UK Asset Resolution Limited Group

Interim Financial Report

for the 6 months to 30 September 2018

29 November 2018

UKAR Group Overview

Introduction

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[1].

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 £102.2bn to £13.6bn at September 2018 (October 2010: £115.8bn) including £36.8bn of customer loan repayments and £33.0bn of asset sales.

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.

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.

The 2018 Annual Reports & Accounts of UKAR, B&B and NRAM, and these Interim Financial Reports for the six months ended 30 September 2018, are available on UKAR's website www.ukar.co.uk.

This UKAR Group Interim Financial Report for the six months to 30 September 2018 incorporates the Interim Financial Report of the B&B Group in Section B and the Interim Financial Report of the NRAM Group in Section C. As NRAM has listed debt in issue, NRAM is required by the Financial Conduct Authority's ('FCA's') Disclosure and Transparency Rules to publish its Interim Financial Report and this has been prepared in accordance with IAS 34 'Interim Financial Reporting'. UKAR and B&B have no listed debt in issue and therefore are not required to issue Interim Financial Reports, but have voluntarily issued the information contained in this UKAR Group Interim Financial Report; the B&B Interim Financial Report has been prepared in accordance with IAS 34.

These results are for the six month reporting period to 30 September 2018. Where appropriate to show half year and full year comparisons, the unaudited six month period to 30 September 2017 ('H1 2017/18') and audited 12 month period to 31 March 2018 ('FY 2017/18') are used respectively in these interim accounts.

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

[1] *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 Interim Financial Report 'NRAM' refers to the underlying business.*

Contents **Page**

Section A

Summary Results of the

UK Asset Resolution Limited Group

for the 6 months to 30 September 2018

Key Highlights

During the period 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 ('KPIs'):

Financial Measure	6 months to September 2018	6 months to September 2017	12 months to March 2018
Underlying Profit Before Tax [1]	**£186.4m**	£238.0m	£583.9m
Net Government Loan Repayments	**£6.3bn**	£13.1bn	£14.7bn
3m+ Residential Arrears	**3,036**	4,196	3,582
Ongoing Administrative Expenses [2]	**£61.6m**	£76.2m	£148.4m

1. *An analysis of the difference between statutory and underlying profit is provided on page 8.*
2. *Excluding UKARcs costs of £3.6m (H1 2017/18: £3.1m; FY 2017/18: £6.2m). FY 2017/18 excludes a non-recurring credit of £2.3m.*

Underlying profit before tax for the six months has decreased by £51.6m from September 2017 to £186.4m (H1 2017/18: £238.0m; FY 2017/18: £583.9m). The reduction was primarily driven by lower net interest income as a result of the shrinking Balance Sheet and the prior year benefiting from the sale of investment securities. Underlying profit is an internal performance measure which excludes the remediation of inherited regulatory defects, certain gains or losses such as the sale of mortgage assets at a premium or discount and movements in fair value and hedge ineffectiveness relating to financial instruments.

Government loan repayments of £6.3bn were £6.8bn lower than the prior half year (H1 2017/18: £13.1bn; FY 2017/18: £14.7bn). Repayments in the period included £5.0bn proceeds from the sale of two separate B&B asset portfolios to an investor group led by Barclays, which was agreed on 26 April 2018, £0.9bn of customer redemptions and £0.3bn as a result of reducing liquidity requirements. Prior year repayments included £11.4bn proceeds from an asset sale, which settled in April 2017. Total government loan repayments since the formation of UKAR in October 2010 are £44.7bn (92%).

Arrears levels for both B&B and NRAM continue to fall 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 15% from 3,582 at 31 March 2018 to 3,036 cases as at 30 September 2018. The proportion of total accounts 3 or more months in arrears has increased from 2.55% at 31 March 2018 to 3.58% at 30 September 2018 (September 2017: 2.82%). The increase primarily reflects that the loans sold had a significantly higher proportion of up to date accounts than those retained by UKAR.

Administrative expenses (excluding £3.6m UKARcs costs) were £61.6m for the six months to September 2018, which is 19% lower than the six months to September 2017 (H1 2017/18: £76.2m; FY 2017/18: £148.4m).

	6 months to September 2018	6 months to September 2017	12 months to March 2018
Statutory Profit Before Tax	**£49.5m**	£216.8m	£583.2m

For the six months to September 2018, statutory profit before tax of £49.5m (H1 2017/18: £216.8m; FY 2017/18: £583.2m) includes £295.2m profit on sale of customer loans, a £392.1m loss following the sale of loans and the termination of associated derivatives and a £41.7m increase in customer redress provisions, primarily for Payment Protection Insurance ('PPI'). The £167.3m reduction in statutory profit before tax compared to the prior half year primarily reflects the termination of derivatives and the lower underlying profit, partly offset by the profit on the sale of loans.

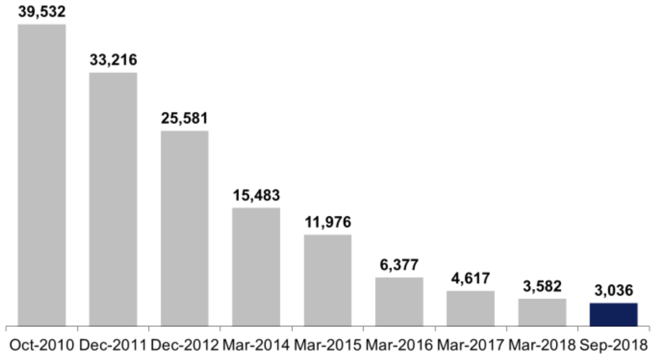
In May 2018 we completed the sale of £5.0bn B&B mortgage assets to an investor group led by Barclays Bank and on 26 September 2018 we agreed the sale of an £860m portfolio of equity release mortgages to Rothesay Life Plc. The assets were sold at a price above par, resulting in a profit on sale of loans in the period of £295.2m. However, this was more than offset by a £392.1m loss on the unwind of fixed rate hedges held against the equity release mortgages sold. Further information is provided on page 13.

Key Highlights (continued)

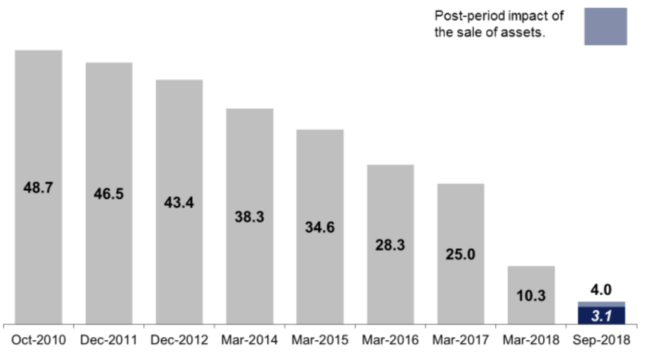
Reflecting the public's heightened awareness of the PPI deadline, actual claims volumes received during the period have been higher than previously projected and this is the principal reason the provision for customer redress has been increased by £41.7m.

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. The charts below illustrate the first half performance in the context of previous years.

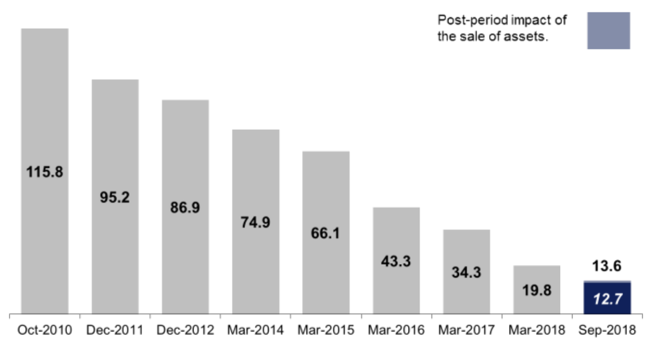
3m+ arrears down 92%



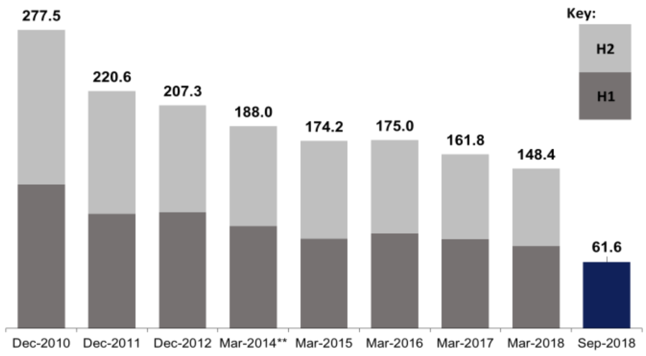
Government loans down £44.7bn



Balance Sheet assets (£bn) down 88%

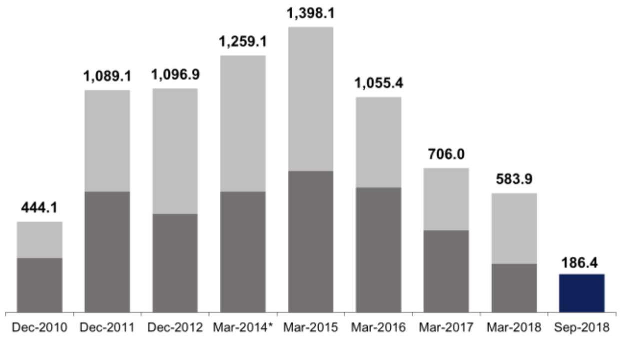


Administrative expenses (£m) down 54%*



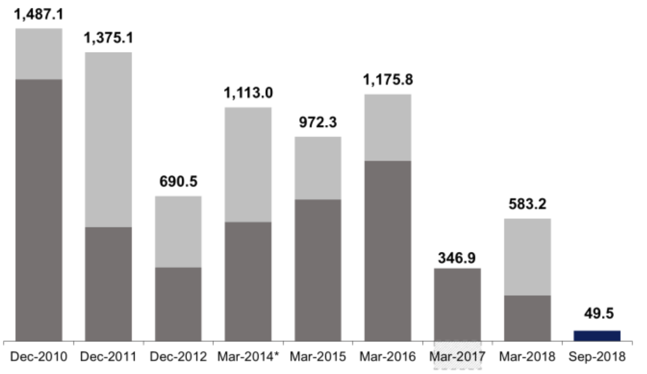
* excluding UKARcs costs
** 12 months to 31 March 2014

Underlying profit (£m)



* 12 months to 31 March 2014

Statutory profit (£m)



* 12 months to 31 March 2014

Key Performance Indicators

Internally, UKAR measures its financial performance against four KPIs. The table below shows progress versus these KPIs as well as supporting financial measures.

	September 2018	September 2017	March 2018
Underlying Profit Before Tax	**£186.4m**	£238.0m	£583.9m
- Statutory Profit Before Tax [1]	£49.5m	£216.8m	£583.2m
- Net Interest Margin on Average Interest Earning Assets (%)	3.13	2.34	2.50
Net Government Loan Repayments [2]	**£6.3bn**	£13.1bn	£14.7bn
- Government Loan Balance	£4.0bn	£11.9bn	£10.3bn
- Total Lending Balances [3]	£11.0bn	£18.2bn	£17.2bn
3m+ Residential Arrears [4]	**3,036**	4,196	3,582
- Residential Arrears Balance as a percentage of the Total Residential Mortgage Balance (%)	0.26	0.19	0.18
- Residential Payments Overdue	£27.6m	£35.2m	£31.6m
- Residential Arrears 3 months and over and possessions as a percentage of the book:			
- By value (%)	4.39	3.39	3.14
- By number of accounts (%)	3.58	2.82	2.55
Ongoing Administrative Expenses [5]	**£61.6m**	£76.2m	£148.4m
- Ratio of ongoing costs to average interest earning assets (%):			
- Statutory	0.83	0.72	0.72
- Ongoing	0.83	0.72	0.73

1. *An analysis of the difference between statutory and underlying profit is provided on page 8.*
2. *Government loan repayments include the repayment of proceeds from asset sales (H1 2018/19: £5.0bn; H1 2017/18: £11.4bn; FY 2017/18: £11.4bn).*
3. *Total lending balances includes loans to customers, assets classified as held for sale and equity release mortgages.*
4. *3m+ arrears KPI includes loans to customers, assets classified as held for sale and equity release mortgages.*
5. *Excluding UKARcs (H1 2018/19: £3.6m; H1 2017/18: £3.1m; FY 2017/18: £6.2m).*

Business Review

Performance

The Board continue to believe it is appropriate to assess performance based on the underlying profits of the business, which excludes the remediation of inherited regulatory defects and any associated insurance claims and certain gains or losses such as the sale of assets and associated fair value charges following the termination of swaps. 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. 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 before tax for the six months has decreased by £51.6m from September 2017 to £186.4m (H1 2017/18: £238.0m; FY 2017/18: £583.9m). The reduction was primarily driven by lower net interest income as a result of the shrinking Balance Sheet and the prior year benefiting from the sale of investment securities.

For the six months to September 2018, statutory profit before tax of £49.5m (H1 2017/18: £216.8m; FY 2017/18: £583.2m) includes a £295.2m profit on the sale of customer loans more than offset by the £392.1m impact of unwinding hedges relating to the equity release mortgages and £41.7m additional customer redress provisions.

Underlying net operating income was £235.8m for the six months to 30 September 2018, £53.5m lower than the comparable period in 2017 primarily reflecting the reducing Balance Sheet and the prior year benefiting from the sale of investment securities. Excluding UKARcs costs, administrative expenses decreased £14.6m to £61.6m for the six month period. The net impairment release on loans and advances to customers decreased by £14.9m to a £12.8m credit for the six months. The Group adopted IFRS 9 'Financial Instruments' with effect from 1 April 2018. The prior year impairment charged was calculated under IAS 39. Further details are provided on page 11.

Costs relating to UKARcs are recovered from HM Treasury and the analysis below includes both non-interest income and administrative expenses in relation to UKARcs (H1 2018/19: £3.6m; H1 2017/18: £3.1m; FY 2017/18: £6.2m).

Reconciliation of underlying profit before taxation to statutory profit before taxation

	UKAR		
	6 months to 30 Sept 2018 £m	6 months to 30 Sept 2017 £m	12 months to 31 March 2018 £m
Net interest income	**225.5**	246.1	506.1
Underlying net non-interest income [1,2]	**10.3**	43.2	54.9
Underlying net operating income	**235.8**	289.3	561.0
Ongoing administrative expenses [1]	**(65.2)**	(79.3)	(154.6)
Net impairment release on loans to customers	**12.8**	27.7	170.8
Net release of provision for insurance risk on equity release mortgages	**3.0**	-	6.4
Net impairment release on investment securities	**-**	0.3	0.3
Underlying profit before tax	**186.4**	238.0	583.9
Unrealised fair value movements on financial instruments	**(0.6)**	1.2	2.3
Hedge ineffectiveness	**1.9**	19.4	16.5
Profit on sale of loans	**295.2**	1.7	2.3
Hedging impacts of sale of loans	**(392.1)**	-	-
Non-recurring administrative expenses	**-**	-	2.3
Provision for customer redress	**(41.7)**	(43.5)	(43.5)
Legal and insurance claims	**0.4**	-	19.4
Statutory profit before tax	**49.5**	216.8	583.2

1. *UKAR underlying net non-interest income and administrative expenses include £3.6m in relation to UKARcs (H1 2017/18: £3.1m; FY 2017/18: £6.2m).*
2. *Underlying net non-interest income includes net fee and commission income, net realised gains less losses on investment securities and other operating income.*

For an analysis of B&B refer to section B and for NRAM, section C.

Business Review (continued)

Net Interest Income

	UKAR		
	6 months to 30 Sept 2018 £m	6 months to 30 Sept 2017 £m	12 months to 31 Mar 2018 £m
Interest receivable and similar income			
On equity release mortgages	**28.0**	29.3	58.1
On other secured loans	**201.7**	267.9	528.7
On other lending	**8.2**	9.3	17.8
On investment securities and deposits	**6.9**	6.1	10.4
Total interest receivable and similar income	**244.8**	312.6	615.0
Interest expense and similar charges			
On HM Treasury loans	**(20.0)**	(60.0)	(96.0)
On wholesale funding	**(6.4)**	(6.4)	(12.7)
Other[1]	**7.1**	(0.1)	(0.2)
Total interest expense and similar charges	**(19.3)**	(66.5)	(108.9)
Net interest income	**225.5**	246.1	506.1
Average balances			
Interest-earning assets ('IEA')	**14,363**	21,014	20,235
Financed by:			
- interest-bearing funding	**2,651**	5,640	4,749
- interest-free funding[2]	**11,712**	15,374	15,486
Average rates %	**%**	%	%
Gross yield on IEA	**3.40**	2.97	3.04
Cost of interest-bearing funding	**(1.98)**	(2.35)	(2.29)
Interest spread	**1.42**	0.62	0.75
Contribution of other adjustments	**0.05**	(0.00)	(0.00)
Contribution of interest-free funding[2]	**1.66**	1.72	1.75
Net interest margin on average IEA	**3.13**	2.34	2.50
Average Bank Base Rate	**0.58**	0.25	0.35
Average 1-month LIBOR	**0.59**	0.25	0.36
Average 3-month LIBOR	**0.73**	0.30	0.40

1. *Other includes a release of £7.0m accrued in prior years in respect of potential tax liabilities.*
2. *Interest-free funding is calculated as an average over the financial period, and includes the Statutory Debt and share capital and reserves.*

For an analysis of B&B refer to section B note 3 and for NRAM section C note 3.

Net interest income for the six months to 30 September 2018 was 8.4% lower than the equivalent period in 2017 at £225.5m (H1 2017/18: £246.1m; FY 2017/18: £506.1m). The reduction in net interest income was primarily due to the sale of £5.0bn of B&B assets on 26 April 2018.

At a UKAR level underlying net interest margin for the six months to 30 September 2018 increased to 3.13% from 2.34% for the six months to 30 September 2017 (FY 2017/18: 2.50%). The increase primarily reflects that NRAM mortgages, which have a higher yield, now form a higher proportion of the total book following the sale of B&B assets in April 2018. The cost of interest-bearing funding has reduced following payments to reduce the balance on B&B's Working Capital Facility ('WCF') to zero in May 2018. The WCF has an interest rate of Bank Base Rate +500bps.

Business Review (continued)

Net Interest Income (continued)

On the B&B book the underlying net interest margin increased to 3.05% (H1 2017/18: 1.79%; FY 2017/18: 2.03%). The balance on the WCF has been reduced to zero. This has resulted in a greater contribution from interest-free funding. The gross yield on interest earning assets increased, reflecting the low margin on the loans sold in April 2018. The £4.7bn repayment of the Financial Services Compensation Scheme loan in April 2018 had no direct impact on net interest income as the loan is non-interest bearing but offset some of the increase in the contribution from interest-free funding seen in the period.

In NRAM, the net interest margin increased to 3.20% (H1 2017/18: 3.06%; FY 2017/18: 3.13%). This was primarily due to an 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 decreased by £32.9m to £10.3m (H1 2017/18: £43.2m; FY 2017/18: £54.9m). The prior year period benefited from a profit of £30.1m on the sale of investment securities.

Administrative expenses

		UKAR	
	6 months to 30 Sept 2018 £m	6 months to 30 Sept 2017 £m	12 months to 31 March 2018 £m
Wages and salaries	**4.5**	5.9	11.9
Social security costs	**0.7**	0.7	1.4
Defined benefit pension credit	**(6.3)**	(5.2)	(10.8)
Defined contribution pension costs	**0.4**	0.3	0.8
Other retirement benefit costs	**0.2**	0.2	0.3
Total staff costs	**(0.5)**	1.9	3.6
IT costs	**10.0**	4.7	10.1
Outsourced and professional services	**53.9**	66.0	128.8
Depreciation and amortisation	**1.7**	1.4	2.7
Other administrative expenses	**0.1**	5.3	9.4
Total ongoing	**65.2**	79.3	154.6
Non-recurring	**-**	-	(2.3)
Total Administrative Expenses	**65.2**	79.3	152.3

For an analysis of B&B refer to section B note 5 and for NRAM section C note 4.

Costs for the six months to 30 September 2018 include £3.6m (H1 2017/18: £3.1m; FY 2017/18: £6.2m) relating to providing administrative services to the government's Help to Buy: mortgage guarantee scheme and Help to Buy: ISA. These costs were fully reimbursed by HM Treasury.

Excluding UKARcs costs, the decrease in ongoing administrative expenses from £76.2m to £61.6m (19.2%) in the six months to 30 September 2018 (FY 2017/18: £148.4m) primarily reflects a reduction in servicing costs as the Balance Sheet decreases.

The increase in the ratio of ongoing costs to average interest earning assets from 0.72% to 0.83% reflects the increasing contribution of fixed costs as the UKAR mortgage book reduces as well as the cost of the interim servicing arrangements for the loans sold (which are no longer included within interest earning assets). Income recognised in relation to the interim servicing arrangement has been recognised in other operating income.

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.

Business Review (continued)

Arrears and possessions (continued)

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 those in possession, reduced by 15% from 3,582 at 31 March 2018 to 3,036 at 30 September 2018. The proportion of total accounts 3 or more months in arrears has increased from 2.55% at 31 March 2018 to 3.58% at 30 September 2018. The total value of payments overdue by residential customers has reduced from £31.6m at 31 March 2018 to £27.6m at 30 September 2018, equivalent to 0.26% of mortgage balances (March 2018: 0.18%). The proportion of accounts in arrears and the percentage of payments overdue has increased following the sale of the loan portfolio in April 2018. The loans sold had a significantly higher proportion of up to date accounts than those retained by UKAR.

The number of properties in possession for UKAR reduced from 408 at the end of March 2018 to 393 at 30 September 2018 (September 2017: 431). Within B&B, possession stock increased from 223 cases at 31 March 2018 to 238 at 30 September 2018 (September 2017: 282). NRAM possession stock reduced to 155 cases from 185 at 31 March 2018 (September 2017: 149). A total of 523 properties were taken into possession in the six month period (H1 2017/18: 511; FY 2017/18: 1,004).

In addition to residential property possessions, UKAR also has a number of buy-to-let properties managed by Law of Property Act ('LPA') receivers. The LPA 'for sale' stock has decreased by 1 case to 84 cases at 30 September 2018 (September 2017: 172; March 2018: 85).

During the six months 532 cases (H1 2017/18: 565; FY 2017/18: 1,083) were sold following possession. In addition, a further 30 cases (H1 2017/18: 83; FY 2017/18: 154) were sold which were under LPA management. Total realised losses on properties sold following possession or sold by an LPA receiver were £16.8m (H1 2017/18: £25.8m; FY 2017/18: £39.0m), all of which had previously been fully provided for. Within these losses £0.8m were suspected fraudulent and professional negligence cases (H1 2017/18: £3.2m; FY 2017/18: £5.8m).

The number of unsecured loans 3 months or more in arrears was 2,635 cases (September 2017: 2,958; March 2018: 2,782).

Loan impairment: IFRS 9 adoption

The Group adopted IFRS 9 ‘Financial Instruments’ with effect from 1 April 2018. IFRS 9 replaces the IAS 39 ‘incurred loss’ approach to impairment provisioning with a forward looking ‘expected loss’ approach. Based on the age of the loan books and the Group’s business model, all loans to customers have been categorised as stage 2 or 3; this approach is permitted by IFRS 9. Stage 2 loans are those for which there has been a significant increase in credit risk since the asset’s origination. Stage 3 loans are those which are credit-impaired. As a result, the impairment provision reflects full lifetime expected losses.

Forward-looking assessments are made which are dependent on economic assumptions including interest rates, unemployment and house price inflation. Economic assumptions are sourced from specialist economic analysts and approved by the Board. Under each scenario, expected losses are derived based on assumptions for the probability of cases falling into arrears, redemption rates, sales and losses, monthly payment rates and post-term end performance. These assumptions have been based on historical performance at segment level.

An estimate of the impact of the adoption of IFRS 9 was disclosed in the March 2018 Annual Report and Accounts. The revised opening provision of £329.3m represents a £34m (12%) increase compared with the equivalent IAS 39 provision, increasing the provision coverage by 0.3%. The revised IFRS 9 opening provision is split £243.2m residential, £12.2m Commercial and £73.9m Unsecured. The increase has been taken to retained earnings. FY 2017/18 and March 2018 comparatives in the loan impairment sections below have been restated to reflect 1 April 2018 positions under IFRS 9. H1 2017/18 and September 2018 figures remain calculated on an IAS 39 basis.

For further information on the adoption of IFRS 9 refer to section B note 15 for B&B and section C note 14 for NRAM.

Business Review (continued)

Loan impairment: residential loans

Provisions for residential loan impairment held on the Balance Sheet have reduced by £22.1m compared with the restated 1 April 2018 provision to £221.1m, predominantly due to write-offs following the sale of properties.

