Registered Number: OC313878

Nationwide Covered Bonds LLP

Annual report and financial statements for the year ended 4 April 2012

Contents **Page**

Members and advisers

Members
Nationwide Building Society
Moulton Capital Finance Limited

Management Board
Nationwide Building Society
Moulton Capital Finance Limited

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

Registered office
Nationwide House
Pipers Way
Swindon
SN38 1NW

Registered number
OC313878
Registered in England and Wales

On behalf of the members of Nationwide Covered Bonds LLP (the LLP), the Management Board have pleasure in presenting their annual report and the audited financial statements for the year ended 4 April 2012. As set out more fully in the statement of accounting policies, this report and financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

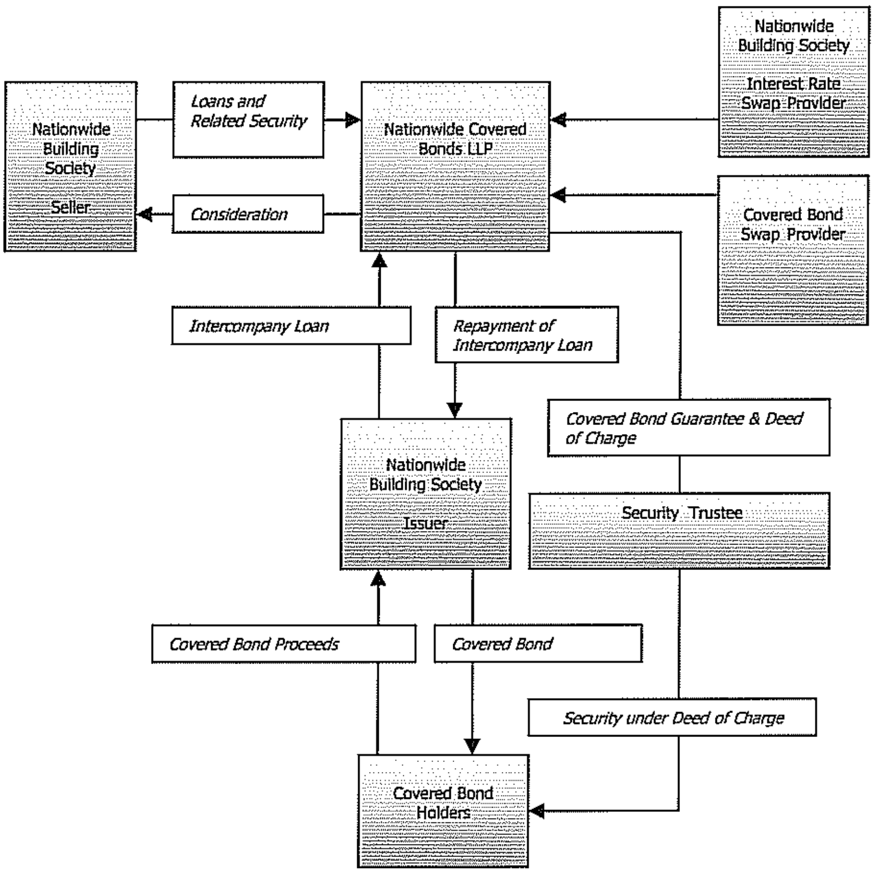
Principal activities

The LLP is a wholly owned subsidiary of Nationwide Building Society and is incorporated with limited liability. The LLP is registered, domiciled and operates solely in England and Wales. The LLP was incorporated on 25 June 2005. The LLP's registered office is provided on page 2.

The LLP is a special purpose vehicle whose purpose is to guarantee the Covered Bonds issued by the Nationwide Building Society (the Society) by acquiring mortgage loans and their related security from the Society pursuant to the terms of the Mortgage Sale Agreement entered into on 30 November 2005, when trading commenced. No change in principal activity is envisaged.

The LLP enters into interest rate swap agreements with the Society under which it swaps the interest cash flows of the mortgage loans for 3m Libor + spread. The LLP funds the purchase of the mortgage loans by loans from the Society, replicating the issue of Covered Bonds by the Society in currency. Currencies currently in use include Sterling (GBP) (the LLP's functional currency), Euros (EUR), US Dollars (USD), Norwegian Krona (NOK) and Swedish Krona (SEK). The LLP enters into currency swap agreements under which it pays interest cash flows in GBP and receives EUR, USD, NOK and SEK cash flows which are used to pay the interest on the loans to Nationwide.

Nationwide Building Society is one of the designated members of the LLP, the Covered Bond originator and the LLP's parent undertaking. The Covered Bond Structure is set out in diagrammatic form below.



Main accounting assumptions

The Society is considered to have retained substantially all the exposure to risks and rewards of ownership of the transferred mortgages. As a result, the acquisition of mortgage loans by the LLP is considered to fail the derecognition criteria of IAS 39, so that the assets sold are retained on the balance sheet of the Society.

As described further in note 1 to the financial statements, the LLP therefore treats the transaction as a loan from the Society (the "deemed loan"), secured on a collateral pool of assets, rather than the financial assets that it has legally purchased. The difference between the 'deemed loan' and the balance of mortgage loans is recognised as a capital contribution in the LLP. However, as the mortgage loans fail the derecognition criteria of IAS 39, the capital contribution and the associated element of the deemed loan and interest receivable (referred to as 'over-collateralisation') on it is not recognised in the LLP. The deemed loan is shown net of the over collateralisation adjustment on the face of the balance sheet. The gross amounts are disclosed in the notes.

For accounting purposes the interest rate swap between the LLP and the Society (swapping the interest cash flows of the mortgage loans for 3m Libor + spread) is not separately recognised as a derivative. The effective interest rate accrued by the LLP on the deemed loan due to the LLP from the Society reflects the rate payable under the swap. The swap is consequentially not separately fair valued.

Business review of the year

During the year, four Covered Bond issuances matured with a total value of £7.3bn (£5.5bn and €2.0bn) (2011 - £6.8bn). The LLP issued further Covered Bonds amounting to £5.1bn (2011 - £3.2bn) during the year.

