an express provision for stage payments), when in full conformity with the terms and conditions of the purchase, within the agreed payment terms The Group's creditor days were 15 days at 4 April 2013 (2012 19 days)

Risk management and control

Risk management and control is undertaken at Group level within the Group's Enterprise Risk Management Framework, which applies to the Nationwide Group, including all trading divisions and subsidiaries and is structured around five headings

Heading	Description
Risk culture	Sets out the values and behaviours present throughout the organisation that shape risk decisions across the Group
Risk governance and control	Sets the risk categories, the Group's Three Lines of Defence and how these are deployed, the committee governance structure, and standards for documentation and policy
Risk strategy	Sets out the Nationwide Group Board's risk appetite and overall strategy for risk management, connecting the Group's corporate plan and risk appetite with practical and detailed strategies, controls and limits to deliver this strategy without compromising risk appetite
Risk measurement	Sets out the standards across the Group, encompassing risk data and systems, the use of models, reporting, and risk-based performance measurement
Stress testing and planning	Sets out the approach to Group-wide stress testing, scenario analysis, contingency plans, and the interactions with other corporate processes

Further information around the Group's risk management and control policies is available in the Risk Management Report within the Group Annual Report and Accounts

As a result of its normal business activities, the Company is exposed to a variety of risks, the most significant of which are

- Lending risk
- Financial risk
- Operational risk

The risk management objectives and policies which correspond to these risks and uncertainties of the Company are shown in note 14

Employees

The Company has no employees (2012 nil) All staff are employed by the Group

Going concern

The Company is fully funded by its parent undertaking, Nationwide Building Society The Society's Board of directors has confirmed that the parent undertaking will continue to fund the Company's activities for the foreseeable future The foreseeable future is considered for this purpose to be a period at least 12 months forward from the date of approval of the financial statements Taking this into account, the directors have a reasonable expectation that the Company has adequate resources to continue in business for the foreseeable future and therefore continue to adopt the going concern basis in preparing the financial statements

Environment

The Group recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to reduce any damage that might be caused by the Group's activities

The Group has a comprehensive programme of activity on environmental issues It runs an active carbon-saving programme and has taken action on issues such as transport, lighting, heating and recycling

Directors' indemnities

As permitted by the Articles of Association, the directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006 The indemnity was in force throughout the last financial year and is currently in force The Group also purchased and maintained throughout the financial year directors' and officers' liability insurance in respect of the Company and its directors

Domicile

The Company is limited by shares It is registered, domiciled and operates in the United Kingdom The registered office is Nationwide House, Pipers Way, Swindon, Wiltshire, SN38 1NW

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have expressed their willingness to continue in office

Directors and directors' interests

The present Board of directors is shown on page 2. The directors of the Company who were in office during the year and up to the date of signing the financial statements were·

B Glover
H Leatherland (appointed 1 February 2013)
M Webster
M Willis (resigned 27 July 2012)
M Rennison

At no time during the year have the directors, or their families, had any beneficial interest in the shares of the Company None of the directors had a material interest in any contract significant to the Company's business

Statement of directors' responsibilities

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently
- make judgements and accounting estimates that are reasonable and prudent
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Statement of disclosure of information to auditors

In accordance with Section 418 of the Companies Act 2006, for each director in office at the date the directors' report is approved

(a) so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and

(b) he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Approved by the Board of directors and signed on its behalf by

Director MARK RENNISON

13 September 2013

Independent auditors' report to the members of Nationwide Syndications Limited

We have audited the financial statements of Nationwide Syndications Limited for the year ended 31 March 2013 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

Respective responsibilities of directors and auditors

As explained more fully in the directors' responsibilities statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the annual report and financial statements to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2013 and of its loss and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements

Independent auditors' report to the members of Nationwide Syndications Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Richard Oldfield (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
13 September 2013

