

Pls Sign  
Registered Number: 2537970

**Nationwide Syndications Limited**

**Annual Report and Financial Statements for the year ended 31 March 2014**

THURSDAY



\*A3HOF18I\*

A23

02/10/2014

#185

COMPANIES HOUSE

## **NATIONWIDE SYNDICATIONS LIMITED**

### **Annual report and financial statements for the year ended 31 March 2014**

---

<b>Contents</b>	<b>Page</b>
Directors and company information	2
Directors' report for the year ended 31 March 2014	3
Statement of directors' responsibilities	5
Strategic report for the year ended 31 March 2014	6
Independent auditors' report	8
Statement of comprehensive income for the year ended 31 March 2014	10
Balance sheet as at 31 March 2014	11
Statement of changes in equity for the year ended 31 March 2014	12
Cash flow statement for the year ended 31 March 2014	13
Notes to the financial statements for the year ended 31 March 2014	14

## **NATIONWIDE SYNDICATIONS LIMITED**

---

### **Directors and company information**

#### **Directors**

B Glover ✓  
H Leatherland ✓  
M Rennison ✓  
J Allcock ✓

#### **Company secretary**

J Lindsey

#### **Independent auditors**

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
7 More London Riverside  
London  
SE1 2RT

#### **Registered office**

Nationwide House  
Pipers Way  
Swindon  
Wiltshire  
SN38 1NW

#### **Registered number**

2537970

## **NATIONWIDE SYNDICATIONS LIMITED**

---

### **Directors' report for the year ended 31 March 2014**

The directors have pleasure in presenting their Annual Report and the audited Financial Statements for the year ended 31 March 2014.

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.

#### **Principle 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.

#### **Results and dividends**

The loss after tax was £3.6 million (2013: £0.5 million). No dividends were proposed or paid during the year or in the prior year.

#### **Strategic Report, future developments and key performance indicators**

The Group's business and future plans are reviewed in the Strategic Report. This report also includes the Group's principal key performance indicators.

#### **Employees**

The Company has no employees (2013: nil). All staff are employed by the Group.

#### **Environment**

The Group remains committed to managing our environmental impacts. We have created a bold vision to be a leader in environmental sustainability in the UK financial services sector. To deliver this vision we have made a range of commitments across our business to reduce the impacts of our own activities, develop solutions with our suppliers and help our members save energy at home.

Further details of our activities can be found in the Group's citizenship strategy report in the Group Annual Report and Accounts, and on Nationwide Building Society's website at [nationwide.co.uk](http://nationwide.co.uk) (citizenship section).

#### **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 itself and its directors.

## **NATIONWIDE SYNDICATIONS LIMITED**

---

### **Directors' report for the year ended 31 March 2014 (continued)**

#### **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  
M Webster (resigned 1 April 2014)  
M Rennison  
J Allcock (appointed 1 April 2014)

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.

#### **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.

#### **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.

## **NATIONWIDE SYNDICATIONS LIMITED**

### **Directors' report for the year ended 31 March 2014 (continued)**

#### **Statement of directors' responsibilities**

The directors are responsible for preparing the strategic report, 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.

#### **Independent auditors**

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

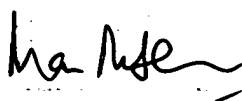
#### **Statement of disclosure of information to auditors**

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

 **MARK RANNISON**

**Director**

26 September 2014

All financial information given in this strategic report is taken solely from the statutory results prepared in accordance with IFRS.

**Business review**

Loss before tax has increased to £4.7 million (2013: loss before tax of £0.7 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. 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.

The retained earnings carried forward are £98.0 million (2013: £101.7 million).

**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 key performance indicators in relation to the Groups strategic goals are set out below;

- Be the clear number 1 for customer satisfaction
- Protect and grow our market shares in: mortgages, savings and current accounts
- Grow and deepen our relationships with our members
- Engage and enable our people to deliver an exceptional member service
- Run a low risk business model
- Deliver optimal levels of profitability
- Ensure capital strength with market leading CET 1 ratio and leverage ratio above PRA requirements
- Deliver operational efficiency and prudent cost management, targeting a cost income ratio of 45-50%

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.

## **NATIONWIDE SYNDICATIONS LIMITED**

### **Strategic report for the year ended 31 March 2014 (continued)**

---

#### **Risk overview**

Overall the outlook is encouraging and credit exposures are performing well. Market sentiment has become more positive, further increasing our confidence in the business. At a Group level this year we have also made steady improvements to our controls and our frameworks for managing risks.

Although the condition of the business has strengthened, risks remain. Current positive market conditions may reverse, driven either by UK or overseas events; or resurgent competition may put pressure on our operating margins.

