

Nationwide Covered Bonds LLP

Annual report and financial statements for
the year ended 4 April 2013

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NATIONWIDE COVERED BONDS LLP**Annual report and financial statements for the year ended 4 April 2013**

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NATIONWIDE COVERED BONDS LLP

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
1 Embankment Place
London
WC2N 6RH

Registered office

Nationwide House
Pipers Way
Swindon
SN38 1NW

Registered number

OC313878
Registered in England and Wales

NATIONWIDE COVERED BONDS LLP

Members' report for the year ended 4 April 2013

On behalf of the members of Nationwide Covered Bonds LLP (the LLP), the Management Board have pleasure in presenting the member's report and the Audited financial statements for the year ended 4 April 2013. 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.

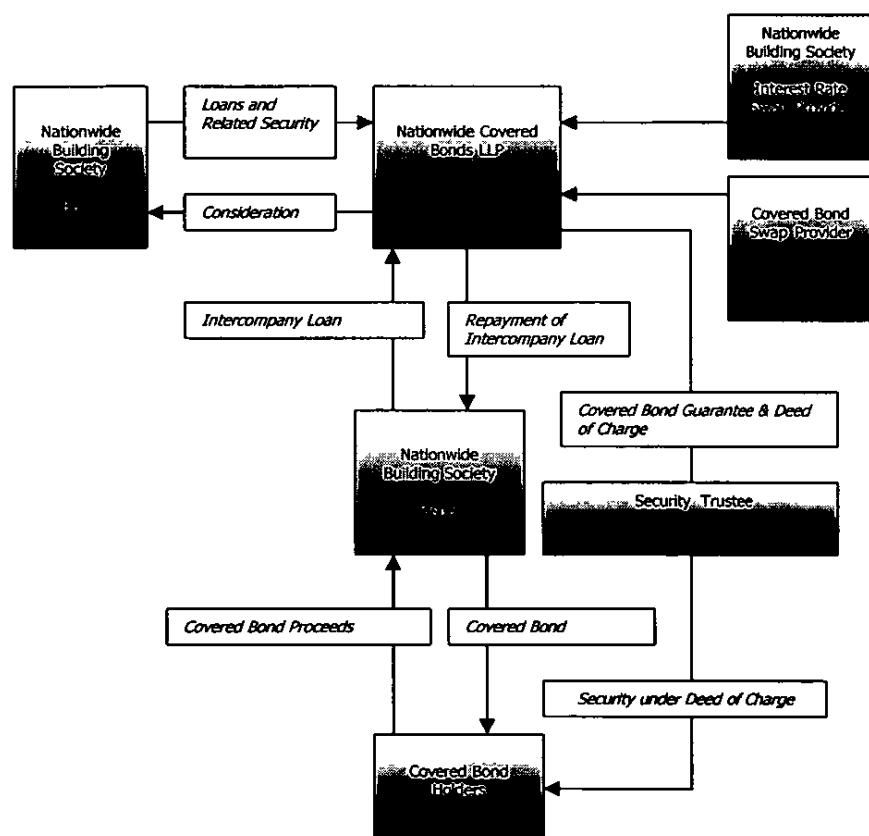
Principal activities

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), 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, 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.



NATIONWIDE COVERED BONDS LLP

Members' report for the year ended 4 April 2013 (continued)

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 3 month 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 £4.3 billion (\$2.0 billion and €3.5 billion) (2012: £7.3 billion). There were no further Covered Bonds issued (2012: £5.1 billion) during the year.

At 4 April 2013, the amount of beneficial interests in the mortgage loan portfolio was £21.8 billion (2012: £32.1 billion) and the amount of the deemed loan was £14.9 billion (2012: £18.6 billion). The difference of £6.9 billion (2012: £13.5 billion) 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.