Statement of comprehensive income for the year ended 31 March 2013

	Notes	2013 £'000	2012 £'000
Interest receivable and similar income	3	24,930	27,213
Interest expense and similar charges	4	(26,079)	(23,363)
Net interest (expense)/income		(1,149)	3,850
Fee and commission income	5	437	566
(Loss)/profit before tax	6	(712)	4,416
Taxation	9	171	(36)
(Loss)/profit after tax		(541)	4,380
Total comprehensive (expense)/income		(541)	4,380

The notes on pages 13 to 27 form part of these financial statements

NATIONWIDE SYNDICATIONS LIMITED

Balance sheet as at 31 March 2013

	Notes	2013 £'000	2012 £'000
Assets			
Non current assets			
Loans and advances to customers	11	664,465	669,499
Current assets			
Loans and advances to customers	11	2,196	7,210
Current tax assets		670	1,026
Total assets		667,331	677,735
Liabilities			
Non current liabilities			
Amounts owed to parent undertaking	12	394,650	387,207
Current liabilities			
Amounts owed to parent undertaking	12	170,030	186,146
Group relief liabilities		977	2,167
Total liabilities		565,657	575,520
Equity			
Share capital	13	-	-
Retained earnings		101,674	102,215
Total equity		101,674	102,215
Total equity and liabilities		667,331	677,735

The notes on pages 13 to 27 form part of these financial statements

The financial statements were approved by the Board of directors on 13 September 2013

x Ma Rufe x

Director MARK RENNISON

NATIONWIDE SYNDICATIONS LIMITED

Statement of changes in equity for the year ended 31 March 2013

	2013			2012		
	Share capital	**Retained earnings**	**Total**	Share capital	Retained earnings	Total
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
At 1 April	-	102,215	102,215	-	97,835	97,835
Total comprehensive (expense)/income	-	**(541)**	**(541)**	-	4,380	4,380
At 31 March	**-**	**101,674**	**101,674**	-	102,215	102,215

The notes on pages 13 to 27 form part of these financial statements

NATIONWIDE SYNDICATIONS LIMITED

Cash flow statement for year ended 31 March 2013

	2013 £'000	2012 £'000
Cash flows generated from operating activities		
(Loss)/profit before tax	**(712)**	4,416
Adjustments for		
Decrease in loans and advances to customers	**10,048**	92,769
Cash generated from operations	**9,336**	97,185
Taxation	**(663)**	(661)
Net cash flows generated from operating activities	**8,673**	96,524
Cash flows used in financing activities		
Amounts received from parent undertaking	**4,576**	14,610
Amounts paid to parent undertaking	**(13,249)**	(111,134)
Net cash flows used in financing activities	**(8,673)**	(96,524)
Net increase in cash	**-**	-
Cash and cash equivalents at the start of the year	**-**	-
Cash and cash equivalents at the end of the year	**-**	-

The notes on pages 13 to 27 form part of these financial statements

1. Statement of accounting policies

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the European Union (EU) and with those parts of the Companies Act 2006 applicable to organisations reporting under IFRSs The financial statements have been prepared under the historical cost convention As stated in the directors' report, the directors consider that it is appropriate to continue to adopt the going concern basis in preparing the accounts Accounting policies have been consistently applied in preparing these financial statements A summary of the significant accounting policies is set out below.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates Further details on critical accounting estimates are given in note 2

Changes in accounting policy

The following IFRS pronouncement, relevant to the Company, was adopted with effect from 1 April 2012

- IAS 1 Presentation of Items of Other Comprehensive Income (early adopted) This change requires the grouping of items presented in the statement of other comprehensive income on the basis of whether they are potentially reclassifiable to the income statement in subsequent periods

Future accounting developments

The following pronouncements, relevant to the Company, have been adopted by the EU but are not effective at 31 March 2013 and therefore have not been applied in preparing these financial statements

Pronouncement	Nature of change	Effective date
IFRS 13 Fair Value Measurement	Replaces guidance on fair value measurement in existing IFRS accounting literature with a single standard The standard provides guidance on the calculation of the fair value of financial and non-financial assets and liabilities and additionally requires enhanced disclosures With the exception of the enhanced disclosures, the new standard is not expected to have a material impact for the Company	Accounting periods (AP) beginning on or after 1 January 2013
IFRS 7 Offsetting Disclosures	Requires additional disclosures to enable users to evaluate the effect of netting arrangements, including rights of set off, of financial assets and liabilities	AP beginning on or after 1 January 2013

