UK Asset Resolution Limited

Annual Report & Accounts

for the 12 months to 31 March 2017

Registered in England and Wales under company number 07301961

Cm 9452

July 2017

UK Asset Resolution Limited

Annual Report & Accounts

for the 12 months to 31 March 2017

Presented to Parliament
by the Economic Secretary to the Treasury
by Command of Her Majesty

July 2017

Cm 9452

Any enquiries related to this publication should be sent to us at pressoffice@ukar.co.uk.

This publication is available at https://www.gov.uk/government/publications.

Print ISBN 9781474144414
Web ISBN 9781474144421

ID 01051711 07/17

Printed on paper containing 75% recycled fibre content minimum.

Printed in the UK by the Williams Lea Group on behalf of the Controller of Her Majesty's Stationery Office.

UK Asset Resolution Limited contacts

This document can be found on our website at www.ukar.co.uk.

General enquiries should be addressed to:

UK Asset Resolution Limited – Registered Office:
Croft Road
Crossflatts
Bingley
West Yorkshire
BD16 2UA

E-mail: pressoffice@ukar.co.uk

Company number 07301961

Contents

UKAR Group overview

About UKAR

UK Asset Resolution Limited ('UKAR') is the holding company established on 1 October 2010 to bring together the government-owned businesses of Bradford & Bingley plc ('B&B') and NRAM plc. These businesses are both closed to new business and are in run-off. UKAR is wholly owned by Her Majesty's Treasury ('HM Treasury'), whose shareholding is managed by UK Financial Investments Limited ('UKFI'). The full governance structure is set out in a framework document ('the Framework Document') agreed between UKAR and HM Treasury (see page 20 for details).

On 5 May 2016, UKAR sold NRAM plc to affiliates of Cerberus Capital Management LP ('Cerberus'). Prior to the sale, on 30 April 2016, assets and liabilities not included in the transaction were transferred from NRAM plc to a newly established subsidiary of UKAR, known as NRAM (No.1) Limited. On 18 July 2016, NRAM (No.1) Limited changed its name to NRAM Limited. Throughout the Annual Report & Accounts 'NRAM' refers to the underlying business.

On 6 June 2016 UKAR commenced a seven year contract with Computershare Loan Services ('Computershare'), which owns the UK's largest third-party mortgage administration business, for the outsourcing of mortgage servicing operations. As part of this process, c.1,700 colleagues transferred to Computershare.

In addition, UKAR Corporate Services Limited ('UKARcs'), a subsidiary business of UKAR, is responsible for the administration of the government's Help to Buy: mortgage guarantee scheme and Help to Buy: ISA scheme on behalf of HM Treasury. The schemes are managed on a nil-gain nil-loss basis with all costs being fully reimbursed by HM Treasury.

Mission and purpose

Mission	"To Maximise Value for the Taxpayer"		
Vision	"Achieving Success Together"		
Strategic objectives	1. Reduce and protect the Balance Sheet.	2. Challenge and maximise cost effectiveness and efficiency.	
	3. Working with our partners to ensure continued excellence in customer service and debt management.	4. Be a great place to work.	
	Whilst treating all stakeholders fairly.		
Values	Straightforward	Positive	Caring
	Responsible	Inspiring	

Key Facts

	March 2017	March 2016
Number of customers	148,000	238,000
Book value of customer loans	£19.5bn	£35.5bn
Employees	175	1,912

UKAR customers reduced by 90,000 during the year including 11,000 transferred to Cerberus on the sale of NRAM plc and 57,000 relating to the sale of assets to Prudential and funds managed by Blackstone. UKAR continue to provide oversight of the customers sold to Prudential and Blackstone as part of an interim servicing arrangement.

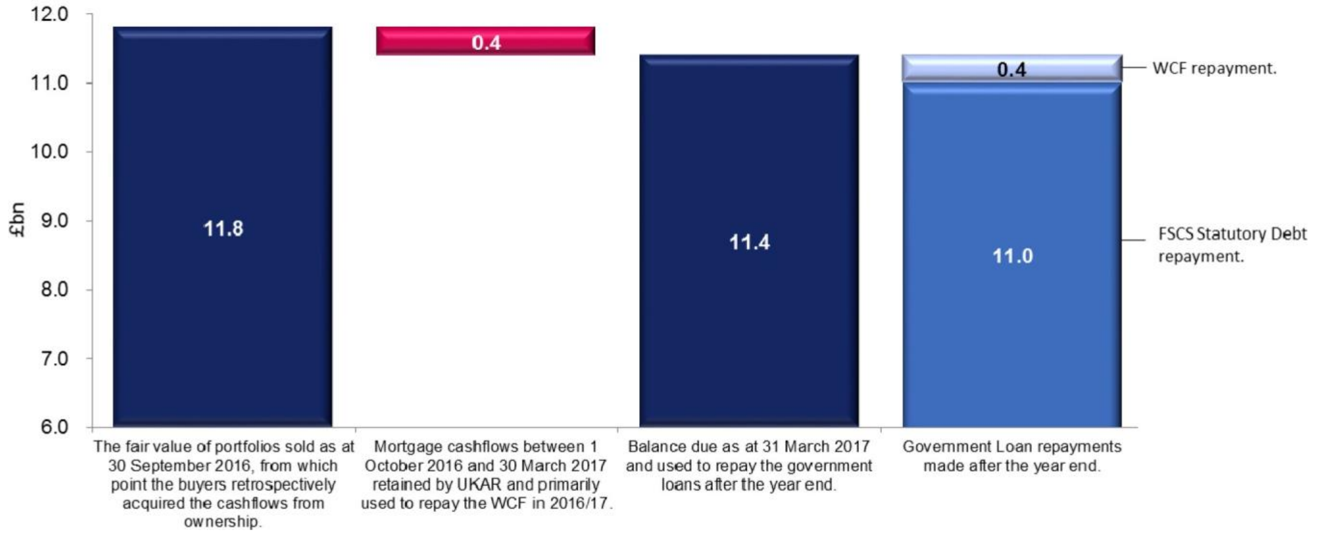
Sale of Assets

To provide context for the financial disclosures within this report, the following details the asset sale transaction that took place shortly before the 31 March 2017 year end.

On 30 March 2017, following an open and competitive process UKAR agreed to sell two separate B&B asset portfolios comprising performing buy-to-let loans for a total of £11.8bn to Prudential and funds managed by Blackstone. The sale was the result of a highly competitive process and the price achieved reflects the strong fundamentals of the assets and was at the upper end of expectations. However, due to the low margin on these loans the sale resulted in an accounting loss of £384.7m, which has been recognised in these accounts. The customer loans that were the subject of the sale were derecognised from the 31 March 2017 Balance Sheet and a balance for ‘amount owed in respect of sale of loans’ recognised. See page 66 for further details.

The sale was based on the portfolio position as at 30 September 2016 of £11.8bn, from which point the buyers retrospectively acquired the cash flows from ownership of 104,000 loans originated by Bradford & Bingley and B&B‘s principal subsidiary, Mortgage Express.

Cashflows received on the portfolio between 1 October 2016 and 30 March 2017 of £0.4bn were retained by UKAR and primarily used to repay the Working Capital Facility (‘WCF’). Due to the timing of the transaction, the £11.4bn balance due was settled after the financial year end, with £11.0bn used to repay the Financial Services Compensation Scheme (‘FSCS’) statutory debt in April 2017. The balance of £0.4bn was also used to repay the WCF.



Chairman's statement

The past 12 months have been significant for UKAR, and in my first Chairman's Statement following my appointment to the role in June 2016 I am pleased to report that we have achieved all our operational and financial targets, as explained further in the Chief Executive's report.

I succeeded Richard Pym who had served as Chairman since the formation of UKAR in October 2010 and who initiated the divestment of our mortgage servicing operations to Computershare, which took place in June last year. This has proved to be very successful, particularly from the perspective of our customers who are being served to the highest standards by our former colleagues. We continue to be responsible for the oversight of all of our customers, focusing on treating them fairly and helping those in financial difficulty.

In addition to the transfer of our mortgage servicing operations, we have achieved our performance targets and continue to make great progress in repaying our debt to taxpayers. Our financial results are spelt out in the Chief Executive's report. The final stage of the £13bn sale of NRAM assets to Cerberus completed in July 2016, and the subsequent National Audit Office report into the sale judged that this extremely large and complex transaction was professionally executed and achieved value for money.

We took the recommendations in that report into account when we sold a further large asset portfolio comprising performing buy-to-let loans originated under the Bradford & Bingley and Mortgage Express brands for £11.8bn to Prudential and funds managed by Blackstone. Although this sale was agreed in March 2017 financial settlement did not occur until after our financial reporting year-end. The sale enabled £11.0bn of the £15.7bn loan from the FSCS, which was funded by HM Treasury, to be repaid in April 2017 and delivered good value for taxpayers. See page 4 for further details.

The Board

As was anticipated in last year's report, we said farewell to three of our board members during the summer of 2016. As mentioned previously, Richard Pym stepped down as Chairman at the beginning of June 2016 and retired from the boards of UKAR, Bradford & Bingley and NRAM in July 2016. Kent Atkinson and Richard Banks also stepped down from those boards in June 2016. All three had served on those boards since UKAR was established and I am very grateful to each of them for their contributions. David Lunn, one of our UKFI appointed Non-Executive Directors also stepped down from the boards in February 2017 when he moved to another role in HM Treasury and he was replaced by Peter Norton. Peter has been closely involved with UKAR for over two years and joined the boards in April 2017.

Michael Buckley stepped down from the boards in June 2017, having served on the board of Bradford & Bingley for ten years and on UKAR since its establishment in October 2010. His wise counsel will be much missed. After a thorough recruitment process, we have identified Brendan Russell, a former Barclays and Royal Bank of Scotland executive, to succeed him.

Following these departures, Ian Hares (formerly Finance & Investment Director) succeeded Richard Banks as Chief Executive, Sue Langley replaced Kent as Senior Independent Director, and we welcomed Brendan McDonagh as a board member in April 2016, becoming chair of the Audit Committee in June 2016. Details of the board changes, structure and biographies of each board member can be found on pages 21 to 26.

At the end of the year, our internal review of the performance of the Board was positive and confirmed that the new board is working well as a team and in a constructive manner. The results of the evaluations for the various board committees were also positive and provided assurance that they remained fit for purpose.

Chairman's statement (continued)

The Future

We are now preparing for the next phase of our programme to repay the FSCS loan in full and thereafter to repay other borrowings from HM Treasury. Whilst we have been blessed with stronger financial markets than many expected during the year, the speed at which we can undertake future asset sales will depend, as ever, on the appetite of financial markets for our assets and steps that we need to take to look after the interests of our customers. I believe that we have the right people in place to undertake further transactions which will enable us to repay the UK taxpayers, in full, as efficiently and as quickly as we can.

I thank all board members for their contribution to the effective operation of UKAR and their support for me as Chairman. I would also like to thank all our colleagues, including those who transferred to Computershare, for their efforts in helping UKAR to achieve such success to date, and positioning us so well for the future.

John Tattersall
Chairman
3 July 2017

Chief Executive Officer's introduction

This year saw significant change for colleagues with asset sales and the outsourcing of our mortgage servicing operation. We now comprise around 175 colleagues with 1,700 colleagues having moved across to Computershare.

Financial Performance

I am pleased to report that UKAR achieved all four of its financial targets agreed with UKFI for 2016/17 (for details see page 10). Over the past 12 months we paid the government £3.6bn (March 2016: £6.8bn) including £3.3bn (March 2016: £6.3bn) of principal on our loans. Administrative expenses for the year (excluding UKARcs costs) were £13.2m lower at £161.8m (March 2016: £175.0m). Reflective of our shrinking Balance Sheet, underlying profits reduced to £706.0m (March 2016: £1,055.4m) and statutory profits before tax were £346.9m (March 2016: £1,175.8m).

The difference between underlying and statutory profits is explained more fully on page 59. The key difference was the accounting loss of £384.7m recognised on the sale of performing B&B assets to Prudential and funds managed by Blackstone. Whilst these assets were sold below book value, they are low yielding and the sales process was very competitive with the outcome comparing favourably to the fair value of the assets that was reflected in the prior year financial statements.

The steady reduction in arrears cases has continued with 4,617 accounts in arrears by 3 months or more (March 2016: 6,377). This is a fall of 88% since UKAR was formed in 2010 and therefore it is unrealistic to expect such large declines to continue. Encouragingly 69% of customers in arrears are in a long term arrangement to repay and so ultimately should return to financial health.

A summary of UKAR's financial performance can be found on page 10, with more detail provided in the Financial Review on pages 59 to 68.

Balance Sheet

Since UKAR was formed in 2010 the UKAR companies have repaid £23.7bn of government funding, including £3.3bn in 2016/17.

As at 31 March 2017, lending balances stand at £19.5bn (March 2016: £35.5bn). In total, the Balance Sheet has reduced by £81.5bn from £115.8bn at formation to £34.3bn at 31 March 2017.

The asset sale to Prudential and funds managed by Blackstone was agreed in March 2017, however, financial settlement occurred during April 2017 and as a result the Balance Sheet reduced by a further £11.4bn with an equivalent repayment of government funding after our financial year-end. See page 4 for further details.

Costs

The outsourcing of our mortgage servicing operation has resulted in the nature of the cost base changing significantly, with around two thirds of direct costs following the contract and being replaced with servicing fees payable to Computershare. Unlike a number of the direct costs, the fees payable to Computershare are subject to VAT. Nevertheless costs fell by 7. 2% year-on-year.

Chief Executive Officer's introduction (continued)

Customers

UKAR's approach to good conduct and delivering fair and appropriate outcomes to our customers is fully aligned with the Financial Conduct Authority's ('FCA's') principles and continues through our partnership with Computershare.

The number of UKAR customers has reduced by 90,000 (including 68,000 due to asset sales) to 148,000 (March 2016: 238,000) with 158,000 mortgage accounts (March 2016: 298,000) and 35,000 unsecured loan accounts (March 2016: 42,000). In the main, these loans continue to perform well and over 93% of customers are up to date with their mortgage repayments. In addition, UKAR continues to provide oversight of the 104,000 accounts (57,000 customers) sold to Prudential and funds managed by Blackstone as part of an interim servicing arrangement.

In addition to our contact strategies for customers in arrears, we also engage proactively with other customers who may need help with their financial situation to ensure they are ready for the future. The total number of mortgage cases three or more months in arrears, including those in possession, reduced by 28% to 4,617 cases as at 31 March 2017 (March 2016: 6,377). Further information on our customer strategy is on page 13.

Although we aim for excellence in customer and debt management, we continue to deal with several legacy issues including Payment Protection Insurance ('PPI') and we continue to do the right thing for our customers and redress where appropriate. Following the announcement of PS17/3 by the FCA in March 2017 we now have clarity on the way forward on PPI and have reviewed our provisions accordingly. In total, we have provided a further £64.4m for remediation in the year, the bulk of which is in respect of PPI.

UKAR Corporate Services

UKARcs continues to provide administration support for the government's Help to Buy: mortgage guarantee scheme and the Help to Buy: ISA and all service levels are being maintained across both initiatives.

Colleagues

The majority of our colleagues are based in offices in West Yorkshire which are shared with Computershare. We have legal and regulatory responsibility for our customers and by working closely with our former colleagues we have clear oversight of the service our customers receive.

Our much reduced size means we have fewer generic roles within UKAR and a greater proportion of specialist and managerial positions. The unique nature and likely longevity of the business gives a heightened focus on our strategic objective of being a great place to work as it is important that, where necessary, we can retain and recruit the right skills for us to achieve our goals. The latest internal survey results continued to show high levels of colleague engagement demonstrating that we are succeeding in this objective (see our people strategy on page 14).

Conclusion

The huge effort and commitment of many colleagues over the past few years has enabled UKAR to smoothly transition to this new chapter in our history. Our former colleagues at Computershare are continuing to deliver good service and fair treatment to our customers, and those of us that remain with UKAR are now driving forward our objective of repaying the government debt. On behalf of the Board, I thank everyone involved in helping UKAR to achieve its objectives and I thank the Board and my Executive management team for their support to me personally.

Ian Hares
Chief Executive Officer
3 July 2017

Strategic Report

Key highlights

Highlights of 2016/17

During the year we have made significant progress against all our key objectives and overall mission of maximising value for the taxpayer. Internally, UKAR measures its financial performance against the following four key performance indicators:

Financial measure	2016/17 Target	March 2017	March 2016
Underlying Profit Before Tax	*>= £622.0m*	**£706.0m**	£1,055.4m
Net Government Loan Repayments	*>= £2.7bn*	**£3.3bn**	£6.3bn
3m+ Residential Arrears	*<= 5,199*	**4,617**	6,377
Ongoing Administrative Expenses *	*<= £167.2m*	**£161.8m**	£175.0m

** Excluding UKARcs costs (2016/17 £5.7m; 2015/16: £5.4m).*

Underlying profit for the year to March 2017 has decreased by £349.4m to £706.0m (March 2016: £1,055.4m). The reduction was primarily driven by lower net interest income as a result of the shrinking Balance Sheet. Underlying profit is an internal performance measure which excludes the remediation of inherited regulatory defects, certain gains or losses such as the sale of assets at a discount or premium and movements in fair value and hedge ineffectiveness relating to financial instruments.

Net government loan repayments of £3.3bn were £3.0bn lower than the prior year. The decrease in the repayments to HM Treasury is primarily due to a £3.0bn drawdown to fund the repayment of third party debt. In addition, 2016/17 included £0.5bn of net asset sale proceeds compared to £5.0bn in 2015/16. Since the formation of UKAR in October 2010, £23.7bn of the government loans have been repaid. Government loan repayments resulting from the sale of assets to Prudential and funds managed by Blackstone were made in April 2017 and will be reflected in the 2017/18 Annual Report & Accounts.

Arrears levels for both B&B and NRAM have fallen as a direct consequence of asset sales and proactive arrears management coupled with the continued low interest rate environment. The total number of mortgage accounts three or more months in arrears, including those in possession, reduced by 28% from 6,377 at 31 March 2016 to 4,617 cases as at 31 March 2017. The reduction was driven by strong underlying performance (1,441) and asset sales (319).

Ongoing administrative expenses (excluding £5.7m UKARcs costs) for the year were £161.8m. This was £13.2m lower than the year to March 2016 (£175.0m) primarily driven by the reduction in assets under management, partly offset by the VAT now incurred on outsourced mortgage servicing costs.

		March 2017	March 2016
Statutory Profit Before Tax		**£346.9m**	£1,175.8m

Statutory profit before tax of £346.9m was £828.9m lower than the prior year (March 2016: £1,175.8m) and was impacted by the lower underlying profit, a loss on assets sold and changes to customer redress provisions, partly offset by an insurance recovery.

UKAR agreed to sell two separate B&B asset portfolios comprising performing buy-to-let loans for a total of £11.8bn to Prudential and funds managed by Blackstone on 30 March 2017. The sale was the result of a highly competitive process and the price achieved reflects the strong fundamentals of the assets and was at the upper end of expectations. However, due to the low margin on these loans the sale resulted in an accounting loss of £384.7m. This was the first of a programme of sales designed to raise sufficient proceeds for B&B to repay the £15.7bn debt from the FSCS and for the FSCS to repay its corresponding loan from HM Treasury by 31 March 2018. This was partly offset by a profit of £51.0m from the sale of NRAM plc to Cerberus on 5 May 2016.

In 2013 NRAM plc submitted an insurance claim in respect of CCA remediation payments for which a settlement of £50.0m has been agreed and received during the year to 31 March 2017.

In March 2017 the FCA confirmed a PPI complaints deadline of 29 August 2019 and also the rules in relation to unfair relationships following Plevin v Paragon Personal Finance Limited (‘Plevin’). As a result of this and increased complaint volumes received during the year, PPI provisions have been increased by £49.2m. Other customer remediation provisions of £15.2m relate to smaller legacy issues and bring the total charge for the year to £64.4m. The prior year benefited from the release of a £268.3m customer remediation provision.

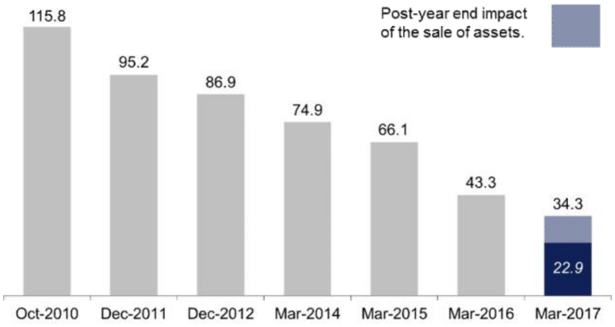
Please see pages 59 to 68 for a full review of the 2016/17 financial performance.

Key highlights (continued)

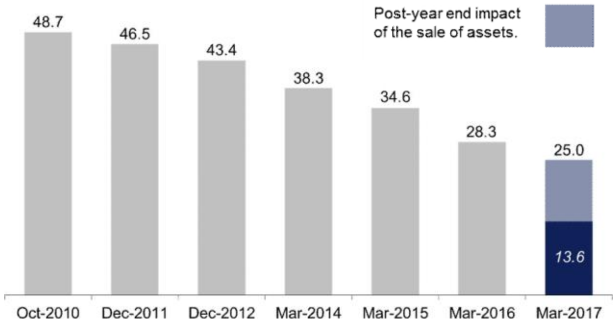
Highlights of 2016/17 (continued)

Since the formation of UKAR in October 2010 we have made significant progress towards our long term objectives by reducing arrears, repaying government loans, reducing the Balance Sheet and driving cost effectiveness.

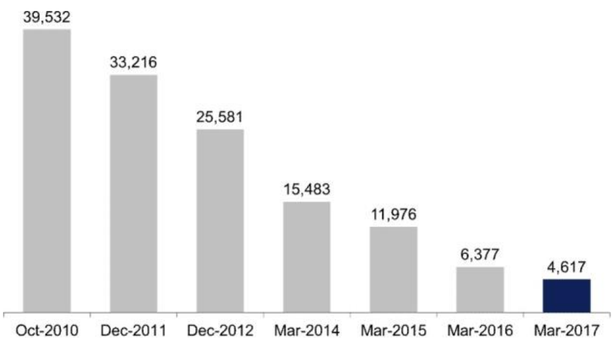
Balance Sheet assets (£bn) down 70%



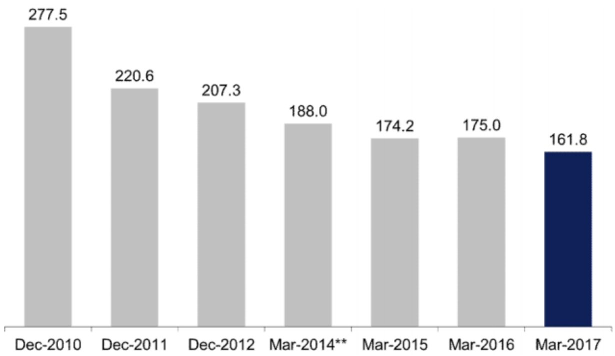
Repaid £23.7bn of government loans



3m+ arrears down 88%

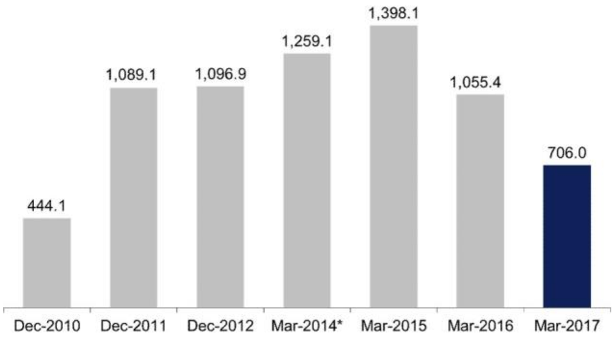


Ongoing operating expenses* (£m) down 42%



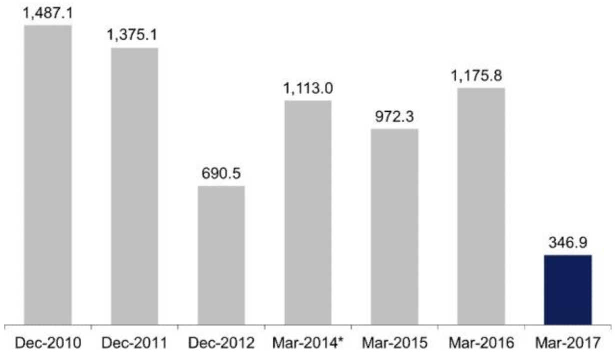
** excluding UKARcs costs*
*** 12 months to March 2014*

Underlying profit (£m)



** 12 months to March 2014*

Statutory profit before tax (£m)



** 12 months to March 2014*

Strategy and operating environment

Company strategy

UKAR's overarching objective is to develop and execute an investment strategy for disposing of its underlying investments in NRAM and B&B in an orderly and active way through sale, redemption, buy-back or other means. This is within the context of protecting and creating value for the taxpayer as shareholder and, where applicable, as provider of financial support, paying due regard to the maintenance of financial stability and to acting in a way that promotes competition.

Our mission to maximise value for the taxpayer is supported by four strategic objectives all of which are underpinned by the need to treat all our stakeholders fairly. In 2017 the four objectives were reviewed and updated to reflect UKAR's progress in simplifying the Balance Sheet and the role of the business following the outsourcing of the mortgage servicing operations:

- To reduce and protect the Balance Sheet
- To challenge and maximise cost-effectiveness and efficiency
- To work with our partners to ensure continued excellence in customer service and debt management
- To be a great place to work

These strategic objectives continue to support our overarching objective and the success achieved in those areas over the past 12 months are highlighted in this strategic overview.

On the formation of UKAR in October 2010 it was anticipated that our strategy would involve three elements. Our first task of '**Repair and prepare**' was the formation of UKAR, defining our mission to maximise value for taxpayers whilst ensuring that we treat customers fairly and implementing an efficient, integrated operating model for B&B and NRAM. We then moved to '**Implement and improve**' with a focus on maximising the value of the mortgage book through optimising redemptions and minimising losses, delivering consistently high levels of service and a proactive customer contact strategy to support those customers facing financial difficulty.

The third element was to **'Realise and release'** our potential. On formation, UKAR's assets were financed by a combination of government loans and private sector debt, principally subordinated notes, securitisations and covered bonds. The private sector financing has now been almost completely repaid or repurchased, significantly simplifying the Balance Sheet and releasing previously encumbered mortgages for potential disposal.

As market conditions improved following the financial crisis we executed a series of mortgage sale transactions including the sale of £13bn of assets to Cerberus and TSB in 2015/16. In parallel to this transaction we successfully completed the transfer of our mortgage servicing operations to Computershare. This was an important step in our strategy as it enables us to accelerate the disposal of our assets in an orderly and active way. UKAR is not able to provide a servicing option to any potential asset purchaser and the process of transferring mortgage books to other platforms takes time. The partnership we have with Computershare provides stability of service to our existing mortgage customers and also gives any future purchasers of our mortgage books an option to keep the customer service where it is.

We are now working on a programme of transactions designed to repay the £15.7bn debt from the FSCS and for the FSCS to repay its corresponding loan from HM Treasury. The first phase of this programme involved the sale of buy-to-let loans to Prudential and funds managed by Blackstone which enabled £11.0bn to be repaid to the FSCS in April 2017. Subject to market conditions the second phase will commence later this year and the programme will be completed by March 2018.

We anticipate that by 2018 our Balance Sheet will have reduced by almost 90% since establishment. It is, therefore, now entirely appropriate that we consider the next stage of our strategy and the Board is considering the feasibility of the various options available that will enable us to complete our objective of returning in full the UK taxpayers investment in both companies. These considerations must also take into account the inherent complexities within the organisation, such as legacy business assets and liabilities, the ongoing relationships with participants in previous asset sale transactions, pension schemes and UKARcs.

Our value for money framework has three key stages:

- An evaluation of whether it is a "good time to sell" which involves taking our own views on market conditions, advice from advisors and the views of UKFI and the shareholder;
- On the basis that we conclude that it is a good time to sell, testing ourselves on whether the sale process selected will drive enough competitive tension to achieve value for money;
- A theoretical valuation framework that uses observable inputs such as economic drivers of the potential cash flows from the assets and market costs of debt and equity to determine a range of potential prices that a reasonable private sector investor would be prepared to pay.

Any strategic decisions will be made within the context of the value for money framework, paying due regard to the maintenance of financial stability and to acting in a way that promotes competition and ensures that customers' interests are protected.

Strategy and operating environment (continued)

Customer strategy

Customer servicing

On 6 June 2016 UKAR transferred its mortgage servicing operations to Computershare. UKAR retains the legal and regulatory responsibility for customer outcomes and we take this responsibility seriously. Customers continue to have their mortgages serviced by skilled colleagues and there have been no changes to customers' terms and conditions. UKAR requires that the same contact strategies and arrears management practices highlighted below continue under the new servicing arrangement.

Our colleague survey demonstrates clearly that our colleagues are very committed to ensuring our customers receive excellent service and are focused on ensuring we do the right things for our customers. UKAR has over 148,000 customers (March 2016: 238,000), with 158,000 mortgage accounts (March 2016: 298,000) and 35,000 unsecured loan accounts (March 2016: 42,000). The majority of these loans continue to perform well with more than 93% of mortgage customers up to date with their monthly payments. In addition, UKAR continues to provide oversight of the 104,000 accounts (57,000 customers) sold to Prudential and funds managed by Blackstone as part of an interim servicing arrangement.

Support for customers experiencing payment difficulties

Although levels of arrears are reducing we continue to see a number of customers facing financial difficulty including some entering arrears for the first time. We endeavour to contact all customers following a missed payment to understand their situation and consider solutions to help them manage their mortgage. For customers experiencing temporary or short-term financial difficulty this includes a range of forbearance options. During the year, over 11,000 arrangements were successfully completed and approximately 544 account modifications were made to assist customers with the repayment of their mortgage. Where appropriate we actively encourage customers to seek help from non-fee charging debt advice agencies.

Repossession is always viewed as a last resort but unfortunately in some situations this is inevitable and the best course of action to prevent further indebtedness for the customer. Repossessions continue to decrease and totalled 1,242 in the year (March 2016: 1,853).

Proactive customer engagement

In addition to our contact strategies for customers in arrears, we also engage proactively with other customers who may need help with their financial situation to ensure they are ready for the future. In January 2017 we launched a campaign to our Buy-to-Let borrowers to inform them of recent changes to the tax rules surrounding Buy-to-Let loans and to help them plan ahead.

Doing the right thing for our customers

UKAR remains committed to doing the right thing for our customers and where we identify issues that have caused customer detriment, we will ensure that they are fully remediated.

An additional provision of £49.2m has been recognised following the publication of the FCA's Policy Statement PS17/3 "Payment protection insurance complaints: feedback on CP16/10 and final rules and guidance", which sets a deadline date for complaints at 29 August 2019 and confirms the approach in relation to Plevin. The rules and guidance include an FCA-led communications campaign to raise awareness of the deadline and the requirement to proactively contact previously rejected mis-selling complainants who are eligible to complain again in the light of Plevin. Reflecting heightened awareness of a potential PPI deadline, actual claims volumes received during the year have been higher than previously modelled, which combined with the final proposals is expected to lead to higher claims volumes throughout the period to 29 August 2019 than previously assumed.

In addition, a charge of £15.2m was made for other smaller legacy remediation issues bringing the total remediation charge for the year to £64.4m (March 2016: £180.1m credit).

Strategy and operating environment (continued)

People strategy

Vision

In early 2017 the Board reviewed UKAR's Vision, Objectives and Values which have been in place since 2010 to ensure they remained valid post the divestment of the mortgage operations and the successful progress in achieving our mission. To recognise the progress we have made, UKAR's Vision changed from 'Creating Success Together' to 'Achieving Success Together', which relates to how we work with our customers, colleagues, outsourced partnerships, suppliers and the shareholder to achieve our goals.

UKAR continues to believe colleagues are the differentiating factor in delivering strong and sustained performance. Therefore, 'being a great place to work' is one of our four strategic objectives. We believe it is important that colleagues feel valued, are proud of the contribution they make and are given the opportunity to grow and learn new skills. Colleagues who enjoy their work strive to do the best they can which increases productivity, ensures quality service is given to our customers and maximises value for the taxpayer.

Culture and Values

The Board, Executives and management set the cultural tone at the top, ensuring that UKAR's values and culture support the delivery of UKAR objectives. This is supported by our Balanced Scorecard which places emphasis on conduct and how we achieve our targets and feeds into our annual incentive schemes.

How we behave is as important as what we do and our values of Caring, Responsible, Inspiring, Straightforward and Positive help us to build on our culture of supporting, developing and challenging individuals to achieve success.

Each of those values have exemplar behaviours which help us to understand what they mean and how they apply to what we do on a daily basis. They are supported by our policies and by the principle of good conduct. These are summarised in our Code, which sets out the behaviours and standards we expect of each other and our suppliers to ensure we act with professional integrity and focus on doing the right thing for all our stakeholders. The Code is published on our website and gives our partners and suppliers who work with us a summary of the conduct policies and principles that drive our culture and our success.

The values, behaviours and standards that underpin the way we do business were originally shaped by colleagues in 2011 to ensure that everyone had an opportunity to contribute to the creation of our values. Our values of Caring, Responsible, Inspiring, Straightforward and Positive are embedded throughout UKAR from the approach we take to recruiting colleagues through to our performance framework, our training programmes and how we incentivise and thank colleagues for the work they do. It is not just 'what' is delivered, it is 'how' it is delivered and the behaviours that our colleagues demonstrate as part of their day-to-day work.

Engagement

Our five values encompass all aspects of colleague life at UKAR and we track how we are doing against each of them through regular colleague engagement surveys. Our most recent survey in March 2017 had an excellent response rate with 85% of colleagues sharing their views. The survey tracker score, based upon five key questions measuring UKAR as an employer, reached 89% which is 13% above the benchmark figure provided by our survey business partner, People Insight. Although our participation group is much smaller following the outsourcing of our mortgage operations, People Insight confirmed that this does not affect the validity of the results or percentages, nor our comparator group as we are benchmarked by sector rather than size.

Diversity

UKAR treats colleagues as individuals and we recognise the benefits of having a diverse workforce. Appointments and promotions are made according to the ability to meet the requirements of the job and we consider the benefits of all aspects of diversity including skills, background, race, experience, gender and other qualities.

The Governance, Engagement and HR Director is the executive responsible for gender equality and inclusion and despite its size UKAR has determined to comply with the voluntary Women in Finance Charter as far as it is able. Internal targets for gender diversity in senior management have been set which are linked to remuneration by way of the Balanced Scorecard. The report on progress against these targets can be found in the Directors' Remuneration Report on page 31.

UKAR's targets for gender diversity across the business are for no less than 45% female and for senior management, no less than 25% female and as at 31 March 2017 UKAR's workforce comprises 55% female to 45% male colleagues. On the Board at 31 March 2017 we had one female and five male Non-Executive Directors. One of the seven members of the Executive Committee and ten of the 34 Management Team members were female.

Strategy and operating environment (continued)

People strategy (continued)

Learning and development

UKAR remains committed to providing learning opportunities to equip colleagues with the skills and knowledge needed to perform their role as well as developing their employability for the future. We offer sponsorship for the completion of qualifications through a variety of study routes and continue to support colleagues' development aspirations where there is opportunity to apply the learning within UKAR and where it will assist them in building a career outside UKAR. During the year 86% of colleagues have undertaken development programmes to support their career.

Notwithstanding the smaller size of the organisation, where possible we continue to support placement schemes and apprenticeships. In 2016/17 UKAR had one Graduate and we plan to recruit one Undergraduate and one apprentice in 2017/18.

Well-being

UKAR supports colleagues through various 'well-being' programmes, offering membership of a private medical insurance scheme or the opportunity to contribute towards a healthcare cash plan and access to the Employee Assistance Programme via Unum LifeWorks.

Recognition

UKAR recognises and celebrate colleagues' achievements through schemes which enable colleagues to show their appreciation of those who demonstrate exemplary behaviour by sending an e-card which appears on the front page of the intranet. Colleagues who are an inspiration to others by living the UKAR values, going the extra mile, delivering superior performance or demonstrating exemplary behaviour can be nominated for awards.

Community and environmental strategy

Community

UKAR is committed to community engagement and charitable initiatives with a caring culture that promotes welfare and goodwill through voluntary action in the wider community. This activity also provides great opportunities and experiences that enhance the quality of life for all concerned.

In the past UKAR has supported local charities chosen by our colleagues at its two major sites in West Yorkshire and Sunderland. Following the divestment of our mortgage servicing operations the majority of colleagues are based in West Yorkshire and voted Martin House Children's Hospice as the 2016/17 Charity of the Year. The amount of charitable fundraising by colleagues in 2016/17 was £18,103. In addition, UKAR matched employee fundraising to the total of £8,596 and payroll giving totalled £19,057 through UKAR's Give As You Earn schemes.

Environment

Following the outsourcing of UKAR's mortgaging servicing operations to Computershare the management of UKAR's Head Office in Crossflatts, West Yorkshire was also outsourced to Computershare. Nevertheless, UKAR remains committed to reducing environmental impact, increasing recycling programmes, creating awareness of environmental programmes and engaging colleagues in these activities. In 2016/17 90% of waste at Crossflatts was recycled with the remaining 10% used in Energy from Waste projects.

Further details on our community and environmental strategy can be found on page 76.

Risk overview

UKAR adopts an Enterprise-wide Risk Management Framework ('EWRMF') which is designed to support the identification, assessment, management and control of the principal risks that threaten the achievement of UKAR's strategic and business objectives. The EWRMF sits alongside the Ten Year Business Plan, the Capital Statement and the Liquidity Statement in defining the high-level architecture of UKAR's business planning and risk management systems. The EWRMF itself is underpinned by UKAR's Risk Appetite Framework and a suite of high level risk policies which define the breadth of UKAR's exposure to inherent risks and the management of these risks within appetite. The scope of the EWRMF extends to all principal risk types faced by UKAR. The table below illustrates the principal risk categories which could impact the delivery of the strategic objectives, key mitigating actions, key indicators and the 2017/18 focus.

Principal risk	Key mitigating actions	Key indicators	Focus 2017/18
Conduct risk The risk of UKAR treating its customers unfairly and delivering inappropriate outcomes leading to customer detriment or impacting market integrity.	▪ Conduct Risk Framework to ensure customers are central to the delivery of our objectives. ▪ Conduct risk assessments are integral to all business change and customer initiatives. ▪ Conduct Risk and TCF Dashboard tracked and actioned by relevant committees. ▪ Colleague rewards driven by conduct risk metrics.	▪ Volume of upheld complaints. ▪ Market Regulatory Indicators. ▪ Quality assurance results. ▪ Findings from monitoring and outcome testing.	▪ Fair and appropriate customer outcomes. ▪ Complaint handling and Root Cause analysis. ▪ Asset sales due diligence.
Outsourcing risk The risk of loss/disruption arising from inadequate or ineffective appointment, supervision and control or any subsequent contractual termination of third party service providers.	▪ Outsourcing Governance Model. ▪ Outsourcing Policy. ▪ Service management reporting. ▪ Assurance and monitoring activity. ▪ Comprehensive contract and SLAs. ▪ Clearly defined policies for the Servicer to comply with. ▪ 'Working in Partnership' strategic approach.	▪ SLA and contractual performance metrics assessment. ▪ Assurance Monitoring Results - outsourcer and UKAR. ▪ Independent Third Party Supplier Assessment Results.	▪ Continuing implementation and further development of outsource relationships. ▪ Embed risk management and assurance monitoring activities. ▪ Regular assessment of the effectiveness of operations. ▪ Effective issues management by key suppliers. ▪ Assurance activity of core IT systems/infrastructure to limit systems outages and security breaches.
Operational risk The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.	▪ Operational Risk Policies. ▪ Risk & Control Self-Assessment ('RCSA') process to identify and assess key operational risks and control effectiveness. ▪ Scenario analysis to determine the potential impact of high impact, low likelihood events. ▪ Forward-looking Key Risk Indicator monitoring to proactively identify shifts in risk exposure. ▪ Loss event monitoring to identify control failures and appropriate corrective action. ▪ Risk appetite monitoring to ensure we are operating within Board approved limits. ▪ Risk oversight of change activities. ▪ Business Continuity and Disaster Recovery plans.	▪ Overall control effectiveness as assessed through RCSA. ▪ Comparison of scenario analysis and RCSA financial impacts against defined risk appetite. ▪ Number and value of operational risk loss events. ▪ Systems risk metrics (availability and security incidents). ▪ Instances of customer and colleague financial crime.	▪ Tracking of operational loss events and subsequent control improvements. ▪ Assessment of cyber risk exposure and control effectiveness through security penetration testing and colleague awareness campaigns. ▪ Continuing oversight of major change activities.
Credit risk The current or prospective risk to earnings or capital arising when a customer (residential or commercial) or counterparty defaults on its contractual obligations to the company.	▪ Credit Risk Policy, incorporating Board approved risk appetite to support the ongoing management of credit risk. ▪ Forbearance Programme structured to support customers through periods of distress. ▪ Credit Risk Committee and robust processes and controls to identify credit risk exposures and action appropriate mitigation. ▪ Euro and US dollar cash balances are placed with a range of banks and money market funds.	▪ Impairment charge. ▪ Loan to Value. ▪ Arrears. ▪ Counterparty ratings.	▪ Manage the credit risk on the underlying mortgage book, considering the high proportion of buy-to-let and upstream fiscal and other changes to property management. ▪ Interest Only repayment strategy. ▪ End of Term Account Management. ▪ Ongoing monitoring of asset sale influence on the overall credit quality of the book. ▪ Ongoing monitoring of credit rating movements of wholesale counterparties.
Strategic risk The current or prospective risk to earnings and/or fair value, given the B&B and the NRAM Balance Sheet structures, arising from changes in the business environment and from adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment.	▪ Governance structure. ▪ EWRMF. ▪ Risk Appetite Framework. ▪ Risk policies. ▪ Capital Assessment Framework.	▪ Material risks managed within defined risk appetite.	▪ Ongoing monitoring of strategic risks with the potential to significantly impact the delivery of strategic objectives. ▪ Oversight of the execution of asset sales transactions.

Risk overview (continued)

Principal risk	Key mitigating actions	Key indicators	Focus 2017/18
Liquidity risk The risk that either B&B and/or NRAM are unable to meet their obligations as they fall due.	▪ The defined appetite for liquidity risk is low. Sterling liquidity is held as cash balances at the Bank of England. ▪ Stress & Scenario testing is undertaken to ensure that B&B and NRAM will be able to meet their obligations in extreme conditions.	▪ Changes in the maturity profiles of assets and liabilities. ▪ Level of liquidity. ▪ Contingency funding plan early warning indicators.	▪ Manage liquidity to ensure UKAR has adequate levels of liquidity to meet its commitments at all times and maintain liquidity within levels agreed with HM Treasury facilities and the Liquidity Risk Policy.
Market risk The risk that changes in interest rates, the rate of exchange between currencies or the price of securities or other financial contracts, including derivatives, will have an impact on the results, operations or the financial condition of B&B and/or NRAM.	▪ Market risk is managed and monitored within defined risk appetite and policy. ▪ B&B and NRAM use derivative instruments to mitigate the market risk exposures. ▪ Stress & Scenario testing is undertaken to ensure losses are acceptable even under extreme conditions.	▪ The sensitivity of interest income to changes in market rates. ▪ Variations on the rate of repayment of fixed rate mortgages.	▪ Manage market risk within defined risk appetite.
Regulatory risk The risk of UKAR failing to comply with the legal and regulatory requirements applying to its arrangements and activities.	▪ Zero tolerance appetite in respect of Regulatory Risk. ▪ Minimum standards and responsibilities to ensure the effective management of Regulatory Risk. ▪ Regulatory Risk dashboard tracked and actioned by Executive Risk Committee.	▪ Volume of regulatory breaches. ▪ Industry relevant regulatory developments. ▪ Industry fines and cost of redress. ▪ Regulatory relationships. ▪ Precedent Court cases affecting borrowers and lenders.	▪ Ongoing monitoring of changes in regulation and legislation. ▪ Open dialogue with Regulators. ▪ Analysis of FCA and other regulatory fines. ▪ Anti-Money Laundering requirements. ▪ General Data Protection Regulation.

Ian Hares
Chief Executive Officer, on behalf of the Board
3 July 2017

Directors' Report and Governance Statement

Corporate governance

Introduction

UKAR is the holding company established on 1 October 2010 to bring together the government-owned businesses of B&B and NRAM plc.

UKAR is 100% owned by the UK government which exercises control through UKFI. UKFI was set up on 3 November 2008 to manage the government's investments in Royal Bank of Scotland, Lloyds Banking Group, Northern Rock and B&B.

As explained in the UKAR Group overview on page 3, on 5 May 2016, UKAR sold NRAM plc to affiliates of Cerberus. Prior to the sale, on 30 April 2016, assets and liabilities not included in the transaction transferred from NRAM plc to a newly established subsidiary of UKAR, known as NRAM (No.1) Limited. On 18 July 2016, NRAM (No.1) Limited changed its name to NRAM Limited.

UKAR governed and controlled NRAM plc (until its sale to Cerberus on 5 May 2016), NRAM and B&B, as their sole shareholder during 2016/17. Although managed under a common board and management structure, NRAM and B&B (the 'Principal Subsidiaries') remained separate legal entities and continued to operate as individual companies with their own individual brands and Balance Sheets.

This corporate governance section summarises the governance regime applicable to UKAR including its Principal Subsidiaries referred to above (the 'Group') during 2016/17.

UKAR Corporate Services Limited

In 2013 UKAR was appointed by HM Treasury to administrate the Help to Buy: mortgage guarantee scheme on its behalf and in 2015 it also undertook to administer the Help to Buy: ISA scheme. The administration of the schemes are kept separate from UKAR's core operations and are managed through UKARcs.

Governance structure

The governance structure for the Group in 2016/17 was determined by the UK Asset Resolution and UK Financial Investments Limited; Relationship Framework Document (the "Framework Document") agreed between UKAR and UKFI, acting on behalf of HM Treasury. The Framework Document sets out how the relationship between the Group and UKFI will work in practice. The terms of the Framework Document are updated periodically and the most recent version of the Framework Document, approved in March 2017, is reflected below and throughout this report.

Overarching Objective

The Framework Document is intended to ensure that the relationship between the companies in the Group, UKFI, HM Treasury (as Shareholder and the provider of financial support) and the FCA (as regulator), operates in the context of the stated overarching objective for UKAR:

"to develop and execute an investment strategy for disposing of its underlying investments in NRAM and B&B in an orderly and active way through sale, redemption, buy-back or other means within the context of protecting and creating value for the taxpayer as shareholder and, where applicable, as provider of financial support, paying due regard to the maintenance of financial stability and to acting in a way that promotes competition."

The Framework Document requires the Group to set strategic aims and develop a business plan to achieve the overarching objective.

Principles of the Framework Document

The relationship between the Group and UKFI operates according to the following principles under which UKFI:

- appoints the Chairman of the Board and is entitled to appoint one or more Non-Executive Directors ('NEDs');
- is required to consent to the appointment of other members of the Board proposed for appointment by the Nomination Committee and agrees the terms on which the Directors are appointed, remunerated and incentivised;
- agrees with the Board the high level objectives which the business plan ('the Plan') is designed to achieve and any revisions to it;
- reviews with the Board from time to time the Group's strategic options;
- requires that the Board is accountable to it for delivering the agreed Plan;
- gives the Board the freedom to take the action necessary to deliver the Plan;
- monitors the Group's performance to satisfy itself that the Plan is on track; and
- is to be informed if the Group proposes to take certain significant actions and provide prior written consent before such action is taken.

Corporate governance (continued)

Governance structure (continued)

Monitoring performance

UKFI monitors the Group's performance against the Plan by means of the following main mechanisms:

- two UKFI nominated Directors attended each Board meeting during the year; and
- at least monthly (or, at UKFI's request more frequently) meetings between the Group and UKFI to review performance against the Plan and any agreed objectives.

In addition, UKFI has certain monitoring and information access rights and its approval must be obtained for certain material actions and transactions, as defined in the Framework Document.

Board of Directors

UKAR, B&B and NRAM share a common Board of Directors whose biographies are set out below.

The biographical details of each Director demonstrate the broad range of experience and expertise they brought to the Board in 2016/17.

John Tattersall – Non-Executive Chairman

John joined the Board of B&B in April 2010, the Board of UKAR in October 2010 and the Board of NRAM in March 2016, having been a Non-Executive Director of NRAM plc from October 2010 until its sale in May 2016. He was appointed Chairman of all three companies on 6 June 2016 and also chairs the Nomination Committee and Transaction Approvals Committee of B&B and NRAM.

