

Registered No: 06612702

Silverstone Funding (No. 1) Limited

Annual Report and Financial Statements
for the year ended 4 April 2016

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SILVERSTONE FUNDING (NO. 1) LIMITED

Directors and company information

Directors

Mark Filer

Mignon Clarke-Whelan (nee Mignon Clarke)

Andrew Townsend

Wilmington Trust SP Services (London) Limited

Company secretary

Wilmington Trust SP Services (London) Limited

Independent auditors

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditor

7 More London

London

SE1 2RT

Registered office

c/o Wilmington Trust SP Services (London) Limited

Third Floor

1 King's Arms Yard

London

EC2R 7AF

Registered number

06612702

Registered in England and Wales

Directors' report for the year ended 4 April 2016

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

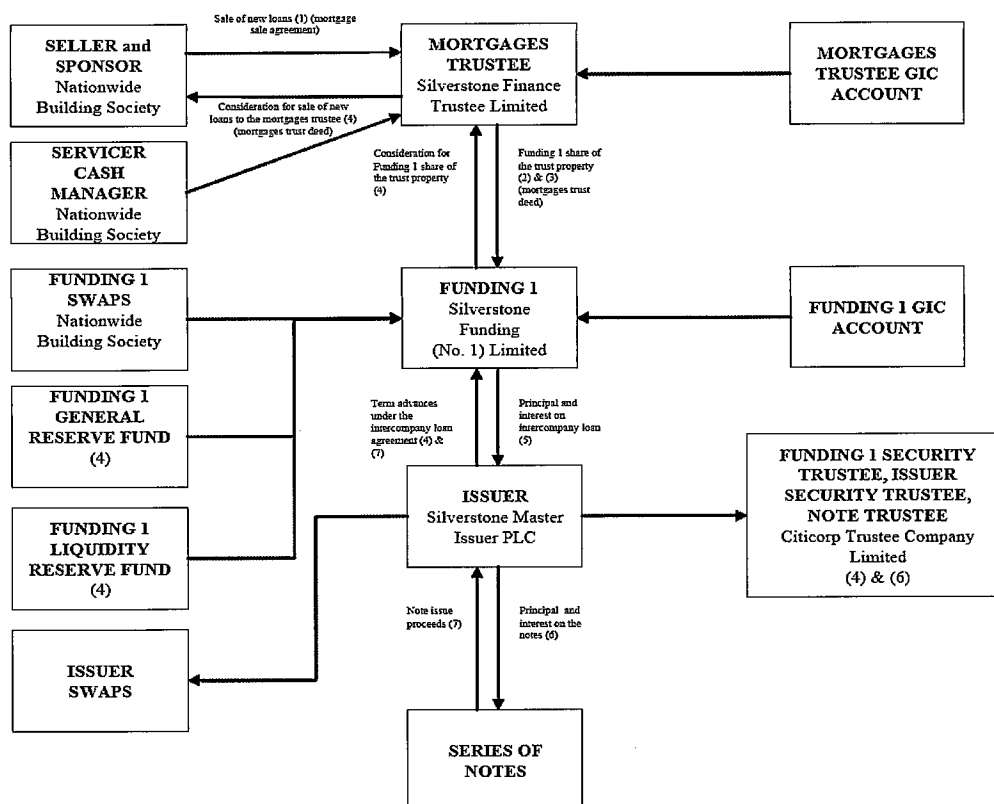
All financial information given in the Directors' report is taken solely from the statutory results prepared on the above basis. The directors consider the financial statements to be fair, balanced and understandable.

Silverstone Funding (No.1) Limited (the Company) is a wholly owned subsidiary of Silverstone Securitisation Holdings Limited, the parent company.

The principal activity of the Company is to acquire an interest in a portfolio of mortgage loans and to enter into financial arrangements with its related parties.

The Company was registered as Silverstone Funding (No.1) Limited in England and Wales on 5 June 2008 as a limited company, with authorised share capital of £100 comprising 100 ordinary shares of £1 each, one of which has been issued.

The activities of the Company are conducted primarily by reference to a series of securitisation transactions as a means of raising funds for Nationwide Building Society (“Nationwide” or the “Group”). The securitisation structure is set out in diagrammatic form below.



SILVERSTONE FUNDING (NO. 1) LIMITED

Directors' report for the year ended 4 April 2016 (continued)

Silverstone Master Issuer plc ("the Issuer") lends the proceeds of the notes issued under the programme to the Company. The loan proceeds from prior years have been used to purchase an interest in the assets of Silverstone Finance Trustee Limited ("the Trust"). The assets of the Trust comprise mortgage loans originated within Nationwide Building Society and secured on residential properties in England, Wales, Scotland and Northern Ireland.