It is also almost certain that regulators' and customers' expectations will increase, and their tolerance for failure will reduce. The pace of change and the standards of consistency now required present conduct and operational risks.

In common with other retail financial services organisations, our business model results in a number of inherent risks which are continuously monitored and managed. These are categorised as follows:

- Lending risk
- Financial risk
- Operational risk
- Customer and compliance risk
- Strategic risk, and
- Model risk

The risk management objectives and policies which correspond to these risks and uncertainties are described in note 14.

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



MARK RENNISON

**Director**

26 September 2014



## **NATIONWIDE SYNDICATIONS LIMITED**

### **Independent auditors' report to the members of Nationwide Syndications Limited**

---

#### **Report on the financial statements**

##### **Our opinion**

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the company's affairs as at 31 March 2014 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say in the remainder of this report.

##### **What we have audited**

The financial statements, which are prepared by Nationwide Syndications Limited, comprise:

- balance sheet as at 31 March 2014;
- statement of comprehensive income for the year then ended;
- cash flow statement for the year then ended;
- statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

##### **What an audit of financial statements involves**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). 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 (the "Annual Report") to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## **NATIONWIDE SYNDICATIONS LIMITED**

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

#### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

#### **Other matters on which we are required to report by exception**

##### **Adequacy of accounting records and information and explanations received**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

#### **Directors' remuneration**

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

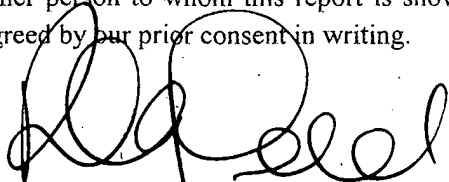
#### **Responsibilities for the financial statements and the audit**

##### **Our responsibilities and those of the directors**

As explained more fully in the Directors' Responsibilities Statement, 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 ISAs (UK & 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.



Richard Oldfield (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
September 2014

## Statement of comprehensive income for the year ended 31 March 2014

	Notes	2014 £'000	2013 £'000
Interest receivable and similar income	3	23,843	24,930
Interest expense and similar charges	4	(29,050)	(26,079)
<b>Net interest expense</b>		<b>(5,207)</b>	<b>(1,149)</b>
Fee and commission income	5	468	437
<b>Loss before tax</b>	6	<b>(4,739)</b>	<b>(712)</b>
Taxation	9	1,090	171
<b>Loss after tax</b>		<b>(3,649)</b>	<b>(541)</b>
<b>Total comprehensive expense</b>		<b>(3,649)</b>	<b>(541)</b>

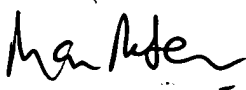
The notes on pages 14 to 34 form part of these financial statements.

**NATIONWIDE SYNDICATIONS LIMITED****Balance sheet as at 31 March 2014**

	Notes	2014 £'000	2013 £'000
<b>Assets</b>			
<b>Non current assets</b>			
Loans and advances to customers	11	623,279	664,465
<b>Current assets</b>			
Loans and advances to customers	11	1,827	2,196
Group relief asset		1,260	-
Current tax assets		-	670
<b>Total assets</b>		<b>626,366</b>	<b>667,331</b>
<b>Liabilities</b>			
<b>Non current liabilities</b>			
Amounts owed to parent undertaking	12	333,840	394,650
<b>Current liabilities</b>			
Amounts owed to parent undertaking	12	194,501	170,030
Group relief liabilities		-	977
<b>Total liabilities</b>		<b>528,341</b>	<b>565,657</b>
<b>Equity</b>			
Share capital	13	-	-
Retained earnings		98,025	101,674
<b>Total equity</b>		<b>98,025</b>	<b>101,674</b>
<b>Total equity and liabilities</b>		<b>626,366</b>	<b>667,331</b>

The notes on pages 14 to 34 form part of these financial statements.

The financial statements were approved by the Board of directors on 26 September 2014.

  
Director

MARK RENISON

**NATIONWIDE SYNDICATIONS LIMITED****Statement of changes in equity for the year ended 31 March 2014**

	Share capital £'000	2014 Retained earnings £'000	Total equity £'000	Share capital £'000	2013 Retained earnings £'000	Total equity £'000
At 1 April	-	101,674	101,674	-	102,215	102,215
Total comprehensive expense	-	(3,649)	(3,649)	-	(541)	(541)
<b>At 31 March</b>	-	<b>98,025</b>	<b>98,025</b>	-	101,674	101,674

The notes on pages 14 to 34 form part of these financial statements.

