Registered Number: OC313878

Nationwide Covered Bonds LLP

Annual Report and Financial Statements for the year ended 4 April 2019

Contents **Page**

Members and Partnership Information

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
London
SE1 2RT

Registered Office

Nationwide House
Pipers Way
Swindon
SN38 1NW

Registered Number

OC313878
Registered in England and Wales

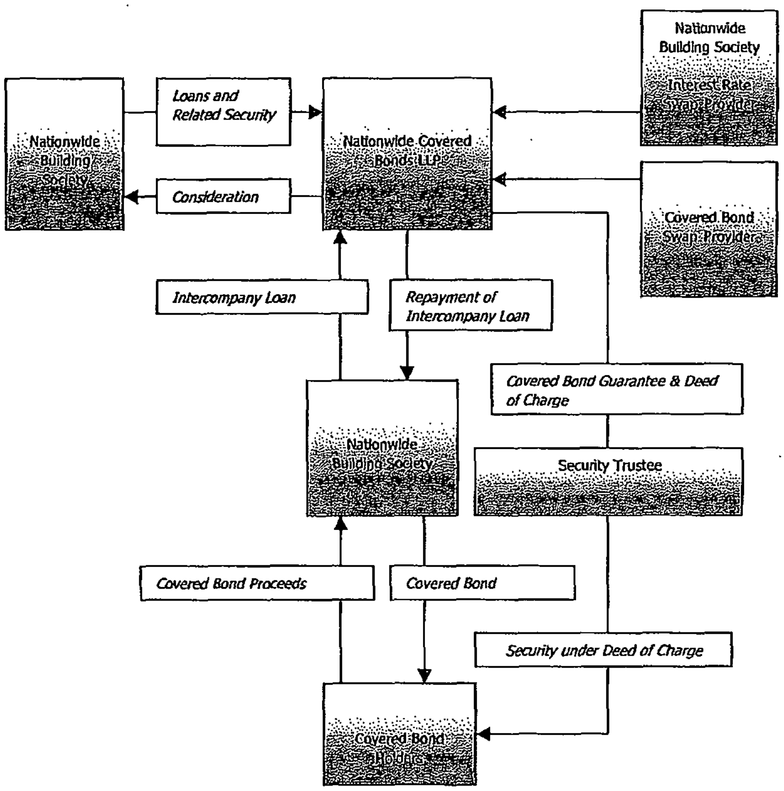
Members' Report for the year ended 4 April 2019

On behalf of the members of Nationwide Covered Bonds LLP (the "LLP"), the Management Board have pleasure in presenting the members' report and the audited financial statements for the LLP for the year ended 4 April 2019. As set out in the accounting policies, the Annual Report and Financial Statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework. All financial information given in the members' report is taken solely from the statutory results prepared on the above basis. The members consider the financial statements to be fair, balanced and understandable.

Business Objectives and Principal Activities

The LLP is a limited liability partnership which was incorporated by Nationwide Building Society ("the Society" or "NBS"") and Moulton Capital Finance Limited. The LLP is registered, domiciled and operates solely in the UK. The LLP was incorporated on 25 June 2005. The LLP is a special purpose vehicle whose purpose is to guarantee the Covered Bonds issued by the Society by acquiring mortgage loans and their related security from the Society (the "Originator") pursuant to the terms of the Mortgage Sale Agreement entered on 30 November 2005, when trading commenced. No change in principal activity is envisaged or has occurred during the year.

The LLP enters into interest rate swap agreements with the Society under which it swaps the interest cash flows of the mortgage loans for 3-month LIBOR plus a 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 are Sterling (GBP) (the LLP's functional currency), Euros (EUR) and Norwegian Krona (NOK). The LLP enters into currency swap agreements under which it pays cash flows in GBP and receives EUR and NOK cash flows which are used to pay the loans to Nationwide. The 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 the 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 IFRS 9 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 differences between the 'deemed loan' and the balance of mortgage loans is legally recognised as a capital contribution in the LLP. However, as the mortgage loans fail the derecognition criteria of IFRS 9, 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 amount is 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 plus a 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.

Employees

The LLP does not have any employees (2018: No employees).

Designated Members

The following designated members have remained unchanged since incorporation of the LLP on 25 June 2005:

- Nationwide Building Society
- Moulton Capital Finance Limited

Going Concern

The LLP's majority member interest is held by Nationwide Building Society. The Society's board of directors has confirmed that it will continue to fund the LLP's activities for the foreseeable future. The foreseeable future is considered for this purpose to be a period of at least 12 months forward from the date of approval of the financial statements. Taking this into account, the members have a reasonable expectation that the LLP has adequate resources to continue in business for the foreseeable future and therefore continue to adopt the going concern basis in preparing the financial statements.

Environment

Nationwide Building Society and its consolidated subsidiaries (collectively the "Group") recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to reduce any damage that might be caused by the Group's activities. The Group has a comprehensive programme of activity on environmental issues. It runs an active carbon saving programme and has acted on issues such as transport, lighting, heating and recycling.

Domicile

The LLP is registered and domiciled in the United Kingdom. The registered office is Nationwide House, Pipers Way, Swindon, Wiltshire, SN38 1NW.

Independent Auditors

PricewaterhouseCoopers LLP (PwC) has been appointed by the members as the auditors of the LLP and are to remain in office until the conclusion of the LLP's annual general meeting. Ernst & Young LLP (EY) will be recommended as auditors for 2019/20 at the forthcoming Annual Members' Meeting, in accordance with the Companies Act 2006 as applied to the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 (the "Regulations").

Members and Members' Interests

The LLP members during the year and up to the date of signing the financial statements are shown on page 2. At no time during the year have the members' executive and non-executive directors, or their connected parties, had any beneficial interest in the LLP nor have they had a material interest in any contract significant to the LLP's business.

Statement of members' responsibilities in respect of the financial statements

The members are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation. 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 financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). 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 limited liability partnership and of the profit or loss of the limited liability partnership for that period. In preparing the financial statements, the members are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the limited liability partnership will continue in business.

The members are also responsible for safeguarding the assets of the limited liability partnership and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The members are responsible for keeping adequate accounting records that are sufficient to show and explain the limited liability partnership's transactions and disclose with reasonable accuracy at any time the financial position of the limited liability 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.

Statement of Disclosure of Information to Auditors

In accordance with Section 418 of the Companies Act 2006 as applicable to limited liability partnerships, for each member in office at the date the members' report is approved:

- So far as the members are aware, there is no relevant audit information of which the LLP's auditors are unaware, and
- Each member has taken all the steps necessary as a member to make themselves aware of any relevant audit information and to establish that the LLP's auditors are aware of that information.

By order of the Management Board

Jim Gibbons

For and on behalf of the LLP

Date: 12 July 2019

Strategic Report for the year ended 4 April 2019

As set out in the accounting policies, the Annual Report and Financial Statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework.

Business Review

In the year to 4 April 2019, the LLP structure serviced an additional £2,465.6 million of covered bond issuances:

Note	Amount	Date
CB 2018-01	British Pound 1,000.0 million	12 April 2018
CB 2018-02	Euro 500.0 million	31 May 2018
CB 2018-03	Euro 30.0 million	4 October 2018
CB 2019-01	British Pound 1,000.0 million	10 January 2019

During the year, there were two covered bonds note maturities:

Note	Amount	Date
CB 2015-04	British Pound 750.0 million	27 April 2018
CB 2011-10	Norwegian Krona 400.0 million	9 May 2018

The balance sheet on page 11 of the financial statements shows the LLP's financial position at the year end.

