UK Asset Resolution Limited

Annual Report & Accounts

for the 12 months to 31 March 2020

Registered in England and Wales under company number 07301961

CP 246 July 2020

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

July 2020

CP 246

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

This publication is available at: www.gov.uk/official-documents.

ISBN 978-1-5286-1931-8

CCS0520560412 07/20

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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UKAR Group overview

About UKAR

UK Asset Resolution Limited ('UKAR') is the holding company established on 1 October 2010 to bring together the government-owned businesses of Bradford & Bingley plc ('B&B') and NRAM plc[1].

B&B was taken into public ownership on 29 September 2008 and funding was provided to the Company by Her Majesty's Treasury ('HM Treasury') and the Financial Services Compensation Scheme. On 25 January 2010 the Group was notified of the European Commission's approval of state aid.

NRAM plc was taken into public ownership on 22 February 2008. During 2007 and 2008 loan facilities to NRAM plc were put in place by the Bank of England all of which were novated to Her Majesty's Treasury ('HM Treasury') on 28 August 2008. On 28 October 2009 the European Commission approved state aid to NRAM plc confirming the facilities provided by HM Treasury, thereby removing the material uncertainty over NRAM plc's ability to continue as a going concern which previously existed.

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 £109.4bn to £6.4bn at March 2020 (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).

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 2020	31 March 2019
Number of customers	**30,400**	35,000
Fair value of lending balances	**£4.7bn**	£5.5bn
Employees	**108**	161

Chairman's statement

In 2019/20 the UKAR Group fully repaid the government loans given to NRAM and B&B thus achieving our objective of returning in full the UK taxpayers' investment in those companies. The repayment of the last of our third party liabilities enabled our shareholder, HM Treasury, to announce in June 2020 that it was terminating the guarantee arrangements which were put in place when the two businesses came into public ownership. These are remarkable achievements in comparison with the situation that we inherited at the time of the merger of NRAM and B&B nearly 10 years ago in 2010.

In May 2019 we commenced a transaction to sell NRAM and B&B, along with their remaining assets, which would complete the divestment of the government's holdings in these businesses. When I signed off my last Chairman's Statement in June 2019, I was confident that this transaction would complete during 2020.

We have worked closely with UK Government Investments and HM Treasury to ensure that the transaction met all the conditions within our value for money framework and that customers remain appropriately protected. We achieved these criteria in our previous asset sales. Negotiations on this final transaction were progressing well, however, given the impact of the COVID-19 pandemic on global markets, the process was put on hold in March 2020 as we were unable to ensure that we could achieve value for money for UK taxpayers. We hope that this transaction can be recommenced later this year, but we cannot be sure that it will be completed by our next financial year end, 31 March 2021.

Colleague welfare is a major priority for the UKAR Group, and particularly so as we all adjusted to living with the pandemic in our work and home life. The restrictions on movement announced in March 2020 required that those that can work from home should do so, and we were able to supply all colleagues with the technology to work remotely which has enabled our business to continue to operate.

We are responsible for the oversight of the service that B&B and NRAM customers receive and as a key part of that responsibility over the year we continued to focus on treating customers fairly, particularly those who are unable to refinance their loans. Our operational targets were achieved during the year, and our proactive contact strategy to support those customers facing financial difficulty continued. However due to the impact of COVID-19, in mid-March we saw a huge rise in the number of customers contacting us by telephone and as a result we did see long waiting times. We have worked with our service provider, Computershare, to overcome these delays in response, and have since been able to give customers alternative means of contacting us via the internet. In line with the rest of the industry, we implemented additional measures to support customers impacted, including offering three-month payment holidays and suspending repossessions, and we will continue to work with all our customers to understand their needs and look at various options to support them through this period.

The Board

Our internal review of the performance of the Board confirmed that we continue to work well as a team and in a constructive manner. The results of the evaluations for the various Board committees were positive, and provided assurance that they remained fit for purpose. I thank all Board members for their contribution to the effective operation of the business and their support for me as Chairman.

Chairman’s statement (continued)

The Future

These are unprecedented times, and the worldwide impact of COVID-19 is deeply saddening. We will continue to support our colleagues, customers, suppliers and communities to the best of our ability as we work our way through the constantly changing environment. None of us can predict the long-term impact of the pandemic on financial markets, but due to the efforts of all colleagues we will be in a good position to resume the final wind down of the business when appropriate. The present crisis should not distract us from acknowledging the tremendous achievements of the UKAR Group thus far. I thank all colleagues, as well as my fellow Board members, for their tremendous efforts to date.

John Tattersall
Chairman
6 July 2020

Chief Executive Officer's introduction

We have made excellent progress during the year and, notwithstanding the difficulties that were encountered during March referred to in the Chairman's statement, our customers continued to receive high levels of service through our partnership with Computershare. From the beginning of March we have focussed on ensuring our colleagues and our customers are supported through the COVID-19 pandemic. Prior to this, we made great progress in reducing the inherent complexities within the business which are important steps in enabling us to achieve our overarching objective to complete the divestment of the government's holdings in B&B and NRAM at some point in the future.

Financial Performance

I am pleased to report that we achieved all of our financial and operational targets agreed with UKGI for 2019/20 (for details see page 10). Following the completion of the sale of a portfolio of loans for £4.9bn early in the year, we repaid the £2.0bn outstanding balance on our government loans. Having repaid the loans in full, in future surplus funds will be distributed to HM Treasury through dividends and £2.7bn was paid during the year.

Ongoing administrative expenses for the year were £5.2m lower at £124.3m (March 2019: £129.5m). Reflective of our shrinking Balance Sheet, underlying profits reduced to £82.6m (March 2019: £340.1m) and there was a statutory loss before tax of £48.2m (March 2019: £340.3m profit).

A summary of our financial performance can be found on page 10, with more detail provided in the Financial Review on pages 58 to 65.

Balance Sheet

The Balance Sheet has reduced to £6.4bn from £115.8bn at formation. Total cash generated during the year was £5.0bn, £4.7bn of which was distributed to HM Treasury via Loan repayments (£2.0bn) and dividends (£2.7bn).

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 4.0% 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 4,600 to 30,400 (March 2019: 35,000) with 38,000 mortgage accounts (March 2019: 44,000).

Across the industry there has been a renewed focus on exploring ways of helping mortgage customers who may have limited options to move their mortgage. In accordance with the State Aid agreement with the European Commission, 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.

Chief Executive Officer's introduction (continued)

Customers (continued)

We work closely with customers who are finding it difficult to meet their monthly payments. As expected, the rate of decline slowed during 2019/20 and, on a like for like basis, accounts under management in arrears by 3 months or more fell from 1,405 to 1,375. However, given the current challenging economic circumstances we do expect the number of customers in arrears to increase during 2020/21. In March 2020 we put in place a number of additional measures to support customers affected by COVID-19 including suspending repossessions, temporarily waiving arrears fees and offering payment holidays, which have been requested by over 9,000 customers (c.25% of the book). We are following FCA guidance on the roll off and/or extension of these arrangements.

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 £116.5m in the year in respect of PPI remediation and expect to complete this process later in 2020.

Colleagues

The majority of our colleagues are normally 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.

During the year we made good progress in reducing the inherent complexities within the organisation. As referenced in last year's report, UKAR Corporate Services colleagues transferred to National Savings & Investments ('NS&I') on 1 April 2019, and in October the administration of the closed B&B and NRAM defined benefit pension schemes was transferred to Deloitte Total Rewards & Benefits ('DTRB').

A number of other colleagues also left the business over the year as we completed activities to simplify the business which enabled us to redistribute workloads, and it is likely that departures will continue over the next financial year. We work closely with our colleagues and Unite, the representative union, as we move towards our optimum operating model. Against this background it is a testament to colleagues' commitment and professionalism that our quarterly internal survey results continued to show high levels of colleague engagement which remain above the industry benchmark.

Conclusion

As referenced in the Chairman's statement, we had expected the sale of B&B and NRAM to conclude in 2020 and I thank everyone involved in enabling us to progress the required activities to a stage where we can resume the programme at a future point in time.

Whilst we manage through the challenges that we face on a personal and business level as a result of COVID-19, colleagues have adapted their working processes in order to ensure that we can continue to manage the business and work with Computershare to serve and support all our customers. I thank all colleagues for their tremendous efforts throughout the year, and the Board and my Executive management team for their support to me personally.

Ian Hares
Chief Executive Officer
6 July 2020

Strategic Report

Key highlights

Highlights of 2019/20

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

Financial measure	2019/20 Target	March 2020	March 2019
Underlying Profit Before Tax	*>= £65.5m*	**£82.6m**	£340.1m
Cash Generation [1]	*>= £0.5bn*	**£0.6bn**	£1.4bn
3m+ Residential Arrears [2]	*<= 1,435*	**1,375**	1,405
Ongoing Administrative Expenses [3]	*<= £125.7m*	**£124.3m**	£129.5m

1 *The cash generation target excludes cash generated from asset sales. Total cash generated in 2019/20 was £5.0bn (2018/19: £7.5bn).*
2 *The March 2019 comparative has been restated to reflect UKAR retained loans only. At March 2019 the reported 3m+ arrears of 3,085 included 1,680 sold accounts for which UKAR retained responsibility under interim servicing arrangements.*
3 *Excluding UKARcs costs (2019/20: £nil; 2018/19: £7.4m) and non-recurring expenses (2019/20: £16.7m; 2018/19: £6.6m).*

Underlying profit for the year to March 2020 decreased by £257.5m to £82.6m (March 2019: £340.1m). 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, non-recurring administrative expenses, 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.

The final £2.0bn of government loans were repaid in April and May 2019 following the financial settlement of the sale of the NRAM residential owner-occupied and unsecured loan books to Citi in April 2019. During the year the £2.7bn of interim dividends were declared and paid. As the government loans were repaid at the start of the financial year, a new financial measure of cash generation was adopted for 2019/20. The target was met with £0.6bn of cash generated through BAU activities.

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 arrears volumes quoted in the March 2019 Annual Report and Accounts included 1,680 accounts under management, where our servicing obligations have now come to an end. Adjusting for these cases, the number of retained loans 3 or more months in arrears, including those in possession, fell by 2% to 1,375 cases (Adjusted March 2019: 1,405).

Ongoing administrative expenses for the year were £124.3m. This was £5.2m lower than the prior year (March 2019: £129.5m) primarily driven by the reduction in assets under management and a reduction in IT costs due to a one-off cost in 2018/19.

	March 2020	March 2019
Statutory Profit/ (Loss) Before Tax	**(£48.2m)**	£340.3m

Statutory loss before tax of £48.2m (March 2019: £340.3m profit) includes a £116.3m net charge for customer redress, primarily for Payment Protection Insurance ('PPI') and a £16.7m charge for non-recurring expenses. The £388.5m decrease in statutory profit before tax compared to the prior year primarily reflects the lower underlying profits in 2019/20, the benefit of the net profit on sale of assets in 2018/19, and the higher charge for PPI in the current year.

The additional PPI provision reflects greater than predicted complaint and enquiry volumes in the lead up to the 29 August 2019 deadline, and reflects our best estimate of the compensation due on the outstanding stock of complaints, administration costs and the cost of complaints received from the Official Receiver on behalf of bankrupt customers. The total provision for customer redress at 31 March 2020 was £87.7m (March 2019: £87.8m), of which £72.3m related to PPI (March 2019: £58.9m).

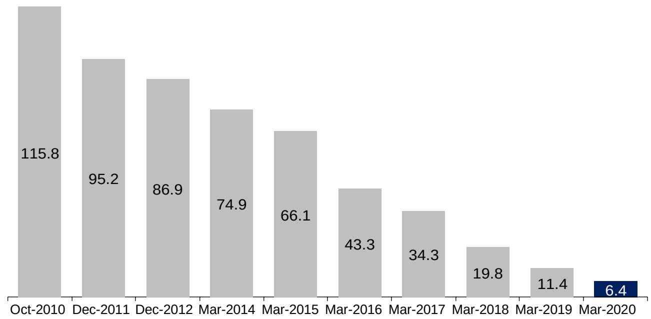
Please see pages 58 to 65 for a full review of the 2019/20 financial performance.

Key highlights (continued)

Highlights of 2019/20 (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 94%



Repaid £48.7bn of government loans

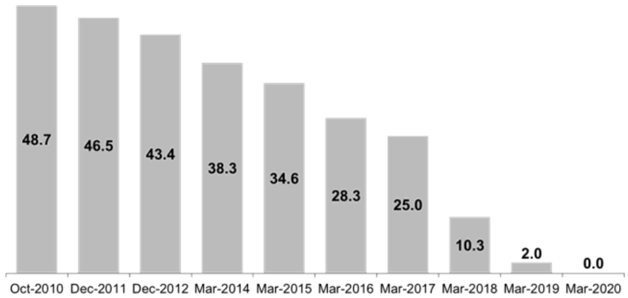
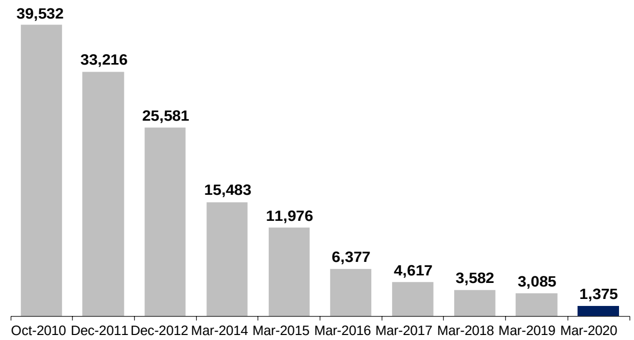


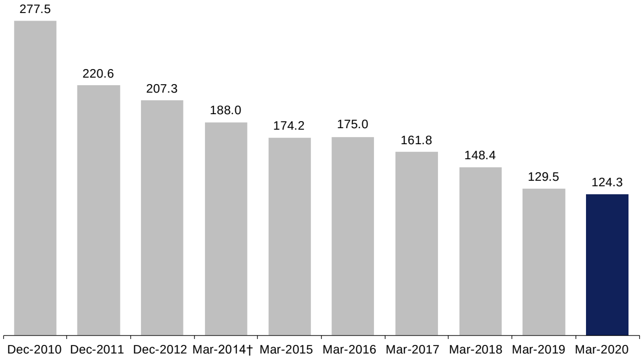
Chart shows outstanding balance of government loans.

3m+ arrears down 97%*



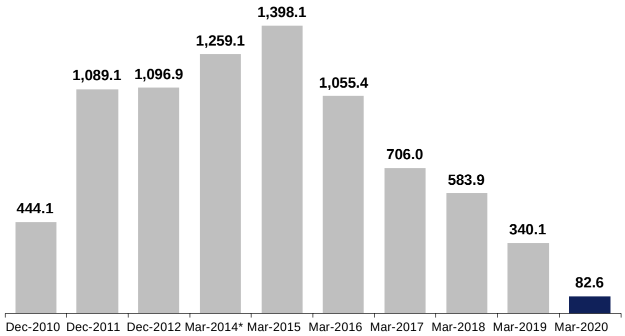
** Previous years reflect all accounts under management, including loans subject to interim servicing arrangements.*

Ongoing operating expenses* (£m) down 55%



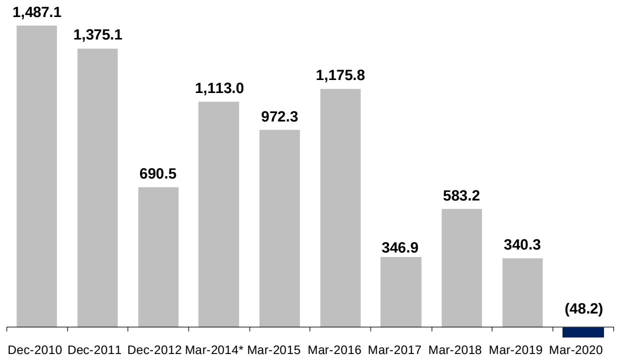
** excluding UKARcs costs*
† 12 months to March 2014

Underlying profit (£m)



** 12 months to March 2014*

Statutory profit/(loss) before tax (£m)



** 12 months to March 2014*

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 support our overarching objective and the key developments 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 97% since 2010.

In accordance with the State Aid agreement with the European Commission 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 final stages of the sales of the remaining NRAM residential owner-occupied and unsecured loan books to Citi and our portfolio of equity release loans to Rothesay Life plc were completed in November 2019 and March 2020 respectively when legal title to the loans included in the sales were transferred. All strategic disposals 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 ensuring 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.

Working closely with UKGI and HM Treasury to ensure that the transaction met all the conditions within this value for money framework, throughout the year we were engaged on a programme of work that would have resulted in the completion of our objective of returning the UK taxpayers' investment in NRAM and B&B to the private sector.

This programme had two key strands. Firstly the sale of B&B and NRAM and secondly putting the holding company, UKAR Ltd, which will remain in government ownership, in a position where it is able to manage its contractual obligations to the buyer of B&B and NRAM, sponsor the legacy defined benefit pension schemes and administer various non-loan assets and liabilities. PricewaterhouseCoopers LLP ('PwC') were appointed to undertake this work.

As noted in the Chairman's Statement, due to the impact of the COVID-19 pandemic on financial markets, work on the transaction was put on hold and the other aspects of the programme have been managed to a position whereby they can readily be re-started when the outlook becomes clearer. In the meantime, we continue to work with UKGI and HM Treasury and our respective advisors to consider the most appropriate way of achieving our overarching objective.

Section 172(1) statement

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. 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.

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

The Board has complied with the requirements of Section 172(1) of the Companies Act during the year and clearly articulates our Vision, Mission, Strategic Objectives and Values. We publish "Our Code" on our website which sets out our objectives, the conduct policies and principles which drive our culture and the values and behaviours that underpin the way we operate. The Code highlights our commitment to doing the right thing for all stakeholders and acting in an ethical and fair manner consistent with all legal and regulatory requirements. In addition, all Board and Board Committee reports include a mandatory evaluation of Section 172(1) issues to ensure that the impact on stakeholders of any recommended actions are given appropriate consideration and these are highlighted to the Board when seeking their approval.

The directors had regard to the needs of all stakeholders and the effect of that regard, in making principal decisions during the financial year 2019/20 as follows:

Shareholder

UKGI act as representative of UKAR's sole shareholder, HM Treasury, as outlined in the Framework Document and appoint the Chairman of the Board. Their views are considered through two UKGI appointed Non-Executive directors attending Board and Committee meetings and through close working relationships between representatives of UKGI and UKAR.

Customers

Customer Servicing

Whilst we have 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. We have comprehensive oversight of the service our customers receive through regular monthly board reporting, customer complaint levels and root cause analysis, service level agreements, independent customer research programmes, and audit and compliance reporting. Purchasers of B&B and NRAM assets are required to comply with comprehensive customer protection measures to ensure that customers are no worse off than they are under our stewardship.

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. We have 30,400 customers (March 2019: 35,000), with 38,000 mortgage accounts (March 2019: 44,000). The majority of loans continue to perform well with more than 91% of mortgage customers up to date with their monthly payments.

Support for customers experiencing payment difficulties

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 2,800 arrangements were successfully completed and approximately 240 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 422 in the year (March 2019: 931).

Section 172(1) statement (continued)

Customers (continued)

Support for customers experiencing payment difficulties (continued)

Since the emergence of the global COVID-19 pandemic, the impact on our customers has been closely monitored to ensure we can support them appropriately through any period of financial disruption. The measures initially made available included:

- Payment holidays of up to three months for affected customers who are up to date. Customers in arrears can also apply for a payment holiday with applications assessed on a case by case basis. Since March 2020 when measures were put in place, over 9,000 customers (c.25% of the book) have requested a payment holiday.
- The temporary waiving of all arrears fees.
- The suspension of all litigation and repossession activity.
- Website improvements including a Q&A and an online payment holiday application form for our residential customers.

