UK Asset Resolution Limited

Annual Report & Accounts

for the 12 months to 31 March 2019

Registered in England and Wales under company number 07301961

CP 98 June 2019

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

June 2019

CP 98

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

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

ISBN 978-1-5286-1121-3

CCS0319929464 06/19

Printed on paper containing 75% recycled fibre content minimum.

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

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Company number 07301961

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About UKAR

UK Asset Resolution Limited ('UKAR') is the holding company established on 1 October 2010 to bring together the government-owned businesses of Bradford & Bingley plc ('B&B') and NRAM plc[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 £104.4bn to £11.4bn at March 2019 (October 2010: £115.8bn) including £37.4bn of asset sales.

UKAR is wholly owned by Her Majesty's Treasury ('HM Treasury'), whose shareholding is managed by UK Government Investments Limited ('UKGI'). The full governance structure is set out in a framework document ('the Framework Document') agreed between UKAR and HM Treasury (see page 20 for details).

In addition, UKAR Corporate Services Limited ('UKARcs'), a subsidiary business of UKAR, was 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 during the period. On 1 April 2019, responsibility for managing these schemes was transferred to National Savings and Investments ('NS&I'). The schemes were managed on a nil-gain nil-loss basis with all costs being fully reimbursed by HM Treasury.

Mission and purpose

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

[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 Annual Report & Accounts 'NRAM' refers to the underlying business.

UKAR Group overview (continued)

Key Facts

	31 March 2019	31 March 2018
Number of customers	35,000	131,000
Total lending balances	£5.5bn	£17.2bn
Employees	161	179

Four asset sales were recognised in the year. As reported in our interim results, 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 sold a £0.9bn portfolio of equity release mortgages to Rothesay Life Plc. In December 2018 we agreed the sale of £0.1bn NRAM and B&B commercial loans to the consortium of Davidson Kempner and Arrow Global and in March 2019 £4.9bn NRAM mortgage assets and unsecured loans were sold to Citi. Further information is provided on page 12.

The 35,000 customers at March 2019 exclude 80,000 customers under interim servicing arrangements where the economic interest has been sold but legal title, and thus regulatory responsibility, remains with UKAR. With the exception of the commercial loans, UKAR will continue to provide oversight of the service that these customers receive as part of interim servicing arrangements until the responsibility moves to the new owner in due course.

On 1 April 2019, responsibility for managing the government's Help to Buy: mortgage guarantee scheme and Help to Buy: ISA scheme was transferred to NS&I. Atos now undertake administration of these schemes on behalf of NS&I. As part of the transfer, 23 colleagues who were seconded to UKARcs from B&B moved across to Atos. This reduced headcount to 138.

Chairman's statement

The 2018/19 year for the UKAR Group has been one of remarkable achievement, which positions us well to complete our strategy of disposing of our underlying investments in NRAM and B&B during 2020, while ensuring that our customers continue to be treated well.

We are responsible for the oversight of the service that our customers receive and as a key part of that responsibility we focus on treating customers fairly and helping those in financial difficulty. Our proactive contact strategy to support those customers facing financial difficulty has continued and the total number of mortgage accounts under our management that were three or more months in arrears, including possessions, has reduced by 92% since 2010. There has been a reduction in the percentage of mortgage accounts more than 3 months in arrears from 5.5% to 2.5% over that period. We continue to make good progress in achieving all of our operational and financial targets, as detailed in the Chief Executive's report.

It has been ten years since NRAM and B&B were taken into public ownership. UKAR was formed in 2010 with the objective of protecting and creating value for the taxpayer by winding down these businesses in an orderly and active way. Our progress has been much better than anyone could have expected, and for this I am very grateful for the hard work of many colleagues, led by our very able management team, over those ten years.

The completion of the second phase of sales of B&B asset portfolios in this financial year enabled full repayment of the £15.65bn loan from the Financial Services Compensation Scheme ('FSCS'), which was funded by HM Treasury. During the year we also completed the sale of an £860m portfolio of equity release loans to Rothesay Life Plc and sold a portfolio of some £100m of commercial loans to Davidson Kempner and Arrow Global. Although smaller in size than previous asset sales, these transactions were no less complicated and were an important step in our strategy to reduce the complexity and size of our Balance Sheet.

I am pleased to report that since the year end we successfully completed a sale of NRAM asset portfolios that has enabled full repayment of the remaining government loans to both NRAM and B&B. The achievement of our objective of returning in full the UK taxpayers' investment in NRAM and B&B is a significant one of which we can be justifiably proud.

The Board

In line with the Framework Document, UKGI is entitled to appoint one or more Non-Executive Directors to the UKAR Board and accordingly they appointed Holger Vieten to the Board in July 2018 when Peter Norton stepped down. Details of the Board changes, structure and biographies of each of our Board members can be found on pages 21 to 23.

This year, our internal review of the performance of the Board confirmed that the Board continues to work well as a team and in a constructive manner. The results of the evaluations for the various Board committees were also positive and provided assurance that they remained fit for purpose. As referred to in last year's report, we implemented the recommended areas for improvement made by Deloitte LLP following their external review of the Board's performance.

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

Chairman's statement (continued)

The Future

Having achieved our objective of repaying the government's financial investment in B&B and NRAM, we are now preparing UKAR for the next stage in its journey. During the year we began the process of reducing the inherent complexities within the organisation which will enable us to maximise value through the sale of the B&B and NRAM legal entities including their remaining assets during 2020. We are working closely with UKGI and HM Treasury to ensure that the transaction meets all the conditions within our value for money framework, details of which can be found on page 12 in the Strategy and Operating Environment section of this report.

This would leave the holding company UKAR Ltd in government ownership, responsible for meeting contractual obligations, sponsorship of the legacy defined benefit pension schemes and administration of other non-loan assets and liabilities. In December 2018 we commenced the appointment of an outsourcer to undertake this work on behalf of the Board using the Official Journal of the EU ("OJEU") process which is progressing well as also highlighted in the Strategic section of this report and we have made good progress in evolving the governance arrangements that would be appropriate as UKAR Ltd moves forward.

I am therefore delighted to report that the final wind down of the business has begun. I thank all our colleagues as well as my fellow Board members for their efforts in helping us to achieve such success to date.

John Tattersall
Chairman
4 June 2019

Chief Executive Officer's introduction

We have seen great progress during the year. Throughout the period our customers continued to receive high levels of service through our partnership with Computershare, we have progressed our programme of asset sales and made huge steps in reducing the inherent complexities within the business.

Financial Performance

I am pleased to report that we achieved all of our financial and operational targets agreed with UKGI for 2018/19 (for details see page 10). We paid the government £8.4bn (March 2018: £15.0bn) including £8.3bn (March 2018: £14.7bn) of principal on our loans. Since the Balance Sheet date, we completed the sale of a portfolio of loans for £4.9bn which enabled us to fully repay the remaining government loans to both NRAM and B&B.

Ongoing administrative expenses for the year (excluding UKARcs costs) were £18.9m lower at £129.5m (March 2018: £148.4m). Reflective of our shrinking Balance Sheet, underlying profits reduced to £340.1m (March 2018: £583.9m) and statutory profits before tax were £340.3m (March 2018: £583.2m).

We expected the rate of decline in arrears to slow due to the changing nature of our mortgage book and we continue to work closely with customers who are finding it difficult to meet their monthly payments. Pleasingly the steady reduction in arrears cases has continued with 3,085 accounts under management[2] in arrears by 3 months or more (March 2018: 3,582). This is a fall of 92% since UKAR was formed in 2010 and encouragingly 3,101 residential customers in arrears are in a long term arrangement to repay and so ultimately should return to financial health.

A summary of our financial performance can be found on page 10, with more detail provided in the Financial Review on pages 59 to 66.

Balance Sheet

Since the Balance Sheet date, B&B and NRAM have repaid all government funding and the Balance Sheet has reduced to £11.4bn from £115.8bn at formation.

Following the completion of the sale of £5.0bn B&B assets to an investor group led by Barclays in May 2018, which was referred to in last year's accounts, three further portfolio sales were executed. During the year we completed the sale of an £860m portfolio of equity release loans to Rothesay Life Plc and a portfolio of c.£100m of commercial loans to Davidson Kempner and Arrow Global. Just before the year end we agreed the sale of the remaining NRAM residential owner-occupied and unsecured loan books to Citi for £4.9bn.

Following extensive discussions with the Trustees, we have also agreed to transfer the obligations of the defined benefit pension schemes from B&B and NRAM to UKAR Ltd. Whilst this has no impact on the Group Balance Sheet, it is material to the individual companies and, as referenced in the Chairman's statement, is a crucial step in preparing NRAM and B&B for sale. UKAR Ltd's obligations to the schemes will be contractually backed by HM Treasury.

[2] Accounts under management includes loans sold during the period. UKAR continues to provide oversight of the service that these customers receive as part of interim servicing arrangements until the responsibility moves to the new owner in due course.

Chief Executive Officer's introduction (continued)

Balance Sheet (continued)

In the past, all surplus cash flows have been returned to the government through partial repayments of loans. Now those loans have been repaid, the return of cash to the shareholder will be through the payment of dividends.

Costs

Around two thirds of our costs are in respect of servicing fees payable to Computershare which are closely linked to assets under management and, therefore, decline as the balance shrinks. Overall costs fell 12.7% year-on-year.

Customers

Our approach to good conduct and delivering fair and appropriate outcomes to our customers is fully aligned with the Financial Conduct Authority's ('FCA's') principles and continues through our oversight of our partnership with Computershare. The number of customers has reduced by 96,000 to 35,000 (March 2018: 131,000) with 44,000 mortgage accounts (March 2018: 141,000). In the main, these loans continue to perform well and over 92% of customers are up to date with their mortgage repayments. In addition, we are managing a further 80,000 customers, with 88,000 accounts, under interim servicing arrangements where the economic interest has been sold but legal title, and thus regulatory responsibility, remains with UKAR.

We appreciate that some customers may have limited options to move their mortgages due to the tightening of criteria post the implementation of the Mortgage Market Review and Mortgage Credit Directive, and we welcome the FCA's efforts to explore ways of helping those customers. Due to State Aid restrictions we are unable to offer any new mortgage deals but we have a number of options available to help customers who are looking for a better deal with another lender. These include waiving all early redemption charges, an on-line tool which helps customers search the market and by referrals to specialist brokers whereby any fees are waived. When conducting asset sales we have enhanced the customer protection conditions that all bidders are required to accept before their offer will be considered as highlighted on page 13 in the Strategy and Operating Environment section of this report.

In addition to our contact strategies for customers in arrears we also engage proactively with other customers who may need help with their financial situation to ensure they are ready for the future. The total number of mortgage cases three or more months in arrears, including those in possession and managed under interim servicing arrangements, reduced by 13.9% to 3,085 cases as at 31 March 2019 (March 2018: 3,582). Further information on our customer strategy is on page 14.

Although we aim for excellence in customer and debt management, we continue to deal with several legacy issues including Payment Protection Insurance ('PPI') and we continue to do the right thing for our customers and redress where appropriate. We have provided an additional £64.0m in the year in respect of PPI remediation.

UKAR Corporate Services

UKARcs provided administration support for the government's Help to Buy: mortgage guarantee scheme and the Help to Buy: ISA. On 1 April 2019 the transfer of UKARcs to NS&I completed and 23 UKAR colleagues who were seconded to UKARcs from B&B moved across to Atos who now undertake this work on behalf of NS&I. All service levels were maintained across both initiatives during the year.

Colleagues

The majority of our 138 colleagues are based in offices in West Yorkshire which are shared with Computershare. We have legal and regulatory responsibility for our customers and work closely with Computershare to ensure we have clear oversight of the service our customers receive.

The unique nature and likely longevity of the business gives a heightened focus on our strategic objective of being a great place to work as it is important that we can retain and recruit the right skills for us to achieve our goals.

The latest internal survey results continued to show high levels of colleague engagement demonstrating that we are succeeding in this objective (see our people strategy on page 15).

Conclusion

The next twelve months will be a significant period in UKAR's history as we work to achieve our overarching objective to dispose of the government's underlying investments in NRAM and B&B. I am confident that we will successfully execute this final transaction in an orderly and active way within the context of protecting and creating value for the taxpayer, whilst maintaining good service and fair treatment of our customers. I thank everyone involved in helping us to achieve our objectives and I thank the Board and my Executive management team for their support to me personally.

Ian Hares
Chief Executive Officer
4 June 2019

Strategic Report

Key highlights

Highlights of 2018/19

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

Financial measure	2018/19 Target	March 2019	March 2018
Underlying Profit Before Tax	*>= £296.4m*	**£340.1m**	£583.9m
Net Government Loan Repayments [1]	*>= £1.6bn*	**£8.3bn**	£14.7bn
3m+ Residential Arrears [2]	*<= 3,365*	**3,085**	3,582
Ongoing Administrative Expenses [3]	*<= £131.3m*	**£129.5m**	£148.4m

1 The 2018/19 government loan repayment target excluded repayments relating to the sale of loans. The target was achieved with £2.3bn of business-as-usual loan repayments in the year.
2 The 3m+ arrears target includes loans sold during the period. UKAR continues to provide oversight of the service that these customers receive as part of interim servicing arrangements until the responsibility moves to the new owner in due course.
3 Excluding UKARcs costs (2018/19 £7.4m; 2017/18 £6.2m).

Underlying profit for the year to March 2018 decreased by £243.8m to £340.1m (March 2018: £583.9m). The reduction was primarily driven by lower net interest income as a result of the shrinking Balance Sheet. Underlying profit is an internal performance measure which excludes the remediation of inherited regulatory defects, certain gains or losses such as the sale of assets, legal and insurance claims and movements in fair value and hedge ineffectiveness relating to financial instruments.

Net government loan repayments of £8.3bn were £6.4bn lower than the prior year. The decrease principally reflects the lower asset sales. Since the formation of UKAR in October 2010, at 31 March 2019, £46.7bn (96%) of the government loans had been repaid. Post the Balance Sheet date, in May 2019 all outstanding government loans were repaid in full.

Arrears levels for both B&B and NRAM have fallen as a direct consequence of proactive arrears management coupled with the continued low interest rate environment. The total number of mortgage accounts three or more months in arrears, including those in possession and those managed under interim servicing arrangements, reduced by 13.9% to 3,085 cases (March 2018: 3,582).

Ongoing administrative expenses (excluding £7.4m UKARcs costs) for the year were £129.5m. This was £18.9m lower than the prior year (March 2018: £148.4m) primarily driven by the reduction in assets under management.

	March 2019	March 2018
Statutory Profit Before Tax	**£340.3m**	£583.2m

Statutory profit before tax of £340.3m (March 2018: £583.2m) includes £452.0m profit on sale of customer loans, a £389.0m loss as a result of a hedge adjustment being written off following the sale of equity release mortgages and a £57.8m net charge for customer redress, primarily for Payment Protection Insurance ('PPI'). The £242.9m decrease in statutory profit before tax compared to the prior year primarily reflects the lower underlying profits in 2018/19.

In May 2018 we completed the sale of £5.0bn B&B mortgage assets to an investor group led by Barclays Bank, enabling full repayment of the £15.65bn loan from the FSCS. In September we agreed the sale of an £860m portfolio of equity release mortgages to Rothesay Life Plc and in December we agreed the sale of a portfolio of c.£100m of commercial loans to Davidson Kempner and Arrow Global. On 29 March 2019 we agreed the sale of NRAM residential and unsecured assets to Citi for £4.9bn, which completed after the Balance Sheet date on 24 April 2019, enabling full repayment of the outstanding £2.0bn of government loans. The asset sales agreed in the period resulted in a profit on sale of loans of £452.0m for the year. However, this was partly offset by a £389.0m loss on the unwind of fixed rate hedges held against the equity release mortgages sold. Further information is provided on page 12.

Reflecting the public's heightened awareness of the August 2019 PPI deadline, actual claims volumes received during the period were higher than previously projected and this is the principal reason for the net charge of £57.8m in the Income Statement. The total provision for customer redress at 31 March 2019 was £87.8m (March 2018: £123.9m), of which £58.9m related to PPI (March 2018: £80.2m).

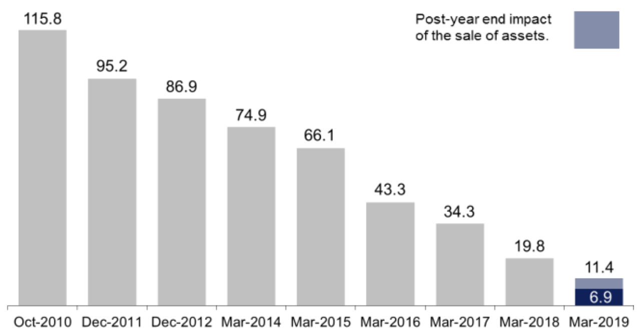
Please see pages 57 to 66 for a full review of the 2018/19 financial performance.

Key highlights (continued)

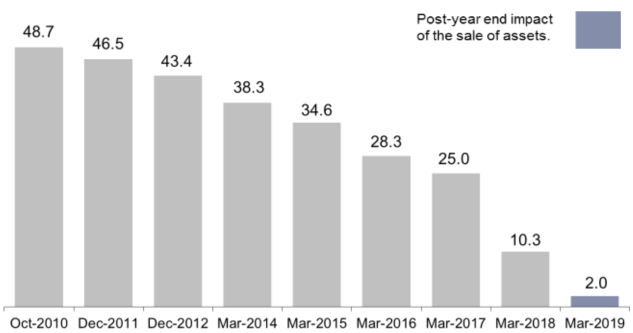
Highlights of 2018/19 (continued)

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

Balance Sheet assets (£bn) down 90%

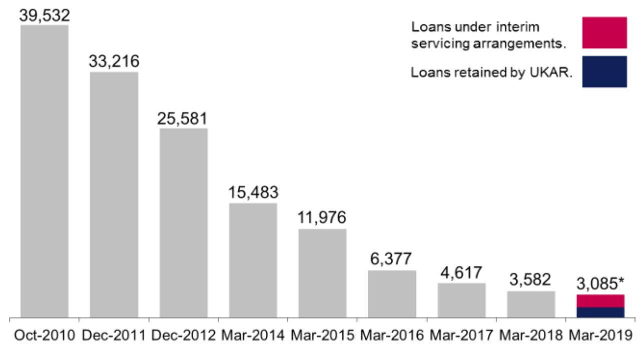


Repaid £46.7bn of government loans*



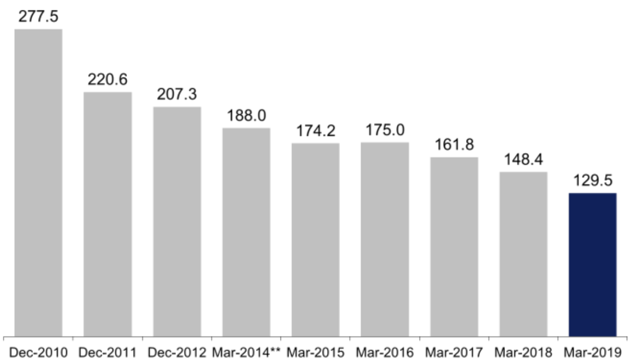
** Post the Balance Sheet date all outstanding government loans were repaid in full.*

3m+ arrears down 92%*



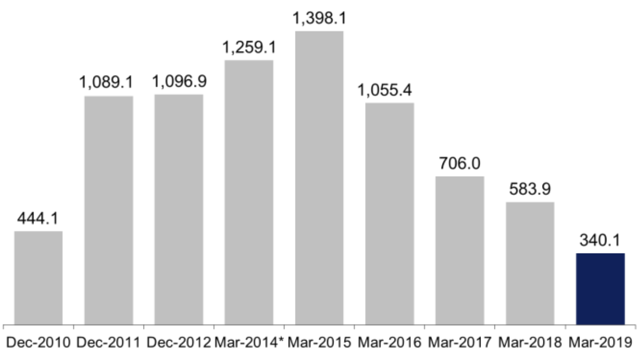
** Accounts under management including loans subject to interim servicing arrangements. UKAR only 3m+ arrears were 1,405 (96% reduction).*

Ongoing operating expenses* (£m) down 53%



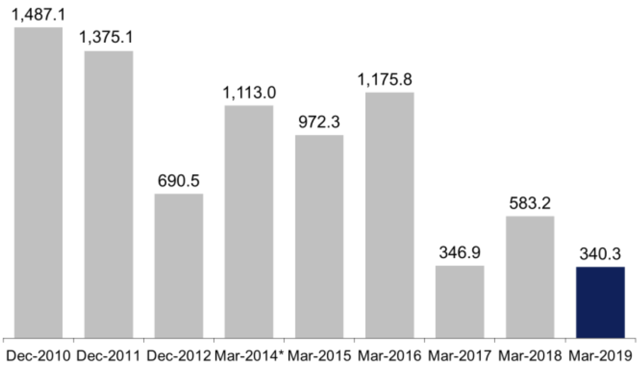
** excluding UKARcs costs*
*** 12 months to March 2014*

Underlying profit (£m)



** 12 months to March 2014*

Statutory profit before tax (£m)



** 12 months to March 2014*

Strategy and operating environment

Company strategy

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

Our mission to maximise value for the taxpayer is supported by four strategic objectives all of which are underpinned by the need to treat all our stakeholders fairly.

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

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

Following formation in 2010 UKAR successfully implemented a cost effective and efficient integrated operating model for B&B and NRAM. This enabled us to focus on maximising the value of the mortgage book through optimising redemptions and minimising losses, delivering high levels of service to our customers. We have a proactive customer contact strategy to support those customers facing financial difficulty and the number of mortgage accounts three or more months in arrears, including possessions, have reduced by 92% since 2010.

We appreciate that some customers may have limited options to move their mortgages due to the tightening of criteria post the implementation of the Mortgage Market Review and Mortgage Credit Directive and we welcomed the FCA publication of the final report of its Mortgage Market Study on 26 March which proposes that active lenders will be able to undertake a more proportionate assessment of whether customers who are up-to-date with their mortgage payments and seeking to move to a more affordable deal without borrowing more can afford the new loan. Due to State Aid restrictions we are unable to offer any new mortgage deals but we have a number of options available to help customers who are looking for a better deal with another lender and meet the required criteria. These include waiving all early redemption charges, an on-line tool which helps customers search the market and by referrals to specialist brokers whereby any fees are waived.

The transfer of our mortgage servicing operations to Computershare in 2016 was an important step to help us achieve our objective of accelerating the disposal of our assets in an orderly and active way. We are not able to provide a servicing option to any potential asset purchaser and the process of transferring mortgage books to other platforms takes time. The partnership we have with Computershare provides stability of service to our existing mortgage customers and also gives any future purchasers of our mortgage books an option to keep the customer service where it is.

All strategic decisions in respect of asset sales are made within the context of our value for money framework, paying due regard to the maintenance of financial stability and to acting in a way that promotes competition and ensures that customers' interests are protected. The framework has three key stages:

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

In April 2018 we completed the final stage of the sale of two separate B&B portfolios of buy-to-let and residential mortgages to an investor group led by Barclays. This facilitated the repayment of the remaining £4.7bn debt from the FSCS and enabled repayment of a further £0.3bn to HM Treasury. During the year we also completed the sale of an £860m portfolio of equity release loans to Rothesay Life Plc and sold a portfolio of c.£100m of commercial loans to Davidson Kempner and Arrow Global. In March 2019 we agreed the sale of the remaining NRAM residential owner-occupied and unsecured loan books to Citi.

When we commenced our work on our most recent asset sale we considered whether, unlike previous transactions, the process should be limited to "active" lenders only, thus possibly enabling more customers to move to a new deal with the new owner. As referenced above, we are mandated to dispose of assets at a price which we consider represents value for money and, having undertaken market testing, collectively UKAR, UKGI and our respective advisors concluded that such a process would not generate sufficient interest to enable a competitive process to take place and would thus fail the second test in the value for money framework.

Strategy and operating environment (continued)

Company strategy (continued)

As a result, and in line with previous transactions, the process was open to all potential buyers. However, we asked our advisors to proactively contact the top 25 "active" lenders to invite them to participate and we enhanced the customer protection conditions that all bidders were required to accept before their offer would be considered.

In developing these conditions, our express intention was to ensure that customers will receive the same protections in the future for the lifetime of their mortgages as they do under UKAR's ownership today, specifically noting that access to new products from their current lender is not something that is available to our borrowers. The key changes included ensuring continued FCA oversight and access by customers to the Financial Ombudsman Scheme, that no financial barriers are placed in the way of customers seeking to re-finance with an alternative provider, and that a mechanism will be established that links the Standard Variable Rate ("SVR") to those set by a basket of regulated "active" lenders that, as far as is practicable, replicates our approach to SVR setting today. These conditions are future proofed by putting UKAR in a position to enforce the customer protection conditions and take action for any breach thereof.

After the Balance Sheet date, in April 2019 we completed the sale to Citi for £4.9bn. Only one offer was received from an "active" lender for approximately half of the assets being sold and at a price substantially below the absolute level that we and our advisors considered represented value for money for the taxpayer, taking account of an "active" lender's costs of debt and equity as required under our value for money framework.

On formation, UKAR's assets were financed by a combination of government loans and private sector debt, principally subordinated notes, securitisations and covered bonds. The sale to Citi enabled us to fully repay the remaining government loans to both NRAM and B&B and we have only one NRAM medium term note outstanding which will be repaid in December 2019.

We are now working with advisors in order to complete our objective of returning the UK taxpayers' investment in NRAM and B&B to the private sector in full through the sale of the B&B and NRAM legal entities ("Project Jupiter"). To facilitate this transaction, over the year we began the process of reducing the inherent complexities within the organisation.

In December 2018 the Trustees of the NRAM and B&B Defined Benefit Pension Schemes agreed to the transfer of administration of those schemes from UKAR to Deloitte Total Reward & Benefit Limited and we expect this work to conclude in October 2019. We have also been working with the Trustees and HM Treasury to agree arrangements for the funding of those schemes should the two companies return to the private sector and have agreed to transfer sponsorship of the schemes from B&B and NRAM to UKAR Ltd whose obligations will be backed by HM Treasury.

In April 2019 the transfer of UKARcs to NS&I completed and 23 UKAR colleagues who were seconded to UKARcs from B&B moved across to Atos who now undertake this work on behalf of NS&I.

We consider that these and other steps we are taking to remove complexity from B&B and NRAM will enable us to maximise value through the sale of these two legal entities including their remaining assets. We are working closely with UKGI and HM Treasury to ensure that the transaction meets all the conditions within our value for money framework referenced earlier in this report and subject to the continuation of supportive market conditions, we continue to believe that the process can be completed during 2020.

This would leave the holding company, UKAR Ltd, in government ownership, responsible for meeting contractual obligations to the buyer of B&B and NRAM, sponsorship of the legacy defined benefit pension schemes and administration of other non-loan assets and liabilities. In December 2018 we began the process of appointing an outsourcer to undertake this work on behalf of the Board using the OJEU procurement process. Following the competitive dialogue stage, invitations to tender were received at the end of April 2019 and we are now progressing the final approval process and standstill period prior to executing an agreement.

In determining and agreeing all business matters, the Board considers the impact on stakeholders including customers, colleagues, regulators and suppliers along with the community and the environment. This requirement is particularly relevant in respect of Project Jupiter. The enhanced customer protections referenced earlier in this report will apply in any recommendations on the sale of the entities and we are keeping the regulator informed throughout the preparatory stages of the process. We are engaging with colleagues, for whom the impact may be significant, and have adapted our HR strategy as appropriate to enable us to maintain colleague motivation and commitment and our high standards of conduct whilst preparing the business for sale.

Strategy and operating environment (continued)

Customer strategy

Customer servicing

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

Our colleague surveys continue to demonstrate that our colleagues are committed to ensuring our customers receive excellent service and are focused on ensuring we do the right things for our customers. UKAR has 35,000 customers (March 2018: 131,000), with 44,000 mortgage accounts (March 2018: 141,000). The majority of loans continue to perform well with more than 92% of mortgage customers up to date with their monthly payments. In addition, we are managing a further 80,000 customers, with 88,000 accounts, under interim servicing arrangements where the economic interest has been sold but legal title, and thus regulatory responsibility, remains with UKAR.

Support for customers experiencing payment difficulties

Although levels of arrears are reducing we continue to see a number of customers facing financial difficulty including some entering arrears for the first time. We endeavour to contact all customers following a missed payment to understand their situation and consider solutions to help them manage their mortgage. For customers experiencing temporary or short-term financial difficulty this includes a range of forbearance options. During the year, over 9,000 arrangements were successfully completed and approximately 700 account modifications were made to assist customers with the repayment of their mortgage. Where appropriate we actively encourage customers to seek help from non-fee charging debt advice agencies.

Repossession is always viewed as a last resort but unfortunately in some situations this is inevitable and the best course of action to prevent further indebtedness for the customer. Repossessions totalled 931 in the year (March 2018: 1,004).

Doing the right thing for our customers

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

Reflecting heightened awareness of the PPI deadline, actual claims volumes received during the period have been higher than expected and an additional £64.0m has been provided in respect of PPI.

People strategy

As referenced above, we have adapted our HR strategy to enable us to maintain our high standards of conduct whilst we simplify the business and prepare the business for sale. Focus has been placed on reward initiatives which will improve the likelihood of retaining and attracting colleagues to enable us to achieve resolution and development activities which will assist colleagues in progressing their future careers.

Vision

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

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

Culture and Values

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

How we behave is as important as what we do and our values of Caring, Responsible, Inspiring, Straightforward and Positive help us to build on our culture of supporting, developing and challenging individuals to achieve success. It is not just 'what' is delivered, it is 'how' and ‘why’ it is delivered and the behaviours that our colleagues demonstrate as part of their day-to-day work.

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

Strategy and operating environment (continued)

People strategy (continued)

Engagement

Our five values encompass all aspects of colleague life at UKAR and we track how we are doing against each of them through regular colleague engagement surveys. Our most recent survey in March 2019 had an excellent response rate with 93% of colleagues sharing their views. The survey tracker score, based upon five key questions measuring UKAR as an employer, reached 91% which is 14% above the benchmark figure provided by our survey business partner, People Insight.

Diversity

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

The Governance, Engagement and HR Director is the executive responsible for gender equality and inclusion. Despite our size we comply with the best practice as far as we can including the Women in Finance Charter and Gender Pay Gap reporting. Although a business in wind-down, we endeavour to retain the percentage of females across the business at no less than 45%, with 25% in the senior management team. At 31 March 2019 48% of UKAR's workforce were female and 26% of the senior management team were female. The Board had one female and five male Non-Executive Directors and one of the six members of the Executive Committee was female. Details on gender pay can be found in the Directors' Remuneration Report on page 43.

Learning and development

We are committed to providing learning opportunities to equip colleagues with the skills and knowledge needed to perform their role as well as developing their employability for the future. We offer sponsorship for the completion of qualifications through a variety of study routes and continue to support colleagues' development aspirations where there is opportunity to apply the learning within UKAR and where it will assist them in building a career outside UKAR. During the year 92% of colleagues have undertaken development programmes to support their career.

Notwithstanding the smaller size of the organisation, we continued to support placement schemes and apprenticeships in 2018/19 with one apprentice and one undergraduate in UKARcs who was subsequently appointed to a permanent role.

Well-being

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

Recognition

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

Community and environmental strategy

Community

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

In September 2018 colleagues again voted Yorkshire Air Ambulance ('YAA') as the Charity of the Year. Charitable fundraising and payroll giving by colleagues raised £12,478 through dress down days, raffles, cake stalls and donations, including £4,264 in respect of YAA. In addition we matched employee fundraising and payroll giving through Give As You Earn schemes with contributions of £3,921 and £5,137 respectively.

Environment

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

Risk overview

UKAR adopts an Enterprise-wide Risk Management Framework ('EWRMF') which is designed to support the identification, assessment, management and control of the principal risks that threaten the achievement of UKAR's strategic and business objectives. The EWRMF sits alongside the Business Plan, the Capital Statement and the Liquidity Statement in defining the high-level architecture of UKAR's overall risk management system. The EWRMF itself is underpinned by UKAR's Risk Appetite Framework and a suite of high level risk policies which define the breadth of UKAR's exposure to inherent risks and the management of these risks within appetite. The scope of the EWRMF extends to all principal risk types faced by UKAR. The table below illustrates the principal risk categories which could impact the delivery of the strategic objectives, key mitigating actions, key indicators and the 2019/20 focus.

Principal risk	Key mitigating actions	Key indicators	Focus 2019/20
Conduct risk The risk of UKAR treating its customers unfairly and delivering inappropriate outcomes leading to customer detriment or impacting market integrity.	▪ Conduct Risk Framework to ensure customers are central to the delivery of our objectives. ▪ Conduct risk assessments are integral to all business change and customer initiatives. ▪ Customer & Conduct Risk Dashboard tracked and actioned by relevant committees. ▪ Colleague rewards driven by conduct risk metrics.	▪ Volume of upheld complaints. ▪ Market Regulatory Indicators. ▪ Quality assurance results. ▪ Findings from monitoring and outcome testing. ▪ Customer Research. ▪ Customer Journey including vulnerable customers.	▪ Fair and appropriate customer outcomes. ▪ Complaint handling and Root Cause analysis. ▪ Asset sales due diligence. ▪ Ensuring vulnerable customers are given the appropriate level of care. ▪ Specific customer protections agreed with the FCA for asset sales.
Outsourcing risk The risk of loss/disruption arising from inadequate or ineffective appointment, supervision and control or any subsequent contractual termination of third party service providers.	▪ Outsourcing Governance Model. ▪ Outsourcing Policy. ▪ Service management reporting. ▪ Assurance and monitoring activity. ▪ Comprehensive contract and SLAs. ▪ Clearly defined policies for the Servicer to comply with. ▪ 'Working in Partnership' strategic approach.	▪ SLA and contractual performance metrics assessment through Supplier Relations Management process. ▪ Assurance Monitoring Results - outsourcer and UKAR. ▪ Independent Third Party Supplier Assessment Results.	▪ Continuous monitoring and assessment of the effectiveness of outsourced operations. ▪ Effective issues management by key suppliers. ▪ Assurance activity of core IT systems/ infrastructure changes to limit systems outages and security breaches.
Operational risk The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.	▪ Operational Risk Policies. ▪ Risk & Control Self-Assessment ('RCSA') process to identify and assess key operational risks and control effectiveness. ▪ Scenario analysis to determine the potential impact of high impact, low likelihood events. ▪ Forward-looking Key Risk Indicator monitoring to proactively identify shifts in risk exposure. ▪ Operational Risk event monitoring to identify control failures and appropriate corrective action. ▪ Risk appetite monitoring to ensure we are operating within Board approved limits. ▪ Risk oversight of change activities. ▪ Operational Resilience, Business Continuity and Disaster Recovery plans.	▪ Overall control effectiveness as assessed through RCSA. ▪ Comparison of scenario analysis and RCSA financial impacts against defined risk appetite. ▪ Number and value of operational risk loss events. ▪ Systems risk metrics (availability and security incidents) and assessment against the National Cyber Security Centre's Ten Steps approach. ▪ Instances of customer and colleague financial crime.	▪ Assessment of cyber risk exposure and control effectiveness through security penetration testing and colleague awareness campaigns. ▪ Continuing oversight of major change activities including significant changes to information technology infrastructure. ▪ Data Management enhancements relevant to the Data Protection Act 2018. ▪ Monitor developing operational resilience requirements. ▪ Continue to retain and motivate colleagues with the necessary expertise to deliver strategic plans.
Credit risk The current or prospective risk to earnings or capital arising when a customer (residential or commercial) or counterparty defaults on its contractual obligations to the company.	▪ Credit Risk Policy, incorporating Board approved risk appetite to support the ongoing management of credit risk. ▪ Forbearance Programme structured to support customers through periods of distress. ▪ Credit Risk Committee and robust processes and controls to identify credit risk exposures and action appropriate mitigation. ▪ Ongoing monitoring of credit limits applied to approved counterparties.	▪ Impairment charge. ▪ Loan to Value. ▪ Arrears. ▪ Counterparty credit limits.	▪ Manage the credit risk on the underlying mortgage book, considering the high proportion of buy-to-let and upstream fiscal and other changes to property management. ▪ Interest Only repayment strategy. ▪ End of Term Account Management. ▪ Ongoing monitoring of asset sale influence on the overall credit quality of the book.
Strategic risk The current or prospective risk to earnings and/or fair value, given the B&B and the NRAM Balance Sheet structures, arising from changes in the business environment and from adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment.	▪ Governance structure. ▪ EWRMF. ▪ Risk Appetite Framework. ▪ Risk policies. ▪ Capital Assessment Framework.	▪ Material risks managed within defined risk appetite.	▪ Ongoing monitoring of strategic risks with the potential to significantly impact the delivery of strategic objectives. ▪ Oversight of the execution of strategic initiatives including asset sales transactions. ▪ Continuous monitoring and awareness of market appetite for strategic initiatives.