Future Developments

The LLP will continue to guarantee covered bonds issued by the Society by acquiring mortgage loans and their related security from the Society.

Strategic Goals

Although strategic goals are set at Group level, the Management Board is aware of the LLP's role in supporting the Group's ambition to meet these goals. Further information on the Group's strategic goals and performance against these goals, as well as the strategic goals for the next five years can be found in the Overview section of the Group Annual Report and Accounts.

The programme performance is monitored monthly for financial and non-financial indictors including covenants and tests for managing risk which are published within the monthly investor report (available via the Nationwide Building Society website), for example: Asset Coverage Test (ACT); Interest Coverage Test; Service 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 rating agencies 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.

To date, all loan and note repayments have been made in accordance with the scheduled repayment dates.

Results

The loss for the year was £32.5 million (2018: £12.6 million profit). This is composed primarily of net interest income of £4.2 million (2018: £3.7 million), loss from derivatives and hedge accounting of £32.5 million (2018: £12.6 million profit) and administrative expenses of £4.2 million (2018: £3.7 million).

Profits on a cash flow basis are pre-determined under the Covered Bonds LLP programme documentation. The cash flow profits before tax, which exclude gains/(losses) from derivatives and hedge accounting and foreign exchange gains/(losses), are fixed to a maximum of £1 per annum.

At 4 April 2019, the amount of the beneficial interest in the mortgage loan portfolio was £22,655.9 million (2018: £21,000.4 million) and the amount of the deemed loan was £15,057.5 million (2018: £13,581.9 million). The difference of £7,598.4 million (2018: £7,418.5 million) mainly represents the amount of over-collateralisation in the structure.

Risk Management and Control of the Group

The Group's mutual model ensures focus on securing the long-term needs of its members whilst maintaining a balance sheet primarily invested in UK residential property and an investment grade liquidity portfolio. Sound management has reduced the Group's exposure to higher risk assets over recent years and retained profits have allowed investment in ongoing service development and strengthened the capital position.

While the Group is a low risk organisation, inevitably it faces challenges that pose strategic risks to the delivery of planned objective and operational risks as it continues to embrace the digital revolution.

The LLP's risk management policies are set at Group level. Effective risk management is at the heart of the business, supporting the delivery of the Group's strategy by ensuring the business is built to last and continues to be safe and sustainable, protecting members' interests. An enterprise-wide risk management framework ensures that risks are managed effectively. This is underpinned by the three lines of defence model which ensures independent oversight and audit of risks management carried out by the business.

The Group's principal risks are:

- Lending risk
- Financial risk
- Operational risk
- Conduct and compliance risk
- Strategic risk

Nationwide will continue to focus on the above and emerging risks, monitor the macroeconomic environment, and ensure we deliver what is required by our regulators and other authorities. Other areas of focus will include risks associated with the execution of Nationwide's strategy, reviews into specific areas of risk, and the simplification of the ERMF (Enterprise Risk Management Framework) to further improve its effectiveness. Expectations of the safety, security, resilience and ethics of financial institutions remain high and the Secured Funding Committee engages fully with management to oversee the continued strengthening of these within the Society's business operations to ensure that our customers' interests are safeguarded.

The risk management objectives and policies which correspond to these risks and uncertainties and detail on how these are managed and mitigated can be found in the Governance section of the 2019 Group Annual Report and Financial Statements. Further details can also be found in note 13 of the LLP's Financial Statements.

By order of the Management Board

Jim Gibbons

For and on behalf of the LLP

Date: 12 July 2019

Independent Auditor's Report to the Members of Nationwide Covered Bonds LLP

Report on the audit of the financial statements

Opinion

In our opinion, Nationwide Covered Bonds LLP's financial statements:

- give a true and fair view of the state of the company's affairs as at 4 April 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 4 April 2019; the profit and loss account, and the statement of movements in members' interest for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the members' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the members have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The members are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Members' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Independent Auditor's Report to the Members of Nationwide Covered Bonds LLP (Continued)

Strategic Report and Members' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Members' Report for the year ended 4 April 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Members' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the members for the financial statements

As explained more fully in the Statement of the Members' Responsibilities set out on page 5, the members are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The members are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the members are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the members either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Laura Needham

Laura Needham (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
12 July 2019

Profit and Loss Account for the year ended 4 April 2019

	Note	2019 £'m	2018 £'m
Interest Receivable & Similar Income	3	217.0	148.8
Interest Payable & Similar Expenses	4	(212.8)	(145.1)
Net Interest Income		**4.2**	**3.7**
(Losses)/Gains from Derivatives & Hedge Accounting	5	(32.5)	12.6
Administrative Expenses	6	(4.2)	(3.7)
(Loss)/Profit for the Year		**(32.5)**	**12.6**

No other comprehensive income was earned during the year (2018: £nil).

The notes on pages 13 to 34 form part of these financial statements.

Balance Sheet as at 4 April 2019

	Note	2019 £'m	2018 £'m
Assets			
Cash & Cash Equivalents	7	1,647.6	1,569.5
Loans & Other Debts Due from Members	8	15,057.5	13,581.9
Derivative Financial Instrument Assets	9	2,161.1	2,335.2
Other Assets	10	8.1	10.5
Total Assets		**18,874.3**	**17,497.1**
Liabilities			
Loans from Members	11	17,732.6	16,166.3
Derivative Financial Instrument Liabilities	9	116.9	143.2
Other Liabilities	12	1,057.8	1,188.1
Total Liabilities		**18,907.3**	**17,497.6**
Members' Other Interests			
General Reserve		(33.0)	(0.5)
Total Members' Other Interests		**(33.0)**	**(0.5)**
Total Members' Other Interests & Liabilities		**18,874.3**	**17,497.1**
Total Members' Interest			
Members' Interest in General Reserves		(33.0)	(0.5)
Loans from Members		17,732.6	16,166.3
Loans & Other Debts Due from Members		(15,057.5)	(13,581.9)
Total Members' Interest		**2,642.1**	**2,583.9**

The notes on pages 13 to 34 form part of these financial statements.

The members acknowledge their responsibility for complying with the requirements of the Companies Act 2006 with respect to accounting records and for the preparation of financial statements.

The financial statements were approved by the members on 12 July 2019.

Signed on behalf of the members

Jim Gibbons

Registration Number OC313878

Statement of Movements in Members' Interest for the year ended 4 April 2019

	General Reserve £'m	Loans from Members £'m	Total Members' Interest £'m
General Reserve at 5 April 2018	(0.5)	-	(0.5)
Loss for the Year	(32.5)	-	(32.5)
Balance Carried Forward at 4 April 2019	(33.0)	-	(33.0)
Loans from Members	-	17,732.6	17,732.6
Loans & Other Debts Due from Members	-	(15,057.5)	(15,057.5)
Members' Interests as at 4 April 2019	(33.0)	2,675.1	2,642.1

	General Reserve £'m	Loans from Members £'m	Total Members' Interest £'m
General Reserve at 5 April 2017	(13.1)	-	(13.1)
Profit for the Year	12.6	-	12.6
Balance Carried Forward at 4 April 2018	(0.5)	-	(0.5)
Loans from Members	-	16,166.3	16,166.3
Loans & Other Debts Due from Members	-	(13,581.9)	(13,581.9)
Members' Interests as at 4 April 2018	(0.5)	2,584.4	2,583.9

The notes on pages 13 to 34 form part of these financial statements.