At 4 April 2012, the amount of beneficial interests in the mortgage loan portfolio was £32.1bn (2011 - £33.0bn) and the amount of the deemed loan was £18.6bn (2011 - £19.5bn). The difference of £13.5bn (2011 - £13.5bn) represents the amount of over collateralisation in the structure.

Principal risks and uncertainties and financial risk management

Full disclosure of the LLP's financial risk management policies, use of financial instruments and risk exposures is given in note 14 to the financial statements.

The covered bond transaction documents set out a number of asset and non-asset trigger events, which represent the main business risks for the LLP, as their occurrence may lead to early repayment. No trigger event has occurred since the programme started.

Designated members

The designated members during the year were:
Nationwide Building Society
Moulton Capital Finance Limited

The designated members have remained unchanged since the date of incorporation of the LLP on 25 June 2005.

Programme performance

The programme performance is monitored monthly for financial and non financial indicators including covenants and tests for managing risk are published within the monthly investor report (available via Nationwide Building Society website), for example, the Asset Coverage Test (ACT), Servicer Trigger (which monitors the Servicer's Ratings to required levels) and Yield Shortfall Test (which checks that the Portfolio yield does not fall below LIBOR plus 0.15%).

The level of over-collateralisation is central to the contractual mechanics and to credit ratings agency oversight. The level of over-collaterisation can be estimated using the ACT which is carried out each month and is deemed to establish the level of over-collaterisation for the LLP.

Disclosure of information to Auditors

Each of the persons who is a member at the date of approval of this report confirms that:

- so far as the member is aware, there is no relevant audit information of which the LLP's auditors are unaware; and
- each member has taken all the steps that he/she ought to have taken as a member in order to make himself/herself aware of any relevant audit information and to establish that the LLP's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Member's responsibilities statement

The members are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 (the "Regulations") requires the members to prepare financial statements for each financial year. Under that law the members have prepared the partnership financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law as applied to limited liability partnerships the members 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 partnership and of the profit or loss of the partnership for that period. In preparing these financial statements, the members 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 members are responsible for keeping adequate accounting records that are sufficient to show and explain the LLP's transactions and disclose with reasonable accuracy at any time the financial position of the partnership and enable them to ensure that the financial statements comply with the Companies Act 2006 as applied to limited liability partnerships by the Regulations. They are also responsible for safeguarding the assets of the LLP and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of going concern

The members are satisfied that the LLP has adequate resources to continue to operate for the foreseeable future and is financially sound. For this reason, they continue to adopt the going concern basis in preparing the Financial Statements.

By order of the management board

For and on behalf of the LLP

Date: 13th July 2012

Independent auditors' report to the members of Nationwide Covered Bonds LLP

We have audited the financial statements of Nationwide Covered Bonds LLP for the year ended 4 April 2012 which comprises the Statement of comprehensive income, the Balance sheet, the Cash flow statement, the Statement of movement in members' interests 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 members and auditors

As explained more fully in the Members' responsibilities statement set out on page 5, the members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the members of the partnership as a body in accordance with the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 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 limited liability partnership's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the designated members; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report 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 limited liability partnership's affairs as at 4 April 2012 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 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008.

Independent auditors' report to the members of Nationwide Covered Bond LLP (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 as applied to limited liability partnerships 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
- 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
16th July 2012

Statement of comprehensive income for the year ended 4 April 2012

	Note	**2012** **£'000**	2011 (adjusted) £'000
Interest receivable and similar income	3	306,339	268,718
Interest payable and similar charges	4	(315,048)	(281,274)
Net interest (expense)		(8,709)	(12,556)
Gains from derivatives and hedge accounting	5	95,719	5,928
Administrative expenses	6	(1,573)	(1,041)
Profit/(Loss) and total comprehensive income/(expense) for the year		85,437	(7,669)

The accounting policies and notes on pages 13 to 30 form part of these financial statements.

Balance sheet as at 4 April 2012

	Note	**2012** £'000	2011 (adjusted) £'000
Assets			
Cash and cash equivalents	7	1,386,686	2,189,514
Loans and other debts due from members	8	18,550,681	19,450,170
Derivative financial instruments	9	2,423,950	2,599,618
Total assets		22,361,317	24,239,302
Liabilities			
Loans from LLP members	10	20,888,356	22,890,116
Other debts due to members	11	587,430	399,171
Derivative financial instruments	9	180,969	68,860
Accruals		1	9
Other liabilities	12	634,461	896,483
Total liabilities		22,291,217	24,254,639
Members' other interests			
General reserve		70,100	(15,337)
Total members' other interests		70,100	(15,337)
Total members' other interests and liabilities		22,361,317	24,239,302
Total members' interests			
Members' interests in general reserves		70,100	(15,337)
Loans from LLP members		20,888,356	22,890,116
Other debts due to members		587,430	399,171
Loans and other debts due from members		(18,550,681)	(19,450,170)
Total members' interests		2,995,205	3,823,780

The financial statements were approved and authorised for issue by the Board of Directors on 13th July 2012.

The accounting policies and notes on pages 13 to 30 form part of these financial statements.

Signed on behalf of the members

Mario Miracco

Cash flow statement for the year ended 4 April 2012

	2012 £'000	2011 (adjusted) £'000
Profit/(loss) for the financial year	85,437	(7,669)
Adjustments for:		
Derivatives and hedge accounting (loss)	(95,719)	(5,928)
Foreign exchange loss	10,282	13,598
Net profit before working capital changes	-	1
Adjustments for:		
Decrease in other creditors	(262,030)	(121,108)
Increase in other debts due to members	188,259	152,633
Increase in interest receivable on derivative financial instruments	19,048	106,157
Increase/(decrease) in interest payable on loans from members	18,504	(53,737)
Net cash flows (used in)/generated by operating activities	**(36,219)**	83,946
Cash flows from investing activities:		
Receipt of loans advanced to members	**899,489**	3,466,671
Net cash flows generated from investing activities	**899,489**	3,466,671
Cash flows from financing activities:		
Repayment of loans from members	(1,666,098)	(3,543,229)
Net cash flows used in financial activities	**(1,666,098)**	(3,543,229)
Net (decrease)/increase in cash and cash equivalents	(802,828)	7,388
Cash and cash equivalents at beginning of year	2,189,514	2,182,126
Cash and cash equivalents at end of year	**1,386,686**	2,189,514

The accounting policies and notes on pages 13 to 30 form part of these financial statements.