Included within the above 1 April 2018 restated provision are fraud and professional negligence provisions of £54.4m. These provisions have increased by £0.3m to £54.7m in the six months to September 2018, as a result of a small number of additional accounts being identified, partially offset by £0.8m of write-offs following the sale of properties. Total UKAR fraud provisions represent coverage of 20% of suspected fraud and professional negligence cases (September 2017: 33%; March 2018 (restated): 18%). Within the B&B book, fraud and professional negligence provisions have reduced by £0.7m to £50.0m (September 2017: £134.8m; March 2018 (restated): £50.7m). In the NRAM book, fraud and professional negligence provisions have increased by £1.1m to £4.7m (September 2017: £13.9m; March 2018 (restated): £3.6m).

As a proportion of balances, the residential impairment provision was 2.12% (September 2017: 2.85%; March 2018 (restated): 2.04%). The residential loan impairment was a credit of £12.1m for the six months to September 2018 primarily due to recoveries relating to loans previously written-off (H1 2017/18: £22.7m credit; FY 2017/18: £161.6m credit). The large credit in 2017/18 related to a one-off 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.

Loan impairment: unsecured loans

The provision for unsecured loans is £67.1m, which is a £6.8m reduction compared to the restated 1 April 2018 provision (September 2017: £65.1m; March 2018 (restated): £73.9m). Realised losses in the six months to September 2018 were £3.4m (H1 2017/18: £8.4m; FY 2017/18: £13.4m) all of which had previously been fully provided for.

The credit for unsecured loan impairment for the six months to 30 September 2018 was £3.4m (H1 2017/18: £1.4m; FY 2017/18: £5.9m). Asset coverage was 24.00% at 30 September 2018 (September 2017: 18.66%; March 2018 (restated): 23.71%).

Loan impairment: commercial loans

The provision for the commercial book, which was consistent with the IAS 39 provision, decreased to £11.3m from £12.2m at 31 March 2018, with coverage at 10.66% (September 2017: 4.63%; March 2018: 4.69%). Coverage has increased due to the redemption of one significant loan in the period which was fully performing. UKAR continually reviews 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.

Provision for insurance risk: equity release loan book

The total provision for insurance risk on the Group's equity release loans at 30 September 2018 was £0.2m (September 2017: £137.5m; March 2018: £123.2m). The reduction in the provision is due to the sale of the majority of the Group's equity release mortgages in September 2018. The provision for insurance risk held against the loans sold was released and included in the profit on sale.

As a proportion of the remaining £8.0m equity release loan balance, the provision represents coverage of 2.09% (September 2017: 14.83%; March 2018: 14.16%). The credit in the period of £3.0m (H1 2017/18: £nil; FY 2017/18: £6.4m credit) primarily reflects better house prices than forecast in the period up to the majority of loans being sold.

Accounting volatility on derivative financial instruments

Derivative financial instruments have primarily been used to economically hedge the risk of changes in interest rates on equity release mortgages. In anticipation of the sale of these mortgages, the use of derivative financial instruments was reduced during the six months to 30 September 2018. This reduction resulted in the termination of the International Financial Reporting Standards ('IFRS') compliant portfolio fair value hedge relationship, where movements in the value of the derivatives were offset in full or in part by opposite movements in the fair value of the mortgages, on 1 July 2018.

Business Review (continued)

Accounting volatility on derivative financial instruments (continued)

The Income Statement credit for hedge ineffectiveness prior to the termination of the portfolio fair value hedge relationship was £1.9m (H1 2017/18: £19.4m credit; FY 2017/18: £16.5m credit).

The £392.1m charge to the Income Statement for hedging impacts of the sale of loans (H1 2017/18: £nil; FY 2017/18: £nil) primarily represents the release of the fair value adjustment on portfolio hedging from the Balance Sheet at the point of sale of the mortgages.

The remaining swaps hedging equity release mortgages were terminated in October 2018.

Unrealised fair value movements were a £0.6m loss in the six months to September 2018 (H1 2017/18: £1.2m gain; FY 2017/18: £2.3m gain). These generally relate to other derivatives that act as an economic hedge but are not treated as an accounting hedge under IFRS.

Profit on the sale of loans

The overall profit on the sale of loans falls on two lines within the Income Statement; profit on sale of loans and hedging impacts of the sale of loans. The £295.2m profit on sale of loans (H1 2017/18: £1.7m profit; FY 2017/18: £2.3m profit) reflects two separate asset sale transactions in the period. In May 2018 we completed the sale of £5.0bn B&B mortgage assets to an investor group led by Barclays Bank and on 26 September 2018 we agreed the sale of an £860m portfolio of equity release mortgages to Rothesay Life Plc.

The £392.1m charge to the Income Statement for hedging impacts of the sale of loans specifically relates to the sale of equity release mortgages. The hedges were created when the mortgages were originated to protect the margin against changes in interest rates. The charge reflects the fall in long term interest rates.

Overall the sale of the equity release mortgages generated a net loss of £180.2m. A No Negative-Equity Guarantee (‘NNEG’) was provided on the loans, as was standard for these products, and is a key factor in assessing the value of the portfolio. Given the performance of the housing market since the loans were originated, we estimate that the NNEG is likely to have adversely impacted the sale price by around £200m.

Legal and insurance claims

£0.4m was received in respect of legal and insurance claims in the period (H1 2017/18: £nil; FY 2017/18: £19.4m).

Provision for customer redress

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

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

Reflecting heightened awareness of the August 2019 PPI deadline, payments during the period have been higher than previously assumed. The provision for customer redress has therefore been increased by £41.7m to reflect updated PPI payment assumptions (£44.1m), partly offset by a net release on other customer redress provisions (£2.4m).

Provisions include £119.4m (September 2017: £166.7m; March 2018: £123.8m) in respect of potential claims from customers regarding PPI and other customer redress.

Taxation

The total Income Statement tax charge for the six month period was £18.8m (H1 2017/18: £50.3m; FY 2017/18: £96.1m). Given the statutory profit before taxation of £49.5m (H1 2017/18: £216.8m; FY 2017/18: £583.2m) this equates to an effective tax rate of 38.0% (H1 2017/18: 23.2%; FY 2017/18: 16.5%). The effective tax rate of 38.0% is higher than the standard weighted average rate of UK corporation tax for the period of 19.0% (2017/18: 19.0%) primarily due to items which are disallowable for tax purposes.

Business Review (continued)

Balance Sheet

Balance Sheet Summary

		UKAR	
	6 months to 30 Sept 2018 £m	6 months to 30 Sept 2017 £m	12 months to 31 March 2018 £m
Loans to customers:			
- residential mortgages	**10,651.4**	16,964.2	10,999.5
- commercial loans	**69.7**	251.3	247.5
- unsecured lending	**232.6**	283.7	256.2
Equity release mortgages	**7.8**	744.5	747.2
Assets classified as held for sale	-	-	4,991.6
Amount owed in respect of sale of loans	**945.0**	-	-
Wholesale assets	**1,122.9**	1,936.6	1,571.8
Fair value adjustments on portfolio hedging	**-**	418.7	420.9
Other assets	**606.4**	534.1	578.3
Total assets	**13,635.8**	21,133.1	19,813.0
Statutory Debt and HM Treasury loans	**4,026.1**	11,882.2	10,278.8
Wholesale funding	**210.6**	210.5	204.2
Derivative financial instruments	**136.7**	468.4	471.8
Other liabilities	**423.5**	396.7	326.4
Equity	**8,838.9**	8,175.3	8,531.8
Total equity and liabilities	**13,635.8**	21,133.1	19,813.0

For an analysis of B&B refer to section B and for NRAM section C.

The Balance Sheet has reduced by £6.2bn since 31 March 2018 to £13.6bn (September 2017: £21.1bn; March 2018: £19.8bn). The reduction was driven by the sale of mortgage assets and customer redemptions in the period, partly offset by the recognition of customer loans at fair value following the adoption of IFRS 9 on 1 April 2018. The £0.9bn owed in respect of the sale of loans to Rothesay Life Plc as at 30 September 2018, was settled in October 2018 and used to reduce the Statutory Debt and HM Treasury loan after the Balance Sheet date.

Liabilities

Government loans reduced by £6.3bn (B&B: £5.7bn, NRAM: £0.6bn) from 31 March 2018 to £4.0bn (September 2017: £11.9bn; March 2018: £10.3bn) due to repayments made in the period.

Repayment of the government loans remains a primary objective of UKAR. In the six month period £6.3bn of government loans were repaid (H1 2017/18: £13.1bn; FY 2017/18: £14.7bn). Of these repayments £5.0bn were in relation to the sale of two B&B asset portfolios to an investor group led by Barclays on 26 April 2018. Prior year repayments included £11.4bn proceeds from an asset sale, which settled in April 2017.

Capital

The regulated companies within the UKAR Group operate under a 'Prudential Sourcebook for Mortgage and Home Finance Firms and Insurance Intermediaries' ('MIPRU') regulatory status. As they do not undertake new lending, they are only required to hold capital in excess of 1% of total Balance Sheet assets plus any undrawn commitments. However, 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 at 30 September 2018 the capital positions reflect that all post tax profits have been retained since the nationalisation of both companies with B&B capital representing 45.5% (September 2017: 22.1%; March 2018: 24.0%) of B&B Company assets and NRAM capital representing 60.8% (September 2017: 51.6%; March 2018: 58.7%) of NRAM Company assets.

The UKAR Group's capital is provided by its shareholder (currently HM Treasury). The regulated companies within the UKAR Group met their capital requirements in full throughout the period and have received no additional capital from HM Treasury.

Risks and Uncertainties

The Directors are aware of the following material risks and uncertainties which may affect UKAR during the period to 31 March 2019:

- external economic factors including unemployment, house price movements, the extent and timing of changes in interest rates and the rate of interest charged on the government loans;
- the impact of the UK leaving the European Union, including any impact on the economic factors noted above, plus any subsequent changes to laws and regulations applicable to companies operating within the UK and any changes to UK government policy in relation to state owned assets;
- regulatory and conduct risk relating to products and services not meeting customer expectations or resulting in potentially unfair outcomes for customers;
- the risks and potential impacts of externally generated cyber security threats; and
- the risk of service disruption and/or not receiving services in line with contractual provisions from third party service providers or any subsequent termination of a third party contract.

There may be other risks that are not listed above that the Directors are not aware of or that the Directors do not consider material.

The business, financial condition or results of operations of UKAR could be adversely affected by any of these risks. More detailed discussion of risk management and control was provided on pages 64 to 68 of UKAR's 2018 Annual Report & Accounts.

Other Information

UK Asset Resolution Limited

UKAR was established on 1 October 2010 to facilitate the orderly management of the closed mortgage books of both B&B and NRAM to maximise value for taxpayers. The Executive team of UKAR manages both organisations focusing on this common objective, while ensuring that both companies continue to treat customers fairly, deliver consistently high levels of service and support those customers facing financial difficulty.

Bradford & Bingley plc

On 29 September 2008, all of B&B's retail branches and its savings accounts were transferred to Banco Santander Group. The remainder of the business, including the mortgage books of B&B and its subsidiary Mortgage Express, were nationalised and taken into public ownership by the government. B&B is closed to new lending but continues to provide services to 24,000 existing mortgage borrowers, with 31,000 mortgage accounts.

At 30 September 2018, 168 colleagues were employed by B&B (September 2017: 179; March 2018: 179). Mortgage servicing is provided by Computershare.

NRAM Limited

Northern Rock was nationalised and taken into government ownership in February 2008 and was then restructured into two legal entities with effect from 1 January 2010 - Northern Rock plc (which was subsequently sold to Virgin Money) and NRAM plc. NRAM plc retained the majority of the pre-existing mortgage book and all pre-existing unsecured loan accounts. On 5 May 2016, UKAR sold NRAM plc to Cerberus. Prior to the sale, on 30 April 2016, assets and liabilities not included in the transaction transferred from NRAM plc to a newly established subsidiary of UKAR, known as NRAM (No.1) Limited. On 18 July 2016, NRAM (No.1) Limited changed its name to NRAM Limited. NRAM Limited is closed to new lending but continues to provide services to 60,000 existing borrowers, with 55,000 mortgage accounts and 27,000 unsecured loan accounts.

NRAM had no employees during the periods presented. Services were provided to NRAM by B&B, both directly and through the outsourcing arrangement with Computershare.

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.

UKARcs is managed on a nil-gain nil-loss basis with all costs being fully reimbursed by HM Treasury. UKARcs had no employees during the periods presented. Services were provided to UKARcs by B&B.

UKAR Consolidated Financial Results

Consolidated Income Statement

	6 months to 30 Sept 2018 £m	6 months to 30 Sept 2017 £m	12 months to 31 Mar 2018 £m
Interest receivable and similar income	**244.8**	312.6	615.0
Interest expense and similar charges	**(19.3)**	(66.5)	(108.9)
Net interest income	**225.5**	246.1	506.1
Fee and commission income	**8.4**	4.7	9.2
Fee and commission expense	**(6.1)**	(6.2)	(12.4)
Net fee and commission income	**2.3**	(1.5)	(3.2)
Net realised gains less losses on investment securities	**0.3**	30.1	30.7
Unrealised fair value movements on financial instruments	**(0.6)**	1.2	2.3
Hedge ineffectiveness	**1.9**	19.4	16.5
Other operating income	**7.7**	14.6	27.4
Non-interest income	**11.6**	63.8	73.7
Total income	**237.1**	309.9	579.8
Administrative expenses	**(65.2)**	(79.3)	(152.3)
Provision for customer redress	**(41.7)**	(43.5)	(43.5)
Legal and insurance claims	**0.4**	-	19.4
Net impairment release on loans to customers*	**12.8**	27.7	170.8
Net release of provision for insurance risk on equity release mortgages	**3.0**	-	6.4
Net impairment release on investment securities	**-**	0.3	0.3
Profit on sale of loans	**295.2**	1.7	2.3
Hedging impacts of sale of loans	**(392.1)**	-	-
Profit before taxation	**49.5**	216.8	583.2
Taxation	**(18.8)**	(50.3)	(96.1)
Profit for the period	**30.7**	166.5	487.1

* The Group has adopted IFRS 9 with effect from 1 April 2018. Consequently the impairment on loans to customers presented above for the period ended 30 September 2018 has been prepared on a different basis from that presented for the comparative periods. Further information is provided on pages 19 to 21.

UKAR Consolidated Financial Results (continued)

Consolidated Balance Sheet

	30 Sept 2018 £m	30 Sept 2017 £m	31 Mar 2018 £m
Assets			
Cash at bank and in hand	**1,122.9**	1,936.0	1,571.8
Amount owed in respect of sale of loans	**945.0**	-	-
Investment securities	**-**	0.6	-
Loans to customers*	**10,953.7**	17,499.2	11,503.2
Assets classified as held for sale: loans to customers	**-**	-	4,991.6
Equity release mortgages	**7.8**	744.5	747.2
Fair value adjustments on portfolio hedging	**-**	418.7	420.9
Other assets	**16.5**	40.3	30.8
Retirement benefit assets	**587.7**	489.5	543.9
Property, plant and equipment	**0.3**	0.4	0.3
Intangible assets	**1.9**	3.9	3.3
Total assets	**13,635.8**	21,133.1	19,813.0
Liabilities			
Statutory Debt and HM Treasury loans	**4,026.1**	11,882.2	10,278.8
Derivative financial instruments	**136.7**	468.4	471.8
Debt securities in issue	**210.6**	210.5	204.2
Other liabilities	**95.5**	120.2	93.2
Current tax liabilities	**28.7**	26.8	4.0
Deferred tax liabilities	**164.3**	64.2	84.2
Retirement benefit obligations	**7.9**	4.8	8.2
Provisions	**127.1**	180.7	136.8
Total liabilities	**4,796.9**	12,957.8	11,281.2
Equity			
Issued capital and reserves attributable to owners of the parent:			
- share capital	**1.2**	1.2	1.2
- reserves*	**1,495.7**	3,587.2	1,141.7
- retained earnings*	**7,342.0**	4,586.9	7,388.9
Share capital and reserves attributable to owners of the parent	**8,838.9**	8,175.3	8,531.8
Total equity and liabilities	**13,635.8**	21,133.1	19,813.0

* The Group has adopted IFRS 9 with effect from 1 April 2018. Consequently the amounts presented above for 30 September 2018 have been prepared on a different basis from that presented for the comparative periods. Further information is provided on pages 19 to 21.

UKAR: Adoption of IFRS 9

The Group has adopted IFRS 9 with effect from 1 April 2018. As permitted by IFRS 9, prior periods have not been restated.

The following table shows the classification of financial assets and liabilities on transition to IFRS 9 on 1 April 2018:

	IAS 39 classification	IFRS 9 classification	IAS 39 carrying amount 31 March 2018 £m	IFRS 9 carrying amount 1 April 2018 £m
Financial assets				
Cash at bank and in hand	Loans and receivables	Amortised cost	1,571.8	1,571.8
Loans to customers	Loans and receivables	FVOCI	11,503.2	12,047.7
Fair value adjustments on portfolio hedging	Fair value macro-hedge	Fair value macro-hedge	420.9	420.9
Other financial assets	Loans and receivables	Amortised cost	4.9	4.9
			13,500.8	**14,045.3**
Financial liabilities				
Statutory Debt and HM Treasury loans	Amortised cost	Amortised cost	10,278.8	10,278.8
Derivative financial instruments	FVP&L (mandatory)	FVP&L (mandatory)	471.8	471.8
Debt securities in issue	Amortised cost	Amortised cost	204.2	204.2
Other financial liabilities	Amortised cost	Amortised cost	79.7	79.7
			11,034.5	**11,034.5**

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 solely payments of principal and interest ('SPPI'). Therefore the Group's loans to customers are carried at fair value through Other Comprehensive Income ('FVOCI').

Under IFRS 9, allowances are made for credit losses on loans to customers on an 'expected loss' basis, and are generally higher than allowances for credit losses under the IAS 39 'incurred loss' approach.

The Group has no hedge accounting other than the fair value macro-hedging of the equity release mortgages. As IFRS 9 does not address macro-hedging, the Group continues to apply the IAS 39 macro-hedge accounting rules.

The Group continues to hold 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 liabilities continue to be carried at fair value through profit or loss ('FVP&L') as the cash flows do not satisfy the definition of SPPI. The accounting treatment of the Group's other financial liabilities is not affected by the implementation of IFRS 9 and they continue to be carried at amortised cost.

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

There were no financial assets or liabilities reclassified to amortised cost, and no assets reclassified out of FVP&L to FVOCI, as a result of the transition to IFRS 9.

The fair value of loans to customers at 31 March 2018 has been revised compared to that disclosed in the Group's 31 March 2018 Annual Report & Accounts as a result of refinement of inputs to the Group's fair value models.

UKAR: Adoption of IFRS 9 (continued)

The following tables detail the changes to the Group's Balance Sheet as a result of the transition to IFRS 9 on 1 April 2018:

	31 March 2018 £m	Re-classification £m	Re-measurement £m	1 April 2018 £m
Assets				
Loans and receivables:				
Cash at bank and in hand	1,571.8	(1,571.8)	-	-
Loans to customers	11,503.2	(11,503.2)	-	-
Other financial assets	4.9	(4.9)	-	-
Financial assets at amortised cost:				
Cash at bank and in hand	-	1,571.8	-	1,571.8
Other financial assets	-	4.9	-	4.9
Financial assets at FVOCI:				
Loans to customers	-	11,503.2	544.5	12,047.7
Financial assets not measured under IFRS 9:				
Assets classified as held for sale: loans to customers	4,991.6	-	-	4,991.6
Equity release mortgages	747.2	-	-	747.2
Fair value adjustments on portfolio hedging	420.9	-	-	420.9
Non-financial assets:				
Other non-financial assets	25.9	-	-	25.9
Retirement benefit assets	543.9	-	-	543.9
Property, plant and equipment	0.3	-	-	0.3
Intangible assets	3.3	-	-	3.3
Total assets	**19,813.0**	**-**	**544.5**	**20,357.5**
Liabilities				
Financial liabilities at amortised cost:				
Statutory Debt and HM Treasury loans	10,278.8	-	-	10,278.8
Debt securities in issue	204.2	-	-	204.2
Other financial liabilities	79.7	-	-	79.7
Financial liabilities at FVP&L:				
Derivative financial instruments	471.8	-	-	471.8
Non-financial liabilities:				
Other non-financial liabilities	13.5	-	-	13.5
Current tax liabilities	4.0	-	-	4.0
Deferred tax liabilities	84.2	-	104.0	188.2
Retirement benefit obligations	8.2	-	-	8.2
Provisions	136.8	-	-	136.8
Total liabilities	**11,281.2**	**-**	**104.0**	**11,385.2**
Equity				
Share capital	1.2	-	-	1.2
Fair value reserve	-	-	468.6	468.6
Other reserves	1,141.7	-	-	1,141.7
Retained earnings	7,388.9	-	(28.1)	7,360.8
Total equity	**8,531.8**	**-**	**440.5**	**8,972.3**
Total equity and liabilities	**19,813.0**	**-**	**544.5**	**20,357.5**

UKAR: Adoption of IFRS 9 (continued)

The reclassifications in the table above are from the IAS 39 'loans and receivables' to the IFRS 9 'financial assets at amortised cost' and 'financial assets at FVOCI' categories. The £544.5m remeasurements of loans to customers comprise an increase of £34.0m in impairment provisions and an increase of £578.5m as the loans are carried at fair value under IFRS 9. Further details of these adjustments are provided on page 19. Deferred tax of £104.0m has been provided in respect of these adjustments.

Fair value reserve:	**£m**
Balance under IAS 39	-
Remeasurement of loans to customers carried at FVOCI	578.5
Tax effect of the above	(109.9)
Balance under IFRS 9	**468.6**

Retained earnings:	**£m**
Balance under IAS 39	7,388.9
Change to impairment provisions	(34.0)
Tax effect of the above	5.9
Net adjustment to retained earnings	(28.1)
Balance under IFRS 9	**7,360.8**

Section B

Bradford & Bingley plc Group

Interim Financial Report

for the 6 months to 30 September 2018

Key Highlights

- Balance Sheet reduced by a further £5.9bn in the last six months to £5.9bn.
- Completed the sale of £5.0bn mortgage assets to an investor group led by Barclays Bank and agreed the sale of an £851m portfolio of equity release mortgages to Rothesay Life Plc.
- Government loan repayments of £5.7bn in the six months (H1 2017/18: £12.2bn, FY 2017/18: £12.8bn). The Working Capital Facility ('WCF') balance has been reduced to zero.
- Reflecting reducing mortgage balances, underlying profit before tax of £86.1m for the six months was 14.3% lower than the comparable period in 2017/18 (H1 2017/18: £100.5m; FY 2017/18: £277.2m).
- Statutory loss before tax for the six months of £35.9m (H1 2017/18: £116.8m profit; FY 2017/18: £292.5m profit) includes a £293.1m profit on the sale of customer loans, which was more than offset by the £392.1m impact of unwinding hedges relating to the equity release mortgages and £24.6m additional customer redress provisions.
- Mortgage accounts three or more months in arrears, including those in possession, fell by 18% from the year end to 1,327 (September 2017: 1,888; March 2018: 1,619).
- Costs of £30.0m were 45.2% lower compared to the six months to September 2017 due to the reduction in assets under management (H1 2017/18: £54.7m; FY 2017/18: £107.9m).

1. Financial Information

These results are for the six month reporting period to 30 September 2018. Where appropriate to show half year and full year comparisons, the unaudited six month period to 30 September 2017 ('H1 2017/18') and audited 12 month period to 31 March 2018 ('FY 2017/18') are used respectively in these interim accounts.

Underlying profit before tax for the six months was £86.1m, a decrease of £14.4m from September 2017 (H1 2017/18: £100.5m; FY 2017/18: £277.2m). The reduction was primarily driven by lower net interest income as a result of the shrinking Balance Sheet. The statutory loss before tax for the six months of £35.9m (H1 2017/18: £116.8m profit; FY 2017/18: £292.5m profit) includes a £293.1m profit on the sale of customer loans, which was more than offset by the £392.1m impact of unwinding hedges relating to the equity release mortgages and £24.6m additional customer redress provisions.

Our objective remains to reduce the Bradford & Bingley plc ('B&B') Balance Sheet to facilitate the orderly repayment of the government loan, whilst maximising value for the taxpayer and serving our customers well and treating them fairly. Since the formation of UK Asset Resolution Limited ('UKAR') in October 2010, the B&B Balance Sheet has reduced by £40.1bn, including £14.7bn of customer loan repayments and £18.6bn of asset sales, which have facilitated the repayment of £15.1bn of wholesale funding and £25.0bn of government funding.

In the six months to 30 September 2018 the Balance Sheet reduced by a further £5.9bn (H1 2017/18: £12.2bn; FY 2017/18: £12.7bn), including the repayment of £5.7bn of government funding. Repayments have been largely driven by the £5.0bn proceeds received in May 2018 from the sale of assets, agreed on 26 April 2018. Additionally, repayments have been funded by a natural reduction in lending balances primarily reflecting £0.3bn of secured residential redemptions. As at 30 September 2018 loans to customers stand at £3.9bn (September 2017: £9.6bn; March 2018: £4.2bn).