1. Accounting Policies

Basis of Preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

The financial statements have been prepared under the historical cost convention as modified to include the fair value of derivatives to the extent required or permitted under the relevant financial reporting framework and as set out in the relevant accounting policies. As stated in the Directors' report, the directors consider that it is appropriate to adopt the going concern basis in preparing the accounts.

The LLP has taken advantage of the following disclosure exemptions under FRS 101:

- The requirements of International Accounting Standard 7 Statement of Cash Flows (IAS 7)
- The requirements of paragraphs 30 and 31 of International Accounting Standard 8 Accounting Policies, Changes in Accounting Estimates and Errors (IAS 8)
- The requirements of International Accounting Standard 24 Related Party Disclosures (IAS 24) to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is party to the transaction is wholly owned by such a member

A summary of the LLP's accounting policies is set out below. The accounting policies have been consistently applied. The financial statements are presented in Sterling and all values are rounded to the nearest million pounds (£'m) except where otherwise indicated.

Further information about judgements in applying accounting policies and critical accounting estimates is provided in note 2.

New Standards, Amendments and IFRIC Interpretations

The LLP has adopted the following standards with effect from 5 April 2018:

- IFRS9 'Financial Instruments'
- IFRS 15 'Revenue from Contracts with Customers'

Contributions and Drawings

Under the terms of the transaction document for the sale of the mortgage loans, Nationwide Building Society is legally treated as having made a capital contribution to the LLP for 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 securities 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 IFRS 9, capital contributions consist only 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.

1. **Accounting Policies (Continued)**

Contributions and Drawings (Continued)

Under the priority of payments, payment 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 balance as at the relevant calculation date, subject to a minimum of £1 each, as their profit for their respective interest as members in the LLP.

Deferred Consideration

Under the terms of the mortgage sale agreement, 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. Deferred consideration is treated as a reduction in the interest due from Nationwide Building Society on the loan arising from the failure to derecognise the sale of the mortgages. Deferred consideration is presented with other debt due to members were not paid.

Interest Receivable and Interest Expense

For instruments measured at amortised cost the effective interest rate (EIR) method is used to measure the carrying values of a financial asset or liability and to allocate associated interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instruments 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 (for example early redemption penalty charges) and anticipated customer behaviour 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, transaction costs, and all other premiums or discounts above or below market rates.

Interest income is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets. For credit-impaired financial assets the interest income is calculated by applying the EIR to the amortised cost of the credit-impaired financial assets (i.e. net of the allowance for expected credit losses (ECLs)).

Interest receivable is presented net of amounts payable for profits more than the £1 per annum limit set out in the programme documents. The associated amounts payable is presented net with loans and other debts due to members.

Fees and Commissions

Fees and commission expense includes fees other than those that are an integral part of EIR. Fees and commissions are recognised on the accrual basis as series are provided, or on the performance of a significant act.

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 is accounted for in these financial statements.

1. Accounting Policies (Continued)

Non-Derivative Financial Instruments

Financial assets comprise of cash and cash equivalents and loans and other debts due from members. Financial liabilities comprise of loans from members. Non-derivative financial instruments are held at amortised cost.

Derecognition of non-derivative financial instruments is the point at which the LLP removes an asset or liability from its balance sheet. Financial assets are derecognised when the rights to receive cash flows have expired or where the assets have been transferred and substantially all the risks and rewards of ownership have been transferred. Financial liabilities are derecognised when the obligation is discharged, cancelled or has expired.

If a transferor retains substantially all the risks and rewards associated with the transferred assets, the transactions 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 has retained substantially all the exposure to risks and rewards of the pool of mortgage loans and therefore, 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 flow from the mortgage loans which are nor 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.

Impairment of Financial Assets

Financial assets within the scope of IFRS 9 expected credit loss (ECL) requirements comprise all financial debt instruments measured at amortised cost. The ECL represents the present value of expected cash shortfalls following the default of a financial instrument. A cash shortfall is the difference between the cash flows that are due in accordance with the contractual terms of the instrument and the cash flows that the LLP expects to receive.

The allowance for ECLs is based on an assessment of the probability of default, exposure at default and loss given default, discounted at the effective interest rate to give a net present value. The estimation of ECLs is unbiased and probability weighted, considering all reasonable and supportable information, including forward looking economic assumptions and a range of possible outcomes. ECLs are typically calculated from initial recognition of the financial assets for the maximum contractual period that the LLP is exposed to the credit risk.

For financial assets recognised in the balance sheet at amortised cost, the allowance for ECLs is offset against the gross carrying value so that the amount presented in the balance sheet is net of impairment provisions.

Forward Looking Economic Inputs

ECLs are calculated by reference to information on past events, current conditions and forecasts of future economic conditions. Multiple economic scenarios are incorporated into ECL calculation models. These scenarios are based on external sources where available and appropriate, and internally generated assumptions in all other cases.

1. Accounting Policies (Continued)

Impairment of Financial Assets (Continued)

Credit Risk Categorisation

For the purpose of calculating ECLs, assets are categorised into three 'stages' as follows:

Stage 1: No Significant Increase in Credit Risk Since Initial Recognition

On initial recognition, and for financial assets where there has not been a significant increase in credit risk since the date of advance, provision is made for losses from credit default events expected to occur within the next 12 months. Expected credit losses for these stage 1 assets continue to be recognised on the basis unless there is a significant increase in the credit risk of the asset.

Stage 2: Significant Increase in Credit Risk

Financial assets are categorised as being within stage 2 where an instrument has experienced a significant increase in credit risk since initial recognition. For these assets, provision is made for losses from credit default events expected to occur over the lifetime of the instrument.

Whether a significant increase in credit risk has occurred is ascertained by comparing the probability of default at the reporting date to the probability of default at origination, based on quantitative and qualitative factors. Quantitative considerations consider changes in the residual lifetime probability of default (PD) of the asset. As a backstop, all asset with an arrear's status of more than 30 days past due on contractual payments are considered to be in stage 2.

Stage 3: Credit Impaired (or Defaulted) Loans

Financial assets are transferred into stage 3 when there is objective evidence that an instrument is credit impaired. Provisions for stage 3 assets are made on the basis of credit default events expected to occur over the lifetime of the instrument. Assets are considered credit impaired when:

- Contractual payments of either principal or interest are past due by more than 90 days;
- There are other indications that the borrower is unlikely to pay such as signs of financial difficulty, probable bankruptcy, breaches of contract and concession events which have a detrimental impact on the present value of future cashflows; or
- The loan is otherwise considered to be in default.

Interest income on stage 3 credit impaired loans is recognised in the income statements on the loan balance net of the ECL provision. The balance sheet value of stage 3 loans reflects the contractual terms of the assets, and continues to increase over time with the contractually accrued interest.

Transfer Between Stages

Transfers from stage 1 to 2 occur when there has been a significant increase in credit risk and from stage 2 to 3 when credit impairment is indicated as described above.

For assets in stage 2 or 3, loans can transfer back to stage 1 or 2 once the criteria for a significant increase in credit risk or impairment are no longer met. For loans subject to concession events such as forbearance, accounts are transferred back to stage 1 or 2 only after being up to date for a period of 12 months.

