Registered number: SC113202

Dunfermline BS Nominees Limited

Annual Report and Financial Statements
for the year ended 31 March 2011

Contents

Directors and auditors

Directors

T Plummer
J Tibbles
A Robb

Company secretary

J Lindsey (appointed 1 April 2011)
J Paul (resigned 1 April 2011)

Independent auditors

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

Registered office

Caledonia House
Carnegie Avenue
Dunfermline
KY11 8PJ

Registered number

SC113202

Directors' report for the year ended 31 March 2011

The directors have pleasure in presenting their annual report and audited financial statements of the company for the year ended 31 March 2011.

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 (IFRS) as adopted by the European Union.

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

Principal activities

Dunfermline BS Nominees Limited ("the Company") is a wholly owned subsidiary of Nationwide Building Society ("the Group").

The principal activity of the Company is the management of property. The Company leases its principal asset, Caledonia House, to its parent. The duration of the lease, which commenced in 1994, is 25 years at an annual rent of £450,000. Rent reviews are carried out at 5 yearly intervals, the last review being on 28 August 2009. The Company has a 999 year ground lease in relation to Carnegie Campus upon which Caledonia House resides. There are no reviews on this lease, which has an annual rent of £1.

Business review and future developments

There have not been any changes in the Company's principal activities in the year under review. The directors are not aware, at the date of this report, of any likely major changes in the Company's activities in the next year.

Key performance indicators

Key performance measures comprise both financial and non financial indicators and are monitored at Group level. There are five measures, which are: financial performance and strength; customer; risk; employees; and transformation. Further information on these and the Group's performance against them can be found in the directors' report of the Nationwide Building Society's annual report and accounts.

Results and dividends

The profit before tax for the year ended 31 March 2011 is £200,000 (2010: £552,000). The retained earnings carried forward are £2,884,000 (2010: £2,677,000). Total dividends proposed and paid during the year amounted to £nil (2010: £nil).

Risk management and control

The Company seeks to manage all the risks that arise from its activities. There is a formal structure for monitoring and managing risk within the Company, comprising a risk appetite agreed by the Board, detailed risk management policies, and independent governance and oversight of risk.

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

- Credit risk;
- Market risk;
- Liquidity risk; and
- Operational risk.

The risk management objectives and policies which correspond to these risks and uncertainties are shown in note 12.

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:

T Plummer
J Tibbles
A Robb (appointed 21 July 2010)
D Rigney (resigned 21 July 2010)

All the existing directors, in accordance with the Company's Articles of Association, retire by rotation and, being eligible, offer themselves for re-election at the Annual General Meeting.

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.

Going concern

The Company is fully funded by its parent, Nationwide Building Society, and has a letter of support from the parent to continue to fund the Company's activities for the foreseeable future and as a minimum for 12 months from the date of signing of the balance sheet by the directors. 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.

Domicile

The Company is a company limited by shares which is registered and domiciled in Scotland. The registered office is Caledonia House, Carnegie Avenue, Dunfermline KY11 8PJ.

Employees

The Company has no direct employees (2010: nil). All staff are employed by the ultimate parent undertaking, Nationwide Building Society.

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.

Independent auditors

The auditors PricewaterhouseCoopers LLP have expressed their willingness to continue in office and a resolution for their reappointment is to be proposed at the forthcoming Annual General Meeting.

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.

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 International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements.

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, 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 and signed on behalf of the Board of Directors on 3 October 2011.

Alison Robb

Director

ALISON ROBB

Independent auditors' report to the members of Dunfermline BS Nominees Limited

We have audited the financial statements of Dunfermline BS Nominees Limited for the year ended 31 March 2011 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 to 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 2011 and of its profit 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 Dunfermline BS Nominees 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
3 October 2011

Statement of comprehensive income for the year ended 31 March 2011

	Note	**2011 £'000**	2010 £'000
Rental income	3	**450**	450
Operating profit		**450**	450
(Decrease)/increase in fair value of investment properties	7	**(242)**	120
Interest receivable		**3**	-
Interest payable		**(11)**	(18)
Profit on ordinary activities before tax		**200**	552
Tax on profit on ordinary activities	6	**7**	(154)
Profit for the year		**207**	398
Total comprehensive income		**207**	398

The notes on pages 13 to 22 form part of these financial statements.