John retired as a partner in PricewaterhouseCoopers LLP in 2009, where he had worked since 1975, latterly as leader of the firm's Financial Services Regulatory Practice and a senior client relationship partner. He started his career in the financial services sector with Kleinwort Benson Limited in 1973. Until 2009 he was Chairman of the Risk and Regulation Committee of the Financial Services Faculty of the Institute of Chartered Accountants in England and Wales, and a member of the faculty board. He is currently Chairman of UBS Limited, The Oxford Diocesan Board of Finance, RC Bond Holdings Limited and Retail Charity Bonds Plc. He is a Non-Executive Director of CCLA Investment Management Ltd, St Augustine's College of Theology Ltd and Diocesan Trustees (Oxford) Ltd. He is also Chairman of the Court of the Royal Foundation of St Katharine, and a non-stipendiary priest in the Church of England. John served as a member of the Independent Commission on Equitable Life payments.

Ian Hares - Chief Executive Officer

Ian Hares was appointed as Chief Executive of UKAR in June 2016, having joined UKAR in 2011 as Investment Director and subsequently took the role of Finance & Investment Director in December 2013. He joined the Boards of UKAR, B&B and NRAM plc in July 2014. In June 2015 he was appointed a Director of NRAM and stood down as a Director of NRAM plc in July 2016, following the sale to Cerberus. He is a member of the Transaction Approvals Committee of B&B and NRAM.

Ian has over 35 years' experience within the financial services industry having previously worked for Santander UK Group, Alliance & Leicester plc, Girobank plc and National Westminster Bank Group.

Corporate governance (continued)

Board of Directors (continued)

Sue Langley - Senior Independent Director

Sue joined the Boards of UKAR and B&B in October 2010 and the Board of NRAM in March 2016, having been a Non-Executive Director of NRAM plc from January 2010 until its sale in May 2016. She is Chairman of the Remuneration Committee and a member of the Nomination Committee of all three companies. Sue was awarded an OBE in the 2015 New Year Honours list for services to Women in Business.

Sue is Chairman of Arthur J. Gallagher Holdings (UK) Limited and was previously CEO of UK Financial Services – UK Trade & Investment. Previous roles also include Director of Market Operations and a member of the Executive Team for Lloyd's of London, Chairman of Lloyd's Japan and Director of Lloyd's Asia, Chief Operating Officer and a member of the Executive Team of the Hiscox Group and Board member for Hiscox Syndicates and Hiscox Insurance. She joined Hiscox from PricewaterhouseCoopers LLP where she was a Principal Consultant working with a range of FTSE companies.

Michael Buckley – Non-Executive Director

Michael has been a Non-Executive Director of B&B since July 2007, joined the Board of UKAR in October 2010 and the Board of NRAM in March 2016, having been a Non-Executive Director of NRAM plc from October 2010 until its sale in May 2016. He is a member of the Audit, Risk and Nomination Committees of all three companies and of the Transaction Approvals Committees of B&B and NRAM. Michael stepped down from the board on 27 June 2017.

Michael is Chairman of KKR Alternative Investment Management Ltd and KKR Credit Advisors (Ireland) Ltd. He is also a senior advisor to a number of privately held Irish and US based companies, and is an Adjunct Professor at the Department of Economics at NUI University College, Cork.

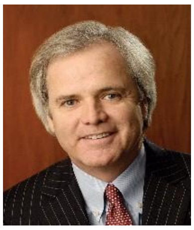
He was the Non-Executive Chairman of DCC plc from May 2008 to October 2014 and Senior Independent Director of DCC plc from September 2005 to May 2008. From April 2003 until April 2012 he was a Non-Executive Director of M&T Corporation in the USA. He was Group Chief Executive of Allied Irish Banks plc from 2001 to 2005 having earlier served as Managing Director of AIB Capital Markets and AIB Poland. Previously he was Managing Director of the NCB Group, and a senior public servant in Ireland and the EU.

Keith Morgan – Non-Executive Director

Keith joined the Boards of UKAR and B&B in October 2010 and the Board of NRAM in March 2016, having been a Non-Executive Director of NRAM plc from January 2010 until its sale in May 2016. He is the Chairman of the Risk Committee and a member of the Audit and Remuneration Committees of all three companies and the Transaction Approvals Committee of B&B and NRAM.

Keith is CEO of the British Business Bank and a Director of British Business Bank Plc. He was formerly a Director of UKFI, responsible for managing the Government's shareholdings in UKAR, B&B and NRAM plc until August 2012. He was also a Non-Executive Director of Northern Rock plc until its sale to Virgin Money in January 2012. Keith joined UKFI from Banco Santander where he was a Director of Sovereign Bancorp in the U.S.A. focusing on the integration of Sovereign into Santander. He was previously Director of Strategy & Planning at Abbey National, where he was a member of the Executive Committee and was also Chairman of Santander's Asset Management and Credit Card businesses in the UK. Before joining Abbey in 2004, Keith spent 18 years at L.E.K. Consulting, where he was a partner specialising in financial services.

Brendan McDonagh – Non-Executive Director



Brendan joined the Boards of UKAR and B&B in April 2016 and the Board of NRAM in June 2016. He is Chairman of the Audit Committee and a member of the Risk and Nomination Committees of all three companies.

Brendan is a Non-Executive Director and member of the Risk Committee of Allied Irish Banks plc. He is also the former Executive Chairman of the Bank of N.T. Butterfield & Son Limited, Hamilton, Bermuda. He is a former CEO of HSBC North America Holdings Inc with responsibility for the Group's banking and consumer finance operations in the US and Canada. He was also Group Managing Director for HSBC Holdings Inc and a member of the HSBC Group Management Board. Brendan started his banking career with HSBC in 1979 and worked in Asia, Middle East, Europe and North America.

Brendan also serves on the advisory board of the business school of Trinity College Dublin. He was formally a member of the Board of Ireland's National Treasury Management Agency and was Chairman of the Remuneration Committee and previously Chairman of the Audit Committee. He was also Chairman of the Investment Committee of the Ireland Strategic Investment Fund.

Corporate governance (continued)

Board of Directors (continued)

Peter Norton – Non-Executive Director (Appointed Post Year End)

Peter joined the Boards of UKAR, B&B and NRAM in April 2017 after being appointed by UKFI to manage HM Government's shareholdings in the UKAR companies. He is also a member of the Transaction Approvals Committee of B&B and NRAM.

Peter joined UKFI in March 2014 and was appointed to the role of Head of Banking & Capital Markets in April 2016. Before joining UKFI Peter worked in Investment Banking at UBS, where he advised UK and European Financial Institutions on a variety of strategic and capital markets transactions. Prior to UBS Peter started his investment banking career at Lehman Brothers having previously qualified as a chartered accountant with Ernst & Young in London. Peter is a member of the Institute of Chartered Accountants of Scotland.

Brendan Russell – Non-Executive Director (Appointed Post Year End)

Brendan joined the Boards of UKAR, B&B and NRAM in June 2017. He is a member of the Audit and Risk Committees of all three companies, and a member of the Transaction Approvals Committee of B&B and NRAM.

Brendan previously spent almost six years as the Head of Corporate Finance at the Royal Bank of Scotland ('RBS'), where he led the team responsible for the disposal programme which formed a key component of RBS's recovery plan. Prior to joining RBS, Brendan was a Director with Barclays in its Corporate Development function, before which he spent five years at McKinsey where he was responsible for part of the Corporate Finance & Strategy practice, overseeing teams based in five European cities.

Brendan has past experience of retail banking and capital markets and he has also served as financial adviser to both Ofwat and the Office of Rail Regulation.

Resignations

As indicated in last year's Annual Report, the following Directors resigned from the Board during the 2016/17 financial year as part of the planned changes following the transfer of mortgage servicing to Computershare:

- Richard Pym – stepped down as Chairman on 5 June 2016 and resigned from the Board with effect from 26 July 2016.
- Kent Atkinson – Senior Independent Director resigned from the Board with effect from 5 June 2016.
- Richard Banks – resigned from the Board with effect from 5 June 2016.

David Lunn, one of the UKFI nominated directors, resigned from the Board with effect from 28 February 2017 to take up a role within HM Treasury. In addition, Michael Buckley stepped down from the board on 27 June 2017.

NRAM plc

On 5 May 2016, the Directors of NRAM plc, with the exception of Richard Banks and Ian Hares, resigned from the Board as part of the sale of the Company to Cerberus. To ensure a smooth transition Richard Banks and Ian Hares remained on the Board of NRAM plc as Non-Executive Directors until the completion of the transaction. They received no fees for this directorship and resigned from the Board of NRAM plc on 18 July 2016.

Corporate governance (continued)

Board of Directors (continued)

Balance of Executive and Non-Executive Directors

During 2016/17 the UKAR Board comprised:

Period	Non-Executive Chairman	Independent Non-Executive Directors	Executive Directors	UKFI Nominated Directors	Total
1 April 2016 to 3 April 2016	1	4	2	2	9
4 April 2016 to 5 June 2016	1	5	2	2	10
6 June 2016 to 26 July 2016	1	4	1	2	8
27 July 2016 to 28 February 2017	1	3	1	2	7
1 March 2017 to 31 March 2017	1	3	1	1	6

The UKAR, B&B and NRAM Boards shared a common membership during 2016/17 except that Brendan McDonagh joined the UKAR and B&B Boards on 4 April 2016 but did not join the NRAM Board until 6 June 2016.

The Non-Executive Directors have experience in a range of commercial or banking activities.

The Board has determined that the Non-Executive Directors, who were not appointed by the Shareholder, were independent, because of the commonality of purpose between UKAR and the Principal Subsidiaries and a rigorous focus on the identification of any specific conflicts of interest. In addition, the Board has determined that Michael Buckley remained an independent Non-Executive Director following service of over nine years on the B&B Board as he remained independent in character and judgement and there were no relationships or circumstances which were likely to affect, or could appear to affect, his judgement.

As part of the planned changes following the transfer of mortgage servicing to Computershare in June 2016 the Board reduced in size by two directors and there were a number of consequent changes to the membership of the Board Committees as set out in each Committee Chairman’s report. Whilst UKAR seeks to Comply with the UK Corporate Governance Code wherever practicable the reduction in the size of the Board meant that it was no longer always possible to comply with the requirements in respect of the number of independent Non-Executive directors on each Committee.

In particular, Mr Morgan, who is a UKFI nominated director is a member of the Audit and Remuneration Committees and cannot be counted as an independent Non-Executive Director. However, the Board have recognised that whilst Mr Morgan is still employed by the government he is no longer a UKFI employee and, for all practical purposes, he is independent in thought and action.

Relationship between the Chairman and the Chief Executive Officer

A clear division of responsibility exists between the Chairman and the CEO, which is set out in writing in the UKAR Governance Documentation and has been approved by the Board. The Chairman is responsible for leadership of the Board and the CEO is responsible for leadership of the business.

Senior Independent Director

The role of the Senior Independent Director is to act as a sounding board for the Chairman, as a trusted intermediary for the other Directors and, where necessary, a point of contact for the Shareholder. The responsibilities of the role include the evaluation of the Chairman’s performance.

Kent Atkinson was the Senior Independent Director of UKAR, NRAM and B&B from 1 April 2016 up to his resignation from the Board on 5 June 2016.

Sue Langley is now the Senior Independent Director of UKAR, NRAM and B&B having been appointed to the role on 6 June 2016.

Corporate governance (continued)

Board of Directors (continued)

Company Secretary

The Company Secretary supports the Chairman in designing the induction programme for new Directors, the delivery of the corporate governance agenda and by ensuring that information is made available to the Board members on a timely basis. The Company Secretary advises the Directors on Board procedures and corporate governance matters.

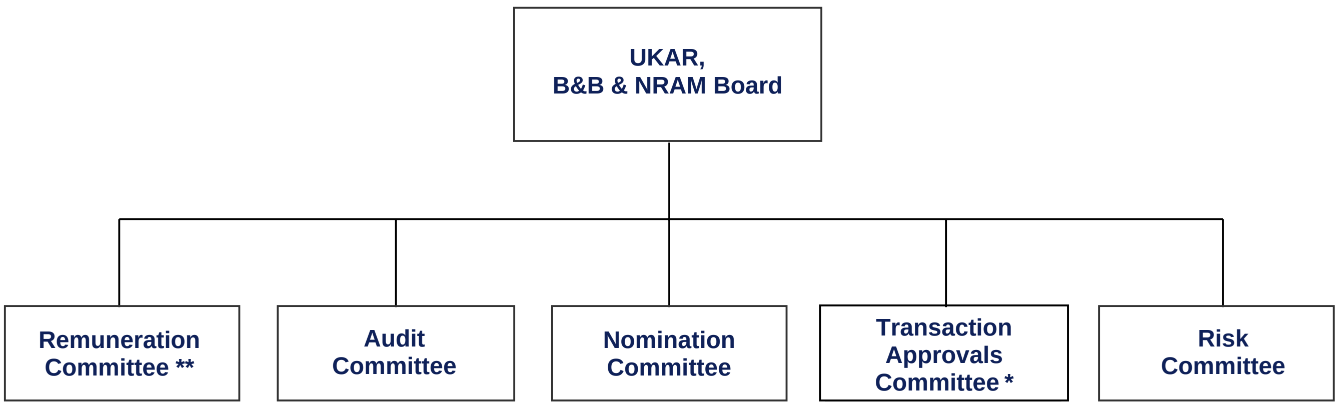
John Gornall was the Company Secretary of UKAR, NRAM and B&B throughout 2016/17.

How the Board operated in 2016/17

Board structure and governance

In accordance with best practice outlined in the UK Corporate Governance Code and the requirements of the Framework Document, the Board has delegated various powers and authorities to its Committees. They play a key role in ensuring the effectiveness of the corporate governance framework by supporting the Board and carrying out its functions.

Board and Committee Structure



* The Principal Subsidiaries operate a Transaction Approvals Committee which is included in these accounts for a full understanding of the Group Committee Structure.
** A separate sub-committee has been established by the Board to set the fees of the Chairman and Non-Executive Directors see further detail on page 39.

During 2016/17 the Chairman of each Committee was:

Committee	Chairman
Remuneration Committee	Sue Langley
Audit Committee	Kent Atkinson (1 April 2016 to 5 June 2016) Brendan McDonagh (6 June 2016 to 31 March 2017)
Nomination Committee	Richard Pym (1 April 2016 to 5 June 2016) John Tattersall (6 June 2016 to 31 March 2017)
Transaction Approvals Committee	Richard Pym (1 April 2016 to 5 June 2016) John Tattersall (6 June 2016 to 31 March 2017)
Risk Committee	John Tattersall (1 April 2016 to 5 June 2016) Keith Morgan (6 June 2016 to 31 March 2017)

Corporate governance (continued)

How the Board operated in 2016/17 (continued)

Board structure and governance (continued)

The changes to the Committee Chairmen in June 2016 reflect the planned changes following the transfer of mortgage servicing to Computershare.

Each of the Board Committees have detailed Terms of Reference setting out their remit and authority. Details of the membership of each Committee, the role and key activities during 2016/17 are set out in the individual Committee Chairman's reports on pages 31 to 56.

The Remuneration Committee Chairman's Report and details of the role of the Remuneration Committee are provided in the Directors' Remuneration Report on page 31.

Board and Committee meetings

The Board and its Committees meet regularly throughout the year. All agendas are structured to allow adequate and sufficient time for discussions of the items on the agenda, particularly strategic issues.

The attendance of individual Board members at Board and Committee meetings during 2016/17, together with the overall number of meetings held is set out below. Where a Director was appointed or resigned during the year the total number of meetings they were eligible to attend is shown in brackets.

	Board	Audit	Nomination	Remuneration	Risk	Transaction Approvals *
Number of meetings held	**10**	**4**	**4**	**5**	**5**	**9**
Chairman						
John Tattersall *(appointed Chairman 06.06.2016)*	10	2 (2)	3 (3)	5	2 (2)	8 (8)
Richard Pym *(resigned as Chairman 05.06.2016 and as a Director 25.07.2016)*	5 (5)		1 (1)			2 (2)
Chief Executive						
Ian Hares *(appointed as CEO 06.06.2016, previously Executive Director))*	10					9
Richard Banks *(resigned 05.06.2016)*	3 (3)					2 (2)
Senior Independent Director						
Sue Langley *(appointed SID 06.06.2016),*	10		4	5		
Kent Atkinson *(resigned 05.06.2016)*	2 (3)	2 (2)			2 (2)	
Independent Non-Executive Directors						
Michael Buckley	10	4	4		5	9
Brendan McDonagh *(appointed to UKAR and B&B Boards 04.04.2016)*	9 (10)	3 (4)	0 (0)		3 (3)	
(appointed to NRAM Board 06.06.2016	7 (7)	2 (2)	0 (0)		3 (3)	
Non-Executive Directors						
David Lunn *(resigned 28.02.2017)*	10					9
Keith Morgan	10	2 (2)		5	5	6

** The Transaction Approvals Committee only relates to the Principal Subsidiaries.*

In addition to the scheduled Board and Committee meetings detailed above, four Board Committee meetings were held during the year to approve:

- the Interim Financial Statements and Annual Report & Accounts; and
- documentation relating to completion of the sale of the mortgage servicing operations to Computershare and the sale of NRAM plc to Cerberus.

The Company Secretary or his nominee attended each meeting as Secretary to the Board and other representatives from specific business functions and/or external advisors were invited to attend as appropriate.

During the year each of the Non-Executive Directors met the time commitment specified in their letters of appointment.

Corporate governance (continued)

How the Board operated in 2016/17 (continued)

Board responsibilities

The Board's role is to provide leadership and oversight of the management of the Company, whilst setting the strategic direction, in order to achieve its objectives. The Board is responsible for:

- setting the Group's strategic aims and developing and recommending revisions to the Plan to deliver the overarching objective set out in the Framework Document. Any proposed revisions to the Plan are subject to review and approval by UKFI;
- delivering the Plan in accordance with the requirements of the Framework Document. In this respect, decisions on the day-to-day running of the Group rest with the Board in accordance with the Directors' statutory, common law and fiduciary responsibilities. UKFI is committed to giving the Board the freedom necessary to deliver the agreed Plan and will not interfere in day-to-day operational and commercial matters; and
- ensuring that the necessary financial and human resources are in place for the Group to deliver the agreed Plan, set the Group's values and standards and ensure that its obligations to HM Treasury as Shareholder are understood and met.

The Board has a written schedule of those matters reserved for its determination and those matters reserved for UKFI, in accordance with the Framework Document.

Board activities 2016/17

The Board's primary role throughout the year has continued to be to provide leadership and oversight to ensure the overarching objectives in the Framework Document are met.

In doing so the Board has overseen further sales of assets and the completion of the transfer of the mortgage servicing business to Computershare in June 2016.

These transactions have required significant oversight during the year and in this respect the Board has:

- approved and monitored competitive, transparent sales processes;
- overseen the sales processes, including the terms of bids, pricing decisions, selection of bidders to progress further in the process, agreement of contractual terms and final approval of the transactions;
- ensured that the terms of the transactions protected the interests of customers and provided value for money to the taxpayer; and
- identified and monitored any conflicts of interest.

In addition to the above, the Board continued to provide oversight in relation to ongoing key business activities during 2016/17 which have included:

- monitoring the effectiveness of the new organisational structure following the sale of the mortgage servicing operations to Computershare;
- monitoring Computershare's servicing activity and performance in relation to customer outcomes;
- approving key performance indicators and endorsing Balanced Scorecard results;
- approving the Annual Conduct Risk Assessment, Risk Appetite, Liquidity and Capital Statements;
- approving the redemption of a B&B subordinated note and the unwinding of the Aire Valley securitisation structure;
- ensuring that decision making at all levels reflects good conduct and the fair treatment of customers; and
- approving an updated Vision, Mission Statement and Values;

Board appointments and composition

UKFI considers that the composition of the Board is a critical factor and seeks to secure an environment in which it shares a common view about Board composition and succession with the Chairman, including size, balance of experience and diversity. To achieve this and ensure that a common governance approach is applied, the Group operates under the following principles:

- the Chairman and either the Chairman of UKFI or a senior employee nominated by the Chairman of UKFI (the 'Nominated Officer'), will discuss and confirm Board composition and succession regularly in the light of performance and the requirements of the Plan;

Corporate governance (continued)

How the Board operated in 2016/17 (continued)

Board appointments and composition (continued)

- UKFI will be entitled to appoint to the Board one or more Non-Executive Directors nominated by UKFI (the 'Shareholder Directors'); Keith Morgan and Peter Norton, who was appointed to the Board after the year end, are currently appointed as such Directors. The Group acknowledges that the Shareholder Directors intend to liaise with and report to representatives of UKFI from time to time in relation to the business of the Group and decisions made, or to be made, by the Board in order to assist with the exercise of their powers and duties as Directors;
- one or more senior representatives of UKFI will, if so requested by UKFI, attend meetings of the Board in an observer capacity;
- the Chairman will discuss with the Nominated Officer any impending changes to Board membership;
- the Chairman of the Nomination Committee will meet with the Nominated Officer as necessary to obtain UKFI's approval to any proposed Board changes before they become subject to the formal appointment/consent procedure. The Articles of Association require that at every Annual General Meeting each Director, other than the Shareholder Directors who are expressly exempt from this provision, shall retire from office and may offer themselves for re-appointment;
- Non-Executive Directors are appointed for a term of 12 months, subject to re-appointment in accordance with the above procedures;
- the Chairman and the Non-Executive Directors each have a letter of appointment which sets out the terms and conditions of their Directorships, including fees payable, where applicable, and the expected time commitment;
- the Nomination Committee reviews the leadership needs of the Group, including succession planning for both Executive and Non-Executive Directors and, in particular, the key roles of Chairman and Chief Executive; and
- the Board will ensure that suitably rigorous appraisals are made of the effectiveness of the Chairman and the Board.

The Nomination Committee considers the composition of the Board and its Committees annually to ensure this remains fit for purpose and makes any recommendations to the Board for consideration in accordance with its Terms of Reference. This takes into account the challenges and opportunities facing the Company, including the strategic direction, and the skills and expertise needed on the Board now and in the future. The Chairman regularly meets with UKFI, the shareholder representative to discuss UKAR matters, including the constitution of the Board.

Board evaluation

The Board is committed to undertaking a formal and rigorous annual evaluation of its own performance and that of its Committees and individual Directors. The review provides the opportunity for the Board and its Committees to reflect on the effectiveness of its activities and the quality of its decisions.

During 2016/17, the Board and Committee evaluation exercise was conducted by the Chairman with assistance from the Company Secretary.

The process consisted of individual questionnaires to each Director which sought their views on a wide range of key issues, including:

- whether members work together constructively and how they interact;
- effectiveness of the Chairman;
- Board and Committee culture;
- Board and Committee meeting processes; and
- approach to training and responsibility for maintaining skills and knowledge levels.

The Company Secretary reported to the Chairman on the outcome of the evaluation exercise, which showed that the Board and its Committees are discharging their responsibilities effectively and meeting the requirements of their terms of reference.

The outcomes of the evaluation were positive and all comments have been reviewed by the Board and its Committees. The Chairman comments further on the conclusions in his Chairman's Statement on page 5 of these accounts.

Evaluation of individual Non-Executive Directors has also been addressed directly by the Chairman.

The Chairman's own performance was evaluated by the Directors and his annual review carried out on behalf of the Board by the Senior Independent Director.

Corporate governance (continued)

How the Board operated in 2016/17 (continued)

Induction and training

The Group requires all newly appointed Directors to undergo a formal induction training programme appropriate to their skills and experience, to ensure that they:

- are fully aware of and understand their role, duties and responsibilities as a Director; and
- have a good understanding of the operation of the business, so as to contribute effectively.

Directors receive a tailored induction programme designed to meet their individual needs and level of knowledge and experience. Where appropriate this includes meetings with the Chief Executive, the Company Secretary, members of the Executive Committee ('ExCo') and senior management and a briefing from the Group's solicitors.

The Group also requires Non-Executive Directors to undertake relevant ongoing training and development to improve their capabilities and thereby contribute more effectively to Board decision making.

A comprehensive thematic training programme is in place, which covers key areas of the business and topical issues, such as regulatory developments, and takes account of the outcomes of the annual Board evaluation.

The Board is kept up to date on legal, regulatory and governance matters through regular papers from the Company Secretary, Risk Director and external advisors as appropriate.

Timely and quality information

The Board believes that it receives and has access to, on a timely basis, all relevant information which is of a sufficient quality to make appropriate decisions and discharge its duties and obligations. The Board reviewed this matter as part of the annual evaluation process and there were no issues arising.

All Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that Board procedures and applicable rules are followed. Where necessary, Directors are able to take independent professional advice at the Group's expense.

Internal control and risk management

The Board is responsible for the Group's system of internal control and seeks regular assurance to satisfy itself that the system is functioning effectively in managing risks in the manner which it has approved. Such a system can only provide reasonable, not absolute, assurance against material misstatement or loss, as it is designed to manage, rather than eliminate, the risk of failure to achieve business objectives. Throughout the year ended 31 March 2017, the Group has operated a system of internal control, which includes an ongoing risk management process for identifying, evaluating and managing the principal risks faced by the Group. The Directors confirm that they have carried out a robust assessment of the principal risks facing the Group and have reviewed the effectiveness of the Group's system of financial and non-financial controls including operational and compliance controls, risk management systems and the Group's material risk exposures and associated mitigating actions.

The Group is committed to developing and maintaining an appropriate Risk Management Framework and culture with the aim of continuing to ensure that Management understand the key risks that the business faces and its appetite for them. This is achieved through an organisational structure with clear reporting lines governed by appropriate business monitoring mechanisms, codes of conduct and policy statements. Internal control and risk management systems are integrated into strategic considerations and business planning processes.

Under the Risk Management Framework, the Group operates a risk management process, producing an enterprise-wide risk profile. This identifies the Group's principal risks, the probability of those risks occurring and their impact should they occur. Management regularly takes action to improve the design and operation of suitable controls, either as a result of its own initiative or in response to reports from Internal Audit and other oversight review functions.

The risk management process is complemented by a formalised reporting and escalation process for emerging control issues. Internal Audit has a key role in maintaining the control environment by providing independent assurance on the effectiveness of the Group's internal control systems. The Risk Committee and the Audit Committee oversee the risk management process, regularly consider the enterprise-wide risk profile and receive monitoring reports to update them on progress.

The system of risk management and internal control has operated effectively throughout 2016/17 and up to the date of approval of the Annual Report & Accounts.

Corporate governance (continued)

How the Board operated in 2016/17 (continued)

Internal control and risk management (continued)

In monitoring the effectiveness of this system, the Board takes into account the work of the Risk Committee which reviews the Group's principal risks and how these are being managed. The Risk Committee also considers reports from Compliance and from Management on the system of internal control, adherence to regulatory requirements and material control weaknesses, where these exist, together with actions taken to address them. The Audit Committee considers reports from Internal Audit and External Audit on the system of internal control and material control weaknesses, where these exist, together with actions taken to address them. The Chairmen of the Risk Committee and the Audit Committee report on the outcome of each meeting to the Board, where appropriate, and the Board also receives minutes of these Committee meetings.

In addition, as part of the process of preparing this statement, the Board has also performed its annual assessment of the effectiveness of risk management and internal control systems. This annual assessment adopted the recommendations of current best practice guidance issued by the Financial Reporting Council. The Board of Directors is not aware of any material risk events or internal control failures that arose across the Group during 2016/17 that are not being addressed in accordance with the internal control procedures of the Group.

Going concern

The Directors have assessed, taking into consideration the principal risks set out on pages 16 to 17 and 71 to 73, potential future strategic options and the current and anticipated economic conditions, the Company's and the Group's ability to continue as a going concern. As set out in note 1 to the Financial Statements and in the Annual Reports & Accounts of B&B and NRAM, HM Treasury has provided confirmation to the Directors of those two companies that it is HM Treasury's intention to fund those companies so as to maintain them as a going concern and has provided various on-demand facilities to each of those companies, to enable those companies to meet their debts as and when they fall due, for a period up to at least 1 January 2019. Accordingly, the Directors of B&B and NRAM confirm that they are satisfied at the time of approval of these Financial Statements that the B&B and NRAM companies and groups have adequate resources to continue in business for the foreseeable future and for this reason they continue to adopt the going concern basis in preparing the Financial Statements.

Longer term viability

UKAR was established to oversee the orderly run-off of B&B and NRAM for the UK government and continues to receive funding and guarantees from HM Treasury to enable it to undertake this activity. The Board have no reason to believe that support from HM Treasury will be withdrawn or curtailed after 1 January 2019. With this in mind, the Directors have assessed the longer term viability of the Group, taking into account modelling undertaken as part of the annual refresh of the Ten Year Plan, the strategy set out on pages 12 to 15 and the impact of the principal risks set out on pages 16 to 17 and 71 to 73, and have concluded that, provided the financial support from HM Treasury continues, the Group will remain viable throughout the entire period of its run-off. The length of this period will depend on the success of strategic initiatives, including the current proposals to sell further mortgage assets.

Corporate governance codes

In accordance with the requirements of the Framework Document, the Group is committed to complying with the UK Corporate Governance Code wherever practicable. The Board and UKFI consider the Group's compliance on at least an annual basis.

Directors' remuneration report

Sue Langley, Chairman of the Remuneration Committee, introduces the Directors' Remuneration Report and gives an overview of the Committee’s main areas of focus during 2016/17.

“I am pleased to present UKAR's report on Directors' Remuneration for 2016/17.

The successful transfer of our mortgage servicing operations to Computershare Loan Services means UKAR now comprises a much smaller number of colleagues. However, we continue to manage all colleagues, regardless of their position within the company, against the same set of reward principles, which focus on fair and transparent remuneration. The Remuneration Committee is conscious of the continued need to motivate, attract and retain colleagues as we progress our business strategy to shrink the Balance Sheet and oversight the service given to our customers.

The work of the Committee during 2016/17 has covered a variety of topics within its Terms of Reference and key activities undertaken during the year have included:

- the annual review of UKAR’s reward strategy, which determined that it continues to remain aligned to our business strategy and encourages effective risk management and appropriate customer outcomes in line with the FCA’s conduct risk agenda;
- as highlighted in the Nomination Committee report on page 49, there were a number of changes to the management structure of UKAR as a result of the successful divestment of the mortgage servicing operation. The Committee reviewed the role profiles and external benchmarking data for the CEO and the Executive team and agreed their remuneration packages;
- annual Short Term Incentive Plan (‘STIP’) payments for the Executive team were agreed, taking into account the strong overall results of business and individual performance. Annual incentive awards are also overlaid by a Balanced Scorecard which acts as a reducer;
- in June 2016 the Committee approved payments of the one-off incentives that had been put in place to reward colleagues for the additional efforts that enabled the successful transfer of our mortgage servicing operations; and
- the design of the annual incentive schemes for 2017/18 and the targets for the next Medium Term Incentive Plan (‘MTIP’) scheme which is expected to run until March 2020 were agreed.

The Committee works closely with UKFI on remuneration matters in line with the Framework Agreement and, although it is not required to do so, UKAR continues to seek as far as possible to comply with the regulatory and governance requirements which apply to UK listed companies and the FCA's Remuneration Code.”

Membership

There were no changes to the membership of the Remuneration Committee which was in place throughout 2016/17 and had the following membership at 31 March 2017:

Sue Langley (Chairman)
Keith Morgan
John Tattersall

Details of the skills and experience of Committee members can be found in the Directors' biographies on pages 21 to 23.

Summary of responsibilities

The Remuneration Committee is responsible for:

- making recommendations to the Board concerning the remuneration arrangements of Executives and other colleagues in senior roles with significant influence over the risk profile of the business remuneration arrangements (Code Staff);
- recommending proposals in respect of related pay schemes; and
- overseeing any major changes in benefit structures.

Directors' remuneration report (continued)

Meetings

The Committee held five meetings during the year, complying with the requirements of its Terms of Reference. The attendance of individual members at meetings is set out on page 26.

The Committee also invites the following to attend its regular meetings:

- the UKFI employed appointed Non-Executive Director;
- Chief Executive Officer;
- members of the Executive Committee responsible for HR and Risk;
- Company Secretary or his nominee; and
- other representatives from business functions and/or external advisors.

Reporting to the Board

The Committee Chairman reports to the Board after each Committee meeting, summarising the key matters discussed, and the Board also receives copies of the minutes of each meeting.

Governance

The Committee completed an annual review of its Terms of Reference in November 2016 and undertook an evaluation process in accordance with the requirements of those Terms of Reference in January 2017. The results of the evaluation were discussed by the Committee in February 2017 where it was noted that they were positive and provided assurance that the Committee remained fit for purpose.

Directors' remuneration policy

Policy overview

UKAR's Reward Policy and principles comply with FCA rules and guidance where possible and applies to all colleagues across the organisation. The Policy is reviewed annually by the Remuneration Committee and seeks to support UKAR's unique circumstances and to be agile to respond to the changing economic and regulatory environment.

The main purpose of the policy is to support the achievement of UKAR's overall business strategy by establishing an objective, consistent and fair reward system. This in turn provides a competitive yet cost-effective salary, incentive and benefits package to all colleagues that reflects their role, competencies and the contribution they make, both now and in the future. UKAR's culture is shaped by the 'tone from the top' and how colleagues behave is as important as what they do. Rewards and incentives are aligned to UKAR's culture and values, each of which have exemplar behaviours which help colleagues understand what they mean and how they apply to what they do on a daily basis. UKAR will only reward behaviours that underpin longer term business success and does not support, or reward, excessive or inappropriate risk-taking behaviours. The Risk Director's objectives include the caveat that the delivery of all financial targets are achieved with due regard to risk and appropriate challenge.

UKAR's reward policy aims to support the retention and attraction of high quality colleagues by differentiating reward for high performers. Reward is only one lever available to mitigate the risk of talented colleagues leaving the company and the reward policy is, therefore, aligned closely to the overarching HR strategy which is important to UKAR's success given the increasing contraction of the business.

UKAR recognises and consults with the Unite trade union. As part of the pay negotiations for all colleagues, we ensure that the Union is fully aware of the approach UKAR intends to take and has an opportunity to raise questions. In 2016/17, UKAR continued to apply a consistent salary review process across all of the Group including Executives.

Directors' remuneration report (continued)

Directors' remuneration policy (continued)

The remuneration policy for Executive Directors

Table 1 – Key aspects of the remuneration policy for Executive Directors

Element	Purpose and link to strategy	Operation	Maximum opportunity
Base salary	To attract and retain key talent by ensuring an appropriate, competitive benefits package.	Roles are benchmarked externally. Salaries are reviewed by the Remuneration Committee and recommendations are submitted to the Board and UKFI, the shareholder representative, based upon the skills and experience they bring to the role. The approach to pay increases, including that for promotions/ increased responsibility is in line with the approach taken for all colleagues.	There is no prescribed maximum. However, the Remuneration Committee reviews the salary against the range each year and they also consider the pay approach used for all UKAR colleagues.
Benefits	To provide a competitive package, aligned to market practice.	The benefit package for Executive Directors includes annual holiday entitlement, life assurance, car allowance, private medical insurance, income protection insurance, personal accident insurance and assistance with relocation, travel and accommodation where necessary. Individuals promoted to Executive Director from a below-Board role may retain entitlements under UKAR's Redundancy Policy.	Each benefit has its own maximum in line with the nature of the benefit and the policy that surrounds it.
Pension	To provide a competitive package, aligned to market practice.	Executive Directors are either offered a pension allowance or employer contribution into UKAR's pension plan. The approach taken depends on the Director's individual circumstances.	The pension allowance for the CEO is set at 15% of base salary.

Directors' remuneration report (continued)

Directors' remuneration policy (continued)

The remuneration policy for Executive Directors (continued)

Table 1 – Key aspects of the remuneration policy for Executive Directors (continued)

Element	Purpose and link to strategy	Operation	Maximum opportunity
Short-Term Incentive Plans **(Annual Bonus)**	To reward performance for delivery of key financial and operational targets.	UKAR's STIP is linked to achievement of the financial and operational targets in place for the relevant year alongside individual performance against personal objectives. The Remuneration Committee approves personal objectives for the year for Executive Directors. We promote a culture that supports, develops and challenges individuals to deliver success. Targets for customer outcomes and conduct risk, plus other key organisational metrics, are included in the UKAR Balanced Scorecard. Failure to achieve these targets would result in a reduction to the bonus pool. Given UKAR's status, all awards are made in cash as there is no option to award shares and 60% is paid initially with the remaining 40% paid in equal instalments over the following three years. Any potential awards, including deferrals, are subject to Remuneration Committee discretion. Malus and clawback operate where appropriate and, in line with best practice, the Remuneration Committee considers whether there has been any significant issues, such as misstatement of results or misconduct as part of their consideration around approval of bonus awards. UKAR considered extending the period for deferral but decided not to do so, given the size of the awards that are made and the fact that it is a business with a limited lifespan. Should an event occur which the Remuneration Committee consider would materially alter achievement against targets, it has the discretion to change the personal objectives or targets. However, such change, in the opinion of the Committee, must not have the effect of making the performance objective or corporate assessments materially more onerous or easier to satisfy than it was immediately before the event in question.	Up to 60% of base annual salary, each year.
Medium-Term Incentive Plan	To reward performance for delivery of key metrics directly linked to UKAR's overarching strategy.	UKAR’s MTIP performance periods run in sequence, rather than being a rolling annual grant programme and typically measures performance over 3-year periods. As referenced elsewhere in this report, the 2014-17 scheme closed a year early, vesting in 2016, therefore, the current scheme has been put in place for a 4 year period and will vest in 2020. The scheme rewards the execution of material asset sales and awards will only begin to accrue once a minimum asset sale threshold is reached. Given UKAR's status, all awards are made in cash as there is no option to award shares. Any potential awards are subject to Remuneration Committee discretion and malus and clawback operates where appropriate. Should an event occur which the Remuneration Committee consider would materially alter achievement against targets, it has the discretion to change the targets. However, such change, in the opinion of the Committee, must not have the effect of making the performance objective or corporate assessments materially more onerous or easier to satisfy than it was immediately before the event in question.	Up to 60% of base annual salary once every three years. The MTIP is not cumulative. The Directors can only participate in one scheme at any time. Therefore, over a three year period the average annualised payment would be a maximum of 20% of base salary.

Directors' remuneration report (continued)

Directors' remuneration policy (continued)

The remuneration policy for Executive Directors (continued)

Table 1 – Key aspects of the remuneration policy for Executive Directors (continued)

Element	Purpose and link to strategy	Operation	Maximum opportunity
Phoenix Incentive Plan	To reward performance for delivery of the Phoenix Project.	The Phoenix Incentive Plan was developed to incentivise and reward performance for the successful divestment of the mortgage servicing operations, recognising the operational people risk and reinforcing the need to retain high performing colleagues. Subject to the amount of individual contribution to the project payment was up to 60% for Executive Directors. The award, including deferrals, are subject to Remuneration Committee discretion and malus and clawback operate where appropriate. To qualify for the scheme, Executives were required to increase their notice periods. The same deferral arrangements as in the STIP were applied. In July 2016 following the successful completion of the transaction 60% of any award was paid with the remaining 40% being paid in equal instalments over the next three years.	Up to 60% of base annual salary. The Phoenix Incentive was a one-off plan.

Prudential Regulation Authority ('PRA') Remuneration Rules

UKAR is not subject to the variable pay cap introduced under the European Union Capital Requirements Directive (CRDIV), and interpreted in the PRA remuneration rules as it is not taking deposits, nor is it writing new business and taking on new risk. However, we do seek to comply where appropriate. The table below provides further details.

Table 2 – The accounting approach taken for the different incentive payments

Component	PRA Remuneration Code for large banks	UKAR's approach
Variable to fixed pay ratio	Cap of 1:1 ratio.	We seek to comply. Should any individual's total variable remuneration exceed the cap in a given year, the amount over the cap would be deferred to the following year.
Deferral	Extended for up to 7 years.	40% of annual bonus continues to be deferred over a 3-year period. MTIP awards normally vest after 3 years. As UKAR is not taking deposits or writing new business, the Committee has maintained the 3-year deferral.
Short Term Incentive Plan (including the Phoenix Incentive)	Counts towards the 1:1 cap in respect of the performance year to which it relates.	UKAR follows this approach.
Medium Term Incentive Plan	Counts towards the 1:1 cap in the performance year immediately prior to when the 'grant' is made (i.e. when the performance period begins) and is counted at maximum value.	UKAR follows this approach. The 2016/17-2019/20 scheme counted towards the variable pay cap for 2016/17.

Directors' remuneration report (continued)

Directors' remuneration policy (continued)

Choice of performance measures and approach to target setting

UKAR has clear performance metrics understandable to every colleague in the business. In addition to financial and operational targets, a Balanced Scorecard brings together customer, colleague, culture and conduct measures and is applied to all annual bonus schemes including the STIP. Given the nature of its ownership and the focus on repaying government debt, the MTIP scheme is aligned to accelerating repayment of the Government loan. Details of schemes are found in table 1.

Differences in remuneration policy for the Executive Director compared to other employees

The reward policy applies to all colleagues in the organisation and aims for objectivity, consistency and fairness. However, market practice means that to ensure UKAR remains competitive there are different benefits at various levels and the Executive Director's package, when compared to other colleagues across the organisation, has higher allowances and a longer contractual notice period.

A salary increase matrix applies to all colleagues including the Executive Director with increases based upon an individual's position in their salary range and their personal performance.

Approach to recruitment and promotions

In the case of a new Executive appointment to the Board the reward package is set in line with the structure agreed by the Remuneration Committee, as outlined above and also requires Board and UKFI approval.

The Remuneration Committee has the discretion to make additional awards to replace remuneration forfeited when a new Executive Director is appointed. Any awards would take account of the size of the award the individual was leaving behind, together with the vesting and performance conditions. The Committee has not made any such awards to date.

Service contracts and payments for loss of office

UKAR's policy is to employ Executive Directors on service agreements with 12 months employer notice periods. Wherever possible UKAR will seek to minimise any potential payments for loss of office. UKAR has not made any loss of office payments in this reporting period.

Table 3 – Details of service contracts and loss of office payments policy

Provision	Detailed terms
Employer notice period (to the employee)	12 months
Termination payment	In the event of termination by the company, other than for misconduct, Executive Directors' contracts provide for 12 months' notice, or payment of base salary, pension and fringe benefits in respect of the unexpired portion of the notice period. To qualify for the Phoenix Incentive Plan, Executive Directors' were required to increase their notice period to the company from 6 months to 12 months. 'Good leavers', who are colleagues who leave through redundancy or retirement, may also be eligible for: ▪ STIP subject to assessment of the normal performance conditions and payable on the normal payment date, pro-rata by leave date; and ▪ MTIP subject to the normal performance conditions and payment date, reduced pro-rata to the portion of the performance period that has expired. Where an individual is appointed as an Executive Director through internal promotion, they may also retain eligibility for the company's redundancy policy which provides for a payment based on a number of weeks base salary per year of service, therefore, Ian Hares has retained his rights under the company's redundancy policy. Redundancy payments are calculated as below and are inclusive of any statutory redundancy pay entitlement; ▪ Under 22 years of age – 2 weeks pay for each year of service in that age bracket. ▪ 22 – 41 years of age – 4 weeks pay for each year of service in that age bracket. ▪ >41 years of age – 6 weeks pay for each year of service in that age bracket. Colleagues receive a minimum of 12 weeks pay and maximum of 90 weeks pay.

Directors' remuneration report (continued)

Directors' remuneration policy (continued)

External Non-Executive Director positions

Executive Directors are permitted to take up external Non-Executive Director positions at the Board's discretion, providing they do not conflict with their duties at UKAR. Where the appointment is not related to UKAR's business activity the Executive Director is permitted to retain any fees they receive.

External Directorships

The table below outlines the external non-executive directorship that Ian Hares held during the 2016/17 reporting period, albeit he resigned from the role with effect from 31 December 2016.

Table 4 – Ian Hares' External Directorships

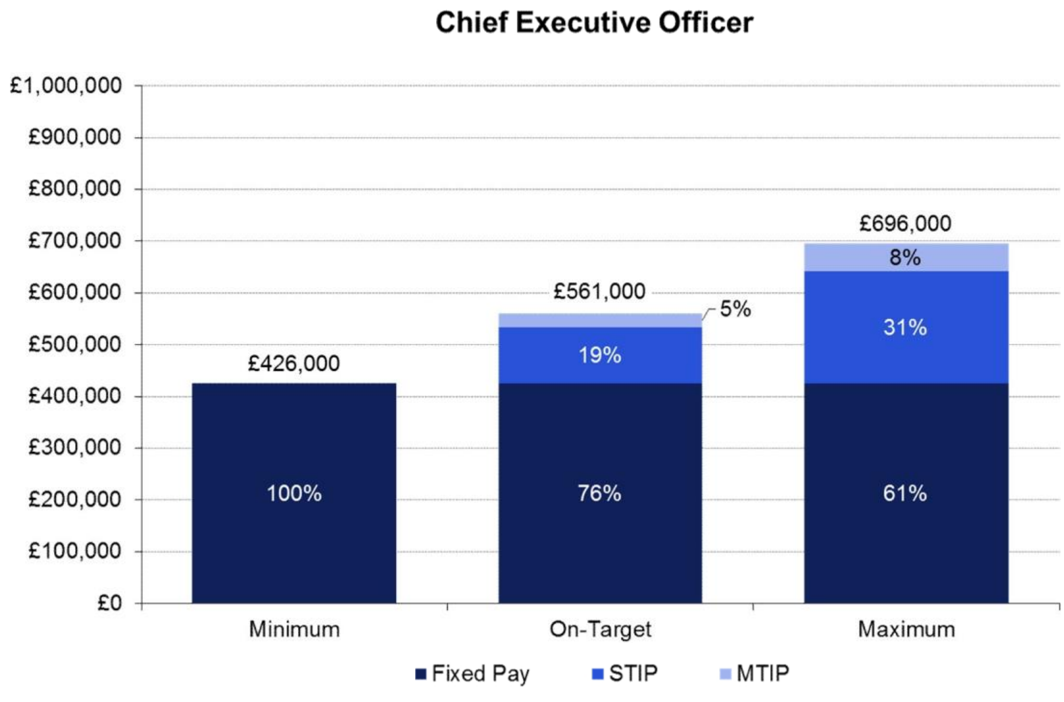
Position	2016/17	2015/16
Asset & Liability Management Association Limited	£0	£0

Following the sale of NRAM plc on 5 May 2016 Ian Hares remained on the Board of NRAM plc as Non-Executive Director until final completion of the transaction on 18 July 2016. He received no fees for this role.

Reward scenarios

The following chart shows how the make-up of the executives' potential remuneration for 2017/18 varies depending on performance.

Figure A: Executive Director total annual remuneration at different levels of performance



Assumptions:
Minimum = fixed pay only (salary + benefits + pension)
On-target = 50% vesting of the STIP and MTIP awards (annualised)
Maximum = 100% vesting of the STIP and MTIP awards (annualised)

Directors' remuneration report (continued)

Annual report on remuneration

This section of the report provides the detail behind the remuneration policy statements outlined earlier.

Remuneration for 2016/17

The tables below set out the earnings for both the Executive and Non-Executive Directors during the 2016/17 reporting year and compares them against the same period from the 2015/16 reporting period.

Table 5 – Single figure of remuneration - Executive Directors (Audited)

	Ian Hares	
	April 2016 - March 2017	April 2015 - March 2016
Base Salary [1]	£350,912	£306,000
Benefits [2]	£12,670	£10,767
Pension [3]	£52,637	£45,900
STIP Awarded [4]		
- STIP Non Deferred	£108,000	£101,970
- STIP Deferred	£72,000	£67,980
MTIP Awarded	-	£185,400
Phoenix Incentive Awarded [5]		
- Phoenix Incentive Non Deferred	£101,970	-
- Phoenix Incentive Deferred	£67,980	-
Total	**£766,169**	**£718,017**

1 Ian Hares' total emoluments for 2016/17 cover the period as Finance & Investment Director to 5 June, and CEO from 6 June 2016 when his salary increased to £360,000.
2 Includes Private Medical Insurance and car allowance.
3 Ian Hares receives a pension allowance.
4 The STIP of £180,000 is partially deferred as described on page 34.
5 Phoenix Incentive payments were a one off payment for successful divestment of the mortgage servicing operations.

	Richard Banks	
	April 2016 - March 2017	April 2015 - March 2016
Base Salary [1]	£69,514	£381,925
Benefits [2]	£4,995	£27,358
Pension [3]	£20,854	£114,578
STIP Awarded [4]		
- STIP Non Deferred	£12,531	£127,050
- STIP Deferred	£8,354	£84,700
MTIP Awarded	-	£231,000
Phoenix Incentive Awarded [5]		
- Phoenix Incentive Non Deferred	£127,050	-
- Phoenix Incentive Deferred	£84,700	-
Total	**£327,998**	**£966,611**

1 Richard Banks' total emoluments for 2016/17 cover the period to 5 June 2016.
2 Includes Private Medical Insurance, car allowance and a housing allowance.
3 Richard Banks received a pension allowance.
4 The STIP of £20,885 covers the period to 5 June 2016 and is partially deferred as described on page 34.
5 Phoenix Incentive payments were a one off payment for successful divestment of the mortgage servicing operations in 2015/16 and are not, therefore, on a pro rata basis.

Directors' remuneration report (continued)

Annual report on remuneration (continued)

Non-Executive Directors

The Chairman and Non-Executive Directors each have a letter of appointment which sets out the terms and conditions of their directorship, including fees payable. Further detail in relation to Board appointments is provided on page 27.