We are following FCA guidance on the roll off and/or extension of these arrangements.

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 greater than predicted complaint and enquiry volumes in the lead up to the 29 August 2019 deadline, an additional £116.5m has been provided in respect of PPI. This additional PPI provision covers our best estimate of the compensation due on the outstanding stock of complaints, administration costs and redress for the complaints received from the Official Receiver in relation to bankrupt individuals.

Workforce

People Strategy

Our HR strategy enabled us to maintain our high standards of conduct whilst we simplify the business and prepare it for sale. Focus on reward initiatives improved our ability to retain and attract colleagues to enable us to achieve resolution, and development activities assisted colleagues in progressing their future careers.

We believe colleagues are the differentiating factor in delivering strong performance and, 'being a great place to work' has always been one of our four strategic objectives, ensuring colleagues feel valued and are given the opportunity to grow and learn new skills, which benefits the business and helps individuals to prepare for future opportunities.

The people risks associated with the strategic direction of the business will increase further as we move closer to completing our overarching objective and the Directors' had particular regard to employee interests by agreeing an incentive to motivate colleagues to remain with the business and deliver our goal. As highlighted in the Directors' Remuneration Report, colleagues are also incentivised through clear performance targets and a Balanced Scorecard which brings together customer, colleague, culture and conduct measures and is applied to all annual bonus schemes. Our progress against all our targets are published on a quarterly basis.

All colleagues were given the technology to work remotely when the social distancing measures were put in place as a result of COVID-19 and we reviewed and updated relevant HR policies and processes to support their health and wellbeing whilst they worked from home.

Engagement

Our five values encompass all aspects of colleague work-life and we track how we are doing against each of them through regular colleague engagement surveys. Our most recent survey in March 2020 had a good response rate and the survey tracker score, based upon five key questions measuring UKAR as an employer, reached 95% which is 18% above the benchmark figure provided by our survey business partner, People Insight.

Along with the intranet, regular face-to-face forums, both informal and formal, provide employees with information on matters of concern to them and enable colleagues to share their views with management and we have quarterly 'pulse' surveys enabling us to measure engagement and take actions as required. During the period of home working required in response to COVID-19, we replaced our face-to-face forums with telephone and video conferences.

We recognise and consult with the Unite trade union, and proper processes are followed for example with the TUPE transfer of UKARcs colleagues to NS&I in April 2019. The Senior Independent Director is the designated Non-Executive Director for engaging with the workforce and is also Whistleblowing Champion. Directors engage directly with colleagues through monthly Board and Committee meetings and visits to the main office in West Yorkshire.

Section 172(1) statement (continued)

Workforce (continued)

Diversity

We treat all colleagues as individuals and we recognise the benefits of having a diverse workforce. We provide 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. As a business in wind down, few appointments were made during the year, but any 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 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.

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, however, as a business in wind-down colleague numbers are reducing, and we fell slightly under this target this year. At 31 March 2020 44% of the workforce were female and 29% 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 pages 42 to 43.

Learning & Development

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. During the year 89% of colleagues have undertaken development programmes to support their future career.

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.

Pensioners

The Finance Director attends meetings of the Trustee Boards to discuss future funding of the closed Defined Benefit Pension Schemes for B&B and NRAM and hear any concerns of the Trustees. We worked closely with the Pensions Trustees and HMT as we determined the future funding arrangements for these schemes and agreed to a package of measures to enable UKAR Ltd to assume the pension liabilities of B&B and NRAM in June 2019. Transferring the role of Principal Employer in this way gave the Scheme members long-term certainty regarding their pensions.

In his Spring 2020 Budget, the Chancellor of the Exchequer announced the Government's intention to legislate to transfer the members of the B&B and NRAM Defined Benefit Pension Schemes to a new statutory, public service pension scheme. The statutory public service pension scheme will be paid for directly by the Government and will provide pensions and lump sums on retirement and death to current members of the Scheme and their dependents. The change is anticipated to take place between 2023 and 2025.

Regulator

Every two years, the FCA attend the Board to present their evaluation of the business and also hold proactive engagement meetings with the Chairman, Non-Executive Directors and the Chief Executive. Monthly meetings take place with the Risk Director who keeps them fully informed on our conduct and culture agenda and progress against our strategic objectives.

Suppliers

The service from our four key suppliers is reviewed and reported through the Supplier Relationship Management Toolkit which is reviewed by the Executive Risk Committee each quarter. We engaged with all our suppliers at an early stage as we planned for the sale of B&B and NRAM.

In line with Department for Business Energy & Industrial Strategy requirements, we report on our payment practices, policies and performance on a half yearly basis. In the latest return, for the six months to March 2020 B&B made 256 payments. The average number of days taken to make a payment was 16, with 98% of payments made within 30 days; 6% of payments were classified as late. For the same period NRAM made 10 payments with all paid within 30 days. All NRAM payments were made on time.

Section 172(1) statement (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 August 2019 colleagues voted Sue Ryder as the Charity of the Year. Charitable fundraising and payroll giving by colleagues raised £14,164 through dress down days, raffles, cake stalls and donations, including £5,990 in respect of Sue Ryder. In addition we matched employee fundraising and payroll giving through Give As You Earn schemes with contributions of £3,200 and £4,060 respectively.

Streamlined Energy and Carbon Reporting ("SECR") was introduced in 2017 and is applicable for accounting periods starting on or after 1 April 2019. Our carbon reduction strategy, energy usage and emissions reporting is set out within the Corporate Social Responsibility Report at pages 72 to 75.

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 2020/21 focus.

Principal risk	Key mitigating actions	Key indicators	Focus 2020/21
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, including, during COVID-19 relevant to proactive forbearance options. Complaint handling and Root Cause analysis. Ensuring vulnerable customers are given the appropriate level of care. PPI pipeline of complaints being managed to completion during 2020.
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 Relationship 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. Engagement with suppliers in development of Operational Resilience approach in response to regulatory requirements. Supplier response to and recovery from the COVID-19 pandemic .
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. Key Risk Indicator monitoring to 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 the 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. Colleague attrition and engagement	• Progressive improvement of cyber resilience through security threat assessment vulnerability testing and colleague awareness campaigns. Continuing oversight of major change activities. Data Management enhancements including review of our legacy data holdings and continual alignment with Data Protection regulatory guidance. Continued monitoring of the developing operational resilience requirements with consideration of implementation approach. 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, COVID-19 impact, 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 mix 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. Continuous monitoring and awareness of market volatility – reflecting changes in the market driven by external changes, particularly, COVID-19.

Risk overview (continued)

Principal risk	Key mitigating actions	Key indicators	Focus 2020/21
Liquidity risk The risk that a Group Company is unable to meet its 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 adequate levels of liquidity to meet commitments at all times and maintain liquidity within levels agreed with HM Treasury facilities and the Liquidity Risk Policy.
Regulatory risk The risk of 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 the 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. Ongoing embedding of the Senior Managers & Certification Regime. A watching brief of any regulatory change as a result of Brexit. Consider the impact of any Regulation delayed following COVID-19 industry impact. Monitor impact on capital of changes to the fair value of financial assets.

Ian Hares
Chief Executive Officer, on behalf of the Board
6 July 2020

Directors' Report and Governance Statement

Corporate governance

Introduction

UKAR Ltd 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 Ltd is 100% owned by the UK government which exercises control through UKGI.

UKAR Ltd governed and controlled NRAM and B&B, as their sole shareholder during 2019/20. 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 Ltd including its Principal Subsidiaries referred to above (the 'UKAR Group') during 2019/20.

UKAR Corporate Services Limited

In 2013 UKAR Ltd 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. It is planned to liquidate UKARcs during 2020.

Governance structure

The governance structure for the Group in 2019/20 was determined by the UK Asset Resolution and UK Government 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 and required the UKAR Group to comply with the UK Corporate Governance Code during 2019/20, wherever practicable.

The terms of the Framework Document were amended from 1 April 2020 to require the UKAR Group to comply with the Wates Corporate Governance Principles for Large Private Companies (the "Wates Principles") in future. The Wates Principles are considered to be more appropriate for the UKAR Group which no longer has any publicly listed debt and is wholly owned by HM Treasury and allow more flexibility in determining Board composition and independence and do not seek to limit the period that Board members and the Chairman can serve on the Board.

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 Ltd:

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

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

Principles of the Framework Document

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

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

Corporate governance (continued)

Governance structure (continued)

Monitoring performance

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

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

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

Board of Directors

UKAR Ltd, 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 2019/20.

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. John is also a member of the Remuneration Committee.

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 and CCLA Investment Management 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.

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, Remuneration and Nomination Committees of AIB Group plc, he was appointed Deputy Chairman in October 2019. 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 is Chairman of the advisory board of the business school of Trinity College Dublin, a Non-Executive Director of The Ireland Fund, Dublin and a member of the Global Advisory Council of the Impact Ireland Fund. 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, Remuneration and Transaction Approvals Committees of all three companies. Keith was awarded a CBE in the 2020 New Year Honours list for services to Small Business Finance.

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, Risk and Transaction Approvals Committees of all three companies.

Brendan is a 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.

Holger joined UKGI in May 2018 and is the Director 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 2019/20

There were no appointments or resignations during the year.

Balance of Executive and Non-Executive Directors

During 2019/20 the UKAR Ltd Board comprised:

Period	Non-Executive Chairman	Independent Non-Executive Directors	Executive Directors	UKGI Nominated Directors	Total
1 April 2019 to 31 March 2020	1	3	1	2	7

The UKAR Ltd, B&B and NRAM Boards shared a common membership during 2019/20 and the Non-Executive Directors have experience in a range of commercial or banking activities.

During 2019/20 the UKAR Group sought to comply with the UK Corporate Governance Code ('the Code') wherever practicable. In considering the independence of Non-Executive Directors, the Board determined that those who are not appointed by the Shareholder are independent. In addition, the Board separately reviewed the independence of John Tattersall and Sue Langley who reached nine years service and determined that they remained independent in character and judgement and that there were no relationships or circumstances which were likely to affect, or could appear to affect, their judgement and hence they remained independent.

A reduction in the size of the Board in 2016/17 also meant that it was no longer always possible to comply with the requirements of the Code in respect of the number of independent Non-Executive directors on each Committee. In particular, Keith 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 Ltd, NRAM and B&B.

Corporate governance (continued)

Board of Directors (continued)

Company Secretary

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

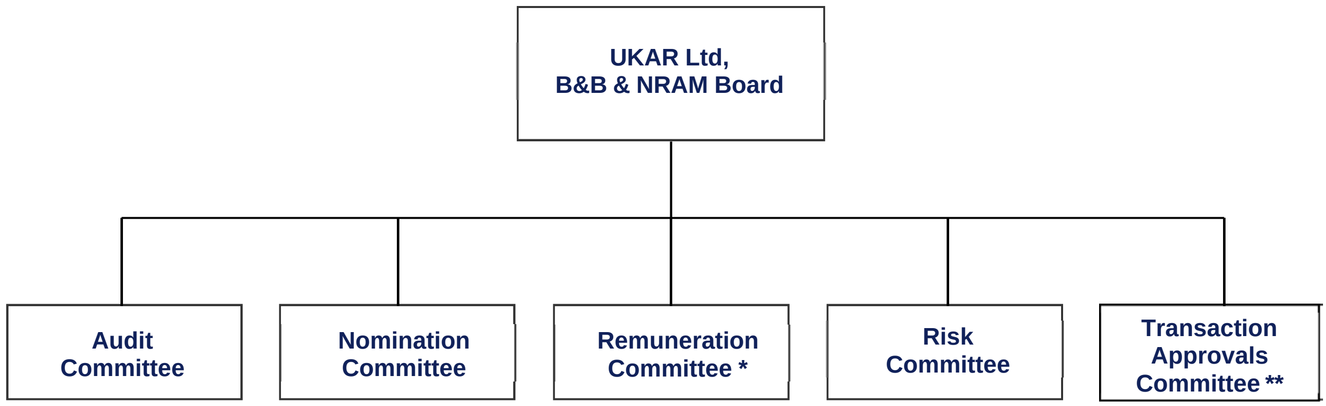
John Gornall was the Company Secretary of UKAR Ltd, NRAM and B&B throughout 2019/20.

How the Board operated in 2019/20

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 Transaction Approvals Committee was a Committee of the Principal Subsidiaries until August 2019 when it also became a Committee of UKAR Ltd.*

Corporate governance (continued)

How the Board operated in 2019/20 (continued)

Board structure and governance (continued)

During 2019/20 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

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 2019/20 are set out in the individual Committee Chairman's reports on pages 31 to 54.

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

Board and Committee meetings

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

The attendance of individual Board members at Board and Committee meetings during 2019/20, together with the overall number of meetings held is set out below.

	Board	Audit	Nomination	Remuneration	Risk	Transaction Approvals *
Number of meetings held	**9**	**4**	**3**	**6**	**4**	**2**
Chairman						
John Tattersall	9		3	6		2
Chief Executive						
Ian Hares	9					2
Senior Independent Director						
Sue Langley	9		3	6		
Independent Non-Executive Directors						
Brendan McDonagh	9	4	3		4	
Brendan Russell	9	4			4	2
Non-Executive Directors						
Keith Morgan	8	4		5	4	2
Holger Vieten	9					2

* *The Transaction Approvals Committee was a Committee of the Principal Subsidiaries until August 2019 when it also became a Committee of UKAR Ltd.*

Corporate governance (continued)

How the Board operated in 2019/20 (continued)

Board and Committee meetings (continued)

In addition to the scheduled Board and Committee meetings detailed above, three Board Committee meetings were held during the year to approve the Annual Report & Accounts, the appointment of PwC as the outsourced provider and the transfer of the B&B and NRAM Pension Schemes to UKAR Ltd. 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.

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.

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;
- establishing the Group's values and strategy, and ensuring that these and its culture are aligned. The Group's Mission and Purpose, which includes the Group's values and strategy, are set out on page 3; 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.

The way in which the Board works with customers, colleagues, outsourced partnerships, suppliers and the shareholder and ensures that our values and culture support delivery of the Plan is set out in the Section 172(1) Report on pages 13 to 16 of the Strategic Report.

Board activities 2019/20

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 the expected sale of B&B and NRAM and in this respect has:

- approved and monitored a competitive, transparent sales process;
- overseen the sales process, including the terms of initial bids, pricing decisions, and the selection of bidders to progress further in the process;
- ensured that the terms of the transaction protected the interests of customers and provided value for money to the taxpayer;
- approved the proposed governance arrangements to be introduced by UKAR Ltd following the sale of the Principal Subsidiaries, including the appointment of PwC as outsourced provider;
- approved the transfer of the B&B and NRAM Defined Benefit Pension Schemes to UKAR Ltd and monitored the resolution of other legacy issues; and
- identified and monitored any conflicts of interest.

Corporate governance (continued)

How the Board operated in 2019/20 (continued)

Board activities 2019/20 (continued)

In addition to the above, the Board continued to provide oversight in relation to ongoing key business activities during 2019/20 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 the arrangements for the introduction of the Senior Managers & Certification Regime in December 2019;
- monitoring business simplification activities and progress towards a new Operating Model; and
- approving the payment of interim dividends.

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;
- 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 at B&B and NRAM, shall retire from office and may offer themselves for re-appointment;
- Non-Executive Directors are appointed for a term of 12 months, subject to re-appointment in accordance with the above procedures;
- the Chairman and the Non-Executive Directors each have a letter of appointment which sets out the terms and conditions of their Directorships, including fees payable, where applicable, and the expected time commitment;
- the Nomination Committee reviews the leadership needs of the Group, including succession planning for both Executive and Non-Executive Directors and, in particular, the key roles of Chairman and Chief Executive; and
- the Board will ensure that suitably rigorous appraisals are made of the effectiveness of the Chairman and the Board.

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

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

Board evaluation

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

Corporate governance (continued)

How the Board operated in 2019/20 (continued)

Board evaluation (continued)

During 2019/20, the Board and Committee evaluation exercise was conducted by the Chairman with assistance from the Company Secretary.

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

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

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

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

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

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

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.

Corporate governance (continued)

How the Board operated in 2019/20 (continued)

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 2020, 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.

Post 15 March 2020 when COVID-19 saw the introduction of remote working arrangements, a small number of changes were adopted to our control environment in line with Regulatory and Government guidance, which are likely to remain in place for some time. For the period of this report no material control issues are noted and appropriate internal and outsourcer oversight and assurance is in place to continue to monitor the assessment of these controls and any potential increase in risk as Regulatory and Government guidance is refined.

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

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

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

The system of risk management and internal control has been in place throughout 2019/20 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 2019/20 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 17 to 18 and 68 to 70, potential future strategic options and the current and anticipated economic conditions, 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.

Corporate governance (continued)

How the Board operated in 2019/20 (continued)

Going concern (continued)

In 2009 the European Commission ('EC') approved state aid to NRAM, and in 2010 to B&B, in each case the state aid comprising loans and guarantees from HM Treasury. Although all government loans 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 agreements. 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 2022, subject to those companies continuing in each case to be a subsidiary undertaking of UKAR.

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.

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 2022. 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, recent stress tests of capital and liquidity positions in respect of COVID-19 and the impact of the principal risks set out on pages 17 to 18 and 68 to 70 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.

As stated above and as referenced in the strategy set out on page 12, 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

The UKAR Group complied with the UK Corporate Governance Code in 2019/20, in accordance with the Framework Document, wherever this was practicable. However, the terms of the Framework Document were amended from 1 April 2020 to require the UKAR Group to comply with Wates Corporate Governance Principles for Large Private Companies in future. The Board and UKGI consider the Group's compliance on at least an annual basis.

Engagement with suppliers, customers and others in a business relationship with the Group

Details of the Board's engagement with suppliers, customers and others is set out in the Section 172(1) Report on pages 13 to 16 of the Strategic Report.

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 2019/20

"I am pleased to present UKAR's report on Directors' Remuneration for 2019/20.

Since UKAR was formed in 2010 our remuneration policies have been aligned with the interests of all our stakeholders. Annual and medium term incentives are designed to drive and reward the repayment of loans to, or cash generated for, the Government whilst ensuring we adhere to the Treating Customers Fairly principles laid down by the regulator alongside the prudent management of risk. There is a clear emphasis on sustained performance with Short Term Incentive Plans 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 2019/20 year, UKAR continued to deliver strong performance, achieving all operational and financial targets as detailed in the Chief Executive's report on page 7.

Over the ten years since formation we have managed all colleagues, regardless of their position within the company, according to reward principles which focus on fair and transparent remuneration and the need to motivate, retain and attract colleagues in order to achieve our objectives.

The work of the Committee during 2019/20 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 which determined that it was aligned to the business strategy and encouraged 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;
- reviewing quarterly business performance against the financial and operational targets;
- agreeing annual Short Term Incentive Plan (STIP) payments for Executives, 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;
- agreeing the principles for paying an incentive ('Jupiter Incentive') to colleagues when we sign contracts in respect of the sale of B&B and NRAM. As referenced in last year's report, this incentive mitigates the people risks associated with the strategic direction of the business;
- agreeing achievement of the Medium Term Incentive Plan targets for 2016/17-2019/20 which equates to a payment of 60% for Executives and 30% for other eligible colleagues in 2020/21; and
- considering Annual Incentive targets for 2020/21 taking into consideration the continued people risks associated with the strategic direction of the business, particularly in light of the Jupiter transaction being put on hold, the operational risks of being a business in wind-down and the impact on the business of the COVID-19 pandemic.

The Committee worked closely with UKGI on remuneration matters in line with the Framework Agreement. Although not required to do so, we 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 2019/20 and had the following membership as at 31 March 2020:

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.

Directors' remuneration report (continued)

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.