The total number of mortgage cases three or more months in arrears, including those in possession, reduced by 18% from 31 March 2018 to 1,327 cases as at 30 September 2018 (September 2017: 1,888; March 2018: 1,619). The total value of arrears owed by customers has fallen by £1.5m to £8.6m during the six months to 30 September 2018, a reduction of 16.5%. This reduction is a direct consequence of proactive arrears management coupled with the continued low interest rate environment. The proportion of total accounts 3 or more months in arrears has increased from 1.98% at 31 March 2018 to 4.29% at 30 September 2018 (September 2017: 2.18%) reflecting the higher proportion of up to date loans which were sold.

Administrative expenses for the six months were 45.2% lower than the equivalent period in 2017/18 at £30.0m (H1 2017/18: £54.7m; FY 2017/18: £107.9m) due to the reduction in assets under management.

Reflecting heightened awareness of the August 2019 Payment Protection Insurance ('PPI') deadline, payments during the period have been higher than previously assumed The provision for customer redress has been increased by £24.6m predominantly reflecting updated PPI payment assumptions.

Key Highlights (continued)

1. Financial Information (continued)

Provisions include £39.9m (September 2017: £26.3m; March 2018: £21.6m) in respect of potential claims from customers regarding PPI and other customer redress.

2. Customers and Conduct

The total number of customers continues to fall in line with our objective to reduce our Balance Sheet. In total, B&B has 24,000 customers (September 2017: 69,000; March 2018: 66,000), with 31,000 mortgage accounts (September 2017: 87,000; March 2018: 82,000). The majority of these loans continue to perform well with more than 89% of mortgage customers up to date with their mortgage payments.

Although our absolute 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 specific situation and find solutions to help them manage 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 307 in the six months (H1 2017/18: 311; FY 2017/18: 568).

Other Information

Bradford & Bingley plc

On 29 September 2008, all of B&B's retail branches and its savings accounts were transferred to Banco Santander Group. The remainder of the business, including the mortgage books of B&B and its subsidiary Mortgage Express, were nationalised and taken into public ownership by the government. B&B is closed to new lending but continues to provide services to 24,000 existing mortgage borrowers, with 31,000 mortgage accounts.

At 30 September 2018, 168 colleagues were employed by B&B (September 2017: 179; March 2018: 179). Mortgage servicing is provided by Computershare.

Key Performance Indicators

In addition to the primary Financial Statements, B&B has adopted the following key performance indicators in managing business performance in the context of its strategic priorities.

	September 2018	September 2017	March 2018
Underlying Profit Before Tax	**£86.1m**	**£100.5m**	£277.2m
- Statutory Profit/ (Loss) Before Tax [1]	(£35.9m)	£116.8m	£292.5m
- Net Interest Margin on Average Interest Earning Assets (%)	3.05	1.79	2.03
Net Government Loan Repayments [2]	**£5.7bn**	**£12.2bn**	£12.8bn
- Government Loan Balance	£1.9bn	£8.3bn	£7.6bn
- Total Lending Balances [3]	£3.9bn	£10.4bn	£9.9bn
3m+ Residential Arrears [4]	**1,327**	1,888	1,619
- Residential Arrears Balance as a percentage of the Total Residential Mortgage Balance (%)	0.22	0.11	0.11
- Residential Payments Overdue	£8.6m	£11.3m	£10.3m
- Residential Arrears 3 months and over and possessions as a percentage of the book:			
- By value (%)	4.81	2.39	2.28
- By number of accounts (%)	4.29	2.18	1.98
Administrative Expenses	**£30.0m**	£54.7m	£107.9m
- Ratio of costs to average interest earning assets (%)			
- Statutory	0.94	0.91	0.91
- Ongoing	0.94	0.91	0.93

1. *An analysis of the difference between statutory and underlying profit is provided on page 26.*
2. *Government loan repayments include the repayment of proceeds from asset sales (H1 2018/19: £5.0bn; H1 2017/18: £11.4bn; FY 2017/18: £11.4bn).*
3. *Total lending balances includes loans to customers, assets classified as held for sale and equity release mortgages.*
4. *3m+ arrears KPI includes loans to customers, assets classified as held for sale and equity release mortgages.*

Business Review

In addition to the statutory measure of profit, the Board believes it is appropriate to assess performance based on the underlying profit of the business, which excludes the remediation of inherited regulatory defects, certain gains or losses such as the sale of assets and movements in fair value and hedge ineffectiveness relating to financial instruments.

An analysis of the difference between the statutory accounting measure of profit and the underlying profit of the B&B Group is provided in the table below.

Reconciliation of underlying profit before taxation to statutory profit before taxation

	6 months to 30 Sept 2018 £m	6 months to 30 Sept 2017 £m	12 months to 31 Mar 2018 £m
Net interest income	**98.3**	107.2	235.9
Underlying non-interest income*	**11.0**	29.1	42.3
Underlying net operating income	**109.3**	136.3	278.2
Ongoing administrative expenses	**(30.0)**	(54.7)	(107.9)
Net impairment release on loans to customers	**3.8**	18.8	100.3
Net release of provision for insurance risk on equity release mortgages	**3.0**	-	6.5
Net impairment release on investment securities	**-**	0.1	0.1
Underlying profit before taxation	**86.1**	100.5	277.2
Unrealised fair value movements on financial instruments	**(0.7)**	1.1	2.1
Hedge ineffectiveness	**1.9**	19.4	16.5
Profit on sale of loans	**293.1**	0.1	0.6
Hedging impacts of sale of loans	**(392.1)**	-	-
Non-recurring administrative expenses credit	**-**	-	2.3
Provision for customer redress	**(24.6)**	(4.3)	(6.2)
Legal and insurance claims	**0.4**	-	-
Statutory (loss)/profit before taxation	**(35.9)**	116.8	292.5

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

Summary Balance Sheet

	30 Sept 2018 £m	30 Sept 2017 £m	31 Mar 2018 £m
Loans to customers:			
- residential mortgages	**3,854.5**	9,460.1	4,027.7
- commercial loans	**15.0**	173.3	173.2
Equity release mortgages	**-**	727.0	729.8
Amounts owed in respect of sale of loans	**934.2**	-	-
Assets classified as held for sale: loans to customers	**-**	-	4,991.6
Wholesale assets	**685.5**	1,240.5	1,108.4
Fair value adjustments on portfolio hedging	**-**	418.7	420.9
Other assets	**429.0**	336.6	405.4
Total assets	**5,918.2**	12,356.2	11,857.0
Statutory Debt and HM Treasury loans	**1,908.8**	8,264.2	7,561.1
Derivative financial instruments	**135.6**	466.9	470.6
Other liabilities	**197.5**	163.8	154.6
Equity	**3,676.3**	3,461.3	3,670.7
Total equity and liabilities	**5,918.2**	12,356.2	11,857.0

Bradford & Bingley plc Condensed Financial Statements

Consolidated Income Statement

	Note	**6 months to 30 Sept 2018 £m**	6 months to 30 Sept 2017 £m	12 months to 31 Mar 2018 £m
Interest receivable and similar income	3	**91.8**	140.9	282.4
Interest expense and similar charges	3	**6.5**	(33.7)	(46.5)
Net interest income	3	**98.3**	107.2	235.9
Fee and commission income		**7.0**	3.2	6.4
Fee and commission expense		**(0.1)**	(0.2)	(0.4)
Net fee and commission income		**6.9**	3.0	6.0
Net realised gains less losses on investment securities		**0.1**	14.8	15.4
Unrealised fair value movements on financial instruments		**(0.7)**	1.1	2.1
Hedge ineffectiveness		**1.9**	19.4	16.5
Other operating income		**4.0**	11.3	20.9
Non-interest income		**12.2**	49.6	60.9
Total income		**110.5**	156.8	296.8
Administrative expenses	5	**(30.0)**	(54.7)	(105.6)
Provision for customer redress		**(24.6)**	(4.3)	(6.2)
Legal and insurance claims		**0.4**	-	-
Net impairment release on loans to customers*	9	**3.8**	18.8	100.3
Net release of provision for insurance risk on equity release mortgages		**3.0**	-	6.5
Net impairment release on investment securities		**-**	0.1	0.1
Profit on sale of loans	6	**293.1**	0.1	0.6
Hedging impacts of sale of loans	4	**(392.1)**	-	-
(Loss)/profit before taxation		**(35.9)**	116.8	292.5
Taxation	7	**3.1**	(23.1)	(33.1)
(Loss)/profit for the period		**(32.8)**	93.7	259.4

The results above arise from continuing activities.

* The Group has adopted IFRS 9 with effect from 1 April 2018. Consequently the impairment on loans to customers presented above for the period ended 30 September 2018 has been prepared on a different basis from that presented for the comparative periods. Further information is provided in note 15.

Bradford & Bingley plc Condensed Financial Statements (continued)

Consolidated Statement of Comprehensive Income

6 months to 30 September 2018	**Gross of tax £m**	**Tax £m**	**Net of tax £m**
Loss for the period	**(35.9)**	**3.1**	**(32.8)**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Assets carried at fair value through other comprehensive income:			
- net losses recognised in fair value reserve during the period	**(32.8)**	**6.2**	**(26.6)**
	(32.8)	**6.2**	**(26.6)**
Items that will not be reclassified subsequently to profit or loss:			
- retirement benefit remeasurements	**(30.2)**	**5.7**	**(24.5)**
	(30.2)	**5.7**	**(24.5)**
Total other comprehensive income	**(63.0)**	**11.9**	**(51.1)**
Total comprehensive income for the period	**(98.9)**	**15.0**	**(83.9)**

6 months to 30 September 2017	Gross of tax £m	Tax £m	Net of tax £m
Profit for the period	116.8	(23.1)	93.7
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 period	(1.0)	0.2	(0.8)
- amounts transferred from available-for-sale reserve and recognised in profit during the period	(14.4)	2.8	(11.6)
Cash flow hedges:			
- net gains recognised in cash flow hedge reserve during the period	1.0	(0.2)	0.8
	(14.4)	2.8	(11.6)
Items that will not be reclassified subsequently to profit or loss:			
- retirement benefit remeasurements	(29.4)	5.5	(23.9)
	(29.4)	5.5	(23.9)
Total other comprehensive (expense)/income	(43.8)	8.3	(35.5)
Total comprehensive income for the period	73.0	(14.8)	58.2

Bradford & Bingley plc Condensed Financial Statements (continued)

Consolidated Statement of Comprehensive Income (continued)

12 months to 31 March 2018	Gross of tax £m	Tax £m	Net of tax £m
Profit for the year	292.5	(33.1)	259.4
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	24.9	(4.7)	20.2
	24.9	(4.7)	20.2
Total other comprehensive income/(expense)	10.1	(1.9)	8.2
Total comprehensive income for the year	302.6	(35.0)	267.6

The Group has adopted IFRS 9 with effect from 1 April 2018. Consequently the financial information presented above for the period ended 30 September 2018 has been prepared on a different basis from that presented for the comparative periods. Further information is provided in note 15.

Bradford & Bingley plc Condensed Financial Statements (continued)

Consolidated Balance Sheet

	Note	**30 Sept 2018 £m**	30 Sept 2017 £m	31 Mar 2018 £m
Assets				
Cash at bank and in hand		**685.5**	1,239.9	1,108.4
Amounts owed in respect of sale of loans	6	**934.2**	-	-
Investment securities		**-**	0.6	-
Loans to customers*	8	**3,869.5**	9,633.4	4,200.9
Assets classified as held for sale: loans to customers		**-**	-	4,991.6
Equity release mortgages		**-**	727.0	729.8
Fair value adjustments on portfolio hedging	4	**-**	418.7	420.9
Current tax assets		**-**	-	6.0
Other assets		**28.5**	41.6	43.3
Retirement benefit assets		**400.2**	294.6	355.8
Property, plant and equipment		**0.3**	0.4	0.3
Total assets		**5,918.2**	12,356.2	11,857.0
Liabilities				
Statutory Debt and HM Treasury loans		**1,908.8**	8,264.2	7,561.1
Derivative financial instruments		**135.6**	466.9	470.6
Other liabilities		**55.0**	60.4	55.2
Current tax liabilities		**10.7**	21.1	-
Deferred tax liabilities		**76.7**	37.5	56.8
Retirement benefit obligations		**7.9**	4.8	8.2
Provisions	11	**47.2**	40.0	34.4
Total liabilities		**2,241.9**	8,894.9	8,186.3
Equity				
Issued capital and reserves attributable to owners of the parent:				
- share capital		**361.3**	361.3	361.3
- reserves*	12	**299.9**	228.5	228.1
- retained earnings*		**3,015.1**	2,871.5	3,081.3
Share capital and reserves attributable to owners of the parent		**3,676.3**	3,461.3	3,670.7
Total equity and liabilities		**5,918.2**	12,356.2	11,857.0

* The Group has adopted IFRS 9 with effect from 1 April 2018. Consequently the amounts presented above for 30 September 2018 have been prepared on a different basis from that presented for the comparative periods. Further information is provided in note 15.

Bradford & Bingley plc Condensed Financial Statements (continued)

Consolidated Statement of Changes in Equity

6 months to 30 September 2018	**Share capital £m**	**Share premium reserve £m**	**Capital redemption reserve £m**	**Fair value reserve £m**	**Cash flow hedge reserve £m**	**Retained earnings £m**	**Total share capital and reserves £m**
At 31 March 2018	**361.3**	**198.9**	**29.2**	**-**	**-**	**3,081.3**	**3,670.7**
Impact of adoption of IFRS 9*****	**-**	**-**	**-**	**98.4**	**-**	**(8.9)**	**89.5**
At 1 April 2018	**361.3**	**198.9**	**29.2**	**98.4**	**-**	**3,072.4**	**3,760.2**
Other comprehensive income/(expense):							
- net movement in fair value reserve	**-**	**-**	**-**	**(32.8)**	**-**	**-**	**(32.8)**
- retirement benefit remeasurements	**-**	**-**	**-**	**-**	**-**	**(30.2)**	**(30.2)**
- tax effects of the above	**-**	**-**	**-**	**6.2**	**-**	**5.7**	**11.9**
Total other comprehensive expense	**-**	**-**	**-**	**(26.6)**	**-**	**(24.5)**	**(51.1)**
Loss for the period	**-**	**-**	**-**	**-**	**-**	**(32.8)**	**(32.8)**
Total comprehensive expense	**-**	**-**	**-**	**(26.6)**	**-**	**(57.3)**	**(83.9)**
At 30 September 2018	**361.3**	**198.9**	**29.2**	**71.8**	**-**	**3,015.1**	**3,676.3**

** The Group has adopted IFRS 9 with effect from 1 April 2018: see note 15.*

6 months to 30 September 2017	Share capital £m	Share premium reserve £m	Capital redemption reserve £m	Available-for-sale reserve £m	Cash flow hedge reserve £m	Retained earnings £m	Total share capital and reserves £m
At 1 April 2017	361.3	198.9	29.2	12.8	(0.8)	2,801.7	3,403.1
Other comprehensive income/(expense):							
- net movement in available-for-sale reserve	-	-	-	(15.4)	-	-	(15.4)
- net movement in cash flow hedge reserve	-	-	-	-	1.0	-	1.0
- retirement benefit remeasurements	-	-	-	-	-	(29.4)	(29.4)
- tax effects of the above	-	-	-	3.0	(0.2)	5.5	8.3
Total other comprehensive expense	-	-	-	(12.4)	0.8	(23.9)	(35.5)
Profit for the period	-	-	-	-	-	93.7	93.7
Total comprehensive income/(expense)	-	-	-	(12.4)	0.8	69.8	58.2
At 30 September 2017	361.3	198.9	29.2	0.4	-	2,871.5	3,461.3

12 months to 31 March 2018	Share capital £m	Share premium reserve £m	Capital redemption reserve £m	Available-for-sale reserve £m	Cash flow hedge reserve £m	Retained earnings £m	Total share capital and reserves £m
At 1 April 2017	361.3	198.9	29.2	12.8	(0.8)	2,801.7	3,403.1
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	-	-	-	-	-	24.9	24.9
- tax effects of the above	-	-	-	3.0	(0.2)	(4.7)	(1.9)
Total other comprehensive income/(expense)	-	-	-	(12.8)	0.8	20.2	8.2
Profit for the year	-	-	-	-	-	259.4	259.4
Total comprehensive income/(expense)	-	-	-	(12.8)	0.8	279.6	267.6
At 31 March 2018	361.3	198.9	29.2	-	-	3,081.3	3,670.7

Bradford & Bingley plc Condensed Financial Statements (continued)

Consolidated Cash Flow Statement

	6 months to 30 Sept 2018 £m	6 months to 30 Sept 2017 £m	12 months to 31 Mar 2018 £m
Cash flows from operating activities			
(Loss)/profit before taxation for the period	**(35.9)**	116.8	292.5
Adjustments to reconcile profit to cash generated from operating activities:			
- interest expense and similar charges	**(6.5)**	33.7	46.5
- provision for customer redress	**24.6**	4.3	3.9
- defined benefit pension scheme credits	**(4.3)**	(2.8)	(5.9)
- cash contributions to defined benefit pension scheme	**(70.7)**	(63.9)	(63.9)
- depreciation and amortisation	**-**	-	0.1
- net impairment release on loans to customers	**(3.8)**	(18.8)	(100.3)
- net release of provision for insurance risk on equity release mortgages	**(3.0)**	-	(6.5)
- net impairment release on investment securities	**-**	(0.1)	(0.1)
- profit on sale of loans	**(293.1)**	(0.1)	(0.6)
- fair value adjustments on financial instruments	**18.4**	35.9	33.7
- write-off of hedge accounting adjustment	**402.5**	-	-
- other non-cash movements	**-**	(13.7)	(10.4)
	28.2	91.3	189.0
Net decrease/(increase) in operating assets:			
- loans to customers	**442.8**	554.3	1,077.2
- settlement of amounts owed in respect of sale of loans	**-**	11,483.9	11,483.9
- sale of loans	**5,053.2**	-	-
- equity release mortgages	**16.5**	13.5	17.2
- other assets	**(1.5)**	(3.4)	(5.2)
Net (decrease)/increase in operating liabilities:			
- derivative financial instruments payable	**(335.0)**	(57.8)	(54.1)
- other liabilities	**7.3**	(24.5)	(29.9)
- provisions	**(11.8)**	(9.3)	(14.5)
Interest paid	**(1.5)**	(39.2)	(55.0)
Income tax paid	**30.4**	(14.0)	(42.0)
Net cash generated from/(used in) operating activities	**5,228.6**	11,994.8	12,566.6
Cash flows from investing activities:			
- proceeds from sale and redemption of investment securities	**0.1**	21.2	17.6
Net cash generated from investing activities	**0.1**	21.2	17.6
Cash flows used in financing activities:			
- repayment of Working Capital Facility	**(120.6)**	(1,190.7)	(1,890.7)
- repayment of Statutory Debt	**(5,530.8)**	(10,976.6)	(10,976.6)
Net cash (used in)/generated from financing activities	**(5,651.4)**	(12,167.3)	(12,867.3)
Net decrease in cash and cash equivalents	**(422.7)**	(151.3)	(283.1)
Cash and cash equivalents at beginning of period	**1,108.0**	1,391.1	1,391.1
Cash and cash equivalents at end of period	**685.3**	1,239.8	1,108.0
Represented by cash and assets with original maturity of three months or less within:			
- cash at bank and in hand	**685.3**	1,239.8	1,108.0
Total cash and cash equivalents at end of period	**685.3**	1,239.8	1,108.0

Notes to the Financial Information

1. Reporting entity

Bradford & Bingley plc (‘B&B’ or ‘the Company’) is a public limited company incorporated and domiciled in the United Kingdom.

The financial information in this Interim Financial Report consolidates B&B and its subsidiaries, together referred to as the B&B Group or ‘the Group’. B&B's Consolidated Financial Statements for the year ended 31 March 2018 are included in B&B's 2018 Annual Report & Accounts available on UKAR’s website www.ukar.co.uk.

2. Basis of preparation

This Interim Financial Report has been prepared on a going concern basis. At the date of approval of this Interim Financial Report, B&B has paid down the WCF to a nil balance but this would be the source of additional funding should this be required. Withdrawal of the financing facilities could therefore have a significant impact on B&B'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 date of approval of this Interim Financial Report, HM Treasury has confirmed its intentions to continue to provide funding until at least 1 January 2020 subject to B&B continuing to be a subsidiary company of UKAR Limited.

The Directors have assessed, taking into consideration the principal risks set out on pages 9 to 11 of the Group’s 2018 Annual Report & Accounts, 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. If the Company were to be sold into the private sector prior to 1 January 2020, HM Treasury’s commitment would fall 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 are satisfied at the time of approval of this Interim Financial Report that the Company and Group 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 Interim Financial Report.

As detailed in note 15, the Group has adopted IFRS 9 with effect from 1 April 2018. The Group has also adopted IFRS 15 ‘Revenue from Contracts with Customers’ with effect from 1 April 2018; this has not had any material impact on the Group. There have been no other material changes to the accounting policies previously applied by the Group in preparing, and detailed in, its Annual Report & Accounts for the period ended 31 March 2018, which were prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union.

As permitted by IFRS 9, the Group has elected not to restate comparative period information. Adjustments to the carrying amounts of assets and liabilities at 31 March 2018 as a result of the adoption of IFRS 9 have been reflected in opening reserves at 1 April 2018. Consequently the financial information presented in this Interim Financial Report as at 30 September 2018 and for the 6 months then ended has been prepared on a different basis from that presented for the comparative periods. Further information is provided in note 15.

As detailed in note 2 to the Group’s 2018 Annual Report & Accounts, on the Balance Sheet the Group’s equity release mortgages were presented separately from loans to customers. In this Interim Financial Report there are no longer any equity release mortgages but the comparative financial information for 30 September 2017 and the six months then ended has been re-presented accordingly.

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

The preparation of this Interim Financial Report requires the use of estimates and assumptions that affect the reported values of assets and liabilities at the Balance Sheet date and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

This Interim Financial Report has been prepared in accordance with IAS 34 'Interim Financial Reporting'.

The information in this document does not include all of the disclosures required by IFRS in full annual financial statements, and it should be read in conjunction with the Consolidated Financial Statements of B&B for the year ended 31 March 2018.

Notes to the Financial Information (continued)

3. Net interest income

	6 months to 30 Sept 2018 £m	6 months to 30 Sept 2017 £m	12 months to 31 Mar 2018 £m
Interest receivable and similar income			
On equity release mortgages	**27.4**	28.7	57.0
On other secured loans	**58.7**	108.9	219.5
On investment securities and deposits	**5.7**	3.3	5.9
Total interest receivable and similar income	**91.8**	140.9	282.4
Interest expense and similar charges			
On HM Treasury loans	**(0.6)**	(33.6)	(46.3)
Other*	**7.1**	(0.1)	(0.2)
Total interest expense and similar charges	**6.5**	(33.7)	(46.5)
Net interest income	**98.3**	107.2	235.9
Average balances			
Interest-earning assets ('IEA')	**6,422**	11,954	11,615
Financed by:			
- interest-bearing funding	**21**	1,279	873
- interest-free funding**	**6,401**	10,675	10,742
Average rates:	**%**	%	%
- gross yield on IEA	**2.85**	2.35	2.43
- cost of interest-bearing funding	**(5.50)**	(5.26)	(5.32)
Interest spread	**(2.65)**	(2.91)	(2.89)
Contribution of other adjustments*	**0.22**	-	-
Contribution of interest-free funding**	**5.48**	4.70	4.92
Net interest margin on average IEA	**3.05**	1.79	2.03
Average Bank Base Rate	**0.58**	0.25	0.35
Average 1-month LIBOR	**0.59**	0.25	0.36
Average 3-month LIBOR	**0.73**	0.30	0.40

* *Other includes a release of £7.0m accrued in prior years in respect of potential tax liabilities.*

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

All interest income is recognised on the effective interest method.

4. Hedging impacts of sale of loans

As detailed in note 6, on 27 September the Group announced the sale of all of its equity release mortgages. In anticipation of the sale, certain derivative financial instruments which were held as a commercial hedge against the interest rate risk on the equity release mortgages were cancelled. At this point hedge accounting ceased to satisfy the required effectiveness tests and the fair value adjustment on portfolio hedging commenced amortisation to the Income Statement. Once amortisation of the fair value adjustment on portfolio hedging commenced, fair value movements on the derivatives were no longer mitigated by hedge accounting adjustments. Following the recognition of the sale of the equity release mortgages the remaining derivatives were settled at their carrying amount and the remaining fair value adjustment on portfolio hedging was written off. In the Income Statement, the 'hedging impacts of sale of loans' of £392.1m comprise the amortisation and write-off of the fair value adjustment on portfolio hedging, swap break costs and also the fair value movements on the swaps since the cessation of hedge accounting. The inclusion of these items in this 'hedging impacts of sale of loans' line, rather than in the Income Statement lines into which they would ordinarily fall, is considered appropriate as they comprise accounting impacts of the decision to sell the equity release loans.