1. Statement of accounting policies (continued)

Future accounting developments (continued)

Pronouncement	Nature of change	Effective date
IAS 32 Offsetting Financial Assets and Financial Liabilities	Clarifies existing offsetting criteria The amendment is not expected to have an impact for the Company	AP beginning on or after 1 January 2014

The following pronouncement, relevant to the Company, is neither adopted by the EU nor effective at 31 March 2013 and therefore has not been applied in preparing these financial statements

Pronouncement	Nature of change	Effective date
IFRS 9 Financial Instruments	The new standard addresses Phase 1 of the IASB's project to replace IAS 39 Financial Instruments Recognition and Measurement It requires financial assets to be classified as at amortised cost or at fair value Financial liabilities will be treated as at present under IAS 39 The IASB is currently proposing amendments to the above classification and measurement requirements of IFRS 9 Phase 1 Phases 2 and 3 of IFRS 9 will address the impairment of financial assets and general (micro) hedge accounting respectively IFRS 9 will have a significant impact for the Company, the full extent of which is currently being considered	AP beginning on or after 1 January 2015

a) Interest receivable and interest expense

For financial instruments measured at amortised cost, the effective interest method is used to measure the carrying value of a financial asset or a financial liability and to allocate associated interest income or expense over the relevant period The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability

In calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument (for example, early redemption charges), but does not consider future credit losses The calculation includes all fees received and paid and costs borne, that are an integral part of the effective interest rate, and all other premiums or discounts above or below market rates

1. Statement of accounting policies (continued)

a) Interest receivable and interest expense (continued)

Once a financial asset has been written down as result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss

b) Fees and commissions

Direct fees and costs incremental to generating a financial instrument are deferred and spread as interest receivable or interest expense on an effective interest basis

Other fees and commissions are recognised on the accruals basis as services are provided, or on the performance of a significant act

c) Taxation

Corporation tax payable on profits is recognised as an expense in the period in which profits arise The tax effects of tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised

d) Loans and receivables

The Company's commercial mortgages are classified as loans and receivables Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans are recognised when the funds are advanced to customers Loans and receivables are carried at amortised costs using the effective interest method less provisions for impairment.

e) Impairment of loans and receivables

The Company assesses at each balance sheet date whether, as a result of one or more events that occurred after initial recognition, there is objective evidence that a financial asset or group of financial assets are impaired Evidence of impairment may include

i) indications that the borrower or group of borrowers are experiencing significant financial difficulty
ii) default or delinquency in interest or principal payments
iii) debt being restructured to reduce the burden on the borrower

The Company first assesses whether objective evidence of impairment exists either for assets that are separately significant or individually or collectively for assets that are not separately significant If there is no objective evidence of impairment for an individually assessed asset it is included in a group of assets with similar credit risk characteristics and collectively assessed for impairment

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate The resultant provisions are deducted from the appropriate asset values in the balance sheet

1. Statement of accounting policies (continued)

e) Impairment of loans and receivables (continued)

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Company to reduce any differences between loss estimates and actual loss experience

If, in a subsequent year, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the provision is adjusted and the amount of the reversal is recognised in the statement of comprehensive income

Where a loan is not recoverable, it is written off against the related provision for loan impairment once all the necessary procedures have been completed and the amount of the loss has been determined Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the statement of comprehensive income

In assessing objective evidence of a loss event for commercial loans, the following key indicators are considered

i) contractually due payments exceeding 35 days in arrears
ii) high loan to value or low interest cover ratio
iii) other covenant breaches
iv) loss of significant tenants or other decreases in tenant quality
v) the probability of the borrower entering bankruptcy
vi) restructuring of the debt relating to the borrower's financial difficulties ('forbearance')
vii) local economic conditions (for example, where this impacts on the value of underlying collateral)