Meetings

The Committee held six 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 25. The Committee also invites the following to attend its regular meetings:

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

Reporting to the Board

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

Governance

The Committee completed an annual review of its Terms of Reference 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 that provides a competitive yet cost-effective salary, incentive and benefits package to all colleagues. However, reward is only one lever available to mitigate our people risk as we work towards achieving our overall objective. 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 our success and for their future.

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. We do 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.

UKAR recognises and consults with the Unite trade union and we ensure that the union is fully aware of the approach we propose to take in respect of pay negotiations and has an opportunity to raise questions. In 2019/20, we continued to apply a consistent salary review process across all of the Group including Executives.

Directors' remuneration report (continued)

Directors' remuneration policy (continued)

The remuneration policy for Executive Directors

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

Element	Purpose and link to strategy	Operation	Maximum opportunity
Base salary	To attract and retain key talent by ensuring an appropriate, competitive benefits package.	Roles are benchmarked externally. Salaries are reviewed by the Remuneration Committee and recommendations are submitted to the Board and the shareholder representative, based upon the skills and experience they bring to the role. The approach to pay increases, including that for promotions/ increased responsibility is in line with the approach taken for all colleagues.	There is no prescribed maximum. However, the Remuneration Committee reviews the salary against the range each year and also considers the pay approach used for all 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. Any newly appointed Executive Director would receive a pension allowance aligned to the level for the wider workforce. We will keep under review aligning existing Executive Directors to the allowance for the wider workforce which is currently up to 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. Clawback operates 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 ran 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 although the stretch target was achieved in 2019, payments were made in June 2020 as planned. 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 clawback operates where appropriate.	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 B&B and NRAM	The Jupiter Incentive was 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 Incentive will be paid to colleagues should contracts be signed for the sale of B&B and NRAM. Payments for Executive Directors will be deferred for one year 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. Table 2 provides further details.

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 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 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, or an individual commits serious misconduct.

Directors' remuneration report (continued)

Directors' remuneration policy (continued)

Choice of performance measures and approach to target setting

UKAR has clear performance metrics, understandable to every colleague in the business. In addition to financial and operational targets, a Balanced Scorecard brings together customer, colleague, culture and conduct measures and is applied to all annual bonus schemes including the STIP. Given the nature of its ownership and the focus on repaying government debt, the MTIP scheme was 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 we remain 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. We have not made any loss of office payments in this reporting period.

Table 3 – Details of service agreements 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' service agreements provide for 12 months' notice, or payment of base salary, pension and fringe benefits in respect of the unexpired portion of the notice period. They 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.

Directors' remuneration report (continued)

Directors' remuneration policy (continued)

External Non-Executive Director positions

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

External Directorships

Ian Hares held one directorship during the 2019/20 reporting period, as detailed in the table below.

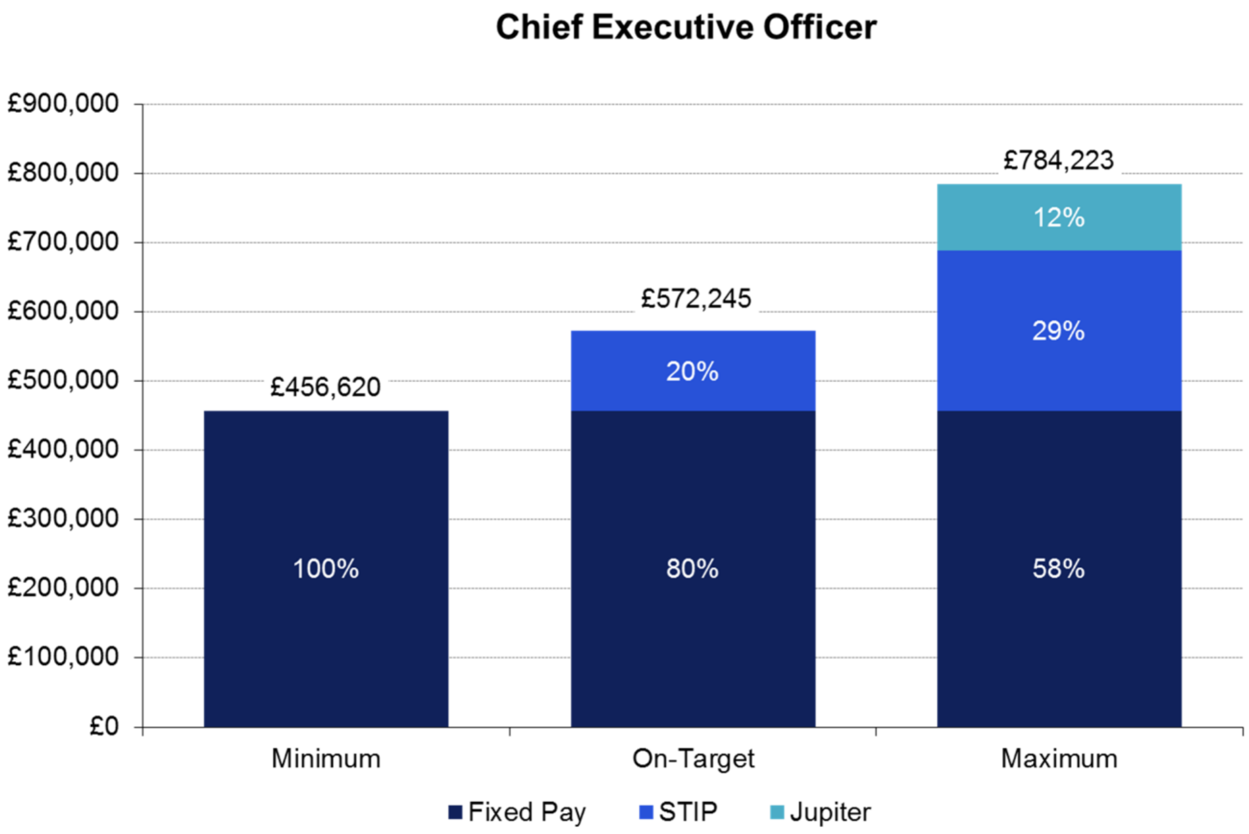
Table 4 – Ian Hares' External Directorships

Position	2019/20
Four Seasons Country Club Ltd	£1,500

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 2020/21 remuneration at different levels of performance



Assumptions:
Minimum = fixed pay only (salary + benefits + pension)
On-target = 50% vesting of the STIP
Maximum = 100% vesting of the STIP. 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 2020/21 financial year, however payment for Executives would be deferred for one year.

Directors' remuneration report (continued)

Annual report on remuneration

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

Remuneration for 2019/20

The tables below set out the earnings for both the Executive and Non-Executive Directors during the 2019/20 reporting year and compares them against the same period from 2018/19.

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

Ian Hares	April 2019 - March 2020	April 2018 - March 2019
Base Salary	£383,203	£374,450
Benefits [1]	£13,393	£13,188
Pension [2]	£57,480	£56,167
STIP Awarded [3]		
- STIP Non Deferred	£104,247	£124,267
- STIP Deferred	£69,498	£82,845
MTIP Awarded [4]	£231,249	-
Total	**£859,070**	**£650,917**

1 *Includes Private Medical Insurance and car allowance.*
2 *Ian Hares receives a pension allowance.*
3 *STIP payments were awarded in the 2019/20 financial year but are not paid until July 2020*
4 *The MTIP was a four year scheme awarded in 2016/17. All targets were achieved in the 2019/20 financial year but payment was not made until June 2020. The award is equivalent to £57,812 on an annualised basis.*

Percentage increase in the remuneration of the Chief Executive Officer

The table below shows a summary of year-on-year changes between 31 March 2019 and 31 March 2020 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	1.6%
- STIPs	(16.1%)
- MTIP [2]	100%
Average per employee	
- base salary	3.5%
- benefits	3.5%
- annual bonus	(6.3%)
- MTIP [2]	100%

1 *Following the annual pay review, employee base salaries were increased by an average of 2.25% with effect from 1 July 2019.*
2 *The MTIP was a four year scheme awarded in 2016/17. All targets were achieved in the 2019/20 financial year but payment was not made until June 2020.*

Directors' remuneration report (continued)

Annual report on remuneration (continued)

Highest-paid Director's remuneration change versus median

We comply with good practice where appropriate. Although not required to do so, we have chosen to adopt the Companies (Miscellaneous Reporting) Regulations 2018 formal disclosure requirements. 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 short term incentives which has been calculated using the total remuneration for employees as at 31 March 2020. The median pay ratio is 14:1 (2018/19: 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
2019/20	**A**	**18 : 1**	**14 : 1**	**8 : 1**

1 *The 2019/20 total remuneration for the colleagues identified at the 25th percentile, median and 75th percentile are as follows: £47,355, £59,968, £106,265.*

2 *The 2019/20 base salary for the colleagues identified at the 25th percentile, median and 75th percentile are as follows: £38,782, £49,091, £65,616.*

STIP for the year ended 31 March 2020

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 achieved all four of these financial and operational objectives in 2019/20, but there was one amber measure on the balanced scorecard which reduces the bonus pool by 2%. 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 in the year, taking input from the Risk Director and determined that there were no circumstances that would have justified this.

Table 8 – STIP targets 2019/20

	Measure	Target	Weighting	Outcome
Financial	Underlying profit before tax	>£65.5m	25%	£82.6m - Achieved
	Costs	<£125.7m	25%	£124.3m - Achieved
	Cash generated	>£549m	25%	£584m - Achieved
Operational	Number of customers 3 months or more in arrears	<1,435	25%	1,375 - Achieved
Non-Financial [1]	Balanced Scorecard	Green	0% to -40%	Nine Green and One Amber measure – 2% reduction

1 *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.*

Directors' remuneration report (continued)

Annual report on remuneration (continued)

STIP for the year ended 31 March 2020 (continued)

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' 2019/20 Personal Objective Assessment

Objective detail	Achievement
Oversight of Balance Sheet Reduction activities, including leadership of the programme of activities that provide HMT with a clear exit route from its investments in B&B and NRAM (Jupiter) and effective management of external stakeholders including media, government and regulators.	The Chief Executive led the process of reducing the inherent complexities which enabled good progress to be made on the transaction to sell the B&B and NRAM legal entities. The transaction was put on hold due to the impact on global markets of the coronavirus pandemic. Resolution of residual issues are either complete or on track for completion over coming months and the governance arrangements for UKAR Ltd following the sale of B&B and NRAM are in a good place for implementation when required.
Maintain robust and reliable Board, Finance, Treasury and Risk Reporting with appropriate controls. Oversight 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 things for customers, colleagues and the taxpayer. All reporting is delivered to a high standard and the business successfully implemented the Senior Managers and Certification Regime.
Lead initiatives to mitigate operational risk against a background of a shrinking Balance Sheet and increasing strategic clarity.	The Chief Executive has continued to drive initiatives to maintain colleague engagement and mitigate operational risk, whilst ensuring we keep the interests of customers and market integrity at the heart of the business. 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 Computershare Loan Services continues to work well, customer service levels were maintained and the number of customers in arrears continued to reduce. The coronavirus pandemic caused disruption approaching year end and measures to support customers were quickly introduced and operationalised.

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 has nine 'Green' and one 'Amber' measure for the year which reduces the matrix by 2% as shown below.

Table 10 – ExCo STIP award matrix 2019/20

Targets achieved	Balanced Scorecard Reduction	Surpasses expectations	On track / Achieved	Too early to assess / Work in Progress / Developing	Under-performing
4	0%	60% - 40%	39.9% - 20.0%	19.9% - 5.0%	0%
4	-2%	58.8% - 39.2%	39.1% - 19.6%	19.5% - 4.9%	0%
3	0%	48% - 32%	31.9% - 16.0%	15.9% - 4.0%	0%
2	0%	30% - 18%	17.9% - 10.0%	9.9% - 2.0%	0%
1	0%	15% - 9%	8.9% - 5.0%	4.9% - 1.0%	0%

Ian Hares' performance was discussed at the Remuneration Committee in May 2020. It was agreed that his leadership of the business continues, with a determination to do the right thing for customers, colleagues and the taxpayer. He has a strong focus on customer service levels and the comprehensive oversight of our mortgage servicing operations ensures we comply with our legal and regulatory obligations. His leadership of negotiations with Jupiter bidders would have enabled us to meet our value for money and customer protection criteria had the transaction not been put on hold following the impact of the coronavirus pandemic on financial markets. He has successfully led the business in resolving the inherent complexities within the organisation, and maintained high levels of colleague engagement throughout the year, enabling us to mitigate operational risk whilst ensuring that the interests of customers and market integrity are at the heart of the business. He also responded promptly to the COVID-19 crisis, ensuring that colleagues are protected but that our business continues operating as smoothly as possible.

Directors' remuneration report (continued)

Annual report on remuneration (continued)

STIP for the year ended 31 March 2020 (continued)

The Board agreed with the Chairman’s recommendation to award Ian Hares a STIP bonus of 45.08% which equates to £173,745 for the year.

Grant and vesting of MTIP awards

The MTIP scheme ran from 1 April 2016 to 31 March 2020. The targets for this scheme which related to driving additional shareholder value and/or earlier repayment of government loans were achieved in 2019 and payment was made in June 2020.

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 £427,849 (March 2019: £393,677). 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 15 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

	2015/16	2016/17	2017/18	2018/19	2019/20
Total Remuneration	£966,611	£766,169	£610,773	£650,917	£859,070
STIP (as % of maximum)	92%	83%	80%	92%	75%
MTIP Vesting (as % of maximum)	100%[1]	N/A	N/A	N/A	100%

1 *The 2016/17-2019/20 MTIP was paid in June 2020, in line with scheme rules*.

Relative importance of the spend on pay

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

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

	2018/19	2019/20	% Change
Total net remuneration cost / (credit) for UKAR [1] (salary, pension, bonus benefits)	£0.5m	(£2.7m)	(640%)
Underlying remuneration costs for UKAR	£12.8m	£10.1m	(21%)
Underlying profit before tax	£340.1m	£82.6m	(76%)
Statutory profit / (loss) after tax	£283.7m	(£64.6m)	(123%)

1 *Total net remuneration costs do not give a true reflection as they include net credits relating to pension schemes of £12.8m (2018/19: £12.3m). The underlying remuneration costs give a more meaningful view. See note 4 to the Financial Statements.*

Directors' remuneration report (continued)

Annual report on remuneration (continued)

2019/20 salary review

We apply 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 2019	Salary as at 1 April 2020[1]
Ian Hares	£376,566 (+2.30%)	£385,415 (+2.35%)

1 *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	2019/20	2018/19	% 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 2019 - March 2020	April 2018 - March 2019
John Tattersall	£125,000	£125,000
Sue Langley	£70,000	£70,000
Brendan McDonagh	£75,000	£75,000
Keith Morgan [2]	£80,000	£80,000
Peter Norton [3]	-	-
Brendan Russell	£65,000	£65,000
Holger Vieten [4]	-	-
Total	**£415,000**	**£415,000**

1 *In addition, the company meets certain travel costs for Board Directors which are considered taxable. In the year, the company has paid travel expenses of £1,165 for Brendan McDonagh (March 2019: £850). Total tax paid to HMRC in relation to these expenses on behalf of Directors for 2019/20 was £844 (March 2019: £597).*
2 *Keith Morgan is a UKGI appointed Director but is not an employee of UKGI and as such he received fees.*
3 *Peter Norton was a UKGI employed appointed Director and did not receive any fees prior to his resignation in July 2018.*
4 *Holger Vieten is a UKGI employed appointed Director and does not receive any fees.*

External advisors

We are 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 £29,042 (2018/19: £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 2020 onwards

As highlighted throughout this Annual Report, we had expected to complete the divestment of B&B and NRAM during 2020, at which point UKAR Ltd would not have had any employees. This process has now been put on hold and the Remuneration Committee will continue to have a key role in maintaining an objective, consistent and fair reward system that provides a competitive yet cost-effective salary, incentive and benefits package to all colleagues which balances the need to maximise value for the taxpayer whilst mitigating operational risk and ensuring the continued retention, motivation and engagement of colleagues, including the Executives who are required to lead the business through the significant changes taking place at a time when the future is quite uncertain.

Gender Pay Gap and Equal Pay

We aimed 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. Although the mean pay gap has reduced to 37.7% (2018/19: 39.4%) 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.

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.

Directors' remuneration report (continued)

Annual report on remuneration (continued)

Gender Pay Gap and Equal Pay (continued)

Table 17 – Position within Salary Benchmark Range

Benchmark Range	No of Females	No of Males
<80%	0	1[1]
80% - 89.99%	19	21
90% - 99.99%	14	23
100% - 109.99%	10	11
>110%	5	5

1 This is the Chief Executive Officer role.

Table 18 – Gender Pay Report as at 5 April 2019

Women's hourly rate is	37.7% lower (mean)	18.3% lower (median)

Table 19 - Pay Quartiles

Pay Quartiles	Top Quartile	Upper Middle Quartile	Lower Middle Quartile	Lower Quartile
Men	75.8%	63.6%	41.2%	41.2%
Women	24.2%	36.4%	58.8%	58.8%

Table 20 – Bonus Pay

Women's bonus pay is	56.6% lower (mean)	27.2% lower (median)
Who received a bonus	90.5% of men	91.7% of women

At the year end, we had 29 colleagues with flexible working patterns, namely condensed or part time hours. Of these 20 are female and 9 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

Our 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 equality and diversity including skills, background, race, experience, gender and other qualities.

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 2019/20.

"During 2019/20 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. 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 2019/20 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 regular meetings during the year, complying with the requirements of its Terms of Reference. A further meeting was also held in October, solely to consider the Special Purpose Accounts ("SPAs") prepared for the purposes of the Jupiter transaction. The attendance of individual members at meetings is set out on page 25.

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 2020 and undertook an evaluation process in accordance with the requirements of those Terms of Reference. The Terms of Reference have been revised to reflect the fact that the final listed debt of NRAM was repaid in December 2019 and as a result interim financial reports will no longer be published. 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 2019/20

The work of the Committee during 2019/20 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, taking into account the requirements of HM Treasury consolidation. Review and recommendation to the Board of the Special Purpose Accounts ("SPAs") prepared for the purposes of the Jupiter transaction. Consideration of the impacts of Project Jupiter on the year-end Balance Sheet, initially assuming the transaction concluded in 2020/21 and ultimately the impacts of it being placed on hold. Oversight of the adoption of IFRS 16 Accounting for Leases. Oversight of Group's IFRS 9 modelling assumptions.	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.

Financial reporting and significant financial judgements

The Committee reviewed the content of the 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, including the SPAs. 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 IFRS 9 accounting based on the agreed business model that all mortgage assets are held to collect and sell. This included a review of the measurement of the Expected Credit Loss provision ("ECL") and fair value for the mortgage books at each balance sheet reporting date. 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. Determining the economic scenarios underpinning the IFRS 9 modelling and an appropriate discount rate was more complex than the previous year due to the impacts of COVID-19. The Committee assessed the appropriateness of other 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 any key movements during each reporting period.
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 following the 29 August 2019 PPI time-barring deadline, have been closely monitored and consideration was given to complaints from the Official Receiver relating to bankrupt estates.

Audit Committee Chairman's report (continued)

Financial reporting and significant financial judgements (continued)

Significant Issue	Financial Outcome
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 proposals for further assets sales and the sale of the B&B and NRAM legal entities as opportunities arise. As noted in the Long-Term Viability statement on page 30 and referenced in the strategy set out on page 12, 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 2020.

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 67.

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

- considering reports at all three regular 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 regular Audit Committee meetings during 2019/20 and has direct access to the Audit Committee and its Chairman.

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

Internal control

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

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

The Committee reviewed the processes governing the strategic transactions namely the sale of NRAM assets for £4.9bn in March 2019 and preparations for the Project Jupiter sale, including the transfer of the two closed defined benefit pension schemes from B&B and NRAM to UKAR Limited on 20 June 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 page 29.