The Board has delegated authority to set the fees of the Chairman and Non-Executive Directors to a Remuneration Committee (Non-Executive Directors) consisting of the UKFI appointed Non-Executive Director who receives no fees and the Chief Executive Officer. The fees are subject to UKFI approval and are shown in table 7 below.

Table 6 – Key aspects of fees for Non-Executive Directors

Element	Purpose and link to strategy	Operation	Maximum opportunity
Fees	To provide a competitive level of fees that reflect the skills, experience and time commitment required for the roles.	The ongoing effectiveness and appropriateness of the remuneration of the Chairman and the Non-Executive Directors is reviewed annually by the Executive Remuneration Committee (Non-Executive Directors) and agreed by UKFI. All Non-Executive Directors take part in an annual evaluation process.	The fees for each Non-Executive Director are provided below. Non-Executive Directors are not eligible to participate in any Group company's executive remuneration programme and receive no pension benefits.

Table 7 - Fees for the Chairman and Non-Executive Directors ('NEDs')

Per annum	2016/17	2015/16	% Change
Chairman	£125,000	£125,000	0%
NED Base fee / Senior Independent Director	£50,000	£50,000	0%
Committee Chairman	£15,000	£15,000	0%
Committee Member	£5,000	£5,000	0%

Table 8 – Non-Executive Directors (Audited)

	Fees [1]	
	April 2016 - March 2017	April 2015 - March 2016
John Tattersall [2]	£115,801	£75,000
Richard Pym [3]	£22,270	£125,000
Kent Atkinson [4]	£12,474	£70,000
Michael Buckley	£70,000	£70,000
Sue Langley	£70,000	£70,000
David Lunn [5]	-	-
Brendan McDonagh [6]	£67,410	-
Keith Morgan [7]	£77,327	£65,000
Peter Norton [8]	-	-
Total	**£435,282**	**£475,000**

1 *In addition, the company meets certain travel costs for Board Directors which are considered taxable. The company considers that such travel is an essential requirement of Directors' duties and does not confer any personal benefit. Total tax paid to HMRC on behalf of Directors for 2016/17 was £11,710.42.*
2 *John Tattersall was appointed Chairman in June 2016.*
3 *Richard Pym stepped down as Chairman in June and the Board in July 2016. He waived his fees with effect from June 2016.*
4 *Kent Atkinson stepped down from the Board on 5 June 2016.*
5 *David Lunn was a UKFI employed appointed Director and did not receive any fees prior to his resignation in February 2017.*
6 *Brendan McDonagh was appointed with effect from 4 April 2016.*
7 *Keith Morgan is a UKFI appointed Director but is not an employee of UKFI and as such he received fees.*
8 *Peter Norton was appointed as a UKFI employed appointed Director in April 2017 and does not receive any fees.*

Directors' remuneration report (continued)

Annual report on remuneration (continued)

Percentage increase in the remuneration of the Chief Executive Officer

Table 9 below shows a summary of year-on-year changes between 31 March 2016 and 31 March 2017 for the Chief Executive Officer versus colleagues who were in the business at both year-ends.

The Chief Executive Officer changed on 5 June 2016, therefore the year-on-year changes for 2016/17 comprise the salary of Richard Banks for the period to 5 June 2016 and Ian Hares for the period from 5 June 2016. The -4.0% change in Chief Executive Officer salary reflects the difference in salary between the two individuals.

The percentage change in benefits for the CEO and colleagues is primarily due to the increase in private medical premiums for 2016/17.

Table 9 – Comparison of CEO remuneration change versus change for average employee

	% change year-on-year [1]
Chief Executive	
- base salary [2]	(4.0%)
- benefits	0.4%
- STIPs [4]	(19.3%)
- Phoenix Incentive [5]	100.0%
Average per employee	
- base salary [3]	4.8%
- benefits	19.8%
- bonus	20.3%
- Phoenix Incentive [5]	100.0%

1 This information is based upon year-on-year comparison for colleagues who were in the business at the end of both periods.
2 Ian Hares was appointed CEO on 6 June 2016 at which point his salary increased to £360,000 and as such he did not receive an annual pay award.
3 Following the annual pay review, employee base salaries were increased by an average of 1.93% with effect from 1 July 2016.
4 STIP illustration calculated to reflect ten months of Ian Hares as CEO and two months Richard Banks as CEO.
5 Phoenix Incentive was a one-off payment for all colleagues.

Highest-paid Director's remuneration change versus median

The table below shows the relationship between the remuneration of the highest-paid Director and the median remuneration of the organisation's workforce.

For this purpose, total remuneration includes salary, taxable benefits, STIP and the Phoenix Incentive. It does not include pension contributions, however payments made in lieu of pension have been included.

The median remuneration figure for colleagues has seen an 89% increase on that from 2015/16 as a result of the transfer of around 1,700 colleagues, the majority of which were in operational roles, to Computershare. UKAR now comprises around 175 colleagues the majority of whom are undertaking unique or specialist roles.

Table 10 – Comparison of highest-paid Director's remuneration versus all colleagues

	All colleague ratio	
	2016/17	2015/16
Highest-paid Director's total remuneration	£766,169	£966,611
Median remuneration for UKAR colleagues	£45,334	£23,998
Remuneration ratio	**16.9**[1]	**40.3**[2]

1 The ratio in 2016/17 reflects the Phoenix Incentive awarded to the Chief Executive Officer, Ian Hares, when he was Finance & Investment Director as a result of the successful divestment of the mortgage servicing operations in 2015/16.
2 The ratio in 2015/16 primarily reflected the MTIP awarded to the Chief Executive Officer, Richard Banks, for performance in 2014/15 and 2015/16 which is not paid until June 2017.

Directors' remuneration report (continued)

Annual report on remuneration (continued)

STIP for the year ended 31 March 2017

The individual targets used for the STIP scheme are based on key metrics and assessment of performance year-on-year. All four financial and operational elements are weighted equally. The business has achieved all four of these objectives. This means that STIP payments for 2016/17 will be paid at four targets and individual payments based upon assessment of personal performance, as shown in tables 12 and 13. Colleagues who transferred to Computershare as part of the divestment of our mortgage servicing operations receive any annual award pro-rata for the period 1 April 2016 to 5 June 2016. These include Richard Banks, who was Chief Executive Officer for that period. In the light of business performance up until the end of May 2016 the Committee agreed that all those colleagues should receive an 'on target' payment. The Committee also considered whether there were any circumstances that could have justified clawback or malus in the year, taking input from the Risk Director. It determined that there were no circumstances that would have justified this.

Table 11 – STIP targets 2016/17

	Measure	Target	Weighting	Outcome
Financial	Underlying profit before tax	>£622.0m	25%	Achieved
	Costs [1]	<£167.2m	25%	Achieved
	Net Government loan repayments	>£2,699m	25%	Achieved
Operational	Number of customers 3 months or more in arrears	<5,199	25%	Achieved
Non-Financial [2]	Balanced Scorecard	Green	0% to -40%	Achieved

1 The cost target excludes UKARcs and certain performance related payments to suppliers.

2 The Balanced Scorecard acts as a 'reducer' to the maximum bonus to ensure colleagues demonstrate the right behaviours. The 10 measures including internal control, customer metrics and people management are rated red, amber or green at the end of the year. Amber results in a 2% reduction and red in a 4% reduction. In the most extreme case, with all 10 measures judged as red, the bonus pool would be reduced by 40%.

The individual objectives that influence the performance rating for Ian Hares, which in turn determine the amount of incentive earned, are detailed below.

Table 12 – Ian Hares' 2016/17 Personal Objective Assessment

Objective detail	Achievement
Provide clear leadership and oversight of the Balance Sheet Optimisation programme.	Ian participates in all key governance groups and has successfully led the wind down of UKAR's remaining securitisation and the completion of the £13bn sale of NRAM assets in July 2016. He also led the sale of B&B assets for £11.8bn which was agreed in March 2017 and enabled £11.0 billion of the £15.7 billion loan from the Financial Services Compensation Scheme which was funded by HM Treasury to be repaid, delivering good value for taxpayers.
Maintain robust and reliable Board, Finance, Treasury and Risk Reporting with appropriate controls.	Ian has led UKAR since 6 June 2016 and has maintained consistency of leadership with a determination to do the right thing for customers, colleagues and the taxpayer. All reporting delivered to high standard.
Lead initiatives to mitigate operational risk against a background of a shrinking Balance Sheet.	Alongside asset sale programmes Ian is driving initiatives to maintain colleague engagement to mitigate operational risk whilst ensuring that UKAR keeps the interests of customers and market integrity at the heart of the business. High levels of colleague engagement have been maintained as we transition to an asset management business model.
Lead oversight of outsourced providers and contract management to deliver appropriate outcomes for customers and to continue to focus on reducing arrears.	The relationship with our partner, Computershare, is working well with customer service levels being maintained and the number of customers in arrears continues to reduce.

Directors' remuneration report (continued)

Annual report on remuneration (continued)

STIP for the year ended 31 March 2017 (continued)

The UKAR STIP comprises financial and operational objectives and a Balanced Scorecard. All targets have been achieved and the Balanced Scorecard is 'Green' for the year. Personal objectives are measured in a range from 'under-performing' at 0% to 'surpasses expectations' with a range of 40-60%. Discretion is applied in respect of the actual bonus awards within the ranges in table 13.

Table 13 – ExCo STIP award matrix

Targets achieved	Surpasses expectations	On track / Achieved	Too early to assess / Work in Progress / Developing	Under-performing
4	60% - 40%	39.9% - 20.0%	19.9% - 5.0%	0%
3	48% - 32%	31.9% - 16.0%	15.9% - 4.0%	0%
2	30% - 18%	17.9% - 10.0%	9.9% - 2.0%	0%
1	15% - 9%	8.9% - 5.0%	4.9% - 1.0%	0%

Ian Hares' performance was discussed at the Remuneration Committee in May 2017 and subsequently with the whole Board. It was agreed that Ian has maintained consistency of leadership with a determination to do the right thing for customers, colleagues and the taxpayer. He has maintained robust and reliable board reporting and built on the good relations with the FCA and UKFI/HMT colleagues. Excellent progress has been made in simplifying and optimising the Balance Sheet, with the first phase of the sale of B&B assets being achieved at the upper end of price expectations and the successful redemption of the final secured funding programme. Comprehensive oversight of our mortgage servicing operations has been implemented well, and Ian has maintained good dialogue at a senior level within Computershare ensuring we continue to comply with our legal and regulatory obligations. Customer service levels have been maintained, and great progress has been made in the reduction of customers over three months in arrears.

The Board agreed with the Chairman's recommendation to award Ian Hares a STIP bonus of 50% which equates to £180,000 for the year.

As referenced in the 2015/16 Remuneration Report, Ian Hares' annual performance as Finance & Investment Director in 2015/16 had 'surpassed expectations' and the Board agreed with the recommendation by the Chief Executive Officer to award him a Phoenix Incentive Plan payment of 55% which equated to £169,950. He was also eligible to receive the maximum MTIP bonus of 60% equating to £185,400 payable in June 2017.

Grant and vesting of MTIP awards

The new MTIP scheme runs from 1 April 2016 to 31 March 2020. The targets for this scheme relate to driving additional shareholder value and/or earlier repayment of government loans.

Total pension entitlements

Ian Hares receives a cash supplement of 15% of basic salary in lieu of UKAR pension benefit. He has never been a member of the UKAR Pension Plan and has not accrued any defined benefit pension during his tenure as a Director.

During the reporting period, NRAM pension payments due to former Directors of the former Northern Rock plc, paid directly by NRAM and not connected to the Northern Rock Staff Pension Scheme were £379,415 (March 2016: £336,370). No similar payments were made by B&B during any of these periods.

For details of UKAR's accounting for retirement benefits see note 19 to the Financial Statements.

Payments within the period to past Directors for loss of office

There have been no payments made to any Directors within the reporting period relating to loss of office.

Performance

The table below shows a summary of the CEO incentives that have been awarded for performance since UKAR was formed, and the total remuneration package. As mentioned elsewhere in this report, Richard Banks was CEO from 2010 to 6 June 2016, when Ian Hares became CEO. The amount shown for 2016/17 includes Ian Hares' salary as Finance & Investment Director for the two months of April and May 2016.

Directors' remuneration report (continued)

Annual report on remuneration (continued)

Performance (continued)

Table 14 – Summary of CEO remuneration and incentives

	2012	2013/14 (15 months)	2014/15	2015/16	2016/17
Total Remuneration	£642,820	£980,771	£653,227	£966,611	£766,169
STIP (as % of maximum)	43%	80%	64%	92%	83%
MTIP Vesting (as % of maximum)	100%[1]	100%[1]	N/A	100%[2]	N/A

1 The 2011 - 2013 MTIP scheme payment was made in two parts. The total that could be earned under the scheme remained at 60%.
2 The 2014 - 2017 MTIP scheme closed a year early and as such vested in full in March 2016. Payment is due in June 2017, in line with the original scheme rules.

Relative importance of the spend on pay

This section shows the percentage change in the cost of pay across the company, compared with statutory profit after tax.

Table 15 – Summary of colleague remuneration costs compared to statutory profit

	2015/16	2016/17	% Change
Total remuneration costs for UKAR (salary, pension, bonus benefits)	£61.6m	£5.8m	(91%)
Profit after tax	£918.2m	£285.7m	(69%)

External advisors

UKAR is advised by New Bridge Street ('NBS') who were appointed by the Remuneration Committee in 2011. The total fees paid to NBS in respect of its services to the Committee during the year were charged on a time spent basis and amounted to £15,780. NBS is a signatory to the Remuneration Consultants' Code of Conduct which requires it to provide objective and impartial advice.

How the Reward Policy will be applied in 2017 onwards

Reward will continue to play an important part in the delivery of UKAR's strategy, both at executive level and across the organisation as we focus on shrinking the Balance Sheet and redeeming or returning assets to the private sector as swiftly as possible, whilst maintaining business as usual and overseeing the service given to our customers. As referenced earlier in this report the Committee will seek to ensure UKAR's incentive arrangements are aligned to the values and behaviours expected of colleagues and support effective risk management and appropriate customer outcomes.

2017/18 salary review

UKAR applies the same approach to salary uplifts for its Executive Directors as for the rest of the colleague population, with increases based upon a matrix of position against salary range and performance rating.

The current and previous annual salaries for Richard Banks and Ian Hares as Executive Directors are as follows:

Table 16 – Salary history for the Executive Directors

	Salary as at 1 April 2016	Salary as at 1 April 2017
Ian Hares	£309,000 (+4.0%)[1]	£360,000 (+16.5%)[2]
Richard Banks	£385,000 (+3.3%)[1]	-

1 Annual pay rises are effective from 1st July.
2 Effective from Ian Hares' appointment as CEO with effect from 6 June 2016

Directors' remuneration report (continued)

Annual report on remuneration (continued)

Structure of STIP and MTIP

The maximum potential earnings under the STIP scheme for 2017/18 will be unchanged with the financial and operational targets updated to ensure they continue to be appropriate for UKAR post divestment of the mortgage servicing operation. Following the early closure of the previous MTIP, with payment deferred to June 2017, a four year MTIP scheme has been put in place based on accelerated repayment of the government loans.

Performance targets for the STIP and MTIP awards to be granted in 2017 and beyond

The targets for both of these schemes will receive Remuneration Committee, Board and UKFI approval.

Gender Pay Gap and Equal Pay

UKAR's approach to Reward complies with relevant regulations and legislation, including that on equal pay. The overarching Reward Policy is applied consistently across the organisation, but differentiates where appropriate to recognise individual performance, skills or experience. Due to UKAR’s size we are not required to comply with Gender pay reporting as recommended by the Mandatory Gender Pay Gap Reporting paper issued in February 2016 by the Government Equalities Office. However, we do intend to publish this information in 2018.

UKAR’s last equal pay audit was in 2012, and over the coming year the Committee will determine whether another equal pay audit is appropriate.

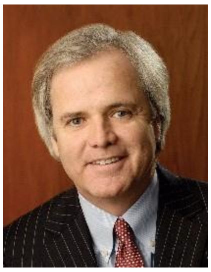
Approval

This Directors’ Remuneration Report, including both the Policy and Annual Remuneration Report has been approved by the Board of Directors.

Signed on behalf of the Board of Directors.

Sue Langley OBE
Chairman, Remuneration Committee

Audit Committee Chairman's report



Brendan McDonagh, Chairman of the Audit Committee, reports on how the Audit Committee discharged its responsibilities during 2016/17.

"During 2016/17 the Audit Committee continued to fulfil its key role in monitoring the integrity of financial reporting for the business and supporting the Board in ensuring the Financial Statements are fair, balanced and understandable. In addition, we have continued to provide assurance that the Group has in place effective audit processes and internal control systems and have overseen the progress of UKAR's strategic transactions."

Membership

The membership of the Audit Committee during 2016/17 was as follows:

Brendan McDonagh (Chairman – appointed 6 June 2016)
Kent Atkinson (resigned as Chairman and from the Committee on 5 June 2016)
John Tattersall (resigned from the Committee on 5 June 2016)
Michael Buckley
Keith Morgan (appointed to the Committee on 6 June 2016)

Details of the skills and experience of Committee members can be found in the Directors' biographies on pages 21 to 23.

Summary of responsibilities

The Audit Committee is responsible for monitoring, reviewing and advising the Board on:

- all regulatory, prudential and accounting requirements that may affect the Group;
- integrity of the Financial Statements and external reporting responsibilities;
- effectiveness of the Group's systems of internal control and auditing plans;
- the Whistleblowing Policy;
- the role, objectivity and effectiveness of internal and external auditors; and
- results of the external audit and any significant matters identified.

Meetings

The Committee held four meetings during the year, one more than required under its Terms of Reference. The attendance of individual members at meetings is set out on page 26.

The Committee normally invites the following to attend meetings where appropriate:

- the Chairman;
- members of ExCo, including the CEO, Finance Director and Risk Director;
- Head of Internal Audit and the external auditors;
- Company Secretary or his nominee; and
- other representatives from business functions and/or external advisors.

The internal and external auditors each held a separate private session with the Committee which was not attended by the Executive. The private sessions provided the opportunity for the Committee to discuss matters directly with the relevant audit teams.

Reporting to the Board

The Committee Chairman reported to the Board after each Committee meeting, summarising the key matters discussed, and the Board has also received the minutes of each meeting.

Governance

The Committee completed an annual review of its Terms of Reference and undertook an evaluation process in accordance with the requirements of those Terms of Reference. The results of the evaluation were positive and provided assurance that the Committee remained fit for purpose.

Audit Committee Chairman's report (continued)

Chairman's overview of 2016/17

The work of the Committee during 2016/17 has covered a variety of topics within its Terms of Reference, some of the more significant are set out below:

Financial reporting	Internal audit	External audit	Governance and other matters
Oversight of the Annual Report & Accounts and Interim Financial Statements, taking into account the requirements of HM Treasury consolidation.	Approval of the Annual Plan and monitoring its effectiveness. Approval of the objectives for the Head of Internal Audit. Oversight of internal audit activity.	Transition of the audit from PwC to the NAO. Oversight of the effectiveness of external audit. Approval of the year-end strategy and performance evaluation.	Oversight of effectiveness of systems of internal control. Oversight of the effectiveness of the Whistleblowing Policy. Approval of the Non-Audit Services Policy. Approval of the Recruitment of Audit Staff Policies. Senior Accounting Officer governance framework and certification. Oversight of the accounting treatment regarding the sale of £12bn of assets, the final stages of the sale of £13bn of assets and the divestment of the mortgage servicing operations. Oversight of the planning and preparations for the implementation of IFRS 9 in 2018/19.

Financial reporting and significant financial judgements

The Committee reviewed the content of the Interim Financial Statements and Annual Report & Accounts and advised the Board on whether, in the opinion of the Committee, taken as a whole, these are fair, balanced and understandable and provide the information necessary for the shareholder to assess the position and performance, business model and strategy.

During the period the Committee assessed the financial reporting processes, with assistance from management and the internal and external auditors. Management produced a comprehensive report providing details of judgements taken and other key reporting matters considered in preparing each set of results. The external auditors produced a similar report based on their audit findings. The Committee considered the following significant issues and judgements in relation to the Group's Financial Statements and disclosures:

Significant issue	Financial outcome
Loan loss provisioning	Despite further improvements in the level of arrears, the provision remains highly material and from necessity, is based on many judgemental assumptions. The Committee considered loss coverage ratios for the various elements of the book in light of these improvements and sought justification for changes from last year's levels. Particular focus was placed on the higher risk areas of the loan book, such as lifetime (equity release) loans and those subject to fraud and professional negligence.
Provision for customer redress	Throughout the year the Committee have been kept informed of the approach to customer remediation, considered any developments and agreed provisions where appropriate. The FCA policy statement PS17/3 regarding the introduction of a time-bar on PPI claims and the final rules in relation to the Plevin case were also carefully considered in determining the 2016/17 provision.

Audit Committee Chairman's report (continued)

Financial reporting and significant financial judgements (continued)

Significant Issue	Financial Outcome
Date of recognition of sale of loans	On 31 March 2017 UKAR announced that B&B had agreed to sell two separate asset portfolios comprising performing buy-to-let loans for a total of £11.8bn to Prudential and funds managed by Blackstone. The contracts for sale were signed on 30 March 2017 but financial completion, including receipt of the balance of the sale proceeds, occurred on 25 April 2017. The Committee were comfortable that the sale should be recognised at the point of contract signature as: contract signature committed all parties to the deal; the risks and rewards of the loans had passed to the buyers; B&B was to continue to collect the cash flows arising on the loans until financial completion, but B&B was contractually obliged to pass the accumulated flows to the buyers at financial completion; and in the judgement of the Committee, at the point of contract signature although there remained conditions which were to be satisfied, the risk that the sale would not proceed to successful financial completion was remote.
Going concern and Long Term Viability	Following confirmation of HM Treasury's continued financial support for the Principal Subsidiaries and sight of the EU State Aid Report, the Audit Committee determined that it continued to be appropriate to prepare the accounts on a going concern basis. In addition, in reviewing UKAR's long term viability the Audit Committee took account of the Group's strategic objectives, the impact of its principle risks and the modelling undertaken as part of the annual refresh of the Ten Year Plan. It was concluded that so long as HM Treasury's financial support remains in place, the Group will remain viable for the duration of the Balance Sheet run-off.
Disclosures in the Annual Report & Accounts	The Committee were comfortable that, taken as a whole, the Annual Report provided a fair, balanced and understandable reflection of UKAR's performance for the year and the financial position as at 31 March 2017.

Internal audit

Deloitte LLP provide the internal audit services through an outsourced contract. Further details of the provision of the Internal Audit service can be found on page 70.

The Audit Committee fulfilled its responsibility to monitor the objectiveness and effectiveness of internal audit through:

- considering reports at three of the meetings from the Head of Internal Audit. These reports highlight existing and emerging matters of significance, areas of concern, planned actions, monitoring procedures and any other matters which are likely to impact on internal controls;
- review and approval of the annual Internal Audit Plan, together with any changes as and when required;
- approval of the Terms of Reference for Internal Audit on an annual basis;
- reviewing the adequacy and effectiveness of the activities carried out by the function; and
- the Head of Internal Audit attended four Audit Committee meetings during 2016/17 and has direct access to the Audit Committee and its Chairman.

The Audit Committee has satisfied itself that the Internal Audit function was effective and adequately resourced through the regular meetings held with, and reports provided by, the Head of Internal Audit.

Internal control

The Audit Committee reviewed the effectiveness of the system of internal control in accordance with the UK Corporate Governance Code.

Audit Committee Chairman's report (continued)

Internal control (continued)

The Committee reviewed reports on Whistleblowing and received assurance that the Policy is reinforced annually to all colleagues through mandatory training.

The Committee reviewed the processes governing the strategic transactions namely the sale of £12bn of assets in March 2017, the final stages of the £13bn sale to Cerberus and the divestment of the mortgage servicing operations.

Further information on the approach to the Board's review of the Group's system of internal control is given within the Corporate Governance section on page 29.

External audit

The Committee places great importance on ensuring there are high standards of quality and effectiveness in the external audit process and is responsible for recommending the appointment, re-appointment and removal of the external auditors. It reviewed the scope and results of the annual external audit and its cost effectiveness.

The external auditors may attend all meetings of the Committee and they have direct access to the Committee and its Chairman at all times.

The Audit Committee considered and approved the external audit plans and approach prior to the external auditors undertaking their audit work.

PwC resigned as external auditors on 27 September 2016 when the NAO were appointed as external auditors. The Committee support NAO proposals to outsource much of the audit work to PwC initially, with a controlled handover occurring thereafter, which maintains continuity and facilitates a smooth transition.

During this financial year, a team from the Financial Reporting Council ('FRC') undertook an audit quality review of PwC's audit of UKAR's 2015/16 Annual Report & Accounts. On completion of the review, the Audit Committee considered the findings in the FRC's report and discussed these with the PwC audit partner. The Audit Committee was pleased with the overall assessment and the limited improvements identified will be actioned by PwC and the NAO.

Non-audit services

The Audit Committee also develops and recommends to the Board a policy on the supply of non-audit services by the internal or external auditors and reviews this annually, taking into account any relevant ethical guidance on the matter:

- the Policy clearly sets out the circumstances in which it is appropriate to employ any audit partner for additional work, the safeguards required and the mandate structure for approval;
- the Finance Director must be aware of the hiring of auditors for all non-audit work;
- the Chairman of the Audit Committee must sign off work which will cost more than £25,000;
- the auditors are required to demonstrate that accepting such a contract will not damage their independence or objectivity; and
- the Audit Committee reviews the audit and non-audit fees paid to the internal and external auditors every six months and monitors the total spend on non-audit work relative to the spend on audit work.

The NAO, who were appointed as auditors on 27 September 2016, do not provide non-audit services to the extent of a private sector audit firm, however, the policy also applies to PwC during the controlled handover period.

Priorities for 2017/18

For 2017/18, the key areas of focus for the Committee will include:

- ensuring continued oversight of the financial position and control environment of the Group, including oversight and review of the control environment following the impact of the strategic developments detailed in the Chairman's statement on pages 5 to 6;
- oversight of any further strategic transactions that UKAR may undertake during 2017/18; and
- state of readiness for the implementation of IFRS 9 in 2018/19.

Brendan McDonagh
Chairman, Audit Committee

Nomination Committee Chairman's report

John Tattersall, Chairman of the Nomination Committee, reports on how the Nomination Committee discharged its responsibilities during 2016/17.

"The Nomination Committee has an important role in ensuring the composition of the Board and its Committees reflect the best governance practice, taking into account the strategic direction and unique nature of the business. During 2016/17 the Committee has overseen the changes to the Management structures of UKAR as a result of the successful divestment of the mortgage servicing operation."

Membership

The Nomination Committee was in place throughout 2016/17 and had the following membership as at 31 March 2017:

John Tattersall (Chairman – appointed 6 June 2016)
Richard Pym (resigned as Chairman and from the Committee on 5 June 2016)
Michael Buckley
Sue Langley

Details of the skills and experience of Committee members can be found in the Directors' biographies on pages 21 to 23.

Summary of responsibilities

The Nomination Committee is responsible for monitoring, reviewing and advising the Board on:

- the composition of the Board and appropriate succession plans;
- identification of potential Executive and Non-Executive Directors;
- appointment or re-appointment of Directors, having regard to the requirement for the Board to have the appropriate range of skills and experience; and
- the leadership needs of the business, the succession plans for key executive roles and the diversity policies.

Meetings

The Committee held four meetings during the year, complying with the requirements of its Terms of Reference. The attendance of individual members at meetings is set out on page 26.
.
The Committee also invites the following to attend its regular meetings:

- the UKFI employed appointed Director;
- members of ExCo, including the CEO and the Governance, Engagement and HR Director;
- Company Secretary or his nominee; and
- other representatives from business functions and/or external advisors from time to time

Reporting to the Board

The Committee Chairman reported to the Board after each Committee meeting, summarising the key matters discussed, and the Board has also received the minutes of each meeting.

Governance

The Committee completed an annual review of its Terms of Reference in February 2017 and undertook an evaluation process in accordance with the requirements of those Terms of Reference. The results of the evaluation were positive and provided assurance that the Committee remained fit for purpose. In fulfilling its role and responsibilities it was commented that very detailed reviews of a number of management layers as well as Board membership had taken place throughout the year.

Nomination Committee Chairman's report (continued)

Chairman's overview of 2016/17

The work of the Committee during 2016/17 has covered a variety of topics within its Terms of Reference and the key activities undertaken during the year have included:

- confirmation of the appointment of the new CEO and approval of the new management structure following the divestment of the mortgage servicing business;
- review of the Constitution of the Board and its Committees, taking account of the changes to the Board;
- appointment of a new Non-Executive Director;
- ongoing review of Executive Development and Succession Planning to ensure it remains fit for purpose post divestment of the mortgage servicing operations;
- review and recommendation of the renewal of Non-Executive Director contracts; and
- recommendation for the reappointment of Directors at the Annual General Meeting.

Diversity Policy

UKAR is committed to developing gender diversity with a range of support activities to develop and prepare talented colleagues for further advancement. Our approach to selection is to appoint the best candidate into any vacancies and we consider the benefits of all aspects of diversity including skills, background, race, experience, gender and other qualities.

The UKAR Diversity Policy endorses the principles of best practice and recognises the benefits of having a diverse Board. UKAR's existing board comprises 6 male and 1 female directors. The policy requires that in reviewing Board composition, the Committee will consider the benefits of all aspects of diversity including skills, background, race, experience, gender and other qualities of Directors. Due to the unique nature of the business being in run-off and the anticipated reduction in the size of the Board, a gender target is considered to be inappropriate, however all these aspects were taken into consideration by the Nomination Committee when it appointed Brendan McDonagh and Brendan Russell to the UKAR Board in April 2016 and June 2017 respectively.

Women in Finance Charter

Although not required to comply with the regulatory and governance requirements which apply to UK listed companies, UKAR continues to seek, as far as possible, to do so and although the business now has less than 250 employees the Nomination Committee and Board felt it appropriate to comply with the voluntary Women in Finance Charter published by HM Treasury. Taking into account the reducing size of the organisation, it has been agreed that the gender diversity target would aim to at least maintain the proportion of female senior management as the business reduces. The Governance, Engagement and HR Director is responsible for gender equality and inclusion and gender diversity has been incorporated into UKAR's Balanced Scorecard which acts as a 'reducer' to the maximum bonus to ensure colleagues demonstrate the right behaviours.

Table 1 - Progress against Targets

	Female	Male	Ratio	Target
Colleagues	74	61	54.8% : 45.2%	>= 45% F
Management	11	29	27.5% : 72.5%	>= 25% F
Total	**85**	**90**	**48.6% : 51.4%**	**>= 45% F**

Appointment of Directors

Where possible UKAR complies with the UK Corporate Governance Code and with the majority of independent NEDs having been on the Board since establishment in 2010 we have commenced the process of orderly succession and refreshing of the Board. Last year the Committee engaged Russell Reynolds Associates to assist in the appointment of a new independent Non-Executive Director with financial management and banking experience who would be able to take over the Chairmanship of the Audit Committee from Kent Atkinson and following a comprehensive selection process Brendan McDonagh was appointed to the UKAR Board in April 2016.

Nomination Committee Chairman's report (continued)

Appointment of Directors (continued)

Kent Atkinson and Richard Banks stepped down from the Board in June 2016 upon the successful divestment of the mortgage servicing operations at which point I became Chairman, Sue Langley was appointed the Senior Independent Director, and Ian Hares became CEO. Subsequently, in July 2016, Richard Pym also stepped down from the Board, all as previously agreed by the Committee and referenced in last year's Annual Report & Accounts.

As mentioned earlier in this Annual Report, Michael Buckley retired from the Board in June 2017 and following due process, the Committee again appointed Russell Reynolds Associates to assist with our search for his successor. Brendan Russell's appointment in June 2017 brings banking and transaction experience that complement the skills and experience of the Board.

In line with the Framework Document, UKFI is entitled to appoint one or more Non-Executive Directors to the UKAR Board. This was enacted when David Lunn stepped down from the Board in February 2017 upon moving to another role in HM Treasury. David has been replaced by Peter Norton who joined the Board in April of this year.

Priorities for 2017/18

Over the coming year, the Committee will continue to have a key role in ensuring that UKAR has appropriate management structures and succession plans for the number of smaller, more specialist roles within the organisation and it will oversee the appointment and induction of the new Non-Executive Directors.

John Tattersall
Chairman, Nomination Committee

Transaction Approvals Committee Chairman's report

John Tattersall, Chairman of the Transaction Approvals Committee, reports on how the Transaction Approvals Committee discharged its responsibilities during 2016/17.

"During the year the Transaction Approvals Committee has overseen the unwinding of the Aire Valley Master Trust and the subsequent sale of £11.8bn of B&B assets in separate portfolios to Prudential and funds managed by Blackstone in March 2017. The proceeds of these asset sales have enabled £11.0bn of B&B's loan from the FSCS to be repaid following the year end."

Membership

The membership of the Transaction Approvals Committee during 2016/17 was as follows:

John Tattersall (Chairman – appointed 6 June 2016)
Richard Pym (resigned as Chairman 5 June 2017 and from the Committee on 26 July 2016)
Richard Banks (resigned 5 June 2016)
Michael Buckley
Ian Hares
David Lunn (resigned 28 February 2017)
Keith Morgan

Following the end of the year Peter Norton was appointed as a member of the Committee on 6 April 2017.

Details of the skills and experience of Committee members can be found in the Directors' biographies on pages 21 to 23.

Summary of responsibilities

The Committee is authorised to approve the implementation of strategic transactions, including inter alia, the terms, timing, pricing, documentation and appointment of advisors, in accordance with any directions and limits set by the Board and with reference to the requirements of the Framework Document. In considering any transactions the Committee recognises the importance of ensuring that customers interests are properly protected and that all regulatory and conduct risks are taken into account.

Meetings

The Committee meets as and when necessary depending on proposals for strategic transactions. The attendance of individual members is set out on page 26.

The Committee also invites the following to attend its regular meetings:

- the Asset Sales Director;
- Company Secretary or his nominee; and
- other representatives from business functions and/or external advisors from time to time, as appropriate.

Reporting to the Board

The Committee Chairman reported to the Board after each Committee meeting, summarising the key matters discussed, and the Board has also received the minutes of each meeting.

Governance

The Committee completed an annual review of its Terms of Reference and undertook an evaluation process in accordance with the requirements of those Terms of Reference. The results of the evaluation were positive and provided assurance that the Committee remained fit for purpose.

Transaction Approvals Committee Chairman's report (continued)

Chairman's overview of 2016/17

The Transaction Approvals Committee fulfilled its remit during 2016/17 through the oversight of transactions requiring approval in principle by the Board under its reserved powers. This included approval and oversight of the unwinding of the Aire Valley securitisation programme, which achieved the twin benefits of simplifying the Balance Sheet and unencumbering c.£8.1bn of B&B mortgage assets. Completion of this transaction also facilitated the sale of two separate B&B asset portfolios of buy-to-let loans for a total of £11.8bn to Prudential and funds managed by Blackstone. These sales were agreed on 30 March 2017, with the proceeds being received after the year end and further details can be found on page 66. The Committee considered and approved the structure of these sales, the assumptions underpinning our cash flow model, the benchmark pricing range against which bids were assessed, the qualitative bidder assessment framework and the principal transaction documentation. The Committee also carefully considered the value for money of these sales and that customers' interests were properly protected.

Priorities for 2017/18

During 2017/18 the Transaction Approvals Committee will continue to oversee any strategic transactions as requested by the Board, ensuring that customers' interests are protected and that value is maximised for the taxpayer.

John Tattersall
Chairman, Transaction Approvals Committee

Risk Committee Chairman's report

Keith Morgan, Chairman of the Risk Committee, reports on how the Risk Committee discharged its responsibilities during 2016/17.

"During 2016/17 the Risk Committee continued to support the Board in ensuring that key risks are managed and monitored within the approved risk appetite. In conjunction with the Audit Committee, we ensure that an appropriate risk culture and systems of internal control to mitigate those key risks are maintained. Areas of focus this year have been to monitor the strategic change activity, including asset sales and embedding the oversight and monitoring of outsourced mortgage servicing, to consider political, market and regulatory change including the impact of the UK's decision to leave the EU, to review the credit concentration risk of the mortgage book and to ensure that conduct risk is embedded in everything we do."

Membership

The Risk Committee was in place throughout 2016/17 and had the following membership on 31 March 2017:

Keith Morgan (appointed Chairman 6 June 2016)
Kent Atkinson (resigned 5 June 2016)
Michael Buckley
Brendan McDonagh (appointed 6 June 2016)
John Tattersall (resigned 5 June 2016)

Details of the skills and experience of Committee members can be found in the Directors' biographies on pages 21 to 23.

Summary of responsibilities

The main role of the Risk Committee is to advise the Board on the principal risks inherent in the business, risk governance and the effectiveness of the systems of control necessary to manage such risks and to present its findings to the Board. This responsibility requires the Risk Committee to:

- keep under review the adequacy of the Group's risk management frameworks and systems of internal control, which include financial, operational and compliance risk management controls; and
- foster a culture that emphasises and demonstrates the benefits of a risk-based approach to internal control and management of the Group.

Meetings

The Committee held five meetings during the year, one more than required under its Terms of Reference. The attendance of individual members at meetings is set out on page 26.

The Committee also invites the following to attend its regular meetings:

- members of the ExCo, including the CEO, Finance Director and Risk Director;
- Head of Compliance[1];
- Head of Internal Audit and the external auditors;
- Company Secretary or his nominee; and
- representatives from other business functions from time to time.

The Head of Compliance (up until 6 June 2016) and the Risk Director each held separate private sessions with the Committee which provided an opportunity for any issues to be raised without any members of the Executive present.

Following 6 June 2016, the Risk Director held a separate private session with the Committee in his position as the Controlled Function for Compliance.

Reporting to the Board

The Committee Chairman reported to the Board after each Committee meeting, summarising the key matters discussed, and the Board has also received the minutes of each meeting.

Governance

The Committee completed an annual review of its Terms of Reference and undertook an evaluation process in accordance with the requirements of those Terms of Reference. The results of the evaluation were positive and provided assurance that the Committee remained fit for purpose.

[1] noting that the Risk Director assumed the role of Head of Compliance from 6 June 2016.

Risk Committee Chairman's report (continued)

Chairman's overview of 2016/17

The work of the Committee during 2016/17 has included the review of the principal risks each quarter, based on comprehensive reports from the Risk Director and Head of Compliance. The principal risks are:

- Conduct Risk;
- Regulatory Risk;
- Operational Risk;
- Credit Risk;
- Strategic Risk;
- Outsourcing Risk
- Liquidity Risk; and
- Market Risk.

In addition the Committee considered a variety of topics throughout the year, including:

- overseeing the conduct risk approach;
- monitoring the reducing business and the potential for increased operational risks;
- the risks involved in the sale of various parts of the loan book;
- the risks arising from the monitoring and oversight of outsourced mortgage servicing;
- considering the risk of management overstretch as a result of the significant amount of strategic change facing the business, and continuing to monitor the steps taken to ensure that UKAR's ability to deliver business as usual was not compromised;
- considering the impact of emerging risks such as the result of the United Kingdom's European Union Membership Referendum;
- considering cyber risk exposure, trends and control measures;
- maintaining an overview of the key industry, legal and regulatory change issues;
- monitoring progress on control improvements to address historical legacy issues; and
- overseeing and monitoring the progress of other significant major change activity, including that undertaken by third party service providers.

Risk Committee activities in 2016/17

The Risk Committee fulfilled its remit through:

- oversight of the embedding of a supportive culture in relation to the management of risk;
- making appropriate recommendations to the Board on all significant matters relating to the Group's risk appetite, strategy and policies;
- monitoring the overall risk appetite within the Group and risk management performance, taking into account the current and prospective macroeconomic and financial environment, drawing on financial stability assessments such as those published by the Bank of England, FCA and other relevant authoritative sources;
- assisting the Board in discharging its responsibilities for the setting of risk policies;
- periodically reviewing the Group's material risk exposures in relation to risk appetite and capital adequacy;
- ensuring public disclosure of information regarding the Group's risk management policies and key risk exposures is in accordance with statutory requirements and financial reporting standards;
- monitoring strategic change activity;
- considering reports from Compliance and Management on the system of internal control; and
- overseeing UKAR's insurance programme and claims recoveries.

Further information on the role of the Risk Committee and its oversight of the risk management process is provided on page 69 and 70.

Risk Committee Chairman's report (continued)

Priorities for 2017/18

Against a continuing backdrop of external economic challenges for UKAR customers and internal challenges associated with a business in run-off, a number of principal risks remain inherent, including strategic, conduct, outsourcing, regulatory, operational and credit risk. These risks will continue to be monitored to ensure they remain within the Board approved risk appetite. Our approach to risk means that regular monitoring and reporting of all risks will be visible at the relevant committees, ensuring that risk management supports the business in the next phase of the business strategy.

- **Conduct risk** - ensuring fair and appropriate customer outcomes and meeting regulatory expectations are at the heart of the business. We will continue to work in partnership with our mortgage servicing providers to ensure fair and appropriate customer outcomes throughout the end to end mortgage servicing process.
- **Regulatory risk** - management oversight and control is key to ensuring compliance with the FCA's principles, rules and guidance. Our approach is focused on eliminating regulatory risk through a zero risk appetite.
- **Outsourcing risk** – following the outsourcing of mortgage servicing and related activities to Computershare, the Group has established an approach to the monitoring and oversight of its third party service providers commensurate with the nature, scale and complexity of the outsource. Our continued focus will be to ensure that appropriate customer outcomes and service are maintained in line with Board appetite and Regulatory and Legal requirements.
- **Operational risk** - much of the focus of operational risk now relates to the oversight of change activities, the internal control aspects of the management of the outsourced service relationship and the people risk arising from the uncertainty of the unique nature of our business. Regulators and our business peers continue to express significant concern about the prevalence and impact of cyber security threats and the recommendations of the recently published National Cyber Security Strategy will be a key focus in 2017/18. We will continue to monitor significant cyber security risks and reported breaches to assess the effectiveness of implemented controls to mitigate such risks. Developments in Anti Money Laundering Regulation and ensuring UKAR's resilience through effective Business Continuity and Disaster Recovery will also be a focus.
- **Credit risk** - given UKAR's customer profile, work continues to understand our customers' current financial position and in particular quantify the impact of interest rate rises and the fiscal changes affecting buy-to-let customers. Our focus is on the various cohorts of customers who might be most impacted, for example, those in retirement, and ensuring that customers with interest only mortgage balances are able to repay their loans at the end of their term.
- **Strategic risk** - the key strategic risks include those relating to the management of a mortgage book and organisation in wind down. The Committee will also continue to monitor historical remediation, the wider economic and political environment and regulatory changes.

UKAR principal risks are described in detail on pages 16 to 17 and 71 to 73.

Keith Morgan
Chairman, Risk Committee

Key performance indicators ('KPIs')

UKAR

During the year we have made significant progress against all our key objectives and overall mission of achieving value for the taxpayer. Internally, UKAR measures its financial performance against the following four key performance indicators:

Financial measure	2016/17 Target	March 2017	March 2016
Underlying Profit Before Tax	*>= £622.0m*	**£706.0m**	£1,055.4m
Net Government Loan Repayments	*>= £2.7bn*	**£3.3bn**	£6.3bn
3m+ Residential Arrears	*<= 5,199*	**4,617**	6,377
Ongoing Administrative Expenses [1]	*<= £167.2m*	**£161.8m**	£175.0m

1 Excluding UKARcs (2016/17: £5.7m; 2015/16: £5.4m).

Targets are not set at a subsidiary level, however, KPIs for B&B and NRAM in 2016/17 and 2015/16 were as follows:

B&B

Financial measure	March 2017	March 2016
Underlying Profit Before Tax	**£374.4m**	£436.3m
Net Government Loan Repayments	**£0.4bn**	£0.1bn
3m+ Residential Arrears	**2,085**	2,803
Ongoing Administrative Expenses	**£124.3m**	£106.7m

NRAM

Financial measure	March 2017	March 2016
Underlying Profit Before Tax	**£331.4m**	£618.9m
Net Government Loan Repayments	**£2.9bn**	£6.2bn
3m+ Residential Arrears	**2,532**	3,574
Ongoing Administrative Expenses [2]	**£38.3m**	£77.6m

2 NRAM ongoing administration expenses include £0.8m charged by B&B for servicing loans on behalf of NRAM that were sold to Cerberus. This cost is excluded from the UKAR consolidated administration expenses, as is the corresponding income in B&B.

Statutory Profit / (Loss) before Tax

Statutory profit is an important financial measure, however, for target purposes the Board continue to believe it is appropriate to assess performance based on the underlying profits of the business. An analysis of the difference between statutory and underlying profit is provided on page 59.

Statutory Profit / (Loss) Before Tax	March 2017	March 2016
UKAR	**£346.9m**	£1,175.8m
B&B	**(£27.2m)**	£332.6m
NRAM	**£373.9m**	£843.0m

Additional key performance indicators

During the year we have made significant progress against all our key objectives and overall mission of achieving value for the taxpayer. Internally, UKAR measures its financial performance against four key performance indicators. The below table shows progress versus these targets as well as supporting financial measures.

	2016/17 Target	March 2017	March 2016
Underlying Profit Before Tax	***>= £622.0m***	**£706.0m**	**£1,055.4m**
- Statutory Profit Before Tax [1]		£346.9m	£1,175.8m
- Net Interest Margin on Average Interest Earning Assets		2.12	2.10
1 An analysis of the difference between statutory and underlying profit is provided on page 59.			
Net Government Loan Repayments	***>= £2.7bn***	**£3.3bn**	**£6.3bn**
- Government Loan Balance		£25.0bn	£28.3bn
- Total Lending Balances [2]		£19.5bn	£35.5bn
2 The £11.4bn proceeds from the assets sold were held as a debtor at 31 March 2017 and were used to repay the government loans, after the financial year end, in April 2017.			
3m+ Residential Arrears	***<= 5,199***	**4,617**	**6,377**
- Residential Arrears Balance as a percentage of the Total Residential Mortgage Balance (%)		0.20	0.14
- Residential Payments Overdue		£37.7m	£49.3m
- Residential Arrears 3 months and over and possessions as a percentage of the book:			
- By value		3.67	2.69
- By number of accounts		2.92	2.14
Ongoing Administrative Expenses [3]	***<= £167.2m***	**£161.8m**	**£175.0m**
- Ratio of costs to average interest earning assets (%):			
- Statutory		0.45	0.48
- Ongoing		0.45	0.33
3 Excluding UKARcs (2016/17: £5.7m; 2015/16: £5.4m).			

Financial review

These financial results are for the year to 31 March 2017.

Performance

The Board continue to believe it is appropriate to assess performance based on the underlying profits of the business, which excludes the remediation of inherited regulatory defects and any associated insurance claims and certain gains or losses such as the sale of assets or repurchase of liabilities at a discount or premium. Whilst these gains or losses permanently impact capital reserves, the Board does not believe that they reflect the performance of the underlying business. Also excluded are movements in fair value and hedge ineffectiveness relating to financial instruments. These movements will have no material impact over the life of the associated financial instruments. The commentary on the results in this statement uses underlying profits and its components as the primary measure of performance. An analysis of the difference between the statutory profit and the underlying profit of UKAR is provided below.

Underlying profit for the year to March 2017 has decreased by £349.4m to £706.0m (March 2016: £1,055.4m). The reduction in underlying profit reflects reduced net interest income due to the shrinking Balance Sheet.

For the year to March 2017 underlying net operating income has decreased by £351.5m to £799.5m (March 2016: £1,151.0m) due to lower income from the reducing Balance Sheet, partly offset by lower funding costs. For the year to March 2017 ongoing administrative expenses, excluding £5.7m UKARcs costs, were £13.2m lower than the previous year at £161.8m (March 2016: £175.0m, excluding £5.4m UKARcs costs). Impairment on loans to customers for the year to March 2017 was a credit of £67.9m, a reduction of £9.7m from the prior year (March 2016: £77.6m credit). Net impairment on investment securities was a £6.1m credit for the year (March 2016: £7.2m credit). The number of mortgage accounts 3 or more months in arrears including possessions reduced by 28% compared to March 2016, or by 23% when excluding the impact of asset sales.

For the year to March 2017 statutory profit before tax of £346.9m (March 2016: £1,175.8m) includes a £332.4m net loss on the sale of assets and an additional £64.4m provision for customer redress, partly offset by £50.0m received from an insurance claim.