Statement of movements in members' interests for the year ended 4 April 2012

As at 4 April 2012

	General reserve £'000	Loans from/(to) members £'000	Total £'000
General reserve at 5 April 2011	(15,337)	-	(15,337)
Profit for the year	85,437	-	85,437
Balance carried forward at 4 April 2012	70,100	-	70,100
Loans from members	-	20,888,356	20,888,356
Other debts due to members	-	587,430	587,430
Loans and other debts due from members	-	(18,550,681)	(18,550,681)
Members' interests as at 4 April 2012	**70,100**	**2,925,105**	**2,995,205**

As at 4 April 2011

	General Reserve (adjusted) £'000	Loans from/(to) members £'000	Total £'000
General reserve at 5 April 2010	(7,668)	-	(7,668)
Loss for the year	(7,669)	-	(7,669)
Balance carried forward at 4 April 2011	(15,337)	-	(15,337)
Loans from members	-	22,890,116	22,890,116
Other debts due to members	-	399,171	399,171
Loans and other debts due from members	-	(19,450,170)	(19,450,170)
Members' interests as at 4 April 2011	(15,337)	3,839,117	3,823,780

If the sale of the beneficial interest in the mortgage portfolio to the partnership had been recognised under IFRS as adopted by the European Union, the Members' capital balance would have been £13,562,278,000 at 4th April 2012 (2011 - £13,515,238,000).

1 Accounting policies

Basis of preparation

The LLP financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), and with those parts of the Companies Act 2006, as applied to limited liability partnerships and regulations made thereunder, applicable to partnerships reporting under IFRS.

The principal accounting policies applied in the preparation of these financial statements are set out below.

The financial information has been prepared under the historical cost convention as modified by revaluations of derivative financial instruments.

Adjustments to comparative information

The prior year comparatives have been adjusted to reflect a correction of an error in relation to the fair value calculation of derivatives. Previously the derivative fair values have been calculated on a 'mid-price' basis. It is recognised that the 'bid price' should have been used in calculating the realisable value of the derivative.

The impact of this change as at 4th April 2011 was to increase the gain from derivatives and hedge accounting by £5.6 million, decrease the derivative financial instrument assets by £16.9 million and reduce the opening general reserve at 5th April 2010 by £22.5 million. The adjusted lines of the income statement, balance sheet and statement of movements in members' interest have been detailed below.

Statement of comprehensive income for the year ended 4 April 2011	Previously published	Adjusted
	£'000	£'000
Gains from derivatives and hedge accounting	293	5,928
(Loss) and total comprehensive (expense) for the year	(13,304)	(7,669)

Balance sheet as at 4 April 2011	Previously published	Adjusted
	£'000	£'000
Derivative financial instruments - asset	2,616,489	2,599,618
General reserve	1,534	(15,337)

Statement of movements in members' interests for the year ended 4 April 2010	Previously published	Adjusted
	£'000	£'000
General reserve	14,838	(7,668)
(Loss) for the year	(13,304)	(7,669)

1 Accounting policies (continued)

Future accounting developments

The following pronouncement, relevant to the LLP, has been adopted by the European Union (EU) but was not effective at 4 April 2012 and has not therefore been applied in preparing these financial statements.

Pronouncement	Nature of change	Effective date
IFRS 7 Disclosures – Transfers of Financial Assets	Requires additional disclosures to help evaluate risk exposures relating to the transfer of financial assets and the effect of those risks on an entity's financial position, particularly those that involve securitisation of financial assets.	Accounting periods (AP) beginning on or after 1 July 2011

The following pronouncements, relevant to the LLP, are neither adopted by the EU nor effective at 4 April 2012 and have not therefore been applied in preparing these financial statements.

Pronouncement	Nature of change	Effective date
IFRS 9 Financial Instruments and subsequent amendments	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 unless this results in an accounting mismatch.	AP beginning on or after 1 January 2015
IFRS 7 Transitional Disclosures for IFRS 9	Requires additional disclosures on adoption of IFRS 9 to enable users to understand the effect of transition from IAS 39.	AP beginning on or after 1 January 2015
IFRS 13 Fair Value Measurement	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. With the exception of enhanced disclosures, the new standard is not expected to have a significant impact for the LLP.	AP beginning on or after 1 January 2013

Derecognition

Under IFRS, if a transferor retains substantially all the risks and rewards associated with the transferred assets, the transaction is accounted for as a financing transaction, notwithstanding that it is a sale transaction from a legal perspective. The members of the LLP have concluded that the Originator, Nationwide Building Society, has retained substantially all the exposure to risks and rewards of the pool of mortgage loans and as a consequence, the LLP does not recognise the mortgage loans on its balance sheet but rather a loan due from the Originator.

1 Accounting policies (continued)

The basis swaps between the LLP and the Originator are not recognised separately as financial derivative instruments, as the amounts payable under the swaps reflect interest flows from the mortgage loans which are not recognised by the LLP for accounting purposes. Instead, the deemed loan to the Originator is recognised with an effective interest rate which reflects the amount receivable under the swap receiving leg.

Contributions and drawings

Under the terms of the transaction documents for the sale of the mortgage loans, the Nationwide Building Society is legally treated as having made a capital contribution to the LLP in an amount equal to the difference between the current balance of the loans sold at transfer date and the cash payment made by the LLP for the loans and relevant security on that transfer date.

If so requested by the Management Board, the members may from time to time make cash contributions to the LLP which will constitute cash capital contributions. The liquidation member, Moulton Capital Finance Limited, will not make any capital contributions to the LLP. No interest is paid on the members' capital balances.

As the sale of the beneficial interest in the mortgage portfolio does not pass the derecognition criteria as described in IAS 39, capital contributions in the financial statements only consist of cash capital contributions.

Capital distributions may only be made in accordance with the LLP Deed where sufficient principal receipts are available and higher priority payments have been made.

Under the priority of payments, payment pro rata and pari passu to the members of the sum of £3,000 in aggregate (or such other sum as may be agreed by members from time to time) is allocated and paid to each member in proportion to their respective capital contribution balances as at the relevant calculation date, subject to a minimum of £1 each, as their profit for their respective interests as members in the LLP.