Audit Committee Chairman's report (continued)

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 services that are not audit related to the extent of a private sector audit firm.

Priorities for 2020/21

For 2020/21, 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 economic impacts of COVID-19 and the strategic developments detailed in the Chairman's statement on pages 5 to 6; and
- assessment of the accounting treatment of any strategic transactions that are undertaken during 2020/21.

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 2019/20.

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

As referenced throughout this report, during 2019/20 the UKAR Group has made good progress in reducing the inherent complexities within the organisation. The completion of business as usual activities, projects and the ability to redistribute workloads has enabled us to move towards an operating model that is aligned to the simplified business. As such, and following agreement with Unite, the representative union for colleagues, during the year we communicated a reduction of 57 roles. We subsequently undertook group and individual consultation with impacted colleagues whom were then placed 'at risk', with formal notice of redundancy being served in line with business requirements."

Membership

There were no changes to the membership of the Nomination Committee which was in place throughout the year and had the following membership as at 31 March 2020:

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 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 25.

- the UKGI employed appointed Non-Executive Director;
- Chief Executive;
- the Governance, Engagement & HR Director;
- Company Secretary or their nominee; and
- other representatives from business functions and/or external advisors.

Reporting to the Board

The Committee Chairman reports to the Board after each Committee meeting, summarising the key matters discussed, and the Board also receives 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 2019/20

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

- a review of the Constitution of the Board and its Committees, including agreement that from April 2020 we would move to compliance with the Wates Corporate Governance Principles for Large Private Companies which will make it possible for us to implement a simplified structure for the UKAR Ltd, B&B and NRAM Boards;
- a review and recommendation of the renewal of Non-Executive Director contracts, and consideration of appropriate board and board committee composition as the business simplifies and we resume our strategy for disposal of assets;
- the recommendation for the reappointment of Directors at the Annual General Meeting;
- agreeing and issuing revised service agreements for Executives, aligned with the Senior Managers & Certification Regime which came into force for B&B and NRAM in December 2019; and
- the ongoing review of the structure to ensure it remained fit for purpose and the timing of departures as the business simplifies and the number of roles within the organisation reduces.

Equality

UKAR is committed to encouraging and promoting equal opportunities, diversity and inclusion amongst our workforce. Our approach to selection is to appoint the best candidate into any vacancy with selection processes measured against objective criteria that avoid discrimination.

Our Equality 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 non-executive directors. The policy requires that in reviewing Board composition, the Committee will consider the benefits of all aspects of a prospective candidate including skills, experience, knowledge and other qualities of effective Directors irrespective of background, race, age, gender or any other protected characteristic.

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. Taking into account the much reduced 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	36	34	51 : 49
Management	11	27	29 : 71
Total	**47**	**61**	**44 : 56**

Nomination Committee Chairman's report (continued)

Priorities for 2020/21

As highlighted throughout this Annual Report, UKAR had expected to complete its divestment of the government's holdings in both B&B and NRAM during 2020 through the sale of both companies, at which point UKAR Ltd would no longer have had any employees. This process has now been put on hold, and the Nomination Committee will continue to have a key role in ensuring that all three Group companies maintain appropriate governance and management structures as we transition to a target operating model aligned to the simplified business. In so doing we will consider the views of, and wider impact on, all our stakeholders.

The Committee will take a pragmatic approach to balancing the need to maximise value for the taxpayer by serving notice to colleagues in a timely fashion, whilst mitigating operational risk and ensuring the continued motivation and engagement of all colleagues, including the Executives who are required to lead the business through the significant changes taking place.

John Tattersall
Chairman of the Nomination Committee

Risk Committee Chairman's report

Keith Morgan, the Chairman of the Risk Committee, reports on how the Risk Committee discharged its responsibilities during 2019/20.

"During 2019/20 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 ensured that an appropriate risk culture and systems of internal control to mitigate those key risks were 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 potential implications of the UK's exit from the European Union as well as the impact of the COVID-19 crisis on the business. Conduct risk remains a priority in everything we do as the legal and regulatory environment continues to evolve and our business continues towards deliver on its strategic objectives."

Membership

The Risk Committee was in place throughout 2019/20 and had the following membership on 31 March 2020:

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 25.

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 holder for Compliance oversight and Money Laundering reporting.

Reporting to the Board

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

Governance

The Committee completed an annual review of its Terms of Reference in March 2020 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 2019/20

The work of the Committee during 2019/20 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; 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 risk involved in the programme delivering the key strategic objective to return B&B and NRAM to public ownership;
- the risks arising from the monitoring and oversight of outsourced mortgage servicing;
- monitoring 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 impacts;
- monitoring cyber risk exposure, key trends, countermeasures and assurance;
- considering the evolving GDPR requirements;
- 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 2019/20

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 66 to 70.

Risk Committee Chairman's report (continued)

Priorities for 2020/21

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 with some of these risks likely to increase following the COVID-19 global pandemic, including strategic, conduct, outsourcing, regulatory, operational and credit risk. These risks will continue to be monitored to ensure they remain within the Board approved risk appetite. Our approach to risk means that regular monitoring and reporting of all risks will be visible at the relevant committees, ensuring that risk management supports the business in the next phase of the business strategy.

Conduct risk - ensuring fair and appropriate customer outcomes and meeting regulatory expectations are at the heart of the business. We will continue to work in partnership with our mortgage servicing providers to ensure fair and appropriate customer outcomes throughout the end to end mortgage servicing process.

Regulatory risk - management oversight and control is key to ensuring compliance with the FCA's principles, rules and guidance. Our approach is focused on eliminating regulatory risk through a zero risk appetite.

Outsourcing risk - 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 Business Simplification activities and the continued 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 continue to be a focus in 2020/21. The ongoing development of Operational Resilience capability is a key focus of the Regulator and will be part of the agenda.

Credit risk - given UKAR's customer profile, and the COVID-19 impact work continues to understand our customers' current financial position and in particular quantify the impact of forbearance options, interest rate changes 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 continuing management of a mortgage book relevant to COVID-19, the subsequent delay in returning the business to the private sector and the fact the organisation remains 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. Implementing responses and the ongoing management through and post the COVID-19 Pandemic will continue to be closely monitored and managed.

UKAR principal risks are described in detail on pages 17 to 18 and 68 to 70.

Keith Morgan CBE
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 2019/20.

Membership

The membership of the Transaction Approvals Committee during 2019/20 was as follows:

John Tattersall (Chairman)
Ian Hares
Keith Morgan
Brendan Russell
Holger Vieten

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 25.

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

- the Asset Sales Director;
- the Risk 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.

Chairman's overview

The Transaction Approvals Committee fulfilled its remit during 2019/20 through the oversight of transactions requiring approval in principle by the Board under its reserved powers. This included the activities undertaken in respect of the sale of the residual asset portfolios and B&B and NRAM legal entities. During the process, the Committee considered and approved 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. Negotiations were progressing well until it became necessary to put these transactions on hold in March 2020 as a result of the impact of the COVID-19 pandemic on financial markets.

John Tattersall
Chairman of the Transaction Approvals Committee

Key performance indicators ('KPIs')

UKAR Group

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

Financial measure	2019/20 Target	March 2020	March 2019
Underlying Profit Before Tax	*>= £65.5m*	**£82.6m**	£340.1m
Cash Generation [1]	*>= £0.5bn*	**£0.6bn**	£1.4bn
3m+ Residential Arrears [2]	*<= 1,435*	**1,375**	1,405
Ongoing Administrative Expenses [3, 4]	*<= £125.7m*	**£124.3m**	£129.5m

1 The cash generation target excludes cash generated from asset sales. Total cash generated in 2019/20 was £5.0bn (2018/19: £7.5bn).
2 The March 2019 comparative has been restated to reflect retained loans only. At March 2019 the reported 3m+ arrears of 3,085 included 1,680 sold accounts for which UKAR retained responsibility under interim servicing arrangements.
3 Excluding UKARcs costs (2019/20: £nil; 2018/19: £7.4m) and non-recurring expenses (2019/20: £16.7m; 2018/19: £6.6m).
4 UKAR Group includes a credit charged directly to UKAR Ltd of £9.1m (2018/19: £8.8m charge) and a consolidated £1.5m credit (2018/19: £0.5m credit).

Targets are not set at a subsidiary level, however, equivalent KPIs for B&B and NRAM in 2019/20 and 2018/19 were as follows:

B&B

Financial measure	March 2020	March 2019
Underlying Profit Before Tax	**£18.6m**	£152.7m
Cash Generation [5]	**£0.4bn**	£0.3bn
3m+ Residential Arrears [6]	**1,251**	1,275
Ongoing Administrative Expenses	**£96.2m**	£51.8m

5 The cash generation target excludes cash generated from asset sales. Total cash generated in 2019/20 was £0.4bn (2018/19: £6.3bn).
6 The March 2019 3m+ arrears target has been restated from 1,446, which included loans which had been sold but were subject to interim servicing arrangements. At March 2020 there were no loans under interim servicing arrangements.

NRAM

Financial measure	March 2020	March 2019
Underlying Profit Before Tax	**£3.0m**	£190.3m
Cash Generation [7]	**£0.2bn**	£1.1bn
3m+ Residential Arrears [8]	**124**	130
Ongoing Administrative Expenses	**£38.7m**	£69.4m

7 The cash generation target excludes cash generated from asset sales. Total cash generated in 2019/20 was £4.6bn (2018/19: £1.2bn). £0.4bn of the cash generated in 2019/20 was transferred to UKAR to repay intercompany debts (2018/19: £nil).
8 The March 2019 3m+ arrears target has been restated from 1,639, which included loans which had been sold but were subject to interim servicing arrangements. At March 2020 there were no loans under interim servicing arrangements.

Key performance indicators ('KPIs') (continued)

Statutory Profit / (Loss) before Tax

Statutory profit is an important financial measure, however, for target purposes the Board continue to believe it is appropriate to assess performance based on the underlying profits of the business. An analysis of the difference between statutory and underlying profit is provided on page 58.

Statutory Profit / (Loss) Before Tax	March 2020	March 2019
UKAR Group	**(£48.2m)**	£340.3m
B&B	**(£9.9m)**	£22.1m
NRAM	**(£83.9m)**	£321.1m

Additional KPIs

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

	2019/20 Target	March 2020	March 2019
Underlying Profit Before Tax	***>= £65.5m***	**£82.6m**	**£340.1m**
- Statutory Profit/ (loss) Before Tax [1]		(£48.2m)	£340.3m
- Net Interest Margin on Average Interest Earning Assets		2.85	3.33
Cash Generation [2]	***>= £0.5bn***	**£0.6bn**	**£1.4bn**
- Government Loan Balance		£nil	£2.0bn
- Total Lending Balances [3]		£4.7bn	£5.5bn
- Amount owed in respect of sale of loans		£nil	£4.5bn
3m+ Residential Arrears [4]	***<= 1,435***	**1,375**	**1,405**
- 3m+ Residential Arrears including loans managed under interim servicing arrangements		1,375	3,085
- Residential Arrears Balance as a percentage of the Total Residential Mortgage Balance (%)		0.18	0.16
- Residential Payments Overdue		£9.1m	£9.2m
- Residential Arrears 3 months and over and possessions as a percentage of the book:			
- By value		4.21	3.80
- By number of accounts		3.62	3.24
Ongoing Administrative Expenses [5]	***<= £125.7m***	**£124.3m**	**£129.5m**
- Ratio of costs to average interest earning assets (%):			
- Statutory		2.33	1.15
- Ongoing		2.05	1.04

1 *An analysis of the difference between statutory and underlying profit is provided on page 58.*
2 *The cash generation target excludes cash generated from asset sales. Total cash generated in 2019/20 was £5.0bn (2018/19: £7.5bn).*
3 *Total lending balances includes loans to customers held at fair value of £4.7bn (March 2019: £5.5bn) and equity release mortgages of £7.6m (March 2019: £8.0m).*
4 *The March 2019 comparative has been restated to reflect UKAR retained loans only. At March 2019 the reported 3m+ arrears of 3,085 included 1,680 sold accounts for which UKAR retained responsibility under interim servicing arrangements.*
5 *Excluding UKARcs costs (2019/20: £nil; 2018/19: £7.4m) and non-recurring expenses (2019/20: £16.7m; 2018/19: £6.6m).*

Financial review

These financial results are for the year to 31 March 2020.

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, non-recurring administrative expenses 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 2020 has decreased by £257.5m to £82.6m (March 2019: £340.1m). The reduction in underlying profit primarily reflects reduced net interest income due to the shrinking Balance Sheet.

For the year to March 2020 underlying net operating income has decreased by £252.8m to £179.5m (March 2019: £432.3m) also reflecting the lower net interest income. Ongoing administrative expenses of £124.3m were £5.2m lower than the previous year (March 2019: £129.5m, excluding £7.4m UKARcs costs). Impairment on loans to customers was a credit of £27.4m (March 2019: £41.6m credit). The impairment charge for insurance risk on equity release mortgages was £nil in the year (March 2019: £3.1m credit), the majority of equity release mortgages having been sold in 2018.

For the year to March 2020 the statutory loss before tax of £48.2m (March 2019: £340.3m profit) included a £116.3m charge in respect of customer redress provisions.

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

	UKAR Group		B&B		NRAM		UKAR Ltd	
For the year ended 31 March	2020	2019	2020	2019	2020	2019	2020	2019
	£m	£m	£m	£m	£m	£m	£m	£m
Net interest income	**172.3**	414.7	**83.0**	159.1	**38.9**	250.3	**50.4**	5.3
Underlying net non-interest income [1,2]	**7.2**	17.6	**14.6**	19.0	**(7.4)**	(8.9)	**0.5**	0.5
Underlying net operating income	**179.5**	432.3	**97.6**	178.1	**31.5**	241.4	**50.9**	5.8
Ongoing administrative expenses [2]	**(124.3)**	(136.9)	**(96.2)**	(51.8)	**(38.7)**	(69.4)	**9.1**	(8.8)
Net impairment release on loans to customers	**27.4**	41.6	**17.2**	23.3	**10.2**	18.3	**-**	-
Provision for insurance risk on equity release mortgages	**-**	3.1	**-**	3.1	**-**	-	**-**	-
Underlying profit / (loss) before taxation	**82.6**	340.1	**18.6**	152.7	**3.0**	190.3	**60.0**	(3.0)
Unrealised fair value movements on financial instruments	**-**	(0.7)	**-**	(0.7)	**-**	-	**-**	-
Hedge ineffectiveness	**-**	1.9	**-**	1.9	**-**	-	**-**	-
Non-recurring administrative expenses	**(16.7)**	(6.6)	**(1.3)**	(6.1)	**-**	(0.5)	**(15.4)**	-
Provision for customer redress	**(116.3)**	(57.8)	**(27.1)**	(26.4)	**(89.2)**	(31.4)	**-**	-
Legal and insurance claims	**-**	0.4	**-**	0.4	**-**	-	**-**	-
Profit / (loss) on sale of loans	**2.2**	452.0	**(0.1)**	289.3	**2.3**	162.7	**-**	-
Hedging impacts of sale of loans	**-**	(389.0)	**-**	(389.0)	**-**	-	**-**	-
Dividend income [3]	**-**	-	**-**	-	**-**	-	**5,210.7**	2,000.0
Impairment of investment in subsidiaries [3]	**-**	-	**-**	-	**-**	-	**(1,111.6)**	-
Statutory profit / (loss) before taxation	**(48.2)**	340.3	**(9.9)**	22.1	**(83.9)**	321.1	**4,143.7**	1,997.0

1 *Underlying net non-interest income includes net fee and commission income and other operating income.*
2 *In the prior year underlying net non-interest income included £7.5m in relation to UKARcs. In the prior year ongoing administrative expenses included £7.4m in relation to UKARcs.*
3 *UKAR Ltd's dividend income relates entirely to dividends distributed by B&B and NRAM. UKAR Ltd impaired its investments in B&B and NRAM due to the reduction in their net assets following these dividends. This consolidates out at Group level.*

Financial review (continued)

Net interest income

	UKAR Group		B&B		NRAM	
	2020	2019	2020	2019	2020	2019
	£m	£m	£m	£m	£m	£m
Interest receivable and similar income						
On equity release mortgages	**0.6**	28.0	**-**	27.4	**0.6**	0.6
On other secured loans	**177.2**	401.4	**115.7**	122.0	**61.5**	279.4
On other lending [1]	**-**	15.7	**-**	-	**-**	15.7
On investment securities and deposits	**4.7**	10.1	**1.6**	7.1	**3.2**	3.0
Interest receivable and similar income	**182.5**	455.2	**117.3**	156.5	**65.3**	298.7
Interest expense and similar charges						
On HM Treasury Loans	**(1.7)**	(36.1)	**-**	(0.5)	**(1.7)**	(35.6)
Intercompany loans [2]	**-**	-	**(34.3)**	(5.3)	**(16.2)**	-
On wholesale funding	**(8.5)**	(12.8)	**-**	-	**(8.5)**	(12.8)
Other [3]	**-**	8.4	**-**	8.4	**-**	-
Interest expense and similar charges	**(10.2)**	(40.5)	**(34.3)**	2.6	**(26.4)**	(48.4)
Net interest income	**172.3**	414.7	**83.0**	159.1	**38.9**	250.3
Average balances						
Interest-earning assets ('IEA')	**6,056**	12,439	**3,626**	5,260	**2,430**	7,178
Financed by:						
- Interest-bearing funding [4]	**233**	2,681	**2,249**	350	**1,315**	2,331
- Interest-free funding [5]	**5,823**	9,758	**1,377**	4,910	**1,115**	4,847
Average rates %	**%**	%	**%**	%	**%**	%
Gross yield on IEA	**3.01**	3.66	**3.23**	2.98	**2.69**	4.16
Cost of interest-bearing funding	**(4.38)**	(1.83)	**(1.52)**	(1.67)	**(2.01)**	(2.08)
Interest spread	**(1.37)**	1.83	**1.71**	1.31	**0.68**	2.08
Contribution of other adjustments	**-**	0.07	**-**	0.16	**-**	-
Contribution of interest-free funding [5]	**4.22**	1.43	**0.58**	1.55	**0.92**	1.40
Net interest margin on average IEA	**2.85**	3.33	**2.29**	3.02	**1.60**	3.48
Annual average Bank Base Rate	**0.72**	0.67	**0.72**	0.67	**0.72**	0.67
Annual average 1-month LIBOR	**0.68**	0.66	**0.68**	0.66	**0.68**	0.66
Annual average 3-month LIBOR	**0.76**	0.80	**0.76**	0.80	**0.76**	0.80

1 *Interest receivable on other lending relates to interest income on unsecured loans. All unsecured loans were sold in the prior year.*
2 *Intercompany loan interest payable by B&B and NRAM is consolidated out at Group level.*
3 *There was no other interest expense in the year. The prior year credit of £8.4m related to the release of accrued potential interest payable on tax liabilities.*
4 *Intercompany debt owed by B&B and NRAM is consolidated out at Group level.*
5 *Interest-free funding is calculated as an average over the financial year and includes share capital and reserves and the Statutory Debt.*

Net interest income

Net interest income for the year to March 2020 was £172.3m (March 2019: £414.7m). 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 2020 has decreased to 2.85% from 3.33% in the year to March 2019. The reduction was driven by the reduction in interest free funding due to the payment of dividends and repayment of B&B's statutory debt. The average interest-bearing funding balance fell to £233m from £2,681m, so although the cost increased from 1.83% to 4.38% this had little impact on net interest income. The increased cost of funding reflected the change in mix of interest-bearing funding during the year with NRAM's Medium Term Notes ('MTN') programme of £200m at a rate of 6.375% representing a significant proportion until it redeemed on 2 December 2019.