NATIONWIDE COVERED BONDS LLP

Members' report for the year ended 4 April 2013 (continued)

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), Interest Coverage Test, 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-collateralisation can be estimated using the ACT which is carried out each month and is deemed to establish the level of over-collateralisation 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

NATIONWIDE COVERED BONDS LLP

Members' report for the year ended 4 April 2013 (continued)

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

Mario Miracco

Date: 27th June 2013

NATIONWIDE COVERED BONDS LLP

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 2013 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 2013 and of its loss and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008

NATIONWIDE COVERED BONDS LLP

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

28 June 2013

NATIONWIDE COVERED BONDS LLP**Statement of comprehensive income for the year ended 4 April 2013**

| | Note | 2013 £'000 | 2012 £'000 |
|--|------|---------------|---------------|
| Interest receivable and similar income | 3 | 301,626 | 306,339 |
| Interest payable and similar charges | 4 | (287,315) | (315,048) |
| Net interest income/(expense) | | 14,311 | (8,709) |
| (Losses)/gains from derivatives and hedge accounting | 5 | (75,933) | 95,719 |
| Administrative expenses | 6 | (1,363) | (1,573) |
| (Loss)/Profit and total comprehensive (expense)/income for the year | | (62,985) | 85,437 |

The notes on pages 13 to 30 form part of these financial statements

Balance sheet as at 4 April 2013

| | Note | 2013 £'000 | 2012 £'000 |
|---|------|-------------------|-------------------|
| Assets | | | |
| Cash and cash equivalents | 7 | 1,952,041 | 1,386,686 |
| Loans and other debts due from members | 8 | 14,857,842 | 18,550,681 |
| Derivative financial instruments | 9 | 2,347,832 | 2,423,950 |
| Total assets | | 19,157,715 | 22,361,317 |
| Liabilities | | | |
| Loans from LLP members | 10 | 17,179,897 | 20,888,356 |
| Other debts due to members | 11 | 534,383 | 587,430 |
| Derivative financial instruments | 9 | 102,392 | 180,969 |
| Accruals | | 31 | 1 |
| Other liabilities | 12 | 1,333,897 | 634,461 |
| Total liabilities | | 19,150,600 | 22,291,217 |
| Members' other interests | | | |
| General reserve | | 7,115 | 70,100 |
| Total members' other interests | | 7,115 | 70,100 |
| Total members' other interests and liabilities | | 19,157,715 | 22,361,317 |
| Total members' interests | | | |
| Members' interests in general reserves | | 7,115 | 70,100 |
| Loans from LLP members | | 17,179,897 | 20,888,356 |
| Other debts due to members | | 534,383 | 587,430 |
| Loans and other debts due from members | | (14,857,842) | (18,550,681) |
| Total members' interests | | 2,863,553 | 2,995,205 |

The financial statements were approved and authorised for issue by the Board of Directors on 27 June 2013

The notes on pages 13 to 30 form part of these financial statements

Signed on behalf of the members


Mario Miracco

NATIONWIDE COVERED BONDS LLP**Cash flow statement for the year ended 4 April 2013**

| | 2013 £'000 | 2012 £'000 |
|---|-----------------------------|-----------------------------|
| (Loss)/profit for the financial year | (62,985) | 85,437 |
| Adjustments for | | |
| Change in derivatives and hedge accounting | 75,933 | (95,719) |
| Change in foreign exchange | (12,948) | 10,282 |
| Net profit before working capital changes | - | - |
| Adjustments for | | |
| Change in other creditors | 699,467 | (262,030) |
| Change in other debts due to members | (53,047) | 188,259 |
| Change in interest receivable on derivative financial instruments | (40,427) | 19,048 |
| Change in interest payable on loans from members | (41,636) | 18,504 |
| Net cash flows generated by/(used in) operating activities | 564,357 | (36,219) |
| Cash flows from investing activities: | | |
| Receipt of loans advanced to members | 3,692,839 | 899,489 |
| Net cash flows generated from investing activities | 3,692,839 | 899,489 |
| Cash flows from financing activities: | | |
| Repayment of loans from members | (3,691,841) | (1,666,098) |
| Net cash flows used in financial activities | (3,691,841) | (1,666,098) |
| Net change in cash and cash equivalents | 565,355 | (802,828) |
| Cash and cash equivalents at beginning of year | 1,386,686 | 2,189,514 |
| Cash and cash equivalents at end of year | 1,952,041 | 1,386,686 |

