UK Asset Resolution Limited

Annual Report & Accounts

for the 12 months to 31 March 2018

Registered in England and Wales under company number 07301961

Cm 9628 June 2018

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

June 2018

Cm 9628

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

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

ISBN – 978-1-5286-0439-0

CCS – CCS0518692414 06/18

Printed on paper containing 75% recycled fibre content minimum.

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

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Company number 07301961

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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.

Since formation, UKAR has made significant progress towards achieving its overarching objective to develop and execute an investment strategy for disposing of UKAR's underlying investments in NRAM and B&B in an orderly and active way. The Balance Sheet has reduced by £96.0bn to £19.8bn at March 2018 (Oct 2010: £115.8bn) including £27.2bn of asset sales. After the Balance Sheet date, we announced a further sale of B&B assets which, on financial settlement in May 2018, reduced the Balance Sheet by a further £5.0bn.

UKAR is wholly owned by Her Majesty's Treasury ('HM Treasury'), whose shareholding is managed by UK Government Investments Limited ('UKGI'). UKGI completed the integration of UK Financial Investments Limited ('UKFI'), which formerly managed HM Treasury's shareholding in UKAR, in March 2018. Throughout the Annual Report & Accounts, UKGI refers to the entity managing HM Treasury's shareholding in UKAR. The full governance structure is set out in a framework document ('the Framework Document') agreed between UKAR and HM Treasury (see page 18 for details).

In 2016, NRAM plc was acquired by Cerberus Capital Management LP ('Cerberus') and the assets and liabilities not included in the transaction were transferred to a newly established subsidiary of UKAR, which is now known as NRAM Limited. Throughout the Annual Report & Accounts 'NRAM' refers to the underlying business.

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

UKAR Group overview (continued)

Key Facts

	31 March 2018	31 March 2017
Number of customers	131,000	148,000
Total lending balances	£17.2bn	£19.5bn
Employees	179	175

In 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.

The 148,000 customers at March 2017 exclude 57,000 customers who were transferred to Prudential and Blackstone following an £11.8bn mortgage sale to these companies on 30 March 2017.

In April 2018 we announced the sale of two separate B&B asset portfolios to an investor group led by Barclays Bank plc ('Barclays'). At 31 March 2018, total lending balances of £17.2bn include £5.0bn of assets classified as held for sale in respect of this transaction. As a result of the sale, approximately 34,000 customers will transfer to Barclays but are included in the 131,000 stated above. UKAR will continue to provide oversight of these customers as part of an interim servicing arrangement.

Chairman’s statement

UKAR made great progress during 2017/18 in achieving all of our operational and financial targets as detailed in the Chief Executive’s report. We continue to be responsible for the oversight of the service that our customers receive and as a key part of that responsibility we focus on treating customers fairly and helping those in financial difficulty.

I am delighted to be able to report since the year end the successful completion of the second phase of sales of B&B asset portfolios, that has now enabled full repayment of the £15.65bn loan from the Financial Services Compensation Scheme (‘FSCS’), which was funded by HM Treasury. To have repaid this debt within ten years is a tremendous achievement and a reflection of the hard work and efforts of many colleagues over that period.

The Board

As was anticipated in last year's report, we said farewell to Michael Buckley who retired from the Boards last summer having served us since establishment. Following a thorough recruitment process, Brendan Russell was appointed to the Boards in June 2017.

Details of the board changes, structure and biographies of each of our board members can be found on pages 19 to 21.

In January 2018 we asked Deloitte LLP, as part of their internal audit work, to undertake an external review of the performance of the Board, individual Directors and Board Committees. The results of the evaluation confirmed that the 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, but gave us an indication of where we can make improvements. We will be implementing their recommendations.

I thank all board members for their contribution to the effective operation of UKAR and their support for me as Chairman.

Our Record

It has been ten years since NRAM and B&B were taken into public ownership. UKAR was formed in 2010 with the objective of protecting and creating value for the taxpayer by winding down these businesses in an orderly and active way, whilst ensuring that our customers were treated well. Our progress has been much better than anyone could have expected.

From a financial perspective, as referenced above, we have now fully repaid the FSCS loan, leaving £2.76bn due by B&B to HM Treasury, and the NRAM government loan has reduced from £21.7bn to £2.7bn. Virtually all of the private sector financing to B&B and NRAM has now been repaid or repurchased.

Throughout this period we have continued to focus on our customers, giving them high levels of service; we have developed a proactive contact strategy to support those customers facing financial difficulty. The total number of mortgage accounts three or more months in arrears, including possessions, has reduced by 91% since 2010, a reduction in the percentage of mortgage accounts more than 3 months in arrears from 5.5% to 2.6%.

Chairman's statement (continued)

The Future

A key consideration in any asset sale is the continued fair treatment of customers and this will remain the case, alongside ensuring that we achieve value for the taxpayer by assessing whether market conditions are appropriate and running competitive sales processes. As we look to the future, we must also consider the inherent complexities within the organisation that have built up over many years, good examples of which are the B&B and NRAM defined benefit pension schemes. All of these factors must also be taken into account as we determine the optimal strategy to repay taxpayers for the investment that the Government made back in 2008.

We are therefore now working with advisors, UKGI and our shareholder to evaluate the feasibility of various options that will enable us to complete our objective of returning the UK taxpayers' investment in B&B and NRAM in full. Subject to market conditions we believe that this could be achieved by 2021.

It is with great pride that we approach what we hope will be the final wind down of the business and I thank all our colleagues as well as my fellow board members for their efforts in helping us to achieve such success to date.

John Tattersall
Chairman
25 June 2018

Chief Executive Officer's introduction

We have made great progress over the past year. Our partnership with Computershare is working well, ensuring our customers continue to receive high levels of service, and we have successfully moved forward with our programme of asset sales.

Financial Performance

I am pleased to report that we achieved all of our financial and operational targets agreed with UKGI for 2017/18 (for details see page 10). Over the past 12 months we paid the government £15.0bn (March 2017: £3.6bn) including £14.7bn (March 2017: £3.3bn) of principal on our loans. Administrative expenses for the year (excluding UKARcs costs) were £13.4m lower at £148.4m (March 2017: £161.8m). Reflective of our shrinking Balance Sheet, underlying profits reduced to £583.9m (March 2017: £706.0m) and statutory profits before tax were £583.2m (March 2017: £346.9m).

We work closely with customers who are finding it difficult to meet their monthly payments and pleasingly the steady reduction in arrears cases has continued with 3,582 accounts in arrears by 3 months or more (March 2017: 4,617). This is a fall of 91% since UKAR was formed in 2010 and encouragingly 74% of customers in arrears are in a long term arrangement to repay and so ultimately should return to financial health.

We have always been conscious that the nature of our mortgage book would change over the years. Not only through asset sales but also because those customers in a stronger financial position are able to find alternative mortgage providers. Whilst we will continue to work hard to help customers who fall into arrears, in the light of the progress made over the last few years and as interest rates start to rise, we expect the rate of decline in our arrears stock to slow in the year ahead.

A summary of our financial performance can be found on page 10, with more detail provided in the Financial Review on pages 54 to 63.

Balance Sheet

Since formation in 2010 the UKAR companies have repaid £38.4bn of government funding, including £14.7bn in 2017/18. As at 31 March 2018, lending balances stand at £17.2bn (March 2017: £19.5bn). In total, the Balance Sheet has reduced by £96.0bn from £115.8bn at formation to £19.8bn at 31 March 2018.

In April 2018 we announced the sale of two separate B&B asset portfolios to an investor group led by Barclays. Financial settlement occurred in May 2018 reducing the Balance Sheet by a further £5.0bn. Also in April 2018 we launched a sales process aimed at selling our £0.9bn portfolio of equity release mortgages.

Costs

Around two thirds of our costs are in respect of servicing fees payable to Computershare which are closely linked to assets under management and, therefore, decline as the balance shrinks. Overall costs fell by 8.3% year-on-year.

Chief Executive Officer's introduction (continued)

Customers

Our 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 oversight of our partnership with Computershare. The number of customers has reduced by 17,000 to 131,000 (March 2017: 148,000) with 141,000 mortgage accounts (March 2017: 158,000) and 30,000 unsecured loan accounts (March 2017: 35,000). In the main, these loans continue to perform well and over 91% of customers are up to date with their mortgage repayments.

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 22% to 3,582 cases as at 31 March 2018 (March 2017: 4,617). 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. In September 2017 we provided a further £43.5m in respect of PPI remediation.

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 179 colleagues are based in offices in West Yorkshire which are shared with Computershare. We have legal and regulatory responsibility for our customers and work closely with Computershare to ensure we have clear oversight of the service our customers receive.

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 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 pages 13-14).

Conclusion

Our transition from being a mortgage service provider to an asset servicer has been successful and colleagues have adapted well to their different roles. I share the Chairman's pride in our achievements to date. I am confident that we will achieve our overarching objective to dispose of the Government's underlying investments in NRAM and B&B, in an orderly and active way within the context of protecting and creating value for the taxpayer, whilst maintaining good service and fair treatment of our customers. I thank everyone involved in helping us to achieve our objectives and I thank the Board and my Executive management team for their support to me personally.

Ian Hares
Chief Executive Officer
25 June 2018

Strategic Report

Key highlights

Highlights of 2017/18

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	2017/18 Target	March 2018	March 2017
Underlying Profit Before Tax	*>= £432.2m*	**£583.9m**	£706.0m
Net Government Loan Repayments [1]	*>= £2.7bn*	**£14.7bn**	£3.3bn
3m+ Residential Arrears [2]	*<= 3,603*	**3,582**	4,617
Ongoing Administrative Expenses [3]	*<= £153.5m*	**£148.4m**	£161.8m

1 *The 2017/18 government loan repayment target excluded the £11.4bn repayment relating to the sale of loans to Prudential and funds managed by Blackstone. The target was achieved with £3.3bn of business-as-usual loan repayments in the year.*
2 *The 3m+ arrears target includes loans to customers, assets classified as held for sale and equity release mortgages.*
3 *Excluding UKARcs costs (2017/18 £6.2m; 2016/17: £5.7m).*

Underlying profit for the year to March 2018 decreased by £122.1m to £583.9m (March 2017: £706.0m). 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, legal and insurance claims and movements in fair value and hedge ineffectiveness relating to financial instruments.

Net government loan repayments of £14.7bn were £11.4bn higher than the prior year. The increase in the repayments to HM Treasury is primarily due to the repayment of £11.4bn following the financial settlement of the sale of loans to Prudential and funds managed by Blackstone in April 2017. Since the formation of UKAR in October 2010, £38.4bn (79%) of the government loans have been repaid.

Arrears levels for both B&B and NRAM have fallen as a direct consequence of 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 22% to 3,582 cases (March 2017: 4,617).

Ongoing administrative expenses (excluding £6.2m UKARcs costs) for the year were £148.4m. This was £13.4m lower than the year to March 2017 (£161.8m) primarily driven by the reduction in assets under management.

	March 2018	March 2017
Statutory Profit Before Tax	**£583.2m**	£346.9m

Statutory profit before tax of £583.2m (March 2017: £346.9m) includes a £43.5m increase in PPI provisions, partly offset by a £19.4m recovery of amounts paid out for previous customer remediation exercises, an £18.8m credit for hedge ineffectiveness and fair value movements, a £2.3m profit in relation to loan sales in prior years and a £2.3m credit for other net administrative expenses. The £236.3m increase in statutory profit before tax compared to the prior year primarily reflects a £332.4m loss on the sale of customer loans in 2016/17, partly offset by lower underlying profits in 2017/18.

Reflecting heightened awareness of the August 2019 PPI deadline, actual claims volumes received during the period have been higher than previous periods and therefore the provision has been increased by £43.5m, as disclosed in the September 2017 Interim Financial Report. The total provision for customer redress at 31 March 2018 was £123.9m (March 2017: £160.2m), of which £80.2m related to PPI (March 2017: £102.3m).

On April 26 2018, after the balance sheet date, the final stage of the sale of two B&B asset portfolios ('Project Durham') was completed, which facilitated repayment of the remaining £4.7bn debt from the FSCS. Following the financial settlement of this transaction in May 2018, 89% of government funding has now been repaid since the establishment of UKAR. In April 2018 we launched a further sales process aimed at selling our £0.9bn portfolio of equity release mortgages, which are very different in nature to other loans on the book.

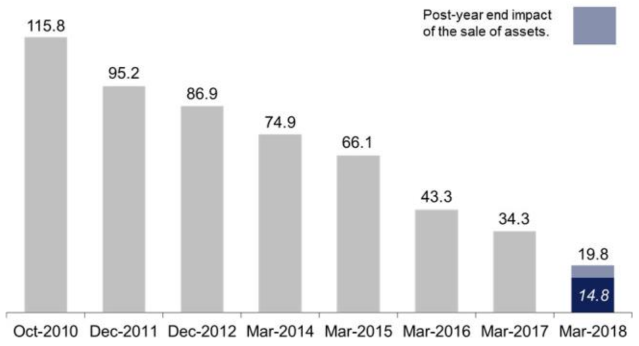
Please see pages 54 to 63 for a full review of the 2017/18 financial performance.

Key highlights (continued)

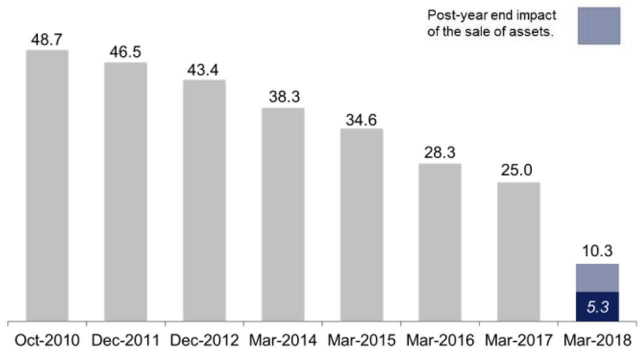
Highlights of 2017/18 (continued)

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.

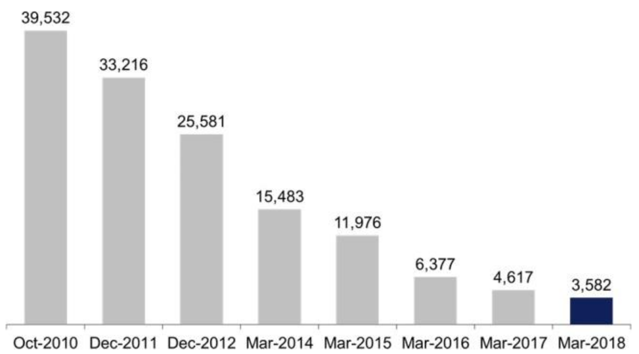
Balance Sheet assets (£bn) down 83%



Repaid £38.4bn of government loans

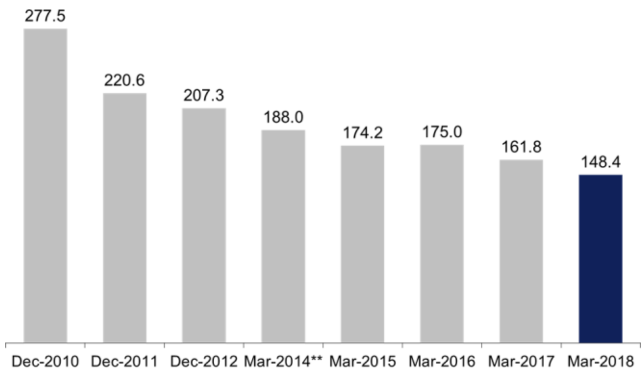


3m+ arrears* down 91%



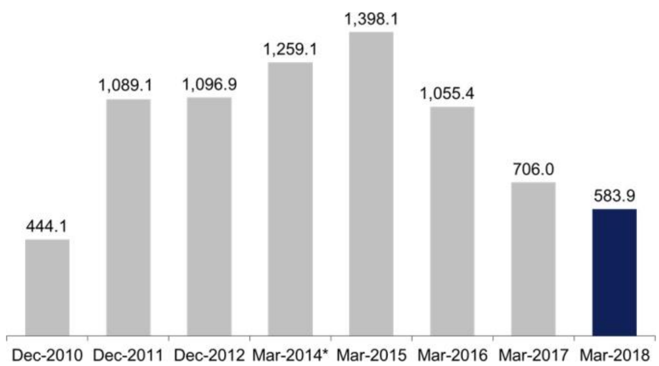
** The 3m+ arrears target includes loans to customers, assets classified as held for sale and equity release mortgages*

Ongoing operating expenses* (£m) down 47%



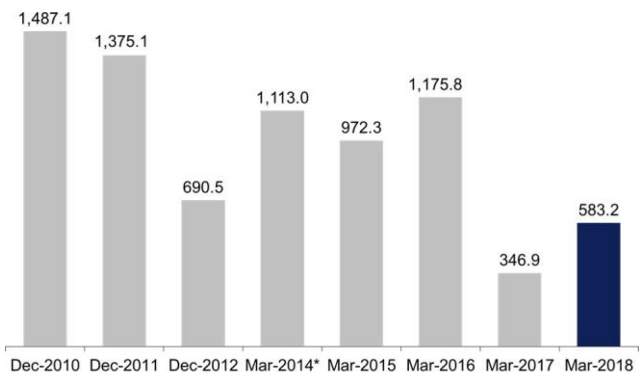
** excluding UKARcs costs*
*** 12 months to March 2014*

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.

- 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 successes achieved in those areas over the past 12 months are highlighted in this strategic overview.

Following formation in 2010 UKAR successfully implemented a cost effective and efficient integrated operating model for B&B and NRAM. This enabled us to focus on maximising the value of the mortgage book through optimising redemptions and minimising losses, delivering high levels of service to our customers. We have a proactive customer contact strategy to support those customers facing financial difficulty and the number of mortgage accounts three or more months in arrears, including possessions, have reduced by 91% since 2010.

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, almost completely, been repaid or repurchased, significantly simplifying the Balance Sheet and releasing previously encumbered mortgages for potential disposal.

The transfer of our mortgage servicing operations to Computershare in 2016 was an important step to help us achieve our objective of accelerating the disposal of our assets in an orderly and active way. We are 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 have made great progress executing mortgage sales. On 26 April 2018, after the balance sheet date, we completed the final stage of the sale of two separate B&B portfolios of buy-to-let and residential mortgages to an investor group led by Barclays. This facilitated the repayment of the remaining £4.7bn debt from the FSCS and enabled repayment of a further £0.3bn to HM Treasury. Following completion of this transaction the balance sheet has now reduced by almost 90% since establishment. Also, in April 2018 we launched a sales process aimed at selling our £0.9bn portfolio of equity release mortgages.

Over the past twelve months we have worked with advisors to consider the feasibility of various options that would enable us to complete our objective of returning the UK taxpayers' investment in NRAM and B&B to the private sector in full. Whilst the main focus of this work has been the remaining customer loans we also need to consider the inherent complexities within the organisation, such as non-loan business assets and liabilities, the ongoing obligations to participants in previous asset sale transactions, our defined benefit pension schemes and UKARcs. As always, we will need to satisfy ourselves, UKGI and HM Treasury that whatever option we choose represents value for money for the taxpayer but, subject to the continuation of supportive market conditions, we believe that it is probable that the process can be completed by 2021.

Strategy and operating environment (continued)

Customer strategy

Customer servicing

Whilst we outsourced our mortgage servicing operations to Computershare in 2016 we retain the legal and regulatory responsibility for customer outcomes and we take this responsibility seriously. The same contact strategies and arrears management practices highlighted below have continued under the servicing arrangement.

Our colleague surveys continue to demonstrate that our colleagues are committed to ensuring our customers receive excellent service and are focused on ensuring we do the right things for our customers. UKAR has over 131,000 customers (March 2017: 148,000), with 141,000 mortgage accounts (March 2017: 158,000) and 30,000 unsecured loan accounts (March 2017: 35,000). The majority of these loans continue to perform well with more than 91% of mortgage customers up to date with their monthly payments.

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 10,000 arrangements were successfully completed and approximately 300 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 1,004 in the year (March 2017: 1,242).

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.

The publication of the FCA's Policy Statement PS17/3 "Payment protection insurance complaints: feedback on CP16/20 and final rules and guidance" set a deadline date for PPI complaints at 29 August 2019 and confirmed the approach in relation to Plevin v Paragon Personal Finance Ltd ('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 the PPI deadline, actual claims volumes received during the period have been higher than previous periods and therefore the provision has been increased by £43.5m, as disclosed in the September 2017 Interim Report.

People strategy

Vision

UKAR's Vision is 'Achieving Success Together', which relates to how we work with our customers, colleagues, outsourced partnerships, suppliers and the shareholder to achieve our goals.

We believe colleagues are the differentiating factor in delivering strong and sustained performance. Therefore, 'being a great place to work' has always been 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 our values and culture support the delivery of our objectives. This is supported by our Balanced Scorecard which places emphasis on conduct and how we achieve our targets which then 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. It is not just 'what' is delivered, it is 'how' and 'why' it is delivered and the behaviours that our colleagues demonstrate as part of their day-to-day work.

Each of our 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.

Strategy and operating environment (continued)

People strategy (continued)

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 2018 had an excellent response rate with 91% of colleagues sharing their views. The survey tracker score, based upon five key questions measuring UKAR as an employer, reached 91% which is 15% above the benchmark figure provided by our survey business partner, People Insight.

Diversity

We treat all 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. Despite our size we comply with the best practice as far as we can including the Women in Finance Charter and Gender Pay Gap reporting. Internal targets for gender diversity in senior management 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 41.

Our gender diversity targets are 45% or more female across the business and 25% or more female on the senior management team. At 31 March 2018 47.5% of UKAR's workforce were female and 26.7% of the senior management team were female. At 31 March 2018 the Board had one female and five male Non-Executive Directors and one of the seven members of the Executive Committee were female.

Learning and development

We are 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 78.2% 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 2017/18 we had one undergraduate and one apprentice.

Well-being

We support 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

We recognise 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 our values, delivering superior performance or demonstrating exemplary behaviour can be nominated for awards.

Community and environmental strategy

Community

We are 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 September 2017 colleagues voted Yorkshire Air Ambulance ('YAA') to replace Martin House as the Charity of the Year. Charitable fundraising by colleagues raised £6,536 through dress down days, raffles, cake stalls and donations, including £2,045 and £2,591 in respect of YAA and Martin House. In addition, we matched employee fundraising and payroll giving through Give As You Earn schemes with contributions of £2,766 and £6,118, respectively.

Environment

The management of our Head Office in Crossflatts, West Yorkshire was outsourced to Computershare in 2016 but we remain committed to reducing environmental impact, increasing recycling programmes, creating awareness of environmental programmes and engaging colleagues in these activities.

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 Business Plan, the Capital Statement and the Liquidity Statement in defining the high-level architecture of UKAR's overall risk management system. 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 2018/19 focus.

Principal risk	Key mitigating actions	Key indicators	Focus 2018/19
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. Customer & Conduct Risk 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. Ensuring vulnerable customers are given the appropriate level of care.
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 through Supplier Relations Management process. Assurance Monitoring Results - outsourcer and UKAR. Independent Third Party Supplier Assessment Results.	Continuous monitoring and assessment of the effectiveness of outsourced operations. Effective issues management by key suppliers. Assurance activity of core IT systems/ infrastructure changes 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. Operational Risk 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. Operational Resilience, 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) and assessment against the National Cyber Security Centre's Ten Steps approach. Instances of customer and colleague financial crime.	Assessment of cyber risk exposure and control effectiveness through security penetration testing and colleague awareness campaigns. Continuing oversight of major change activities. Data Management enhancements relevant to the General Data Protection Regulation. Operational Resilience Response Plans. Continue to retain and motivate colleagues with the necessary expertise to deliver strategic plans.
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. Ongoing monitoring of credit rating movements of wholesale counterparties.	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.
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 strategic initiatives including asset sales transactions.

Risk overview (continued)

Principal risk	Key mitigating actions	Key indicators	Focus 2018/19
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 and the Government Banking Service. 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. Assessment of exposures, risks and strategies during the execution of asset sales transactions.
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 Regulations.

Ian Hares
Chief Executive Officer, on behalf of the Board
25 June 2018

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.

As explained in the UKAR Group overview on page 3, UKAR is 100% owned by the UK government which exercises control through UKGI. UKGI assumed responsibility in March 2018 for the activities of UKFI, which formerly exercised control over UKAR.

UKAR governed and controlled NRAM and B&B, as their sole shareholder during 2017/18. 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 2017/18.

UKAR Corporate Services Limited

In 2013 UKAR was appointed by HM Treasury to administer 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 2017/18 was determined by the UK Asset Resolution and UK Government Investments Limited (formerly UK Financial Investments Limited); Relationship Framework Document (the "Framework Document") agreed between UKAR and UKGI, acting on behalf of HM Treasury. The Framework Document sets out how the relationship between the Group and UKGI works in practice. The terms of the Framework Document are updated periodically and the most recent version of the Framework Document, to reflect the transfer of UKFI's activities to UKGI in March 2018, 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, UKGI, 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 UKGI operates according to the following principles under which UKGI:

- 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

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

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

In addition, UKGI 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 2017/18.

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 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. He is also a director of Four Seasons Country Club Limited.

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. She is a Trustee of Macmillan Cancer Support.

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 where she was a Principal Consultant working with a range of FTSE companies.