Financial review (continued)

Net interest income (continued)

On the B&B book the net interest margin decreased by 0.73% to 2.29%, primarily due to a reduction in the contribution of interest-free funding, as a consequence of B&B distributing its equity through the payment of dividends, financed by intercompany loans. The intercompany funding is provided by UKAR and is charged at Bank Base Rate +0.80%.

NRAM's net interest margin decreased to 1.60% from 3.48% primarily due to the reduction in the gross yield on interest earning assets and the reduction in interest-free funding. Gross yield on interest earning assets fell as the loans sold in March 2019 were higher yielding than those retained. Interest-free funding reduced due to the payment of dividends, £2.0bn of which was financed by an intercompany loan. The government loan, which attracted interest of Bank Base Rate + 1.00%, was repaid in full in April 2019, however, the benefit on cost of interest-bearing funding was partly offset as the rate on the intercompany loan is similar (Bank Base Rate + 0.80%).

Underlying net non-interest income

Underlying net non-interest income decreased by £10.4m to £7.2m in the year to March 2020 (March 2019: £17.6m). Other operating income includes interim servicing fees of £10.1m (March 2019: £9.7m) from the provision of mortgage services on assets sold. Other operating income for 2018/19 included £7.5m of UKARcs income. The activities of UKARcs were transferred to NS&I on 1 April 2019.

Net non-interest income

	UKAR Group		B&B		NRAM	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Total net fee and commission income	**(3.5)**	(0.2)	**4.2**	9.2	**(7.7)**	(9.4)
Net realised gains less losses on investment securities	**-**	0.3	**-**	0.1	**-**	0.2
Other operating income [1]	**10.7**	17.5	**10.4**	9.7	**0.3**	0.3
Underlying net non-interest income	**7.2**	17.6	**14.6**	19.0	**(7.4)**	(8.9)
Unrealised fair value movements on financial instruments	**-**	(0.7)	**-**	(0.7)	**-**	-
Hedge ineffectiveness	**-**	1.9	**-**	1.9	**-**	-
Statutory net non-interest income	**7.2**	18.8	**14.6**	20.2	**(7.4)**	(8.9)

1 UKAR other operating income for 2018/19 included £7.5m of UKARcs income.

Accounting volatility on derivative financial instruments

Prior to the sale of the majority of the equity release mortgages in September 2018 the Group used derivative financial instruments to hedge these mortgages against the risk of interest rate changes. As at 31 March 2019 all derivative financial instruments had been terminated. Therefore there were no gains or losses associated with derivative financial instruments in the year.

Financial review (continued)

Administrative expenses

	UKAR Group		B&B		NRAM		UKAR Ltd	
	2020	2019	2020	2019	2020	2019	2020	2019
	£m	£m	£m	£m	£m	£m	£m	£m
Wages and salaries	**8.4**	10.8	**8.4**	10.8	**-**	-	**-**	-
Social security costs	**1.1**	1.3	**1.1**	1.3	**-**	-	**-**	-
Defined benefit pension costs [1]	**(13.3)**	(12.8)	**(1.9)**	(8.9)	**(0.8)**	(3.9)	**(9.6)**	-
Defined contribution pension costs	**0.6**	0.7	**0.6**	0.7	**-**	-	**-**	-
Other retirement benefit costs	**0.5**	0.5	**0.5**	0.5	**-**	-	**-**	-
Total staff costs [1]	**(2.7)**	0.5	**8.7**	4.4	**(0.8)**	(3.9)	**(9.6)**	-
IT costs	**3.3**	15.1	**3.3**	13.3	**-**	0.4	**-**	-
Outsourced and professional services	**102.2**	111.7	**100.6**	110.5	**1.6**	0.1	**-**	-
Depreciation and amortisation	**0.5**	3.6	**0.5**	0.1	**-**	-	**-**	-
Management recharge to NRAM / UKARcs	**-**	-	**(36.9)**	(75.4)	**36.9**	74.2	**-**	-
Property Provision and impairment charge	**13.9**	-	**13.9**	-	**-**	-	**-**	-
Other administrative expenses	**7.1**	6.0	**6.1**	(1.1)	**1.0**	(1.4)	**0.5**	8.8
Total ongoing [1, 2]	**124.3**	136.9	**96.2**	51.8	**38.7**	69.4	**(9.1)**	8.8
Non-recurring	**16.7**	6.6	**1.3**	6.1	**-**	0.5	**15.4**	-
Total administrative expenses [1, 2]	**141.0**	143.5	**97.5**	57.9	**38.7**	69.9	**6.3**	8.8

1 *Group administrative expenses include a consolidated £1.5m credit (2018/19: £0.5m credit) including £1.0m (2018/19: £nil) in respect of the defined benefit pension schemes. Following the transfer of the schemes from B&B and NRAM to UKAR Ltd in June 2019 (see note 15) the credit in UKAR Ltd's administrative expenses was £1.0m lower than at UKAR Group level.*

2 *Group administrative expenses for 2018/19 included £7.4m of costs relating to UKARcs. There were no UKARcs costs incurred by the group in the year.*

Ongoing administrative expenses for the year of £124.3m (March 2019: £129.5m) were 4.0% lower. The reduction in costs reflects the reduction in the size of the mortgage book through natural run-off and asset sales and a one-off IT charge in 2018/19 to resolve end of life issues and design our optimum IT solution, partly offset by a property charge for onerous leases in 2019/20.

Non-recurring costs of £16.7m comprises, £15.4m of costs relating to the planned sale of B&B and NRAM and £2.2m of redundancy costs, partly offset by a £0.9m provision release relating to IT licencing costs.

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, which increased 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 the Supreme Court judgement in Plevin v Paragon Personal Finance Limited. For the year to March 2020, the income statement includes a net charge of £116.3m (March 2019: £57.8m) to top-up total customer redress provisions. This included £116.5m relating to PPI (March 2019: £64.0m), which was partly offset by a net release across other customer redress provisions. The additional PPI provision reflects greater than predicted complaint and enquiry volumes in the lead up to the 29 August 2019 deadline, and reflects our best estimate of the compensation due on the outstanding stock of complaints, administration costs and the cost of complaints received from the Official Receiver on behalf of bankrupt customers.

Arrears and possessions

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

Financial review (continued)

Arrears and possessions (continued)

The total number of residential cases 3 or more months in arrears, including those in possession, reduced by 2% from 1,405 at 31 March 2019 to 1,375 at 31 March 2020. The proportion of total accounts 3 or more months in arrears has increased from 3.24% at 31 March 2019 to 3.62% at 31 March 2020.

The total value of payments overdue by residential customers has reduced from £9.2m at 31 March 2019 to £9.1m at 31 March 2020, equivalent to 0.18% of mortgage balances (March 2019: 0.16%).

The total number of properties in possession reduced from 216 at 31 March 2019 to 183 at 31 March 2020. LPA 'for sale' stock was 94 cases at 31 March 2020 (March 2019: 87).

Loan impairment: IFRS 9

The Group adopted IFRS 9 'Financial Instruments' with effect from 1 April 2018. IFRS 9 replaced 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.

In the light of the COVID-19 pandemic and the resulting economic uncertainty, additional sensitivity analysis has been performed. Note 2 provides further detail about how the impact of COVID-19 has been factored into the economics as well as the additional sensitivity analysis performed

Loan impairment: residential loans

	Total Provisions		
Residential Loans	**UKAR Group**	**B&B**	**NRAM**
	£m	**£m**	**£m**
March 2019	161.9	126.9	35.0
Movement	(31.1)	(24.2)	(6.9)
March 2020	**130.8**	**102.7**	**28.1**
Coverage			
March 2019	2.91%	3.45%	1.85%
March 2020	**2.64%**	**3.13%**	**1.69%**

Provisions for residential loan impairment have reduced by £31.1m since 31 March 2019 to £130.8m (March 2019: £161.9m), reflecting realised losses.

Total realised losses on properties sold following possession or sold by an LPA were £14.3m (March 2019: £31.3m), all of which had previously been fully provided for.

Included within the above, fraud and professional negligence provisions have decreased by £9.6m since 31 March 2019 to £43.5m (March 2019: £53.1m) as a result of realised losses following the sale of properties. Total UKAR fraud provisions represent coverage of 17% of balances of suspected fraud and professional negligence cases (March 2019: 20%). Within the B&B book, fraud and professional negligence provisions have reduced since 31 March 2019 by £9.3m to £40.9m (March 2019: £50.2m). In the NRAM book, fraud and professional negligence provisions have reduced by £0.3m to £2.6m (March 2019: £2.9m).

As a proportion of balances, the residential impairment provision was 2.64% (March 2019: 2.91%). The residential loan impairment credit was £27.6m for the year (March 2019: £36.8m credit).

Financial review (continued)

Loan impairment: commercial loan book

Following the commercial loan book sale in December 2018, one NRAM commercial loan remains. There was no provision held on this loan at 31 March 2020 (March 2019: £nil).

Provision for insurance risk: equity release loan book

Following the sale of the equity release loans in September 2018, there are £7.8m of balances remaining in NRAM on 47 loans. The total provision for insurance risk on these loans as at March 2020 was £0.2m (March 2019: £0.2m). As a proportion of balances the provision represents coverage of 2.74% (March 2019: 2.42%).

Fair value of loans to customers

The fair value of loans to customers reduced by £818.0m to £4,699.5m (March 2019: £5,517.5m), with the most significant movements due to changes in forecast mortgage cashflows including redemptions, as well as changes to observed funding costs and economic scenarios.

Observed funding costs are included on the assumption an investor will securitise the assets and hold them to maturity. In calculating the cost of funding, an assumption has been made that markets return to pre COVID-19 levels within three years. Note 2 (d) provides further information about the underpinning modelling assumptions.

Legal and insurance claims

There were no charges or credits in relation to legal and insurance claims in the period (2018/19: £0.4m credit).

Taxation

The total Income Statement tax charge for the year ended 31 March 2020 was £16.4m (March 2019: £56.6m). Although a statutory loss before taxation of £48.2m was reported for the year (March 2019: £340.3m profit), this was adjusted for items which are not deductible for tax purposes including PPI remediation. In addition, the tax charge included a £3.6m charge in respect of prior periods, resulting in a higher tax charge than the standard weighted average rate of UK corporation tax of 19.0%.

Balance Sheet

	UKAR Group		B&B		NRAM		UKAR Ltd	
At 31 March	2020	2019	2020	2019	2020	2019	2020	2019
	£m	£m	£m	£m	£m	£m	£m	£m
Loans to customers:								
- residential mortgages	**4,697.0**	5,514.6	**3,075.3**	3,600.1	**1,621.7**	1,914.5	**-**	-
- commercial loans	**2.5**	2.9	**-**	-	**2.5**	2.9	**-**	-
- unsecured lending	**-**	-	**-**	-	**-**	-	**-**	-
Equity release mortgages	**7.6**	8.0	**-**	-	**7.6**	8.0	**-**	-
Amount owed in respect of sale of loans	**-**	4,473.7	**-**	8.7	**-**	4,465.0	**-**	-
Wholesale assets	**811.5**	723.6	**147.4**	287.5	**178.0**	430.2	**486.1**	-
Intercompany debtors	**-**	-	**26.1**	21.4	**-**	-	**3,415.8**	2,005.4
Investment in subsidiaries	**-**	-	**-**	-	**-**	-	**1,522.5**	2,634.0
Other assets	**869.4**	661.4	**47.0**	450.6	**14.1**	214.6	**846.7**	0.6
Total assets	**6,388.0**	11,384.2	**3,295.8**	4,368.3	**1,823.9**	7,035.2	**6,271.1**	4,640.0
Statutory Debt and HM Treasury loans	**-**	1,976.0	**-**	462.4	**-**	1,513.6	**-**	-
Wholesale funding	**-**	204.2	**-**	-	**-**	204.2	**-**	-
Intercompany creditors	**-**	-	**2,079.4**	2,005.4	**1,339.3**	17.1	**23.2**	4.3
Other liabilities	**304.1**	324.4	**84.8**	147.9	**93.7**	171.0	**164.0**	3.9
Equity	**6,083.9**	8,879.6	**1,131.6**	1,752.6	**390.9**	5,129.3	**6,083.9**	4,631.8
Total equity and liabilities	**6,388.0**	11,384.2	**3,295.8**	4,368.3	**1,823.9**	7,035.2	**6,271.1**	4,640.0

Financial review (continued)

Balance Sheet (continued)

In the year to March 2020 the Balance Sheet has reduced by £5.0bn to £6.4bn (March 2019: £11.4bn). The Balance Sheet reduction primarily reflects the settlement of the sale of loans to Citi (£4.4bn) and redemptions in the year (£0.6bn). Total lending balances have reduced by £0.8bn (15%) during the year to March 2020 mainly due to secured residential redemptions (£0.6bn). The reduction in fair value reflects the adverse impact the COVID-19 pandemic has had particularly on the cost of debt and equity observed in financial markets in March.

Liabilities

The Statutory Debt and HM Treasury loans were fully repaid in the year. In the year, £2.0bn (B&B: £0.5bn, NRAM: £1.5bn) of HM Treasury debt was repaid (March 2019: £8.3bn). In addition, NRAM's outstanding wholesale funding was fully repaid in December 2019.

Capital

The Group 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 2020 capital in B&B represented 35.6% (March 2019: 21.5%) of B&B Company assets, NRAM capital represented 21.4% (March 2019: 69.3%) of NRAM Company assets and Mortgage Express capital represented 11.2% (2019: 30.3%) of Mortgage Express's assets.

B&B and NRAM met their capital requirements in full throughout the year and have received no additional capital from HM Treasury. The same was true for Mortgage Express until March 2020, when the reduction in the fair value of the loan book impacted regulatory capital. As a result, the Mortgage Express Fair Value Reserve moved from a positive amount of £14.7m at the end of February 2020 to a negative figure of £33.0m at the year-end. Much of the company's surplus capital had been distributed by way of a dividend on 3 March 2020. The year-end capital ratio of available capital compared to capital requirement fell to 105%, which was below the Board threshold of 125%, although still above the FCA requirement. No structural changes have been made to the Balance Sheet initially, as a result, with the shortfall offset against the credit risk buffer included in the calculation of requirements. However, the position continues to be monitored.

Capital resources - B&B (company only)

At 31 March	2020 £m	2019 £m
Share capital and reserves	**1,131.6**	1,539.3
IFRS 9 fair value reserve adjustment [1]	**-**	(31.7)
Net pension asset adjustment [2]	**-**	(439.3)
Less: deductions [3]	**(119.5)**	(175.0)
Total capital	**1,012.1**	893.3

1 In the current year there is no adjustment for the IFRS 9 fair value reserve as the reserve is negative.
2 In the current year there is no pension asset deduction as the scheme was transferred to UKAR Ltd in June 2019.
3 The deduction from capital resources of £119.5m reflects the company's investment in Mortgage Express (March 2019: £175.0m).

B&B declared a dividend of £570m on 1 July 2019. The dividend was funded by a loan from UKAR to B&B.

B&B total capital resources of £1,012.1m are £118.8m higher than at 31 March 2019. The increase is driven by the £540.5m impact of the transfer of the Pension Schemes to UKAR in June 2019, the profit after tax for the year of £150.7m, which included £230.0m of dividend income from its subsidiary company Mortgage Express and a £55.5m reduction in the deduction for the company's investment in Mortgage Express. This was partly offset by the distribution of an interim dividend of £570m and the negative IFRS 9 fair value reserve of £53.3m.

Financial review (continued)

Capital

Capital resources - NRAM (company only)

At 31 March	2020 £m	2019 £m
Share capital and reserves[1]	**390.7**	5,129.1
IFRS 9 fair value reserve adjustment	**-**	(41.3)
Net pension asset adjustment	**-**	(214.0)
Total capital	**390.7**	4,873.8

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 declared two dividends during the year, an interim dividend of £2,690.7m, which was settled in cash in May 2019, and a second interim dividend of £1,950m, in July 2019, which was funded by a loan from UKAR.

NRAM total capital resources of £390.7m are £4,483.1m lower than at 31 March 2019, mainly due to dividend distributions totalling £4,640.7m in the year, the after tax loss for the year of £84.3m and the negative IFRS 9 reserve of £14.4m, partly offset by the £237.5m impact of the transfer of the Pension Schemes to UKAR in June 2019.

Risk management and control

Pages 66 to 70 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 twice each month, with both meetings continuing to reference all matters relating to the business, with one meeting focussing on Customer, Conduct and Change matters and the other meeting addressing Board reporting. As at 31 March 2020, 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 2020:

Liquidity Management Committee ('LMC');
Credit Risk Committee ('CRC');
Risk, Audit and Compliance Service Review Meeting:
Impairment Assumptions Review Meeting ('IARM'); and
Claims Management Advisory Group ('CMAG')

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, Audit and Compliance Service Review Meeting

The primary purpose of the Committee is to review and challenge customer risk exposures, from risk information that emanates predominantly from the suppliers contract management, including key assurance activities, operational risk, regulatory risk and conduct risk and ensure appropriate actions or improvements are taken.

Risk management and control (continued)

Pages 66 to 70 form an integral part of the audited Financial Statements

Management committees (continued)

Impairment Assumptions Review Meeting

The primary objective of the Impairment Assumptions Review Meeting is to undertake a review of the key assumptions underpinning the IFRS 9 Excepted Credit Loss ('ECL') and Fair Value calculations in light of observed experience and future anticipated developments.

Claims Management Advisory Group

The primary purpose of the CMAG is to review complaints management information and legal claims that may impact on the business.

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 ERC; 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.

Risk management and control (continued)

Pages 66 to 70 form an integral part of the audited Financial Statements

Controls effectiveness

The role of Accounting Officer, as detailed on page 77, 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. Post 15 March 2020 when COVID-19 saw the introduction of remote working arrangements, a small number of changes were adopted to our control environment in line with Regulatory and Government guidance, which are likely to remain in place for some time. For the period of this report no material control issues are noted and appropriate internal and outsourcer oversight and assurance is in place to continue to monitor the assessment of these controls and any potential increase in risk as Regulatory and Government guidance is refined.

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 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.

As noted in the CEO's introduction on page 8, the administration of the two defined benefit pension schemes was successfully outsourced to DTRB in October 2019. DTRB were impacted by the COVID-19 pandemic but were able to revert to home working and the service continued. Enquiries regarding the sustainability of remote working have been made of DTRB through the Trustee Boards and reassurance has been provided that all controls and services are being maintained.

(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'.

Risk management and control (continued)

Pages 66 to 70 form an integral part of the audited Financial Statements

Risk categorisation (continued)

(iii) Operational risk (continued)

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.

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 2020 £m	Provision 2020 £m	Outstanding Balance 2019 £m	Provision 2019 £m
Loans secured on residential property	**4,951**	**131**	5,570	162
Assets Held for Sale	**-**	**-**	-	-
Other secured loans	**3**	**-**	4	-
Unsecured loans	**-**	**-**	-	-
Equity release mortgages [1]	**8**	**-**	8	-
Wholesale assets	**812**	**-**	724	-

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.

Risk management and control (continued)

Pages 66 to 70 form an integral part of the audited Financial Statements

Risk categorisation (continued)

(iv) Credit risk (continued)

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. Policies are approved by the Board at least annually, or when material changes to policies are recommended.

(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 30,400 customers (March 2019: 35,000), with 38,000 mortgage accounts (March 2019: 44,000).

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

As highlighted in the Section 172(1) Statement within the Strategy and operating environment report, we believe 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 our 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 is published on our website which 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.

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.

Our employment practices reflect international and national standards covering areas such as minimum working age, working hours, health and safety and discrimination. Our health and safety protocols were updated for the home working environment which was implemented during the COVID-19 pandemic. 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.

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. Whilst working under the restrictions required as a result of the COVID-19 pandemic, we arranged for all colleagues to have the technology to work from home. Colleagues kept in touch with each other via the telephone or video conferences, regular wellbeing updates were sent through email and we replaced our face-to-face forums with telephone conferences.