Risk overview (continued)

Principal risk	Key mitigating actions	Key indicators	Focus 2019/20
Liquidity risk The risk that either B&B and/or NRAM are unable to meet their obligations as they fall due.	▪ The defined appetite for liquidity risk is low. Sterling liquidity is held as cash balances at the Bank of England and the Government Banking Service. ▪ Stress & Scenario testing is undertaken to ensure that B&B and NRAM will be able to meet their obligations in extreme conditions.	▪ Changes in the maturity profiles of assets and liabilities. ▪ Level of liquidity.	▪ Manage liquidity to ensure UKAR has adequate levels of liquidity to meet its commitments at all times and maintain liquidity within levels agreed with HM Treasury facilities and the Liquidity Risk Policy.
Regulatory risk The risk of UKAR failing to comply with the legal and regulatory requirements applying to its arrangements and activities.	▪ Zero tolerance appetite in respect of Regulatory Risk. ▪ Minimum standards and responsibilities to ensure the effective management of Regulatory Risk. ▪ Regulatory Risk dashboard tracked and actioned by Executive Risk Committee.	▪ Volume of regulatory breaches. ▪ Industry relevant regulatory developments and good practice. ▪ Industry fines and cost of redress. ▪ Regulatory relationships. ▪ Precedent Court cases affecting borrowers and lenders.	▪ Ongoing monitoring of changes in regulation and legislation. ▪ Open dialogue with Regulators. ▪ Analysis of FCA and other regulatory fines. ▪ Anti-Money Laundering requirements. ▪ Implementation of the Senior Managers & Certification Regime requirements.

Ian Hares
Chief Executive Officer, on behalf of the Board
4 June 2019

Directors' Report and Governance Statement

Corporate governance

Introduction

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

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

UKAR governed and controlled NRAM and B&B, as their sole shareholder during 2018/19. Although managed under a common board and management structure, NRAM and B&B (the 'Principal Subsidiaries') remained separate legal entities and continued to operate as individual companies with their own individual brands and Balance Sheets.

This corporate governance section summarises the governance regime applicable to UKAR including its Principal Subsidiaries referred to above (the 'Group') during 2018/19.

UKAR Corporate Services Limited

In 2013 UKAR was appointed by HM Treasury to administer the Help to Buy: mortgage guarantee scheme on its behalf and in 2015 it also undertook to administer the Help to Buy: ISA scheme. The administration of the schemes was kept separate from UKAR's core operations and the activities of UKARcs were transferred to NS&I on 1 April 2019.

Governance structure

The governance structure for the Group in 2018/19 was determined by the UK Asset Resolution and UK Government Investments Limited (formerly UK Financial Investments Limited) Relationship Framework Document (the "Framework Document") agreed between UKAR and UKGI, acting on behalf of HM Treasury. The Framework Document sets out how the relationship between the Group and UKGI works in practice. The terms of the Framework Document are updated periodically and the most recent version of the Framework Document, to reflect the transfer of UKFI's activities to UKGI in March 2018, is reflected below and throughout this report.

Overarching Objective

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

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

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

Principles of the Framework Document

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

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

Corporate governance (continued)

Governance structure (continued)

Monitoring performance

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

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

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

Board of Directors

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

The biographical details of each Director demonstrate the broad range of experience and expertise they brought to the Board in 2018/19.

John Tattersall – Non-Executive Chairman

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

John retired as a partner in PricewaterhouseCoopers LLP in 2009, where he had worked since 1975, latterly as leader of the firm's Financial Services Regulatory Practice and a senior client relationship partner. He started his career in the financial services sector with Kleinwort Benson Limited in 1973. Until March 2019 he was Chairman of UBS Limited and had previously been Chairman of the Gibraltar Financial Services Commission and also Chairman of the Risk and Regulation Committee of the Financial Services Faculty of the Institute of Chartered Accountants in England and Wales. He is currently Chairman of the Oxford Diocesan Board of Finance and Retail Charity Bonds plc. He is a Non-Executive Director of UBS Business Solutions AG, CCLA Investment Management Ltd, St Augustine's College of Theology Ltd and Diocesan Trustees (Oxford) Ltd. He is also Chairman of the Court of the Royal Foundation of St Katharine, and a non-stipendiary priest in the Church of England. John served as a member of the Independent Commission on Equitable Life payments.

Ian Hares - Chief Executive Officer

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

Ian has over 35 years experience within the financial services industry having previously worked for Santander UK Group, Alliance & Leicester plc, Girobank plc and National Westminster Bank Group. He is also a director of Four Seasons Country Club Limited.

Corporate governance (continued)

Board of Directors (continued)

Sue Langley - Senior Independent Director

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

Sue is Chairman of Arthur J. Gallagher Holdings (UK) Limited and was previously CEO of UK Financial Services – Department of International Trade. She is a Trustee of Macmillan Cancer Support.

Previous roles also include Director of Market Operations and a member of the Executive Team for Lloyd’s of London, Chairman of Lloyd’s Japan and Director of Lloyd’s Asia, Chief Operating Officer and a member of the Executive Team of the Hiscox Group and Board member for Hiscox Syndicates and Hiscox Insurance. She joined Hiscox from PricewaterhouseCoopers where she was a Principal Consultant working with a range of FTSE companies.

Brendan McDonagh – Non-Executive Director

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

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

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

Keith Morgan – Non-Executive Director

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

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

Brendan Russell – Non-Executive Director

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

Brendan is a Non-Executive Director and Trustee of the Royal College of General Practitioners and previously spent almost six years at the Royal Bank of Scotland (‘RBS’), where he was Head of Corporate Finance, leading the team responsible for the disposal programme which formed a key component of RBS’s recovery plan. Prior to joining RBS, Brendan was a Director with Barclays in its Corporate Development function, before which he spent five years at McKinsey where he was responsible for part of the Corporate Finance & Strategy practice, overseeing teams based in five European cities.

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

Corporate governance (continued)

Board of Directors (continued)

Holger Vieten – Non-Executive Director

Holger joined the Boards of UKAR, B&B and NRAM in July 2018 after being appointed by UKGI to manage HM Government's shareholding in the UKAR Group companies. He is also a member of the Transaction Approvals Committee of B&B and NRAM.

Holger joined UKGI in May 2018 as Head of Banking & Capital Markets of UKGI's Financial Institutions Group. He has spent over 20 years advising UK and European financial institutions on a broad range of mergers and acquisitions, capital markets and restructuring transactions. Before joining UKGI, Holger was an investment banker at Moelis & Company for eight years and previously at Morgan Stanley, having started his career at Credit Suisse.

Appointments and Resignations during 2018/19

Peter Norton, a UKGI nominated Non-Executive Director, resigned from the Boards of UKAR, B&B and NRAM with effect from 3 July 2018.

Holger Vieten was appointed to the Boards of UKAR, B&B and NRAM with effect from 31 July 2018 and is a UKGI nominated Non-Executive Director.

Corporate governance (continued)

Board of Directors (continued)

Balance of Executive and Non-Executive Directors

During 2018/19 the UKAR Board comprised:

Period	Non-Executive Chairman	Independent Non-Executive Directors	Executive Directors	UKGI Nominated Directors	Total
1 April 2018 to 3 July 2018	1	3	1	2	7
4 July 2018 to 30 July 2018	1	3	1	1	6
31 July 2018 to 31 March 2019	1	3	1	2	7

The UKAR, B&B and NRAM Boards shared a common membership during 2018/19.

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

The Board has determined that the Non-Executive Directors, who were not appointed by the Shareholder, were independent, because of the commonality of purpose between UKAR and the Principal Subsidiaries and a rigorous focus on the identification of any specific conflicts of interest.

Whilst UKAR seeks to comply with the UK Corporate Governance Code wherever practicable a reduction in the size of the Board in 2016/17 means that it is no longer always possible to comply with the requirements in respect of the number of independent Non-Executive directors on each Committee.

In particular, Mr Morgan, who is a UKGI nominated director is a member of the Audit and Remuneration Committees and cannot be counted as an independent Non-Executive Director. However, the Board have recognised that whilst Mr Morgan is still employed by the government he is not a UKGI employee and, for all practical purposes, he is independent in thought and action.

Relationship between the Chairman and the Chief Executive Officer

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

Senior Independent Director

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

Company Secretary

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

John Gornall was the Company Secretary of UKAR, NRAM and B&B throughout 2018/19.

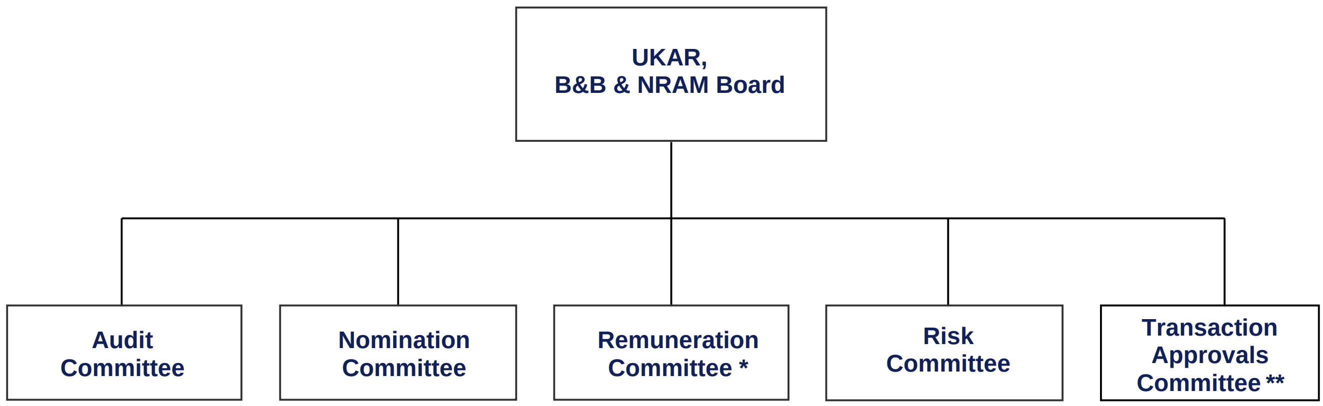
Corporate governance (continued)

How the Board operated in 2018/19

Board structure and governance

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

Board and Committee Structure



** A separate sub-committee has been established by the Board to set the fees of the Chairman and Non-Executive Directors see further detail on page 42.*
*** The Principal Subsidiaries operate a Transaction Approvals Committee which is included in these accounts for a full understanding of the Group Committee Structure.*

During 2018/19 the Chairman of each Committee was:

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

Corporate governance (continued)

How the Board operated in 2018/19 (continued)

Board structure and governance (continued)

Each of the Board Committees have detailed Terms of Reference setting out their remit and authority. Details of the membership of each Committee, the role and key activities during 2018/19 are set out in the individual Committee Chairman's reports on pages 32 to 56.

The Remuneration Committee Chairman's Report and details of the role of the Remuneration Committee are provided in the Directors' Remuneration Report on page 32.

Board and Committee meetings

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

The attendance of individual Board members at Board and Committee meetings during 2018/19, together with the overall number of meetings held is set out below. Where a Director was appointed or resigned during the year the total number of meetings they were eligible to attend is shown in brackets.

	Board	Audit	Nomination	Remuneration	Risk	Transaction Approvals *
Number of meetings held	**10**	**3**	**4**	**4**	**4**	**12**
Chairman						
John Tattersall	10		4	4		12
Chief Executive						
Ian Hares	10					12
Senior Independent Director						
Sue Langley	10		4	4		
Independent Non-Executive Directors						
Brendan McDonagh	9	3	3		4	
Brendan Russell	10	3			4	12
Non-Executive Directors						
Keith Morgan	10	3		4	4	11
Peter Norton	3(3)					3(3)
Holger Vieten	6(6)					9(9)

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

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

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

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

Corporate governance (continued)

How the Board operated in 2018/19 (continued)

Board responsibilities

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

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

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

Board activities 2018/19

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

In doing so the Board has overseen further sales of assets and in this respect has:

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

In addition to the above, the Board continued to provide oversight in relation to ongoing key business activities during 2018/19 which have included:

- monitoring Computershare's servicing activity and performance in relation to customer outcomes;
- approving key performance indicators and endorsing Balanced Scorecard results;
- approving the Annual Conduct Risk Assessment, Risk Appetite, Liquidity and Capital Statements;
- ensuring that decision making at all levels reflects good conduct and the fair treatment of customers;
- approving a capital re-organisation at Mortgage Express;
- overseeing the transfer of UKARcs to NS&I;
- preparing for the introduction of the Senior Managers & Certification Regime in December 2019; and
- considering the future of the B&B and NRAM Defined Benefit Pension Schemes and other legacy issues in the light of the intention to sell the B&B and NRAM legal entities (Project Jupiter).

Board appointments and composition

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

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

Corporate governance (continued)

How the Board operated in 2018/19 (continued)

Board appointments and composition (continued)

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

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

The Chairman regularly meets with UKGI, the shareholder representative to discuss UKAR matters, including the constitution of the Board.

John Tattersall was appointed Chairman in June 2016 and reached nine years service as a Non-Executive Director of B&B on 1 April 2019. The 2018 UK Corporate Governance Code states that a Chairman should not remain in post beyond nine years from the date of his or her first appointment to the Board, but this period can be extended for a limited time, particularly in cases where the Chairman was an existing Non-Executive Director on appointment. The Board has agreed, with the consent of UKGI, that John should continue as Chairman beyond nine years to enable him to lead the Board through to the expected sale of the B&B and NRAM legal entities (Project Jupiter).

Board evaluation

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

During 2018/19, the Board and Committee evaluation exercise was conducted by the Chairman with assistance from the Company Secretary.

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

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

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

Corporate governance (continued)

How the Board operated in 2018/19 (continued)

Board evaluation (continued)

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

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

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

Induction and training

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

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

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

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

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

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

Timely and quality information

The Board believes that it receives and has access to, on a timely basis, all relevant information which is of a sufficient quality to make appropriate decisions and discharge its duties and obligations. Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that Board procedures and applicable rules are followed. Where necessary, Directors are able to take independent professional advice at the Group's expense.

Internal control and risk management

The Board is responsible for the Group's system of internal control and seeks regular assurance to satisfy itself that the system is functioning effectively in managing risks in the manner which it has approved. Such a system can only provide reasonable, not absolute, assurance against material misstatement or loss, as it is designed to manage, rather than eliminate, the risk of failure to achieve business objectives. Throughout the year ended 31 March 2019, the Group has operated a system of internal control, which includes an ongoing risk management process for identifying, evaluating and managing the principal risks faced by the Group. The Directors confirm that they have carried out a robust assessment of the principal risks facing the Group and have reviewed the effectiveness of the Group's system of financial and non-financial controls including operational and compliance controls, risk management systems and the Group's material risk exposures and associated mitigating actions.

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

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

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

Corporate governance (continued)

How the Board operated in 2018/19 (continued)

Internal control and risk management (continued)

The system of risk management and internal control has been in place throughout 2018/19 and up to the date of approval of the Annual Report & Accounts.

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

In addition, as part of the process of preparing this statement, the Board has also performed its annual assessment of the effectiveness of risk management and internal control systems. This annual assessment adopted the recommendations of current best practice guidance issued by the Financial Reporting Council. The Board of Directors is not aware of any material risk events or internal control failures that arose across the Group during 2018/19 that are not being addressed in accordance with the internal control procedures of the Group.

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

Going concern

The Directors have assessed, taking into consideration the principal risks set out on pages 16 to 17 and 67 to 71, 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. The validity of the going concern basis of accounting is dependent upon the funding position of the Company, B&B and NRAM and on the Directors' expectations regarding the continuation of trading.

As at 31 March 2019, NRAM was partially funded by a government loan that could be recalled on 24 hours’ notice. B&B had a remaining Statutory Debt balance of £462.4m but had fully repaid the HM Treasury Working Capital Facility (‘WCF’). Subsequent to the Balance Sheet date, the government loans have been repaid in full. Although all government loans at this point have been repaid, neither B&B nor NRAM has access to funding, if required, from other parties due to the restrictions placed on them through the state aid agreement. Therefore, in order to satisfy the going concern assumption, reassurance is provided by HM Treasury that its support to B&B and NRAM will continue; at the signing date of these Financial Statements, HM Treasury has confirmed its intention to continue to provide funding to B&B and NRAM, if required, until at least 1 January 2021.

HM Treasury's continued provision of funding to B&B and NRAM, if required, is subject to B&B and NRAM continuing to be subsidiary companies of the Company. As stated in the Strategic Report on pages 12 to 13, the Company’s strategy is to sell B&B and NRAM. Prior to any sale, the compliance with all state aid conditions is necessary to ensure government funding is available; the Directors expect that all such conditions will continue to be met until any sale of B&B and NRAM. The Directors consider that the Company would not sell its investments in B&B and NRAM unless the Directors were confident that B&B and NRAM would remain viable following the sale; 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. The Directors therefore consider that B&B and NRAM continue to be going concerns.

At the signing date of these Financial Statements, HM Treasury has also confirmed its intention to continue to provide funding to the Company, if required, until at least 1 January 2021. Following any sale of B&B and NRAM, the Directors expect that the Company will remain in government ownership and continue to manage the government’s legacy exposures which arose from the nationalisation of B&B and NRAM. However, the activities of the Company will evolve from being the holding company overseeing the rundown of B&B and NRAM to that of being responsible for meeting contractual obligations resulting from previous asset sales and the planned sale of B&B and NRAM, sponsorship of the legacy B&B and NRAM defined benefit pension schemes and administration of other non-loan assets and liabilities. The Directors therefore consider that the Company will continue in operation for the foreseeable future.

At the point of any sale of B&B and NRAM they will cease to be consolidated into the UKAR Group's Financial Statements. At this point the UKAR Group's asset management and associated activities will cease. However, the Directors consider that the UKAR Group's activities will continue for the foreseeable future, being the continuation of the management of the government’s legacy exposures which arose from the nationalisation of B&B and NRAM.

Accordingly, the Directors of UKAR, B&B and NRAM confirm that they are satisfied at the time of approval of these Financial Statements that the UKAR, B&B and NRAM companies and groups have adequate resources to continue in business for the foreseeable future. They are also satisfied that the UKAR Group's and Company's activities will continue for the foreseeable future. For these reasons they continue to adopt the going concern basis in preparing the Financial Statements.

Corporate governance (continued)

How the Board operated in 2018/19 (continued)

Longer term viability

UKAR was established to oversee the orderly run-off of B&B and NRAM for the UK government and continues to receive funding and guarantees from HM Treasury to enable it to undertake this activity. The Board have no reason to believe that support to UKAR Limited from HM Treasury will be withdrawn or curtailed after 1 January 2021. With this in mind, the Directors have assessed the longer term viability of the Group, taking into account modelling undertaken as part of the annual refresh of long term forecasts and the impact of the principal risks set out on pages 16 to 17 and 67 to 71 and have concluded that the Group will remain viable throughout the entire period of its run-off. The length of this period will depend on the success of strategic initiatives, including the current proposals to sell B&B and NRAM.

As stated above and as referenced in the strategy set out on pages 12 to 13, in the circumstance of a sale of B&B and NRAM, HM Treasury's financial support to them would no longer be relevant. However, such a sale would not be contemplated by either party if it was not considered viable.

Corporate governance codes

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

Directors' remuneration report

Sue Langley, Chairman of the Remuneration Committee, introduces the Directors' Remuneration Report and gives an overview of the Committee's main areas of focus during the past year.

Chairman's Overview of 2018/19

"I am pleased to present UKAR's report on Directors' Remuneration for 2018/19.

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

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

In the 2018/19 year, UKAR has continued to deliver strong performance, achieving all our operational and financial targets as detailed in the Chief Executive's report on page 7.

We continue to manage all colleagues, regardless of their position within the company, according to reward principles which focus on fair and transparent remuneration. UKAR today comprises around 140 people, and the Remuneration Committee is conscious of the continued need to motivate, retain and attract colleagues in order to achieve our objectives.

The work of the Committee during 2018/19 covered a variety of topics within its Terms of Reference and key activities undertaken during the year have included:

- the annual review of our reward strategy determined that it continues to remain aligned to our business strategy and encourages effective risk management and appropriate customer outcomes in line with the FCA's conduct risk and culture agenda;
- reviewing the objectives of the Chief Executive and the Executive team and agreeing their remuneration packages;
- annual Short Term Incentive Plan (STIP) payments for the Executive team were agreed, taking into account the strong overall results of business and individual performance. Annual incentive awards are also overlaid by a balanced scorecard which can reduce (but cannot increase) the STIP outcome; and
- agreeing an incentive ('Jupiter Incentive') which will have sufficient impact to mitigate the people risks associated with the strategic direction of the business and improve the likelihood of retaining and attracting colleagues to enable us to achieve resolution through the sale of the B&B and NRAM legal entities including their remaining assets.

The Committee worked closely with UKGI on remuneration matters in line with the Framework Agreement. Although not required to do so, we continue to seek as far as possible to comply with the regulatory and governance requirements which apply to UK listed companies and the FCA's Remuneration Code."

Membership

There were no changes to the membership of the Remuneration Committee which was in place throughout 2018/19 and had the following membership as at 31 March 2019:

Sue Langley (Chairman)
Keith Morgan
John Tattersall

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

Summary of responsibilities

The Remuneration Committee is responsible for:

- making recommendations to the Board concerning the remuneration arrangements of Executives;
- recommending proposals in respect of related pay schemes; and
- overseeing remuneration for the wider workforce including all remuneration components and any major changes in benefit structures.

Directors' remuneration report (continued)

Meetings

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

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

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

Executives are not present when their own remuneration is being discussed.

Reporting to the Board

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

Governance

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

Directors' remuneration policy

Policy overview

Our Reward Policy and principles apply to all colleagues and are reviewed annually. As an unlisted company, and being outside the remit of the FCA Remuneration Code, we are not required to comply with all regulatory rules and guidance on remuneration, but we do so where appropriate. The main purpose of the policy is to support the achievement of the overall business strategy by establishing an objective, consistent and fair reward system. This in turn provides a competitive yet cost-effective salary, incentive and benefits package to all colleagues that reflects their role, competencies and the contribution they make. We support the retention and attraction of high quality colleagues by differentiating reward for high performers. However, reward is only one lever available to mitigate our people risk as we move closer to achieving our overall strategy of releasing the government of its investments in B&B and NRAM and our reward policy is aligned closely to the overarching HR strategy. Our strategic objective of 'being a great place to work' ensures that colleagues feel valued and are given the opportunity to grow and learn new skills, which is important to UKAR's success.

Our culture is shaped by the 'tone from the top' and how colleagues behave is as important as what they do. Rewards and incentives are aligned to our culture and values, each of which have exemplar behaviours which help colleagues understand what they mean, and how they apply to what they do on a daily basis. UKAR will only reward behaviours that underpin longer term business success and does not support, or reward, excessive or inappropriate risk-taking behaviours. The Risk Director's objectives specifically include the caveat that the delivery of all financial targets is achieved with due regard to risk and appropriate challenge.

As referenced in the Chairman's statement at page 5, we have commenced the process of reducing the complexities within the organisation which will enable us to sell the B&B and NRAM legal entities including their remaining assets (Project Jupiter). In order to mitigate the operational risk of colleagues seeking and finding alternative employment due to the business entering the final phase of the accelerated wind down, during the year the Committee agreed the principles of a one-off incentive. The Jupiter Incentive is intended to act as a retention and motivational tool by paying all colleagues 25% of base salary following the successful completion of Project Jupiter. It is a means of enabling the business to retain colleagues for as long as we require in order to resolve residual issues that will facilitate the whole company sale, and to reward all colleagues for their efforts in enabling the transaction to take place.

UKAR recognises and consults with the Unite trade union. As part of the pay negotiations for all colleagues, we ensure that the Union is fully aware of the approach we propose to take and has an opportunity to raise questions. In 2018/19, we continued to apply a consistent salary review process across all of the Group including Executives.

Directors' remuneration report (continued)

Directors' remuneration policy (continued)

The remuneration policy for Executive Directors

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

Element	Purpose and link to strategy	Operation	Maximum opportunity
Base salary	To attract and retain key talent by ensuring an appropriate, competitive benefits package.	Roles are benchmarked externally. Salaries are reviewed by the Remuneration Committee and recommendations are submitted to the Board and the shareholder representative, based upon the skills and experience they bring to the role. The approach to pay increases, including that for promotions/ increased responsibility is in line with the approach taken for all colleagues.	There is no prescribed maximum. However, the Remuneration Committee reviews the salary against the benchmarks each year and also considers the pay approach used for all UKAR colleagues.
Benefits	To provide a competitive package, aligned to market practice.	The benefit package for Executive Directors includes annual holiday entitlement, life assurance, car allowance, private medical insurance, income protection insurance, personal accident insurance and assistance with relocation, travel and accommodation where necessary. Individuals promoted to Executive Director may retain entitlements under the Redundancy Policy.	Each benefit has its own maximum in line with the nature of the benefit and the associated policy.
Pension	To provide a competitive package, aligned to market practice.	Executive Directors are either offered a pension allowance or employer contribution into UKAR's pension plan. The approach taken depends on the Director's individual circumstances. The FRC Corporate Governance Code requires newly appointed executive pensions or allowances to be aligned to the wider workforce. If appointed, any new Executive Director would be aligned to the allowance for the wider workforce at UKAR which is typically 12%.	The pension allowance for the Chief Executive is set at 15% of base salary which is aligned to other Executives.
Short-Term Incentive Plans **(Annual Bonus)**	To reward performance for delivery of key financial and operational targets.	The STIP is linked to achievement of the financial and operational targets in place for the relevant year alongside individual performance against personal objectives. The Remuneration Committee approves personal objectives for the year for Executive Directors. We promote a culture that supports, develops and challenges individuals to deliver results. Targets for customer outcomes and conduct risk, plus other key organisational metrics, are included in the UKAR Balanced Scorecard. Failure to achieve these targets would result in a reduction to the bonus pool. Given UKAR's status, all awards are made in cash as there is no option to award shares and 60% is paid initially with the remaining 40% paid in equal instalments over the following three years. We have decided not to extend the period for deferral given the size of the awards that are made and the fact that it is a business with a limited lifespan. Any potential awards, including deferrals, are subject to Remuneration Committee discretion. Malus and clawback operate where appropriate and, in line with best practice, the Remuneration Committee considers whether there have been any significant issues, such as misstatement of results or misconduct as part of their consideration around approval of bonus awards. Should an event occur which the Remuneration Committee considers would materially alter achievement against targets, it has the discretion to change the personal objectives or targets provided these are at least as challenging as the current position.	Up to 60% of base annual salary, each year.

Directors' remuneration report (continued)

Directors' remuneration policy (continued)

The remuneration policy for Executive Directors (continued)

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

Element	Purpose and link to strategy	Operation	Maximum opportunity
Medium-Term Incentive Plan	To reward performance for delivery of key metrics directly linked to UKAR's overarching strategy.	The MTIP performance periods run in sequence, rather than being a rolling annual grant programme. The current scheme was put in place for a four year period from 2016 and will vest in 2020. The stretch target was achieved in April 2019 but payments will be made in 2020 as planned. In line with the strategic direction of the business, no further MTIP will be put in place. The scheme rewards the delivery of material asset sales. The amounts paid are calculated on a linear basis, starting at 50% payment for achieving the target, and increasing to the maximum of 100% for a stretch target. Given UKAR's status, all awards are made in cash as there is no option to award shares. Any potential awards are subject to Remuneration Committee discretion and malus and clawback operates where appropriate. Should an event occur which the Remuneration Committee considers would materially alter achievement against targets, it has the discretion to change the targets. However, such change, in the opinion of the Committee, must not have the effect of making the performance objective or corporate assessments materially more onerous or easier to satisfy than it was immediately before the event in question.	Up to 60% of base annual salary over four years. The MTIP is not cumulative. The Directors can only participate in one scheme at any time. Therefore, over a four year period the average annualised payment would be a maximum of 15% of base salary.
Jupiter Incentive	To reward the resolution of residual issues that will facilitate the sale of the legal entities	The Jupiter Incentive has been put in place to motivate and incentivise colleagues to remain with the business and deliver our goal of returning in full the taxpayers investment in B&B and NRAM. The scheme is intended to help mitigate the operational risk of colleagues seeking and finding alternative employment as we enter the final phase of the accelerated wind down of NRAM and B&B by enabling the business to retain colleagues for as long as we require in order to resolve residual issues that will facilitate the whole company sale. The Jupiter Incentive will be paid to all colleagues upon the successful sale of the legal entities. Payments for Executive Directors will be deferred for one year and malus and clawback will operate where appropriate.	25% of base annual salary. The Jupiter Incentive is a one-off plan.

Prudential Regulation Authority (‘PRA’) Remuneration Rules

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

Directors' remuneration report (continued)

Directors' remuneration policy (continued)

Prudential Regulation Authority ('PRA') Remuneration Rules (continued)

Table 2 – The approach taken to compliance with the PRA Remuneration Code on remuneration structure for the different incentive payments

Component	PRA Remuneration Code for large banks	UKAR's approach
Variable to fixed pay ratio	Cap of 1:1 ratio.	We seek to comply. Should any individual's total variable remuneration exceed the cap in a given year, the amount over the cap would be deferred to the following year and remain subject to performance.
Deferral	Extended for up to seven years for PRA Senior Managers.	As UKAR is not taking deposits or writing new business, the Committee has maintained the three year deferral for STIP.
Short Term Incentive Plans including the Jupiter Incentive	Counts towards the 1:1 cap in respect of the performance year to which it relates.	UKAR follows this approach. Awards are subject to malus and clawback which would be applied if it became known that the performance on which an award was based was misstated, there was a significant failure of risk management, regulatory censure, a substantial downturn in the Company's performance, or an individual commits serious misconduct.
Medium Term Incentive Plan	Counts towards the 1:1 cap in the performance year immediately prior to when the 'grant' is made (i.e. when the performance period begins) and is counted at maximum value.	UKAR follows this approach. The 2016/17-2019/20 scheme counted towards the variable pay cap for 2015/16. Awards are subject to malus and clawback which would be applied if it became known that the performance on which an award was based was misstated, there was a significant failure of risk management, regulatory censure, a substantial downturn in the Company's performance, or an individual commits serious misconduct.

Choice of performance measures and approach to target setting

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

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

The reward policy applies to all colleagues in the organisation and aims for objectivity, consistency and fairness. However, to ensure UKAR remains competitive there are some differences in benefits at various levels and for Executive Directors packages, when compared to other colleagues across the organisation, including higher allowances and longer contractual notice periods.

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

Approach to recruitment and promotions

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

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

Service contracts and payments for loss of office

Our policy is to employ Executive Directors on service agreements with 12-month employer notice periods. Wherever possible we will seek to minimise any potential payments for loss of office. We have not made any loss of office payments in this reporting period.

Directors' remuneration report (continued)

Directors' remuneration policy (continued)

Service contracts and payments for loss of office (continued)

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

Provision	Detailed terms
Notice Period	**Employer notice period to the employee:** 12 months **Employee notice period to the employer**: 6 months
Termination payment	In the event of termination by the company, other than for misconduct, Executive Directors' contracts provide for 12 months' notice, or payment of base salary, pension and fringe benefits in respect of the unexpired portion of the notice period. 'Good leavers', who leave through redundancy or retirement, may also be eligible for: ▪ STIP subject to assessment of the normal performance conditions and payable on the normal payment date, pro-rata by leave date; ▪ MTIP subject to the normal performance conditions and payment date, reduced pro-rata to the portion of the performance period that has expired; and ▪ Jupiter Incentive where a colleague has played their part in the process but is not required to remain in the business until resolution. Where an individual is appointed as an Executive Director through internal promotion, they may also retain eligibility for the company's redundancy policy which provides for a payment based on a number of weeks' base salary per year of service. Therefore, Ian Hares retained his rights under the company's redundancy policy. Redundancy payments are calculated as below and are inclusive of any statutory redundancy pay entitlement; ▪ Under 22 years of age – 2 weeks' pay for each year of service in that age bracket. ▪ 22 – 41 years of age – 4 weeks' pay for each year of service in that age bracket. ▪ >41 years of age – 6 weeks' pay for each year of service in that age bracket. Colleagues receive a minimum of 12 weeks' pay and maximum of 90 weeks' pay.

External Non-Executive Director positions

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

External Directorships

Ian Hares held one directorship during the 2018/19 reporting period, as detailed in the table below.

Table 4 – Ian Hares' External Directorships

Position	2018/19
Four Seasons Country Club Ltd	£1,500

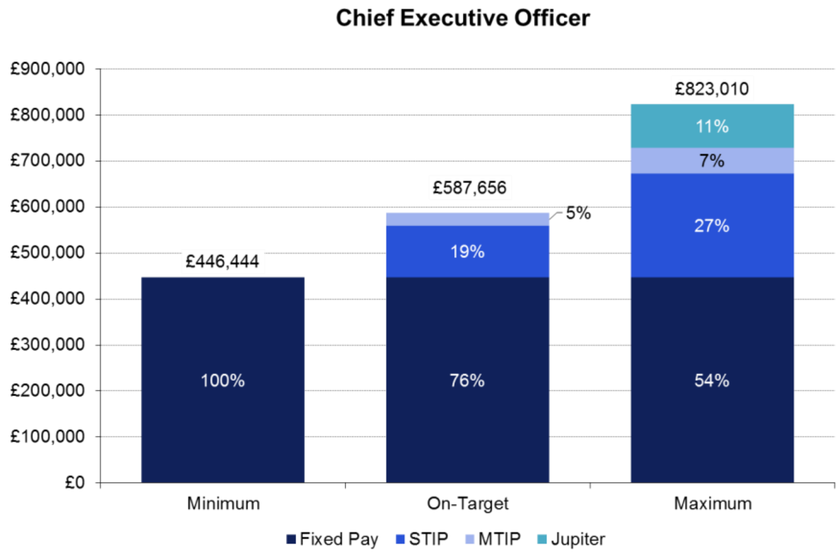
Directors' remuneration report (continued)

Directors' remuneration policy (continued)

Reward scenarios

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

Figure A: Executive Director total potential annual 2019/20 remuneration at different levels of performance



Assumptions:
Minimum = fixed pay only (salary + benefits + pension)
On-target = 50% vesting of the STIP and MTIP target achieved (annualised)
Maximum = 100% vesting of the STIP and MTIP* stretch target achieved (annualised). The Jupiter Incentive would vest on the sale of the legal entities. For the purposes of this illustration it is assumed that this occurs during the 2019/20 financial year, however payment for Executives would be deferred for one year.

*as referenced in table 1, the MTIP stretch target has been achieved.

Annual report on remuneration

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

Remuneration for 2018/19

The tables below set out the earnings for both the Executive and Non-Executive Directors during the 2018/19 reporting year and compares them against the same period from 2017/18.

Table 5 – Remuneration payments for the Executive Director (Audited)

Ian Hares	April 2018 - March 2019	April 2017 - March 2018
Base Salary	£374,450	£366,075
Benefits [1]	£13,188	£13,099
Pension [2]	£56,167	£54,911
STIP Awarded		
- STIP Non Deferred	£124,267	£106,013
- STIP Deferred	£82,845	£70,675
Total	**£650,917**	**£610,773**

1 Includes Private Medical Insurance and car allowance.
2 Ian Hares receives a pension allowance.

Directors' remuneration report (continued)

Annual report on remuneration (continued)

Percentage increase in the remuneration of the Chief Executive Officer

The table below shows a summary of year-on-year changes between 31 March 2018 and 31 March 2019 for the Chief Executive versus colleagues who were in the business at both year ends.