Directors' indemnities

As permitted by the Articles of Association, the directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Group also purchased and maintained throughout the financial year directors' and officers' liability insurance in respect of itself and its directors.

Domicile

The Company is limited by shares. It is registered, domiciled and operates in the United Kingdom. The Company is a wholly owned subsidiary of Silverstone Securitisation Holdings Limited, the parent company, which in turn is a wholly owned subsidiary of Nationwide Building Society.

Directors and directors' interests

The directors of the Company who were in office during the year and up to the date of signing the financial statements are shown on page 2. Andrew Townsend is an employee of Nationwide Building Society.

At no time during the year have the directors, or their families, had any beneficial interest in the shares of the Company. None of the directors had a material interest in any contract significant to the Company's business.

Employees

The Company does not have any employees (2015: none).

Environment

The Group recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to reduce any damage that might be caused by the Group's activities.

The Group has a comprehensive programme of activity on environmental issues. It runs an active carbon-saving programme and has taken action on issues such as transport, lighting, heating and recycling.

Going concern

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

Details on future developments, dividends and financial risk management are included in the Strategic report on pages 6 – 8.

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report and Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and accounting estimates that are reasonable and prudent
- state whether applicable United Kingdom Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

In accordance with Section 418, directors' reports shall include a statement, in the case of each director in office at the date the directors' report is approved, that:

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

Approved by the board of directors and signed on its behalf by



Andreas Demosthenous

For and on behalf of Wilmington Trust SP Services (London) Limited

25 November 2016

SILVERSTONE FUNDING (NO. 1) LIMITED

Strategic report for the year ended 4 April 2016

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 2016, the Silverstone structure serviced an additional £1,001,249,849 of Asset Backed Security Issuances:

<u>Note</u>	<u>Amount</u>	<u>Date</u>
2016-1 1A2	£250 million	February 2016
2016-1 1A1	\$275 million	February 2016
2016-1 2A1	€700 million	February 2016

The following notes matured or were partially or fully repaid during the year following a consent solicitation process totalling £1,422,479,931:

<u>Note</u>	<u>Amount</u>	<u>Date</u>
2010-1 A2	€1,100 million	October 2015
2010-1 A3	\$300 million	October 2015
2010-1 Z Notes	£123 million	October 2015
2010-1 1Z	£81 million	October 2015
2012-1 1A	\$333 million	October 2015

As a result, the intercompany loan from the Issuer reduced in the period. The intercompany loans enable the Company to purchase an interest in the assets of a trust administered by the Trust. The assets of the Trust comprise mortgage loans originated within Nationwide Building Society ("the Originator"), secured on residential properties in England, Wales, Scotland and Northern Ireland.

The balance sheet on page 12 of the financial statements shows the Company's financial position at the year end.

Future developments

The Company will continue to hold its interest in the Trust and no changes in activities are envisaged.

Strategic goals

Although strategic goals are set at Group level, the board of directors is aware of the Company's active role in supporting the Group's ambition to meet these targets. The key performance indicators (KPIs) in relation to the Group's strategic goals are set out below:

- Market leading customer satisfaction
- Grow the membership with members who have a meaningful relationship
- Protect and grow our market shares in: mortgages, savings and current accounts
- Next generation banking offering a choice of access for members
- Being 1st choice with an iconic brand, effective in digital and traditional media
- Engage and enable our people to maintain industry leading levels of customer service and to grow the business
- A commitment to being a leading corporate citizen
- Delivering optimum profitability by targeting £1.0 - £1.5 billion underlying profit per annum
- Deliver operational efficiency and prudent cost management, targeting a medium term cost income ratio of less than 55%
- Ensure capital strength with a minimum leverage ratio of 4.5%

Strategic goals (continued)

Further information on the Group's performance against these, and also the strategic goals for the next five years can be found in the Overview section of the Group Annual Report and Accounts.

The securitisation transaction documents define a set of KPIs, and these are published as a monthly investor report (available via the Nationwide Building Society website). These include the yield on the Trust and the excess spread available as the first line of credit enhancement to the notes, the losses that have occurred and the level of arrears and possessions in the underlying mortgages, the rate of repayment of the mortgage loans within the Trust and an analysis of the characteristics of the underlying mortgages in the Trust.

Changes in the credit rating assigned to each series and class of notes issued by the Issuer and attached to each intercompany loan is also used as an indicator of the performance of the Company.

The credit rating is first assigned at the time of issue and then monitored and reviewed by the Credit Rating Agencies and reflects the likelihood of full and timely payment to the note holders of interest and principal when due.