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 2019/20.

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 2020 (for more than £245 per day and lasting longer than 6 months)

	No. Contractors
No. of existing engagements as of 31 March 2020:	9
Of which:	
No. that have existed for less than one year at the time of reporting:	0
No. that have existed for between one and two years at the time of reporting:	3
No. that have existed for between two and three years at the time of reporting:	0
No. that have existed for between three and four years at the time of reporting:	3
No. that have existed for four years or more at the time of reporting:	3
Total	**9**

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 2019 and 31 March 2020:	-
Of which:	
No. assessed as within scope of IR35*:	-
No. assessed as out of scope of IR35*:	-
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.*

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.*

Community

As highlighted in the Community strategy on page 16 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.

Environment

Streamlined Energy and Carbon Reporting ("SECR") was introduced in 2017 and is applicable for accounting periods starting on or after 1 April 2019. Information from our SECR report is presented below.

Corporate social responsibility report (continued)

Environment (continued)

Our Carbon Reduction Strategy

We endeavour to reduce risk and build resilience collaboratively in our value chain through our direct and indirect assets, and engage with all our stakeholders, particularly our partners at Computershare. Looking forward, we will seek to identify and integrate the major non-financial impacts which are material to the business, categorised by the environmental, social and governance ("ESG") impacts and incorporate these into our business risk management processes so that climate change related risks continue to be integrated into the core risk framework.

Meeting the SECR Requirements

Whilst 2019/20 is the first reporting year for UKAR, there has been significant progress with the reduction of energy and carbon emissions.

Table 4 – Energy Consumption and Emissions

	2019/20	2018/19	2017/18
Energy Consumption (MWh)	**88.8**	111.5	120.5
GHG Emissions CO_2e (Tonnes)	**21.16**	28.97	34.67
Intensity Ratio GHG Emissions: headcount	**0.149**	0.146	0.174

Energy Consumption

In 2019/20, UKAR's total energy consumption was 88.81MWh from the London office and transport. Gas and electricity emissions at the Crossflatts and Doxford offices, which are controlled by Computershare, are not in scope as the Group pays a flat serviced rate for office occupation regardless of energy consumption. Electricity forms the highest energy type used with 78.01% of overall consumption. Business travel via expensed mileage claims using personal vehicles account for 21.99% of total energy consumption.

Table 5 – 2019/20 Total Energy Consumption by Type

Energy Type	Energy User	2019/20 Consumption (MWh)	% Consumption
Electricity	**London Office**	69.28	78.01%
Gas	**-**	-	-
Vehicles	**Transport**	19.53	21.99%

Good practice measures implemented over the past year have included the rectification of an air conditioning fault within the London office, identified from the monthly energy bills. There has also been a replacement programme for the lighting with LEDs used where existing lamps fail.

The energy consumption associated with our direct activities are relatively limited. In 2020/21 the lighting replacement programme with LEDs will continue on an ongoing basis. Reminders and engagement of staff will take place to encourage good practices across the business for energy use in all locations where we operate. In addition, the air flow within the server rooms will be reviewed with a view to reducing the loss of cooling within the space and improving the performance in the space.

Whilst there are no company vehicles, transport between sites does take place and has been quantified through employee expensed business mileage. In 2019/20 a total of 12,115 miles were driven, equivalent to 19.5 MWh. Figure 1, below, shows that total transport energy consumption has fallen by 54.7% over the past three years, highlighting the significant reductions that have already been made.

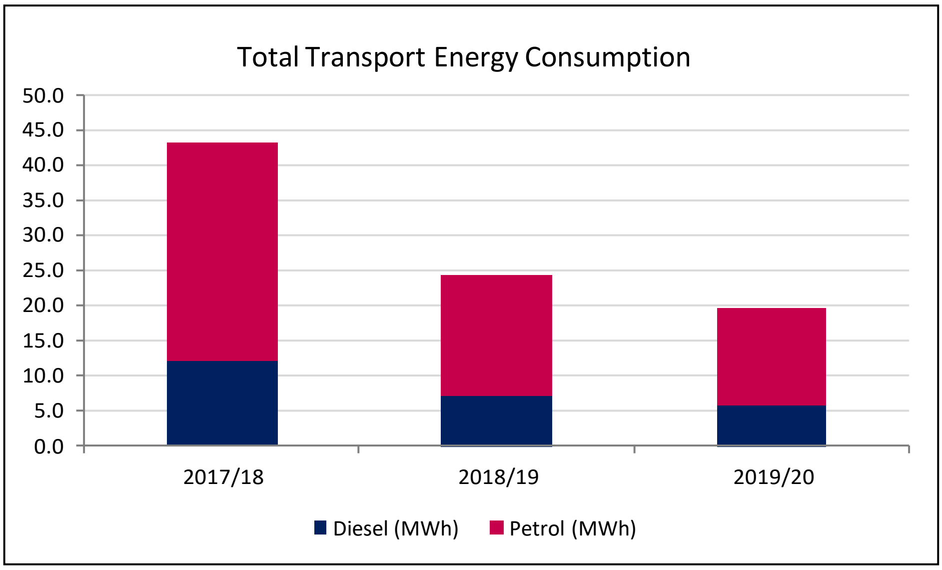
Transport levels have reduced through the consolidation of staff within the northern England locations and the use of public transport for meetings taking place in London. In 2020/21, additional engagement of staff through a behavioural programme will look to encourage good practices across the business for driving.

Corporate social responsibility report (continued)

Environment (continued)

Energy Consumption (continued)

Figure 1 –Total Transport Energy Consumption 2017/18 to 2019/20

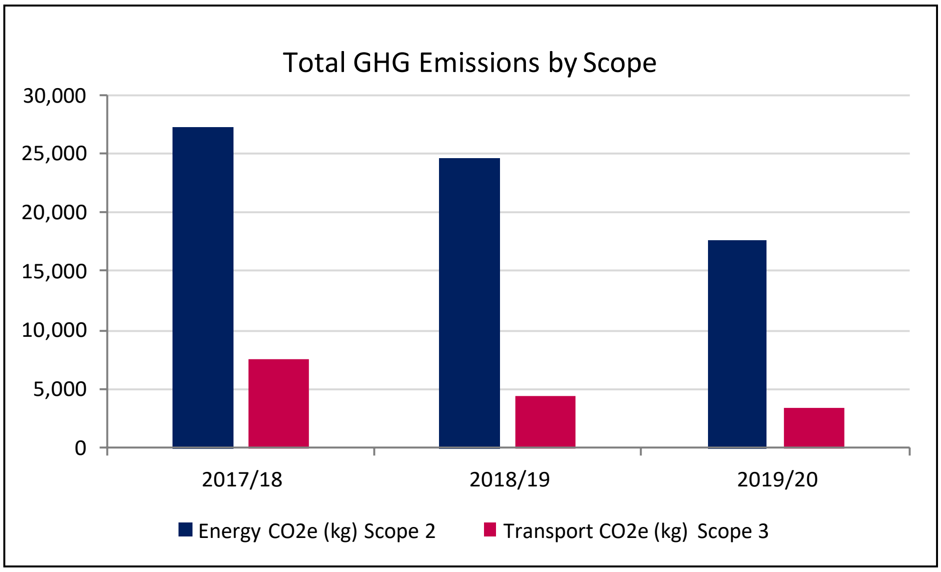


Greenhouse Gas Emissions

GHG emissions have also fallen over the past three years, due largely to the transport reduction, the London office changes and also the improvement in the UK Government's GHG carbon conversation factor[1]. This factor is used to convert an organisation's 'activity data' such as electricity consumed or distance travelled into carbon emissions and each year the UK Government establishes tables of conversion factors to enable users to calculate and report their greenhouse gas emissions associated with the activities of their business.

Total GHG emissions have fallen by 39.0% over the past three years, with transport emissions falling by 53.8% over the same time. Our building and transport initiatives will also help to reduce the greenhouse gas emissions further.

Figure 2 Total GHG Emissions by Scope 2017/18 to 2019/20



[1] Annual UK Government (Defra) conversion factors for GHG reporting - https://www.gov.uk/government/collections/government-conversion-factors-for-company-reporting

Corporate social responsibility report (continued)

Environment (continued)

SECR Methodology

We have set the base year as 2019/2020 and collated energy and travel data for this period and calculated Scope 1, Scope 2 and Scope 3 emissions in accordance with Chapter 5 of the Greenhouse Gas ("GHG") Protocol. Data collection, estimation and inventory creation is described in the UKAR GHG Reporting Procedure.

For Scope 1, there is no natural gas consumption or owned and leased vehicles for business travel, so no reporting is provided for this scope. For Scope 2, monthly electric consumption data are recorded in the original unit of measure the data was provided in kilowatt hours (kWh). For Scope 3, expensed business travel data is sourced from the finance system as miles driven for each journey.

The electricity and transport emissions were calculated using Defra's measure. For Scope 3 a medium car was selected for both petrol and diesel as an average employee vehicle as the specific vehicle information is not known.

Energy and GHG emissions are normalised by the indicator of number of employees, as this better reflects the changes in the business rather than indicators relating to finance or space.

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 16.

Principal risks

Principal risks of the UKAR Group are covered on pages 17 to 18 and 66 to 70.

Dividends

The Directors do not propose the payment of any dividend in respect of the year ended 31 March 2020. UKAR declared two interim dividends during the year, totalling £2.7bn, which were settled in cash. £2,298.3m was declared on 2 July 2019 and £400m on 26 November 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 2020 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 finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding UKAR's assets, are set out in 'Managing Public Money', published by HM Treasury.

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

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

Ian Hares
Chief Executive Officer, on behalf of the Board
6 July 2020

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 2020 which comprise:

- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated Balance Sheet;
- the Consolidated Statement of Changes in Equity;
- the Consolidated Cash Flow Statement; and
- the 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 2020 and of the group’s loss 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 Directors’ Report and Governance Statement, 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 Directors’ Report and Governance Statement that describe the principal risks and explain how they are being managed or mitigated;
- the directors’ confirmation in the Directors’ Report and Governance Statement 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;
- 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 Directors’ Report and Governance Statement 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 opinion

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 group 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.

Emphasis of matter

I draw attention to note 2 (d) of the financial statements, which describes the extent of estimation uncertainty in measuring the fair value of loans to customers as a result of the volatility of financial markets at 31 March 2020 due to the COVID-19 pandemic and potential macroeconomic consequences. I also draw attention to note 30 of the financial statements which describes management's expectation based on events after the reporting period that COVID-19 will result in a deeper and longer recession than the economic scenarios applicable at 31 March 2020 and that it expects customer arrears to increase during 2020-21 as a result of the challenging economic circumstances. My opinion is not modified in this respect.

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 44 - 47.

In this year's report the following change to the risks identified has been made compared to my prior year report:

- I have identified a key audit matter and significant risk relating to the valuation of the defined benefit pension liability. The liability is material to the financial statements and subject to a high level of estimation uncertainty and, to a lesser extent, management judgement, furthermore, its prominence to the financial statements continues to increase as the group's net assets reduce.

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.

Under IFRS 9, 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 was developed and built by an independent specialist analytics and risk management firm and has been transferred to a new professional services firm during the current year 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. These scenarios were initially commissioned in February 2020 and an additional scenario was commissioned to reflect the expected economic impact of the COVID-19 pandemic; the first year of this scenario was overlaid on the other scenarios, with adjustments by management, to incorporate the forecast impact of the pandemic on future economic assumptions.

UKAR also apply a number of post-model adjustments or overlays to reflect risks which are not adequately addressed by the core model.

UKAR concluded in adopting IFRS 9 in 2018-19 that determining whether there had been a significant increase in credit risk since initial recognition would require undue cost or effort and therefore recognises 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 at 31 March 2020 is £131m. The reduction is primarily due to the reduction in loan balances due to redemptions and write-offs but also reflects changes as a result of updated assumptions, particularly upward movement in property prices during 2019-20, which reduced the provision as a result of increased collateral value. These reductions in the provision were partly offset by the impact of the COVID-19 pandemic, incorporating increasing severity of economic assumptions and increases to the weightings applied to the downside scenarios.

The COVID-19 pandemic has resulted in an increased level of estimation uncertainty in the provision. Management has added additional quantitative and qualitative disclosure regarding this estimation uncertainty.

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)

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, as well as adjustments made to those scenarios by management. I assessed the analysts as management's experts under ISA 500 using members of my team with specialist economics expertise.
- 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 considered UKAR's approach to reflecting the impact of the COVID-19 pandemic on the assumptions used in the model. I reviewed sensitivity analysis, commissioned by management and by my team, based on alternative scenarios and considered the impact of increased estimation uncertainty on my audit opinion.
- I tested the transfer of the ECL model and data to a new professional services firm contracted to run the model for UKAR during 2019-20 to confirm that the integrity of the model has been maintained and that the transferred data is complete and accurate.
- 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 members of my team with specialist expertise in modelling, and review of the validation and testing of the model by both UKAR and the independent specialists.
- I tested significant 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.

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 level of sensitivity has increased as a result of the COVID-19 pandemic and the actual impact of the pandemic on the economy remains inherently uncertain. The financial statements (note 2 (c)) disclose the sensitivities related to these scenarios estimated by the group. I consider these to be reasonable, although 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

Under IFRS 9 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 a 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 which has been calculated using a range of assumptions determined by management to each loan segment.

In previous years the segmentation of loans was estimated based on management's knowledge and experience of market structures and pricing from recent sales transactions. Management has amended its model during the current year to use ratings agency analysis commissioned for the planned sale of its investment in B&B and NRAM shares to segment the loans and determine the expected ratio between debt and equity that would be used by a buyer in a securitisation.

The fair value of loans at 31 March 2020 £4,700m (1 April 2019 £5,518m). The decrease in fair value is primarily due to the reduction in loan balances due to redemptions and write-offs and secondarily due to changes as a result of movements in discount rates reflecting market conditions at 31 March 2020.The COVID-19 pandemic and resulting disruption in financial markets has reduced the availability of observable data available to determine the discount rate assumptions which has increased the level of estimation uncertainty in the fair value at the reporting date as set in note 2 (d).

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. This included specific consideration of the impact of the COVID-19 pandemic on the assumptions used in this valuation.
- 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 or other evidence and considering their reasonableness.
- 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 management's assessment of the impact of additional information obtained as part of the process to sell B&B and NRAM to confirm the validity of the fair value model and the appropriateness of the assumptions used; while the planned sale did not take place, the work commissioned by credit rating agencies to support the sales process was used to revise the model to more appropriately reflect the segmentation of UKAR's loans.
- 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.
- I reviewed the disclosures required by IFRS 7 and IAS 1 to evaluate whether management made adequate disclosures of estimation uncertainty.

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 (continued)

How the scope of my audit responded to the risk	**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. As a result of the volatility of financial markets at 31 March 2020 due to the COVID-19 pandemic which have restricted the availability of observable data and the potential macroeconomic consequences on expected cash flows used in the model there is significant estimation uncertainty in the measurement of fair value, 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 which I am content are adequately disclosed, however, I have included an emphasis of matter paragraph above to draw attention to this estimation uncertainty.

Defined benefit pensions scheme liabilities

Description of key audit matter

As disclosed in Note 15, ownership of the group's retirement benefit assets and obligations transferred to UKAR Ltd from B&B and NRAM during the year. The significant risk associated with the liability therefore impacts on both the UKAR group and parent company financial statements.

The value of the defined benefit pension schemes liabilities, £1,345.4m is highly material, subject to a high level of estimation uncertainty and, to a lesser extent, management judgement.

Under IAS 19, UKAR sets a number of actuarial assumptions at the reporting date. They are the best estimates of the variables that will determine the ultimate cost of providing post-employment benefits. The key assumptions for the UKAR schemes are inflation, either derived from the Consumer Price Index or Retail Price Index, discount rate, future pension increases, and mortality.

Management chooses the most appropriate assumptions with support from its actuaries. Those assumptions are then applied to scheme membership data and rolled forward to the reporting date. This allows management to determine the present value of the retirement schemes liabilities at year-end.

The actuaries produce an IAS 19 report for each scheme. It demonstrates which assumptions were selected, the fair value calculated from those assumptions, and the sensitivity of the fair value to changes in them.

The NRAM scheme holds an asset which, for certain members, is designed to match the value of the associated liability. As the value of this asset (c. £270m) is intrinsically linked to the value of the associated scheme liability, it has been considered as part of the significant risk.

How the scope of my audit responded to the risk	I understood and evaluated the design and implementation of key controls to ensure the liability is not materially misstated including consideration of management's review of assumptions used, and final IAS 19 report. I also performed the following procedures: • I evaluated the design and implementation of controls over membership data that the pension scheme administrator has in place. • I reviewed the actuary's report and agreed relevant figures to the accounts. • I performed procedures to earn the right to rely on the work of the scheme actuary as a management expert, in accordance with ISA 500.

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

Overview of my audit approach (continued)

Key audit matters (continued)

Defined benefit pensions scheme liabilities (continued)	
How the scope of my audit responded to the risk	• I engaged an auditor's expert to consider the reasonableness of key assumptions used by the actuary in calculating the liability. • I reviewed policy documentation for the NRAM pension scheme buy-in policy. • I performed procedures to obtain assurance over membership data and other inputs used to calculate the liability. ***Key observations*** Based on the evidence I obtained I found that the actuarial assumptions used to estimate the pension schemes liabilities were reasonable and in line with the requirements of IAS 19. I found that the membership data and other inputs used to calculate the liabilities were appropriate. The assumptions are a matter of management judgement, based on best estimates at the reporting date. There is a high level of estimation uncertainty inherent in the assumptions, but I am satisfied that appropriate disclosure has been made to demonstrate how alternative assumptions would impact the ultimate cost of providing post-employment benefits, and that the actuarial assumptions selected by management were reasonable.

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	£60,800,000
How I determined it	.I determined materiality to be 1% of the group's net assets.
Why I chose this benchmark	I chose this benchmark as assets drive UKAR's business and I consider that shareholders are most interested in net assets, rather than profit or loss balances, as these represent the value that HM Treasury will recoup from the business following the sale of the loans and subsidiaries, which was initially expected to occur shortly after 31 March 2020.

In 2018-19 I based materiality on 1% of the fair value of the group's lending balance, as UKAR's primary activity was the servicing of the loans. During 2019-20 UKAR began proceedings to identify a suitable purchaser and price for its investments in B&B and NRAM. This caused me to change my materiality benchmark for the current year to net assets, as explained in the table above. In light of UKAR's decision to put the sale of the loans and subsidiaries on hold I considered whether the net assets basis for materiality remained appropriate for 2019-20; I concluded that, as the main objective of UKAR continues to be to return the loan books to private ownership, the benchmarked remained appropriate as the net assets represents the value that the owner will expect to recoup following the sale. I considered that the 1% level remains appropriate, as the level of stakeholder interest in UKAR remains broadly unchanged. The change in benchmark has led to an increase in group materiality from £55m in the prior year.

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.

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

Overview of my audit approach (continued)

Application of materiality (continued)

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 £4.5m.

Responsibilities of the Directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of UK Asset Resolution Ltd 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

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 other non-significant non-trading subsidiaries of UKAR. The Group Financial Statements are a consolidation of these companies.

The significant components of the Group account for over 99% of the Group’s assets. 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 work on the significant components is performed by the group engagement team.

This work, together with additional procedures performed on balances arising due to the Group's consolidation process, 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 Strategic Report and Directors’ Report and Governance Statement, 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 and Governance Statement 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 and Governance Statement.

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 147 to 149 on the Parent Company Financial Statements of UK Asset Resolution Limited for the year ended 31 March 2020 and on the information in the Directors' Remuneration Report that is described as having been audited.