Reconciliation of underlying profit before taxation to statutory profit / (loss) before taxation

	UKAR		B&B		NRAM	
For the year ended 31 March	2017	2016	2017	2016	2017	2016
	£m	£m	£m	£m	£m	£m
Net interest income	769.2	1,109.6	447.7	490.2	321.5	619.4
Underlying net non-interest income [1,2]	30.3	41.4	28.1	34.0	(2.9)	11.1
Underlying net operating income	**799.5**	**1,151.0**	**475.8**	**524.2**	**318.6**	**630.5**
Ongoing administrative expenses [1]	(167.5)	(180.4)	(124.3)	(106.7)	(38.3)	(77.6)
Impairment on loans to customers	67.9	77.6	18.2	16.7	49.7	60.9
Net impairment on investment securities	6.1	7.2	4.7	2.1	1.4	5.1
Underlying profit before taxation	**706.0**	**1,055.4**	**374.4**	**436.3**	**331.4**	**618.9**
Unrealised fair value movements on financial instruments	(4.3)	(2.3)	(5.9)	(2.5)	1.6	0.2
Hedge ineffectiveness	(8.0)	(28.6)	(8.0)	(6.7)	-	(21.9)
Other net administrative expenses	-	(73.4)	-	(73.4)	-	-
Provision for customer redress	(64.4)	180.1	(4.3)	(18.7)	(60.1)	198.8
Insurance claim	50.0	-	-	-	50.0	-
(Loss) / profit on sale of loans	(332.4)	62.8	(383.4)	-	51.0	62.8
Loss on repurchase of own liabilities	-	(18.2)	-	(2.4)	-	(15.8)
Statutory profit / (loss) before taxation	**346.9**	**1,175.8**	**(27.2)**	**332.6**	**373.9**	**843.0**

1 UKAR underlying net non-interest income includes £5.9m (March 2016: £5.6m) and ongoing administrative expenses include £5.7m (March 2016: £5.4m) in relation to UKARcs and UKAR Limited. UKARcs is operated on an after tax nil-gain nil-loss basis. NRAM ongoing administration expenses include £0.8m (March 2016: £9.3m) charged by B&B for servicing loans on behalf of NRAM that were sold to Cerberus. This cost is excluded from the UKAR consolidated administration expenses, as is the corresponding income in B&B.

2 Underlying net non-interest income includes net fee and commission income, net realised gains less losses on investment securities and other operating income.

Financial review (continued)

Net interest income

	UKAR		B&B		NRAM	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Interest receivable and similar income						
On secured loans	**945.5**	1,495.0	**571.2**	671.0	**374.3**	824.0
On other lending	**21.6**	44.6	**-**	-	**21.6**	44.6
On investment securities and deposits	**26.8**	33.1	**10.9**	15.7	**16.1**	18.2
Interest receivable and similar income	**993.9**	1,572.7	**582.1**	686.7	**412.0**	886.8
Interest expense and similar charges						
On amounts due to banks and HM Treasury	**(201.3)**	(310.3)	**(123.9)**	(126.7)	**(77.4)**	(183.6)
State guarantee fee [1]	**(2.6)**	(28.0)	**(2.6)**	(28.0)	**-**	-
On debt securities and other	**(20.8)**	(124.8)	**(7.9)**	(41.8)	**(13.1)**	(83.8)
Interest expense and similar charges	**(224.7)**	(463.1)	**(134.4)**	(196.5)	**(90.5)**	(267.4)
Net interest income	**769.2**	1,109.6	**447.7**	490.2	**321.5**	619.4
Average balances						
Interest-earning assets ('IEA')	**36,344**	52,850	**25,825**	29,745	**10,519**	23,105
Financed by:						
- Interest-bearing funding	**9,936**	26,886	**3,997**	7,991	**5,939**	18,895
- Interest-free funding [2]	**26,408**	25,964	**21,828**	21,754	**4,580**	4,210
Average rates %	**%**	%	**%**	%	**%**	%
Gross yield on IEA	**2.73**	2.98	**2.25**	2.31	**3.92**	3.84
Cost of interest-bearing funding [1]	**(2.26)**	(1.62)	**(3.30)**	(2.11)	**(1.52)**	(1.42)
Interest spread	**0.47**	1.36	**(1.05)**	0.20	**2.40**	2.42
State guarantee fee [1]	**(0.01)**	(0.05)	**(0.01)**	(0.09)	**-**	-
Contribution of interest-free funding [2]	**1.66**	0.79	**2.79**	1.54	**0.66**	0.26
Net interest margin on average IEA	**2.12**	2.10	**1.73**	1.65	**3.06**	2.68
Annual average Bank Base Rate	**0.34**	0.50	**0.34**	0.50	**0.34**	0.50
Annual average 1-month LIBOR	**0.34**	0.51	**0.34**	0.51	**0.34**	0.51
Annual average 3-month LIBOR	**0.44**	0.58	**0.44**	0.58	**0.44**	0.58

1 *At the time of the nationalisation of B&B, HM Treasury provided a guarantee with regard to certain wholesale borrowings and derivative transactions existing at that time. The amount of this fee is dependent on balances outstanding and hence it is included within 'interest expense and similar charges'. The cost of interest-bearing funding is shown excluding this state guarantee fee.*

2 *Interest-free funding is calculated as an average over the financial year and includes the Statutory Debt and share capital and reserves.*

Net interest income for the year to March 2017 was £769.2m (March 2016: £1,109.6m). Across both books there was a reduction in income due to the decrease in average interest-earning assets over the year. At a UKAR level the underlying net interest margin for the year to March 2017 has increased to 2.12% from 2.10% in the year to March 2016. The interest spread on interest earning assets fell from 1.36% to 0.47% due to both the changing funding mix and the full year impact of the sale of c.£13bn of NRAM mortgages in November 2015. The lower yielding B&B book now forms a greater proportion of the UKAR Balance Sheet. This was offset by the beneficial impact of an increased proportion of interest free funding.

On the B&B book the underlying net interest margin increased 0.08% to 1.73%, primarily due to an increase in the proportion of interest-free funding. This was partly offset by the drawdown of £3.0bn made against the WCF in September 2016 to finance the repayment of the remaining Aire Valley securitisation liabilities, which has increased the average rate of interest-bearing funding in the short term. The WCF interest rate of Bank Base Rate + 5.00% is in excess of the average yield on interest earning assets of 2.25%.

In NRAM, the net interest margin increased to 3.06% from 2.68% driven by an increase in the proportion of interest-free funding due to the repayment of interest bearing funding following asset sales in 2015/16.

Financial review (continued)

Underlying net non-interest income

Underlying net non-interest income decreased by £11.1m to £30.3m in the year to March 2017 (March 2016: £41.4m). In the current year other operating income includes interim servicing fees of £0.8m (March 2016: £9.3m) from the provision of mortgage services on assets sold.

Other operating income includes £5.9m for UKARcs (March 2016: £5.6m), which reflects the reimbursement by HM Treasury of the costs associated with administering the Help to Buy: mortgage guarantee and Help to Buy: ISA schemes.

Net non-interest income

	UKAR		B&B		NRAM		UKARcs	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Total net fee and commission income	**(0.1)**	8.2	**8.3**	11.9	**(8.4)**	(3.7)	**-**	-
Net realised gains less losses on investment securities	**18.7**	15.5	**14.4**	7.7	**4.3**	7.8	**-**	-
Other operating income [1]	**11.7**	17.7	**5.4**	14.4	**1.2**	7.0	**5.9**	5.6
Underlying net non-interest income	**30.3**	41.4	**28.1**	34.0	**(2.9)**	11.1	**5.9**	5.6
Unrealised fair value movements on financial instruments	**(4.3)**	(2.3)	**(5.9)**	(2.5)	**1.6**	0.2	**-**	-
Hedge ineffectiveness	**(8.0)**	(28.6)	**(8.0)**	(6.7)	**-**	(21.9)	**-**	-
Statutory net non-interest income	**18.0**	10.5	**14.2**	24.8	**(1.3)**	(10.6)	**5.9**	5.6

1 B&B other operating income includes £0.8m (March 2016: £9.3m) charged by B&B to NRAM for servicing loans sold to Cerberus. This income is excluded from the UKAR consolidated other operating income, as is the corresponding expense in NRAM.

Accounting volatility on derivative financial instruments

B&B and NRAM use derivative financial instruments for economic hedging purposes, although the number of these are reducing as associated assets and liabilities redeem or are repaid. Most of these are designated and accounted for as IAS 39 'Financial Instruments: Recognition and Measurement' compliant fair value or cash flow hedge relationships. Where effective hedge relationships can be established, the movement in the fair value of the derivative is offset in full or in part either by opposite movements in the fair value of the instrument being hedged or by being taken to reserves.

The Income Statement charge for hedge ineffectiveness was £8.0m in the year (March 2016: £28.6m).

Unrealised fair value movements were a £4.3m loss in the year (March 2016: £2.3m loss). These generally relate to derivatives that act as an economic hedge but were not treated as an accounting hedge under IAS 39.

Provision for customer redress

UKAR defines conduct risk as the risk of UKAR treating its customers unfairly and delivering inappropriate outcomes leading to customer detriment or impacting market integrity. Since the creation of UKAR we have been remediating a series of conduct issues inherited from the legacy businesses, including the mis-selling of PPI by Northern Rock and the issue of non-compliant CCA loan documentation to certain customers.

UKAR remain committed to doing the right thing for our customers and where we identify issues that have caused customer detriment, we will ensure that they are fully remediated.

An additional provision of £49.2m has been recognised following the publication of the FCA's Policy Statement PS17/3 "Payment protection insurance complaints: feedback on CP16/10 and final rules and guidance", which sets a deadline date for complaints at 29 August 2019 and confirms the approach in relation to Plevin. The rules and guidance include an FCA-led communications campaign to raise awareness of the deadline and the requirement to proactively contact previously rejected mis-selling complainants who are eligible to complain again in the light of Plevin. Reflecting heightened awareness of a potential PPI deadline, actual claims volumes received during the year have been higher than previously modelled, which combined with the final proposals is expected to lead to higher claims volumes throughout the period to 29 August 2019 than previously assumed.

In addition, a charge of £15.2m was made for other smaller legacy remediation issues bringing the total remediation charge for the year to £64.4m (March 2016: £180.1m credit).

Financial review (continued)

Insurance claim

In December 2012, we announced that errors had been identified in the administration of a segment of CCA regulated loans originated by Northern Rock. The remediation programme resulted in a charge of £321.0m. Subsequent to correcting customers' accounts, we have been pursuing options to recover costs where possible. During the period a settlement of £50.0m has been agreed and received in respect of an insurance claim submitted in 2013.

Administrative expenses

Costs for the year include £5.7m for UKARcs relating to the provision of administrative support to the government's Help to Buy: mortgage guarantee and Help to Buy: ISA schemes (March 2016: £5.4m). These costs were fully reimbursed by HM Treasury.

The Group has continued to focus on maximising cost effectiveness and efficiency through continuous improvement. Ongoing administrative expenses for the year were £167.5m (March 2016: £180.4m) which, when excluding UKARcs costs, is 7.5% lower. Costs have reduced reflecting the reduction in the size of the mortgage book through natural run-off and asset sales, partly offset by the VAT now incurred on outsourced mortgage servicing costs. The increase in outsourced and professional services costs reflects the outsourcing of mortgage servicing to Computershare.

Non recurring costs of £73.4m incurred in 2015/16 related to the outsourcing of mortgage servicing to Computershare. There were no non-recurring costs in 2016/17.

Administrative expenses

For the year ended 31 March	UKAR		B&B		NRAM		UKARcs	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Wages and salaries	**19.3**	59.1	**19.3**	59.1	**-**	-	**-**	-
Social security costs	**2.2**	5.8	**2.2**	5.8	**-**	-	**-**	-
Defined benefit pension costs	**(17.3)**	(7.8)	**(9.1)**	(2.9)	**(8.2)**	(4.9)	**-**	-
Defined contribution pension costs	**1.3**	4.1	**1.3**	4.1	**-**	-	**-**	-
Other retirement benefit costs	**0.3**	0.4	**0.3**	0.5	**-**	-	**-**	-
Total staff costs	**5.8**	61.6	**14.0**	66.5	**(8.2)**	(4.9)	**-**	-
IT costs	**17.4**	43.2	**18.3**	40.9	**(1.9)**	1.6	**1.0**	0.7
Outsourced and professional services[1]	**117.8**	16.8	**116.9**	12.1	**1.1**	12.7	**0.6**	1.2
Depreciation and amortisation	**6.3**	22.2	**3.9**	21.1	**-**	0.3	**2.4**	0.8
Management recharge to NRAM / UKARcs	**-**	-	**(47.5)**	(61.1)	**46.0**	59.7	**1.5**	1.5
Other administrative expenses	**20.2**	36.6	**18.7**	27.2	**1.3**	8.2	**0.2**	1.2
Total ongoing	**167.5**	180.4	**124.3**	106.7	**38.3**	77.6	**5.7**	5.4
Non-recurring	**-**	73.4	**-**	73.4	**-**	-	**-**	-
Total administrative expenses	**167.5**	253.8	**124.3**	180.1	**38.3**	77.6	**5.7**	5.4

1 NRAM outsourced and professional services expenses include £0.8m (March 2016: £9.3m) charged by B&B for servicing NRAM loans. This cost is excluded from the UKAR consolidated administration expenses as is the corresponding income in B&B.

Financial review (continued)

Arrears and loan impairment: residential and unsecured loans

Total UKAR loan impairment provisions as at 31 March 2017 were £648.3m (March 2016: £845.0m) comprising residential mortgages £561.1m (March 2016: £663.4m), unsecured loans £74.9m (March 2016: £96.2m) and commercial property of £12.3m (March 2016: £85.4m).

Arrears and possessions

At 31 March		UKAR			
		2017		2016	
		Residential	Unsecured	Residential	Unsecured
Arrears 3 months and over					
Number of cases	No.	**4,132**	**3,281**	5,870	4,307
Proportion of total accounts	%	**2.61**	**9.32**	1.97	10.17
Asset value	£m	**621.5**	**55.6**	858.7	69.8
Proportion of book	%	**3.29**	**17.50**	2.47	17.81
Total value of payments overdue	£m	**28.7**	**15.8**	35.7	17.3
Proportion of total book	%	**0.15**	**4.97**	0.11	4.43
Possessions					
Number of cases	No.	**485**	**-**	507	-
Proportion of total accounts	%	**0.31**	**-**	0.17	-
Asset value	£m	**70.9**	**-**	76.4	-
Proportion of book	%	**0.38**	**-**	0.22	-
Total value of payments overdue	£m	**3.3**	**-**	4.4	-
Proportion of total book	%	**0.02**	**-**	0.01	-
New possessions	No.	**1,242**	**-**	1,853	-
Total arrears 3 months and over and possessions					
Number of cases	No.	**4,617**	**3,281**	6,377	4,307
Proportion of total accounts	%	**2.92**	**9.32**	2.14	10.17
Asset value	£m	**692.4**	**55.6**	935.1	69.8
Proportion of book	%	**3.67**	**17.50**	2.69	17.81
Total value of payments overdue	£m	**32.0**	**15.8**	40.1	17.3
Proportion of total book	%	**0.17**	**4.97**	0.12	4.43
Payments overdue					
Total value of payments overdue	£m	**37.7**	**16.8**	49.3	17.5
Proportion of total book	%	**0.20**	**5.30**	0.14	4.47
Loan impairment provision					
As % of total balances	%	**2.89**	**19.06**	1.88	19.72

Financial review (continued)

Arrears and possessions (continued)

		B&B		NRAM			
At 31 March		2017	2016	2017		2016	
		Residential	Residential	Residential	Unsecured	Residential	Unsecured
Arrears 3 months and over							
Number of cases	No.	**1,765**	2,476	**2,367**	**3,281**	3,394	4,307
Proportion of total accounts	%	**1.93**	1.17	**3.53**	**9.32**	3.86	10.17
Asset value	£m	**242.6**	340.2	**378.9**	**55.6**	518.5	69.8
Proportion of book	%	**2.18**	1.38	**4.65**	**17.50**	5.15	17.81
Total value of payments overdue	£m	**8.6**	10.6	**20.0**	**15.8**	25.1	17.3
Proportion of total book	%	**0.08**	0.04	**0.25**	**4.97**	0.25	4.43
Possessions							
Number of cases	No.	**320**	327	**165**	**-**	180	-
Proportion of total accounts	%	**0.35**	0.16	**0.25**	**-**	0.20	-
Asset value	£m	**42.3**	42.6	**28.6**	**-**	33.8	-
Proportion of book	%	**0.38**	0.17	**0.35**	**-**	0.34	-
Total value of payments overdue	£m	**1.6**	1.8	**1.8**	**-**	2.6	-
Proportion of total book	%	**0.01**	0.01	**0.02**	**-**	0.03	-
New possessions	No.	**791**	844	**451**	**-**	1,009	-
Total arrears 3 months and over and possessions							
Number of cases	No.	**2,085**	2,803	**2,532**	**3,281**	3,574	4,307
Proportion of total accounts	%	**2.28**	1.33	**3.78**	**9.32**	4.06	10.17
Asset value	£m	**284.9**	382.8	**407.5**	**55.6**	552.3	69.8
Proportion of book	%	**2.56**	1.55	**5.00**	**17.50**	5.49	17.81
Total value of payments overdue	£m	**10.2**	12.4	**21.8**	**15.8**	27.7	17.3
Proportion of total book	%	**0.09**	0.05	**0.27**	**4.97**	0.28	4.43
Payments overdue							
Total value of payments overdue	£m	**12.3**	15.9	**25.3**	**16.8**	33.4	17.5
Proportion of total book	%	**0.11**	0.06	**0.31**	**5.30**	0.33	4.47
Loan impairment provision							
As % of total balances	%	**3.61**	1.79	**1.91**	**19.06**	2.09	19.72

Arrears and loan impairment: residential loans

UKAR adheres to the FCA's regulatory guidance regarding Treating Customers Fairly and continues to work closely with customers experiencing, or likely to experience, financial difficulty in maintaining their mortgage payments. UKAR offers a range of measures to support these customers depending upon their individual circumstances and ability to pay with the long term aim of sustaining their mortgage commitments and remaining in their homes. Possession continues to be a last resort.

Financial review (continued)

Arrears and loan impairment: residential loans (continued)

Strong arrears performance continues. UKAR has seen arrears in both companies fall as a direct consequence of the sale of assets and proactive arrears management coupled with the continued low interest rate environment. The total number of cases 3 or more months in arrears, including those in possession, reduced by 28% from 6,377 at 31 March 2016 to 4,617 at 31 March 2017. The reduction was driven by strong underlying performance (1,441) and asset sales (319). The proportion of total accounts 3 or more months in arrears has increased from 2.14% at 31 March 2016 to 2.92% at 31 March 2017 primarily reflecting the good quality of the loans sold. The total value of payments overdue by residential customers has reduced from £49.3m at 31 March 2016 to £37.7m at 31 March 2017, equivalent to 0.20% of mortgage balances (March 2016: 0.14%).

Provisions for residential loan impairment held on the Balance Sheet have reduced by £102.3m since 31 March 2016 to £561.1m (March 2016: £663.4m) reflecting realised losses, the reduction in arrears cases, the benefit of improving house prices and the sale of assets.

Included within the above, fraud and professional negligence provisions have decreased by £39.9m since 31 March 2016 to £158.0m (March 2016: £197.9m) as a result of write-offs following the sale of properties and the impact of reducing the level of provisions across a number of portfolios as valuations benefit from improving house prices. Total UKAR fraud provisions represent coverage of 34% of balances of suspected fraud and professional negligence cases (March 2016: 37%). Within the B&B book, fraud and professional negligence provisions have reduced since 31 March 2016 by £27.2m to £143.8m (March 2016: £171.0m). In the NRAM book, fraud and professional negligence provisions have reduced by £12.7m to £14.2m (March 2016: £26.9m).

As a proportion of balances, the residential impairment provision was 2.89% (March 2016: 1.88%). The residential loan impairment credit was £53.3m for the year (March 2016: £88.7m credit). The reduction in the credit reflects slower house price growth than seen in the prior year and a lower book size.

The number of properties in possession for UKAR decreased from 507 at 31 March 2016 to 485 at 31 March 2017. Within B&B, possession stock decreased from 327 cases at 31 March 2016 to 320 at 31 March 2017. In NRAM possession stock reduced to 165 cases from 180 at 31 March 2016. A total of 1,242 properties were taken into possession in the year (March 2016: 1,853).

In addition to residential property possessions, there are also a number of buy-to-let properties managed by Law of Property Act ('LPA') receivers. The LPA 'for sale' stock reduced from 274 cases at 31 March 2016 to 173 at 31 March 2017.

During the year 1,258 cases (March 2016: 2,122) were sold following possession and 6 were included as part of the sale of assets. In addition a further 192 cases (March 2016: 266) were sold which were under LPA management. Total realised losses on properties sold following possession or sold by an LPA were £64.3m (March 2016: £95.3m), all of which had previously been fully provided for. Within these losses £6.6m were fraudulent and professional negligence cases (March 2016: £8.9m).

Arrears and loan impairment: unsecured loans

The number of unsecured loans 3 months or more in arrears was 3,281 cases (March 2016: 4,307). The credit for unsecured loan impairment for the year was £13.9m, £15.4m favourable compared to the prior year (March 2016: £1.5m charge). Asset coverage was 19.06% at 31 March 2017 (March 2016: 19.72%).

The provision for unsecured loans was £74.9m at 31 March 2017 (March 2016: £96.2m). The reduction reflects realised losses and the reduction in arrears cases. Realised losses in the year were £6.3m (March 2016: £16.5m) all of which had previously been fully provided for.

Arrears and loan impairment: commercial loan book

The provision for the commercial book has decreased to £12.3m from £85.4m at 31 March 2016, with coverage at 4.56% (March 2016: 16.24%) following the disposal of properties held by three borrowers with write-offs totalling £76.3m. We continually review the level of provisions against each individual loan based on current and future property valuations, future rental income projections, tenant quality and general market conditions.

Net impairment release on investment securities

UKAR continues to review securities held on our Balance Sheets and believes the risk of further impairment is not significant. During the financial year a number of impaired assets have redeemed (in full or in part) causing the reversal of impairments previously charged. These have resulted in a net credit to impairment of £6.1m (March 2016: £7.2m).

Financial review (continued)

(Loss) / profit on sale of loans

B&B agreed to sell two separate asset portfolios comprising performing buy-to-let loans for a total of £11.8bn to Prudential and funds managed by Blackstone on 30 March 2017. The sale was the result of a highly competitive process and the price achieved reflects the strong fundamentals of the assets and was at the upper end of expectations. However, due to the low margin on these loans the sale resulted in an accounting loss of £384.7m. This was the first of a programme of sales designed to raise sufficient proceeds for B&B to repay the £15.7bn debt from the FSCS and for the FSCS to repay its corresponding loan from Her Majesty's Treasury by 31 March 2018. During the year B&B also released £1.3m of provisions relating to sales in earlier periods, as these were no longer required.

This loss on sale was partly offset by a profit of £51.0m from the sale of NRAM plc to Cerberus on 5 May 2016 as part of the structure of the transaction to sell c.£13bn of NRAM loans. Combined with the profit recognised in FY 2015/16 the total accounting profit on the transaction was £110.4m. The National Audit Office report into the sale concluded that the complex transaction was carried out professionally, within a tight timeframe and achieved value for money for the taxpayer.

Taxation

The total Income Statement tax charge for the year ended 31 March 2017 was £61.2m (March 2016: £257.6m). Given the statutory profit before taxation of £346.9m (March 2016: £1,175.8m), this equates to an effective tax rate of 17.6% (March 2016: 21.9%). The effective tax rate of 17.6% is lower than the standard weighted average rate of UK corporation tax of 20.0% due to items which are expected to be non-taxable.

Balance Sheet

Balance Sheet summary

	UKAR		B&B		NRAM	
At 31 March	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Loans to customers:						
- residential mortgages	**18,887.7**	34,700.3	**10,730.8**	24,634.6	**8,156.9**	10,065.7
- commercial loans	**257.3**	440.5	**178.4**	325.3	**78.9**	115.2
- unsecured lending	**317.8**	391.8	**-**	-	**317.8**	391.8
Amount owed in respect of sale of loans	**11,483.9**	-	**11,483.9**	-	**-**	-
Wholesale assets	**2,395.1**	5,951.1	**1,413.6**	4,183.6	**960.5**	1,780.9
Fair value adjustments on portfolio hedging	**454.6**	436.6	**454.6**	436.6	**-**	-
Derivative financial instruments	**1.8**	781.4	**-**	769.9	**1.8**	11.5
Other assets	**531.9**	567.5	**295.9**	316.9	**241.5**	249.9
Total assets	**34,330.1**	43,269.2	**24,557.2**	30,666.9	**9,757.4**	12,615.0
Statutory Debt and HM Treasury loans	**25,031.3**	28,353.9	**20,437.1**	20,888.3	**4,594.2**	7,465.6
Wholesale funding	**204.2**	5,713.1	**-**	5,496.1	**204.2**	250.7
Derivative financial instruments	**527.2**	527.7	**524.7**	516.0	**2.5**	11.7
Other liabilities	**474.8**	775.6	**192.3**	276.4	**267.1**	478.3
Other capital instruments	**-**	9.2	**-**	5.1	**-**	4.1
Equity	**8,092.6**	7,889.7	**3,403.1**	3,485.0	**4,689.4**	4,404.6
Total equity and liabilities	**34,330.1**	43,269.2	**24,557.2**	30,666.9	**9,757.4**	12,615.0

The Balance Sheet has reduced by £9.0bn since March 2016 to £34.3bn (March 2016: £43.3bn). Lending balances have reduced by £16.0bn (45.1%) to £19.5bn during the year to March 2017 due to £12.3bn asset sales, £3.3bn of secured residential redemptions, £0.2bn of commercial redemptions and £0.2bn of other regular repayments.

The £11.5bn owed in respect of the sale of loans to Prudential and funds managed by Blackstone as at 31 March 2017, which includes £0.1bn for cashflows on the portfolio prior to settlement, was settled in April 2017 and used to repay the government loans after the financial year end.

As detailed on pages 100 to 101, the acquisition of NRAM plc by NRAM has been accounted for under predecessor accounting principles. This resulted in a transfer of £3,787.4m from the UKAR Group's retained earnings to the merger reserve. £697.8m of the merger reserve was released to retained earnings on 5 May 2016 when NRAM sold its shareholding in NRAM plc and a further £416.5m has been released during the period as the loans which formed part of the pre-sale dividend in specie have been paid down.

Financial review (continued)

Liabilities

Statutory Debt and HM Treasury loans (excluding accrued interest) have reduced by £3.3bn to £25.0bn (March 2016: £28.3bn) due to repayments of principal in the year (NRAM: £2.9bn, B&B: £0.4bn). In addition, other external wholesale funding reduced by £5.5bn in the year (2015/16: £17.4bn).

In the period B&B repaid the remaining £2.5bn of Aire Valley securitisation liabilities that it did not already own, financed by a £3.0bn increase in the WCF. This achieved the twin objectives of simplifying the Balance Sheet and unencumbering £8.1bn of mortgage loans, which facilitated the sale to Prudential and funds managed by Blackstone. All legacy secured funding on the B&B and NRAM Balance Sheets has now been repaid.

Cash repayments

Repayment of the Statutory Debt and HM Treasury loans remains a primary objective of UKAR. In the year a further £3.3bn (March 2016: £6.3bn) of HM Treasury debt was repaid. The decrease in the repayments to HM Treasury is primarily due to a £3.0bn drawdown to fund the repayment of third party debt. In addition, 2016/17 included £0.5bn of repayments from net asset sale proceeds compared to £5.0bn in 2015/16.

Government loan repayments resulting from the sale of assets to Prudential and funds managed by Blackstone were made in April 2017 and will be reflected in the 2017/18 Annual Report & Accounts.

Capital

UKAR operates under a MIPRU regulatory status. FCA rules require the regulated companies within the Group to hold capital in excess of 1% of total Balance Sheet assets plus any undrawn commitments. The Board believes it appropriate to hold a higher level of capital reflecting the increased risk in the business compared to a standard MIPRU firm, however, the significant decreases in the size of the Balance Sheets and our unique circumstances mean that both regulated companies hold more capital than is required. As at 31 March 2017 capital in B&B plc represented 10.9% (March 2016: 9.4%) of B&B Company assets and NRAM capital represented 45.8% of NRAM Company assets.

The Group's capital is provided by its shareholder (currently HM Treasury).

The regulated Group companies met their capital requirements in full throughout the period and have received no additional capital from HM Treasury.

Capital resources - B&B plc (company only)

At 31 March	2017 £m	2016 £m
Share capital and reserves	**3,074.1**	3,194.2
Available-for-sale reserve adjustments	**(12.8)**	(20.1)
Cash flow hedge reserve adjustments	**0.8**	11.2
Net pension adjustment	**(257.3)**	(253.1)
Less: deductions [1]	**(175.0)**	(206.4)
Total capital	**2,629.8**	2,725.8

1 The deduction from B&B plc capital resources comprises £175.0m for the company's investment in Mortgage Express (March 2016: £175.0m) and £0.0m for intangible assets (March 2016: £31.4m).

B&B plc total capital resources of £2,629.8m are £96.0m lower than at 31 March 2016, mainly due to the loss generated in the year.

Financial review (continued)

Capital (continued)

Capital resources - NRAM Limited (company only)

At 31 March	2017 £m
Share capital and reserves	4,689.1
Net pension adjustment	(222.1)
Total capital	4,467.0

At 31 March 2016 NRAM Limited capital comprised one issued share of 25p.

Risk management and control

Pages 69 to 73 form an integral part of the audited Financial Statements

Introduction

In accordance with the requirements of the Framework Document which is referred to on page 20, the Group's approach to risk management is built on formal governance processes and relies on individual responsibility and collective oversight, informed by comprehensive reporting.

The following sections describe the Group's current approach to risk management including the risk governance structure and principal risk categories, which also reflect the outsourcing of operations to Computershare. Other than the risks described here, there may be other factors, hitherto not identified, which could also affect the Group's results. To take into account new and / or emerging risks, the Board regularly reviews whether there are any such factors that may be a threat to our approach to risk management. Therefore, the categories of risk described below should not be considered to represent all of the potential risks and uncertainties which could impact the Group's performance.

Risk governance

The responsibility for the strategy and approach to risk governance and management lies with the Board. The Board is responsible for determining risk strategy, setting risk appetite and reviewing the effectiveness of risk and control processes in support of the Group's strategy. The Board is also responsible for establishing a clearly defined risk management structure with distinct roles and responsibilities. Under that structure, Internal Audit provides 'third line of defence' challenge and review of the management of risks and the adequacy and effectiveness of controls within the business. Management committees and the Risk Function provide 'second line of defence' oversight, challenge and review. Line managers have 'first line of defence' responsibility for the identification, measurement and management of the risks within their business areas.

The management of the risk framework, including oversight and challenge to the business on the effectiveness of its risk management activity and reporting of strategic, operational, conduct, regulatory and financial risk, is performed by specialist teams in the Risk Function. Second line of defence monitoring of the EWRMF is also performed by the Risk Function.

Management committees

The management committees, under the authority delegated by the Board are described below:

Executive Committee ('ExCo')

ExCo is an advisory committee which supports the CEO in managing the business to achieve its strategic objectives. ExCo will normally meet three times each month with a specific focus to each meeting of either a) Customers and Conduct, b) Change, or c) Board reporting. As at 31 March 2017, the Executive Risk Committee is the only sub-committee of ExCo.

Executive Risk Committee ('ERC')

The ERC is a management sub-committee of ExCo with a reporting line to the Risk Committee ('RC'). The primary objective of the ERC is to provide technical oversight of key financial and operational risks and governance issues, including the review of the adequacy of risk mitigating actions, costs and capital effectiveness. The Committee supports, advises and makes recommendations to ExCo and the RC.

The following were sub-committees of the ERC at 31 March 2017:

- Liquidity Management Committee ('LMC');
- Credit Risk Committee ('CRC').

Liquidity Management Committee

The primary objective of LMC is to support and advise the ERC on managing liquidity risk. It does this by recommending risk appetite levels and analysing and reporting on issues which could affect the Group's liquidity.

Credit Risk Committee

The CRC's primary purpose is to review credit policies, procedures and credit related proposals that have a financial impact on the business and to ensure the proposals balance the risk and reward ratio in line with the credit risk appetite set by the Board.

Risk management and control (continued)

Pages 69 to 73 form an integral part of the audited Financial Statements

Risk management oversight

The Risk Function provides oversight and independent challenge to the management of risk across the Group, including that relating to the oversight of third party service providers. The Function comprises a team of risk management specialists with responsibility for the embedding and oversight of operational, conduct, financial and strategic risk management, plus analysis and reporting of risk matters to the Board and the Board advisory and management committees. Key functional responsibilities include:

- development of the EWRMF and policies for the identification, assessment and mitigation of financial, strategic and operational risks;
- provision of support to the Group business line management in the implementation of the EWRMF;
- aggregate analyses and review of risk concentrations and sensitivities across the Principal Subsidiaries;
- acting as a point of reference for risk and control matters, providing advice to management, sharing best practice and carrying out special reviews as directed by the Board, RC, ExCo and sub-committees of ExCo; and
- assessment and challenge of business areas' control framework and subsequent risk exposure to ensure this is within the organisation's risk appetite.

Compliance

Compliance is provided through an in-house compliance team, supported by an external co-source arrangement, which operates in accordance with a RC approved annual compliance plan. The Risk Director is approved by the RC and the FCA to undertake this control function.

The role of Compliance is to:

- provide assurance to ExCo and the Board (through the RC) that control processes are in operation to manage all regulatory and conduct risks across the Group;
- contribute to the continuous improvement of regulatory compliance through provision of advice to the Group;
- support Executive management regarding conduct of the business in line with FCA principles and emerging conduct issues; and
- oversee and co-ordinate liaison with the FCA on a day to day basis to promote open and co-operative relationships.

Internal Audit

Internal Audit activities are outsourced and are provided by Deloitte LLP. Deloitte services include the provision of a seconded Head of Internal Audit. This person is approved for the position by the FCA and the Audit Committee. However, the oversight of the Internal Audit function remains with the Group. The Head of Internal Audit reports to the Chairman of the Audit Committee and to the CEO.

The primary role of Internal Audit is to help the Board and Executive management to protect the assets, reputation and sustainability of the Group. The main objective of the Internal Audit department is to provide reliable, valued and timely assessment to the Board, Audit Committee and Executive management on the effectiveness of the system of internal controls in mitigating current and evolving key risks and in so doing, assist the organisation in enhancing the effectiveness of its approach to risk management.

Business and support activities of the Group are included in the scope of Internal Audit's responsibility and are subject to regular and appropriate internal audit review in accordance with Internal Audit's risk based Audit Plan.

Additional detail is contained in the Audit Committee Chairman's Report on page 45.

Controls effectiveness

The role of Accounting Officer, as detailed on page 78, was held by our CEO, Ian Hares at the year end. The Accounting Officer has responsibility for maintaining and reviewing the effectiveness of the system of internal controls. He has confirmed that there were no significant control issues in the year under review.

In addition, in line with the recommendations set out by the Macpherson Report, the Accounting Officer has confirmed that an appropriate QA framework is in place and used for all business critical models. A list of business critical models is maintained and the annual review by the Accounting Officer has confirmed that there were no significant control issues associated with these models during the financial year.

Risk management and control (continued)

Pages 69 to 73 form an integral part of the audited Financial Statements

Risk categorisation

During the year the Group categorised risk under the following headings:

(i) Conduct risk

Conduct risk is defined as the 'risk of UKAR treating its customers unfairly and delivering inappropriate outcomes leading to customer detriment or impacting market integrity'.

This risk category is governed by a Conduct Risk Framework ('CRF') which forms part of UKAR's existing EWRMF. Through the EWRMF the approach to conduct risk is led by the Board and Senior Management. It ensures a joined-up and consistent approach to the management of conduct risk and is integrated into business strategy, management and decision making.

The CRF sets out the approach to the effective assessment, management and monitoring of conduct risk in accordance with our stated conduct risk appetite. UKAR has a zero risk appetite for systemic conduct risk that could lead to unfair customer outcomes or pose a risk to market integrity, including through those services provided by a third party. Conduct risk is an integral part of the way UKAR does business, specifically, the interests of customers and market integrity are at the heart of UKAR's strategy, business and culture. With clear and visible leadership from the Board everyone takes responsibility for good conduct throughout our business model with established controls to deliver fair and appropriate outcomes to our customers. Our market conduct ensures that UKAR has no impact on market integrity. Annual conduct risk training is included in the colleague mandatory training programme.

(ii) Outsourcing risk

Outsourcing risk is defined as the risk of loss/disruption arising from inadequate or ineffective appointment, supervision and control or any subsequent contractual termination of third party service providers.

The Group adopts a proportional and risk based approach to the oversight of third party service providers based on the nature, scale and complexity of the outsource and deploys a range of policy, governance, reporting, monitoring and assurance activities.

(iii) Operational risk

Operational risk is defined as 'the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events'.

The Operational Risk Framework consists of an appropriate suite of policies, standards and procedures to enable effective identification, assessment, monitoring and reporting of key operational risks. The Framework is overseen and reported on by the operational risk function. The key elements of the Framework include Risk & Control Self Assessment, Operational Risk Event reporting, Key Risk Indicators, the assessment and analysis of Operational Risk related financial impacts and scenario analysis. In addition, specialist teams supplement the Framework through the provision of expertise in relation to Financial Crime, Cyber Risk, Business Continuity and Disaster Recovery.

(iv) Credit risk

Credit risk is the potential for financial loss caused by a retail or commercial customer, or wholesale counterparty, failing to meet their obligations to the Principal Subsidiaries as they become due. As the Principal Subsidiaries are no longer making any new retail loans, the absolute level of retail credit risk is expected to decline as the current assets mature and wholesale credit risk will decline in line with the maturity profile of financial instruments and investments. Credit risk is the largest risk the Principal Subsidiaries face and the monitoring of the recoverability of loans and amounts due from counterparties is inherent across most of the Principal Subsidiaries' activities.

The Principal Subsidiaries employ credit behavioural scoring and fraud detection techniques through their outsourcing partners to support loss minimising strategies. As no new lending is now being undertaken, the focus of credit risk activities is on:

- a proactive approach to the identification and control of loan impairment in the residential and commercial credit risk and credit control areas;
- fraud and professional negligence investigation; and
- the use of credit behavioural scoring and other techniques to monitor the risk profile of the existing book.

Adverse changes in the credit quality of borrowers or a general deterioration in UK economic conditions could affect the recoverability and value of the Principal Subsidiaries' assets and therefore the financial performance of each subsidiary.

Risk management and control (continued)

Pages 69 to 73 form an integral part of the audited Financial Statements

Risk categorisation (continued)

(iv) Credit risk (continued)

As credit risk is the main source of risk for the Principal Subsidiaries, a Credit Risk Framework has been established as part of the overall governance framework to measure, mitigate and manage credit risk within risk appetite. To a lesser degree, the Group is exposed to other forms of credit risk such as those arising from settlement activities where the risk is a consequence of a transaction, rather than a driver of it.

The impact of credit risk on the Group's Balance Sheet is shown by the following table of provisions for mark-downs on impaired assets:

At 31 March	Balance Sheet value 2017 £m	Provision 2017 £m	Balance Sheet value 2016 £m	Provision 2016 £m
Loans secured on residential property	**18,888**	**561**	34,700	663
Other secured loans	**257**	**12**	441	85
Unsecured loans	**318**	**75**	392	96
Wholesale assets	**2,395**	**215**	5,951	330

The Principal Subsidiaries' ability to influence the structure of their credit risk profiles, in the absence of asset sales, is largely restricted to the degree of control which they have over risk strategy, loan redemptions and credit collections activity. With the composition of the loan portfolio largely fixed in the short to medium term, the Principal Subsidiaries' credit risk profiles are now determined by the credit quality of the existing portfolio. Changes in credit quality will arise from changes in the underlying economic environment, assumptions about the future trends in the economy, changes in the specific characteristics of individual loans and the credit risk strategies developed to maintain and enhance the book whilst mitigating credit risk.

It is Group policy to monitor the profile of the Principal Subsidiaries' lending exposure quarterly. Changes in the risk profile are reported as part of the subsidiaries' stress tests. The stress tests forecast losses, impairment and capital requirements at a portfolio and product level over a 10 year horizon given a range of economic scenarios.

The Board receives a monthly update on changes in the key drivers of the lending credit risk profile, with more detailed information on the factors underlying these key drivers being reported monthly to the ERC.

Credit related policies and limits are developed and maintained within Credit Risk and are reviewed and approved annually by the Board, or when significant changes to policies are recommended. The ERC ensures that any exposure to credit risk remains within overall risk appetite levels as agreed by the Board.

Authorised credit risk limits for wholesale counterparties reflect their credit rating as well as size, depth and quality of their capital base. Wholesale credit related policies and limits are developed and maintained by our Treasury department and overseen by the Risk Function and are approved by the Board at least annually, or when material changes to policies are recommended.

The Principal Subsidiaries each hold a structured finance portfolio that primarily consists of investments in Asset Backed Securities ('ABS'). The credit risk is determined by the quality of the underlying securitised assets. Credit risk continues to fall as the quality of underlying assets improves and the size of the portfolio reduces.

(v) Strategic risk

Strategic risk is defined as the current or prospective risk to earnings and/or fair value, given the B&B Group and the NRAM Group Balance Sheet structure, arising from changes in the business environment and from adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment.

UKAR considers the primary strategic risks to be macroeconomic environment, market pressures, structural asset/liability mix, political, regulatory and legal risk, infrastructure risk (including managing a mortgage book in wind down) and project risk.

Risk management and control (continued)

Pages 69 to 73 form an integral part of the audited Financial Statements

Risk categorisation (continued)

(v) Strategic risk (continued)

UKAR's focus is on continuous assessment and measurement of movement in strategic risk status in order to ensure continuous monitoring of potential impacts on the Ten Year Plan, annual business and operating plans, and UKAR's overarching strategic objectives. Thus, close oversight of movements in strategic risk (proximity, financial impact, probability) is maintained via monthly reporting to ExCo and the Board. Where appropriate, and taking in to account the mainly external nature of strategic risk, risk management strategies can then be defined to mitigate the impact of a risk event arising.

(vi) Liquidity risk

Liquidity risk is the risk of being unable to pay liabilities as they fall due and arises from both the mismatch in asset, liability, derivative and collateral cash flows and from unforeseen changes to these.

The Board's appetite for liquidity risk is low and is managed to ensure it has an adequate level of liquidity to meet its commitments at all times and is maintained within agreed HM Treasury facilities, with minimum liquidity levels set out in the Board-approved Treasury Risk Policy. Responsibility for managing liquidity risk is delegated to the Treasurer. Stress tests are used to assess the adequacy of liquidity both daily and monthly by Finance and Treasury and are reported monthly to ERC. ERC is responsible for ensuring that the strategies of the Treasurer maintain liquidity risk within the Board's Risk Appetite.

Sterling liquidity is held as cash balances at the Bank of England. Euro and US dollar cash balances are placed with a range of banks and money market funds.

(vii) Market risk

Market risk is the potential for change in Group income or Group net worth arising from movements in interest rates, foreign exchange rates or other market prices. Effective identification and management of market risk is essential for maintaining stable net interest income. The Principal Subsidiaries do not trade or make markets in any areas and market risk only arises either as a legacy of past business or from supporting core activities. Interest rate risk is principally managed via interest rate swaps and foreign exchange risk by foreign exchange contracts.

The Board's appetite for market risk is set out in the Board approved Treasury Risk Policy. Responsibility for staying within risk appetite is delegated to the Treasurer, a member of ExCo, and exposures are reported daily by Finance to senior management and monthly by the Treasurer to ERC. ERC is responsible for ensuring that the Treasurer implements market risk strategies consistent with the Board's risk appetite.

(viii) Regulatory risk

Regulatory risk is the risk of failing to comply with the legal and regulatory requirements applying to UKAR arrangements and activities. UKAR has a zero regulatory risk appetite and undertakes its activities in line with this. UKAR has established, implements and maintains policies and procedures designed to detect any risk of failure by UKAR to comply with its obligations under the regulatory system, as well as associated risks. UKAR has put in place adequate measures and procedures designed to minimise these risks and to enable the FCA (and any relevant regulator) to exercise its powers effectively under the regulatory system.

Corporate social responsibility report

UKAR aims to conduct its business in a socially responsible manner in respect of our customers, the workplace, the communities we operate in and the environment.

Customers

The Group has over 148,000 customers (March 2016: 238,000), with 158,000 mortgage accounts (March 2016: 298,000) and 35,000 unsecured loan accounts (March 2016: 42,000).

We are committed to:

- ensuring that simplicity, integrity and truth applies to everything we do;
- supporting vulnerable customers; and
- supporting customers in financial difficulty.

Workplace

UKAR believes colleagues are the differentiating factor in ensuring we achieve our objectives and we promote a culture is shaped by the 'tone from the top' and supports, develops and challenges individuals to deliver success. Personal and business success is driven not only on what we do but also how we do it and both of these principles are applied throughout UKAR's Competency Framework and performance management processes. Our rewards and incentives are aligned to our culture and our values, each of which have exemplar behaviours which help us to understand what they mean, and how they apply to what we do on a daily basis.

Our Code of Culture and Conduct sets out the behaviours and standards we expect in the workplace to ensure we act with professional integrity and focus on doing the right thing for all our stakeholders, conducting our activities with honesty, integrity and according to ethical and legal standards.

UKAR's employment practices reflect international and national standards covering areas such as minimum working age, working hours, health and safety and discrimination. Our working environment is based on trust and openness and we encourage effective and efficient communication throughout the organisation to enable us to retain and engage talent, maintain motivation and improve the wellbeing of all colleagues in the workplace. We aim to recruit high calibre employees from all sections of the community, ensuring that no employee or job applicant receives less favourable treatment on grounds which are not related to the job.

We adopt best practice policies and procedures which form a key part of our induction programmes and comprehensive training and development programmes are available to provide all colleagues with the skills and specialist development opportunities they need to achieve their potential.

Colleague engagement is important to us and that is why 'Being a Great Place to Work' is one of our four strategic objectives. It is important to us that colleagues feel valued, are proud of the contribution they make and are given the opportunity to grow and learn new skills. The much reduced size of the business with the majority of colleagues based at one site enables colleagues to communicate with each other on a face to face basis and we also use a variety of channels including our intranet site, monthly team meetings and half yearly 'all colleague' meetings to share information on a regular basis. We have a recognition scheme based around our core values and new ideas are encouraged through a suggestion scheme. We believe that colleagues who enjoy working at UKAR strive to do the best they can and act in a professional way which will ensure that our customers receive the best possible outcomes and the organisation maximises value for the taxpayer.

We have a good relationship with the Unite union and we are flexible in the way we approach the personal circumstances of colleagues, preventing discrimination, for example on family grounds, and ensuring the workplace needs of those with families are addressed. We report our sickness and stress absence data to the Board on a monthly basis and we remained below the national benchmark for stress-related absence throughout 2016/17.

Corporate social responsibility report (continued)

Workplace (continued)

Off-payroll engagements

UKAR uses the services of a number of individuals to support its business, both to support business as usual and project work. Details of these individuals are below:

Table 1 – Off-payroll engagements as at 31 March 2017 (for more than £220 per day and lasting longer than 6 months)

	No. Contractors
No. of existing engagements as of 31 March 2017:	11
Of which:	
No. that have existed for less than one year at the time of reporting:	6
No. that have existed for between one and two years at the time of reporting:	2
No. that have existed for between two and three years at the time of reporting:	1
No. that have existed for between three and four years at the time of reporting:	-
No. that have existed for four years or more at the time of reporting:	2
Total	**11**

The managed service arrangement with our main provider of contract resource includes contractual clauses stating that liability for tax and National Insurance sits with the provider.

Table 2 – New off-payroll engagements, or those that reached six months in duration (for more than £220 per day and last longer than 6 months)

	No. Contractors
No. of new engagements, or those that reached six months duration, between 1 April 2016 and 31 March 2017:	7
No. of new engagements which include contractual clauses giving UKAR the right to request assurance in relation to income tax and National Insurance obligations:	7
No. for whom an assurance has been requested:	-
Of which:	
No. for whom assurance has been received:	-
No. for whom assurance has not been received:	-
No. that have been terminated as a result of assurance not being received:	-
Total	**7**

Table 3 – For any off-payroll engagements of board members and/or senior officials with significant financial responsibility during the year

	No. Contractors
No. of off-payroll engagements of board members and/or senior officials with significant financial responsibility during the year:	-
No. of individuals that have been deemed 'board members and/or senior officials with significant financial responsibility during the year':	-

Corporate social responsibility report (continued)

Community

UKAR is committed to community engagement and charitable initiatives with a caring culture that promotes welfare and goodwill through voluntary action in the wider community. This activity also provides great opportunities and experiences that enhance the quality of life for all concerned.

In the past UKAR has supported local charities chosen by our colleagues at its two major sites in West Yorkshire and Sunderland. Following the divestment of our mortgage servicing operations the majority of colleagues are based in West Yorkshire and voted Martin House Children’s Hospice as the 2016/17 Charity of the Year. The amount of charitable fundraising by colleagues in 2016/17 was £18,103 and UKAR matched employee fundraising to the total of £8,596. In addition, payroll giving totalled £19,057 through UKAR’s Give As You Earn schemes.