DUNFERMLINE BS NOMINEES LIMITED

Balance sheet as at 31 March 2011

	Note	**2011 £'000**	2010 £'000
Assets			
Non current assets			
Investment properties	7	**4,488**	4,730
Deferred tax	8	**474**	443
Current assets			
Cash		**-**	1
Other assets		**38**	38
Total assets		**5,000**	5,212
Liabilities			
Current liabilities			
Amounts owed to parent undertaking	9	**2,053**	2,476
Current tax		**63**	58
Group relief payable		**-**	1
Total liabilities		**2,116**	2,535
Equity			
Share capital	10	**-**	-
Retained earnings		**2,884**	2,677
Total equity		**2,884**	2,677
Total equity and liabilities		**5,000**	5,212

The notes on pages 13 to 22 form part of these financial statements.

The financial statements were approved by the Board of Directors on 3 October 2011.

Signed on behalf of the Board of Directors

Alison Robb

Director

ALISON ROBB

Statement of changes in equity for the year ended 31 March 2011

	31 March 2011			31 March 2010		
	Share capital	**Retained earnings**	**Total**	Share capital	Retained earnings	Total
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Balance at 1 April	-	2,677	2,677	-	2,279	2,279
Profit for the year	**-**	**207**	**207**	-	398	398
Balance at 31 March	**-**	**2,884**	**2,884**	-	2,677	2,677

The notes on pages 13 to 22 form part of these financial statements.

Cash flow statement for the year ended 31 March 2011

	2011 £'000	2010 £'000
Cash flow from operating activities		
Profit before tax	**200**	552
Adjustments for:		
Investment property revaluation	**242**	(120)
Cash generated from operations	**442**	432
(Decrease)/increase in Group relief payable	**(1)**	1
Taxation	**(19)**	(220)
Net cash flows from operating activities	**422**	213
Cash flow from financing activities		
Decrease in amounts owed to parent undertaking	**(423)**	(212)
Net (decrease)/increase in cash	**(1)**	1
Cash and cash equivalents at the start of the year	**1**	-
Cash and cash equivalents at end of the year	**-**	1

Cash and cash equivalents comprise cash balances as disclosed in the balance sheet of £nil (2010: £1,000).

The notes on pages 13 to 22 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 (IFRS) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the European Union 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. 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 reporting period. 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 and IFRIC pronouncements, relevant to the Company, have been adopted:

- 'Improvements to IFRSs' (April 2009): Several small amendments have been made to a number of standards. None of these amendments have had an impact on the results to 31 March 2011.

Future accounting developments

The following pronouncements will be relevant to the Company but were not effective at 31 March 2011 and have not been applied in preparing these financial statements. The full impact of these accounting changes is being assessed by the Company. Our initial view is outlined in the following tables.

The following pronouncements, relevant to the Company, have been adopted by the European Union (EU) but are not yet effective:

Pronouncement	Nature of change	Effective date
Improvements to IFRSs (May 2010)	Several small amendments with no significant impact for the Company.	Various, earliest is accounting periods (AP) beginning on or after 1 July 2010
IAS 24 Related Party Disclosures	The revised standard simplifies the definition of a related party and provides a partial exemption from the disclosure requirements for government related entities. The revised standard is not expected to have a significant impact for the Company.	AP beginning on or after 1 January 2011

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 for this financial year:

Pronouncement	Nature of change	Effective date
IFRS 9 Financial Instruments - Classification and Measurement ('Phase 1')	The new standard addresses Phase 1 of the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement* and 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, with the exception that where we opt to fair value, the movement in fair value due to own credit risk would be directly recognised in other comprehensive income. Where this would result in an accounting mismatch, however, the movement would be recognised in the profit for the year. The derecognition requirements currently within IAS 39 have been transferred to IFRS 9 and remain unchanged from current requirements. IFRS 9 Phase 1 is currently being reviewed by the Company.	AP beginning on or after 1 January 2013
Amendments to IAS 1 Presentation of Items of Other Comprehensive Income	The amendments require entities to group items included in the statement of other comprehensive income on the basis of whether they may be subsequently reclassified to profit and loss. The amendments are not expected to have a significant impact for the Company.	AP beginning on or after 1 July 2012
IFRS 13 Fair Value Measurement	The new standard replaces guidance on fair value measurement in existing IFRS accounting literature with a single standard. The standard does not change the requirements regarding which items should be measured or disclosed at fair value but does require enhanced disclosures. The new standard is currently being reviewed by the Company and, with the exception of enhanced disclosures, is not expected to have a significant impact.	AP beginning on or after 1 January 2013

1 Statement of accounting policies (continued)

a) Revenue

Revenue is attributable to rents receivable net of value added tax. Revenue is recognised on an accruals basis as services are provided.

b) Investment properties

Investment properties, which comprise of properties held for rental, are stated at fair value. The properties are revalued annually by independent surveyors supported by market evidence. Changes in fair value are included in the statement of comprehensive income.

Depreciation is not charged on investment properties.

c) Interest receivable and interest expense

Interest is due on the outstanding loan with the Company's parent (Nationwide Building Society) and 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.

d) Taxation including deferred tax

Corporation tax payable on profits is recognised as an expense in the period in which profits arise.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax is realised or settled.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

e) 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. These comprise short term deposits with banks which are shown as cash balances on the balance sheet.

f) 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.

g) Share capital

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 shareholder.

2 Judgements in applying accounting policies and critical accounting estimates

The Company has to make judgements in applying its accounting policies which affect the amounts recognised in the financial statements. In addition, estimates and assumptions are made that could affect the reported amounts of assets and liabilities within the following financial year. The most significant areas where judgements and estimates are made are as follows:

Valuation of investment properties

Investment properties are revalued annually by independent surveyors supported by market evidence. Changes in the assumptions used in the valuation models could affect the reported fair value of the investment properties.

The key assumption in forming the valuation is based on market value of the leasehold interest as used in the accounts presented. Using a different assumption would result in a different valuation being recorded. Other assumptions used in the valuation include future interest rates and future rental income.

The market value of the investment property as used in the accounts for the year ended 31 March 2011 is £4.5 million. The vacant possession value of the investment property at 31 March 2011 is approximately £2.0 million.

3 Rental income

The Company leases its principal asset, Caledonia House, to its parent. The duration of the lease, which commenced in 1994, is 25 years at an annual rent of £450,000.

4 Profit before tax

The audit fee of £6,000 (2010: £6,000) is borne by the parent entity.

5 Directors' emoluments

All of the directors are employees of Nationwide Building Society, who provide the services of the directors to the Company.

They received no emoluments in respect of their services to the Company (2010: £nil).

6 Tax on profit on ordinary activities

	2011 £'000	2010 £'000
Current tax:		
UK corporation tax	**123**	121
Adjustments with respect to prior years	**(99)**	(1)
Total current tax	**24**	120
Deferred tax:		
Current year	**(67)**	34
Effect of corporation tax rate change	**36**	-
Total deferred tax	**(31)**	34
Taxation	**(7)**	154

6 Tax on profit on ordinary activities (continued)

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

	2011 £'000	2010 £'000
Profit before tax	**200**	552
Tax calculated at a rate of 28%	**56**	155
Effects of:		
Adjustments in respect of prior years	**(99)**	(1)
Corporation tax rate change	**36**	-
	(7)	154

7 Investment properties

	2011 £'000	2010 £'000
At 1 April	4,730	4,610
Property revaluation	**(242)**	120
At 31 March	**4,488**	4,730

The long leasehold land and buildings are held for the purpose of leasing.