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 AIB Group 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 and The Ireland Fund, Dublin. He was formerly 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.

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.

Peter Norton – Non-Executive Director

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.

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.

Corporate governance (continued)

Board of Directors (continued)

Brendan Russell – Non-Executive Director

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 at the Royal Bank of Scotland ('RBS'), where he was Head of Corporate Finance, leading 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.

Appointments and Resignations during 2017/18

Peter Norton was appointed to the Boards of UKAR, B&B and NRAM with effect from 6 April 2017 and is a UKGI nominated Non-Executive Director.

Brendan Russell was appointed to the Boards of UKAR, B&B and NRAM as an Independent Non-Executive Director with effect from 27 June 2017.

Michael Buckley, Independent Non-Executive Director, resigned from the Boards of UKAR, B&B and NRAM with effect from 27 June 2017.

Corporate governance (continued)

Board of Directors (continued)

Balance of Executive and Non-Executive Directors

During 2017/18 the UKAR Board comprised:

Period	Non-Executive Chairman	Independent Non-Executive Directors	Executive Directors	UKGI Nominated Directors	Total
1 April 2017 to 5 April 2017	1	3	1	1	6
6 April 2017 to 31 March 2018	1	3	1	2	7

The UKAR, B&B and NRAM Boards shared a common membership during 2017/18.

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 determined that Michael Buckley remained an independent Non-Executive Director following service of over nine years on the B&B Board until his resignation 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.

Whilst UKAR seeks to Comply with the UK Corporate Governance Code wherever practicable a reduction in the size of the Board in 2016/17 means that it is 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 UKGI 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 not a UKGI 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. Sue Langley is the Senior Independent Director of UKAR, NRAM and B&B.

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 2017/18.

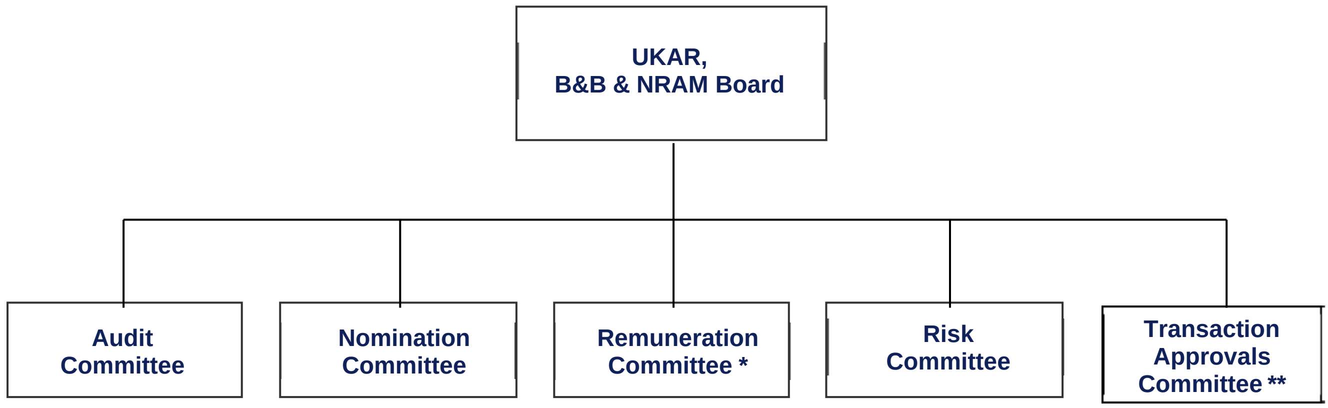
Corporate governance (continued)

How the Board operated in 2017/18

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



** 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 36.*
*** The Principal Subsidiaries operate a Transaction Approvals Committee which is included in these accounts for a full understanding of the Group Committee Structure.*

During 2017/18 the Chairman of each Committee was:

Committee	Chairman
Audit Committee	Brendan McDonagh
Nomination Committee	John Tattersall
Remuneration Committee	Sue Langley
Risk Committee	Keith Morgan
Transaction Approvals Committee	John Tattersall

Corpate governance (continued)

How the Board operated in 2017/18 (continued)

Board structure and governance (continued)

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 2017/18 are set out in the individual Committee Chairman's reports on pages 29 to 53.

The Remuneration Committee Chairman's Report and details of the role of the Remuneration Committee are provided in the Directors' Remuneration Report on page 29.

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 2017/18, 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	**9**	**3**	**3**	**4**	**4**	**8**
Chairman						
John Tattersall	9		3	4		8
Chief Executive						
Ian Hares	9					8
Senior Independent Director						
Sue Langley	9		3	4		
Independent Non-Executive Directors						
Michael Buckley	3 (3)	1(1)	1(1)		1(1)	2(2)
Brendan McDonagh	8 (9)	3	3		4	
Brendan Russell	7(7)	2(2)			3(3)	7(7)
Non-Executive Directors						
Keith Morgan	9	3		4	4	8
Peter Norton	9					8

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

In addition to the scheduled Board and Committee meetings detailed above, two Board Committee meetings were held during the year to approve the Interim Financial Statements and Annual Report & Accounts.

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 2017/18 (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 UKGI;
- 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. UKGI 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 UKGI, in accordance with the Framework Document.

Board activities 2017/18

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 in this respect 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 2017/18 which have included:

- 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;
- ensuring that decision making at all levels reflects good conduct and the fair treatment of customers; and
- approving a capital re-organisation at NRAM.

Board appointments and composition

UKGI 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 UKGI or a senior employee nominated by the Chairman of UKGI (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 2017/18 (continued)

Board appointments and composition (continued)

- UKGI will be entitled to appoint to the Board one or more Non-Executive Directors nominated by UKGI (the 'Shareholder Directors'); Keith Morgan and Peter Norton are currently appointed as such Directors. The Group acknowledges that the Shareholder Directors intend to liaise with and report to representatives of UKGI 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 UKGI will, if so requested by UKGI, 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 UKGI'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 UKGI, 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.

The Board decided that its own evaluation and that of its committees should be externally facilitated this year and after carrying out a tender exercise appointed Deloitte LLP to carry out the review, as part of their Internal Audit work.

The evaluation process included a review of key governance documentation, an on-line tailored survey and individual meetings with all Directors, the Company Secretary and regular attendees at Board and Committee meetings. The matters considered by Deloitte included:

- the composition, governance and development of the Board;
- Board dynamics and whether members work together constructively;
- the effectiveness of individual Non-Executive Directors, including the Chairman;
- Board, Committee and organisational culture; and
- Board and Committee reporting, focus and forward planning.

The outcomes of the evaluation were positive and provided assurance that the Board and its Committees remained fit for purpose. The Chairman comments further on Deloitte's conclusions in his Chairman's Statement on page 5 of these accounts.

Corporate governance (continued)

How the Board operated in 2017/18 (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. This was confirmed as part of Deloitte's review of Board and Committee effectiveness.

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 2018, 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 been in place throughout 2017/18 and up to the date of approval of the Annual Report & Accounts.

Corporate governance (continued)

How the Board operated in 2017/18 (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 2017/18 that are not being addressed in accordance with the internal control procedures of the Group.

UKAR has not made any political donations or incurred any political expenditure during the financial year.

Going concern

The Directors have assessed, taking into consideration the principal risks set out on pages 15 to 16 and 64 to 68, 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 1c 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 2020.

If the companies were sold into the private sector prior to 1 January 2020, HM Treasury's commitment falls away. However, both UKAR and any buyer would only enter into such a sale if the plans to do so were viable. In such a circumstance any potential buyer would not be subject to state aid restrictions and could arrange appropriate funding if required to continue to run the business profitably.

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. Whilst a run-off strategy is pursued, the Board have no reason to believe that support from HM Treasury will be withdrawn or curtailed after 1 January 2020. 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 long term forecasts and the impact of the principal risks set out on pages 15 to 16 and 64 to 68 and have concluded that 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.

As stated above and as referenced in the strategy set out on pages 12 to 14, in the circumstance of a sale of B&B and NRAM, HM Treasury's financial support would no longer be relevant. However, such a sale would not be contemplated by either party if not considered viable.

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 UKGI 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 the past year.

Chairman's Overview of 2017/18

"I am pleased to present UKAR's report on Directors' Remuneration for 2017/18.

UKAR's overarching objective is to develop and execute an effective strategy for disposing of its underlying investments in NRAM and B&B, to protect and create value for the taxpayer as our shareholder. We outsourced our mortgage servicing operations to Computershare in 2016, but retain the legal and regulatory responsibility for our customers.

Our remuneration policies are aligned with the interests of all our stakeholders. Annual and medium term incentives are designed to drive and reward the repayment of loans to the Government whilst ensuring we adhere to the Treating Customers Fairly principles laid down by the regulator alongside the prudent management of risk. Incentive pay levels are set significantly below those for stock exchange-listed and private sector companies with businesses of comparable size to UKAR. There is a clear emphasis on sustained performance with the Short Term Incentive Plan being subject to deferral and the Medium Term Incentive Plan being based on results over a four year period. In appropriate circumstances, the Remuneration Committee can recoup incentive awards.

In the 2017/18 year, UKAR has continued to deliver strong performance, achieving all our operational and financial targets as detailed in the Chief Executive's report on page 7.

We continue to manage all colleagues, regardless of their position within the company, according to reward principles which focus on fair and transparent remuneration. UKAR today comprises around 180 people, and the Remuneration Committee is conscious of the continued need to motivate, retain and attract colleagues in order to achieve our objectives.

The work of the Committee during 2017/18 has covered a variety of topics within its Terms of Reference and key activities undertaken during the year have included:

- the annual review of our reward strategy 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;
- reviewing the objectives of the Chief Executive and the Executive team and agreeing 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.
- considering the principles of incentives which will have sufficient impact to mitigate the people risks associated with the strategic direction of the business and improve the likelihood of retaining and attracting colleagues to enable us to achieve resolution.

The Committee worked closely with UKFI on remuneration matters in line with the Framework Agreement and this relationship will continue with UKGI in 2018/19. Although not required to do so, we continue 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 2017/18 and had the following membership as at 31 March 2018:

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 19 to 21.

Summary of responsibilities

The Remuneration Committee is responsible for:

- making recommendations to the Board concerning the remuneration arrangements of Executives and other staff 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 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 24.

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

- the UKGI employed appointed Non-Executive Director;
- Chief Executive;
- members of the Executive Committee responsible for HR and Risk;
- Company Secretary or their 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 February 2018. The Board and Board Committees determined to have an external evaluation process in accordance with the requirements of those Terms of Reference. The results of the evaluation were discussed by the Board in May 2018 where it was noted that they were positive and provided assurance that the Committee remained fit for purpose.

Directors' remuneration policy

Policy overview

Our Reward Policy and principles apply to all colleagues and are reviewed annually. Due to our unique nature we are not able to comply with all regulatory rules and guidance on remuneration, but we do so where possible. The main purpose of the policy is to support the achievement of the 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.

Our 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 our 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 is achieved with due regard to risk and appropriate challenge.

We support the retention and attraction of high quality colleagues by differentiating reward for high performers. However, reward is only one lever available to mitigate our people risk as we move closer to achieving our overall strategy of releasing the Government of its investments in B&B and NRAM. Our reward policy is, therefore, aligned closely to the overarching HR strategy which is important to UKAR's success.

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 we propose to take and has an opportunity to raise questions. In 2017/18, we 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 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 also considers 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 may retain entitlements under the Redundancy Policy.	Each benefit has its own maximum in line with the nature of the benefit and the associated policy.
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 Chief Executive is set at 15% of base salary.
Short-Term Incentive Plans **(Annual Bonus)**	To reward performance for delivery of key financial and operational targets.	The 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. We have decided not to extend the period for deferral given the size of the awards that are made and the fact that it is a business with a limited lifespan. 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. 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.	Up to 60% of base annual salary, each year.

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
Medium-Term Incentive Plan	To reward performance for delivery of key metrics directly linked to UKAR's overarching strategy.	The MTIP performance periods run in sequence, rather than being a rolling annual grant programme. The current scheme has been put in place for a four year period and will vest in 2020. The scheme rewards the execution of material asset sales. The amounts paid are calculated on a linear basis, starting at 50% payment for achieving the target, and increasing to the maximum of 100% for a stretch target. 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 over four years. The MTIP is not cumulative. The Directors can only participate in one scheme at any time. Therefore, over a four year period the average annualised payment would be a maximum of 15% of base salary.
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 wherever possible. 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 and remain subject to performance.
Deferral	Extended for up to seven years.	As UKAR is not taking deposits or writing new business, the Committee has maintained the three year deferral for STIP.
Short Term Incentive Plan	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 2015/16.

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 Executive Directors packages, when compared to other colleagues across the organisation, have higher allowances and longer contractual notice periods.

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 UKGI 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

Our policy is to employ Executive Directors on service agreements with 12 months employer notice periods. Wherever possible we will seek to minimise any potential payments for loss of office. We have 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. '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 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

Ian Hares held one directorship during the 2017/18 reporting period, as detailed in the table below.

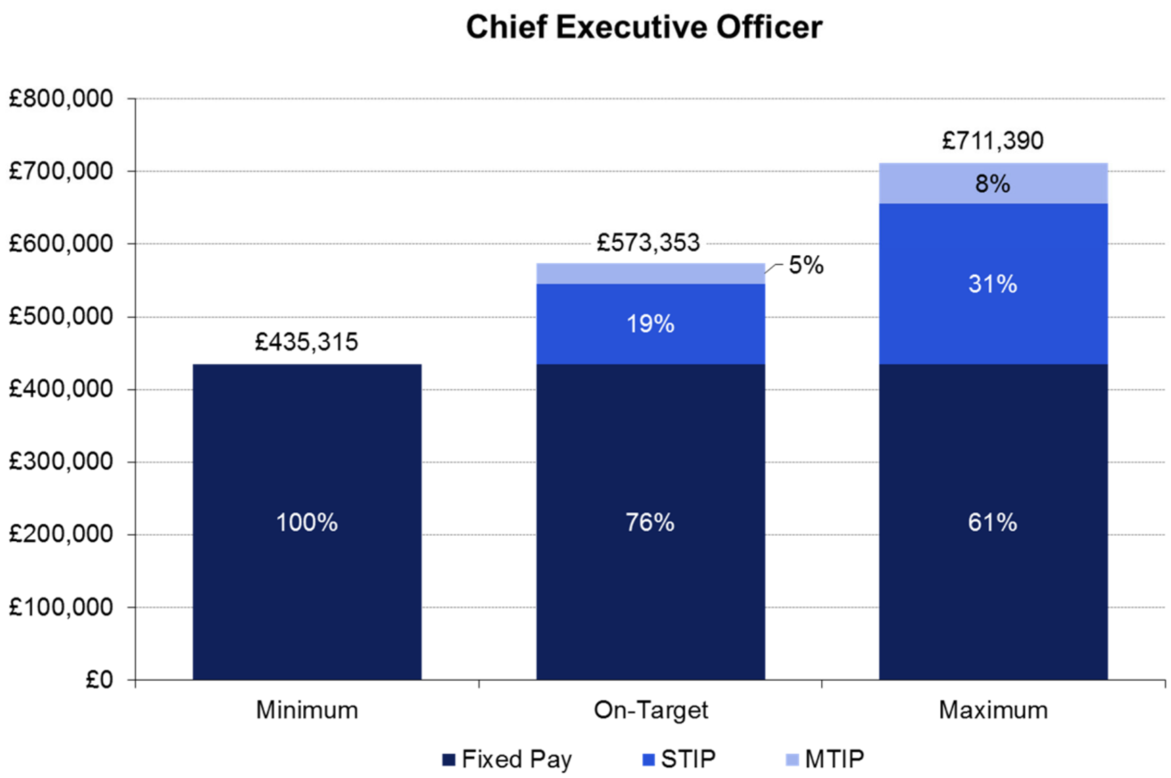
Table 4 – Ian Hares' External Directorships

Position	2017/18
Four Seasons Country Club Ltd	£750

Reward scenarios

The following chart shows how the make-up of the Executives' potential remuneration varies depending on performance.

Figure A: Executive Director total potential annual 2018/19 remuneration at different levels of performance



Assumptions:
Minimum = fixed pay only (salary + benefits + pension)
On-target = 50% vesting of the STIP and MTIP target achieved (annualised)
Maximum = 100% vesting of the STIP and MTIP stretch target achieved (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 2017/18

The tables below set out the earnings for both the Executive and Non-Executive Directors during the 2017/18 reporting year and compares them against the same period from 2016/17.

Table 5 – Remuneration payments for Executive Directors (Audited)

Ian Hares	April 2017 - March 2018	April 2016 - March 2017
Base Salary	£366,075	£350,912
Benefits [1]	£13,099	£12,670
Pension [2]	£54,911	£52,637
STIP Awarded		
- STIP Non Deferred	£106,013	£108,000
- STIP Deferred	£70,675	£72,000
MTIP Awarded	-	-
Phoenix Incentive Awarded [3]		
- Phoenix Incentive Non Deferred	-	£101,970
- Phoenix Incentive Deferred	-	£67,980
Total	**£610,773**	**£766,169**

1 Includes Private Medical Insurance and car allowance.
2 Ian Hares receives a pension allowance.
3 Phoenix Incentive payments were a one off payment for successful divestment of the mortgage servicing operations.

The Chief Executive received a £500 payment in April 2017 from our colleague recruitment scheme, Recommend a Friend. The full £500 was donated to charity through April 2017 payroll via the Give As You Earn scheme.

Richard Banks	April 2017 - March 2018	April 2016 - March 2017 [1]
Base Salary	-	£69,514
Benefits	-	£4,995
Pension	-	£20,854
STIP Awarded		
- STIP Non Deferred	-	£12,531
- STIP Deferred	-	£8,354
MTIP Awarded	-	-
Phoenix Incentive Awarded		
- Phoenix Incentive Non Deferred	-	£127,050
- Phoenix Incentive Deferred	-	£84,700
Total	**-**	**£327,998**

1 Richard Banks total emoluments for 2016/17 cover the period to 5 June 2016.

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 25.

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 UKGI appointed Non-Executive Director who receives no fees and the Chief Executive. The fees are subject to UKGI 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 the Shareholder. 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	2017/18	2016/17	% 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 – Remuneration Payments for Non-Executive Directors (Audited)

Fees [1]	April 2017 - March 2018	April 2016 - March 2017
John Tattersall	£125,000	£115,801
Richard Pym [2]	-	£22,270
Kent Atkinson [3]	-	£12,474
Michael Buckley [4]	£17,500	£70,000
Sue Langley	£70,000	£70,000
David Lunn [5]	-	-
Brendan McDonagh	£75,000	£67,410
Keith Morgan [6]	£80,000	£77,327
Peter Norton [7]	-	-
Brendan Russell [8]	£54,167	-
Total	**£421,667**	**£435,282**

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 2017/18 was £1,637.20.*
2 *Richard Pym stepped down from the Board in July 2016.*
3 *Kent Atkinson stepped down from the Board in June 2016.*
4 *Michael Buckley retired from the Board in June 2017.*
5 *David Lunn was a UKFI employed appointed Director and did not receive any fees prior to his resignation in February 2017.*
6 *Keith Morgan is a UKGI appointed Director but is not an employee of UKGI and as such he received fees.*
7 *Peter Norton is a UKGI employed appointed Director and does not receive any fees.*
8 *Brendan Russell was appointed to the Board in June 2017.*

Directors' remuneration report (continued)

Annual report on remuneration (continued)

Percentage increase in the remuneration of the Chief Executive Officer

The table below shows a summary of year-on-year changes between 31 March 2017 and 31 March 2018 for the Chief Executive versus colleagues who were in the business at both year-ends.

Table 9 – Comparison of Chief Executive remuneration change versus change for average employee

	% change year-on-year [1]
Chief Executive	
- base salary [2]	0.4%
- benefits	(16.1%)
- STIPs	3.4%
- Phoenix Incentive [3]	(100.0%)
Average per employee	
- base salary [2]	5.4%
- benefits [4]	12.1%
- bonus	9.2%
- Phoenix Incentive [3]	(100.0%)

1 The comparison for the Chief Executive compares Ian Hares remuneration for 2017/18 to that of 2016/17 which reflected a pro-ration between Richard Banks and Ian Hares.
2 Following the annual pay review, employee base salaries were increased by an average of 1.98% with effect from 1 July 2017. The additional increase is affected by salary increases due to promotions and pay progression plans.
3 Phoenix Incentive was a one-off payment for all colleagues in 2016/17.
4 An increase in the healthcare premiums for 2017/18 has affected the year on year change percentage.

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.

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

	All colleague ratio	
	2017/18	2016/17
Highest-paid Director's total remuneration	£610,773	£766,169
Median remuneration for UKAR colleagues	£46,911	£45,334
Remuneration ratio	**13.0**	**16.9**

Directors' remuneration report (continued)

Annual report on remuneration (continued)

STIP for the year ended 31 March 2018

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 2017/18 will be paid at four targets and individual payments based upon assessment of personal performance, as shown in table 1. 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 2017/18

	Measure	Target	Weighting	Outcome
Financial	Underlying profit before tax	>£432.2m	25%	Achieved
	Costs [1]	<£153.5m	25%	Achieved
	Net Government loan repayments	>£2,700m	25%	Achieved
Operational	Number of customers 3 months or more in arrears	<3,603	25%	Achieved
Non-Financial [2]	Balanced Scorecard	Green	0% to -40%	Achieved

1 The cost target excludes UKARcs.
2 The Balanced Scorecard acts as a 'reducer' to the maximum bonus to ensure colleagues demonstrate the right behaviours. The ten 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 ten 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' 2017/18 Personal Objective Assessment

Objective detail	Achievement
Provide clear leadership and oversight of the Balance Sheet Optimisation programme and lead the development of strategic options that will enable HM Treasury to have clarity over its exit route from its investment in B&B and NRAM.	The Chief Executive participates in all key governance groups and successfully led the completion of the sale of B&B assets which fully repaid the £15.65 billion loan from the Financial Services Compensation Scheme which was funded by HM Treasury. All Treasury Assets have now been sold or written off and Ian has worked with advisors on various options for our future strategy which will be taken forward over the coming twelve months.
Maintain robust and reliable Board, Finance, Treasury and Risk Reporting with appropriate controls.	The Chief Executive 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 the Chief Executive continues to drive 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. Succession plans have been developed for key roles and have been implemented when appropriate High levels of colleague engagement have been maintained and there has been minimal attrition.
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 Loan Services, continues to work 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 2018 (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% of base salary. 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 2018. It was agreed that Ian has continued to drive a 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 the shareholder. Excellent progress has been made in simplifying and optimising the Balance Sheet, with no Treasury assets remaining and completion of the sales of B&B assets which enabled full repayment of the FSCS loan. Comprehensive oversight of our mortgage servicing operations continues, which ensures we comply with our legal and regulatory obligations. Customer service levels have been maintained and good 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 48% which equates to £176,688 for the year.

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 (Audited)

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 £379,435 (March 2017: £379,415). No similar payments were made to former B&B Directors during any of these periods.

For details of UKAR's accounting for retirement benefits see note 21 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 Chief Executive incentives that have been awarded for performance over the past five years and the total remuneration package.

Directors' remuneration report (continued)

Annual report on remuneration (continued)

Performance (continued)

Table 14 – Summary of Chief Executive remuneration and incentives

	2013/14 (15 months)	2014/15	2015/16	2016/17	2017/18
Total Remuneration	£980,771	£653,227	£966,611	£766,169	£610,773
STIP (as % of maximum)	80%	64%	92%	83%	80%
MTIP Vesting (as % of maximum)	100%[1]	N/A	100%[2]	N/A	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 was made 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

	2016/17	2017/18	% Change
Total remuneration costs for UKAR (salary, pension, bonus benefits)	£5.8m	£3.6m	(38%)
Profit after tax	£285.7m	£487.1m	70%

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 £15,194. 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 2018 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. The Committee will continue to 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.

2018/19 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 salary for Ian Hares as Executive Director is as follows:

Table 16 – Salary history for the Executive Directors

	Salary as at 1 April 2017 [1]	Salary as at 1 April 2018
Ian Hares	£360,000 (+16.5%)	£368,100 (+2.25%)[2]

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

Directors' remuneration report (continued)

Annual report on remuneration (continued)

Structure of STIP and MTIP

The maximum potential earnings under the STIP scheme for 2018/19 will be unchanged with the financial and operational targets updated to ensure they continue to be appropriate. The 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.

Performance targets for the STIP and MTIP awards to be granted in 2018 and beyond

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

Gender Pay Gap and Equal Pay

UKAR is committed to developing gender diversity and we have a target which aims to at least maintain the proportion of female senior management as the size of the organisation reduces. Details on diversity and the Women in Finance Charter can be found in the Nominations Committee Report.

Although not required to do so as we have less than 250 employees, we are complying voluntarily with Gender Pay Gap reporting as shown in tables 18 to 20. This shows a gender pay gap above 30% however, it is important to note that this is not a gap in pay between men and women doing the same or similar jobs. We remunerate based on role and individual merit, regardless of gender. There is no discrimination in our pay and reward but the results are related to the small number of total employees and the higher percentage of males in higher grades. All eligible colleagues received a bonus.

