Registered Number: OC313878

Nationwide Covered Bonds LLP

Annual Report and Financial Statements for the year ended 4 April 2021

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Members and Partnership Information

Members

Nationwide Building Society
Moulton Capital Finance Limited

Management Board

Nationwide Building Society
Moulton Capital Finance Limited

Independent Auditors

Ernst & Young LLP
25 Churchill Place
Canary Wharf
London
E14 5EY

Registered Office

Nationwide House
Pipers Way
Swindon
SN38 1NW

Registered Number

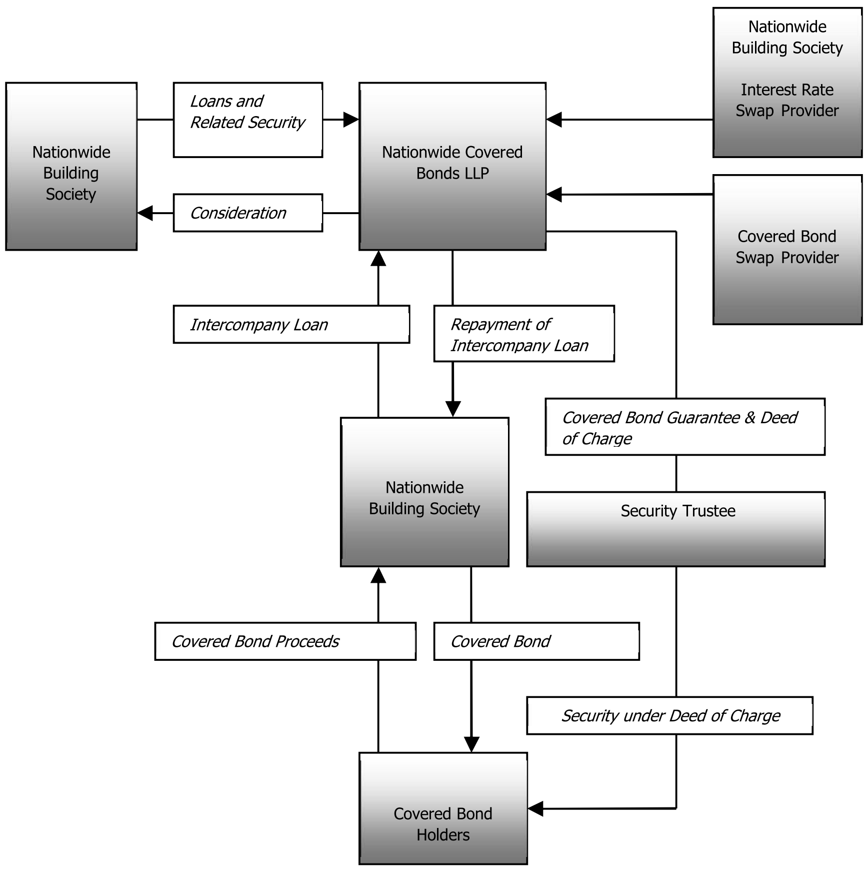
OC313878
Registered in England and Wales

On behalf of the members of Nationwide Covered Bonds LLP (the "LLP"), the Management Board have pleasure in presenting the Annual Report and the audited financial statements for the LLP for the year ended 4 April 2021. 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 "Nationwide") and Moulton Capital Finance Limited. The LLP is registered, domiciled and operates solely in the United Kingdom (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 SONIA 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), Norwegian Krona (NOK), Swiss Franc (CHF) and US Dollar (USD). The LLP enters into currency swap agreements under which it pays cash flows in GBP and receives EUR, NOK, CHF and USD 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.



Employees

The LLP does not have any employees (2020: 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

Whilst the LLP is currently in a net liability position, the LLP members believe that preparing the financial statements on the going concern basis is appropriate, primarily due to the continued financial support of the ultimate parent company Nationwide and the level of over collateralisation. The LLP members have received confirmation that Nationwide intend to support the LLP for a period of at least 12 months after these financial statements are signed.

Environment

The Company's environmental policy is set at a Group level. The Group remains committed to managing its environmental impacts and its ambition is to look for better, cleaner ways to run its operations.

Further details of the Group's activities can be found in the Strategic Report in its Annual Report and Accounts and on Nationwide Building Society's website at nationwide.co.uk

Domicile

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

Auditors

The auditors, Ernst & Young LLP, have expressed their willingness to continue in office. A resolution for their re-appointment as auditors will be proposed at the LLP's next meeting.

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 United Kingdom law and regulation. 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 LLP 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 apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK GAAP standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The members are responsible for keeping adequate accounting records that are sufficient to show and explain LLP's transactions and disclose with reasonable accuracy, at any time, the financial position of the LLP and enable them to ensure that the financial statements comply with 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 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.

Approved by the Management Board and signed on its behalf by

KHirani

Krishan Hirani

For and on behalf of the LLP

Date 29 July 2021

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 2021, the LLP structure serviced an additional £1,000 million covered bond issuance:

Note	Amount	Date
CB 2021-1	British Pound 1,000 million	24 February 2021

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

Note	Amount	Date
CB 2016-7	Euro 1,250 million	25 January 2021
CB 2011-7	Norwegian Krone 500 million	29 March 2021
CB 2011-3	Euro 1,250 million	08 February 2021
CB 2011-1	Norwegian Krone 500 million	27 January 2021
CB 2010-2	Norwegian Krone 500 million	26 October 2020
CB 2016-12	Euro 80 million	23 March 2021
CB 2015-10	Euro 1,000 million	30 July 2020
CB 2015-15	Euro 100 million	17 December 2020

During the year, there were buybacks of eight covered bonds:

Note	Amount	Date
CB 2014-6	Euro 128.5 million	22 September 2020
CB 2015-2	Euro 250.0 million	22 September 2020
CB 2017-1	Euro 341.4 million	22 September 2020
CB 2020-1	British Pound 390.3 million	22 September 2020
CB 2018-1	British Pound 207.1 million	22 September 2020
CB 2019-2	Euro 709.1 million	22 September 2020
CB 2017-2	Euro 154.6 million	22 September 2020
CB 2017-2	Euro 34.9 million	28 January 2021

The balance sheet on page 13 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 indicators 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 Sonia plus 0.25%).