**NATIONWIDE SYNDICATIONS LIMITED****Cash flow statement for year ended 31 March 2014**

---

	2014 £'000	2013 £'000
<b>Cash flows generated from operating activities</b>		
Loss before tax	(4,739)	(712)
Adjustments for:		
Decrease in loans and advances to customers	41,555	10,048
<b>Cash generated from operations</b>	<b>36,816</b>	<b>9,336</b>
Taxation	(477)	(663)
<b>Net cash flows generated from operating activities</b>	<b>36,339</b>	<b>8,673</b>
<b>Cash flows used in financing activities</b>		
Amounts received from parent undertaking	37,902	4,576
Amounts paid to parent undertaking	(74,241)	(13,249)
<b>Net cash flows used in financing activities</b>	<b>(36,339)</b>	<b>(8,673)</b>
<b>Net increase in cash</b>	<b>-</b>	<b>-</b>
Cash and cash equivalents at the start of the year	-	-
<b>Cash and cash equivalents at the end of the year</b>	<b>-</b>	<b>-</b>

The notes on pages 14 to 34 form part of these financial statements.

## **NATIONWIDE SYNDICATIONS LIMITED**

### **Notes to the financial statements for the year ended 31 March 2014**

#### **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 IFRS. 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 Financial Statements. 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 pronouncements, relevant to the Company, were adopted with effect from 1 April 2013:

- **IFRS 13 Fair Value Measurement:** The standard has replaced guidance on fair value measurement in previous IFRS accounting publications with a single standard. The standard, which is required to be applied prospectively, 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 has not had a material impact for the Company.
- **Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities:** The amendments require disclosure of the effect or potential effects of netting arrangements on an entity's financial position including financial instruments that are subject to an enforceable master netting arrangement or similar agreement. The new standard has not had a material impact for the Company.

##### **Future accounting developments**

The following pronouncements, relevant to the Company, have been adopted by the EU but are not effective at 31 March 2014 and therefore have not been applied in preparing these financial statements:

<b>Pronouncement</b>	<b>Nature of change</b>	<b>Effective date</b>
Recoverable amount disclosures for non-financial assets (Amendments to IAS 36)	The amendment reduces the circumstances in which the recoverable amount of assets or cash generating units is required to be disclosed.  The amendment is not expected to have an impact for the Company.	Accounting Periods (AP) beginning on or after 1 January 2014
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

**NATIONWIDE SYNDICATIONS LIMITED****Notes to the financial statements for the year ended 31 March 2014 (continued)****1 Statement of accounting policies (continued)****Future accounting developments (continued)**

The following pronouncements, relevant to the Company, are neither adopted by the EU nor effective at 31 March 2014 and therefore have not been applied in preparing these financial statements:

<b>Pronouncement</b>	<b>Nature of change</b>	<b>Effective date</b>
IFRS 9 Financial Instruments	<p>The new standard replaces IAS 39. Changes include classification and measurement of the Company's financial assets and liabilities, the recognition of impairment, and hedge accounting.</p> <p>The revised classification and measurement approach will lead to the Company's financial assets being re-classified as either amortised cost, fair value through other comprehensive income (OCI), or fair value through the income statement. Financial liabilities will in most cases be accounted for as at present.</p> <p>The impairment of financial assets under IFRS 9 will be based on expected credit losses rather than incurred credit losses as at present.</p> <p>A number of the proposals are not expected to be finalised until later in 2014. It is therefore not yet possible to estimate the financial effects of the new standard, although it is expected to have a significant impact for the Company, in line with the wider industry.</p>	AP beginning on or after 1 January 2018 (to be confirmed by the IASB later in 2014)
Annual improvements to IFRSs 2010 - 2012 cycle	Several small amendments with no significant impact for the Company.	AP beginning on or after 1 July 2014
Annual improvements to IFRSs 2011 – 2013 cycle	Several small amendments with no significant impact for the Company.	AP beginning on or after 1 July 2014



## **NATIONWIDE SYNDICATIONS LIMITED**

---

### **Notes to the financial statements for the year ended 31 March 2014 (continued)**

#### **1 Statement of accounting policies (continued)**

##### **a) Interest receivable and interest expense**

Interest due on the outstanding loan with the Company's parent undertaking is calculated monthly and capitalised on the balance sheet against the loan. The interest charged is treated as an expense in the statement of comprehensive income.

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.

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.

## **NATIONWIDE SYNDICATIONS LIMITED**

### **Notes to the financial statements for the year ended 31 March 2014 (continued)**

---

#### **1 Statement of accounting policies (continued)**

##### **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.

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).

## **NATIONWIDE SYNDICATIONS LIMITED**

### **Notes to the financial statements for the year ended 31 March 2014 (continued)**

---

#### **1 Statement of accounting policies (continued)**

##### **e) Impairment of loans and receivables (continued)**

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

- i) our 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.