Where there is objective evidence of impairment, we assess cash flows on a case by case basis considering the following factors

i) our aggregate exposure to the customer
ii) the viability of the customer's business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations
iii) the amount and timing of expected receipts and recoveries
iv) the likely dividend available on liquidation or bankruptcy
v) the extent of other creditors' claims ranking ahead of Nationwide's, and the likelihood of other creditors continuing to support the borrower
vi) the complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident
vii) the realisable value of security at the expected date of sale (or other credit mitigants) and likelihood of successful repossession
viii) the likely deduction of any costs involved in recovery of amounts outstanding
ix) when available, the secondary market price of the debt

Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired or are considered to be past due

Where a loan is renegotiated on different terms such that it is substantially a different loan, the loan is derecognised and a new loan is recognised at its fair value

1. Statement of accounting policies (continued)

e) Impairment of loans and receivables (continued)

For those loans, for which no individual impairment is recognised, a collective impairment assessment is made, taking account of the following factors

i) size of the loan
ii) arrears status
iii) historical loss experience (adjusted for current market conditions)
iv) estimated period between impairment occurring and the loss being identified ('emergence period')

f) Financial liabilities

Financial liabilities are recognised at amortised cost

g) Derecognition of financial assets and liabilities

Derecognition is the point at which the Company removes an asset or liability from its balance sheet

Financial assets are derecognised when the rights to receive cash flows have expired or where the assets have been transferred and substantially all of the risks and rewards of ownership have been transferred

Financial liabilities are derecognised when the obligation is discharged, cancelled or has expired

h) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition

i) Segmental reporting

The Company has only one business segment and operates wholly in the UK Accordingly, no segmental analysis has been presented in these financial statements

j) Share capital and dividends

Ordinary shares, net of directly attributable issue costs, are classified as equity

Dividends paid on ordinary shares are recognised in equity in the period in which they are paid or, if earlier, approved by the directors

2. Judgements in applying accounting policies and critical accounting estimates

No judgements, estimates or assumptions have been made that are considered critical to the preparation of these financial statements

3. Interest receivable and similar income

Interest receivable and similar income of £24,930,000 (2012 £27,213,000) relates to interest receivable on commercial lending

4. Interest expense and sımılar charges

Interest expense and sımılar charges of £26,079,000 (2012 £23,363,000) relates to ınterest payable on amounts owed to parent undertakıng

5. Fee and commission income

Fee and commıssıon ıncome of £437,000 (2012 £566,000) relates to charges on loans and advances to customers

6. (Loss)/profit before tax

Audıtors remuneratıon of £9,487 (2012 £7,164) was borne by the parent undertakıng, Natıonwıde Buıldıng Socıety

7. Employees

The Company has no employees (2012 nıl) All staff are employed by the Group

8. Remuneration of dırectors

All of the dırectors are also employees or dırectors of the parent undertakıng They receıved no emoluments ın respect of theır servıces to the Company (2012 £nıl)

9. Taxatıon

	2013 £'000	2012 £'000
Current tax		
UK corporatıon tax	**(171)**	1,148
Adjustments ın respect of prıor years	-	(1,112)
Taxatıon	**(171)**	36

The current tax credıt for the year ended 31 March 2013 ıncludes credıts of £171,000 ın respect of group relıef receıvable from the Group and fellow subsıdıary companıes The current tax charge for the year ended 31 March 2012 ıncludes debıts of £871,000 of group relıef as a result of relıevıng current year losses of other Group entıtıes

The actual tax charge dıffers from the theoretıcal amount that would arıse usıng the standard rate of corporatıon tax ın the UK as follows

	2013 £'000	2012 £'000
(Loss)/profit before tax	**(712)**	4,416
Tax calculated at a rate of 24% (2012 26%)	**(171)**	1,148
Adjustments ın respect of prıor years	-	(1,112)
Taxatıon	**(171)**	36

10. Dividends

No dividends were proposed or paid during the year or in the prior year

11. Loans and advances to customers

Loans and advances to customers comprise commercial mortgages to registered social landlords, secured on their underlying assets The remaining maturity from the date of the balance sheet is as follows