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 profit for the year was £47.5 million (2020: £36.3 million loss). This is composed primarily of net interest income of £7.6 million (2020: £4.9 million), gains from derivatives and hedge accounting of £47.5 million (2020: £36.3 million loss), other operating expenses of £2.8 million (2020: £nil) and administrative expenses of £4.8 million (2020: £4.9 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 2021, the amount of the beneficial interest in the mortgage loan portfolio was £23,610.0 million (2020: £28,003.3 million) and the amount of the deemed loan was £13,742.4 million (2020: £17,795.3 million). The difference of £9,867.6 million (2020: £10,208.0 million) mainly represents the amount of over-collateralisation in the structure.

Risk management and control of the LLP

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 LLP's exposure to higher risk assets over recent years and retained profits have allowed investment in ongoing service development and strengthened the capital position.

The Group adopts a prudent approach to risk management, keeping members' money safe and secure by ensuring that the risks taken in support of our strategy are controlled through a robust risk appetite framework.

The operations of the LLP are limited in nature and the market risks from financial assets and liabilities have been economically hedged. As a result, both the physical impact of the UK lockdown and the financial market volatility caused by Covid-19 have had minimal impact on the LLP.

The competitive environment remains intense as ring-fenced banks with cheaper funding and excess liquidity have continued to focus on our core markets and new market entrants, seeking to exploit new technologies, look to grow market share.

The LLP's principal risks are:

- Credit Risk - The risk of loss as a result of a member, customer or counterparts failing to meet their financial obligations.
- Liquidity and funding risk - Liquidity risk is the risk that Nationwide is unable to meet its liabilities as they fall due and maintain member and other stakeholder confidence. Funding risk is the risk that Nationwide is unable to maintain diverse funding sources in wholesale and retail markets and manage retail funding risk that can arise from excessive concentrations of higher risk deposits.
- Financial Risk - The risk of loss or damage to the Society as a result of material errors in statutory, regulatory and critical reporting; data; production of financial plans and forecasts; assessment of the financial impacts of business proposals and of non-compliance with accounting principles or tax laws.
- Operational Risk - The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
- Market risk - The risk that the net value of, or net income arising from, the Society's assets and liabilities is impacted as a result of market price or rate changes. As Nationwide does not have a trading book, market risk only arises in the banking book
- Conduct and Compliance Risk - The related causes or impacts where the Society exercises inappropriate judgement or makes errors in the execution of its business activities
- Strategic Risk - the risk that failed business decisions, or lack thereof, may pose to the Society.

The risk management objective and polices which correspond to these risks and uncertainties and details on how these are managed and mitigated can be found in the 'Business and Risk Report' section of the Group's Annual Report and Accounts. Further details can also be found in note 14 of the LLP's Financial Statements.

Approved by the Management Board and signed on its behalf by

KHirani

Krishan Hirani
For and on behalf of the LLP
Date: 29 July 2021

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

Opinion

We have audited the financial statements of Nationwide Covered Bonds LLP for the year ended 4th April 2021 which comprise Income Statement, Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Members' Interest and the related notes 1 to 19, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 'Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice)".

In our opinion the financial statements:

- give a true and fair view of the state of the limited liability partnership's affairs as at 4th April 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the limited liability partnership in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the members' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the limited liability partnership's ability to continue as a going concern for a period of twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the members with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the limited liability partnership's ability to continue as a going concern.

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The members are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, we do not express any form of assurance conclusion thereon.

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 course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which 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

Responsibilities of members

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, and for such internal control as the members 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 partnership’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 partnership or to cease operations, or have no realistic alternative but to do so.

Auditor’s 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 auditor’s 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the limited liability partnership and determined that the most significant are Companies Act 2006 and license conditions and supervisory requirements under Financial Conduct Authority (“FCA”).
- We understood how the LLP is complying with the applicable regulations by making enquiries of management, internal audit, and those responsible for legal and compliance matters. In addition, we also performed a review of regulatory correspondence and reviewed minutes of the parent Company’s Board and Board Risk Committee meetings held which cover all subsidiaries and noted that there was no contradictory evidence.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved enquires involved journal entry testing, with a focus on journal entries meeting our defined risk criteria based on our understanding of the business; enquiries with those charged with governance, senior management, internal audit and inspection of Board minutes.
- We assessed the susceptibility of the limited liability partnership’s financial statements to material misstatement, including how fraud might occur by considering the controls that the LLP has established to address risks identified

by the entity, or that otherwise seek to prevent, deter or detect fraud. We made enquiries of management and internal audit to supplement our assessment of how fraud might occur. We also considered performance and incentive plan targets and their potential to influence management to manage earnings or influence the perceptions of investors and stakeholders. Our procedures to address the risks identified also included incorporation of unpredictability into the nature, timing and/or extent of our testing, challenging assumptions and judgements made by management in their significant accounting estimates, and testing year end adjustments and other targeted journal entries.

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

Use of our report

This report is made solely to the members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 as applied to Limited Liability Partnerships. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the limited liability partnership and the limited liability partnership's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst + Young LLP

Javier Faiz (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London, United Kingdom
29 July 2021

Income statement for the year ended 4 April 2021

	Note	2021 £'m	2020 £'m
Interest receivable and similar income	3	143.9	243.3
Interest payable and similar expenses	4	(136.3)	(238.4)
Net interest income		**7.6**	**4.9**
Gains/(losses) from derivatives and hedge accounting	5	47.5	(36.3)
Other operating (expense)/income	6	(2.8)	-
Administrative expenses	7	(4.8)	(4.9)
Profit/(loss) for the year		**47.5**	**(36.3)**

The notes on pages 15 to 39 form part of these financial statements.

Statement of comprehensive income as at 4 April 2021

	2021 £m	2020 £m
Profit/(loss) after tax	47.5	(36.3)
Cash flow hedge reserve		
Fair value movements taken to members' interests and equity	(13.4)	(8.2)
Amount transferred to income statement	5.4	12.5
	(8.0)	4.3
Other hedging reserve		
Fair value movements taken to members' interests and equity	(24.1)	(35.3)
Amount transferred to income statement	3.1	-
	(21.0)	(35.3)
Total comprehensive income/(expense)	18.5	(67.3)

The notes on pages 15 to 39 form part of these financial statements.