The market valuation is based on a 25 year lease from August 1994 with a rent of £450,000 per annum (2010: £450,000).

8 Deferred taxation

	2011 £'000	2010 £'000
At 1 April	443	477
Income statement credit/(charge)	**67**	(34)
Change in corporation tax rate to 26 %	**(36)**	-
At 31 March	**474**	443

Deferred tax assets are all attributable to investment property revaluation. Deferred tax assets are all estimated to be recoverable after more than 5 years.

The deferred tax (credit)/charge in the statement of comprehensive income comprises the following temporary differences (note 6):

	2011 £'000	2010 £'000
Property revaluation	**(67)**	**34**
Change in corporation tax rate to 26 %	**36**	**-**
	(31)	**34**

8 Deferred taxation (continued)

In addition to the changes in rates of Corporation tax disclosed above, a number of further changes to the UK Corporation tax system were announced in the March 2011 UK Budget Statement. Legislation to reduce the main rate of corporation tax from 26% to 25% from 1 April 2012 was included in the Finance Act 2011 which was substantively enacted on 5 July 2011. This enactment had not taken place as at the balance sheet date and is therefore not included in these financial statements. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 23% by 1 April 2014. These further changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements. The effect of these further changes on the deferred tax balance cannot be reliably quantified at this stage.

9 Amounts owed to parent undertaking

	2011 £'000	2010 £'000
Repayable on demand	**2,053**	2,476

This loan was made to the Company to enable it to purchase the leasehold of head office complex of Dunfermline Building Society at Carnegie Avenue, Dunfermline.

The loan is a call loan facility with variable interest payable.

10 Share capital

	2011 £	2010 £
Authorised		
100 Ordinary shares of £1 each	**100**	100
Issued, allotted and unpaid		
Ordinary shares of £1 each	**2**	2

11 Related party transactions

Subsidiary, parent and ultimate controlling party

The Dunfermline BS Nominees Limited is controlled by the Nationwide Building Society ("the Society") registered in England and Wales.

The Company's principal asset is leased by the Society for £450,000 (2010: £450,000) per annum and the Company is funded by its parent with related interest expense of £11,000 (2010: £18,000).

Key management personnel

The Board considers key management personnel to comprise the directors of the Company. Key management compensation for the year totalled £nil (2010: £nil).

Transactions with key management personnel

There were no transactions with key management personnel (2010: £nil).

11 Related party transactions (continued)

Transactions with parent undertaking

Amounts owed to Nationwide Building Society, the parent undertaking, are detailed in note 9. Movements on amounts owed to the parent undertaking during the year are set out below:

	2011	2010
	£'000	£'000
Amounts owed to parent undertaking		
Loans outstanding at 1 April	2,476	2,688
Loans advanced during the year	**16**	224
Loans repaid during the year	**(450)**	(450)
Interest payments during the year	**11**	14
Loans outstanding at 31 March	**2,053**	2,476

In addition the £38,000 other assets relate solely to intercompany rent accrued for March 2011.

12 Risk management and control

Dunfermline BS Nominees Limited seeks to manage appropriately all the risks that arise from its activities. The principal risks inherent within the Company's business are market risk, credit risk, liquidity risk and operational risk.

Market risk

The property portfolio of Dunfermline BS Nominees Limited is exposed to movements in property value and property rentals. The Company's sole property investment is rented by the Society. The Society currently occupies the building, and is responsible for the continued lease contractual obligations. The investment property is revalued on an annual basis by independent surveyors. Any difference between the carrying value of the property and the market value is recognised in the statement of comprehensive income in the year.

See note 7 for further details.

Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents as well as exposure to tenants, including outstanding receivables. Credit risk is minimised as the only tenant is the Company's parent undertaking, Nationwide Building Society.