1. Accounting Policies (Continued)

Impairment of Financial Assets (Continued)

Write-Off

Loans remain on the balance sheet, net of associated provisions, until they are redeemed to have no reasonable expectation of recovery. Loans are generally written off after realisation of any proceeds from collateral and upon conclusion of the collections process, including consideration of whether an account has reached a point where continue attempts to recover are no longer likely to be successful. Where a loan is not recoverable, it is written off against the related provision for loan impairment once all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the value of impairment losses recorded in the income statement.

Derivatives and Hedge Accounting

a) Derivative Financial Instruments

Derivatives are carried at fair value with movements in fair values recorded in the profit and loss account. Derivative financial instruments are principally valued by discounted cash flow 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, and for non-collateralised positions the LLP uses discount curves based on term LIBOR rates.

In the first instance fair values are calculated using mid prices. An adjustment is then made to derivative assets and liabilities to value them on a bid and offer basis respectively. The bid-offer adjustment is calculated on a portfolio basis and reflects the costs that would be incurred if substantially all residual net portfolio market risks were closed out using available hedging instruments or by disposing of or unwinding actual positions. The methodology for determining the bid-offer adjustment involves netting between long and short positions and the grouping of risk by type, in accordance with hedging strategy. Bid-offer spreads are derived from market sources such as broker data and are reviewed periodically.

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 the legal ability and intention to settle net, then the derivative is classified as a net asset or liability, as appropriate.

Where cash collateral is received, to mitigate the risk inherent in amounts due to the LLP, it is included as a liability. Where cash collateral is given, to mitigate the risk inherent in amounts due from the LLP, it is included as an asset.

1. Accounting Policies (Continued)

Derivatives and Hedge Accounting (Continued)

b) Hedge Accounting

The LLP applies IAS 39 for all of its hedge accounting requirements. When transactions meet the criteria specified in IAS 39, the Company can apply two types of hedge accounting: either hedges of the changes in fair value of the financial asset or liability or hedges of the variability in cash flows of the financial asset or liability. The Company does not have hedges of net investments. The financial statement note for derivative financial instruments sets out the split of the derivative portfolio between fair value, cash flow and no hedge accounting at the balance sheet date.

At inception each hedge relationship is formally documented, including a description of the hedged item (a financial asset or liability which is being economically hedged) and the hedging instrument (a derivative), as well as the methods which will be used to assess the effectiveness of the hedge. Hedges are required to be highly effective (i.e. the fair value offset between hedged item and hedging instrument is in the 80-125% range) on both a retrospective and a prospective basis.

Fair value and cash flow hedges may have residual hedge ineffectiveness. This is the degree to which the change in fair value of the hedging instrument does not offset the change in fair value of the hedged item. This ineffectiveness is recognised in the income statement and typically arises from:

- differences in the magnitude or timing of future expected cashflows in the hedged item and hedging instrument;
- differences in the market curves used to value the hedged item and hedging instrument;
- unexpected adjustments to either the hedged item or hedging instrument, due to early repayments or disposals;
- the ongoing amortisation of any existing balance sheet mismatch between the fair value of the hedged item and hedging instrument.

The LLP discontinues hedge accounting when:

- it is evident from testing that a hedging instrument is not, or has ceased to be, highly effective as a hedge;
- the hedging instrument expires, or is sold, terminated or exercised;
- the hedged item matures or is sold or repaid or, in the case of a forecasted item, is no longer deemed to be highly probable to occur.

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.

Fair Value Hedge Accounting

Fair value hedge accounting results in the carrying value of the hedged item being adjusted to reflect changes in fair value attributable to the risk being hedged. This creates an offset to the fair value movements of the hedging instrument. Changes in the fair value of the hedged items and hedging instruments are recorded in the income statement.

1. Accounting Policies (Continued)

Derivatives and Hedge Accounting (Continued)

b) Hedge Accounting (Continued)

Fair Value Hedge Accounting (Continued)

For larger and distinctively identifiable assets and liabilities, such as debt securities in issue, a single or small number of hedging instruments may be used. This is referred to as a micro fair value hedge. If the hedge is highly effective, the LLP adjusts the carrying value of that specific asset or liability to reflect changes in its fair value due to movements in the designated benchmark rate, such as Libor or Sonia. This creates an offset to the fair value movement of the hedging instruments.

In fair value hedge accounting relationships, if the hedging instrument no longer meets the criteria for hedge accounting, the cumulative fair value hedge adjustment is amortised over the period to maturity of the previously designated hedge relationship. If the hedged item is sold or repaid, the unamortised fair value adjustment is immediately recognised in the income statement.

Cash Flow Hedge Accounting

In a cash flow hedge accounting relationship, the portion of the hedging instrument's fair value movement that is deemed to be an effective hedge is deferred to the cash flow hedge reserve, instead of being immediately recognised in the income statement. The ineffective portion of the derivative fair value movement is recognised immediately in the income statement.

Amounts deferred to the cash flow hedge reserve are subsequently recycled to the income statement. This recycling occurs when the underlying asset or liability being hedged impacts the income statement, for example when interest payments are recognised. In cash flow hedge accounting relationships, if the derivative no longer meets the criteria for hedge accounting, the cumulative gain or loss from the effective portion of the movement in the fair value of the derivative remains in other comprehensive income until the cash flows from the underlying hedged item are recognised in the income statement. If the hedged item is sold or repaid, the cumulative gain or loss in other comprehensive income is immediately recognised in the income statement.

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 IAS 39 they are accounted for on an accrual basis as part of the deemed loan to originator included in loans and other debts due from members of the LLP.

Foreign Exchange Translation

The LLP holds monetary items denominated in foreign currencies which are translated at the rate prevailing at the balance sheet date. The Group applies cash flow hedge accounting to derivatives which are used to economically hedge foreign currency items with fair value gains and losses on these derivatives presented within 'gains/losses from derivatives and hedge accounting' in the profit and loss account.

Segmental Reporting

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

2. Judgements in Applying Accounting Policies and Critical Accounting Estimates

Expected Credit Loss Allowance

Impairment is measured as the impact of credit risk on the present value of management's estimate of future cash flows. In determining the required level of impairment provisions, the LLP uses outputs from statistical models, incorporating a number of estimates and judgements to determine the Probability of Default (PD), the Exposure at Default, and the Loss Given Default of each loan. The most significant area of estimation uncertainty is the use of forward-looking information. The most significant are of judgement is the approach to identify significant increases in credit risk and impairment / the definition of default.

Use of Forward-Looking Economic Information

Forward looking economic information is incorporated into the measurement of provisions in two ways: as an input to the valuation of ECL and as a factor in determining the staging of an asset. Management exercises judgement in estimating future economic conditions which are incorporated through modelling of multiple economic scenarios (MES).

The use of MES ensures that the calculation of ECL captures a range of possible outcomes. It addresses the risk of non-linearity in the relationship between credit losses and economic conditions, with provisions increasing more in unfavourable conditions (particularly sever conditions) than they reduce in favourable conditions. The IFRS 9 ECL provision recognised is therefore the probability-weighted sum of the provisions calculated under a range of economic scenarios. The scenarios and the weightings are derived using external data and statistical methodologies, together with management judgement, to determine scenarios which span an appropriately wide range of plausible economic conditions.