Balance sheet as at 4 April 2021

	Note	2021 £'m	2020 £'m
Assets			
Cash and Cash Equivalents	8	1,197.4	1,776.1
Loans and Other Debts Due from Members	9	13,742.5	17,795.3
Derivative Financial Instruments	10	1,592.3	2,683.0
Other Assets	11	3.3	5.6
Total Assets		**16,535.5**	**22,260.0**
Liabilities			
Loans from Members	12	15,878.4	21,062.9
Derivative Financial Instruments	10	169.8	121.2
Other Liabilities	13	569.1	1,176.2
Total Liabilities		**16,617.3**	**22,360.3**
Members' Other Interests			
General Reserve		(21.8)	(69.3)
Cash Flow Hedge Reserve		(3.7)	4.3
Other Hedging Reserve		(56.3)	(35.3)
Total Members' Other Interests		**(81.8)**	**(100.3)**
Total Members' Other Interests and Liabilities		**16,535.5**	**22,260.0**

Notes

The notes on pages 15 to 39 form part of these financial statements.

The financial statements were approved by the members on 29 July 2021.

Signed on behalf of the members

Krishan Hirani

Registration Number OC313878

Statement of changes in members interest for the year ended 4 April 2021

	General Reserve	Loans from Members	Cashflow hedge reserve	Hedging Reserve	Total Members Interest
	£'m	£'m	£'m	£'m	£'m
General Reserve at 5 April 2020	**(69.3)**	**3,267.6**	**4.3**	**(35.3)**	**3,167.3**
Profit/(Loss) for the Year	47.5	-	-	-	**47.5**
Increase/(decrease) in Loans from Members	-	(5,184.5)	-	-	**(5,184.5)**
Increase/(decrease) in Loans and Other Debts Due from Members	-	4,052.8	-	-	**4,052.8**
Net Movement in Hedging Reserve	-	-	(8.0)	(21.0)	**(29.0)**
Members' Interests as at 4 April 2021	**(21.8)**	**2,135.9**	**(3.7)**	**(56.3)**	**2,054.1**

	General Reserve	Loans from Members	Cashflow hedge reserve	Hedging Reserve	Total Members Interest
	£'m	£'m	£'m	£'m	£'m
General Reserve at 5 April 2019	**(33.0)**	**2,675.1**	**-**	**-**	**2,642.1**
Profit/(Loss) for the Year	(36.3)	-	-	-	**(36.3)**
Increase/(decrease) in Loans from Members	-	3,330.3	-	-	**3,330.3**
Increase/(decrease) in Loans and Other Debts Due from Members	-	(2,737.8)	-	-	**(2,737.8)**
Net Movement in Hedging Reserve	-	-	4.3	(35.3)	**(31.0)**
Members' Interests as at 4 April 2020	**(69.3)**	**3,267.6**	**4.3**	**(35.3)**	**3,167.3**

Notes

The notes on pages 15 to 39 form part of these financial statements.

1. Statement of 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 believe that preparing the financial statements on the going concern basis is appropriate, primarily due to the continued financial support of the ultimate parent company Nationwide Building Society. The directors have received confirmation that Nationwide Building Society intend to support the LLP for at least one year after these financial statements are signed. In addition, the LLP continues to have a low liquidity risk profile. The LLP enters into currency swap agreements under which it pays cash flows in GBP and receives EUR, NOK, CHF and USD cash flows which are used to pay the loans to Nationwide, whereby details of this is disclosed in Note 14 to the financial statements.

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 LLP, 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.

Adoption of new and revised IFRSs

With effect from 5 April 2020 the Group has adopted the Interest Rate Benchmark Reform – Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. Further information on the impacts of adopting these amendments is set out below.

Interest rate benchmark reform – Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

In August 2020, the IASB issued amendments arising from Phase 2 of its work on Interest Rate Benchmark Reform. The amendments focus on accounting for the replacement of existing benchmark interest rates, and provide relief allowing entities:

• not to recognise significant modification gains or losses on financial instruments if a change results directly from IBOR reform and occurs on an 'economically equivalent' basis; and

• to continue existing hedging relationships despite changes to hedge documentation for modifications required as a direct consequence of IBOR reform.

These amendments, which were endorsed by the EU and UK in January 2021, are applicable to the Group from 5 April 2021, with early adoption permitted. The Group has early adopted the amendments in these financial statements, with no significant impact. The disclosures required by these amendments have been included in note 10.

Statement of accounting policies (continued)

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.

Contributions and drawings

Under the terms of the transaction document for the sale of the mortgage loans, Nationwide 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. 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.

Statement of accounting policies (continued)

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.

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 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.

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. These include cash, loans and other debts due from members. 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.

<u>Forward looking economic inputs</u>

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. To capture any nonlinear relationship between economic assumptions and credit losses, a minimum of three scenarios is used. This includes a central scenario which reflects the LLP's view of the most likely future economic conditions, together with an upside and a downside scenario representing alternative plausible views of economic conditions, weighted based on management's view of their probability.

Statement of accounting policies (continued)

<u>Credit risk categorisation</u>

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.

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.

Statement of accounting policies (continued)

Derivatives and hedge accounting

a) Derivative financial instruments

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

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.

b) Derivative financial instruments

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. Funding valuation adjustments are also made to reflect an estimate of the adjustment a market participant would make to incorporate funding costs and benefits that arise in relation to derivative exposures.

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.

b) Hedge Accounting

The LLP has adopted the general hedge accounting requirements of IFRS 9. When transactions meet the criteria specified in IFRS 9, the LLP 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 LLP 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 effective on a prospective basis, in line with risk management strategy.

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.

Statement of accounting policies (continued)

Derivative hedge accounting (continued)

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 is unable to voluntarily de-designate hedging relationships, unless there has been a change to risk management objectives.

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, except for changes in the fair value of hedging instruments accounted for under IFRS 9 which are attributable to foreign currency basis spreads. Where foreign currency basis spreads are excluded from hedge designation, this element of fair valuation of the hedging instrument is instead recognised directly within equity within the 'other hedging reserve'.

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 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.

Foreign exchange translation

The LLP holds monetary items denominated in foreign currencies which are translated at the rate prevailing at the balance sheet date.