Table 6 – Comparison of Chief Executive remuneration change versus change for average employee

	** % change year-on-year
Chief Executive	
- base salary [1]	2.3%
- benefits	0.7%
- STIPs	17.2%
Average per employee	
- base salary	3.8%
- benefits	3.7%
- annual bonus	17.3%

[1] *Following the annual pay review, employee base salaries were increased by an average of 2.11% with effect from 1 July 2018.*

Highest-paid Director's remuneration change versus median

Although not required to do so, we comply with good practice where appropriate and we have chosen to adopt the Companies (Miscellaneous Reporting) Regulations 2018 formal disclosure requirements early. The table below shows the relationship between the remuneration of the highest-paid Director and the lower quartile, median and upper quartile remuneration of the organisation's workforce using the prescribed Methodology A which was selected on the basis that it provides the most accurate means of identifying median, lower and upper quartile colleagues, for which the total remuneration are shown in the above table. Due to operational constraints the data excludes any uplift in the B&B and NRAM defined benefit pension schemes which were closed to future benefit accrual on 31 December 2009 and would not materially affect the outcome of the ratio.

For this purpose, total remuneration includes salary, taxable benefits, pension contributions and/or pension allowances, and annual incentives which has been calculated using the total remuneration for employees as at 31 March 2019. The median pay ratio of 13:1 is line with the prior year (2017/18: 13:1).

Table 7 – Comparison of highest-paid Director's remuneration versus all colleagues

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2018/19	**A**	**20 : 1**	**13 : 1**	**9 : 1**

1. *The 2018/19 total remuneration for the colleagues identified at the 25th percentile, median and 75th percentile are as follows: £33,427, £49,597, £75,591.*
2. *The 2018/19 base salary for the colleagues identified at the 25th percentile, median and 75th percentile are as follows: £28,225, £41,474, £61,240.*

STIP for the year ended 31 March 2019

The individual targets used for the STIP scheme are based on key metrics and assessment of performance year-on-year with four financial and operational elements weighted equally which are then overlaid by a Balanced Scorecard. The business has achieved all four of these financial and operational objectives in 2018/19 which means that STIP payments will be paid at four targets. Individual payments are based upon an assessment of personal performance, as shown in table 1. The Committee also considered whether there were any circumstances that could have justified clawback or malus in the year, taking input from the Risk Director. It determined that there were no circumstances that would have justified this.

Directors' remuneration report (continued)

Annual report on remuneration (continued)

STIP for the year ended 31 March 2019 (continued)

Table 8 – STIP targets 2018/19

	Measure	Target	Weighting	Outcome
Financial	Underlying profit before tax	>£296.4m	25%	£340.1m - Achieved
	Costs [1]	<£131.3m	25%	£129.5m - Achieved
	Government loan repayments [2]	>£1,556m	25%	£2,281m - Achieved
Operational	Number of customer accounts 3 months or more in arrears	<3,365	25%	3,085 - Achieved
Non-Financial [3]	Balanced Scorecard	Green	0% to -40%	Achieved

1 The cost target excludes UKARcs.
2 The 2018/19 government loan repayment target excluded repayments relating to the sale of loans.
3 The Balanced Scorecard acts as a 'reducer' to the maximum bonus to ensure colleagues demonstrate the right behaviours. The ten measures including internal control, customer metrics and people management are rated red, amber or green at the end of the year. Amber results in a 2% reduction and red in a 4% reduction. In the most extreme case, with all ten measures judged as red, the bonus pool would be reduced by 40%.
There is a general performance adjustment underpin for risk management.

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

Table 9 – Ian Hares' 2018/19 Personal Objective Assessment

Objective detail	Achievement
Oversight of Balance Sheet reduction activities, including leadership of the programme of activities (Project Jupiter) that provide HM Treasury with a clear exit route from its investments in B&B and NRAM.	The Chief Executive successfully led four transactions during the year which contributed to the simplification of the Balance Sheet and since the year end the successful completion of a sale of NRAM asset portfolios enabled the full repayment of the remaining government loans to both NRAM and B&B. The Chief Executive has also led the process of reducing the inherent complexities within the organisation which will enable the sale of the B&B and NRAM legal entities including their remaining assets. The procurement process to outsource the remaining work of UKAR Ltd following the sale of the entities is nearing completion.
Maintain robust and reliable Board, Finance, Treasury and Risk Reporting with appropriate controls. Oversee the delivery of the Senior Managers and Certification Regime in line with FCA guidance.	The Chief Executive has maintained consistency of leadership with a determination to do the right thing for customers, colleagues and the taxpayer. All reporting is delivered to a high standard and the business is ready to comply with the Senior Managers and Certification Regime when it comes into effect in December 2019.
Lead initiatives to mitigate operational risk against a background of a shrinking Balance Sheet and increasing strategic clarity.	Alongside asset sale programmes, the Chief Executive continues to drive initiatives to maintain colleague engagement to mitigate operational risk whilst ensuring that UKAR keeps the interests of customers and market integrity at the heart of the business. Succession plans have been developed for key roles and have been implemented when appropriate High levels of colleague engagement have been maintained and there has been minimal unplanned attrition.
Lead oversight of outsourced providers and contract management to deliver appropriate outcomes for customers and to continue to focus on reducing arrears.	The relationship with our partner, Computershare Loan Services, continues to work well with customer service levels being maintained and the number of customers in arrears continues to reduce.

As referenced above, the STIP comprises financial and operational objectives which are overlaid by a Balanced Scorecard to give the range of percentage awards as indicated in table 10 below. Personal objectives are then reviewed and achievement is measured in respect of what has been achieved and how it has been achieved in a range from 'under-performing' at 0% to 'surpasses expectations' with a range of 40-60% of base salary. Discretion is applied in respect of the actual bonus awards within the ranges in table 10. All targets have been achieved and the Balanced Scorecard is 'Green' for the year.

Directors' remuneration report (continued)

Annual report on remuneration (continued)

STIP for the year ended 31 March 2019 (continued)

Table 10 – ExCo STIP award matrix

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

Ian Hares' performance was discussed at the Remuneration Committee in May 2019. It was agreed that Ian has continued to drive a consistency of leadership with a determination to do the right thing for customers, colleagues and the taxpayer. He has maintained robust and reliable board reporting and the comprehensive oversight of our mortgage servicing operations continues which ensures we comply with our legal and regulatory obligations. Customer service levels have been maintained and good progress has been made in the reduction of customers over three months in arrears. Excellent progress has been made in simplifying and optimising the Balance Sheet, with the government loans to NRAM and B&B now fully repaid and we are well underway with the process of reducing the inherent complexities within the organisation which will enable us to sell the B&B and NRAM legal entities including their remaining assets.

The Board agreed with the Chairman's recommendation to award Ian Hares a STIP bonus of 55% which equates to £207,112 for the year.

Grant and vesting of MTIP awards

The MTIP scheme runs from 1 April 2016 to 31 March 2020. Since the year end, the targets for this scheme which relate to driving additional shareholder value and/or earlier repayment of government loans have been achieved. In view of the strategic direction of the business, no further MTIP will be put in place.

Total pension entitlements (Audited)

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

During the reporting period, NRAM pension payments due to former Directors of the former Northern Rock plc, paid directly by NRAM and not connected to the Northern Rock Staff Pension Scheme were £393,734 (March 2018: £379,435). No similar payments were made to former B&B Directors during any of these periods.

For details of UKAR's accounting for retirement benefits see note 17 to the Financial Statements.

Payments within the period to past Directors for loss of office (Audited)

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

Performance

The table below shows a summary of the Chief Executive incentives that have been awarded for performance over the past five years and the total remuneration package.

Table 11 – Summary of Chief Executive remuneration and incentives

	2014/15	2015/16	2016/17	2017/18	2018/19
Total Remuneration	£653,227	£966,611	£766,169	£610,773	£650,917
STIP (as % of maximum)	64%	92%	83%	80%	92%
MTIP Vesting (as % of maximum)	N/A	100%[1]	N/A	N/A	N/A

1 *The 2014 - 2017 MTIP scheme closed a year early and as such vested in full in March 2016. Payment was made in June 2017, in line with the original scheme rules.*

Directors' remuneration report (continued)

Annual report on remuneration (continued)

Relative importance of the spend on pay

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

Table 12 – Summary of colleague remuneration costs compared to statutory profit

	2017/18	2018/19	% Change
Total net remuneration costs for UKAR [1] (salary, pension, bonus benefits)	£3.6m	£0.5m	(86%)
Underlying remuneration costs for UKAR	£14.1m	£12.8m	(9%)
Profit after tax	£487.1m	£283.7m	(42%)

1 Total net remuneration costs do not give a true reflection as they include net credits relating to pension schemes of £12.3m (2017/18: £10.5m). The underlying remuneration costs give a more meaningful view. See note 7 to the Financial Statements.

2018/19 salary review

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

The current and previous salary for Ian Hares as Executive Director is as follows:

Table 13 – Salary history for the Executive Director

	Salary as at 1 April 2018	Salary as at 1 April 2019
Ian Hares	£368,100 (+2.25%)	£376,566 (+2.30%)

Annual pay rises are effective from 1st July.

Non-Executive Directors

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

The Board has delegated authority to set the fees of the Chairman and Non-Executive Directors to a Remuneration Committee (Non-Executive Directors) consisting of the UKGI appointed Non-Executive Director who receives no fees and the Chief Executive. The fees are subject to UKGI approval and are shown in table 15 below.

Table 14 – Key aspects of fees for Non-Executive Directors

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

Table 15 - Fees for the Chairman and Non-Executive Directors ('NEDs')

Per annum	2018/19	2017/18	% Change
Chairman	£125,000	£125,000	0%
NED Base fee / Senior Independent Director	£50,000	£50,000	0%
Committee Chairman	£15,000	£15,000	0%
Committee Member	£5,000	£5,000	0%

Directors' remuneration report (continued)

Annual report on remuneration (continued)

Non-Executive Directors (continued)

Table 16 – Remuneration Payments for Non-Executive Directors (Audited)

Fees [1]	April 2018 - March 2019	April 2017 - March 2018
John Tattersall	£125,000	£125,000
Michael Buckley [2]	-	£17,500
Sue Langley	£70,000	£70,000
Brendan McDonagh	£75,000	£75,000
Keith Morgan [3]	£80,000	£80,000
Peter Norton [4]	-	-
Brendan Russell	£65,000	£54,167
Holger Vieten [5]	-	-
Total	**£415,000**	**£421,667**

1 *In addition, the company meets certain travel costs for Board Directors which are considered taxable. The company considers that such travel is an essential requirement of Directors' duties and does not confer any personal benefit. Total tax paid to HMRC on behalf of Directors for 2018/19 was £320.*
2 *Michael Buckley retired from the Board in June 2017.*
3 *Keith Morgan is a UKGI appointed Director but is not an employee of UKGI and as such he received fees.*
4 *Peter Norton was a UKGI employed appointed Director and did not receive any fees prior to his resignation in July 2018.*
5 *Holger Vieten is a UKGI employed appointed Director and does not receive any fees.*

External advisors

UKAR is advised by New Bridge Street ('NBS') who were appointed by the Remuneration Committee in 2011. The total fees paid to NBS in respect of its services to the Committee during the year were charged on a time spent basis and amounted to £35,502. NBS is a signatory to the Remuneration Consultants' Code of Conduct which requires it to provide objective and impartial advice.

How the Reward Policy will be applied in 2019 onwards

Reward will continue to play an important part in the delivery of UKAR's strategy, both at executive level and across the organisation as we focus on maximising value through the sale of the B&B and NRAM legal entities including their remaining assets, whilst maintaining business as usual and overseeing the service given to our customers. The Committee will continue to seek to ensure UKAR's incentive arrangements are aligned to the values and behaviours expected of colleagues and support effective risk management and appropriate customer outcomes.

Structure of STIP and MTIP

The maximum potential earnings under the STIP scheme for 2019/20 will be unchanged with the financial and operational targets updated to ensure they continue to be appropriate. The MTIP scheme runs from 1 April 2016 to 31 March 2020 with targets relating to driving additional shareholder value and/or earlier repayment of government loans. The MTIP target was reached in April 2019 but will not be paid until 2020 and due to the strategic direction of the business, no further MTIP will be put in place.

Performance targets for the STIP awards to be granted in 2019 and beyond

The targets for this scheme will receive Remuneration Committee, Board and UKGI approval.

Gender Pay Gap and Equal Pay

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

Although not required to do so as we have less than 250 employees, we are voluntarily reporting on gender pay as shown in tables 17 to 20. This shows a gender pay gap above 30%, however, it is important to note that this is not a gap in pay between men and women doing the same or similar jobs. It is related to the higher percentage of males in higher grades which the size and stage of organisation life cycle makes it difficult to address. We remunerate based on role and individual merit, regardless of gender and there is no discrimination in our pay and reward, and all eligible colleagues received a bonus.

Directors' remuneration report (continued)

Annual report on remuneration (continued)

Gender Pay Gap and Equal Pay (continued)

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

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

Table 17 – Position within Salary Benchmark Range

Benchmark Range	No of Females	No of Males
<80%	0	1[1]
80% - 89.99%	21	29
90% - 99.99%	32	31
100% - 109.99%	17	15
>110%	7	8

[1] This is the Chief Executive Officer role

Table 18 – Gender Pay Report as at 5 April 2018

Women's hourly rate is	39.4% lower (mean)	27.6% lower (median)

Table 19 - Pay Quartiles

Pay Quartiles	Top Quartile	Upper Middle Quartile	Lower Middle Quartile	Lower Quartile
Men	75.00%	61.36%	38.64%	38.64%
Women	25.00%	38.64%	61.36%	61.36%

Table 20 – Bonus Pay

Women's bonus pay is	64.4% lower (mean)	34.9% lower (median)
Who received a bonus	88.3% of men	86.6% of women

At the year end, we have 38 colleagues with flexible working patterns, namely condensed or part time hours. Of these 32 are female and 6 are male. A number of benefits we offer to employees under salary sacrifice arrangements including purchase of additional holidays, a cycle to work scheme and pension contributions are excluded from the data. Similarly, the data excludes any sacrifice of bonus into a pension.

Equal Pay

UKAR's approach to Reward complies with relevant regulations and legislation, including that on equal pay. Our Reward Policy is applied consistently across the organisation and aims for objectivity, consistency and fairness. Appointments and promotions are made according to the ability to meet the requirements of the job and we consider the benefits of all aspects of diversity including skills, background, race, experience, gender and other qualities.

We undertook an equal pay audit at the end of the 2018/19 financial year and the results confirmed that we do not have an equal pay issue, with non-gender material factors such as length of service, skills, knowledge and historical performance ratings explained the pay variations.

Directors' remuneration report (continued)

Annual report on remuneration (continued)

Approval

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

Signed on behalf of the Board of Directors.

Sue Langley OBE
Chairman of the Remuneration Committee

Audit Committee Chairman's report

Brendan McDonagh, Chairman of the Audit Committee, reports on how the Audit Committee discharged its responsibilities during 2018/19.

"During 2018/19 the Audit Committee continued to fulfil its key role in monitoring the integrity of financial reporting for the business and supporting the Board in ensuring the Financial Statements are fair, balanced and understandable. In particular, a key focus for the Committee has been oversight of the Group's adoption of IFRS 9. We have continued to provide assurance that the Group has in place effective audit processes and internal control systems and have overseen the progress of UKAR's strategic transactions."

Membership

The membership of the Audit Committee during 2018/19 was as follows:

Brendan McDonagh (Chairman)
Keith Morgan
Brendan Russell

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

Summary of responsibilities

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

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

Meetings

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

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

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

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

Reporting to the Board

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

Governance

The Committee completed an annual review of its Terms of Reference in January 2019 and undertook an evaluation process in accordance with the requirements of those Terms of Reference. The results of the evaluation were positive and provided assurance that the Committee remained fit for purpose.

Audit Committee Chairman's report (continued)

Chairman's overview of 2018/19

The work of the Committee during 2018/19 has covered a variety of topics within its Terms of Reference, some of the more significant are set out below:

Financial reporting	Internal audit	External audit	Governance and other matters
Oversight of the Annual Report & Accounts and Interim Financial Statements, taking into account the requirements of HM Treasury consolidation.	Approval of the Annual Plan and monitoring its effectiveness. Approval of the objectives for the Head of Internal Audit. Oversight of internal audit activity.	Oversight of the effectiveness of external audit. Approval of the year end strategy and performance evaluation.	Oversight of effectiveness of systems of internal control. Oversight of the effectiveness of the Whistleblowing Policy. Approval of the Non-Audit Services Policy, Recruitment of Audit Staff Policy, Credit Provisioning Policy and Financial Reporting and Group Tax Policies. Senior Accounting Officer governance framework and certification. Oversight of the accounting treatment regarding sale of assets. Oversight of Group's IFRS 9 implementation and modelling assumptions.

Financial reporting and significant financial judgements

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

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

Significant issue	Financial outcome
Measurement of loans	Throughout the year the Committee monitored the implementation of IFRS 9 based on the agreed business model that all mortgage assets are held to collect and sell. This included a review of the restatement of the opening 1 April 2018 Expected Credit Loss provision ("ECL") and fair value for the mortgage books. The calculation of both ECL and fair value are highly material and based on a number of judgemental assumptions including Management's view of the likely future economic environment. The Committee assessed the appropriateness of key judgements and reviewed the approach taken in calculating provision overlays. In addition, the Committee reviewed provision coverage ratios for the various elements of the book and sought explanations for changes from 1 April 2018 levels.
Provision for customer redress	The Committee have been kept informed of the approach to customer remediation, considered any developments and agreed the level of provisions, where appropriate. In order to estimate the required level of PPI provision, claim levels and uphold rates have been closely monitored and consideration has been given to the impact of the approaching August 2019 deadline.

Audit Committee Chairman's report (continued)

Financial reporting and significant financial judgements (continued)

Significant Issue	Financial Outcome
Date of recognition of sale of loans	On 2 April 2019 UKAR announced that NRAM had agreed to sell two separate asset portfolios comprising residential mortgages and unsecured loans to Citi. The contracts for sale were signed on 29 March 2019 but financial completion, including receipt of the balance of the sale proceeds, occurred on 24 April 2019. The Committee were comfortable that the sale should be recognised at the point of contract signature as: contract signature committed all parties to the deal; the risks and rewards of the loans had passed to the buyers; NRAM was to continue to collect the cash flows arising on the loans until financial completion, but NRAM was contractually obliged to pass the accumulated flows to the buyers at financial completion; and in the judgement of the Committee, at the point of contract signature although there remained conditions which were to be satisfied, the risk that the sale would not proceed to successful financial completion was remote.
Guaranteed Minimum Pensions Equalisation	Reviewed reports from management on the impact of the Court of Appeal ruling on 26 October 2018 against Lloyds Banking Group in respect of Guaranteed Minimum Pensions ("GMP") equalisation. The Committee were comfortable with the decision to charge £7.8m through the 2018/19 income statement relating to prior service.
Going concern and Long Term Viability	Following confirmation of HM Treasury's continued financial support for the Principal Subsidiaries and sight of the EU State Aid Report, the Audit Committee determined that it continued to be appropriate to prepare the accounts on a going concern basis. In addition, in reviewing UKAR's long term viability the Audit Committee took account of the Group's strategic objectives, the impact of its principle risks and the modelling undertaken as part of the annual refresh of long term forecasts. It was concluded that so long as HM Treasury's financial support remains in place, the Group will remain viable for the duration of the Balance Sheet run-off. The length of this period will depend on the success of strategic initiatives, including the current proposals to sell the B&B and NRAM legal entities. As noted in the Long Term Viability statement on page 31 and referenced in the strategy set out on pages 12 to 13, in the circumstance of a sale of B&B and NRAM, HM Treasury's financial support would no longer be relevant. However, such a sale would not be contemplated by either party if not considered viable.
Disclosures in the Annual Report & Accounts	The Committee were comfortable that, taken as a whole, the Annual Report provided a fair, balanced and understandable reflection of UKAR's performance for the year and the financial position as at 31 March 2019.

Internal audit

Deloitte LLP provide the internal audit services through an outsourced contract. Further details of the provision of the Internal Audit service can be found on page 68.

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

- considering reports at all three meetings from the Head of Internal Audit. These reports highlight existing and emerging matters of significance, areas of concern, planned actions, monitoring procedures and any other matters which are likely to impact on internal controls including Computershare proposals to undertake a mortgage systems migration;
- review and approval of the annual Internal Audit Plan, together with any changes as and when required;
- approval of the Terms of Reference for Internal Audit on an annual basis;
- reviewing the adequacy and effectiveness of the activities carried out by the function; and
- the Head of Internal Audit attended all three Audit Committee meetings during 2018/19 and has direct access to the Audit Committee and its Chairman.

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

Audit Committee Chairman's report (continued)

Internal control

The Audit Committee reviewed the effectiveness of the system of internal control in accordance with the UK Corporate Governance Code. The Committee recognised the significant implications of the Computershare mortgage system migration at its meetings throughout the year, although not impacting the 2018/19 results.

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

The Committee reviewed the processes governing the strategic transactions namely the sale of £5.0bn of assets in April 2018, the sale of £0.9bn equity release loans in September 2018, the sale of £0.1bn of commercial loans in December 2018 and the sale of NRAM assets for £4.9bn in March 2019.

Further information on the approach to the Board's review of the Group's system of internal control is given within the Corporate Governance section on pages 29 to 31.

External audit

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

The National Audit Office ('NAO') are the Group's external auditors. The external auditors attended all meetings of the Committee and they have direct access to the Committee and its Chairman at all times.

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

Non-audit services

The Audit Committee also develops and recommends to the Board a policy on the supply of non-audit services by the internal or external auditors and reviews this annually, taking into account any relevant ethical guidance on the matter. Our external auditor, the NAO, does not provide non-audit services to the extent of a private sector audit firm.

Priorities for 2019/20

For 2019/20, the key areas of focus for the Committee will include:

- ensuring continued oversight of the financial position and control environment of the Group, including oversight and review of the control environment following the impact of the strategic developments detailed in the Chairman's statement on pages 5 to 6; and
- oversight of any further strategic transactions that UKAR may undertake during 2019/20.

Brendan McDonagh
Chairman of the Audit Committee

Nomination Committee Chairman's report

John Tattersall, Chairman of the Nomination Committee, reports on how the Nomination Committee discharged its responsibilities during 2018/19.

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

Membership

The Nomination Committee was in place throughout 2018/19 and had the following membership during the year:

John Tattersall (Chairman)
Sue Langley
Brendan McDonagh

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

Summary of responsibilities

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

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

Meetings

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

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

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

Reporting to the Board

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

Governance

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

Nomination Committee Chairman's report (continued)

Chairman's overview of 2018/19

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

- appointment of a new UKGI nominated Non-Executive Director;
- a review of the Constitution of the Board and its Committees;
- ongoing review of Executive Development and Succession Planning to ensure it remains fit for purpose;
- ensuring that the business has appropriate governance, management structures and succession plans in place to mitigate the people risks that are faced as the business simplifies and the number of roles within the organisation reduces;
- review and recommendation of the renewal of Non-Executive Director contracts;
- consideration of appropriate board composition as UKAR's strategy for disposal of assets proceeds; and
- recommendation for the reappointment of Directors at the Annual General Meeting.

Diversity

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

Our Diversity Policy endorses the principles of best practice and recognises the benefits of having a diverse Board. UKAR's existing board comprises six male and one female directors. The policy requires that in reviewing Board composition, the Committee will consider the benefits of all aspects of diversity including skills, background, race, experience, gender and other qualities of Directors.

Women in Finance Charter

Although not required to comply with the regulatory and governance requirements which apply to UK listed companies, UKAR continues to seek, as far as possible, to do so and we continue to support the voluntary Women in Finance Charter. Taking into account the reducing size of the organisation, we aim to at least maintain the proportion of female senior management at more than 25% as the business reduces. The Governance, Engagement and HR Director is responsible for gender equality and inclusion. Details on equal pay and gender pay can be found in the Directors' Remuneration Report.

Table 1 – Proportion of female to male colleagues

	Female	Male	Ratio
Colleagues	66	53	55 : 45
Management	11	31	26 : 74
Total	**77**	**84**	**48 : 52**

Appointment of Directors

In line with the Framework Document, UKGI is entitled to appoint one or more Non-Executive Directors to the UKAR Board. This was enacted in July 2018 when Peter Norton stepped down from the Board and he was replaced by Holger Vieten.

Priorities for 2019/20

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

John Tattersall
Chairman of the Nomination Committee

Risk Committee Chairman's report

Keith Morgan, Chairman of the Risk Committee, reports on how the Risk Committee discharged its responsibilities during 2018/19.

"During 2018/19 the Risk Committee continued to support the Board in ensuring that key risks are managed and monitored within the approved risk appetite. In conjunction with the Audit Committee, we ensure that an appropriate risk culture and systems of internal control to mitigate those key risks are maintained. Areas of focus this year have been to monitor the strategic landscape, including regulatory & conduct, legal and the oversight and monitoring of our outsourced mortgage service providers. We continue to monitor the progress and potential implications of the United Kingdom's exit negotiations with the European Union, specifically within the context of our strategic objective. Conduct risk remains a priority in everything we do as the legal and regulatory environment continues to evolve and our business continues to deliver on its strategic objectives."

Membership

The Risk Committee was in place throughout 2018/19 and had the following membership on 31 March 2019:

Keith Morgan
Brendan McDonagh
Brendan Russell

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

Summary of responsibilities

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

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

Meetings

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

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

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

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

Reporting to the Board

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

Governance

The Committee completed an annual review of its Terms of Reference in February 2019 and undertook an evaluation process in accordance with the requirements of those Terms of Reference. The results of the evaluation were positive and provided assurance that the Committee remained fit for purpose.

Risk Committee Chairman's report (continued)

Chairman's overview of 2018/19

The work of the Committee during 2018/19 has included the review of the principal risks each quarter, based on comprehensive reports from the Risk Director. The principal risks were:

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

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

- overseeing the conduct risk approach;
- monitoring the reducing business and the range of potential operational risks this presents;
- the risks involved in the sale of various parts of the loan book including the considerable reduction in market risk exposure following the sale of the Equity Release Portfolio;
- the risks arising from the monitoring and oversight of outsourced mortgage servicing;
- continuing to monitor the progress and potential implications of the United Kingdom's exit negotiations with the European Union, with specific consideration of the economic, and potential legal and regulatory impact of the variety of exit scenarios;
- monitoring cyber risk exposure, key trends, countermeasures and assurance including the review of a cyber related stress scenario performed by ExCo;
- maintaining an overview of the key industry, legal and regulatory change issues;
- monitoring progress on control improvements to address historical legacy issues; and
- overseeing and monitoring the progress of other significant major change activity, including that undertaken by third party service providers and ongoing delivery of strategic initiatives.

Risk Committee activities in 2018/19

The Risk Committee fulfilled its remit through:

- oversight of the embedding of a supportive culture in relation to the management of risk;
- making appropriate recommendations to the Board on all significant matters relating to the Group's risk appetite, strategy, framework and policies;
- monitoring the overall risk appetite within the Group and risk management performance, taking into account the current and prospective macroeconomic and financial environment;
- assisting the Board in discharging its responsibilities for the setting of risk policies;
- periodically reviewing the Group's material risk exposures in relation to risk appetite and capital adequacy;
- ensuring public disclosure of information regarding the Group's risk management policies and key risk exposures is in accordance with statutory requirements and financial reporting standards;
- monitoring strategic change activity;
- considering reports on regulatory compliance and the system of internal control; and
- overseeing UKAR's insurance programme and claims recoveries.

Further information on the role of the Risk Committee and its oversight of the risk management process is provided on pages 67 and 68.

Risk Committee Chairman's report (continued)

Priorities for 2019/20

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

- **Conduct risk** - ensuring fair and appropriate customer outcomes and meeting regulatory expectations are at the heart of the business. We will continue to work in partnership with our mortgage servicing providers and asset purchasers to ensure fair and appropriate customer outcomes throughout both the end to end mortgage servicing process and the asset sales process.
- **Regulatory risk** - management oversight and control is key to ensuring compliance with the FCA's principles, rules and guidance. Our approach is focused on eliminating regulatory risk through a zero risk appetite.
- **Outsourcing risk** - the Group has an established approach to the monitoring and oversight of its third party service providers commensurate with the nature, scale and complexity of its outsourced activities. Our continued focus will be to ensure that appropriate customer outcomes and service are maintained in line with Board appetite and Regulatory and Legal requirements.
- **Operational risk** - much of the focus of operational risk continues to relate to the oversight of change activities, the internal control aspects of the management of the outsourced service relationship and the people risk arising from the uncertainty of the unique nature of our business. Regulators and our business peers continue to express significant concern about the prevalence and impact of cyber security threats and monitoring and responding to threats and vulnerabilities will remain a focus in 2019/20. Embedding processes relating to the Data Protection Act 2018 and ensuring UKAR's resilience through effective Business Continuity and Disaster Recovery continue to be a focus.
- **Credit risk** - given UKAR's customer profile, work continues to understand our customers' current financial position and in particular quantify the impact of interest rate rises and the vulnerability of our customers. Our focus remains on the various cohorts of customers who might be most impacted, for example, those in or approaching retirement, and ensuring that customers with interest only mortgage balances are able to repay their loans at the end of their term.
- **Strategic risk** - the key strategic risks include those relating to the management of a mortgage book and organisation in wind down. This includes the challenging implications of resolving a complex organisation and potential for latent, currently unseen, issues to disrupt strategic progress. The Committee will also continue to monitor historical remediation, the wider economic and political environment and regulatory changes.

UKAR principal risks are described in detail on pages 16 to 17 and 69 to 71.

Keith Morgan
Chairman of the Risk Committee

Transaction Approvals Committee Chairman's report

John Tattersall, Chairman of the Transaction Approvals Committee, reports on how the Transaction Approvals Committee discharged its responsibilities during 2018/19.

"During the year the Transaction Approvals Committee oversaw four transactions, two of which were quite different in nature to those we have sold before, namely an equity release portfolio and a commercial portfolio."

Membership

The membership of the Transaction Approvals Committee during 2018/19 was as follows:

John Tattersall (Chairman)
Ian Hares
Keith Morgan
Brendan Russell
Holger Vieten (appointed to the Board and Committee in July 2018)
Peter Norton (stepped down from the Board and Committee in July 2018)

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

Summary of responsibilities

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

Meetings

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

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

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

Reporting to the Board

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

Governance

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

Transaction Approvals Committee Chairman's report (continued)

Chairman's overview

The Transaction Approvals Committee fulfilled its remit during 2018/19 through the oversight of transactions requiring approval in principle by the Board under its reserved powers. This included the finalisation of the £5.0bn sale of B&B assets to an investor group led by Barclays Bank PLC, the sale of an £860m portfolio of equity release loans to Rothesay Life Plc in September 2018 and a portfolio of c.£100m of commercial loans to Davidson Kempner and Arrow Global in December 2018 and the transaction to dispose of the remaining NRAM residential owner-occupied and unsecured personal loans.

The Committee considered and approved the structure of these sales, the assumptions underpinning our cash flow model, the benchmark pricing range against which bids were assessed, the qualitative bidder assessment framework and the principal transaction documentation. The Committee also carefully considered the value for money of the sales and ensured that customers' interests were appropriately protected.

During 2019/20 the Transaction Approvals Committee will continue to oversee any strategic transactions as requested by the Board, ensuring that customers' interests are protected and that value is maximised for the taxpayer.

John Tattersall
Chairman of the Transaction Approvals Committee

Key performance indicators ('KPIs')

UKAR

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

Financial measure	2018/19 Target	March 2019	March 2018
Underlying Profit Before Tax	*>= £296.4m*	**£340.1m**	£583.9m
Net Government Loan Repayments	*>= £1.6bn* [1]	**£8.3bn**	£14.7bn
3m+ Residential Arrears	*<= 3,365* [2]	**3,085**	3,582
Ongoing Administrative Expenses [3, 4]	*<= £131.1m*	**£129.5m**	£148.4m

1 *The 2018/19 government loan repayment target excluded £6.0bn of repayments relating to the sale of loans to Barclays and Rothesay Life. The target was achieved with £2.3bn of business-as-usual loan repayments in the year.*
2 *The 3m+ arrears target included loans subject to interim servicing arrangements. The target was achieved with 3,085 cases in 3m+ arrears under UKAR oversight at 31 March 2019. UKAR only 3m+ residential arrears were 1,405.*
3 *Excluding UKARcs costs (2018/19: £7.4m; 2017/18: £6.2m).*
4 *UKAR Group includes costs charged directly to UKAR of £8.3m (2017/18: £nil).*

Targets are not set at a subsidiary level, however, equivalent KPIs for B&B and NRAM in 2018/19 and 2017/18 were as follows:

B&B

Financial measure	March 2019	March 2018
Underlying Profit Before Tax	**£152.7m**	£277.2m
Net Government Loan Repayments	**£7.1bn**	£12.8bn
3m+ Residential Arrears [5]	**1,446**	1,619
Ongoing Administrative Expenses	**£51.8m**	£107.9m

5 *The 3m+ arrears target included loans subject to interim servicing arrangements. B&B only 3m+ residential arrears were 1,275.*

NRAM

Financial measure	March 2019	March 2018
Underlying Profit Before Tax	**£190.3m**	£306.7m
Net Government Loan Repayments	**£1.2bn**	£1.9bn
3m+ Residential Arrears [6]	**1,639**	1,963
Ongoing Administrative Expenses	**£69.4m**	£40.5m

6 *The 3m+ arrears target included loans subject to interim servicing arrangements. NRAM only 3m+ residential arrears were 130.*

Statutory Profit before Tax

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

Statutory Profit Before Tax	March 2019	March 2018
UKAR	**£340.3m**	£583.2m
B&B	**£22.1m**	£292.5m
NRAM	**£321.1m**	£290.7m

Additional KPIs

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

	2018/19 Target	March 2019	March 2018
Underlying Profit Before Tax	***>= £296.4m***	**£340.1m**	**£583.9m**
- Statutory Profit Before Tax [1]		£340.3m	£583.2m
- Net Interest Margin on Average Interest Earning Assets		3.33	2.50
Net Government Loan Repayments [2]	***>= £1.6bn***	**£8.3bn**	**£14.7bn**
- Government Loan Balance		£2.0bn	£10.3bn
- Total Lending Balances [3]		£5.5bn	£17.2bn
- Amount owed in respect of sale of loans		£4.5bn	-
3m+ Residential Arrears [4]	***<= 3,365***	**3,085**	**3,582**
- 3m+ Residential Arrears on loans retained by UKAR		1,405	3,582
- Residential Arrears Balance as a percentage of the Total Residential Mortgage Balance (%)		0.16	0.18
- Residential Payments Overdue		£9.2m	£31.6m
- Residential Arrears 3 months and over and possessions as a percentage of the book:			
- By value		3.80	3.14
- By number of accounts		3.24	2.55
Ongoing Administrative Expenses [5]	***<= £131.3m***	**£129.5m**	**£148.4m**
- Ratio of costs to average interest earning assets (%):			
- Statutory		1.15	0.72
- Ongoing		1.04	0.73

1 *An analysis of the difference between statutory and underlying profit is provided on page 59.*
2 *The 2018/19 government loan repayment target excluded £6.0bn of repayments relating to the sale of loans to Barclays, Rothesay Life and Davidson Kempner and Arrow Global. The target was achieved with £2.3bn of business-as-usual loan repayments in the year.*
3 *Total lending balances includes loans to customers of £5.5bn (March 2018: £11.5bn), assets classified as held for sale of £nil (March 2018: £5.0bn) and equity release mortgages of £8.0m (March 2018: £0.7bn).*
4 *3m+ arrears target included loans managed under interim servicing arrangements. The 2017/18 equivalent includes equity release loans and assets classified as held for sale.*
5 *Excluding UKARcs costs (2018/19: £7.4m; 2017/18: £6.2m) and non-recurring expenses (2018/19: £6.6m; 2017/18: £2.3m credit).*

Financial review

These financial results are for the year to 31 March 2019.

Performance

The Board continue to believe it is appropriate to assess performance based on the underlying profits of the business, which excludes the remediation of inherited regulatory defects and any associated legal or insurance claims and certain gains or losses such as the sale of assets at a discount or premium. Whilst these gains or losses permanently impact capital reserves, the Board does not believe that they reflect the performance of the underlying business. Also excluded are movements in fair value and hedge ineffectiveness relating to financial instruments. 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 is provided below.

Underlying profit for the year to March 2019 has decreased by £243.8m to £340.1m (March 2018: £583.9m). The reduction in underlying profit primarily reflects reduced net interest income due to the shrinking Balance Sheet and a lower net impairment release on loans to customers.