Notes to the Financial Information (continued)

5. Administrative expenses

B&B provides services to NRAM Limited ('NRAM'), UKAR and to UKAR Corporate Services Limited ('UKARcs'). NRAM, UKAR and UKARcs had no direct employees during the periods presented.

The monthly average number of persons employed by B&B during the period was as follows:

	6 months to 30 Sept 2018 Number	6 months to 30 Sept 2017 Number	12 months to 31 Mar 2018 Number
Average headcount:			
Full time	**157**	163	163
Part time	**19**	14	15
Total employed	**176**	177	178
Total average full time equivalent	**172**	175	175

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

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

	30 Sept 2018 Number	30 Sept 2017 Number	31 Mar 2018 Number
Full time	**149**	166	162
Part time	**19**	13	17
Total employed	**168**	179	179
Total full time equivalent headcount	**164**	177	176

Staff numbers include Executive but not Non-Executive Directors. In addition to the permanent staff above, B&B employed a full-time equivalent of 28 temporary staff and specialist contractors at 30 September 2018 (September 2017: 17; March 2018: 33).

	6 months to 30 Sept 2018 £m	6 months to 30 Sept 2017 £m	12 months to 31 Mar 2018 £m
B&B's costs of permanent staff were as follows:			
Wages and salaries	**4.5**	5.4	11.9
Social security costs	**0.7**	0.6	1.4
Defined benefit pension credit	**(4.3)**	(2.8)	(5.9)
Defined contribution pension costs	**0.4**	0.3	0.8
Other retirement benefit costs	**0.2**	0.2	0.3
Total staff costs	**1.5**	3.7	8.5
IT costs	**8.7**	3.7	8.0
Outsourced and professional services	**51.7**	65.5	127.8
Depreciation and amortisation	**-**	-	0.1
Other administrative expenses	**1.8**	4.7	8.8
	63.7	77.6	153.2
Management recharge to NRAM/UKARcs	**(33.7)**	(22.9)	(45.3)
Total ongoing administrative expenses	**30.0**	54.7	107.9
Non-recurring credit	**-**	-	(2.3)
Total administrative expenses	**30.0**	54.7	105.6

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

6. Profit on sale of loans

At 31 March 2018 £4,991.6m of the Group's loans to customers were held for sale in accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'. As these loans were accounted for in accordance with IFRS 5 they were unaffected by the Group's adoption of IFRS 9 with effect from 1 April 2018. The sale of these loans to an investor group led by Barclays Bank PLC was recognised on 26 April 2018 on signature of the sale contract.

Notes to the Financial Information (continued)

6. Profit on sale of loans (continued)

On 27 September the Group announced the sale of all of its equity release mortgages to Rothesay Life Plc. The sale was recognised on 26 September on signature of the sale contract. At 30 September 2018 £934.2m of the sale proceeds were owed to B&B including an adjustment for cash flows on the portfolio prior to settlement. As disclosed in note 19 financial completion occurred on 10 October 2018. As a result of the sale of the equity release mortgages net costs of £392.1m were incurred in respect of hedging impacts (see note 4).

7. Taxation

Taxation appropriately reflects changes in tax rates which had been substantively enacted by 30 September 2018.

The tax charge for each period included nil overseas tax charge. The effective tax rate for the period was 8.6% (period ended 30 September 2017: 19.8%; year ended 31 March 2018: 11.3%). The tax credit for the period was lower than the standard corporation tax rate in the period of 19% primarily due to the increase in PPI customer compensation provisions; these costs are disallowable for tax purposes. The tax charge for the year ended 31 March 2018 was lower than the standard corporation tax rate for the year of 19% primarily due to adjustments in respect of prior periods.

No deferred tax assets were unrecognised at 30 September 2018, 30 September 2017 or 31 March 2018. No deferred tax assets have been recognised in respect of tax losses carried forward.

8. Loans to customers

Residential mortgages include all of the Group's buy-to-let loans. Commercial loans comprise loans secured on commercial properties.

All of the Group's loans to customers are to UK customers.

Loans to customers and redemptions comprise the following product types:

Balances	**30 Sept 2018 Outstanding balance £m**	**30 Sept 2018 Carrying amount £m**	**30 Sept 2018 Carrying amount %**	30 Sept 2017 Carrying amount £m	%	31 Mar 2018 Carrying amount £m	%
Residential mortgages							
Buy-to-let	**1,269.2**	**1,167.1**	**30**	3,679.3	39	1,247.3	31
Self-certified	**1,663.0**	**1,693.8**	**44**	4,307.2	46	1,765.1	44
Standard and other	**963.4**	**993.6**	**26**	1,473.6	15	1,015.3	25
Total residential mortgages	**3,895.6**	**3,854.5**	**100**	9,460.1	100	4,027.7	100
Residential loans	**3,895.6**	**3,854.5**	**99**	9,460.1	98	4,027.7	96
Commercial loans	**22.9**	**15.0**	**1**	173.3	2	173.2	4
Total	**3,918.5**	**3,869.5**	**100**	9,633.4	100	4,200.9	100

Redemptions	**6 months to 30 Sept 2018 £m**	6 months to 30 Sept 2017 £m	12 months to 31 Mar 2018 £m
Residential mortgages			
Buy-to-let	**(90.6)**	(210.1)	(390.1)
Self-certified	**(106.1)**	(203.6)	(413.1)
Standard and other	**(57.0)**	(86.8)	(168.5)
Total residential mortgages	**(253.7)**	(500.5)	(971.7)
Residential loans	**(253.7)**	(500.5)	(971.7)
Commercial loans	**(150.2)**	(5.1)	(5.2)
Total	**(403.9)**	(505.6)	(976.9)

Notes to the Financial Information (continued)

8. Loans to customers (continued)

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

As detailed in note 15, the Group has adopted IFRS 9 with effect from 1 April 2018. Under IFRS 9 the Group's loans to customers are carried at fair value through Other Comprehensive Income ('FVOCI'). As permitted by IFRS 9, prior periods have not been restated. Therefore the carrying amounts of loans to customers at 30 September 2018 are measured on a different basis from the carrying amounts at 30 September 2017 and 31 March 2018. To aid comparison between periods, the table above shows the outstanding balances due from customers at each Balance Sheet date.

The movements in fair value of the Group's loans to customers between 1 April 2018 and 30 September 2018 were as follows:

	£m
At 1 April 2018	**4,311.6**
Reduction in gross balances outstanding	**(408.6)**
Impairment charge to Income Statement	**(0.7)**
Movements taken to fair value reserve	**(32.8)**
At 30 September 2018	**3,869.5**

The movements taken to fair value reserve arose due to updates in economic and funding assumptions.

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

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

Residential mortgages			**6 months to 30 Sept 2018**
	Stage 2: Lifetime ECL[1] not credit-impaired[2]	**Stage 3: Lifetime ECL credit-impaired**	**Total**
	£m	**£m**	**£m**
At 31 March 2018			**138.4**
Remeasurement on adoption of IFRS 9			**10.8**
At 1 April 2018	**109.7**	**39.5**	**149.2**
Movements during the period:			
- net repayments	**(2.8)**	**(3.4)**	**(6.2)**
- changes in estimates	**2.2**	**5.6**	**7.8**
- changes in economic assumptions	**(3.9)**	**-**	**(3.9)**
- transfers	**(6.1)**	**6.1**	**-**
- loan impairment credit	**(10.6)**	**8.3**	**(2.3)**
- write-offs	**-**	**(9.2)**	**(9.2)**
Net movements during the period	**(10.6)**	**(0.9)**	**(11.5)**
At 30 September 2018	**99.1**	**38.6**	**137.7**
The Income Statement credit comprises:			
- loan impairment credit	**(10.6)**	**8.3**	**(2.3)**
- recoveries net of costs	**-**	**(4.5)**	**(4.5)**
Total Income Statement credit	**(10.6)**	**3.8**	**(6.8)**

[1] *Expected credit losses ('ECL')*
[2] *Further information regarding when a loan is considered to be credit-impaired is provided on page 52*

Notes to the Financial Information (continued)

9. Impairment on loans to customers and held for sale loans (continued)

Commercial loans	Stage 2: Lifetime ECL not credit-impaired £m	Stage 3: Lifetime ECL credit-impaired £m	6 months to 30 Sept 2018 Total £m
At 31 March 2018			**-**
Remeasurement on adoption of IFRS 9			**-**
At 1 April 2018	**-**	**-**	**-**
Movements during the period:			
- net repayments	**-**	**-**	**-**
- changes in estimates	**-**	**3.0**	**3.0**
- changes in economic assumptions	**-**	**-**	**-**
- transfers	**-**	**-**	**-**
- loan impairment charge	**-**	**3.0**	**3.0**
- write-offs	**-**	**(3.0)**	**(3.0)**
Net movements during the period	**-**	**-**	**-**
At 30 September 2018	**-**	**-**	**-**
The Income Statement credit comprises:			
- loan impairment charge	**-**	**3.0**	**3.0**
- recoveries net of costs	**-**	**-**	**-**
Total Income Statement charge	**-**	**3.0**	**3.0**

Held for sale loans	6 months to 30 Sept 2018 Total £m
At 31 March 2018	**11.0**
Movements during the period:	
- sale of loans	**(11.0)**
Net movements during the period	**(11.0)**
At 30 September 2018	**-**

Total loans to customers and held for sale loans	Stage 2: Lifetime ECL not credit-impaired £m	Stage 3: Lifetime ECL credit-impaired £m	6 months to 30 Sept 2018 Total £m
At 31 March 2018			**149.4**
Remeasurement on adoption of IFRS 9			**10.8**
At 1 April 2018	**120.7**	**39.5**	**160.2**
Movements during the period:			
- net repayments	**(2.8)**	**(3.4)**	**(6.2)**
- changes in estimates	**2.2**	**8.6**	**10.8**
- changes in economic assumptions	**(3.9)**	**-**	**(3.9)**
- transfers	**(6.1)**	**6.1**	**-**
- loan impairment charge	**(10.6)**	**11.3**	**0.7**
- sale of loans	**(11.0)**	**-**	**(11.0)**
- write-offs	**-**	**(12.2)**	**(12.2)**
Net movements during the period	**(21.6)**	**(0.9)**	**(22.5)**
At 30 September 2018	**99.1**	**38.6**	**137.7**
The Income Statement credit comprises:			
- loan impairment charge	**(10.6)**	**11.3**	**0.7**
- recoveries net of costs	**-**	**(4.5)**	**(4.5)**
Total Income Statement credit	**(10.6)**	**6.8**	**(3.8)**

Notes to the Financial Information (continued)

9. Impairment on loans to customers and held for sale loans (continued)

6 months to 30 September 2017	On residential mortgages £m	On commercial loans £m	Total £m
At 1 April 2017	272.4	-	272.4
Movements during the period:			
- write-offs	(13.9)	-	(13.9)
- loan impairment credit	(16.3)	-	(16.3)
Net movements during the period	(30.2)	-	(30.2)
At 30 September 2017	242.2	-	242.2
The Income Statement credit comprises:			
- loan impairment credit	(16.3)	-	(16.3)
- recoveries net of costs	(2.4)	(0.1)	(2.5)
Total Income Statement credit	(18.7)	(0.1)	(18.8)

12 months to 31 March 2018	On residential mortgages £m	On commercial loans £m	Total loans to customers £m	Held for sale loans £m	Total loans to customers and held for sale loans £m
At 1 April 2017	272.4	-	272.4	-	272.4
Movements during the year:					
- transfers to held for sale loans	(11.0)	-	(11.0)	11.0	-
- write-offs	(30.2)	-	(30.2)	-	(30.2)
- loan impairment credit	(92.8)	-	(92.8)	-	(92.8)
Net movements during the year	(134.0)	-	(134.0)	11.0	(123.0)
At 31 March 2018	138.4	-	138.4	11.0	149.4
The Income Statement credit comprises:					
- loan impairment credit	(92.8)	-	(92.8)	-	(92.8)
- recoveries net of costs	(7.4)	(0.1)	(7.5)	-	(7.5)
Total Income Statement credit	(100.2)	(0.1)	(100.3)	-	(100.3)

As detailed in note 15, the Group has adopted IFRS 9 with effect from 1 April 2018. As permitted by IFRS 9, prior periods have not been restated. Therefore the allowances for credit losses at 30 September 2018 are measured on a different basis from the allowances at 30 September 2017 and 31 March 2018.

Notes to the Financial Information (continued)

10. Credit quality of loans to customers

Residential mortgages	Stage 2: Lifetime ECL not credit-impaired[1] £m	Stage 3: Lifetime ECL credit-impaired £m	30 Sept 2018 Total £m
Neither past due nor credit-impaired	**3,262.1**	**-**	**3,262.1**
Past due but not credit-impaired:			
- 1 – 2 months	**82.3**	**-**	**82.3**
- 2 – 3 months	**25.3**	**-**	**25.3**
Credit-impaired	**-**	**525.9**	**525.9**
Outstanding balance	**3,369.7**	**525.9**	**3,895.6**

Commercial loans	Stage 2: Lifetime ECL not credit-impaired £m	Stage 3: Lifetime ECL credit-impaired £m	30 Sept 2018 Total £m
Neither past due nor credit-impaired	**22.9**	**-**	**22.9**
Past due but not credit-impaired:			
- 1 – 2 months	**-**	**-**	**-**
- 2 – 3 months	**-**	**-**	**-**
Credit-impaired	**-**	**-**	**-**
Outstanding balance	**22.9**	**-**	**22.9**

Total loans to customers	Stage 2: Lifetime ECL not credit-impaired £m	Stage 3: Lifetime ECL credit-impaired £m	30 Sept 2018 Total £m
Neither past due nor credit-impaired	**3,285.0**	**-**	**3,285.0**
Past due but not credit-impaired:			
- 1 – 2 months	**82.3**	**-**	**82.3**
- 2 – 3 months	**25.3**	**-**	**25.3**
Credit-impaired	**-**	**525.9**	**525.9**
Outstanding balance	**3,392.6**	**525.9**	**3,918.5**

[1] *Further information regarding when a loan is considered to be credit-impaired is provided on page 52*

Notes to the Financial Information (continued)

10. Credit quality of loans to customers (continued)

30 September 2017	Residential mortgages £m	Commercial loans £m	Total £m
Neither past due nor impaired	9,147.4	173.3	9,320.7
Past due but not impaired:			
- less than 3 months	278.6	-	278.6
- 3 – 6 months	94.9	-	94.9
- over 6 months	57.5	-	57.5
Impaired	123.9	-	123.9
	9,702.3	173.3	9,875.6
Impairment allowances	(242.2)	-	(242.2)
Loans to customers net of impairment allowances	9,460.1	173.3	9,633.4
Impairment allowances:			
- individual	25.5	-	25.5
- collective	216.7	-	216.7
Total impairment allowances	242.2	-	242.2

31 March 2018	Residential mortgages £m	Commercial loans £m	Total £m
Neither past due nor impaired	3,664.5	173.2	3,837.7
Past due but not impaired:			
- less than 3 months	269.1	-	269.1
- 3 – 6 months	93.4	-	93.4
- over 6 months	47.9	-	47.9
Impaired	91.2	-	91.2
	4,166.1	173.2	4,339.3
Impairment allowances	(138.4)	-	(138.4)
Loans to customers net of impairment allowances	4,027.7	173.2	4,200.9
Impairment allowances:			
- individual	15.3	-	15.3
- collective	123.1	-	123.1
Total impairment allowances	138.4	-	138.4

As detailed in note 15, the Group has adopted IFRS 9 with effect from 1 April 2018. Under IFRS 9 the Group's loans to customers are carried at FVOCI and allowances for credit losses are calculated on a different basis. As permitted by IFRS 9, prior periods have not been restated. Therefore the carrying amounts of loans to customers and allowances for credit losses at 30 September 2018 are measured on a different basis from those at 30 September 2017 and 31 March 2018.

Notes to the Financial Information (continued)

10. Credit quality of loans to customers (continued)

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:

	30 Sept 2018 £m	30 Sept 2017 £m	31 Mar 2018 £m
Neither past due nor credit-impaired	**5,575.2**	15,994.0	6,389.8
Past due but not credit-impaired	**173.9**	713.2	667.4
Credit-impaired	**924.9**	162.8	122.0
Total	**6,674.0**	16,870.0	7,179.2

If the collateral amount on each individual loan was capped at the amount of the outstanding balance and any surplus of collateral values over outstanding balances ignored, the fair value of collateral held would be as follows:

	30 Sept 2018 £m	30 Sept 2017 £m	31 Mar 2018 £m
Neither past due nor credit-impaired	**3,248.5**	9,130.2	3,650.7
Past due but not credit-impaired	**107.0**	429.7	409.5
Credit-impaired	**519.2**	112.1	84.3
Total	**3,874.7**	9,672.0	4,144.5
The credit-impaired balances above include the following carrying amount of assets in possession, capped at the outstanding balance	**22.6**	26.9	22.2

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 outstanding loan balance, falls into the following ranges:

	30 Sept 2018 %	30 Sept 2017 %	31 Mar 2018 %
To 50%	**14.9**	16.4	13.3
50% – 75%	**50.9**	51.3	51.7
75% – 100%	**29.6**	30.4	32.5
Over 100%	**4.6**	1.9	2.5
Total	**100.0**	100.0	100.0

The average indexed LTV based on a simple average is 58.4% (September 2017: 56.8%; March 2018: 58.0%) and on a weighted average is 69.0% (September 2017: 65.7%; March 2018: 68.6%).

Notes to the Financial Information (continued)

10. Credit quality of loans to customers (continued)

Arrears and possessions are monitored for the Group as a whole and also split by type of product.

		30 Sept 2018	30 Sept 2017	31 Mar 2018
Arrears 3 months and over				
Number of cases	**No.**	**1,089**	1,606	1,396
Proportion of total cases	**%**	**3.52**	2.00	4.20
Asset value	**£m**	**156.8**	216.9	194.8
Proportion of book	**%**	**4.03**	2.24	4.68
Total value of payments overdue	**£m**	**5.6**	7.9	7.1
Proportion of total book	**%**	**0.14**	0.08	0.18
Possessions				
Number of cases	**No.**	**238**	277	221
Proportion of total cases	**%**	**0.77**	0.34	0.66
Asset value	**£m**	**30.5**	35.0	27.2
Proportion of book	**%**	**0.78**	0.36	0.65
Total value of payments overdue	**£m**	**1.1**	1.3	0.9
Proportion of total book	**%**	**0.03**	0.01	0.02
New possessions *	**No.**	**307**	311	568
Total arrears 3 months and over and possessions				
Number of cases	**No.**	**1,327**	1,883	1,617
Proportion of total cases	**%**	**4.29**	2.34	4.86
Asset value	**£m**	**187.3**	251.9	222.0
Proportion of book	**%**	**4.81**	2.60	5.33
Total value of payments overdue	**£m**	**6.7**	9.2	8.0
Proportion of total book	**%**	**0.17**	0.09	0.20
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**	**8.6**	11.3	10.1
Proportion of total book	**%**	**0.22**	0.12	0.24
Loan impairment provision				
As % of total balances	**%**	**3.53**	2.50	3.32

** New possessions for the six months to 30 September 2018 and 2017 and the 12 months to 31 March 2018.*

In the above table the asset value, payments overdue, total book and total balances represent outstanding balances and not fair values.

Notes to the Financial Information (continued)

10. Credit quality of loans to customers (continued)

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

		30 Sept 2018	30 Sept 2017	31 Mar 2018
Buy-to-let				
Number of cases	**No.**	**239**	413	326
Proportion of total cases	**%**	**2.38**	1.20	3.00
Asset value	**£m**	**32.3**	51.6	43.5
Proportion of book	**%**	**2.55**	1.40	3.49
Total value of payments overdue	**£m**	**1.0**	1.4	1.3
Proportion of total book	**%**	**0.08**	0.04	0.10
Self-certified				
Number of cases	**No.**	**481**	685	616
Proportion of total cases	**%**	**4.17**	2.27	5.04
Asset value	**£m**	**79.5**	107.6	99.0
Proportion of book	**%**	**4.78**	2.50	5.61
Total value of payments overdue	**£m**	**2.7**	3.9	3.5
Proportion of total book	**%**	**0.16**	0.09	0.20
Standard and other				
Number of cases	**No.**	**369**	508	454
Proportion of total cases	**%**	**3.93**	3.29	4.45
Asset value	**£m**	**45.0**	57.7	52.3
Proportion of book	**%**	**4.67**	3.92	5.15
Total value of payments overdue	**£m**	**1.9**	2.6	2.3
Proportion of total book	**%**	**0.19**	0.18	0.23

11. Provisions

Provisions include £39.9m (September 2017: £26.3m; March 2018: £21.7m) in respect of potential claims from customers regarding PPI and other customer redress and related costs. The publication of the Financial Conduct Authority's ('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 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 following the Plevin decision. Reflecting heightened awareness of the PPI deadline, actual claims volumes received during the period have been higher than previously modelled and therefore the provision has been increased by £17.0m during the period. Provisions have also been increased by £7.6m during the period in respect of other legacy remediation issues. During the year ended 31 March 2018 provisions were increased by £6.2m in respect of customer remediation.

12. Reserves

Reserves comprise the following:

	30 Sept 2018 £m	30 Sept 2017 £m	31 Mar 2018 £m
Share premium reserve	**198.9**	198.9	198.9
Capital redemption reserve	**29.2**	29.2	29.2
Available-for-sale reserve	**-**	0.4	-
Fair value reserve	**71.8**	-	-
Total	**299.9**	228.5	228.1

Notes to the Financial Information (continued)

13. Capital structure

B&B is regulated by the FCA at individual company level, not at B&B Group level.

Capital resources - B&B plc (company only)

	30 Sept 2018 £m	30 Sept 2017 £m	31 Mar 2018 £m
Share capital and reserves	**3,023.8**	3,116.5	3,284.9
Available-for-sale reserve adjustments	**-**	(0.4)	-
Fair value reserve adjustments	**(48.1)**	-	-
Net pension adjustment	**(400.2)**	(294.6)	(355.8)
Less: deductions	**(175.0)**	(175.0)	(175.0)
Total capital	**2,400.5**	2,646.5	2,754.1

The deductions comprise investments in Group undertakings.

As detailed in note 15, the Group has adopted IFRS 9 with effect from 1 April 2018. Total share capital and reserves have increased as a result of carrying loans to customers at fair value but the balance on the fair value reserve is deducted from capital for regulatory purposes. The increase in allowances for credit losses on loans to customers has resulted in a reduction in capital.

14. Fair value disclosures

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

30 September 2018	**Carrying value £m**	**Fair value £m**
Financial assets:		
Cash at bank and in hand	**685.5**	**685.5**
Amounts owed in respect of sale of loans	**934.2**	**934.2**
Loans to customers	**3,869.5**	**3,869.5**
Other financial assets	**17.3**	**17.3**
Total financial assets	**5,506.5**	**5,506.5**

	Carrying value £m	**Fair value £m**
Financial liabilities:		
Statutory Debt and HM Treasury loans	**1,908.8**	**1,908.8**
Derivative financial instruments	**135.6**	**135.6**
Other financial liabilities	**55.0**	**55.0**
Total financial liabilities	**2,099.4**	**2,099.4**

Notes to the Financial Information (continued)

14. Fair value disclosures (continued)

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

30 September 2017	Carrying value £m	Fair value £m
Financial assets:		
Cash at bank and in hand	1,239.9	1,239.9
Investment securities	0.6	0.6
Loans to customers	9,633.4	9,109.3
Fair value adjustments on portfolio hedging	418.7	-
Other financial assets	18.5	18.5
Total financial assets	11,311.1	10,368.3

	Carrying value £m	Fair value £m
Financial liabilities:		
Statutory Debt and HM Treasury loans	8,264.2	8,264.2
Derivative financial instruments	466.9	466.9
Other financial liabilities	60.3	60.3
Total financial liabilities	8,791.4	8,791.4

31 March 2018	Carrying value £m	Fair value £m
Financial assets:		
Cash at bank and in hand	1,108.4	1,108.4
Loans to customers	4,200.9	4,311.6
Assets classified as held for sale: loans to customers	4,991.6	5,113.1
Fair value adjustments on portfolio hedging	420.9	-
Other financial assets	17.5	17.5
Total financial assets	10,739.3	10,550.6

	Carrying value £m	Fair value £m
Financial liabilities:		
Statutory Debt and HM Treasury loans	7,561.1	7,561.1
Derivative financial instruments	470.6	470.6
Other financial liabilities	55.2	55.2
Total financial liabilities	8,086.9	8,086.9

At 30 September 2017 and 31 March 2018 the only financial assets and liabilities which were carried at fair value on the Balance Sheet were investment securities and derivative financial assets and liabilities. As detailed in note 15, the Group has adopted IFRS 9 with effect from 1 April 2018. Under IFRS 9 the Group's loans to customers are carried at fair value. As permitted by IFRS 9, prior periods have not been restated.