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) Fair value of financial assets and liabilities**

IFRS 13 requires an entity to classify financial instruments held at fair value and those not measured at fair value but for which the fair value is disclosed according to a hierarchy that reflects the significance of observable market inputs in calculating those fair values. The three levels of the fair value hierarchy are defined below:

##### ***Level 1 – Valuation using quoted market prices***

Financial instruments are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price reflects actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

## **NATIONWIDE SYNDICATIONS LIMITED**

### **Notes to the financial statements for the year ended 31 March 2014 (continued)**

---

#### **1 Statement of accounting policies (continued)**

##### **f) Fair value of financial assets and liabilities (continued)**

###### ***Level 2 - Valuation technique using observable inputs***

Financial instruments classified as Level 2 have been valued using models whose inputs are observable in an active market.

###### ***Level 3 - Valuation technique using significant unobservable inputs***

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price. An input is deemed significant if it is shown to contribute more than 10% to the valuation of a financial instrument. Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

##### **g) Financial liabilities**

Financial liabilities are recognised at amortised cost.

##### **h) 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.

##### **i) 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.

##### **j) 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.

##### **k) 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.

## **NATIONWIDE SYNDICATIONS LIMITED**

### **Notes to the financial statements for the year ended 31 March 2014 (continued)**

#### **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 £23,843,000 (2013: £24,930,000) relates to interest receivable on commercial lending.

#### **4 Interest expense and similar charges**

Interest expense and similar charges of £29,050,000 (2013: £26,079,000) relates to interest payable on amounts owed to parent undertaking.

#### **5 Fee and commission income**

Fee and commission income of £468,000 (2013: £437,000) relates to charges on loans and advances to customers.

#### **6 Loss before tax**

Auditors remuneration of £9,743 (2013: £9,487) was borne by the parent undertaking, Nationwide Building Society.

#### **7 Employees**

The Company has no employees (2013: nil). All staff are employed by the Group.

#### **8 Remuneration of directors**

All of the directors are also employees or directors of the parent undertaking. They received no emoluments in respect of their services to the Company (2013: £nil).

#### **9 Taxation**

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Current tax:		
UK corporation tax	<b>(1,090)</b>	<b>(171)</b>
<b>Taxation</b>	<b>(1,090)</b>	<b>(171)</b>

The current tax credit for the year ended 31 March 2014 includes credits of £1,090,000 (2013: £171,000) in respect of group relief receivable from other Group companies.

**NATIONWIDE SYNDICATIONS LIMITED****Notes to the financial statements for the year ended 31 March 2014 (continued)****9 Taxation (continued)**

The actual tax charge equates to the theoretical amount that would arise using the standard rate of corporation tax in the UK as follows:

	2014 £'000	2013 £'000
Loss before tax	(4,739)	(712)
Tax calculated at a rate of 23% (2013: 24%)	(1,090)	(171)
<b>Taxation</b>	<b>(1,090)</b>	<b>(171)</b>

**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:

	2014 £'000	2013 £'000
Repayable on demand	1,827	2,196
In more than three months but not more than one year	1,750	-
In more than one year but not more than five years	11,000	12,750
In more than five years	610,529	651,715
	<b>625,106</b>	<b>666,661</b>

**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:

	2014 £'000	2013 £'000
Repayable on demand	186,097	163,128
In not more than three months	1,608	1,948
In more than three months but not more than one year	6,796	4,954
In more than one year but not more than five years	44,059	38,596
In more than five years	289,781	356,054
	<b>528,341</b>	<b>564,680</b>

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.

**NATIONWIDE SYNDICATIONS LIMITED****Notes to the financial statements for the year ended 31 March 2014 (continued)****12 Amounts owed to parent undertaking (continued)**

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**

	2014 £	2013 £
<b>Authorised, issued and fully paid:</b>		
2 Ordinary shares of £1 each	2	2

**14 Risk management and control****Principal risks**

Whilst the Company accepts that all of its business activities involve risk, it seeks to protect its members by managing the risks that arise from its activities appropriately. The principal risks inherent within the business are described in the table below:

<b>Risk category</b>	<b>Definition</b>
Lending	The risk that a borrower or counterparty fails to pay interest or to repay principal on a loan or other financial instrument (e.g. a bond) on time. Lending risk also encompasses extension risk and concentration risk.
Financial	The risk of the Company having inadequate earnings, cash flow or capital to meet current or future requirements and expectations. It includes loss or damage to the earnings capacity, market value or liquidity of the Company, arising from mismatches between the assets, funding and other commitments, which may be exposed by changes in market rates, market conditions or the Company's own credit profile.
Operational	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
Customer and compliance	The risk that the organisation fails to design and implement operational arrangements, systems and controls such that it can maintain legal and regulatory compliance, deliver fair customer outcomes and achieve a positive experience for customers.
Strategic	The risk of significant loss or damage arising from business decisions that impact the long-term interests of the membership, or from an inability to adapt to external developments.