For the year to March 2019 underlying net operating income has decreased by £128.7m to £432.3m (March 2018: £561.0m) also reflecting the reducing Balance Sheet. For the year to March 2019 ongoing administrative expenses of £129.5m (excluding UKARcs costs of £7.4m) were £18.9m lower than the previous year (March 2018: £148.4m, excluding £6.2m UKARcs costs). Impairment on loans to customers for the year to March 2019 was a credit of £41.6m (March 2018: £170.8m credit). The Group adopted IFRS 9 'Financial Instruments' with effect from 1 April 2018. The prior year comparative was prepared under IAS 39 (see page 63 for details). The provision made for insurance risk on equity release mortgages was a £3.1m credit for the year (March 2018: £6.4m credit). The majority of the equity release mortgages were sold in September 2018. Net impairment on investment securities was nil for the year (March 2018: £0.3m credit).

For the year to March 2019 statutory profit before tax of £340.3m (March 2018: £583.2m) included £452.0m profit on loan sales made during the year partly offset by the £389.0m impact of unwinding hedges relating to the equity release mortgages and a charge of £57.8m in respect of customer redress provisions.

Reconciliation of underlying profit before taxation to statutory profit before taxation

	UKAR		B&B		NRAM	
For the year ended 31 March	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Net interest income	414.7	506.1	159.1	235.9	250.3	270.2
Underlying net non-interest income [1,2]	17.6	54.9	19.0	42.3	(8.9)	6.4
Underlying net operating income	**432.3**	561.0	**178.1**	278.2	**241.4**	276.6
Ongoing administrative expenses [1]	(136.9)	(154.6)	(51.8)	(107.9)	(69.4)	(40.5)
Net impairment release on loans to customers	41.6	170.8	23.3	100.3	18.3	70.5
Provision for insurance risk on equity release mortgages	3.1	6.4	3.1	6.5	-	(0.1)
Net impairment release on investment securities	-	0.3	-	0.1	-	0.2
Underlying profit before taxation	**340.1**	583.9	**152.7**	277.2	**190.3**	306.7
Unrealised fair value movements on financial instruments	(0.7)	2.3	(0.7)	2.1	-	0.2
Hedge ineffectiveness	1.9	16.5	1.9	16.5	-	-
Non-recurring administrative expenses	(6.6)	2.3	(6.1)	2.3	(0.5)	-
Provision for customer redress	(57.8)	(43.5)	(26.4)	(6.2)	(31.4)	(37.3)
Legal and insurance claims	0.4	19.4	0.4	-	-	19.4
Profit on sale of loans	452.0	2.3	289.3	0.6	162.7	1.7
Hedging impacts of sale of loans	(389.0)	-	(389.0)	-	-	-
Statutory profit before taxation	**340.3**	583.2	**22.1**	292.5	**321.1**	290.7

1 *UKAR underlying net non-interest income includes £7.5m (March 2018: £6.2m) in relation to UKARcs. Ongoing administrative expenses include £7.4m (March 2018: £6.2m) in relation to UKARcs and £8.3m (March 2018: nil) charged directly to UKAR Limited. UKARcs operated on an after tax nil-gain nil-loss basis.*

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

Financial review (continued)

Net interest income

For the year ended 31 March	UKAR 2019 £m	UKAR 2018 £m	B&B 2019 £m	B&B 2018 £m	NRAM 2019 £m	NRAM 2018 £m
Interest receivable and similar income						
On equity release mortgages	**28.0**	58.1	**27.4**	57.0	**0.6**	1.1
On other secured loans	**401.4**	528.7	**122.0**	219.5	**279.4**	309.2
On other lending	**15.7**	17.8	**-**	-	**15.7**	17.8
On investment securities and deposits	**10.1**	10.4	**7.1**	5.9	**3.0**	4.5
Interest receivable and similar income	**455.2**	615.0	**156.5**	282.4	**298.7**	332.6
Interest expense and similar charges						
On HM Treasury Loans	**(36.1)**	(96.0)	**(0.5)**	(46.3)	**(35.6)**	(49.7)
Intercompany loans [1]	**-**	-	**(5.3)**	-	**-**	-
On wholesale funding	**(12.8)**	(12.7)	**-**	-	**(12.8)**	(12.7)
Other [2]	**8.4**	(0.2)	**8.4**	(0.2)	**-**	-
Interest expense and similar charges	**(40.5)**	(108.9)	**2.6**	(46.5)	**(48.4)**	(62.4)
Net interest income	**414.7**	506.1	**159.1**	235.9	**250.3**	270.2
Average balances						
Interest-earning assets ('IEA')	**12,439**	20,235	**5,260**	11,615	**7,178**	8,620
Financed by:						
- Interest-bearing funding	**2,681**	4,749	**350**	873	**2,331**	3,876
- Interest-free funding [3]	**9,758**	15,486	**4,910**	10,742	**4,847**	4,744
Average rates %	**%**	%	**%**	%	**%**	%
Gross yield on IEA	**3.66**	3.04	**2.98**	2.43	**4.16**	3.86
Cost of interest-bearing funding	**(1.83)**	(2.29)	**(1.67)**	(5.32)	**(2.08)**	(1.61)
Interest spread	**1.83**	0.75	**1.31**	(2.89)	**2.08**	2.25
Contribution of other adjustments	**0.07**	-	**0.16**	-	**-**	-
Contribution of interest-free funding [3]	**1.43**	1.75	**1.55**	4.92	**1.40**	0.88
Net interest margin on average IEA	**3.33**	2.50	**3.02**	2.03	**3.48**	3.13
Annual average Bank Base Rate	**0.67**	0.35	**0.67**	0.35	**0.67**	0.35
Annual average 1-month LIBOR	**0.66**	0.36	**0.66**	0.36	**0.66**	0.36
Annual average 3-month LIBOR	**0.80**	0.40	**0.80**	0.40	**0.80**	0.40

1 *Intercompany loan interest payable by B&B to UKAR is consolidated out at UKAR Group level.*
2 *Other includes a release of £8.4m accrued in prior years in respect of potential tax liabilities.*
3 *Interest-free funding is calculated as an average over the financial year and includes the Statutory Debt and share capital and reserves.*

Net interest income

Net interest income for the year to March 2019 was £414.7m (March 2018: £506.1m). Across both books there was a reduction in income due to the decrease in average interest-earning assets over the year. At a UKAR level the underlying net interest margin for the year to March 2019 has increased to 3.33% from 2.50% in the year to March 2018. The interest spread on interest earning assets increased to 1.83% from 0.75% primarily reflecting that NRAM mortgages, which have a higher yield, formed a higher proportion of the total book for the majority of the period following the sale of £5.0bn B&B assets on 26 April 2018. In the year to March 2019 the higher yielding NRAM loans accounted for approximately 61% of UKAR mortgages compared to approximately 43% in the year to March 2018.

Financial review (continued)

Net interest income (continued)

On the B&B book the underlying net interest margin increased by 0.99% to 3.02% primarily due to an increase in the yield on the book following the Bank Base Rate rise in August 2018 and the proportion of free funding. 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. On 29 January 2019, UKAR loaned £2,000m to B&B at an interest rate of Bank Base Rate +80bps.

NRAM's net interest margin increased 0.35% to 3.48% primarily due to an increase in the yield on the book following the Bank Base Rate rise and the increase in the contribution of interest free funding as the government loan continues to reduce. The cost of interest bearing funding increased as NRAM's £200m of wholesale funding, which has a higher interest rate than the government loan, now forms a greater proportion of the remaining interest bearing balance.

Underlying net non-interest income

Underlying net non-interest income decreased by £37.3m to £17.6m in the year to March 2019 (March 2018: £54.9m). The previous period included a profit of £30.7m generated from the sale of investment securities.

Other operating income includes interim servicing fees of £9.7m (March 2018: £20.9m) from the provision of mortgage services on assets sold. Other operating income also includes £7.5m for UKARcs (March 2018: £6.2m), which reflects the reimbursement by HM Treasury of the costs associated with administering the Help to Buy: mortgage guarantee and Help to Buy: ISA schemes.

Net non-interest income

For the year ended 31 March	UKAR 2019 £m	UKAR 2018 £m	B&B 2019 £m	B&B 2018 £m	NRAM 2019 £m	NRAM 2018 £m	UKARcs 2019 £m	UKARcs 2018 £m
Total net fee and commission income	**(0.2)**	(3.2)	**9.2**	6.0	**(9.4)**	(9.2)	**-**	-
Net realised gains less losses on investment securities	**0.3**	30.7	**0.1**	15.4	**0.2**	15.3	**-**	-
Other operating income	**17.5**	27.4	**9.7**	20.9	**0.3**	0.3	**7.5**	6.2
Underlying net non-interest income	**17.6**	54.9	**19.0**	42.3	**(8.9)**	6.4	**7.5**	6.2
Unrealised fair value movements on financial instruments	**(0.7)**	2.3	**(0.7)**	2.1	**-**	0.2	**-**	-
Hedge ineffectiveness	**1.9**	16.5	**1.9**	16.5	**-**	-	**-**	-
Statutory net non-interest income	**18.8**	73.7	**20.2**	60.9	**(8.9)**	6.6	**7.5**	6.2

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. Prior to, and in anticipation of the sale of these mortgages, the use of derivative financial instruments was reduced. 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.

The Income Statement credit for hedge ineffectiveness prior to the termination of the portfolio fair value hedge relationship was £1.9m (March 2018: £16.5m credit).

The £389.0m charge to the Income Statement for hedging impacts of the sale of loans (March 2018: £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 last swaps hedging equity release mortgages were terminated in October 2018.

Unrealised fair value movements were a £0.7m loss in the year (March 2018: £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. These swaps had all been terminated as at 31 March 2019.

Financial review (continued)

Administrative expenses

For the year ended 31 March	UKAR 2019 £m	UKAR 2018 £m	B&B 2019 £m	B&B 2018 £m	NRAM 2019 £m	NRAM 2018 £m	UKARcs 2019 £m	UKARcs 2018 £m
Wages and salaries	**10.8**	11.9	**10.8**	11.9	**-**	-	**-**	-
Social security costs	**1.3**	1.4	**1.3**	1.4	**-**	-	**-**	-
Defined benefit pension costs	**(12.8)**	(10.8)	**(8.9)**	(5.9)	**(3.9)**	(4.9)	**-**	-
Defined contribution pension costs	**0.7**	0.8	**0.7**	0.8	**-**	-	**-**	-
Other retirement benefit costs	**0.5**	0.3	**0.5**	0.3	**-**	-	**-**	-
Total staff costs	**0.5**	3.6	**4.4**	8.5	**(3.9)**	(4.9)	**-**	-
IT costs	**15.1**	10.1	**13.3**	8.0	**0.4**	0.4	**1.4**	1.7
Outsourced and professional services	**111.7**	128.8	**110.5**	127.8	**0.1**	0.5	**1.1**	0.5
Depreciation and amortisation	**3.6**	2.7	**0.1**	0.1	**-**	-	**3.5**	2.6
Management recharge to NRAM / UKARcs	**-**	-	**(75.4)**	(45.3)	**74.2**	44.0	**1.2**	1.3
Other administrative expenses [1]	**6.0**	9.4	**(1.1)**	8.8	**(1.4)**	0.5	**0.2**	0.1
Total ongoing	**136.9**	154.6	**51.8**	107.9	**69.4**	40.5	**7.4**	6.2
Non-recurring	**6.6**	(2.3)	**6.1**	(2.3)	**0.5**	-	**-**	-
Total administrative expenses	**143.5**	152.3	**57.9**	105.6	**69.9**	40.5	**7.4**	6.2

1 UKAR Group includes costs charged directly to UKAR of £8.3m (March 2018: nil).

Costs for the year include £7.4m for UKARcs relating to the provision of administrative support to the government's Help to Buy: mortgage guarantee and Help to Buy: ISA schemes (March 2018: £6.2m). These costs were fully reimbursed by HM Treasury.

Ongoing administrative expenses for the year, excluding UKARcs costs, of £129.5m (March 2018: £148.4m) were 12.7% lower. The reduction in costs reflects the reduction in the size of the mortgage book through natural run-off and asset sales.

Non-recurring costs of £6.6m comprises a £7.8m charge for an increase in obligations on the defined benefit pension schemes following the High Court ruling to equalise the differing Guaranteed Minimum Pension entitlements for men and women, partly offset by a £1.2m provision release which relates to the outsourcing of the mortgage servicing to Computershare in June 2016.

Provision for customer redress

We define conduct risk as the risk of treating our customers unfairly and delivering inappropriate outcomes leading to customer detriment or impacting market integrity. Since the creation of UKAR we have been remediating a series of conduct issues inherited from the legacy businesses, including the mis-selling of PPI.

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

The publication of the FCA's Policy Statement PS17/3 "Payment protection insurance complaints: feedback on CP16/20 and final rules and guidance" set a deadline date for PPI complaints at 29 August 2019 and confirmed the approach in relation to the Supreme Court judgement in Plevin v Paragon Personal Finance Limited ('Plevin'). The rules and guidance include an FCA-led communications campaign to raise awareness of the deadline and the requirement to proactively contact previously rejected mis-selling complainants who are eligible to complain again in the light of Plevin. Reflecting heightened awareness of the PPI deadline, actual claims volumes received remain high and therefore the PPI provision was increased. For the year to March 2019, the income statement includes a net charge of £57.8m (March 2018: £43.5m) to top-up total customer redress provisions. This included £64.0m relating to PPI (March 2018: £43.5m), which was offset by a net release across other customer redress provisions.

Arrears and possessions

In reporting arrears performance, the Board consider it appropriate to include all loans under management, which includes loans under interim servicing arrangements, where the economic interest has been sold but legal title and thus regulatory responsibility, remains with UKAR. All loans under management are treated consistently, in line with UKAR's customer service policies. However, from a Credit Risk perspective, it is only UKAR retained loans which are relevant.

Financial review (continued)

Arrears and possessions (continued)

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.

Arrears and possessions – All Accounts Under Management (including UKAR retained loans)

Strong arrears performance continues. UKAR has seen arrears fall as a direct consequence of ongoing proactive arrears management coupled with the continued low interest rate environment despite a small rate rise occurring in August 2018. The total number of residential cases 3 or more months in arrears, including those in possession, reduced by 14% from 3,582 at 31 March 2018 to 3,085 at 31 March 2019. The proportion of total accounts 3 or more months in arrears has reduced from 2.55% at 31 March 2018 to 2.49% at 31 March 2019.

The total value of payments overdue by residential customers has reduced from £31.6m at 31 March 2018 to £26.5m at 31 March 2019, equivalent to 0.18% of mortgage balances (March 2018: 0.18%).

The total number of properties in possession decreased from 408 at 31 March 2018 to 335 at 31 March 2019. A total of 931 properties were taken into possession in the year (March 2018: 1,004). In addition to residential property possessions, there are also a number of buy-to-let properties managed by Law of Property Act ('LPA') receivers. The LPA 'for sale' stock increased from 85 cases at 31 March 2018 to 101 at 31 March 2019.

During the year 1,004 cases (March 2018: 1,083) were sold following possession, together with a further 48 cases (March 2018: 154) sold which were under LPA management.

Arrears and possessions – UKAR retained loans

Excluding loans under interim servicing arrangements, the total number of residential cases 3 or more months in arrears, including those in possession, reduced by 61% from 3,582 at 31 March 2018 to 1,405 at 31 March 2019. The proportion of total accounts 3 or more months in arrears has increased from 2.55% at 31 March 2018 to 3.24% at 31 March 2019 as the loans sold had a higher proportion of up to date accounts than those retained by UKAR.

The total value of payments overdue by residential customers has reduced from £31.6m at 31 March 2018 to £9.2m at 31 March 2019, equivalent to 0.16% of mortgage balances (March 2018: 0.18%).

The total number of properties in possession decreased from 408 at 31 March 2018 to 216 at 31 March 2019. LPA 'for sale' stock was 87 cases at 31 March 2019 (March 2018: 85).

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 the undue cost and effort dispensation of the IFRS 9 transitional provisions. 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 in default. 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 and in the September Interim Accounts, following refinement of the modelling assumptions, the provision was restated. The revised opening provision of £340.3m represents a £34.0m (11%) 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, £73.9m Unsecured and £11.0m held for sale. The increase has been charged 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. For further information on the adoption of IFRS 9 refer to note 30.

Financial review (continued)

Loan impairment: residential loans

	Total Provisions		
Residential Loans	UKAR	B&B	NRAM
	£m	£m	£m
March 2018 (restated)	243.2	149.2	94.0
Movement	(81.3)	(22.3)	(59.0)
March 2019	**161.9**	**126.9**	**35.0**
Coverage			
March 2018 (restated)	2.14%	3.48%	1.33%
March 2019	**2.91%**	**3.45%**	**1.85%**

Provisions for residential loan impairment have reduced by £81.3m since 31 March 2018 to £161.9m (March 2018 (restated): £243.2m), reflecting realised losses and sale of assets during the year.

Total realised losses on properties sold following possession or sold by an LPA were £31.3m (March 2018: £39.0m), all of which had previously been fully provided for.

Included within the above, fraud and professional negligence provisions have decreased by £1.2m since 31 March 2018 to £53.1m (March 2018 (restated): £54.3m) as a result of realised losses following the sale of properties. Total UKAR fraud provisions represent coverage of 20% of balances of suspected fraud and professional negligence cases (March 2018 (restated): 18%). Within the B&B book, fraud and professional negligence provisions have reduced since 31 March 2018 by £0.5m to £50.2m (March 2018 (restated): £50.7m). In the NRAM book, fraud and professional negligence provisions have reduced by £0.7m to £2.9m (March 2018 (restated): £3.6m).

As a proportion of balances, the residential impairment provision was 2.91% (March 2018: 2.14%). The residential loan impairment credit was £36.8m for the year (March 2018: £161.6m credit). The large credit in the year to March 2018 reflects the release of provisions following the review of assumptions based on new management information.

Loan impairment: unsecured loans

The provision for unsecured loans was £0.1m at 31 March 2019 (March 2018 (restated): £73.9m). The reduction reflects the sale of the Together unsecured linked and delinked loan book as part of the March 2019 asset sale. Realised losses in the year were £6.0m (March 2018: £13.4m) all of which had previously been fully provided for.

The credit for unsecured loan impairment for the year was £7.4m, compared to the prior year credit of £5.9m. Only £0.1m of balances remain which are fully provided.

Loan impairment: commercial loan book

Following the commercial loan book sale, two NRAM commercial loans remain. There were no provisions held on these loans at 31 March 2019 (March 2018 (restated): £12.2m).

Provision for insurance risk: equity release loan book

Following the sale of the equity release loans in September 2018, there is £8.2m of balances remaining in NRAM on 55 loans. The total provision for insurance risk on these loans as at March 2019 was £0.2m (March 2018: £123.2m). As a proportion of balances the provision represents coverage of 2.42% (March 2018: 14.16%).

Fair value of loans to customers

The fair value of loans to customers reduced by £6,530.2m to £5,517.5m (March 2018 (restated): £12,047.7m), with the most significant movements due to asset sales and redemptions.

Profit on 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 £452.0m profit on sale of loans (March 2018: £2.3m profit) reflects four 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. In December 2018 a portfolio of £0.1bn Commercial loans was sold to Davidson Kempner and Arrow Global and in March 2019 the sale of NRAM loans to Citi for £4.9bn was agreed.

Financial review (continued)

Profit on sale of loans (continued)

The £389.0m 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 £174.5m. 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 (2017/18: £19.4m).

Taxation

The total Income Statement tax charge for the year ended 31 March 2019 was £56.6m (March 2018: £96.1m). Given the statutory profit before taxation of £340.3m (March 2018: £583.2m), this equates to an effective tax rate of 16.6% (March 2018: 16.5%). The effective tax rate of 16.6% is lower than the standard weighted average rate of UK corporation tax of 19.0% due to expenses which are not deductible for tax purposes and a £19.4m credit in respect of prior periods.

Balance Sheet

Balance Sheet summary

	UKAR		B&B		NRAM	
At 31 March	2019	2018	2019	2018	2019	2018
	£m	£m	£m	£m	£m	£m
Loans to customers:						
- residential mortgages	**5,514.6**	10,999.5	**3,600.1**	4,027.7	**1,914.5**	6,971.8
- commercial loans	**2.9**	247.5	**-**	173.2	**2.9**	74.3
- unsecured lending	**-**	256.2	**-**	-	**-**	256.2
Equity release mortgages	**8.0**	747.2	**-**	729.8	**8.0**	17.4
Assets classified as Held for Sale	**-**	4,991.6	**-**	4,991.6	**-**	-
Amount owed in respect of sale of loans	**4,473.7**	-	**8.7**	-	**4,465.0**	-
Wholesale assets	**723.6**	1,571.8	**287.5**	1,108.4	**430.2**	455.2
Fair value adjustments on portfolio hedging	**-**	420.9	**-**	420.9	**-**	-
Derivative financial instruments	**-**	-	**-**	-	**-**	-
Other assets	**661.4**	578.3	**472.0**	405.4	**214.6**	188.4
Total assets	**11,384.2**	19,813.0	**4,368.3**	11,857.0	**7,035.2**	7,963.3
Statutory Debt and HM Treasury loans	**1,976.0**	10,278.8	**462.4**	7,561.1	**1,513.6**	2,717.7
Wholesale funding	**204.2**	204.2	**-**	-	**204.2**	204.2
Derivative financial instruments	**-**	471.8	**-**	470.6	**-**	1.2
Intercompany creditors	**-**	-	**2,005.4**	-	**-**	-
Other liabilities	**324.4**	326.4	**147.9**	154.6	**188.1**	179.2
Equity	**8,879.6**	8,531.8	**1,752.6**	3,670.7	**5,129.3**	4,861.0
Total equity and liabilities	**11,384.2**	19,813.0	**4,368.3**	11,857.0	**7,035.2**	7,963.3

In the year to March 2019 the Balance Sheet has reduced by £8.4bn to £11.4bn (March 2018: £19.8bn). The Balance Sheet reduction primarily reflects the sale of loans to Barclays and Rothesay Life (£5.9bn) and redemptions in the year (£1.6bn). Total lending balances, including assets categorised as held for sale and equity release mortgages, have reduced by £11.8bn (68%) during the year to March 2019 due to £10.2bn asset sales and £1.6bn of secured residential redemptions.

The £4.5bn owed as at 31 March 2019 in respect of the sale of the loans to Citi was settled in April 2019 and used to repay the remaining government loans after the financial year end.

Financial review (continued)

Liabilities

Repayment of the Statutory Debt and HM Treasury loans is a primary objective of UKAR. In the year, £8.3bn (B&B: £7.1bn, NRAM: £1.2bn) of HM Treasury debt was repaid (March 2018: £14.7bn). This has reduced Statutory Debt and HM Treasury loans to £2.0bn (March 2018: £10.3bn). The decrease in repayments to HM Treasury is primarily due to £5.4bn lower asset sales proceeds received in the year (2018/19: £6.0bn; 2017/18: £11.4bn). Post the Balance Sheet date the remaining outstanding government loans of £2.0bn were repaid following the financial settlement of the sale of NRAM loans to Citi.

Capital

UKAR operates under a MIPRU regulatory status. FCA rules require the regulated companies within the Group to hold capital in excess of 1% of total Balance Sheet assets plus any undrawn commitments. The Board believes it appropriate to hold a higher level of capital reflecting the increased risk in the business compared to a standard MIPRU firm. At 31 March 2019 capital in B&B represented 21.5% (March 2018: 24.0%) of B&B Company assets, NRAM capital represented 69.3% (March 2018: 58.7%) of NRAM Company assets and Mortgage Express capital represented 31.3% (2018: 16.7%) of Mortgage Express's assets.

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

Capital resources - B&B (company only)

At 31 March	2019 £m	2018 £m
Share capital and reserves	**1,539.3**	3,284.9
IFRS 9 fair value reserve adjustment	**(31.7)**	-
Net pension asset adjustment	**(439.3)**	(355.8)
Less: deductions [1]	**(175.0)**	(175.0)
Total capital	**893.3**	2,754.1

1 The deduction from capital resources comprises £175.0m for the company's investment in Mortgage Express (March 2018: £175.0m).

B&B declared a dividend of £2,000m to its parent, UKAR, on 29 January 2019. The dividend was funded by a loan from UKAR to B&B.

B&B total capital resources of £893.3m are £1,860.8m lower than at 31 March 2018, due to the £2,000m dividend declared to UKAR and the increase in the pension asset deduction, partly offset by the company's profit after tax for the year, which included £445.0m of dividend income from Mortgage Express. The increase in the pension asset was due to a £70.3m top-up payment and an actuarial revaluation.

Capital resources - NRAM (company only)

At 31 March	2019 £m	2018 £m
Share capital and reserves[1]	**5,129.1**	4,860.8
IFRS 9 fair value reserve adjustment	**(41.3)**	-
Net pension asset adjustment	**(214.0)**	(188.1)
Total capital	**4,873.8**	4,672.7

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

NRAM total capital resources of £4,873.8m are £201.1m higher than at 31 March 2018, mainly due to the profit generated in the year.

Risk management and control

Pages 67 to 71 form an integral part of the audited Financial Statements

Introduction

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

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

Risk governance

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

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

Management committees

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

Executive Committee ('ExCo')

ExCo is an advisory committee which supports the CEO in managing the business to achieve its strategic objectives. ExCo will normally meet three times each month with a specific focus to each meeting of either a) Customers and Conduct, b) Change, or c) Board reporting. As at 31 March 2019, the Executive Risk Committee is the only sub-committee of ExCo.

Executive Risk Committee ('ERC')

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

The following were sub-committees of the ERC at 31 March 2019:

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

Liquidity Management Committee

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

Credit Risk Committee

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

Risk management and control (continued)

Pages 67 to 71 form an integral part of the audited Financial Statements

Risk management oversight

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

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

Compliance

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

The role of Compliance is to:

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

Internal Audit

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

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

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

Additional detail is contained in the Audit Committee Chairman's Report on page 46.

Controls effectiveness

The role of Accounting Officer, as detailed on page 76, was held by our CEO, Ian Hares at the year end. The Accounting Officer has responsibility for maintaining and reviewing the effectiveness of the system of internal controls. He has confirmed that there were no significant control issues in the year under review.

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

Risk management and control (continued)

Pages 67 to 71 form an integral part of the audited Financial Statements

Risk categorisation

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

(i) Conduct risk

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

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

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

(ii) Outsourcing risk

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

The Group appoints outsourced service providers in accordance with the Board's Outsourcing Risk Policy and supporting Supplier Relationship Management Framework. The Group adopts a proportionate and risk based approach to the appointment and oversight of outsourced service providers based on the nature, scale and complexity of the outsource and deploys a range of policy, governance, reporting, monitoring and assurance activities.

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

(iii) Operational risk

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

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

(iv) Credit risk

Credit risk is the potential for financial loss caused by a retail or commercial customer, or counterparty, failing to meet their obligations to the Principal Subsidiaries as they become due. As the Principal Subsidiaries are no longer making any new retail loans, the absolute level of retail credit risk is expected to decline as the current assets mature. There is, however, the potential for retail credit risk profile to vary over the medium term as a result of asset sales. Credit risk is the largest risk the Principal Subsidiaries face and the monitoring of the recoverability of loans is inherent across most of the Principal Subsidiaries' activities.

Risk management and control (continued)

Pages 67 to 71 form an integral part of the audited Financial Statements

Risk categorisation (continued)

(iv) Credit risk (continued)

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

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

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

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

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

At 31 March	Outstanding Balance 2019 £m	Provision 2019 £m	Outstanding Balance 2018 £m	Provision 2018 £m
Loans secured on residential property	**5,570**	**162**	11,227	227
Assets Held for Sale	**-**	**-**	4,992	11
Other secured loans	**4**	**-**	260	12
Unsecured loans	**-**	**-**	312	56
Equity release mortgages [1]	**8**	**-**	747	123
Wholesale assets	**724**	**-**	1,572	-

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

The Principal Subsidiaries' ability to influence the structure of their credit risk profiles, in the absence of asset sales, is largely restricted to the degree of control which they have over risk strategy, loan redemptions and credit collections activity. Changes in credit quality will arise from changes in the underlying economic environment, assumptions about the future trends in the economy, changes in the specific characteristics of individual loans and the credit risk strategies developed to maintain and enhance the book whilst mitigating credit risk. Asset sales activity will also have an effect on the overall level of credit risk over the medium term.

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

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

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

Counterparty credit risk is limited to operational bank accounts and deposits held with approved counterparties in connection with the legacy pension schemes. Credit risk limits apply to all counterparties which reflect their credit rating as well as size, depth and quality of their capital base. The counterparty aspects of credit policies are developed and maintained by our Finance Department and overseen by the Risk Function. Policies are approved by the Board at least annually, or when material changes to policies are recommended.

Risk management and control (continued)

Pages 67 to 71 form an integral part of the audited Financial Statements

Risk categorisation (continued)

(v) Strategic risk

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

UKAR considers the primary strategic risks to be external environment, macroeconomic and market stresses, outsourcing, political, regulatory and legal risk, infrastructure, people and Balance Sheet (including managing a mortgage book in wind down) and project risk.

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

(vi) Liquidity risk

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

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

Sterling liquidity is held as cash balances at the Bank of England and the Government Banking Service.

(vii) Regulatory risk

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

Corporate social responsibility report

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

Customers

The Group has over 35,000 customers (March 2018: 131,000), with 44,000 mortgage accounts (March 2018: 141,000).

We are committed to:

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

Workplace

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

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

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

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

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

We have a good relationship with the Unite union and we are flexible in the way we approach the personal circumstances of colleagues, preventing discrimination, for example on family grounds, and ensuring the workplace needs of those with families are addressed. We report our sickness and stress absence data to the Board on a monthly basis and we remained below the national benchmark for stress-related absence throughout 2018/19.

Corporate social responsibility report (continued)

Workplace (continued)

Off-payroll engagements

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

Table 1 – Off-payroll engagements as at 31 March 2019 (for more than £245 per day and lasting longer than 6 months)

	No. Contractors
No. of existing engagements as of 31 March 2019:	21
Of which:	
No. that have existed for less than one year at the time of reporting:	3
No. that have existed for between one and two years at the time of reporting:	9
No. that have existed for between two and three years at the time of reporting:	4
No. that have existed for between three and four years at the time of reporting:	1
No. that have existed for four years or more at the time of reporting:	4
Total	**21**

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

Table 2 – New off-payroll engagements, or those that reached six months in duration (for more than £245 per day and lasting longer than 6 months)

	No. Contractors
No. of new engagements, or those that reached six months duration, between 1 April 2018 and 31 March 2019:	16
Of which:	
No. assessed as within scope of IR35*:	-
No. assessed as out of scope of IR35*:	16
No. engaged directly and on company payroll:	-
No. of engagements reassessed for consistency / assurance purposes throughout the year:	-
No. of engagements that saw a change to IR35* status following the consistency review:	-

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

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

	No.
No. of off-payroll engagements of board members and/or senior officials with significant financial responsibility during the year:	-
No. of individuals on payroll and off-payroll that have been deemed 'board members and/or senior officials with significant financial responsibility during the year':	12*

** All 12 individuals with significant financial responsibility were on the payroll.*

Corporate social responsibility report (continued)

Community

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

In September 2018 colleagues again voted YAA as the Charity of the Year. Charitable fundraising and payroll giving by colleagues raised £12,478 through dress down days, raffles, cake stalls and donations, including £4,264 in respect of YAA. In addition we matched employee fundraising and payroll giving through Give As You Earn schemes with contributions of £3,921 and £5,137 respectively.

Environment

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

Other matters

Review of business, future developments and uncertainties

A review of the business, future developments and uncertainties is set out in the Strategic Report on pages 10 to 17.

Principal risks

Principal risks of the UKAR Group are covered on pages 16 to 17 and 67 to 71.

Dividends

The Directors do not propose the payment of any dividend in respect of the year ended 31 March 2019.

B&B declared a dividend of £2,000m to its parent, UKAR, on 29 January 2019.
Mortgage Express declared a dividend of £445.0m to its parent, B&B, on 29 January 2019.

Major shareholders

As at the date of this report, all shares in UKAR are held by HM Treasury. All shares in B&B and NRAM are held by UKAR.

Employee involvement

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

The Group is committed to providing employment practices and policies which recognise the diversity of our workforce and ensure equality for employees regardless of gender, race, disability, age, sexual orientation or religious belief. The Group gives full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the Group. If members of staff become disabled the Group continues employment, either in the same or an alternative position, with appropriate retraining being given if necessary.

Directors' indemnities

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

UKAR has also provided each Director with a Deed of Indemnity, which constituted 'qualifying third party indemnity provision' in accordance with the provisions of the Companies Act 2006. The Deeds were in force during the whole of the financial year ended 31 March 2019 and remain in force as at the date of approval of the Directors' Report.

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

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

Independent Auditors

A resolution to reappoint the NAO as the Group's auditors will be put to the Shareholder at the forthcoming Annual General Meeting.

Disclosure of information to the Auditors

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

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

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

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

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the Financial Statements in accordance with applicable law and regulations. Company law requires the Directors to prepare Financial Statements for each financial period. Under that law the Directors have prepared the Group and Parent Company Financial Statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union. Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRS as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company and Group will continue in business.

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

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

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

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

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

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

In preparing the Financial Statements, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual where this requires additional disclosure that does not conflict with EU adopted IFRS and the Companies Act and in particular to:

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

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

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

Opinion on financial statements

I have audited the financial statements of the UK Asset Resolution Limited group for the year ended 31 March 2019 which comprise:

- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated Balance Sheet;
- the Consolidated Statement of Changes in Equity;
- the Consolidated Cash Flow Statements; and
- the related notes, including the significant accounting policies.

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

In my opinion the financial statements:

- give a true and fair view of the state of the group’s affairs as at 31 March 2019 and of the group’s profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the Companies Act 2006.

Conclusions relating to principal risks, going concern and viability statement

I have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require me to report to you whether I have anything material to add or draw attention to:

- the disclosures in the annual report that describe the principal risks and explain how they are being managed or mitigated;
- the directors’ confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors’ statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors’ identification of any material uncertainties to the group’s ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.
- whether the directors’ statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors’ explanation in the annual report as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Basis of opinions

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

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

Overview of my audit approach

Key audit matters

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

I consider the following areas of particular audit focus to be those areas that had the greatest effect on my overall audit strategy, the allocation of resources in my audit and directing the efforts of the audit team in the current year. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

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

The areas of focus were discussed with the Audit Committee; their report on matters that they considered to be significant to the financial statements is set out on pages 46-49.

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

- I have not identified a key audit matter relating to the valuation of the insurance provision for the no negative equity guarantee on equity release mortgages. The provision has significantly reduced following the sale of the majority of the group's equity release mortgages in September 2018 (as explained on page 117) and the remaining balance of these mortgages is immaterial
- The key audit matter on loan loss impairment provision assumptions in 2017-18 related to the measurement of loan loss impairment under IAS 39 which was replaced by IFRS 9 from 1 April 2018. I have identified a similar key audit matter for 2018-19 on the measurement of the expected credit losses allowance on loans as a result of the implementation of IFRS 9.
- Under IFRS 9, adopted by the UKAR group from 1 April 2018, UKAR's portfolio of loans to customers are classified as fair value through other comprehensive income and measured at fair value. The fair value measurement of loans represents one of the most judgemental areas of the financial statements and as such I have identified this as a key audit matter.

Measurement of expected credit losses allowance on loans

Description of key audit matter

The measurement of expected credit losses is a highly subjective area due to the level of judgement involvement in determining assumptions used in the accounting estimate and as such is a key area of focus and significant risk of material misstatement for the audit.

Following adoption of IFRS 9 on 1 April 2018, UKARs loans are measured at fair value through other comprehensive income. Therefore, although the loans are measured at fair value, a loss allowance based on lifetime expected credit losses is still recognised with movements recognised in profit or loss.

UKAR's Expected Credit Losses (ECL) model has been developed and built by an independent specialist analytics and risk management firm who use the model to calculate the impairment provisions each month using loan data and assumptions provided by UKAR. The model incorporates both behavioural assumptions based on UKAR's experience and forward-looking economic assumptions across four scenarios commissioned from independent specialist economic analysts. UKAR also apply a number of post-model adjustments or overlays to reflect risks which are not adequately addressed by the core model.

UKAR has concluded that determining whether there has been a significant increase in credit risk since initial recognition would require undue cost or effort and has therefore recognised a loss allowance at an amount equal to lifetime expected credit losses on all loans in accordance with the transitional provisions of IFRS 9. There is therefore no management judgement required to determine whether there has been a significant increase in credit risk.