Please refer to Note 14 for all the ratings that have been applied in the reviewed year and subsequently up to the date of approval of these financial statements.

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

Results and dividends

The profit before tax for the year ended 4 April 2016 was £10,000 (2015: £10,000).

Under the securitisation transaction documents as modified by the Directors' resolution dated 30 March 2009, the cash flow profits before tax of the Company are fixed to a maximum of £10,000 per annum retainable from available revenue receipts from the beneficial interest in the Mortgage Trust. The receipts in excess of those required to enable the Company to generate a £10,000 profit accrue to Nationwide Building Society, the originator of the underlying mortgages (the 'Originator').

No dividends were paid during the year (2015: £nil).

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 our 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 objectives and operational risks as it continues to embrace the digital revolution.

Although the Group's financial position continues to strengthen, risks remain. A number of factors could affect the Group's financial and lending risks. These include ongoing political uncertainty in the Eurozone and potential economic weakness that could adversely impact the operating environment of the Group.

Risk management and control of the Group (continued)

The Group continues to focus on oversight of macroeconomic and market uncertainty. On 23 June 2016 the UK held a referendum on whether the UK should remain a member of the European Union. The UK voted to leave the European Union and, as a result, there are a number of uncertainties in connection with the future of the UK and its relationship with the European Union. The negotiation of the UK's exit terms is likely to take a number of years. Until the terms and timing of the UK's exit from the European Union are confirmed it is not possible to determine the impact that the referendum, the UK's departure from the European Union and/or any related matters may have on general economic conditions in the UK and on the Group.

It is also almost certain that regulators' and customers' expectations will increase, and their tolerance for failure will reduce. Dealing effectively with regulation is an important part of running a modern financial institution. The Group's business model and member focus put it in a good position to meet regulatory expectations of conduct.

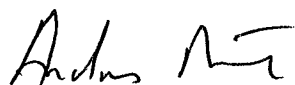
The Group has not been subject to the same level of regulatory censure as its main competitors, reflecting its commitment to delivering good conduct and fair customer outcomes. This is borne out by the Group having far fewer complaints to the Financial Ombudsman Service upheld when compared to the industry as a whole.

In common with other retail financial services organisations, our business model results in a number of inherent risks which are continuously monitored and managed. These are categorised as follows:

- Lending risk
- Financial risk
- Operational risk
- Compliance, conduct and customer experience
- Strategic risk, and
- Model risk.

The risk management objectives and policies 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 Groups 2016 Annual Report and Accounts.

Approved by the board of directors and signed on its behalf by



Andreas Demosthenous

For and on behalf of Wilmington Trust SP Services (London) Limited

25 November 2016

Report on the financial statements

Our opinion

In our opinion, Silverstone Funding (No.1) Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 4 April 2016 and of its profit 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.

What we have audited

The financial statements, included within the Annual Report, comprise:

- the balance sheet as at 4 April 2016;
- the profit and loss account for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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, 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Laura Needham (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
25 November 2016

Profit and Loss Account for the year ended 4 April 2016

	Notes	2016 £'000	2015 £'000
Interest receivable and similar income	3	119,252	248,177
Interest payable and similar charges	4	(117,645)	(244,337)
Net interest income		1,607	3,840
Operating expenses	5	(1,597)	(3,830)
Profit before tax		10	10
Tax expense	6	(2)	(2)
Profit for the financial year	13	8	8

No other comprehensive income was earned during the year.

The notes on pages 14 to 26 form an integral part of these financial statements.

Balance Sheet as at 4 April 2016

	Note	2016 £'000	2015 £'000
Assets			
Cash and cash equivalents	7	153,207	121,494
Deemed loan to group undertaking	8	6,019,067	6,651,761
Trade and other receivables	9	-	1,571
Total assets		6,172,274	6,774,826
Equity and liabilities			
Liabilities			
Loan from related company	10	6,171,946	6,774,768
Current tax liabilities		2	2
Trade and other payables	11	262	-
Total liabilities		6,172,210	6,774,770
Equity			
Called up Share capital	12	-	-
Profit and loss account	13	64	56
Total equity		64	56
Total equity and liabilities		6,172,274	6,774,826

The notes on pages 14 to 26 form an integral part of these financial statements.

The directors 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 board of directors on 25 November 2016.