	2013	2012
	£'000	£'000
Repayable on demand	**2,196**	2,210
In more than three months but not more than one year	-	5,000
In more than one year but not more than five years	**12,750**	27,750
In more than five years	**651,715**	641,749
	666,661	676,709

12. Amounts owed to parent undertaking

Amounts owed to parent undertaking are repayable from the date of the balance sheet in the ordinary course of business as follows

	2013	2012
	£'000	£'000
Repayable on demand	**163,128**	160,804
In not more than three months	**1,948**	6,342
In more than three months but not more than one year	**4,954**	19,000
In more than one year but not more than five years	**38,596**	39,750
In more than five years	**356,054**	347,457
	564,680	573,353

The amounts owed to parent undertaking comprise two elements The majority comprises of a series of fixed interest rate funding transactions repayable on the specific terms set up to match the expected future repayment profile of fixed rate customer mortgages while the remainder comprises variable interest rate funding and is repayable on demand

All intercompany transactions are entered into on normal market conditions The fixed rate funding is set up to match fixed rate lending undertaken by the Company The variable interest rate is predetermined and linked to LIBOR All intercompany loans are unsecured

13. Share capital

	2013	2012
	£	£
Authorised, issued and fully paid:		
2 Ordinary shares of £1 each	**2**	2

14. Risk management and control

The directors seek to manage appropriately all the risks that are considered significant to the Company The principal risks inherent within the Company's business are lending risk, financial risk and operational risk

A key driver of risk for the Company is the slow growth in the UK economy Growth in the UK economy is expected to remain subdued in the short to medium term, with interest rates expected to match this outlook A continuation of austerity measures and high profile corporate failures could challenge the hitherto resilient UK labour market The potential impacts are as follows

- If interest rates remain low for longer margin pressure may be more protracted, pressuring profitability and retained earnings
- Worsening economic conditions could lead to loan losses due to increasing tenant failures and falling property values
- Worsening economic and market conditions could result in a prolonged closure of some or all wholesale markets, limiting the Group's funding options and exerting pressure on liquidity positions

Lending risk

Lending risk is defined as the risk that a borrower or counterparty fails to pay the interest or to repay the principal on a loan Lending risk arises from commercial lending

Lending risk includes all aspects of credit risk including concentration risk and extension risk

Lending risk is managed at Group level Comprehensive credit risk management methods and processes are established as part of the Group's overall governance framework to measure, mitigate and manage credit risk within its risk appetite As a mutual, the Group maintains a conservative approach to risk as shown by the quality of its balance sheet as documented in the balance sheet section of the Business Review of the Group Annual Report and Accounts Credit risk portfolios are managed within concentration limits and are subjected to stress testing and scenario analysis to simulate potential outcomes and calculate their associated impact

Credit Risk

Maximum credit risk exposure at 31 March 2013 was £749 0 million (2012 £764 1 million) which includes the carrying value of all financial assets and commitments. These commitments represent agreements to lend in the future, subject to certain conditions

The Company had not incurred any credit losses at the balance sheet date and therefore no provisions were provided There is no current expectation that any credit loss will be incurred on mortgages held

All lending is to UK registered social landlords and is only secured on UK properties The geographical split has not changed significantly over the year ended 31 March 2013 and is shown below

Geographical concentration	**2013**		2012	
	£'000	**%**	£'000	%
England	**653,970**	**98**	663,917	98
Scotland	**12,691**	**2**	12,792	2
	666,661	**100**	676,709	100

14. Risk management and control (continued)

Lending risk (continued)

Credit Risk (continued)

In terms of counterparty concentration, the largest single customer, including undrawn commitments, represents 24% (2012 24%) of the total book A total of 5 customers, including undrawn commitments, represent 81% (2012 80%) of the total book. There has not been a history of arrears on the loans

Credit performance

Credit risk is managed at Group level The Group adopts robust credit management policies and processes designed to recognise and manage the risks arising, or likely to arise from the portfolio All commercial credit facilities are reviewed annually as a minimum and the Group has detailed processes to identify customers exhibiting, or who may be vulnerable to, financial distress and which prompt more frequent review, where appropriate