Deferred consideration

Under the terms of the mortgage sale agreement, the Nationwide Building Society, as the originator of the mortgage loans, retains the right to receive excess income (deferred consideration) arising on those loans, after certain higher priority payments have been met by the LLP. On application of IFRS, deferred consideration is treated as a reduction in the interest due from the Nationwide Building Society on the loan arising from the failure to derecognise the sale of the mortgages.

Interest income and interest expense

Interest income and expense are recognised in the income statement on an effective interest rate (EIR) basis. The EIR 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 LLP estimates cash flows considering all contractual terms of the financial instrument 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.

Interest income on derivatives is included in interest receivable and similar income and interest expense and similar charges in the statement of comprehensive income.

1 Accounting policies (continued)

Fees and commissions

Direct fees and costs incremental to generating a financial instrument are deferred and spread as interest receivable or 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.

Segmental reporting

A business segment is defined as a group of assets and operations providing products and services that are subject to different risks and returns from those of other business segments. The LLP considers that business segments are its primary reporting format for segment analysis. Business segments are based on the LLP's management and internal reporting structures. The LLP has only one business segment, and therefore no segmental analysis is required to be presented.

No segmental analysis is presented on geographical lines because all of the LLP's activities are in the United Kingdom.

Taxation including deferred tax

Taxation on all partnership profits is solely the liability of members. Consequently, neither taxation nor related deferred taxation in the LLP are accounted for in these financial statements.

Financial assets

The entity classifies its financial assets as loans and receivables which are held at amortised cost. These include loans and other debts due from members and cash and cash equivalents shown on the face of the balance sheet.

Loans and other debts due from members

As described above the sale of the beneficial interest in the mortgage portfolio, even though legally acquired from the Nationwide Building Society, does not pass the derecognition criteria as described in IAS 39 and therefore a deemed loan is shown in the balance sheet.

Impairment of financial assets

At each balance sheet date the LLP assesses whether, as a result of one or more events occurring after initial recognition, there is objective evidence that a financial asset has become impaired. Evidence of impairment may include indications that the counterparty is experiencing significant financial difficulty, default or delinquency in interest or principal payments.

1 Accounting policies (continued)

Derivatives and hedge accounting

Derivatives are entered into to reduce exposure to fluctuations in interest rates, exchange rates, market indices and credit risk and are not used for speculative purposes.

a) Derivative financial instruments

Other than as noted in (c) below, derivatives are carried at fair value with movements in fair value recorded in the income statements. Derivative financial instruments are principally valued by discounted cashflow models using yield curves that are based on observable market data or are based on valuations obtained from counterparties. For collateralised positions the LLP uses discount curves based on overnight indexed swap rates, which is a change from last year, as detailed in note 5, and for non-collateralised positions the LLP uses discount curves based on term Libor rates.

All derivatives are classified as assets where their fair value is positive and liabilities where their fair value is negative. Where there is a legal ability and intention to settle net, then the derivative is classified as a net asset or liability, as appropriate.

b) Hedge accounting

When transactions meet the criteria specified in IAS 39, the LLP applies fair value hedge accounting so that changes in the fair value of the underlying asset or liability that are attributable to the hedged risk are recorded in the statement of comprehensive income to offset the fair value movement of the related derivative.

To qualify for hedge accounting the hedge relationship must be clearly documented at inception and the derivative must be expected to be highly effective in offsetting the hedged risk. Effectiveness must be tested throughout the life of the hedge relationship.

The LLP discontinues hedge accounting when:
i) it is evident from testing that a derivative is not, or has ceased to be, highly effective as a hedge;
ii) the derivative expires, or is sold, terminated or exercised; or
iii) the underlying item matures or is sold or repaid.

The LLP may also decide to cease hedge accounting even though the hedge relationship continues to be highly effective by ceasing to designate the financial instrument as a hedge.

If the derivative no longer meets the criteria for hedge accounting, the cumulative fair value hedging adjustment is amortised over the period to maturity of the previously designated hedge relationship. If the underlying item is sold or repaid, the unamortised fair value adjustment is immediately reflected in the statement of comprehensive income.

c) Derivatives hedging beneficial interest in the mortgage portfolio

The LLP holds derivatives to hedge interest rate risk associated with the beneficial interest on the mortgage portfolio. These derivatives are not fair valued as under IAS39 they are accounted for on an accruals basis as part of the deemed loan to originator included in loans and other debts due from members of the LLP.

1 Accounting policies (continued)

Foreign currency translation

The financial statements are presented in Sterling, the LLP's functional currency. Foreign currency transactions are translated into sterling using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currencies are translated at the rate prevailing at the year end. Foreign exchange gains and losses resulting from the retranslation and settlement of these items are recognised in the statement of comprehensive income.

Offsetting financial instruments

Netting arrangements do not generally result in an offset to balance sheet assets and liabilities as transactions are usually settled on a gross basis. The LLP's legal documentation for derivative transactions grants legal rights of set-off for these transactions. Accordingly the credit risk associated with such contracts is reduced to the extent that negative mark to market values on derivatives will offset positive mark to market values on derivatives in the calculation of credit risk, subject to an absolute exposure of zero.

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.

2 Judgements in applying accounting policies and critical accounting estimates

The LLP has to make judgements in applying its accounting policies which affect the amounts recognised in the accounts. 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 in respect of the fair values of derivative financial instruments.

Derivative financial instruments are stated at fair value. Details of the LLP's valuation methods have been detailed in note 1. Fair value is defined as the value at which assets, liabilities or positions could be closed out or sold in a transaction with a willing and knowledgeable counterparty. Fair value is based upon cashflow models which use independently sourced market parameters such as interest rate yield curves and currency rates. Other factors are also considered, such as counterparty credit quality.