Identifying Significant Increases in Credit Risk (Stage 2)

Loans are allocated to stage 1 or stage 2 according to whether there has been a significant increase in credit risk. The Company have used judgement to select both quantitative and qualitative criteria which are used to determine whether a significant increase in credit risk has taken place.

Identifying Credit Impaired Loans and the Definition of Default (Stage 3)

The identification of credit impaired loans and the definition of default is an important judgement within the IFRS 9 staging approach. A loan is credit impaired where it has an arrears status of more than 90 days past due, is considered in default or it is considered unlikely that the borrower will repay the outstanding balance in full, without recourse to actions such as releasing security.

3. Interest Receivable and Similar Income

	2019	2018
	£'m	£'m
Interest Receivable from Members	363.5	362.1
Interest Payable on Derivative Financial Instruments	(49.2)	(87.7)
Other Interest Payable	(5.4)	(6.1)
Excess Profits Payable	(91.9)	(119.5)
	217.0	**148.8**

4. Interest Payable and Similar Expenses

	2019	2018
	£'m	£'m
Interest Payable on Loans from Members	325.9	308.4
Interest Receivable on Derivative Financial Instruments	(113.1)	(163.3)
	212.8	**145.1**

5. (Losses)/Gains from Derivatives and Hedge Accounting

	2019	2018
	£'m	£'m
Derivatives Designated as Fair Value Hedges	160.6	(314.9)
Fair Value Movement Attributable to Hedged Risk	(152.3)	304.2
Gains/(Losses) from Fair Value Hedge Accounting (Note i)	**8.3**	**(10.7)**
Fair Value (Losses)/Gains from Other Derivatives (Note ii)	(32.8)	31.0
Foreign Exchange Loss	(8.0)	(7.7)
	(32.5)	**12.6**

Notes

(i) Gains or losses from fair value hedges can arise where there is a 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 (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 lead 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 currently applied.

Although the LLP uses derivatives exclusively to hedge risk exposure in interest rates or exchange rates, volatility in the profit and loss account 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.

5. Gains/(Losses) from Derivatives and Hedge Accounting (Continued)

A loss of £32.5 million (2018: £12.6 million profit) has been recognised in the year ended 4 April 2019 for derivatives and hedge accounting. Included within this result was the impact of the following:

- Gain of £8.3 million (2018: £10.7 million loss) on hedge accounting relationships
- Loss of £32.8 million (2018: £31.0 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
- Loss of £8.0 million (2018: £7.7 million loss) on foreign exchange as a result of the IAS21 revaluation of currency items

Fair Value Hedge Accounting

Change in Fair Value used for Determining Hedge Ineffectiveness	**Hedged Item**	**Instrument ***
	2019	**2019**
	£'m	**£'m**
Loans from Members	(152.3)	160.6
** Interest Rate Swaps*		

	2019
	£'m
Hedge Ineffectiveness Recognised in the Income Statement	8.2
Carrying Amount of the Hedged Item	14,701.6
Of Which: Accumulated Fair Value Adjustment	970.6

6. Administrative Expenses

Administrative expenses include fees payable to PwC as auditor of £25,000 (2018: £27,000) and non-audit fees of £118,000 (2018: £218,000).

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 the account are restricted by the detailed priority of payments set out in the transaction documents. The cash balance includes £1,057.8 million (2018: £1,188.0 million) collateral support to the derivatives deposited with Covered Bonds LLP as at 4 April 2019 by swap providers other than Nationwide Building Society.

8. Loans and Other Debts Due from Members

The loan to members of £15,057.5 million (2018: £13,581.9 million) represent a deemed loan to Nationwide Building Society, generated as a result of the beneficial interest in the mortgage portfolio failing the derecognition criteria described in IFRS 9. 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 £22,655.9 million as at 4 April 2019 (2018: £21,000.4 million). The mortgages are secured on residential property and are all designated in Sterling at either fixed rates or at variable rates of interest, based on the standard variable rate of the Society. As discussed in note 1, the LLP has entered a basis swap with the Society to swap the interest flow from these mortgages into floating rate of return based on LIBOR. This swap is not recognised as a separate derivative financial instrument.

	2019 £'m	2018 £'m
Loans & Other Debts Due from Members	15,057.5	13,581.9
Over-Collateralisation	6,424.6	6,336.1
Excess Profits Payable	1,173.5	1,081.6
Accrued Interest on Basis Swaps	0.3	0.8
Beneficial Interest in a Mortgage Portfolio	**22,655.9**	**21,000.4**

Reconciliation of Movement in Gross Balance and Impairment Provisions

	Non-Credit Impaired				Credit Impaired			
	Stage 1		Stage 2		Stage 3		Total	
	Gross Balance £'m	Provision £'m	Gross Balance £'m	Provision £'m	Gross Balance £'m	Provision £'m	Gross Balance £'m	Provision £'m
05 April 2018	21,000.4	-	-	-	-	-	21,000.4	-
Stage Transfers	-	-	-	-	-	-	-	-
Movements	1,655.5	-	-	-	-	-	1,655.5	-
04 April 2019	22,655.9	-	-	-	-	-	22,655.9	-
Net Carrying Amount		22,655.9		-		-		22,655.9
Income Statement Charge for the Year								-

The loan and other debts due from members balance is classified as stage 1 non-credit impaired and subject to 12-month ECL. At no time during the year was any part of the loan classified as stage 2 or stage 3 and there were no transfers between stages.

The loan and other debts due from members balance reflects the bonds in issue and movements during the year are a result of net issuances and redemptions.

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 following table analyses derivatives between those designated as hedging instruments and those which, whilst in economic hedging relationships, are not designated as hedging instruments.

2019	Contract/Notional Amount £'m	Fair Value Asset £'m	Fair Value Liability £'m
Derivatives Designed as Fair Value Hedging Instruments			
Interest Rate Swaps	13,673.9	1,010.3	1.8
Other Derivatives Not Designated In Hedge Accounting Relationships			
Cross Currency Interest Rate Swaps	11,879.9	1,150.8	115.1
	25,553.8	2,161.1	116.9

2018	Contract/Notional Amount £'m	Fair Value Asset £'m	Fair Value Liability £'m
Derivatives Designed as Fair Value Hedging Instruments			
Interest Rate Swaps	13,508.4	927.0	66.9
Other Derivatives Not Designated In Hedge Accounting Relationships			
Cross Currency Interest Rate Swaps	11,460.0	1,408.2	76.3
	24,968.4	2,335.2	143.2

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

- Cross currency interest rate swap assets include £3.6 million interest payable (2018: £3.7 million)
- Interest rate swap assets include £79.7 million interest receivable (2018: £67.1 million)
- Cross currency interest rate swap liabilities include £0.8 million interest receivable (2018: £0.0 million)
- Interest rate swap liabilities include £0.5 million interest receivable (2018: £12.1 million)

An analysis of the maturity profiles of the derivatives can be found in note 13.

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

9. Derivative Financial Instruments (Continued)

Offsetting

The LLP has financial assets and liabilities for which there is a legally enforceable right to set off the recognised amounts, and which may be settled net. However, the netting arrangements do not result in an offset of balance sheet assets and liabilities for accounting purposes as the right to set off is not unconditional in all circumstances. Therefore, in accordance with IAS 32 Financial Instruments: Presentation, there are no financial assets or liabilities which are offset with the net amount presented on the balance sheet. All financial assets and liabilities are presented on a gross basis on the balance sheet.