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

The preparation of the LLP's financial statements involves management making judgements and estimates when applying those accounting policies that affect the reported amounts of assets, liabilities, income and expense. Actual results may differ from those on which management's estimates are based. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. For the year ended 4 April 2021, this evaluation has considered the potential impacts of Covid-19.

The most significant sources of estimation uncertainty made by management in applying the LLP's accounting policies, which are deemed critical to the LLP's results and financial position, are disclosed in note 1. Additional information relating to Covid-19, where relevant, is disclosed in the Strategic Review. These accounting estimates include areas of significant judgement.

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 or the definition of default. No ECL's are forecast as a result and there is no impact due to Covid-19.

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 LLP 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

	2021	2020
	£'m	£'m
Interest Receivable from Members	319.5	387.0
Net Expense on Financial Instruments Hedging Assets	(72.7)	(26.7)
Other Interest Payable	(4.7)	(2.9)
Excess Profits Payable	(98.2)	(114.1)
	143.9	**243.3**

4. Interest payable and similar expenses

	2021	2020
	£'m	£'m
Interest Payable on Loans from Members	318.3	334.5
Net Income on Financial Instruments Hedging Liabilities	(182.0)	(96.1)
	136.3	**238.4**

5. Gains/(Losses) from derivatives and hedge accounting

	2021	2020
	£'m	£'m
Gains/(Losses) from fair value hedge accounting	(8.8)	45.2
Losses from cash flow hedge accounting	(0.3)	(1.3)
Fair value gains/(losses) from other derivatives (note i)	54.9	(80.2)
Foreign exchange loss	1.7	-
	47.5	(36.3)

Notes

(i) This category includes derivatives used for economic hedging purposes, but which are not currently in a hedge accounting relationship, as well as valuation adjustments which are applied at a portfolio level and so are not allocated to individual hedge accounting relationships.

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.

Losses of £8.8 million (2020: £45.2 million gains) from fair value hedge accounting are due to hedge ineffectiveness and the amortisation of existing balance sheet amounts.

Gains of £54.9 million (2020: £80.2 million losses) from other derivatives include a gain of £31.2 million (2020: £33.0 million losses) from favourable movements in bid offer spreads and a gain of £23.7 million (2020: £47.2 million losses) from favourable movements in credit and debit valuation adjustments. These gains are largely a reversal of losses reported in 2020, which were caused by spreads widening at the end of the financial year as financial markets reacted to Covid-19.

Fair value hedge accounting

2021			Change in fair value used for determining hedge ineffectiveness		Hedge ineffectiveness recognised in the income statement	Carrying amount of the hedged item	Of which: accumulated fair value adjustment
Hedged item balance sheet classification	Hedging instrument	Risk category	Hedged item	Instrument			
			£m	£m	£m	£m	£m
Liabilities:							
Debt securities in issue	Interest rate swaps	Interest rate	356.6	(365.4)	(8.8)	12,087.0	856.5

2020			Change in fair value used for determining hedge ineffectiveness		Hedge ineffectiveness recognised in the income statement	Carrying amount of the hedged item	Of which: accumulated fair value adjustment
Hedged item balance sheet classification	Hedging instrument	Risk category	Hedged item	Instrument			
			£m	£m	£m	£m	£m
Liabilities:							
Debt securities in issue	Interest rate swaps	Interest rate	(242.0)	287.0	45.0	16,771.7	1,213.1

5. Gains/(Losses) from derivatives and hedge accounting (continued)

Cash flow hedge accounting

2021			Change in fair value used for determining hedge ineffectiveness		Changes in instrument fair value reported as		Amounts accumulated in the cash flow hedge reserve (excluding deferred taxation)	
Hedged item balance sheet classification	Hedging instrument	Risk category	Hedged item	Instrument	Hedge ineffectiveness recognised in the income statement	Net amounts deferred to other comprehensive income	Continuing hedges	Discontinued hedges
			£m	£m	£m	£m	£m	£m
Assets:								
Debt securities in issue	Cross currency interest rate swaps	Interest rate and foreign exchange	9.1	(8.3)	(0.3)	(8.1)	(8.1)	-

2020			Change in fair value used for determining hedge ineffectiveness		Changes in instrument fair value reported as		Amounts accumulated in the cash flow hedge reserve (excluding deferred taxation)	
Hedged item balance sheet classification	Hedging instrument	Risk category	Hedged item	Instrument	Hedge ineffectiveness recognised in the income statement	Net amounts deferred to other comprehensive income	Continuing hedges	Discontinued hedges
			£m	£m	£m	£m	£m	£m
Assets:								
Debt securities in issue	Cross currency interest rate swaps	Interest rate and foreign exchange	(4.2)	3.1	(1.3)	4.3	4.3	-

6. Other operating expenses

	2021	2020
	£'000	£'000
Other Operating Expenses	(2.8)	-
	(2.8)	-

Other expense of £2.8 million loss relates to a debt buy-back exercise during the year.

7. Administrative expenses

Administrative expenses over the year include an audit fee of £22,000 (2020: £22,000) and non-audit fees of £80,000 (2020: £375,000).

The Management Committee (comprised of directors and employees of the Society) manage and conduct business of the LLP and have majority of the rights, power and authority to act at all times for and on behalf of the LLP in accordance with the terms.

8. 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 £569.0 million (2020: £1,176.1 million) collateral support to the derivatives deposited with Covered Bonds LLP as at 4 April 2021 by swap providers other than Nationwide Building Society.

9. Loans and other debts due from members

The loan to members of £13,742.5 million (2020: £17,795.3 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 £23,610.1 million as at 4 April 2021 (2020: £28,003.3 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 Sonia. This swap is not recognised as a separate derivative financial instrument.