In addition to these principal categories of risk, model risk, which the Company is exposed to, is managed under a separate framework across all risk categories and business areas where risk models are used.

<b>Risk category</b>	<b>Definition</b>
Model risk	The risk that an adverse outcome occurs as a direct result of weaknesses or failures in the design or use of a model. The adverse consequences include financial loss, poor business or strategic decision making, or damage to the Company's reputation.

## **NATIONWIDE SYNDICATIONS LIMITED**

---

### **Notes to the financial statements for the year ended 31 March 2014 (continued)**

#### **14 Risk management and control (continued)**

##### **Principal risks (continued)**

###### **Top emerging risks**

The current economic environment poses three main risks to the Company's continuing ability to manage financial and lending risks – the housing price bubble bursting, resurgent competition and wider global financial developments. The potential impacts are as follows:

- The housing price bubble bursting, accompanied by a reversal in the UK economy, could increase credit losses significantly.
- Resurgent competition could squeeze core margins below sustainable levels.
- Wider global financial developments, for example the re-emergence of tensions within the Eurozone, might increase funding costs.

###### **Evolving with the new regulatory environment**

Dealing with regulation is an unavoidable part of running a modern financial institution. At Group level, the Group's business model and member focus puts it in a good position to meet the regulator's expectations of conduct and the Group has seen proportionately less enforcement action and customer redress than its competitors. There are two key areas in the regulatory environment that pose a risk to achievement of the Group's goals:

- Increasing standards for conduct could restrict the Group's channels, services or proposition.
- Regulatory standards, for example the minimum leverage ratio, could increase.

Further analysis of the impact can be found within the Business and Risk Report of the Group Annual Report and Accounts.

##### **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 or other financial instrument. Lending risk arises from residential mortgages and 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, the Group's lending 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.



**NATIONWIDE SYNDICATIONS LIMITED****Notes to the financial statements for the year ended 31 March 2014 (continued)****14 Risk management and control (continued)****Credit Risk**

Maximum credit risk exposure at 31 March 2014 was £668.8 million (2013: £749.0 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. Such commitments are cancellable by the Company, subject to notice requirements, and given their nature are not expected to be drawn down to the full level of exposure.

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 2014 and is shown below:

<b>Geographical concentration</b>	<b>2014</b>		<b>2013</b>	
	<b>£'000</b>	<b>%</b>	<b>£'000</b>	<b>%</b>
England	612,998	98	653,970	98
Scotland	12,108	2	12,691	2
	<b>625,106</b>	<b>100</b>	<b>666,661</b>	<b>100</b>

In terms of counterparty concentration, the largest single customer, including undrawn commitments, represents 29% (2013: 24%) of the total book. A total of 5 customers, including undrawn commitments, represent 88% (2013: 81%) of the total book. There has not been a history of arrears on the loans.

**Loan to value**

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

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 in line with the provisions of the loan agreement.

<b>LTV Band</b>	<b>2014</b>		<b>2013</b>	
	<b>£'000</b>	<b>%</b>	<b>£'000</b>	<b>%</b>
<50%	5,505	1	22,100	3
50% - 70%	77,137	12	224,923	34
70% - 90%	542,464	87	374,470	56
90% - 100%	-	-	45,168	7
	<b>625,106</b>	<b>100</b>	<b>666,661</b>	<b>100</b>

## NATIONWIDE SYNDICATIONS LIMITED

### Notes to the financial statements for the year ended 31 March 2014 (continued)

#### 14 Risk management and control (continued)

##### Credit Risk (continued)

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

Impairment	2014		2013	
	£'000	%	£'000	%
<b>Not impaired</b>				
Neither past due nor impaired	537,536	86	561,427	84
Past due up to 3 months but not impaired	87,570	14	105,234	16
	<b>625,106</b>	<b>100</b>	<b>666,661</b>	<b>100</b>

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

Arrears at 31 March 2014 relate to two loans and all overdue payments were received subsequent to the year end. Arrears at 31 March 2013 related to one loan and all overdue payments were received subsequent to the year end.

##### Managing credit risks

Credit risk is managed at a Group level. The Group's approach is to reduce credit risk through sound underwriting. However, at times, despite this customers do face financial difficulty and in these cases the Group seeks to find a solution to mitigate losses to the Group and to support residential mortgage customers. The options offered to customers are classified into three categories:

- Change in terms
- Forbearance
- Repair.