In accordance with IFRS 7 Financial Instruments: Disclosures, the following table shows the impact on derivative financial instruments, relating to transactions where:

- There is an enforceable master netting arrangement or similar agreement in place, but the offset criteria are otherwise not satisfied
- Financial collateral is paid and received

Master netting arrangements consist of agreements such as an International Swaps and Derivatives Association (ISDA) Master Agreement, whereby outstanding transactions with the same counterparty can be offset and settled net following a default or other predetermined event.

Financial collateral on derivative financial instruments consists of cash and securities settled, typically daily or weekly, to mitigate the mark to market exposures. Where cash collateral is received to mitigate the risk inherent in amounts due to the LLP, it is included as a liability. Where cash collateral is given to mitigate the risk inherent in amounts due from the LLP, it is included as an asset.

The 'Net amounts after offsetting under IFRS 7' presented below shows the exposure to counterparty credit risk for derivative contracts after netting benefits, and are not necessarily intended to represent the LLP's actual exposure to credit risk due to a variety of credit mitigation strategies which may be employed in addition to netting and collateral arrangements. Any such credit mitigation strategies are discussed further in the Credit Risk section of note 13.

9. Derivative Financial Instruments (Continued)

2019	Amounts Reported on the Balance Sheet £'m	Master Netting Arrangements £'m	Financial Collateral £'m	Net Amount After Off Setting Under IFRS 7 £'m
Financial Assets				
Derivative Financial Instruments	2,161.1	(114.4)	(1,010.8)	1,035.9
Total Assets	**2,161.1**	**(114.4)**	**(1,010.8)**	**1,035.9**
Financial Liabilities				
Derivative Financial Instruments	116.9	(114.4)	-	2.5
Total Liabilities	**116.9**	**(114.4)**	-	**2.5**

2018	Amounts Reported on the Balance Sheet £'m	Master Netting Arrangements £'m	Financial Collateral £'m	Net Amount After Off Setting Under IFRS 7 £'m
Financial Assets				
Derivative Financial Instruments	2,335.2	(125.5)	(1,142.6)	1,067.1
Total Assets	**2,335.2**	**(125.5)**	**(1,142.6)**	**1,067.1**
Financial Liabilities				
Derivative Financial Instruments	143.2	(125.5)	-	17.7
Total Liabilities	**143.2**	**(125.5)**	-	**17.7**

10. Other Assets

	2019 £'m	2018 £'m
Prepayments	8.1	10.5
	8.1	**10.5**

Other assets primarily relate to fees paid upon novation of derivatives which are being amortised to the profit and loss account over the life of the derivatives.

11. Loans from Members

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

Issuance	Currency	Notional (Million)	Maturity	Coupon Rate	2019 £'m	2018 £'m
Series 2007-1 (Tranche 2)	EUR	2,000.0	28 February 2022	4.375%	1,711.2	1,745.4
Series 2011-03	EUR	1,250.0	08 February 2021	4.625%	1,068.4	1,089.0
Series 2011-04	EUR	30.0	03 March 2031	4.740%	25.7	26.2
Series 2011-05	EUR	132.0	28 November 2025	4.924%	112.9	115.2
Series 2011-06	EUR	50.0	14 March 2023	4.699%	42.8	43.7
Series 2011-09	EUR	50.0	28 April 2032	5.010%	42.8	43.7
Series 2011-13	EUR	100.0	03 August 2026	4.565%	85.6	87.4
Series 2011-14	EUR	40.0	08 August 2029	4.433%	34.3	34.9
Series 2011-15	EUR	50.0	02 September 2026	4.120%	42.8	43.7
Series 2011-17	EUR	103.0	05 October 2027	3.770%	88.2	90.0
Series 2011-18	EUR	40.0	15 October 2029	3.750%	34.3	34.9
Series 2011-23	EUR	77.0	01 November 2032	3.900%	65.9	67.3
Series 2012-02	EUR	116.0	17 February 2027	3.810%	99.3	101.3
Series 2012-03	EUR	88.0	22 February 2030	3.832%	75.4	76.9

11. Loans from Members (Continued)

Issuance	Currency	Notional (Million)	Maturity	Coupon Rate	2019 £'m	2018 £'m
Series 2012-06	EUR	157.5	20 March 2028	3.555%	134.9	137.6
Series 2014-01	EUR	1,000.0	25 June 2019	0.750%	856.3	873.3
Series 2014-02	EUR	750.0	25 June 2029	2.250%	637.9	650.4
Series 2014-04	EUR	56.0	16 September 2039	1.940%	42.8	43.7
Series 2014-05	EUR	50.0	19 September 2039	2.067%	48.0	48.9
Series 2014-06	EUR	1,000.0	29 October 2021	0.750%	856.2	873.4
Series 2014-07	EUR	50.0	15 March 2039	1.693%	42.8	43.7
Series 2015-01	EUR	50.0	30 January 2030	1.000%	42.8	43.7
Series 2015-02	EUR	750.0	25 March 2027	0.625%	636.6	648.8
Series 2015-03	EUR	25.0	22 June 2035	0.746%	21.4	21.8
Series 2015-05	EUR	50.0	08 May 2035	0.750%	42.8	43.7
Series 2015-06	EUR	105.0	05 June 2034	1.351%	89.9	91.7
Series 2015-07	EUR	100.0	17 July 2031	1.703%	85.6	87.4
Series 2015-08	EUR	50.0	23 July 2035	1.770%	42.8	43.7
Series 2015-09	EUR	45.0	30 July 2035	1.760%	38.5	39.3
Series 2015-10	EUR	1,000.0	30 July 2020	0.375%	855.0	871.3
Series 2015-11	EUR	1,000.0	26 October 2022	0.750%	855.3	872.3
Series 2015-12	EUR	35.0	05 November 2035	1.540%	30.0	30.6
Series 2015-13	EUR	50.0	14 December 2032	1.620%	42.8	43.7
Series 2015-14	EUR	25.0	17 December 2035	1.680%	21.4	21.8
Series 2015-15	EUR	100.0	17 December 2020	0.277%	85.6	87.4
Series 2016-01	EUR	25.0	28 January 2041	1.673%	25.7	26.2
Series 2016-02	EUR	30.0	28 January 2041	1.618%	21.4	21.8
Series 2016-03	EUR	51.0	25 February 2036	1.395%	42.8	43.7
Series 2016-04	EUR	50.0	25 February 2036	1.345%	43.7	44.6
Series 2016-05	EUR	40.0	26 February 2041	1.336%	34.3	34.9
Series 2016-06	EUR	25.0	01 March 2023	3M EURIBOR + 0.750%	21.9	22.4
Series 2016-07	EUR	1,250.0	25 January 2021	0.125%	1,068.7	1,089.3
Series 2016-08	EUR	30.0	11 March 2036	1.331%	25.7	26.2
Series 2016-09	EUR	50.0	16 March 2038	1.425%	42.8	43.7
Series 2016-10	EUR	50.0	17 March 2031	1.195%	42.8	43.7
Series 2016-11	EUR	40.0	24 March 2036	1.390%	34.3	34.9
Series 2016-12	EUR	80.0	23 March 2021	0.185%	68.5	69.9
Series 2016-14	EUR	60.0	23 April 2041	1.420%	51.4	52.4
Series 2016-15	EUR	25.0	07 May 2041	1.573%	21.4	21.8
Series 2017-01	EUR	1,000.0	23 February 2024	0.500%	855.3	872.3
Series 2017-02	EUR	1,000.0	29 June 2032	1.375%	855.0	872.2
Series 2017-03	EUR	50.0	08 December 2037	1.481%	42.8	43.7
Series 2018-02	EUR	500.0	31 May 2028	1.125%	427.9	-
Series 2018-03	EUR	30.0	04 October 2038	1.600%	25.7	-
Series 2011-02	GBP	750.0	28 January 2026	5.625%	745.8	745.3
Series 2011-20	GBP	100.0	27 October 2026	3M LIBOR + 1.500%	50.0	50.0
Series 2011-21	GBP	100.0	27 October 2028	3M LIBOR + 1.500%	100.0	100.0
Series 2011-22	GBP	50.0	27 October 2031	3M LIBOR + 1.500%	100.0	100.0
Series 2016-13	GBP	750.0	25 April 2019	3M LIBOR + 0.480%	750.0	750.0
Series 2018-01	GBP	1,000.0	12 April 2023	3M LIBOR + 0.260%	1,000.0	-
Series 2019-01	GBP	1,000.0	10 January 2024	SONIA + 0.750%	1,000.0	-
Series 2010-2	NOK	500.0	26 October 2020	4.890%	44.5	45.3
Series 2011-01	NOK	500.0	27 January 2021	5.560%	44.5	45.3
Series 2011-07	NOK	500.0	29 March 2021	5.695%	44.5	45.3
Series 2015-04	GBP	750.0	27 April 2018	LIBOR + 0.200%	-	750.0
Series 2011-10	NOK	400.0	09 May 2018	5.270%	-	36.3
Notional					16,670.4	15,249.0
Accrued Interest					91.6	84.7
Fair Value Adjustment for Micro Hedged Risk					970.6	832.6
					17,732.6	16,166.3