Further details of the Nationwide Group's commercial credit risk management and commercial lending credit performance policies are included in the Risk Management Report in the Group Annual Report and Accounts

Performance

The table below provides further information on the commercial loan portfolio by payment due status

Impairment	**2013** £'000	**%**	2012 £'000	%
Not impaired				
Neither past due nor impaired	**561,427**	**84**	676,709	100
Past due up to 3 months but not impaired	**105,234**	**16**	-	-
	666,661	**100**	676,709	100

The status past due up to three months but not impaired includes any asset where a payment due under strict contractual terms is received late or missed The amount included is the entire financial asset rather than just the payment overdue

All arrears at 31 March 2013 relate to one loan and all overdue payments were received subsequent to the year end

Collateral

A borrower level analysis by loan to value ratio of the Company's portfolio is provided below

14. Risk management and control (continued)

Lending risk (continued)

Credit Risk (continued)

The LTV ratio is calculated by using the on balance sheet carrying amount of the loan divided by the most recent independent external collateral valuation Updated valuations are obtained inline with the provisions of the loan agreement

LTV Band	2013		2012	
	£'000	%	£'000	%
<50%	22,100	3	22,433	3
50% - 70%	224,923	34	228,313	34
70% - 90%	374,470	56	380,114	56
90% - 100%	45,168	7	45,849	7
	666,661	100	676,709	100

Financial risk

The principal types of financial risk inherent within the Company's business are liquidity and funding risk and market risk

Financial risk is managed at Group level within a framework of approved assets, currencies and capital instruments supported by detailed limits set by either the Board or the Assets and Liabilities Committee (ALCO) under its delegated mandate The Nationwide Board retains responsibility for approval of derivative classes that may be used for market risk management purposes, restrictions over the use of such derivative classes and for asset classes that may be classified as liquidity

Liquidity and funding risk

Liquidity risk is the risk that the Company is unable to maintain all of the following capabilities

- to meet its financial obligations as they fall due (including any unexpected adverse cash flow)
- to smooth out the effect of maturity mismatches, or
- to maintain public confidence

Funding risk is the risk associated with the impact on the Company's cash flow from higher funding costs or the inability to access funding markets

The Company has minimal liquidity and funding risk provided the Company's parent, Nationwide Building Society, continues to fund the Company's activities in accordance with its current funding arrangements Assurance as to the continuance of these arrangements forms part of the going concern basis adopted in preparing the financial statements.

14. Risk management and control (continued)

Liquidity and funding risk (continued)

The Group's management of liquidity and funding risk aims to ensure that at all times there are sufficient liquid resources, both as to amount and quality, to cover cash flow mismatches and fluctuations in funding, to retain public confidence and to enable it to meet financial obligations as they fall due, even during episodes of stress This is achieved through maintaining a prudent level of high quality liquid assets, through management and stress testing of business cash flows and through management of funding facilities The Group liquidity and funding risk approach is approved by ALCO and is reviewed by the Nationwide Group Board as part of the annual approval of the Individual Liquidity Adequacy Assessment (ILAA) document

The Nationwide Group Board is responsible for setting limits for the minimum level of liquidity resources A series of liquidity stress tests are performed daily which include stressed assumptions such as the outflows we would see if we had a credit rating downgrade, a proportion of retail funding balances being lost and the volume of pipeline mortgages which are expected to complete The stress tests are run alongside our calculation of the regulatory liquidity requirement (ILG) and they represent our view on liquidity risks and therefore determine the required levels of liquidity The Board has also set limits for the funding mix of the balance sheet

ALCO is responsible for setting more detailed limits within the context of overall Board limits, including the level and maturity profile of funding, and for monitoring the composition of the Group balance sheet Wholesale and retail funding maturities are monitored to ensure that there is not excessive concentration in future maturities This enhances the ability of the Group to refinance maturing liabilities A consolidated cash flow forecast is maintained on an ongoing basis and reviewed by the Weekly Trading Committee (WTC) which has responsibility for the monitoring of liquidity measures and limits

The table below analyses the carrying value of financial assets and financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date