Signed for and on behalf of the board of directors



Andreas Demosthenous
For and on behalf of Wilmington Trust SP Services (London) Limited

SILVERSTONE FUNDING (NO. 1) LIMITED**Statement of changes in equity for the year ended 4 April 2016****For the year ended 4 April 2016**

For the year ended 4 April 2016		Attributable to owners of the Company		
	Note	Called up Share capital £'000	Profit and loss account £'000	Total Equity £'000
Balance brought forward 5 April 2015		-	56	56
Profit for the financial year	13	-	8	8
Balance at 4 April 2016		-	64	64

For the year ended 4 April 2015

		Attributable to owners of the Company		
	Note	Called up Share capital £'000	Profit and loss account £'000	Total equity £'000
Balance brought forward 5 April 2014		-	48	48
Profit for the financial year	13	-	8	8
Balance at 4 April 2015		-	56	56

The notes on pages 14 to 26 form an integral part of these financial statements.

1 Accounting policies**Basis of preparation**

These financial statements have been prepared in accordance with The Companies Act 2006 as applicable to companies using Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101). The financial statements have been prepared under the historical cost convention. As stated in the directors' report, the directors consider that it is appropriate to continue to adopt the going concern basis in preparing the financial statements. Accounting policies have been consistently applied in preparing these financial statements. The Company's financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£'000) except where otherwise indicated.

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

- the requirements of International Accounting Standard (IAS) 7 *Statement of Cash Flows*; and
- the requirements in IAS 24 *Related Party Disclosures* to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Further details on critical accounting estimates are given in note 2.

New standards, amendments and IFRIC interpretations

No new accounting standards, or amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 4 April 2016, have had a material impact on the Company.

Recognition of financial assets and liabilities

If a transferor retains substantially all the risks and rewards associated with the transferred assets, the transaction is accounted for as a financing transaction, notwithstanding that it is a sale transaction from a legal perspective. The directors of the Company have concluded that the Originator, Nationwide Building Society, has retained substantially all the exposure to risks and rewards of the pool of mortgage loans and as a consequence the Company does not recognise the mortgage loans on its balance sheet but rather a deemed loan due from the Originator, where recourse to the Originator is limited to the cash flows from the mortgage loans.

The initial amount of the deemed loan corresponds to the consideration paid by the Company to the Originator to obtain a portion of the mortgage loans. The Company recognises principal and interest cash flows from the underlying pool of mortgage loans only to the extent that it is entitled to retain such cash flows. The deemed loan is stated at amortised cost.

The basis swap entered into by the Company and the Originator is not recognised separately as a derivative financial instrument, as the amount payable under the swap reflect interests flows from the mortgage loans which are not recognised by the Company for accounting purposes. Instead, the deemed loan to the Trustee is recognised with an effective interest rate which reflects the amount receivable under the swap receiving leg.

1 Accounting policies (continued)**Recognition of financial assets and liabilities (continued)**

The start-up loan received by the Company from the Originator is not recognised separately as a liability. Instead, it is aggregated with the deemed loan for accounting purposes, even if legally it represents a separate transaction.

The loan from the Issuer is stated at amortised cost.

Notes issued by the Issuer are subject to certain call options that allow the Issuer to repurchase the notes once the principal amount of the notes outstanding falls below 10% of the amount issued, and which would result in an effective repayment of the loan from the Issuer and the deemed loan to Nationwide Building Society. Such repurchase options are considered to be closely related to the economic characteristics and risks of the notes or loans themselves and are not separately accounted for as derivatives.

Interest receivable and interest payable

For instruments measured at amortised cost the effective interest rate method is used.

The effective interest rate method is used to measure the carrying value of a financial asset or a 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 through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

In calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees received and paid and costs borne that are an integral part of the effective interest rate and all other premiums or discounts above or below market rates.

Interest receivable is presented net of amounts payable for profits in excess of the £10,000 per annum limit set out in the securitisation transaction documents. The associated amounts payable are presented net within the deemed loan to group undertaking.

Fees and commissions

Direct fees and costs incremental to generating a financial instrument are deferred and spread as interest receivable or expense on an effective interest basis.

Other fees and commissions are recognised on the accruals basis as services are provided, or on the performance of a significant act.

Segmental reporting

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

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

1 Accounting policies (continued)**Taxation including deferred tax**

Current tax payable on profits is recognised as an expense in the period in which profits arise. The Company's tax charge is based on the permanent tax regime for securitisation companies. All fair value adjustments on derivative contracts are ignored for taxation purposes as tax is assessed on the cash retained as profit in the Company.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Impairment of financial assets

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

Delinquencies and defaults on the underlying securitised assets will not result in an impairment loss if the cash flows from the asset pool are still expected to meet the obligations under the limited recourse loan. Losses incurred on the securitised assets will not trigger impairment as long as they do not exceed the credit enhancement granted by Nationwide Building Society. The amount of the loss is measured as the difference between the carrying value of the deemed loan to Nationwide Building Society and the present value of the estimated future cash flows (excluding future credit loss that have not been incurred) discounted with the original effective interest rate. The carrying amount of the asset is reduced by the amount of the loss, which is recognised in the profit and loss account.