As mentioned throughout this report, our overall strategy is to accelerate the sale of assets in order to release the Government of its investments in NRAM and B&B in the near term. Our colleague numbers are broadly static and it is unrealistic to provide a long-term strategy to improve the data in what is a shrinking business. We are, however, conscious of the continued need to motivate, attract and retain colleagues and we consider the benefits of all aspects of diversity including skills, background, race, experience and gender when recruiting. All appointments and promotions are made according to the ability to meet the requirements of the job.

Salary ranges are determined from robust role profiles which clearly detail the scope, size, accountability and requirements of the role, together with the competencies that should be displayed. The role profile is benchmarked against industry standards to set the mid-point salary for the role and a +/- % differential is then applied to give a range for each role. All colleagues are generally positioned at 80% of the midpoint as a minimum and where individuals sit above 120% of the range a red circling policy is applied. We consider that this open and transparent process mitigates against any discrimination, as shown by the comparison of where our male and female colleagues sat within the benchmark ranges at the year end.

Table 17 – Position within Salary Benchmark Range

Benchmark Range	No of Females	No of Males
<80%	-	2
80% - 89.99%	36	37
90% - 99.99%	29	34
100% - 109.99%	13	17
110% - 119.99%	7	4

Table 18 – Gender Pay Report as at 5 April 2017

Women's hourly rate is	39.2% lower (mean)	30.2% lower (median)

Table 19 - Pay Quartiles

Pay Quartiles	Top Quartile	Upper Middle Quartile	Lower Middle Quartile	Lower Quartile
Men	75.0%	63.6%	32.6%	39.5%
Women	25.0%	36.4%	67.4%	60.5%

Table 20 – Bonus Pay

Women's bonus pay is	54.1% lower (mean)	28.6% lower (median)
Who received a bonus	87.0% of men	80.5% of women

Directors' remuneration report (continued)

Annual report on remuneration (continued)

Gender Pay Gap (continued)

At the year end, we have 31 colleagues with flexible working patterns namely condensed or part time hours. Of these 25 are female and six are male and all those working part time hours are female. A number of benefits we offer to employees under salary sacrifice arrangements including purchase of additional holidays, childcare vouchers, a cycle to work scheme and pension contributions are excluded from the data. Similarly, the data excludes any sacrifice of bonus into a pension.

Equal Pay

UKAR's approach to Reward complies with relevant regulations and legislation, including that on equal pay. Our Reward Policy is applied consistently across the organization and aims for objectivity, consistency and fairness. 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. We intend to undertake an equal pay audit in the 2018/19 financial year.

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 of the Remuneration Committee

Audit Committee Chairman's report

Brendan McDonagh, Chairman of the Audit Committee, reports on how the Audit Committee discharged its responsibilities during 2017/18.

"During 2017/18 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 particular, a key focus for the Committee has been oversight of the Group's IFRS 9 implementation project and modelling assumptions ahead of adoption in 2018/19. 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 2017/18 was as follows:

Brendan McDonagh (Chairman)
Michael Buckley (resigned from the Committee on 27 June 2017)
Keith Morgan
Brendan Russell (appointed to the Committee on 27 June 2017)

Details of the skills and experience of Committee members can be found in the Directors' biographies on pages 19 to 21.

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 three 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 24.

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 in January 2018. The Board and Board Committees determined to have an external evaluation process in accordance with the requirements of those Terms of Reference. The results of the evaluation were discussed by the Board in May 2018 where it was noted that they were positive and provided assurance that the Committee remained fit for purpose.

Audit Committee Chairman's report (continued)

Chairman's overview of 2017/18

The work of the Committee during 2017/18 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.	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 £5bn of assets, which completed post the year-end in 2018/19. Oversight of Group’s IFRS 9 implementation project and modelling assumptions ahead of adoption 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 and insurance risk 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 equity release loans and those subject to fraud and professional negligence. The Committee oversaw a review of top-up provisioning assumptions on suspected fraud cases, NRAM commercial buy-to-let loans and accounts near term end, which resulted in the release of some of these provisions under IAS 39. However, on adoption of IFRS 9 on 1 April 2018, total loan impairment provisions are expected to increase as disclosed in note 1(b).
IFRS 9 Implementation and disclosure	The Committee received updates on the progress of the Group’s IFRS 9 implementation project at each meeting and discussed the model methodology, key assumptions and accounting policies which will be adopted on implementation on 1 April 2018. Estimated initial financial impacts of IFRS 9 adoption, are provided in note 1(b).

Audit Committee Chairman's report (continued)

Financial reporting and significant financial judgements (continued)

Significant Issue	Financial Outcome
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 impact of the August 2019 time-bar and supporting FCA advertising campaign on the level of PPI claims was also carefully considered in determining the 2017/18 provision.
Held for Sale Accounting and Point of Sale	The Committee agreed that the Durham assets should be disclosed as 'held for sale' and carried at the lower of their previous carrying amount and their estimated fair value less costs to sell. The Committee acknowledged that the asset sale would be recognised for accounting purposes on contract signature on 26 April 2018 and the sale disclosed in the 2017/18 Annual Report and Accounts as a Post Balance Sheet Event.
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 long term forecasts. 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. The length of this period will depend on the success of strategic initiatives, including the current proposals to sell further mortgage assets. As noted in the Long Term Viability statement on page 28 and referenced in the strategy set out on pages 12 to 14, in the circumstance of a sale of B&B and NRAM, HM Treasury's financial support would no longer be relevant. However, such a sale would not be contemplated by either party if not considered viable.
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 2018.

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 65.

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

- considering reports at all three 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 all three Audit Committee meetings during 2017/18 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.

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

Audit Committee Chairman's report (continued)

Internal control (continued)

The Committee reviewed the processes governing the strategic transactions namely the sale of £5bn of assets in April 2018 and the proposed sale of equity release loans.

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 pages 27 to 28.

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 National Audit Office ('NAO') are the Group's external auditors. The external auditors attended 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.

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. Our external auditor, the NAO, does not provide non-audit services to the extent of a private sector audit firm.

Priorities for 2018/19

For 2018/19, 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 2018/19; and
- monitoring the implementation of IFRS 9.

Brendan McDonagh
Chairman of the Audit Committee

Nomination Committee Chairman's report

John Tattersall, Chairman of the Nomination Committee, reports on how the Nomination Committee discharged its responsibilities during 2017/18.

"The Nomination Committee ensures the composition of the Board and its Committees is appropriate, taking into account best governance practice."

Membership

The Nomination Committee was in place throughout 2017/18 and had the following membership during the year:

John Tattersall (Chairman)
Sue Langley
Michael Buckley (retired from the Board and the Committee on 27 June 2017)
Brendan McDonagh (appointed to the Committee on 27 June 2017)

Details of the skills and experience of Committee members can be found in the Directors' biographies on pages 19 to 21.

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 three 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 24.

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

- the UKGI 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 reports to the Board after each Committee meeting, summarising the key matters discussed, and the Board has also receive the minutes of each meeting.

Governance

The Committee completed an annual review of its Terms of Reference in February 2018. The Board and Board Committees determined to have an external evaluation process in accordance with the requirements of those Terms of Reference. The results of the evaluation were discussed by the Board in May 2018 where it was noted that they were positive and provided assurance that the Committee remained fit for purpose.

Nomination Committee Chairman's report (continued)

Chairman's overview of 2017/18

The work of the Committee this year has covered a variety of topics within its Terms of Reference. The key activities undertaken during the year have included:

- appointment of a new Non-Executive Director;
- a review of the Constitution of the Board and its Committees, taking account of the changes to the Board upon Mr Buckley's retirement;
- ongoing review of Executive Development and Succession Planning to ensure it remains fit for purpose;
- review and recommendation of the renewal of Non-Executive Director contracts; and
- recommendation for the reappointment of Directors at the Annual General Meeting.

Diversity

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.

Our Diversity Policy endorses the principles of best practice and recognises the benefits of having a diverse Board. UKAR's existing board comprises six male and one 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, a gender target is considered to be inappropriate, however all these aspects were taken into consideration by the Nomination Committee when it appointed Brendan Russell to the Board in June 2017.

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 we continue to support the voluntary Women in Finance Charter. Taking into account the reducing size of the organisation, we 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 the balanced scorecard which acts as a 'reducer' to the maximum bonus to ensure colleagues demonstrate the right behaviours. Details on equal pay and gender pay can be found in the Directors' Remuneration Report.

Table 1 - Progress against Targets

	Female	Male	Ratio	Target
Colleagues	73	61	54.5 : 45.5	>= 45% F
Management	12	33	26.7 : 73.3	>= 25% F
Total	**85**	**94**	**47.5 : 52.5**	**>= 45% F**

Appointment of Directors

In 2016, we began the process of orderly succession and refreshing of the Board and in 2017 the Committee engaged Russell Reynolds Associates to assist in the appointment of a new independent Non-Executive Director who would be able to succeed Michael Buckley. Following a comprehensive selection process Brendan Russell was appointed to the Board in June 2017.

Priorities for 2018/19

Over the coming year, the Committee will continue to have a key role in ensuring that the business has appropriate governance and management structures and succession plans for the number of smaller, more specialist roles within the organisation.

John Tattersall
Chairman of the Nomination Committee

Risk Committee Chairman's report

Keith Morgan, Chairman of the Risk Committee, reports on how the Risk Committee discharged its responsibilities during 2017/18.

"During 2017/18 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 landscape, including regulatory & conduct, legal and the oversight and monitoring of our outsourced mortgage service providers. We have further enhanced our risk framework in response to the potential increase in cyber risk and to ensure it remains fit for purpose given the changing nature of our business. We continue to monitor the progress and potential implications of the United Kingdom's exit negotiations with the European Union and, more broadly, 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 2017/18 and had the following membership on 31 March 2018:

Keith Morgan
Michael Buckley (resigned 27 June 2017)
Brendan McDonagh
Brendan Russell (appointed 27 June 2017)

Details of the skills and experience of Committee members can be found in the Directors' biographies on pages 19 to 21.

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 four meetings during the year, as required under its Terms of Reference. The attendance of individual members at meetings is set out on page 24.

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 Internal Audit and the external auditors;
- Company Secretary or his nominee; and
- representatives from other business functions from time to time.

The Risk Director held separate private sessions with the Committee which provided an opportunity for any issues to be raised without any members of the Executive present. This included sessions held with the Risk Director in his capacity as the Controlled Function for Compliance oversight ('CF10') and Money Laundering reporting ('CF11').

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 2018. The Board and Board Committees determined to have an external evaluation process in accordance with the requirements of those Terms of Reference. The results of the evaluation were discussed by the Board in May 2018 where it was noted that they were positive and provided assurance that the Committee remained fit for purpose.

Risk Committee Chairman's report (continued)

Chairman's overview of 2017/18

The work of the Committee during 2017/18 has included the review of the principal risks each quarter, based on comprehensive reports from the Risk Director. The principal risks are:

- Conduct Risk;
- Outsourcing Risk;
- Operational Risk;
- Credit Risk;
- Strategic Risk;
- Liquidity Risk;
- Market Risk; and
- Regulatory 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;
- continuing to monitor the progress and potential implications of the United Kingdom's exit negotiations with the European Union;
- recent increases in cyber risk exposure, key trends, countermeasures and assurance;
- 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 2017/18

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, framework 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;
- 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 on regulatory compliance and 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 64 and 65.

Risk Committee Chairman's report (continued)

Priorities for 2018/19

Against a continuing backdrop of external economic challenges for UKAR customers and the 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 and asset purchasers 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 - the Group has an established approach to the monitoring and oversight of its third party service providers commensurate with the nature, scale and complexity of its outsourced activities. 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 continues to relate 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 monitoring and responding to threats and vulnerabilities will remain a focus in 2018/19. Developments in Anti Money Laundering Regulation, the information rights of individuals (GDPR) 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 vulnerability of our customers. Our focus remains on the various cohorts of customers who might be most impacted, for example, those in or approaching 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. This includes the challenging implications of resolving a complex organisation and potential for latent, currently unseen, issues to disrupt strategic progress. 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 15 to 16 and 66 to 68.

Keith Morgan
Chairman of the Risk 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 2017/18.

"During the year the Transaction Approvals Committee oversaw the oversaw the second stage of the sale of B&B assets designed to repay the remainder of B&B's loan from the FSCS and undertook preparatory work on potential future sales."

Membership

The membership of the Transaction Approvals Committee during 2017/18 was as follows:

John Tattersall (Chairman)
Michael Buckley (retired from the Board and the Committee on 27 June 2017)
Ian Hares
Keith Morgan
Brendan Russell (appointed to the Board and Committee on 27 June 2017)
Peter Norton (appointed to the Board and Committee on 6 April 2017)

Details of the skills and experience of Committee members can be found in the Directors' biographies on pages 19 to 21.

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 24.

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 in March 2018. The Board and Board Committees determined to have an external evaluation process in accordance with the requirements of those Terms of Reference. The results of the evaluation were discussed by the Board in May 2018 where it was noted that they were positive and provided assurance that the Committee remained fit for purpose.

Transaction Approvals Committee Chairman's report (continued)

Chairman's overview

The Transaction Approvals Committee fulfilled its remit during 2017/18 through the oversight of transactions requiring approval in principle by the Board under its reserved powers. This included the second phase of the sales of B&B asset portfolios designed to repay the remainder of B&B's loan to the FSCS. 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 this sale and that customers' interests were properly protected.

During 2018/19 the Transaction Approvals Committee will continue to oversee this, and any other strategic transactions as requested by the Board, ensuring that customers' interests are protected and that value is maximised for the taxpayer.

John Tattersall
Chairman of the Transaction Approvals 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 KPIs:

Financial measure	2017/18 Target	March 2018	March 2017
Underlying Profit Before Tax	*>= £432.2m*	**£583.9m**	£706.0m
Net Government Loan Repayments [1]	*>= £2.7bn*	**£14.7bn**	£3.3bn
3m+ Residential Arrears [2]	*<= 3,603*	**3,582**	4,617
Ongoing Administrative Expenses [3]	*<= £153.5m*	**£148.4m**	£161.8m

1 *The 2017/18 government loan repayment target excluded the £11.4bn repayment relating to the sale of loans to Prudential and funds managed by Blackstone. The target was achieved with £3.3bn of business-as-usual loan repayments in the year.*
2 *3m+ arrears targets include loans to customers, assets classified as held for sale and equity release mortgages.*
3 *Excluding UKARcs costs (2017/18: £6.2m; 2016/17: £5.7m).*

Targets are not set at a subsidiary level, however, equivalent KPIs for B&B and NRAM in 2017/18 and 2016/17 were as follows:

B&B

Financial measure	March 2018	March 2017
Underlying Profit Before Tax	**£277.2m**	£374.4m
Net Government Loan Repayments	**£12.8bn**	£0.4bn
3m+ Residential Arrears [1]	**1,619**	2,085
Ongoing Administrative Expenses	**£107.9m**	£124.3m

NRAM

Financial measure	March 2018	March 2017
Underlying Profit Before Tax	**£306.7m**	£331.4m
Net Government Loan Repayments	**£1.9bn**	£2.9bn
3m+ Residential Arrears [1]	**1,963**	2,532
Ongoing Administrative Expenses [2]	**£40.5m**	£38.3m

1 *3m+ arrears include loans to customers, assets classified as held for sale and equity release mortgages.*
2 *NRAM 2016/17 ongoing administration expenses included £0.8m charged by B&B for servicing loans on behalf of NRAM that were sold to Cerberus. This cost was excluded from the UKAR consolidated administration expenses, as was 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 56.

Statutory Profit / (Loss) Before Tax	March 2018	March 2017
UKAR	**£583.2m**	£346.9m
B&B	**£292.5m**	(£27.2m)
NRAM	**£290.7m**	£373.9m

Additional key performance indicators

Supporting financial measures for each of the key objectives are included in the table below.

	2017/18 Target	March 2018	March 2017
Underlying Profit Before Tax	***>= £432.2m***	**£583.9m**	**£706.0m**
- Statutory Profit Before Tax [1]		£583.2m	£346.9m
- Net Interest Margin on Average Interest Earning Assets		2.50	2.12
Net Government Loan Repayments [2]	***>= £2.7bn***	**£14.7bn**	**£3.3bn**
- Government Loan Balance		£10.3bn	£25.0bn
- Total Lending Balances [3]		£17.2bn	£19.5bn
- Amount owed in respect of sale of loans		-	£11.5bn
3m+ Residential Arrears [4]	***<= 3,603***	**3,582**	**4,617**
- Residential Arrears Balance as a percentage of the Total Residential Mortgage Balance (%)		0.18	0.20
- Residential Payments Overdue		£31.6m	£37.7m
- Residential Arrears 3 months and over and possessions as a percentage of the book:			
- By value		3.14	3.67
- By number of accounts		2.55	2.92
Ongoing Administrative Expenses [5]	***<= £153.5m***	**£148.4m**	**£161.8m**
- Ratio of costs to average interest earning assets (%):			
- Statutory		0.72	0.45
- Ongoing		0.73	0.45

1 *An analysis of the difference between statutory and underlying profit is provided on page 56.*
2 *The 2017/18 government loan repayment target excluded the £11.4bn repayment relating to the sale of loans to Prudential and funds managed by Blackstone. The target was achieved with £3.3bn of business-as-usual loan repayments in the year.*
3 *Total lending balances includes loans to customers of £11.5bn (March 2017: £18.7bn), assets classified as held for sale of £5.0bn (March 2017: £nil) and equity release mortgages of £0.7bn (March 2017: £0.8bn).*
4 *3m+ arrears KPIs and supporting financial measures include loans to customers, assets classified as held for sale and equity release mortgages.*
5 *Excluding UKARcs costs (2017/18: £6.2m; 2016/17: £5.7m).*

Financial review

These financial results are for the year to 31 March 2018.

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 legal or insurance claims and certain gains or losses such as the sale of assets. 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 2018 has decreased by £122.1m to £583.9m (March 2017: £706.0m). The reduction in underlying profit primarily reflects reduced net interest income due to the shrinking Balance Sheet.

For the year to March 2018 underlying net operating income has decreased by £238.5m to £561.0m (March 2017: £799.5m) due to lower income from the reducing Balance Sheet. For the year to March 2018 ongoing administrative expenses of £148.4m (excluding UKARcs costs of £6.2m) were £13.4m lower than the previous year (March 2017: £161.8m, excluding £5.7m UKARcs costs). Impairment on loans to customers for the year to March 2018 was a credit of £170.8m, an increase of £83.0m from the prior year (March 2017: £87.8m credit). Net impairment on investment securities was a £0.3m credit for the year (March 2017: £6.1m credit). Provision for insurance risk on equity release mortgages was a £6.4m credit in the year (March 2017: £19.9m charge). The number of mortgage accounts 3 or more months in arrears including possessions reduced by 22% compared to March 2017.

For the year to March 2018 statutory profit before tax of £583.2m (March 2017: £346.9m) included a £19.4m recovery of amounts paid out for previous customer remediation exercises, a fair value and hedge ineffectiveness credit of £18.8m, a £2.3m profit in relation to loan sales in prior years and a £2.3m credit for non-recurring administrative expenses, offset by a charge of £43.5m in respect of customer remediation.

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

	UKAR		B&B		NRAM	
For the year ended 31 March	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Net interest income	506.1	769.2	235.9	447.7	270.2	321.5
Underlying net non-interest income [1,2]	54.9	30.3	42.3	28.1	6.4	(2.9)
Underlying net operating income	**561.0**	**799.5**	**278.2**	**475.8**	**276.6**	**318.6**
Ongoing administrative expenses [1]	(154.6)	(167.5)	(107.9)	(124.3)	(40.5)	(38.3)
Impairment on loans to customers	170.8	87.8	100.3	38.3	70.5	49.5
Provision for insurance risk on equity release mortgages	6.4	(19.9)	6.5	(20.1)	(0.1)	0.2
Net impairment on investment securities	0.3	6.1	0.1	4.7	0.2	1.4
Underlying profit before taxation	**583.9**	**706.0**	**277.2**	**374.4**	**306.7**	**331.4**
Unrealised fair value movements on financial instruments	2.3	(4.3)	2.1	(5.9)	0.2	1.6
Hedge ineffectiveness	16.5	(8.0)	16.5	(8.0)	-	-
Non-recurring administrative expenses	2.3	-	2.3	-	-	-
Provision for customer redress	(43.5)	(64.4)	(6.2)	(4.3)	(37.3)	(60.1)
Legal and Insurance claims	19.4	50.0	-	-	19.4	50.0
Profit / (loss) on sale of loans	2.3	(332.4)	0.6	(383.4)	1.7	51.0
Statutory profit / (loss) before taxation	**583.2**	**346.9**	**292.5**	**(27.2)**	**290.7**	**373.9**

1 *UKAR underlying net non-interest income includes £6.2m (March 2017: £5.9m) and ongoing administrative expenses include £6.2m (March 2017: £5.7m) in relation to UKARcs and UKAR Limited. UKARcs is operated on an after tax nil-gain nil-loss basis. In 2016/17 NRAM ongoing administration expenses included £0.8m charged by B&B for servicing loans on behalf of NRAM that were sold to Cerberus. This cost was excluded from the UKAR consolidated administration expenses, as was the corresponding income in B&B. There was no such charge in the current year.*

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

For the year ended 31 March	UKAR 2018 £m	UKAR 2017 £m	B&B 2018 £m	B&B 2017 £m	NRAM 2018 £m	NRAM 2017 £m
Interest receivable and similar income						
On equity release mortgages	**58.1**	58.8	**57.0**	57.9	**1.1**	1.1
On other secured loans	**528.7**	886.7	**219.5**	513.3	**309.2**	373.2
On other lending	**17.8**	21.6	**-**	-	**17.8**	21.6
On investment securities and deposits	**10.4**	26.8	**5.9**	10.9	**4.5**	16.1
Interest receivable and similar income	**615.0**	993.9	**282.4**	582.1	**332.6**	412.0
Interest expense and similar charges						
On amounts due to banks and HM Treasury	**(96.0)**	(201.3)	**(46.3)**	(123.9)	**(49.7)**	(77.4)
State guarantee fee [1]	**-**	(2.6)	**-**	(2.6)	**-**	-
On debt securities and other	**(12.9)**	(20.8)	**(0.2)**	(7.9)	**(12.7)**	(13.1)
Interest expense and similar charges	**(108.9)**	(224.7)	**(46.5)**	(134.4)	**(62.4)**	(90.5)
Net interest income	**506.1**	769.2	**235.9**	447.7	**270.2**	321.5
Average balances						
Interest-earning assets ('IEA')	**20,235**	36,344	**11,615**	25,825	**8,620**	10,519
Financed by:						
- Interest-bearing funding	**4,749**	9,936	**873**	3,997	**3,876**	5,939
- Interest-free funding [2]	**15,486**	26,408	**10,742**	21,828	**4,744**	4,580
Average rates %	**%**	%	**%**	%	**%**	%
Gross yield on IEA	**3.04**	2.73	**2.43**	2.25	**3.86**	3.92
Cost of interest-bearing funding	**(2.29)**	(2.26)	**(5.32)**	(3.30)	**(1.61)**	(1.52)
Interest spread	**0.75**	0.47	**(2.89)**	(1.05)	**2.25**	2.40
State guarantee fee [1]	**-**	(0.01)	**-**	(0.01)	**-**	-
Contribution of interest-free funding [2]	**1.75**	1.66	**4.92**	2.79	**0.88**	
Net interest margin on average IEA	**2.50**	2.12	**2.03**	1.73	**3.13**	3.06
Annual average Bank Base Rate	**0.35**	0.34	**0.35**	0.34	**0.35**	0.34
Annual average 1-month LIBOR	**0.36**	0.34	**0.36**	0.34	**0.36**	0.34
Annual average 3-month LIBOR	**0.40**	0.44	**0.40**	0.44	**0.40**	0.44

1 *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. Until the repayment of the remaining legacy B&B wholesale funding in January 2017, the fee was primarily dependent on balances outstanding and hence was included within 'interest expense and similar charges'.*

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

Financial review (continued)

Net interest income (continued)

Net interest income for the year to March 2018 was £506.1m (March 2017: £769.2m). 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 2018 has increased to 2.50% from 2.12% in the year to March 2017. The interest spread on interest earning assets increased to 0.75% from 0.47% primarily reflecting the change in the mix of balances between B&B and NRAM, following the sale of c.£12bn of B&B mortgages in March 2017. In the year to March 2018 the higher yielding NRAM loans comprised approximately 43% of UKAR mortgages compared to approximately 29% in the year to March 2017.

On the B&B book the underlying net interest margin increased 0.30% to 2.03% primarily due to an increase in the yield on the book following the sale of lower yielding assets and the proportion of free funding. The cost of interest bearing funding increased following all secured funding falling away in 2016/17, with the WCF being the only remaining interest bearing funding at a cost of Bank Base Rate + 5.00%.

NRAM's net interest margin increased 0.07% to 3.13% primarily due to the increase in the contribution of interest free funding as the government loan continues to reduce. The cost of interest bearing funding increased as NRAM's £200m of wholesale funding, which has a higher interest rate than the government loan, now forms a greater proportion of the remaining interest bearing balance.

Underlying net non-interest income

Underlying net non-interest income increased by £24.6m to £54.9m in the year to March 2018 (March 2017: £30.3m). During the period the UKAR sold investment securities for £292.8m, generating a profit of £30.7m.