3 Interest receivable and similar income	**2012**	2011
	£'000	£'000
Interest receivable from members	302,421	273,310
Bank interest receivable	14,200	9,006
Foreign exchange (loss)	(10,282)	(13,598)
	306,339	268,718

4 Interest payable and similar charges	**2012**	2011
	£'000	£'000
Net expense on loans from members	696,900	652,476
Net income on financial instrument hedging liabilities	(381,852)	(371,202)
	315,048	281,274

5 Gains from derivatives and hedge accounting

	2012	2011 (adjusted)
	£'000	£'000
Derivatives designated as fair value hedges	729,868	(489,228)
Fair value movement attributable to hedged risk	(705,836)	498,165
Gains from fair value hedges (note i)	24,032	8,937
Fair value gains from other derivatives (note ii)	71,687	(3,009)
	95,719	5,928

Notes
(i) Gains or losses from fair value hedges can arise where there is an IFRS hedge accounting relationship in place and either:
- the relationship passed all the monthly effectiveness tests but the fair value of the derivative was not exactly offset by the change in fair value of the liability being hedged (sometimes referred to as hedge effectiveness) or
- the relationship failed the monthly effectiveness test which, for that month, disallows recognition of the change in fair value of the underlying liability being hedged.

(ii) Other derivatives are those used for economic hedging but which are not in an IAS 39 hedge accounting relationship because hedge accounting has not been adopted or is not achievable.

Although the LLP uses derivatives exclusively to hedge risk exposures, income statement volatility can still arise due to hedge accounting ineffectiveness or effectiveness test failures. Management are comfortable that this volatility arises from the application of the accounting rules which do not reflect the economic reality.

A gain of £24 million (2011 – £9 million) has been recognised on assets and liabilities held in hedge accounting relationships. Included within this result were the impacts of the following:

- To align with evolving market convention, the LLP implemented the use of overnight indexed swap (OIS) rates for the discounting of collateralised derivatives, decreasing the fair value of derivatives at 4 April 2012 by £14 million.
- To reflect the increasing basis spreads between interest rate curves, the LLP has refined its estimation technique for fair valuing derivatives and associated liabilities being hedged. At 4 April 2012 the refinement resulted in a net gain of £19 million.

6 Administrative expenses

	2012 £'000	2011 £'000
Audit fees payable as auditor	23	25
Other administrative expenses	1,550	1,016
	1,573	1,041

The LLP employed no staff during the year (2011 – none).

7 Cash and cash equivalents

The LLP has placed its deposit account with the Nationwide Building Society as a provider of a Guaranteed Investment Contract. Withdrawals from this account are restricted by the detailed priority of payments set out in the transaction documents. The cash balance includes £634,461,000 collateral support to the derivatives deposited with the Covered Bond LLP as at 4 April 2012 (2011 - £896,483,000).

8 Loans and other debts due from members

The loan to members of £18,550,681,000 (2011 - £19,450,170,000) represents a deemed loan with the Nationwide Building Society, generated as a result of the beneficial interest in the mortgage portfolio failing the derecognition criteria described in IAS 39. The deemed loan replaces the beneficial interest in the mortgage portfolio legally held by the LLP, and represents the substance of the transaction for accounting purposes.

If the derecognition criteria had been met the LLP would have shown a beneficial interest in a mortgage portfolio of £32,112,959,000 as at 4 April 2012 (2011 - £32,965,408,000). The mortgages are secured on residential property. The loans and advances to customers are all designated in sterling and are either at fixed rates or at variable rates of interest, based on the standard variable rate of the administrator, the Nationwide Building Society.

9 Derivative financial instruments

All derivative financial instruments are held for economic hedging purposes although not all derivatives are designated as hedging instruments under the terms of IAS 39. The table below analyses derivatives between those designated as hedging instruments and those which, whilst in economic hedging relationships, are not designated as hedging instruments.

	2012			2011		
	Contract/ notional amount £'000	Fair value Asset (adjusted) £'000	Fair value liability £'000	Contract/ notional amount £'000	Fair value Asset (adjusted) £'000	Fair value liability £'000
Derivatives designed as fair value hedges						
Interest rate swaps	15,262,510	1,044,877	489	10,250,000	400,975	68,860
Other derivatives not designated in hedge accounting relationships						
Cross currency interest rate swaps	16,251,774	1,379,073	180,480	15,212,000	2,198,643	-
Total	31,514,284	2,423,950	180,969	25,462,000	2,599,618	68,860

9 Derivative financial instruments (continued)

The fair values in the above table are inclusive of accrued interest as follows:

- Cross currency interest rate swap asset includes £2,901,344 interest receivable (2011 - £5,794,034 interest receivable).
- Interest rate swap asset includes £88,209,627 interest receivable (2011 - £93,720,071 interest receivable).
- Cross currency interest rate swap liability includes £3,206,214 interest receivable (2011 - £nil interest receivable).
- Interest rate swap liability includes £93,108 interest receivable (2011 - £24,526,871 interest receivable).

An analysis of the maturity profiles of the derivatives can be found in note 14.

Contract / notional amount indicates the amount outstanding at the balance sheet date and does not represent amounts at risk.

Fair value hierarchy

The derivatives held for hedging, quoted above, fall within level 2 of the fair value hierarchy which is based on the degree to which the fair value is observable. Level 2 is a fair value derived from inputs other than quoted prices that are observable for the asset/liability, either directly (i.e. a price) or indirectly (i.e. derived from prices).

10 Loans from LLP members

The amount owing to members represents advances equivalent to the amounts borrowed by LLP under its Secured Loan Programme, as follows:

Coupon Rate	Maturity	Notional	2012 £'000	2011 £'000
3.5%	due 2015	(EUR 2bn)	**1,648,560**	1,755,707
5.08%	due 2011	(GBP 500m)	**-**	500,000
3.88%	due 2013	(EUR 2bn)	**1,653,527**	1,762,160
4.125%	due 2012	(EUR 2bn)	**-**	1,762,428
4.375%	due 2022	(EUR 2bn)	**1,649,932**	1,758,325
5.5%	due 2012	(USD 2bn)	**1,259,615**	1,238,054
4.625%	due 2012	(EUR 1bn)	**826,903**	881,024
LIBOR + 0.8%	due 2027	(GBP 2.5bn)	**2,500,000**	2,500,000
LIBOR + 0.8%	due 2026	(GBP 3bn)	**-**	3,000,000
LIBOR + 0.5%	due 2018	(GBP 2bn)	**2,000,000**	2,000,000
LIBOR + 0.5%	due 2023	(GBP 2bn)	**-**	2,000,000
2.875%	due 2015	(EUR 1.25bn)	**1,030,592**	1,097,635
4.89%	due 2020	(NOK 500m)	**54,515**	56,335
5.56%	due 2021	(NOK 500m)	**54,464**	56,327
5.625%	due 2026	(GBP 750m)	**742,940**	742,656