Hilary Lower (Senior Statutory Auditor)
6 July 2020

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 Company Accounts

Notes to the Company Financial Statements

CONSOLIDATED INCOME STATEMENT

	Note	**12 months to 31 March 2020 £m**	12 months to 31 March 2019 £m
Interest receivable and similar income	3	**182.5**	455.2
Interest expense and similar charges	3	**(10.2)**	(40.5)
Net interest income	3	**172.3**	414.7
Fee and commission income		**4.6**	11.9
Fee and commission expense		**(8.1)**	(12.1)
Net fee and commission income		**(3.5)**	(0.2)
Unrealised fair value movements on financial instruments		**-**	(0.7)
Hedge ineffectiveness		**-**	1.9
Other operating income		**10.7**	17.8
Non-interest income		**7.2**	18.8
Total income		**179.5**	433.5
Administrative expenses	4	**(141.0)**	(143.5)
Provision for customer redress	20	**(116.3)**	(57.8)
Legal and insurance claims		**-**	0.4
Net impairment release on loans to customers	10	**27.4**	41.6
Net release of provision for insurance risk on equity release mortgages	12	**-**	3.1
Profit on sale of loans	5	**2.2**	452.0
Hedging impacts of sale of loans	6	**-**	(389.0)
(Loss)/profit before taxation		**(48.2)**	340.3
Taxation	7	**(16.4)**	(56.6)
(Loss)/profit for the financial year		**(64.6)**	283.7

The disclosures regarding risk management and control on pages 66 to 70, the notes on pages 95 to 146 and the Company information on pages 150 to 162 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 2020

	Note	Gross of tax £m	Tax £m	Net of tax £m
Loss for the financial year		**(48.2)**	**(16.4)**	**(64.6)**
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	19, 22	**(229.5)**	**43.5**	**(186.0)**
Items that will not be reclassified subsequently to profit or loss:				
- retirement benefit remeasurements	15, 19	**188.5**	**(35.8)**	**152.7**
Total other comprehensive (expense)/income		**(41.0)**	**7.7**	**(33.3)**
Total comprehensive expense for the financial year		**(89.2)**	**(8.7)**	**(97.9)**

For the 12 months to 31 March 2019

Total	Note	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	19, 22	(354.6)	67.3	(287.3)
- amounts transferred from fair value reserve and recognised in profit during the year	19, 22	(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	15, 19	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)

CONSOLIDATED BALANCE SHEET

	Note	**31 March 2020 £m**	31 March 2019 £m
Assets			
Cash at bank and in hand	8	**811.5**	723.6
Amount owed in respect of sale of loans	9	**-**	4,473.7
Loans to customers	9	**4,699.5**	5,517.5
Equity release mortgages	12	**7.6**	8.0
Current tax assets		**19.7**	-
Lease assets	13	**10.9**	-
Other assets	14	**3.4**	8.1
Retirement benefit assets	15	**835.4**	653.3
Total assets		**6,388.0**	11,384.2
Liabilities			
Statutory Debt and HM Treasury loans	16	**-**	1,976.0
Debt securities in issue	17	**-**	204.2
Lease obligations	13	**17.6**	-
Accruals*	18	**37.5**	41.7
Other liabilities*		**7.4**	9.8
Current tax liabilities		**-**	45.9
Deferred tax liabilities	19	**120.3**	111.8
Retirement benefit obligations*	15	**20.6**	20.2
Provisions	20	**100.7**	95.0
Total liabilities		**304.1**	2,504.6
Equity			
Issued capital and reserves attributable to owners of the parent:			
- share capital	22	**1.2**	1.2
- other reserves	22	**1,028.4**	1,215.4
- retained earnings		**5,054.3**	7,663.0
Share capital and reserves attributable to owners of the parent		**6,083.9**	8,879.6
Total equity and liabilities		**6,388.0**	11,384.2

* *Other liabilities at 31 March 2019 have been re-presented to exclude £13.6m of unfunded post-retirement benefit obligations, presented in these Financial Statements within 'retirement benefit obligations', and accruals, presented in these Financial Statements as a separate line item.*

The disclosures regarding risk management and control on pages 66 to 70, the notes on pages 95 to 146 and the Company information on pages 150 to 162 form an integral part of these Financial Statements.

The Financial Statements on pages 89 to 146 were approved by the Board of Directors on 6 July 2020 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 2020

	Note	Share capital £m	Fair value reserve £m	Merger reserve £m	Retained earnings £m	Total share capital and reserves £m
At 1 April 2019		**1.2**	**85.3**	**1,130.1**	**7,663.0**	**8,879.6**
Other comprehensive (expense)/income:						
- net movement in fair value reserve	22	**-**	**(229.5)**	**-**	**-**	**(229.5)**
- retirement benefit remeasurements	15	**-**	**-**	**-**	**188.5**	**188.5**
- tax effects of the above		**-**	**43.5**	**-**	**(35.8)**	**7.7**
Total other comprehensive (expense)/income		**-**	**(186.0)**	**-**	**152.7**	**(33.3)**
Loss for the financial year		**-**	**-**	**-**	**(64.6)**	**(64.6)**
Release of merger reserve	22	**-**	**-**	**(1.0)**	**1.0**	**-**
Total comprehensive (expense)/income		**-**	**(186.0)**	**(1.0)**	**89.1**	**(97.9)**
Unclaimed dividends [1]		**-**	**-**	**-**	**0.5**	**0.5**
Dividends declared	21	**-**	**-**	**-**	**(2,698.3)**	**(2,698.3)**
At 31 March 2020		**1.2**	**(100.7)**	**1,129.1**	**5,054.3**	**6,083.9**

For the 12 months to 31 March 2019

	Note	Share capital £m	Fair value reserve £m	Merger reserve £m	Retained earnings £m	Total share capital and reserves £m
At 1 April 2018		1.2	468.6	1,141.7	7,360.8	8,972.3
Other comprehensive (expense)/ income:						
- net movement in fair value reserve	22	-	(473.2)	-	-	(473.2)
- retirement benefit remeasurements	15	-	-	-	4.7	4.7
- tax effects of the above		-	89.9	-	(0.9)	89.0
Total other comprehensive (expense)/ income		-	(383.3)	-	3.8	(379.5)
Profit for the financial year		-	-	-	283.7	283.7
Release of merger reserve	22	-	-	(11.6)	11.6	-
Total comprehensive (expense)/ income		-	(383.3)	(11.6)	299.1	(95.8)
Unclaimed dividends [1]		-	-	-	3.1	3.1
At 31 March 2019		1.2	85.3	1,130.1	7,663.0	8,879.6

[1] During the year and previous 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.

CONSOLIDATED CASH FLOW STATEMENT

	12 months to 31 March 2020 £m	12 months to 31 March 2019 £m
Cash flows from operating activities		
(Loss)/profit before taxation for the financial year	**(48.2)**	340.3
Adjustments to reconcile profit to cash generated from operating activities:		
- interest expense and similar charges	**10.2**	40.5
- provision for customer redress	**116.3**	57.8
- non-recurring charge/(credit)	**16.7**	(1.2)
- defined benefit pension scheme credits	**(13.3)**	(5.0)
- cash contributions to defined benefit pension schemes	**-**	(100.3)
- cash returned from defined benefit pension schemes	**20.5**	-
- depreciation and amortisation	**0.5**	3.6
- net impairment release on loans to customers	**(27.4)**	(41.6)
- provision for insurance risk on equity release mortgages	**-**	(3.1)
- net impairment release on investment securities	**-**	(0.3)
- profit on sale of loans	**(2.2)**	(452.0)
- profit on disposal of property, plant and equipment	**(0.2)**	-
- fair value adjustments on financial instruments	**-**	18.4
- write-off of hedge accounting adjustments	**-**	402.5
- impairment of right-of-use lease assets	**6.7**	-
- onerous contracts provision charge	**7.2**	-
- other non-cash movements	**-**	3.1
	86.8	262.7
Net decrease in operating assets:		
- loans to customers	**615.7**	1,720.0
- sale of loans	**-**	6,073.3
- settlement of amounts owed in respect of sale of loans	**4,473.7**	-
- equity release mortgages	**0.4**	16.6
- other assets	**21.7**	14.7
Net decrease in operating liabilities:		
- derivative financial instruments payable	**-**	(471.8)
- other liabilities	**(5.2)**	(11.6)
- provisions	**(119.2)**	(98.4)
Interest paid	**(47.7)**	(51.0)
Income tax paid	**(65.8)**	(2.0)
Net cash generated from operating activities	**4,960.4**	7,452.5
Cash flows from investing activities:		
- purchase of property, plant and equipment and intangible assets	**-**	(0.2)
- proceeds from sale of property, plant and equipment	**0.4**	-
- proceeds from sale and redemption of investment securities	**-**	0.3
Net cash generated from investing activities	**0.4**	0.1
Cash flows used in financing activities:		
- repayment of HM Treasury loans	**(1,511.2)**	(8,180.1)
- repayment of Statutory Debt	**(462.4)**	(120.6)
- sub-lease receipts	**2.3**	-
- repayment of lease obligations	**(2.8)**	-
- repayment of debt securities in issue	**(200.0)**	-
- dividends paid	**(2,698.3)**	-
Net cash used in financing activities	**(4,872.4)**	(8,300.7)

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

	12 months to 31 March 2020 £m	12 months to 31 March 2019 £m
Net increase/(decrease) in cash and cash equivalents	**88.4**	(848.1)
Cash and cash equivalents at beginning of year	**723.1**	1,571.2
Cash and cash equivalents at end of year	**811.5**	723.1
Represented by cash and assets with original maturity of three months or less within:		
- cash at bank and in hand	**811.5**	723.1
Total cash and cash equivalents at end of year	**811.5**	723.1

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 Bradford & Bingley plc ('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. The Financial Statements of the UKAR Company are presented on pages 150 to 162, and form an integral part of these Financial Statements.

The Financial Statements on pages 89 to 146 and 150 to 162 were authorised for issue by the Directors on 6 July 2020 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 13, the Group adopted IFRS 16 'Leases' with effect from 1 April 2019. As permitted by the transitional provisions of IFRS 16, the Group has elected not to restate comparative period information. At 1 April 2019 a liability of £19.5m was recognised in respect of the net present value of future lease payments, reduced to £18.8m by the release of rentals prepaid at 31 March 2019. An asset of £19.5m was recognised at the same date reduced to £18.9m by the release of rentals prepaid at 31 March 2019. Consequently the financial information presented in these Financial Statements as at 31 March 2020 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 16 is provided in note 13. The Group's accounting policy in respect of leases is detailed in note 1(o) below.
- There have been no other significant changes to the Group's and Company's accounting policies since 31 March 2019.

For these 2020 Financial Statements the Group and Company have not adopted the following standard:

- IFRS 17 'Insurance Contracts', issued May 2017, effective for periods beginning on or after 1 January 2023 and yet to be endorsed by the EU. IFRS 17 would replace IFRS 4 'Insurance Contracts'. The Group has a small portfolio of equity release mortgages (see note 12) which are accounted for as insurance contracts in accordance with IFRS 4 (see note 1(l)) but IFRS 17 is not expected to have any material impacts on the Group or Company.

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.

(b) Basis of preparation

The Financial Statements have been prepared on a going concern basis and using the historical cost convention except that financial instruments categorised under IFRS 9 'Financial Instruments' as 'held to collect and sell' are carried at their fair value. During the year ended 31 March 2019 the Group held derivative financial instruments, which were carried at their fair value, and applied portfolio fair value hedge accounting, where a hedge adjustment was carried to take account of the fair value of the risk which had been hedged.

The validity of the going concern basis of accounting is dependent upon the funding position of the Company, B&B and NRAM.

In 2009 the European Commission ('EC') approved state aid to NRAM, and in 2010 to B&B, in each case the state aid comprising loans and guarantees from HM Treasury. Although all government loans 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 agreements. 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 2022, subject to those companies continuing in each case to be a subsidiary undertaking of UKAR. See pages 29 to 30 for further details.

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 2022.

The Group continues to monitor the impacts of the COVID-19 pandemic. The pandemic is expected to lead to an increase in the level of arrears in relation to loans to customers but due to the support committed to by HM Treasury the Directors do not consider that the pandemic will cause the Company or the Group to cease to be financially viable.

1. Principal accounting policies (continued)

(b) Basis of preparation (continued)

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 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. However, as detailed in note 13, the Group has adopted IFRS 16 with effect from 1 April 2019 and, as permitted by IFRS 16, the Group has elected not to restate comparative period information. Consequently the financial information presented in these Financial Statements as at 31 March 2020 and for the 12 months then ended has been prepared on a different basis from that presented for the comparative period.

B&B, its subsidiary Mortgage Express and NRAM are regulated by the Financial Conduct Authority ('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. Further details regarding capital are provided in note 26.

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'. Where the carrying amount of assets is impaired, an equal amount of merger reserve held in respect of these assets is released to retained earnings.

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

For loans to customers which are categorised for impairment purposes as stage 3 (see note 10) 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.

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

(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.

1. Principal accounting policies (continued)

(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 instruments, employee 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.

(g) Financial instruments

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

(i) Financial assets at 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'). 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 cash flows on the loans are considered to satisfy the definition of SPPI. Therefore the Group's loans to customers are classified as at FVOCI.

(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 that asset is reclassified to the Income Statement.

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

(j) Assets held for sale and disposal groups

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'.

1. Principal accounting policies (continued)

(k) Derivative financial instruments and hedge accounting

All of the Group's derivative contracts were used for commercial management of risk exposures. No derivatives were held at 31 March 2020 or 31 March 2019 but the Group held derivatives during the year ended 31 March 2019.

For certain of the Group's derivative contracts hedge accounting was applied.

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 ended 31 March 2019 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 'Financial Instruments: Recognition and Measurement' 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 12) 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.

(l) Equity release (Lifetime) mortgages

The Group retains a small portfolio of equity release (Lifetime) mortgage loans. Under the terms of these loans, when the final 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 insurance 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.

(n) Impairment of financial assets

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 in the 'impairment on loans to customers' line. Because the loans are carried at fair value, their carrying amount is not reduced by the impairment provision.

Under IFRS 9 each financial asset subject to impairment provisioning 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. A case is considered to be in default when it is three months in arrears or there are other indicators of default 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. Payment holidays approved under COVID-19 forbearance are not considered as a trigger of 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 requires a forward-looking 'expected credit loss' ('ECL') approach to impairment provisioning. In respect of stage 2 and stage 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 permitted the categorisation to omit stage 1 if the assessment of change in credit risk would involve 'undue cost and effort'.

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, an impairment is recognised.

1. Principal accounting policies (continued)

(n) Impairment of financial assets (continued)

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

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'.

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 ratio (‘LTV’), geographical area and repayment type.

Loan commitments

Loan commitments comprise previous voluntary overpayments by customers which are available to be drawn down. The impairment provision for each loan considers 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.

(o) Leases

The leases to which the Group is a party comprise leases on buildings; prior to 1 April 2019 these were accounted for as operating leases in accordance with IAS 17 ‘Leases’. As detailed in note 13, the Group adopted IFRS 16 ‘Leases’ with effect from 1 April 2019. Under IFRS 16 the Group recognises on its Balance Sheet a lease obligation and a lease asset. The lease obligations recognised with effect from 1 April 2019 comprise the discounted value of the lease payments to the date at which the Company expects to break the lease. The discount rate applied by the Group is an assumed interest rate at which it was considered that a similar company would be able to borrow funds as at 1 April 2019 for a 10-year period.

The transitional provisions of IFRS 16 allow a choice of approaches on first time adoption. The Group elected to adopt the approach whereby the initial carrying amount of the lease asset is equal to the initial carrying amount of the lease obligation and there is no restatement of prior periods and no impact on equity as at the point of adoption. Consequently, the financial information presented in these Financial Statements as at 31 March 2020 and for the 12 months then ended has been prepared on a different basis from that presented for the comparative period.

Further information regarding the Group’s adoption of IFRS 16 and its accounting for leases is provided in note 13. As detailed in note 13, the carrying amount of lease assets has been reviewed for impairment.

(p) Debt and equity securities in issue

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

On initial recognition, debt issued is measured at its fair value net of directly attributable issue and transaction costs. Subsequent measurement is at amortised cost using the effective interest 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.

1. Principal accounting policies (continued)

(q) 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 schemes is undertaken every three years, with interim reviews in the intervening years, these valuations being 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. Details of the actuarial assumptions made are provided in note 15. 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.

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 ended 31 March 2019 as a result of the GMP Equalisation Case detailed in note 15.

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.

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.

(r) 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.

(s) Dividends receivable and payable

Dividends receivable from subsidiary undertakings are recognised as income once the right to receive payment is established, in accordance with IAS 27 'Separate Financial Statements'.

Dividends payable by the Company 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. 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.

(b) Carrying amount of net retirement benefit assets

As detailed in note 15, 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 and therefore 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 Company's Balance Sheet.

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. Behavioural assumptions used in the ECL modelling are based on the historical performance of the mortgage book. At the year-end, consideration was given to how these behavioural assumptions may be impacted in the future by the COVID-19 pandemic. In the absence of evidence on which to base any overlay, and in light of accounting guidance issued by the Financial Reporting Council prior to 31 March 2020, Management have incorporated the impact of COVID-19 in the underpinning economic scenarios at the year-end which reflected the worsening outlook. This is further explained below.

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 the Group would consider enforcing repossession.

2. Critical judgements and accounting estimates (continued)

Accounting estimates *(continued)*

(c) Impairment of loans to customers (continued)

(i) Modelling approach (continued)

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. During the year, the contract for running the ECL model was transferred to another third party organisation. A detailed handover plan was followed and a series of parallel runs conducted to ensure consistency of both the service and model outputs. A strong control environment exists, with the models governed by the organisation's Macpherson framework, and 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 the ECL model remains robust and compliant, an annual review is undertaken 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. The last annual review took place in August 2019. Changes made to the modelling assumptions as a result of the annual review had an immaterial impact on total provisions.

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 generally sourced from independent specialist economic analysts based on an initial management view provided by the Group and approved by the Board. Any changes required at the end of an accounting period are approved by the Audit Committee. 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.

The scenarios provided by the independent specialist economic analysts run for ten years. These are extended to 20 years with HPI running at a long term average and other key assumptions e.g. GDP and interest rates left flat from the tenth year of the forecast.

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

(ii) Economic scenarios

Our full suite of scenarios was initially prepared for us by the independent economic analyst in February 2020. In recognition that COVID-19 was having a significant impact on the economy, a further COVID-19 base case scenario was requested from the analysts on 20 March and delivered on 27 March. The opening year of this scenario reflected the view held by us, consistent with guidance issued by the Bank of England and the Prudential Regulation Authority ('PRA') on 26 March 2020, that the impact of COVID-19 was expected to be relatively short term with a return to previous levels of activity on the back of the measures taken by Government. This opening year was then overlaid internally on to the base case and variant scenarios, so that all scenarios had the same values across all economic indicators in the first year. Following the recovery, the base case scenario then follows a path which is broadly aligned to the Economic and Fiscal Outlook ('EFO') produced by the Office for Budget Responsibility ('OBR') for the Spring 2020 Budget and published on 11 March 2020. Some adjustments were made to all four scenarios from year 2 onwards so that they transition back to the longer-term trends as set out in the February 2020 set of forecasts.

The variant scenarios assume that the UK leaving the EU 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 decision to trade with the EU on World Trade Organisation ('WTO') trading terms. 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 the agreement of favourable trading agreements with major trading partners that spurs UK business investment and growth. All variant scenarios include the overlay relating to the impact of COVID-19.