Other operating income includes interim servicing fees of £20.9m (March 2017: £0.8m) from the provision of mortgage services on assets sold. Other operating income also includes £6.2m for UKARcs (March 2017: £5.9m), 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

For the year ended 31 March	UKAR		B&B		NRAM		UKARcs	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
Total net fee and commission income	**(3.2)**	(0.1)	**6.0**	8.3	**(9.2)**	(8.4)	**-**	-
Net realised gains less losses on investment securities	**30.7**	18.7	**15.4**	14.4	**15.3**	4.3	**-**	-
Other operating income [1]	**27.4**	11.7	**20.9**	5.4	**0.3**	1.2	**6.2**	5.9
Underlying net non-interest income	**54.9**	30.3	**42.3**	28.1	**6.4**	(2.9)	**6.2**	5.9
Unrealised fair value movements on financial instruments	**2.3**	(4.3)	**2.1**	(5.9)	**0.2**	1.6	**-**	-
Hedge ineffectiveness	**16.5**	(8.0)	**16.5**	(8.0)	**-**	-	**-**	-
Statutory net non-interest income	**73.7**	18.0	**60.9**	14.2	**6.6**	(1.3)	**6.2**	5.9

1 B&B other operating income for 2016/17 included £0.8m charged by B&B to NRAM for servicing loans sold to Cerberus. This income was excluded from the UKAR consolidated other operating income, as was 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 redeem. Most of these are designated and accounted for as IAS 39 'Financial Instruments: Recognition and Measurement' compliant fair value 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 by opposite movements in the fair value of the instrument being hedged.

The Income Statement credit for hedge ineffectiveness was £16.5m in the year (March 2017: £8.0m charge).

Unrealised fair value movements were a £2.3m gain in the year (March 2017: £4.3m loss). These generally relate to derivatives that act as an economic hedge but were not treated as an accounting hedge under IAS 39.

Financial review (continued)

Administrative expenses

	UKAR		B&B		NRAM		UKARcs	
	2018	2017	2018	2017	2018	2017	2018	2017
	£m	£m	£m	£m	£m	£m	£m	£m
Wages and Salaries	**11.9**	19.3	**11.9**	19.3	**-**	-	**-**	-
Social security costs	**1.4**	2.2	**1.4**	2.2	**-**	-	**-**	-
Defined benefit pension costs	**(10.8)**	(17.3)	**(5.9)**	(9.1)	**(4.9)**	(8.2)	**-**	-
Defined contribution pension costs	**0.8**	1.3	**0.8**	1.3	**-**	-	**-**	-
Other retirement benefit costs	**0.3**	0.3	**0.3**	0.3	**-**	-	**-**	-
Total staff costs	**3.6**	5.8	**8.5**	14.0	**(4.9)**	(8.2)	**-**	-
IT Costs	**10.1**	17.4	**8.0**	18.3	**0.4**	(1.9)	**1.7**	1.0
Outsourced and professional services [1]	**128.8**	117.8	**127.8**	116.9	**0.5**	1.1	**0.5**	0.6
Depreciation and amortisation	**2.7**	6.3	**0.1**	3.9	**-**	-	**2.6**	2.4
Management recharge to NRAM / UKARcs	**-**	-	**(45.3)**	(47.5)	**44.0**	46.0	**1.3**	1.5
Other administrative expenses	**9.4**	20.2	**8.8**	18.7	**0.5**	1.3	**0.1**	0.2
Total ongoing	**154.6**	167.5	**107.9**	124.3	**40.5**	38.3	**6.2**	5.7
Non-recurring	**(2.3)**	-	**(2.3)**	-	**-**	-	**-**	-
Total administrative expenses	**152.3**	167.5	**105.6**	124.3	**40.5**	38.3	**6.2**	5.7

1 NRAM outsourced and professional services expenses for 2016/17 included £0.8m charged by B&B for servicing NRAM loans. This cost was excluded from the UKAR consolidated administration expenses as was the corresponding income in B&B.

Costs for the year include £6.2m 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 2017: £5.7m). These costs were fully reimbursed by HM Treasury.

Ongoing administrative expenses for the year, excluding UKARcs costs, of £148.4m (March 2017: £161.8m) were 8.3% lower. The reduction in costs reflects the reduction in the size of the mortgage book through natural run-off and asset sales. The increase in outsourced and professional services costs reflects a full year of outsourcing mortgage servicing to Computershare.

The non-recurring credit of £2.3m in the year relates to the outsourcing of mortgage servicing to Computershare in June 2016. A cost provision of £73.4m was charged in the 2015/16 accounts. All expected costs connected with the restructuring programme have been received, which has resulted in a £2.3m provision release.

Arrears and possessions

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.

Strong arrears performance continues. UKAR has seen arrears in both companies fall as a direct consequence of ongoing proactive arrears management coupled with the continued low interest rate environment. The total number of residential cases 3 or more months in arrears, including held for sale, equity release and those in possession, reduced by 22% from 4,617 at 31 March 2017 to 3,582 at 31 March 2018. The proportion of total accounts 3 or more months in arrears has reduced from 2.92% at 31 March 2017 to 2.55% at 31 March 2018. The total value of payments overdue by residential customers has reduced from £37.7m at 31 March 2017 to £31.6m at 31 March 2018, equivalent to 0.18% of mortgage balances (March 2017: 0.20%). The proportion of accounts in arrears and the percentage of payments overdue will increase following the sale of the Durham portfolio, which is currently held for sale, in April 2018. The loans held for sale have a higher proportion of accounts which are up to date than those retained by UKAR.

The number of properties in possession for UKAR decreased from 485 at 31 March 2017 to 408 at 31 March 2018. Within B&B, possession stock decreased from 320 cases at 31 March 2017 to 223 at 31 March 2018. In NRAM possession stock increased from 165 cases at March 2017 to 185 at March 2018. A total of 1,004 properties were taken into possession in the year (March 2017: 1,242).

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 173 cases at 31 March 2017 to 85 at 31 March 2018.

Financial review (continued)

Arrears and possessions (continued)

During the year 1,083 cases (March 2017: 1,258) were sold following possession. In addition a further 154 cases (March 2017: 192) were sold which were under LPA management. Total realised losses on properties sold following possession or sold by an LPA were £39.0m (March 2017: £64.3m), all of which had previously been fully provided for. Within these losses £5.8m were fraudulent and professional negligence cases (March 2017: £6.6m).

The number of unsecured loans 3 months or more in arrears was 2,782 cases (March 2017: 3,281).

Loan impairment: residential loans (including those held for sale)

Provisions for residential loan impairment held on the Balance Sheet have reduced by £192.3m since 31 March 2017 to £238.5m (March 2017: £430.8m), reflecting realised losses and the benefit of improving house prices on property valuations. In addition, a review of assumptions based on new management information in respect of suspected fraud cases, NRAM commercial buy-to-let loans and accounts near term end, resulted in the release of some of these provisions.

Included within the above, fraud and professional negligence provisions have decreased by £74.3m since 31 March 2017 to £83.7m (March 2017: £158.0m) as a result of realised losses following the sale of properties, an exercise to revalue properties and revision of default assumptions based on new management information. Total UKAR fraud provisions represent coverage of 27% of balances of suspected fraud and professional negligence cases (March 2017: 34%). Within the B&B book, fraud and professional negligence provisions have reduced since 31 March 2017 by £66.8m to £77.0m (March 2017: £143.8m). In the NRAM book, fraud and professional negligence provisions have reduced by £7.5m to £6.7m (March 2017: £14.2m).

As a proportion of balances, the residential impairment provision was 2.04% (March 2017: 2.32%). The residential loan impairment credit was £161.6m for the year (March 2017: £73.2m credit). The increase in the credit reflects the result of the review of assumptions based on new management information noted above.

Loan impairment: unsecured loans

The provision for unsecured loans was £55.6m at 31 March 2018 (March 2017: £74.9m). The reduction reflects realised losses and the reduction in arrears cases. Realised losses in the year were £13.4m (March 2017: £6.3m) all of which had previously been fully provided for.

The credit for unsecured loan impairment for the year was £5.9m, £8.0m lower compared to the prior year (March 2017: £13.9m credit). Asset coverage was 17.83% at 31 March 2018 (March 2017: 19.06%).

Loan impairment: commercial loan book

The provision for the commercial book has decreased to £12.2m from £12.3m at 31 March 2017, with coverage at 4.69% (March 2017: 4.56%) following a review of assets held. 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.

Loan impairment: IFRS 9 adoption

The Group will adopt IFRS 9 'Financial Instruments' with effect from 1 April 2018. Estimated initial financial impacts of adoption are provided in note 1(b).

Provision for insurance risk: equity release loan book

Equity release mortgages and their associated provision are now presented separately from loans to customers. For more detail see note 18. The total provision for insurance risk on the Group's equity release loans as at March 2018 was £123.2m (March 2017: £130.3m). As a proportion of balances the provision represents coverage of 14.16% (March 2017: 14.68%). The credit in the year of £6.4m (March 2017: £19.9m charge) reflects an update to model assumptions.

Net impairment release on investment securities

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 £0.3m (March 2017: £6.1m).

Provision for customer redress

We define conduct risk as the risk of treating our 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 and the issue of non-compliant Consumer Credit Act ('CCA') loan documentation to certain customers.

We 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.

Financial review (continued)

Provision for customer redress (continued)

The publication of the FCA's Policy Statement PS17/3 "Payment protection insurance complaints: feedback on CP16/20 and final rules and guidance" set a deadline date for PPI complaints at 29 August 2019 and confirmed 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 the PPI deadline, actual claims volumes received during the period have been higher than previous periods and therefore the provision was increased by £43.5m in September 2017 (March 2017: £64.4m).

Legal and Insurance claims

During the year NRAM received £19.4m (March 2017: £50.0m) relating to the recovery of amounts paid out for previous customer remediation exercises, net of associated costs.

(Loss) / profit on sale of loans

There were no loans sold in the year, however, £2.3m was recognised in the year resulting from the release of provisions made in prior years in relation to loan sales. The 2016/17 loss of £332.4m primarily related to the sale of B&B performing buy-to-let loans for a total of £11.8bn on 30 March 2017.

Taxation

The total Income Statement tax charge for the year ended 31 March 2018 was £96.1m (March 2017: £61.2m). Given the statutory profit before taxation of £583.2m (March 2017: £346.9m), this equates to an effective tax rate of 16.5% (March 2017: 17.6%). The effective tax rate of 16.5% is lower than the standard weighted average rate of UK corporation tax of 19.0% due to items which are expected to be non-taxable.

Balance Sheet

Balance Sheet summary

At 31 March	UKAR 2018 £m	UKAR 2017 £m	B&B 2018 £m	B&B 2017 £m	NRAM 2018 £m	NRAM 2017 £m
Loans to customers:						
- residential mortgages	**10,999.5**	18,130.2	**4,027.7**	9,991.1	**6,971.8**	8,139.1
- commercial loans	**247.5**	257.3	**173.2**	178.4	**74.3**	78.9
- unsecured lending	**256.2**	317.8	**-**	-	**256.2**	317.8
Equity release mortgages	**747.2**	757.5	**729.8**	739.7	**17.4**	17.8
Assets classified as Held for Sale	**4,991.6**	-	**4,991.6**	-	**-**	-
Amount owed in respect of sale of loans	**-**	11,483.9	**-**	11,483.9	**-**	-
Wholesale assets	**1,571.8**	2,395.1	**1,108.4**	1,413.6	**455.2**	960.5
Fair value adjustments on portfolio hedging	**420.9**	454.6	**420.9**	454.6	**-**	-
Derivative financial instruments	**-**	1.8	**-**	-	**-**	1.8
Other assets	**578.3**	531.9	**405.4**	295.9	**188.4**	241.5
Total assets	**19,813.0**	34,330.1	**11,857.0**	24,557.2	**7,963.3**	9,757.4
Statutory Debt and HM Treasury loans	**10,278.8**	25,031.3	**7,561.1**	20,437.1	**2,717.7**	4,594.2
Wholesale funding	**204.2**	204.2	**-**	-	**204.2**	204.2
Derivative financial instruments	**471.8**	527.2	**470.6**	524.7	**1.2**	2.5
Other liabilities	**326.4**	474.8	**154.6**	192.3	**179.2**	267.1
Equity	**8,531.8**	8,092.6	**3,670.7**	3,403.1	**4,861.0**	4,689.4
Total equity and liabilities	**19,813.0**	34,330.1	**11,857.0**	24,557.2	**7,963.3**	9,757.4

In the year to March 2018 the Balance Sheet has reduced by £14.5bn to £19.8bn (March 2017: £34.3bn). The reduction primarily reflects the settlement of the £11.5bn debtor in respect of the sale of loans to Prudential and funds managed by Blackstone and a reduction in total lending balances of £2.3bn. Total lending balances, including assets categorised as held for sale and equity release mortgages, have reduced by 12% to £17.2bn during the year to March 2018 due to £2.1bn of secured residential redemptions and £0.2bn of other regular repayments.

Financial review (continued)

Balance Sheet (continued)

In December 2017 B&B reclassified the Durham portfolio of c. £5bn buy to let and residential mortgages as held for sale, following approval of the bidders and the launch of second round bidding, see note 15 for further details. In addition, the Group's equity release mortgages are now presented separately from loans to customers, for more detail see notes 2 and 18.

Liabilities

Repayment of the Statutory Debt and HM Treasury loans remains a primary objective of UKAR. In the year a further £14.7bn (March 2017: £3.3bn) of HM Treasury debt was repaid (NRAM: £1.9bn, B&B: £12.8bn). This has reduced Statutory Debt and HM Treasury loans to £10.3bn (March 2017: £25.0bn). The increase in repayments to HM Treasury is primarily due to the repayment of £11.4bn following the financial settlement of the sale of loans to Prudential and funds managed by Blackstone. In addition, investment securities were sold or redeemed during the year generating £0.3bn.

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, as the regulated subsidiaries have never paid dividends to UKAR, both regulated companies hold more capital than is required. As at 31 March 2018 capital in B&B plc represented 24.0% (March 2017: 10.9%) of B&B Company assets and NRAM capital represented 58.7% (March 2017: 45.8%) of NRAM Company assets.

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	2018 £m	2017 £m
Share capital and reserves	**3,284.9**	3,074.1
Available-for-sale reserve adjustments	**-**	(12.8)
Cash flow hedge reserve adjustments	**-**	0.8
Net pension adjustment	**(355.8)**	(257.3)
Less: deductions [1]	**(175.0)**	(175.0)
Total capital	**2,754.1**	2,629.8

1 *The deduction from B&B plc capital resources comprises £175.0m for the company's investment in Mortgage Express (March 2017: £175.0m).*

B&B plc total capital resources of £2,754.1m are £124.3m higher than at 31 March 2017, due to profit generated in the year, partly offset by a £98.5m increase in the pension asset deduction. The increase in the pension asset was due to a £63.9m top-up payment and an actuarial revaluation.

Financial review (continued)

Capital (continued)

Capital resources - NRAM Limited (company only)

At 31 March	2018 £m	2017 £m
Share capital and reserves	**4,860.8**	4,689.1
Net pension adjustment	**(188.1)**	(222.1)
Total capital	**4,672.7**	4,467.0

NRAM total capital resources of £4,672.7m are £205.7m higher than at 31 March 2017, mainly due to the profit generated in the year.

On 30 January 2018 NRAM issued 8 billion 25p bonus Ordinary shares in exchange for a reduction of £2,000.0m in its merger reserve. The bonus shares, along with NRAM's share premium of £1,022.0m, were then converted into distributable reserves. Total equity was unaffected by these transactions.

Risk management and control

Pages 64 to 68 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 18, 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 2018, 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 2018:

Liquidity Management Committee ('LMC'); and

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 64 to 68 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 Executive Risk Committee; 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 73, 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 64 to 68 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 outsourced service providers.

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

Third Party reports, covering the suitability of design and operating effectiveness of controls, are also utilised to provide an additional level of review and assurance over the Group's mortgage servicing partners. UKAR are advised of any findings and subsequent action plans to resolve. These reports are prepared in accordance with the International Standard on Assurance Engagements (ISAE) 3402, Assurance Reports on Controls at a Service Organisation, issued by the International Auditing and Assurance Standards Board and Technical Release AAF 01/06 (AAF 01/06), Assurance Reports on Internal Controls of Service Organisations Made Available to Third Parties, issued by the Institute of Chartered Accountants in England and Wales.

(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 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, specialists 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. There is, however, the potential for retail credit risk exposure to vary over the medium term as a result of asset sales. 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.

Risk management and control (continued)

Pages 64 to 68 form an integral part of the audited Financial Statements

Risk categorisation (continued)

(iv) Credit risk (continued)

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.

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 2018 £m	Provision 2018 £m	Balance Sheet value 2017 £m	Provision 2017 £m
Loans secured on residential property	**10,999**	**227**	18,130	431
Assets Held for Sale	**4,992**	**11**	-	-
Other secured loans	**248**	**12**	257	12
Unsecured loans	**256**	**56**	318	75
Equity release mortgages [1]	**747**	**123**	758	130
Wholesale assets	**1,572**	**-**	2,395	215

1 Equity release mortgages are considered to meet the definition of an insurance contract as the Group has accepted the risk that negative equity may arise on the loans. The provision for the equity release mortgages in the table above reflects insurance risk, rather than credit risk.

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. 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. Asset sales activity will also have an effect on the overall level of credit risk over the medium term.

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.

Risk management and control (continued)

Pages 64 to 68 form an integral part of the audited Financial Statements

Risk categorisation (continued)

(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 external environment, macroeconomic and market stresses, outsourcing, political, regulatory and legal risk, infrastructure, people and balance sheet (including managing a mortgage book in wind down) and project risk.

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 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 and the Government Banking Service.

(vii) Market risk

Market risk is the potential for change in Group income or Group net worth arising from movements in interest rates. Market risk only arises either as a legacy of past business or from supporting strategic objectives and is principally managed via interest rate swaps.

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 131,000 customers (March 2017: 148,000), with 141,000 mortgage accounts (March 2017: 158,000) and 30,000 unsecured loan accounts (March 2017: 35,000).

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 which 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 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.

Our 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 their work 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 2017/18.

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 2018 (for more than £245 per day and lasting longer than 6 months)

	No. Contractors
No. of existing engagements as of 31 March 2018:	13
Of which:	
No. that have existed for less than one year at the time of reporting:	3
No. that have existed for between one and two years at the time of reporting:	5
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:	1
No. that have existed for four years or more at the time of reporting:	3
Total	**13**

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 £245 per day and lasting longer than 6 months)

	No. Contractors
No. of new engagements, or those that reached six months duration, between 1 April 2017 and 31 March 2018:	21
Of which:	
No. assessed as within scope of IR35*:	-
No. assessed as out of scope of IR35*:	21
No. engaged directly and on company payroll:	-
No. of engagements reassessed for consistency / assurance purposes throughout the year:	-
No. of engagements that saw a change to IR35* status following the consistency review:	-

** IR35 is tax legislation designed to ensure that where an individual would have been an employee had they been providing their services directly, they pay broadly the same tax and National Insurance contributions ('NICs') as an employee. IR35 does not apply to UKAR as all contractors are engaged via an agency which directly employs the individuals and deducts tax and NICs.*

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

	No.
No. of off-payroll engagements of board members and/or senior officials with significant financial responsibility during the year:	-
No. of individuals on payroll and off-payroll that have been deemed 'board members and/or senior officials with significant financial responsibility during the year':	13*

** All 13 individuals with significant financial responsibility were on the payroll.*

Corporate social responsibility report (continued)

Community

We are 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 September 2017 colleagues voted for YAA to replace Martin House as our Charity of the Year. Charitable fundraising by colleagues raised £6,536 through dress down days, raffles, cake stalls and donations, including £2,045 for YAA and £2,591 for Martin House. In addition, we matched employee fundraising and payroll giving through Give As You Earn schemes with contributions of £2,766 and £6,118, respectively.

Environment

The management of our Head Office in Crossflatts, West Yorkshire was outsourced to Computershare in 2016 but we remain committed to reducing environmental impact, increasing recycling programmes, creating awareness of environmental programmes and engaging colleagues in these activities.

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 9 to 14.

Principal risks

Principal risks of the UKAR Group are covered on pages 15 to 16 and 64 to 68.

Dividends

The Directors do not propose the payment of any dividend in respect of the year ended 31 March 2018.

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 13 to 14.

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 2018 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

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 UKAR'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 where this requires additional disclosure that does not conflict with EU adopted IFRS and the Companies Act 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
25 June 2018

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

Opinion on financial statements

I have audited the financial statements of the UK Asset Resolution Limited group for the year ended 31 March 2018 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 Statements; and
- the related notes, including the significant accounting policies.

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.

In my opinion the financial statements:

- give a true and fair view of the state of the group's affairs as at 31 March 2018 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.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK). My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my report. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of UK Asset Resolution Ltd in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Overview of my audit approach

Key audit matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that I identified.

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. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

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, an area where my work has not identified any matters to report.

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 43-46.

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

Overview of my audit approach (continued)

Key audit matters (continued)

In this year's report the following changes to the key audit matters identified have been made compared to my prior year report:

- I have not identified a key matter relating to the de-recognition and sale of a portfolio of assets. This matter related specifically to an asset sale, for which contracts to sell the assets were signed on 30 March 2017 with completion and transfer of the beneficial interest on 25 April 2017. This was a one-off transaction which impacted upon the 2016-17 accounts.
- I have identified a separate key audit matter relating to the valuation of the insurance provision for the no negative equity guarantee on equity release loans. In the prior year, this was included as an element of the risk associated with the loan loss provisions.

Loan loss provision assumptions

Description of key audit matter

Loan loss provisioning is a highly subjective area due to the level of judgement applied by management in determining the level of provisions and as such remains a key area of focus and significant risk of material misstatement for the audit.

Loan loss provisions are calculated by management using internal models which use historic data and estimates and judgements in respect of future performance. 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. These arise as a result of emerging trends, models not capturing the risks in the loan portfolio and to adjust for potential historic fraud indicators in the portfolio. Significant judgement is applied by management in making these adjustments.

The provision for loan loss impairment as of 31 March 2018 is £306m (prior period £518m). The reduction in provision is partly a result of redemptions and write-offs, and also reflects changes as a result of updated assumptions and the incorporation of new management information. The most significant movement within the overlays related to fraud, which reduced by £66m across the Group to £79m. This reduction is principally attributable to now applying a probability of default for fraud accounts based upon a new management analysis of historic data and revising estimated sale proceeds with a programme of property valuations which reduced the number of cases within scope for this overlay. Additional revisions in other overlays related to NRAM commercial buy to let loans and loans approaching or passing their term date. The basis of assumptions in each of these overlays was revised to be based upon newly available analysis of historic UKAR data rather than by high level management assumptions.

How the scope of my audit responded to the risk

I understood and evaluated the design and implementation of key controls.

I also performed the following procedures:

- I understood and assessed management's basis for assessing whether loans are impaired. Where impairment provisions were calculated on a portfolio basis, I assessed whether this treatment was in line with IAS 39
- I obtained assurance over the completeness and accuracy of the input data used in the models by testing a sample of loan balances, sales and property valuations.
- I independently recreated management's underlying impairment model to verify its design and operation;
- I understood and critically assessed the models used. Where the modelling assumptions and parameters used, such as probability of default and forced sale discount, are based upon historic data, I challenged whether historic experience was representative of current circumstances.

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

Overview of my audit approach (continued)

Key audit matters (continued)

Loan loss provision assumptions (continued)

How the scope of my audit responded to the risk

- Where external inputs are used in the model to update historic property valuations to current prices for estimating historic house price growth I critically assessed whether the sources used for these inputs are appropriate.
- I challenged management to provide explanations and objective evidence to support the overlay adjustments made to the provision. Where management changed the basis of overlays, I assessed the evidence to support their revised methodologies and their rationale for changing the overlays.
- Management undertook sensitivity analysis on the impact that changes in house prices would have on the provision, and this is disclosed in the accounts. I undertook additional sensitivity analysis, using the model that I independently re-created, to determine the most sensitive assumptions to focus my testing.

Key observations

Based on the evidence I obtained I found that the impairment model assumptions and data used within the models were reasonable and were within the ranges determined by my independent model. I found that the impairment overlays were supported by appropriate historic evidence, and that changes made to the model were justified in terms of improving the relevance of the accounting estimate in the context of the underlying loan portfolio and past experience.

Valuation of insurance provision for no negative equity guarantee on equity release mortgages

Description of key audit matter

UKAR's loan book includes a portfolio of equity release mortgages. No interest or capital payments are due on these mortgages until the property is sold. These mortgages include a "No Negative Equity" guarantee, and UKAR's accounts include an insurance provision accounted for under IFRS 4, for the probable loss UKAR will suffer as a result of the guarantee. The valuation of this provision includes significant assumptions and judgements in arriving at projected property values at the time of the sale; future House Price Index (HPI) together with discounts thereto to reflect the expected condition of the properties. It also includes assumptions about the timing of redemptions. This is considered to represent a significant risk of material misstatement for the audit, due to the sensitivity of the provision to management estimates and assumptions.

The total provision for equity release mortgages at 31 March 2018 is £123m (31 March 2017 £130m) on a loan book value of £870m (31 March 2017: £888m).