	2021	2020
	£'m	£'m
Loans & other debts due from members	13,742.5	17,795.3
Over-collateralisation	8,480.6	8,919.5
Excess profits payable	1,385.8	1,287.6
Accrued interest on basis swaps	1.2	0.9
Beneficial interest in a mortgage portfolio	**23,610.1**	**28,003.3**

9. Loans and other debts due from members (continued)

Reconciliation of movement in gross balance and impairment provisions

	Non-credit impaired				Credit impaired			
	Stage 1		Stage 2		Stage 3		Total	
	Gross balance	Provision	Gross balance	Provision	Gross balance	Provision	Gross balance	Provision
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
05 April 2020	28,003.3	-	-	-	-	-	28,003.3	-
Stage transfers	-	-	-	-	-	-	-	-
Movements	(4,393.2)	-	-	-	-	-	(4,393.2)	-
04 April 2021	**23,610.1**	-	-	-	-	-	**23,610.1**	-
Net carrying amount		23,610.1		-		-		23,610.1
Income statement charge for the year								-

	Non-credit impaired				Credit impaired			
	Stage 1		Stage 2		Stage 3		Total	
	Gross balance	Provision	Gross balance	Provision	Gross balance	Provision	Gross balance	Provision
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
05 April 2019	22,655.9	-	-	-	-	-	22,655.9	-
Stage transfers	-	-	-	-	-	-	-	-
Movements	5,347.4	-	-	-	-	-	5,347.4	-
04 April 2020	**28,003.3**	-	-	-	-	-	**28,003.3**	-
Net carrying amount		28,003.3		-		-		28,003.3
Income statement charge for the year								-

As outlined in Note 1, the loans and other debts due from members is held at amortised cost and is reviewed for impairment at each reporting date. The loan and other debts due from members balance is classified as stage 1 non-credit impaired and subject to 12-month ECL. The possibility of this occurring has been assessed to be remote, therefore the impairment provision recognised as a 12 month Stage 1 ECL has been deemed to be immaterial and is therefore not recognised within these accounts. 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.

10. Derivative financial instruments

All derivative financial instruments are used to manage economic risk, although not all of the derivatives are subject to hedge accounting. Note 5 sets out the link between economic risk management and the hedge accounting applied by the LLP. The table below provides an analysis of the notional amount and fair value of derivatives by both hedge accounting type and instrument type. The amount of ineffectiveness recognised for each hedge type is shown in note 5.

2021	Contract/Notional amount £'m	Fair value asset £'m	Fair value liability £'m
Derivatives designated as fair value hedging instruments			
Interest rate swaps	9,563.2	895.8	4.9
Cross currency interest rate swaps	8,941.3	696.3	136.9
Derivatives designated as cash flow hedging instruments			
Cross currency interest rate swaps	8,941.3	0.2	28.0
	27,445.8	1,592.3	169.8

2020	Contract/Notional amount £'m	Fair value asset £'m	Fair value liability £'m
Derivatives designated as fair value hedging instruments			
Interest rate swaps	14,686.3	1,256.5	17.7
Cross currency interest rate swaps	13,368.5	1,422.1	56.7
Derivatives designated as cash flow hedging instruments			
Cross currency interest rate swaps	13,368.5	4.4	46.8
	41,423.3	2,683.0	121.2

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

- Cross currency interest rate swap assets include £2.7 million interest payable (2020: £80 million payable)
- Interest rate swap assets include £65.5 million interest receivable (2020: £88.2 million receivable)
- Cross currency interest rate swap liabilities include £0.2 million interest payable (2020: £24.9 million payable)
- Interest rate swap liabilities include £0.6 million interest receivable (2020: £17.7 million receivable)

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

Where the same derivative contract has been used in more than one hedge type, for example where one risk component has been included in a fair value hedge and another risk component has been included in a cash flow hedge, the LLP has included the full notional amount in both categories.

10. 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 14.

10. Derivative financial instruments (continued)

	Gross and net amounts reported on the balance sheet	Master netting arrangements	Financial collateral	Net amount
2021	£'m	£'m	£'m	£'m
Financial assets				
Derivative financial instruments	1,592.3	(122.8)	(616.4)	853.1
Total assets	**1,592.3**	**(122.8)**	**(616.4)**	**853.1**
Financial liabilities				
Derivative financial instruments	169.8	(122.8)	-	47.0
Total liabilities	**169.8**	**(122.8)**	**-**	**47.0**

	Gross and net amounts reported on the balance sheet	Master netting arrangements	Financial collateral	Net amount
2020	£'m	£'m	£'m	£'m
Financial assets				
Derivative financial instruments	2,683.0	(87.1)	(1,244.4)	1,351.5
Total assets	**2,683.0**	**(87.1)**	**(1,244.4)**	**1,351.5**
Financial liabilities				
Derivative financial instruments	121.2	(87.1)	-	34.1
Total liabilities	**121.2**	**(87.1)**	**-**	**34.1**

The contractual maturity of derivatives used as hedging instruments in micro fair value and cash flow hedges is provided in the table below.

2021	Less than one year (£'m)	Between one and five years (£'m)	More than five years (£'m)	Total (£'m)
Micro Fair Value Hedges				
Interest Rate Swap	2,443	2,968	4,152	9,563
Cross Currency Interest Rate Swaps	2,035	2,912	3,994	8,941
	4,478	**5,880**	**8,146**	**18,504**
Cash Flow Hedges				
Cross Currency Interest Rate Swaps	2,035	2,912	3,994	8,941
	2,035	**2,912**	**3,994**	**8,941**

2020	Less than one year (£'m)	Between one and five years (£'m)	More than five years (£'m)	Total (£'m)
Micro Fair Value Hedges				
Interest Rate Swap	3,360	5,553	5,773	14,686
Cross Currency Interest Rate Swaps	3,062	5,651	4,656	13,369
	6,422	**11,204**	**10,429**	**28,055**
Cash Flow Hedges				
Cross Currency Interest Rate Swaps	3,062	5,651	4,656	13,369
	3,062	**5,651**	**4,656**	**13,369**

Derivative financial instruments (continued)

The weighted average rates of hedging instruments which achieve fixed rates are summarised in the table below. Fair value and cash flow hedging instruments which do not achieve a fixed rate have not been included in this analysis.

Average rates achieved	Less than one year	Between one and five years	More than five years	Total
Cross currency interest rate swaps				
Average EUR/GBP rate	1.41	1.24	1.23	1.28
Average USD/GBP rate	-	1.30	-	1.30
Average NOK/GBP rate			-	-
Average CHF/GBP rate	-	1.24	1.24	1.24

A variety of benchmark interest rates are used in global financial markets to calculate interest payments and fair values for derivative contracts. The Company's derivative portfolio included contracts which referenced GBP Libor and other benchmark rates, which were transitioned in the financial year to alternative reference rates. GBP Libor trades were converted to sterling overnight index average (Sonia). Some derivative contracts continue to reference EURIBOR, however the LLP expects that Euribor will continue as a benchmark rate for the foreseeable future.