The impairment allowance on adoption of IFRS 9 on 1 April 2018 was £329m compared to £295m under IAS 39. The increase was as a result of applying the IFRS 9 requirements to recognised lifetime expected credit losses rather than incurred losses under IAS 39.

The impairment allowance at 31 March 2019 is £162m. The reduction is primarily due to the reduction in loan balances due to sales, redemptions and write-offs but also reflects changes as a result of updated assumptions and increases to the weightings applied to the downside economic scenarios.

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

Overview of my audit approach (continued)

Key audit matters (continued)

Measurement of expected credit losses allowance on loans (continued)

Description of key audit matter (continued)

How the scope of my audit responded to the risk

I understood and evaluated the design and implementation of key controls including the controls and governance in place over the design and production of the ECL model.

I also performed the following procedures:

- I assessed the design of the ECL model and assessed management's rationale for the assumptions and methods used to confirm that these would produce an estimate compliant with the requirements of IFRS 9.
- I obtained assurance over the completeness and accuracy of the input data used in the model by testing a sample of loan balances, sales, property valuations and other information.
- I reviewed the reasonableness of assumptions including testing of input data used in the calculation of behavioural assumptions and agreement of economic assumptions to scenarios provided by UKAR's independent specialist economic analysts. I assessed the analysts as management's experts under ISA 500 using economics specialist members of my team.
- I reviewed the sensitivity analysis undertaken by management to identify the most sensitive assumptions used in the model to focus our testing, and to evaluate how management had addressed estimation uncertainty in making the accounting estimate. I evaluated the reasonableness of those assumptions and performed additional sensitivity analysis.
- I obtained assurance over the ECL model through assessment of the independent specialists that developed and operate the model as management's experts under ISA 500 using modelling specialist members of my team, and review of the validation and testing of the model by both UKAR and the independent specialists.
- I tested post-model adjustments to confirm that the management judgements made in determining the need for these was appropriate and that the adjustments had been calculated using appropriate and supportable assumptions.

As IFRS 9 was adopted on 1 April 2018, I performed audit procedures to obtain assurance on the transition adjustments from IAS 39. This included assessing the classification and measurement of loans, considering key definitions and interpretations adopted by UKAR and testing the adjustments and disclosures made on transition.

Key observations

Based on the evidence I obtained I found that the impairment model assumptions and data used within the models were reasonable and in line with the requirements of IFRS 9. I found that the post-model adjustments were supported by appropriate evidence.

The model is highly dependent on assessments of the future economic environment and the weightings applied to a range of scenarios. The financial statements (note 2 (c)) disclose the sensitivities related to these scenarios estimated by the group which I consider to be reasonable, however, an audit cannot be expected to predict all possible future economic outcomes.

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

Overview of my audit approach (continued)

Key audit matters (continued)

Fair value measurement of loans

Description of key audit matter

Following adoption of IFRS 9 on 1 April 2018, UKARs loans are measured at fair value through other comprehensive income as a result of its business model for loans being one whose objective is achieved by both collecting contractual cash flows and selling loans as evidenced by a series of sales of loan portfolios over recent years.

The fair value measurement of loans is highly subjective area due to the level of management judgement involvement in determining the price that would be received to sell the loans in an orderly transaction between market participants as required by IFRS 13. I consider the fair value measurement of loans to be a significant risk of material misstatement to the audit due to the level of management judgement used in determining assumptions, some of which are unobservable, and the sensitivity of the fair value to changes in these assumptions.

UKAR measures the fair value of its loans using an income approach and has developed a discounted cash flow model which uses expected future cash flows determined by the ECL model (see description of key audit matter above) and applies a discount rate to each loan segment which has been calculated using a range of assumptions determined by management based on its knowledge and experience of market structures and pricing from recent sales transactions.

The fair value of loans at 31 March 2019 £5,518m (1 April 2018 £12,048m). The decrease in fair value is primarily due to the reduction in loan balances due to sales, redemptions and write-offs but also reflects changes as a result of increases to discount rates reflecting market conditions at 31 March 2019.

How the scope of my audit responded to the risk

I understood and evaluated the design and implementation of key controls including the controls and governance in place over the design and production of the fair value model.

I also performed the following procedures:

- I assessed the design of the fair value model and management's rationale for the methods used to evaluate whether the model is compliant with the requirements of IFRS 13 and the appropriateness of the assumptions that underpin it using corporate finance specialist members of my team.
- I tested the completeness and accuracy of the input data that was used to support the fair value model, by re-performing reconciliations and agreeing assumptions to third party sources.
- I created an independent version of the model to validate the logical integrity of the UKAR model using modelling specialist members of my team.
- I reviewed back-testing undertaken by management of recent asset sales to confirm the validity of the fair value model and the appropriateness of the assumptions used.
- I reviewed the sensitivity analysis undertaken by management to identify the most sensitive assumptions used in the model to focus my testing and to evaluate how management had addressed estimation uncertainty in making the accounting estimate and disclosed this in the financial statements.

As IFRS 9 was adopted on 1 April 2018, I performed audit procedures to obtain assurance on the transition adjustments from IAS 39. This included assessing the fair value measurement of loans, considering the reasonableness of assumptions adopted by UKAR and testing the adjustments and disclosures made on transition.

Key observations

Based on the evidence I obtained I found that the assumptions and data used in the fair value model were reasonable and in line with the requirements of IFRS 13. The fair value of loans is particularly sensitive to the discount rate used in the model and has a high degree of uncertainty, with a potential range of reasonable outcomes greater than my materiality for the financial statements. The financial statements (note 2 (d)) disclose the sensitivities estimated by the group.

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

Overview of my audit approach (continued)

Application of materiality

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

	Group materiality
Overall materiality	£55,000,000
How I determined it	I determined materiality to be 1% of the fair value of the group's lending balances.
Why I chose this benchmark	I chose this benchmark as UKAR's primary activity is the servicing of mortgage loans and I consider loans to customers to be the principal consideration for users in assessing the financial performance of the group. As UKAR's core objective is to reduce the size of its balance sheet rather than to maximise profit I consider this the most appropriate benchmark in setting materiality.

In previous years, I established a threshold lower than materiality for some sensitive balances, such as provisions for customer redress, due to the disproportionate value of the lending balances and the interest that users of the accounts would have in these balances. My overall materiality has reduced from £177m in 2017-18 to £55m in 2018-19 as a consequence of the decrease in lending balances. I no longer consider the size of these balances disproportionate to the other elements in the financial statements and consequently a lower threshold is no longer required. Following the implementation of IFRS 9, I consider that the fair value of the loan book (i.e. the balance at which the loans are recognised in the financial statements) to be a more appropriate benchmark for materiality than the gross loan book value, which was used in previous years.

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

I agreed with the Audit Committee that I would report to it all uncorrected misstatements identified through my audit in excess of £300,000, as well as differences below this threshold that in my view warranted reporting on qualitative grounds.

Total unadjusted audit differences reported to the Audit Committee would have increased net assets by £0.8m.

Responsibilities of the Directors for the financial statements

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

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

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

Overview of my audit approach (continued)

Auditor's responsibilities for the audit of the financial statements

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

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

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

I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Overview of my audit approach (continued)

Audit scope

Group audit

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

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

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

This work, together with additional procedures performed on balances arising as a result of the Group's consolidation process, gave me the evidence I needed for my opinion on the Financial Statements as a whole. The significant components of the Group account for over 99% of the Group's assets. Together with the procedures performed at group level this gave me the evidence I needed for my opinion on the group financial statements as a whole.

Other Information

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

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

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

I also have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act

The strategic and directors' reports

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

In light of the knowledge and understanding of the group and its environment obtained in the course of the audit, I have not identified any material misstatements in the Strategic Report or the Directors' Report.

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

Opinion on other matters prescribed by the Companies Act (continued)

The corporate governance statement

In my opinion, based on the work undertaken in the course of the audit:

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

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

Other matter

I have reported separately on pages 143 to 145 on the Parent Company Financial Statements of UK Asset Resolution Limited for the year ended 31 March 2019 and on the information in the Directors' Remuneration Report that is described as having been audited.

Hilary Lower (Senior Statutory Auditor)
4 June 2019

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

The Accounts

Notes to the Financial Statements

UKAR Limited Company Accounts

Notes to the Company Financial Statements

CONSOLIDATED INCOME STATEMENT

	Note	**12 months to 31 March 2019 £m**	12 months to 31 March 2018 £m
Interest receivable and similar income	3	**455.2**	615.0
Interest expense and similar charges	3	**(40.5)**	(108.9)
Net interest income	3	**414.7**	506.1
Fee and commission income		**11.9**	9.2
Fee and commission expense		**(12.1)**	(12.4)
Net fee and commission income		**(0.2)**	(3.2)
Net realised gains less losses on investment securities	4	**0.3**	30.7
Unrealised fair value movements on financial instruments	5	**(0.7)**	2.3
Hedge ineffectiveness	5	**1.9**	16.5
Other operating income		**17.5**	27.4
Non-interest income		**18.8**	73.7
Total income		**433.5**	579.8
Administrative expenses	7	**(143.5)**	(152.3)
Provision for customer redress	23	**(57.8)**	(43.5)
Legal and insurance claims	8	**0.4**	19.4
Net impairment release on loans to customers*	13	**41.6**	170.8
Net release of provision for insurance risk on equity release mortgages	15	**3.1**	6.4
Net impairment release on investment securities		**-**	0.3
Profit on sale of loans	9	**452.0**	2.3
Hedging impacts of sale of loans	6	**(389.0)**	-
Profit before taxation		**340.3**	583.2
Taxation	10	**(56.6)**	(96.1)
Profit for the financial year		**283.7**	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 year ended 31 March 2019 has been prepared on a different basis from that presented for the year ended 31 March 2018. Further information is provided in note 30.*

The disclosures regarding risk management and control on pages 67 to 71, the notes on pages 92 to 142 and the Company information on pages 146 to 150 form an integral part of these Financial Statements.

The results above arise from continuing activities.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the 12 months to 31 March 2019

	Gross of tax £m	Tax £m	Net of tax £m
Profit for the financial year	**340.3**	**(56.6)**	**283.7**
Other comprehensive (expense)/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 year	**(354.6)**	**67.3**	**(287.3)**
- amounts transferred from fair value reserve and recognised in profit during the year	**(118.6)**	**22.6**	**(96.0)**
	(473.2)	**89.9**	**(383.3)**
Items that will not be reclassified subsequently to profit or loss:			
- retirement benefit remeasurements	**4.7**	**(0.9)**	**3.8**
	4.7	**(0.9)**	**3.8**
Total other comprehensive (expense)/income	**(468.5)**	**89.0**	**(379.5)**
Total comprehensive (expense)/income for the financial year	**(128.2)**	**32.4**	**(95.8)**

For the 12 months to 31 March 2018

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

The Group has adopted IFRS 9 with effect from 1 April 2018. Consequently the financial information presented above for the year ended 31 March 2019 has been prepared on a different basis from that presented for the year ended 31 March 2018. Further information is provided in note 30.

CONSOLIDATED BALANCE SHEET

	Note	**31 March 2019 £m**	31 March 2018 £m
Assets			
Cash at bank and in hand	11	**723.6**	1,571.8
Amount owed in respect of sale of loans	12	**4,473.7**	-
Loans to customers*	12	**5,517.5**	11,503.2
Assets classified as held for sale: loans to customers	12	**-**	4,991.6
Equity release mortgages	15	**8.0**	747.2
Fair value adjustments on portfolio hedging	15	**-**	420.9
Other assets	16	**8.1**	31.1
Retirement benefit assets	17	**653.3**	543.9
Intangible assets	18	**-**	3.3
Total assets		**11,384.2**	19,813.0
Liabilities			
Statutory Debt and HM Treasury loans	19	**1,976.0**	10,278.8
Derivative financial instruments	31 (d)	**-**	471.8
Debt securities in issue	20	**204.2**	204.2
Other liabilities	21	**65.1**	93.2
Current tax liabilities		**45.9**	4.0
Deferred tax liabilities	22	**111.8**	84.2
Retirement benefit obligations	17	**6.6**	8.2
Provisions	23	**95.0**	136.8
Total liabilities		**2,504.6**	11,281.2
Equity			
Issued capital and reserves attributable to owners of the parent:			
- share capital	24	**1.2**	1.2
- reserves*	25	**1,215.4**	1,141.7
- retained earnings*		**7,663.0**	7,388.9
Share capital and reserves attributable to owners of the parent		**8,879.6**	8,531.8
Total equity and liabilities		**11,384.2**	19,813.0

** The Group has adopted IFRS 9 with effect from 1 April 2018. Consequently the amounts presented above for 31 March 2019 have been prepared on a different basis from those presented for 31 March 2018. Further information is provided in note 30.*

The disclosures regarding risk management and control on pages 67 to 71, the notes on pages 92 to 142 and the Company information on pages 146 to 150 form an integral part of these Financial Statements.

The Financial Statements on pages 87 to 142 were approved by the Board of Directors on 4 June 2019 and signed on its behalf by:

John Tattersall
Chairman

Ian Hares
Chief Executive Officer

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the 12 months to 31 March 2019

	Share capital £m	Fair value reserve £m	Merger reserve £m	Retained earnings £m	Total share capital and reserves £m
At 31 March 2018	**1.2**	**-**	**1,141.7**	**7,388.9**	**8,531.8**
Impact of adoption of IFRS 9 [1]	**-**	**468.6**	**-**	**(28.1)**	**440.5**
At 1 April 2018	**1.2**	**468.6**	**1,141.7**	**7,360.8**	**8,972.3**
Other comprehensive income/(expense):					
- net movement in fair value reserve	**-**	**(473.2)**	**-**	**-**	**(473.2)**
- retirement benefit remeasurements	**-**	**-**	**-**	**4.7**	**4.7**
- tax effects of the above	**-**	**89.9**	**-**	**(0.9)**	**89.0**
Total other comprehensive expense	**-**	**(383.3)**	**-**	**3.8**	**(379.5)**
Profit for the financial year	**-**	**-**	**-**	**283.7**	**283.7**
Release of merger reserve	**-**	**-**	**(11.6)**	**11.6**	**-**
Total comprehensive expense	**-**	**(383.3)**	**(11.6)**	**299.1**	**(95.8)**
Unclaimed dividends [2]	**-**	**-**	**-**	**3.1**	**3.1**
At 31 March 2019	**1.2**	**85.3**	**1,130.1**	**7,663.0**	**8,879.6**

For the 12 months to 31 March 2018

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

[1] *The Group adopted IFRS 9 with effect from 1 April 2018: see note 30.*

[2] *During the year B&B and NRAM released to retained earnings dividends which they had declared in prior years and have never been claimed. These dividends were declared prior to the acquisition of B&B and NRAM by UKAR. As the UKAR Group Financial Statements are prepared under predecessor accounting principles, these unclaimed dividends have been treated as though they had been declared to external shareholders of the UKAR Group.*

[3] *£2,324.4m of the release of merger reserve in the year ended 31 March 2018 was due to the cancellation of NRAM bonus shares as detailed in note 25.*

CONSOLIDATED CASH FLOW STATEMENT

	12 months to 31 March 2019 £m	12 months to 31 March 2018 £m
Cash flows from operating activities		
Profit before taxation for the financial year	**340.3**	583.2
Adjustments to reconcile profit to cash generated from operating activities:		
- interest expense and similar charges	**40.5**	108.9
- provision for customer redress	**57.8**	41.2
- non-recurring credit	**(1.2)**	-
- defined benefit pension scheme credits	**(5.0)**	(10.8)
- cash contributions to defined benefit pension schemes	**(100.3)**	(93.9)
- depreciation and amortisation	**3.6**	2.7
- net impairment release on loans to customers	**(41.6)**	(170.8)
- provision for insurance risk on equity release mortgages	**(3.1)**	(6.4)
- net impairment release on investment securities	**(0.3)**	(15.2)
- profit on sale of loans	**(452.0)**	(2.3)
- fair value adjustments on financial instruments	**18.4**	33.7
- write-off of hedge accounting adjustments	**402.5**	-
- other non-cash movements	**3.1**	(10.5)
	262.7	459.8
Net decrease in operating assets:		
- loans to customers	**1,720.0**	2,381.4
- settlement of amounts owed in respect of sale of loans	**-**	11,483.9
- sale of loans	**6,073.3**	-
- equity release mortgages	**16.6**	17.4
- derivative financial instruments receivable	**-**	1.8
- other assets	**14.7**	9.7
Net decrease in operating liabilities:		
- derivative financial instruments payable	**(471.8)**	(55.4)
- other liabilities	**(11.6)**	(45.3)
- provisions	**(98.4)**	(81.8)
Interest paid	**(51.0)**	(118.9)
Income tax paid	**(2.0)**	(143.3)
Net cash generated from operating activities	**7,452.5**	13,909.3
Cash flows from investing activities:		
- purchase of property, plant and equipment and intangible assets	**(0.2)**	(1.2)
- proceeds from sale and redemption of investment securities	**0.3**	292.9
Net cash (used in)/generated from investing activities	**0.1**	291.7
Cash flows used in financing activities:		
- repayment of HM Treasury loans	**(8,180.1)**	(3,765.7)
- repayment of Statutory Debt	**(120.6)**	(10,976.6)
Net cash used in financing activities	**(8,300.7)**	(14,742.3)
Net decrease in cash and cash equivalents	**(848.1)**	(541.3)
Cash and cash equivalents at beginning of year	**1,571.2**	2,112.5
Cash and cash equivalents at end of year	**723.1**	1,571.2
Represented by cash and assets with original maturity of three months or less within:		
- cash at bank and in hand	**723.1**	1,571.2
Total cash and cash equivalents at end of year	**723.1**	1,571.2

1. Principal accounting policies

UK Asset Resolution Limited ('UKAR' or 'the Company') is a private company limited by shares incorporated on 1 July 2010 and domiciled in the United Kingdom. UKAR acquired B&B and NRAM plc by a share-for-share exchange on 1 October 2010. On 29 April 2016 NRAM Limited acquired NRAM plc from UKAR by way of a share-for-share exchange. NRAM Limited sold NRAM plc on 5 May 2016. These consolidated Financial Statements are prepared under the 'predecessor accounting' method, which presents the UKAR consolidated results as if the UKAR Group ('the Group') had always been in existence in its present form. In addition, the Company owns 100% of the share capital of UKAR Corporate Services Limited ('UKARcs'), which was incorporated on 20 June 2013 (see note D to the Parent Company Financial Statements). The Financial Statements of the UKAR Company are presented on pages 146 to 150, and form an integral part of these Financial Statements.

The Financial Statements on pages 87 to 142 and 146 to 150 were authorised for issue by the Directors on 4 June 2019 and will be put to the shareholder for approval at UKAR's Annual General Meeting.

(a) Statement of compliance

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

- As detailed in note 30, the Group has adopted IFRS 9 'Financial Instruments' with effect from 1 April 2018. 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 these Financial Statements as at 31 March 2019 and for the 12 months then ended has been prepared on a different basis from that presented for the comparative period. Further information including the application of the transitional provisions of IFRS 9 is provided in note 30. Where different accounting policies are applied to the two years, both policies are detailed in this note 1.
- As detailed in note 1(j), with effect from the adoption of IFRS 9 the Group carries held for sale financial assets and disposal groups of financial assets at their usual IFRS 9 carrying amount.
- For these Financial Statements the Group has adopted IFRS 15 'Revenue from Contracts with Customers'. No accounting adjustments were made as a result of this adoption as the Group's revenue covered by IFRS 15 is immaterial.
- There have been no other significant changes to the Group's and Company's accounting policies since 31 March

2018.For these 2019 Financial Statements the Group and Company have not adopted the following standards:

- IFRS 16 'Leases', issued January 2016, effective for periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure by both lessees and lessors. IFRS 16 introduces a single lessee accounting model requiring a lessee to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Lessors continue to classify leases as operating leases or finance leases as appropriate, and to account for these two types of leases differently. Details of the Group's existing operating lease commitments are set out in note 27. The Group continues to assess the impact of adoption of IFRS 16. IFRS 16 allows a choice of approaches to the first-time adoption of IFRS 16. The Group expects to use the option to recognise the right-of-use assets on 1 April 2019 at the same value as the lease obligation at that date, with no impact on equity and no restatement of prior periods. The Group expects that adoption will result in an increase in reported assets and liabilities of c.£20m. No material impact is expected on the 2019-20 Income Statement.
- IFRS 17 'Insurance Contracts', issued May 2017, effective for periods beginning on or after 1 January 2021 and yet to be endorsed by the EU. IFRS 17 would replace IFRS 4. Following the sale of the majority of the Group's equity release mortgages in September 2018 (see note 15) IFRS 17 is not expected to have any material impacts on the UKAR Group or Companies.

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

1. Principal accounting policies (continued)

(b) Basis of preparation

The Financial Statements have been prepared on a going concern basis and using the historical cost convention except:

(i) the following assets and liabilities are carried at their fair value:

- derivative financial instruments; and
- financial instruments categorised under IFRS 9 as 'held to collect and sell'; and

(ii) where portfolio fair value hedge accounting has been applied, a hedge adjustment is carried to take account of the fair value of the risk which has been hedged.

The validity of the going concern basis of accounting is dependent upon the funding position of the Company, B&B and NRAM and on the Directors' expectations regarding the continuation of trading.

As at 31 March 2019, NRAM was partially funded by a government loan that could be recalled on 24 hours' notice. B&B had a remaining Statutory Debt balance of £462.4m but had fully repaid the HM Treasury Working Capital Facility ('WCF'). Subsequent to the Balance Sheet date, the government loans have been repaid in full. Although all government loans at this point have been repaid, neither B&B nor NRAM has access to funding, if required, from other parties due to the restrictions placed on them through the state aid agreement. Therefore, in order to satisfy the going concern assumption, reassurance is provided by HM Treasury that its support to B&B and NRAM will continue; at the signing date of these Financial Statements, HM Treasury has confirmed its intention to continue to provide funding to B&B and NRAM, if required, until at least 1 January 2021.

HM Treasury's continued provision of funding to B&B and NRAM, if required, is subject to B&B and NRAM continuing to be subsidiary companies of the Company. As stated in the Strategic Report on pages 12 to 13, the Company's strategy is to sell B&B and NRAM. Prior to any sale, the compliance with all state aid conditions is necessary to ensure government funding is available; the Directors expect that all such conditions will continue to be met until any sale of B&B and NRAM. The Directors consider that the Company would not sell its investments in B&B and NRAM unless the Directors were confident that B&B and NRAM would remain viable following the sale; 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. The Directors therefore consider that B&B and NRAM continue to be going concerns.

At the signing date of these Financial Statements, HM Treasury has also confirmed its intention to continue to provide funding to the Company, if required, until at least 1 January 2021. Following any sale of B&B and NRAM, the Directors expect that the Company will remain in government ownership and continue to manage the government's legacy exposures which arose from the nationalisation of B&B and NRAM. However, the activities of the Company will evolve from being the holding company overseeing the rundown of B&B and NRAM to that of being responsible for meeting contractual obligations resulting from previous asset sales and the planned sale of B&B and NRAM, sponsorship of the legacy B&B and NRAM defined benefit pension schemes and administration of other non-loan assets and liabilities. The Directors therefore consider that the Company will continue in operation for the foreseeable future.

At the point of any sale of B&B and NRAM they will cease to be consolidated into the UKAR Group's Financial Statements. At this point the UKAR Group's asset management and associated activities will cease. However, the Directors consider that the UKAR Group's activities will continue for the foreseeable future, being the continuation of the management of the government's legacy exposures which arose from the nationalisation of B&B and NRAM.

Accordingly, the Directors are satisfied at the time of approval of these Financial Statements that the UKAR, B&B and NRAM companies and groups have adequate resources to continue in business for the foreseeable future. They are also satisfied that the UKAR Group's and Company's activities will continue for the foreseeable future. The Directors therefore consider it appropriate to prepare these Financial Statements on a going concern basis.

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

These accounting policies have been applied to all periods presented in these Financial Statements, and are consistent with the accounting policies used by the B&B Group and the NRAM Group in preparing their Interim Financial Reports for the six months ended 30 September 2018. However, as detailed in note 30, the Group has adopted IFRS 9 'Financial Instruments' with effect from 1 April 2018 and as permitted by IFRS 9, the Group has elected not to restate comparative period information. Consequently the financial information presented in these Financial Statements as at 31 March 2019 and for the 12 months then ended has been prepared on a different basis from that presented for the comparative period. Where different accounting policies apply to the two periods, this note details the policies applied to each period.

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

1. Principal accounting policies (continued)

(b) Basis of preparation (continued)

The Financial Statements have been prepared in accordance with EU-adopted IFRS, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. A summary of accounting policies is set out below. The preparation of the Financial Statements in conformity with these accounting policies and generally accepted accounting principles requires the use of estimates and assumptions that affect the reported values of assets and liabilities at the date of the Financial Statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amounts, events or actions, actual results ultimately may differ from those estimates (see note 2).

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

(c) Basis of consolidation

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

An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Where subsidiaries have been acquired during a period, their results are consolidated into the Group's Financial Statements from the date control is transferred to the Company. Where subsidiaries have been disposed of, their results are consolidated to the date of disposal. All intra-group transactions and balances are eliminated on consolidation.

(d) Interest income and expense

Interest on derivatives is recognised on an accruals basis and is included in interest income where the derivative is hedging interest income, and interest expense where the derivative is hedging interest expense. All of the Group's other interest income is recognised on the effective interest method.

2018-19:
For loans to customers which are categorised for impairment purposes as stage 3 (see note 13) interest income is recognised by applying the effective interest rate ('EIR') to the amortised cost of the loan less any impairment allowance against the loan.

2017-18:
For loans to customers which were individually impaired interest income was recognised on the balance net of impairment provisions.

(e) Bonuses payable

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

(f) Taxation

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

(ii) Deferred tax
Deferred tax is calculated using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. The principal temporary differences arise from revaluation of certain financial assets and liabilities, provisions for pensions and other post-retirement benefits and changes in accounting basis on adoption of IFRS 9.

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

Deferred tax related to fair value remeasurements of loans to customers, which are recognised in other comprehensive income, is also recognised in other comprehensive income, and subsequently in the consolidated Income Statement together with the associated gain or loss on derecognition.

1. Principal accounting policies (continued)

(g) Financial instruments

2018-19:

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 fair value through profit and loss ('FVP&L');
(ii) Financial assets at fair value through other comprehensive income ('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 'solely payments of principal and interest' ('SPPI'). Further information in respect of the Group's adoption of IFRS 9 is provided in note 30. In respect of the Group's loans to customers, the business model 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 cashflows on the loans are considered to satisfy the definition of SPPI. Therefore the Group's loans to customers are classified as at FVOCI.

2017-18:

In accordance with IAS 39 'Financial Instruments: Recognition and Measurement' each financial asset was classified at initial recognition into one of four categories:

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

and each financial liability into one of two categories:

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

No assets were classified as held-to-maturity during the year ended 31 March 2018.

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

For assets at amortised cost, the amortised cost balance was reduced where appropriate by an allowance for amounts which were considered to be impaired or uncollectible.

(h) Offsetting financial instruments

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

(i) Recognition and de-recognition of financial assets and liabilities

Purchases and sales of financial assets are accounted for once the tests set out in IFRS 9 have been met, in relation to the contractual rights to the cash flows on the assets and the risks and rewards of ownership of the assets. When an asset carried at FVOCI is derecognised, the element of the fair value reserve relating to the asset is reclassified to the Income Statement.

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

1. Principal accounting policies (continued)

(j) Assets held for sale

In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', assets and liabilities are classified as 'held for sale' if they are available for immediate sale in their present condition, they are being actively marketed for sale at a reasonable price and sale is considered to be 'highly probable'. IFRS 5 requires that, in general, assets held for sale and disposal groups are carried at the lower of their previous carrying amount and their fair value less anticipated selling costs. IFRS 5, however, explicitly excludes financial assets from this measurement principle. IFRS 5 is therefore unclear as to whether this 'lower of' treatment applies to a disposal group which consists entirely of financial assets. Until 31 March 2018 the Group followed a policy of applying the measurement principles of IFRS 5 to disposal groups of financial assets, including held for sale portfolios of customer loans. This treatment was considered appropriate as it avoided the situation where a portfolio of loans which were expected to be sold at a loss would be carried on balance sheet at a higher value than the anticipated sale price. On adoption of IFRS 9 with effect from 1 April 2018, as the Group now carries its loans to customers at fair value it is considered appropriate to apply the IFRS 5 exclusion to disposal groups of financial assets. Hence with effect from 1 April 2018 held for sale financial assets and disposal groups of financial assets, including held for sale portfolios of customer loans, continue to be held at their usual IFRS 9 carrying amount. No restatement is required of prior period information as the change is a result of implementation of IFRS 9 under which the Group has elected not to restate prior periods.

(k) Derivative financial instruments and hedge accounting

All of the Group's derivative contracts are used for commercial management of risk exposures. No derivatives were held at 31 March 2019 but the Group held derivatives at 31 March 2018 and during the year ended 31 March 2019.

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

Each derivative is carried at fair value on the Balance Sheet; as an asset when the fair value is positive and as a liability when the fair value is negative. The fair value of a derivative includes any interest accrued on that derivative.

Changes in the fair value of derivatives are charged to the Income Statement; however by applying the hedge accounting rules the changes in fair value of derivatives which are used to hedge particular risks can be mitigated. The main hedge accounting approach used by the Group during the year and previous year was portfolio fair value hedging of the majority of the Group's equity release mortgages, which were at fixed rates of interest. IFRS 9 does not address portfolio fair value hedging, where IAS 39 continues to apply. On the Balance Sheet the fair value in respect of the hedged interest rate risk was carried in 'fair value adjustments on portfolio hedging'. As a result of the sale of the majority of the Group's equity release mortgages in September 2018 (see note 15) the fair value adjustments on portfolio hedging were written off. No further hedge accounting has arisen since this transaction.

In 2018-19, in accordance with IFRS 9 the Group's derivatives were carried at FVP&L as their cash flows were not SPPI.

Embedded derivatives

As required by IFRS 9, for a material embedded derivative, unless the entire contract which contains the embedded derivative is an asset within the scope of IFRS 9, the embedded derivative is separated from the host contract and carried at fair value.

The Group had no material embedded derivatives during the year or previous year.

(l) Equity release (Lifetime) mortgages

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

(m) Cash at bank and in hand

Cash at bank and in hand comprises balances which are highly liquid and have an original maturity of three months or less. For the purposes of the Cash Flow Statement, accrued interest is excluded from the balance.

1. Principal accounting policies (continued)

(n) Impairment of financial assets

2018-19:

Information in respect of the Group's adoption of IFRS 9 is provided in note 30. As permitted by IFRS 9, the Group has elected not to restate comparative period financial information. Loans to customers are carried at FVOCI. 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. Because the loans are carried at fair value, their carrying amount is not reduced by the impairment provision.

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 but the asset is not in default. Stage 3 assets are those which are in default. Management have elected to use three months in arrears to represent default for all loans, which is in line with the 90 day presumption under IFRS 9. As well as three months in arrears, a case is considered to be in default where there are other indicators of credit impairment e.g. 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 in default. Generally, a loan remains in stage 3 until it has been up to date for three consecutive months, at which point it moves to stage 2. However, once a default account has returned to below three months in arrears, whilst still held in default it is considered to be in a cure period.

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

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. Under the transitional arrangements, IFRS 9 permits the categorisation to omit stage 1 if the assessment of change in credit risk would involve 'undue cost and effort'. All loans to customers will continue to be categorised as stage 2 or 3 until derecognition.

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 EIR. Where there is a shortfall on the discounted forecast cash flow compared to the discounted contractual cash flow, a provision is made.

Impairment of secured residential loans to customers

The Group uses a consistent approach to provisioning based on calculating ECLs 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. This grouping of similar performing loans also allows the modelling to be updated differently across the segments in line with observed performance. The segmentation can be different for each assumption, but factors used in segmentation include product type, loan to value ('LTV'), geographical area and repayment type.

Impairment of commercial loans

For commercial loans a similar provisioning approach is followed to secured residential loans. However due to the 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.

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.

Loan commitments

Loan commitments comprise previous voluntary overpayments by customers which are available to be drawn down. The impairment provision for each loan takes into account the potential that the customer could in future draw down the overpayment, the possibility of which increases the Group's exposure to potential future loss.

2017-18:

As permitted by IFRS 9, the Group has elected not to restate comparative period information and hence impairment for the comparative year ended 31 March 2018 is accounted for under IAS 39. Financial assets which were not held at fair value through profit or loss were reviewed for indications of possible impairment throughout the period and at each published Balance Sheet date. An impairment loss was recognised if, and only if, there was objective evidence that a loss event (or events) had occurred after initial recognition and before the Balance Sheet date and had a reliably measurable impact on the estimated future cash flows of the financial asset or group of financial assets. Losses that were incurred as a result of events occurring after the Balance Sheet date were not recognised.

1. Principal accounting policies (continued)

(n) Impairment of financial assets (continued)

2017-18: (continued)

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

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

2018-19 and 2017-18:

Impairment is charged/credited in the Income Statement in the 'impairment on loans to customers' line.

A loan to a customer is written off and any associated impairment allowance released when and only when the property is sold or the account is redeemed, or in respect of unsecured loans where the collections process indicates a loan is not recoverable. Any subsequent proceeds are recognised on a cash basis and offset against 'impairment on loans to customers' in the Income Statement.

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

(o) Debt and equity securities in issue

Issued securities are classified as liabilities where the contractual arrangements result in the issuer having an obligation to deliver either cash or another financial asset to the security holder, or to exchange financial instruments under conditions that are potentially unfavourable to the issuer. Issued securities are classified as equity where they meet the definition of equi ty and confer a residual interest in the issuer's assets on the holder of the securities. Issued securities include ordinary share capital.

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

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

(p) Retirement benefits

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

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

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

A full actuarial valuation of the Group's defined benefit sections of the existing schemes is undertaken every three years, with interim reviews in the intervening years; these valuations are updated at each published Balance Sheet date by qualified independent actuaries. For the purpose of these updates, scheme assets are included at their fair value and scheme liabilities are measured on an actuarial basis using the projected unit credit method. The inflation assumption used to determine B&B's benefit obligations is the Consumer Prices Index ('CPI'), and to determine NRAM's is the Retail Prices Index ('RPI'). Details of the actuarial assumptions made are provided in note 17. The resulting net surplus or deficit is included in full on the Balance Sheet. Contributions made into a scheme during the year are added to the carrying amount of the scheme's assets. A surplus on one scheme cannot be used to offset a deficit on another. Retirement benefit remeasurements are charged to retained earnings in full in the period in which they occur, and pass through other comprehensive income rather than the Income Statement. The Income Statement includes, for each scheme, a credit representing the discount rate applied to the Balance Sheet carrying amount. Following closure of the schemes, the current service cost is nil.

1. Principal accounting policies (continued)

(p) Retirement benefits (continued)

A past service cost arising as a result of an amendment to defined benefit scheme benefits is charged to the Income Statement when the plan amendment occurs. Such a past service cost arose during the year as a result of the GMP Equalisation Case detailed in note 17.

Surpluses on an accounting basis are only recognised on the Balance Sheet to the extent that they are recoverable through reduced contributions in the future or through refunds from the scheme. The Group is considering the potential impact of the IASB's exposure draft of possible changes to IFRIC 14; further detail is provided in note 17. The draft changes are still under review by the IASB and the implementation date is unclear.

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

(q) Provisions and contingent liabilities

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

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

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

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

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

(r) Dividends receivable and payable

Dividends receivable are recognised as income once the right to receive payment is established, in accordance with IAS 27 'Separate Financial Statements'. Dividends payable are recognised in retained earnings once they are appropriately authorised and no longer at the Company's discretion.

2. Critical judgements and accounting estimates

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

Critical judgements:

(a) Date of recognition of sale of loans

In March 2019 NRAM sold two separate asset portfolios comprising performing residential and unsecured loans to Citi. The contracts for sale were signed in March 2019. Financial completion, including receipt of the balance of the sale proceeds, occurred in April 2019. The sale was recognised at the point of contract signature for the following reasons:

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

2. Critical judgements and accounting estimates (continued)

Critical judgements: *(continued)*

(b) Carrying amount of net retirement benefit assets

As detailed in note 17, the Group carries on its Balance Sheet net assets in respect of its defined benefit retirement schemes. The Trustee of each such scheme has passed a resolution for the ultimate refund to the sponsoring company of any future surpluses on the scheme. It is considered that any surplus will ultimately be available to the sponsoring company either in the form of a refund or in the form of reduced future contributions to the scheme. Hence it is considered appropriate to carry these net assets in full on the Group's Balance Sheet. As detailed in note 17, the Group is considering the potential impact of the IASB's exposure draft of possible changes to IFRIC 14.