Derecognition of financial assets and liabilities

Derecognition is the point at which the Company 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 of the risks and rewards of ownership have been transferred.

Financial liabilities are derecognised when the obligation is discharged, cancelled or has expired.

2 Judgements in applying accounting policies and critical accounting estimates

No judgements, estimates or assumptions have been made that are considered critical to the preparation of these financial statements.

SILVERSTONE FUNDING (NO. 1) LIMITED

Notes to the financial statements for the year ended 4 April 2016 (continued)

3 Interest receivable and similar income

	2016 £'000	2015 £'000
Interest receivable on deemed loan	130,512	286,815
Excess profits payable	(12,647)	(44,092)
Bank interest receivable	1,387	5,454
	119,252	248,177

4 Interest payable and similar charges

	2016 £'000	2015 £'000
Interest payable on loan from related company	117,645	244,337
	117,645	244,337

5 Operating expenses

	2016 £'000	2015 £'000
Audit fees	58	46
Credit rating agency fees	508	2,413
Legal fees	398	743
Cash management fees – Nationwide Building Society	100	100
Other operating expenses	533	528
	1,597	3,830

The Company has no employees (2015: none). The administration charges include facility fees of £100,000 (2015: £100,000) payable to the Issuer to cover administration charges payable to Nationwide Building Society and for the Issuer profit.

6 Tax expense

	2016 £'000	2015 £'000
Current tax expense		
UK corporation tax at 20% (2015: 20%)	2	2
Tax expense	2	2
Profit before tax for the year	10	10
Tax at 20% (2015: 20%)	2	2

Corporation tax has been recognised on the Company's profit at 20% (2015: 20%), which is the rate applicable to small company profits.

The Company's tax regime is based on the tax regime for securitisation companies which assess tax on the cash retained as profit in the Company.

SILVERSTONE FUNDING (NO. 1) LIMITED**Notes to the financial statements for the year ended 4 April 2016 (continued)****7 Cash and cash equivalents**

The Company has placed its deposit account with the Nationwide Building Society as a provider of a Guaranteed Investment Contract (GIC). Withdrawals from this account are restricted by the detailed priority of payments set out in the transaction documents. The balance as at 4 April 2016 was made up of reserve of £100 million (2015: £100 million) and a balance of £53 million (2015: £21 million) available for allocation under the priority of payments.

8 Deemed loan to group undertaking

	2016 £'000	2015 £'000
Deemed loan to Silverstone Finance Trustee Limited	6,134,392	6,771,328
Start-up loan	-	-
Excess profits payable	(114,506)	(118,720)
Accrued interest	(819)	(847)
	6,019,067	6,651,761

The beneficial interest in the mortgage loans was £6,153 million (2015: £6,755 million). This has been accounted for as part of the deemed loan, offset by accumulated principal repayments. Also included net within the loan balance are the start-up loan and amounts payable representing excess profits of the Company.

9 Trade and other receivables

	2016 £'000	2015 £'000
Other receivables	-	1,571
	-	1,571

10 Loan from related company**Loan from related company as at 4 April 2016**

	1 year or less £'000	1 to 5 years £'000	Over 5 years £'000	Total £'000
GBP: priced against 3 month GBP LIBOR				
Weighted average margin: +110bps	2,316,572	3,296,127	540,750	6,153,449
Accrued interest	24,129	-	-	24,129
Capitalised start-up costs	(2,527)	(3,100)	(5)	(5,632)
	2,338,174	3,293,027	540,745	6,171,946

SILVERSTONE FUNDING (NO. 1) LIMITED**Notes to the financial statements for the year ended 4 April 2016 (continued)****10 Loan from related company (continued)****Loan from related company as at 4 April 2015**

	1 year or less £'000	1 to 5 years £'000	Over 5 years £'000	Total £'000
GBP: priced against 3 month GBP LIBOR				
Weighted average margin: +101bps	1,583,658	3,944,176	1,226,753	6,754,587
Accrued interest	27,831	-	-	27,831
Capitalised start-up costs	(3,363)	(4,245)	(42)	(7,650)
	1,608,126	3,939,931	1,226,711	6,774,768

11 Trade and other payables

	2016 £'000	2015 £'000
Other payables	262	-
	262	-

12 Share capital

	2016 £	2015 £
Authorised: ordinary shares of £1 each	100	100
Number of shares issued and fully paid:		
Ordinary share of £1	1	1

The Company was registered as Silverstone Funding (No. 1) Limited in England and Wales on 5 June 2008 as a limited company, with authorised share capital of £100 comprising 100 ordinary shares of £1 each. One share was issued and fully paid up.