In August 2020, the IASB issued further amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 arising from Phase 2 of its work on Interest Rate Benchmark Reform. These amendments focus on the accounting for the replacement of existing benchmark interest rates. The Company has early adopted these amendments for the year ended 4 April 2021.

11. Other assets

	2021	2020
	£'m	£'m
Prepayments	3.3	5.6
	3.3	**5.6**

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.

12. Loans from members

Issuance	Currency	Notional (Million)	Maturity	Coupon Rate	2021 £'m	2020 £'m
Series 2007-1 (Tranche 2)	EUR	2,000.0	28 February 2022	4.37500%	1,701.3	1,761.3
Series 2010-2	NOK	500.0	26 October 2020	4.890%	-	38.7
Series 2011-01	NOK	500.0	27 January 2021	5.560%	-	38.7
Series 2011-02	GBP	750.0	28 January 2026	5.62500%	746.9	746.3
Series 2011-03	EUR	1,250.0	08 February 2021	4.625%	-	1,100.7
Series 2011-04	EUR	30.0	03 March 2031	4.74000%	25.5	26.4
Series 2011-05	EUR	132.0	28 November 2025	4.92400%	112.2	116.2
Series 2011-06	EUR	50.0	14 March 2023	4.69900%	42.5	44.1
Series 2011-07	NOK	500.0	29 March 2021	5.695%	-	38.7
Series 2011-09	EUR	50.0	28 April 2032	5.01000%	42.5	44.1
Series 2011-13	EUR	100.0	03 August 2026	4.56500%	85.1	88.1
Series 2011-14	EUR	40.0	08 August 2029	4.43250%	34.0	35.3
Series 2011-15	EUR	50.0	02 September 2026	4.12000%	42.5	44.1
Series 2011-17	EUR	103.0	05 October 2027	3.77000%	87.6	90.8
Series 2011-18	EUR	40.0	15 October 2029	3.75000%	34.0	35.3
Series 2011-20	GBP	100.0	27 October 2026	SONIA + 1.639%	100.0	100.0
Series 2011-21	GBP	100.0	27 October 2028	SONIA + 1.642%	100.0	100.0
Series 2011-22	GBP	50.0	27 October 2031	SONIA + 1.644%	50.0	50.0
Series 2011-23	EUR	77.0	01 November 2032	3.90000%	65.5	67.9
Series 2012-02	EUR	116.0	17 February 2027	3.81000%	98.7	102.3
Series 2012-03	EUR	88.0	22 February 2030	3.83200%	74.9	77.6
Series 2012-06	EUR	157.5	20 March 2028	3.55500%	134.0	138.8
Series 2014-02	EUR	750.0	25 June 2029	2.25000%	634.5	657.0
Series 2014-04	EUR	56.0	16 September 2039	1.94000%	47.6	44.1
Series 2014-05	EUR	50.0	19 September 2039	2.06650%	42.5	49.4
Series 2014-06	EUR	871.5	29 October 2021	0.75000%	741.5	881.3
Series 2014-07	EUR	50.0	15 March 2039	1.69250%	42.5	44.1
Series 2015-01	EUR	50.0	30 January 2030	1.00000%	42.5	44.1
Series 2015-02	EUR	500.0	25 March 2027	0.62500%	422.6	656.0
Series 2015-03	EUR	25.0	22 June 2035	0.74600%	21.3	22.0
Series 2015-05	EUR	50.0	08 May 2035	0.75000%	42.5	44.1
Series 2015-06	EUR	105.0	05 June 2034	1.35100%	89.3	92.6
Series 2015-07	EUR	100.0	17 July 2031	1.70250%	85.1	88.1
Series 2015-08	EUR	50.0	23 July 2035	1.77000%	42.5	44.1
Series 2015-09	EUR	45.0	30 July 2035	1.76000%	38.3	39.7
Series 2015-10	EUR	1,000.0	30 July 2020	0.375%	-	881.1
Series 2015-11	EUR	1,000.0	26 October 2022	0.75000%	850.4	880.7
Series 2015-12	EUR	35.0	05 November 2035	1.54000%	29.8	30.9
Series 2015-13	EUR	50.0	14 December 2032	1.62000%	42.5	44.1
Series 2015-14	EUR	25.0	17 December 2035	1.68000%	21.3	22.0
Series 2015-15	EUR	100.0	17 December 2020	0.277%	-	88.1
Series 2016-01	EUR	25.0	28 January 2041	1.67300%	21.3	26.4
Series 2016-02	EUR	30.0	28 January 2041	1.61800%	25.5	22.0
Series 2016-03	EUR	51.0	25 February 2036	1.39500%	43.4	45.0
Series 2016-04	EUR	50.0	25 February 2036	1.34500%	42.5	44.1
Series 2016-05	EUR	40.0	26 February 2041	1.33600%	34.0	35.3
Series 2016-06	EUR	25.0	01 March 2023	3M EURIBOR + 0.75%	21.5	22.4