The fair value of loans to customers at 31 March 2018 has been revised compared to that disclosed in the Group's 31 March 2018 Annual Report & Accounts as a result of refinement of inputs to the Group's fair value models. No adjustment has been made to the fair value at 30 September 2017 which was calculated using the models and data available at that time.

Notes to the Financial Information (continued)

14. Fair value disclosures (continued)

(b) Valuation bases

At 30 September 2018, 31 March 2018 and 30 September 2017 all financial assets and liabilities which were carried at fair value other than loans to customers were valued on a 'Level 2' basis as defined by IFRS 13 'Fair Value Measurement'. At 30 September 2018 loans to customers are carried at fair value and are valued on a 'Level 3' basis; the valuation is regarded as Level 3 as certain significant inputs to the valuation are developed using internal assumptions due to the unavailability of market data. There were no transfers between Levels 1, 2 and 3 during the periods presented. Since 31 March 2018 the Group has made no changes to the fair value methodologies applied. Details of the methodology used to derive the fair value of loans to customers are provided in note 15.

15. Adoption of IFRS 9

The Group has adopted IFRS 9 with effect from 1 April 2018. As permitted by IFRS 9, prior periods have not been restated.

The following table shows the classification of financial assets and liabilities on transition to IFRS 9 on 1 April 2018:

	IAS 39 classification	IFRS 9 classification	IAS 39 carrying amount 31 March 2018 £m	IFRS 9 carrying amount 1 April 2018 £m
Financial assets				
Cash at bank and in hand	Loans and receivables	Amortised cost	1,108.4	1,108.4
Loans to customers	Loans and receivables	FVOCI	4,200.9	4,311.6
Fair value adjustments on portfolio hedging	Fair value macro-hedge	Fair value macro-hedge	420.9	420.9
Other financial assets	Loans and receivables	Amortised cost	17.5	17.5
			5,747.7	**5,858.4**
Financial liabilities				
Statutory Debt and HM Treasury loans	Amortised cost	Amortised cost	7,561.1	7,561.1
Derivative financial instruments	FVP&L (mandatory)	FVP&L (mandatory)	470.6	470.6
Other financial liabilities	Amortised cost	Amortised cost	55.2	55.2
			8,086.9	**8,086.9**

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 solely payments of principal and interest ('SPPI'). Therefore the Group's loans to customers are carried at FVOCI.

Notes to the Financial Information (continued)

15. Adoption of IFRS 9 (continued)

Under IFRS 9, allowances are made for credit losses on loans to customers on an 'expected loss' basis, and are generally higher than allowances for credit losses under the IAS 39 'incurred loss' approach.

The Group has no hedge accounting other than the fair value macro-hedging of the equity release mortgages. As IFRS 9 does not address macro-hedging, the Group continued to apply the IAS 39 macro-hedge accounting rules. The remaining balance of the 'fair value adjustments on portfolio hedging' was written off at the point of sale of the equity release mortgages (see note 4).

The Group continues to hold 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 liabilities continue to be carried at fair value through profit or loss ('FVP&L') as the cash flows do not satisfy the definition of SPPI. The accounting treatment of the Group's other financial liabilities is not affected by the implementation of IFRS 9 and they continue to be carried at amortised cost.

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

There were no financial assets or liabilities reclassified to amortised cost, and no assets reclassified out of FVP&L to FVOCI, as a result of the transition to IFRS 9.

Notes to the Financial Information (continued)

15. Adoption of IFRS 9 (continued)

The following tables detail the changes to the Group's Balance Sheet as a result of the transition to IFRS 9 on 1 April 2018:

	31 March 2018 £m	Re-classification £m	Re-measurement £m	1 April 2018 £m
Assets				
Loans and receivables:				
Cash at bank and in hand	1,108.4	(1,108.4)	-	-
Loans to customers	4,200.9	(4,200.9)	-	-
Other financial assets	17.5	(17.5)	-	-
Financial assets at amortised cost:				
Cash at bank and in hand	-	1,108.4	-	1,108.4
Other financial assets	-	17.5	-	17.5
Financial assets at FVOCI:				
Loans to customers	-	4,200.9	110.7	4,311.6
Financial assets not measured under IFRS 9:				
Assets classified as held for sale: loans to customers	4,991.6	-	-	4,991.6
Equity release mortgages	729.8	-	-	729.8
Fair value adjustments on portfolio hedging	420.9	-	-	420.9
Non-financial assets:				
Current tax assets	6.0	-	-	6.0
Other non-financial assets	25.8	-	-	25.8
Retirement benefit assets	355.8	-	-	355.8
Property, plant and equipment	0.3	-	-	0.3
Total assets	**11,857.0**	**-**	**110.7**	**11,967.7**
Liabilities				
Financial liabilities at amortised cost:				
Statutory Debt and HM Treasury loans	7,561.1	-	-	7,561.1
Other financial liabilities	55.2	-	-	55.2
Financial liabilities at FVP&L:				
Derivative financial instruments	470.6	-	-	470.6
Non-financial liabilities:				
Deferred tax liabilities	56.8	-	21.2	78.0
Retirement benefit obligations	8.2	-	-	8.2
Provisions	34.4	-	-	34.4
Total liabilities	**8,186.3**	**-**	**21.2**	**8,207.5**
Equity				
Share capital	361.3	-	-	361.3
Fair value reserve	-	-	98.4	98.4
Other reserves	228.1	-	-	228.1
Retained earnings	3,081.3	-	(8.9)	3,072.4
Total equity	**3,670.7**	**-**	**89.5**	**3,760.2**
Total equity and liabilities	**11,857.0**	**-**	**110.7**	**11,967.7**

Notes to the Financial Information (continued)

15. Adoption of IFRS 9 (continued)

The reclassifications in the table above are from the IAS 39 'loans and receivables' to the IFRS 9 'financial assets at amortised cost' and 'financial assets at FVOCI' categories. The £110.7m remeasurements of loans to customers comprise an increase of £10.8m in impairment provisions and an increase of £121.5m as the loans are carried at fair value under IFRS 9. Further details of these adjustments are provided on pages 47 to 48. Deferred tax of £21.2m has been provided in respect of these adjustments.

Fair value reserve:	**£m**
Balance under IAS 39	-
Remeasurement of loans to customers carried at FVOCI	121.5
Tax effect of the above	(23.1)
Balance under IFRS 9	**98.4**

Retained earnings:	**£m**
Balance under IAS 39	3,081.3
Change to impairment provisions	(10.8)
Tax effect of the above	1.9
Net adjustment to retained earnings	(8.9)
Balance under IFRS 9	**3,072.4**

Impairment allowances against loans to customers:	**On residential mortgages £m**	**On held for sale loans £m**	**Total £m**
Balance under IAS 39	**138.4**	**11.0**	**149.4**
Remeasurement	**10.5**	**-**	**10.5**
Loss allowance against loan commitments	**0.3**	**-**	**0.3**
Balance under IFRS 9	**149.2**	**11.0**	**160.2**

Accounting policies

Note 1 to the Group's 2018 Annual Report & Accounts detailed the Group's principal accounting policies prior to the adoption of IFRS 9. The changes to these accounting policies as a result of the implementation of IFRS 9 are as follows.

Financial instruments

In accordance with IFRS 9 each financial asset is classified at initial recognition, or at the point of first adoption of IFRS 9, into one of three categories:

(i) Financial assets at FVP&L;

(ii) Financial assets at FVOCI; or

(iii) Financial assets at amortised cost;

and each financial liability into one of two categories:

(iv) Financial liabilities at FVP&L; or

(v) Financial liabilities at amortised cost.

The classification of each financial asset is determined by the business model for the asset and whether the cash flows on the asset are SPPI.

Loans to customers

The Group's business model for loans to customers has been determined to be that they are 'held to collect and sell'. All material cash flows are SPPI.

IFRS 9 requires that financial assets which are held to collect and sell, and for which all cash flows are SPPI, are carried at FVOCI. In accordance with this, all of the Group's loans to customers are carried at fair value, with movements in fair value being recognised in a fair value reserve component of equity.

Notes to the Financial Information (continued)

15. Adoption of IFRS 9 (continued)

Accounting policies (continued)

Loans to customers (*continued)*
IFRS 9 also requires that assets carried at FVOCI are subject to impairment provisioning. Movements in carrying amounts due to changes in fair value are taken through Other Comprehensive Income and movements due to impairment and other factors are taken to the Income Statement.

When a loan is derecognised, the element of the fair value reserve relating to that loan is reclassified to the Income Statement.

Impairment of financial assets
General policy on impairment
IFRS 9 requires that all financial assets are subject to impairment provisioning except those which are carried at FVP&L, and impairment charges/releases are taken through the Income Statement. Under IFRS 9, financial assets are classified as 'stage 1', 'stage 2' or 'stage 3' for the purposes of impairment. Stage 1 assets are those for which the credit risk has not increased significantly since initial recognition. Stage 2 assets are those for which the credit risk has increased significantly since initial recognition but the asset is not credit-impaired. Stage 3 assets are those which are credit-impaired.

Impairment of secured residential loans to customers
The Group uses a consistent approach to provisioning based on calculating expected credit losses using a probabilistic model, calculating losses on a loan by loan basis. In addition to segmenting the loans between the IFRS 9 stages, the approach segments the mortgage books and the underpinning key assumptions where historic experience shows the performance of these segments to be materially different. The segmentation can be different for each assumption, but factors used in segmentation include product type, LTV, geographical area and repayment type. Where management considers that there is additional risk that is not otherwise captured, overlay provisions are made.

The Group does not categorise any loans to customers as 'stage 1'. This is because ascertaining which loans have experienced a significant increase in credit risk since inception would be onerous and in some cases the information concerning credit quality at inception (which would have been in 2008 or earlier) may be incomplete. IFRS 9 permits the categorisation to omit stage 1 if the assessment of change in credit risk would involve 'undue cost and effort'.

The loans categorised as stage 3 are those which meet the Group's definition of 'credit-impaired' (see page 52).

For each loan an assessment is made of forecast cash flows against contractual cash flows over the life of the loan. Both cash flows are discounted, using the loan's effective interest rate. Where there is a shortfall on the discounted forecast cash flow compared to the discounted contractual cash flow, a provision is made.

The Group calculates impairment provisions separately under four future economic scenarios. The impairment provision which is used for accounting purposes is the weighted average of the provisions calculated under each scenario.

A loan is written off and any associated impairment allowance released when and only when the property is sold or the account is redeemed. Any subsequent proceeds are recognised on a cash basis and offset against 'impairment on loans to customers' in the Income Statement.

Impairment of commercial loans
For commercial loans a similar provisioning approach is followed to secured residential loans. However due to individual nature of commercial loans, some assumptions are specific to individual loans.

A loan is written off and any associated impairment allowance released when a loan reaches a stage in the process which indicates the loan is not recoverable.

Loan commitments
Loan commitments comprise previous voluntary overpayments by customers which are available for re-drawal.

The impairment provision for each loan takes into account the potential that the customer could in future re-draw the overpayment, the possibility of which increases the Group's exposure to potential future loss.

Notes to the Financial Information (continued)

15. Adoption of IFRS 9 (continued)

Accounting policies (continued)

Derivative financial instruments
All of the Group's derivative contracts are used for the commercial management of risk exposures. The Group does not use derivatives for speculative purposes.

By the nature of derivative financial assets, their cash flows are not SPPI. IFRS 9 therefore requires that derivative financial assets are carried at FVP&L. In accordance with this, all of the Group's derivative financial assets are carried at fair value, with movements in fair value being recognised in the 'fair value movements on financial instruments' line of the Income Statement. When a derivative financial asset is cancelled and the balance settled in cash there is no gain or loss on the cancellation because the fair value is adjusted to the settlement price and hence any gain or loss forms part of fair value movements; costs of settlement are not considered material and hence are also included in the fair value movements line.

Under IFRS 9 assets which are carried at FVP&L are not subject to impairment provisioning.

Derivative financial liabilities are carried at FVP&L, as required by IFRS 9, and accounted for in the same way as derivative financial assets.

Hedge accounting
During the period the Group applied portfolio (macro) fair value hedge accounting. IFRS 9 does not address portfolio fair value hedge accounting and hence the IAS 39 accounting rules still apply to this type of hedge accounting. As detailed in note 4, during the period hedge accounting ceased.

Interest income
All interest income is recognised on the effective interest method. In respect of 'stage 3' loans to customers, income is recognised for accounting purposes only on the loan balance net of impairment allowances.

Critical judgements and accounting estimates
Note 3 to the Group's 2018 Annual Report & Accounts detailed the Group's critical judgements and accounting estimates prior to the adoption of IFRS 9. The changes to these critical judgements and accounting estimates as a result of the implementation of IFRS 9 are as follows.

Impairment of loans to customers
Under IFRS 9 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 credit-impaired. A case is considered to be credit-impaired when it is three months in arrears or there are other indicators of credit impairment eg bankruptcy, forbearance, possession or for sale with a Law of Property Act receiver. In addition all cases that are past their term end are treated as credit-impaired. Generally a loan remains in stage 3 until it has been up to date for 3 consecutive months. Based on the age of the loan books and the Group's business model, all loans to customers have been categorised as stage 2 or 3; this approach is permitted by IFRS 9.

IFRS 9 replaces the IAS 39 'incurred loss' approach to impairment provisioning with a forward looking 'expected loss' approach. In respect of stage 2 and 3 assets, the impairment provision reflects full lifetime expected losses.

The estimation of expected losses requires the use of models, the inputs to which require the use of estimates. Key sources of estimation include rates of prepayment and default and forced sale discounts. Data used in the derivation of the inputs include for each loan the customer's payment record, credit reference information obtained from third parties and the ratio of the outstanding balance to the value of the property.

Top-up provisions are calculated where it is considered that additional areas of risk are not captured by the underlying modelling. This can be due to specific borrower circumstances or affordability, condition of the properties impacting the recoverable value or geographical concentration impacting LTV.

Forward-looking assessments are made which are dependent on economic assumptions including interest rates, unemployment, gross domestic product ('GDP') and house price inflation as well as other factors such as net mortgage advances and mortgage arrears. 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 utilises four macroeconomic scenarios:

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

Notes to the Financial Information (continued)

15. Adoption of IFRS 9 (continued)

Accounting policies (continued)

Impairment of loans to customers *(continued)*
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.

At 30 September 2018 the key assumptions used in these scenarios and their relative probability weightings were as follows:

	Base	Downside	Severe downside	Upside
Probability	40%	20%	10%	30%
Bank of England base rate 2018 – 2023 [1]	0.9%	(0.3%)	0.0%	1.5%
House price inflation 2018 – 2023 [2]	14.5%	(5.0%)	(12.4%)	28.9%
ILO unemployment 2018 – 2023 [3]	0.1%	1.2%	2.3%	(0.5%)
GDP [4]	0.0%	(0.2%)	(0.2%)	1.0%

At 31 March 2018 the equivalent assumptions used in these scenarios and their relative probability weightings were as follows:

	Base	Downside	Severe downside	Upside
Probability	40%	20%	10%	30%
Bank of England base rate 2018 – 2023 [1]	0.7%	(0.2%)	(0.2%)	1.3%
House price inflation 2018 – 2023 [2]	17.3%	(2.7%)	(19.8%)	31.6%
ILO unemployment 2018 – 2023 [3]	0.2%	1.3%	2.4%	(0.4%)
GDP [4]	0.1%	(0.1%)	(0.1%)	1.3%

[1] *The absolute increase in the base rate percentage over the period*
[2] *The percentage movement in UK property prices over the period*
[3] *The absolute increase in the International Labour Organisation ('ILO') unemployment rate over the period*
[4] *The absolute increase in the GDP percentage over the period*

The model forecasts cash flows over a 20 year period. The assumptions above are shown over the first five years where there is greatest variation between scenarios.

If the probability weighting of the base scenario were to be uprated to 100%, the Group's total impairment loss allowances as at 30 September 2018 would be reduced by £13.5m. If the probability weighting of the downside scenario were to be uprated to 100%, the Group's total impairment loss allowances as at 30 September 2018 would be increased by £35.3m. If the probability weighting of the severe downside scenario were to be uprated to 100%, the Group's total impairment loss allowances as at 30 September 2018 would be increased by £50.1m. If the probability weighting of the upside scenario were to be uprated to 100%, the Group's total impairment loss allowances as at 30 September 2018 would be decreased by £22.2m.

Fair value of loans to customers
Under IFRS 9 the Group's loans to customers are carried at fair value. Fair value is calculated using models which discount expected future cash flows using market interest rates, the inputs to which require judgements. Expected future cash flows take account of estimated future losses and assumed redemptions, and are consistent with the cash flows used in the base scenario for impairment. Discount rates are determined by management incorporating the experience gained of market structures and pricing from recent sales transactions; at 30 September 2018 the discount rates used ranged from 2.27% to 7.39% (31 March 2018: 1.92% to 3.54%). The valuation is regarded as Level 3 as certain significant inputs to the valuation are defined as 'unobservable', i.e. inputs for which market data are not available; the most significant unobservable inputs are the expected future cash flows.

The modelled fair value of the Group's loans to customers is sensitive to the assumptions which are used to derive the discount rates applied in the calculation and the respective cash flows. If the assumed weighted average cost of capital of a potential purchaser of the loans were to increase by 1 percentage point then the fair value of loans to customers would be £184.4m lower; if the assumed weighted average cost of capital were to decrease by 1 percentage point then the fair value would be £201.5m higher.

Notes to the Financial Information (continued)

16. Related party disclosures

B&B considers the Board of Directors and the members of the Executive Committee to be the key management personnel. Transactions during the period with B&B's key management personnel and other related parties were similar in nature to those during the year ended 31 March 2018 as disclosed in B&B's Annual Report & Accounts for that year. B&B repaid £120.6m of the WCF during the six months to 30 September 2018 (6 months to 30 September 2017: £1,190.7m; 12 months to 31 March 2018: £1,890.7m), and £5,530.8m of the Statutory Debt owed to the Financial Services Compensation Scheme during the six months to 30 September 2018 (6 months to 30 September 2017: £10,976.6m; 12 months to 31 March 2018: £10,976.6m).

17. 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. 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. No provision has been made. UKAR provided guarantees to Prudential and to Blackstone which means that should B&B fail to make payment under a valid claim made by Prudential or Blackstone under the warranties and indemnities then UKAR will make payment in satisfaction of the claim. Through commitments made by HM Treasury, UKAR is satisfied that it will have sufficient funds to meet its liabilities arising from any claims made under the guarantee.

(b) As detailed in note 6, the sale of loans to an investor group led by Barclays Bank PLC was recognised on 26 April 2018. 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 30 June 2019. UKAR provided a guarantee that should B&B fail to make payment under a valid claim made by the purchaser under the warranties and indemnities then UKAR will make payment in satisfaction of the claim. Through commitments made by HM Treasury, UKAR is satisfied that it will have sufficient funds to meet its liabilities arising from any claims made under the guarantee.

(c) As detailed in note 6, on 27 September the Group announced the sale of all of its equity release mortgages to Rothesay Life Plc. 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. For most warranties the time limit to bring claims is 12 months from the date on which legal title is transferred to the purchasing entity; legal title is expected to transfer no later than 31 July 2019. UKAR provided a guarantee to Rothesay Life Plc that should B&B fail to make payment under a valid claim made by Rothesay Life Plc under the warranties and indemnities then UKAR will make payment in satisfaction of the claim. Through commitments made by HM Treasury, UKAR is satisfied that it will have sufficient funds to meet its liabilities arising from any claims made under the guarantee.

(d) The Group's lending and other consumer credit business is governed by consumer credit law, the FCA's Mortgage Conduct of Business ('MCOB') rules and other laws and 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.

Notes to the Financial Information (continued)

18. Risks and uncertainties

The Directors are aware of the following material risks and uncertainties which may affect B&B during the period to 31 March 2019:

- external economic factors including unemployment, house price movements and the extent and timing of changes in interest rates;
- the impact of the UK leaving the European Union, including any impact on the economic factors noted above, plus any subsequent changes to laws and regulations applicable to companies operating within the UK and any changes to UK government policy in relation to state owned assets;
- regulatory and conduct risk relating to products and services not meeting customer expectations or resulting in potentially unfair outcomes for customers;
- the risks and potential impacts of externally generated cyber security threats; and
- the risk of service disruption and/or not receiving services in line with contractual provisions from third party service providers or any subsequent termination of a third party contract.

There may be other risks that are not listed above that the Directors are not aware of or that the Directors do not consider material.

The business, financial condition or results of operations of B&B could be adversely affected by any of these risks. More discussion of risk management and control was provided on pages 9 to 11 of B&B's 2018 Annual Report & Accounts.

19. Events after the reporting period

(a) As detailed in note 6, on 27 September the Group announced the sale of all of its equity release mortgages to Rothesay Life Plc. At 30 September 2018 £934.2m of the sale proceeds were owed to B&B including an adjustment for cash flows on the portfolio prior to settlement. Financial completion occurred on 10 October 2018.

(b) Subsequent to the Balance Sheet date, on 26 October the High Court handed down judgement in Lloyds Banking Group Pensions Trustees Limited v. Lloyds Bank PLC and others (the 'GMP Equalisation Case'). The High Court ruled that the trustee of a defined benefit pension scheme is under a duty to adjust scheme benefits in excess of guaranteed minimum pensions ('GMPs') so that the total benefits received by male and female members with equivalent age, service and earnings histories are equal. The Company understands that a further hearing will be held to consider points which were not covered in this judgement following which there will be a period in which an appeal could be made. The Company is monitoring developments and is working with its actuaries to assess the accounting impacts of the judgement. At this stage it is not possible to estimate any potential impacts reliably.

The financial information in this document is unaudited and does not constitute statutory accounts within the meaning of section 435 of the Companies Act 2006. The comparative figures for the financial year ended 31 March 2018 are not the statutory accounts for that financial year for Bradford & Bingley plc. The 2018 statutory accounts of Bradford & Bingley plc have been reported on by that company's auditor and delivered to the Registrar of Companies. The report of the auditor was unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and did not contain a statement under section 498(2) or (3) of the Companies Act 2006. This document may contain forward-looking statements with respect to certain plans and current goals and expectations relating to the future financial conditions, business performance and results of Bradford & Bingley plc. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond the control of Bradford & Bingley plc including, amongst other things, UK domestic and global economic and business conditions, market related risks such as fluctuation in interest rates and exchange rates, inflation, deflation, the impact of competition, changes in customer preferences, risks concerning borrower credit quality, delays in implementing proposals, the timing, impact and other uncertainties of future acquisitions or other combinations within relevant industries, the policies and actions of regulatory authorities, the impact of tax or other legislation and other regulations in the jurisdictions in which Bradford & Bingley plc and its affiliates operate. As a result, the actual future financial condition, business performance and results of Bradford & Bingley plc may differ materially from the plans, goals and expectations expressed or implied in these forward- looking statements.

Statement of Directors' Responsibilities

The Directors confirm that this Interim Financial Report has been prepared in accordance with IAS 34 as adopted by the European Union and that the management commentary and related notes includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- An indication of important events that have occurred during the first six months and their impact on the condensed Financial Statements and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- Material related party transactions in the first six months and any material changes in the related party transactions described in the last annual report.

The Directors of Bradford & Bingley plc at the date of this report are:

John Tattersall
Ian Hares
Sue Langley
Brendan McDonagh
Keith Morgan
Brendan Russell
Holger Vieten

On behalf of the Board

John Tattersall
Chairman
28 November 2018

Ian Hares
Chief Executive Officer
28 November 2018

Bradford & Bingley plc. Registered Office: Croft Road, Crossflatts, Bingley, West Yorkshire BD16 2UA.
Registered in England and Wales under company number 03938288.

Independent Review Report to Bradford & Bingley plc

I have been engaged by the company to review the condensed consolidated set of interim financial statements for Bradford & Bingley plc for the six months ended 30 September 2018 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity and related explanatory notes. These are set out within Section B of the UK Asset Resolution Limited Interim Financial Report for the six months to 30 September 2018.

I have read the other information contained in the Bradford & Bingley plc Interim Financial Report and considered whether it contains any apparent misstatements or material inconsistences with the information in the condensed interim financial statements.

Respective responsibilities of the directors and the auditor

The Bradford & Bingley plc Interim Financial Report, including the Condensed Consolidated Set of Interim Financial Statements, is the responsibility of, and has been approved by, the directors of Bradford & Bingley plc. As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for preparing the Interim Financial Report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2 of the Bradford & Bingley plc Interim Financial Report, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the group is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union. The condensed consolidated set of interim financial statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

My responsibility is to express to the company a conclusion on the condensed consolidated set of interim financial statements in the Bradford & Bingley plc Interim Financial Report.

Scope of Review

I conducted my review in accordance with International Standard on Review Engagements (UK & Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom.

A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable me to obtain assurance that I would become aware of all significant matters that might be identified in an audit. Accordingly, I do not express an audit opinion.