13 Retained earnings

	2016 £'000	2015 £'000
Retained earnings brought forward	56	48
Profit for the financial year	8	8
Retained earnings carried forward	64	56

No dividends were proposed or paid during the year or in the prior year.

14 Risk management and control of the Group

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

Credit risk

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

The primary credit risk of the Company relates to the underlying credit risk associated with the securitised pool of mortgages originated within Nationwide Building Society. At year end, there was £nil impairment provision against the loans and other debts due from members (2015: £nil). Credit risk also arises in relation to cash and cash equivalents placed on deposit with Nationwide Building Society as the provider of the Guaranteed Investment Contract (GIC).

The Company meets its obligations on the loan from the Issuer from the cash flows it receives from the Originator. These represent the main recourse for the Company. As a consequence, the credit quality of the mortgage loans indicates the capacity of the Company to service its payments, although the mortgages remain on the balance sheet of the Originator. The structure of the securitisation provides for other credit enhancements.

The likelihood of defaults in the mortgage pool and the amounts that may be recovered in the event of default are related to a number of factors and may vary according to characteristics and product type. Significant changes in the economy, or in the health of a particular geographical zone that represents a concentration in these securitised assets, could also affect the cash flows from the mortgage pool. Key characteristics of the mortgage pool at 4 April 2016 are shown below. As existing mortgage loans are repaid and new loans are sold to the Company, the characteristics of the mortgage pool may change. All risk factors were assessed in detail at inception and are outlined in the Issuer's Offering Circular for the notes issued.

Credit enhancement is provided to the Company. The income on the mortgage pool, including the basis swap, is expected to exceed the interest payable on the Company's intercompany loan. The excess spread is available to make good any reduction in the principal balance of the mortgage pool as a result of defaults by customers. There were losses of £0.8 million (2015: £1 million) in the mortgage pool covered by excess spread in the year.

As at year end the reserve fund was £100 million (2015: £100 million). As specified in the final terms for the 2015-1 issuances the reserve fund required amount became £100 million, thereby allowing a release of £625 million from the Company's reserve fund ledger which became available to be used as available revenue receipts.

The Company has a concentration of risk to the Originator (Nationwide Building Society). The underlying mortgage assets of the securitisation are all in the UK market. The nature of the residential mortgage portfolio means there is no significant counterparty credit risk as the Originator's retail lending books comprise a large number of smaller loans which are broadly homogenous and have low volatility of credit risk outcomes and are intrinsically highly diversified. The balance sheet amounts represent the maximum exposure to credit risk.

SILVERSTONE FUNDING (NO. 1) LIMITED

Notes to the financial statements for the year ended 4 April 2016 (continued)

14 Risk management and control of the Group (continued)**Securitised mortgage assets**

The tables below present the characteristics of the entire portfolio of mortgage loans held by the Silverstone Finance Trustee Limited and originated by Nationwide Building Society. The Company's share of these mortgages is 48.4% (2015: 45.1%) and these back the deemed loan to the Originator.

	2016	2015
Aggregate loan balance	£12,368m	£14,902m
Number of loans	216,801	179,276
Largest loan	£950,389	£971,614
Average balance of mortgage loan	£57,046	£83,123
Longest dated mortgage legal maturity	37 years	38 years
Distribution by current loan to value ratio:	2016	2015
	%	%
Total book	86	82
< 70%	9	11
70% - 80%	4	5
80% - 90%	1	1
90% - 100%	0	1
> 100%		
	100	100
Average loan to value of book (indexed)	47	50

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

Mortgage loans and advances by payment due status:

	2016		2015	
	£'000	%	£'000	%
Not impaired:				
Neither past due nor impaired	12,253,582	99	14,773,549	99
Past due up to 3 months but not impaired	59,455	1	67,083	1
Impaired	54,619	-	61,521	-
Total	12,367,656	100	14,902,153	100

SILVERSTONE FUNDING (NO. 1) LIMITED**Notes to the financial statements for the year ended 4 April 2016 (continued)****14 Risk management and control of the Group (continued)**

Impaired mortgage loans are further analysed as follows:

	2016 £'000	%	2015 £'000	%
Impaired status:				
Past due 3 to 6 months	25,509	47	31,027	50
Past due 6 to 12 months	18,078	33	19,028	31
Past due over 12 months	9,804	18	9,125	15
Possessions	1,228	2	2,341	4
	54,619	100	61,521	100

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

	2016 £'000	2015 £'000
	Number	Number
Possessions during year	36	72
Possessions yet to be sold	9	26