The notes on pages 13 to 30 form part of these financial statements

NATIONWIDE COVERED BONDS LLP**Statement of movements in members' interests for the year ended 4 April 2013**

As at 4 April 2013

| | General reserve £'000 | Loans from/(to) members £'000 | Total £'000 |
|--|-----------------------------|--|------------------|
| General reserve at 5 April 2012 | 70,100 | - | 70,100 |
| Profit for the year | (62,985) | - | (62,985) |
| Balance carried forward at 4 April 2013 | 7,115 | - | 7,115 |
| Loans from members | - | 17,179,897 | 17,179,897 |
| Other debts due to members | - | 534,383 | 534,383 |
| Loans and other debts due from members | - | (14,857,842) | (14,857,842) |
| Members' interests as at 4 April 2013 | 7,115 | 2,856,438 | 2,863,553 |

As at 4 April 2012

| | General Reserve (adjusted) £'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 |

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 £7 0 billion at 4th April 2013 (2012 £13 6 billion)

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

NATIONWIDE COVERED BONDS LLP

Notes to the financial statements for the year ended 4 April 2013

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

In the light of current and anticipated economic conditions, the members have assessed the Company's ability to continue as a going concern. The members confirm they are satisfied that the LLP has adequate resources to continue in business for the foreseeable future and that therefore, it is appropriate to adopt the going concern basis in preparing this preliminary financial information.

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.

Future accounting developments

The following pronouncements, relevant to the LLP, have been adopted by the European Union (EU) but were not effective at 4 April 2013 and has not therefore been applied in preparing these financial statements.

| Pronouncement | Nature of change | Effective date |
|--|--|--|
| IFRSs 10 – 12 and amendments to IAS 27 and 28 | A package of five new and revised standards addressing the accounting for consolidation, involvements in joint arrangements and disclosure of involvements with other entities. The new and revised standards are not expected to have an impact for the LLP | Accounting periods (AP) beginning on or after 1 January 2014 |
| IFRS 13 Fair Value Measurement | Replaces guidance on fair value measurement in existing IFRS accounting literature with a single standard. The standard provides guidance on the calculation of the fair value of financial and non-financial assets and liabilities and additionally requires enhanced disclosures. The new and revised standards are not expected to have an impact for the LLP | AP beginning on or after 1 January 2013 |
| IFRS 7 Offsetting Disclosures | Requires additional disclosures to enable users to evaluate the effect of netting arrangements, including rights of set off, of financial assets and liabilities | AP beginning on or after 1 January 2013 |
| IAS 32 Offsetting Financial Assets and Financial Liabilities | Clarifies existing offsetting criteria. The amendment is not expected to have an impact for the LLP | AP beginning on or after 1 January 2014 |

NATIONWIDE COVERED BONDS LLP

Notes to the financial statements for the year ended 4 April 2013 (continued)

1 Accounting policies (continued)

The following pronouncement, relevant to the LLP, was neither adopted by the EU nor effective at 4 April 2013 and have not therefore been applied in preparing these financial statements.

| Pronouncement | Nature of change | Effective date |
|------------------------------|---|---|
| IFRS 9 Financial Instruments | <p>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. The available for sale (AFS) category for financial assets will no longer be available.</p> <p>Financial liabilities will be treated as at present under IAS 39, with the exception that where the Company opts 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.</p> <p>The IASB is currently proposing amendments to the above classification and measurement requirements of IFRS 9 Phase 1.</p> <p>Phases 2 and 3 of IFRS 9 will address the impairment of financial assets and general (micro) hedge accounting respectively.</p> <p>IFRS 9 will have a significant impact for the LLP, the full extent of which is currently being considered.</p> | AP beginning on or after 1 January 2015 |

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.