##### Change in terms

Changes in terms relate to a concession or permanent change, which results in amended monthly cash flows. The option available is an interest only conversion.

Interest only conversions allowed performing customers who met certain criteria to apply for an interest only conversion, normally reducing their monthly commitment. Following tightening of the Group's policy, the facility was completely withdrawn in March 2012, although a temporary interest only arrangement may be available under forbearance. The performance of interest only conversions is in line with that of the wider portfolio and therefore no adjustment is made to the Group's provisioning methodology for these loans.

##### *Forbearance*

The only forbearance option which the Group offers customers in financial distress is an interest only concession. Interest only concessions are offered to customers on a temporary basis with formal periodic review subject to an affordability assessment. The concession allows the customer to reduce monthly payments to cover interest only, typically for six months, and if made, the arrears status of the account will not increase, and will remain as at the beginning of the concession.

**14 Risk management and control (continued)**

**Credit Risk (continued)**

*Repair*

When a customer emerges from financial difficulty, the Company offers the ability to capitalise arrears, resulting in the account being repaired. Customers are only permitted to capitalise arrears where they have demonstrated their ability to meet a repayment schedule at normal commercial terms for a continuous six month period, or if they are able to overpay such that six months' payments are made in a four month period. During the year no accounts (2013: 2 accounts) had an arrears capitalisation. Once capitalised, loans are categorised as not impaired as long as contractual repayments are maintained.

**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 ALCO under its delegated mandate.

**Liquidity and funding risk**

Liquidity risk is the risk that the Company is unable to:

- to meet or settle its financial obligations as they fall due
- maintain public and stakeholder confidence.

Funding risk is the risk that the Group is unable to realise assets or otherwise raise funds on reasonable terms and/or within reasonable timescales.

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.

The Company ensures it has sufficient resources to meet day-to-day cash flow needs and to meet internal and regulatory liquidity requirements. These requirements are calibrated to ensure the Company has sufficient liquidity, both as to amount and quality, to meet financial obligations as they fall due during a range of stress scenarios across multiple risk drivers and time horizons.

Immediate funding for the Company is provided by the Parent who manage the funding needs of the Group. The Group maintains a strong franchise in retail and wholesale funding. The wholesale market is accessible using a range of unsecured and secured instruments enabling maintenance of a diversified funding base across a range of maturities. Together with a strong market share of retail funding, the Group has flexibility to access stable funding from the most cost-effective sources. Through the wholesale markets, the Group has direct active relationships with counterparties across a range of sectors, including banks, other financial institutions, corporates and investment funds.

**NATIONWIDE SYNDICATIONS LIMITED****Notes to the financial statements for the year ended 31 March 2014 (continued)****14 Risk management and control (continued)****Liquidity and funding risk (continued)**

Further details of the Groups approach to liquidity and funding risk management is included in the Business and Risk Report of the Group Annual Report and Accounts.

**Maturity of liquidity assets and liabilities**

The table below segments the carrying value of financial assets and financial liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date (residual maturity). In practice, customers are often repaid later than on the earliest date on which repayment can be required. Likewise, in practice, customer assets may be repaid ahead of their contractual maturity. Therefore, for forecasting purposes, the Company uses judgement and past performance of each asset and liability class to anticipate likely cash flow requirements of the Company.

<b>At 31 March 2014 – Residual maturity</b>	<b>Repayable on demand £'000</b>	<b>Up to 3 months £'000</b>	<b>3 - 12 months £'000</b>	<b>1 - 5 years £'000</b>	<b>More than 5 years £'000</b>	<b>Total £'000</b>
<b>Financial assets</b>						
Loans and advances to customers	1,827	-	1,750	11,000	610,529	625,106
<b>Total financial assets</b>	<b>1,827</b>	<b>-</b>	<b>1,750</b>	<b>11,000</b>	<b>610,529</b>	<b>625,106</b>
<b>Financial liabilities</b>						
Amounts owed to parent undertaking	186,097	1,608	6,796	44,059	289,781	528,341
<b>Total financial liabilities</b>	<b>186,097</b>	<b>1,608</b>	<b>6,796</b>	<b>44,059</b>	<b>289,781</b>	<b>528,341</b>
<b>Net liquidity gap</b>	<b>(184,270)</b>	<b>(1,608)</b>	<b>(5,046)</b>	<b>(33,059)</b>	<b>320,748</b>	<b>96,765</b>