10 Loans from LLP members (continued)

Coupon Rate	Maturity	Notional	2012 £'000	2011 £'000
4.625%	due 2021	(EUR 1.25bn)	**1,025,980**	1,092,990
4.74%	due 2031	(EUR 30m)	**24,779**	26,412
4.924%	due 2025	(EUR 132m)	**108,888**	116,062
4.699%	due 2023	(EUR 50m)	**41,335**	44,076
5.695%	due 2021	(NOK 500m)	**54,521**	56,355
LIBOR + 0.75%	due 2014	(GBP 30m)	**29,992**	30,000
5.01%	due 2032	(EUR 50m)	**41,325**	-
5.27%	due 2018	(NOK 400m)	**43,616**	-
4.1%	due 2017	(EUR 58m)	**47,944**	-
EURIBOR + 0.6%	due 2014	(EUR 80m)	**66,151**	-
4.565%	due 2026	(EUR 100m)	**82,680**	-
4.4325%	due 2029	(EUR 40m)	**33,070**	-
4.12%	due 2026	(EUR 50m)	**41,300**	-
STIBOR + 0.95%	due 2014	(SEK 450m)	**42,146**	-
3.77%	due 2027	(EUR 103m)	**85,167**	-
3.75%	due 2029	(EUR 40m)	**33,072**	-
3.125%	due 2016	(EUR 1500m)	**1,235,299**	-
LIBOR + 1.5%	due 2026	(GBP 100m)	**99,994**	-
LIBOR + 1.5%	due 2028	(GBP 100m)	**99,994**	-
LIBOR + 1.5%	due 2031	(GBP 50m)	**49,997**	-
3.9%	due 2032	(EUR 77m)	**63,651**	-
LIBOR + 1.6%	due 2015	(GBP 650m)	**648,983**	-
3.81%	due 2027	(EUR 116m)	**95,672**	-
3.832%	due 2030	(EUR 88m)	**72,761**	-
EURIBOR + 1.15%	due 2023	(EUR 1250m)	**1,033,665**	-
EURIBOR + 1.15%	due 2023	(EUR 1250m)	**1,033,665**	-
3.555%	due 2028	(EUR 158m)	**130,248**	-
Fair value adjustment for micro hedged risk			**934,525**	265,186
Accrued interest			**166,888**	148,384
			20,888,356	22,890,116

11 Other debts due to members

All of the other debts due to members fall due after a minimum of 5 years.

12 Other liabilities

The liabilities below relate to Collateral Support deposited with the Covered Bond LLP by external swap providers following credit rating downgrades of those counterparties.

	2012	2011
	£'000	£'000
Collateral Support	634,461	896,483
Other liabilities	**634,461**	896,483

13 Related party transactions

Ownership Structure of Nationwide Covered Bonds LLP

The members of the LLP are Nationwide Building Society, the controlling party, and Moulton Capital Finance Limited.

Key management personnel

The LLP Management Committee (comprised of directors and/or employees of the Nationwide Building Society and the representatives of the Moulton Capital Finance Limited) manage and conduct the business of the LLP and have all the rights, power and authority to act at all times for and on behalf of the LLP.

No transactions were entered into with key management personnel (2011 – none).

Transactions with Group Companies

A number of transactions are entered into with related parties as part of the LLP's normal business.

These transactions include a deemed loan and a banking relationship with Nationwide Building Society.

	2012	2011
	£'000	£'000
Loans payable to the LLP	18,550,681	19,450,170
Deposits payable by the LLP	(20,888,356)	(22,890,116)
Bank interest receivable	14,200	9,006
Interest receivable from members	302,421	273,310
Interest payable to members	(696,900)	(652,476)
Other amounts owed to related parties	(587,430)	(399,171)

14 Management of risk

The LLP's activities expose it to a number of financial risks including credit risk and liquidity risk. For this reason, Nationwide Building Society devotes considerable resource to maintaining effective controls to manage, measure and mitigate these risks. The LLP uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by a central risk management function of the Nationwide Building Society on a group wide basis.

14 Management of risk (continued)

Control of derivatives

The LLP uses derivative financial instruments to hedge certain of its financial risks but not for any speculative purposes. The Nationwide Building Society's Asset and Liabilities Committee is responsible for setting limits and conditions over the use of derivative products. All exchange traded instruments are subject to cash requirements under the standard margin arrangements applied by the individual exchanges. Such instruments are not subject to significant credit risk.

Credit exposures arising on derivative contracts with certain counterparties are collateralised with cash deposits to mitigate credit exposure where the credit rating of these counterparties is downgraded below a certain level. Cash collateral received on certain derivatives is disclosed in note 12. All derivatives activity is contracted with OECD financial institutions. For valuing collateralised derivatives the LLP introduced the use of discount curves based on overnight indexed swap (OIS) rates in the year ended 4 April 2012, whilst for non-collateralised derivatives the LLP continues to use discount curves based on term Libor rates.

Credit risk

Credit risk arises where there is a possibility that a counterparty may default.

The LLP assesses its counterparties for credit risk before contracting with them. Credit rating is the main method used to measure counterparty credit risk. In accordance with the criteria of the rating agencies that rate the Notes, the Programme Documentation contains various rating triggers linked to each counterparty, which require certain actions to be taken if triggers are breached, including the posting of collateral or the replacement of a counterparty.