Environment

Following the outsourcing of UKAR's mortgaging servicing operations to Computershare the management of UKAR's Head Office in Crossflatts, West Yorkshire was also outsourced to Computershare. Nevertheless, UKAR remains committed to reducing environmental impact, increasing recycling programmes, creating awareness of environmental programmes and engaging colleagues in these activities. In 2016/17 90% of waste at Crossflatts was recycled with the remaining 10% used in Energy from Waste projects.

Other matters

Review of business, future developments and uncertainties

A review of the business, future developments and uncertainties is set out in the Strategic Report on pages 10 to 15.

Principal risks

Principal risks of the UKAR Group are covered on pages 16 to 17 and 69 to 73.

Dividends

The Directors do not propose the payment of any dividend in respect of the year ended 31 March 2017.

Major shareholders

As at the date of this report, all shares in UKAR are held by HM Treasury. As part of the sale of assets to Cerberus, on 30 April 2016 assets and liabilities not included in the transaction were transferred from NRAM plc to a newly established subsidiary of UKAR, known as NRAM (No.1) Limited. On 5 May 2016 all shares in NRAM plc were sold by UKAR to Landmark BidCo Limited, a subsidiary of Cerberus. On 18 July 2016, NRAM (No.1) Limited changed its name to NRAM Limited. All shares in B&B and NRAM Limited are held by UKAR.

Employee involvement

The People Strategy of UKAR is detailed on pages 14 to 15.

The Group is committed to employment policies which follow best practice, based on equal opportunities for all employees, irrespective of gender, race, colour, disability or marital status. The Group gives full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the Group. If members of staff become disabled the Group continues employment, either in the same or an alternative position, with appropriate retraining being given if necessary.

Directors' indemnities

The Articles of Association provide the power to indemnify any Director against liabilities incurred as a result of their office.

UKAR has also provided each Director with a Deed of Indemnity, which constituted 'qualifying third party indemnity provision' in accordance with the provisions of the Companies Act 2006. The Deeds were in force during the whole of the financial year ended 31 March 2017 and remain in force as at the date of approval of the Directors' Report.

The Deeds indemnify the Directors to the fullest extent permitted by law against all losses suffered or incurred in respect of acts and omissions arising as a result of holding office. The indemnities also extend to the reimbursement of each Director with the costs of defending all claims, actions and proceedings including regulatory investigation arising out of or connected with the exercise of, or failure to exercise, any of the Director's powers, duties or responsibilities as an officer, Director, trustee, agent or employee of the Group and any of its subsidiaries. Reimbursement is subject to the Director's obligation to repay the Company in accordance with the provisions of the Companies Act 2006. The payment obligations of the Company under each Deed of Indemnity are backed by a specific guarantee in favour of the Director entered into between each Director and HM Treasury.

UKAR has also arranged Directors' and Officers' Insurance on behalf of the Directors in accordance with the provisions of the Companies Act 2006.

Independent Auditors

PwC resigned as external auditors on 27 September 2016 when the NAO were appointed as external auditors. A resolution to reappoint the NAO as the Group's auditors will be put to the Shareholder at the forthcoming Annual General Meeting.

Disclosure of information to the Auditors

As at the date of this report, each person who is a Director confirms that:

- so far as each Director is aware there is no relevant audit information of which the Company's auditors are unaware; and
- each Director has taken such steps as he or she ought to have taken as a Director in order to make him or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 (2) of the Companies Act 2006.

Statement of Directors' and Accounting Officer's responsibilities in respect of the Directors' Report and the Financial Statements

The Directors are responsible for preparing the consolidated Annual Report, the Directors' Remuneration 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 Group and Parent Company Financial Statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union. 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 Group and the Company and of the profit or loss of the Group 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 IFRS as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the 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 the Group and enable them to ensure that the Financial Statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation. 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.

The Directors are responsible for the maintenance and integrity of the Company's website and legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

Each of the Directors confirms that, to the best of each person's knowledge and belief:

- the Financial Statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group and Company;
- the Directors' Report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Company and Group, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report & Accounts, taken as a whole, is fair, balanced and understandable, providing the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

This report has been approved by the Board of Directors and is signed by the Chief Executive Officer on behalf of the Board of Directors.

The Accounting Officer of HM Treasury has designated UKAR's Chief Executive Officer as the Accounting Officer of UKAR. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding UKFI's assets, are set out in 'Managing Public Money', published by HM Treasury.

In preparing the Financial Statements, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the Financial Statements; and
- prepare the Financial Statements on a going concern basis.

Ian Hares
Chief Executive Officer, on behalf of the Board
3 July 2017

Independent Auditor's report to the Members of UK Asset Resolution Limited

Opinion on the Group Financial Statements

In my opinion the Group Financial Statements:

- give a true and fair view of the state of affairs of the UK Asset Resolution Limited Group as at 31 March 2017 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the Companies Act 2006 and Article 4 of the IAS Regulation.

Basis of opinions

I have audited the Financial Statements of the UK Asset Resolution Limited Group for the year ended 31 March 2017 which comprise:

- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated Balance Sheet;
- the Consolidated Statement of Changes in Equity;
- the Consolidated Cash Flow Statement; and
- the notes to the consolidated Financial Statements.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006.

Overview of my audit approach

Matters significant to my audit

I consider the following areas of particular audit focus to be those areas that had the greatest effect on my overall audit strategy, the allocation of resources in my audit and directing the efforts of the audit team in the current year. They are similar to areas of focus in the previous year, however, as this is the first year of my audit of the Group I have formed my own independent assessment. The differences are:

- In 2015-16 the auditors focussed on provisions for customer redress. I have considered emerging customer redress issues during my audit, however, these have not had a material impact in 2016-17 and I did not give this area specific audit consideration;
- In 2015-16 the auditors focussed on hedge accounting on the basis this may not be appropriate. Hedge accounting has simplified significantly during 2016-17 as all material hedge accounting has ceased with the exception of the fair value portfolio hedge on lifetime mortgages which has been addressed through standard testing;
- I have identified an additional risk in 2016-17 in relation to the de-recognition and sale of a portfolio of assets. This is explained further below.

I have also set out how my audit addressed these specific areas in order to support the opinion on the Financial Statements as a whole and any comments I make on the results of my procedures should be read in this context.

This is not a complete list of all risks identified by my audit but only those areas that had the greatest effect on my overall audit strategy, allocation of resources and direction of effort. I have not, for example, included information relating to the work I have performed around the risk of management override of controls where my work has not identified any matters to report.

Independent Auditor's report to the Members of UK Asset Resolution Limited (continued)

Overview of my audit approach (continued)

Matters significant to my audit (continued)

The areas of focus were discussed with the Audit Committee; their report on matters that they considered to be significant to the Financial Statements is set out on pages 46 to 47.

Risk	My response
Loan loss provision assumptions and specific management overlays and adjustments Loan loss provisioning is a highly subjective area due to the level of judgement applied by management in determining the level of provisions. Loan loss provisions are calculated by management using internal models which use historic data and estimates and judgements in respect of future performance. Management's judgements include macro-economic measures including future house price inflation. The measurement of the provision differs based upon the type of lending and requires an analysis of economic conditions and historic experience when assessing the impairment in the portfolios. Judgement is applied to determine appropriate parameters and assumptions for the models that are used to calculate the provision. The key assumptions are the probability of customer default and the valuation of any underlying security. Management also apply adjustments or overlays where they believe the data driven parameters and calculations are not appropriate, either as a result of emerging trends or models not capturing the risks in the loan portfolio. These adjustments include: • an overlay to adjust for potential historic valuation fraud indicators in the portfolio; and • an insurance provision on the lifetime mortgage portfolio which is calculated using assumptions including future HPI and a discount factor. These adjustments and overlays require significant judgement to be applied by management.	I understood and evaluated the design and implementation and tested key controls focussing on: • the transfer of data between underlying source systems and the impairment models that the Group operates; and • the review and approval process that management has in place for the inputs, including the key assumptions, to the Group's impairment models, and the adjustments and overlays that are applied to the modelled outputs. I also performed the following procedures: • I understood and assessed management's basis for determining whether a loan was impaired by understanding the Group's loan portfolio in the context of the wider industry. Where impairment was calculated using models I tested the completeness and accuracy of data to the underlying systems that were used in the models; • I independently recreated management's underlying impairment model so as to verify its design and operation; • I understood and critically assessed the models used. Modelling assumptions and parameters, such as probability of default and future house price inflation, are based on historic data and/ or forward forecasts. I challenged whether historic experience was representative of current circumstances and I assessed forward forecasts against my independently determined ranges benchmarking against third party data where appropriate. I also challenged management by performing sensitivity analysis; • I considered whether overlays to modelled provisions appropriately reflected the risks in the portfolios. I challenged management to provide explanations and objective evidence to support the overlay adjustments made. This included consideration of the current economic conditions and the extended low interest rate environment; • where a provision was calculated on a portfolio basis, I tested a sample of loans and advances to ascertain whether the impairment event had been identified in a timely manner and whether the provision was reasonable given the specific provision indicators; and • I assessed the judgements management use to identify provision events on performing loans including the likelihood of default based on historic data and challenged management to provide objective evidence that the overlays were appropriate. Based on the evidence I obtained I found that the impairment model assumptions, data used within the models and overlays to the modelled outputs were supportable and within my independently determined ranges. However, the models are sensitive to the micro and macro-economic environment in the UK and other factors such as employment levels, interest base rates and house price inflation which could reasonably be expected to give rise to further provisions in the future.

Independent Auditor’s report to the Members of UK Asset Resolution Limited (continued)

Overview of my audit approach (continued)

Matters significant to my audit (continued)

Risk	My response
De-recognition and sale of portfolio of assets On 30 March 2017 Bradford & Bingley plc (a subsidiary of UKAR) signed two contracts to sell £11.8bn of mortgage assets with completion and transfer of the beneficial interest on 25 April 2017. Included within the contracts were a number of conditions precedent related to the issue of the securitised notes by the buyers to fund the purchase, which needed to be satisfied in order for the sale to complete. Management assessed that, as at the balance sheet date, the possibility of the contractual conditions not being ultimately met was remote and the specific asset de-recognition criteria contained within IAS 39 were satisfied. On this basis management de-recognised the assets within the financial period. The significant risk is that the sale is recognised in the incorrect accounting period and that would lead to the **F**inancial **S**tatements being materially misstated.	In response to this risk, I have reviewed the judgement reached by management in relation to the de-recognition point of the sale. I have assessed the contract against the de-recognition criteria in IAS 39 and reviewed the presentation and disclosure in the accounts. I have assessed the conditions precedent against the likelihood of occurrence in the time frame between contract signing and completion. In my opinion the de-recognition of the assets is appropriate and I am satisfied that sufficient disclosure has been made by management.

Application of materiality

I applied the concept of materiality in both planning and performing my audit, and in evaluating the effect of misstatements on my audit and on the Financial Statements. This approach recognises that Financial Statements are rarely absolutely correct, and that an audit is designed to provide reasonable, rather than absolute, assurance that the Financial Statements are free from material misstatement. A matter is material if its omission or misstatement would, in the judgement of the auditor, reasonably influence the decisions of users of the Financial Statements.

Based on my professional judgement, I determined overall materiality for the Group’s Financial Statements at £201.1m, which is approximately 1% of gross loans to customers. I chose this benchmark as UKAR’s primary activity is the servicing of mortgage loans and I consider loans to customers to be the principal consideration for users in assessing the financial performance of the Group.

I have determined that for provisions for impairment and customer redress, interest income and expense and administrative expenses, misstatements of a lesser amount than overall materiality could influence the decisions of users of the accounts given the disproportionate size of these balances compared to loans to customers and the level of public interest in the Group’s performance in these areas. I have therefore determined that the threshold to be applied to these components is £80m.

As well as quantitative materiality there are certain matters that, by their very nature, would if not corrected influence the decisions of users. Assessment of such matters would need to have regard to the nature of the misstatement and the applicable legal and reporting framework, as well as the size of the misstatement.

I agreed with the Audit Committee that I would report to it all uncorrected misstatements identified through my audit in excess of £250,000, as well as differences below this threshold that in my view warranted reporting on qualitative grounds.

Total unadjusted audit differences reported to the Audit Committee would have increased net assets by £11.2m.

Scope of my audit

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 Group’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.

In addition I read all the information 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 me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Independent Auditor's report to the Members of UK Asset Resolution Limited (continued)

Overview of my audit approach (continued)

Group audit approach

I tailored the scope of my audit to ensure that I performed enough work to be able to give an opinion on the Financial Statements as a whole, taking into account the accounting processes and controls, and the industry in which the Group operates.

The Group comprises UK Asset Resolution Limited, Bradford & Bingley plc (B&B) and its subsidiaries, NRAM Limited (NRAM) and its subsidiaries and UKAR Corporate Services Limited (UKARcs). The Group Financial Statements are a consolidation of these companies.

I performed an audit of the complete financial information of the significant components of the Group, identified as B&B, NRAM and Mortgage Express (MX) (a subsidiary of B&B). In addition these significant components require statutory audits and the work for these is carried out at the same time as the Group audit. All of the work on the significant components is performed by the group engagement team.

This work, together with additional procedures performed on balances arising as a result of the Group's consolidation process, gave me the evidence I needed for my opinion on the Financial Statements as a whole.

The components within our audit scope accounted for 100% of the Group total assets and total income.

Other matters on which I report under the Companies Act

The Strategic Report

In my opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report for the financial year is consistent with the Financial Statements and has been prepared in accordance with applicable law.

Based on my knowledge and understanding of the Group and its environment obtained during the course of the audit, I have identified no material misstatements in this report.

The Directors' Report and Governance Statement

In my opinion, based on the work undertaken in the course of the audit, the information given in the Directors' Report and Governance Statement in respect of internal control and risk management systems in relation to financial reporting processes, and about share capital structures, is consistent with the Financial Statements and has been prepared in accordance with applicable law.

In my opinion, based on the work undertaken in the course of the audit, rules 7.2.2, 7.2.3 and 7.2.7 in the Disclosure Rules and Transparency Rules sourcebook made by the Financial Conduct Authority have been complied with.

Based on my knowledge and understanding of the Group and its environment obtained during the course of the audit, I have identified no material misstatements in this information.

Matters on which I report by exception

Consistency of information in the Annual Report

Under International Standards on Auditing (UK & Ireland), I am required to report to you if, in my opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited Financial Statements; or
- apparently materially incorrect based on, or materially inconsistent with, the knowledge of the Group that I acquired in the course of performing my audit; or
- otherwise misleading.

In particular, I am required to consider:

- whether I have identified any inconsistencies between the knowledge that I acquired during the audit and the Directors' statement that they consider the Annual Report is fair, balanced and understandable; and
- whether the Annual Report appropriately discloses those matters that I communicated to the Audit Committee which I consider should have been disclosed.

I have nothing to report arising from this duty.

Independent Auditor's report to the Members of UK Asset Resolution Limited (continued)

Matters on which I report by exception (continued)

The Directors' assessment of principal risks and future prospects

Under International Standards on Auditing (UK & Ireland), I am required to report to you if I have anything material to add, or to draw attention to, in relation to the Directors' disclosures in the Annual Report and Financial Statements:

- confirming that they have carried out a robust assessment of principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- describing those risks and explaining how they are being managed or mitigated;
- on whether they considered it appropriate to adopt the going concern basis, and their identification of any material uncertainties to the entity's ability to continue over a period of at least twelve months from the date of approval of the Financial Statements; and
- explaining how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

I have nothing material to add, or to draw attention to, on these matters.

Respective responsibilities of the Directors and the Auditor

As explained more fully in the Statement of Directors' and Accounting Officer's responsibilities in respect of the Directors' Report and the Financial Statements, the Directors are responsible for the preparation of the Group Financial Statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and with International Standards on Auditing (UK & Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Other matter

I have reported separately on pages 144 to 145, on the Parent Company Financial Statements of UK Asset Resolution Limited for the year ended 31 March 2017 and on the information in the Directors' Remuneration Report that is described as having been audited.

Hilary Lower (Senior Statutory Auditor)

For and on behalf of the
Comptroller and Auditor General (Statutory Auditor)
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

3 July 2017

The Accounts

Notes to the Financial Statements

UKAR Limited Company Accounts

Notes to the Company Financial Statements

CONSOLIDATED INCOME STATEMENT

	Note	**12 months to 31 March 2017 £m**	12 months to 31 March 2016 £m
Interest receivable and similar income	4	**993.9**	1,572.7
Interest expense and similar charges	4	**(224.7)**	(463.1)
Net interest income	4	**769.2**	1,109.6
Fee and commission income		**11.9**	20.2
Fee and commission expense		**(12.0)**	(12.0)
Net fee and commission income		**(0.1)**	8.2
Net realised gains less losses on investment securities	5	**18.7**	15.5
Unrealised fair value movements on financial instruments	6	**(4.3)**	(2.3)
Hedge ineffectiveness	6	**(8.0)**	(28.6)
Other operating income		**11.7**	17.7
Non-interest income		**18.0**	10.5
Total income		**787.2**	1,120.1
Administrative expenses:			
- ongoing	7	**(167.5)**	(180.4)
- other net expenses	7	**-**	(73.4)
Provision for customer redress	26	**(64.4)**	180.1
Insurance claim	8	**50.0**	-
Impairment on loans to customers	15	**67.9**	77.6
Net impairment release on investment securities	12	**6.1**	7.2
(Loss)/profit on sale of loans	14	**(332.4)**	62.8
Loss on repurchase of own liabilities	9	**-**	(18.2)
Profit before taxation		**346.9**	1,175.8
Taxation	10	**(61.2)**	(257.6)
Profit for the financial year		**285.7**	918.2

The notes on pages 92 to 143 and the Company information on pages 146 to 152 form an integral part of these Financial Statements.

The results above arise from continuing activities.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the 12 months to 31 March 2017

	Gross of tax £m	Tax £m	Net of tax £m
Profit for the financial year	**346.9**	**(61.2)**	**285.7**
Other comprehensive income/(expense)			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale instruments:			
- net losses recognised in available-for-sale reserve during the year	**(15.7)**	**1.4**	**(14.3)**
- amounts transferred from available-for-sale reserve and recognised in profit during the year	**28.6**	**(5.8)**	**22.8**
Cash flow hedges:			
- net losses recognised in cash flow hedge reserve during the year	**(683.3)**	**50.8**	**(632.5)**
- amounts transferred from cash flow hedge reserve and recognised in profit during the year	**682.1**	**(53.4)**	**628.7**
	11.7	**(7.0)**	**4.7**
Items that will not be reclassified subsequently to profit or loss:			
- retirement benefit remeasurements	**(114.2)**	**26.7**	**(87.5)**
	(114.2)	**26.7**	**(87.5)**
Total other comprehensive (expense)/income	**(102.5)**	**19.7**	**(82.8)**
Total comprehensive income for the financial year	**244.4**	**(41.5)**	**202.9**

For the 12 months to 31 March 2016

	Gross of tax £m	Tax £m	Net of tax £m
Profit for the financial year	1,175.8	(257.6)	918.2
Other comprehensive income/(expense)			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale instruments:			
- net gains recognised in available-for-sale reserve during the year	19.1	(12.6)	6.5
- amounts transferred from available-for-sale reserve and recognised in profit during the year	(9.7)	5.5	(4.2)
Cash flow hedges:			
- net losses recognised in cash flow hedge reserve during the year	(1,329.1)	277.5	(1,051.6)
- amounts transferred from cash flow hedge reserve and recognised in profit during the year	1,030.3	(215.4)	814.9
	(289.4)	55.0	(234.4)
Items that will not be reclassified subsequently to profit or loss:			
- retirement benefit remeasurements	190.9	(38.1)	152.8
	190.9	(38.1)	152.8
Total other comprehensive (expense)/income	(98.5)	16.9	(81.6)
Total comprehensive income for the financial year	1,077.3	(240.7)	836.6

CONSOLIDATED BALANCE SHEET

	Note	**31 March 2017 £m**	31 March 2016 Restated [1] £m
Assets			
Cash at bank and in hand	11	**2,112.7**	5,598.3
Amount owed in respect of sale of loans	14	**11,483.9**	-
Investment securities	12	**282.4**	352.8
Loans to customers	14	**19,462.8**	35,532.6
Fair value adjustments on portfolio hedging	14	**454.6**	436.6
Derivative financial instruments	33 (d)	**1.8**	781.4
Other assets	18	**47.4**	31.7
Retirement benefit assets	19	**479.4**	482.5
Property, plant and equipment	20	**0.4**	16.1
Intangible assets	21	**4.7**	37.2
Total assets		**34,330.1**	43,269.2
Liabilities			
Amounts due to banks	22	**-**	553.9
Statutory Debt and HM Treasury loans	23	**25,031.3**	28,353.9
Derivative financial instruments	33 (d)	**527.2**	527.7
Debt securities in issue	24	**204.2**	5,159.2
Other liabilities	25	**146.3**	309.8
Current tax liabilities		**62.5**	153.1
Deferred tax liabilities	17	**83.9**	96.6
Retirement benefit obligations	19	**4.7**	1.8
Provisions	26	**177.4**	214.3
Capital instruments	27	**-**	9.2
Total liabilities		**26,237.5**	35,379.5
Equity			
Issued capital and reserves attributable to owners of the parent:			
- share capital	28	**1.2**	1.2
- reserves	29	**3,807.7**	4,917.3
- retained earnings		**4,283.7**	2,971.2
Share capital and reserves attributable to owners of the parent		**8,092.6**	7,889.7
Total equity and liabilities		**34,330.1**	43,269.2

The notes on pages 92 to 143 and the Company information on pages 146 to 152 form an integral part of these Financial Statements.

The Financial Statements on pages 87 to 143 were approved by the Board of Directors on 3 July 2017 and signed on its behalf by:

John Tattersall
Chairman

Ian Hares
Chief Executive Officer

UK Asset Resolution Limited is registered in England and Wales under company number 07301961.

[1] *As a consequence of the re-organisation within the NRAM Group there has been a transfer from retained earnings to merger reserve, as detailed in note 2.*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the 12 months to 31 March 2017

	Share capital £m	Available-for-sale reserve £m	Cash flow hedge reserve £m	Merger reserve £m	Retained earnings £m	Total share capital and reserves £m
At 1 April 2016	**1.2**	**4.3**	**3.0**	**4,910.0**	**2,971.2**	**7,889.7**
Other comprehensive income/(expense):						
- net movement in available-for-sale reserve	**-**	**12.9**	**-**	**-**	**-**	**12.9**
- net movement in cash flow hedge reserve	**-**	**-**	**(1.2)**	**-**	**-**	**(1.2)**
- retirement benefit remeasurements	**-**	**-**	**-**	**-**	**(114.2)**	**(114.2)**
- tax effects of the above	**-**	**(4.4)**	**(2.6)**	**-**	**26.7**	**19.7**
Total other comprehensive income	**-**	**8.5**	**(3.8)**	**-**	**(87.5)**	**(82.8)**
Profit for the financial year	**-**	**-**	**-**	**-**	**285.7**	**285.7**
Release of merger reserve	**-**	**-**	**-**	**(1,114.3)**	**1,114.3**	**-**
Total comprehensive income	**-**	**8.5**	**(3.8)**	**(1,114.3)**	**1,312.5**	**202.9**
At 31 March 2017	**1.2**	**12.8**	**(0.8)**	**3,795.7**	**4,283.7**	**8,092.6**

For the 12 months to 31 March 2016

	Share capital £m	Available-for-sale reserve £m	Cash flow hedge reserve £m	Merger reserve £m	Retained earnings £m	Total share capital and reserves £m
At 1 April 2015 as previously reported	1.2	2.0	239.7	1,122.6	5,687.6	7,053.1
Restatement [1]	-	-	-	3,787.4	(3,787.4)	-
At 1 April 2015 restated [1]	1.2	2.0	239.7	4,910.0	1,900.2	7,053.1
Other comprehensive income/(expense):						
- net movement in available-for-sale reserve	-	9.4	-	-	-	9.4
- net movement in cash flow hedge reserve	-	-	(298.8)	-	-	(298.8)
- retirement benefit remeasurements	-	-	-	-	190.9	190.9
- tax effects of the above	-	(7.1)	62.1	-	(38.1)	16.9
Total other comprehensive expense	-	2.3	(236.7)	-	152.8	(81.6)
Profit for the financial year	-	-	-	-	918.2	918.2
Total comprehensive income	-	2.3	(236.7)	-	1,071.0	836.6
At 31 March 2016 restated [1]	1.2	4.3	3.0	4,910.0	2,971.2	7,889.7

[1] *As a consequence of the re-organisation within the NRAM Group there has been a restatement of the comparative period, comprising a transfer from retained earnings to merger reserve of £3,787.4m, as detailed in note 2. £697.8m of the merger reserve was released to retained earnings on 5 May 2016 when NRAM Limited's shareholding in NRAM plc was sold. £416.5m has been released as loans which formed part of the pre-sale dividend in specie have been paid down. Further detail is provided in note 2.*

CONSOLIDATED CASH FLOW STATEMENT

	12 months to 31 March 2017 £m	12 months to 31 March 2016 £m
Cash flows from operating activities		
Profit before taxation for the financial year	**346.9**	1,175.8
Adjustments to reconcile profit to cash (used in)/generated from operating activities:		
- provision for customer redress	**64.4**	(180.1)
- provision for restructuring	**-**	73.4
- defined benefit pension scheme credits	**(17.3)**	(7.8)
- cash contributions to defined benefit pension schemes	**(88.1)**	(54.0)
- depreciation and amortisation	**6.3**	22.2
- impairment on loans to customers	**(67.9)**	(77.6)
- net impairment release on investment securities	**(6.1)**	(7.2)
- loss on repurchase of own liabilities	**-**	18.2
- loss/(profit) on sale of loans	**332.4**	(62.8)
- fair value adjustments on financial instruments	**(27.2)**	(113.6)
- other non-cash movements	**203.9**	327.1
Cash flows generated from operating activities before changes in operating assets and liabilities	**747.3**	1,113.6
Net decrease/(increase) in operating assets:		
- loans to customers	**3,788.4**	5,717.8
- sale of loans	**404.3**	11,677.9
- derivative financial instruments receivable	**779.6**	2,181.3
- other assets	**(4.1)**	14.6
Net decrease in operating liabilities:		
- amounts due to banks	**(553.9)**	(1,631.4)
- derivative financial instruments payable	**(0.5)**	(42.3)
- debt securities in issue	**(5,071.8)**	(10,920.0)
- other liabilities	**(112.9)**	(72.4)
- provisions	**(99.9)**	(73.1)
Income tax paid	**(134.1)**	(204.7)
Net cash (used in)/generated from operating activities	**(257.6)**	7,761.3
Cash flows from investing activities:		
- purchase of property, plant and equipment and intangible assets	**(2.0)**	(17.5)
- proceeds from sale and redemption of investment securities	**90.7**	212.1
Net cash generated from investing activities	**88.7**	194.6
Cash flows used in financing activities:		
- drawdown of HM Treasury loans	**2,975.0**	-
- repayment of HM Treasury loans	**(6,290.7)**	(6,257.7)
- repurchase of own liabilities	**-**	(5,281.7)
Net cash used in financing activities	**(3,315.7)**	(11,539.4)
Net decrease in cash and cash equivalents	**(3,484.6)**	(3,583.5)
Cash and cash equivalents at beginning of year	**5,597.1**	9,180.6
Cash and cash equivalents at end of year	**2,112.5**	5,597.1
Represented by cash and assets with original maturity of three months or less within:		
- cash at bank and in hand	**2,112.5**	5,597.1
Total cash and cash equivalents at end of year	**2,112.5**	5,597.1

1. Principal accounting policies

UK Asset Resolution Limited ('UKAR' or 'the Company') is a private limited company incorporated on 1 July 2010 and domiciled in the United Kingdom. UKAR acquired B&B and NRAM plc by a share-for-share exchange on 1 October 2010. On 29 April 2016 NRAM Limited acquired NRAM plc from UKAR by way of a share-for-share exchange. NRAM Limited sold NRAM plc on 5 May 2016. Further detail is provided in note 2. These consolidated Financial Statements are prepared under the 'predecessor accounting' method, which presents the UKAR consolidated results as if the UKAR Group ('the Group') had always been in existence in its present form. In addition, the Company owns 100% of the share capital of UKAR Corporate Services Limited, which was incorporated on 20 June 2013 (see note D to the Parent Company Financial Statements). The Financial Statements of the UKAR Company are presented on pages 146 to 152, and form an integral part of these Financial Statements.

The Financial Statements on pages 87 to 143 and 146 to 152 were authorised for issue by the Directors on 3 July 2017 and will be put to the shareholder for approval at UKAR's Annual General Meeting.

(a) Statement of compliance

Both the UKAR Company Financial Statements and the Group (comprising UKAR and its subsidiaries) Financial Statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU'). IFRS comprises accounting standards prefixed IFRS issued by the International Accounting Standards Board ('IASB') and those prefixed IAS which were issued by the IASB's predecessor body, along with interpretations issued by the IFRS Interpretations Committee ('IFRIC') prefixed IFRIC and those prefixed SIC which were issued by the IFRIC's predecessor body. In publishing the UKAR Company Financial Statements here together with the Group Financial Statements, the UKAR Company has taken advantage of the exemption in s408 of the Companies Act 2006 not to present its individual Income Statement and related notes.

For these 2017 Financial Statements, including the 2016 comparative financial information where applicable, the Group and Company have adopted the following statements for the first time:

- The Annual Improvements to IFRSs 2012-2014 Cycle, issued in September 2014; these changes had no material impact on the Group or Company.
- The amendments to IAS 16 and IAS 38 'Clarification of Acceptable Methods of Depreciation and Amortisation' issued in May 2014. These amendments clarify that a revenue-based method is not considered to be an appropriate manifestation of consumption. These amendments are mandatory for the Group and Company Financial Statements for the year to 31 March 2017. These amendments had no material impacts for the Group or Company.

For these 2017 Financial Statements the Group and Company have not adopted the following statements:

- IFRS 9 'Financial Instruments'; in July 2014 the IASB published the final version (excluding macro-hedging), replacing most of the requirements of IAS 39. IFRS 9 was endorsed for use in the EU in November 2016 and will be effective for annual periods beginning on or after 1 January 2018. The Group is not intending to take the option of early adoption. IFRS 9 is expected to have major implications for the UKAR Group and companies. Further detail is provided in note 33(h).
- IFRS 15 'Revenue from Contracts with Customers', issued May 2014, effective for periods beginning on or after 1 January 2018. No material impacts are expected for the UKAR Group or companies.
- IFRS 16 'Leases', issued January 2016, effective for periods beginning on or after 1 January 2019 and yet to be endorsed by the EU. The Group and Company are assessing the impacts of this statement.
- Amendments to IAS 12 'Income Taxes' relating to 'Recognition of Deferred Tax Assets for Unrealised Losses', issued January 2016, effective for periods beginning on or after 1 January 2017 and yet to be endorsed by the EU. The Group and Company are assessing the impacts of this statement.

All other new standards, amendments to standards and interpretations are not considered relevant to, and have no impact upon, the Financial Statements of the Group or UKAR Company.

1. Principal accounting policies (continued)

(b) Basis of preparation
The Financial Statements have been prepared on a going concern basis and using the historical cost convention except:

(i) the following assets and liabilities are carried at their fair value:
- derivative financial instruments; and
- financial instruments categorised under IAS 39 as 'available-for-sale'; and

(ii) where fair value hedge accounting has been applied, the carrying value of hedged items has been adjusted to take account of the fair value of the risk which has been hedged.

The validity of the going concern basis of accounting is dependent upon the funding position of the UKAR Company, B&B and NRAM Limited. At the date of approval of these Financial Statements, the Group is reliant upon the financing facilities provided to B&B and NRAM Limited by HM Treasury. Withdrawal of the financing facilities would have a significant impact on the Group's operations and its ability to continue as a going concern, in which case adjustments may have to be made to reduce the carrying value of assets to recoverable amounts and to provide for further liabilities that might arise. At the signing date of these Financial Statements, HM Treasury has confirmed its intentions to continue to provide funding until at least 1 January 2019.

The Directors consider that the accounting policies set out in this note are the most appropriate to the Group's and the UKAR Company's circumstances, have been consistently applied to both the Group and the Company in dealing with items which are considered material and are supported by reasonable and prudent estimates and judgements.

The accounting policies have been applied to all periods presented in these Financial Statements, and are consistent with the accounting policies used by the B&B Group and the NRAM Group in preparing their Interim Financial Reports for the six months ended 30 September 2016.

B&B and NRAM Limited are regulated by the FCA as mortgage administration companies, and the Directors believe that those companies have appropriate and adequate levels of capital to support their activities subject to the continuing support of HM Treasury.

The Financial Statements have been prepared in accordance with EU-adopted IFRS, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. A summary of accounting policies is set out below. The preparation of the Financial Statements in conformity with these accounting policies and generally accepted accounting principles requires the use of estimates and assumptions that affect the reported values of assets and liabilities at the date of the Financial Statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amounts, events or actions, actual results ultimately may differ from those estimates (see note 3).

The Directors consider the business to comprise one operating and geographical segment due to the similarity of risks faced within its UK-based residential, commercial and unsecured portfolios.

(c) Basis of consolidation
The UKAR Group's Financial Statements are prepared in accordance with IFRS 10 'Consolidated Financial Statements', and incorporate on a fully consolidated line-by-line basis the Financial Statements of the UKAR Company and those entities (including special purpose structures) which are controlled by UKAR (its subsidiaries); the Group Financial Statements primarily comprise the transactions and balances of the B&B Group and the NRAM Group. The UKAR Company's acquisition of the entire issued share capital of B&B and NRAM plc in a share-for-share exchange has been accounted for under 'predecessor accounting'. The difference between the UKAR Company's carrying value of investments and merger reserves, and the share capital and non-distributable reserves of the B&B Group and the NRAM Group, has been accounted for in the UKAR Group as a 'merger reserve'.

An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Where subsidiaries have been acquired during a period, their results are consolidated into the UKAR Group's Financial Statements from the date control is transferred to UKAR. Where subsidiaries have been disposed of, their results are consolidated to the date of disposal. As detailed in note 2, on 5 May 2016 the Group sold its investment in NRAM plc; at that point the UKAR Group ceased to control NRAM plc. On the acquisition of a business, fair values are attributed to the assets, liabilities and contingent liabilities acquired. Any difference between the consideration given and the fair value of the net assets acquired is capitalised as goodwill, which is subject to impairment testing in accordance with IAS 36 'Impairment of Assets'. Where necessary, the Group Financial Statements include adjustments to bring the financial statements of subsidiaries into alignment with the accounting policies used by the Group. All intra-group transactions and balances are eliminated on consolidation.

The UKAR Group securitised various residential mortgage loans, generally by sale or transfer to Special Purpose Vehicles ('SPVs') which in turn issued securities to investors. All of the Group's SPVs were fully consolidated until the funding structures were unwound and the companies were placed into liquidation.

1. Principal accounting policies (continued)

(c) Basis of consolidation (continued)

The NRAM Group reorganisation is detailed in note 2. NRAM Limited's acquisition of the shares in NRAM plc and the transfer of assets and liabilities to NRAM Limited have been accounted for as transactions between entities under common control and predecessor accounting has been applied.

The comparative information disclosed in these Financial Statements has been presented as though the post-reorganisation structure had always been in place. The UKAR Group merger reserve was increased as a result of the transaction and the comparative period merger reserve has been restated accordingly.

(d) Interest income and expense

For all interest-bearing financial instruments except derivatives, interest income and expense are recognised in the Income Statement on an Effective Interest Rate ('EIR') basis.

The EIR method calculates the amortised cost of a financial asset or financial liability and spreads interest income or interest expense on a level yield basis over the expected life of the instrument, or an appropriate shorter period. The calculation includes all directly attributable incremental fees and costs, premia on acquisition of mortgage portfolios and all other premia and discounts as well as interest. In respect of loans to customers, the elements other than interest are spread over the period to which the product reprices to a Standard or Product Variable Rate. The EIR is the rate which at the inception of the instrument exactly discounts expected future cash flows over the appropriate period to the initial carrying amount. When calculating the EIR, future cash flows are estimated, considering all contractual terms of the instrument (for example prepayment options), but potential future credit losses are not considered.

Interest on derivatives is included in interest income where the derivative is hedging interest income, and interest expense where the derivative is hedging interest expense.

When a financial asset or a group of similar financial assets is written down as a result of an impairment loss, interest income continues to be recognised by applying the applicable EIR to the reduced balance.

(e) Bonuses payable

An accrual is made for all bonuses which have been earned by the Balance Sheet date, even though these may not subsequently be payable due to clawback or the employee leaving the Group.

(f) Financial instruments

In accordance with IAS 39 each financial asset is classified at initial recognition into one of four categories:

(i) Financial assets at fair value through profit or loss;
(ii) Held-to-maturity;
(iii) Loans and receivables; or
(iv) Available-for-sale;

and each financial liability into one of two categories:

(v) Financial liabilities at fair value through profit or loss; or
(vi) Other liabilities.

Where the Directors believed it appropriate to do so, financial assets have been reclassified out of the 'available-for-sale' category to 'loans and receivables' in accordance with the revisions to IAS 39 issued by the IASB in October 2008. Such reclassifications are permitted only under certain restricted circumstances, including that there is no active market for the asset. The asset is reclassified using its fair value at the point of transfer and from that point on is accounted for on an EIR basis. The difference between the carrying value at the point of reclassification and the expected value at the redemption date is recognised in profit or loss on an EIR basis over the expected life of the asset and the asset's carrying value accretes to the redemption amount over that period, except where the asset has become impaired. The balance in the available-for-sale reserve which related to the asset is amortised to profit or loss over the expected life of the asset; in the Income Statement the amortisation of the difference between value at reclassification and at redemption and the amortisation out of the available-for-sale reserve exactly offset each other.

Measurement of financial instruments is either at amortised cost (categories (ii), (iii) and (vi) above) or at fair value (categories (i), (iv) and (v) above), depending on the category of financial instrument.

Amortised cost is the amount measured at initial recognition adjusted for subsequent principal and other payments, less cumulative amortisation calculated using the EIR method; the amortisation is taken to interest income or expense depending on whether the instrument is an asset or a liability. For assets, the amortised cost balance is reduced where appropriate by an allowance for amounts which are considered to be impaired or uncollectible.

1. Principal accounting policies (continued)

(f) Financial instruments (continued)

IFRS 13 'Fair Value Measurement' defines 'fair value' as 'the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date'. Where an active market is considered to exist, fair values are based on quoted prices or lead manager prices. For instruments which do not have active markets, fair value is calculated using present value models, which take individual cash flows together with assumptions based on market conditions and credit spreads, and are consistent with accepted economic methodologies for pricing financial instruments. Interest income and interest expense on instruments carried at fair value are included in the Income Statement in 'interest receivable and similar income' or 'interest expense and similar charges'. Movements in fair value are recognised in the 'unrealised fair value movements on financial instruments' line in the Income Statement, except in the case of instruments categorised as 'available-for-sale', in which case the fair value movements are taken to the 'available-for-sale' reserve. On sale or de-recognition of an available-for-sale instrument the accumulated fair value movements are transferred from the 'available-for-sale' reserve to the 'net realised gains less losses on investment securities' line of the Income Statement.

(g) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Balance Sheet when and only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

(h) Derivative financial instruments and hedge accounting

All of the Group's derivative contracts are used for commercial management of exposures to interest rate risks, foreign currency risks and risks arising from forecast transactions.

For many of the Group's derivative contracts hedge accounting is applied. However, in some cases natural offsets apply.

Each derivative is carried at fair value in the Balance Sheet; as an asset when the fair value is positive and as a liability when the fair value is negative. The fair value of a derivative includes any interest accrued on that derivative. Changes in the fair value of derivatives are charged to the Income Statement; however by applying the hedge accounting rules set out in IAS 39 the changes in fair value of derivatives which are used to hedge particular risks can either be mitigated in the Income Statement (fair value hedge accounting) or recognised in other comprehensive income (cash flow hedge accounting). The Group has adopted cash flow hedge accounting and fair value hedge accounting.

(i) Cash flow hedge accounting

A cash flow hedge is used to hedge exposures to variability in cash flows, such as variable rate financial assets and liabilities. The effective portion of changes in the derivative fair value is recognised in other comprehensive income, and recycled to the Income Statement in the periods when the hedged item affects profit and loss. The fair value gain or loss relating to the ineffective portion is recognised immediately in the Income Statement.

(ii) Fair value hedge accounting

A fair value hedge is used to hedge exposures to variability in the fair value of financial assets and liabilities, such as fixed rate loans. Changes in fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Income Statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The Group uses fair value hedge accounting on one-to-one relationship and portfolio hedging bases, as described below.

Where hedge accounting is not applied, changes in fair values are recognised immediately in the Income Statement.

(iii) One-to-one fair value hedges

Where one or more specific derivative financial instruments hedge the changes in fair value of a specific asset or liability, provided that the hedge arrangement meets the requirements of IAS 39 to be classed as 'highly effective', the associated hedged item is carried on the Balance Sheet at fair value in respect of the hedged risk. Fair value gains and losses are recognised in the Income Statement, mitigating the fair value movements on the associated derivative financial instruments. The Income Statement immediately recognises any hedge accounting 'ineffectiveness', that is any difference between the fair value movement on the hedging instrument and that on the hedged item.

(iv) Portfolio fair value hedges

Where a group of derivative financial instruments hedges the interest rate exposure of a group of assets or liabilities, and the hedge meets the requirements of IAS 39 to be classed as 'highly effective', the hedge relationship is accounted for in the same way as a one-to-one fair value hedge except that the Balance Sheet carrying value of the hedged items is not adjusted; instead the difference between the carrying value and the fair value in respect of the hedged risk is carried on the Balance Sheet in 'fair value adjustments on portfolio hedging'.

1. Principal accounting policies (continued)

(h) Derivative financial instruments and hedge accounting (continued)

(v) Hedge effectiveness

At the inception of each hedging arrangement, the relationship between the hedging instruments and the hedged items is documented, as well as the risk management objective and strategy. Also documented is an assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in the hedging arrangement are 'highly effective' in offsetting changes in fair values or cash flows of the hedged items. Under IAS 39 a hedge is deemed to be 'highly effective' if effectiveness is forecast to fall, and is actually found to fall, within the 80% to 125% range. Any hedge relationship falling outside these limits is deemed to be ineffective and hedge accounting is discontinued.

(vi) Termination of hedges

Where a hedge relationship is terminated or deemed not to be highly effective (other than as a result of the hedged item being de-recognised from the Balance Sheet due to sale or other reason), the adjustment relating to the terminated hedge relationship is amortised to the Income Statement over the period that the hedged item affects profit and loss.

(vii) Embedded derivatives

Certain financial instruments have derivative features embedded within them. Where the economic characteristics and risks of the embedded derivative are not closely related to those of the host instrument, and where changes in value of the host instrument are not reflected in the Income Statement, the embedded derivative is separated from the host and carried on the Balance Sheet at fair value, with gains and losses on the embedded derivative being recognised in the Income Statement. In accordance with IFRIC 9 'Reassessment of Embedded Derivatives' the decision as to whether to separate and value an embedded derivative is reassessed when and only when the terms of the host contract are significantly modified.

(i) Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') continue to be reported as they were originally classified within the Balance Sheet, as the risks and rewards associated with that asset have been retained. The counterparty liability is included in 'amounts due to banks'. Securities purchased under agreements to resell ('reverse repos') are recorded as 'cash at bank and in hand'. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the EIR method.

(j) Impairment

Financial assets which are not held at fair value through profit or loss are reviewed for indications of possible impairment throughout the period and at each published Balance Sheet date. An impairment loss is recognised if, and only if, there is objective evidence that a loss event (or events) has occurred after initial recognition and before the Balance Sheet date and has a reliably measurable impact on the estimated future cash flows of the financial asset or group of financial assets. Losses that are incurred as a result of events occurring after the Balance Sheet date are not recognised.

(i) Financial assets held at amortised cost

For each asset an assessment is made as to whether an impairment provision should be made on either an individual or a collective basis. Assets where an individual impairment assessment is made include all loans in possession or held for sale with a Law of Property Act ('LPA') receiver and others which management consider to be individually impaired, for example where a fraud has been uncovered. The carrying value of the asset at the Balance Sheet date is reduced, by applying an impairment allowance, to the net present value of the expected future cash flows associated with the asset, calculated at the asset's original EIR. These cash flows include, where appropriate, estimated amounts recoverable by possession and sale of a secured property taking into account a discount on property value to reflect a forced sale.

All assets that have been assessed as having no individual impairment are then collectively assessed for impairment, grouped by assets with similar characteristics. Assessment is made of impairment arising due to events which are believed to have occurred by the Balance Sheet date but have not yet been reported, taking into account the economic climate in the market. This collective impairment is reflected by reducing the carrying value by applying an impairment allowance.

Impairment of assets is charged/credited in the Income Statement in the 'impairment on loans to customers' and 'net impairment release on investment securities' lines.

For impaired loans to customers, interest is accrued for accounting purposes on the loan amount after any impairment adjustments, in accordance with IAS 39, using the original EIR of the loan. However, for the purposes of the amount legally due from the borrower, interest continues to accrue on the full outstanding balance, and it is this full balance plus full interest which is pursued for collection.

1. Principal accounting policies (continued)

(j) Impairment (continued)
A loan to a customer is written off and any associated impairment allowance released when and only when the property is sold or the account is redeemed, or in respect of unsecured loans where the collections process indicates a loan is not recoverable. Any subsequent proceeds are recognised on a cash basis and offset against 'impairment on loans to customers' in the Income Statement. An investment security is written off and any associated impairment allowance released when there is strong evidence to suggest that nothing will be recovered.

Where a property has been taken into possession, or an LPA receiver has been appointed to collect rental income on the property, the loan continues to be carried within 'loans to customers'.

(ii) Available-for-sale financial assets
Investment securities classified as available-for-sale are carried at fair value, which appropriately reflects any impairment. Impairment is recognised when the investment security exhibits objective evidence of impairment or is uncollectible. Such evidence may include:

- Significant financial difficulty;
- Payment defaults;
- Renegotiation of terms due to borrower difficulty;
- Sustained fall in credit rating or creditworthiness;
- Significant restructuring;
- Disappearance of an active market;
- Significant and sustained fall in market price; or
- Observable data indicating measurable decrease in the estimated future cash flows from a group of financial assets, although the decrease cannot yet be identified within individual assets in the group.

Movements in the fair value which are a reflection of impairment of the long term value of the investment security are charged to 'net impairment on investment securities' in the Income Statement. Impairment losses recognised against investment securities are reversed through 'net impairment on investment securities' in the Income Statement if the improvement relates to an event occurring after the initial impairment was recognised. An investment security is written off and any associated impairment allowance released when there is strong evidence to suggest that nothing will be recovered.

If there is a sustained increase in the fair value of an investment security where an impairment loss has previously been recognised, but no improvement can be attributed to a subsequent credit event, then the increase in value may be treated as a revaluation and recognised through other comprehensive income in the available-for-sale reserve.

(k) Recognition and de-recognition of assets and liabilities
Purchases and sales of assets are accounted for once the parties are legally committed to the contract, completion is not subject to any material conditions and substantially all of the risks and rewards of the assets have been transferred.

A financial liability is de-recognised only when the contractual obligation is discharged, cancelled or has expired.

(l) Assets held for sale
In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', assets and liabilities are classified as 'held for sale' if they are available for immediate sale in their present condition, they are being actively marketed for sale and sale is considered to be 'highly probable'.

(m) Debt and equity securities in issue
Issued securities, including capital instruments, are classified as liabilities where the contractual arrangements result in the issuer having an obligation to deliver either cash or another financial asset to the security holder, or to exchange financial instruments under conditions that are potentially unfavourable to the issuer. Issued securities are classified as equity where they meet the definition of equity and confer a residual interest in the issuer's assets on the holder of the securities. Issued securities include ordinary and preference share capital. Preference shares are classified as equity instruments where dividend payments and redemptions are discretionary.

On initial recognition, debt issued is measured at its fair value net of directly attributable issue and transaction costs. Subsequent measurement is at amortised cost using the EIR method to amortise attributable issue and transaction costs, premia and discounts over the life of the instrument. These costs are charged along with interest on the debt to 'interest expense and similar charges'. In the Balance Sheet the carrying value of the instrument includes the amount of these adjustments which still remains to be charged to the Income Statement.

Equity instruments (including share capital) are initially recognised at net proceeds, after deducting transaction costs and any related income tax.

1. Principal accounting policies (continued)

(n) Foreign currencies

The presentation and functional currency of the Company and the presentation currency of the Group is pounds sterling.

Transactions which are not denominated in pounds sterling are translated into sterling at the spot rate of exchange on the date of the transaction. Monetary assets and liabilities which are not denominated in pounds sterling are translated into pounds sterling at the closing rate of exchange at the Balance Sheet date.

Foreign exchange gains and losses resulting from the restatement and settlement of such transactions are recognised in the Income Statement.

(o) Intangible assets

Intangible assets comprise capitalised computer software systems and licences.