Accounting estimates:

(c) Impairment of loans to customers

(i) Modelling approach

The estimation of expected losses requires the use of models, the inputs to which require the use of estimates. 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.

The key assumptions used in the modelling are explained below.

Arrears roll rates	Forecasts how cohorts of mortgage accounts will transition between up-to-date, arrears, default and possession.
Pre-payment rates	The forecast of customer-driven redemption activity up to and including term maturity.
Repossession sales and losses	The forecast timing of repossession sales and the associated forced sale discounts incurred in order to realise sales proceeds and credit losses in a timely manner. The forced sale discount represents the difference between the asset's indexed valuation and the realised sale value.
Payment rates	The level of cash payments expected compared with the customer's contractual monthly mortgage subscriptions.
Post-term assumptions	The forecast post term-end account behaviour, in particular the anticipated level of customer-driven redemptions before UKAR would consider enforcing repossession.

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. Material post-model adjustments are reported to and approved by the Audit Committee.

The ECL model is run monthly and maintained by an experienced Third Party to agreed Service Levels. A strong control environment exists, with the models governed by the organisation's Macpherson framework, an annual attestation to the recommendations included within the Macpherson Report. The Macpherson Report sets out best practice in quality assurance to ensure all business critical financial models are robust and trustworthy. A meeting of subject matter experts reviews the key modelling assumptions underpinning the ECL model on a quarterly basis. Reporting, including any material changes to assumptions, is provided through to the Executive Risk Committee and the Board on a monthly basis.

In order to ensure a robust and compliant implementation, the ECL model was validated by an independent expert prior to the adoption of IFRS 9 in line with best practice guidance. In addition, an annual review of the model takes place to ensure that the segmentation and key assumptions used in the model are still fit for purpose, taking into account changes in the structure of the loan book.

Forward-looking assessments are made which are dependent on economic assumptions including interest rates, unemployment, gross domestic product ('GDP') and house price inflation ('HPI') as well as other factors such as net mortgage advances and mortgage arrears. Economic assumptions are sourced from independent 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.

Impairment provisions are calculated separately for each scenario and the provision which is used for accounting purposes is the probability-weighted average of these.

2. Critical judgements and accounting estimates (continued)

Accounting estimates: *(continued)*

(c) Impairment of loans to customers (continued)

(ii) Economic forecasting

The first five years of the base case scenario are broadly aligned to the Economic and Fiscal Outlook ('EFO') produced by the Office of Budget Responsibility for the Autumn 2018 Budget and published on 29 October 2018, updated for the most recent economic data. For the later years of the forecast a long-term average is used. This base scenario assumes that the UK leaves the European Union with a withdrawal agreement and forecasts that the resulting impact on the economy is minimal. The Office of Budget Responsibility published a revised EFO on 13 March 2019 to support the Spring Statement. As the changes did not have a material impact, it was considered appropriate to continue to broadly align the base case to the 29 October 2018 EFO.

The variant scenarios assume that the UK leaving the European Union has a more pronounced impact on the economy than seen in the base scenario. The downside scenario is modelled on a slowing of GDP growth as a result of a dip in trade. The severe downside combines a number of factors, including a slowdown in the Chinese economy, driving a sharper downside but a stronger recovery than in the downside scenario. The upside models an increase in world trade that spurs UK business investment and growth.

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.

The key assumptions used in these scenarios and their relative probability weightings were as follows:

At 31 March 2019	**Base**	**Downside**	**Severe downside**	**Upside**
Probability	**35.00%**	**22.50%**	**12.50%**	**30.00%**
Bank of England base rate March 2024	**1.52%**	**0.21%**	**0.21%**	**2.11%**
HPI March 2019 – March 2024 [1]	**17.97%**	**(2.12%)**	**(25.42%)**	**31.21%**
ILO unemployment March 2024 [2]	**3.90%**	**4.43%**	**5.85%**	**3.75%**
GDP March 2024 [3]	**1.64%**	**1.94%**	**1.03%**	**2.32%**

[1] *The percentage movement in UK property prices between March 2019 and March 2024.*

[2] *The International Labour Organisation ('ILO') unemployment rate as at March 2024.*

[3] *The annualised percentage increase in UK GDP as at March 2024.*

At 31 March 2018	Base	Downside	Severe downside	Upside
Probability	40.00%	20.00%	10.00%	30.00%
Bank of England base rate March 2023	1.24%	0.25%	0.25%	1.83%
HPI March 2018 – March 2023 [1]	17.29%	(2.67%)	(19.82%)	31.56%
ILO unemployment March 2023 [2]	4.55%	5.71%	6.74%	3.92%
GDP March 2023 [3]	1.51%	1.21%	0.94%	2.67%

[1] *The percentage movement in UK property prices between March 2018 and March 2023.*

[2] *The ILO unemployment rate as at March 2023.*

[3] *The annualised percentage increase in UK GDP as at March 2023.*

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

The ECL calculation is particularly sensitive to changes in:

- House Price Index, given the significant impact it has on mortgage collateral valuations; and
- Unemployment rate, given its impact on borrowers' ability to meet their loan repayments.

2. Critical judgements and accounting estimates (continued)

Accounting estimates: *(continued)*

(c) Impairment of loans to customers (continued)

(iii) Key sensitivities

The most significant degree of judgement relates to the relative weightings of the scenarios themselves, incorporating different views of the House Price Index and Unemployment as indicated above. Our specialist economic analysts provide us with an independent view on the weighting of the scenarios, which are calculated based on the February 2019 Bank of England Fan Charts. The Bank of England's Monetary Policy Committee publishes fan charts to give a graphical representation of the uncertainty around the economic outlook of potential future outcomes from its central forecast. In order to demonstrate this sensitivity, the impact on the reported IFRS 9 impairment provision of applying 100% of a particular scenario is shown below.

If the probability weighting of each of the scenarios were uprated to 100% the impact on the Group's total loan impairment loss allowance would be as follows:

	Impact on total impairment loss allowance
Base scenario	**Decrease of £32.2m**
Downside scenario	**Increase of £15.5m**
Severe downside scenario	**Increase of £173.6m**
Upside scenario	**Decrease of £46.3m**

(d) Fair value of loans to customers

(i) Modelling approach

Under IFRS 9 the Group's loans to customers are carried at fair value. Consistent with IFRS 13 'Fair Value Measurement' an 'income approach' has been adopted to valuations. Fair value is calculated using models which discount expected future cash flows to present value using market interest rates, the inputs to which require judgements. A meeting of subject matter experts reviews the fair value modelling assumptions on a quarterly basis. 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 represent the blended rate between the cost of debt and the cost of equity and are determined by management incorporating the experience gained of market structures and pricing from recent sales transactions. At 31 March 2019 and 2018 the discount rates fell into the following ranges:

Discount rates range	2019	2018
Residential loans	**261 - 305 bps**	182 - 243 bps
Commercial loans	**749 bps**	354 bps
Unsecured loans	**not applicable**	482 bps

The valuation is regarded as Level 3 (see note 31(e)) 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 increase in the commercial loans discount rate compared to 31 March 2018 reflects the outcome of the sale of commercial loans during the year.

(ii) Key sensitivities

The modelled fair value of the Group's loans to customers is most sensitive to the assumptions which are used to derive the discount rates applied in the calculation and the respective cash flows. For the purposes of sensitivity, consideration has been given to movements in the discount rate and changes to the cashflows based on the alternative economic scenarios. The impacts due to a change in the weighted average discount rate are as follows:

Change in discount rate	Impact on fair value of loans to customers
1% increase	**Decrease of £248.1m**
1% decrease	**Increase of £270.1m**

The cashflows are most sensitive to changes in the underlying economic scenarios. The impacts due to a change in scenario are as follows:

Fair value based on:	Impact on fair value of loans to customers
Upside scenario	**Increase of £78.0m**
Downside scenario	**Decrease of £294.5m**
Severe downside scenario	**Decrease of £466.7m**

2. Critical judgements and accounting estimates (continued)

Accounting estimates: *(continued)*

(e) Provisions

Provisions are carried in respect of certain known or forecast future payments, as described in note 23. Where the future payment amount is unknown, provisions are set at a level which covers the estimated number of future payments and the estimated average payment amount. Provisions are calculated using the best available information but the actual future outcomes of items provided for may differ from expectations.

An additional provision of £64.0m was recognised in the year reflecting heightened awareness of the deadline for submission of claims in respect of mis-sold Payment Protection Insurance ('PPI') and claims volumes received and an additional provision of £12.7m in respect of other legacy remediation issues. £4.5m of provisions were reclassified from restructuring to customer remediation. At 31 March 2019 customer redress provisions totalled £87.8m. An increase of 10% in the forecast run rate of PPI payments would have the effect of increasing the provision by £3.5m.

(f) Retirement benefit obligations

Liabilities in respect of the Group's defined benefit pension schemes are carried on the Balance Sheet at values calculated in accordance with IAS 19. Economic assumptions are adopted which have impacts on the calculated value of the liabilities and also on the amounts charged or credited to the Income Statement; these assumptions are determined by the Group's management taking account of recommendations made by the Group's actuaries. The sensitivities of the liability values to key assumptions are disclosed in note 17.

3. Net interest income

	12 months to 31 March 2019 £m	12 months to 31 March 2018 £m
Interest receivable and similar income		
On equity release mortgages	**28.0**	58.1
On other secured loans	**401.4**	528.7
On other lending	**15.7**	17.8
On investment securities and deposits	**10.1**	10.4
Total interest receivable and similar income	**455.2**	615.0
Interest expense and similar charges		
On HM Treasury loans	**(36.1)**	(96.0)
On wholesale funding	**(12.8)**	(12.7)
Other*	**8.4**	(0.2)
Total interest expense and similar charges	**(40.5)**	(108.9)
Net interest income	**414.7**	506.1
Average balances		
Interest-earning assets ('IEA')	**12,439**	20,235
Financed by:		
- interest-bearing funding	**2,681**	4,749
- interest-free funding**	**9,758**	15,486
Average rates:	**%**	%
- gross yield on IEA	**3.66**	3.04
- cost of interest-bearing funding**	**(1.83)**	(2.29)
Interest spread	**1.83**	0.75
Contribution of other adjustments*	**0.07**	-
Contribution of interest-free funding**	**1.43**	1.75
Net interest margin on average IEA	**3.33**	2.50
Average Bank Base Rate	**0.67**	0.35
Average 1-month LIBOR	**0.66**	0.36
Average 3-month LIBOR	**0.80**	0.40

** Other includes a release of £8.4m accrued in prior years in respect of interest on potential tax liabilities.*

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

An analysis of interest income and expense by category of financial instrument is provided in note 31(b).

4. Net realised gains less losses on investment securities

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

	12 months to 31 March 2019 £m	12 months to 31 March 2018 £m
Net realised gains on available-for-sale instruments	**-**	15.4
Net realised gains on instruments at amortised cost	**-**	15.3
Net realised gains on written off instruments	**0.3**	-
Total net realised gains on investment securities	**0.3**	30.7

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

The following amounts were recognised in the Income Statement during the years presented:

	12 months to 31 March 2019 £m	12 months to 31 March 2018 £m
Net (loss)/gain in fair value:		
- translation losses on underlying instruments	**-**	(0.2)
- fair value movements on derivatives which are economic hedges but are not in hedge accounting relationships	**(0.7)**	2.5
Unrealised fair value movements	**(0.7)**	2.3
Net gains on fair value hedging instruments	**16.4**	50.3
Net losses on fair value hedged items attributable to hedged risk	**(14.5)**	(33.8)
Net hedge ineffectiveness gains	**1.9**	16.5
Total	**1.2**	18.8

In addition, hedging impacts of sale of loans (see note 6) were recognised in the Income Statement. Fair value movements taken to equity are disclosed in note 25.

6. Hedging impacts of sale of loans

As detailed in note 15, in September 2018 the Group sold the majority 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 used to hedge these loans 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 £389.0m 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.

7. Administrative expenses

B&B provides services to NRAM, UKAR and UKARcs. NRAM, UKAR and UKARcs had no direct employees during the years presented. As detailed in note 35(b) the operations of UKARcs were transferred to NS&I with effect from 1 April 2019.

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

	12 months to 31 March 2019 Number	12 months to 31 March 2018 Number
Average headcount:		
Full time	**151**	163
Part time	**18**	15
Total employed	**169**	178
Total average full time equivalent	**166**	175

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

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

	31 March 2019 Number	31 March 2018 Number
Full time	**146**	162
Part time	**15**	17
Total employed	**161**	179
Total full time equivalent	**158**	176

Staff numbers include Executive but not Non-Executive Directors. In addition to the permanent staff above, the Group had engaged a full time equivalent of 26 temporary staff and specialist contractors at 31 March 2019 (31 March 2018: 33).

	12 months to 31 March 2019 £m	12 months to 31 March 2018 £m
The Group's aggregate costs of permanent staff were as follows:		
Wages and salaries	**10.8**	11.9
Social security costs	**1.3**	1.4
Defined benefit pension costs (see note 17)	**(12.8)**	(10.8)
Defined contribution pension costs (see note 17)	**0.7**	0.8
Other retirement benefit costs (see note 17)	**0.5**	0.3
Total staff costs	**0.5**	3.6
IT costs	**15.1**	10.1
Outsourced and professional services	**111.7**	128.8
Depreciation and amortisation (see note 18)	**3.6**	2.7
Other administrative expenses	**6.0**	9.4
Total ongoing administrative expenses	**136.9**	154.6
GMP equalisation (see note 17)	**7.8**	-
Non-recurring credits	**(1.2)**	(2.3)
Total administrative expenses	**143.5**	152.3

The non-recurring credits of £1.2m in the year and £2.3m in the previous year relate to releases of a provision credited in 2015/16 in respect of the outsourcing of mortgage servicing (see note 23).

Exit packages

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

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

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

7. Administrative expenses (continued)

The exit packages paid in the year were as follows:

Exit package cost band				**12 months to 31 March 2019**
	Number of compulsory redundancies	**Number of voluntary redundancies**	**Number of other departures agreed**	**Total number of exit packages by cost band**
< £10,000	**-**	**-**	**2**	**2**
£10,001 - £25,000	**1**	**-**	**1**	**2**
£25,001 - £50,000	**3**	**-**	**-**	**3**
£50,001 - £100,000	**1**	**-**	**1**	**2**
£100,001 - £150,000	**1**	**-**	**-**	**1**
£150,001 - £200,000	**-**	**-**	**-**	**-**
£200,001 - £250,000	**1**	**-**	**-**	**1**
Total number of exit packages	**7**	**-**	**4**	**11**
Total cost (£'000)	**563**	**-**	**92**	**655**

Exit package cost band				12 months to 31 March 2018
	Number of compulsory redundancies	Number of voluntary redundancies	Number of other departures agreed	Total number of exit packages by cost band
< £10,000	-	-	-	-
£10,001 - £25,000	-	-	-	-
£25,001 - £50,000	-	-	1	1
£50,001 - £100,000	-	-	-	-
£100,001 - £150,000	-	-	1	1
£150,001 - £200,000	-	-	-	-
£200,001 - £250,000	1	-	-	1
Total number of exit packages	1	-	2	3
Total cost (£'000)	240	-	158	398

Auditor's remuneration

The following costs are included within administrative expenses:

	12 months to 31 March 2019 £m	12 months to 31 March 2018 £m
Fees payable to the parent's auditor and its associates in respect of the parent Company's individual and consolidated Financial Statements	**0.1**	0.1
Fees payable to Company auditor and their associates for other services:		
- the audit of the Company's subsidiaries pursuant to legislation	**0.6**	0.5
- audit-related assurance services	**0.1**	0.1
Total	**0.8**	0.7

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

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

8. Legal and insurance claims

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

9. Profit on sale of loans

	12 months to 31 March 2019 £m	12 months to 31 March 2018 £m
Profit on sale of loans to customers carried as held for sale (see note 12)	**84.9**	-
Profit on sale of loans to customers carried at FVOCI (see note 12)	**152.6**	-
Profit on sale of loans to customers carried at amortised cost	**-**	2.3
Profit on sale of equity release mortgages (see note 15)	**214.5**	-
Total	**452.0**	2.3

Of the £152.6m profit on sale of loans to customers carried at FVOCI, £118.6m was reclassified from the fair value reserve (see note 25) representing the accumulated fair value movements up to the point of sale.

10. Taxation

The tax charge for the year comprises:	**12 months to 31 March 2019 £m**	12 months to 31 March 2018 £m
Current tax:		
- on profit for the year	**63.4**	105.2
- adjustments in respect of prior periods	**(19.4)**	(20.4)
Total current tax	**44.0**	84.8
Deferred tax (see note 22):		
- origination and reversal of temporary differences	**12.6**	11.3
Total deferred tax	**12.6**	11.3
Total taxation charge per the Income Statement	**56.6**	96.1

The following tax amounts have been (credited)/charged to equity:	**12 months to 31 March 2019 £m**	12 months to 31 March 2018 £m
Deferred tax:		
- relating to cash flow hedge reserve	**-**	0.2
- relating to assets at FVOCI	**(89.9)**	-
- relating to available-for-sale investments	**-**	(3.0)
- relating to retirement benefit remeasurements	**0.9**	(8.2)
Net credit to equity	**(89.0)**	(11.0)

In addition, deferred tax of £104.0m was charged to equity on transition to IFRS 9 (see note 30).

There was no foreign tax charged in the year (2018: £nil).

The tax charge on the Group's profit before tax differs from the theoretical amount that would arise using the standard weighted average rate of UK corporation tax of 19% (2018: 19%) as follows:

	12 months to 31 March 2019 £m	12 months to 31 March 2018 £m
Profit before taxation	**340.3**	583.2
Tax calculated at rate of 19% (2018: 19%)	**64.7**	110.8
Effects of:		
- expenses not deductible for tax purposes	**11.3**	7.4
- adjustments in respect of prior periods	**(19.4)**	(22.1)
Total taxation charge for the year	**56.6**	96.1

Taxation appropriately reflects changes in tax rates which had been substantively enacted by 31 March 2019.

The 16.6% effective tax rate for the year (2018: 16.5%) has been impacted by expenses which are disallowable for tax purposes and the release of prior year tax provisions.

11 Cash at bank and in hand

	31 March 2019 £m	31 March 2018 £m
Balances with the Bank of England	**421.8**	374.4
Balances with the Government Banking Service	**275.1**	700.2
Balances with other banks	**26.7**	497.2
Total	**723.6**	1,571.8

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

Cash at bank and in hand includes £1.1m (2018: £464.5m) of collateral deposited in respect of derivative contracts (see note 32).

None of the Group's cash at bank and in hand balances are impaired and all are with UK institutions. The Bank of England and the Government Banking Service are rated AA. Of the balances with other banks, 96% (2018: 35%) are with institutions rated AA to A and 4% (2018: 65%) with institutions rated BBB to B. ECLs arising in the 12 months to 31 March 2020 are not material, and no provision has been made.

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

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

Loans to customers and redemptions comprise the following product types:

	At 31 March 2019			At 31 March 2018		
	Outstanding balance £m	Carrying amount £m	Carrying amount %	Outstanding balance £m	Carrying amount £m	Carrying amount %
Residential mortgages						
Buy-to-let	**3,101.2**	**3,011.3**	**54**	3,521.3	3,381.2	31
Self-certified	**1,564.4**	**1,578.3**	**29**	1,776.7	1,765.1	16
Together	**-**	**-**	**-**	2,353.1	2,324.9	21
Standard and other	**904.8**	**925.0**	**17**	3,575.9	3,528.3	32
Total residential mortgages	**5,570.4**	**5,514.6**	**100**	11,227.0	10,999.5	100
Residential loans	**5,570.4**	**5,514.6**	**100**	11,227.0	10,999.5	96
Commercial loans	**3.8**	**2.9**	**-**	259.7	247.5	2
Total secured loans	**5,574.2**	**5,517.5**	**100**	11,486.7	11,247.0	98
Unsecured loans	**0.1**	**-**	**-**	311.8	256.2	2
Total	**5,574.3**	**5,517.5**	**100**	11,798.5	11,503.2	100

As detailed in note 30, the Group adopted IFRS 9 with effect from 1 April 2018. Under IFRS 9 the Group's loans to customers are carried at FVOCI. As permitted by IFRS 9, prior periods have not been restated. Therefore the carrying amounts of loans to customers at 31 March 2019 are measured on a different basis from the carrying amounts at 31 March 2018; the carrying amounts at 31 March 2019 are the fair values of the loans whereas the carrying amounts at 31 March 2018 are the amounts due from customers less an allowance for impairment. To aid comparison between periods, the table above shows the outstanding balances due from customers (i.e. with no allowance for impairment) at each Balance Sheet date.

12. Loans to customers (continued)

Redemptions

	31 Mar 2019 £m	31 Mar 2018 £m
Residential mortgages		
Buy-to-let	**(401.0)**	(694.7)
Self-certified	**(205.3)**	(413.1)
Together	**(380.1)**	(443.3)
Standard and other	**(424.5)**	(552.7)
Total residential mortgages	**(1,410.9)**	(2,073.8)
Residential loans	**(1,410.9)**	(2,073.8)
Commercial loans	**(152.7)**	(8.1)
Total secured loans	**(1,563.6)**	(2,081.9)
Unsecured loans	**(26.8)**	(32.1)
Total	**(1,590.4)**	(2,114.0)

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

The movements in fair value of the Group's loans to customers between 1 April 2018 and 31 March 2019 were as follows:

	At 1 April 2018 £m	Reduction in gross balances outstanding £m	Asset sales £m	Impairment released to Income Statement £m	Movements taken to fair value reserve £m	At 31 March 2019 £m
Residential mortgages						
Buy-to-let	3,492.6	(400.6)	-	1.3	(82.0)	3,011.3
Self-certified	1,823.8	(210.1)	-	3.2	(38.6)	1,578.3
Together	2,609.5	(433.5)	(1,938.5)	0.3	(237.8)	-
Standard and other	3,647.3	(457.9)	(2,226.8)	(0.2)	(37.4)	925.0
Total residential mortgages	11,573.2	(1,502.1)	(4,165.3)	4.6	(395.8)	5,514.6
Residential loans	11,573.2	(1,502.1)	(4,165.3)	4.6	(395.8)	5,514.6
Commercial loans	216.4	(151.5)	(60.2)	(2.6)	0.8	2.9
Total secured loans	11,789.6	(1,653.6)	(4,225.5)	2.0	(395.0)	5,517.5
Unsecured loans	258.1	(55.6)	(250.3)	7.4	40.4	-
Total	12,047.7	(1,709.2)	(4,475.8)	9.4	(354.6)	5,517.5

The movements taken to fair value reserve arose due to updates in economic and funding assumptions. The most significant movements in fair value over the year are due to asset sales and redemptions. The reduction due to movements in the fair value reserve is predominantly a result of increases in the market rates underpinning the cost of debt assumptions used in the modelling.

At 31 March 2019 69% (2018: 53%) of the Group's residential mortgage accounts (excluding buy-to-let and held for sale) held by 13,499 (2018: 34,105) customers were 'interest only' with 65% (2018: 68%) of these having more than ten years until maturity.

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 in April 2018 on signature of the sale contract.

In December 2018 the Group sold the majority of its commercial loans. In March 2019 the Group sold two separate asset portfolios comprising performing residential and unsecured loans to Citi. The £4,473.7m balance of the proceeds of these two sales were received after the Balance Sheet date in April - May 2019.

Further analysis of the profit on sale of loans is provided in note 9.

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

As detailed in note 30 the Group 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 31 March 2019 are measured on a different basis from the allowances at 31 March 2018.

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

Residential mortgages	**Stage 2: Lifetime ECL[1] £m**	**Stage 3: Lifetime ECL[1] £m**	**Total £m**
At 31 March 2018			**227.5**
Remeasurement on adoption of IFRS 9			**15.7**
At 1 April 2018	**176.1**	**67.1**	**243.2**
Movements during the year:			
- net repayments	**(8.4)**	**3.3**	**(5.1)**
- changes in estimates	**(13.8)**	**10.4**	**(3.4)**
- changes in economic assumptions	**3.2**	**0.7**	**3.9**
- transfers	**(9.0)**	**9.0**	**-**
- loan impairment credit	**(28.0)**	**23.4**	**(4.6)**
- sale of loans	**(27.6)**	**(12.9)**	**(40.5)**
- write-offs	**-**	**(36.2)**	**(36.2)**
Net movements during the year	**(55.6)**	**(25.7)**	**(81.3)**
At 31 March 2019	**120.5**	**41.4**	**161.9**
The Income Statement credit comprises:			
- loan impairment credit	**(28.0)**	**23.4**	**(4.6)**
- recoveries net of costs	**-**	**(32.2)**	**(32.2)**
Total Income Statement credit	**(28.0)**	**(8.8)**	**(36.8)**

[1] Further information as to which loans are categorised as stage 2 and which as stage 3 is provided in note 1(n).

Of the write-offs in the above table £36.2m were still subject to enforcement action at 31 March 2019.

Commercial loans	**Stage 2: Lifetime ECL £m**	**Stage 3: Lifetime ECL £m**	**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 year:			
- net repayments	**-**	**(0.4)**	**(0.4)**
- changes in estimates	**-**	**3.0**	**3.0**
- changes in economic assumptions	**-**	**-**	**-**
- transfers	**-**	**-**	**-**
- loan impairment charge	**-**	**2.6**	**2.6**
- sale of loans	**-**	**(11.2)**	**(11.2)**
- write-offs	**-**	**(3.6)**	**(3.6)**
Net movements during the year	**-**	**(12.2)**	**(12.2)**
At 31 March 2019	**-**	**-**	**-**
The Income Statement credit comprises:			
- loan impairment charge	**-**	**2.6**	**2.6**
- recoveries net of costs	**-**	**-**	**-**
Total Income Statement charge	**-**	**2.6**	**2.6**

Of the write-offs in the above table £3.6m were still subject to enforcement action at 31 March 2019.

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

Unsecured loans	Stage 2: Lifetime ECL £m	Stage 3: Lifetime ECL £m	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 year:			
- net repayments	**(1.5)**	**0.2**	**(1.3)**
- changes in estimates	**(2.2)**	**(2.3)**	**(4.5)**
- changes in economic assumptions	**(1.3)**	**(0.3)**	**(1.6)**
- transfers	**(0.7)**	**0.7**	**-**
- loan impairment credit	**(5.7)**	**(1.7)**	**(7.4)**
- sale of loans	**(11.9)**	**(48.5)**	**(60.4)**
- write-offs	**-**	**(6.0)**	**(6.0)**
Net movements during the year	**(17.6)**	**(56.2)**	**(73.8)**
At 31 March 2019	**-**	**0.1**	**0.1**
The Income Statement credit comprises:			
- loan impairment credit	**(5.7)**	**(1.7)**	**(7.4)**
- recoveries net of costs	**-**	**-**	**-**
Total Income Statement credit	**(5.7)**	**(1.7)**	**(7.4)**

Of the write-offs in the above table £6.0m were still subject to enforcement action at 31 March 2019.

Held for sale loans	Total £m
At 31 March 2018	**11.0**
Movement during the year:	
- sale of loans	**(11.0)**
Net movements during the year	**(11.0)**
At 31 March 2019	**-**

Total loans to customers and held for sale loans	Stage 2: Lifetime ECL £m	Stage 3: Lifetime ECL £m	Held for sale £m	Total £m
At 31 March 2018				**306.3**
Remeasurement on adoption of IFRS 9				**34.0**
At 1 April 2018	**193.7**	**135.6**	**11.0**	**340.3**
Movements during the year:				
- net repayments	**(9.9)**	**3.1**	**-**	**(6.8)**
- changes in estimates	**(16.0)**	**11.1**	**-**	**(4.9)**
- changes in economic assumptions	**1.9**	**0.4**	**-**	**2.3**
- transfers	**(9.7)**	**9.7**	**-**	**-**
- loan impairment credit	**(33.7)**	**24.3**	**-**	**(9.4)**
- sale of loans	**(39.5)**	**(72.6)**	**(11.0)**	**(123.1)**
- write-offs	**-**	**(45.8)**	**-**	**(45.8)**
Net movements during the year	**(73.2)**	**(94.1)**	**(11.0)**	**(178.3)**
At 31 March 2019	**120.5**	**41.5**	**-**	**162.0**
The Income Statement credit comprises:				
- loan impairment credit	**(33.7)**	**24.3**	**-**	**(9.4)**
- recoveries net of costs	**-**	**(32.2)**	**-**	**(32.2)**
Total Income Statement credit	**(33.7)**	**(7.9)**	**-**	**(41.6)**

Of the write-offs in the above table £45.8m were still subject to enforcement action at 31 March 2019.

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

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

14. Credit quality of loans to customers

The disclosures in this note exclude loans which are classified as held for sale.

As detailed in note 30 the Group 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 from those prior to adoption of IFRS 9. 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 31 March 2019 are measured on a different basis from those at 31 March 2018.

			At 31 March 2019
Residential mortgages	**Stage 2: Lifetime ECL [1]**	**Stage 3: Lifetime ECL [1]**	**Total**
	£m	**£m**	**£m**
- Up-to-date [2]	**4,905.7**	**205.1**	**5,110.8**
- 1 - 2 months in arrears	**97.4**	**73.8**	**171.2**
- 2 - 3 months in arrears	**27.6**	**51.2**	**78.8**
- Greater than 3 months in arrears	**-**	**209.6**	**209.6**
Outstanding balance	**5,030.7**	**539.7**	**5,570.4**

[1] *Further information as to which loans are categorised as stage 2 and which as stage 3 is provided in note 1(n).*
[2] *Up-to-date loans are those which are less than one month in arrears.*

Included in stage 3 loans above are £56.3m of loans that are in a cure period.

			At 31 March 2019
Commercial loans	**Stage 2: Lifetime ECL**	**Stage 3: Lifetime ECL**	**Total**
	£m	**£m**	**£m**
- Up-to-date	**3.8**	**-**	**3.8**
- 1 - 2 months in arrears	**-**	**-**	**-**
- 2 - 3 months in arrears	**-**	**-**	**-**
- Greater than 3 months in arrears	**-**	**-**	**-**
Outstanding balance	**3.8**	**-**	**3.8**

14. Credit quality of loans to customers (continued)

Unsecured loans	Stage 2: Lifetime ECL £m	Stage 3: Lifetime ECL £m	Total £m
			At 31 March 2019
- Up-to-date	-	0.1	0.1
- 1 - 2 months in arrears	-	-	-
- 2 - 3 months in arrears	-	-	-
- Greater than 3 months in arrears	-	-	-
Outstanding balance	-	0.1	0.1

No loans included in stage 3 above are in a cure period.

Total loans to customers	Stage 2: Lifetime ECL £m	Stage 3: Lifetime ECL £m	Total £m
			At 31 March 2019
- Up-to-date	4,909.5	205.2	5,114.7
- 1 - 2 months in arrears	97.4	73.8	171.2
- 2 - 3 months in arrears	27.6	51.2	78.8
- Greater than 3 months in arrears	-	209.6	209.6
Outstanding balance	5,034.5	539.8	5,574.3

Included in stage 3 loans above are £56.3m of loans that are in a cure period.

	Residential mortgages £m	Commercial loans £m	Unsecured loans £m	Total £m
				At 31 March 2018
Neither past due nor impaired	10,131.3	235.5	253.8	10,620.6
Past due but not impaired:				
- less than 3 months in arrears	543.7	-	10.3	554.0
- 3 to 6 months in arrears	211.7	-	3.2	214.9
- over 6 months in arrears	127.4	-	38.4	165.8
Impaired	212.9	24.2	6.1	243.2
	11,227.0	259.7	311.8	11,798.5
Impairment allowances	(227.5)	(12.2)	(55.6)	(295.3)
Loans to customers net of impairment allowances	10,999.5	247.5	256.2	11,503.2
Impairment allowances:				
- individual	27.2	12.2	10.9	50.3
- collective	200.3	-	44.7	245.0
Total impairment allowances	227.5	12.2	55.6	295.3

14. 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:

			31 March 2019
	Stage 2: Lifetime ECL £m	Stage 3: Lifetime ECL £m	Total £m
- Up-to-date	**8,420.7**	**352.7**	**8,773.4**
- 1 - 3 months in arrears	**196.0**	**203.4**	**399.4**
- Greater than 3 months in arrears	**-**	**320.9**	**320.9**
Total	**8,616.7**	**877.0**	**9,493.7**

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

			31 March 2019
	Stage 2: Lifetime ECL £m	Stage 3: Lifetime ECL £m	Total £m
- Up-to-date	**4,864.2**	**201.8**	**5,066.0**
- 1 - 3 months in arrears	**124.6**	**124.2**	**248.8**
- Greater than 3 months in arrears	**-**	**205.9**	**205.9**
Total	**4,988.8**	**531.9**	**5,520.7**
The greater than 3 months in arrears amounts above include the following carrying amount of assets in possession, capped at the balance outstanding	**-**	**22.0**	**22.0**

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 corresponding collateral values at 31 March 2018 were as follows:

	Uncapped £m	Capped £m
Neither past due nor impaired	16,843.0	10,070.0
Past due but not impaired	1,368.5	877.9
Impaired	268.6	198.3
Total	18,480.1	11,146.2
In possession	-	45.6

14. Credit quality of loans to customers (continued)

The indexed LTV of residential loan balances, weighted by loan balance, falls into the following ranges:

	31 March 2019	31 March 2018
	%	%
Up to 50%	**15.1**	10.8
50% to 75%	**49.6**	51.4
75% to 100%	**30.8**	34.5
Over 100%	**4.5**	3.3
Total	**100.0**	100.0

The average indexed LTV based on a simple average is 58.7% (31 March 2018: 60.8%) and on a weighted average is 69.2% (31 March 2018: 69.8%).

Arrears and possessions on residential mortgages and unsecured loans

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

		31 March 2019		31 March 2018	
		Residential	**Unsecured**	Residential	Unsecured
Arrears 3 months and over					
Number of cases	No.	**1,189**	**-**	3,174	2,782
Proportion of total cases	%	**2.74**	**-**	3.48	9.39
Asset value	£m	**180.5**	**-**	481.3	44.5
Proportion of book	%	**3.24**	**-**	4.32	17.36
Total value of payments overdue	£m	**6.2**	**-**	22.6	12.6
Proportion of total book	%	**0.11**	**-**	0.20	4.92
Possessions					
Number of cases	No.	**216**	**-**	406	-
Proportion of total cases	%	**0.50**	**-**	0.44	-
Asset value	£m	**31.3**	**-**	54.9	-
Proportion of book	%	**0.56**	**-**	0.49	-
Total value of payments overdue	£m	**0.9**	**-**	3.3	-
Proportion of total book	%	**0.02**	**-**	0.03	-
New possessions	No.	**887**	**-**	1,004	-
Total arrears 3 months and over and possessions					
Number of cases	No.	**1,405**	**-**	3,580	2,782
Proportion of total cases	%	**3.24**	**-**	3.92	9.39
Asset value	£m	**211.8**	**-**	536.2	44.5
Proportion of book	%	**3.80**	**-**	4.81	17.36
Total value of payments overdue	£m	**7.1**	**-**	25.9	12.6
Proportion of total book	%	**0.13**	**-**	0.23	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	**9.2**	**-**	31.4	13.3
Proportion of total book	%	**0.16**	**-**	0.28	5.20
Loan impairment provision					
As % of total balances	%	**2.91**	**-**	2.04	17.83

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

14. Credit quality of loans to customers (continued)

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

		31 March 2019		31 March 2018	
		Residential	**Unsecured**	Residential	Unsecured
Buy-to-let					
Number of cases	No.	**371**	**-**	439	-
Proportion of total cases	%	**1.56**	**-**	1.62	-
Asset value	£m	**57.6**	**-**	69.0	-
Proportion of book	%	**1.86**	**-**	1.97	-
Total value of payments overdue	£m	**1.9**	**-**	2.1	-
Proportion of total book	%	**0.06**	**-**	0.06	-
Self-certified					
Number of cases	No.	**466**	**-**	616	-
Proportion of total cases	%	**4.27**	**-**	5.04	-
Asset value	£m	**77.4**	**-**	99.0	-
Proportion of book	%	**4.95**	**-**	5.61	-
Total value of payments overdue	£m	**2.5**	**-**	3.5	-
Proportion of total book	%	**0.16**	**-**	0.20	-
Together					
Number of cases	No.	**-**	**-**	829	2,782
Proportion of total cases	%	**-**	**-**	3.41	9.39
Asset value	£m	**-**	**-**	94.8	44.5
Proportion of book	%	**-**	**-**	4.08	17.36
Total value of payments overdue	£m	**-**	**-**	4.9	12.6
Proportion of total book	%	**-**	**-**	0.21	4.92
Standard and other					
Number of cases	No.	**352**	**-**	1,290	-
Proportion of total cases	%	**4.05**	**-**	4.66	-
Asset value	£m	**45.5**	**-**	218.5	-
Proportion of book	%	**5.03**	**-**	6.17	-
Total value of payments overdue	£m	**1.8**	**-**	12.1	-
Proportion of total book	%	**0.20**	**-**	0.34	-

15. Equity release mortgages

	31 March 2019	31 March 2018
	£m	£m
Balances due from customers	**8.2**	870.4
Provision for insurance risk	**(0.2)**	(123.2)
Total	**8.0**	747.2

The Group's equity release mortgages are monthly income products; the remainder, which were sold in September 2018, comprised a lump sum advanced at the outset on which interest accrued at a fixed interest rate. Under the terms of these loans, when the borrower dies or goes into long term care the property is sold and the proceeds used to redeem the loan. As is standard for this type of product, where the sale proceeds are less than the contractual sum owed the Group does not have any further ability to recover amounts from the borrower or the estate. Hence the Group is exposed to the risk of negative equity on these mortgages. The Group carries a provision for this insurance risk on equity release mortgages, calculated in accordance with IFRS 4, as follows:

15. Equity release mortgages (continued)

	31 March 2019 £m	31 March 2018 £m
At start of year	**123.2**	130.3
Movements during the year:		
- write-offs	**(0.5)**	(0.7)
- impairment (credit)/charge	**(3.1)**	(6.4)
- sale of loans	**(119.4)**	-
Net movements during the year	**(123.0)**	(7.1)
At end of year	**0.2**	123.2

Fair value adjustments on portfolio hedging amounting to £nil (2018: £420.9m) related to interest rate derivatives designated in a fair value portfolio hedge relationship.