Function	Counterparty	Rating as at 4th April 2012 S&P/Moody's/ Fitch	Rating Trigger Breached	Breach Remedy	Rating as at date of approval of financial statements S&P/Moody's/ Fitch
Account Bank	Nationwide Building Society	A-1/P-1/F1 A+/A2/A+	N	-	A-1/P-1/F1 A+/A2/A+
Swap Provider	ABN Amro	A-1/P-1/F1+ A+/Aa3/A+	Y	Collateral Posted	A-1/P-1/F1+ A+/A2/A+
Swap Provider	Barclays Capital	A-1/P-1/F1 A+/Aa3/A	Y	Collateral Posted	A-1/P-1/F1 A+/A2/A
Swap Provider	BNP Paribas	A-1+/P-1/F1+ AA-/Aa3/A+	N	-	A-1+/P-1/F1+ AA-/A2/A+
Swap Provider	Deutsche Bank	A-1/P-1/F1+ A+/Aa3/A+	N	-	A-1/P-1/F1+ A+/A2/A+
Swap Provider	Merrill Lynch	A-2/P-2/F1 A-/Baa1/A	N	-	A-2/P-2/F1 A-/Baa2/A
Swap Provider	Nationwide Building Society	A-1/P-1/F1 A+/A2/A+	N	-	A-1/P-1/F1 A+/A2/A+
Swap Provider	Societe General Paris	A-1/P-1/F1+ A/A1/A+	Y	Collateral Posted	A-1/P-1/F1+ A/A2/A+
Swap Provider	UBS	A-1/P-1/F1 A/Aa3/A	Y	Collateral Posted	A-1/P-1/F1+ A/A2/A

14 Management of risk (continued)

The maximum exposure to credit risk is the carrying amount of the loans and other debts due from members of £18,550,681,000 (2011 - £19,450,170,000), the derivative financial instruments of £2,423,950,000. (2011 - £2,599,618,000) and cash and cash equivalents with Nationwide Building Society of £1,386,686,000 (2011 - £2,189,514,000).

The primary credit risk of the LLP relates to the credit risk associated with the pool of mortgages originated by Nationwide Building Society.

The loans and other debts due from members are secured on residential property. For the LLP, credit risk is additionally mitigated by the over collateralisation of the beneficial interest in mortgages (see note 8) and by eligibility criteria for selection under the secured loan covenants. Subsequent to selection, credit risk is monitored through the application of a monthly asset coverage test. For details of the eligibility criteria and asset coverage test please refer to the Nationwide Covered Bond Base Prospectus dated 15 July 2011. More information on mortgage assets is set out below.

The tables below present the characteristics of the total mortgage loans pool:

	2012	2011
Aggregate loan balance	£32,175m	£33,137m
Number of loans	385,943	400,559
Largest loan	£949,602	£949,711
Average balance of mortgage loan	£83,367	£82,728
Longest dated mortgage legal maturity	45 years	49 years

Distribution by current loan to value ratio (indexed):

	2012	2011
	%	%
<70%	68	69
70% - 80%	14	13
80% - 90%	11	11
90% - 100%	5	5
>100%	2	2
Total book	**100**	100
Average loan to value of book (indexed)	57	56

The value of residential property on which the mortgage loans are secured are updated quarterly to reflect changes in the house prices index.

14 Management of risk (continued)

Mortgage loans and advances by payment due status:

	2012 £'000	%	2011 £'000	%
Not impaired:				
Neither past due nor impaired	31,857,706	99	32,485,127	98
Past due up to 3 months but not impaired	195,266	1	538,046	2
Impaired	122,001	-	114,102	-
	32,174,973	100	33,137,275	100

A mortgage loan is classified as "impaired" if it is more than 3 months past due. At year end, there was £nil impairment provision against the loans and other debts due from members (2011: £nil).

Impaired mortgage loans are further analysed as follows:

	2012 £'000	%	2011 £'000	%
Impaired status:				
Past due 3 to 6 months	66,111	54	65,032	57
Past due 6 to 12 months	41,171	34	39,971	35
Past due over 12 months	14,719	12	9,099	8
Possessions	-	-	-	-
	122,001	100	114,102	100

Residential mortgage accounts by locations:	2012 %	2011 %
South-east England (excluding Greater London)	29	29
Central England	19	19
Northern England	17	17
Greater London	13	13
South-west England	8	8
Scotland	8	8
Wales and Northern Ireland	6	6
	100	100

Liquidity risk

Liquidity risk is the risk that the LLP is unable to meet the payment obligations associated with its financial liabilities when they fall due.

14 Management of risk (continued)

The LLP liquidity policy is to maintain sufficient liquid resources in the Reserve Bank account to service the swap payments for the next month forward, interest on the loan and any service fees. This is reviewed by the cash manager and any shortfall is funded from the general Bank account. Liquidity risk is also mitigated through the additional income collected on the over collateralisation of the beneficial interest in mortgages. All derivatives have the same notional amount and maturity date as the corresponding loans from LLP members.

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

At 4 April 2012 – residual maturity	**Repayable on demand £'000**	**Up to 3 months £'000**	**3 - 12 months £'000**	**1 - 5 years £'000**	**More than 5 years £'000**	**Total £'000**
Assets						
Cash and cash equivalents	1,386,686	-	-	-	-	1,386,686
Loans and other debts due from members	-	(43,565)	3,386,042	10,314,117	4,894,087	18,550,681
Derivative financial instruments	-	94,936	497,340	880,417	951,257	2,423,950
Total assets	**1,386,686**	**51,371**	**3,883,382**	**11,194,534**	**5,845,344**	**22,361,317**
Liabilities						
Loans from LLP members	-	18,850	2,273,337	6,619,558	11,976,611	20,888,356
Other debts due to members	-	-	-	-	587,430	587,430
Derivative financial instruments	-	(1,309)	-	73,524	108,754	180,969
Other liabilities	634,432	29	-	-	-	634,461
Accruals	-	1	-	-	-	1
Total liabilities	**634,432**	**17,571**	**2,273,337**	**6,693,082**	**12,672,795**	**22,291,217**
Net liquidity gap	**752,254**	**33,800**	**1,610,045**	**4,501,452**	**(6,827,451)**	**70,100**