Purchased computer software licences are capitalised as intangible assets where it is probable that future benefits will flow to the Group. Thereafter they are carried at cost less accumulated amortisation. Amortisation is provided on a straight line basis over their useful economic lives, which may be up to five years. Those which have a life expectancy at the outset of less than two years are not capitalised but instead their costs are charged to the Income Statement as they arise.

Costs that are directly associated with developing identifiable computer software systems are capitalised if the criteria in IAS 38 'Intangible Assets' are satisfied; the main criteria are that the successful completion of the development project is reasonably certain and that the software is expected to generate future economic benefits. Each item of capitalised developed computer software is carried at cost less accumulated amortisation; amortisation is provided on a straight line basis over its estimated useful life. Costs that do not qualify for capitalisation or are associated with maintaining software are charged to the Income Statement as they arise.

Intangible assets in the course of construction are not amortised until they have been completed. The costs of financing intangible assets in the course of construction are not included in the costs of the assets. Intangible assets in the course of construction are included in the impairment test referred to below, where appropriate.

All items of intangible assets are reviewed at each published Balance Sheet date for any indication of impairment. If there is indication of impairment, the carrying value is reviewed. If any impairment is identified, the asset is written down to the impaired value, being the higher of value in use and estimated net proceeds of sale, with the impairment being charged immediately to the Income Statement. In addition, the estimated useful lives are also reassessed annually, and if they are judged to have changed then the rate of amortisation charged in periods after the date of the change reflects the revised estimates.

(p) Cash and cash equivalents

Cash and cash equivalents comprise balances which are highly liquid and have an original maturity of three months or less.

(q) Taxation

(i) Current tax

The charge for taxation is based on the result for the year and takes into account taxation deferred or accelerated arising from temporary differences between the carrying amounts of certain items for taxation and for accounting purposes. Tax relating to items which are taken directly to reserves is also taken directly to reserves.

(ii) Deferred tax

Deferred tax is calculated 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. The principal temporary differences arise from depreciation of property, plant and equipment, revaluation of certain financial assets and liabilities including derivative contracts, provisions for pensions and other post-retirement benefits, and changes in accounting basis on adoption of IFRS.

Deferred tax assets are recognised when it is probable that future taxable profits will be available against which these temporary differences can be utilised.

Deferred tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax related to fair value re-measurement of available-for-sale investments and cash flow hedges, which are recognised in other comprehensive income, is also recognised in other comprehensive income, and subsequently in the consolidated Income Statement together with the associated gain or loss.

1. Principal accounting policies (continued)

(r) Retirement benefits

The Group operates a number of retirement benefit plans for its employees, including defined contribution plans, defined benefit plans and post-retirement healthcare benefits. The costs of these plans are charged to the 'administrative expenses' line of the Income Statement and to other comprehensive income in accordance with IAS 19 'Employee Benefits' and IFRIC 14 'IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'.

A defined contribution plan is a pension arrangement where the employer pays fixed contributions into a separate fund. The contributions are charged to the Income Statement when employees have rendered the related services, which is generally in the period of contribution. The Group has no further payment obligations once the contributions have been paid. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

A defined benefit plan is a pension arrangement that defines an amount of pension benefit that an employee will receive during retirement, usually dependent on one or more factors such as age, years of service and salary.

A full actuarial valuation of the Group's defined benefit sections of the existing schemes is undertaken every three years, with interim reviews in the intervening years; these valuations are updated at each published Balance Sheet date by qualified independent actuaries. For the purpose of these updates, scheme assets are included at their fair value and scheme liabilities are measured on an actuarial basis using the projected unit credit method. The inflation assumption used to determine B&B's benefit obligations is CPI, and to determine NRAM's is RPI. Details of the actuarial assumptions made are provided in note 19. The resulting net surplus or deficit is included in full in the Balance Sheet. A surplus on one scheme cannot be used to offset a deficit on another. Retirement benefit remeasurements are charged to retained earnings in full in the period in which they occur, and pass through other comprehensive income rather than the Income Statement. The Income Statement includes, for each scheme, the current service cost of providing pension benefits, the expected return on the scheme's assets, net of administration costs, and the interest cost on the scheme's liabilities. Following closure of the schemes, the current service cost is nil.

Though the schemes are in surplus on an accounting basis, they are in deficit on a trustee's funding basis. The Group is committed to funding plans to address these deficits. Surpluses on an accounting basis are only recognised on the Balance Sheet to the extent that they are recoverable through reduced contributions in the future or through refunds from the scheme. The Group is considering the potential impact of the IASB's exposure draft of possible changes to IFRIC 14.

In B&B, post-retirement healthcare benefits are accounted for in the same way as pension benefits, with the present value of the defined benefit obligation being carried as a liability on the Balance Sheet. NRAM does not provide post-retirement healthcare benefits.

(s) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and provision for impairment, as appropriate. Additions and subsequent expenditure are included in the asset's carrying value or are recognised as a separate asset only when they improve the expected future economic benefits to be derived from the asset. All other expenditure is regarded as repairs and maintenance and is charged to the Income Statement in the period in which it is incurred. Depreciation is provided so as to write off the cost less the estimated residual value of each significant component of each item of property, plant and equipment over that component's estimated useful life, as follows:

- Freehold land is not depreciated
- Freehold and leasehold buildings 6.7% pa on a straight line basis
- Motor vehicles 25% pa on a reducing balance basis
- Computer equipment 20% - 33% pa on a straight line basis
- Fixtures and fittings 20% pa on a straight line basis
- Other plant and equipment and major alterations to buildings 10% pa on a straight line basis or over the remaining life of the building if shorter.

All items of property, plant and equipment are reviewed at each published Balance Sheet date for any indication of impairment. If there is indication of impairment, the carrying value is reviewed. If any impairment is identified, the asset is written down to the higher of value in use and estimated net proceeds of sale, with the impairment being charged immediately in the Income Statement. In addition, the estimated useful lives and estimated residual values are also reassessed annually, and if they are judged to have changed then the rate of depreciation charged in periods after the date of the change reflects the revised estimates.

Assets in the course of construction are not depreciated until they have been completed and transferred to the appropriate category of property, plant and equipment. The costs of financing assets in the course of construction are not included in the costs of the assets. Assets in the course of construction are included within the impairment test referred to above where appropriate.

A previously recognised impairment charge on an asset may be reversed in full or in part where a change in circumstances leads to a change in the estimates used to determine its recoverable amount. The carrying value of the asset will not be increased above the carrying value at which it would have been held had the impairment not been recognised.

1. Principal accounting policies (continued)

(t) Provisions and contingent liabilities

Provisions are recognised when, and only when, the following criteria are all met:

- there is a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

Provisions are reviewed at each Balance Sheet date and are released if they no longer meet the above criteria.

Provisions are discounted to net present value using rates which reflect the risks specific to the provision, if the effect of discounting is material.

Contingent liabilities are possible obligations whose existence depends upon the outcome of uncertain future events or are present obligations where the outflows of resources are uncertain or cannot be reliably measured. Contingent liabilities are not recognised in the Balance Sheet but are disclosed unless they are remote.

(u) Investment securities held

Investment securities are categorised either as 'available-for-sale' or as 'loans and receivables'; for each instrument, the Directors adopt the category which they consider to be the most appropriate.

Investment securities categorised as available-for-sale are carried at fair value with movements in fair value, excluding impairment provisions, being taken to the available-for-sale reserve. If an investment security which has been categorised as available-for-sale becomes impaired, the impairment is charged to the Income Statement in the 'net impairment on investment securities' line.

Investment securities categorised as loans and receivables are carried at amortised cost less any impairment, with any impairment being charged to the Income Statement in the 'net impairment on investment securities' line.

Where the Directors believe it appropriate to do so, investment securities which were initially categorised as 'available-for-sale' have subsequently been re-categorised to 'loans and receivables' in accordance with the revisions to IAS 39 issued by the IASB in October 2008.

(v) Loan commitments

In respect of loan commitments, a liability is recognised only if there is an onerous commitment; there were no onerous loan commitments in either the current or previous year. The commitment ceases to be disclosed once it is advanced or expires. Loan commitments comprise commitments to advance cash sums and to allow drawdown of monies previously overpaid (where the terms of the loan specifically allow). In respect of monthly drawdown products, the commitment reflects an estimate of the future drawdowns to redemption.

(w) Lifetime mortgages

The Group has a portfolio of lifetime (equity release) mortgage loans secured on residential property. Under the terms of these loans, when the borrower dies or goes into long term care the property is sold and the proceeds used to redeem the loan. Where the sale proceeds are less than the contractual sum owed the Group does not have any further ability to recover amounts from the borrower or the estate. The loans are carried within residential loans to customers. The Group accounts for lifetime loans in accordance with IFRS 4 'Insurance Contracts' as they are considered to meet the definition of an insurance contract ie that the Group has accepted the risk of negative equity arising on the loans. The loan assets are measured at the balance due from the customer, and as required by IFRS 4 the carrying amount is reduced by a provision for insurance risk. The loans are not unbundled between a deposit component and an insurance component as the net carrying amount appropriately reflects the value of the insurance risk. The insurance provision is calculated as the net present value of future estimated losses arising as a result of shortfalls of sale proceeds compared to outstanding balances. All income arising on the loans is accounted for as interest, with no element of the income being accounted for as insurance premium, and is recognised in line with interest on other loans to customers.

2. NRAM Group reorganisation

On 29 April 2016 NRAM Limited acquired NRAM plc from UKAR by way of a share-for-share exchange, NRAM Limited issuing the same number and class of shares as were acquired from UKAR. On 30 April 2016 NRAM plc declared a dividend of £3,787.4m to NRAM Limited and paid the dividend in specie, using mortgage loans. Also on 30 April 2016 NRAM plc transferred certain assets and liabilities to NRAM Limited, including NRAM plc's investments in subsidiary undertakings. On 5 May 2016 NRAM Limited sold 100% of the shares in NRAM plc to Cerberus for cash, generating an accounting profit of £51.0m.

NRAM Limited's acquisition of the shares in NRAM plc and the transfer of assets and liabilities to NRAM Limited have been accounted for as transactions between entities under common control and predecessor accounting principles have been applied in the financial statements of NRAM Limited. The transaction has been accounted for in the UKAR Group Financial Statements following similar principles with an amount being transferred to a merger reserve reflecting the dividend in specie.

2. NRAM Group reorganisation (continued)

This change in presentation of reserves has been treated as a restatement of the prior year reserves. The UKAR Group merger reserve was increased by a transfer from retained earnings of £3,787.4m being equal to the NRAM plc pre-sale dividend in specie. This reserve is being transferred to retained earnings following the sale of the shares in NRAM plc and as the mortgage loans which were used to pay the dividend are paid down in cash.

3. Critical judgements and accounting estimates

In preparing the Financial Statements, management are required to make a series of judgements and estimates. Judgements involve an interpretation of requirements to decide how to allocate, value or recognise an item. Estimates arise from using assumptions which result in a range of possible outcomes. The most important judgements and estimates used in preparing these Financial Statements are described below.

(a) Date of recognition of sale of loans

As detailed in note 14, on 31 March 2017 UKAR announced that following an open and competitive process B&B had agreed to sell two separate asset portfolios comprising performing buy-to-let loans for a total of £11.8bn to Prudential and to funds managed by Blackstone. The contracts for sale were signed on 30 March 2017. Financial completion, including receipt of the balance of the sale proceeds, occurred on 25 April 2017. The sale was recognised at the point of contract signature for the following reasons:

- contract signature committed all parties to the deal;
- the risks and rewards of the loans had passed to the buyers;
- between contract signing and financial completion B&B was to continue to collect the cash flows arising on the loans and to hold this cash within its cash and cash equivalents - B&B was contractually obliged to pass the accumulated flows to the buyers at financial completion, which was not considered to be a material delay;
- in the judgement of the Directors, at the point of contract signature although there remained conditions which were to be satisfied, the probability that the sale would not proceed to successful financial completion in accordance with the contractually agreed terms was remote.

At the point of contract signature the best estimate was recognised in respect of the amount of the sale proceeds and of the loss on sale. In the Financial Statements for the year to 31 March 2017 these amounts have been adjusted to reflect the final proceeds as determined on financial completion in April; this adjustment is considered to be an adjusting event as defined by IAS 10 ‘Events after the Reporting Period’.

(b) Impairment losses on loans

The Group reviews its loan impairment on a monthly basis and assesses individual impairment losses by reference to an individual review of the underlying asset and utilises actual loss experience to provide both probabilities of defaults and property forced sale discounts across a portfolio of products. Collective impairment losses on loans are calculated using a statistical model. The key assumptions used in this model are the probability of any balance entering into default as a result of an event that had occurred prior to the Balance Sheet date, the probability of this default resulting in possession or write-off, and the estimated subsequent loss incurred. These key assumptions are based on observed data trends and are updated on a regular basis within agreed methodology to ensure the impairment allowance is entirely representative of the current portfolio. The accuracy of the impairment calculation would, therefore, be affected by unanticipated changes to the economic situation and assumptions which differ from actual outcomes. To the extent that house prices were to change by +/- 10%, the residential impairment allowance would be an estimated £28.9m lower (2016: £39.7m) or £35.0m higher (2016: £47.3m) respectively. Further information in respect of the sensitivity of insurance provisions is provided in note 15.

(c) Provisions

Provisions are carried in respect of certain known or forecast future payments, as described in note 26. Where the future payment amount is unknown, provisions are set at a level which covers the estimated number of future payments and the estimated average payment amount. Provisions are calculated using the best available information but the actual future outcomes of items provided for may differ from expectations.

An additional provision of £49.2m has been recognised following the publication of the FCA’s Policy Statement PS17/3 'Payment protection insurance complaints: feedback on CP16/10 and final rules and guidance', which sets a deadline date for complaints at 29 August 2019 and confirms the approach in relation to Plevin. The rules and guidance include an FCA-led communications campaign to raise awareness of the deadline and the requirement to proactively contact previously rejected mis-selling complainants who are eligible to complain again in the light of Plevin. Reflecting heightened awareness of a potential PPI deadline, actual claims volumes received during the year have been higher than previously modelled, which combined with the final proposals is expected to lead to higher claims volumes throughout the period to 29 August 2019 than previously assumed.

3. Critical judgements and accounting estimates (continued)

(d) Retirement benefit obligations

Liabilities in respect of the Group's defined benefit pension schemes are carried on the Balance Sheet at values calculated in accordance with IAS 19. In conjunction with the Group's actuaries, assumptions are adopted which have impacts on the calculated value of the liabilities and also on the amounts charged or credited to the Income Statement. The sensitivities of the liability values to key assumptions are disclosed in note 19.

(e) Fair value calculations

For the majority of instruments carried at fair value, fair value is determined by reference to quoted market prices or lead manager prices. Where these are not available, fair value is calculated using discounted cash flows, applying independently sourced market parameters including interest rates and currency rates. Other factors are also considered, such as counterparty credit quality and liquidity. Management must use judgement to arrive at estimates where not all necessary data can be externally sourced or where factors specific to the Group's holdings need to be considered. The accuracy of the fair value calculations may, therefore, be affected by unexpected market movements or variations in actual outcomes when compared to estimates and assumptions used for modelling purposes. For example, if management were to use a tightening in the credit spread of 10 basis points, the fair value of derivatives would increase from the reported fair values by £19.1m (2016: £20.4m increase).

4. Net interest income

	12 months to 31 March 2017 £m	12 months to 31 March 2016 £m
Interest receivable and similar income		
On secured loans	**945.5**	1,495.0
On other lending	**21.6**	44.6
On investment securities and deposits	**26.8**	33.1
Total interest receivable and similar income	**993.9**	1,572.7
Interest expense and similar charges		
On amounts due to banks and HM Treasury	**(201.3)**	(310.3)
State guarantee fee*	**(2.6)**	(28.0)
On debt securities and other	**(20.8)**	(124.8)
Total interest expense and similar charges	**(224.7)**	(463.1)
Net interest income	**769.2**	1,109.6
Average balances		
Interest-earning assets ('IEA')	**36,344**	52,850
Financed by:		
- interest-bearing funding	**9,936**	26,886
- interest-free funding**	**26,408**	25,964
Average rates:	**%**	%
- gross yield on IEA	**2.73**	2.98
- cost of interest-bearing funding**	**(2.26)**	(1.62)
Interest spread	**0.47**	1.36
State guarantee fee*	**(0.01)**	(0.05)
Contribution of interest-free funding**	**1.66**	0.79
Net interest margin on average IEA	**2.12**	2.10
Average Bank Base Rate	**0.34**	0.50
Average 1-month LIBOR	**0.34**	0.51
Average 3-month LIBOR	**0.44**	0.58

* *At the time of the nationalisation of B&B, HM Treasury provided guarantees with regard to certain wholesale borrowings and derivative transactions existing at that time. The amount of this fee is dependent on balances outstanding and hence it is included within 'interest expense and similar charges'. The cost of interest-bearing funding is shown excluding this state guarantee fee. At the time of the nationalisation of NRAM plc, HM Treasury provided a guarantee with regard to certain wholesale borrowings and derivative transactions existing at that time. A similar guarantee has been provided to NRAM Limited since 30 April 2016. The amount of this fee is not dependent on balances outstanding and hence it is included within 'fee and commission expense'.*

** *Interest-free funding is calculated as an average over the financial period and includes the Statutory Debt and share capital and reserves.*

Total interest receivable and similar income includes interest accrued on individually impaired assets of £9.8m (2016: £11.2m).

5. Net realised gains less losses on investment securities

Net realised gains less losses on investment securities recognised in the Income Statement comprised the following:

	12 months to 31 March 2017 £m	12 months to 31 March 2016 £m
Net realised gains on available-for-sale instruments	**14.4**	7.7
Net realised gains on instruments at amortised cost	**4.3**	7.8
Total net realised gains on investment securities	**18.7**	15.5

6. Unrealised fair value movements on financial instruments and hedge ineffectiveness

	12 months to 31 March 2017 £m	12 months to 31 March 2016 £m
Net loss in fair value:		
- translation losses on underlying instruments	**(1.2)**	(55.5)
- fair value movements on derivatives which are economic hedges but are not in hedge accounting relationships	**(3.1)**	53.2
Unrealised fair value movements	**(4.3)**	(2.3)
Net gains on fair value hedging instruments	**32.1**	41.5
Net losses on fair value hedged items attributable to hedged risk	**(36.2)**	(62.8)
Ineffectiveness on cash flow hedges	**(3.9)**	(7.3)
Net hedge ineffectiveness losses	**(8.0)**	(28.6)
Total	**(12.3)**	(30.9)

7. Administrative expenses

B&B provides services to NRAM, UKAR and UKARcs. NRAM, UKAR and UKARcs had no direct employees during the years presented. As announced on 4 May 2016, during the year B&B's mortgage servicing operations were transferred to Computershare, along with some 1,700 employees. This is reflected in the increase in outsourced and professional services costs and corresponding decreases in staff, IT, depreciation and other costs. The monthly average number of persons employed by B&B during the year was as follows:

	12 months to 31 March 2017 Number	12 months to 31 March 2016 Number
Average headcount:		
Full time	**399**	1,580
Part time	**78**	412
Total employed	**477**	1,992
Total average full time equivalent	**456**	1,869

The full time equivalent is based on the average hours worked by employees in the year.

The number of persons employed by B&B at the end of the year was as follows:

	31 March 2017 Number	31 March 2016 Number
Full time	**160**	1,517
Part time	**15**	395
Total employed	**175**	1,912
Total full time equivalent headcount	**173**	1,793

Staff numbers include Executive but not Non-Executive Directors.

In addition to the permanent staff above, the Group had engaged a full time equivalent of 15 temporary staff and specialist contractors at 31 March 2017 (31 March 2016: 296).

7. Administrative expenses (continued)

	12 months to 31 March 2017 £m	12 months to 31 March 2016 £m
The Group's aggregate costs of permanent staff were as follows:		
Wages and salaries	**19.3**	59.1
Social security costs	**2.2**	5.8
Defined benefit pension costs (see note 19)	**(17.3)**	(7.8)
Defined contribution pension costs (see note 19)	**1.3**	4.1
Other retirement benefit costs (see note 19)	**0.3**	0.4
Total staff costs	**5.8**	61.6
IT costs	**17.4**	43.2
Outsourced and professional services	**117.8**	16.8
Depreciation and amortisation (see notes 20 and 21)	**6.3**	22.2
Other administrative expenses	**20.2**	36.6
Ongoing administrative expenses	**167.5**	180.4
Other net administrative expenses:		
- Transformation costs	**-**	73.4
Total administrative expenses	**167.5**	253.8

The transformation costs of £73.4m incurred in 2015/16 related to the outsourcing of mortgage servicing to Computershare.

Exit packages

No exit packages were paid in respect of Directors in the current or prior year.

For other employees, redundancy and other departure costs have been paid in accordance with the Group's policies and with legal requirements.

Exit costs are provided for in accordance with IAS 37 when there is a present obligation and it is probable that an exit payment will be made.

Exit package cost band				**12 months to 31 March 2017**
	Number of compulsory redundancies	**Number of voluntary redundancies**	**Number of other departures agreed**	**Total number of exit packages by cost band**
< £10,000	**2**	**-**	**-**	**2**
£10,001 - £25,000	**5**	**-**	**1**	**6**
£25,001 - £50,000	**2**	**-**	**-**	**2**
£50,001 - £100,000	**3**	**-**	**-**	**3**
£100,001 - £150,000	**2**	**-**	**1**	**3**
£150,001 - £200,000	**1**	**-**	**-**	**1**
Total number of exit packages	**15**	**-**	**2**	**17**
Total cost (£'000)	**785**	**-**	**163**	**948**

Exit package cost band				12 months to 31 March 2016
	Number of compulsory redundancies	Number of voluntary redundancies	Number of other departures agreed	Total number of exit packages by cost band
< £10,000	6	7	1	14
£10,001 - £25,000	2	40	1	43
£25,001 - £50,000	3	23	2	28
£50,001 - £100,000	1	6	-	7
£100,001 - £150,000	-	-	-	-
£150,001 - £200,000	-	-	-	-
Total number of exit packages	12	76	4	92
Total cost (£'000)	225	1,930	102	2,257

7. Administrative expenses (continued)

Auditor's remuneration

The following costs are included within administrative expenses:

	12 months to 31 March 2017 £m	12 months to 31 March 2016 £m
Fees payable to the parent's auditor and its associates in respect of the parent Company's individual and consolidated Financial Statements	**0.1**	0.1
Fees payable to Company auditor and their associates for other services:		
- the audit of the Company's subsidiaries pursuant to legislation	**0.5**	0.7
- audit-related assurance services	**0.1**	0.7
Total	**0.7**	1.5

The amounts shown in the above analysis are exclusive of VAT.

The National Audit Office succeeded PricewaterhouseCoopers LLP as the Group's auditor following the 2015-16 financial year. Hence the 2016-17 figures in the above table relate to the National Audit Office and the 2015-16 figures to PricewaterhouseCoopers LLP.

No separate disclosure has been provided of fees payable in respect of the Company as the consolidated Financial Statements are required to disclose these fees on a consolidated basis, as shown in the above table.

8. Insurance claim

In 2013 NRAM plc submitted a claim in respect of CCA remediation payments. Under the terms of the sale of the shares in NRAM plc (now Landmark Mortgages Limited) to Cerberus on 5 May 2016 any proceeds of this claim were payable to NRAM Limited. The £50.0m claim was settled in cash during the year to 31 March 2017.

9. Loss on repurchase of own liabilities

	12 months to 31 March 2017 £m	12 months to 31 March 2016 £m
Principal amount of instruments repurchased	**-**	4,644.8
Amount paid to repurchase instruments	**-**	(5,281.7)
Other net gains resulting from the repurchase	**-**	618.7
Loss on repurchase	**-**	(18.2)

During 2015/16 certain Covered Bonds were repurchased. These acquisitions reduced ongoing funding costs and simplified the Balance Sheet. The other net gains principally comprised accrued interest and hedge accounting adjustments.

10. Taxation

The tax charge for the year comprises:	**12 months to 31 March 2017 £m**	12 months to 31 March 2016 £m
Current tax:		
- on profit for the year	**(55.0)**	(250.4)
- adjustments in respect of prior periods	**5.0**	10.1
Total current tax	**(50.0)**	(240.3)
Deferred tax (see note 17):		
- origination and reversal of temporary differences	**(11.2)**	(17.3)
Total deferred tax	**(11.2)**	(17.3)
Total taxation charge per the Income Statement	**(61.2)**	(257.6)

The following tax amounts have been (charged)/credited to equity:	**12 months to 31 March 2017 £m**	12 months to 31 March 2016 £m
Current tax:		
- relating to available-for-sale investments	**(4.0)**	(7.1)
Deferred tax:		
- relating to cash flow hedge reserve	**(2.6)**	62.1
- relating to available-for-sale investments	**(0.4)**	-
- relating to retirement benefit remeasurements	**26.7**	(38.1)
Net credit to equity	**19.7**	16.9

There was no foreign tax charged in the year (2016: £nil).

The tax charge on the Group's profit before tax differs from the theoretical amount that would arise using the standard weighted average rate of UK corporation tax of 20% (2016: 20%) as follows:

	12 months to 31 March 2017 £m	12 months to 31 March 2016 £m
Profit before taxation	**346.9**	1,175.8
Tax calculated at rate of 20% (2016: 20%)	**(69.4)**	(235.2)
Effects of:		
- income not taxable and expenses not deductible for tax purposes	**3.1**	(31.2)
- adjustments in respect of prior periods	**5.1**	8.8
Total taxation charge for the year	**(61.2)**	(257.6)

Taxation appropriately reflects changes in tax rates which had been substantively enacted by 31 March 2017.

The effective tax rate has largely been impacted as a result of the exemption from tax on the sale of shares exceeding those expenses which are disallowable for tax purposes and the release of prior year provisions.

11. Cash at bank and in hand

	31 March 2017 £m	31 March 2016 £m
Balances with the Bank of England	**364.5**	1,306.7
Balances with the Government Banking Service	**1,200.2**	2,500.5
Balances with other banks	**548.0**	1,791.1
Total	**2,112.7**	5,598.3

Balances with the Bank of England and the Government Banking Service earn interest at rates linked to Bank Base Rate.

12. Investment securities

	31 March 2017 £m	31 March 2016 £m
Available-for-sale securities	**22.4**	51.0
Investment securities held as loans and receivables	**260.0**	301.8
Unsecured investment loans	**-**	-
Total	**282.4**	352.8

In the Balance Sheet the carrying values of impaired assets are presented net of the impairment allowances shown in note 13.

Net impairment release on investment securities for the year comprised:

	12 months to 31 March 2017 £m	12 months to 31 March 2016 £m
Net impairment reversals on available-for-sale securities	**4.7**	1.6
Net impairment reversals on investment securities held as loans and receivables and unsecured investment loans	**1.4**	5.6
Total net impairment release	**6.1**	7.2

(a) Available-for-sale securities	**31 March 2017 £m**	31 March 2016 £m
At fair value:		
Listed	**22.4**	51.0
Unlisted	**-**	-
Total	**22.4**	51.0

The movement in available-for-sale securities was as follows:

	12 months to 31 March 2017 £m	12 months to 31 March 2016 £m
At start of year	**51.0**	158.1
Disposals (sales and redemptions)	**(43.2)**	(113.8)
Exchange differences	**2.4**	6.9
Net gains/(losses) on changes in fair value	**6.1**	(7.4)
Impairment	**6.1**	7.2
At end of year	**22.4**	51.0

(b) Investment securities held as loans and receivables	**31 March 2017 £m**	**31 March 2016 £m**
Carrying value	**260.0**	301.8
Fair value	**258.4**	283.5
Listed	**253.0**	293.6
Unlisted	**7.0**	8.2
Total	**260.0**	301.8

Note 33(a) provides further information regarding investment securities which have been reclassified as loans and receivables.

(c) Unsecured investment loans	**31 March 2017 £m**	31 March 2016 £m
Carrying value	**-**	**-**
Fair value	**-**	19.6

These unsecured investment loans were listed and were fully impaired; all were disposed of during the year.

13. Wholesale assets

The assets in the following tables are of a wholesale nature as opposed to individual customer assets. The credit and concentration risk characteristics of these portfolios should, therefore, be considered together.

	31 March 2017 £m	31 March 2016 £m
Balances with the Bank of England (see note 11)	**364.5**	1,306.7
Balances with the Government Banking Service (see note 11)	**1,200.2**	2,500.5
Balances with other banks (see note 11)	**548.0**	1,791.1
Investment securities (see note 12)	**282.4**	352.8
Total	**2,395.1**	5,951.1

The Group had no collateral or other credit enhancements in respect of these assets.

(a) Credit risk

Impairment is set out in the table below:

At 31 March 2017	**Balances with the Bank of England £m**	**Balances with the Government Banking Service £m**	**Balances with other banks £m**	**Available-for-sale securities £m**	**Investment securities held as loans and receivables £m**	**Unsecured investment loans £m**	**Total £m**
Neither past due nor impaired	**364.5**	**1,200.2**	**548.0**	**2.5**	**250.6**	**-**	**2,365.8**
Impaired	**-**	**-**	**-**	**170.6**	**73.5**	**-**	**244.1**
	364.5	**1,200.2**	**548.0**	**173.1**	**324.1**	**-**	**2,609.9**
Provisions	**-**	**-**	**-**	**(150.7)**	**(64.1)**	**-**	**(214.8)**
Total	**364.5**	**1,200.2**	**548.0**	**22.4**	**260.0**	**-**	**2,395.1**

At 31 March 2016	Balances with the Bank of England £m	Balances with the Government Banking Service £m	Balances with other banks £m	Available-for-sale securities £m	Investment securities held as loans and receivables £m	Unsecured investment loans £m	Total £m
Neither past due nor impaired	1,306.7	2,500.5	1,791.1	3.6	291.8	-	5,893.7
Impaired	-	-	-	245.2	52.2	90.4	387.8
	1,306.7	2,500.5	1,791.1	248.8	344.0	90.4	6,281.5
Provisions	-	-	-	(197.8)	(42.2)	(90.4)	(330.4)
Total	1,306.7	2,500.5	1,791.1	51.0	301.8	-	5,951.1

The credit quality of wholesale assets by reference to credit ratings is set out in the table below:

At 31 March 2017	**£m**	**AAA %**	**AA %**	**A %**	**BBB to B %**	**CCC and below %**
Balances with the Bank of England	**364.5**	**-**	**100**	**-**	**-**	**-**
Balances with the Government Banking Service	**1,200.2**	**-**	**100**	**-**	**-**	**-**
Balances with other banks	**548.0**	**-**	**23**	**16**	**61**	**-**
Investment securities:						
- available-for-sale securities	**22.4**	**-**	**3**	**26**	**8**	**63**
- investment securities held as loans and receivables	**260.0**	**11**	**14**	**39**	**31**	**5**
Total investment securities	**282.4**	**10**	**13**	**38**	**30**	**9**
Total	**2,395.1**	**1**	**73**	**8**	**17**	**1**

13. Wholesale assets (continued)

(a) Credit risk (continued)

At 31 March 2016	£m	AAA %	AA %	A %	BBB to B %	CCC and below %
Balances with the Bank of England	1,306.7	-	100	-	-	-
Balances with the Government Banking Service	2,500.5	-	100	-	-	-
Balances with other banks	1,791.1	-	73	6	21	-
Investment securities:						
- available-for-sale securities	51.0	-	3	53	4	40
- investment securities held as loans and receivables	301.8	10	18	36	32	4
Total investment securities	352.8	8	16	39	28	9
Total	5,951.1	1	87	4	7	1

(b) Concentration risk

Wholesale assets are analysed by geographical region at their carrying amounts in the table below:

At 31 March 2017	**UK £m**	**Europe £m**	**US £m**	**Other countries £m**	**Total £m**
Balances with the Bank of England	**364.5**	**-**	**-**	**-**	**364.5**
Balances with the Government Banking Service	**1,200.2**	**-**	**-**	**-**	**1,200.2**
Balances with other banks	**547.0**	**-**	**1.0**	**-**	**548.0**
Investment securities:					
- available-for-sale securities	**7.7**	**8.5**	**3.7**	**2.5**	**22.4**
- investment securities held as loans and receivables	**170.1**	**67.2**	**12.1**	**10.6**	**260.0**
Total investment securities	**177.8**	**75.7**	**15.8**	**13.1**	**282.4**
Total	**2,289.5**	**75.7**	**16.8**	**13.1**	**2,395.1**

At 31 March 2016	UK £m	Europe £m	US £m	Other countries £m	Total £m
Balances with the Bank of England	1,306.7	-	-	-	1,306.7
Balances with the Government Banking Service	2,500.5	-	-	-	2,500.5
Balances with other banks	1,764.7	25.8	0.6	-	1,791.1
Investment securities:					
- available-for-sale securities	30.8	10.3	5.9	4.0	51.0
- investment securities held as loans and receivables	183.0	91.8	14.9	12.1	301.8
Total investment securities	213.8	102.1	20.8	16.1	352.8
Total	5,785.7	127.9	21.4	16.1	5,951.1

At 31 March 2017 and 31 March 2016 the Group held no investment securities issued by the governments of Portugal, the Republic of Ireland, Italy, Greece or Spain.

14. Loans to customers

	31 March 2017 £m	31 March 2016 £m
Residential mortgages	**18,887.7**	34,700.3
Commercial loans	**257.3**	440.5
Total secured loans	**19,145.0**	35,140.8
Unsecured loans	**317.8**	391.8
Total	**19,462.8**	35,532.6

Residential mortgages include all of the Group's buy-to-let loans. Commercial loans comprise loans secured on commercial properties. The 'Together' product, previously offered by NRAM, combines a secured and unsecured loan all at one interest rate. Outstanding secured balances in respect of this product are included within total residential mortgages while outstanding unsecured balances are included within unsecured loans.

All of the Group's loans to customers are to UK customers.

Balances include accounting adjustments in respect of provisioning requirements.

Residential mortgages include all of the Group's lifetime (equity release) loans. Each loan comprised a lump sum advanced at the outset on which interest accrues at a fixed interest rate. Under the terms of these loans, when the borrower dies or goes into long term care the property is sold and the proceeds used to redeem the loan. Where the sale proceeds are less than the contractual sum owed the Group does not have any further ability to recover amounts from the borrower or the estate. The carrying amount of the lifetime loans at 31 March 2017 was £887.8m (2016: £895.7m) against which a provision for insurance risk was carried of £130.3m (2016: £111.1m) (see note 15). The interest income on the loans for the year was £58.8m (2015-16: £59.2m).

At 31 March 2016 loans to customers included loans amounting to £15,173.2m which had been sold to bankruptcy-remote SPVs whereby substantially all of the risks and rewards of the portfolio were retained by the Group. Accordingly, all of these loans were retained on the Group's Balance Sheet. Further details are provided in note 24.

Fair value adjustments on portfolio hedging amounting to £454.6m (2016: £436.6m) relate to interest rate derivatives designated in a fair value portfolio hedge relationship.

Loans to customers and redemptions comprise the following product types:

	Balances At 31 Mar 2017 £m	%	**Redemptions** 12 months to 31 Mar 2017 £m	Balances At 31 Mar 2016 £m	%	Redemptions 12 months to 31 Mar 2016 £m
Residential mortgages						
Buy-to-let	**6,308.6**	**33**	**(1,630.7)**	19,839.4	57	(1,724.8)
Self Cert	**4,536.5**	**24**	**(438.3)**	5,040.8	15	(497.1)
Together	**2,824.0**	**15**	**(552.2)**	3,479.9	10	(1,271.8)
Standard and other	**5,218.6**	**28**	**(678.4)**	6,340.2	18	(1,468.2)
Total residential mortgages	**18,887.7**	**100**	**(3,299.6)**	34,700.3	100	(4,961.9)
Residential loans	**18,887.7**	**97**	**(3,299.6)**	34,700.3	98	(4,961.9)
Commercial loans	**257.3**	**1**	**(175.9)**	440.5	1	(75.3)
Total secured loans	**19,145.0**	**98**	**(3,475.5)**	35,140.8	99	(5,037.2)
Unsecured loans	**317.8**	**2**	**(39.3)**	391.8	1	(95.2)
Total	**19,462.8**	**100**	**(3,514.8)**	35,532.6	100	(5,132.4)

Redemptions comprise full redemptions, voluntary partial redemptions and cash receipts from possessions but exclude overpayments, regular monthly payments and asset sales.

At 31 March 2017 56% (2016: 54%) of the Group's residential mortgage accounts (excluding buy-to-let) held by 53,829 (2016: 65,172) customers were 'interest only' with 75% (2016: 74%) of these having more than ten years until maturity.

On 13 November 2015 UKAR announced that NRAM plc had agreed to sell a £13bn asset portfolio to affiliates of Cerberus, which included £12bn of mortgages from the Granite securitisation structure. The sale of these Granite loans generated a profit of £59.4m before tax recognised in December 2015 when the beneficial interest of the loans transferred to Cerberus. During the year ended 31 March 2016 NRAM plc also released £3.4m of warranty provisions relating to sales in earlier periods, as these provisions were no longer required.

As detailed in note 2, the sale to Cerberus was completed by the sale by NRAM Limited of its shareholding in NRAM plc in May 2016, which generated a profit of £51.0m. This profit has been treated as a profit on sale of the loans which were retained by NRAM plc.

14. Loans to customers (continued)

On 31 March 2017 UKAR announced that following an open and competitive process B&B had agreed to sell two separate asset portfolios comprising performing buy-to-let loans for a total of £11.8bn to Prudential and to funds managed by Blackstone. The sale of these loans generated a loss before tax of £384.7m recognised on 30 March 2017 on signature of the sale contracts. This loss reflects the low interest rates payable on the loans. At 31 March 2017 £11,483.9m of the sale proceeds were owed to B&B including an adjustment for cashflows on the portfolio prior to settlement. As disclosed in note 37 financial completion occurred on 25 April 2017; on 26 April 2017 the proceeds were used to repay £10,976.6m of the Statutory Debt owed to the FSCS and £440.7m of the WCF. During the year B&B also released £1.3m of provisions relating to sales in earlier periods, as these were no longer required.

The net loss on sale of loans of £332.4m in the year comprised the loss of £384.7m in respect of the March 2017 sale by B&B, partly offset by the profit of £51.0m in respect of the May 2016 sale by NRAM and £1.3m release of provisions.

15. Impairment on loans to customers

Allowances for credit losses against loans to customers have been made as follows:

	On residential mortgages	**On commercial loans**	**On unsecured loans**	**Total**
	£m	**£m**	**£m**	**£m**
At 1 April 2016	**663.4**	**85.4**	**96.2**	**845.0**
Movements during the year:				
- write-offs	**(64.3)**	**(76.4)**	**(6.3)**	**(147.0)**
- loan impairment (credit)/charge	**(29.1)**	**3.3**	**(13.9)**	**(39.7)**
- sale of loan book	**(8.9)**	**-**	**(1.1)**	**(10.0)**
Net movements during the year	**(102.3)**	**(73.1)**	**(21.3)**	**(196.7)**
At 31 March 2017	**561.1**	**12.3**	**74.9**	**648.3**
The Income Statement (credit)/charge comprises:				
- loan impairment (credit)/charge	**(29.1)**	**3.3**	**(13.9)**	**(39.7)**
- recoveries net of costs	**(24.2)**	**(4.0)**	**-**	**(28.2)**
Total Income Statement credit	**(53.3)**	**(0.7)**	**(13.9)**	**(67.9)**

	On residential mortgages	On commercial loans	On unsecured loans	Total
	£m	£m	£m	£m
At 1 April 2015	888.0	76.7	205.1	1,169.8
Movements during the year:				
- write-offs	(95.3)	(3.9)	(16.5)	(115.7)
- loan impairment (credit)/charge	(44.4)	12.6	1.5	(30.3)
- sale of loan book	(84.9)	-	(93.9)	(178.8)
Net movements during the year	(224.6)	8.7	(108.9)	(324.8)
At 31 March 2016	663.4	85.4	96.2	845.0
The Income Statement (credit)/charge comprises:				
- loan impairment (credit)/charge	(44.4)	12.6	1.5	(30.3)
- recoveries net of costs	(44.3)	(3.0)	-	(47.3)
Total Income Statement (credit)/charge	(88.7)	9.6	1.5	(77.6)

As detailed in note 14, residential mortgages include lifetime (equity release) loans. The Group is exposed to the risk of negative equity on these loans. A provision for insurance risk, calculated in accordance with IFRS 4, is carried within the above allowance for credit losses on residential mortgages. The balance of the provision at 31 March 2017 was £130.3m (2016: £111.1m) and the loan impairment charge for the year included £19.9m (2015-16: £13.7m) in respect of adjustments to this provision balance. £0.7m of the provision was utilised during the year (2015-16: £0.4m). The expected value of future losses arising on the Lifetime book is sensitive to the assumed level of future house price inflation ('HPI') and the assumed discount to HPI to reflect the Lifetime product. Future HPI has been assumed to be at a constant rate of 3.26%pa. If actual future HPI were to be at a rate of 2.26%pa then future losses would be £50.9m higher than has been provided for; if actual future HPI were to be at a rate of 4.26%pa then future losses would be £47.0m lower than has been provided for. If discount to HPI were to increase by 1% then future losses would be £6.4m higher than has been provided for. If discount to HPI were to decrease by 1% then future losses would be £6.2m lower than has been provided for. The provision for losses on the Lifetime book is not materially sensitive to mortality assumptions, which are based on National Life Tables issued by the Office for National Statistics.

16. Credit quality of loans to customers

In respect of loans to residential customers, the Group holds collateral in the form of mortgages over residential properties. The fair value of this collateral was as follows:

	31 March 2017	31 March 2016
	£m	£m
Neither past due nor impaired	**29,947.0**	54,997.6
Past due but not impaired	**1,497.4**	2,296.8
Impaired	**377.1**	433.6
Total	**31,821.5**	57,728.0

If the collateral amount on each individual loan were capped at the amount of the balance outstanding and any surplus of collateral values over balances outstanding ignored, the fair value of collateral held would be as follows:

	31 March 2017	31 March 2016
	£m	£m
Neither past due nor impaired	**18,071.7**	33,274.2
Past due but not impaired	**988.1**	1,581.3
Impaired	**279.6**	335.9
Total	**19,339.4**	35,191.4
The impaired balances above include the following carrying amount of assets in possession capped at the balance outstanding	**57.4**	59.3

The fair value of the collateral is estimated by taking the most recent valuation of the property and adjusting for house price inflation or deflation up to the Balance Sheet date.

The indexed loan to value ('LTV') of residential loan balances, weighted by loan balance, falls into the following ranges:

	31 March 2017	31 March 2016
	%	%
To 50%	**12.7**	13.3
50% to 75%	**46.8**	43.3
75% to 100%	**36.7**	39.3
Over 100%	**3.8**	4.1
Total	**100.0**	100.0

The average indexed LTV based on a simple average is 61.1% (31 March 2016: 61.3%) and on a weighted average is 67.7% (31 March 2016: 71.1%).

	31 March 2017				31 March 2016			
	Residential mortgages	**Commercial loans**	**Unsecured loans**	**Total**	Residential mortgages	Commercial loans	Unsecured loans	Total
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Neither past due nor impaired	**18,150.5**	**245.9**	**322.1**	**18,718.5**	33,401.6	329.4	397.9	34,128.9
Past due but not impaired:								
- less than 3 months	**571.3**	**-**	**10.8**	**582.1**	981.2	-	15.4	996.6
- 3 to 6 months	**255.1**	**-**	**4.1**	**259.2**	364.3	-	5.7	370.0
- over 6 months	**168.4**	**-**	**47.8**	**216.2**	252.7	-	59.1	311.8
Impaired	**303.5**	**23.7**	**7.9**	**335.1**	363.9	196.5	9.9	570.3
	19,448.8	**269.6**	**392.7**	**20,111.1**	35,363.7	525.9	488.0	36,377.6
Impairment allowances	**(561.1)**	**(12.3)**	**(74.9)**	**(648.3)**	(663.4)	(85.4)	(96.2)	(845.0)
Loans to customers net of impairment allowances	**18,887.7**	**257.3**	**317.8**	**19,462.8**	34,700.3	440.5	391.8	35,532.6
Impairment allowances:								
- individual	**45.4**	**12.3**	**19.1**	**76.8**	59.5	85.4	21.9	166.8
- collective	**515.7**	**-**	**55.8**	**571.5**	603.9	-	74.3	678.2
Total impairment allowances	**561.1**	**12.3**	**74.9**	**648.3**	663.4	85.4	96.2	845.0

16. Credit quality of loans to customers (continued)

The above table includes balances within 'neither past due nor impaired' which would have been shown as past due or impaired other than due to renegotiation; these were loans where arrears were capitalised during the previous 12 months. These loans amounted to £0.8m (2016: £1.4m). A loan is eligible for capitalisation of arrears only once the borrower has complied with stringent terms for a set period.

Arrears and possessions on residential mortgages and unsecured loans

Arrears and possessions are monitored for the Group as a whole and also split by type of product.

		31 March 2017		31 March 2016	
		Residential	**Unsecured**	Residential	Unsecured
Arrears 3 months and over					
Number of cases	No.	**4,132**	**3,281**	5,870	4,307
Proportion of total cases	%	**2.61**	**9.32**	1.97	10.17
Asset value	£m	**621.5**	**55.6**	858.7	69.8
Proportion of book	%	**3.29**	**17.50**	2.47	17.81
Total value of payments overdue	£m	**28.7**	**15.8**	35.7	17.3
Proportion of total book	%	**0.15**	**4.97**	0.11	4.43
Possessions					
Number of cases	No.	**485**	**-**	507	-
Proportion of total cases	%	**0.31**	**-**	0.17	-
Asset value	£m	**70.9**	**-**	76.4	-
Proportion of book	%	**0.38**	**-**	0.22	-
Total value of payments overdue	£m	**3.3**	**-**	4.4	-
Proportion of total book	%	**0.02**	**-**	0.01	-
New possessions	No.	**1,242**	**-**	1,853	-
Total arrears 3 months and over and possessions					
Number of cases	No.	**4,617**	**3,281**	6,377	4,307
Proportion of total cases	%	**2.92**	**9.32**	2.14	10.17
Asset value	£m	**692.4**	**55.6**	935.1	69.8
Proportion of book	%	**3.67**	**17.50**	2.69	17.81
Total value of payments overdue	£m	**32.0**	**15.8**	40.1	17.3
Proportion of total book	%	**0.17**	**4.97**	0.12	4.43

In respect of all arrears (including those which are less than 3 months in arrears) together with possessions, the total value of payments overdue was:

Payments overdue					
Total value of payments overdue	£m	**37.7**	**16.8**	49.3	17.5
Proportion of total book	%	**0.20**	**5.30**	0.14	4.47
Loan impairment provision					
As % of total balances	%	**2.89**	**19.06**	1.88	19.72

16. Credit quality of loans to customers (continued)

Analysis of residential mortgages and unsecured loans 3 months and over in arrears by product

		31 March 2017		31 March 2016	
		Residential	**Unsecured**	Residential	Unsecured
Buy-to-let					
Number of cases	No.	**613**	**-**	1,112	-
Proportion of total cases	%	**1.12**	**-**	0.66	-
Asset value	£m	**90.6**	**-**	163.9	-
Proportion of book	%	**1.44**	**-**	0.83	-
Total value of payments overdue	£m	**2.7**	**-**	4.7	-
Proportion of total book	%	**0.04**	**-**	0.02	-
Self Cert					
Number of cases	No.	**743**	**-**	878	-
Proportion of total cases	%	**2.35**	**-**	2.54	-
Asset value	£m	**119.8**	**-**	142.6	-
Proportion of book	%	**2.64**	**-**	2.83	-
Total value of payments overdue	£m	**4.1**	**-**	4.6	-
Proportion of total book	%	**0.09**	**-**	0.09	-
Together					
Number of cases	No.	**1,047**	**3,281**	1,357	4,307
Proportion of total cases	%	**3.66**	**9.32**	3.88	10.17
Asset value	£m	**119.5**	**55.6**	155.0	69.8
Proportion of book	%	**4.23**	**17.50**	4.45	17.81
Total value of payments overdue	£m	**6.3**	**15.8**	7.0	17.3
Proportion of total book	%	**0.22**	**4.97**	0.20	4.43
Standard and other					
Number of cases	No.	**1,729**	**-**	2,523	-
Proportion of total cases	%	**3.99**	**-**	4.29	-
Asset value	£m	**291.6**	**-**	397.2	-
Proportion of book	%	**5.59**	**-**	6.26	-
Total value of payments overdue	£m	**15.6**	**-**	19.4	-
Proportion of total book	%	**0.30**	**-**	0.31	-

17. Deferred taxation

The net deferred taxation liability is attributable to the following:

	Assets		Liabilities		Net	
	31 Mar 2017	31 Mar 2016	**31 Mar 2017**	31 Mar 2016	**31 Mar 2017**	31 Mar 2016
	£m	£m	**£m**	£m	**£m**	£m
Cash flow hedges	**0.2**	2.6	**-**	-	**0.2**	2.6
Accelerated tax depreciation	**2.3**	-	**-**	(3.4)	**2.3**	(3.4)
Available-for-sale reserve and fair value	**-**	-	**(4.7)**	(2.3)	**(4.7)**	(2.3)
Employee benefits	**-**	2.3	**(81.7)**	(95.8)	**(81.7)**	(93.5)
	2.5	4.9	**(86.4)**	(101.5)	**(83.9)**	(96.6)
Offset	**(2.5)**	(4.9)	**2.5**	4.9	**-**	-
Total	**-**	-	**(83.9)**	(96.6)	**(83.9)**	(96.6)

There were no deferred tax assets unrecognised at 31 March 2017 (2016: £nil).