In previous years management have estimated the dilapidations in the forecast underlying property values, estimated using a future HPI assumption, by way of a Forced Sale Discount, as determined for their residential loan book. This model also assumed that mortality probabilities as published by the Office for National Statistics were a reasonable proxy for the expected timing of redemptions.

Recognising that experience has shown that a number of these loans redeem on a voluntary basis (i.e. before the borrower dies or enters long term care) management revised the model presented for audit to include an early redemption assumption. This first model also used a dilapidations allowance that was determined by the experience of this loan book, considering the implicit dilapidations for those redemptions that either resulted in a loss or were as a consequence of a possession order.

Following audit challenge, management revised their modelling approach.

The final model no longer has an early redemption assumption on the grounds that the data underlying such an assumption is not reliable. Management have retained the overall assumption that published mortality probabilities are a reasonable proxy for the redemption profile of this loan book. This model applies an annual discount to the future HPI applied to allow for the expectation that property value increases in this portfolio will fall behind the general housing market.

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

Overview of my audit approach (continued)

Key audit matters (continued)

Valuation of insurance provision for no negative equity guarantee on equity release mortgages (continued)

How the scope of my audit responded to the risk

I understood and evaluated the design and implementation of key controls.

I also performed the following procedures:

- I obtained assurance over the completeness and accuracy of the input data used in the model by testing the underlying information for a sample of loans at the balance sheet date.
- I reviewed the model mechanics to ensure that the first model was correctly implemented.
- I challenged management as to the accuracy of the data used to support the early redemption assumption and also whether, in this regard, past experience was a reasonable expectation for future behaviour.
- I tested and confirmed the accuracy of the sales information used to calculate the dilapidation allowance applied in the first model. I challenged management on their judgement that, other than for those assumed to redeem early, all remaining properties should be discounted at a rate calculated based on recent experience of only possession and loss cases.

Following these challenges, management reconsidered their approach. In respect of this final model (as described above):

- I considered whether the mortality probabilities as published by the Office for National Statistics and forecast future house price indices used as inputs to the model were relevant to UKAR's portfolio of loans and appropriately used.
- I challenged management on the annual discount to future HPI assumption used in the model. Past experience demonstrates that, in general, property values within this portfolio do not keep pace with general house price increases. Management used a range of sources of information to come to their judgement as to what was a reasonable discount to apply. Taking all of this information in the round they consider that 1.5% is justified and reasonable.
- I challenged management on their judgement that published mortality probabilities are a reliable proxy for the expected redemption profile of their loan book.
- I reviewed the mechanics of the final model to ensure that management's updated intentions were correctly implemented.
- I considered alternative sources of evidence available to me in order to assess the reasonableness of this provision and the approach to the discount to HPI to allow for dilapidations. This included specialist advice obtained by management when launching the proposed sale of this loan book and indicative round one bids from potential purchasers. This evidence needed to be treated with caution as its purpose was about market pricing rather than an IFRS 4 based determination. At my request management undertook sensitivity analysis on all assumptions; future house price growth, the discount applied to allow for dilapidations and the timing of redemptions. These are disclosed in the accounts.

Key observations

Following my challenge management performed back testing which provided evidence that the use of published mortality probability tables without adaptation is a reasonable proxy for the expected future redemption profile of the mortgages.

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

Overview of my audit approach (continued)

Key audit matters (continued)

Valuation of insurance provision for no negative equity guarantee on equity release mortgages (continued)	
How the scope of my audit responded to the risk	**Key observations** (continued) The discount applied to future HPI to allow for dilapidations is highly judgmental. Management have used available information and their professional judgement in determining the rate to apply. The rate applied assumes that the gap between general house price increases and the values of the underlying properties in this portfolio continues to widen as the portfolio matures. This is not out of line with the alternative sources of evidence I considered. This provision is highly judgmental and relies on three assumptions: future HPI; discount to HPI to allow for dilapidation; and the redemption profile. Changes in any of these three assumptions can have a significant impact and management have made appropriate disclosure of these judgements and the sensitivities of this provision to them in the financial statements in note 4 (e).

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 or irregularity. 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.

	Group materiality
Overall materiality	£177,000,000
How I determined it	I determined materiality to be 1% of the group's gross lending balances.
Why I chose this benchmark	I chose this benchmark as UKAR's primary activity is the servicing of mortgage loans and I consider loans to customers (including those classified as held for sale and equity release mortgages) to be the principal consideration for users in assessing the financial performance of the group. As UKAR's core objective is to reduce the size of its balance sheet rather than to maximise profit I consider this the most appropriate benchmark in setting materiality.

In planning our audit I decided that, to reflect the level of public interest in the performance of the group, I would set a lower threshold of £80m for customer redress provisions, impairment provisions, insurance provision for equity release loans, interest income and expense and administrative expenses. This threshold was used to drive the amount of work I did to ensure that my audit was responsive to stakeholder interests.

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 £300,000, 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 £11.1m.

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

Overview of my audit approach (continued)

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' and Accounting Officer's Responsibilities, the directors are responsible for:

- the preparation of the Group financial statements and for being satisfied that they give a true and fair view;
- such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
- assessing the Group's ability to continue as a going concern, disclosing, if applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (ISAs) (UK).

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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

Overview of my audit approach (continued)

Audit scope

Group audit

The scope of my Group audit was determined by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level.

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 significant components of the Group account for over 99% of the Group's assets. Together with the procedures performed at group level this gave me the evidence I needed for my opinion on the group financial statements as a whole.

Disclosure of the expected impact of IFRS 9 adoption

IFRS 9 *Financial Instruments* will be adopted by UKAR from 1 April 2018 and UKAR has disclosed an estimate of the financial impact in accordance with IAS 8 *Changes in Accounting Estimates and Errors*.

The expected impact of IFRS 9 adoption upon the impairment provision is disclosed in note 1(b) to the financial statements as an increase of approximately £40m. The note discloses the uncertainty inherent in this estimate. It states that the accounting policies, assumptions, judgements and estimation techniques used are subject to change over the coming year, and sets out management's expectation that the provision will be more sensitive to changes in economic assumptions under IFRS 9 than under IAS 39.

The disclosure also sets out detail of the accounting treatment for loans to customers under IFRS 9, disclosing that loans are expected to be classified as Fair Value through Other Comprehensive Income. The note discloses the expected impact of fair value, stating that the carrying amount of loans to customers will increase by £553m.

While further testing of the financial impact will be performed as part of my audit for the year ended 31 March 2019, I have performed sufficient audit procedures for the purposes of assessing the disclosures made in accordance with IAS 8. Specifically:

- I reviewed the controls and governance in place over the design and production of the IFRS 9 models.
- I reviewed management's classification and measurement decisions against the requirements of IFRS 9.
- I reviewed management's models for calculating expected credit losses and fair value under IFRS 9. I assessed the nature of the models against the requirements of IFRS 9, as well as the design and implementation of the controls and governance surrounding these models.
- I used modelling specialists to review the design, implementation and validation of the models, including detailed assessment of how changes in the input data feed through to the model outputs.
- I reviewed the assumptions and economic scenarios used in the models against independent sources. I was supported in this by specialists from NAO's economics discipline.
- I tested the completeness and accuracy of the data input into the models.
- I reviewed adjustments and overlays that were applied to the results outside of the models.

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

Overview of my audit approach (continued)

Other Information

Directors are responsible for the other information. The other information comprises information included in the Annual Report, other than the parts of the Directors’ Remuneration Report and the Risk management and control section of the Directors’ Report and Governance Statement described in those reports as having been audited, the financial statements and my auditor’s report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

I am specifically required to address the following items and to report uncorrected material misstatements in the other information, where I conclude that those items meet the following conditions:

- Fair, balanced and understandable: the statement given by the directors that the annual report and accounts taken as a whole are fair, balanced and understandable and provide the necessary information to enable users to assess the entity's performance, business model and strategy, is materially inconsistent with my knowledge obtained in the audit; or
- Audit Committee reporting: the section describing the work of the Group Audit Committee does not appropriately address matters communicated by me to the Audit Committee.

I also have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act

The strategic and directors’ reports

In my opinion, based on the work undertaken in the course of the audit, the information given in the Strategic and Directors’ Report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group 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.

The corporate 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 compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook made by Financial Conduct Authority (the FCA Rules), in respect of internal control and risk management systems in relation to financial reporting processes, and about share capital structures, is consistent with the accounts and has been prepared in accordance with applicable legal requirements.
- rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules about the Group corporate governance code and practices and about its administrative, management and supervisory bodies and their committees 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.

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

Matters on which I report by exception

Conclusions relating to principal risks, going concern and viability statement

Under International Standards on Auditing (UK), 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 Group, 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.

Other matter

I have reported separately on pages 142 to 144 on the Parent Company Financial Statements of UK Asset Resolution Limited for the year ended 31 March 2018 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

25 June 2018

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 2018 £m**	12 months to 31 March 2017 £m
Interest receivable and similar income	5	**615.0**	993.9
Interest expense and similar charges	5	**(108.9)**	(224.7)
Net interest income	5	**506.1**	769.2
Fee and commission income		**9.2**	11.9
Fee and commission expense		**(12.4)**	(12.0)
Net fee and commission income		**(3.2)**	(0.1)
Net realised gains less losses on investment securities	6	**30.7**	18.7
Unrealised fair value movements on financial instruments	7	**2.3**	(4.3)
Hedge ineffectiveness	7	**16.5**	(8.0)
Other operating income		**27.4**	11.7
Non-interest income		**73.7**	18.0
Total income		**579.8**	787.2
Administrative expenses	8	**(152.3)**	(167.5)
Provision for customer redress	27	**(43.5)**	(64.4)
Legal and insurance claims	9	**19.4**	50.0
Impairment on loans to customers and held for sale loans	16	**170.8**	87.8
Provision for insurance risk on equity release mortgages	18	**6.4**	(19.9)
Net impairment release on investment securities	12	**0.3**	6.1
Profit/(loss) on sale of loans	14	**2.3**	(332.4)
Profit before taxation		**583.2**	346.9
Taxation	10	**(96.1)**	(61.2)
Profit for the financial year		**487.1**	285.7

As detailed in note 2, on the Balance Sheet the Group's equity release mortgages are now presented separately from loans to customers. Consequently in the Income Statement the provision for insurance risk on equity release mortgages is now presented separately from impairment on loans to customers.

The disclosures regarding risk management and control on pages 64 to 68, the notes on pages 90 to 141 and the Company information on pages 145 to 149 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 2018

	Gross of tax £m	Tax £m	Net of tax £m
Profit for the financial year	**583.2**	**(96.1)**	**487.1**
Other comprehensive (expense)/income			
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	**(1.0)**	**0.2**	**(0.8)**
- amounts transferred from available-for-sale reserve and recognised in profit during the year	**(14.8)**	**2.8**	**(12.0)**
Cash flow hedges:			
- net gains recognised in cash flow hedge reserve during the year	**1.0**	**(0.2)**	**0.8**
	(14.8)	**2.8**	**(12.0)**
Items that will not be reclassified subsequently to profit or loss:			
- retirement benefit remeasurements	**(44.1)**	**8.2**	**(35.9)**
	(44.1)	**8.2**	**(35.9)**
Total other comprehensive (expense)/income	**(58.9)**	**11.0**	**(47.9)**
Total comprehensive income for the financial year	**524.3**	**(85.1)**	**439.2**

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 (expense)/income			
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

CONSOLIDATED BALANCE SHEET

	Note	**31 March 2018 £m**	31 March 2017 £m
Assets			
Cash at bank and in hand	11	**1,571.8**	2,112.7
Amount owed in respect of sale of loans	14	**-**	11,483.9
Investment securities	12	**-**	282.4
Loans to customers	14	**11,503.2**	18,705.3
Assets classified as held for sale: loans to customers	15	**4,991.6**	-
Equity release mortgages	18	**747.2**	757.5
Fair value adjustments on portfolio hedging	18	**420.9**	454.6
Derivative financial instruments	35 (d)	**-**	1.8
Other assets	20	**30.8**	47.4
Retirement benefit assets	21	**543.9**	479.4
Property, plant and equipment	22	**0.3**	0.4
Intangible assets	23	**3.3**	4.7
Total assets		**19,813.0**	34,330.1
Liabilities			
Statutory Debt and HM Treasury loans	24	**10,278.8**	25,031.3
Derivative financial instruments	35 (d)	**471.8**	527.2
Debt securities in issue	25	**204.2**	204.2
Other liabilities	26	**93.2**	146.3
Current tax liabilities		**4.0**	62.5
Deferred tax liabilities	19	**84.2**	83.9
Retirement benefit obligations	21	**8.2**	4.7
Provisions	27	**136.8**	177.4
Total liabilities		**11,281.2**	26,237.5
Equity			
Issued capital and reserves attributable to owners of the parent:			
- share capital	28	**1.2**	1.2
- reserves	29	**1,141.7**	3,807.7
- retained earnings		**7,388.9**	4,283.7
Share capital and reserves attributable to owners of the parent		**8,531.8**	8,092.6
Total equity and liabilities		**19,813.0**	34,330.1

As detailed in note 2, on the Balance Sheet the Group's equity release mortgages are now presented separately from loans to customers.

The disclosures regarding risk management and control on pages 64 to 68, the notes on pages 90 to 141 and the Company information on pages 145 to 149 form an integral part of these Financial Statements.

The Financial Statements on pages 85 to 141 were approved by the Board of Directors on 25 June 2018 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.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the 12 months to 31 March 2018

	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 2017	**1.2**	**12.8**	**(0.8)**	**3,795.7**	**4,283.7**	**8,092.6**
Other comprehensive income/(expense):						
- net movement in available-for-sale reserve	**-**	**(15.8)**	**-**	**-**	**-**	**(15.8)**
- net movement in cash flow hedge reserve	**-**	**-**	**1.0**	**-**	**-**	**1.0**
- retirement benefit remeasurements	**-**	**-**	**-**	**-**	**(44.1)**	**(44.1)**
- tax effects of the above	**-**	**3.0**	**(0.2)**	**-**	**8.2**	**11.0**
Total other comprehensive expense	**-**	**(12.8)**	**0.8**	**-**	**(35.9)**	**(47.9)**
Profit for the financial year	**-**	**-**	**-**	**-**	**487.1**	**487.1**
Release of merger reserve*	**-**	**-**	**-**	**(2,654.0)**	**2,654.0**	**-**
Total comprehensive income	**-**	**(12.8)**	**0.8**	**(2,654.0)**	**3,105.2**	**439.2**
At 31 March 2018	**1.2**	**-**	**-**	**1,141.7**	**7,388.9**	**8,531.8**

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 expense	-	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

** As described in note 30 on 30 January 2018 NRAM issued bonus shares in exchange for a reduction in its merger reserve. The bonus shares and all of the Company's share premium were subsequently cancelled on the same date, giving rise to distributable reserves. As a consequence £2,324.4m of the UKAR Group's merger reserve was released to retained earnings. Total equity was unaffected by these transactions. The remaining merger reserve continues to be released as loans which formed part of the 2016 dividend in specie detailed in note 3 are paid down; these releases totalled £329.6m for the year (2017/18: £697.8m on the sale of NRAM plc and £416.5m as the loans were paid down).*

CONSOLIDATED CASH FLOW STATEMENT

	12 months to 31 March 2018 £m	12 months to 31 March 2017 £m
Cash flows from operating activities		
Profit before taxation for the financial year	**583.2**	346.9
Adjustments to reconcile profit to cash (used in)/generated from operating activities:		
- provision for customer redress	**41.2**	64.4
- defined benefit pension scheme credits	**(10.8)**	(17.3)
- cash contributions to defined benefit pension schemes	**(93.9)**	(88.1)
- depreciation and amortisation	**2.7**	6.3
- impairment on loans to customers	**(170.8)**	(87.8)
- provision for insurance risk on equity release mortgages	**(6.4)**	19.9
- gains less losses on investment securities	**(15.2)**	(6.1)
- (profit)/loss on sale of loans	**(2.3)**	332.4
- fair value adjustments on financial instruments	**33.7**	(27.2)
- other non-cash movements	**(10.5)**	203.9
Cash flows generated from operating activities before changes in operating assets and liabilities	**350.9**	747.3
Net decrease/(increase) in operating assets:		
- loans to customers	**2,381.4**	3,781.2
- settlement of amounts owed in respect of sale of loans	**11,483.9**	-
- sale of loans	**-**	404.3
- equity release mortgages	**17.4**	7.2
- derivative financial instruments receivable	**1.8**	779.6
- other assets	**9.7**	(4.1)
Net decrease in operating liabilities:		
- amounts due to banks	**-**	(553.9)
- derivative financial instruments payable	**(55.4)**	(0.5)
- debt securities in issue	**-**	(5,071.8)
- other liabilities	**(55.3)**	(112.9)
- provisions	**(81.8)**	(99.9)
Income tax paid	**(143.3)**	(134.1)
Net cash generated from/(used in) operating activities	**13,909.3**	(257.6)
Cash flows from investing activities:		
- purchase of property, plant and equipment and intangible assets	**(1.2)**	(2.0)
- proceeds from sale and redemption of investment securities	**292.9**	90.7
Net cash generated from investing activities	**291.7**	88.7
Cash flows used in financing activities:		
- drawdown of HM Treasury loans	**-**	2,975.0
- repayment of HM Treasury loans	**(3,765.7)**	(6,290.7)
- repayment of Statutory Debt	**(10,976.6)**	-
Net cash used in financing activities	**(14,742.3)**	(3,315.7)
Net decrease in cash and cash equivalents	**(541.3)**	(3,484.6)
Cash and cash equivalents at beginning of year	**2,112.5**	5,597.1
Cash and cash equivalents at end of year	**1,571.2**	2,112.5
Represented by cash and assets with original maturity of three months or less within:		
- cash at bank and in hand	**1,571.2**	2,112.5
Total cash and cash equivalents at end of year	**1,571.2**	2,112.5

As detailed in note 2, on the Balance Sheet the Group's equity release mortgages are now presented separately from loans to customers. The presentation of the Cash Flow Statement has been amended accordingly.

1. Principal accounting policies

UK Asset Resolution Limited ('UKAR' or 'the Company') is a private company limited by shares 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 3. 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 (‘UKARcs’), 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 145 to 149, and form an integral part of these Financial Statements.

The Financial Statements on pages 85 to 141 and 145 to 149 were authorised for issue by the Directors on 25 June 2018 and will be put to the shareholder for approval at UKAR’s Annual General Meeting.

(a) Statement of compliance

Both the 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 Company Financial Statements here together with the Group Financial Statements, the Company has taken advantage of the exemption in s408 of the Companies Act 2006 not to present its individual Income Statement and related notes.

- There have been no significant changes to the Group’s and Company’s accounting policies since 31 March 2017.
- These Financial Statements reflect the amendments to IAS 7 'Statement of Cash Flows' issued in January 2016 as part of the IASB's Disclosure Initiative. Consequently note 31 provides disclosure of movements during the year in the liabilities which the Group categorises for the purposes of the Cash Flow Statement as financing. As permitted by these amendments to IAS 7, no prior period comparative information has been provided.

For these 2018 Financial Statements the Group and Company have not adopted the following statements:

- With effect from 1 April 2018, the Group is applying IFRS 9 'Financial Instruments'. The main impact of this is on the measurement and provisioning of loans to customers. At the point of transition to IFRS 9, the Group's loan assets have been classified as 'held to collect and sell' and therefore carried on the Balance Sheet at fair value. From this point on, impairment is taken through the Income Statement, with the balancing fair value movements taken through other comprehensive income. Further detail is provided in note 1(b).
- 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 15 does not apply to interest income and all of the Group’s other revenues are recognised as services are provided.
- IFRS 16 ‘Leases’, issued January 2016, effective for periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure by both lessees and lessors. IFRS 16 introduces a single lessee accounting model requiring a lessee to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Lessors continue to classify leases as operating leases or finance leases as appropriate, and to account for these two types of leases differently. Details of the Group’s existing operating lease commitments are set out in note 32. The Group is assessing the impact of adoption of IFRS 16 and expects that adoption will result in an increase in reported assets and liabilities.
- IFRS 17 ‘Insurance Contracts’, issued May 2017, effective for periods beginning on or after 1 January 2021 and yet to be endorsed by the EU. The Group is assessing the impact of adoption of IFRS 17, which will replace IFRS 4 and would potentially impact upon the accounting for the Group’s equity release mortgages.

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 Company.

1. Principal accounting policies (continued)

(b) Future accounting developments

IFRS 9 'Financial Instruments'

The Group adopted IFRS 9 with effect from 1 April 2018. IFRS 9 replaces IAS 39 'Financial Instruments: Classification and Measurement' except for the elements of IAS 39 relating to macro-hedging.

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. Financial impacts at the point of transition to IFRS 9 will be taken to reserves.

Implementation requires 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 approach under IFRS 9 to classification and measurement, impairment and hedge accounting. The estimated financial impacts are also set out below.

(i) 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 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's business model for its loans to customers is one of held to collect and sell, as these assets are managed in order to maximise taxpayer value with strategic asset sales undertaken where suitable market opportunities are identified. The cash flows on the loans are considered to satisfy the definition of SPPI. Therefore the Group's loans to customers will be carried at FVOCI.

The accounting treatment of the Group's equity release mortgages will not be affected by the adoption of IFRS 9 as they are accounted for in accordance with IFRS 4 'Insurance Contracts'.

The accounting treatment of the loans classified as held for sale will not be affected by the adoption of IFRS 9 as they are accounted for in accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'.

The Group will 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 and the cash flows satisfy the definition of SPPI. Derivative financial assets will continue to be classified as FVP&L as the cash flows do not satisfy the definition of SPPI.

The accounting treatment of the Group's financial liabilities will not be affected by the implementation of IFRS 9.

(ii) Impairment of financial assets

IFRS 9 replaces the IAS 39 'incurred loss' approach to impairment provisioning with a forward looking 'expected loss' approach. IFRS 9 requires that expected losses are calculated using a range of forward looking economic scenarios, weighted by the estimated probability of each scenario.

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.

Based on the age of the loan books and the Group's business model, the view has been taken to categorise all loans to customers as stage 2 or 3; this approach is permitted by IFRS 9.

Other than in respect of loans to customers, expected losses on the Group's financial assets are not considered to be material.

1. Principal accounting policies (continued)

(b) Future accounting developments (continued)

(iii) Hedge accounting

As of 31 March 2018 the Group has no hedge accounting other than the fair value macro-hedging of the equity release mortgages. As IFRS 9 does not deal with macro-hedging, the Group will 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, is being monitored.

(iv) Implementation

The IFRS 9 Implementation Team continues to report to the Audit Committee at regular intervals. The fair value and impairment models have been developed in accordance with the Group's modelling policies and standards. The models will be subject to ongoing review and refinement in line with Group policy.

Economic assumptions are sourced from specialist economic analysts based on an initial management view provided by UKAR and approved by the Board. In respect of impairment provisioning, the Group has utilised four macroeconomic scenarios:

- a base scenario;
- a downside scenario;
- a severe downside scenario; and
- an upside scenario.

The relative weighting of these four scenarios is a key area of management judgement. In making this judgement, management take into consideration the guidance provided by the independent source who prepared the economic scenarios as well as that of a forum of subject matter experts from across the business. UKAR have contracted with an experienced third party to deliver IFRS 9 services to them. This organisation was responsible for the build and will host the ECL model and provide reporting on a monthly basis to agreed service levels.

(v) Estimated initial financial impact of adoption of IFRS 9

On adoption of IFRS 9 impairment provisions in respect of loans to customers are expected to be higher than impairment provisions calculated in accordance with IAS 39. Work continues to refine the impairment models; it is estimated that provisions at 1 April 2018 will be increased by approximately £40m, increasing the provision coverage by approximately 0.3%. This increase will be charged to retained earnings. As impairment provisions are calculated using a range of forward looking economic scenarios, it is expected that impairment charges will be more volatile under IFRS 9 than in the past under IAS 39, reflecting in each period the impacts of changes in future economic assumptions.

The IFRS 9 accounting treatment of loans to customers will be FVOCI. As disclosed in note 35(a) the fair value of the Group's loans to customers at 31 March 2018 is £12,056.5m compared to a carrying value of £11,503.2m. On adoption of IFRS 9 it is expected that the carrying amount of loans to customers will increase by £553.3m. Of this movement, the element which is due to the change in impairment provisions will be charged to retained earnings, as detailed above, and the remainder of the movement will be credited to a 'fair value reserve' component of equity.

HMRC has confirmed that for tax purposes the impact on impairment provisions of the transition to IFRS 9 will be allowed for tax over a 10 year period. Deferred tax will be provided in respect of the change to impairment provisions, and credited to retained earnings. Deferred tax will also be provided in respect of the change to fair value, and charged to the fair value reserve. Whilst fair value movements taken to reserves are not taxed they will be recycled to the Income Statement when the asset is sold or matures.

No other material initial financial impacts are expected on adoption of IFRS 9.

These estimates are based on accounting policies, assumptions, judgements and estimation techniques that remain subject to change until the Group finalises its Financial Statements for the year ending 31 March 2019.