Conclusion

Based on my review, nothing has come to my attention that causes me to believe that the accompanying condensed consolidated set of financial statements in the Bradford & Bingley plc Interim Financial Report for the six months ended 30 September 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Hilary Lower (Senior Statutory Auditor)
28 November 2018

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

Section C

NRAM Limited Group

Interim Financial Report

for the 6 months to 30 September 2018

Key Highlights

- Balance Sheet reduced by a further £0.2bn in the last six months to £7.7bn.
- Agreed the sale of a £9m portfolio of equity release mortgages to Rothesay Life Plc.
- Government loan repayments of £0.6bn in the six months (H1 2017/18: £1.0bn, FY 2017/18: £1.9bn).
- Reflecting reducing mortgage balances underlying profit before tax of £102.6m for the first six months was 25.4% lower than the comparable period in 2017/18 (H1 2017/18: £137.5m; FY 2017/18: £306.7m).
- Statutory profit before tax of £87.7m including a £17.1m top up of customer redress provision and a £2.1m profit on the sale of loans (H1 2017/18: £100.0m; FY 2017/18: £290.7m).
- Mortgage accounts three or more months in arrears, including those in possession, fell by 13% from the year end to 1,709 (September 2017: 2,308; March 2018: 1,963).

1. Financial Information

These results are for the six month reporting period to 30 September 2018. Where appropriate to show half year and full year comparisons, the unaudited six month period to 30 September 2017 ('H1 2017/18') and audited 12 month period to 31 March 2018 ('FY 2017/18') are used respectively in these interim accounts.

Underlying profit before tax for the six months was £102.6m, a decrease of £34.9m from September 2017 (H1 2017/18: £137.5m; FY 2017/18: £306.7m). The reduction was primarily driven by lower net interest income as a result of the shrinking Balance Sheet.

Statutory profit before tax for the six months was £87.7m (H1 2017/18: £100.0m; FY 2017/18: £290.7m). The £12.3m decrease primarily reflects the reduction in underlying profit, partly offset by a lower charge for customer redress.

Our objective remains to reduce the NRAM Limited (‘NRAM’) Balance Sheet to facilitate the orderly repayment of the government loan, whilst maximising value for the taxpayer and serving our customers well and treating them fairly. Since the formation of UK Asset Resolution Limited (‘UKAR’) in October 2010, the NRAM Balance Sheet has reduced by £62.1bn, including £28.0bn of customer loan repayments and £14.4bn of asset sales, which have facilitated the repayment of £42.4bn of wholesale funding and £19.6bn of government funding.

In the six months to 30 September 2018 the Balance Sheet reduced by a further £0.2bn (H1 2017/18: £1.0bn; FY 2017/18: £1.8bn) including the repayment of £0.6bn of government funding. The reduction was driven by customer redemptions in the period, partly offset by the recognition of customer loans at fair value following the adoption of IFRS 9 on 1 April 2018. As at 30 September 2018 lending balances stand at £7.1bn (September 2017: £7.9bn; March 2018: £7.3bn).

The total number of mortgage cases three or more months in arrears, including those in possession, reduced by 13% from 31 March 2018 to 1,709 cases as at 30 September 2018 (September 2017: 2,308; March 2018: 1,963). The total value of arrears owed by customers has fallen by £2.4m to £18.9m during the six months to 30 September 2018, a reduction of 11%. This reduction was driven by proactive arrears management and the continued low interest rate environment. The proportion of total accounts 3 or more months in arrears has decreased from 3.39% at 31 March 2018 to 3.17% at 30 September 2018 (September 2017: 3.71%).

Administrative expenses for the six months were 36.9% higher than the equivalent period in 2017/18 at £29.3m (H1 2017/18: £21.4m; FY 2017/18: £40.5m) due to the sale of Bradford & Bingley plc (‘B&B’) assets giving NRAM a higher proportion of the UKAR cost base.

Reflecting heightened awareness of the August 2019 Payment Protection Insurance (‘PPI’) deadline, payments during the period have been higher than previously assumed. The provision for customer redress has therefore been increased by £17.1m to reflect updated PPI payment assumptions (£27.1m), partly offset by a net release on other customer redress provisions (£10.0m).

Provisions include £79.5m (September 2017: £140.4m; March 2018: £102.2m) in respect of remediation, including PPI.

Key Highlights (continued)

2. Customers and Conduct

The total number of customers continues to fall in line with our objective to reduce our Balance Sheet. In total, NRAM has 60,000 customers (September 2017: 70,000; March 2018: 65,000), with 55,000 mortgage accounts (September 2017: 62,000; March 2018: 58,000) and 27,000 unsecured personal loan accounts (September 2017: 32,000; March 2018: 30,000). The majority of these loans continue to perform well with 92% of mortgage customers up to date with their mortgage payments.

Although our absolute 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 specific situation and find solutions to help them manage 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 totalled 216 in the six months (H1 2017/18: 200; FY 2017/18: 436).

Other Information

NRAM Limited

Northern Rock was nationalised and taken into government ownership in February 2008 and was then restructured into two legal entities with effect from 1 January 2010 - Northern Rock plc (which was subsequently sold to Virgin Money) and NRAM plc. NRAM plc retained the majority of the pre-existing mortgage book and all pre-existing unsecured loan accounts. On 5 May 2016, UKAR sold NRAM plc to Cerberus. Prior to the sale, on 30 April 2016, assets and liabilities not included in the transaction transferred from NRAM plc to a newly established subsidiary of UKAR, known as NRAM (No.1) Limited. On 18 July 2016, NRAM (No.1) Limited changed its name to NRAM Limited. NRAM Limited is closed to new lending but continues to provide services to 60,000 existing borrowers, with 55,000 mortgage accounts and 27,000 unsecured loan accounts.

NRAM had no employees during the periods presented. Services were provided to NRAM by B&B, both directly and through the outsourcing arrangement with Computershare.

Key Performance Indicators

In addition to the primary Financial Statements, NRAM has adopted the following key performance indicators in managing business performance in the context of its strategic priorities.

	September 2018	September 2017	March 2018
Underlying Profit Before Tax	**£102.6m**	£137.5m	£306.7m
- Statutory Profit Before Tax [1]	£87.7m	£100.0m	£290.7m
- Net Interest Margin on Average Interest Earning Assets (%)	3.20	3.06	3.13
Government Loan Repayments	**£0.6bn**	£1.0bn	£1.9bn
- Government Loan Balance	£2.1bn	£3.6bn	£2.7bn
- Total Lending Balances [2]	£7.1bn	£7.9bn	£7.3bn
3m+ Residential Arrears	**1,709**	2,308	1,963
- Residential Arrears Balance as a percentage of the Total Residential Mortgage Balance (%)	0.29	0.32	0.31
- Residential Payments Overdue	£18.9m	£23.8m	£21.3m
- Residential Arrears 3 months and over and possessions as a percentage of the book:			
- By value (%)	4.14	4.87	4.51
- By number of accounts (%)	3.17	3.71	3.39
Administrative Expenses	**£29.3m**	£21.4m	£40.5m
- Ratio of costs to average interest earning assets (%)			
- Statutory	0.72	0.47	0.47
- Ongoing	0.72	0.47	0.47

1. *An analysis of the difference between statutory and underlying profit is provided on page 62.*
2. *Total lending balances includes loans to customers and equity release mortgages.*

Business Review

In addition to the statutory measure of profit, the Board believes it is appropriate to assess performance based on the underlying profit of the business, which excludes the remediation of inherited regulatory defects and any associated insurance claims, certain gains or losses such as the sale of assets and movements in fair value relating to financial instruments.

An analysis of the difference between the statutory accounting measure of profit and the underlying profit of the NRAM Group is provided in the table below.

Reconciliation of underlying profit before taxation to statutory profit before taxation

	6 months to 30 Sept 2018 £m	6 months to 30 Sept 2017 £m	12 months to 31 Mar 2018 £m
Net interest income	**127.2**	138.9	270.2
Underlying net non-interest income*	**(4.3)**	10.9	6.4
Underlying net operating income	**122.9**	149.8	276.6
Ongoing administrative expenses	**(29.3)**	(21.4)	(40.5)
Net impairment release on loans to customers	**9.0**	8.9	70.5
Provision for insurance risk on equity release mortgages	**-**	-	(0.1)
Net impairment release on investment securities	**-**	0.2	0.2
Underlying profit before taxation	**102.6**	137.5	306.7
Unrealised fair value movements on financial instruments	**0.1**	0.1	0.2
Profit on sale of loans	**2.1**	1.6	1.7
Provision for customer redress	**(17.1)**	(39.2)	(37.3)
Legal and insurance claims	**-**	-	19.4
Statutory profit before taxation	**87.7**	100.0	290.7

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

Summary Balance Sheet

	30 Sept 2018 £m	30 Sept 2017 £m	31 Mar 2018 £m
Loans to customers:			
- residential mortgages	**6,796.9**	7,504.1	6,971.8
- commercial loans	**54.7**	78.0	74.3
- unsecured loans	**232.6**	283.7	256.2
Equity release mortgages	**7.8**	17.5	17.4
Amount owed in respect of sale of loans	**10.8**	-	-
Wholesale assets	**422.2**	673.6	455.2
Other assets	**188.8**	207.9	188.4
Total assets	**7,713.8**	8,764.8	7,963.3
HM Treasury loans	**2,117.3**	3,618.0	2,717.7
Wholesale funding	**210.6**	210.5	204.2
Derivative financial instruments	**1.1**	1.5	1.2
Other liabilities	**220.0**	220.9	179.2
Equity	**5,164.8**	4,713.9	4,861.0
Total equity and liabilities	**7,713.8**	8,764.8	7,963.3

NRAM Limited Condensed Financial Statements

Consolidated Income Statement

	Note	**6 months to 30 Sept 2018 £m**	6 months to 30 Sept 2017 £m	12 months to 31 Mar 2018 £m
Interest receivable and similar income	3	**153.0**	171.7	332.6
Interest expense and similar charges	3	**(25.8)**	(32.8)	(62.4)
Net interest income	3	**127.2**	138.9	270.2
Fee and commission income		**1.4**	1.5	2.8
Fee and commission expense		**(6.0)**	(6.0)	(12.0)
Net fee and commission income		**(4.6)**	(4.5)	(9.2)
Net realised gains less losses on investment securities		**0.2**	15.3	15.3
Unrealised fair value movements on financial instruments		**0.1**	0.1	0.2
Other operating income		**0.1**	0.1	0.3
Non-interest income		**(4.2)**	11.0	6.6
Total income		**123.0**	149.9	276.8
Administrative expenses	4	**(29.3)**	(21.4)	(40.5)
Provision for customer redress	10	**(17.1)**	(39.2)	(37.3)
Legal and insurance claims		**-**	-	19.4
Net impairment release on loans to customers*	7	**9.0**	8.9	70.5
Provision for insurance risk on equity release mortgages		**-**	-	(0.1)
Net impairment release on investment securities		**-**	0.2	0.2
Profit on sale of loans	9	**2.1**	1.6	1.7
Profit before taxation		**87.7**	100.0	290.7
Taxation	5	**(21.9)**	(27.2)	(63.0)
Profit for the period		**65.8**	72.8	227.7

The results above arise from continuing activities.

* The Group has adopted IFRS 9 with effect from 1 April 2018. Consequently the impairment on loans to customers presented above for the period ended 30 September 2018 has been prepared on a different basis from that presented for the comparative periods. Further information is provided in note 14.

NRAM Limited Condensed Financial Statements (continued)

Consolidated Statement of Comprehensive Income

6 months to 30 September 2018	**Gross of tax £m**	**Tax £m**	**Net of tax £m**
Profit for the period	**87.7**	**(21.9)**	**65.8**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Assets carried at fair value through other comprehensive income:			
- net losses recognised in fair value reserve during the period	**(106.9)**	**20.3**	**(86.6)**
	(106.9)	**20.3**	**(86.6)**
Items that will not be reclassified subsequently to profit or loss:			
- retirement benefit remeasurements	**(32.6)**	**6.2**	**(26.4)**
	(32.6)	**6.2**	**(26.4)**
Total other comprehensive income	**(139.5)**	**26.5**	**(113.0)**
Total comprehensive income for the period	**(51.8)**	**4.6**	**(47.2)**

6 months to 30 September 2017	Gross of tax £m	Tax £m	Net of tax £m
Profit for the period	100.0	(27.2)	72.8
Other comprehensive (expense)/income			
Items that will not be reclassified subsequently to profit or loss:			
- retirement benefit remeasurements	(59.6)	11.3	(48.3)
	(59.6)	11.3	(48.3)
Total other comprehensive (expense)/income	(59.6)	11.3	(48.3)
Total comprehensive income for the period	40.4	(15.9)	24.5

12 months to 31 March 2018	Gross of tax £m	Tax £m	Net of tax £m
Profit for the year	290.7	(63.0)	227.7
Other comprehensive (expense)/income			
Items that will not be reclassified subsequently to profit or loss:			
- retirement benefit remeasurements	(69.0)	12.9	(56.1)
	(69.0)	12.9	(56.1)
Total other comprehensive (expense)/income	(69.0)	12.9	(56.1)
Total comprehensive income for the year	221.7	(50.1)	171.6

The Group has adopted IFRS 9 with effect from 1 April 2018. Consequently the financial information presented above for the period ended 30 September 2018 has been prepared on a different basis from that presented for the comparative periods. Further information is provided in note 14.

NRAM Limited Condensed Financial Statements (continued)

Consolidated Balance Sheet

	Note	**30 Sept 2018 £m**	30 Sept 2017 £m	31 Mar 2018 £m
Assets				
Cash at bank and in hand		**422.2**	673.6	455.2
Amounts owed in respect of sale of loans	9	**10.8**	-	-
Loans to customers*	6	**7,084.2**	7,865.8	7,302.3
Equity release mortgages	9	**7.8**	17.5	17.4
Other assets		**1.3**	13.0	0.3
Retirement benefit assets		**187.5**	194.9	188.1
Total assets		**7,713.8**	8,764.8	7,963.3
Liabilities				
HM Treasury loans		**2,117.3**	3,618.0	2,717.7
Derivative financial instruments		**1.1**	1.5	1.2
Debt securities in issue		**210.6**	210.5	204.2
Other liabilities		**34.6**	48.0	39.5
Current tax liabilities		**17.9**	5.5	9.9
Deferred tax liabilities		**87.6**	26.7	27.4
Provisions	10	**79.9**	140.7	102.4
Total liabilities		**2,549.0**	4,050.9	3,102.3
Equity				
Issued capital and reserves attributable to owners of the parent:				
- share capital		**124.0**	124.0	124.0
- reserves*	11	**298.4**	3,088.2	15.9
- retained earnings*		**4,742.4**	1,501.7	4,721.1
Share capital and reserves attributable to owners of the parent		**5,164.8**	4,713.9	4,861.0
Total equity and liabilities		**7,713.8**	8,764.8	7,963.3

* The Group has adopted IFRS 9 with effect from 1 April 2018. Consequently the amounts presented above for 30 September 2018 have been prepared on a different basis from that presented for the comparative periods. Further information is provided in note 14.

NRAM Limited Condensed Financial Statements (continued)

Consolidated Statement of Changes in Equity

6 months to 30 September 2018	**Share capital £m**	**Share premium reserve £m**	**Merger reserve £m**	**Fair value reserve £m**	**Retained earnings £m**	**Total share capital and reserves £m**
At 31 March 2018	**124.0**	**-**	**15.9**	**-**	**4,721.1**	**4,861.0**
Impact of adoption of IFRS 9*	**-**	**-**	**-**	**370.2**	**(19.2)**	**351.0**
At 1 April 2018	**124.0**	**-**	**15.9**	**370.2**	**4,701.9**	**5,212.0**
Other comprehensive income/(expense):						
- net movement in fair value reserve	**-**	**-**	**-**	**(106.9)**	**-**	**(106.9)**
- retirement benefit remeasurements	**-**	**-**	**-**	**-**	**(32.6)**	**(32.6)**
- tax effects of the above	**-**	**-**	**-**	**20.3**	**6.2**	**26.5**
Total other comprehensive expense	**-**	**-**	**-**	**(86.6)**	**(26.4)**	**(113.0)**
Profit for the period	**-**	**-**	**-**	**-**	**65.8**	**65.8**
Release of merger reserve	**-**	**-**	**(1.1)**	**-**	**1.1**	**-**
Total comprehensive income/(expense)	**-**	**-**	**(1.1)**	**(86.6)**	**40.5**	**(47.2)**
At 30 September 2018	**124.0**	**-**	**14.8**	**283.6**	**4,742.4**	**5,164.8**

**The Group has adopted IFRS 9 with effect from 1 April 2018: see note 14.*

6 months to 30 September 2017	Share capital £m	Share premium reserve £m	Merger reserve £m	Other reserves £m	Retained earnings £m	Total share capital and reserves £m
At 1 April 2017	124.0	1,022.0	2,241.5	-	1,301.9	4,689.4
Other comprehensive income/(expense):						
- retirement benefit remeasurements	-	-	-	-	(59.6)	(59.6)
- tax effects of the above	-	-	-	-	11.3	11.3
Total other comprehensive expense	-	-	-	-	(48.3)	(48.3)
Profit for the period	-	-	-	-	72.8	72.8
Release of merger reserve	-	-	(175.3)	-	175.3	-
Total comprehensive income/(expense)	-	-	(175.3)	-	199.8	24.5
At 30 September 2017	124.0	1,022.0	2,066.2	-	1,501.7	4,713.9

12 months to 31 March 2018	Share capital £m	Share premium reserve £m	Merger reserve £m	Other reserves £m	Retained earnings £m	Total share capital and reserves £m
At 1 April 2017	124.0	1,022.0	2,241.5	-	1,301.9	4,689.4
Other comprehensive income/(expense):						
- retirement benefit remeasurements	-	-	-	-	(69.0)	(69.0)
- tax effects of the above	-	-	-	-	12.9	12.9
Total other comprehensive expense	-	-	-	-	(56.1)	(56.1)
Profit for the year	-	-	-	-	227.7	227.7
Issue of share capital	2,000.0		(2,000.0)	-	-	-
Cancellation of capital	(2,000.0)	(1,022.0)	-	-	3,022.0	-
Release of merger reserve	-	-	(225.6)	-	225.6	-
Total comprehensive income/(expense)	-	(1,022.0)	(2,225.6)	-	3,419.2	171.6
At 31 March 2018	124.0	-	15.9	-	4,721.1	4,861.0

NRAM Limited Condensed Financial Statements (continued)

Consolidated Cash Flow Statement

	6 months to 30 Sept 2018 £m	6 months to 30 Sept 2017 £m	12 months to 31 Mar 2018 £m
Cash flows from operating activities			
Profit before taxation for the period	**87.7**	100.0	290.7
Adjustments to reconcile profit to cash generated from operating activities:			
- interest expense and similar charges	**25.8**	32.8	62.4
- provision for customer redress	**17.1**	39.2	37.3
- defined benefit pension scheme credits	**(1.9)**	(2.4)	(4.9)
- cash contributions to defined benefit pension scheme	**(30.0)**	(30.0)	(30.0)
- net impairment release on loans to customers	**(9.0)**	(8.9)	(70.5)
- provision for insurance risk on equity release mortgages	**-**	-	0.1
- gains less losses on investment securities	**(0.2)**	(0.2)	(15.5)
- profit on sale of loans	**(2.1)**	(1.6)	(1.7)
- other non-cash movements	**-**	(7.4)	0.2
	87.4	121.5	268.1
Net decrease/(increase) in operating assets:			
- loans to customers	**554.0**	679.0	1,304.2
- equity release mortgages	**0.1**	0.2	0.2
- derivative financial instruments receivable	**-**	1.8	1.8
- other assets	**(1.1)**	6.4	18.9
Net decrease in operating liabilities:			
- derivative financial instruments payable	**(0.1)**	(1.0)	(1.3)
- other liabilities	**(4.2)**	-	(5.2)
- provisions	**(39.6)**	(30.9)	(67.3)
Interest paid	**(19.8)**	(27.6)	(63.9)
Income tax paid	**(9.9)**	(72.1)	(101.2)
Net cash generated from operating activities	**566.8**	677.3	1,354.3
Cash flows from investing activities:			
- proceeds from sale and redemption of investment securities	**0.2**	270.8	275.3
Net cash generated from investing activities	**0.2**	270.8	275.3
Cash flows used in financing activities:			
- repayment of HM Treasury loans	**(600.0)**	(975.0)	(1,875.0)
Net cash used in financing activities	**(600.0)**	(975.0)	(1,875.0)
Net decrease in cash and cash equivalents	**(33.0)**	(26.9)	(245.4)
Cash and cash equivalents at beginning of period	**455.0**	700.4	700.4
Cash and cash equivalents at end of period	**422.0**	673.5	455.0
Represented by cash and assets with original maturity of three months or less within:			
- cash at bank and in hand	**422.0**	673.5	455.0
Total cash and cash equivalents at end of period	**422.0**	673.5	455.0

Notes to the Financial Information

1. Reporting entity

NRAM Limited ('NRAM' or 'the Company') is a private limited company incorporated and domiciled in the United Kingdom.

The financial information in this Interim Financial Report consolidates NRAM and its subsidiaries, together referred to as the NRAM Group or 'the Group'. NRAM's Consolidated Financial Statements for the year ended 31 March 2018 are included in NRAM's 2018 Annual Report & Accounts available on UKAR's website www.ukar.co.uk.

2. Basis of preparation

This Interim Financial Report has been prepared on a going concern basis. At the date of approval of this Interim Financial Report, NRAM is reliant on the financing facilities provided to NRAM by HM Treasury. Withdrawal of the financing facilities would have a significant impact on NRAM'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 date of approval of this Interim Financial Report, HM Treasury has confirmed its intentions to continue to provide funding until at least 1 January 2020 subject to NRAM continuing to be a subsidiary company of UKAR Limited.

The Directors have assessed, taking into consideration the principal risks set out on pages 8 to 10 of the Group's 2018 Annual Report & Accounts, 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. If the Company were to be sold into the private sector prior to 1 January 2020, HM Treasury's commitment would fall 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 are satisfied at the time of approval of this Interim Financial Report that the Company and Group 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 Interim Financial Report.

As detailed in note 14, the Group has adopted IFRS 9 with effect from 1 April 2018. The Group has also adopted IFRS 15 'Revenue from Contracts with Customers' with effect from 1 April 2018; this has not had any material impact on the Group. There have been no other material changes to the accounting policies previously applied by the Group in preparing, and detailed in, its Annual Report & Accounts for the period ended 31 March 2018, which were prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union.

As permitted by IFRS 9, the Group has elected not to restate comparative period information. Adjustments to the carrying amounts of assets and liabilities at 31 March 2018 as a result of the adoption of IFRS 9 have been reflected in opening reserves at 1 April 2018. Consequently the financial information presented in this Interim Financial Report as at 30 September 2018 and for the 6 months then ended has been prepared on a different basis from that presented for the comparative periods. Further information is provided in note 14.

As detailed in note 2 to the Group's 2018 Annual Report & Accounts, on the Balance Sheet the Group's equity release mortgages are now presented separately from loans to customers. In this Interim Financial Report the comparative financial information for 30 September 2017 and the six months then ended has been re-presented accordingly.

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

The preparation of this Interim Financial Report requires the use of estimates and assumptions that affect the reported values of assets and liabilities at the Balance Sheet date and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

This Interim Financial Report has been prepared in accordance with IAS 34 'Interim Financial Reporting'.

The information in this document does not include all of the disclosures required by IFRS in full annual financial statements, and it should be read in conjunction with the Consolidated Financial Statements of NRAM for the year ended 31 March 2018.

Notes to the Financial Information (continued)

3. Net interest income

	6 months to 30 Sept 2018 £m	6 months to 30 Sept 2017 £m	12 months to 31 Mar 2018 £m
Interest receivable and similar income			
On equity release mortgages	**0.6**	0.6	1.1
On other secured loans	**143.0**	159.0	309.2
On other lending	**8.2**	9.3	17.8
On investment securities and deposits	**1.2**	2.8	4.5
Total interest receivable and similar income	**153.0**	171.7	332.6
Interest expense and similar charges			
On HM Treasury loans	**(19.4)**	(26.4)	(49.7)
On wholesale funding	**(6.4)**	(6.4)	(12.7)
Total interest expense and similar charges	**(25.8)**	(32.8)	(62.4)
Net interest income	**127.2**	138.9	270.2
Average balances			
Interest-earning assets ('IEA')	**7,941**	9,060	8,620
Financed by:			
- interest-bearing funding	**2,630**	4,361	3,876
- interest-free funding*	**5,311**	4,699	4,744
Average rates:	**%**	%	%
- gross yield on IEA	**3.84**	3.78	3.86
- cost of interest-bearing funding	**(1.96)**	(1.50)	(1.61)
Interest spread	**1.88**	2.28	2.25
Contribution of interest-free funding*	**1.32**	0.78	0.88
Net interest margin on average IEA	**3.20**	3.06	3.13
Average Bank Base Rate	**0.58**	0.25	0.35
Average 1-month LIBOR	**0.59**	0.25	0.36
Average 3-month LIBOR	**0.73**	0.30	0.40

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

All interest income is recognised on the effective interest method.