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.

NATIONWIDE COVERED BONDS LLP

Notes to the financial statements for the year ended 4 April 2013 (continued)

1 Accounting policies (continued)

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.

NATIONWIDE COVERED BONDS LLP

Notes to the financial statements for the year ended 4 April 2013 (continued)

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 and exchange rates 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, as detailed in note 5, and for non-collateralised positions the LLP uses discount curves based on term Libor rates.

In measuring fair value, separate credit valuation and debit valuation adjustments are made for counterparty or own credit risk to the extent not already included in the valuation.

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.

NATIONWIDE COVERED BONDS LLP

Notes to the financial statements for the year ended 4 April 2013 (continued)

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. There have been no significant estimates or judgements.

| 3 Interest receivable and similar income | 2013 £'000 | 2012 £'000 |
|---|-----------------------|-----------------------|
| Interest receivable from members | 283,460 | 302,421 |
| Bank interest receivable | 5,218 | 14,200 |
| Foreign exchange gain/(loss) | 12,948 | (10,282) |
| | 301,626 | 306,339 |

| 4 Interest payable and similar charges | 2013 £'000 | 2012 £'000 |
|--|-----------------------|-----------------------|
| Net expense on loans from members | 557,306 | 696,900 |
| Net income on financial instrument hedging liabilities | (269,991) | (381,852) |
| | 287,315 | 315,048 |

NATIONWIDE COVERED BONDS LLP

Notes to the financial statements for the year ended 4 April 2013 (continued)

5 (Losses)/gains from derivatives and hedge accounting

| | 2013 £'000 | 2012 £'000 |
|--|---------------|---------------|
| Derivatives designated as fair value hedges | 240,416 | 729,868 |
| Fair value movement attributable to hedged risk | (211,255) | (705,836) |
| Gains from fair value hedge accounting (note i) | 29,161 | 24,032 |
| Fair value (losses)/gains from other derivatives (note ii) | (105,094) | 71,687 |
| | (75,933) | 95,719 |

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 a monthly effectiveness test which, for that month, disallows recognition of the change in fair value of the underlying asset or liability being hedged and in following months leads to the amortisation of existing balance sheet positions
- (ii) Other derivatives are those used for economic hedging but which are not in an IAS 39 hedge accounting relationship because hedge accounting is not achievable

Although the LLP uses derivatives exclusively to hedge risk exposures in interest rates or exchange rates, income statement volatility can still arise due to hedge accounting ineffectiveness or because hedge accounting is not achievable. Management recognise that this arises from the application of accounting rules which do not reflect the economic reality of the business and as such this volatility will continue period on period but will always trend back to zero over time.

A loss of £76 million (2012 £96 million gain) has been recognised in the year ended 4 April 2013 for derivatives and hedge accounting. Included within this result was the impact of the following accounting losses:

- Gains of £29 million (2012 £24 million) on micro hedge relationships due to the reversal of past ineffectiveness on a covered bond liability that matured in the year, and
- A £105 million loss (2012 £72 million gain), principally a result of volatility in sterling euro interest rates on cross currency interest rate swaps used to economically hedge non-sterling wholesale funding

6 Administrative expenses

| | 2013 £'000 | 2012 £'000 |
|-----------------------------------|---------------|---------------|
| Credit Rating Agency fees | 313 | 834 |
| Legal fees | 212 | 340 |
| Non audit fees payable to auditor | 174 | 75 |
| Audit fees payable as auditor | 24 | 23 |
| Other administrative expenses | 640 | 301 |
| | 1,363 | 1,573 |

The LLP employed no staff during the year (2012 none)

NATIONWIDE COVERED BONDS LLP

Notes to the financial statements for the year ended 4 April 2013 (continued)

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 £1,333.9 million collateral support to the derivatives deposited with the Covered Bond LLP as at 4 April 2013 (2012: £634.5 million).