12. Other Liabilities

	2019	2018
	£'m	£'m
Collateral Support	1,057.8	1,188.1
	1,057.8	**1,188.1**

Other liabilities relate to collateral support deposited with Nationwide Covered Bonds LLP by swap providers following credit rating downgrades of those counterparties..

13. Risk Management and Control of the Group

The LLP's activities expose it to several financial risks including credit risk and liquidity risk. For this reason, Nationwide Building Society devotes considerable resources 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 management function of the Nationwide Building Society on a group wide basis.

Control of Derivatives

The LLP uses derivative financial instruments to hedge some of its financial risks but not for any speculative purposes. Nationwide Building Society's Assets and Liabilities Committee is responsible for setting limits and conditions over the use of derivative products. Any 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. For valuing collateralised derivatives, the LLP uses discount curves based on overnight indexed swaps (IOS) rates, 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 risk. In accordance with the criteria of the rating agencies that rate the Notes, the Programme Documentation contain 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.

The maximum exposure to credit risk is the carrying amount of the loans and other debts due from members of £15,057.5 million (2018: £13,581.9 million), the derivative financial instruments of £2,161.1 million (2018: £2,335.2 million) and cash and cash equivalents with Nationwide Building Society of £1,647.6 million (2018: £1,569.5 million). The primary credit risk of the LLP relates to credit risk associated with the pool of mortgages originated by Nationwide Building Society.

Notes to the Financial Statements for the year ended 4 April 2019 (Continued)

13. Risk Management and Control of the Group (Continued)

Credit Risk (Continued)

The counterparty credit ratings (short-term/long-term) are included below:

		S&P, Moody's, Fitch (04/04/2019)			S&P, Moody's, Fitch (12/07/2019)	
Function	Counterparty	Short Term	Long Term	Trigger Breached	Short Term	Long Term
Bank Account & Swap Provider	Nationwide Building Society	A-1/P-1/F1	A/Aa2/A+	No	A-1/P-1/F1	A/Aa2/A+
Swap Provider	BNP Paribas SA	A-1/P-1/F1	A/Aa3/A+	No	A-1/P-1/F1	A/Aa3/A+
Swap Provider	HSBC Bank PLC	A-1+/P-1/F1+	AA-/Aa3/AA-	No	A-1+/P-1/F1+	AA-/Aa3/AA-
Swap Provider	HSBC Hong Kong	A-1+/P-1/F1+	AA-/Aa1/AA-	No	A-1+/P-1/F1+	AA-/Aa1/AA-
Swap Provider	ING Bank N.V.	A-1/P-1/F1+	A+/Aa3/AA-	No	A-1/P-1/F1+	A+/Aa3/AA-
Swap Provider	National Australia Bank	A-1+/P-1/F1+	AA-/Aa2/AA-	No	A-1+/P-1/F1+	AA-/Aa2/AA-
Swap Provider	Wells Fargo Bank NA	A-1/P-1/F1+	A+/Aa2/AA-	No	A-1/P-1/F1+	A+/Aa2/AA-

The loans and other debts due from members are secured on residential property. At year end, there was no impairment provision against the loans and other debts due from members (2018: £nil). 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. After selection, credit risk is monitored through the application of a monthly asset coverage test.

The following tables present the characteristics of the total mortgage loan pool. The values of residential properties on which the mortgage loans are secured are updated quarterly to reflect changes in the house price index.

Mortgage Pool Details	**2019**	**2018**
Aggregate Loan Balance (£'m)	22,656	21,000
Number of Loans	329,177	319,384
Largest Loan (£)	958,992	975,848
Average Balance of Mortgage Loan (£)	68,826	65,752
Longest Dated Mortgage Legal Maturity (years)	49	40

Distribution by Current Loan to Value Ratio (Indexed)	**2019**	**2018**
	%	%
<70%	82.0	85.1
70% - 79.99%	11.4	10.2
80% - 89.99%	5.9	4.2
90% - 99.99%	0.6	0.4
>99.99%	0.1	0.1
Total Book	**100.0**	**100.0**
Average Loan to Value of Book (Indexed)	50.1	48.5

13. Risk Management and Control of the Group (Continued)

Credit Risk (Continued)

Mortgages Due Status

	2019		2018	
	£'m	%	£'m	%
Not Impaired				
Neither Past Due nor Impaired	22,467.4	99.2	20,815.4	99.0
Past Due up to 3 Months but not Impaired	76.2	0.3	92.4	0.5
Impaired	112.3	0.5	92.6	0.5
	22,655.9	**100.0**	**21,000.4**	**100.0**

Impaired Mortgage Loans	2019		2018	
	£'m	%	£'m	%
Impaired Status				
Past Due 3 to 6 Months	31.5	28.0	45.9	51.5
Past Due 6 to 12 Months	69.5	61.9	29.1	31.5
Past Due Over 12 Months	11.3	10.1	17.6	17.0
Possessions	-	-	-	-
	112.3	**100.0**	**92.6**	**100.0**

A mortgage loan is classified as impaired if it is more than 3 months past due or in possession.

Geographical Distribution	2019	2018
	%	%
South-East England (Excluding Greater London)	29.0	28.8
Central England	18.2	18.1
Northern England	15.4	15.7
Greater London	13.7	13.9
Scotland	9.5	9.2
South-West England	9.1	9.0
Wales and Northern Ireland	5.1	5.3
	100.0	**100.0**

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 liquidity 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.