17. Deferred taxation (continued)

The movements in the Group's temporary differences during the current and previous year were as follows:

	1 April 2016 £m	Recognised in income £m	Recognised in equity £m	31 March 2017 £m
Cash flow hedges	**2.6**	**-**	**(2.4)**	**0.2**
Accelerated tax depreciation	**(3.4)**	**5.7**	**-**	**2.3**
Available-for-sale reserve and fair value	**(2.3)**	**(2.0)**	**(0.4)**	**(4.7)**
Employee benefits	**(93.5)**	**(14.9)**	**26.7**	**(81.7)**
Total	**(96.6)**	**(11.2)**	**23.9**	**(83.9)**

	1 April 2015 £m	Recognised in income £m	Recognised in equity £m	31 March 2016 £m
Changes in accounting basis on adoption of IFRS	3.8	(3.8)	-	-
Cash flow hedges	(59.5)	-	62.1	2.6
Accelerated tax depreciation	(1.8)	(1.6)	-	(3.4)
Available-for-sale reserve and fair value	(3.5)	1.2	-	(2.3)
Employee benefits	(42.3)	(13.1)	(38.1)	(93.5)
Total	(103.3)	(17.3)	24.0	(96.6)

18. Other assets

	31 March 2017 £m	31 March 2016 £m
Prepayments and accrued income	**21.9**	8.9
Other	**25.5**	22.8
Total	**47.4**	31.7

19. Retirement benefit assets and obligations

The UKAR Group operates a number of retirement benefit plans for its current and former employees, including defined benefit pension plans, a defined contribution pension plan and post-retirement healthcare benefits. Further details in respect of the Group's schemes are given in sections (a) (B&B schemes) and (b) (NRAM schemes) below. The 'administrative expenses' line of the Income Statement includes the cost of contributions to the healthcare and defined contribution pension schemes, the current service cost of providing pension benefits for each defined benefit scheme and the interest cost on the scheme's net asset or liability. The current service cost of the Group's defined benefit schemes is nil, as the schemes are now closed to future service accrual. The full net surplus or deficit in respect of the healthcare scheme and each defined benefit pension scheme is carried on the UKAR Group Balance Sheet, and gains and losses arising due to actuarial revaluations are taken to UKAR Group other comprehensive income rather than being credited or charged in the Income Statement.

The amounts carried on the UKAR Balance Sheet are as follows:

	Defined benefit pension plan		Post-retirement medical benefits		Total	
	31 March 2017 £m	31 March 2016 £m	**31 March 2017 £m**	31 March 2016 £m	**31 March 2017 £m**	31 March 2016 £m
Present value of defined benefit obligations	**(1,750.4)**	(1,422.6)	**(4.7)**	(1.8)	**(1,755.1)**	(1,424.4)
Fair value of defined benefit assets	**2,229.8**	1,905.1	**-**	-	**2,229.8**	1,905.1
Net defined benefit asset/(liability)	**479.4**	482.5	**(4.7)**	(1.8)	**474.7**	480.7

The Group is considering the potential impact of the IASB's exposure draft of possible changes to IFRIC 14, which would restrict the recognition of net asset positions in respect of pension schemes under certain circumstances.

19. Retirement benefit assets and obligations (continued)

The amounts recognised in the UKAR Group Income Statement in respect of defined benefit arrangements were as follows:

	Defined benefit pension plan		**Post-retirement medical benefits**		**Total**	
	12 months to 31 Mar 2017	12 months to 31 Mar 2016	**12 months to 31 Mar 2017**	12 months to 31 Mar 2016	**12 months to 31 Mar 2017**	12 months to 31 Mar 2016
	£m	£m	**£m**	£m	**£m**	£m
Net interest (income)/expense	**(17.3)**	(7.8)	**0.3**	0.4	**(17.0)**	(7.4)
Total recognised in the Income Statement	**(17.3)**	(7.8)	**0.3**	0.4	**(17.0)**	(7.4)

(a) Bradford & Bingley schemes

(i) Defined benefit pension scheme

The Group operated a defined benefit pension scheme, the Bradford & Bingley Staff Pension Scheme ('the B&B Scheme'), which is administered by 'the Trustee'. The Trustee is responsible for ensuring the B&B scheme meets its Statutory Funding Objective which is set by The Pensions Regulator. The B&B Scheme provided benefits to members on a final salary basis. On 31 December 2009 the B&B Scheme was closed to future service accrual; all members became deferred members and were given the option to join the Group's defined contribution scheme from 1 January 2010. The normal pension age of members of the B&B Scheme is 60 for those who left before 6 April 2005 and 65 for the other members. In respect of deferred members, deferred pension entitlement increases are calculated by reference to the Consumer Prices Index ('CPI').

The credit or cost to the Group of funding the B&B Scheme guaranteed benefits varies over time, dependent on market conditions and life expectancies. The credit in the year was £9.1m (31 March 2016: £2.9m credit) and the retirement benefit re-measurement loss recognised in other comprehensive income during the year was £63.0m (2016: £125.8m gain).

The assets of the B&B Scheme are held in a separate trustee-administered fund. The Trustee of the B&B Scheme has passed a resolution for the ultimate refund to B&B of any future surpluses on the B&B Scheme.

The last agreed formal triennial valuation of the B&B scheme, prepared by the scheme actuaries as at 30 June 2015, showed a deficit of £188.1m on a Trustee's valuation basis. A Recovery Plan was agreed between the Company and the Trustee committing the Company to a programme of annual deficit reduction payments up to and including June 2019. £58.1m was paid during the year to 31 March 2017 and future contributions will increase at a compounding annual rate of 10%.

The Trustee manages the volatility in the value of the B&B Scheme's assets by limiting the exposure to return-seeking assets and using liability-driven investment strategies to increase the level of hedging against investment risks. The two key investment risks are interest rate risk and inflation risk relating to the B&B Scheme's obligations. By holding swaps, fixed interest gilts, index-linked gilts and corporate bonds, approximately 92% of the interest rate risk and approximately 92% of the inflation risk has been hedged. The holding of return-seeking assets is close to the target level required to achieve the investment return assumed within the deficit recovery plan.

The B&B Scheme has a written guarantee from HM Treasury that benefits will be paid in full to the members.

(ii) Defined contribution pension scheme

The Group also operates a defined contribution pension scheme, the UKAR Pension Plan, into which both employees and the Group make contributions. The assets of this scheme are independent from those of the Group. The Group and Company had no liabilities or prepayments associated with this scheme at 31 March 2017 (2016: £nil). The cost in the year to the Group of this scheme was £1.3m (2016: £4.1m). The cost to the Group varies according to the number of employees in the Group and their salary levels but the Group has no risk of being required to provide additional funding to the scheme.

(iii) Healthcare scheme

The Group provides healthcare benefits to some of its pensioners. The healthcare benefits are provided through a scheme into which the Group contributes 100% towards the cost of providing the benefits for members who retired before 1 January 1996 and 50% for members who retired after this date. The value of the Group's obligation is assessed in accordance with the advice of a qualified actuary. The cost in the year to the Group of this scheme was £0.3m (2016: £0.4m) and the re-measurement loss recognised in the B&B Group's other comprehensive income during the year was £3.1m (2016: gain £8.1m).

19. Retirement benefit assets and obligations (continued)

(a) Bradford & Bingley schemes (continued)

Defined benefit obligations
The amounts carried on the UKAR Group Balance Sheet are as follows:

	Defined benefit pension plan		Post-retirement medical benefits		Total	
	31 March 2017 £m	31 March 2016 £m	**31 March 2017 £m**	31 March 2016 £m	**31 March 2017 £m**	31 March 2016 £m
Present value of defined benefit obligations	**(1,047.5)**	(839.2)	**(4.7)**	(1.8)	**(1,052.2)**	(841.0)
Fair value of defined benefit assets	**1,304.8**	1,092.3	**-**	-	**1,304.8**	1,092.3
Net defined benefit surplus/(liability)	**257.3**	253.1	**(4.7)**	(1.8)	**252.6**	251.3

The amounts recognised in the UKAR Group Income Statement were as follows:

	Defined benefit pension plan		Post-retirement medical benefits		Total	
	12 months to 31 Mar 2017 £m	12 months to 31 Mar 2016 £m	**12 months to 31 Mar 2017 £m**	12 months to 31 Mar 2016 £m	**12 months to 31 Mar 2017 £m**	12 months to 31 Mar 2016 £m
Net interest (income)/expense	**(9.1)**	(2.9)	**0.3**	0.4	**(8.8)**	(2.5)
Total recognised in the Income Statement	**(9.1)**	(2.9)	**0.3**	0.4	**(8.8)**	(2.5)

Movements in the present value of defined benefit obligations were as follows:

	Defined benefit pension plan		Post-retirement medical benefits		Total	
	12 months to 31 Mar 2017 £m	12 months to 31 Mar 2016 £m	**12 months to 31 Mar 2017 £m**	12 months to 31 Mar 2016 £m	**12 months to 31 Mar 2017 £m**	12 months to 31 Mar 2016 £m
At start of year	**839.2**	960.0	**1.8**	9.4	**841.0**	969.4
Interest on defined benefit obligations	**29.4**	32.1	**0.3**	0.3	**29.7**	32.4
Remeasurements:						
- effect of changes in demographic assumptions	**4.0**	(25.7)	**-**	(0.1)	**4.0**	(25.8)
- effect of changes in financial assumptions	**238.2**	(55.4)	**0.5**	-	**238.7**	(55.4)
- effect of experience adjustments	**-**	(35.8)	**2.3**	(8.0)	**2.3**	(43.8)
Benefits paid from plan	**(63.3)**	(36.0)	**(0.2)**	0.2	**(63.5)**	(35.8)
At end of year	**1,047.5**	839.2	**4.7**	1.8	**1,052.2**	841.0

Movements in the fair value of defined benefit assets were as follows:

	Defined benefit pension plan		Post-retirement Medical benefits		Total	
	12 months to 31 Mar 2017 £m	12 months to 31 Mar 2016 £m	**12 months to 31 Mar 2017 £m**	12 months to 31 Mar 2016 £m	**12 months to 31 Mar 2017 £m**	12 months to 31 Mar 2016 £m
At start of year	**1,092.3**	1,045.7	**-**	-	**1,092.3**	1,045.7
Interest income on defined benefit assets	**39.7**	36.0	**-**	-	**39.7**	36.0
Defined benefit company contributions	**58.1**	38.7	**(0.2)**	(0.2)	**57.9**	38.5
Remeasurements						
- return on plan assets (excluding interest income)	**179.2**	8.9	**-**	-	**179.2**	8.9
Administrative expenses paid from plan assets	**(1.2)**	(1.1)	**-**	-	**(1.2)**	(1.1)
Benefits paid from plan	**(63.3)**	(35.9)	**0.2**	0.2	**(63.1)**	(35.7)
At end of year	**1,304.8**	1,092.3	**-**	-	**1,304.8**	1,092.3

19. Retirement benefit assets and obligations (continued)

(a) Bradford & Bingley schemes (continued)

Defined benefit obligations (continued)

The major categories of defined benefit assets at the end of the year were as follows:

	31 March 2017			31 March 2016		
	Quoted £m	**Unquoted £m**	**Total £m**	Quoted £m	Unquoted £m	Total £m
Equity instruments	**204.1**	**5.9**	**210.0**	159.3	5.9	165.2
Property	**-**	**23.2**	**23.2**	2.2	36.6	38.8
Bonds:						
- of which UK	**100.8**	**-**	**100.8**	100.3	-	100.3
- of which overseas	**58.6**	**-**	**58.6**	55.3	-	55.3
Diversified growth fund	**50.7**	**-**	**50.7**	-	-	-
Liability hedging investments	**771.7**	**-**	**771.7**	629.3	-	629.3
Cash and cash equivalents	**62.4**	**27.4**	**89.8**	4.0	99.4	103.4
Total	**1,248.3**	**56.5**	**1,304.8**	950.4	141.9	1,092.3

Summary actuarial assumptions (expressed as weighted averages) were as follows:

	31 March 2017	31 March 2016
To determine benefit obligations:		
Discount rate	**2.60%**	3.60%
Inflation (RPI)	**3.25%**	3.00%
Inflation (CPI)	**2.25%**	2.00%
Future pension increases	**3.15%**	2.95%
To determine net pension cost:		
Discount rate	**3.60%**	3.40%
For post-retirement medical plan:		
Discount rate	**2.60%**	3.60%
Medical cost trend for duration of liability	**5.50%**	5.50%

In determining the expected long-term return on defined benefit assets, the Group considered the current level of expected returns on risk-free investments (primarily government bonds), the historical level of risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns on each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term return for the portfolio.

The table below shows the life expectancy assumptions from age 60:

	31 March 2017		31 March 2016	
	Pensioner	**Non-retired member**	Pensioner	Non-retired member
Male	**28.3**	**29.8**	28.2	29.6
Female	**31.0**	**32.6**	30.8	32.4

Maturity profile of the obligation

The defined benefit pension scheme has a weighted average maturity of around 21 years.

Sensitivity

The following table illustrates the sensitivity of the defined benefit pension scheme obligations to three key assumptions: the discount rate, the rate of inflation and the mortality assumption:

Assumption	**Change in assumption**	**Impact on obligations**	**£m**
Discount rate	Decrease by 0.5%	Increase by 12%	**129.1**
Inflation	Increase by 0.5%	Increase by 11%	**119.5**
Mortality	Decrease by 1 year	Increase by 3%	**34.8**

If the assumptions were to change by the same amount in the opposite direction to those illustrated, the obligations would decrease by a similar percentage to those shown in the table in each case.

Assumed healthcare cost trend rates have an effect on the amounts recognised in staff costs. A one percentage point change in assumed healthcare cost trend rates would have the following effects:

	31 March 2017 £m	31 March 2016 £m
Effect on interest cost	**-**	-
Effect on defined benefit obligation	**0.6**	0.2

19. Retirement benefit assets and obligations (continued)

(b) NRAM scheme

Northern Rock plc operated a staff pension scheme which was closed on 31 December 2009 and is now known as the NRAM Scheme. The assets of the NRAM Scheme are held in a separate trustee-administered fund. The normal pension age of members in this NRAM Scheme is 60. The NRAM Scheme provided benefits to the majority of members on a final salary basis. Deferred pension entitlement increases are calculated by reference to the Retail Prices Index ('RPI'). The Trustee of the NRAM Scheme is responsible for ensuring the Scheme meets its Statutory Funding Objective which is set by The Pensions Regulator. The Trustee of the NRAM Scheme has passed a resolution for the ultimate refund to NRAM of any future surpluses on the NRAM Scheme. NRAM Limited replaced NRAM plc as sponsoring employer of the Scheme with effect from 30 April 2016.

The cost to the Group of funding the NRAM Scheme guaranteed benefits varies over time, dependent on market conditions and life expectancies. The credit in the year was £8.2m (2016: credit £4.9m) and the retirement benefit re-measurement loss recognised in other comprehensive income during the year was £45.5m (2016: gain £57.4m).

As at 31 March 2017 and 31 March 2016 the NRAM Scheme was in surplus on an accounting basis, but in deficit on a trustee's funding basis. Under an agreed recovery plan to address this deficit, the Group is committed to making annual contributions to the NRAM Scheme up to and including April 2019. Under this plan the Group has contributed £30.0m in the year and the level of contributions will be re-assessed each year.

Following the nationalisation of Northern Rock plc in 2008, the NRAM Scheme Trustee disposed of the majority of the return-seeking assets, retaining a small holding in private equity funds; the remaining assets are split between gilts and corporate bonds. The NRAM Scheme has instigated a liability-driven investment programme to hedge approximately 92% of the interest rate risk and 92% of the inflation risk.

The amounts carried on the UKAR Group Balance Sheet are as follows:

	31 March 2017 £m	31 March 2016 £m
Present value of defined benefit obligations	**(702.9)**	(583.4)
Fair value of defined benefit assets	**925.0**	812.8
Net defined benefit asset	**222.1**	229.4

The amounts recognised in the UKAR Group Income Statement were as follows:

	12 months to 31 March 2017 £m	12 months to 31 March 2016 £m
Net interest income	**8.2**	4.9
Total recognised in the Income Statement	**8.2**	4.9

Movements in the present value of defined benefit obligations were as follows:

	12 months to 31 March 2017 £m	12 months to 31 March 2016 £m
At start of year	**583.4**	606.2
Interest on defined benefit obligations	**20.0**	20.3
Remeasurements:		
- effect of changes in demographic assumptions	**3.8**	20.5
- effect of changes in financial assumptions	**155.6**	(38.1)
- effect of experience adjustments	**(3.9)**	(8.8)
Transfer payments	**(43.3)**	-
Benefits paid from plan	**(12.7)**	(16.7)
At end of year	**702.9**	583.4

19. Retirement benefit assets and obligations (continued)

(**b) NRAM scheme** (continued)

Movements in the fair value of defined benefit assets were as follows:	**12 months to 31 March 2017 £m**	12 months to 31 March 2016 £m
At start of year	**812.8**	758.1
Interest income on defined benefit assets	**28.4**	25.1
Defined benefit company contributions	**30.0**	15.3
Remeasurements:		
- return on plan assets (excluding interest income)	**109.8**	31.0
Transfer payments	**(43.3)**	-
Benefits paid from plan	**(12.7)**	(16.7)
At end of year	**925.0**	812.8

The major categories of defined benefit assets at the end of the year were as follows**:**

	31 March 2017			31 March 2016		
	Quoted £m	**Unquoted £m**	**Total £m**	Quoted £m	Unquoted £m	Total £m
Equity instruments	**-**	**276.4**	**276.4**	-	224.3	224.3
Bonds:						
- of which UK	**30.3**	**-**	**30.3**	63.4	-	63.4
Liability hedging investments	**606.1**	**-**	**606.1**	512.9	-	512.9
Cash and cash equivalents	**12.2**	**-**	**12.2**	12.2	-	12.2
Total	**648.6**	**276.4**	**925.0**	588.5	224.3	812.8

Summary actuarial assumptions (expressed as weighted averages) were as follows:

	31 March 2017	31 March 2016
To determine benefit obligations:		
Discount rate	**2.60%**	3.60%
Inflation (RPI)	**3.25%**	3.00%
Future pension increases	**1.95% - 3.60%**	1.85% - 3.55%
To determine net pension cost:		
Discount rate	**3.60%**	3.40%

In determining the expected long-term return on defined benefit assets, the UKAR Group considered the current level of expected returns on risk-free investments (primarily government bonds), the historical level of risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns on each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term return for the portfolio.

The table below shows the life expectancy assumptions from age 60:

	31 March 2017		31 March 2016	
	Pensioner	**Non-retired member**	Pensioner	Non-retired member
Male	**29.1**	**30.8**	28.9	30.7
Female	**31.3**	**33.1**	31.2	33.0

Maturity profile of the obligation

The defined benefit pension scheme has a weighted average maturity of around 23 years.

Sensitivity

The following table illustrates the sensitivity of the defined benefit pension scheme obligations to three key assumptions: the discount rate, the rate of inflation and the mortality assumption:

Assumption	**Change in assumption**	**Impact on obligations**	**£m**
Discount rate	Decrease by 0.5%	Increase by 13%	**91.4**
Inflation	Increase by 0.5%	Increase by 7%	**49.2**
Mortality	Decrease by 1 year	Increase by 3%	**21.1**

If the assumptions were to change by the same amount in the opposite direction to those illustrated, the obligations would decrease by a similar percentage to those shown in the table in each case.

20. Property, plant and equipment

	Land and buildings £m	Plant, equipment, fixtures, fittings and vehicles £m	Total £m
Cost			
At 1 April 2016	**7.0**	**37.6**	**44.6**
Additions	**-**	**0.1**	**0.1**
Disposals	**(3.3)**	**(36.8)**	**(40.1)**
At 31 March 2017	**3.7**	**0.9**	**4.6**
Depreciation			
At 1 April 2016	**5.1**	**23.4**	**28.5**
Charged in year	**-**	**1.2**	**1.2**
Disposals	**(1.8)**	**(23.7)**	**(25.5)**
At 31 March 2017	**3.3**	**0.9**	**4.2**
Net book amount:			
At 31 March 2016	**1.9**	**14.2**	**16.1**
At 31 March 2017	**0.4**	**-**	**0.4**

	Land and buildings £m	Plant, equipment, fixtures, fittings and vehicles £m	Total £m
Cost			
At 1 April 2015	7.0	59.1	66.1
Additions	-	6.2	6.2
Disposals	-	(27.7)	(27.7)
At 31 March 2016	7.0	37.6	44.6
Depreciation			
At 1 April 2015	4.1	45.4	49.5
Charged in year	1.0	5.7	6.7
Disposals	-	(27.7)	(27.7)
At 31 March 2016	5.1	23.4	28.5
Net book amount:			
At 31 March 2015	2.9	13.7	16.6
At 31 March 2016	1.9	14.2	16.1

During the year, property, plant, and equipment with a net book value of £14.6m was transferred to Computershare along with B&B's mortgage servicing operations.

There were no other assets disposed in the year. In the previous year all assets disposed had already been fully depreciated and no sale proceeds were received. Hence there was no profit or loss on the sales.

The land and buildings depreciation charge in 2015/16 includes accelerated depreciation of £0.9m relating to preparation for separation of the business.

21. Intangible assets

	£m
Cost	
At 1 April 2016	**100.2**
Additions	**1.9**
Disposals	**(93.3)**
At 31 March 2017	**8.8**
Impairment and amortisation	
At 1 April 2016	**63.0**
Amortisation charged in year	**5.1**
Disposals	**(64.0)**
At 31 March 2017	**4.1**
Net book amount:	
At 31 March 2016	**37.2**
At 31 March 2017	**4.7**

	£m
Cost	
At 1 April 2015	89.1
Additions	11.3
Disposals	(0.2)
At 31 March 2016	100.2
Impairment and amortisation	
At 1 April 2015	47.7
Amortisation charged in year	15.5
Disposals	(0.2)
At 31 March 2016	63.0
Net book amount:	
At 31 March 2015	41.4
At 31 March 2016	37.2

Intangible assets comprise capitalised computer software systems and licences.

During the year, intangible assets with a net book value of £29.3m was transferred to Computershare along with B&B's mortgage servicing operations.

There were no other assets disposed in the year. In the previous year all assets disposed had already been fully amortised and no sale proceeds were received. Hence there was no profit or loss on the sales.

22. Amounts due to banks

	31 March 2017 £m	31 March 2016 £m
Cash collateral received (see note 34)	-	553.8
Other	-	0.1
Total	-	553.9

23. Statutory Debt and HM Treasury loans

	31 March 2017 £m	31 March 2016 £m
HM Treasury loan to NRAM	**4,594.2**	7,465.6
B&B Statutory Debt	**18,416.2**	18,416.2
HM Treasury Working Capital Facility to B&B	**2,020.9**	2,472.1
Total	**25,031.3**	28,353.9

The HM Treasury loan to NRAM is repayable on demand. Interest has been charged at Bank of England Base Rate + 100 bps since 4 May 2012 (prior to that date interest was charged at Bank of England Base Rate + 25 bps). As detailed in note 2, on 30 April 2016 this loan was transferred from NRAM plc to NRAM Limited. At the signing date of these Financial Statements, HM Treasury has confirmed its intentions to continue to fund NRAM Limited as a going concern, and to enable NRAM Limited to meet its debts as and when they fall due, until at least 1 January 2019.

B&B had an interest-free Statutory Debt of £18,416.2m as at 31 March 2017 and 31 March 2016. This replaced B&B's savings-related assets and liabilities which were transferred to Banco Santander Group on 29 September 2008. £15,654.5m of the Statutory Debt was owed to the FSCS. At the time of nationalisation, the FSCS covered the first £35,000 per depositor; HM Treasury agreed to cover the excess over £35,000, amounting to a total of £2,761.7m. It was expected that the Statutory Debt would be repaid out of the cash flows generated by B&B during its wind-down, principally comprising interest and redemptions arising on loans to customers and proceeds of asset sales. As disclosed in note 37, financial completion of the £11.8bn sale of loans to customers occurred on 25 April 2017; on 26 April 2017 £10,976.6m of the Statutory Debt owed to the FSCS was repaid.

B&B has an interest-bearing WCF provided by HM Treasury. Interest is charged at Bank of England Base Rate + 500bps. HM Treasury has the option to vary the rate charged. At 31 March 2017 B&B had drawn £2,011.3m (2016: £2,460.3m) of this facility; £2,020.9m including accrued interest (2016: £2,472.1m). At the signing date of these Financial Statements HM Treasury has confirmed its intentions to continue to fund B&B as a going concern and to enable B&B to meet its debts as and when they fall due, until at least 1 January 2019. HM Treasury has indicated that it expects the WCF to be repaid out of the cash flows generated by B&B during its wind-down. These cash flows will principally comprise interest and redemptions arising on loans to customers, along with proceeds of asset sales. The redemption profile of loans to customers is uncertain; many of these loans have contractual maturities of 25 years or more from the date of advance but experience has been that most loans to customers redeem earlier than their contractual maturity dates. Consequently, the timing of the repayment of the WCF is uncertain. As disclosed in note 37, on 26 April 2017 £440.7m of the WCF was repaid.

We are now preparing for the next phase of our programme to repay the FSCS loan in full and thereafter to repay other borrowings from HMT.

24. Debt securities in issue

	Securitised notes £m	**Covered Bonds £m**	**Other £m**	**Total £m**
At 1 April 2016	**3,145.9**	**1,779.5**	**233.8**	**5,159.2**
Repayments	**(3,332.4)**	**(1,708.9)**	**(25.5)**	**(5,066.8)**
Other movements	**186.5**	**(70.6)**	**(4.1)**	**111.8**
At 31 March 2017	**-**	**-**	**204.2**	**204.2**
Securitised assets	**-**	**-**	**-**	**-**
Reserve fund	**-**	**-**	**-**	**-**

	Securitised notes £m	Covered Bonds £m	Other £m	Total £m
At 1 April 2015	12,730.1	7,946.9	269.7	20,946.7
Repayments	(9,721.1)	(1,165.9)	(33.0)	(10,920.0)
Repurchases	-	(4,644.8)	-	(4,644.8)
Other movements	136.9	(356.7)	(2.9)	(222.7)
At 31 March 2016	3,145.9	1,779.5	233.8	5,159.2
Securitised assets	9,150.4	7,044.4	-	16,194.8
Reserve fund	380.0	1.2	-	381.2

Other movements comprise exchange rate movements, accrued interest and hedge accounting adjustments.

24. Debt securities in issue (continued)

The B&B and NRAM Groups issued debt securities to securitise loans to customers through SPVs and Covered Bonds and also raised unsecured medium term funding. Certain of these were subject to fair value hedge designation and the carrying values of these instruments included unamortised adjustments in respect of the notes that were hedged.

HM Treasury has provided guarantees with regard to certain wholesale borrowings of the B&B and NRAM Groups; the Group pays fees for these guarantees, as detailed in note 4.

Securitised assets represented loans to customers which had been used to securitise issued notes, including notes which were held by other companies in the UKAR Group, and cash balances.

During the year the B&B Group repaid the remaining Aire Valley Securitised notes that it did not already own, financed by a £3.0bn temporary increase in the existing HM Treasury WCF. This achieved the twin objectives of simplifying the Balance Sheet and unencumbering mortgage loans. As a result all secured funding on the Group Balance Sheet has now been repaid. In April 2016 the remaining debt securities issued by Whinstone Capital Management Limited were redeemed.

During the year the remainder of the Covered Bonds in issue matured and were redeemed.

Other debt securities in issue comprise notes issued under B&B's and NRAM's Medium Term Notes programmes.

25. Other liabilities

	At 31 March 2017 £m	At 31 March 2016 £m
Accruals and deferred income	**77.3**	80.6
Other	**69.0**	229.2
Total	**146.3**	309.8

26. Provisions

	Customer redress £m	**Onerous contracts £m**	**Restructuring £m**	**Total £m**
At 1 April 2016	**165.8**	**1.8**	**46.7**	**214.3**
Utilised in the year	**(70.0)**	**(0.1)**	**(29.8)**	**(99.9)**
Charged in the year	**64.4**	**-**	**-**	**64.4**
Released in the year	**-**	**(1.4)**	**-**	**(1.4)**
At 31 March 2017	**160.2**	**0.3**	**16.9**	**177.4**

	Customer redress £m	Onerous contracts £m	Restructuring £m	Total £m
At 1 April 2015	388.0	3.0	2.0	393.0
Utilised in the year	(43.2)	(1.2)	(28.7)	(73.1)
Charged in the year	89.3	-	73.4	162.7
Released in the year	(268.3)	-	-	(268.3)
At 31 March 2016	165.8	1.8	46.7	214.3

UKAR remains committed to doing the right thing for our customers and where we identify issues that have caused customer detriment, we will ensure that they are fully remediated. An additional provision of £64.4m has been recognised, of which £49.2m relates to an increase in PPI provisions.

26. Provisions (continued)

An additional provision of £49.2m has been recognised following the publication of the FCA's Policy Statement PS17/3 'Payment protection insurance complaints: feedback on CP16/10 and final rules and guidance', which sets a deadline date for complaints at 29 August 2019 and confirms the approach in relation to Plevin. The rules and guidance include an FCA-led communications campaign to raise awareness of the deadline and the requirement to proactively contact previously rejected mis-selling complainants who are eligible to complain again in the light of Plevin. Reflecting heightened awareness of a potential PPI deadline, actual claims volumes received during the year have been higher than previously modelled, which combined with the final proposals is expected to lead to higher claims volumes throughout the period to 29 August 2019 than previously assumed.

In addition, a charge of £15.2m was made for other smaller legacy remediation issues.

In July 2015 the Court of Appeal found in NRAM's favour that customers with loans greater than £25,000 should not receive remediation in line with Consumer Credit Act ('CCA') customers despite receiving the same incorrect documentation. As a result the £268.3m provision relating to this matter was released.

All customer redress payments are expected to be processed during the year to 31 March 2018 except for PPI, the majority of which is expected to be processed by Autumn 2019 following publication of the complaint time-bar of 29 August 2019.

The onerous contracts provision relates to empty leasehold premises which, as at the Balance Sheet date, were no longer used by the business but were subject to lease agreements. The rental payments are due to be made up to 2022.

The restructuring provision relates primarily to outstanding costs in relation to the organisational restructure completed in 2016/17.

27. Capital instruments

			31 March 2017		31 March 2016	
	Initial interest rate	**Issuer**	**Carrying amount £m**	**Principal £m**	Carrying amount £m	Principal £m
Dated subordinated notes	7.625%	B&B	-	-	5.1	5.0
Subordinated loan	11.734%	NRAM plc	-	-	4.1	4.0
Total			-	-	9.2	9.0

These capital instruments were all denominated in sterling. Those issued by B&B were redeemed in January 2017. Those issued by NRAM plc were retained by NRAM plc and not transferred to NRAM Limited (see note 2).

The carrying values of these instruments were measured on an amortised cost basis, as adjusted for hedge accounting adjustments.

Redemptions of any capital instruments prior to their final maturity date were subject to obtaining prior consent of the FCA.

The rights of repayment of holders of capital instruments were subordinated to the claims of other creditors.

28. Share capital

Group and Company	**25p Ordinary shares**	**25p Preference shares**	**25p Ordinary shares**	**25p Preference shares**	**Total share capital**
	Number	**Number**	**£**	**£**	**£**
At 1 April 2015, 31 March 2016 and 31 March 2017	**4,955,595**	**4,000**	**1,238,899**	**1,000**	**1,239,899**

In accordance with the Companies Act 2006, the Company does not have authorised capital other than its issued capital.

The Ordinary shares rank equally in respect of rights attached to voting, dividends and in the event of a winding up.

Dividends on Preference shares are discretionary and, subject to Board approval, are payable annually on 4 July at a rate of 6.8509% based on a principal amount of £1,000 per share.

No dividends were declared or paid in 2016/17 or 2015/16 on the Company's Ordinary or Preference shares. No dividends had been proposed by the date of approval of these Financial Statements.

29. Reserves

Reserves comprise the following:

	31 March 2017 £m	31 March 2016 Restated [1] £m
Available-for-sale reserve	**12.8**	4.3
Cash flow hedge reserve	**(0.8)**	3.0
Merger reserve	**3,795.7**	4,910.0
Total	**3,807.7**	4,917.3

Available-for-sale reserve

	31 March 2017 £m	31 March 2016 £m
At start of year	**4.3**	2.0
Amounts recognised in equity	**(14.3)**	6.5
Amounts transferred to net income	**22.8**	(4.2)
At end of year	**12.8**	4.3

The available-for-sale reserve represents cumulative fair value movements on assets classified as available-for-sale.

Cash flow hedge reserve

	31 March 2017 £m	31 March 2016 £m
At start of year	**3.0**	239.7
Amounts recognised in equity	**(632.5)**	(1,051.6)
Amounts transferred to net income	**628.7**	814.9
At end of year	**(0.8)**	3.0

The cash flow hedge reserve represents cumulative fair value movements on financial instruments which are effective cash flow hedges.

Merger reserve

The balance is made up of:

	31 March 2017 £m	31 March 2016 £m
Generated on acquisition of B&B	**589.3**	589.3
Generated on acquisition of NRAM (restated [1])	**3,206.4**	4,320.7
Total	**3,795.7**	4,910.0

The merger reserve was generated on 1 October 2010 when the Company acquired all the issued shares of B&B and NRAM plc from the Treasury Solicitor via a share-for-share exchange and is non-distributable. The merger reserve represents the difference between the value attributed to the Company's investment in each company and the capital and non-distributable reserves of the acquired groups.

[1] As a consequence of the re-organisation within the NRAM Group there has been a transfer from retained earnings to merger reserve of £3,787.4m, as detailed in note 2. £697.8m of this was released to retained earnings on 5 May 2016 when NRAM Limited’s shareholding in NRAM plc was sold. £416.5m has been released as loans which formed part of the pre-sale dividend in specie have been paid down.

30. Off-Balance Sheet commitments payable

At 31 March 2017	**Within one year £m**	**In one to five years £m**	**Over five years £m**	**Total £m**
Loan commitments:				
- lifetime mortgages	**0.5**	**1.7**	**2.2**	**4.4**
- other loans	**424.6**	**-**	**-**	**424.6**
Total loan commitments	**425.1**	**1.7**	**2.2**	**429.0**
Operating lease commitments:				
- land and buildings	**2.2**	**9.1**	**11.4**	**22.7**
Total	**427.3**	**10.8**	**13.6**	**451.7**

At 31 March 2016	Within one year £m	In one to five years £m	Over five years £m	Total £m
Loan commitments:				
- lifetime mortgages	0.6	1.9	2.8	5.3
- other loans	613.4	-	-	613.4
Total loan commitments	614.0	1.9	2.8	618.7
Operating lease commitments:				
- land and buildings	2.3	8.5	6.4	17.2
Capital commitments	0.8	-	-	0.8
Total	617.1	10.4	9.2	636.7

Loan commitments represent contractual amounts to which the Group is committed for extension of credit to customers. In respect of lifetime mortgages, the commitment reflects estimates of future drawdowns. On other loans, the commitment comprises cash which could be drawn down by customers in respect of further advances and re-drawal of amounts voluntarily overpaid.

Operating lease commitments represent minimum future lease payments under non-cancellable operating leases.

Capital commitments represent contractual amounts to which the Group is committed in respect of IT infrastructure investment.

31. Related party disclosures

(a) Key management personnel

The Group considers the Boards of Directors and the members of the Executive Committees of UKAR, B&B and NRAM to be the key management personnel. There were no amounts owed to or by key management personnel at any time during the year (2016: £nil).

A summary of the Group's remuneration of the 14 (2016: 15) key management personnel is set out in the table below. These amounts include the remuneration of the Directors which is set out in more detail in the Directors' Remuneration Report on pages 31 to 44. The Directors' Remuneration Report gives details of the UKAR Group's Directors' salaries, fees, bonuses, pension benefits, other incentives and other benefits.

Remuneration of key management personnel	**12 months to 31 March 2017 £000**	12 months to 31 March 2016 £000
Short-term employee benefits	**3,491**	4,202
Post-employment benefits	**203**	314
Total	**3,694**	4,516

Further details of the accounting treatment of pensions and of the Group's transactions and balances with the Group's pension schemes are given in note 19. There were no amounts due to or from the schemes at 31 March 2017 (31 March 2016: £nil). The key management personnel contributed £103,000 (2016: £45,000) to Group pension schemes during the year.

31. Related party disclosures (continued)

(a) Key management personnel (continued)

Included in the Group's Income Statement, the aggregate Directors' emoluments and the emoluments of the highest paid Director amounted to £1,529,449 and £766,169 respectively (2016: £2,159,628 and £966,611 respectively). The Directors made no payments during the year or previous year into the Group's money purchase pension scheme, and the Group made no payments into this scheme in respect of the Directors during the year or previous year. The Group did not make any loss of office payments to Directors in the year (2016: £nil).

(b) UK government

As described in note H to the Parent Company Financial Statements, the Company considers the UK government to be its ultimate controlling party. The Group's material balances with departments and bodies of the government comprise deposits with the Bank of England and the Government Banking Service (see note 11), loans from HM Treasury (see note 23) and the Statutory Debt (see note 23). HM Treasury has also provided guarantee arrangements to the Group, for which the Group pays fees (see note 4). In addition to these loans and guarantees, the Group has balances and transactions with numerous government bodies on an arm's length basis in relation to the payment of corporation tax, VAT and employee taxes and the payment of regulatory fees and levies. The Group has balances and transactions with UKFI and with banks over which the UK government has significant influence; these were made in the ordinary course of business and are not unusual in their nature or conditions. In the year, the Group paid £1.0m (2016: £1.2m) relating to advisors to UKFI on UKAR’s future strategy.

(c) UKAR Company

The UKAR Company's balances and transactions with related parties are detailed in note F to the Parent Company Financial Statements.

32. Capital structure

The UK financial regulator the FCA regulates B&B, NRAM Limited and Mortgage Express under the MIPRU regime which applies to mortgage administration companies. Each of these companies manages its capital resources in order to meet the FCA's regulatory requirements. Capital adequacy is monitored on an ongoing basis by the Group’s executive management and Board based on the regulations established by the FCA. Each of these companies met its capital requirements in full throughout 2016/17 and 2015/16; further information in respect of B&B, NRAM Limited and Mortgage Express is available in the Annual Reports & Accounts of those companies, which do not form part of these Financial Statements. The Board considers core equity, formerly Tier 1 capital, to be of pre-eminent importance in the capital structure of the regulated companies and continues to monitor this closely in addition to the total level of capital. The Directors believe that each regulated Group company has an appropriate and adequate level of capital to support its activities, subject to the continuing support of HM Treasury. While FCA rules require the regulated companies within the Group to hold capital in excess of 1% of total Balance Sheet assets plus any undrawn commitments, the Board believes it appropriate that they should hold a higher level of capital and as at 31 March 2017, capital in B&B represented 10.9% (2016: 9.4%) of B&B assets and NRAM Limited capital represented 45.8% (2016: 33.2%) of NRAM assets.

The primary objectives of the Group's capital management are to maintain capital resources to support the objectives of the business, to cover risks inherent in its activities and to ensure compliance with externally imposed capital requirements. The capital structure is managed in response to changes in the nature of the Group's activities and economic conditions.

The Group defines equity and certain other capital instruments as capital. Capital excludes accounting reserves for available-for-sale assets and cash flow hedges. The Group's capital adequacy and capital resources are managed and monitored in accordance with the regulatory capital rules of the FCA. The Group must at all times monitor and demonstrate compliance with the relevant regulatory capital requirements of the FCA. The required capital information is filed with the FCA on a quarterly basis.

The Company’s capital is represented by the capital and reserves attributable to the equity holder. The Company is not subject to externally imposed capital requirements other than the minimum share capital required by the Companies Act, with which it complies. The Company manages its capital and reserves in order that there is sufficient capital to meet the needs of the Company in its operations.

33. Financial instruments

(a) Categories of financial assets and financial liabilities: carrying value compared to fair value

The following table summarises the carrying amounts and fair values of financial assets and liabilities. Assets are generally presented at bid prices, whereas offer prices are used for liabilities. The accounting policy note 1(f) sets out the key principles used for estimating the fair values of financial instruments. Note 33(e) provides some additional information in respect of the methodologies used.

At 31 March 2017	**Available-for-sale £m**	**Assets at fair value through profit or loss £m**	**Loans and receivables £m**	**Hedging adjustments £m**	**Total carrying value £m**	**Fair value £m**
Financial assets:						
Cash at bank and in hand	**-**	**-**	**2,112.7**	**-**	**2,112.7**	**2,112.7**
Amount owed in respect of sale of loans	**-**	**-**	**11,483.9**	**-**	**11,483.9**	**11,483.9**
Investment securities	**22.4**	**-**	**260.0**	**-**	**282.4**	**280.8**
Loans to customers	**-**	**-**	**19,462.8**	**-**	**19,462.8**	**18,934.9**
Fair value adjustments on portfolio hedging	**-**	**-**	**-**	**454.6**	**454.6**	**-**
Derivative financial instruments	**-**	**1.8**	**-**	**-**	**1.8**	**1.8**
Other financial assets	**-**	**-**	**25.5**	**-**	**25.5**	**25.5**
Total financial assets	**22.4**	**1.8**	**33,344.9**	**454.6**	**33,823.7**	**32,839.6**

	Liabilities at fair value through profit or loss £m	**Liabilities at amortised cost £m**	**Hedging adjustments £m**	**Total carrying value £m**	**Fair value £m**
Financial liabilities:					
Statutory Debt and HM Treasury loans	**-**	**25,031.3**	**-**	**25,031.3**	**25,031.3**
Derivative financial instruments	**527.2**	**-**	**-**	**527.2**	**527.2**
Debt securities in issue	**-**	**204.2**	**-**	**204.2**	**230.9**
Other financial liabilities	**-**	**127.9**	**-**	**127.9**	**127.9**
Total financial liabilities	**527.2**	**25,363.4**	**-**	**25,890.6**	**25,917.3**

At 31 March 2016	Available-for-sale £m	Assets at fair value through profit or loss £m	Loans and receivables £m	Hedging adjustments £m	Total carrying value £m	Fair value £m
Financial assets:						
Cash at bank and in hand	-	-	5,598.3	-	5,598.3	5,598.3
Investment securities	51.0	-	301.8	-	352.8	354.1
Loans to customers	-	-	35,532.6	-	35,532.6	32,563.0
Fair value adjustments on portfolio hedging	-	-	-	436.6	436.6	-
Derivative financial instruments	-	781.4	-	-	781.4	781.4
Other financial assets	-	-	22.8	-	22.8	22.8
Total financial assets	51.0	781.4	41,455.5	436.6	42,724.5	39,319.6

	Liabilities at fair value through profit or loss £m	Liabilities at amortised cost £m	Hedging adjustments £m	Total carrying value £m	Fair value £m
Financial liabilities:					
Amounts due to banks	-	553.9	-	553.9	553.9
Statutory Debt and HM Treasury loans	-	28,353.9	-	28,353.9	28,353.9
Derivative financial instruments	527.7	-	-	527.7	527.7
Debt securities in issue	-	5,150.0	9.2	5,159.2	5,104.3
Capital instruments	-	9.2	-	9.2	14.4
Other financial liabilities	-	182.6	-	182.6	182.6
Total financial liabilities	527.7	34,249.6	9.2	34,786.5	34,736.8

33. Financial instruments (continued)

(a) Categories of financial assets and financial liabilities: carrying value compared to fair value (continued)
No financial assets or liabilities were reclassified during the current or previous year between amortised cost and fair value categories.

At 31 March 2017 the Group had no assets carried at amortised cost which were previously carried at fair value (31 March 2016: £335.5m). The amount recognised in profit and loss during the year was a gain of £10.4m (2016: gain of £17.9m). If the assets had not been reclassified, it is estimated that fair value gains of £8.3m would have been reflected in the available-for-sale reserve during the 12 months to 31 March 2017 in respect of these assets (12 months to 31 March 2016: losses of £8.2m). As detailed in note 2 on 30 April 2016 NRAM plc transferred all of these assets to NRAM Limited.

(b) Interest income and expense on financial instruments that are not at fair value through profit or loss

	12 months to 31 March 2017 £m	12 months to 31 March 2016 £m
Interest income	**1,040.9**	1,645.8
Interest expense	**(228.6)**	(563.1)
Net interest income	**812.3**	1,082.7

These amounts represent interest income and expense before hedging arrangements.

(c) Impaired financial assets
Allowance accounts for credit losses in respect of impairment of loans to customers are detailed in note 15 and in respect of investment securities in note 13. No impairment loss has been recognised in respect of any other class of financial asset and no other class of financial asset includes assets that are past due.

(d) Hedge accounting
Strategy in using derivative financial instruments
The Board has authorised the use of derivative instruments for the purpose of supporting the strategic and operational business activities of the Group and reducing the risk of loss arising from changes in interest rates and exchange rates. All use of derivative instruments within the Group is to hedge risk exposure and the Group takes no trading positions in derivatives.

The objective when using any derivative instrument is to ensure that the risk-to-reward profile of any transaction is optimised. The intention is only to use derivatives to create economically effective hedges. However, IAS 39 requires certain tests to be satisfied before hedge accounting is permitted. Consequently not all economic hedges are designated as accounting hedges, either because natural accounting offsets are expected, or because obtaining hedge accounting would be especially onerous.

33. Financial instruments (continued)

(d) Hedge accounting (continued)

(i) Fair value hedges
The Group designates a number of derivatives as fair value hedges. In particular, the Group has three approaches establishing relationships for:

- Hedging the interest rate and foreign currency exchange rate risk of non-prepayable, foreign currency denominated fixed rate assets or liabilities on a one-for-one basis with fixed/floating or floating/fixed cross currency interest rate swaps.
- Hedging the interest rate risk of a single currency portfolio of sterling, US Dollar or Euro non-prepayable fixed rate assets/liabilities on a one-for-one basis with vanilla fixed/floating or floating/fixed interest rate swaps.
- Hedging the interest rate risk of a portfolio of prepayable fixed rate assets with interest rate derivatives. This solution is used to establish a macro fair value hedge for derivatives hedging fixed rate mortgages. The Group believes this solution is consistent with its policy for hedging fixed rate mortgages on an economic basis.

(ii) Cash flow hedges
The Group designates a number of derivatives as cash flow hedges. In particular, the Group adopts the following approaches:

- Using fixed interest rate swaps to hedge floating rate sterling liabilities.
- To address the volatility generated by floating/floating cross currency swaps, they are placed into cash flow hedges; the accounting hedge relationship is to hedge the foreign currency exchange rate risk of the foreign currency denominated asset/liability.
- Fixed/floating cross currency swaps are split into their separate risk components and separately designated into cash flow hedges.
- Basis swaps are split into their separate risk components and separately designated into cash flow hedges.

Cash flow hedges fell significantly during the year due to the repayment of debt securities.

(iii) Net investment hedges
The Group has not designated any derivatives as net investment hedges in 2016/17 or 2015/16.

The Group had the following types of hedges:

At 31 March 2017	**Fair value hedges £m**	**Cash flow hedges £m**	**Economic hedges £m**	**Total £m**	**Notional amounts £m**
Exchange rate contracts	**-**	**-**	**1.8**	**1.8**	**107.9**
Interest rate contracts	**-**	**-**	**-**	**-**	**-**
Total asset balances	**-**	**-**	**1.8**	**1.8**	
Exchange rate contracts	**-**	**-**	**0.8**	**0.8**	**158.6**
Interest rate contracts	**520.1**	**1.1**	**5.2**	**526.4**	**1,664.1**
Total liability balances	**520.1**	**1.1**	**6.0**	**527.2**	
Fair value of hedging instruments	**(520.1)**	**(1.1)**	**(4.2)**	**(525.4)**	

At 31 March 2016	Fair value hedges £m	Cash flow hedges £m	Economic hedges £m	Total £m	Notional amounts £m
Exchange rate contracts	-	769.5	11.5	781.0	3,445.1
Interest rate contracts	-	-	0.4	0.4	4.0
Total asset balances	-	769.5	11.9	781.4	
Exchange rate contracts	-	-	10.6	10.6	338.1
Interest rate contracts	499.1	11.7	6.3	517.1	7,006.2
Total liability balances	499.1	11.7	16.9	527.7	
Fair value of hedging instruments	(499.1)	757.8	(5.0)	253.7	

33. Financial instruments (continued)

(e) Fair value measurement

Financial assets and liabilities carried at fair value are valued on the following bases:

At 31 March 2017	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets:				
Investment securities - available-for-sale	**-**	**22.4**	**-**	**22.4**
Derivative financial assets	**-**	**1.8**	**-**	**1.8**
Financial liabilities:				
Derivative financial liabilities	**-**	**(527.2)**	**-**	**(527.2)**
Net financial liabilities	**-**	**(503.0)**	**-**	**(503.0)**

At 31 March 2016	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets:				
Investment securities - available-for-sale	0.1	50.9	-	51.0
Derivative financial assets	-	781.4	-	781.4
Financial liabilities:				
Derivative financial liabilities	-	(527.7)	-	(527.7)
Net financial assets	0.1	304.6	-	304.7

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability, whether directly (i.e. as price) or indirectly (i.e. derived from the implications of prices).