Geographical distribution of mortgages:

	2016 %	2015 %
South-east England (excluding Greater London)	27	27
Central England	19	19
Northern England	19	18
Greater London	12	12
South-west England	8	9
Scotland	8	8
Wales and Northern Ireland	7	7
	100	100

Cash and cash equivalents

The Company assesses its counterparty credit risk in relation to the cash and cash equivalents held with Nationwide Building Society by reference to credit ratings. In accordance with the criteria of the Rating Agencies that rate the notes issued by the Issuer, and by association the intercompany loan received by the Company, the Programme Documentation contains various rating triggers linked to each counterparty which requires certain actions to be taken if triggers are breached. These rating triggers include the replacement of Nationwide Building Society as the Guaranteed Investment Contract (GIC) provider. To date, none of these triggers have been breached.

SILVERSTONE FUNDING (NO. 1) LIMITED

Notes to the financial statements for the year ended 4 April 2016 (continued)

14 Risk management and control of the Group (continued)

Counterparty		Rating type	Rating as at 4 April 2016 S&P/Moody's/Fitch	Rating Trigger Breached	Updated rating S&P/Moody's/Fitch (1)
Account	Nationwide	Short term	A-1/P-1/F1	N	A-1/P-1/F1
Bank and Swap Provider	Building Society	Long term	A/A1/A	N	A/A1/A

Note (1) As at date of approval of the financial statements

Liquidity risk

The Company's ability to pay interest on the start-up loan, the intercompany loans and the other expenses depends upon the Company receiving enough revenue cash flows from the mortgage pool. Having met other obligations, the Company returns any surplus cash flows to Nationwide Building Society.

The Company makes principal repayments on the intercompany loans in accordance with the Company's principal priority of payments reflecting the amount of principal collection on the underlying mortgage pool.

The Company is obliged to make payments on the intercompany loans to the extent it receives enough cash flows from the underlying mortgage pool. If the Company does not receive sufficient revenue funds, the interest is capitalised. The Company will use the principal funds from the mortgage pool to repay the intercompany loans in accordance with the expected due date. When required, cash relating to principal receipts on mortgages is accumulated within the Company prior to note repayments. The amount of cash held for this purpose as at 4 April 2016 was £nil (2015: £nil).

The principal funds available will depend on the rate of repayment of loan principal within the underlying mortgage pool and is subject to prepayment risk as detailed below.

If the Company does not pay amounts due on the intercompany loans because it does not have sufficient funds available, then the loans may not be paid in full and a part may be deferred to subsequent periods. Such deferred amounts will remain due but not payable until funds are available in accordance with the relevant priority of payments.

Prepayment risk

The final maturity date of the underlying mortgage loans is no later than the later of (i) 21 January 2068 and (ii) the earliest final maturity date of any outstanding notes (other than any notes designated in the relevant final terms as money market notes for the purposes of rule 2a-7 under the Investment Company Act and any notes with a final maturity date of 21 January 2070) minus 2 years. However, in the normal course of business, a proportion of borrowers repay their loan in advance of their contractual maturity. As a result the average life of the deemed loan and of the intercompany loans is likely to be significantly less than that implied by the contractual maturity dates of the mortgage pool.

The rate of prepayment of loans is influenced by a wide variety of economic, social and other factors, including prevailing mortgage market interest rates, the availability of alternative financing programmes, local and regional economic conditions and home owner mobility. The terms of the intercompany loan are that repayments of principal will only be made to the extent that sufficient cash flows have been received from the Company's assets. In the event that prepayment rates in the mortgage pool reduce, principal repayments on the deemed loan and the notes may be spread over a longer period.

SILVERSTONE FUNDING (NO. 1) LIMITED**Notes to the financial statements for the year ended 4 April 2016 (continued)****14 Risk management and control of the Group (continued)**

The Constant Payment Rate ("CPR") for the underlying mortgage pool as detailed within the Investor Report is as follows:

	Monthly CPR %	Average of last 3 months %	Monthly rate annualised %
31 st March 2016	1.89	18.34	20.50
31 st March 2015	1.50	43.87	16.63

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

At 4 April 2016
Residual maturity

	Due In								
	Less than 1 month* £000's	1-3 months £000's	3-6 months £000's	6-9 months £000's	9-12 months £000's	1-2 years £000's	2-5 years £000's	Over 5 years £000's	Total £000's
Assets									
Cash and cash equivalents	153,207	-	-	-	-	-	-	-	153,207
Deemed loan to group undertaking	(19,876)	-	-	2,316,572	-	977,603	2,318,525	426,243	6,019,067
Total assets	133,331	-	-	2,316,572	-	977,603	2,318,525	426,243	6,172,274
Liabilities									
Loan from related company	23,886	(487)	(748)	2,316,010	(487)	975,974	2,317,053	540,745	6,171,946
Trade and Other Payables	262								262
Total liabilities	24,148	(487)	(748)	2,316,010	(487)	975,974	2,317,053	540,745	6,172,210
Net assets/(liabilities)	109,183	487	748	562	487	1,629	1,472	(114,502)	66