In September 2018 the Group sold the majority of its equity release mortgages to Rothesay Life Plc at a profit of £214.5m. As a result of the sale net costs of £389.0m were recognised in respect of hedging impacts (see note 6).

16. Other assets

	31 March 2019 £m	31 March 2018 restated* £m
Prepayments and accrued income	**6.2**	25.9
Property, plant and equipment	**0.2**	0.3
Other	**1.7**	4.9
Total	**8.1**	31.1

* Other assets at 31 March 2018 have been restated to include property, plant and equipment.

17. Retirement benefit assets and obligations

The UKAR Group has operated a number of retirement benefit plans for its current and former employees, including defined benefit pension plans, a defined contribution pension plan and post-retirement healthcare benefits. Further details in respect of the Group's schemes are given in sections (a) B&B schemes and (b) NRAM schemes below. The 'administrative expenses' line of the Income Statement includes the cost of contributions to the healthcare and defined contribution pension schemes, the current service cost of providing pension benefits for each defined benefit scheme and the interest credit or cost on the scheme's net asset or liability. The current service cost of the Group's defined benefit schemes is nil, as the schemes are now closed to future service accrual. The full net surplus or deficit in respect of the healthcare scheme and each defined benefit pension scheme is carried on the UKAR Group Balance Sheet, and gains and losses arising due to actuarial revaluations are taken to UKAR Group other comprehensive income rather than being credited or charged in the Income Statement.

Proposals to transfer the B&B and NRAM defined benefit pension schemes from B&B and NRAM to UKAR have been agreed with the Trustees of the Schemes and at the signing date of these Financial Statements are in the process of being implemented.

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

	Defined benefit pension plan		**Post-retirement medical benefits**		**Total**	
	31 March 2019 £m	31 March 2018 £m	**31 March 2019 £m**	31 March 2018 £m	**31 March 2019 £m**	31 March 2018 £m
Present value of defined benefit obligations	**(1,438.1)**	(1,472.4)	**(6.6)**	(8.2)	**(1,444.7)**	(1,480.6)
Fair value of defined benefit assets	**2,091.4**	2,016.3	**-**	-	**2,091.4**	2,016.3
Net defined benefit asset/(liability)	**653.3**	543.9	**(6.6)**	(8.2)	**646.7**	535.7

The Group is considering the potential impact of the IASB's exposure draft of possible changes to IFRIC 14, which would restrict the recognition of net asset positions in respect of pension schemes under certain circumstances. The draft changes are still under review by the IASB and the implementation date is unclear.

17. Retirement benefit assets and obligations (continued)

The amounts recognised in the UKAR Group Income Statement in respect of defined benefit arrangements were as follows:

	Defined benefit pension plan		Post-retirement medical benefits		Total	
	12 months to 31 Mar 2019 £m	12 months to 31 Mar 2018 £m	**12 months to 31 Mar 2019 £m**	12 months to 31 Mar 2018 £m	**12 months to 31 Mar 2019 £m**	12 months to 31 Mar 2018 £m
GMP equalisation charge	**(7.8)**	-	**-**	-	**(7.8)**	-
Other net interest income/(expense)	**12.8**	10.8	**(0.2)**	(0.1)	**12.6**	10.7
Total recognised in the Income Statement	**5.0**	10.8	**(0.2)**	(0.1)	**4.8**	10.7

On 26 October 2018 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 Group 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 Group is monitoring developments. The Directors consider that the High Court judgement has resulted in an amendment to scheme benefits resulting in a past service cost adjustment, which the Group's actuaries have estimated at £7.3m in respect of the B&B scheme and £0.5m in respect of the NRAM scheme. This has been charged to the Income Statement in the year (see note 7).

(a) Bradford & Bingley schemes

(i) Defined benefit pension scheme

The Group operated a defined benefit staff pension scheme, the Bradford & Bingley Staff Pension Scheme ('the B&B Scheme'), which is administered by 'the Trustee'. The Trustee is responsible for ensuring the B&B scheme meets its Statutory Funding Objective which is set by The Pensions Regulator. The B&B Scheme provided benefits to members on a final salary basis. On 31 December 2009 the B&B Scheme was closed to future service accrual; all members became deferred members and were given the option to join the Group's defined contribution scheme from 1 January 2010. The normal pension age of members of the B&B Scheme is 60 for those who left before 6 April 2005 and 65 for the other members. Deferred pension entitlement increases are calculated by reference to CPI.

The credit or cost to the Group of funding the B&B Scheme guaranteed benefits varies over time, dependent on market conditions and life expectancies. The credit in the year was £8.9m (31 March 2018: £5.9m) and the retirement benefit remeasurement gain recognised in other comprehensive income during the year was £11.4m (2018: £28.6m).

The assets of the B&B Scheme are held in a separate trustee-administered fund. The Trustee of the B&B Scheme has passed a resolution for the ultimate refund to B&B of any future surpluses on the B&B Scheme and as detailed in note 2(b) it is considered appropriate to carry net surpluses on the Scheme in full on the Balance Sheet.

The latest formal triennial valuation of the B&B scheme, prepared by the scheme actuaries as at 30 June 2018 and agreed in May 2019, showed a deficit of £22.3m on a Trustee's valuation basis.

The Trustee manages the volatility in the value of the B&B Scheme's assets by limiting the exposure to return-seeking assets and using liability-driven investment strategies to increase the level of hedging against investment risks. The two key investment risks are interest rate risk and inflation risk relating to the B&B Scheme's obligations. By holding swaps, fixed interest gilts, index-linked gilts and corporate bonds, approximately 90% of the interest rate risk and approximately 88% of the inflation risk has been hedged. The holding of return-seeking assets is close to the target level required to achieve the investment return assumed within the deficit recovery plan.

The B&B Scheme has a written guarantee from HM Treasury that benefits will be paid in full to the members.

(ii) Defined contribution pension scheme

The Group also operates a defined contribution pension scheme, the UKAR Pension Plan, into which both employees and the Group make contributions. The assets of this scheme are independent from those of the Group. The Group and Company had no liabilities or prepayments associated with this scheme at 31 March 2019 (31 March 2018: £nil). The cost in the year to the Group of this scheme was £0.7m (2018: £0.8m). The cost to the Group varies according to the number of employees in the Group and their salary levels but the Group has no risk of being required to provide additional funding to the scheme.

17. Retirement benefit assets and obligations (continued)

(a) Bradford & Bingley schemes (continued)

(iii) Other retirement benefit costs
The Group provides healthcare benefits to some of its pensioners. The healthcare benefits are provided through a scheme into which the Group contributes 100% towards the cost of providing the benefits for members who retired before 1 January 1996 and 50% for members who retired after this date. The value of the Group's obligation is assessed in accordance with the advice of a qualified actuary. The cost in the year to the Group of this scheme was £0.2m (2018: £0.1m) and the remeasurement gain recognised in the B&B Group's other comprehensive income during the year was £1.5m (2018: loss £3.7m). Other pension-related costs totalled £0.3m for the year (2018: £0.2m).

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

	Defined benefit pension plan		**Post-retirement medical benefits**		**Total**	
	31 March 2019 £m	31 March 2018 £m	**31 March 2019 £m**	31 March 2018 £m	**31 March 2019 £m**	31 March 2018 £m
Present value of defined benefit obligations	**(946.9)**	(947.0)	**(6.6)**	(8.2)	**(953.5)**	(955.2)
Fair value of defined benefit assets	**1,386.2**	1,302.8	**-**	-	**1,386.2**	1,302.8
Net defined benefit asset/(liability)	**439.3**	355.8	**(6.6)**	(8.2)	**432.7**	347.6

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

	Defined benefit pension plan		**Post-retirement medical benefits**		**Total**	
	12 months to 31 Mar 2019 £m	12 months to 31 Mar 2018 £m	**12 months to 31 Mar 2019 £m**	12 months to 31 Mar 2018 £m	**12 months to 31 Mar 2019 £m**	12 months to 31 Mar 2018 £m
GMP equalisation charge	**(7.3)**	-	**-**	-	**(7.3)**	-
Other net interest income/(expense)	**8.9**	5.9	**(0.2)**	(0.1)	**8.7**	5.8
Total recognised in the Income Statement	**1.6**	5.9	**(0.2)**	(0.1)	**1.4**	5.8

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

	Defined benefit pension plan		**Post-retirement medical benefits**		**Total**	
	12 months to 31 Mar 2019 £m	12 months to 31 Mar 2018 £m	**12 months to 31 Mar 2019 £m**	12 months to 31 Mar 2018 £m	**12 months to 31 Mar 2019 £m**	12 months to 31 Mar 2018 £m
At start of year	**947.0**	1,047.5	**8.2**	4.7	**955.2**	1,052.2
Interest on defined benefit obligations	**24.8**	27.5	**0.2**	0.1	**25.0**	27.6
Remeasurements:						
- effect of GMP equalisation	**7.3**	-	**-**	-	**7.3**	-
- effect of changes in demographic assumptions	**(42.1)**	-	**(0.3)**	-	**(42.4)**	-
- effect of changes in financial assumptions	**51.2**	(46.6)	**0.1**	(0.1)	**51.3**	(46.7)
- effect of experience adjustments	**13.6**	-	**(1.3)**	3.8	**12.3**	3.8
Benefits paid from plan	**(54.9)**	(81.4)	**(0.3)**	(0.3)	**(55.2)**	(81.7)
At end of year	**946.9**	947.0	**6.6**	8.2	**953.5**	955.2

17. Retirement benefit assets and obligations (continued)

(a) Bradford & Bingley schemes (continued)

Defined benefit obligations (continued)

Movements in the fair value of defined benefit assets were as follows:

	Defined benefit pension plan		Post-retirement Medical benefits		Total	
	12 months to 31 Mar 2019 £m	12 months to 31 Mar 2018 £m	**12 months to 31 Mar 2019 £m**	12 months to 31 Mar 2018 £m	**12 months to 31 Mar 2019 £m**	12 months to 31 Mar 2018 £m
At start of year	**1,302.8**	1,304.8	**-**	-	**1,302.8**	1,304.8
Interest income on defined benefit assets	**34.8**	33.4	**-**	-	**34.8**	33.4
Defined benefit company contributions	**70.3**	63.9	**(0.3)**	(0.3)	**70.0**	63.6
Remeasurements						
- return on plan assets (excluding interest income)	**34.1**	(17.0)	**-**	-	**34.1**	(17.0)
Administrative expenses paid from plan assets	**(0.9)**	(0.9)	**-**	-	**(0.9)**	(0.9)
Benefits paid from plan	**(54.9)**	(81.4)	**0.3**	0.3	**(54.6)**	(81.1)
At end of year	**1,386.2**	1,302.8	**-**	-	**1,386.2**	1,302.8

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

	31 March 2019			31 March 2018		
	Quoted £m	**Unquoted £m**	**Total £m**	Quoted £m	Unquoted £m	Total £m
Equity instruments	**79.0**	**6.5**	**85.5**	164.0	6.3	170.3
Property	**-**	**0.1**	**0.1**	-	0.3	0.3
Bonds:						
- of which UK	**115.7**	**-**	**115.7**	112.8	-	112.8
- of which overseas	**61.7**	**-**	**61.7**	59.6	-	59.6
Diversified growth fund	**25.2**	**-**	**25.2**	50.4	-	50.4
Liability hedging investments	**1,058.3**	**-**	**1,058.3**	1,020.0	-	1,020.0
Repurchase agreements	**(21.6)**	**-**	**(21.6)**	(158.7)		(158.7)
Cash and cash equivalents	**2.2**	**59.1**	**61.3**	2.7	45.4	48.1
Total	**1,320.5**	**65.7**	**1,386.2**	1,250.8	52.0	1,302.8

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

	31 March 2019	31 March 2018
To determine benefit obligations:		
Discount rate	**2.50%**	2.70%
Inflation (RPI)	**3.20%**	3.15%
Inflation (CPI)	**2.20%**	2.15%
Future pension increases	**3.15%**	3.05%
To determine net pension cost:		
Discount rate	**2.70%**	2.60%
For post-retirement medical plan:		
Discount rate	**2.50%**	2.70%
Medical cost trend for duration of liability	**5.50%**	5.50%

In determining the expected long-term return on defined benefit assets, the Group considered the current level of expected returns on risk-free investments (primarily government bonds), the historical level of risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns on each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term return for the portfolio.

17. Retirement benefit assets and obligations (continued)

(a) Bradford & Bingley schemes (continued)

Defined benefit obligations (continued)

The table below shows the life expectancy assumptions from age 60:

	31 March 2019		31 March 2018	
	Pensioner	**Non-retired member**	Pensioner	Non-retired member
Male	**27.4**	**28.8**	28.5	29.9
Female	**29.9**	**31.3**	31.1	32.7

Maturity profile of the obligation

At 31 March 2019 the defined benefit pension scheme had a weighted average maturity of around 20 years (2018: 24 years).

Sensitivity

The following table illustrates the sensitivity of the defined benefit pension scheme obligations to three key assumptions: the discount rate, the rate of inflation and the mortality assumption:

Assumption	**Change in assumption**	**Impact on obligations**	**£m**
Discount rate	Decrease by 0.5%	Increase by 11%	**101.0**
Inflation	Increase by 0.5%	Increase by 9%	**85.8**
Mortality	Decrease by 1 year	Increase by 4%	**33.2**

In each case, the impact is calculated by applying the one change, with all other assumptions unchanged. If the assumptions were to change by the same amount in the opposite direction to those illustrated, the obligations would decrease by a similar percentage to those shown in the table in each case.

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

	31 March 2019 £m	31 March 2018 £m
Effect on interest cost	**-**	-
Effect on defined benefit obligation	**0.8**	1.1

(b) NRAM scheme

Northern Rock plc operated a staff pension scheme which was closed on 31 December 2009 and is now known as the NRAM Scheme. The NRAM Scheme is administered by 'the Trustee' who is responsible for ensuring the NRAM Scheme meets its Statutory Funding Objective which is set by The Pensions Regulator. The NRAM Scheme provided benefits to members on a final salary basis. The normal pension age of members of the NRAM Scheme is 60. Deferred pension entitlement increases are calculated by reference to RPI.

The credit or cost to the Group of funding the NRAM Scheme guaranteed benefits varies over time, dependent on market conditions and life expectancies. The credit in the year was £3.9m (2018: £4.9m) and the retirement benefit remeasurement loss recognised in other comprehensive income during the year was £7.5m (2018: £68.8m loss).

The assets of the NRAM Scheme are held in a separate trustee-administered fund. The Trustee of the NRAM Scheme has passed a resolution for the ultimate refund to NRAM of any future surpluses on the NRAM Scheme and as detailed in note 2(b) it is considered appropriate to carry net surpluses on the Scheme in full on the Balance Sheet.

The latest formal triennial valuation of the NRAM Scheme, prepared by the scheme actuaries at 5 April 2018 and agreed in May 2019, showed a surplus of £37.2m on a Trustee's valuation basis.

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

17. Retirement benefit assets and obligations (continued)

(b) NRAM scheme (continued)

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

	31 March 2019 £m	31 March 2018 £m
Present value of defined benefit obligations	**(491.2)**	(525.4)
Fair value of defined benefit assets	**705.2**	713.5
Net defined benefit asset	**214.0**	188.1

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

	12 months to 31 March 2019 £m	12 months to 31 March 2018 £m
GMP equalisation charge	**(0.5)**	-
Other net interest income	**3.9**	4.9
Total recognised in the Income Statement	**3.4**	4.9

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

	12 months to 31 March 2019 £m	12 months to 31 March 2018 £m
At start of year	**525.4**	702.9
Interest on defined benefit obligations	**13.4**	15.0
Remeasurements:		
- effect of GMP equalisation	**0.5**	-
- effect of changes in demographic assumptions	**(18.1)**	-
- effect of changes in financial assumptions	**22.5**	(17.0)
- effect of experience adjustments	**9.3**	73.2
Transfer payments	**(47.8)**	(233.0)
Benefits paid from plan	**(14.0)**	(15.7)
At end of year	**491.2**	525.4

Movements in the fair value of defined benefit assets were as follows:

	12 months to 31 March 2019 £m	12 months to 31 March 2018 £m
At start of year	**713.5**	925.0
Interest income on defined benefit assets	**17.3**	20.0
Defined benefit company contributions	**30.0**	30.0
Remeasurements:		
- return on plan assets (excluding interest income)	**6.2**	(12.8)
Transfer payments	**(47.8)**	(233.0)
Benefits paid from plan	**(14.0)**	(15.7)
At end of year	**705.2**	713.5

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

		31 March 2019			31 March 2018	
	Quoted £m	**Unquoted £m**	**Total £m**	Quoted £m	Unquoted £m	Total £m
Bulk annuity contracts	**-**	**273.3**	**273.3**	-	276.3	276.3
Liability hedging investments	**380.1**	**-**	**380.1**	393.8	-	393.8
Cash and cash equivalents	**9.9**	**41.9**	**51.8**	43.4	-	43.4
Total	**390.0**	**315.2**	**705.2**	437.2	276.3	713.5

17. Retirement benefit assets and obligations (continued)

(**b) NRAM scheme** (continued)

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

	31 March 2019	31 March 2018
To determine benefit obligations:		
Discount rate	**2.50%**	2.70%
Inflation (RPI)	**3.20%**	3.15%
Future pension increases	**1.95% - 3.60%**	1.90% - 3.55%
To determine net pension cost:		
Discount rate	**2.70%**	2.60%

In determining the expected long-term return on defined benefit assets, the UKAR Group considered the current level of expected returns on risk-free investments (primarily government bonds), the historical level of risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns on each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term return for the portfolio.

The table below shows the life expectancy assumptions from age 60:

	31 March 2019		31 March 2018	
	Pensioner	**Non-retired member**	Pensioner	Non-retired member
Male	**28.2**	**29.6**	29.2	30.9
Female	**30.2**	**31.6**	31.4	33.2

Maturity profile of the obligation
At 31 March 2018 the defined benefit pension scheme had a weighted average maturity of around 20 years (2018: 22 years).

Sensitivity
The following table illustrates the sensitivity of the defined benefit pension scheme obligations to three key assumptions: the discount rate, the rate of inflation and the mortality assumption:

Assumption	**Change in assumption**	**Impact on obligations**	**£m**
Discount rate	Decrease by 0.5%	Increase by 11%	**54.0**
Inflation	Increase by 0.5%	Increase by 5%	**24.6**
Mortality	Decrease by 1 year	Increase by 3%	**14.7**

In each case, the impact is calculated by applying the one change, with all other assumptions unchanged. If the assumptions were to change by the same amount in the opposite direction to those illustrated, the obligations would decrease by a similar percentage to those shown in the table in each case.

18. Intangible assets

	12 months to 31 March 2019 £m	12 months to 31 March 2018 £m
Cost		
At start of year	**10.0**	8.8
Additions	**0.2**	1.2
Disposals	**(10.2)**	-
At end of year	**-**	10.0
Impairment and amortisation		
At start of year	**6.7**	4.1
Amortisation charged in year	**3.5**	2.6
Disposals	**(10.2)**	-
At end of year	**-**	6.7
Net book amount:		
At start of year	**3.3**	4.7
At end of year	**-**	3.3

Intangible assets comprised capitalised computer software systems and licences.

The Group's remaining intangible assets have been written off as a result of the transfer of the operations of UKARcs to National Savings & Investments with effect from 1 April 2019, as detailed in note 35(b).

19. Statutory Debt and HM Treasury loans

	31 March 2019 £m	31 March 2018 £m
HM Treasury loan to NRAM	**1,513.6**	2,717.7
B&B Statutory Debt	**462.4**	7,439.6
HM Treasury Working Capital Facility ('WCF') to B&B	**-**	121.5
Total	**1,976.0**	10,278.8

At 31 March 2019 and 31 March 2018 NRAM had a loan from HM Treasury. Interest was charged at Bank of England Base Rate + 100 bps with effect from 4 May 2012 and prior to that date at Bank of England Base Rate + 25 bps. In respect of this loan, HM Treasury has a fixed charge on certain of NRAM's assets and a floating charge over all of NRAM's assets. As detailed in note 35(a), subsequent to the Balance Sheet date the remaining balance on this loan was repaid.

At 31 March 2019 and 31 March 2018 B&B had an interest-free Statutory Debt. This replaced B&B's savings-related assets and liabilities which were transferred to Banco Santander Group on 29 September 2008. On inception, £15,654.5m of the Statutory Debt was owed to the FSCS. At the time of nationalisation of B&B, the FSCS covered the first £35,000 per depositor; HM Treasury agreed to cover the excess over £35,000, amounting to a total of £2,761.7m. It was expected that the Statutory Debt would be repaid out of the cash flows generated by B&B during its wind-down, principally comprising interest and redemptions arising on loans to customers and proceeds of asset sales. The Statutory Debt owed to the FSCS was fully repaid during the years ended 31 March 2018 (£10,976.6m) and 31 March 2019 (£4,677.9m). During the year ended 31 March 2019 £2,299.3m of the Statutory Debt owed to HM Treasury was repaid. As detailed in note 35(a), subsequent to the Balance Sheet date the remaining balance on this loan was repaid.

B&B has an interest-bearing WCF provided by HM Treasury. Interest is charged at Bank of England Base Rate + 500bps. HM Treasury has the option to vary the rate charged. At 31 March 2018 B&B had a balance of £120.6m in this facility; £121.5m including accrued interest. HM Treasury had indicated that it expected the WCF to be repaid out of the cash flows generated by B&B during its wind-down. During the year the balance on the WCF was repaid but the facility remains in place.

20. Debt securities in issue

Debt securities in issue comprise £200.0m of notes issued under NRAM's Medium Term Notes programme. These notes bear interest at 6.375% p.a. and are due to be redeemed on 2 December 2019.

21. Other liabilities

	At 31 March 2019 £m	At 31 March 2018 £m
Accruals and deferred income	**41.7**	41.2
Other	**23.4**	52.0
Total	**65.1**	93.2

22. Deferred taxation

The net deferred taxation liability is attributable to the following:

	Assets		**Liabilities**		**Net**	
	31 Mar 2019 £m	31 Mar 2018 £m	**31 Mar 2019 £m**	31 Mar 2018 £m	**31 Mar 2019 £m**	31 Mar 2018 £m
Available-for-sale reserve	**0.8**	-	**-**	-	**0.8**	-
Fair value reserve	**-**	-	**(20.0)**	-	**(20.0)**	-
Impairment of loans to customers	**5.3**	-	**-**	-	**5.3**	-
Employee benefits	**-**	-	**(99.9)**	(86.1)	**(99.9)**	(86.1)
Accelerated tax depreciation	**1.5**	1.9	**-**	-	**1.5**	1.9
Losses carried forward	**0.5**	-	**-**	-	**0.5**	-
	8.1	1.9	**(119.9)**	(86.1)	**(111.8)**	(84.2)
Offset	**(8.1)**	(1.9)	**8.1**	1.9	**-**	-
Total	**-**	-	**(111.8)**	(84.2)	**(111.8)**	(84.2)

There were no deferred tax assets unrecognised at 31 March 2019 (2018: £nil).

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

	1 April 2018 £m	**Impact of adoption of IFRS 9* £m**	**Recognised In income £m**	**Recognised in equity £m**	**31 March 2019 £m**
Available-for-sale reserve	**-**	**-**	**0.8**	**-**	**0.8**
Fair value reserve	**-**	**(109.9)**	**-**	**89.9**	**(20.0)**
Impairment of loans to customers	**-**	**5.9**	**(0.6)**	**-**	**5.3**
Employee benefits	**(86.1)**	**-**	**(12.9)**	**(0.9)**	**(99.9)**
Accelerated tax depreciation	**1.9**	**-**	**(0.4)**	**-**	**1.5**
Losses carried forward	**-**	-	**0.5**	-	**0.5**
Total	**(84.2)**	**(104.0)**	**(12.6)**	**89.0**	**(111.8)**

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

* The Group adopted IFRS 9 with effect from 1 April 2018 (see note 30).

23. Provisions

	Customer redress £m	Onerous contracts £m	Restructuring £m	Total £m
At 1 April 2018	**123.9**	**0.2**	**12.7**	**136.8**
Utilised in the year	**(98.4)**	**-**	**-**	**(98.4)**
Charged in the year	**76.7**	**-**	**-**	**76.7**
Released in the year	**(18.9)**	**-**	**(1.2)**	**(20.1)**
Reclassified in the year	**4.5**	**-**	**(4.5)**	**-**
At 31 March 2019	**87.8**	**0.2**	**7.0**	**95.0**

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

UKAR remains committed to doing the right thing for our customers and where we identify issues that have caused customer detriment, we will ensure that they are fully remediated. Provisions include £87.8m (2018: £123.9m) in respect of potential claims from customers regarding PPI and other customer redress and related costs. 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 34(d)). Actual PPI claims volumes during the year have been higher than previously modelled and therefore an additional provision of £64.0m has been recognised. This also reflects the heightened awareness of the PPI deadline and the requirement proactively to contact previously rejected mis-selling complainants who are eligible to complain again following the Plevin v Paragon Personal Finance Limited ('Plevin') decision. During the year, provisions for certain other remediation issues were increased by £12.7m and £18.9m was released in respect of other remediation issues which are now finalised. £4.5m of provisions were reclassified from restructuring to customer remediation. During the year ended 31 March 2018 provisions were increased by £43.5m in respect of customer remediation.

It is expected that the majority of the remaining customer redress provisions will be utilised by the end of 2019.

The restructuring provision relates primarily to outstanding costs in relation to the organisational restructure in 2016/17.

The onerous contracts provision relates to empty leasehold premises which, as at the Balance Sheet date, were no longer used by the business but were subject to lease agreements. The rental payments are due to be made during the period to 2022.

24. Share capital

Group and Company **Issued and fully paid**	**25p Ordinary shares Number**	**25p Ordinary shares £**	**Total share capital £**
At 1 April 2017, 31 March 2018 and 31 March 2019	**4,959,595**	**1,239,899**	**1,239,899**

In accordance with the Companies Act 2006, the Company does not have authorised capital other than its issued capital.

The Ordinary shares rank equally in respect of rights attached to voting, dividends and in the event of a winding up.

No dividends were declared or paid in 2018/19 or 2017/18 on the Company's Ordinary shares. No dividends had been proposed by the date of approval of these Financial Statements.

25. Reserves

Reserves comprise the following

	31 March 2019 £m	31 March 2018 £m
Fair value reserve	**85.3**	-
Merger reserve	**1,130.1**	1,141.7
Total	**1,215.4**	1,141.7

Fair value reserve	**Year ended 31 March 2019 £m**
At 31 March 2018 under IAS 39	**-**
Remeasurement of loans to customers carried at FVOCI	**578.5**
Tax effect of the above	**(109.9)**
At 1 April 2018 under IFRS 9	**468.6**
Amounts recognised in equity	**(354.6)**
Amounts reclassified to profit or loss	**(118.6)**
Movement in deferred tax	**89.9**
At 31 March 2019	**85.3**

The fair value reserve represents cumulative fair value movements on assets carried at FVOCI net of deferred tax. The amounts reclassified to profit or loss represent the accumulated fair value movements up to the point of sale of FVOCI assets sold during the year.

Merger reserve

The balance is made up of:	**31 March 2019 £m**	31 March 2018 £m
Generated on acquisition of B&B	**589.3**	589.3
Generated on acquisition of NRAM	**540.8**	552.4
Total	**1,130.1**	1,141.7

The merger reserve was generated on 1 October 2010 when the Company acquired all the issued shares of B&B and NRAM plc from the Treasury Solicitor via a share-for-share exchange and is non-distributable. The merger reserve represents the difference between the value attributed to the Company's investment in each company and the capital and non-distributable reserves of the acquired groups.

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

26. Financing activities

This note provides disclosure of movements during the year in the liabilities which the Group categorises for the purposes of the Cash Flow Statement as financing.

			2019			2018
	Statutory Debt and HM Treasury loans £m	**Debt securities In issue £m**	**Total £m**	Statutory Debt and HM Treasury loans £m	Debt securities In issue £m	Total £m
Principal balance at start of year	**10,274.3**	**200.0**	**10,474.3**	25,016.6	200.0	25,216.6
Principal repayments	**(8,300.7)**	**-**	**(8,300.7)**	(14,742.3)	-	(14,742.3)
Principal balance at end of year	**1,973.6**	**200.0**	**2,173.6**	10,274.3	200.0	10,474.3

27. Off-Balance Sheet commitments payable

At 31 March 2019	**Within one year £m**	**In one to five years £m**	**Over five years £m**	**Total £m**
Loan commitments:				
- equity release mortgages	**0.4**	**1.4**	**1.6**	**3.4**
- other loans	**71.0**	**-**	**-**	**71.0**
Total loan commitments	**71.4**	**1.4**	**1.6**	**74.4**
Operating lease commitments:				
- land and buildings	**2.5**	**10.1**	**9.9**	**22.5**
Total	**73.9**	**11.5**	**11.5**	**96.9**

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

Loan commitments represent contractual amounts to which the Group is committed for extension of credit to customers. In respect of equity release mortgages, the commitment reflects estimates of future drawdowns. On other loans, the commitment comprises cash which could be drawn down by customers in respect of amounts previously overpaid. Loan commitments exclude those in respect of loans classified as held for sale.

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

28. Related party disclosures

(a) Key management personnel

The Group considers the Boards of Directors and the members of the Executive Committees of UKAR, B&B and NRAM to be the key management personnel. There were no amounts owed to or by key management personnel at any time during the year (2018: £nil).

A summary of the Group's remuneration of the 12 (2018: 13) key management personnel is set out in the table below. These amounts include the remuneration of the Directors which is set out in more detail in the Directors' Remuneration Report on pages 32 to 45. The Directors' Remuneration Report gives details of the UKAR Group's Directors' salaries, fees, bonuses, pension benefits, other incentives and other benefits.

Remuneration of key management personnel	**12 months to 31 March 2019 £000**	12 months to 31 March 2018 £000
Short-term employee benefits	**2,291**	2,317
Other long-term benefits	**241**	222
Post-employment benefits	**27**	158
Termination benefits	**269**	-
Total	**2,828**	2,697

Further details of the accounting treatment of pensions and of the Group's transactions and balances with the Group's pension schemes are given in note 17. There were no amounts due to or from the schemes at 31 March 2019 (31 March 2018: £nil). The key management personnel contributed £9,131 (2018: £45,310) to Group pension schemes during the year.

Included in the Group's Income Statement, the aggregate Directors' emoluments and the emoluments of the highest paid Director amounted to £1,065,917 and £650,917 respectively (2018: 1,032,440 and £610,773 respectively). The Directors made no payments during the year or previous year into the Group's money purchase pension scheme, and the Group made no payments into this scheme in respect of the Directors during the year or previous year. The Group did not make any loss of office payments to Directors in the year (2018: £nil).

28. Related party disclosures (continued)

(b) UK government

As described in note H to the Parent Company Financial Statements, the Company considers the UK government to be its ultimate controlling party. The Group's material balances with departments and bodies of the government comprise deposits with the Bank of England and the Government Banking Service (see note 11), loans from HM Treasury (see note 19) and the Statutory Debt (see note 19). HM Treasury has also provided guarantee arrangements to the Group, for which the Group pays fees. In addition to these loans and guarantees the Group has balances and transactions with numerous government bodies on an arm's length basis in relation to the payment of corporation tax, VAT and employee taxes and the payment of regulatory fees and levies. The Group has balances and transactions with UKGI and with banks over which the UK government has significant influence; these were made in the ordinary course of business and are not unusual in their nature or conditions. In the year, the Group paid £0.6m (2018: £0.9m) relating to advisors to UKGI on UKAR's future strategy.

(c) UKAR Company

The UKAR Company's balances and transactions with related parties are detailed in note F to the Parent Company Financial Statements**.**

29. Capital structure

The UK financial regulator the FCA regulates B&B, NRAM and Mortgage Express under the MIPRU regime which applies to mortgage administration companies. Each of these companies manages its capital resources in order to meet the FCA's regulatory requirements. Capital adequacy is monitored on an ongoing basis by the Group's executive management and Board based on the regulations established by the FCA. Each of these companies met its capital requirements in full throughout 2018/19 and 2017/18; further information in respect of B&B, NRAM and Mortgage Express is available in the Annual Reports & Accounts of those companies, which do not form part of these Financial Statements. The Board considers core equity, formerly tier 1 capital, to be of pre-eminent importance in the capital structure of the regulated companies and continues to monitor this closely, in addition to the total level of capital. The Directors believe that each regulated Group company has an appropriate and adequate level of capital to support its activities, subject to the continuing support of HM Treasury. While FCA rules require the regulated companies within the Group to hold capital in excess of 1% of total Balance Sheet assets plus any undrawn commitments, the Board believes it appropriate that they should each hold a higher level of capital reflecting the increased risk in the business compared to a standard MIPRU firm. As at 31 March 2019, capital in B&B represented 21.5% (2018: 24.0%) of B&B company assets, NRAM capital represented 69.3% (2018: 58.7%) of NRAM company assets and capital of Mortgage Express represented 31.3% (2018: 16.7%) of Mortgage Express's assets. In January 2019 Mortgage Express declared an interim dividend of £445.0m to B&B and B&B declared an interim dividend of £2bn to UKAR. The £2bn increased the Company's equity; the UKAR Group's equity was unaffected by this dividend.

The primary objectives of the Group's capital management are to maintain capital resources to support the objectives of the business, to cover risks inherent in its activities and to ensure compliance with externally imposed capital requirements. The capital structure is managed in response to changes in the nature of the Group's activities and economic conditions.

The Group defines equity as capital. Capital excludes accounting reserves for assets carried as FVOCI under IFRS 9 and hence capital is unaffected by IFRS 9 fair value movements on loans to customers. The Group's capital adequacy and capital resources are managed and monitored in accordance with the regulatory capital rules of the FCA. Each regulated company must at all times monitor and demonstrate compliance with the relevant regulatory capital requirements of the FCA. The required capital information is filed with the FCA on a quarterly basis.

The Company's capital is represented by the capital and reserves attributable to the equity holder. The Company is not subject to externally imposed capital requirements other than the minimum share capital required by the Companies Act, with which it complies. The Company manages its capital and reserves in order that there is sufficient capital to meet the needs of the Company in its operations.