1. Principal accounting policies (continued)

(c) 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 portfolio fair value hedge accounting has been applied, a hedge adjustment is carried 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. At the date of approval of these Financial Statements, the Group is reliant upon the financing facilities provided to B&B and NRAM 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 to B&B and NRAM until at least 1 January 2020 subject in each case to B&B / NRAM continuing to be a subsidiary company of UKAR Limited. See page 28 for further details.

The Directors consider that the accounting policies set out in this note are the most appropriate to the Group's and the 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 2017.

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 4).

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.

(d) Basis of consolidation

The 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 Company and those entities which are controlled by the Company (its subsidiaries); the Group Financial Statements primarily comprise the transactions and balances of the B&B Group and the NRAM Group. The 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 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 Group's Financial Statements from the date control is transferred to the Company. Where subsidiaries have been disposed of, their results are consolidated to the date of disposal. All intra-group transactions and balances are eliminated on consolidation.

The 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.

The NRAM Group reorganisation is detailed in note 3. NRAM Limited's acquisition of the shares in NRAM plc and the transfer of assets and liabilities to NRAM Limited were accounted for as transactions between entities under common control and predecessor accounting was 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 was restated accordingly.

1. Principal accounting policies (continued)

(e) 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.

(f) 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.

(g) 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 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.

(h) 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.

No assets have been classified as held-to-maturity during the year or previous year.

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)

(h) 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.

(i) 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.

(j) Recognition and de-recognition of assets and liabilities

Purchases and sales of assets are accounted for once the tests set out in IAS 39 have both been met, in relation to the contractual rights to the cash flows on the assets and the risks and rewards of ownership of the assets.

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

(k) 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 at a reasonable price and sale is considered to be 'highly probable'. There is ambiguity in IFRS 5 as to whether the measurement principles apply to a disposal group of financial assets. The Group has adopted a policy of applying the measurement principles of IFRS 5 to disposal groups of financial assets. Assets held for sale are carried at the lower of their previous carrying amount and their fair value less costs to sell, other than assets for which the IFRS 5 measurement principles do not apply.

(l) 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.

1. Principal accounting policies (continued)

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

(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’.

(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 and contracts 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.

(m) Equity release (Lifetime) mortgages

The Group has a portfolio of equity release (Lifetime) 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 Group accounts for equity release mortgages 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 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. The assets are shown on the Balance Sheet as ‘equity release mortgages’. 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.

(n) Loan commitments

A loan 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.

1. Principal accounting policies (continued)

(o) Cash and cash equivalents

Cash and cash equivalents comprise balances which are highly liquid and have an original maturity of three months or less. For the purposes of the Cash Flow Statement, accrued interest is excluded from the balance.

(p) 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.

(q) 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.

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.

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.

1. Principal accounting policies (continued)

(r) 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
- Fixtures and fittings 20% pa on a straight line basis
- Other plant and equipment 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.

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.

(s) 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.

(t) Debt and equity securities in issue

Issued securities 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 share capital.

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)

(u) Retirement benefits

The Group has operated a number of retirement benefit plans for its employees, including defined contribution plans, defined benefit plans and post-retirement medical 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 the Consumer Prices Index ('CPI'), and to determine NRAM's is the Retail Prices Index (‘RPI’). Details of the actuarial assumptions made are provided in note 21. 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, a credit representing the discount rate applied to the Balance Sheet carrying amount. 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 medical 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 medical benefits.

(v) 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.

(w) 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.

2. Re-presentation of equity release mortgages

The Group has a portfolio of equity release mortgages (the Lifetime product) which are secured on residential property. These mortgages are accounted for as insurance contracts in accordance with IFRS 4 and the Group carries a provision for insurance risk in respect of these mortgages.

In previous years' Financial Statements, these mortgages have been included within residential loans to customers and the provision has been included within the Group's allowances for credit losses against residential loans to customers. For these Financial Statements the presentation of these mortgages has been changed, and the comparative prior year financial information has been re-presented accordingly. On the Balance Sheet these mortgages are now presented as a separate line and described as equity release mortgages. All of the income on these mortgages continues to be included within interest and none as insurance premium income as the business model has always been to treat the equity release product as a form of lending rather than as a sale of insurance. In the Income Statement the credit/(charge) in respect of insurance risk is now presented separately from impairment on loans to customers.

This presentation change is not a change in accounting policy. The change is an improvement to the clarity of presentation of these mortgages.

3. 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. 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. As described in note 29, £2,324.4m of the merger reserve was released to retained earnings during the year as a result of a capital reorganisation within NRAM.

4. 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.

Judgements:

(a) Date of classification of assets held for sale

As detailed in note 15, following approval of the bidders in December 2017, B&B launched the second round of bidding for the proposed sale of a portfolio of residential loans. At this point it was considered that the loans satisfied the criteria to be classified as held for sale as defined in IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' for the following reasons:

- the loans were available for immediate sale in their present condition subject only to terms that are usual and customary for sales of such assets;
- the appropriate level of management, ie the Board, was committed to a plan to sell the assets;
- an active programme to locate a buyer and complete the plan had been initiated;
- the loans were being actively marketed for sale at a price that the Board considered reasonable in relation to their fair value, based on the bids received in the first round;
- the sale was expected to qualify for recognition as a completed sale within one year from the date of classification as held for sale; and
- the actions required to complete the plan indicated that it was unlikely that significant changes to the plan would be made or that the plan would be withdrawn.

It was considered that the IFRS 5 criteria set out above were met with effect from December 2017. As described in note 4(b) below, the sale of these loans is to be recognised later than 31 March 2018. Hence these loans have been classified as held for sale at 31 March 2018.

4. Critical judgements and accounting estimates (continued)

(b) Date of recognition of sale of loans

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 were adjusted to reflect the final proceeds as determined on financial completion in April 2017; this adjustment was considered to be an adjusting event as defined by IAS 10 'Events after the Reporting Period'.

As detailed in note 39, on 26 April 2018 B&B announced that following an open and competitive process it had agreed to sell two separate asset portfolios comprising performing buy-to-let and other residential loans for a total of £5.3bn to an investor group led by Barclays Bank PLC. The sale of these was recognised on 26 April 2018 on signature of the sale contracts. This was considered to be a non-adjusting event as defined by IAS 10.

(c) Carrying amount of net retirement benefit assets

As detailed in note 21, the Group carries on its Balance Sheet net assets in respect of its defined benefit retirement schemes. The Trustee of each such scheme has passed a resolution for the ultimate refund to the sponsoring company of any future surpluses on the scheme. It is considered that any surplus will ultimately be available to the sponsoring company either in the form of a refund or in the form of reduced future contributions to the scheme. Hence it is considered appropriate to carry these net assets in full on the Balance Sheet.

Accounting estimates:

(d) 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 £17.9m lower (2017: £28.9m) or £22.7m higher (2017: £35.0m) respectively than the 31 March 2018 allowance of £227.5m.

As a proportion of balances, the residential impairment provision was 2.04% (March 2017: 2.32%). In the Income Statement the residential loan impairment credit was £161.6m for the year (March 2017: £73.2m credit). The increase in the credit reflects the result of a review of assumptions based on new management information in respect of suspected fraud cases, NRAM commercial buy-to-let loans and accounts near term end, which resulted in the release of some of these provisions under IAS 39. However, on adoption of IFRS 9 on 1 April 2018, total loan impairment provisions are expected to increase as disclosed in note 1(b).

4. Critical judgements and accounting estimates (continued)

(e) Losses on equity release mortgages

At 31 March 2017 the calculation of the provision for losses on the equity release mortgages involved:

- Profiling when customer accounts were expected to redeem, assuming death as a trigger; and
- Calculating losses based on the growth in the loan balances due to interest accrual, forecast house price growth and a single assumed discount to value to allow for the fact that the resale value of the underlying property at redemption is likely to be less than the market value of a similar property which has not been subject to an equity release mortgage.

Management expects that the value of the underlying properties will continue to fall further behind the indexed valuation each year due to the remaining customers aging and therefore being less able to maintain their homes. Therefore, at 31 March 2018, the use of a single discount has been replaced with an assumption that property values on this book will increase at a set discount to our forecast house price growth. Management have estimated that going forward the discount to house price inflation ('HPI') will be 1.5% pa.

The provision for insurance risk on equity release mortgages is sensitive to the assumed level of future HPI. Future HPI has been assumed to be at a constant rate of 1.36% pa, which is a 1.5% reduction on our forecast market house price growth of 2.86%. This reflects management's view that these properties will appreciate in value at a discount to the overall market rate of inflation. If our assumed future HPI were to be at a rate of 0.86% pa (0.5 percentage points lower) then future losses would be £24m higher than has been provided for; if our assumed future HPI were to be at a rate of 1.86% pa (0.5 percentage points higher) then future losses would be £23m lower than has been provided for.

The provision is also sensitive to the assumptions made about the redemption profile of the loans. The redemption profile has been estimated using mortality information published by the Office for National Statistics, which management consider to be a reasonable proxy for the expected future redemption profile of the loans. If life expectancy of customers was to increase by 1 year then future losses would be £20m higher than has been provided for; if life expectancy of customers was to reduce by 1 year then future losses would be £19m lower than has been provided for. The provision at 31 March 2018 was £123.2m.

(f) Provisions

Provisions are carried in respect of certain known or forecast future payments, as described in note 27. 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 £43.5m was recognised in the year reflecting heightened awareness of the deadline for submission of claims in respect of mis-sold Payment Protection Insurance ('PPI') and claims volumes received. At 31 March 2018 customer redress provisions totalled £123.9m. An increase of 10% in the forecast run rate of PPI payments would have the effect of increasing the provision by £7m.

(g) 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. Economic 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; these assumptions are determined by the Group's management taking account of recommendations made by the Group's actuaries. The sensitivities of the liability values to key assumptions are disclosed in note 21.

(h) 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 increase the assumed interest rate by 10 basis points, the fair value of derivatives would increase from the reported 31 March 2018 fair value of £471.8m by £17.6m (2017: £19.1m increase).

5. Net interest income

	12 months to 31 March 2018 £m	12 months to 31 March 2017 £m
Interest receivable and similar income		
On equity release mortgages	**58.1**	58.8
On other secured loans	**528.7**	886.7
On other lending	**17.8**	21.6
On investment securities and deposits	**10.4**	26.8
Total interest receivable and similar income	**615.0**	993.9
Interest expense and similar charges		
On amounts due to banks and HM Treasury	**(96.0)**	(201.3)
State guarantee fee*	**-**	(2.6)
On debt securities and other	**(12.9)**	(20.8)
Total interest expense and similar charges	**(108.9)**	(224.7)
Net interest income	**506.1**	769.2
Average balances		
Interest-earning assets ('IEA')	**20,235**	36,344
Financed by:		
- interest-bearing funding	**4,749**	9,936
- interest-free funding**	**15,486**	26,408
Average rates:	**%**	%
- gross yield on IEA	**3.04**	2.73
- cost of interest-bearing funding**	**(2.29)**	(2.26)
Interest spread	**0.75**	0.47
State guarantee fee*	**-**	(0.01)
Contribution of interest-free funding**	**1.75**	1.66
Net interest margin on average IEA	**2.50**	2.12
Average Bank Base Rate	**0.35**	0.34
Average 1-month LIBOR	**0.36**	0.34
Average 3-month LIBOR	**0.40**	0.44

* *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. Until the repayment of the remaining legacy B&B wholesale funding in January 2017, the fee was primarily dependent on balances outstanding and hence was included within 'interest expense and similar charges'.*

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

As detailed in note 2, on the Balance Sheet the Group's equity release mortgages are now presented separately from loans to customers. The comparative financial information in the table above has been re-presented to show the income on these separately from the interest receivable on other secured loans.

Total interest receivable and similar income includes interest accrued on individually impaired assets of £5.2m (2017: £9.8m).

6. 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 2018 £m	12 months to 31 March 2017 £m
Net realised gains on available-for-sale instruments	**15.4**	14.4
Net realised gains on instruments at amortised cost	**15.3**	4.3
Total net realised gains on investment securities	**30.7**	18.7

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

	12 months to 31 March 2018 £m	12 months to 31 March 2017 £m
Net gain / (loss) in fair value:		
- translation losses on underlying instruments	**(0.2)**	(1.2)
- fair value movements on derivatives which are economic hedges but are not in hedge accounting relationships	**2.5**	(3.1)
Unrealised fair value movements	**2.3**	(4.3)
Net gains on fair value hedging instruments	**50.3**	32.1
Net losses on fair value hedged items attributable to hedged risk	**(33.8)**	(36.2)
Ineffectiveness on cash flow hedges	**-**	(3.9)
Net hedge ineffectiveness gains / (losses)	**16.5**	(8.0)
Total	**18.8**	(12.3)

8. Administrative expenses

B&B provides services to NRAM, UKAR and UKARcs. NRAM, UKAR and UKARcs had no direct employees during the years presented. During the year ended 31 March 2017 B&B's mortgage servicing operations were transferred to Computershare, along with some 1,700 employees. This is reflected in the decrease in average headcount and 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 2018 Number	12 months to 31 March 2017 Number
Average headcount:		
Full time	**163**	399
Part time	**15**	78
Total employed	**178**	477
Total average full time equivalent	**175**	456

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 2018 Number	31 March 2017 Number
Full time	**162**	160
Part time	**17**	15
Total employed	**179**	175
Total full time equivalent headcount	**176**	173

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 33 temporary staff and specialist contractors at 31 March 2018 (31 March 2017: 15).

8. Administrative expenses (continued)

	12 months to 31 March 2018 £m	12 months to 31 March 2017 £m
The Group's aggregate costs of permanent staff were as follows:		
Wages and salaries	**11.9**	19.3
Social security costs	**1.4**	2.2
Defined benefit pension costs (see note 21)	**(10.8)**	(17.3)
Defined contribution pension costs (see note 21)	**0.8**	1.3
Other retirement benefit costs (see note 21)	**0.3**	0.3
Total staff costs	**3.6**	5.8
IT costs	**10.1**	17.4
Outsourced and professional services	**128.8**	117.8
Depreciation and amortisation (see notes 22 and 23)	**2.7**	6.3
Other administrative expenses	**9.4**	20.2
Total ongoing administrative expenses	**154.6**	167.5
Non-recurring credit	**(2.3)**	-
Total administrative expenses	**152.3**	167.5

The non-recurring credit of £2.3m in the year relates to the release of a provision credited in 2015/16 in respect of the outsourcing of mortgage servicing.

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 2018**
	Number of compulsory redundancies	**Number of voluntary redundancies**	**Number of other departures agreed**	**Total number of exit packages by cost band**
< £10,000	**-**	**-**	**-**	**-**
£10,001 - £25,000	**-**	**-**	**-**	**-**
£25,001 - £50,000	**-**	**-**	**1**	**1**
£50,001 - £100,000	**-**	**-**	**-**	**-**
£100,001 - £150,000	**-**	**-**	**1**	**1**
£150,001 - £200,000	**-**	**-**	**-**	**-**
£200,001 - £250,000	**1**	**-**	**-**	**1**
Total number of exit packages	**1**	**-**	**2**	**3**
Total cost (£'000)	**240**	**-**	**158**	**398**

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

8. Administrative expenses (continued)

Auditor's remuneration

The following costs are included within administrative expenses:

	12 months to 31 March 2018 £m	12 months to 31 March 2017 £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**	0.5
- audit-related assurance services	**0.1**	0.1
Total	**0.7**	0.7

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

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.

9. Legal and insurance claims

Legal and insurance claims relate to the recovery of amounts paid out for previous customer remediation exercises, net of associated costs.

10. Taxation

The tax charge for the year comprises:	**12 months to 31 March 2018 £m**	12 months to 31 March 2017 £m
Current tax:		
- on profit for the year	**(105.2)**	(55.0)
- adjustments in respect of prior periods	**20.4**	5.0
Total current tax	**(84.8)**	(50.0)
Deferred tax (see note 19):		
- origination and reversal of temporary differences	**(11.3)**	(11.2)
Total deferred tax	**(11.3)**	(11.2)
Total taxation charge per the Income Statement	**(96.1)**	(61.2)

The following tax amounts have been (charged)/credited to equity:	**12 months to 31 March 2018 £m**	12 months to 31 March 2017 £m
Current tax:		
- relating to available-for-sale investments	**-**	(4.0)
Deferred tax:		
- relating to cash flow hedge reserve	**(0.2)**	(2.6)
- relating to available-for-sale investments	**3.0**	(0.4)
- relating to retirement benefit remeasurements	**8.2**	26.7
Net credit to equity	**11.0**	19.7

There was no foreign tax charged in the year (2017: £nil).

10. Taxation (continued)

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 19% (2017: 20%) as follows:

	12 months to 31 March 2017 £m	12 months to 31 March 2016 £m
Profit before taxation	**583.2**	346.9
Tax calculated at rate of 19% (2017: 20%)	**(110.8)**	(69.4)
Effects of:		
- income not taxable and expenses not deductible for tax purposes	**(7.4)**	3.1
- adjustments in respect of prior periods	**22.1**	5.1
Total taxation charge for the year	**(96.1)**	(61.2)

Taxation appropriately reflects changes in tax rates which had been substantively enacted by 31 March 2018.

The effective tax rate for the year has been impacted by expenses which are disallowable for tax purposes and the release of prior year tax provisions. The effective tax rate for the year ended 31 March 2017 was also impacted by the exemption from tax on the profit arising on the sale of the shares in NRAM plc detailed in note 3.

11. Cash at bank and in hand

	31 March 2018 £m	31 March 2017 £m
Balances with the Bank of England	**374.4**	364.5
Balances with the Government Banking Service	**700.2**	1,200.2
Balances with other banks	**497.2**	548.0
Total	**1,571.8**	2,112.7

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

Cash at bank and in hand includes £464.5m (2017: £521.9m) of collateral deposited in respect of derivative contracts.

12. Investment securities

	31 March 2018 £m	31 March 2017 £m
Available-for-sale securities	**-**	22.4
Investment securities held as loans and receivables	**-**	260.0
Total	**-**	282.4

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 2018 £m	12 months to 31 March 2017 £m
Net impairment reversals on available-for-sale securities	**0.1**	4.7
Net impairment reversals on investment securities held as loans and receivables	**0.2**	1.4
Total net impairment release	**0.3**	6.1

12. Investment securities (continued)

(a) Available-for-sale securities

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

	12 months to 31 March 2018 £m	12 months to 31 March 2017 £m
At start of year	**22.4**	51.0
Disposals (sales and redemptions)	**(20.2)**	(43.2)
Exchange differences	**(1.3)**	2.4
Net (losses)/gains on changes in fair value	**(1.0)**	6.1
Impairment	**0.1**	6.1
At end of year	**-**	22.4

All available-for-sale securities were listed.

(b) Investment securities held as loans and receivables	31 March 2018 £m	31 March 2017 £m
Carrying value	**-**	260.0
Fair value	**-**	258.4
Listed	**-**	253.0
Unlisted	**-**	7.0
Total	**-**	260.0

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 2018 £m	31 March 2017 £m
Balances with the Bank of England (see note 11)	**374.4**	364.5
Balances with the Government Banking Service (see note 11)	**700.2**	1,200.2
Balances with other banks (see note 11)	**497.2**	548.0
Investment securities (see note 12)	**-**	282.4
Total	**1,571.8**	2,395.1

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 2018	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	Total £m
Neither past due nor impaired	**374.4**	**700.2**	**497.2**	**-**	**-**	**1,571.8**
Impaired	**-**	**-**	**-**	**-**	**-**	**-**
	374.4	**700.2**	**497.2**	**-**	**-**	**1,571.8**
Provisions	**-**	**-**	**-**	**-**	**-**	**-**
Total	**374.4**	**700.2**	**497.2**	**-**	**-**	**1,571.8**

21 investment securities are held which have been written off and the associated impairment allowance released as there is strong evidence to suggest that nothing will be recovered and they are therefore excluded from the table above.

13. Wholesale assets (continued)

(a) Credit risk (continued)

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	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

The credit quality of wholesale assets by reference to credit ratings is set out in the table below:

At 31 March 2018	**£m**	**AAA %**	**AA %**	**A %**	**BBB to B %**	**CCC and below %**
Balances with the Bank of England	**374.4**	**-**	**100**	**-**	**-**	**-**
Balances with the Government Banking Service	**700.2**	**-**	**100**	**-**	**-**	**-**
Balances with other banks	**497.2**	**-**	**21**	**14**	**65**	**-**
Total	**1,571.8**	**-**	**75**	**4**	**21**	**-**

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

(b) Concentration risk

Wholesale assets are analysed by geographical region at their carrying amounts in the table below:

At 31 March 2018	**UK £m**	**Europe £m**	**US £m**	**Other countries £m**	**Total £m**
Balances with the Bank of England	**374.4**	**-**	**-**	**-**	**374.4**
Balances with the Government Banking Service	**700.2**	**-**	**-**	**-**	**700.2**
Balances with other banks	**497.2**	**-**	**-**	**-**	**497.2**
Total	**1,571.8**	**-**	**-**	**-**	**1,571.8**

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

14. Loans to customers

	31 March 2018 £m	31 March 2017 £m
Residential mortgages	**10,999.5**	18,130.2
Commercial loans	**247.5**	257.3
Total secured loans	**11,247.0**	18,387.5
Unsecured loans	**256.2**	317.8
Total	**11,503.2**	18,705.3

As detailed in note 2, on the Balance Sheet the Group's equity release mortgages are now presented separately from loans to customers. The comparative financial information in the table above has been re-presented accordingly.

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 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.

Loans to customers and redemptions comprise the following product types:

	Balances At 31 Mar 2018 £m	**%**	**Redemptions 12 months to 31 Mar 2018 £m**	Balances At 31 Mar 2017 £m	%	Redemptions 12 months to 31 Mar 2017 £m
Residential mortgages						
Buy-to-let	**3,381.2**	**31**	**(694.7)**	6,308.6	35	(1,630.7)
Self-certified	**1,765.1**	**16**	**(413.1)**	4,536.5	25	(438.3)
Together	**2,324.9**	**21**	**(443.3)**	2,824.0	15	(552.2)
Standard and other	**3,528.3**	**32**	**(522.7)**	4,461.1	25	(614.9)
Total residential mortgages	**10,999.5**	**100**	**(2,073.8)**	18,130.2	100	(3,236.1)
Residential loans	**10,999.5**	**96**	**(2,073.8)**	18,130.2	97	(3,236.1)
Commercial loans	**247.5**	**2**	**(8.1)**	257.3	1	(175.9)
Total secured loans	**11,247.0**	**98**	**(2,081.9)**	18,387.5	98	(3,412.0)
Unsecured loans	**256.2**	**2**	**(32.1)**	317.8	2	(39.3)
Total	**11,503.2**	**100**	**(2,114.0)**	18,705.3	100	(3,451.3)

Redemptions comprise full redemptions, voluntary partial redemptions and cash receipts from possessions but exclude overpayments, regular monthly payments and asset sales.

Details of loans to customers classified as held for sale are provided in note 15.

At 31 March 2018 53% (2017: 56%) of the Group's residential mortgage accounts (excluding buy-to-let and held for sale) held by 34,105 (2017: 53,829) customers were 'interest only' with 68% (2017: 75%) of these having more than ten years until maturity.

The net loss on sale of loans of £332.4m in the year ended 31 March 2017 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 (see note 3) and £1.3m release of provisions.

There were no loans sold in the year, however £2.3m was recognised in the year resulting from the release of provisions made in prior years in relation to loan sales.

15. Assets classified as held for sale: loans to customers

Following approval of the bidders in December 2017, B&B launched the second round of bidding for the proposed sale of a portfolio of B&B and Mortgage Express performing buy-to-let and owner occupied mortgage loans. At this point the loans satisfied the criteria to be 'held for sale'. At 31 March 2018 the Group has treated these assets as a disposal group and carried them at the lower of their previous carrying amount and their estimated fair value less costs to sell, and has estimated that their fair value less costs to sell is in excess of their previous carrying amount. At 31 March 2018 the portfolio was carried by the Group at £4,991.6m net of allowances for credit losses, of which £2,302.0m were buy-to-let loans. At 31 March 2018 the fair value of these loans was £5,113.1m (see note 35(a)). Between December 2017 and 31 March 2018 the Group recognised interest income of £38.0m in respect of these held for sale loans. Further detail of allowances for credit losses on the held for sale loans is provided in note 16. The sale of these loans was accounted for on 26 April 2018 on signature of the sale contracts; further detail is provided in note 39.