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

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

**NATIONWIDE SYNDICATIONS LIMITED****Notes to the financial statements for the year ended 31 March 2014 (continued)****14 Risk management and control (continued)****Liquidity and funding risk (continued)****Maturity of liquidity assets and liabilities (continued)**

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

<b>Gross contractual cash flows – 31 March 2014</b>	<b>Repayable on demand £'000</b>	<b>Up to 3 months £'000</b>	<b>3 - 12 months £'000</b>	<b>1 - 5 years £'000</b>	<b>More than 5 years £'000</b>	<b>Total £'000</b>
Amounts owed to parent undertaking	186,097	2,114	8,295	51,449	294,073	542,028
<b>Off balance sheet commitments</b>	<b>43,650</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>43,650</b>
<b>Gross contractual cash flows – 31 March 2013</b>	<b>Repayable on demand £'000</b>	<b>Up to 3 months £'000</b>	<b>3 - 12 months £'000</b>	<b>1 - 5 years £'000</b>	<b>More than 5 years £'000</b>	<b>Total £'000</b>
Amounts owed to parent undertaking	163,128	2,541	6,718	47,492	361,328	581,207
<b>Off balance sheet commitments</b>	<b>82,338</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>82,388</b>

**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.

**Interest rate risk**

Interest rate risk arises from the mortgages that the Company offer. The Company largely offsets Interest rate risks by matching funding from the Group to lending, the remaining net exposure to interest rate risk is managed on a continuous basis, within parameters set at Group level by Assets and Liabilities Committee (ALCO), using a combination of derivatives and balance sheet instruments (such as loans, deposits and bonds). Further details of the Group's interest rate risk monitoring processes are included in the Business and Risk Report of 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.

**NATIONWIDE SYNDICATIONS LIMITED****Notes to the financial statements for the year ended 31 March 2014 (continued)****14 Risk management and control (continued)****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 seven key risk and control policy areas:

<b>Risk category</b>	<b>Definition</b>
Financial reporting and tax	The risk of material error in the external financial reports, non-compliance with tax laws or codes or failure to maintain the integrity of the general ledger.
Fraud	The risk of loss or failure caused by an act of dishonesty, false representation, the failure to disclose information, or by abuse of position.
Group security	The risk of loss of data or damage to assets, including physical and cyber-based attacks, and unauthorised disclosure of information.
Information and financial management	The risk of loss or failure arising from inaccurate, unavailable, incomplete or undefined data; errors in regulatory and / or internal and external critical reporting; ungoverned assumptions and errors in financial planning and or financial information provided to support material decision making.
Infrastructure and resilience	The risk of failure to provide a robust technological and/or physical infrastructure to support operational activities and the achievement of business objectives.
People	The risk of loss or failure due to the inability to recruit, develop, reward and retain the required people resources.
Transformation	The risk of loss or failure arising from formally managed project activities that seek to deliver change in the Group's capabilities.

Further details of the Group policies for the management of operational risk can be found in the Business and Risk Report of the Group Annual Report and Accounts.

## NATIONWIDE SYNDICATIONS LIMITED

### Notes to the financial statements for the year ended 31 March 2014 (continued)

#### 14 Risk management and control (continued)

##### Customer and compliance risk

###### Overview

The Company defines 'customer and compliance risk' as the risk that the organisation fails to design and implement operational arrangements, or systems and controls, such that it cannot maintain legal and regulatory compliance, deliver fair customer outcomes or achieve a positive experience for its customers. The definition is further defined into six risk sub-categories:

Risk category	Definition
Firm and culture	The risk that the Company fails to implement operational arrangements, systems and controls that achieve legal and regulatory compliance and embed a corporate culture where fair customer outcomes and the achievement of a positive experience are central to the Company's values and behaviours.
Customer experience	The risk that the Company's customers do not have a positive experience.
Retail conduct	The risk that the Company's products and services (including contracts and terms and conditions) are not designed, developed and operated to deliver fair customer outcomes and compliance.
Wholesale conduct	This is managed at a Group level and is the risk that the Group's commercial and financial markets activity is inappropriate and/or does not comply with regulatory requirements.
Prudential standards	The risk that the design and operation of the Company's systems and controls fails to maintain compliance with prudential requirements.
Financial crime	The risk that the Company fails to establish effective systems and controls to prevent the risk that it might be used to further financial crime.

###### Significant events/environment

In recent years, issues associated with non-compliant processes and failures to meet legitimate expectations of customers have proven to be significant source of cost for the industry. The industry will continue to evolve as it responds to the volume and scale of regulation it will experience in the coming years, while also delivering products and services that meet the demands of the Digital Society. The ongoing focus of good consumer outcomes in this environment will remain a key area of risk for the industry.