At 31 March 2013 – Residual maturity	Repayable on demand £'000	Up to 3 months £'000	3 - 12 months £'000	1 - 5 years £'000	More than 5 years £'000	Total £'000
Financial assets						
Loans and advances to customers	2,196	-	-	12,750	651,715	666,661
Total financial assets	2,196	-	-	12,750	651,715	666,661
Financial liabilities						
Amounts owed to parent undertaking	163,128	1,948	4,954	38,596	356,054	564,680
Total financial liabilities	163,128	1,948	4,954	38,596	356,054	564,680
Net liquidity gap	(160,932)	(1,948)	(4,954)	(25,846)	295,661	101,981

14. Risk management and control (continued)

Liquidity and funding risk (continued)

At 31 March 2012 – Residual maturity	Repayable on demand £'000	Up to 3 months £'000	3 - 12 months £'000	1 - 5 years £'000	More than 5 years £'000	Total £'000
Financial assets						
Loans and advances to customers	2,210	-	5,000	27,750	641,749	676,709
Total financial assets	2,210	-	5,000	27,750	641,749	676,709
Financial liabilities						
Amounts owed to parent undertaking	160,804	6,342	19,000	39,750	347,457	573,353
Total financial liabilities	160,804	6,342	19,000	39,750	347,457	573,353
Net liquidity gap	(158,594)	(6,342)	(14,000)	(12,000)	294,292	103,356

The analysis above excludes non-financial assets and non-financial liabilities

The following is an analysis of gross contractual cash flows payable under financial liabilities

Gross contractual cash flows – 31 March 2013	**Repayable on demand £'000**	**Up to 3 months £'000**	**3 - 12 months £'000**	**1 - 5 years £'000**	**More than 5 years £'000**	**Total £'000**
Amounts owed to parent undertaking	**163,128**	**2,541**	**6,718**	**47,492**	**361,328**	**581,207**
Off balance sheet commitments	**82,388**	**-**	**-**	**-**	**-**	**82,388**

Gross contractual cash flows – 31 March 2012	Repayable on demand £'000	Up to 3 months £'000	3 - 12 months £'000	1 - 5 years £'000	More than 5 years £'000	Total £'000
Amounts owed to parent undertaking	160,804	7,194	21,477	51,983	354,689	596,147
Off balance sheet commitments	87,398	-	-	-	-	87,398

The analysis of gross contractual cash flows above differs from the analysis of residual maturity due to the inclusion of interest accrued at current rates, for the average period until maturity on the amounts outstanding at the balance sheet date

Market risk

The main market risk faced by the Company is interest rate risk, this is the risk that the value of, or net income arising from, the Company's assets and liabilities changes as a result of changes to interest rates

14. Risk management and control (continued)

Market risk (continued)

Interest rate risk

Interest rate risk arises from the mortgages that the Company offer Interest rate risks are offset against each other, and the remaining net exposure to interest rate risk is managed on a continuous basis, within parameters set at Group level by ALCO, using a combination of derivatives and cash instruments (such as loans, deposits and bonds) Further details of the Group's interest rate risk monitoring processes are included in the Group Annual Report and Accounts

Exposure to interest rate risk is not a material risk to the Company Consequently individual sensitivity analysis has not been performed

Operational risk

The Company defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events Operational risk encompasses transformation risk and is managed on a Group basis

This definition is further refined into 10 key risk and control policy areas for the Group·

Risk category	**Definition**
Business continuity	The risk of damage as a result of loss or failure arising from the Company being unable to continue business operations in the event of significant operational disruption or arising from loss or damage to physical assets or staff from a natural disaster or other events
Financial crime	The risk that we fail to maintain systems and controls that are effective in preventing the risk that they might be used to further financial crime
Financial reporting, accounting, management and taxation	The risk of damage as a result of loss or failure arising from the operational risks associated with the publication of the financial statements, adherence to accounting standards, compliance with tax laws and codes, maintenance of the general ledger and management of financial resources
Information management	The risk of damage as a result of loss or failure arising from failure to ensure accuracy and completeness of data and information aligned with agreed business standards And/or failure to provide accessibility of data and information required for key business processes, key decision making and regulatory and compliance obligations
Information security	The risk of damage to the Group, its customers and employees as a result of loss or failure arising from the inadequate design or failure to apply appropriate security controls
Information technology	The risk of damage as a result of loss or failure arising from technology services not supporting business objectives due to performance, availability and/or functionality