Level 3: Inputs for the asset or liability that are not based on observable market data, or have significant unobservable inputs.

There were no transfers between Levels 1, 2 and 3 during the year (2016: none).

Available-for-sale investment securities are categorised as Level 2 as they are not frequently traded and hence trade prices cannot always be relied on as evidence of fair value. Fair value is estimated by the securities' lead managers, taking into account recent trades, similar assets adjusted for credit spreads and where applicable the underlying performance of assets backing the securities (so unobservable inputs are not considered significant). These prices are reviewed against quoted prices where available.

Derivative financial instruments which are categorised as Level 2 are those which either:

(a) Have future cash flows which are on known dates and for which the cash flow amounts are known or calculable by reference to observable interest and foreign currency exchange rates; or

(b) Have future cash flows which are not pre-defined but for which the fair value of the instrument has very low sensitivity to unobservable inputs.

In each case the fair value is calculated by discounting future cash flows using observable market parameters including swap rates, interest rates and currency rates.

33. Financial instruments (continued)

(e) Fair value measurement (continued)
For financial assets and liabilities which are not carried at fair value, the fair values disclosed in note 33(a) are calculated on the following bases:

At 31 March 2017	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets:				
Cash at bank and in hand	**2,112.7**	**-**	**-**	**2,112.7**
Amount owed in respect of sale of loans	**11,483.9**	**-**	**-**	**11,483.9**
Investment securities	**-**	**258.4**	**-**	**258.4**
Loans to customers	**-**	**-**	**18,934.9**	**18,934.9**
Other financial assets	**-**	**25.5**	**-**	**25.5**
	13,596.6	**283.9**	**18,934.9**	**32,815.4**
Financial liabilities:				
Statutory Debt and HM Treasury loans	**25,031.3**	**-**	**-**	**25,031.3**
Debt securities in issue	**-**	**230.9**	**-**	**230.9**
Other financial liabilities	**-**	**127.9**	**-**	**127.9**
	25,031.3	**358.8**	**-**	**25,390.1**

At 31 March 2016	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets:				
Cash at bank and in hand	5,598.3	-	-	5,598.3
Investment securities	-	303.1	-	303.1
Loans to customers	-	-	32,563.0	32,563.0
Other financial assets	-	22.8	-	22.8
	5,598.3	325.9	32,563.0	38,487.2
Financial liabilities:				
Amounts due to banks	553.9	-	-	553.9
Statutory Debt and HM Treasury loans	28,353.9	-	-	28,353.9
Debt securities in issue	-	5,104.3	-	5,104.3
Capital instruments	-	14.4	-	14.4
Other financial liabilities	-	182.6	-	182.6
	28,907.8	5,301.3	-	34,209.1

Valuation methods for calculations of fair values in the table above are as follows:

Cash at bank and in hand
Fair value is estimated by using discounted cash flows applying either market rates where practicable or rates offered by other financial institutions for accounts with similar characteristics. The fair value of floating rate placements, fixed rate placements with less than six months to maturity and overnight deposits is estimated to be their carrying amount.

Investment securities
The fair values of investment securities held as loans and receivables are based on quoted prices or lead manager prices where available or by using discounted cash flows applying independently sourced market parameters including interest rates and currency rates. The fair value of unsecured investment loans is based on prices supplied by third parties.

Loans to customers
Loans to customers include loans of varying rates and maturities. Fair value is estimated by discounting expected future cash flows using market interest rates. Expected future cash flows take account of estimated future losses. Market interest rates are based on current lending activity in the mortgage market. In respect of the majority of the Group's fixed interest rate loans, the change in interest rates since inception means that their fair value can vary significantly from their carrying value; the Group's policy is to hedge fixed rate loans in respect of interest rate risk.

33. Financial instruments (continued)

(e) Fair value measurement (continued)

Amounts due to banks

Fair values of deposit liabilities repayable on demand or with variable interest rates are considered to approximate to carrying value. The fair value of fixed interest deposits with less than six months to maturity is estimated to be their carrying amount. The fair value of all other deposit liabilities is estimated using discounted cash flows, applying independently sourced market parameters including interest rates and currency rates.

Statutory Debt and HM Treasury loans

The fair value is estimated to be the carrying amount as the loans are considered to be repayable on demand subject to timing of repayment of loans to customers.

Debt securities in issue and capital instruments

Fair values are based on quoted prices or lead manager prices where available, or by using discounted cash flows, applying independently sourced market parameters including interest rates and currency rates.

Other financial assets and liabilities

Fair value approximates to carrying value because the balances are short term in nature. The £11,483.9m balance in respect of the sale of loans has been categorised as Level 1 as it was a contractually defined amount.

(f) Transferred financial assets

As set out in note 24, the Group transferred financial assets (loans and receivables) to securitisation structures. The Group retained all of the risks and rewards associated with these loans and they were, therefore, retained on the Group's Balance Sheet.

The table below sets out the carrying values of the transferred assets and the associated liabilities. For securitisation structures, the associated liabilities represented the external notes in issue (see note 24). None of these notes had recourse to the transferred assets.

At 31 March 2017	**Transferred assets Carrying amount £m**	**Associated liabilities Carrying amount £m**
Loans to customers securitised	**-**	**-**

At 31 March 2016	Transferred assets Carrying amount £m	Associated liabilities Carrying amount £m
Loans to customers securitised	15,946.0	4,879.4

(g) Offsetting

No financial assets have been offset against financial liabilities. Balances which are subject to enforceable master netting arrangements or similar agreements are as follows:

At 31 March 2017	**Gross and net amounts, as reported on the Balance Sheet**	**Amounts available to be offset (but not offset on the Balance Sheet)**		**Net amounts after offsetting under IFRS 7**
		Master netting arrangements	**Financial collateral**	
	£m	**£m**	**£m**	**£m**
Derivative financial assets	**1.8**	**(1.4)**	**-**	**0.4**
Derivative financial liabilities	**(527.2)**	**1.4**	**519.0**	**(6.8)**
	(525.4)	**-**	**519.0**	**(6.4)**

At 31 March 2016	Gross and net amounts, as reported on the Balance Sheet	Amounts available to be offset (but not offset on the Balance Sheet)		Net amounts after offsetting under IFRS 7
		Master netting arrangements	Financial collateral	
	£m	£m	£m	£m
Derivative financial assets	781.4	(4.3)	(539.1)	238.0
Derivative financial liabilities	(527.7)	4.3	519.6	(3.8)
	253.7	-	(19.5)	234.2

33. Financial instruments (continued)

(h) IFRS 9

In July 2014 the IASB published the final version of IFRS 9 'Financial Instruments', which will replace IAS 39 except for the elements of IAS 39 relating to macro-hedging. IFRS 9 will be effective for annual periods beginning on or after 1 January 2018. The Group is not intending to take the option of early adoption, and hence will first apply IFRS 9 for the 2018/19 financial year. IFRS 9 does not require prior period comparative information to be restated to comply with IFRS 9, and the Group intends to follow this approach.

Implementation will require significant judgements in respect of the Group's business model, and changes to the Group's established fair value and provisioning models, methods and management judgements. The Group summarises below its expected approach to the classification and measurement, impairment and hedge accounting IFRS 9 requirements for financial instruments.

Classification and measurement

Under IFRS 9, classification of financial assets is determined by the business model under which the assets are managed and the contractual cash flow characteristics of the assets. Financial assets may be measured at amortised cost, fair value through profit and loss ('FVP&L') or fair value through other comprehensive income ('FVOCI'). For assets carried at FVOCI, impairment charges and credits are still taken to the Income Statement.

The business model may be considered to be one of holding the asset to collect the cash flows arising; holding the asset to sell it or to collect the cash flows arising; or holding the asset to sell it. IFRS 9 requires the business model to be assessed on the date of first application of IFRS 9, i.e. 1 April 2018.

The contractual cash flow characteristics of an asset may be considered to be 'solely payments of principal and interest' on the principal amount outstanding ('SPPI') or not to be SPPI.

The measurement classifications of financial assets are as follows:

	SPPI	Not SPPI
Held to collect	Amortised cost	FVP&L
Held to collect and sell	FVOCI	FVP&L
Held to sell	FVP&L	FVP&L

The Group expects to continue to hold most of its non-lending financial assets at amortised cost as they are used in the normal day to day operation of the business. Derivative financial assets will continue to be classified as FVP&L.

The Group's business model for its principle financial asset, loans to customers, is expected to be one of held to collect and sell, as these assets are managed in order to maximise taxpayer value with strategic assets sales undertaken where suitable market opportunities are identified. The cash flows of the majority of the loans are expected to be SPPI. Therefore it is expected that the majority of the Group's loans to customers will be carried at FVOCI.

The accounting treatment of the Group's financial liabilities is not expected to change upon implementation of IFRS 9.

Impairment of financial assets

IFRS 9 replaces the IAS 39 'incurred loss' approach to impairment provisioning with a forward looking 'expected loss' approach.

Each financial asset is categorised as 'stage 1', 'stage 2' or 'stage 3'. Stage 1 assets are those for which there has been no significant increase in credit risk since the asset's origination. Stage 2 assets are those for which there has been a significant increase in credit risk since the asset's origination. Stage 3 assets are those which are in default.

In respect of stage 1 assets, the impairment provision reflects the next 12 months' expected losses. In respect of stage 2 and 3 assets, the impairment provision reflects full lifetime expected losses. In respect of stage 3 assets, interest income is recognised only in respect of the balance net of impairment.

In respect of loans to customers carried at FVOCI, we have taken the view that we cannot ascertain which loans have experienced a significant increase in credit risk since the loan's origination without undue cost and effort, and hence the Group intends to categorise all FVOCI loans as stage 2 or 3; this approach is permitted by IFRS 9.

Hedge accounting

IFRS 9 is expected to better align risk management activities and financial hedge accounting. The Group expects to adopt IFRS 9 although this is not expected to have any material impact upon the existing IAS 39 accounting for one-to-one hedge accounting relationships. As IFRS 9 does not deal with macro-hedging, the Group expects to continue to apply the existing IAS 39 macro-hedge accounting rules. Development of the IASB's 'Dynamic Risk Management' project, which is intended to replace the existing macro-hedge accounting rules in due course, are being monitored.

33. Financial instruments (continued)

(h) IFRS 9 (continued)

Implementation

The Group established an IFRS 9 Implementation Project Steering Committee in January 2016 including representatives of finance and risk. Progress is reported to the Audit Committee at regular intervals. The Group has engaged a firm of external technical accounting specialists to support the project and external modelling consultants to build fair value and impairment models. It is planned that the IFRS 9 models will be tested on a monthly basis commencing during the first half of 2017/18 and that parallel running of IFRS 9 and IAS 39 models and processes will commence during the second half of 2017/18.

34. Collateral pledged and received

	31 March 2017 £m	31 March 2016 £m
Cash collateral which the Group has provided in respect of derivative contracts	**521.9**	520.9
Total collateral pledged	**521.9**	520.9

	31 March 2017 £m	31 March 2016 £m
Cash collateral which the Group has received in respect of derivative contracts	**-**	553.8
Securities collateral held	**-**	196.7
Total collateral received	**-**	750.5

The cash collateral pledged shown above is carried on the Balance Sheet within cash at bank and in hand. The liability to repay the cash collateral received is included within amounts due to banks in the Balance Sheet. In the absence of counterparty default, the Group had no right to sell or re-pledge the securities collateral received and therefore in accordance with the provisions of IAS 39 such securities were not recognised on the Balance Sheet.

35. Financial risk management

A description of the principal risks to which the Group is exposed is provided on pages 69 to 73 which form an integral part of the audited Financial Statements.

(a) Credit risk

Credit risk is the potential for financial loss caused by a party failing to meet an obligation as it becomes due. The Group considers its most significant credit risk to be the exposure to retail, commercial and wholesale counterparties failing to meet their obligations. As credit risk is the main risk to the Group, a credit risk framework has been established as part of the overall governance framework to measure, mitigate and manage credit risk within risk appetite. The Group closely monitors its credit risk against the Board's credit policies.

The maximum credit risk exposure at the Balance Sheet date before taking account of any collateral netting and other credit enhancements was as follows:

	31 March 2017 £m	31 March 2016 £m
On Balance Sheet:		
Cash at bank and in hand	**2,112.7**	5,598.3
Amount owed in respect of sale of loans	**11,483.9**	-
Investment securities	**282.4**	352.8
Loans to customers	**19,462.8**	35,532.6
Derivative financial instruments	**1.8**	781.4
Other financial assets	**25.5**	22.8
Total on Balance Sheet	**33,369.1**	42,287.9
Off Balance Sheet:		
Loan commitments (see note 30)	**429.0**	618.7

Loans to customers include loans which are secured on property. Additional information in respect of credit risk is provided in note 13 (for wholesale assets) and note 14 (for loans to customers).

35. Financial risk management (continued)

(a) Credit risk (continued)
The Board has approved a framework for maximum wholesale credit counterparty limits against which total wholesale credit exposures are continually monitored and controlled. The credit limit structure adopts a risk based matrix whereby lower rated counterparties are afforded lower overall levels of limit. Although publicly available ratings produced by rating agencies provide a useful guide to the creditworthiness of counterparties, an internal evaluation is also used in the limit assignment process. Counterparties are assigned maximum limits in accordance with the ratings matrix, based on the lowest rating afforded to any part of the counterparty group.

For derivative financial instruments the Group uses a range of approaches to mitigate credit risk, including internal control policies, obtaining collateral, using master netting agreements and other credit risk transfers. Derivative transactions with wholesale counterparties are typically collateralised, in the form of cash or highly liquid securities, under a Credit Support Annex in conjunction with the ISDA Master Agreement. All outstanding positions are held with wholesale counterparties with a minimum of a BBB+ credit rating.

Insurance risk
Loans to customers include lifetime (equity release) loans (see note 14). Under the terms of these loans, when the borrower dies or goes into long term care the property is sold and the proceeds used to redeem the loan. Where the sale proceeds are less than the contractual sum owed the Group does not have any further ability to recover amounts from the borrower or the estate. These loans are considered to meet the definition of an insurance contract ie that the Group has accepted the risk of negative equity arising on the loans. The Group makes provision for insurance losses by monitoring house price inflation tables and actual losses experienced. The Group manages the insurance risk as part of its credit risk management, but as the borrower is not required to make any payments until the borrower dies or goes into long term care the Group is restricted in its ability to take any action to mitigate the insurance risk. The insurance provision reduces the carrying amount of the lifetime loans on the Balance Sheet.

Concentration risk
The Group has investments in a range of investment securities issued by government bodies and banks and in asset-backed securities, in both the UK and overseas. 62% (2016: 53%) of the asset-backed securities are backed by UK assets. Further details in respect of concentrations in the wholesale assets portfolio are given in note 13.

The Group operates primarily in the UK and adverse changes to the UK economy could impact all areas of the Group's business. Residential loans to customers are all secured on property in the UK. 33% (2016: 57%) of residential loans to customers are concentrated in the buy-to-let market; most of the remaining balances are secured on residential owner-occupied properties.

The residential loan book of £18.9bn (2016: £34.7bn) is geographically spread across the UK broadly in line with the country's housing stock. Consequently, there is a geographic concentration of mortgages secured on properties in London and the South-East representing 37% (2016: 43%) of the book.

The residential loan book includes £887.8m (2016: £895.7m) of lifetime (equity release) loans. On redemption, Group does not have the right to seek to recover any shortfall from the borrower or estate; hence the Group has insurance risk in respect of these loans. An insurance provision of £130.3m (2016: £111.1m) is carried against these balances (see note 15). The risks in respect of the lifetime loans are common across the lifetime book.

Within the commercial mortgage portfolio there are 52 loans (2016: 71) totalling £257.3m (2016: £440.5m), with the largest 10 loans accounting for 89% (2016: 88%) of the portfolio. All of these loans are secured on commercial and housing association properties.

(b) Liquidity risk
The Group closely monitors its liquidity position against the Board's liquidity policy. Minimum and target liquidity levels are established through stress testing and cash flow forecasting, taking into consideration an assessment of any emerging and potentially extreme funding conditions.

35. Financial risk management (continued)

(b) Liquidity risk (continued)

The table below analyses the Group's financial assets and liabilities into relevant maturity groupings:

At 31 March 2017	**On demand £m**	**Within three months £m**	**After three months but within six months £m**	**After six months but within one year £m**	**After one year but within five years £m**	**After five years £m**	**Total £m**
Financial assets:							
Cash at bank and in hand	**2,112.4**	**0.3**	**-**	**-**	**-**	**-**	**2,112.7**
Amount owed in respect of sale of loans	**-**	**11,483.9**	**-**	**-**	**-**	**-**	**11,483.9**
Investment securities	**10.6**	**0.2**	**-**	**0.1**	**6.4**	**265.1**	**282.4**
Loans to customers	**181.8**	**92.5**	**106.3**	**176.1**	**1,453.3**	**17,452.8**	**19,462.8**
Fair value adjustments on portfolio hedging	**-**	**1.8**	**1.9**	**2.9**	**19.1**	**428.9**	**454.6**
Derivative financial instruments	**-**	**1.8**	**-**	**-**	**-**	**-**	**1.8**
Other financial assets	**-**	**25.5**	**-**	**-**	**-**	**-**	**25.5**
Total financial assets	**2,304.8**	**11,606.0**	**108.2**	**179.1**	**1,478.8**	**18,146.8**	**33,823.7**
Financial liabilities:							
Statutory Debt and HM Treasury loans	**25,016.7**	**14.6**	**-**	**-**	**-**	**-**	**25,031.3**
Derivative financial instruments	**-**	**0.9**	**1.8**	**0.3**	**0.7**	**523.5**	**527.2**
Debt securities in issue	**-**	**-**	**-**	**4.2**	**200.0**	**-**	**204.2**
Other financial liabilities	**-**	**127.9**	**-**	**-**	**-**	**-**	**127.9**
Total financial liabilities	**25,016.7**	**143.4**	**1.8**	**4.5**	**200.7**	**523.5**	**25,890.6**

At 31 March 2016	On demand £m	Within three months £m	After three months but within six months £m	After six months but within one year £m	After one year but within five years £m	After five years £m	Total £m
Financial assets:							
Cash at bank and in hand	5,551.7	46.6	-	-	-	-	5,598.3
Investment securities	11.8	0.7	21.0	0.2	7.6	311.5	352.8
Loans to customers	265.4	168.0	167.6	357.1	2,612.0	31,962.5	35,532.6
Fair value adjustments on portfolio hedging	-	0.8	0.8	1.6	6.0	427.4	436.6
Derivative financial instruments	-	339.1	-	1.0	-	441.3	781.4
Other financial assets	-	22.8	-	-	-	-	22.8
Total financial assets	5,828.9	578.0	189.4	359.9	2,625.6	33,142.7	42,724.5
Financial liabilities:							
Amounts due to banks	553.9	-	-	-	-	-	553.9
Statutory Debt and HM Treasury loans	28,332.3	21.6	-	-	-	-	28,353.9
Derivative financial instruments	-	1.3	8.2	2.7	8.3	507.2	527.7
Debt securities in issue	1.6	1,945.6	110.8	214.2	1,958.6	928.4	5,159.2
Capital instruments	-	0.1	-	4.1	-	5.0	9.2
Other financial liabilities	-	182.6	-	-	-	-	182.6
Total financial liabilities	28,887.8	2,151.2	119.0	221.0	1,966.9	1,440.6	34,786.5

HM Treasury has indicated that it expects the loans and the WCF provided to the Group by HM Treasury and the Statutory Debt due to the FSCS to be repaid out of the cash flows generated by the Group during its wind-down. It is not possible to specify the contractual maturity dates of the loans to the Group from HM Treasury and from the FSCS and therefore they have been included in the table above as though repayable on demand. As disclosed in note 37, on 26 April 2017 £10,976.6m of the Statutory Debt owed to the FSCS and £440.7m of the WCF were repaid.

35. Financial risk management (continued)

(b) Liquidity risk (continued)

Debt securities in issue included notes which securitised loans to customers through SPVs. These notes were repaid on a pass-through basis. In the above table, maturities of such notes were based on the expected repayment of notes which, in turn, were derived from the expected redemption profiles of securitised loans.

In the above table, where derivatives had been taken out to hedge mortgage backed securitised notes, the timings of derivative payments were based on the expected repayment dates of the hedged notes.

Other assets and liabilities are included in the above table according to the earliest date that payment can be contractually demanded. It should be noted that many financial instruments are settled earlier than their contractual maturity date; in particular, many mortgage loans are repaid early, in full or in part.

Assets and liabilities with a remaining period to contractual maturity of within one year are classed as current and those with a remaining period of more than one year are classed as non-current. Non-financial assets and liabilities amount to £506.4m and £346.9m respectively (2016: £544.7m and £593.0m) of which £21.9m and £80.9m respectively are classed as current (2016: £8.9m and £280.3m) and £484.5m and £266.0m respectively are classed as non-current (2016: £535.8m and £312.7m).

Non-derivative cash flows

The table below analyses the Group's non-derivative cash flows payable into relevant periods. The assumptions used in the preparation of this table are consistent with those used in the maturity table on page 138. The amounts disclosed are the contractual undiscounted cash outflows; these differ from Balance Sheet values due to the effects of discounting on certain Balance Sheet items and due to the inclusion of contractual future interest flows.

At 31 March 2017	**On demand £m**	**Within three months £m**	**After three months but within six months £m**	**After six months but within one year £m**	**After one year but within five years £m**	**After five years £m**	**Total £m**
Financial liabilities:							
Statutory Debt and HM Treasury loans	**25,016.7**	**14.6**	**-**	**-**	**-**	**-**	**25,031.3**
Debt securities in issue	**-**	**-**	**-**	**12.8**	**225.5**	**-**	**238.3**
Other financial liabilities	**-**	**127.9**	**-**	**-**	**-**	**-**	**127.9**
Loan commitments	**424.6**	**0.1**	**0.1**	**0.3**	**1.7**	**2.2**	**429.0**
Total	**25,441.3**	**142.6**	**0.1**	**13.1**	**227.2**	**2.2**	**25,826.5**

At 31 March 2016	On demand £m	Within three months £m	After three months but within six months £m	After six months but within one year £m	After one year but within five years £m	After five years £m	Total £m
Financial liabilities:							
Amounts due to banks	553.9	-	-	-	-	-	553.9
Statutory Debt and HM Treasury loans	28,332.3	21.6	-	-	-	-	28,353.9
Debt securities in issue	-	1,901.4	116.4	238.9	2,068.5	1,066.8	5,392.0
Capital instruments	-	0.2	-	4.7	1.5	15.7	22.1
Other financial liabilities	-	182.6	-	-	-	-	182.6
Loan commitments	613.4	0.2	0.2	0.2	1.9	2.8	618.7
Total	29,499.6	2,106.0	116.6	243.8	2,071.9	1,085.3	35,123.2

35. Financial risk management (continued)

(b) Liquidity risk (continued)

Derivative cash flows

The following table analyses cash outflows for the Group's derivative financial liabilities. The amounts are allocated into relevant periods using assumptions consistent with those used in the preparation of the maturity table on page 138.

At 31 March 2017	**On demand £m**	**Within three months £m**	**After three months but within six months £m**	**After six months but within one year £m**	**After one year but within five years £m**	**After five years £m**	**Total £m**
Derivative financial liabilities to be settled on a net basis	**-**	**11.5**	**11.1**	**20.3**	**157.0**	**537.0**	**736.9**
Derivative financial liabilities to be settled on a gross basis:							
- outflows	**-**	**158.6**	**-**	**-**	**-**	**-**	**158.6**
- inflows	**-**	**(157.9)**	**-**	**-**	**-**	**-**	**(157.9)**
Total	**-**	**12.2**	**11.1**	**20.3**	**157.0**	**537.0**	**737.6**

At 31 March 2016	On demand £m	Within three months £m	After three months but within six months £m	After six months but within one year £m	After one year but within five years £m	After five years £m	Total £m
Derivative financial liabilities to be settled on a net basis	-	12.9	12.7	22.8	152.5	579.4	780.3
Derivative financial liabilities to be settled on a gross basis:							
- outflows	-	0.4	79.7	0.9	7.1	127.9	216.0
- inflows	-	(0.9)	(73.7)	(1.4)	(11.1)	(137.4)	(224.5)
Total	-	12.4	18.7	22.3	148.5	569.9	771.8

(c) Market risk

The following table describes the significant activities that were undertaken by the Group prior to nationalisation and which currently give rise to financial or market risk, the potential consequences associated with such activities and the derivative instruments used by the Group to mitigate the risks arising.

Activity	**Risk**	**Type of derivative instrument used**
Fixed rate mortgages	Sensitivity to changes in interest rates	Interest rate swaps
Variable rate mortgage balances	Sensitivity to changes in interest rates	Interest rate swaps
Legacy investments and funding in foreign currencies	Sensitivity to changes in foreign currency exchange rates	Foreign exchange contracts

Interest rate swaps:

The notional principal amounts of the outstanding interest rate swap contracts in Cash Flow Hedge Relationships ('CFHR') as at 31 March 2017 were £0.7bn (31 March 2016: £1.8bn).

Gains and losses recognised in the cash flow hedge reserve on interest rate swap contracts as at 31 March 2017 will be continually released to the Income Statement up until the maturity of the hedging instruments in August 2017.

Cross currency swaps:

The notional principal amounts of the outstanding cross currency swaps in an eligible CFHR as at 31 March 2017 were £nil (31 March 2016: £3.3bn).

The accounting policy for derivatives and hedge accounting is described in note 1(h), and further details of hedge accounting are provided in note 33(d).

35. Financial risk management (continued)

(c) Market risk (continued)

Interest rate risk

Interest rate risk typically arises from mismatches between the repricing dates of interest-bearing assets and liabilities on the Group's Balance Sheet, and from the investment profile of the Group's capital and reserves. The Group's Treasury function is responsible for managing this exposure within the risk exposure limits set out in the Treasury Risk policy, as approved by the Board. This policy sets out the nature of the market risks that may be taken along with aggregate risk limits, and stipulates the procedures, instruments and controls to be used in managing market risk.

Market risk is the potential adverse change in income or net worth arising from movements in interest rates, exchange rates or other market prices. Effective identification and management of market risk is essential for maintaining stable net interest income.

The Group measures, monitors and controls the following interest rate risks and sensitivities:

- Mismatch risk
- Curve
- Prepayment risk
- Basis risk
- Reset risk

Interest rate risk exposure is predominantly managed through the use of interest rate derivatives, principally interest rate swaps.

Interest rate sensitivities are reviewed by senior management with a frequency between daily and monthly dependant on the granularity of the position and reported to ERC monthly. Exposures are calculated using a range of interest rate scenarios, including non-parallel shifts in the yield curve and the main metrics used by management are:

(i) the change in value of the Group's net worth due to a notional 2% parallel move in market and base rates.

	31 March 2017 £m	31 March 2016 £m
2% increase	**(0.7)**	(29.1)
2% decrease	**(9.4)**	29.8

(ii) the sensitivity of the Group's interest margin over 12 months to a notional 2% parallel move in market and base rates.

	31 March 2017 £m	31 March 2016 £m
2% increase	**281.8**	516.3
2% decrease	**(43.8)**	(130.6)

Foreign currency risk

The Group's policy is to hedge all material foreign currency exposures by use of naturally offsetting foreign currency assets and liabilities or by the use of derivatives. Consequently, at 31 March 2017 and 31 March 2016 the Group had no net material exposure to foreign exchange rate fluctuations or changes in foreign currency interest rates. The impact on the Group's profit and equity of reasonably possible changes in exchange rates compared to actual rates would not have been material at 31 March 2017 or 31 March 2016.

35. Financial risk management (continued)

(c) Market risk (continued)

Foreign currency risk (continued)

The table below summarises the Group's exposure to foreign currency exchange rate risk at the Balance Sheet date. Included in the table are the Group's financial instruments under the relevant currency headings. The amounts disclosed are the sterling equivalents of the notional amounts due on maturity, including interest accrued at the Balance Sheet date, less any impairment provisions.

At 31 March 2017	**€ £m**	**$ £m**	**Other £m**	**Total £m**
Financial assets:				
Cash at bank and in hand	**0.6**	**1.0**	**-**	**1.6**
Investment securities	**163.4**	**8.5**	**-**	**171.9**
Derivative financial instruments	**(98.1)**	**(8.0)**	**-**	**(106.1)**
Total financial assets	**65.9**	**1.5**	**-**	**67.4**
Financial liabilities:				
Derivative financial instruments	**64.0**	**-**	**-**	**64.0**
Total financial liabilities	**64.0**	**-**	**-**	**64.0**
Net currency gap	**1.9**	**1.5**	**-**	**3.4**

At 31 March 2016	€ £m	$ £m	Other £m	Total £m
Financial assets:				
Cash at bank and in hand	570.1	27.0	-	597.1
Investment securities	208.7	10.4	-	219.1
Derivative financial instruments	3,036.2	834.2	175.9	4,046.3
Total financial assets	3,815.0	871.6	175.9	4,862.5
Financial liabilities:				
Amounts due to banks	551.1	-	-	551.1
Derivative financial instruments	312.6	34.8	-	347.4
Debt securities in issue	2,949.6	839.4	175.9	3,964.9
Total financial liabilities	3,813.3	874.2	175.9	4,863.4
Net currency gap	1.7	(2.6)	-	(0.9)

36. Contingent liabilities

(a) On 20 January 2009 a solicitor's letter was received notifying B&B and certain present and former B&B directors of a potential claim by former individual shareholders who subscribed for additional shares in the £401m rights issue approved on 17 July 2008. These former shareholders claim to have suffered loss through having been induced to subscribe for shares in the rights issue by allegedly materially misleading and/or incomplete statements made in the associated prospectus dated 24 June 2008 as revised and supplemented by the supplementary prospectus dated 11 July 2008. Should such a claim result in proceedings which are pursued through the courts and which succeed, the defendant directors and/or B&B could be liable in damages to certain former shareholders in B&B who subscribed for shares in the rights issue. In May 2009 B&B together with its legal advisors responded to the allegations raised. Nothing further was heard until 23 January 2012 when correspondence was received from the solicitors representing the former shareholders, to which B&B together with its legal advisors responded. This correspondence contained no further allegations or details of the former shareholders' potential claim. It is not possible at this stage to determine the outcome or timing of any conclusion to this matter. No provision has been made in respect of these allegations.

(b) B&B has provided certain warranties and indemnities to Prudential and to Blackstone in respect of the sale of loans in March 2017 detailed in note 14. The sale agreements set various time limits for bringing claims under the warranties. For most of the warranties this time limit is 12 months from the date on which legal title is transferred to the purchasing entities; legal title is expected to transfer no later than April 2018. As detailed in note I the Company has provided a guarantee to Prudential and to Blackstone that should B&B fail to make payment to Prudential or to Blackstone under a valid claim made under the warranties and indemnities that B&B provided to them in respect of the March 2017 sale of loans then UKAR will make payment to Prudential or to Blackstone in satisfaction of the claims. Through commitments made by HM Treasury in relation to the sale, the Company is satisfied that it will have sufficient funds to meet its liabilities arising from any claims made under the guarantees.

(c) As detailed in note 26, whilst the Court of Appeal provided clarity that loans greater than £25,000 were not covered under the Consumer Credit Act, there is a risk that individual customers could make claims against NRAM. This could result in costs to NRAM where such claims are upheld. It is not possible to provide any meaningful estimate or range of the possible cost.

(d) The Group’s lending and other consumer credit business is governed by consumer credit law and other regulations. Claims upheld in favour of customers in relation to potential breaches of requirements could result in costs to the Group. It is not possible to provide any meaningful estimate or range of the possible cost.

(e) NRAM Limited provided certain warranties and indemnities to Cerberus in respect of the sale to Cerberus of certain loans and the shares in NRAM plc. The sale agreement set various time limits for bringing claims under the warranties. For most of the warranties this time limit is 5 May 2018 or 5 May 2019, while for certain tax-related warranties the time limit is 5 May 2023.

(f) B&B provided certain warranties and indemnities to Computershare in respect of the transfer of the mortgage servicing business. The sale contract set various time limits for bringing claims under the warranties and indemnities which vary depending upon their nature, with the majority being limited to June 2018. No provision has been made.

37. Events after the reporting period

As described in note 14, on 31 March 2017 UKAR announced that following an open and competitive process B&B had agreed to sell two separate asset portfolios for a total of £11.8bn. Financial completion occurred on 25 April 2017; on 26 April 2017 the proceeds were used to repay £10,976.6m of the Statutory Debt owed to the FSCS and £440.7m of the WCF. At the point of contract signature the best estimate was recognised in respect of the amount of the sale proceeds and of the loss on sale. In the Financial Statements for the year to 31 March 2017 these amounts have been adjusted to reflect the final proceeds as determined on financial completion in April; this adjustment is considered to be an adjusting event as defined by IAS 10 ‘Events after the Reporting Period’.

Independent Auditor's report to the Members of UK Asset Resolution Limited

I have audited the Parent Company Financial Statements of UK Asset Resolution Limited for the year ended 31 March 2017 which comprise:

- the Company Balance Sheet;
- the Company Statement of Changes in Equity;
- the Company Cash Flow Statement; and
- the related notes.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union and as regards the Parent Company Financial Statements, as applied in accordance with the provisions of the Companies Act 2006. I have also audited the information in the Directors' Remuneration Report that is described as having been audited.

Respective responsibilities of the Directors and the auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 78, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Parent 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. In addition I 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 me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on Financial Statements

In my opinion:

- the Financial Statements give a true and fair view of the state of the Parent Company's affairs as at 31 March 2017; and
- the Financial Statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- the Financial Statements have been prepared in accordance with the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.
- the information given in the Strategic Report and the Directors' Report and Governance Statement for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements and these reports have been prepared in accordance with the applicable legal requirements; and
- in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, I have not identified any material misstatements in the Strategic Report or the Directors' Report and Governance Statement.

Independent Auditor's report to the Members of UK Asset Resolution Limited (continued)

Matters on which I report by exception

I have nothing to report in respect of the following matters where the Companies Act 2006 requires me to report to you if, in my opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for my audit have not been received from branches not visited by my staff; or
- the Financial Statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- I have not received all of the information and explanations I require for my audit.

Other matter

I have reported separately, on pages 79 to 83 on the Group Financial Statements of UK Asset Resolution Limited for the year ended 31 March 2017.

Hilary Lower (Senior Statutory Auditor)

For and on behalf of the
Comptroller and Auditor General (Statutory Auditor)
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

3 July 2017

COMPANY BALANCE SHEET

	Note	**31 March 2017 £m**	31 March 2016 £m
Assets			
Investments in Group undertakings	D	**2,634.1**	2,634.1
Other assets		**0.1**	0.1
Total assets		**2,634.2**	2,634.2
Equity			
Issued capital and reserves attributable to owners of the parent:			
- share capital	28	**1.2**	1.2
- merger reserve	E	**2,632.8**	2,632.8
- retained earnings		**0.2**	0.2
Total equity		**2,634.2**	2,634.2

The notes on pages 148 to 152 and note 28 on page 125 form an integral part of these Financial Statements.

The Company's profit after tax for the financial year was £25,000 (31 March 2016: £22,000). As permitted by s408 of the Companies Act 2006, the Company's individual Income Statement, Statement of Comprehensive Income and related notes have not been presented in these Financial Statements. The Company's retained earnings at 31 March 2017 were £202,000 (2016: £177,000).

The Financial Statements on pages 146 to 152 were approved by the Board of Directors on 3 July 2017 and signed on its behalf by:

John Tattersall
Chairman

Ian Hares
Chief Executive Officer

UK Asset Resolution Limited is registered in England and Wales under company number 07301961.

COMPANY STATEMENT OF CHANGES IN EQUITY

For the 12 months to 31 March 2017	**Share capital £m**	**Merger reserve £m**	**Retained earnings £m**	**Total share capital and reserves £m**
At 1 April 2016	**1.2**	**2,632.8**	**0.2**	**2,634.2**
Profit for the financial year	**-**	**-**	**-**	**-**
At 31 March 2017	**1.2**	**2,632.8**	**0.2**	**2,634.2**

For the 12 months to 31 March 2016	Share capital £m	Merger reserve £m	Retained earnings £m	Total share capital and reserves £m
At 1 April 2015	1.2	2,632.8	0.2	2,634.2
Profit for the financial year	-	-	-	-
At 31 March 2016	1.2	2,632.8	0.2	2,634.2

COMPANY CASH FLOW STATEMENT

During the 12 months to 31 March 2017 and the comparative 12 months to 31 March 2016 the Company had no material cash flows or balances. Consequently no Cash Flow Statement has been presented.

The Company had no significant non-cash transactions during the current or previous year.

A. Principal accounting policies

The Company is a private limited company incorporated on 1 July 2010 and domiciled in the United Kingdom. The principal activity of the Company is to provide management services to its subsidiary undertakings. The Company applies the accounting policies of the UKAR Group, set out on pages 92 to 100, with the following additional item.

Investments in Group undertakings

In the Financial Statements of the UKAR Company, investments in Group undertakings are carried at cost less any impairment. UKAR's acquisition of the entire issued share capital of B&B and NRAM plc in a share-for-share exchange has been accounted for under 'predecessor accounting' and the cost of each of these investments has been deemed to be the net assets of the B&B company and the NRAM plc company at 30 June 2010. On 29 April 2016 NRAM Limited acquired NRAM plc from the Company by way of a share-for-share exchange, NRAM Limited issuing the same number and class of shares as were acquired from UKAR. Investments are reviewed at each published Balance Sheet date for any indication of impairment. If there is indication of impairment of any investment, the carrying value of the investment is reviewed, and any impairment identified is charged immediately to the Company's Income Statement.

B. Critical judgements and accounting estimates

In preparing the Financial Statements, management have made the following critical judgement.

Investments in Group undertakings

The Directors consider the value of the Company's investments in subsidiary undertakings to be supported by their underlying assets.

C. Taxation

The Company bears tax at the standard weighted average rate of UK corporation tax of 20.0% (2016: 20.0%) and has no deferred tax provided or unprovided.

D. Investments in Group undertakings

The investments in Group undertakings represent the Company's holdings of the entire issued share capital of B&B, NRAM and of UKARcs which was incorporated on 20 June 2013.

The Company's principal subsidiary undertakings at 31 March 2017 held directly or indirectly, all of which are wholly owned and are fully consolidated into the Group Financial Statements, are listed below. All operate in their country of incorporation.

	Nature of business	Country of incorporation	Class of shares held
Direct			
Bradford & Bingley plc	Mortgage administration	UK	Ordinary
Northern Rock (Asset Management) Limited	Non-trading	UK	Ordinary
NRAM Limited	Mortgage administration	UK	Ordinary
UKAR Corporate Services Limited	Administration	UK	Ordinary
Indirect			
Mortgage Express	Mortgage administration	UK	Ordinary

Each of these companies has its registered office at Croft Road, Crossflatts, Bingley, West Yorkshire, BD16 2UA.

D. Investments in Group undertakings (continued)

The following companies are also fully consolidated into the Group Financial Statements; all operate in their country of incorporation. All are indirectly wholly-owned except where indicated.

	Registered number	Nature of business	Country of incorporation	Class of shares held
Bradford & Bingley Homeloans Limited	02405307	Non-trading	UK	Ordinary
Bradford & Bingley Investments	03326913	Non-trading	UK	Ordinary
Bradford & Bingley Mortgage Management Limited	02405306	Non-trading	UK	Ordinary
Community Housing Initiatives Limited	02433437	Non-trading	UK	Ordinary[1]
F&NE (1990) Limited	02481908	Non-trading	UK	Ordinary*
F&NE Limited	02428779	Non-trading	UK	Ordinary*
F.F.M. Limited	02397984	Non-trading	UK	Ordinary
Finance for Mortgages Limited	02220176	Non-trading	UK	Ordinary
Heron's Reach Developments Limited	02554549	Non-trading	UK	Ordinary
HSMS	01192730	Non-trading	UK	Ordinary
Leamington Mortgage Corporation Limited	02066450	Non-trading	UK	Ordinary
Mortgage Express (No. 2)	00891681	Non-trading	UK	Ordinary
Mortgage Express Holdings	02412659	Non-trading	UK	Ordinary
NRAM (No. 2) Limited	02190427	Non-trading	UK	Ordinary
NRAM Homes Limited	02306045	Non-trading	UK	Ordinary
Scotlife Homeloans (No. 2) Limited	02220177	Non-trading	UK	Ordinary
Silhouette Mortgages Limited	02356078	Non-trading	UK	Ordinary

** The Group owns 50% of the shares of these companies.*

The Directors consider the value of investments in Group undertakings to be supported by their underlying assets. All have their registered office at Croft Road, Crossflatts, Bingley, West Yorkshire, BD16 2UA except for the following:

[1] The Group owns 50% of the shares of this company, which has its registered office at Berkeley House, 19 Portsmouth Road, Cobham, Surrey, KT11 1JG.

D. Investments in Group undertakings (continued)

SPVs

The following entities were SPVs established in connection with the Group's securitisation and secured funding programmes (see note 24). UKAR, B&B and NRAM had no contractual arrangement or intention to provide additional financial or other support to these SPVs. Although the Company had no direct or indirect ownership interest in these entities and no rights to vote or to receive dividends they were regarded as subsidiaries. This is because they were principally engaged in providing a source of long-term funding to the Group, which in substance, had the rights to all benefits from the activities of the SPVs. They were, therefore, effectively controlled by the Group. B&B was a member of Bradford & Bingley Covered Bonds LLP and NRAM was a member of NRAM Covered Bond LLP. All were fully consolidated until the funding structures were unwound and the companies were placed into liquidation.

	Nature of business	Country of incorporation and operation
Aire Valley Funding 1 Limited[1]	Liquidation	UK
Aire Valley Funding 2 Limited[1]	Liquidation	UK
Aire Valley Holdings Limited[2]	Holding company	UK
Aire Valley Mortgages 2004-1 plc[1]	Liquidation	UK
Aire Valley Mortgages 2005-1 plc[1]	Liquidation	UK
Aire Valley Mortgages 2006-1 plc[1]	Liquidation	UK
Aire Valley Mortgages 2007-1 plc[1]	Liquidation	UK
Aire Valley Mortgages 2007-2 plc[1]	Liquidation	UK
Aire Valley Mortgages 2008-1 plc[1]	Liquidation	UK
Aire Valley PECOH Limited[2]	Post-enforcement call option holder	UK
Aire Valley Trustee Limited	Dissolved	Jersey
Bradford & Bingley Covered Bonds LLP[1]	Liquidation	UK
Designated Member No.1 Limited	Dissolved	Jersey
Designated Member No.2 Limited[2]	Member of Bradford & Bingley Covered Bonds LLP	UK
Ivybond Holdings Limited	Dissolved	Jersey
GPCH Limited[4]	Liquidation	UK
Granite Finance Funding Limited[4]	Liquidation	Jersey
Granite Finance Funding 2 Limited[3]	Liquidation	UK
Granite Finance Holdings Limited[3]	Liquidation	UK
Granite Finance Trustees Limited[4]	Liquidation	Jersey
Granite Master Issuer plc[3]	Liquidation	UK
Granite Mortgages 03-2 plc[3]	Liquidation	UK
Granite Mortgages 03-3 plc[3]	Liquidation	UK
Granite Mortgages 04-1 plc[3]	Liquidation	UK
Granite Mortgages 04-2 plc[3]	Liquidation	UK
Granite Mortgages 04-3 plc[3]	Liquidation	UK
Moore Investments Limited[4]	Member of NRAM Covered Bond LLP	Jersey
NRAM Covered Bond LLP[3]	Liquidation	UK
Whinstone Capital Management Limited[4]	Liquidation	Jersey
Whinstone 2 Capital Management Limited[4]	Liquidation	Jersey

[1] Registered office: 40A Station Road, Upminster, Essex, RM14 2TR.

[2] Registered office: 35 Great St Helen's, London, EC3A 6AP.

[3] Registered office: 15 Canada Square, London, E14 5GL.

[4] Registered office: 13 Castle Street, St Helier, Jersey, JE4 5UT.

D. Investments in Group undertakings (continued)

Summarised financial information for material SPVs

Set out below is summarised financial information for each material SPV:

	Debt securities in issue		Net assets		Profit after tax	
	At 31 March 2017 £m	At 31 March 2016 £m	**At 31 March 2017 £m**	At 31 March 2016 £m	**12 months to 31 March 2017 £m**	12 months to 31 March 2016 £m
Aire Valley Mortgages 2004-1 plc	**-**	480.3	**-**	4.1	(4.1)	0.9
Aire Valley Mortgages 2005-1 plc	**-**	306.5	**-**	2.2	(2.2)	0.9
Aire Valley Mortgages 2006-1 plc	**-**	1,644.5	**-**	12.4	(12.4)	0.5
Aire Valley Mortgages 2007-1 plc	**-**	1,096.0	**-**	2.2	(2.2)	(0.6)
Granite Mortgages 03-2 plc	**-**	-	**-**	0.1	(0.1)	(0.3)
Granite Mortgages 03-3 plc	**-**	-	**-**	0.1	(0.1)	(0.1)
Granite Mortgages 04-1 plc	**-**	-	**-**	0.1	(0.1)	(0.3)
Granite Mortgages 04-2 plc	**-**	-	**-**	0.1	(0.1)	0.2
Granite Mortgages 04-3 plc	**-**	-	**-**	0.1	(0.1)	(0.1)
Granite Master Issuer plc	**-**	-	**-**	0.5	(0.5)	4.0
Granite Finance Funding Limited	**-**	-	**-**	0.2	(0.2)	(0.2)
Granite Finance Funding 2 Limited	**-**	-	**-**	-	-	(0.1)
Whinstone Capital Management Limited	**-**	78.9	**-**	0.2	(0.2)	(48.2)
Whinstone 2 Capital Management Limited	**-**	-	**-**	-	-	(49.0)

During the year the remaining debt securities were redeemed.

E. Merger reserve

	£m
At 1 April 2015, 31 March 2016 and 31 March 2017	**2,632.8**

The merger reserve was generated on 1 October 2010 when the Company acquired all the issued shares of B&B and NRAM plc from the Treasury Solicitor via a share-for-share exchange. The merger reserve represents the difference between the value attributed to the Company's investment in each company and the nominal value of the share capital issued by the Company in exchange. On 29 April 2016 NRAM Limited acquired NRAM plc from the Company by way of a share-for-share exchange, NRAM Limited issuing the same number and class of shares as were acquired from UKAR.

F. Related party disclosures

(a) Subsidiary companies

The Company had no material balances outstanding with subsidiary companies during the year.

The Company had transactions with its subsidiaries as follows:

	12 months to 31 March 2017 £000	12 months to 31 March 2016 £000
Management charges to subsidiary undertakings	**528**	626
Costs recharged by subsidiary undertakings	**503**	599

(b) Key management personnel

The Group considers the Boards of Directors and the members of the Executive Committees of UKAR, B&B and NRAM to be the key management personnel. The Company had no transactions or balances directly with any key management personnel during the year. The Company's non-executive Directors have service contracts with the Company. Their fees are paid by B&B and recharged at cost to the Company, along with other related costs.

(c) Directors' emoluments

The aggregate UKAR Group emoluments of the Directors of the UKAR Company for the 12 months to 31 March 2017 were £1,529,449 and of the highest paid Director £766,169 (12 months to 31 March 2016: £2,159,628 and £966,611 respectively).

G. Financial risk management

The Company has no significant financial risks.

H. Ultimate controlling party

All shares in the Company are owned by the Treasury Solicitor as nominee for HM Treasury, and the Company considers the UK government to be its ultimate controlling party. The results of the UKAR Group are consolidated into those of HM Treasury as presented in HM Treasury's Annual Report & Accounts.

I. Contingent liabilities

The Company has provided a guarantee to Prudential and to Blackstone that should B&B fail to make payment to Prudential or to Blackstone under a valid claim made under the warranties and indemnities that B&B provided to them in respect of the March 2017 sale of loans then UKAR will make payment to Prudential or to Blackstone in satisfaction of the claim. Through commitments made by HM Treasury in relation to the sale, the Company is satisfied that it will have sufficient funds to meet its liabilities arising from any claims made under the guarantees.

UK Asset Resolution Limited

Registered Office:
Croft Road
Crossflatts
Bingley
West Yorkshire
BD16 2UA

Registered in England and Wales under company number 07301961

www.ukar.co.uk

ISBN 978-1-4741-4441-4