*Includes repayable on demand

At 4 April 2015
Residual maturity

	Due In								
	Less than 1 month* £000's	1-3 months £000's	3-6 months £000's	6-9 months £000's	9-12 months £000's	1-2 years £000's	2-5 years £000's	Over 5 years £000's	Total £000's
Assets									
Cash and cash equivalents	121,494	-	-	-	-	-	-	-	121,494
Deemed loan to group undertaking	15,894	-	-	1,583,659	-	2,316,572	1,627,603	1,108,033	6,651,761
Total assets	137,388	-	-	1,583,659	-	2,316,572	1,627,603	1,108,033	6,773,255
Liabilities									
Loan from related company	26,952	(584)	(864)	1,583,129	(507)	2,314,653	1,625,278	1,226,711	6,774,768
Total liabilities	26,952	(584)	(864)	1,583,129	(507)	2,314,653	1,625,278	1,226,711	6,774,768
Net assets/(liabilities)	110,436	584	864	530	507	1,919	2,325	(118,678)	(1,513)

*Includes repayable on demand

SILVERSTONE FUNDING (NO. 1) LIMITED**Notes to the financial statements for the year ended 4 April 2016 (continued)****14 Risk management and control of the Group (continued)**

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

At 4 April 2016

Gross contractual cash flows

	Less than 1 month*	1-3 months	3-6 months	6-9 months	Due In				Total
	£000's	£000's	£000's	£000's	9-12 months £000's	1-2 years £000's	2-5 years £000's	Over 5 years £000's	£000's
Loan from related companies	24,949	-	-	2,316,572	-	977,603	2,318,525	540,750	6,178,399
Total liabilities	24,949	-	-	2,316,572	-	977,603	2,318,525	540,750	6,178,399

*Includes repayable on demand

At 4 April 2015

Gross contractual cash flows

	Less than 1 month*	1-3 months	3-6 months	6-9 months	Due In				Total
	£000's	£000's	£000's	£000's	9-12 months £000's	1-2 years £000's	2-5 years £000's	Over 5 years £000's	£000's
Loan from related companies	33,401	-	28,008	1,619,575	20,822	2,912,399	1,624,283	845,391	7,083,879
Total liabilities	33,401	-	28,008	1,619,575	20,822	2,912,399	1,624,283	845,391	7,083,879

*Includes repayable on demand

Interest rate risk

The Company is exposed to interest rate risk in that its interest expense is Libor based, whilst its interest income originates from its beneficial interest in a pool of Nationwide Building Society mortgages at sterling fixed and floating rate.

The Company hedges its interest rate exposure through entering into a basis swap contract with Nationwide Building Society. Through the basis swap, the Company is able to swap the interest receivable from the beneficial interest in a pool of Nationwide Building Society mortgages for a Libor related return such that the sensitivity of the cash flows to the interest rate is substantially eliminated. The basis swap is not recognised separately as a derivative financial instrument in the financial statements as it is accounted for as part of the deemed loan.

Foreign currency risk

The Company's assets and liabilities are denominated in sterling. The Company is not therefore exposed to any currency risk.

15 Fair value of financial assets and liabilities at amortised cost

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

	2016		2015	
	Carrying value	Fair value	Carrying value	Fair value
	£'000	£'000	£'000	£'000
Assets				
Deemed loan to group undertaking	6,019,067	5,852,302	6,651,761	5,856,767
Liabilities				
Loan from related company	6,171,946	6,173,181	6,774,768	6,776,343

The estimated fair values of the deemed loan to group undertaking and the loan from related company represent the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value. These are considered to be level 3 within the fair value hierarchy.

16 Capital management

Capital comprises the retained earnings and share capital. Capital is managed on a Group basis.

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

17 Parent undertaking and ultimate controlling entity

Silverstone Funding (No.1) is a limited company which operates in and is domiciled in England and Wales.

The Company is a wholly owned subsidiary of Silverstone Securitisation Holdings Limited, its immediate parent company which is registered in England and Wales, for which Wilmington Trust SP Services (London) Limited holds the shares in trust for the benefit of certain discretionary objects. The ultimate parent and controlling party is Nationwide Building Society, which is also registered in England and Wales and prepares the consolidated financial statements.

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