4. Administrative expenses

The Group had no employees during the periods presented as services were provided to the Group by B&B, which has a mortgage outsourcing arrangement with Computershare.

	6 months to 30 Sept 2018 £m	6 months to 30 Sept 2017 £m	12 months to 31 Mar 2018 £m
Defined benefit pension credit	**(2.0)**	(2.4)	(4.9)
IT costs	**0.2**	0.2	0.4
Outsourced and professional services	**(0.1)**	0.3	0.5
Other administrative expenses	**(1.9)**	0.5	0.5
	(3.8)	(1.4)	(3.5)
Management recharge from B&B	**33.1**	22.8	44.0
Total administrative expenses	**29.3**	21.4	40.5

Notes to the Financial Information (continued)

5. Taxation

Taxation appropriately reflects changes in tax rates which had been substantively enacted by 30 September 2018.

The tax charge for each period included nil overseas tax charge. The effective tax rate for the period was 25.0% (period ended 30 September 2017: 27.2%; year ended 31 March 2018: 21.7%). In each period this is higher than the standard corporation tax rate of 19% primarily due to the increase in PPI customer compensation provisions which are disallowable for tax purposes.

No deferred tax assets were unrecognised at 30 September 2018, 30 September 2017 or 31 March 2018. No deferred tax assets have been recognised in respect of tax losses carried forward.

6. Loans to customers

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 the Group, combines a secured and unsecured loan all at one interest rate. Outstanding secured balances in respect of this product are included within total residential mortgages while outstanding unsecured balances are included within unsecured loans.

All of the Group's loans to customers are to UK customers.

Loans to customers and redemptions comprise the following product types:

Balances	**30 Sept 2018 Outstanding balance £m**	**30 Sept 2018 Carrying amount £m**	**30 Sept 2018 Carrying amount %**	30 Sept 2017 Carrying amount £m	%	31 Mar 2018 Carrying amount £m	%
Residential mortgages							
Buy-to-let	**2,029.9**	**2,069.3**	**31**	2,257.1	30	2,133.9	31
Together	**2,175.7**	**2,334.5**	**34**	2,565.0	34	2,324.9	33
Standard and other	**2,328.1**	**2,393.1**	**35**	2,682.0	36	2,513.0	36
Total residential mortgages	**6,533.7**	**6,796.9**	**100**	7,504.1	100	6,971.8	100
Residential loans	**6,533.7**	**6,796.9**	**96**	7,504.1	95	6,971.8	95
Commercial loans	**82.7**	**54.7**	**1**	78.0	1	74.3	1
Total secured loans	**6,616.4**	**6,851.6**	**97**	7,582.1	96	7,046.1	96
Unsecured loans	**279.5**	**232.6**	**3**	283.7	4	256.2	4
Total	**6,895.9**	**7,084.2**	**100**	7,865.8	100	7,302.3	100

Redemptions	**6 months to 30 Sept 2018 £m**	6 months to 30 Sept 2017 £m	12 months to 31 Mar 2018 £m
Residential mortgages			
Buy-to-let	**(119.3)**	(157.3)	(304.6)
Together	**(193.6)**	(231.9)	(443.3)
Standard and other	**(153.9)**	(186.6)	(354.2)
Total residential mortgages	**(466.8)**	(575.8)	(1,102.1)
Residential loans	**(466.8)**	(575.8)	(1,102.1)
Commercial loans	**(2.4)**	(0.5)	(2.9)
Total secured loans	**(469.2)**	(576.3)	(1,105.0)
Unsecured loans	**(13.4)**	(16.6)	(32.1)
Total	**(482.6)**	(592.9)	(1,137.1)

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

As detailed in note 14, the Group has adopted IFRS 9 with effect from 1 April 2018. Under IFRS 9 the Group’s loans to customers are carried at fair value through Other Comprehensive Income (‘FVOCI’). As permitted by IFRS 9, prior periods have not been restated. Therefore the carrying amounts of loans to customers at 30 September 2018 are measured on a different basis from the carrying amounts at 30 September 2017 and 31 March 2018. To aid comparison between periods, the table above shows the outstanding balances due from customers at each Balance Sheet date.

Notes to the Financial Information (continued)

6. Loans to customers (continued)

The movements in fair value of the Group's loans to customers between 1 April 2018 and 30 September 2018 were as follows:

	£m
At 1 April 2018	**7,736.1**
Reduction in gross balances outstanding	**(549.6)**
Impairment credit to Income Statement	**4.6**
Movements taken to fair value reserve	**(106.9)**
At 30 September 2018	**7,084.2**

The movements taken to fair value reserve arose due to updates in economic and funding assumptions.

Subsequent to the Balance Sheet date, the Group launched a process that, subject to successful completion, is expected to result in the sale of c.£5bn of the Group's residential and unsecured loans to customers.

7. Impairment on loans to customers

Allowances have been made for credit losses against loans to customers as follows:

Residential mortgages			**6 months to 30 Sept 2018**
	Stage 2: Lifetime ECL[1] not credit-impaired[2]	**Stage 3: Lifetime ECL credit-impaired**	**Total**
	£m	**£m**	**£m**
At 31 March 2018			**89.1**
Remeasurement on adoption of IFRS 9			**4.9**
At 1 April 2018	**66.4**	**27.6**	**94.0**
Movements during the period:			
- net repayments	**(2.0)**	**(0.4)**	**(2.4)**
- changes in estimates	**(3.0)**	**4.9**	**1.9**
- changes in economic assumptions	**(0.8)**	**0.4**	**(0.4)**
- transfers	**(1.8)**	**1.8**	**-**
- loan impairment credit	**(7.6)**	**6.7**	**(0.9)**
- write-offs	**-**	**(9.7)**	**(9.7)**
Net movements during the period	**(7.6)**	**(3.0)**	**(10.6)**
At 30 September 2018	**58.8**	**24.6**	**83.4**
The Income Statement credit comprises:			
- loan impairment credit	**(7.6)**	**6.7**	**(0.9)**
- recoveries net of costs	**-**	**(4.4)**	**(4.4)**
Total Income Statement credit	**(7.6)**	**2.3**	**(5.3)**

[1] *Expected credit losses ('ECL')*
[2] *Further information regarding when a loan is considered to be credit-impaired is provided on page 85*

Notes to the Financial Information (continued)

7. Impairment on loans to customers (continued)

Commercial loans	Stage 2: Lifetime ECL not credit-impaired £m	Stage 3: Lifetime ECL credit-impaired £m	6 months to 30 Sept 2018 Total £m
At 31 March 2018			**12.2**
Remeasurement on adoption of IFRS 9			**-**
At 1 April 2018	**-**	**12.2**	**12.2**
Movements during the period:			
- net repayments	**-**	**(0.3)**	**(0.3)**
- changes in estimates	**-**	**-**	**-**
- changes in economic assumptions	**-**	**-**	**-**
- transfers	**-**	**-**	**-**
- loan impairment credit	**-**	**(0.3)**	**(0.3)**
- write-offs	**-**	**(0.6)**	**(0.6)**
Net movements during the period	**-**	**(0.9)**	**(0.9)**
At 30 September 2018	**-**	**11.3**	**11.3**
The Income Statement credit comprises:			
- loan impairment credit	**-**	**(0.3)**	**(0.3)**
- recoveries net of costs	**-**	**-**	**-**
Total Income Statement credit	**-**	**(0.3)**	**(0.3)**

Unsecured loans	Stage 2: Lifetime ECL not credit-impaired £m	Stage 3: Lifetime ECL credit-impaired £m	6 months to 30 Sept 2018 Total £m
At 31 March 2018			**55.6**
Remeasurement on adoption of IFRS 9			**18.3**
At 1 April 2018	**17.6**	**56.3**	**73.9**
Movements during the period:			
- net repayments	**(0.8)**	**(0.1)**	**(0.9)**
- changes in estimates	**(0.3)**	**(1.9)**	**(2.2)**
- changes in economic assumptions	**(0.3)**	**-**	**(0.3)**
- transfers	**(1.1)**	**1.1**	**-**
- loan impairment credit	**(2.5)**	**(0.9)**	**(3.4)**
- write-offs	**-**	**(3.4)**	**(3.4)**
Net movements during the period	**(2.5)**	**(4.3)**	**(6.8)**
At 30 September 2018	**15.1**	**52.0**	**67.1**
The Income Statement credit comprises:			
- loan impairment credit	**(2.5)**	**(0.9)**	**(3.4)**
- recoveries net of costs	**-**	**-**	**-**
Total Income Statement credit	**(2.5)**	**(0.9)**	**(3.4)**

Notes to the Financial Information (continued)

7. Impairment on loans to customers (continued)

Total loans to customers

	6 months to 30 Sept 2018		
	Stage 2: Lifetime ECL not credit-impaired £m	**Stage 3: Lifetime ECL credit-impaired £m**	**Total £m**
At 31 March 2018			**156.9**
Remeasurement on adoption of IFRS 9			**23.2**
At 1 April 2018	**84.0**	**96.1**	**180.1**
Movements during the period:			
- net repayments	**(2.8)**	**(0.8)**	**(3.6)**
- changes in estimates	**(3.3)**	**3.0**	**(0.3)**
- changes in economic assumptions	**(1.1)**	**0.4**	**(0.7)**
- transfers	**(2.9)**	**2.9**	**-**
- loan impairment credit	**(10.1)**	**5.5**	**(4.6)**
- write-offs	**-**	**(13.7)**	**(13.7)**
Net movements during the period	**(10.1)**	**(8.2)**	**(18.3)**
At 30 September 2018	**73.9**	**87.9**	**161.8**
The Income Statement credit comprises:			
- loan impairment credit	**(10.1)**	**5.5**	**(4.6)**
- recoveries net of costs	**-**	**(4.4)**	**(4.4)**
Total Income Statement credit	**(10.1)**	**1.1**	**(9.0)**

6 months to 30 September 2017	On residential mortgages £m	On commercial loans £m	On unsecured loans £m	Total £m
At 1 April 2017	158.4	12.3	74.9	245.6
Movements during the period:				
- write-offs	(11.2)	-	(8.4)	(19.6)
- loan impairment charge/(credit)	0.6	(0.1)	(1.4)	(0.9)
Net movements during the period	(10.6)	(0.1)	(9.8)	(20.5)
At 30 September 2017	147.8	12.2	65.1	225.1
The Income Statement credit comprises:				
- loan impairment charge/(credit)	0.6	(0.1)	(1.4)	(0.9)
- recoveries net of costs	(4.6)	(3.4)	-	(8.0)
Total Income Statement credit	(4.0)	(3.5)	(1.4)	(8.9)

12 months to 31 March 2018	On residential mortgages £m	On commercial loans £m	On unsecured loans £m	Total £m
At 1 April 2017	158.4	12.3	74.9	245.6
Movements during the year:				
- write-offs	(18.9)	-	(13.4)	(32.3)
- loan impairment credit	(50.4)	(0.1)	(5.9)	(56.4)
Net movements during the year	(69.3)	(0.1)	(19.3)	(88.7)
At 31 March 2018	89.1	12.2	55.6	156.9
The Income Statement credit comprises:				
- loan impairment credit	(50.4)	(0.1)	(5.9)	(56.4)
- recoveries net of costs	(11.0)	(3.1)	-	(14.1)
Total Income Statement credit	(61.4)	(3.2)	(5.9)	(70.5)

As detailed in note 14, the Group has adopted IFRS 9 with effect from 1 April 2018. As permitted by IFRS 9, prior periods have not been restated. Therefore the allowances for credit losses at 30 September 2018 are measured on a different basis from the allowances at 30 September 2017 and 31 March 2018.

Notes to the Financial Information (continued)

8. Credit quality of loans to customers

Residential mortgages	Stage 2: Lifetime ECL not credit-impaired[1] £m	Stage 3: Lifetime ECL credit-impaired £m	30 Sept 2018 Total £m
Neither past due nor credit-impaired	**5,766.9**	**-**	**5,766.9**
Past due but not credit-impaired:			
- 1 – 2 months	**83.4**	**-**	**83.4**
- 2 – 3 months	**23.6**	**-**	**23.6**
Credit-impaired	**-**	**659.8**	**659.8**
Outstanding balance	**5,873.9**	**659.8**	**6,533.7**

Commercial loans	Stage 2: Lifetime ECL not credit-impaired	Stage 3: Lifetime ECL credit-impaired £m	30 Sept 2018 Total £m
Neither past due nor credit-impaired	**59.8**	**-**	**59.8**
Past due but not credit-impaired:			
- 1 – 2 months	**0.5**	**-**	**0.5**
- 2 – 3 months	**-**	**-**	**-**
Credit-impaired	**-**	**22.4**	**22.4**
Outstanding balance	**60.3**	**22.4**	**82.7**

Unsecured loans	Stage 2: Lifetime ECL not credit-impaired	Stage 3: Lifetime ECL credit-impaired £m	30 Sept 2018 Total £m
Neither past due nor credit-impaired	**213.6**	**-**	**213.6**
Past due but not credit-impaired:			
- 1 – 2 months	**1.6**	**-**	**1.6**
- 2 – 3 months	**0.4**	**-**	**0.4**
Credit-impaired	**-**	**63.9**	**63.9**
Outstanding balance	**215.6**	**63.9**	**279.5**

Total loans to customers	Stage 2: Lifetime ECL not credit-impaired	Stage 3: Lifetime ECL credit-impaired £m	30 Sept 2018 Total £m
Neither past due nor credit-impaired	**6,040.3**	**-**	**6,040.3**
Past due but not credit-impaired:			
- 1 – 2 months	**85.5**	**-**	**85.5**
- 2 – 3 months	**24.0**	**-**	**24.0**
Credit-impaired	**-**	**746.1**	**746.1**
Outstanding balance	**6,149.8**	**746.1**	**6,895.9**

[1] *Further information regarding when a loan is considered to be credit-impaired is provided on page 85*

Notes to the Financial Information (continued)

8. Credit quality of loans to customers (continued)

	30 September 2017			
	Residential mortgages £m	Commercial loans £m	Unsecured loans £m	Total £m
Neither past due nor impaired	6,991.1	65.2	285.9	7,342.2
Past due but not impaired:				
- less than 3 months	287.0	-	10.8	297.8
- 3 – 6 months	140.3	-	3.2	143.5
- over 6 months	93.0	-	42.5	135.5
Impaired	140.5	25.0	6.4	171.9
	7,651.9	90.2	348.8	8,090.9
Impairment allowances	(147.8)	(12.2)	(65.1)	(225.1)
Loans to customers net of impairment allowances	7,504.1	78.0	283.7	7,865.8
Impairment allowances:				
- individual	12.9	12.2	12.9	38.0
- collective	134.9	-	52.2	187.1
Total impairment allowances	147.8	12.2	65.1	225.1

	31 March 2018			
	Residential mortgages £m	Commercial loans £m	Unsecured loans £m	Total £m
Neither past due nor impaired	6,466.8	62.3	253.8	6,782.9
Past due but not impaired:				
- less than 3 months	274.6	-	10.3	284.9
- 3 – 6 months	118.3	-	3.2	121.5
- over 6 months	79.5	-	38.4	117.9
Impaired	121.7	24.2	6.1	152.0
	7,060.9	86.5	311.8	7,459.2
Impairment allowances	(89.1)	(12.2)	(55.6)	(156.9)
Loans to customers net of impairment allowances	6,971.8	74.3	256.2	7,302.3
Impairment allowances:				
- individual	11.9	12.2	10.9	35.0
- collective	77.2	-	44.7	121.9
Total impairment allowances	89.1	12.2	55.6	156.9

As detailed in note 14, the Group has adopted IFRS 9 with effect from 1 April 2018. Under IFRS 9 the Group's loans to customers are carried at FVOCI and allowances for credit losses are calculated on a different basis. As permitted by IFRS 9, prior periods have not been restated. Therefore the carrying amounts of loans to customers and allowances for credit losses at 30 September 2018 are measured on a different basis from those at 30 September 2017 and 31 March 2018.

Notes to the Financial Information (continued)

8. Credit quality of loans to customers (continued)

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:

	30 Sept 2018 £m	30 Sept 2017 £m	31 Mar 2018 £m
Neither past due nor credit-impaired	**9,675.6**	11,113.2	10,453.2
Past due but not credit-impaired	**161.2**	782.6	701.1
Credit-impaired	**999.6**	169.3	146.6
Total	**10,836.4**	12,065.1	11,300.9

If the collateral amount on each individual loan was capped at the amount of the outstanding balance and any surplus of collateral values over outstanding balances ignored, the fair value of collateral held would be as follows:

	30 Sept 2018 £m	30 Sept 2017 £m	31 Mar 2018 £m
Neither past due nor credit-impaired	**5,742.3**	6,938.4	6,419.3
Past due but not credit-impaired	**106.2**	515.3	468.4
Credit-impaired	**649.7**	131.9	114.0
Total	**6,498.2**	7,585.6	7,001.7
The credit-impaired balances above include the following carrying amount of assets in possession, capped at the outstanding balance	**18.0**	22.5	23.4

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 outstanding loan balance, falls into the following ranges:

	30 Sept 2018 %	30 Sept 2017 %	31 Mar 2018 %
To 50%	**10.6**	9.1	9.2
50% – 75%	**50.9**	48.7	51.2
75% – 100%	**33.7**	37.2	35.8
Over 100%	**4.8**	5.0	3.8
Total	**100.0**	100.0	100.0

The average indexed LTV based on a simple average is 60.3% (September 2017: 63.2%; March 2018: 62.5%) and on a weighted average is 70.9% (September 2017: 67.1%; March 2018: 71.0%).

Notes to the Financial Information (continued)

8. Credit quality of loans to customers (continued)

Arrears and possessions are monitored for the Group as a whole and also split by type of product.

		30 Sept 2018		30 Sept 2017		31 Mar 2018	
		Residential	**Unsecured**	Residential	Unsecured	Residential	Unsecured
Arrears 3 months and over							
Number of cases	**No.**	**1,554**	**2,635**	2,159	2,958	1,778	2,782
Proportion of total cases	**%**	**2.88**	**9.68**	3.47	9.17	3.07	9.39
Asset value	**£m**	**245.7**	**41.6**	339.9	48.5	286.5	44.5
Proportion of book	**%**	**3.76**	**14.87**	4.52	17.11	4.11	17.36
Total value of payments overdue	**£m**	**13.4**	**12.4**	18.3	13.7	15.5	12.6
Proportion of total book	**%**	**0.21**	**4.44**	0.24	4.82	0.22	4.92
Possessions							
Number of cases	**No.**	**155**	**-**	149	-	185	-
Proportion of total cases	**%**	**0.29**	**-**	0.24	-	0.32	-
Asset value	**£m**	**25.0**	**-**	26.4	-	27.7	-
Proportion of book	**%**	**0.38**	**-**	0.35	-	0.40	-
Total value of payments overdue	**£m**	**2.0**	**-**	2.1	-	2.4	-
Proportion of total book	**%**	**0.03**	**-**	0.03	-	0.04	-
New possessions *	**No.**	**216**	**-**	200	-	436	-
Total arrears 3 months and over and possessions							
Number of cases	**No.**	**1,709**	**2,635**	2,308	2,958	1,963	2,782
Proportion of total cases	**%**	**3.17**	**9.68**	3.71	9.17	3.39	9.39
Asset value	**£m**	**270.7**	**41.6**	366.3	48.5	314.2	44.5
Proportion of book	**%**	**4.14**	**14.87**	4.87	17.11	4.51	17.36
Total value of payments overdue	**£m**	**15.4**	**12.4**	20.4	13.7	17.9	12.6
Proportion of total book	**%**	**0.24**	**4.44**	0.27	4.82	0.26	4.92
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**	**18.9**	**13.1**	23.8	14.5	21.3	13.3
Proportion of total book	**%**	**0.29**	**4.68**	0.32	5.11	0.31	5.20
Loan impairment provision							
As % of total balances	**%**	**1.28**	**24.03**	1.93	18.66	1.26	17.83

** New possessions for the six months to 30 September 2018 and 2017 and the 12 months to 31 March 2018.*

In the above table the asset value, payments overdue, total book and total balances represent outstanding balances and not fair values.

Notes to the Financial Information (continued)

8. Credit quality of loans to customers (continued)

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

		30 Sept 2018		30 Sept 2017		31 Mar 2018	
		Residential	**Unsecured**	Residential	Unsecured	Residential	Unsecured
Buy-to-let							
Number of cases	**No.**	**115**	**-**	137	-	113	-
Proportion of total cases	**%**	**0.76**	**-**	0.80	-	0.70	-
Asset value	**£m**	**24.7**	**-**	28.3	-	25.5	-
Proportion of book	**%**	**1.24**	**-**	1.25	-	1.19	-
Total value of payments overdue	**£m**	**0.7**	**-**	0.8	-	0.8	-
Proportion of total book	**%**	**0.04**	**-**	0.04	-	0.04	-
Together							
Number of cases	**No.**	**716**	**2,635**	1,000	2,958	829	2,782
Proportion of total cases	**%**	**3.20**	**9.68**	3.79	9.17	3.41	9.39
Asset value	**£m**	**82.0**	**41.6**	112.3	48.5	94.8	44.5
Proportion of book	**%**	**3.80**	**14.87**	4.38	17.11	4.08	17.36
Total value of payments overdue	**£m**	**4.2**	**12.4**	5.9	13.7	4.9	12.6
Proportion of total book	**%**	**0.19**	**4.44**	0.23	4.82	0.21	4.92
Standard and other							
Number of cases	**No.**	**723**	**-**	1,022	-	836	-
Proportion of total cases	**%**	**4.41**	**-**	5.49	-	4.78	-
Asset value	**£m**	**139.0**	**-**	199.3	-	166.2	-
Proportion of book	**%**	**6.04**	**-**	7.43	-	6.61	-
Total value of payments overdue	**£m**	**8.5**	**-**	11.6	-	9.8	-
Proportion of total book	**%**	**0.37**	**-**	0.43	-	0.39	-

9. Equity release mortgages

On 27 September the Group announced the sale of a portfolio of equity release mortgages to Rothesay Life Plc. The sale was recognised on 26 September on signature of the sale contract. At 30 September 2018 £10.8m of the sale proceeds were owed to NRAM including an adjustment for cash flows on the portfolio prior to settlement. Financial completion occurred on 10 October 2018. Following the sale the Group retained £7.8m of equity release mortgages, net of provisions.

10. Provisions

Provisions include £79.5m (September 2017: £140.4m; March 2018: £102.2m) in respect of potential claims from customers regarding PPI and other customer redress. Since the sale of NRAM plc in May 2016 these provisions include redress in respect of loans which were sold to Cerberus; NRAM has indemnified Cerberus against certain customer remediation matters (see note 16(b)). The publication of the Financial Conduct Authority's ('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 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 following the Plevin decision. Reflecting heightened awareness of the PPI deadline, actual claims volumes received during the period have been higher than previously modelled and therefore the provision has been increased by £27.1m. Provisions for certain other remediation issues were increased by £1.6m and £11.6m was released in respect of other remediation issues which are now finalised. During the year ended 31 March 2018 provisions were increased by £37.3m in respect of customer remediation.

Notes to the Financial Information (continued)

11. Reserves

Reserves comprise the following:

	30 Sept 2018 £m	30 Sept 2017 £m	31 Mar 2018 £m
Share premium reserve	**-**	1,022.0	-
Merger reserve	**14.8**	2,066.2	15.9
Fair value reserve	**283.6**	-	-
Total	**298.4**	3,088.2	15.9

12. Capital structure

NRAM is regulated by the FCA at individual company level, not at NRAM Group level.

Capital resources - NRAM Limited (company only)

	30 Sept 2018 £m	30 Sept 2017 £m	31 Mar 2018 £m
Share capital and reserves	**5,164.5**	4,713.6	4,860.8
Fair value reserve adjustments	**(283.6)**	-	-
Net pension adjustment	**(187.5)**	(194.9)	(188.1)
Total capital	**4,693.4**	4,518.7	4,672.7

As detailed in note 14, the Group has adopted IFRS 9 with effect from 1 April 2018. Total share capital and reserves have increased as a result of carrying loans to customers at fair value but the balance on the fair value reserve is deducted from capital for regulatory purposes. The increase in allowances for credit losses on loans to customers has resulted in a reduction in capital.