8 Loans and other debts due from members

The loan to members of £14,857.8 million (2012: £18,550.7 million) 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 £21,841.0 million as at 4 April 2013 (2012: £32,113.0 million). 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.

| | 2013 | | | 2012 | | |
|--|--|------------------------------|-------------------------------------|--|------------------------------|----------------------------------|
| | Contract/ notional amount £'000 | Fair value Asset £'000 | Fair value liability £'000 | Contract/ notional amount £'000 | Fair value Asset £'000 | Fair value liability £'000 |
| Derivatives designed as fair value hedging instruments | | | | | | |
| Interest rate swaps | 7,883,742 | 1,271,691 | 2,390 | 15,262,510 | 1,044,877 | 489 |
| Other derivatives not designated in hedge accounting relationships | | | | | | |
| Cross currency interest rate swaps | 8,748,296 | 1,076,141 | 100,002 | 16,251,774 | 1,379,073 | 180,480 |
| Total | 16,632,038 | 2,347,832 | 102,392 | 31,514,284 | 2,423,950 | 180,969 |

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

- Cross currency interest rate swap asset includes £298,326 interest receivable (2012: £2,901,344 interest receivable).
- Interest rate swap asset includes £105,616,212 interest receivable (2012: £88,209,627 interest receivable).
- Cross currency interest rate swap liability includes £4,691,973 interest receivable (2012: £3,206,214 interest receivable).
- Interest rate swap liability includes nil interest receivable (2012: £93,108 interest receivable).

NATIONWIDE COVERED BONDS LLP

Notes to the financial statements for the year ended 4 April 2013 (continued)

9 Derivative financial instruments (continued)

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 | 2013 £'000 | 2012 £'000 |
|----------------|----------|--------------|---------------|---------------|
| 3.5% | due 2015 | (EUR 2bn) | 1,690,100 | 1,648,560 |
| 3.88% | due 2013 | (EUR 2bn) | 1,694,048 | 1,653,527 |
| 4.375% | due 2022 | (EUR 2bn) | 1,690,394 | 1,649,932 |
| 5.5% | due 2012 | (USD 2bn) | - | 1,259,615 |
| 4.625% | due 2012 | (EUR 1bn) | - | 826,903 |
| LIBOR + 0.8% | due 2027 | (GBP 2.5bn) | 2,500,000 | 2,500,000 |
| LIBOR + 0.5% | due 2018 | (GBP 2bn) | 2,000,000 | 2,000,000 |
| 2.875% | due 2015 | (EUR 1.25bn) | 1,056,571 | 1,030,592 |
| 4.89% | due 2020 | (NOK 500m) | 56,877 | 54,515 |
| 5.56% | due 2021 | (NOK 500m) | 56,831 | 54,464 |
| 5.625% | due 2026 | (GBP 750m) | 743,289 | 742,940 |
| 4.625% | due 2021 | (EUR 1.25bn) | 1,051,679 | 1,025,980 |
| 4.74% | due 2031 | (EUR 30m) | 25,384 | 24,779 |
| 4.924% | due 2025 | (EUR 132m) | 111,564 | 108,888 |
| 4.699% | due 2023 | (EUR 50m) | 42,342 | 41,335 |
| 5.695% | due 2021 | (NOK 500m) | 56,882 | 54,521 |
| LIBOR + 0.75% | due 2014 | (GBP 30m) | 29,996 | 29,992 |
| 5.01% | due 2032 | (EUR 50m) | 42,332 | 41,325 |
| 5.27% | due 2018 | (NOK 400m) | 45,505 | 43,616 |
| 4.1% | due 2017 | (EUR 58m) | 49,115 | 47,944 |
| EURIBOR + 0.6% | due 2014 | (EUR 80m) | 67,765 | 66,151 |
| 4.565% | due 2026 | (EUR 100m) | 84,693 | 82,680 |
| 4.4325% | due 2029 | (EUR 40m) | 33,875 | 33,070 |
| 4.12% | due 2026 | (EUR 50m) | 42,308 | 41,300 |
| STIBOR + 0.95% | due 2014 | (SEK 450m) | 45,345 | 42,146 |
| 3.77% | due 2027 | (EUR 103m) | 87,239 | 85,167 |
| 3.75% | due 2029 | (EUR 40m) | 33,877 | 33,072 |