12. Loans to members (continued)

Issuance	Currency	Notional (Million)	Maturity	Coupon Rate	2021	2020
Series 2016-07	EUR	1,250.0	25 January 2021	0.125%	-	1,101.0
Series 2016-08	EUR	30.0	11 March 2036	1.33100%	25.5	26.4
Series 2016-09	EUR	50.0	16 March 2038	1.42500%	42.5	44.1
Series 2016-10	EUR	50.0	17 March 2031	1.19500%	42.5	44.1
Series 2016-11	EUR	40.0	24 March 2036	1.39000%	34.0	70.5
Series 2016-12	EUR	80.0	23 March 2021	0.185%	-	35.3
Series 2016-14	EUR	60.0	23 April 2041	1.42000%	51.1	52.9
Series 2016-15	EUR	25.0	07 May 2041	1.57250%	21.3	22.0
Series 2017-01	EUR	658.6	23 February 2024	0.50000%	560.0	880.6
Series 2017-02	EUR	810.5	29 June 2032	1.37500%	688.7	880.2
Series 2017-03	EUR	50.0	08 December 2037	1.48100%	42.5	44.1
Series 2018-01	GBP	792.9	12 April 2023	SONIA + 0.416%	793.0	1,000.0
Series 2018-02	EUR	500.0	31 May 2028	1.12500%	425.2	440.4
Series 2018-03	EUR	30.0	04 October 2038	1.60000%	25.5	26.4
Series 2019-01	GBP	1,000.0	10 January 2024	SONIA + 0.75%	1,000.0	1,000.0
Series 2019-02	EUR	540.9	03 June 2024	0.05000%	460.1	1,101.4
Series 2019-03	EUR	20.0	28 June 2044	1.04000%	17.0	17.6
Series 2019-04	CHF	250.0	09 July 2025	0.00000%	194.5	211.8
Series 2019-05	CHF	150.0	11 July 2031	0.16750%	115.2	125.1
Series 2019-06	CHF	100.0	11 July 2044	0.48500%	76.8	83.4
Series 2019-07	GBP	1,000.0	02 August 2022	SONIA + 0.43%	1,000.0	1,000.0
Series 2020-01	GBP	609.7	10 January 2025	SONIA + 0.55%	609.7	1,000.0
Series 2020-02	USD	1,000.0	13 February 2023	1.70000%	723.3	814.7
Series 2021-01	GBP	1,000.0	24 February 2031	SONIA + 0.40%	1,000.0	-
Notional					14,950.5	19,756.1
Accrued Interest					71.4	93.7
Fair Value Adjustment for Micro Hedged Risk					856.5	1,213.1
					15,878.4	**21,062.9**

13. Other liabilities

	2021 £'m	2020 £'m
Collateral support	569.0	1,176.2
Accrued expenses	0.1	-
	569.1	1,176.2

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

14. Risk management and control of the LLP

The LLP's activities expose it to several financial risks including credit risk, liquidity and funding 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 13. 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 £13,742.5 million (2020: £17,795.3 million), the derivative financial instruments of £1,592.3 million (2020: £2,683.0 million) and cash and cash equivalents with Nationwide Building Society of £1,197.4 million (2020: £1,776.1 million). The primary credit risk of the LLP relates to credit risk associated with the pool of mortgages originated by Nationwide Building Society.

14. Risk management and control of the LLP (Continued)

Credit Risk (Continued)

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

Counterparty Credit Ratings

		S&P, Moody's, Fitch (04/04/2021)		Trigger	S&P, Moody's, Fitch (04/04/2020)	
Function	**Counterparty**	**Short Term**	**Long Term**	**Breached**	**Short Term**	**Long Term**
Bank Account	Nationwide Building Society	A-1/P-1/F1	A/A1/A+	No	A-1/P-1/F1	A/Aa3/A+
Swap Provider	Nationwide Building Society	A/Aa3/A+	A/Aa3(cr)/A+(dcr)	No	A-1/P-1/F1	A/Aa2 (cr)/A+(dcr)
Swap Provider	BNP Paribas SA	A-1/P-1/F1	A+/Aa3/A+	Yes	A-1/P-1/F1	A+/Aa3/A+
Swap Provider	HSBC Bank PLC	A-1+/P-1/F1+	AA-/A1/A+	No	A-1+/P-1/F1+	AA-/Aa3/A+
Swap Provider	HSBC Hong Kong	A-1+/P-1/F1+	AA-/Aa1(cr)/AA-	No	A-1+/P-1/F1+	AA-/Aa1(cr)/AA-
Swap Provider	ING Bank N.V.	A-1/P-1/F1+	A+/Aa3(cr)/AA-(dcr)	No	A-1/P-1/F1+	A+/Aa3(cr)/AA-(dcr)
Swap Provider	National Australia Bank	A-1+/P-1/F1+	AA-/Aa2(cr)/AA-	No	A-1+/P-1/F1+	AA-/Aa2(cr)/AA-
Swap Provider	Wells Fargo Bank NA	A-1/P-1/F1+	A+/Aa2/AA-	No	A-1/P-1/F1+	A+/Aa2/AA-
Swap Provider	Banco Santander NA	A-1/P-1/F2	A/A3(cr)/A(dcr)	No	A-1/P-1/F2	A/A3(cr)/A(dcr)
Swap Provider	Credit Agricole Corporate and Investment Bank	A-1/-/F1	A+/Aa2(cr)/AA-(dcr)	No	A-1/-/F1	A+/Aa2(cr)/A+(dcr)

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 (2020: £nil). For the LLP, credit risk is additionally mitigated by the over-collateralisation of the beneficial interest in mortgages (see note 9) 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 of which the mortgage loans are secured and updated quarterly to reflect changes in the house price index.

14. Risk management and control of the LLP (continued)

Credit risk (continued)

Mortgage pool details	2021	2020
Aggregate loan balance (£'m)	23,610	28,003
Number of loans	331,234	371,760
Largest loan (£)	933,612	956,650
Average balance of mortgage loan (£)	71,282	75,326
Longest dated mortgage legal maturity (years)	54	49

Distribution by current Loan to Value ratio (indexed)	2021	2020
	%	%
<70%	86.1	77.6
70% - 79.99%	11.0	13.3
80% - 89.99%	2.8	8.4
90% - 99.99%	-	0.6
>99.99%	0.1	0.1
Total book	**100.0**	**100.0**
Average Loan to Value of book (indexed)	48.0	52.3

Mortgages due status		2021		2020
	£'m	%	£'m	%
Not impaired				
Neither past due nor impaired	23,418.6	99.2	27,819.3	99.3
Past due up to 3 months but not impaired	92.0	0.4	74.4	0.3
Impaired	99.5	0.4	109.6	0.4
	23,610.1	**100.0**	**28,003.3**	**100.0**

Impaired mortgage loans		2021		2020
	£'m	%	£'m	%
Impaired status				
Past due 3 to 6 Months	28.6	28.7	31.0	28.3
Past due 6 to 12 Months	60.8	61.1	67.7	61.8
Past due Over 12 Months	10.1	10.2	10.9	9.9
Possessions	-	-	-	-
	99.5	**100.0**	**109.6**	**100.0**

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

14. Risk management and control of the LLP (continued)

Credit risk (Continued)

Geographical distribution	2021	2020
	%	%
South-East England (excluding Greater London)	28.6	28.9
Central England	18.4	18.3
Northern England	15.3	15.2
Greater London	13.2	13.4
Scotland	9.6	9.5
South-West England	9.5	9.5
Wales and Northern Ireland	5.4	5.2
	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.