30. Adoption of IFRS 9

The Group adopted IFRS 9 with effect from 1 April 2018. As permitted by the transitional provisions of IFRS 9, prior periods have not been restated. At the date of initial application of IFRS 9, management determined that ascertaining which loans had experienced a significant increase in credit risk since inception would require undue cost and effort and in some cases the information concerning credit quality at inception (which would have been in 2008 or earlier) may be incomplete. As permitted by the transitional provisions of IFRS 9, all loans have been categorised as stage 2 or 3, and lifetime ECLs recognised. Further information regarding the stage categorisation is provided in note 1(n).

(i) Classification and measurement

The following table shows the classification of financial assets and financial 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**

Under IFRS 9, classification of financial assets is determined by the business model under which the assets are managed and the contractual cash flow characteristics of the assets. Financial assets may be measured at amortised cost, FVP&L or FVOCI. For assets carried at FVOCI, 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.

The business model may be considered to be one of holding the asset to collect the cash flows arising; holding the asset to sell it or to collect the cash flows arising; or holding the asset to sell it. IFRS 9 requires the business model to be assessed on the date of first application of IFRS 9, i.e. 1 April 2018.

The contractual cash flow characteristics of an asset may be considered to be SPPI (see note 1(g)) or not SPPI.

The measurement classifications of financial assets are as follows:

	SPPI	Not SPPI
Held to collect	Amortised cost	FVP&L
Held to collect and sell	FVOCI	FVP&L
Held to sell	FVP&L	FVP&L

The Group's business model for its loans to customers is one of held to collect and sell, as detailed in note 1(g).

30. Adoption of IFRS 9 (continued)

(i) Classification and measurement (continued)

During the year the Group had 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 6).

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 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.

IFRS 9 replaces the IAS 39 'incurred loss' approach to impairment provisioning with a forward-looking 'expected loss' approach. Further detail in respect of loans to customers is provided in note 1(n). Other than in respect of loans to customers, expected losses on the Group's financial assets are not considered to be material.

30. Adoption of IFRS 9 (continued)

(ii) Transition on 1 April 2018

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	Reclassification £m	Remeasurement £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	26.2	-	-	26.2
Retirement benefit assets	543.9	-	-	543.9
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**

30. Adoption of IFRS 9 (continued)

(ii) Transition on 1 April 2018 (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 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. 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**

The following table explains the impact of the adoption of IFRS 9 on the Group's impairment allowances at 31 March 2018:

Impairment allowances against loans to customers:	**On residential mortgages £m**	**On commercial loans £m**	**On unsecured loans £m**	**On held for sale loans £m**	**Total £m**
Balance under IAS 39	**227.5**	**12.2**	**55.6**	**11.0**	**306.3**
Lifetime ECL	**54.3**	**-**	**17.3**	**-**	**71.6**
Loss allowance against loan commitments	**2.7**	**-**	**-**	**-**	**2.7**
Base case future economics	**(74.9)**	**-**	**(0.8)**	**-**	**(75.7)**
Multiple economic scenarios	**33.6**	**-**	**1.8**	**-**	**35.4**
Balance under IFRS 9	**243.2**	**12.2**	**73.9**	**11.0**	**340.3**

Lifetime ECL: IFRS 9 requires a lifetime ECL on all loans that have experienced a significant increase in credit risk. Under IAS 39, an impairment provision would only have been recognised against these accounts to the extent that there were observable indicators of impairment.

Loss allowance against loan commitments: under IFRS 9, an impairment provision is required to be held against undrawn loan commitments.

Base case future economics: under IFRS 9, each of the Group's loans has a lifetime ECL. The calculation of lifetime losses is impacted by future economic factors, such as HPI and interest rates. Changes in the future economic forecasts over time lead to movements in expected losses. This movement represents the impact of applying the base case economic scenarios on the ECL provision, with the inclusion of future house price growth having the most significant impact.

Multiple economic scenarios: IFRS 9 requires that multiple economic scenarios are used in the modelling of ECLs, which are based on management's view of the potential future economic environment. The details of the economic scenarios used in the ECL calculation can be found in note 2(c)(ii).

(iii) Taxation

HMRC has confirmed that for tax purposes the impact on impairment provisions of the transition to IFRS 9 will be allowed for tax over a 10 year period. Deferred tax was provided at 1 April 2018 in respect of the change to impairment provisions, and credited to retained earnings; this deferred tax balance will be released to the Income Statement tax charge over 10 years, the first release having taken place at 31 March 2019. Deferred tax has also been provided in respect of the change to fair value, and charged to the fair value reserve. Whilst fair value movements taken to reserves are not taxed they will be recycled to the Income Statement when the asset is sold or matures.

(iv) Hedge accounting

As of 31 March 2018 the Group had no hedge accounting other than the fair value macro-hedging of the equity release mortgages. As IFRS 9 does not deal with macro-hedging, the Group continued to apply the IAS 39 macro-hedge accounting rules.

31. Financial instruments

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

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

At 31 March 2019	Assets at amortised cost £m	Assets at FVOCI £m	Total carrying value £m	Fair value £m
Financial assets:				
Cash at bank and in hand	**723.6**	**-**	**723.6**	**723.6**
Amount owed in respect of sale of loans	**4,473.7**	**-**	**4,473.7**	**4,473.7**
Loans to customers	**-**	**5,517.5**	**5,517.5**	**5,517.5**
Other financial assets	**1.7**	**-**	**1.7**	**1.7**
Total financial assets	**5,199.0**	**5,517.5**	**10,716.5**	**10,716.5**

	Liabilities at fair value through profit or loss £m	Liabilities at amortised cost £m	Total carrying value £m	Fair value £m
Financial liabilities:				
Statutory Debt and HM Treasury loans	**-**	**1,976.0**	**1,976.0**	**1,976.0**
Debt securities in issue	**-**	**204.2**	**204.2**	**210.1**
Other financial liabilities	**-**	**51.4**	**51.4**	**51.4**
Total financial liabilities	**-**	**2,231.6**	**2,231.6**	**2,237.5**

At 31 March 2018	Available-for-sale £m	Assets at fair value through profit or loss £m	Loans and receivables £m	Hedging adjustments £m	Total carrying value £m	Fair value (restated*) £m
Financial assets:						
Cash at bank and in hand	-	-	1,571.8	-	1,571.8	1,571.8
Loans to customers	-	-	11,503.2	-	11,503.2	12,047.7
Assets classified as held for sale: loans to customers	-	-	4,991.6	-	4,991.6	5,113.1
Fair value adjustments on portfolio hedging	-	-	-	420.9	420.9	-
Other financial assets	-	-	4.9	-	4.9	4.9
Total financial assets	-	-	18,071.5	420.9	18,492.4	18,737.5

	Liabilities at fair value through profit or loss £m	Liabilities at amortised cost £m	Hedging adjustments £m	Total carrying value £m	Fair value £m
Financial liabilities:					
Statutory Debt and HM Treasury loans	-	10,278.8	-	10,278.8	10,278.8
Derivative financial instruments	471.8	-	-	471.8	471.8
Debt securities in issue	-	204.2	-	204.2	219.4
Other financial liabilities	-	79.7	-	79.7	79.7
Total financial liabilities	471.8	10,562.7	-	11,034.5	11,049.7

* The fair value of loans to customers at 31 March 2018 has been restated 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 financial assets or liabilities were reclassified during the current or previous year between amortised cost and fair value categories. As detailed in note 30 the Group has adopted IFRS 9 with effect from 1 April 2018, at which point the Group's loan to customers became classified as FVOCI.

31. Financial instruments (continued)

(b) Interest income and expense by category of financial instrument

	12 months to 31 March 2019 £m	12 months to 31 March 2018 £m
Interest income recognised on an EIR method:		
On equity release mortgages	**42.5**	97.7
On loans to customers carried at amortised cost	**-**	548.9
On other financial assets carried at amortised cost	**10.1**	10.4
	52.6	657.0
On loans to customers carried at FVOCI	**417.4**	-
Total interest income recognised on an EIR method	**470.0**	657.0
Derivative interest expense recognised on an accruals basis, in hedging relationships and offset against interest income	**(14.8)**	(42.0)
Total interest income per the Income Statement	**455.2**	615.0
Interest expense recognised on an EIR method:		
On financial liabilities carried at amortised cost	**(48.9)**	(108.7)
Other interest expense:		
Interest on tax released/(accrued)	**8.4**	(0.2)
Total interest expense per the Income Statement	**(40.5)**	(108.9)

(c) Impaired financial assets

Allowance accounts for credit losses in respect of impairment of loans to customers and held for sale loans are detailed in note 13. 15 investment securities are held which were written off in previous years and the associated impairment allowance released as there is strong evidence to support that nothing will be recovered. No impairment loss has been recognised in respect of any other class of financial asset and no other class of financial asset includes assets that are past due.

(d) Hedge accounting

Strategy in using derivative financial instruments

The Board has authorised the use of derivative instruments for the purpose of supporting the strategic and operational business activities of the Group and reducing the risk of loss arising in the Group from changes in interest rates and exchange rates. All use of derivative instruments within the Group is to hedge risk exposure and the Group takes no trading positions in derivatives. No derivative instruments were held at 31 March 2019 (31 March 2018: liabilities of £471.8m).

During the year the Group had no hedge accounting other than the portfolio fair value hedge of the interest rate swaps used to mitigate the interest rate risk in the equity release mortgages (see note 15).

(e) Fair value measurement

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

At 31 March 2019	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets:				
Loans to customers	**-**	**-**	**5,517.5**	**5,517.5**
Net financial assets	**-**	**-**	**5,517.5**	**5,517.5**

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability, whether directly (i.e. as price) or indirectly (i.e. derived from the implications of prices).

Level 3: Inputs for the asset or liability that are not based on observable market data, or have significant unobservable inputs.

There were no transfers between Levels 1, 2 and 3 during the year (2018: none).

31. Financial instruments (continued)

(e) Fair value measurement (continued)

The methodology for calculating the fair value of loans to customers is detailed in note 2(d). The same methodology is used for loans to customers which are held for sale, but taking into account indicative sale prices if these are available.

Derivative financial instruments which are categorised as Level 2 are those which either:

(a) Have future cash flows which are on known dates and for which the cash flow amounts are known or calculable by reference to observable interest and foreign currency exchange rates; or

(b) Have future cash flows which are not pre-defined but for which the fair value of the instrument has very low sensitivity to unobservable inputs.

In each case the fair value is calculated by discounting future cash flows using observable market parameters including swap rates, interest rates and currency rates.

For financial assets and liabilities which are not carried at fair value, the fair values disclosed in note 31(a) are calculated on the following bases:

At 31 March 2019	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets:				
Cash at bank and in hand	**723.6**	**-**	**-**	**723.6**
Amount owed in respect of sale of loans	**-**	**4,473.7**	**-**	**4,473.7**
Other financial assets	**-**	**1.7**	**-**	**1.7**
	723.6	**4,475.4**	**-**	**5,199.0**
Financial liabilities:				
Statutory Debt and HM Treasury loans	**1,976.0**	**-**	**-**	**1,976.0**
Debt securities in issue	**-**	**210.1**	**-**	**210.1**
Other financial liabilities	**-**	**51.4**	**-**	**51.4**
	1,976.0	**261.5**	**-**	**2,237.5**

At 31 March 2018	Level 1 £m	Level 2 £m	Level 3 £m	Total (restated*) £m
Financial assets:				
Cash at bank and in hand	1,571.8	-	-	1,571.8
Loans to customers	-	-	12,047.7	12,047.7
Assets classified as held for sale: loans to customers	-	5,113.1	-	5,113.1
Other financial assets	-	4.9	-	4.9
	1,571.8	5,118.0	12,047.7	18,737.5
Financial liabilities:				
Statutory Debt and HM Treasury loans	10,278.8	-	-	10,278.8
Debt securities in issue	-	219.4	-	219.4
Other financial liabilities	-	79.7	-	79.7
	10,278.8	299.1	-	10,577.9

* The fair value of loans to customers at 31 March 2018 has been restated 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. The methodology for calculating the fair value of loans to customers is detailed in note 2(d).

Valuation methods for calculations of fair values in the table above are as follows:

Cash at bank and in hand
The fair value is estimated to be the carrying amount as the balances are considered to be repayable on demand.

Statutory Debt and HM Treasury loans
The fair value is estimated to be the carrying amount as the loans are considered to be repayable on demand subject to timing of repayment of loans to customers.

Debt securities in issue
Fair values are based on quoted prices

Other financial assets and liabilities
Fair value approximates to carrying value because the balances are short term in nature.

31. Financial instruments (continued)

(f) Offsetting

No financial assets have been offset against financial liabilities. Balances which are subject to enforceable master netting arrangements or similar agreements are as follows:

At 31 March 2019	**Gross and net amounts, as reported on the Balance Sheet**	**Amounts available to be offset (but not offset on the Balance Sheet)**	**Net amounts after offsetting under IFRS 7**
		Financial collateral	
	£m	**£m**	**£m**
Derivative financial liabilities	**-**	**-**	**-**
	-	**-**	**-**

At 31 March 2018	Gross and net amounts, as reported on the Balance Sheet	Amounts available to be offset (but not offset on the Balance Sheet)	Net amounts after offsetting under IFRS 7
		Financial collateral	
	£m	£m	£m
Derivative financial liabilities	(471.8)	464.1	(7.7)
	(471.8)	464.1	(7.7)

32. Collateral pledged

	31 March 2019	31 March 2018
	£m	£m
Cash collateral which the Group has provided in respect of derivative contracts	**1.1**	464.5
Total collateral pledged	**1.1**	464.5

The cash collateral pledged shown above is carried on the Balance Sheet within cash at bank and in hand. The cash collateral pledged was returned to the Group on 1 April 2019 following termination of its final remaining derivative contracts at the end of March 2019.

As detailed in note 19, HM Treasury has a fixed charge on certain of NRAM's assets and a floating charge over all of NRAM's assets in respect of the HM Treasury loan to NRAM.

33. Financial risk management

A description of the principal risks to which the Group is exposed is provided on pages 67 to 71 which form an integral part of the audited Financial Statements.

(a) Credit risk

Credit risk is the potential for financial loss caused by a party failing to meet an obligation as it becomes due. The Group considers its most significant credit risk to be the exposure to retail, commercial and wholesale counterparties failing to meet their obligations. As credit risk is the main risk to the Group, a credit risk framework has been established as part of the overall governance framework to measure, mitigate and manage credit risk within risk appetite. The Group closely monitors its credit risk against the Board's credit policies. There have been no changes to the Group's policy for managing credit risk as a result of implementing IFRS 9.

The maximum credit risk exposure at the Balance Sheet date before taking account of any collateral netting and other credit enhancements was as follows:

	31 March 2019 £m	31 March 2018 £m
On Balance Sheet:		
Cash at bank and in hand	**723.6**	1,571.8
Amount owed in respect of sale of loans	**4,473.7**	-
Loans to customers [1]	**5,574.3**	11,798.5
Assets classified as held for sale: loans to customers	**-**	4,991.6
Equity release mortgages [1]	**8.2**	870.4
Other financial assets	**1.7**	4.9
Total on Balance Sheet	**10,781.5**	19,237.2
Off Balance Sheet:		
Loan commitments (see note 27)	**74.4**	303.7

[1] *Outstanding balances*

Loans to customers include loans which are secured on property; additional information in respect of credit risk is provided in note 14. In respect of loans to customers, credit risk is managed by reference to the balances outstanding and not the IFRS 9 fair value.

Additional information in respect of credit risk on cash at bank and in hand is provided in note 11.

Concentration risk

The Group operates primarily in the UK and adverse changes to the UK economy could impact all areas of the Group's business. Residential loans to customers are all secured on property in the UK. Based on outstanding balances, 56% (2018: 31%) of residential loans to customers are concentrated in the buy-to-let market; most of the remaining balances are secured on residential owner-occupied properties.

The residential loan book of £5.6bn (2018: £11.2bn) is geographically spread across the UK broadly in line with the country's housing stock. Consequently, there is a geographic concentration of mortgages secured on properties in London and the South-East representing 40% (2018: 37%) of the book.

33. Financial risk management (continued)

(b) Liquidity risk

The Group closely monitors its liquidity position against the Board's liquidity policy. Minimum and target liquidity levels are established through stress testing and cash flow forecasting, taking into consideration an assessment of any emerging and potentially extreme funding conditions.

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

At 31 March 2019	On demand £m	Within three months £m	After three months but within six months £m	After six months but within one year £m	After one year but within five years £m	After five years £m	Total £m
Financial assets:							
Cash at bank and in hand	**723.1**	**0.5**	**-**	**-**	**-**	**-**	**723.6**
Amounts owed in respect of sale of loans	**-**	**4,473.7**	**-**	**-**	**-**	**-**	**4,473.7**
Loans to customers [1]	**100.2**	**26.7**	**21.6**	**56.0**	**739.0**	**4,468.8**	**5,412.3**
Equity release mortgages	**-**	**0.2**	**0.2**	**0.3**	**2.5**	**4.8**	**8.0**
Other financial assets	**-**	**1.7**	**-**	**-**	**-**	**-**	**1.7**
Total financial assets	**823.3**	**4,502.8**	**21.8**	**56.3**	**741.5**	**4,473.6**	**10,619.3**
Financial liabilities:							
Statutory Debt and HM Treasury loans	**1,973.5**	**2.5**	**-**	**-**	**-**	**-**	**1,976.0**
Debt securities in issue	**-**	**-**	**-**	**204.2**	**-**	**-**	**204.2**
Other financial liabilities	**-**	**51.4**	**-**	**-**	**-**	**-**	**51.4**
Total financial liabilities	**1,973.5**	**53.9**	**-**	**204.2**	**-**	**-**	**2,231.6**

[1] *Outstanding balances less impairment provisions at 31 March 2019.*

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

HM Treasury had indicated that it expected the Statutory Debt and the HM Treasury loans to be repaid out of the cash flows generated by the Group during its wind-down. It is not possible to specify the contractual maturity dates of these and therefore they have been included in the table above as though repayable on demand. As detailed in note 19, the WCF and the Statutory Debt owed to the FSCS were repaid during the year.

Other assets and liabilities are included in the above table according to the earliest date that payment can be contractually demanded. It should be noted that many financial instruments are settled earlier than their contractual maturity date; in particular, many mortgage loans are repaid early, in full or in part. The maturity date of equity release mortgages has been estimated using mortality tables.

33. Financial risk management (continued)

(b) Liquidity risk (continued)

Assets and liabilities with a remaining period to contractual maturity of within one year are classed as current and those with a remaining period of more than one year are classed as non-current. Non-financial assets and liabilities amount to £659.7m and £273.0m respectively (2018: £573.4m and £246.7m) of which £10.1m and £63.2m respectively are classed as current (2018: £25.9m and £17.5m) and £649.6m and £209.8m respectively are classed as non-current (2018: £547.5m and £229.2m).

Non-derivative cash flows

The table below analyses the Group's non-derivative cash flows payable into relevant periods. The assumptions used in the preparation of this table are consistent with those used in the maturity table on page 139. The amounts disclosed are the contractual undiscounted cash outflows; these differ from Balance Sheet values due to the effects of discounting on certain Balance Sheet items and due to the inclusion of contractual future interest flows.

At 31 March 2019	**On demand £m**	**Within three months £m**	**After three months but within six months £m**	**After six months but within one year £m**	**After one year but within five years £m**	**After five years £m**	**Total £m**
Financial liabilities:							
Statutory Debt and HM Treasury loans	**1,973.5**	**2.5**	**-**	**-**	**-**	**-**	**1,976.0**
Debt securities in issue	**-**	**-**	**-**	**204.2**	**-**	**-**	**204.2**
Other financial liabilities	**-**	**51.4**	**-**	**-**	**-**	**-**	**51.4**
Loan commitments	**71.0**	**0.1**	**0.1**	**0.2**	**1.4**	**1.6**	**74.4**
Total	**2,044.5**	**54.0**	**0.1**	**204.4**	**1.4**	**1.6**	**2,306.0**

At 31 March 2018	On demand £m	Within three months £m	After three months but within six months £m	After six months but within one year £m	After one year but within five years £m	After five years £m	Total £m
Financial liabilities:							
Statutory Debt and HM Treasury loans	10,274.3	4.5	-	-	-	-	10,278.8
Debt securities in issue	-	-	-	4.2	200.0	-	204.2
Other financial liabilities	-	79.7	-	-	-	-	79.7
Loan commitments	300.7	0.1	0.1	0.3	1.3	1.2	303.7
Total	10,575.0	84.3	0.1	4.5	201.3	1.2	10,866.4

Derivative cash flows

The following table analyses cash outflows for the Group's derivative financial liabilities. The amounts are allocated into relevant periods using assumptions consistent with those used in the preparation of the maturity table on page 139.

At 31 March 2019	**On demand £m**	**Within three months £m**	**After three months but within six months £m**	**After six months but within one year £m**	**After one year but within five years £m**	**After five years £m**	**Total £m**
Derivative financial liabilities to be settled on a net basis	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**

At 31 March 2018	On demand £m	Within three months £m	After three months but within six months £m	After six months but within one year £m	After one year but within five years £m	After five years £m	Total £m
Derivative financial liabilities to be settled on a net basis	-	9.5	9.5	19.0	148.3	476.2	662.5
Total	-	9.5	9.5	19.0	148.3	476.2	662.5

33. Financial risk management (continued)

(c) Market risk

Interest rate risk

Following the sale of the majority of the Group's equity release mortgages in September 2018 as detailed in note 15, the Group's interest income is not significantly sensitive to changes in interest rates. Exposure to movements in interest rates is monitored by the Group's Finance function.

The most significant market risk in respect of balance sheet value is the fair value of loans to customers. The sensitivity of the fair value of the Group's loans to customers to discount rates (which are sensitive to interest rates) and economic scenarios is disclosed in note 2(d).

Foreign currency risk

At 31 March 2019 and 31 March 2018 the Group had no material exposure to foreign exchange rate fluctuations or changes in foreign currency interest rates.

34. Contingent liabilities

(a) As detailed in note 12, in March 2019 the Group sold two separate asset portfolios comprising performing residential and unsecured loans to Citi. NRAM 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 varies from 12 to 18 months from the date on which legal title is transferred to the purchasing entity; legal title is expected to transfer by 31 December 2019. UKAR provided a guarantee to Citi that should NRAM fail to make payment under a valid claim made by Citi 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. It is not possible to provide any meaningful estimate or range of the possible cost. No provision has been made.

(b) As detailed in note 12, the sale of loans to an investor group led by Barclays Bank PLC was recognised in 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 by 30 September 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. It is not possible to provide any meaningful estimate or range of the possible cost. No provision has been made.

(c) As detailed in note 15, in September 2018 the Group sold the majority of its equity release mortgages to Rothesay Life Plc. B&B provided certain warranties and indemnities in respect of this sale. The sale agreement 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 by 30 September 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. It is not possible to provide any meaningful estimate or range of the possible cost. No provision has been made.

(d) 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 was on or before 5 May 2019, while for certain tax-related warranties the time limit is 5 May 2023. UKAR has provided a guarantee to Cerberus that should NRAM fail to make payment under a valid claim made by Cerberus 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. It is not possible to provide any meaningful estimate or range of the possible cost. No provision has been made.

(e) As detailed in note 12, in December the Group sold the majority of its commercial loans. The balance of the sale proceeds were received after the Balance Sheet date in May 2019. B&B and NRAM provided certain warranties and indemnities in respect of this sale. The sale agreement set a time limit for bringing claims under the warranties of 18 months from the date on which completion of the sale took place. UKAR provided a guarantee to the purchasers that should B&B or NRAM fail to make payment under a valid claim made by the purchasers 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. It is not possible to provide any meaningful estimate or range of the possible cost. No provision has been made.

34. Contingent liabilities (continued)

(f) 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. The Group’s contractual relationships with its customers are also determined by the specific product terms and conditions which applied when products were sold. Claims upheld in favour of customers in relation to potential breaches of contractual terms or other requirements could result in costs to the Group. It is not possible to provide any meaningful estimate or range of the possible cost.

35. Events after the reporting period

(a) The £4,473.7m balance of sale proceeds in respect of the sale of loans to customers during the year detailed in note 12 was received in April - May 2019 and the proceeds used to repay the remaining balances on the Statutory Debt and HM Treasury loans.

(b) On 1 April 2019, responsibility for managing the government's Help to Buy: mortgage guarantee scheme and Help to Buy: ISA scheme was transferred to NS&I. Atos now undertake administration of these schemes on behalf of NS&I. As part of the transfer, 23 B&B staff moved across to Atos. The Group’s remaining intangible assets were written off at 31 March 2019 as they were used in UKARcs’s administration of the Help to Buy schemes.

(c) UKAR launched a process in May 2019 that, if successful, would result in the sale of its shareholdings in B&B and NRAM. It is too early in the process to accurately estimate the financial impacts of the sale but, in any case, such a disclosure would be commercially sensitive due to the ongoing sales process.

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

Opinion on financial statements

I have audited the parent company financial statements of UK Asset Resolution Limited for the year ended 31 March 2019 which comprise:

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

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006. I have also audited the information in the Director's Remuneration Report that is described as having been audited.

In my opinion the financial statements:

- give a true and fair view of the state of the parent company's affairs as at 31 March 2019; and
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by European Union; and
- have been prepared in accordance with the Companies Act 2006.

Basis of opinions

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

Conclusions relating to going concern

I am required to conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the UK Asset Resolution Limited's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern. I have nothing to report in these respects.

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' and Accounting Officer's responsibilities set out on page 76, the directors are responsible for:

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Other Information

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

Opinion on other matters prescribed by the Companies Act 2006

In my opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- in light of the knowledge and understanding of the parent company and its environment obtained in the course of the audit, I have not identified any material misstatements in the Strategic Report or the Directors' Report and Governance Statement; and
- the information given in the Strategic Report and the Directors' Report and Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and these reports have been prepared in accordance with the applicable legal requirements.

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

Matters on which I report by exception

I have nothing to report in respect of the following matters where the Companies Act 2006 requires me to report to you if, in my opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- I have not received all of the information and explanations I require for my audit; or
- a corporate governance statement has not been prepared by the parent company.

Other matter

I have reported separately, on pages 77 to 84, on the Group Financial Statements of UK Asset Resolution Limited for the year ended 31 March 2019.

Hilary Lower (Senior Statutory Auditor)
4 June 2019

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

COMPANY BALANCE SHEET

	Note	**31 March 2019 £m**	31 March 2018 £m
Assets			
Investments in Group undertakings	D	**2,634.1**	2,634.1
Amounts owed by Group undertakings	F	**2,005.3**	0.1
Deferred tax assets		**0.6**	-
Total assets		**4,640.0**	2,634.2
Liabilities			
Other liabilities		**8.2**	-
Total liabilities		**8.2**	-
Equity			
Issued capital and reserves attributable to owners of the parent:			
- share capital	24	**1.2**	1.2
- merger reserve	E	**2,632.8**	2,632.8
- retained earnings		**1,997.8**	0.2
Total equity		**4,631.8**	2,634.2
Total equity and liabilities		**4,640.0**	2,634.2

The notes on pages 148 to 150 and note 24 on page 126 form an integral part of these Financial Statements.

The Company's profit after tax for the financial year was £1,997.6m (31 March 2018: £22,000) including an interim dividend of £2bn declared in January 2019 by B&B. As permitted by s408 of the Companies Act 2006, the Company's individual Income Statement, Statement of Comprehensive Income and related notes have not been presented in these Financial Statements.

The Financial Statements on pages 146 to 150 were approved by the Board of Directors on 4 June 2019 and signed on its behalf by:

John Tattersall
Chairman

Ian Hares
Chief Executive Officer

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

COMPANY STATEMENT OF CHANGES IN EQUITY

For the 12 months to 31 March 2019	**Share capital £m**	**Merger reserve £m**	**Retained earnings £m**	**Total share capital and reserves £m**
At 1 April 2018	**1.2**	**2,632.8**	**0.2**	**2,634.2**
Profit for the financial year	**-**	**-**	**1,997.6**	**1,997.6**
At 31 March 2019	**1.2**	**2,632.8**	**1,997.8**	**4,631.8**

For the 12 months to 31 March 2018	Share capital £m	Merger reserve £m	Retained earnings £m	Total share capital and reserves £m
At 1 April 2017	1.2	2,632.8	0.2	2,634.2
Profit for the financial year	-	-	-	-
At 31 March 2018	1.2	2,632.8	0.2	2,634.2

COMPANY CASH FLOW STATEMENT

During the 12 months to 31 March 2019 and the comparative 12 months to 31 March 2018 the Company had no material cash flows or balances. Consequently no Cash Flow Statement has been presented.

In January 2019 B&B declared an interim dividend of £2bn to the Company, which was funded by a loan from UKAR to B&B. The Company had no other significant non-cash transactions during the current or previous year.

A. Principal accounting policies

The Company is a private company limited by shares incorporated on 1 July 2010 and domiciled in the United Kingdom. The principal activity of the Company is to provide management services to its subsidiary undertakings. The Company applies the accounting policies of the UKAR Group, set out on pages 92 to 99, with the following additional item.

Investments in Group undertakings

In the Financial Statements of the UKAR Company, investments in Group undertakings are carried at cost less any impairment. UKAR's acquisition of the entire issued share capital of B&B and NRAM plc in a share-for-share exchange has been accounted for under 'predecessor accounting' and the cost of each of these investments has been deemed to be the net assets of the B&B company and the NRAM plc company at 30 June 2010. On 29 April 2016 NRAM Limited acquired NRAM plc from the Company by way of a share-for-share exchange, NRAM Limited issuing the same number and class of shares as were acquired from UKAR. Investments are reviewed at each published Balance Sheet date for any indication of impairment. If there is indication of impairment of any investment, the carrying value of the investment is reviewed, and any impairment identified is charged immediately to the Company's Income Statement, with a corresponding release from the Company’s merger reserve.

B. Critical judgements and accounting estimates

In preparing the Financial Statements, management have made the following critical judgement.

Investments in Group undertakings

The Directors consider the value of the Company's investments in subsidiary undertakings to be supported by their underlying assets.

C. Taxation

The Company bears tax at the standard weighted average rate of UK corporation tax of 19.0% (2018: 19.0%) and has no deferred tax provided or unprovided.

D. Investments in Group undertakings

The investments in Group undertakings represent the Company's holdings of the entire issued share capital of B&B, NRAM and of UKARcs which was incorporated on 20 June 2013.

The Company's principal subsidiary undertakings at 31 March 2019 held directly or indirectly, all of which are wholly-owned and are fully consolidated into the Group Financial Statements, are listed below. All operate in their country of incorporation.

	Registered number	Nature of business	Country of incorporation	Class of shares held
Direct				
Bradford & Bingley plc	03938288	Asset management	UK	Ordinary
Northern Rock (Asset Management) Limited	08655131	Non-trading	UK	Ordinary
NRAM Limited	09655526	Asset management	UK	Ordinary
UKAR Corporate Services Limited	08578384	Administration services*	UK	Ordinary
Indirect				
Mortgage Express	02405490	Asset management	UK	Ordinary

Each of these companies has its registered office at Croft Road, Crossflatts, Bingley, West Yorkshire, BD16 2UA.

* As detailed in note 35(b) the operations of UKARcs were transferred to NS&I with effect from 1 April 2019.

D. Investments in Group undertakings (continued)

The following companies are also fully consolidated into the Group Financial Statements; all operate in their country of incorporation. All are indirectly wholly-owned.

	Registered number	Nature of business	Country of incorporation	Class of shares held
Bradford & Bingley Homeloans Limited	02405307	Non-trading	UK	Ordinary
Bradford & Bingley Investments	03326913	Non-trading	UK	Ordinary
Bradford & Bingley Mortgage Management Limited	02405306	Non-trading	UK	Ordinary
F.& N.E. Limited	02428779	Non-trading	UK	Ordinary
F & N E (1990) Limited	02481908	Non-trading	UK	Ordinary
Finance for Mortgages Limited	02220176	Non-trading	UK	Ordinary
Heron's Reach Developments Limited	02554549	Non-trading	UK	Ordinary
HSMS	01192730	Non-trading	UK	Ordinary
Leamington Mortgage Corporation Limited	02066450	Non-trading	UK	Ordinary
Mortgage Express (No. 2)	00891681	Non-trading	UK	Ordinary
NRAM (No. 2) Limited	02190427	Non-trading	UK	Ordinary
NRAM Homes Limited	02306045	Property management	UK	Ordinary
Scotlife Homeloans (No. 2) Limited	02220177	Non-trading	UK	Ordinary
Silhouette Mortgages Limited	02356078	Non-trading	UK	Ordinary

The Directors consider the value of investments in Group undertakings to be supported by their underlying assets. All have their registered office at Croft Road, Crossflatts, Bingley, West Yorkshire, BD16 2UA.

E. Merger reserve

	£m
At 1 April 2017, 31 March 2018 and 31 March 2019	**2,632.8**

The merger reserve was generated on 1 October 2010 when the Company acquired all the issued shares of B&B and NRAM plc from the Treasury Solicitor via a share-for-share exchange. The merger reserve represents the difference between the value attributed to the Company's investment in each company and the nominal value of the share capital issued by the Company in exchange. On 29 April 2016 NRAM Limited acquired NRAM plc from the Company by way of a share-for-share exchange, NRAM Limited issuing the same number and class of shares as were acquired from UKAR.

F. Related party disclosures

(a) Subsidiary companies

At 31 March 2019 the Company was owed £2,005.3m by subsidiary undertakings (2018: £0.1m) and owed £4.2m to subsidiary undertakings (2018: nil). The balances are repayable on demand but the Company has committed to B&B that the Company will not demand payment while B&B is owned by the Company. Under IFRS 9 the debtor is categorised as at amortised cost and its fair value is estimated to be its carrying amount. This is deemed to be a level 1 valuation as it represents the outstanding balance.

The Company had transactions with its subsidiaries as follows:

	12 months to 31 March 2019 £000	12 months to 31 March 2018 £000
Management charges to subsidiary undertakings	**490**	574
Interest income on inter-company loans	**5,266**	-
Costs recharged by subsidiary undertakings	**8,662**	547

(b) Key management personnel

The Group considers the Boards of Directors and the members of the Executive Committees of UKAR, B&B and NRAM to be the key management personnel. The Company had no transactions or balances directly with any key management personnel during the year. The Company's non-executive Directors have service contracts with the Company. Their fees are paid by B&B and recharged at cost to the Company, along with other related costs.

F. Related party disclosures (continued)

(c) Directors' emoluments

The aggregate UKAR Group emoluments of the Directors of the UKAR Company for the 12 months to 31 March 2019 were £1,065,917 and of the highest paid Director £650,917 (12 months to 31 March 2018: £1,032,440 and £610,773 respectively).

G. Financial risk management

The Company is owed £2,005.3m by its subsidiary undertakings, which is not considered to be impaired. ECLs arising in the 12 months to 31 March 2020 are not material, and no provision has been made. The Company has no other significant financial risks.

H. Ultimate controlling party

All shares in the Company are owned by the Treasury Solicitor as nominee for HM Treasury, and the Company considers the UK government to be its ultimate parent and controlling party. The Group's Financial Statements are consolidated into the Annual Report & Accounts of HM Treasury which are available at www.gov.uk/government/publications.

I. Contingent liabilities

As detailed in note 34, the Company has provided guarantees to the buyers of certain loan portfolios that should B&B or NRAM fail to make payment under a valid claim made under the warranties and indemnities provided to the buyers in respect of the sale of the loans then the Company will make payment to the buyers in satisfaction of the claim. Through commitments made by HM Treasury in relation to the sales, the Company is satisfied that it will have sufficient funds to meet its liabilities arising from any claims made under the guarantees. It is not possible to provide any meaningful estimate or range of the possible cost. No provision has been made.

J. Events after the reporting period

(a) On 1 May 2019 NRAM declared an interim dividend of £2,690.7m to UKAR.

(b) On 1 May 2019 the Company made a loan of £392.4m to its subsidiary undertaking B&B.

(c) UKAR launched a process in May 2019 that, if successful, would result in the sale of its shareholdings in B&B and NRAM. It is too early in the process to accurately estimate the financial impacts of the sale but, in any case, such a disclosure would be commercially sensitive due to the ongoing sales process.

(d) Proposals to transfer the B&B and NRAM defined benefit pension schemes from B&B and NRAM to UKAR have been agreed with the Trustees of the Schemes and at the signing date of these Financial Statements are in the process of being implemented.

UK Asset Resolution Limited

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Registered in England and Wales under company number 07301961

www.ukar.co.uk

ISBN 978-1-5286-1121-3
CCS0319929464