13. Fair value disclosures

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

The following table summarises the carrying amounts and the fair values of financial assets and liabilities:

30 September 2018	Carrying value £m	Fair value £m
Financial assets:		
Cash at bank and in hand	**422.2**	**422.2**
Amounts owed in respect of sale of loans	**10.8**	**10.8**
Loans to customers	**7,084.2**	**7,084.2**
Other financial assets	**0.5**	**0.5**
Total financial assets	**7,517.7**	**7,517.7**

	Carrying value £m	Fair value £m
Financial liabilities:		
HM Treasury loans	**2,117.3**	**2,117.3**
Derivative financial instruments	**1.1**	**1.1**
Debt securities in issue	**210.6**	**220.9**
Other financial liabilities	**21.3**	**21.3**
Total financial liabilities	**2,350.3**	**2,360.6**

Notes to the Financial Information (continued)

13. Fair value disclosures (continued)

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

30 September 2017	Carrying value £m	Fair value £m
Financial assets:		
Cash at bank and in hand	673.6	673.6
Loans to customers	7,865.8	7,865.8
Other financial assets	12.9	12.9
Total financial assets	8,552.3	8,552.3

	Carrying value £m	Fair value £m
Financial liabilities:		
HM Treasury loans	3,618.0	3,618.0
Derivative financial instruments	1.5	1.5
Debt securities in issue	210.5	229.9
Other financial liabilities	34.6	34.6
Total financial liabilities	3,864.6	3,884.0

31 March 2018	Carrying value £m	Fair value £m
Financial assets:		
Cash at bank and in hand	455.2	455.2
Loans to customers	7,302.3	7,736.1
Other financial assets	0.3	0.3
Total financial assets	7,757.8	8,191.6

	Carrying value £m	Fair value £m
Financial liabilities:		
HM Treasury loans	2,717.7	2,717.7
Derivative financial instruments	1.2	1.2
Debt securities in issue	204.2	219.4
Other financial liabilities	25.9	25.9
Total financial liabilities	2,949.0	2,964.2

At 30 September 2017 and 31 March 2018 the only financial assets and liabilities which were carried at fair value on the Balance Sheet were derivative financial assets and liabilities. As detailed in note 14, the Group has adopted IFRS 9 with effect from 1 April 2018. Under IFRS 9 the Group's loans to customers are carried at fair value. As permitted by IFRS 9, prior periods have not been restated.

The fair value of loans to customers at 31 March 2018 has been revised compared to that disclosed in the Group's 31 March 2018 Annual Report & Accounts as a result of refinement of inputs to the Group's fair value models. No adjustment has been made to the fair value at 30 September 2017 which was calculated using the models and data available at that time.

(b) Valuation bases

At 30 September 2018, 31 March 2018 and 30 September 2017 all financial assets and liabilities which were carried at fair value other than loans to customers were valued on a 'Level 2' basis as defined by IFRS 13 'Fair Value Measurement'. At 30 September 2018 loans to customers are carried at fair value and are valued on a 'Level 3' basis; the valuation is regarded as Level 3 as certain significant inputs to the valuation are developed using internal assumptions due to the unavailability of market data. There were no transfers between Levels 1, 2 and 3 during the periods presented. Since 31 March 2018 the Group has made no changes to the fair value methodologies applied. Details of the methodology used to derive the fair value of loans to customers are provided in note 14.

Notes to the Financial Information (continued)

14. Adoption of IFRS 9

The Group has adopted IFRS 9 with effect from 1 April 2018. As permitted by IFRS 9, prior periods have not been restated.

The following table shows the classification of financial assets and liabilities on transition to IFRS 9 on 1 April 2018:

	IAS 39 classification	IFRS 9 classification	IAS 39 carrying amount 31 March 2018 £m	IFRS 9 carrying amount 1 April 2018 £m
Financial assets				
Cash at bank and in hand	Loans and receivables	Amortised cost	455.2	455.2
Loans to customers	Loans and receivables	FVOCI	7,302.3	7,736.1
Other financial assets	Loans and receivables	Amortised cost	0.3	0.3
			7,757.8	**8,191.6**
Financial liabilities				
HM Treasury loans	Amortised cost	Amortised cost	2,717.7	2,717.7
Derivative financial instruments	FVP&L (mandatory)	FVP&L (mandatory)	1.2	1.2
Debt securities in issue	Amortised cost	Amortised cost	204.2	204.2
Other financial liabilities	Amortised cost	Amortised cost	25.9	25.9
			2,949.0	**2,949.0**

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 solely payments of principal and interest ('SPPI'). Therefore the Group's loans to customers are carried at FVOCI.

Under IFRS 9, allowances are made for credit losses on loans to customers on an 'expected loss' basis, and are generally higher than allowances for credit losses under the IAS 39 'incurred loss' approach.

The Group continues to hold 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 liabilities continue to be carried at fair value through profit or loss ('FVP&L') as the cash flows do not satisfy the definition of SPPI. The accounting treatment of the Group's other financial liabilities is not affected by the implementation of IFRS 9 and they continue to be carried at amortised cost.

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

There were no financial assets or liabilities reclassified to amortised cost, and no assets reclassified out of FVP&L to FVOCI, as a result of the transition to IFRS 9.

Notes to the Financial Information (continued)

14. Adoption of IFRS 9 (continued)

The following tables detail the changes to the Group's Balance Sheet as a result of the transition to IFRS 9 on 1 April 2018:

	31 March 2018 £m	Re-classification £m	Re-measurement £m	1 April 2018 £m
Assets				
Loans and receivables:				
Cash at bank and in hand	455.2	(455.2)	-	-
Loans to customers	7,302.3	(7,302.3)	-	-
Other financial assets	0.3	(0.3)	-	-
Financial assets at amortised cost:				
Cash at bank and in hand	-	455.2	-	455.2
Other financial assets	-	0.3	-	0.3
Financial assets at FVOCI:				
Loans to customers	-	7,302.3	433.8	7,736.1
Financial assets not measured under IFRS 9:				
Equity release mortgages	17.4	-	-	17.4
Non-financial assets:				
Retirement benefit assets	188.1	-	-	188.1
Total assets	**7,963.3**	**-**	**433.8**	**8,397.1**
Liabilities				
Financial liabilities at amortised cost:				
HM Treasury loans	2,717.7	-	-	2,717.7
Debt securities in issue	204.2	-	-	204.2
Other financial liabilities	25.9			25.9
Financial liabilities at FVP&L:				
Derivative financial instruments	1.2	-	-	1.2
Non-financial liabilities:				
Other liabilities	13.6	-	-	13.6
Current tax liabilities	9.9	-	-	9.9
Deferred tax liabilities	27.4	-	82.8	110.2
Provisions	102.4	-	-	102.4
Total liabilities	**3,102.3**	**-**	**82.8**	**3,185.1**
Equity				
Share capital	124.0	-	-	124.0
Fair value reserve	-	-	370.2	370.2
Other reserves	15.9	-	-	15.9
Retained earnings	4,721.1	-	(19.2)	4,701.9
Total equity	**4,861.0**	**-**	**351.0**	**5,212.0**
Total equity and liabilities	**7,963.3**	**-**	**433.8**	**8,397.1**

Notes to the Financial Information (continued)

14. Adoption of IFRS 9 (continued)

The reclassifications in the table above are from the IAS 39 ‘loans and receivables’ to the IFRS 9 ‘financial assets at amortised cost’ and ‘financial assets at FVOCI’ categories. The £433.8m remeasurements of loans to customers comprise an increase of £23.2m in impairment provisions and an increase of £457.0m as the loans are carried at fair value under IFRS 9. Further details of these adjustments are provided on page 81. Deferred tax of £82.8m has been provided in respect of these adjustments.

Fair value reserve:	£m
Balance under IAS 39	-
Remeasurement of loans to customers carried at FVOCI	457.0
Tax effect of the above	(86.8)
Balance under IFRS 9	**370.2**

Retained earnings:	£m
Balance under IAS 39	4,721.1
Change to impairment provisions	(23.2)
Tax effect of the above	4.0
Net adjustment to retained earnings	(19.2)
Balance under IFRS 9	**4,701.9**

Impairment allowances against loans to customers:	On residential mortgages £m	On commercial loans £m	On unsecured loans £m	Total £m
Balance under IAS 39	**89.1**	**12.2**	**55.6**	**156.9**
Remeasurement	**2.5**	**-**	**18.3**	**20.8**
Loss allowance against loan commitments	**2.4**	**-**	**-**	**2.4**
Balance under IFRS 9	**94.0**	**12.2**	**73.9**	**180.1**

Accounting policies

Note 1 to the Group’s 2018 Annual Report & Accounts detailed the Group’s principal accounting policies prior to the adoption of IFRS 9. The changes to these accounting policies as a result of the implementation of IFRS 9 are as follows.

Financial instruments
In accordance with IFRS 9 each financial asset is classified at initial recognition, or at the point of first adoption of IFRS 9, into one of three categories:

(i) Financial assets at FVP&L;

(ii) Financial assets at FVOCI; or

(iii) Financial assets at amortised cost;

and each financial liability into one of two categories:

(iv) Financial liabilities at FVP&L; or

(v) Financial liabilities at amortised cost.

The classification of each financial asset is determined by the business model for the asset and whether the cash flows on the asset are SPPI.

Loans to customers
The Group’s business model for loans to customers has been determined to be that they are ‘held to collect and sell’. All material cash flows are SPPI.

IFRS 9 requires that financial assets which are held to collect and sell, and for which all cash flows are SPPI, are carried at FVOCI. In accordance with this, all of the Group’s loans to customers are carried at fair value, with movements in fair value being recognised in a fair value reserve component of equity.

Notes to the Financial Information (continued)

14. Adoption of IFRS 9 (continued)

Accounting policies (continued)

Loans to customers *(continued)*
IFRS 9 also requires that assets carried at FVOCI are subject to impairment provisioning. Movements in carrying amounts due to changes in fair value are taken through Other Comprehensive Income and movements due to impairment and other factors are taken to the Income Statement.

When a loan is derecognised, the element of the fair value reserve relating to that loan is reclassified to the Income Statement.

Impairment of financial assets
General policy on impairment
IFRS 9 requires that all financial assets are subject to impairment provisioning except those which are carried at FVP&L, and impairment charges/releases are taken through the Income Statement. Under IFRS 9, financial assets are classified as 'stage 1', 'stage 2' or 'stage 3' for the purposes of impairment. Stage 1 assets are those for which the credit risk has not increased significantly since initial recognition. Stage 2 assets are those for which the credit risk has increased significantly since initial recognition but the asset is not credit-impaired. Stage 3 assets are those which are credit-impaired.

Impairment of secured residential loans to customers
The Group uses a consistent approach to provisioning based on calculating expected credit losses using a probabilistic model, calculating losses on a loan by loan basis. In addition to segmenting the loans between the IFRS 9 stages, the approach segments the mortgage books and the underpinning key assumptions where historic experience shows the performance of these segments to be materially different. The segmentation can be different for each assumption, but factors used in segmentation include product type, LTV, geographical area and repayment type. Where management considers that there is additional risk that is not otherwise captured, overlay provisions are made.

The Group does not categorise any loans to customers as 'stage 1'. This is because ascertaining which loans have experienced a significant increase in credit risk since inception would be onerous and in some cases the information concerning credit quality at inception (which would have been in 2008 or earlier) may be incomplete. IFRS 9 permits the categorisation to omit stage 1 if the assessment of change in credit risk would involve 'undue cost and effort'.

The loans categorised as stage 3 are those which meet the Group's definition of 'credit-impaired' (see page 85).

For each loan an assessment is made of forecast cash flows against contractual cash flows over the life of the loan. Both cash flows are discounted, using the loan's effective interest rate. Where there is a shortfall on the discounted forecast cash flow compared to the discounted contractual cash flow, a provision is made.

The Group calculates impairment provisions separately under four future economic scenarios. The impairment provision which is used for accounting purposes is the weighted average of the provisions calculated under each scenario.

A loan is written off and any associated impairment allowance released when and only when the property is sold or the account is redeemed. Any subsequent proceeds are recognised on a cash basis and offset against 'impairment on loans to customers' in the Income Statement.

Impairment of unsecured loans to customers
For unsecured loans the same provisioning approach is followed, but using assumptions specific to the unsecured book.

A loan is written off and any associated impairment allowance released when a loan reaches a stage in the collections process which indicates the loan is not recoverable.

Impairment of commercial loans
For commercial loans a similar provisioning approach is followed to secured residential loans. However due to individual nature of commercial loans, some assumptions are specific to individual loans.

A loan is written off and any associated impairment allowance released when a loan reaches a stage in the process which indicates the loan is not recoverable.

Loan commitments
Loan commitments comprise previous voluntary overpayments by customers which are available for re-drawal.

The impairment provision for each loan takes into account the potential that the customer could in future re-draw the overpayment, the possibility of which increases the Group's exposure to potential future loss.

Notes to the Financial Information (continued)

14. Adoption of IFRS 9 (continued)

Accounting policies (continued)

Derivative financial instruments
All of the Group's derivative contracts are used for the commercial management of risk exposures. The Group does not use derivatives for speculative purposes.

By the nature of derivative financial assets, their cash flows are not SPPI. IFRS 9 therefore requires that derivative financial assets are carried at FVP&L. In accordance with this, all of the Group's derivative financial assets are carried at fair value, with movements in fair value being recognised in the 'fair value movements on financial instruments' line of the Income Statement. When a derivative financial asset is cancelled and the balance settled in cash there is no gain or loss on the cancellation because the fair value is adjusted to the settlement price and hence any gain or loss forms part of fair value movements; costs of settlement are not considered material and hence are also included in the fair value movements line.

Under IFRS 9 assets which are carried at FVP&L are not subject to impairment provisioning.

Derivative financial liabilities are carried at FVP&L, as required by IFRS 9, and accounted for in the same way as derivative financial assets.

Interest income
All interest income is recognised on the effective interest method. In respect of 'stage 3' loans to customers, income is recognised for accounting purposes only on the loan balance net of impairment allowances.

Critical judgements and accounting estimates

Note 4 to the Group's 2018 Annual Report & Accounts detailed the Group's critical judgements and accounting estimates prior to the adoption of IFRS 9. The changes to these critical judgements and accounting estimates as a result of the implementation of IFRS 9 are as follows.

Impairment of loans to customers
Under IFRS 9 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 credit-impaired. A case is considered to be credit-impaired when it is three months in arrears or there are other indicators of credit impairment eg bankruptcy, forbearance, possession or for sale with a Law of Property Act receiver. In addition all cases that are past their term end are treated as credit-impaired. Generally a loan remains in stage 3 until it has been up to date for 3 consecutive months. Based on the age of the loan books and the Group's business model, all loans to customers have been categorised as stage 2 or 3; this approach is permitted by IFRS 9.

IFRS 9 replaces the IAS 39 'incurred loss' approach to impairment provisioning with a forward looking 'expected loss' approach. In respect of stage 2 and 3 assets, the impairment provision reflects full lifetime expected losses.

The estimation of expected losses requires the use of models, the inputs to which require the use of estimates. Key sources of estimation include rates of prepayment and default and forced sale discounts. Data used in the derivation of the inputs include for each loan the customer's payment record, credit reference information obtained from third parties and the ratio of the outstanding balance to the value of the property.

Top-up provisions are calculated where it is considered that additional areas of risk are not captured by the underlying modelling. This can be due to specific borrower circumstances or affordability, condition of the properties impacting the recoverable value or geographical concentration impacting LTV.

Forward-looking assessments are made which are dependent on economic assumptions including interest rates, unemployment, gross domestic product ('GDP') and house price inflation as well as other factors such as net mortgage advances and mortgage arrears. 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 utilises four macroeconomic scenarios:

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

Notes to the Financial Information (continued)

14. Adoption of IFRS 9 (continued)

Accounting policies (continued)

Impairment of loans to customers *(continued)*
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.

At 30 September 2018 the key assumptions used in these scenarios and their relative probability weightings were as follows:

	Base	Downside	Severe downside	Upside
Probability	40%	20%	10%	30%
Bank of England base rate 2018 – 2023 [1]	0.9%	(0.3%)	0.0%	1.5%
House price inflation 2018 – 2023 [2]	14.5%	(5.0%)	(12.4%)	28.9%
ILO unemployment 2018 – 2023 [3]	0.1%	1.2%	2.3%	(0.5%)
GDP [4]	0.0%	(0.2%)	(0.2%)	1.0%

At 31 March 2018 the equivalent assumptions used in these scenarios and their relative probability weightings were as follows:

	Base	Downside	Severe downside	Upside
Probability	40%	20%	10%	30%
Bank of England base rate 2018 – 2023 [1]	0.7%	(0.2%)	(0.2%)	1.3%
House price inflation 2018 – 2023 [2]	17.3%	(2.7%)	(19.8%)	31.6%
ILO unemployment 2018 – 2023 [3]	0.2%	1.3%	2.4%	(0.4%)
GDP [4]	0.1%	(0.1%)	(0.1%)	1.3%

[1] *The absolute increase in the base rate percentage over the period*
[2] *The percentage movement in UK property prices over the period*
[3] *The absolute increase in the International Labour Organisation ('ILO') unemployment rate over the period*
[4] *The absolute increase in the GDP percentage over the period*

The model forecasts cash flows over a 20 year period. The assumptions above are shown over the first five years where there is greatest variation between scenarios.

If the probability weighting of the base scenario were to be uprated to 100%, the Group's total impairment loss allowances as at 30 September 2018 would be reduced by £9.2m. If the probability weighting of the downside scenario were to be uprated to 100%, the Group's total impairment loss allowances as at 30 September 2018 would be increased by £20.2m. If the probability weighting of the severe downside scenario were to be uprated to 100%, the Group's total impairment loss allowances as at 30 September 2018 would be increased by £38.7m. If the probability weighting of the upside scenario were to be uprated to 100%, the Group's total impairment loss allowances as at 30 September 2018 would be decreased by £14.1m.

Fair value of loans to customers
Under IFRS 9 the Group's loans to customers are carried at fair value. Fair value is calculated using models which discount expected future cash flows using market interest rates, the inputs to which require judgements. Expected future cash flows take account of estimated future losses and assumed redemptions, and are consistent with the cash flows used in the base scenario for impairment. Discount rates are determined by management incorporating the experience gained of market structures and pricing from recent sales transactions; at 30 September 2018 the discount rates used ranged from 2.18% to 7.39% (31 March 2018: 1.82% to 4.82%). The valuation is regarded as Level 3 as certain significant inputs to the valuation are defined as 'unobservable', i.e. inputs for which market data are not available; the most significant unobservable inputs are the expected future cash flows.

The modelled fair value of the Group's loans to customers is sensitive to the assumptions which are used to derive the discount rates applied in the calculation and the respective cash flows. If the assumed weighted average cost of capital of a potential purchaser of the loans were to increase by 1 percentage point then the fair value of loans to customers would be £256.4m lower; if the assumed weighted average cost of capital were to decrease by 1 percentage point then the fair value would be £275.9m higher.

Notes to the Financial Information (continued)

15. Related party disclosures

NRAM considers the Board of Directors and the members of the Executive Committee to be the key management personnel. Transactions during the period with NRAM's key management personnel and other related parties were similar in nature to those during the year ended 31 March 2018 as disclosed in NRAM's Annual Report & Accounts for that year. NRAM repaid £600.0m of the HM Treasury loan during the six months to 30 September 2018 (6 months to 30 September 2017: £975.0m; 12 months to 31 March 2018: £1,875.0m

16. Contingent liabilities

(a) 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. It is not possible to provide any meaningful estimate or range of the possible cost. No provision has been made.

(b) NRAM provided certain warranties and indemnities to Cerberus in respect of the sale 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 on or before 5 May 2019, while for certain tax-related warranties the time limit is 5 May 2023. No provision has been made.

(c) The Group's lending and other consumer credit business is governed by consumer credit law, the FCA's Mortgage Conduct of Business ('MCOB') rules and other laws and 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.

17. Risks and uncertainties

The Directors are aware of the following material risks and uncertainties which may affect NRAM during the period to 31 March 2019:

- external economic factors including unemployment, house price movements, the extent and timing of changes in interest rates and the rate of interest charged on the HM Treasury loan;
- the impact of the UK leaving the European Union, including any impact on the economic factors noted above, plus any subsequent changes to laws and regulations applicable to companies operating within the UK and any changes to UK government policy in relation to state owned assets;
- regulatory and conduct risk relating to products and services not meeting customer expectations or resulting in potentially unfair outcomes for customers;
- the risks and potential impacts of externally generated cyber security threats; and
- the risk of service disruption and/or not receiving services in line with contractual provisions from third party service providers or any subsequent termination of a third party contract.

There may be other risks that are not listed above that the Directors are not aware of or that the Directors do not consider material.

The business, financial condition or results of operations of NRAM could be adversely affected by any of these risks. More discussion of risk management and control was provided on pages 8 to 10 of NRAM's 2018 Annual Report & Accounts.

Notes to the Financial Information (continued)

18. Events after the reporting period

Subsequent to the Balance Sheet date, on 26 October the High Court handed down judgement in Lloyds Banking Group Pensions Trustees Limited v. Lloyds Bank PLC and others (the 'GMP Equalisation Case'). The High Court ruled that the trustee of a defined benefit pension scheme is under a duty to adjust scheme benefits in excess of guaranteed minimum pensions ('GMPs') so that the total benefits received by male and female members with equivalent age, service and earnings histories are equal. The Company understands that a further hearing will be held to consider points which were not covered in this judgement following which there will be a period in which an appeal could be made. The Company is monitoring developments and is working with its actuaries to assess the accounting impacts of the judgement. At this stage it is not possible to estimate any potential impacts reliably.

The financial information in this document is unaudited and does not constitute statutory accounts within the meaning of section 435 of the Companies Act 2006. The comparative figures for the financial year ended 31 March 2018 are not the statutory accounts for that financial year for NRAM Limited. The 2018 statutory accounts of NRAM Limited have been reported on by that company's auditor and delivered to the Registrar of Companies. The report of the auditor was unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and did not contain a statement under section 498(2) or (3) of the Companies Act 2006. This document may contain forward-looking statements with respect to certain plans and current goals and expectations relating to the future financial conditions, business performance and results of NRAM Limited. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond the control of NRAM Limited including, amongst other things, UK domestic and global economic and business conditions, market related risks such as fluctuation in interest rates and exchange rates, inflation, deflation, the impact of competition, changes in customer preferences, risks concerning borrower credit quality, delays in implementing proposals, the timing, impact and other uncertainties of future acquisitions or other combinations within relevant industries, the policies and actions of regulatory authorities, the impact of tax or other legislation and other regulations in the jurisdictions in which NRAM Limited and its affiliates operate. As a result, the actual future financial condition, business performance and results of NRAM Limited may differ materially from the plans, goals and expectations expressed or implied in these forward-looking statements.

Statement of Directors' Responsibilities

The Directors confirm that this Interim Financial Report has been prepared in accordance with IAS 34 as adopted by the European Union and that the management commentary and related notes includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- An indication of important events that have occurred during the first six months and their impact on the condensed Financial Statements and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- Material related party transactions in the first six months and any material changes in the related party transactions described in the last annual report.

The Directors of NRAM Limited at the date of this report are:

John Tattersall
Ian Hares
Sue Langley
Brendan McDonagh
Keith Morgan
Brendan Russell
Holger Vieten

On behalf of the Board

John Tattersall
Chairman
28 November 2018

Ian Hares
Chief Executive Officer
28 November 2018

NRAM Limited. Registered Office: Croft Road, Crossflatts, Bingley, West Yorkshire BD16 2UA.
Registered in England and Wales under company number 09655526.

Independent Review Report to NRAM Limited

I have been engaged by the company to review the condensed consolidated set of interim financial statements for NRAM Limited for the six months ended 30 September 2018 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity and related explanatory notes. These are set out within Section C of the UK Asset Resolution Limited Interim Financial Report for the six months to 30 September 2018.

I have read the other information contained in the NRAM Limited Interim Financial Report and considered whether it contains any apparent misstatements or material inconsistences with the information in the condensed interim financial statements.

Respective responsibilities of the directors and the auditor

The NRAM Limited Interim Financial Report, including the Condensed Consolidated Set of Interim Financial Statements, is the responsibility of, and has been approved by, the directors of NRAM Limited. As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for preparing the Interim Financial Report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2 of the NRAM Limited Interim Financial Report, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the group is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union. The condensed consolidated set of interim financial statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

My responsibility is to express to the company a conclusion on the condensed consolidated set of interim financial statements in the NRAM Limited Interim Financial Report.

Scope of Review

I conducted my review in accordance with International Standard on Review Engagements (UK & Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom.

A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable me to obtain assurance that I would become aware of all significant matters that might be identified in an audit. Accordingly, I do not express an audit opinion.

Conclusion

Based on my review, nothing has come to my attention that causes me to believe that the accompanying condensed consolidated set of financial statements in the NRAM Limited Interim Financial Report for the six months ended 30 September 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Hilary Lower (Senior Statutory Auditor)
28 November 2018

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

Contact Information

The 2018 Interim Financial Reports for B&B and NRAM are available on UKAR's website at www.ukar.co.uk.

Contacts

Brunswick
Jonathan Glass / Nick Cosgrove
Tel: +44 20 7404 5959
Email: ukar@brunswickgroup.com