NATIONWIDE COVERED BONDS LLP

Notes to the financial statements for the year ended 4 April 2013 (continued)

10 Loans from LLP members (continued)

| Coupon Rate | Maturity | Notional | 2013 £'000 | 2012 £'000 |
|---|----------|-------------|---------------|---------------|
| 3 125% | due 2016 | (EUR 1500m) | 1,266,458 | 1,235,299 |
| LIBOR + 1.5% | due 2026 | (GBP 100m) | 99,994 | 99,994 |
| LIBOR + 1 5% | due 2028 | (GBP 100m) | 99,994 | 99,994 |
| LIBOR + 1 5% | due 2031 | (GBP 50m) | 49,997 | 49,997 |
| 3 9% | due 2032 | (EUR 77m) | 65,201 | 63,651 |
| LIBOR + 1 6% | due 2015 | (GBP 650m) | 649,347 | 648,983 |
| 3 81% | due 2027 | (EUR 116m) | 98,015 | 95,672 |
| 3 832% | due 2030 | (EUR 88m) | 74,531 | 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) | 133,401 | 130,248 |
| Fair value adjustment for micro hedged risk | | | 1,179,696 | 934,525 |
| Accrued interest | | | 125,252 | 166,888 |
| | | | 17,179,897 | 20,888,356 |

11 Other debts due to members

All of the other debts due to members fall due after a minimum of 5 years (2012 all debts fell 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

| | 2013 £'000 | 2012 £'000 |
|--------------------|---------------|---------------|
| Collateral Support | 1,333,897 | 634,461 |
| Other liabilities | 1,333,897 | 634,461 |

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

NATIONWIDE COVERED BONDS LLP

Notes to the financial statements for the year ended 4 April 2013 (continued)

13 Related party transactions (continued)

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 (2012 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

| | 2013 | 2012 |
|---------------------------------------|--------------|--------------|
| | £'000 | £'000 |
| Loans payable to the LLP | 14,857,842 | 18,550,681 |
| Deposits payable by the LLP | (17,179,897) | (20,888,356) |
| Bank interest receivable | 5,218 | 14,200 |
| Interest receivable from members | 283,460 | 302,421 |
| Interest payable to members | (557,306) | (696,900) |
| Other amounts owed to related parties | (534,383) | (587,430) |

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.

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 uses discount curves based on overnight indexed swap (OIS) rates, whilst for non-collateralised derivatives the LLP continues to use discount curves based on term Libor rates.