16. Impairment on loans to customers and held for sale loans

Allowances have been made for credit losses on loans to customers and held for sale loans as follows:

	On residential mortgages	On commercial loans	On unsecured loans	Total loans to customers	Held for sale loans	Total loans to customers and held for sale loans
	£m	£m	£m	£m	£m	£m
At 1 April 2017	**430.8**	**12.3**	**74.9**	**518.0**	**-**	**518.0**
Movements during the year:						
- transfers to held for sale loans	**(11.0)**	**-**	**-**	**(11.0)**	**11.0**	**-**
- write-offs	**(49.1)**	**-**	**(13.4)**	**(62.5)**	**-**	**(62.5)**
- loan impairment (credit)/charge	**(143.2)**	**(0.1)**	**(5.9)**	**(149.2)**	**-**	**(149.2)**
Net movements during the year	**(203.3)**	**(0.1)**	**(19.3)**	**(222.7)**	**11.0**	**(211.7)**
At 31 March 2018	**227.5**	**12.2**	**55.6**	**295.3**	**11.0**	**306.3**
The Income Statement credit comprises:						
- loan impairment credit	**(143.2)**	**(0.1)**	**(5.9)**	**(149.2)**	**-**	**(149.2)**
- recoveries net of costs	**(18.4)**	**(3.2)**	**-**	**(21.6)**	**-**	**(21.6)**
Total Income Statement credit	**(161.6)**	**(3.3)**	**(5.9)**	**(170.8)**	**-**	**(170.8)**

	On residential mortgages	On commercial loans	On unsecured loans	Total
	£m	£m	£m	£m
At 1 April 2016	552.3	85.4	96.2	733.9
Movements during the year:				
- write-offs	(63.6)	(76.4)	(6.3)	(146.3)
- loan impairment (credit)/charge	(49.0)	3.3	(13.9)	(59.6)
- sale of loan book	(8.9)	-	(1.1)	(10.0)
Net movements during the year	(121.5)	(73.1)	(21.3)	(215.9)
At 31 March 2017	430.8	12.3	74.9	518.0
The Income Statement (credit)/charge comprises:				
- loan impairment (credit)/charge	(49.0)	3.3	(13.9)	(59.6)
- recoveries net of costs	(24.2)	(4.0)	-	(28.2)
Total Income Statement credit	(73.2)	(0.7)	(13.9)	(87.8)

In the Balance Sheet the carrying values of loans to customers and held for sale loans are presented net of these allowances.

Further detail of the held for sale loans is provided in note 15.

As detailed in note 2, on the Balance Sheet the Group's equity release mortgages are now presented separately from loans to customers. The provision for insurance risk in respect of the equity release mortgages was previously included within allowances for credit losses on residential mortgages but this provision is now presented separately in note 18 and the comparative financial information in the table above has been re-presented to exclude this.

In the Balance Sheet the carrying amounts of the loans to customers and held for sale loans are presented net of these allowances.

17. Credit quality of loans to customers

The disclosures in this note exclude loans which are classified as held for sale. Arrears targets set by the Board include arrears on loans held for sale and equity release mortgages and hence the arrears referred to in the Financial Review on pages 56 to 63 are slightly higher than those reported in this note.

	31 March 2018				31 March 2017			
	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	**10,131.3**	**235.5**	**253.8**	**10,620.6**	17,262.8	245.9	322.1	17,830.8
Past due but not impaired:								
- less than 3 months	**543.7**	**-**	**10.3**	**554.0**	571.2	-	10.8	582.0
- 3 to 6 months	**211.7**	**-**	**3.2**	**214.9**	255.1	-	4.1	259.2
- over 6 months	**127.4**	**-**	**38.4**	**165.8**	168.4	-	47.8	216.2
Impaired	**212.9**	**24.2**	**6.1**	**243.2**	303.5	23.7	7.9	335.1
	11,227.0	**259.7**	**311.8**	**11,798.5**	18,561.0	269.6	392.7	19,223.3
Impairment allowances	**(227.5)**	**(12.2)**	**(55.6)**	**(295.3)**	(430.8)	(12.3)	(74.9)	(518.0)
Loans to customers net of impairment allowances	**10,999.5**	**247.5**	**256.2**	**11,503.2**	18,130.2	257.3	317.8	18,705.3
Impairment allowances:								
- individual	**27.2**	**12.2**	**10.9**	**50.3**	45.3	12.3	19.1	76.7
- collective	**200.3**	**-**	**44.7**	**245.0**	385.5	-	55.8	441.3
Total impairment allowances	**227.5**	**12.2**	**55.6**	**295.3**	430.8	12.3	74.9	518.0

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 £0.3m (2017: £0.8m). A loan is eligible for capitalisation of arrears only once the borrower has complied with stringent terms for a set period.

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 2018	31 March 2017
	£m	£m
Neither past due nor impaired	**16,843.0**	28,152.8
Past due but not impaired	**1,368.5**	1,497.4
Impaired	**268.6**	377.1
Total	**18,480.1**	30,027.3

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 2018	31 March 2017
	£m	£m
Neither past due nor impaired	**10,070.0**	17,183.9
Past due but not impaired	**877.9**	988.1
Impaired	**198.3**	279.6
Total	**11,146.2**	18,451.6
The impaired balances above include the following carrying amount of assets in possession capped at the balance outstanding	**45.6**	57.4

As detailed in note 2, on the Balance Sheet the Group's equity release mortgages are now presented separately from loans to customers. The comparative financial information in the tables above has been re-presented accordingly.

17. Credit quality of loans to customers (continued)

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. This value does not reflect any costs or discount that may arise if the mortgage was enforced.

The indexed loan to value ('LTV') of residential loan balances, weighted by loan balance, falls into the following ranges:

	31 March 2018	31 March 2017
	%	%
To 50%	**10.8**	11.2
50% to 75%	**51.4**	46.7
75% to 100%	**34.5**	38.2
Over 100%	**3.3**	3.9
Total	**100.0**	100.0

The average indexed LTV based on a simple average is 60.8% (31 March 2017: 61.7%) and on a weighted average is 69.8% (31 March 2017: 71.0%).

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 2018		31 March 2017	
		Residential	**Unsecured**	Residential	Unsecured
Arrears 3 months and over					
Number of cases	No.	**3,174**	**2,782**	4,132	3,281
Proportion of total cases	%	**3.48**	**9.39**	2.72	9.32
Asset value	£m	**481.3**	**44.5**	621.5	55.6
Proportion of book	%	**4.32**	**17.36**	3.42	17.50
Total value of payments overdue	£m	**22.6**	**12.6**	28.7	15.8
Proportion of total book	%	**0.20**	**4.92**	0.16	4.97
Possessions					
Number of cases	No.	**406**	**-**	481	-
Proportion of total cases	%	**0.44**	**-**	0.32	-
Asset value	£m	**54.9**	**-**	69.9	-
Proportion of book	%	**0.49**	**-**	0.39	-
Total value of payments overdue	£m	**3.3**	**-**	3.3	-
Proportion of total book	%	**0.03**	**-**	0.02	-
New possessions	No.	**1,004**	**-**	1,242	-
Total arrears 3 months and over and possessions					
Number of cases	No.	**3,580**	**2,782**	4,613	3,281
Proportion of total cases	%	**3.92**	**9.39**	3.04	9.32
Asset value	£m	**536.2**	**44.5**	691.4	55.6
Proportion of book	%	**4.81**	**17.36**	3.81	17.50
Total value of payments overdue	£m	**25.9**	**12.6**	32.0	15.8
Proportion of total book	%	**0.23**	**4.92**	0.18	4.97

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	**31.4**	**13.3**	37.7	16.8
Proportion of total book	%	**0.28**	**5.20**	0.21	5.30
Loan impairment provision					
As % of total balances	%	**2.04**	**17.83**	2.32	19.06

17. Credit quality of loans to customers (continued)

Analysis of residential mortgages and unsecured loans 3 months and over in arrears by product

		31 March 2018		31 March 2017	
		Residential	**Unsecured**	Residential	Unsecured
Buy-to-let					
Number of cases	No.	**439**	**-**	613	-
Proportion of total cases	%	**1.62**	**-**	1.12	-
Asset value	£m	**69.0**	**-**	90.6	-
Proportion of book	%	**1.97**	**-**	1.44	-
Total value of payments overdue	£m	**2.1**	**-**	2.7	-
Proportion of total book	%	**0.06**	**-**	0.04	-
Self-certified					
Number of cases	No.	**616**	**-**	743	-
Proportion of total cases	%	**5.04**	**-**	2.35	-
Asset value	£m	**99.0**	**-**	119.8	-
Proportion of book	%	**5.61**	**-**	2.64	-
Total value of payments overdue	£m	**3.5**	**-**	4.1	-
Proportion of total book	%	**0.20**	**-**	0.09	-
Together					
Number of cases	No.	**829**	**2,782**	1,047	3,281
Proportion of total cases	%	**3.41**	**9.39**	3.66	9.32
Asset value	£m	**94.8**	**44.5**	119.5	55.6
Proportion of book	%	**4.08**	**17.36**	4.23	17.50
Total value of payments overdue	£m	**4.9**	**12.6**	6.3	15.8
Proportion of total book	%	**0.21**	**4.92**	0.22	4.97
Standard and other					
Number of cases	No.	**1,290**	**-**	1,729	-
Proportion of total cases	%	**4.66**	**-**	4.00	-
Asset value	£m	**218.5**	**-**	291.6	-
Proportion of book	%	**6.17**	**-**	6.54	-
Total value of payments overdue	£m	**12.1**	**-**	15.6	-
Proportion of total book	%	**0.34**	**-**	0.35	-

18. Equity release mortgages

	31 March 2018 £m	31 March 2017 £m
Balances due from customers	**870.4**	887.8
Provision for insurance risk	**(123.2)**	(130.3)
Total	**747.2**	757.5

As detailed in note 2, on the Balance Sheet the Group's equity release (Lifetime) mortgages are now presented separately from loans to customers.

A small number of the Group's equity release mortgages are monthly income products; the remainder 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. Hence the Group is exposed to the risk of negative equity on these mortgages. The Group carries a provision for this insurance risk on equity release mortgages, calculated in accordance with IFRS 4, as follows:

	31 March 2018 £m	31 March 2017 £m
At start of year	**130.3**	111.1
Movements during the year:		
- write-offs	**(0.7)**	(0.7)
- impairment (credit)/charge	**(6.4)**	19.9
Net movements during the year	**(7.1)**	19.2
At end of year	**123.2**	130.3

Fair value adjustments on portfolio hedging amounting to £420.9m (2017: £454.6m) relate to interest rate derivatives designated in a fair value portfolio hedge relationship. Further detail of hedge accounting is provided in note 35(d).

19. Deferred taxation

The net deferred taxation liability is attributable to the following:

	Assets		Liabilities		Net	
	31 Mar 2018 £m	31 Mar 2017 £m	31 Mar 2018 £m	31 Mar 2017 £m	31 Mar 2018 £m	31 Mar 2017 £m
Cash flow hedges	**-**	0.2	**-**	-	**-**	0.2
Accelerated tax depreciation	**1.9**	2.3	**-**	-	**1.9**	2.3
Available-for-sale reserve and fair value	**-**	-	**-**	(4.7)	**-**	(4.7)
Employee benefits	**-**	-	**(86.1)**	(81.7)	**(86.1)**	(81.7)
	1.9	2.5	**(86.1)**	(86.4)	**(84.2)**	(83.9)
Offset	**(1.9)**	(2.5)	**1.9**	2.5	**-**	-
Total	**-**	-	**(84.2)**	(83.9)	**(84.2)**	(83.9)

There were no deferred tax assets unrecognised at 31 March 2018 (2017: £nil).

19. Deferred taxation (continued)

The movements in the Group's temporary differences during the current and previous year were as follows:

	1 April 2017 £m	**Recognised in income £m**	**Recognised in equity £m**	**31 March 2018 £m**
Cash flow hedges	**0.2**	**-**	**(0.2)**	**-**
Accelerated tax depreciation	**2.3**	**(0.4)**	**-**	**1.9**
Available-for-sale reserve and fair value	**(4.7)**	**1.7**	**3.0**	**-**
Employee benefits	**(81.7)**	**(12.6)**	**8.2**	**(86.1)**
Total	**(83.9)**	**(11.3)**	**11.0**	**(84.2)**

	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)

20. Other assets

	31 March 2018 £m	31 March 2017 £m
Prepayments and accrued income	**25.9**	21.9
Other	**4.9**	25.5
Total	**30.8**	47.4

21. Retirement benefit assets and obligations

The UKAR Group has operated 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 2018 £m	31 March 2017 £m	**31 March 2018 £m**	31 March 2017 £m	**31 March 2018 £m**	31 March 2017 £m
Present value of defined benefit obligations	**(1,472.4)**	(1,750.4)	**(8.2)**	(4.7)	**(1,480.6)**	(1,755.1)
Fair value of defined benefit assets	**2,016.3**	2,229.8	**-**	-	**2,016.3**	2,229.8
Net defined benefit asset/(liability)	**543.9**	479.4	**(8.2)**	(4.7)	**535.7**	474.7

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.

21. 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 2018	12 months to 31 Mar 2017	**12 months to 31 Mar 2018**	12 months to 31 Mar 2017	**12 months to 31 Mar 2018**	12 months to 31 Mar 2017
	£m	£m	**£m**	£m	**£m**	£m
Net interest (income)/expense	**(10.8)**	(17.3)	**0.1**	0.3	**(10.7)**	(17.0)
Total recognised in the Income Statement	**(10.8)**	(17.3)	**0.1**	0.3	**(10.7)**	(17.0)

(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 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 £5.9m (31 March 2017: £9.1m credit) and the retirement benefit re-measurement gain recognised in other comprehensive income during the year was £28.6m (2017: £63.0m loss).

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 and as detailed in note 4(c) it is considered appropriate to carry net surpluses on the Scheme in full on the Balance Sheet.

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. £63.9m was paid during the year to 31 March 2018 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 87% of the interest rate risk and approximately 86% 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 2018 (2017: £nil). The cost in the year to the Group of this scheme was £0.8m (2017: £1.3m). 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) Other retirement benefit costs

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 £0.1m (2017: £0.1m) and the re-measurement loss recognised in the B&B Group's other comprehensive income during the year was £3.7m (2017: loss £3.1m).

Other pension-related costs totalled £0.2m for the year (2017: £0.2m).

21. 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 2018 £m	31 March 2017 £m	**31 March 2018 £m**	31 March 2017 £m	**31 March 2018 £m**	31 March 2017 £m
Present value of defined benefit obligations	**(947.0)**	(1,047.5)	**(8.2)**	(4.7)	**(955.2)**	(1,052.2)
Fair value of defined benefit assets	**1,302.8**	1,304.8	**-**	-	**1,302.8**	1,304.8
Net defined benefit surplus/(liability)	**355.8**	257.3	**(8.2)**	(4.7)	**347.6**	252.6

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 2018 £m	12 months to 31 Mar 2017 £m	**12 months to 31 Mar 2018 £m**	12 months to 31 Mar 2017 £m	**12 months to 31 Mar 2018 £m**	12 months to 31 Mar 2017 £m
Net interest (income)/expense	**(5.9)**	(9.1)	**0.1**	0.3	**(5.8)**	(8.8)
Total recognised in the Income Statement	**(5.9)**	(9.1)	**0.1**	0.3	**(5.8)**	(8.8)

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 2018 £m	12 months to 31 Mar 2017 £m	**12 months to 31 Mar 2018 £m**	12 months to 31 Mar 2017 £m	**12 months to 31 Mar 2018 £m**	12 months to 31 Mar 2017 £m
At start of year	**1,047.5**	839.2	**4.7**	1.8	**1,052.2**	841.0
Interest on defined benefit obligations	**27.5**	29.4	**0.1**	0.3	**27.6**	29.7
Remeasurements:						
- effect of changes in demographic assumptions	**-**	4.0	**-**	-	**-**	4.0
- effect of changes in financial assumptions	**(46.6)**	238.2	**(0.1)**	0.5	**(46.7)**	238.7
- effect of experience adjustments	**-**	-	**3.8**	2.3	**3.8**	2.3
Benefits paid from plan	**(81.4)**	(63.3)	**(0.3)**	(0.2)	**(81.7)**	(63.5)
At end of year	**947.0**	1,047.5	**8.2**	4.7	**955.2**	1,052.2

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 2018 £m	12 months to 31 Mar 2017 £m	**12 months to 31 Mar 2018 £m**	12 months to 31 Mar 2017 £m	**12 months to 31 Mar 2018 £m**	12 months to 31 Mar 2017 £m
At start of year	**1,304.8**	1,092.3	**-**	-	**1,304.8**	1,092.3
Interest income on defined benefit assets	**33.4**	39.7	**-**	-	**33.4**	39.7
Defined benefit company contributions	**63.9**	58.1	**(0.3)**	(0.2)	**63.6**	57.9
Remeasurements						
- return on plan assets (excluding interest income)	**(17.0)**	179.2	**-**	-	**(17.0)**	179.2
Administrative expenses paid from plan assets	**(0.9)**	(1.2)	**-**	-	**(0.9)**	(1.2)
Benefits paid from plan	**(81.4)**	(63.3)	**0.3**	0.2	**(81.1)**	(63.1)
At end of year	**1,302.8**	1,304.8	**-**	-	**1,302.8**	1,304.8

21. 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 2018			31 March 2017		
	Quoted £m	**Unquoted £m**	**Total £m**	Quoted £m	Unquoted £m	Total £m
Equity instruments	**164.0**	**6.3**	**170.3**	204.1	5.9	210.0
Property	**-**	**0.3**	**0.3**	-	23.2	23.2
Bonds:						
- of which UK	**112.8**	**-**	**112.8**	100.8	-	100.8
- of which overseas	**59.6**	**-**	**59.6**	58.6	-	58.6
Diversified growth fund	**50.4**	**-**	**50.4**	50.7	-	50.7
Liability hedging investments	**1,020.0**	**-**	**1,020.0**	771.7	-	771.7
Repurchase agreements	**(158.7)**		**(158.7)**			
Cash and cash equivalents	**2.7**	**45.4**	**48.1**	62.4	27.4	89.8
Total	**1,250.8**	**52.0**	**1,302.8**	1,248.3	56.5	1,304.8

Summary actuarial assumptions (expressed as weighted averages) were as follows:

	31 March 2018	31 March 2017
To determine benefit obligations:		
Discount rate	**2.70%**	2.60%
Inflation (RPI)	**3.15%**	3.25%
Inflation (CPI)	**2.15%**	2.25%
Future pension increases	**3.05%**	3.15%
To determine net pension cost:		
Discount rate	**2.60%**	3.60%
For post-retirement medical plan:		
Discount rate	**2.70%**	2.60%
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 2018		31 March 2017	
	Pensioner	**Non-retired member**	Pensioner	Non-retired member
Male	**28.5**	**29.9**	28.3	29.8
Female	**31.1**	**32.7**	31.0	32.6

Maturity profile of the obligation

At 31 March 2018 the defined benefit pension scheme had a weighted average maturity of around 24 years (2017: 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%	**119.3**
Inflation	Increase by 0.5%	Increase by 11%	**102.7**
Mortality	Decrease by 1 year	Increase by 4%	**33.2**

In each case, the impact is calculated by applying the one change, with all other assumptions unchanged.

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.

21. Retirement benefit assets and obligations (continued)

(a) Bradford & Bingley schemes (continued)

Sensitivity (continued)

Assumed healthcare cost trend rates have an effect on the amounts recognised in staff costs. A one percentage point increase in assumed healthcare cost trend rates would have the following effects:

	31 March 2018 £m	31 March 2017 £m
Effect on interest cost	**-**	-
Effect on defined benefit obligation	**1.1**	0.6

(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 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 and as detailed in note 4(c) it is considered appropriate to carry net surpluses on the Scheme in full on the Balance Sheet. 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 £4.9m (2017: credit £8.2m) and the retirement benefit re-measurement loss recognised in other comprehensive income during the year was £68.8m (2017: loss £45.5m).

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.

The NRAM Scheme has instigated a liability-driven investment programme to hedge approximately 94% of the interest rate risk and 95% of the inflation risk.

The amounts carried on the UKAR Group Balance Sheet are as follows:

	31 March 2018 £m	31 March 2017 £m
Present value of defined benefit obligations	**(525.4)**	(702.9)
Fair value of defined benefit assets	**713.5**	925.0
Net defined benefit asset	**188.1**	222.1

The amounts recognised in the UKAR Group Income Statement were as follows:

	12 months to 31 March 2018 £m	12 months to 31 March 2017 £m
Net interest income	**4.9**	8.2
Total recognised in the Income Statement	**4.9**	8.2

Movements in the present value of defined benefit obligations were as follows:

	12 months to 31 March 2018 £m	12 months to 31 March 2017 £m
At start of year	**702.9**	583.4
Interest on defined benefit obligations	**15.0**	20.0
Remeasurements:		
- effect of changes in demographic assumptions	**-**	3.8
- effect of changes in financial assumptions	**(17.0)**	155.6
- effect of experience adjustments	**73.2**	(3.9)
Transfer payments	**(233.0)**	(43.3)
Benefits paid from plan	**(15.7)**	(12.7)
At end of year	**525.4**	702.9

21. 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 2018 £m**	12 months to 31 March 2017 £m
At start of year	**925.0**	812.8
Interest income on defined benefit assets	**20.0**	28.4
Defined benefit company contributions	**30.0**	30.0
Remeasurements:		
- return on plan assets (excluding interest income)	**(12.8)**	109.8
Transfer payments	**(233.0)**	(43.3)
Benefits paid from plan	**(15.7)**	(12.7)
At end of year	**713.5**	925.0

The major categories of defined benefit assets at the end of the year were as follows**:**

		31 March 2018			31 March 2017	
	Quoted £m	**Unquoted £m**	**Total £m**	Quoted £m	Unquoted £m	Total £m
Bulk annuity contracts	**-**	**276.3**	**276.3**	-	276.4	276.4
Bonds:						
- of which UK	**-**	**-**	**-**	30.3	-	30.3
Liability hedging investments	**393.8**	**-**	**393.8**	606.1	-	606.1
Cash and cash equivalents	**43.4**	**-**	**43.4**	12.2	-	12.2
Total	**437.2**	**276.3**	**713.5**	648.6	276.4	925.0

Summary actuarial assumptions (expressed as weighted averages) were as follows:

	31 March 2018	31 March 2017
To determine benefit obligations:		
Discount rate	**2.70%**	2.60%
Inflation (RPI)	**3.15%**	3.25%
Future pension increases	**1.90% - 3.55%**	1.95% - 3.60%
To determine net pension cost:		
Discount rate	**2.60%**	3.60%

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 2018		31 March 2017	
	Pensioner	**Non-retired member**	Pensioner	Non-retired member
Male	**29.2**	**30.9**	29.1	30.8
Female	**31.4**	**33.2**	31.3	33.1

Maturity profile of the obligation

At 31 March 2018 the defined benefit pension scheme had a weighted average maturity of around 22 years (2017: 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 11%	**57.8**
Inflation	Increase by 0.5%	Increase by 6%	**31.5**
Mortality	Decrease by 1 year	Increase by 3%	**15.8**

In each case, the impact is calculated by applying the one change, with all other assumptions unchanged.

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.

22. Property, plant and equipment

	Land and buildings £m	Plant, equipment, fixtures and fittings £m	Total £m
Cost			
At 1 April 2017	**3.7**	**0.9**	**4.6**
Disposals	**-**	**(0.2)**	**(0.2)**
At 31 March 2018	**3.7**	**0.7**	**4.4**
Depreciation			
At 1 April 2017	**3.3**	**0.9**	**4.2**
Charged in year	**0.1**	**-**	**0.1**
Disposals	**-**	**(0.2)**	**(0.2)**
At 31 March 2018	**3.4**	**0.7**	**4.1**
Net book amount:			
At 31 March 2017	**0.4**	**-**	**0.4**
At 31 March 2018	**0.3**	**-**	**0.3**

	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

During the year all assets disposed had already been fully depreciated and no sale proceeds were received, Hence there was no profit or loss.

During the year ended 31 March 2017, 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 disposals in the previous year.

23. Intangible assets

	12 months to 31 March 2018 £m	12 months to 31 March 2017 £m
Cost		
At start of year	**8.8**	100.2
Additions	**1.2**	1.9
Disposals	**-**	(93.3)
At end of year	**10.0**	8.8
Impairment and amortisation		
At start of year	**4.1**	63.0
Amortisation charged in year	**2.6**	5.1
Disposals	**-**	(64.0)
At end of year	**6.7**	4.1
Net book amount:		
At start of year	**4.7**	37.2
At end of year	**3.3**	4.7

Intangible assets comprise capitalised computer software systems and licences.

During the year ended 31 March 2017, 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 disposals in the previous year.

24. Statutory Debt and HM Treasury loans

	31 March 2018 £m	31 March 2017 £m
HM Treasury loan to NRAM	**2,717.7**	4,594.2
B&B Statutory Debt	**7,439.6**	18,416.2
HM Treasury Working Capital Facility to B&B	**121.5**	2,020.9
Total	**10,278.8**	25,031.3

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 3, 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 as a going concern, and to enable NRAM to meet its debts as and when they fall due, until at least 1 January 2020 subject to NRAM continuing to be a subsidiary company of UKAR Limited. See page 28 for further details.

B&B had an interest-free Statutory Debt of £18,416.2m as at 31 March 2017. 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 of B&B, 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. On 26 April 2017 £10,976.6m of the Statutory Debt owed to the FSCS was repaid. As disclosed in note 39, on 24 May 2018 the proceeds of a loan sale were used to repay the remaining £4,677.9m of the Statutory Debt owed to the FSCS.

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 2018 B&B had a balance of £120.6m (2017: £2,011.3m) in this facility; £121.5m including accrued interest (2017: £2,020.9m). 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 2020, subject to B&B continuing to be a subsidiary undertaking of UKAR Limited. See page 28 for further details. 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. Since the Balance Sheet date the remaining balance on the WCF has been repaid but the facility remains in place.