At 4 April 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 and cash equivalents	2,189,514	-	-	-	-	2,189,514
Loans and other debts due from members	-	(60,718)	3,151,646	9,411,499	6,947,743	19,450,170
Derivative financial instruments	-	-	462,152	1,600,384	537,082	2,599,618
Total assets	**2,189,514**	**(60,718)**	**3,613,798**	**11,011,883**	**7,484,825**	**24,239,302**
Liabilities						
Loans from LLP members	152	17,409	2,421,382	6,916,639	13,534,534	22,890,116
Other debts due to members	-	-	-	399,171	-	399,171
Derivative financial instruments	-	-	-	44,176	24,684	68,860
Other liabilities	896,401	82	-	-	-	896,483
Accruals	-	9	-	-	-	9
Total liabilities	**896,553**	**17,500**	**2,421,382**	**7,359,986**	**13,559,218**	**24,254,639**
Net liquidity gap	**1,292,961**	**(78,218)**	**1,192,416**	**3,651,897**	**(6,074,393)**	**(15,337)**

14 Management of risk (continued)

Cash flows are dependant on the underlying mortgage loans originated within Nationwide Building Society. In the normal course of business, a proportion of mortgage borrowers repay their loan in advance of contractual maturity. As a result, the weighted average life of the deemed loan is likely to be significantly less than that implied by the contractual maturity dates of the mortgage pool.

The terms of the loans from LLP members are that repayments of principal will only be made to the extent that sufficient cash flows have been received from the LLP's assets. In the event that prepayment rates in the mortgage pool reduce, principal repayments and the notes may be spread over a longer period.

The table below presents the cash flows payable by the LLP under financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows of all financial liabilities (i.e. nominal values).

At 4 April 2012 Gross contractual cash flows	**Repayable on demand £'000**	**Up to 3 months £'000**	**3 - 12 months £'000**	**1 - 5 years £'000**	**More than 5 years £'000**	**Total £'000**
Loans from LLP members	-	41,626	2,662,033	8,382,175	14,648,447	25,734,281
Other debts due to members		587,430	39,002	220,020	327,667	1,174,119
Derivative liabilities	-	16,448	14,347	136,628	281,010	448,433
Other liabilities	634,461	-	-	-	-	634,461
Total liabilities	**634,461**	**645,504**	**2,715,382**	**8,738,823**	**15,257,124**	**27,991,294**

At 4 April 2011 Gross contractual cash flows	Repayable on demand £'000	Up to 3 months £'000	3 - 12 months £'000	1 - 5 years £'000	More than 5 years £'000	Total £'000
Loans from LLP members	-	41,387	2,937,024	9,601,355	19,051,597	31,631,363
Other debts due from members	152	399,171	28,047	204,648	92,125	724,143
Derivative Liabilities	-	15,753	(37,413)	45,368	57,845	81,553
Other liabilities	896,483	-	-	-	-	896,483
Accruals	9	-	-	-	-	9
Total liabilities	**896,644**	**456,311**	**2,927,658**	**9,851,371**	**19,201,567**	**33,333,551**

Foreign currency risk

The current operating currencies of the LLP are in Sterling, Euros, US Dollars, Norwegian Krona and Swedish Krona. As the LLP prepares its financial statements in Sterling these will be affected by movements in the currency exchange rates. This exposure is mitigated by the use of cross currency derivatives. In particular the LLP hedges all of its exposure on its currency borrowings back to Sterling by the use of cross currency derivatives and it therefore does not have a material economic exposure to foreign exchange gains and losses. Accordingly it does not separately monitor value at risk arising from open foreign currency positions.

An accounting loss of £10,282,000 is included in the statement of comprehensive income in respect of open foreign currency positions for the year ended 4 April 2012 (2011 gain - £13,598,000).

14 Management of risk (continued)

Interest rate risk

The LLP is exposed to interest rate risk in that its multiple currency interest expense is at fixed and floating rate, whilst its interest income originates from its beneficial interest in a pool of the Nationwide Building Society's mortgages at Sterling fixed and floating rates.

The LLP hedges its exposure to fixed and floating currency rate risk through entering into derivative contracts with Nationwide Building Society and external counterparties. Through a combination of basis, interest rate and cross currency swaps, the LLP is able to swap the interest receivable from its beneficial interest in the pool of the mortgages and the interest payable on its loan liabilities such that the resulting cash flows are matched. Therefore the LLP's exposure to interest rate risk is minimal. Only the interest rate swaps are utilised for hedge accounting.

15 Fair value of financial assets and liabilities

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

At 4 April	**2012**		2011	
	Carrying value £'000	**Fair value £'000**	Carrying value £'000	Fair value £'000
Assets				
Cash and cash equivalents	1,386,686	1,386,686	2,189,514	2,189,514
Loans due from members	18,550,681	17,249,774	19,450,170	18,656,726
Liabilities				
Loans from LLP members	20,888,356	20,862,483	22,890,116	23,053,659
Other debts due to members	587,430	587,430	399,171	399,171
Accruals and other liabilities	634,461	634,461	896,492	896,492

The fair value of cash and cash equivalents (all repayable on demand), other debts due to members and accruals and other liabilities approximates to their carrying value.

The estimated fair value of loans due from members represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

The estimated fair value of loans from LLP members represents the discounted amount of cash flows expected to be paid. Expected cash flows are discounted at current market rates to determine fair value.

The fair value of the derivatives falls within level 2 of the fair value hierarchy which is based on the degree to which the fair value is observable. Level 2 is a fair value derived from inputs other than quoted prices that are observable for the asset/liability, either directly (i.e. a price) or indirectly (i.e. derived from prices).

The fair value of derivatives that fall within level 3 of the fair value hierarachy are based on unobservable inputs. There are no instruments that fall within level 3 of the fair value hierarchy as at 4 April 2012 (2011 – none). There have been no movements in and out of level 3 throughout the year

16 Capital management

Capital comprises the retained earnings and is managed on a group basis.

The Nationwide Building Society group is subject to the capital requirements imposed by its regulator, the Financial Services Authority (FSA). During the year, the Nationwide Building Society group complied with the capital requirements set by the FSA.

17 Parent companies

The member companies of the LLP are Nationwide Building Society, the controlling party, and Moulton Capital Finance Limited. Both companies are incorporated in the UK and registered in England and Wales.

The ultimate parent undertaking is Nationwide Building Society.

Copies of Nationwide Building Society Group accounts, which include the results of the LLP, are available from Nationwide Secretariat, Nationwide House, Pipers Way, Swindon, SN38 1NW.