NATIONWIDE COVERED BONDS LLP**Notes to the financial statements for the year ended 4 April 2013 (continued)****14 Management of risk (continued)****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 4 th April 2013 | Rating Trigger Breached | Breach Remedy | Rating as at date of approval of financial statements S&P/Moody's/ Fitch |
|----------|-------------------|--|-------------------------------|-------------------|--|
| | | S&P/Moody's/ Fitch | | | |
| Account | Nationwide | A-1/P-1/F1 | N | - | A-1/P-1/F1 |
| Bank | Building Society | A+/A2/A+ | | | A+/A2/A+ |
| Swap | Barclays Bank plc | A-1/P-1/F1 | Y | Collateral Posted | A-1/P-1/F1 |
| Provider | | A+/A2/A | | | A+/A2/A |
| Swap | BNP Paribas | A-1/P-1/F1+ | Y | Collateral Posted | A-1+/P-1/F1+ |
| Provider | | A+/A2/A+ | | | AA-/A2/A+ |
| Swap | Deutsche Bank | A-1/P-1/F1+ | Y | Collateral Posted | A-1/P-1/F1+ |
| Provider | | A+/A2/A+ | | | A+/A2/A+ |
| Swap | Nationwide | A-1/P-1/F1 | N | - | A-1/P-1/F1 |
| Provider | Building Society | A+/A2/A+ | | | A+/A2/A+ |
| Swap | Societe General | A-1/P-1/F1+ | Y | Collateral Posted | A-1/P-1/F1+ |
| Provider | Paris | A/A2/A+ | | | A/A2/A+ |
| Swap | UBS | A-1/P-1/F1 | Y | Collateral Posted | A-1/P-1/F1+ |
| Provider | | A/A2/A | | | A/A2/A |
| Swap | Wells Fargo | A-1+/P-1/F1+ | N | | A-1+/P-1/F1+ |
| Provider | | AA-/Aa3/AA- | | | AA-/Aa3/AA- |

The maximum exposure to credit risk is the carrying amount of the loans and other debts due from members of £14,858 million (2012 £18,551 million), the derivative financial instruments of £2,348 million (2012 £2,424 million) and cash and cash equivalents with Nationwide Building Society of £1,952 million (2012 £1,387 million).

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 28 June 2012. More information on mortgage assets is set out below.

NATIONWIDE COVERED BONDS LLP**Notes to the financial statements for the year ended 4 April 2013 (continued)****14 Management of risk (continued)**

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

| | 2013 | 2012 |
|---------------------------------------|----------|----------|
| Aggregate loan balance | £21,856m | £32,175m |
| Number of loans | 266,821 | 385,943 |
| Largest loan | £918,807 | £949,602 |
| Average balance of mortgage loan | £81,911 | £83,367 |
| Longest dated mortgage legal maturity | 46 years | 45 years |

Distribution by current loan to value ratio (indexed)

| | 2013 | 2012 |
|---|------------|------------|
| | % | % |
| <70% | 69 | 68 |
| 70% - 80% | 15 | 14 |
| 80% - 90% | 10 | 11 |
| 90% - 100% | 4 | 5 |
| >100% | 2 | 2 |
| Total book | 100 | 100 |
| Average loan to value of book (indexed) | 56 | 57 |

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

Mortgage loans and advances by payment due status

| | 2013 | | 2012 | |
|--|-------------------|------------|-------------------|------------|
| | £'000 | % | £'000 | % |
| Not impaired | | | | |
| Neither past due nor impaired | 21,658,118 | 99 | 31,857,706 | 99 |
| Past due up to 3 months but not impaired | 105,712 | 1 | 195,266 | 1 |
| Impaired | 91,765 | - | 122,001 | - |
| | 21,855,595 | 100 | 32,174,973 | 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 (2012: £nil)

NATIONWIDE COVERED BONDS LLP**Notes to the financial statements for the year ended 4 April 2013 (continued)****14 Management of risk (continued)**

Impaired mortgage loans are further analysed as follows

| | 2013 | | 2012 | |
|-------------------------|---------------|------------|----------------|------------|
| | £'000 | % | £'000 | % |
| Impaired status | | | | |
| Past due 3 to 6 months | 47,784 | 52 | 66,111 | 54 |
| Past due 6 to 12 months | 30,706 | 34 | 41,171 | 34 |
| Past due over 12 months | 13,275 | 14 | 14,719 | 12 |
| Possessions | - | - | - | - |
| | 91,765 | 100 | 122,001 | 100 |

| Residential mortgage accounts by locations | 2013 | 2012 |
|---|-------------|-------------|
| | % | % |
| 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

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.