14. Risk management and control of the LLP (continued)

Liquidity risk (continued)

04 April 2021	< 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	1,197.4	-	-	-	-	-	-	-	**1,197.4**
Due from members	8.4	30.6	12.0	919.9	2,099.5	3,222.7	5,469.0	1,980.4	**13,742.5**
HA derivatives *	(67.0)	-	-	59.7	439.6	137.4	180.0	842.7	**1,592.3**
Non-HA derivatives *	-	-	-	-	-	-	-	-	**-**
Other assets	0.2	0.6	0.5	0.5	0.4	1.1	-	-	**3.3**
Total assets	**1,139.0**	**31.2**	**12.5**	**980.1**	**2,539.5**	**3,361.2**	**5,649.0**	**2,823.1**	**16,535.5**
Liabilities	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Member loans	7.8	25.0	9.8	757.9	1,797.8	2,671.2	4,639.6	5,969.3	**15,878.4**
HA derivatives *	(2.0)	-	-	-	-	30.1	39.1	102.6	**169.8**
Non-HA derivatives *	-	-	-	-	-	-	-	-	**-**
Other liabilities	569.1	-	-	-	-	-	-	-	**569.1**
Total liabilities	**574.9**	**25.0**	**9.8**	**757.9**	**1,797.8**	**2,701.3**	**4,678.7**	**6,071.9**	**16,617.3**
Net position	**564.0**	**6.2**	**2.7**	**222.2**	**741.7**	**659.8**	**970.3**	**(3,248.8)**	**(81.8)**

04 April 2020	< 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	1,776.1	-	-	-	-	-	-	-	**1,776.1**
Due from members	14.9	31.9	1,041.2	163.1	2,768.4	3,079.0	9,020.8	1,676.0	**17,795.3**
HA derivatives *	(79.2)	-	179.5	17.3	193.0	695.0	305.1	1,372.3	**2,683.0**
Non-HA derivatives *	-	-	-	-	-	-	-	-	**-**
Other assets	0.2	0.6	0.6	0.6	0.4	2.1	1.1	-	**5.6**
Total assets	**1,712.0**	**32.5**	**1,221.3**	**181.0**	**2,961.8**	**3,776.1**	**9,327.0**	**3,048.3**	**22,260.0**
Liabilities	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Member loans	13.6	27.3	896.0	140.9	2,414.8	2,823.8	7,823.4	6,923.1	**21,062.9**
HA derivatives *	40.8	-	-	14.8	31.5	-	0.8	33.3	**121.1**
Non-HA derivatives *	-	-	-	-	-	-	-	-	**-**
Other liabilities	1,176.2	-	-	-	-	-	-	-	**1,176.2**
Total liabilities	**1,230.6**	**27.3**	**896.0**	**155.7**	**2,446.3**	**2,823.8**	**7,824.2**	**6,956.4**	**22,360.2**
Net position	**481.4**	**5.2**	**325.3**	**25.3**	**515.5**	**952.3**	**1,502.8**	**(3,908.1)**	**(100.2)**

* *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.

14. Risk management and control of the LLP (continued)

Prepayment risk (continued)

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 she 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.

04 April 2021	< 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	8.9	32.2	26.2	775.5	1,857.3	2,815.6	4,926.8	5,899.5	**16,342.0**
Derivatives	3.0	6.0	3.0	10.0	3.0	73.0	95.0	37.0	**230.0**
Total liabilities	**11.9**	**38.2**	**29.2**	**785.5**	**1,860.3**	**2,888.6**	**5,021.8**	**5,936.5**	**16,572.0**

04 April 2020	< 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	14.9	34.8	911.6	165.4	2,571.5	2,917.8	8,240.1	6,609.3	**21,465.4**
Derivatives	1.0	6.0	6.0	23.0	37.0	29.0	42.0	(6.0)	**138.0**
Total liabilities	**15.9**	**40.8**	**917.6**	**188.4**	**2,608.5**	**2,946.8**	**8,282.1**	**6,603.3**	**21,603.4**

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

Foreign currency risk is the risk that the fair values of financial assets or financial liabilities, or future cash flows receivable or payable on financial assets or financial liabilities, fluctuate as a result of changes in market currency exchange rates.

The current operating currencies of the LLP are Sterling, Euro, Norwegian Krona, Swiss Franc and US Dollar. 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. The LLP does not include cross currency basis spreads within its hedge accounting relationships. The change in fair value is instead deferred to an 'other hedging reserve' and so is not included in the change in value of the hedging instrument. Accordingly, it does not separately monitor value at risk arising from open foreign currency positions.

15. Fair value of financial assets and liabilities

Fair value of financial assets and liabilities at amortised cost 2021	Carrying value	Fair value
	£'m	£'m
Assets		
Loans & other debts due from members	13,742.5	13,934.4
Liabilities		
Loans from LLP members	15,878.4	16,086.0

2020	Carrying value	Fair value
	£'m	£'m
Assets		
Loans & other debts due from members	17,795.3	18,012.8
Liabilities		
Loans from LLP members	21,062.9	20,982.0

The fair value of other debts due to members 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.

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 2021 (2020: none). There have been no movements in and out of level 3 throughout the year.

Level 2 valuation technique using observable inputs

Assets and liabilities classified as Level 2 have been valued using models whose inputs are observable in an active market. Valuations based on observable inputs include derivative financial instruments such as swaps and forward rate agreements which are valued using market standard pricing techniques, and options that are commonly traded in markets where all the inputs to the market standard pricing models are observable.

16. Capital management

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

17. 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.

18. Post balance sheet events

The following covered bond issuance was made post 4 April 2021:

Note	Date	Currency	Value (Million)
CB 2021-2	27/04/2021	EUR	500

19. Related party transactions

During the year, fees of £600 (2020: £600) were paid to Moulton Capital Finance Limited in respect of corporate services provided to the company.