13. Risk Management and Control of the Group (Continued)

Liquidity Risk (Continued)

04 April 2019	< 1 Month	1 - 3 Months	3 - 6 Months	6 - 9 Months	9 - 12 Months	1 - 2 Years	2 - 5 Years	Over 5 Years	Total
Assets	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Cash Equivalents	1,647.6	-	-	-	-	-	-	-	1,647.6
Due from Members	824.5	960.7	10.7	13.9	28.0	3,550.5	6,866.4	2,802.8	15,057.5
HA Derivatives	-	6.7	-	-	-	95.3	297.5	610.8	1,010.3
Non-HA Derivatives	(32.0)	54.7	-	-	-	247.4	566.1	314.6	1,150.8
Other Assets	0.2	0.4	0.6	0.6	0.6	2.4	3.3	-	8.1
Total Assets	2,440.3	1,022.5	11.3	14.5	28.6	3,895.6	7,733.3	3,728.2	18,874.3
Liabilities	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Member Loans	761.9	888.9	9.9	12.9	25.9	3,368.2	6,643.7	6,021.2	17,732.6
HA Derivatives	-	-	-	-	-	-	-	1.8	1.8
Non-HA Derivatives	7.8	-	-	-	-	33.1	4.1	70.1	115.1
Other Liabilities	1,057.8	-	-	-	-	-	-	-	1,057.8
Total Liabilities	1,827.5	888.9	9.9	12.9	25.9	3,401.3	6,647.8	6,093.1	18,907.3
Net Position	612.8	133.6	1.4	1.6	2.7	494.3	1,085.5	(2,364.9)	(33.0)

04 April 2018	< 1 Month	1 - 3 Months	3 - 6 Months	6 - 9 Months	9 - 12 Months	1 - 2 Years	2 - 5 Years	Over 5 Years	Total
Assets	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Cash Equivalents	1,569.5	-	-	-	-	-	-	-	1,569.5
Due from Members	827.1	71.8	11.0	14.2	28.8	1,777.4	7,554.8	3,296.8	13,581.9
HA Derivatives	-	1.7	-	-	-	14.3	467.3	443.6	926.9
Non-HA Derivatives	(29.0)	-	-	-	-	72.5	953.4	411.4	1,408.3
Other Assets	0.2	0.4	0.6	0.6	0.6	2.5	5.5	0.1	10.5
Total Assets	2,367.8	73.9	11.6	14.8	29.4	1,866.7	8,981.0	4,151.9	17,497.1
Liabilities	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Member Loans	756.0	66.3	10.0	12.9	26.3	1,631.5	7,365.0	6,298.3	16,166.3
HA Derivatives	-	-	-	-	-	-	3.9	63.0	66.9
Non-HA Derivatives	11.6	9.4	-	-	-	-	27.5	27.8	76.3
Other Liabilities	1,188.1	-	-	-	-	-	-	-	1,188.1
Total Liabilities	1,955.7	75.7	10.0	12.9	26.3	1,631.5	7,396.4	6,389.1	17,497.6
Net Position	412.1	(1.8)	1.6	1.9	3.1	235.2	1,584.6	(2,237.2)	(0.5)

HA – Hedge Accounted

Prepayment Risk

Cash flows are dependent on the underlying mortgage loans originated within Nationwide Building Society. In the normal course of business, a proportion of mortgages 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 form 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. If prepayment rates in the mortgage pool reduce, principal repayments and the notes may be spread over a longer period.

The following table present the contractual undiscounted cash flows of all financial liabilities at the balance sheet date.

13. Risk Management and Control of the Group (Continued)

Prepayment Risk (Continued)

04 April 2019	< 1 Month	1 - 3 Months	3 - 6 Months	6 - 9 Months	9 - 12 Months	1 - 2 Years	2 - 5 Years	Over 5 Years	Total
Liabilities	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Member Loans	775.3	835.2	48.4	55.6	62.5	3,282.3	6,270.2	5,901.5	17,231.0
Derivatives	4.9	7.8	13.1	13.0	12.8	65.0	59.3	48.2	224.1
Other Liabilities	1,057.8	-	-	-	-	-	-	-	1,057.8
Total Liabilities	1,838.0	843.0	61.5	68.6	75.3	3,347.3	6,329.5	5,949.7	18,512.9

04 April 2018	< 1 Month	1 - 3 Months	3 - 6 Months	6 - 9 Months	9 - 12 Months	1 - 2 Years	2 - 5 Years	Over 5 Years	Total
Liabilities	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Member Loans	755.1	75.8	19.2	35.1	209.3	1,922.8	6,490.3	7,863.4	17,371.0
Derivatives	0.4	(1.3)	3.7	4.1	(10.4)	(4.8)	64.2	172.3	228.2
Other Liabilities	1,188.1	-	-	-	-	-	-	-	1,188.1
Total Liabilities	1,943.6	74.5	22.9	39.2	198.9	1,918.0	6,554.5	8,035.7	18,787.3

Interest Rate Risk

The LLP is exposed to interest rate risk in that its multiple currency interest expense is at fixed and floating rates, 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 swaps 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.

Foreign Currency Risk

The current operating currencies of the LLP are Sterling, Euro and Norwegian 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 using cross currency derivatives. The LLP hedges all its exposure on its currency borrowings back to Sterling using 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.

14. Fair Value of Financial Assets and Liabilities

Fair Value of Financial Assets and Liabilities at Amortised Cost

2019	Carrying Value £'m	Fair Value £'m
Assets		
Loans & Other Debts Due from Members	15,057.5	15,053.3
Liabilities		
Loans from LLP Members	17,732.6	17,867.4
Accruals & Other Liabilities	1,057.8	1,057.8

2018	Carrying Value £'m	Fair Value £'m
Assets		
Loans & Other Debts Due from Members	13,581.9	13,491.7
Liabilities		
Loans from LLP Members	16,166.3	16,434.3
Accruals & Other Liabilities	1,188.1	1,188.1

The fair value of other debts due to members and accruals and other liabilities approximates carrying value.

The estimated fair value of loans and other debts due from members represents the discounted amount of estimated future cash flow expected to be received based on the underlying mortgage pool assets. Expected cash flows are discounted at currency market rates to determine fair value. These are level 3 within the fair value hierarchy.

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.

Fair Value of Financial Assets and Liabilities Held at Fair Value

The fair value of the derivatives falls within level 2 of the fair value hierarchy. Financial instruments classified as level 2 have been valued using models whose inputs are observance in an active market. Valuations based on observable inputs include swap derivative financial instruments which are valued using market standard pricing techniques. There are no instruments that fall within level 3 of the fair value hierarchy as at 4 April 2019 (2018: none). There have been no movements in and out of level 3 throughout the year.

15. Capital Management

Capital is managed on a Group basis.

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

16. Parent Undertaking and Ultimate Controlling Entity

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

Nationwide Building Society is the ultimate parent and controlling party which prepares the consolidate financial statements.

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

17. Post Balance Sheet Events

The following covered bond issuances were made post 4 April 2019:

Note	Date	Currency	Value (Million)
CB 2019-2	03 June 2019	Euro	1,250.0
CB 2019-3	28 June 2019	Euro	20.0
CB 2019-4	11 July 2019	Swiss Franc	250.0
CB 2019-5	11 July 2019	Swiss Franc	150.0
CB 2019-6	11 July 2019	Swiss Franc	100.0

The following covered bond redemptions were made post 4 April 2019:

Note	Date	Currency	Value (Million)
CB 2016-13	25 April 2019	British Pound	750.0
CB 2014-01	25 June 2019	Euro	1,000.0