NATIONWIDE COVERED BONDS LLP

Notes to the financial statements for the year ended 4 April 2013 (continued)

14 Management of risk (continued)

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 2013 – residual maturity | Repayable on demand £'000 | Up to 3 months £'000 | 3 - 12 months £'000 | 1 - 5 years £'000 | More than 5 years £'000 | Total £'000 |
|--|------------------------------|-------------------------|------------------------|----------------------|----------------------------|-------------------|
| Assets | | | | | | |
| Cash and cash equivalents | 1,952,041 | - | - | - | - | 1,952,041 |
| Loans and other debts due from members | - | (29,585) | 2,103,651 | 5,887,387 | 6,896,389 | 14,857,842 |
| Derivative financial instruments | - | (5,175) | 496,635 | 566,206 | 1,290,166 | 2,347,832 |
| Total assets | 1,952,041 | (34,760) | 2,600,286 | 6,453,593 | 8,186,555 | 19,157,715 |
| Liabilities | | | | | | |
| Loans from LLP members | - | 11,675 | 1,878,534 | 5,055,615 | 10,234,073 | 17,179,897 |
| Other debts due to members | - | - | - | - | 534,383 | 534,383 |
| Derivative financial instruments | - | (4,692) | - | 50,920 | 56,164 | 102,392 |
| Other liabilities | 1,333,897 | - | - | - | - | 1,333,897 |
| Accruals | - | 31 | - | - | - | 31 |
| Total liabilities | 1,333,897 | 7,014 | 1,878,534 | 5,106,535 | 10,824,620 | 19,150,600 |
| Net liquidity gap | 618,144 | (41,774) | 721,752 | 1,347,058 | (2,638,065) | 7,115 |

| 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 |

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.

NATIONWIDE COVERED BONDS LLP

Notes to the financial statements for the year ended 4 April 2013 (continued)

14 Management of risk (continued)

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 2013 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 | - | 22,956 | 2,225,903 | 6,544,703 | 12,497,400 | 21,290,962 |
| Other debts due to members Note (i) | - | - | - | - | 534,383 | 534,383 |
| Derivative financial instruments | - | 4,538 | 11,710 | 77,022 | 100,564 | 193,834 |
| Other liabilities | 1,333,897 | - | - | - | - | 1,333,897 |
| Total liabilities | 1,333,897 | 27,494 | 2,237,613 | 6,621,725 | 13,132,347 | 23,353,076 |

| 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 financial instruments | - | 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 |

Notes

(i) Other debts due to members represents excess revenue receipts currently held by Covered Bond LLP and are repayable upon the winding up of the structure.

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 gain of £12.9 million is included in the statement of comprehensive income in respect of open foreign currency positions for the year ended 4 April 2013 (2012 loss £10.3 million).

NATIONWIDE COVERED BONDS LLP

Notes to the financial statements for the year ended 4 April 2013 (continued)

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 | 2013 | | 2012 | |
|--------------------------------|-------------------------|---------------------|-------------------------|---------------------|
| | Carrying value £'000 | Fair value £'000 | Carrying value £'000 | Fair value £'000 |
| Assets | | | | |
| Cash and cash equivalents | 1,952,041 | 1,952,041 | 1,386,686 | 1,386,686 |
| Loans due from members | 14,857,842 | 13,866,623 | 18,550,681 | 17,249,774 |
| Liabilities | | | | |
| Loans from LLP members | 17,179,897 | 17,050,607 | 20,888,356 | 20,862,483 |
| Other debts due to members | 534,383 | 534,383 | 587,430 | 587,430 |
| Accruals and other liabilities | 1,333,928 | 1,333,928 | 634,461 | 634,461 |

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 hierarchy are based on unobservable inputs. There are no instruments that fall within level 3 of the fair value hierarchy as at 4 April 2013 (2012: none). There have been no movements in and out of level 3 throughout the year.

NATIONWIDE COVERED BONDS LLP

Notes to the financial statements for the year ended 4 April 2013 (continued)

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 Prudential Regulation Authority (PRA). During the year, the Nationwide Building Society group complied with the capital requirements set by the PRA.

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, a company incorporated in England and Wales.

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.