25. Debt securities in issue

	Securitised notes £m	Covered Bonds £m	Other £m	Total £m
At 1 April 2017 and 31 March 2018	**-**	**-**	**204.2**	**204.2**

	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

Other movements comprise exchange rate movements, accrued interest and hedge accounting adjustments.

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.

HM Treasury has provided guarantees with regard to certain wholesale borrowings of the Group; the Group pays fees for these guarantees.

During the year ended 31 March 2017 the B&B Group repaid the remaining Aire Valley Securitised notes, 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 ended 31 March 2017 the remainder of the Covered Bonds in issue matured and were redeemed.

Other debt securities in issue comprise notes issued under NRAM's Medium Term Notes programme.

26. Other liabilities

	At 31 March 2018 £m	At 31 March 2017 £m
Accruals and deferred income	**41.2**	77.3
Other	**52.0**	69.0
Total	**93.2**	146.3

27. Provisions

	Customer redress £m	Onerous contracts £m	Restructuring £m	Total £m
At 1 April 2017	**160.2**	**0.3**	**16.9**	**177.4**
Utilised in the year	**(79.8)**	**(0.1)**	**(1.9)**	**(81.8)**
Charged in the year	**43.5**	**-**	**-**	**43.5**
Released in the year	**-**	**-**	**(2.3)**	**(2.3)**
At 31 March 2018	**123.9**	**0.2**	**12.7**	**136.8**

	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

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.

The publication of the FCA's Policy Statement PS17/3 'Payment protection insurance complaints: feedback on CP16/20 and final rules and guidance' set a deadline date for PPI complaints at 29 August 2019 and confirmed the approach in relation to the case of Plevin v Paragon Personal Finance Limited ('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 the PPI deadline, actual claims volumes received during the year have been higher than previous periods and therefore the provision has been increased by £43.5m (March 2017: £64.4m).

It is estimated that c.£80m of the customer redress provision will be utilised by 31 March 2019 and the majority of the remainder by the end of 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 in 2016/17.

28. Share capital

Group and Company	**25p Ordinary shares Number**	**25p Ordinary shares £**	**Total Share capital £**
At 1 April 2016, 31 March 2017 and 31 March 2018	**4,959,595**	**1,239,899**	**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.

No dividends were declared or paid in 2017/18 or 2016/17 on the Company's Ordinary shares. No dividends had been proposed by the date of approval of these Financial Statements.

29. Reserves

Reserves comprise the following:

	31 March 2018 £m	31 March 2017 £m
Available-for-sale reserve	-	12.8
Cash flow hedge reserve	-	(0.8)
Merger reserve	1,141.7	3,795.7
Total	1,141.7	3,807.7

Available-for-sale reserve

	31 March 2018 £m	31 March 2017 £m
At start of year	12.8	4.3
Amounts recognised in equity	-	(14.3)
Amounts transferred to net income	(12.8)	22.8
At end of year	-	12.8

The available-for-sale reserve represents cumulative fair value movements on assets classified as available-for-sale.

Cash flow hedge reserve

	31 March 2018 £m	31 March 2017 £m
At start of year	(0.8)	3.0
Amounts recognised in equity	-	(632.5)
Amounts transferred to net income	0.8	628.7
At end of year	-	(0.8)

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 2018 £m	31 March 2017 £m
Generated on acquisition of B&B	589.3	589.3
Generated on acquisition of NRAM	552.4	3,206.4
Total	1,141.7	3,795.7

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.

As described in note 30, on 30 January 2018 NRAM issued bonus shares in exchange for a reduction in its merger reserve. The bonus shares and all of NRAM's share premium were subsequently cancelled on the same date, giving rise to distributable reserves. As a consequence £2,324.4m of the UKAR Group's merger reserve was released to retained earnings pro-rata to the reduction in NRAM's merger reserve. Total equity was unaffected by these transactions. The remaining merger reserve continues to be released as loans which formed part of the 2016 dividend in specie detailed in note 3 are paid down.

30. NRAM capital reorganisation

On 30 January 2018 NRAM issued 8 billion 25p bonus Ordinary shares in exchange for a reduction of £2,000.0m in its merger reserve. The bonus shares, along with NRAM's share premium of £1,022.0m, were then converted into distributable reserves.

31. Financing activities

This note provides disclosure of movements during the year in the liabilities which the Group categorises for the purposes of the Cash Flow Statement as financing. As permitted by the January 2016 amendments to IAS 7, no prior period comparative information has been provided.

	Statutory Debt and HM Treasury loans £m	Debt securities In issue £m	Total £m
Principal balance at 31 March 2017	**25,016.6**	**200.0**	**25,216.6**
Principal repayments	**(14,742.3)**	**-**	**(14,742.3)**
Principal balance at 31 March 2018	**10,274.3**	**200.0**	**10,474.3**

32. Off-Balance Sheet commitments payable

At 31 March 2018	**Within one year £m**	**In one to five years £m**	**Over five years £m**	**Total £m**
Loan commitments:				
- equity release mortgages	**0.5**	**1.3**	**1.2**	**3.0**
- other loans	**300.7**	**-**	**-**	**300.7**
Total loan commitments	**301.2**	**1.3**	**1.2**	**303.7**
Operating lease commitments:				
- land and buildings	**2.4**	**9.6**	**9.4**	**21.4**
Total	**303.6**	**10.9**	**10.6**	**325.1**

At 31 March 2017	Within one year £m	In one to five years £m	Over five years £m	Total £m
Loan commitments:				
- equity release 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

Loan commitments represent contractual amounts to which the Group is committed for extension of credit to customers. In respect of equity release 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 redraws of amounts voluntarily overpaid. Loan commitments exclude those in respect of loans classified as held for sale.

Operating lease commitments represent minimum future lease payments under non-cancellable operating leases.

33. 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 (2017: £nil).

A summary of the Group's remuneration of the 13 (2017: 14) 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 29 to 42. 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 2018 £000**	12 months to 31 March 2017 £000
Short-term employee benefits	**2,317**	2,862
Other long-term benefits	**222**	629
Post-employment benefits	**158**	203
Total	**2,697**	3,694

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 21. There were no amounts due to or from the schemes at 31 March 2018 (31 March 2017: £nil). The key management personnel contributed £45,310 (2017: £103,000) to Group pension schemes during the year.

Included in the Group's Income Statement, the aggregate Directors' emoluments and the emoluments of the highest paid Director amounted to £1,032,440 and £610,773 respectively (2017: £1,529,449 and £766,169 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 (2017: £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 24) and the Statutory Debt (see note 24). HM Treasury has also provided guarantee arrangements to the Group, for which the Group pays fees. 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 UKGI 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 £0.9m (2017: £1.0m) relating to advisors to UKGI 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.

34. 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 2017/18 and 2016/17; 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 reflecting the increased risk in the business compared to a standard MIPRU firm. As the regulated subsidiaries have never paid dividends to UKAR they hold more capital than is required. As at 31 March 2018, capital in B&B represented 24.0% (2017: 10.9%) of B&B assets, NRAM Limited capital represented 58.7% (2017: 45.8%) of NRAM assets and capital of Mortgage Express represented 16.7% (2017: 14.0%) of Mortgage Express 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.

34. Capital structure (continued)

The Group defines equity 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.

35. Financial instruments

As detailed in note 2, on the Balance Sheet the Group's equity release mortgages are now presented separately from loans to customers as they are accounted for as insurance contracts in accordance with IFRS 4. They are therefore outside the scope of IFRS 7 'Financial Instruments: Disclosures' and the comparative financial information in this note 35 has been re-presented to exclude equity release mortgages.

(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(h) sets out the key principles used for estimating the fair values of financial instruments. Note 35(e) provides some additional information in respect of the methodologies used.

At 31 March 2018	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	-	-	1,571.8	-	1,571.8	1,571.8
Loans to customers	-	-	11,503.2	-	11,503.2	12,056.5
Assets classified as held for sale: loans to customers	-	-	4,991.6	-	4,991.6	5,113.1
Fair value adjustments on portfolio hedging	-	-	-	420.9	420.9	-
Other financial assets	-	-	4.9	-	4.9	4.9
Total financial assets	-	-	18,071.5	420.9	18,492.4	18,746.3

	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	-	10,278.8	-	10,278.8	10,278.8
Derivative financial instruments	471.8	-	-	471.8	471.8
Debt securities in issue	-	204.2	-	204.2	219.4
Other financial liabilities	-	79.7	-	79.7	79.7
Total financial liabilities	471.8	10,562.7	-	11,034.5	11,049.7

35. Financial instruments (continued)

(a) Categories of financial assets and financial liabilities: carrying value compared to fair value (continued)

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	-	-	18,705.3	-	18,705.3	18,137.8
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	32,587.4	454.6	33,066.2	32,042.5

	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

No financial assets or liabilities were reclassified during the current or previous year between amortised cost and fair value categories.

(b) Interest income and expense on financial instruments that are not at fair value through profit or loss

	12 months to 31 March 2018 £m	12 months to 31 March 2017 £m
Interest income	**598.8**	982.1
Interest expense	**(108.9)**	(228.6)

These amounts represent interest income and expense before hedging arrangements. Interest income excludes that on equity release mortgages.

(c) Impaired financial assets

Allowance accounts for credit losses in respect of impairment of loans to customers and held for sale loans are detailed in note 16 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.

35. Financial instruments (continued)

(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.

As of 31 March 2018, the only material hedging remaining is the portfolio fair value hedge of the equity release mortgages (see note 18).

(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; and
- 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; and
- Basis swaps are split into their separate risk components and separately designated into cash flow hedges.

(iii) Net investment hedges

The Group has not designated any derivatives as net investment hedges in 2017/18 or 2016/17.

The Group has the following types of hedges:

At 31 March 2018	Fair value hedges £m	Cash flow hedges £m	Economic hedges £m	Total £m	Notional amounts £m
Exchange rate contracts	-	-	-	-	-
Interest rate contracts	-	-	-	-	-
Total asset balances	-	-	-	-	
Exchange rate contracts	-	-	-	-	-
Interest rate contracts	468.7	-	3.1	471.8	863.1
Total liability balances	468.7	-	3.1	471.8	
Fair value of hedging instruments	(468.7)	-	(3.1)	(471.8)	

35. Financial instruments (continued)

(d) Hedge accounting (continued)

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)	

(e) Fair value measurement

Financial assets and liabilities carried at fair value are valued on the following bases:

At 31 March 2018	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial liabilities:				
Derivative financial liabilities	**-**	**(471.8)**	**-**	**(471.8)**
Net financial liabilities	**-**	**(471.8)**	**-**	**(471.8)**

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 assets	-	(503.0)	-	(503.0)

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 (2017: 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.

35. 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 35(a) are calculated on the following bases:

At 31 March 2018	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets:				
Cash at bank and in hand	**1,571.8**	**-**	**-**	**1,571.8**
Loans to customers	**-**	**-**	**12,056.5**	**12,056.5**
Assets classified as held for sale: loans to customers	**-**	**5,113.1**	**-**	**5,113.1**
Other financial assets	**-**	**4.9**	**-**	**4.9**
	1,571.8	**5,118.0**	**12,056.5**	**18,746.3**
Financial liabilities:				
Statutory Debt and HM Treasury loans	**10,278.8**	**-**	**-**	**10,278.8**
Debt securities in issue	**-**	**219.4**	**-**	**219.4**
Other financial liabilities	**-**	**79.7**	**-**	**79.7**
	10,278.8	**299.1**	**-**	**10,577.9**

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	-	-	18,137.8	18,137.8
Other financial assets	-	25.5	-	25.5
	13,596.6	283.9	18,137.8	32,018.3
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

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.

Loans to customers

Loans to customers include loans of varying interest 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 and assumed redemptions. The fair value at 31 March 2018 has been calculated using the models which the Group has developed in order to implement IFRS 9 with effect from 2018-19. These models incorporate the experience gained of market structures and pricing from recent sales transactions that represent a more accurate assessment of fair value than previous methods. The reported fair values therefore reflect the current favourable market conditions and so are higher than reported last year.

Assets classified as held for sale: loans to customers

Fair value represents the fair value at 31 March 2018 calculated by reference to the sale price agreed in April 2018.

35. 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

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 at 31 March 2017 in respect of the sale of loans has been categorised as Level 1 as it was a contractually defined amount.

(f) 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 2018	**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	**-**	**-**	**-**	**-**
Derivative financial liabilities	**(471.8)**	**-**	**464.1**	**(7.7)**
	(471.8)	**-**	**464.1**	**(7.7)**

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)

36. Collateral pledged

	31 March 2018 £m	31 March 2017 £m
Cash collateral which the Group has provided in respect of derivative contracts	**464.5**	521.9
Total collateral pledged	**464.5**	521.9

The cash collateral pledged shown above is carried on the Balance Sheet within cash at bank and in hand.

37. Financial risk management

A description of the principal risks to which the Group is exposed is provided on pages 64 to 68 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 2018 £m	31 March 2017 £m
On Balance Sheet:		
Cash at bank and in hand	**1,571.8**	2,112.7
Amount owed in respect of sale of loans	**-**	11,483.9
Investment securities	**-**	282.4
Loans to customers	**11,503.2**	18,705.3
Assets classified as held for sale: loans to customers	**4,991.6**	-
Equity release mortgages	**747.2**	757.5
Derivative financial instruments	**-**	1.8
Other financial assets	**4.9**	25.5
Total on Balance Sheet	**18,818.7**	33,369.1
Off Balance Sheet:		
Loan commitments (see note 32)	**303.7**	429.0

Loans to customers include loans which are secured on property. All equity release mortgages are secured on property. Additional information in respect of credit risk is provided in note 13 (for wholesale assets) and note 17 (for loans to customers).

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.

37. Financial risk management (continued)

(a) Credit risk (continued)

Insurance risk on equity release mortgages

Under the terms of the equity release mortgages (see note 18), when the borrower dies or goes into long term care the property is sold and the proceeds used to redeem the mortgage. 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 mortgages are considered to meet the definition of an insurance contract ie that the Group has accepted the risk of negative equity arising on the mortgages. The Group makes provision for 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 equity release mortgages on the Balance Sheet.

Concentration risk

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. 31% (2017: 33%) 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 £11.0bn (2017: £18.1bn) 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 34% (2017: 37%) of the book.

On redemption of an equity release mortgage the 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. A provision is carried against these balances (see note 18). The risks in respect of the equity release mortgages are common across the book.

Within the commercial mortgage portfolio there are 41 loans (2017: 52) totalling £247.5m (2017: £257.3m), with the largest 10 loans accounting for 94% (2017: 89%) 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.

The table below analyses the Group's financial assets and liabilities into relevant maturity groupings:

At 31 March 2018	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	1,571.2	0.6	-	-	-	-	1,571.8
Loans to customers	254.7	58.6	26.7	43.2	976.4	10,143.6	11,503.2
Assets classified as held for sale: loans to customers	-	4,991.6	-	-	-	-	4,991.6
Equity release mortgages	-	7.1	7.1	14.2	133.6	585.2	747.2
Fair value adjustments on portfolio hedging	-	0.6	0.6	1.5	19.2	399.0	420.9
Other financial assets	-	4.9	-	-	-	-	4.9
Total financial assets	1,825.9	5,063.4	34.4	58.9	1,129.2	11,127.8	19,239.6
Financial liabilities:							
Statutory Debt and HM Treasury loans	10,274.3	4.5	-	-	-	-	10,278.8
Derivative financial instruments	-	-	-	-	0.2	471.6	471.8
Debt securities in issue	-	-	-	4.2	200.0	-	204.2
Other financial liabilities	-	79.7	-	-	-	-	79.7
Total financial liabilities	10,274.3	84.2	-	4.2	200.2	471.6	11,034.5

37. Financial risk management (continued)

(b) Liquidity risk (continued)

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	181.6	83.2	96.9	157.6	1,299.6	16,886.4	18,705.3
Equity release mortgages	0.2	9.3	9.4	18.5	153.7	566.4	757.5
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

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.

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. The maturity date of equity release mortgages has been estimated using mortality tables. As detailed in note 2, the Group's equity release mortgages are now presented separately on the face of the Balance Sheet. The maturity analysis table above now also presents the equity release mortgages separately and the comparative financial information in the table above has been re-presented accordingly.

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 £573.4m and £246.7m respectively (2017: £506.4m and £346.9m) of which £25.9m and £17.5m respectively are classed as current (2017: £21.9m and £80.9m) and £547.5m and £229.2m respectively are classed as non-current (2017: £484.5m and £266.0m).

37. Financial risk management (continued)

(b) Liquidity risk (continued)

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 136. 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 2018	**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	**10,274.3**	**4.5**	**-**	**-**	**-**	**-**	**10,278.8**
Debt securities in issue	**-**	**-**	**-**	**4.2**	**200.0**	**-**	**204.2**
Other financial liabilities	**-**	**79.7**	**-**	**-**	**-**	**-**	**79.7**
Loan commitments	**300.7**	**0.1**	**0.1**	**0.3**	**1.3**	**1.2**	**303.7**
Total	**10,575.0**	**84.3**	**0.1**	**4.5**	**201.3**	**1.2**	**10,866.4**

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

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 136.

At 31 March 2018	**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	**-**	**9.5**	**9.5**	**19.0**	**148.3**	**476.2**	**662.5**
Total	**-**	**9.5**	**9.5**	**19.0**	**148.3**	**476.2**	**662.5**

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

37. Financial risk management (continued)

(c) Market risk

Interest rate risk

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; and
- Prepayment 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 dependent 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, with exposures principally arising from the Group's equity release mortgages which are at fixed rates of interest for which the redemption date is estimated and underlying derivatives.

	31 March 2018 £m	31 March 2017 £m
2% increase	**5.3**	(0.7)
2% decrease	**(16.0)**	(9.4)

(ii) the sensitivity of the Group's interest margin over 12 months to a notional 2% parallel move in market and base rates. Exposures arise from mismatches between the repricing dates of assets and liabilities on the Balance Sheet, including Government loans and reserves.

	31 March 2018 £m	31 March 2017 £m
2% increase	**203.2**	281.8
2% decrease	**(81.7)**	(43.8)

The accounting policy for derivatives and hedge accounting is described in note 1(l), and further details of hedge accounting are provided in note 35(d).

37. Financial risk management (continued)

(c) Market risk (continued)

Foreign currency risk

The Group's policy was to hedge all material foreign currency exposures by use of naturally offsetting foreign currency assets and liabilities or by the use of derivatives. At 31 March 2018 and 31 March 2017 the Group had no material exposure to foreign exchange rate fluctuations or changes in foreign currency interest rates.

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 2018	**€ £m**	**$ £m**	**Total £m**
Financial assets:			
Cash at bank and in hand	-	-	-
Investment securities	-	-	-
Derivative financial instruments	-	-	-
Total financial assets	-	-	-
Financial liabilities:			
Derivative financial instruments	-	-	-
Total financial liabilities	-	-	-
Net currency gap	-	-	-

At 31 March 2017	€ £m	$ £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

38. Contingent liabilities

(a) 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 19 February 2019. 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 the Company 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. No provision has been made.

(b) In 2012, NRAM plc identified that certain letters and statements had been sent to customers with loans less than £25,000, which did not comply with all the requirements prescribed by the Consumer Credit Act ('CCA') following changes to the CCA implemented in 2008 before the separation of NRAM plc and Northern Rock. Affected customers received redress for any interest charged over the period in which their documentation had been non-compliant. Some loans greater than £25,000 were administered in the same way but were outside the scope of the CCA and therefore did not receive redress. In July 2015 the Court of Appeal found in NRAM plc's favour that customers with loans greater than £25,000 should not receive remediation in line with CCA customers despite receiving the same incorrect documentation. Whilst the Court of Appeal provided clarity that loans greater than £25,000 were not covered under the CCA, there is a risk that individual customers could make claims against the Group. This could result in costs to the Group where such claims are upheld. It is not possible to provide any meaningful estimate or range of the possible cost. No provision has been made.

(c) NRAM provided certain warranties and indemnities to Cerberus in respect of the sale to Cerberus in 2015-16 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. No provision has been made.

(d) 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.

(e) 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.

39. Events after the reporting period

(a) As detailed in note 15, on 26 April 2018 B&B announced that following an open and competitive process it had agreed to sell two separate asset portfolios comprising performing buy-to-let and other residential loans for a total of £5.3bn to an investor group led by Barclays Bank PLC. The buyer assumed the position that it would have been in had it acquired the portfolios at the end of September 2017. The portfolios were sold via a competitive sales process which saw a high level of interest resulting in a sale price in excess of par and an accounting profit before tax of c.£70m. On 24 May 2018 the proceeds were used to repay the remaining £4,677.9m of the Statutory Debt owed to the FSCS. B&B provided certain warranties and indemnities in respect of this sale. The sale agreements set various time limits for bringing claims under the warranties. The time limit to bring warranty claims varies from 12 to 18 months from the date on which legal title is transferred to the purchasing entities; legal title is expected to transfer no later than 28 February 2019. The Company provided a guarantee that should B&B fail to make payment under a valid claim made under the warranties and indemnities that B&B provided to them then the Company will make payment in satisfaction of the claim. Through commitments made by HM Treasury, the Company is satisfied that it will have sufficient funds to meet its liabilities arising from any claims made under the guarantee.

(b) Subsequent to the Balance Sheet date, on 4 April 2018 the Group launched a process that, subject to successful completion, is expected to result in the sale of substantially all of the Group's equity release mortgages. The sale will result in the write-off of the fair value adjustments on portfolio hedging. Disclosure of any estimate of the total financial impact of the sale is considered to be commercially sensitive due to the ongoing sales process.

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 2018 which comprise:

- the Company Balance Sheet;
- the Company Statement of Changes in Equity;
- the Company Cash Flow Statement; and
- the related notes, including the principal accounting policies.

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. I have also audited the information in the Director's Remuneration Report that is described as having been audited.

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 2018; and
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by European Union; and
- the financial statements have been prepared in accordance with the Companies Act 2006.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK). My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my report. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of UK Asset Resolution Limited in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' and Accounting Officer's responsibilities set out on page 73, the directors are responsible for:

- the preparation of the financial statements and for being satisfied that they give a true and fair view.
- such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
- assessing the parent company's ability to continue as a going concern, disclosing, if applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (ISAs) (UK).

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Auditor's responsibilities for the audit of the financial statements (continued)

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Other Information

Directors' are responsible for the other information. The other information comprises information included in the Annual Report, other than the parts of the Remuneration Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

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;
- in light of the knowledge and understanding of the parent 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; and
- 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.

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 74 to 82, on the Group Financial Statements of UK Asset Resolution Limited for the year ended 31 March 2018.

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

25 June 2018

COMPANY BALANCE SHEET

	Note	**31 March 2018 £m**	31 March 2017 £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 147 to 149 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 £22,000 (31 March 2017: £25,000). 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 2018 were £224,000 (2017: £202,000).

The Financial Statements on pages 145 to 149 were approved by the Board of Directors on 25 June 2018 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 2018	**Share capital £m**	**Merger reserve £m**	**Retained earnings £m**	**Total share capital and reserves £m**
At 1 April 2017	**1.2**	**2,632.8**	**0.2**	**2,634.2**
Profit for the financial year	**-**	**-**	**-**	**-**
At 31 March 2018	**1.2**	**2,632.8**	**0.2**	**2,634.2**

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

COMPANY CASH FLOW STATEMENT

During the 12 months to 31 March 2018 and the comparative 12 months to 31 March 2017 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 company limited by shares 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 90 to 99, 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 19.0% (2017: 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 2018 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 services	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.

	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	02405306	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	Property management	UK	Ordinary
Scotlife Homeloans (No. 2) Limited	02220177	Non-trading	UK	Ordinary
Silhouette Mortgages Limited	02356078	Non-trading	UK	Ordinary

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.

SPVs

As detailed in note 25, the Group established SPVs in connection with the Group's securitisation and secured funding programmes. 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. All were fully consolidated until the funding structures were unwound and the companies were placed into liquidation. None of the companies had material assets, liabilities or results during the years ended 31 March 2018 and 31 March 2017 and by 31 March 2018 all had been dissolved or placed into liquidation.

E. Merger reserve

	£m
At 1 April 2016, 31 March 2017 and 31 March 2018	**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 2018 £000	12 months to 31 March 2017 £000
Management charges to subsidiary undertakings	**574**	528
Costs recharged by subsidiary undertakings	**547**	503

(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 2018 were £1,032,440 and of the highest paid Director £610,773 (12 months to 31 March 2017: £1,529,449 and £766,169 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 parent and controlling party. The Group's Financial Statements are consolidated into the Annual Report & Accounts of HM Treasury which are available at www.gov.uk/government/publications.

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 the Company 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. No provision has been made.

J. Events after the reporting period

As detailed in note 39 to the Group accounts, on 26 April 2018 B&B announced that it had agreed to sell assets to an investor group led by Barclays Bank PLC. The Company provided a guarantee that should B&B fail to make payment under a valid claim made under the warranties and indemnities that B&B provided then the Company will make payment in satisfaction of the claim. Through commitments made by HM Treasury, the Company is satisfied that it will have sufficient funds to meet its liabilities arising from any claims made under the guarantee.

UK Asset Resolution Limited

Registered Office:
Croft Road
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Registered in England and Wales under company number 07301961

www.ukar.co.uk

ISBN – 978-1-5286-0439-0
CCS – CCS0518692414