14. Risk management and control (continued)

Operational risk (continued)

Risk category	Definition
People	The risk of damage as a result of loss or failure due to our inability to recruit, develop, reward and retain the required people resources
Premises and physical assets	The risk of damage as a result of loss or failure arising from criminal prosecution, injury or losses arising as a consequence of a failure to ensure that premises and physical assets are fully compliant, effectively maintained and in good working order, or that they are adequately secured and protected
Third party	The risk of damage as a result of loss or failure arising from buying decisions (including outsourcing, off-shoring and joint ventures, acquisitions or set up of a separate company), setting up a contract, management of a third party and uncontrolled spend or buying
Transformation	The risk of damage as a result of loss or failure arising from formally managed project activities that seek to deliver change in the Company's capabilities

Fair value of financial assets and liabilities

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Company balance sheet at fair value

	2013		2012	
	Carrying value £'000	**Fair value £'000**	Carrying value £'000	Fair value £'000
Financial assets				
Loans and advances to customers	**666,661**	**778,621**	676,709	753,210
Financial liabilities				
Amounts owed to parent undertaking	**564,680**	**676,640**	573,353	649,854

Loans and advances to customers

Loans and advances to customers are net of provisions for impairment The estimated fair value of loans and advances to customers represents the discounted amount of estimated future cash flows expected to be received based on expectations of future interest rates and future loan repayment profiles Discount rates for fixed rate loans are based on the market offer rates currently available for equivalent fixed rate products The fair value estimations do not incorporate adjustments for future credit risk, however, incurred loss provisions are deducted from the fair value amounts

Amounts owed to parent undertakings

The estimated fair value of variable rate loans to parent undertakings is equal to the carrying value of the loans as the current interest rates charged are considered to be equal to market rates The estimated fair value of fixed rate loans to parent undertakings is calculated based on expected customer behaviour on fixed rate lending and expected future customer loan repayment profiles The Company takes out fixed rate borrowing from the Group to finance fixed rate lending to customers

15. Related party transactions

Key management personnel

Key management personnel comprise the directors of the Company and of the parent undertaking, Nationwide Building Society Total compensation for key management personnel for the year totalled £nil (2012 £nil)

Transactions with key management personnel

There were no other transactions with key management personnel (2012. £nil).

Transactions with parent undertaking

The parent undertaking and ultimate controlling party, Nationwide Building Society is a related party to the Company Transactions are entered into with related parties in the normal course of business These included amounts owed to parent undertaking

Movements on amounts owed to the parent undertaking during the year are set out below

	2013	2012
	£'000	£'000
At 1 April	573,353	669,877
Loan advances	**4,576**	14,610
Loan repayments	**(13,249)**	(111,134)
At 31 March	**564,680**	573,353

During the year £26 1 million of interest was charged (2012 £23 4 million) on amounts owed to parent undertaking

16. Capital management

Capital comprises the retained earnings and share capital Capital is managed on a Group basis

The Group is subject to the capital requirements imposed by its regulator, the Prudential Regulation Authority (PRA), formerly the Financial Services Authority (FSA). During the year the Group complied with the capital requirements set by the PRA

Further information on the Group's capital position can be viewed in the Business Review of the Group Annual Report and Accounts, which can be obtained from the address below or at **nationwide.co.uk**

17. Parent undertaking and ultimate controlling entity

The Company is a wholly owned subsidiary of Nationwide Building Society, its immediate and ultimate parent and controlling party, which is registered in England and Wales.

Nationwide Building Society is registered at Nationwide House, Pipers Way, Swindon, Wiltshire, SN38 1NW The Group Annual Report and Accounts can be obtained from this address or at **nationwide.co.uk.**