Further details of the management of customer and compliance risk at a Group level can be found in the Group Annual Report and Accounts.

## NATIONWIDE SYNDICATIONS LIMITED

### Notes to the financial statements for the year ended 31 March 2014 (continued)

#### 14 Risk management and control (continued)

##### Strategic risks

Strategic risk is split into the following sub-categories:

Risk category	Definition
Business model	The risk associated with failing to adopt an appropriate business model, set appropriate goals and targets in the Corporate Plan, or adapt to external developments.
Reputation	The risk that arises from material adverse publicity resulting in a loss of confidence from key stakeholders sufficient to threaten the strategic objectives of the business.
Strategic initiatives	The risk that the Company enters into strategic initiatives that undermine the business model, or does not enter into appropriate strategic initiatives that would enhance the business model.

Strategic risk focuses on large, longer term risks that could become a material problem for the Company and is managed at a Group level. Whilst all business areas are responsible for managing their own risks, management of strategic risk is primarily the responsibility of senior management and committees whose remit encompasses all the risk categories on a Group-wide combined basis.

Further details of the management of strategic risk at a Group level can be found in the Group Annual Report and Accounts.

##### Risk Governance

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:

Risk category	Definition
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.



**NATIONWIDE SYNDICATIONS LIMITED****Notes to the financial statements for the year ended 31 March 2014 (continued)****14 Risk management and control (continued)****Risk Governance (continued)**

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.

**15 Fair value of financial assets and liabilities**

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

<b>2014</b>	<b>Carrying value £'000</b>	<b>Fair values based on Level 3 £'000</b>	<b>Total fair value £'000</b>
Financial assets			
Loans and advances to customers	625,106	565,663	565,663
Financial liabilities			
Amounts owed to parent undertaking	528,341	468,898	468,898
<b>2013</b>	<b>Carrying value £'000</b>	<b>Fair values based on Level 3 £'000</b>	<b>Total fair value £'000</b>
Financial assets			
Loans and advances to customers	666,661	778,621	778,621
Financial liabilities			
Amounts owed to parent undertaking	564,680	676,640	676,640

**Loans and advances to customers**

In adopting the requirements of IFRS 13, the Company has reviewed and modified its approach to the fair value disclosures for financial assets and liabilities measured at amortised cost on the balance sheet in line with the guidance in the standard to reflect a hypothetical exit price as indicated by the standard, valued on an asset by asset basis, with no liquidity discount.

The change in relationship between carrying value and fair value compared to last year is principally due to the change in valuation methodology. IFRS 13 is not retrospective in application and the Company has not restated the position at 31 March 2013. Whilst figures for the year have not been restated, it is estimated that if this methodology had been applied at 31 March 2013, the reported fair value would have been lower than reported and broadly consistent with the relationship between carrying value and fair value at 31 March 2014.

In arriving at the fair value of loans and advances to customers, the Company uses consistent modelling techniques across the different loan books, taking into account expected future cash flows and future lifetime expected losses, based on historic trends and discount rates appropriate to the loans. Variable rate loans are modelled on estimated future cash flows, discounted at current market interest rates. Variable rate retail mortgages are discounted at the currently available market standard variable interest rate (SVR).

## **NATIONWIDE SYNDICATIONS LIMITED**

### **Notes to the financial statements for the year ended 31 March 2014 (continued)**

#### **15 Fair value of financial assets and liabilities (continued)**

##### **Loans and advances to customers (continued)**

For fixed rate loans, discount rates have been based on the expected funding and capital cost applicable to the book. When calculating fair values on fixed rate loans, no adjustment has been made to reflect interest rate risk management through internal natural hedges or external hedging via derivatives.

##### **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. Therefore fixed rate lending and borrowing are matched.

#### **16 Related party transactions**

##### **Transactions with 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 (2013 £nil).

There were no other transactions with key management personnel (2013 £nil).

##### **Transactions with parent undertaking**

The parent undertaking and ultimate controlling party, Nationwide Building Society, is a related party to the Company. Transactions with related parties arise in the normal course of business. Interest on loans and deposits accrues at a transfer price rate agreed between the Society and its subsidiary undertakings.

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

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
At 1 April	<b>564,680</b>	573,353
Loan advances	<b>37,902</b>	4,576
Loan repayments	<b>(74,241)</b>	(13,249)
At 31 March	<b>528,341</b>	564,680

During the year £29.1 million of interest was charged (2013: £26.1 million) on amounts owed to parent undertaking.

## **NATIONWIDE SYNDICATIONS LIMITED**

---

### **Notes to the financial statements for the year ended 31 March 2014 (continued)**

#### **17 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**.

#### **18 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**.