Liquidity risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due or can do so only at an excessive cost. Although amounts owed to the parent are repayable on demand, the Company has no liquidity 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.

12 Risk management and control (continued)

Liquidity risk (continued)

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

2011 – 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**
Assets						
Cash	-	-	-	-	-	-
Investment properties	-	-	-	-	4,488	4,488
Deferred taxation	-	-	-	-	474	474
Other assets	-	-	38	-	-	38
Total assets	-	-	38	-	4,962	5,000
Liabilities						
Amounts owed to parent undertaking	2,053	-	-	-	-	2,053
Other liabilities	-	-	63	-	-	63
Total liabilities	2,053	-	63	-	-	2,116
Net liquidity gap	(2,053)	-	(25)	-	4,962	2,884

2010 – 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
Assets						
Cash	1	-	-	-	-	1
Investment properties	-	-	-	-	4,730	4,730
Deferred taxation	-	-	-	-	443	443
Other assets	-	-	38	-	-	38
Total assets	1	-	38	-	5,173	5,212
Liabilities						
Amounts owed to parent undertaking	2,476	-	-	-	-	2,476
Other liabilities	-	-	59	-	-	59
Total liabilities	2,476	-	59	-	-	2,535
Net liquidity gap	(2,475)	-	(21)	-	5,173	2,677

Other assets shown above relate to one month's accrued rental income.

Other liabilities shown above relate to corporation tax and Group relief.

12 Risk management and control (continued)

Liquidity risk (continued)

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

Gross contractual cash flows	**Repayable on demand**	**Up to 3 months**	**3 - 12 months**	**1 - 5 years**	**More than 5 years**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
2011						
Amounts owed to parent undertaking	**2,053**	**-**	**-**	**-**	**-**	**2,053**
Group relief payable	**-**	**-**	**-**	**-**	**-**	**-**
Total liabilities	**2,053**	**-**	**-**	**-**	**-**	**2,053**

Gross contractual cash flows	Repayable on demand	Up to 3 months	3 - 12 months	1 - 5 years	More than 5 years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
2010						
Amounts owed to parent undertaking	2,476	-	-	-	-	2,476
Group relief payable	-	-	1	-	-	1
Total liabilities	2,476	-	1	-	-	2,477

Operational risk

Operational risk relates to the processes the Nationwide Group operates to meet the needs of its members and generate sufficient profit to maintain a financially stable firm. The purpose of operational risk management is to ensure the business puts in place appropriate strategies to manage, avoid, transfer, mitigate and insure the risks that could impact the ability of the Group to meet its strategies and plans or damage its reputation.

The Group has adopted the standardised approach to operational risk and has applied the industry standard definition, namely: "the risk of loss arising from inadequate or failed internal processes, people and systems or from external events". This has been aligned to the Group's integrated corporate risk map and ensures that there is effective oversight, monitoring and reporting of the key operational risk exposures facing the Group as detailed below:

- Third party
- Business continuity
- Change
- Customer experience
- Financial control, payments and information management
- Financial crime
- Information security
- Information technology
- Legal and regulatory
- People
- Premises and physical assets

Fair value of financial assets and liabilities

The fair value of a financial instrument is the amount for which the asset could be exchanged, or a liability settled, in an arms-length transaction between knowledgeable willing parties. The directors are of the view that the carrying value of financial assets and liabilities approximates their fair value.

13 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 Financial Services Authority (FSA). During the year the Group complied with the capital requirements set by the FSA. Further information on the Group's capital position can be viewed in the business review of the Group's annual report and accounts, which can be obtained from the address below.

14 Ultimate parent undertaking

The immediate parent undertaking and the ultimate controlling party is Nationwide Building Society, registered in England and Wales. The Society is registered at Nationwide House, Pipers Way, Swindon, Wiltshire, SN38 1NW. The annual accounts of Nationwide Building Society can be obtained from this address.