2. Critical judgements and accounting estimates (continued)

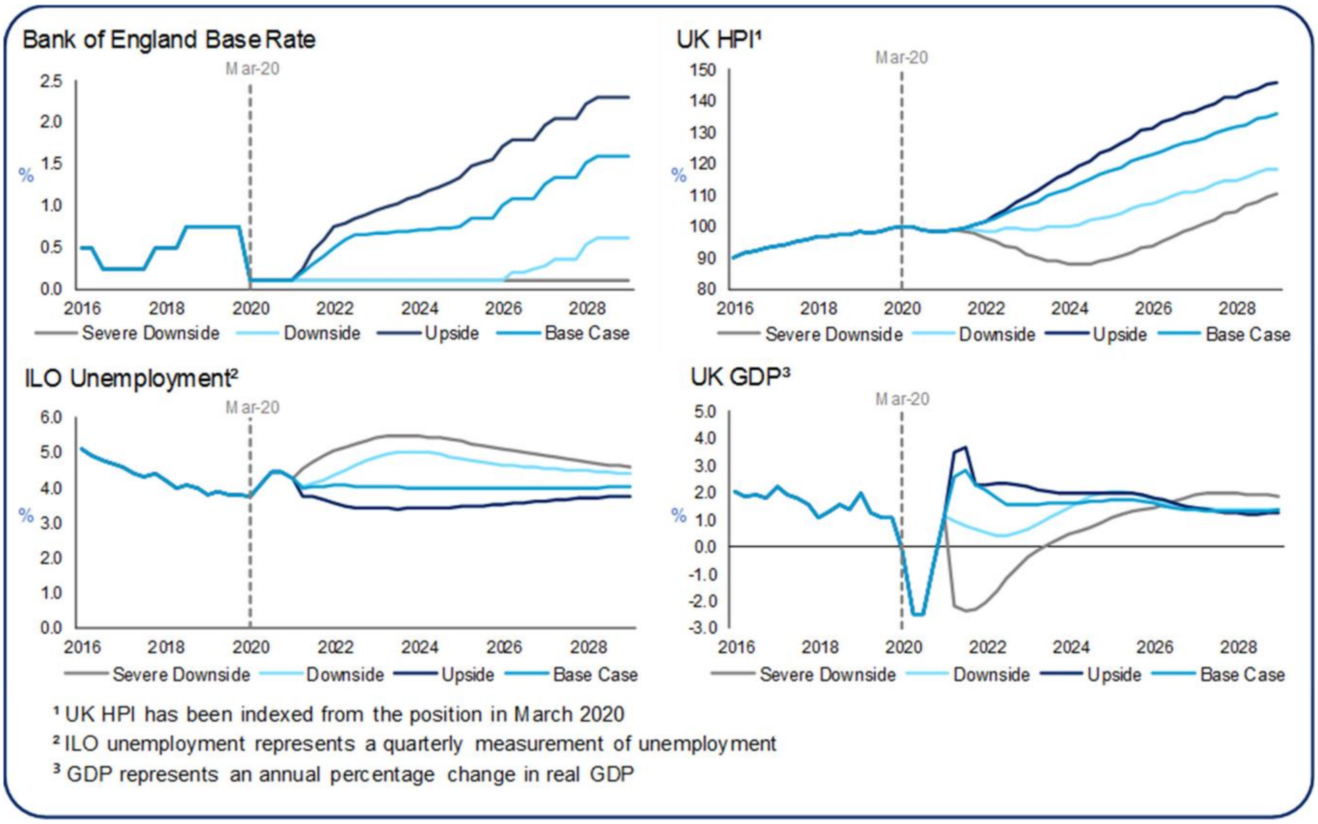
Accounting estimates *(continued)*

(c) Impairment of loans to customers (continued)

(ii) Economic scenarios (continued)

The relative weighting of these four scenarios is a key area of management judgement. In making this judgement, management take into consideration the guidance provided by the independent source who prepared the economic scenarios as well as that of a forum of subject matter experts from across the business. We have increased the weighting for the downside scenarios to reflect market sentiment and also a narrowing of the differential between the base case and the downside scenarios. Updating the economic scenarios to include the impact of COVID-19 did not result in a significant increase in ECL provisions as all of the Group's loans are already provided for on a lifetime loss basis.

The key assumptions in the forecast economic scenarios are as follows:



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

31 March 2020	Base	Downside	Severe downside	Upside
Probability	**30.00%**	**30.00%**	**20.00%**	**20.00%**
Bank of England base rate March 2025	**0.76%**	**0.10%**	**0.10%**	**1.35%**
HPI March 2020 – March 2025 [1]	**17.71%**	**2.98%**	**(10.71%)**	**24.52%**
ILO unemployment March 2025 [2]	**4.00%**	**4.83%**	**5.32%**	**3.45%**
GDP March 2025 [3]	**1.73%**	**2.06%**	**1.07%**	**2.01%**

[1] *The percentage movement in UK property prices between March 2020 and March 2025.*

[2] *The International Labour Organisation ('ILO') unemployment rate as at March 2025.*

[3] *The annualised percentage increase in UK GDP as at March 2025.*

2. Critical judgements and accounting estimates (continued)

Accounting estimates *(continued)*

(c) Impairment of loans to customers (continued)

(ii) Economic scenarios (continued)

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 ILO unemployment rate as at March 2024.*

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

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:

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

A fall in house prices of 5% at March 2020 would result in an increase in modelled ECL provisions of £16m on the base scenario (excluding top-ups).

Market sentiment continued to evolve after 31 March, with a growing expectation that COVID-19 would result in a deeper and longer recession than the scenarios adopted at the end of March. The OBR issued an illustrative coronavirus reference scenario on 14 April and based on that scenario, additional sensitivity analysis has been performed. The impact of this is disclosed below.

(iii) Key sensitivities

A significant degree of judgement relates to the relative weightings of the scenarios themselves, incorporating different views of HPI 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 2020 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. Given the uncertainty caused by COVID-19, management reconsidered the weightings at 31 March 2020 and gave more prominence to the downside scenarios. In order to demonstrate the 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 £17.3m**
Downside scenario	**Increase of £3.6m**
Severe downside scenario	**Increase of £47.3m**
Upside scenario	**Decrease of £26.9m**

The OBR coronavirus reference scenario published on 14 April assumed a three-month lockdown due to public health restrictions followed by another three-month period when they are partially lifted. In this scenario, GDP was assumed to fall by 35% in the second quarter of 2020 but bounce back relatively quickly (2020: 12.8% fall). Unemployment was forecast to rise to 10% in the second quarter of 2020 but then decline more slowly than GDP is forecast to recover (2020: 7.3%). The OBR did not publish a forecast for house prices, however, we overlaid an assumption in our modelling that house prices fall by 3.7% in 2020/21 and 2.9% in 2021/22, before rising by 2.1% in 2022/23 and 4.9% in 2023/24. The impact of this scenario given 100% weighting would be an increase in the Group's total loan impairment loss allowance of £11.6m.

2. Critical judgements and accounting estimates (continued)

***Accounting estimates** (continued)*

(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 included on the assumption an investor will securitise the assets and hold them to maturity. The underpinning debt to equity split is based on rating agency analysis commissioned during the year on the B&B and NRAM mortgage books. In the prior year, benchmark securitised deals backed by UK mortgages were matched to similar groups of loans. The cost of debt and the cost of equity are then based on observed secondary market data.

At the Balance Sheet date, there were concerns over the potential for significant macroeconomic consequences of the COVID-19 pandemic and significant volatility in the securitisation markets coupled with very low liquidity. As a result, the observable data for use as an input in the modelling was limited. Therefore, management have used a greater amount of judgement in relation to the estimated cost of capital and the term structure of financing.

In calculating the discount rates, an assumption has been made that markets return to pre COVID-19 levels within a three year period, allowing an investor to re-finance the securitisation at this point on a rolling three year basis.

At the Balance Sheet dates the discount rates fell into the following ranges:

Discount rates range:	**2020**	2019
Residential loans	**349 - 412 bps**	261 - 305 bps
Commercial loans	**982 bps**	749 bps

A 3 year rolling financing has been assumed compared to 5 years previously. This is in line with market observations mainly driven by the current debt levels caused by the COVID-19 pandemic. In prior years, a 5 year refinancing horizon on constant terms was assumed. The ranges of the cost of debt, cost of equity and the debt equity split for the residential loans are as follows:

Cost of debt ranges:	**2020 initial rate**	**2020 refinancing rate**	2019
Residential loans	**254 - 302 bps**	**96 - 113 bps**	118 - 126 bps

Cost of equity:	**2020**	2019
Residential loans	**1500 bps**	1000 bps

% of equity:	**2020**	2019
Residential loans	**350 – 650 bps**	531 – 1183 bps

The valuation is regarded as Level 3 (see note 27(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.

2. Critical judgements and accounting estimates (continued)

Accounting estimates *(continued)*

(d) Fair value of loans to customers (continued)

(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 cash flows 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
100 bps increase	**Decrease of £232.8m**
100 bps decrease	**Increase of £254.3m**

Sensitivities to changing economic scenarios are shown below:

Fair value based on:	Impact on fair value of loans to customers
Upside scenario	**Decrease of £0.6m**
Downside scenario	**Decrease of £17.7m**
Severe downside scenario	**Decrease of £53.9m**

The OBR illustrative scenario noted above would result in a reduction in fair value of £42.5m.

(e) Provisions

Provisions are carried in respect of certain known or forecast future payments, as described in note 20. 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.

Immediately prior to the FCA's 29 August 2019 deadline for claims, a large volume of new enquiries and complaints claims was received in respect of Payment Protection Insurance ('PPI') products sold in previous years. We continue to work through the pipeline, but evidence to date has shown that a large proportion of enquiries and claims received did not result in remediation being paid. The provision also covers the estimated cost of settling complaints raised by the Official Receiver on behalf of the creditors of the estates of individuals with bankruptcy court orders dated between 1 January 2000 and 31 December 2012.

The expected future cost is sensitive to changes in customer complaint uphold rates. If the upheld rate reduced to the lowest level incurred in the last six months, the provision would reduce by c.£1.9m. Alternatively, if the upheld rate increased to the highest uphold rate incurred in the last six months the provision would increase by c.£2.4m. Further detail regarding the assumptions made and the sensitivity of the provision is provided in note 20.

(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 15.

3. Net interest income

	12 months to 31 March 2020 £m	12 months to 31 March 2019 £m
Interest receivable and similar income		
On equity release mortgages	**0.6**	28.0
On other secured loans	**177.2**	401.4
On other lending	**-**	15.7
On investment securities and deposits	**4.7**	10.1
Total interest receivable and similar income	**182.5**	455.2
Interest expense and similar charges		
On amounts due to banks and HM Treasury loans	**(1.7)**	(36.1)
On wholesale funding	**(8.5)**	(12.8)
Other*	**-**	8.4
Total interest expense and similar charges	**(10.2)**	(40.5)
Net interest income	**172.3**	414.7
Average balances		
Interest-earning assets ('IEA')	**6,056**	12,439
Financed by:		
- interest-bearing funding	**233**	2,681
- interest-free funding**	**5,823**	9,758
Average rates:	**%**	%
- gross yield on IEA	**3.01**	3.66
- cost of interest-bearing funding	**(4.38)**	(1.83)
Interest spread	**(1.37)**	1.83
Contribution of other adjustments*	**-**	0.07
Contribution of interest-free funding**	**4.22**	1.43
Net interest margin on average IEA	**2.85**	3.33
Average Bank Base Rate	**0.72**	0.67
Average 1-month LIBOR	**0.68**	0.66
Average 3-month LIBOR	**0.76**	0.80

* *In the 12 months to 31 March 2019 'other' included 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 27(b).

4. Administrative expenses

B&B provides services to NRAM and UKAR and until 31 March 2019 to UKAR Corporate Services Limited ('UKARcs'). NRAM, UKAR and UKARcs had no direct employees during the years presented. The operations of UKARcs were transferred to National Savings and Investments ('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 2020 Number	12 months to 31 March 2019 Number
Average headcount:		
Full time	**115**	151
Part time	**10**	18
Total employed	**125**	169
Total average full time equivalent	**123**	166

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 2020 Number	31 March 2019 Number
Full time	**100**	146
Part time	**8**	15
Total employed	**108**	161
Total full time equivalent	**106**	158

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 10 temporary staff and specialist contractors at 31 March 2020 (31 March 2019: 26).

	12 months to 31 March 2020 £m	12 months to 31 March 2019 £m
The Group's aggregate costs of permanent staff were as follows:		
Wages and salaries	**8.4**	10.8
Social security costs	**1.1**	1.3
Defined benefit pension credits (see note 15)	**(13.3)**	(12.8)
Defined contribution pension costs (see note 15)	**0.6**	0.7
Other retirement benefit costs (see note 15)	**0.5**	0.5
Total staff costs	**(2.7)**	0.5
IT costs	**3.3**	15.1
Outsourced and professional services	**102.2**	111.7
Depreciation and amortisation	**0.5**	3.6
Provision for onerous contracts (see note 13)	**7.2**	-
Impairment of right-of use assets (see note 13)	**6.7**	-
Other administrative expenses	**7.1**	6.0
Total ongoing administrative expenses	**124.3**	136.9
GMP equalisation (see note 15)	**-**	7.8
Non-recurring costs/(credits)	**16.7**	(1.2)
Total administrative expenses	**141.0**	143.5

As stated in the Strategic Report on page 12, throughout the financial year UKAR was engaged on a programme of work that, if successful, would have resulted in the sale of the Company's shareholdings in B&B and NRAM. During the year £15.4m of costs in respect of this programme have been treated as non-recurring, being the costs incurred since the Board approved the launch of round 1 of the programme in May 2019. Non-recurring costs of £1.3m in the year related primarily to the staffing restructure in 2019/20 and credits of £1.2m in the previous year relate to the outsourcing of mortgage servicing and organisational restructure completed in 2015/16.

4. Administrative expenses (continued)

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 'Provisions, Contingent Liabilities and Contingent Assets' when there is a present obligation and it is probable that an exit payment will be made.

The exit packages paid in the year were as follows:

Exit package cost band				**12 months to 31 March 2020**
	Number of compulsory redundancies	**Number of voluntary redundancies**	**Number of other departures agreed**	**Total number of exit packages by cost band**
< £10,000	**2**	**-**	**1**	**3**
£10,001 - £25,000	**5**	**-**	**1**	**6**
£25,001 - £50,000	**9**	**-**	**1**	**10**
£50,001 - £100,000	**3**	**-**	**2**	**5**
£100,001 - £150,000	**-**	**-**	**1**	**1**
£150,001 - £200,000	**-**	**-**	**-**	**-**
£200,001 - £250,000	**-**	**-**	**-**	**-**
Total number of exit packages	**19**	**-**	**6**	**25**
Total cost (£'000)	**647**	**-**	**308**	**955**

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

Auditor's remuneration

The following costs are included within administrative expenses:

	12 months to 31 March 2020 £m	12 months to 31 March 2019 £m
Fees payable to the Company'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's auditor and its associates for other services:		
- the audit of the Company's subsidiaries pursuant to legislation	**0.5**	0.6
- non-audit services (audit related)	**0.3**	0.1
Total	**0.9**	0.8

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.

The non-audit services of £0.3m during the year related to the review of 30 June 2019 Special Purpose Accounts prepared for the proposed company sales.

5. Profit on sale of loans

	12 months to 31 March 2020 £m	12 months to 31 March 2019 £m
Profit on sale of loans to customers carried as held for sale (see note 9)	**-**	84.9
Profit on sale of loans to customers carried at FVOCI (see below)	**2.2**	152.6
Profit on sale of equity release mortgages (see note 12)	**-**	214.5
Total	**2.2**	452.0

Of the £152.6m profit on sale of loans to customers carried at FVOCI in the year ended 31 March 2019, £118.6m was reclassified from the fair value reserve (see note 22) representing the accumulated fair value movements up to the point of sale. Details of this profit are provided in note 9.

The £2.2m profit on sale of loans to customers recognised in the year arose due to the net release of accruals for costs in relation to sales in prior years.

6. Hedging impacts of sale of loans

During the year ended 31 March 2019 hedging impacts of the sale of loans totalled £389.0m; during the year ended 31 March 2020 there were no hedging impacts. As detailed in note 12, 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 comprised 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 after 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, was considered appropriate as they comprised accounting impacts of the decision to sell the equity release loans.

7. Taxation

The tax charge for the year comprises:	**12 months to 31 March 2020 £m**	12 months to 31 March 2019 £m
Current tax:		
- on loss/profit for the year	**(3.4)**	63.4
- adjustments in respect of prior periods	**3.6**	(19.4)
Total current tax	**0.2**	44.0
Deferred tax (see note 19):		
- origination and reversal of temporary differences	**16.2**	12.6
Total deferred tax	**16.2**	12.6
Total taxation charge per the Income Statement	**16.4**	56.6

The following tax amounts have been (credited)/charged to equity:	**12 months to 31 March 2020 £m**	12 months to 31 March 2019 £m
Deferred tax:		
- relating to assets at FVOCI	**(43.5)**	(89.9)
- relating to retirement benefit remeasurements	**35.8**	0.9
Net credit to equity	**(7.7)**	(89.0)

There was no foreign tax charged in the year (2019: £nil).

7. Taxation (continued)

The tax charge on the Group's loss/profit before tax differs from the theoretical amount that would arise using the standard weighted average rate of UK corporation tax of 19% (2019: 19%) as follows:

	12 months to 31 March 2020 £m	12 months to 31 March 2019 £m
(Loss)/profit before taxation	**(48.2)**	340.3
Tax calculated at rate of 19% (2019: 19%)	**(9.2)**	64.7
Effects of:		
- expenses not deductible for tax purposes	**22.6**	11.3
- adjustments in respect of prior periods	**3.6**	(19.4)
- change in tax rate	**(0.6)**	-
Total taxation charge for the year	**16.4**	56.6

Taxation appropriately reflects changes in tax rates which had been substantively enacted by 31 March 2020.

The negative 34.0% effective tax rate for the year (2019: positive 16.6%) is primarily due to expenses not deductible for tax purposes.

8. Cash at bank and in hand

	31 March 2020 £m	31 March 2019 £m
Balances with the Bank of England	**75.3**	421.8
Balances with the Government Banking Service	**714.0**	275.1
Balances with other banks	**22.2**	26.7
Total	**811.5**	723.6

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 £nil (31 March 2019: £1.1m) of collateral deposited in respect of derivative contracts.

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, 100% (2019: 96%) are with institutions rated AA to A and nil (2019: 4%) with institutions rated BBB to B. ECLs arising in the 12 months to 31 March 2021 are not material, and no provision has been made.

9. Loans to customers

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

Loans to customers comprise the following product types:

	At 31 March 2020			At 31 March 2019		
	Outstanding balance £m	**Carrying amount £m**	**Carrying amount %**	Outstanding balance £m	Carrying amount £m	Carrying amount %
Residential mortgages						
Buy-to-let	**2,769.1**	**2,579.0**	**55**	3,101.2	3,011.3	54
Self-certified	**1,385.9**	**1,334.8**	**28**	1,564.4	1,578.3	29
Standard and other	**796.1**	**783.2**	**17**	904.8	925.0	17
Total residential mortgages	**4,951.1**	**4,697.0**	**100**	5,570.4	5,514.6	100
Commercial loans	**3.4**	**2.5**	**-**	3.8	2.9	-
Total secured loans	**4,954.5**	**4,699.5**	**100**	5,574.2	5,517.5	100
Unsecured loans	**0.1**	**-**	**-**	0.1	-	-
Total	**4,954.6**	**4,699.5**	**100**	5,574.3	5,517.5	100

The table above shows the outstanding balances due from customers (i.e. with no allowance for impairment) at each Balance Sheet date as the credit quality of loans to customers note (note 11) uses outstanding balances.

The movements in fair value of the Group's loans to customers were as follows:

	At 1 April 2019 £m	**Reduction in gross balances outstanding £m**	**Impairment released to Income Statement £m**	**Movements taken to fair value reserve £m**	**At 31 March 2020 £m**
Residential mortgages					
Buy-to-let	**3,011.3**	**(316.4)**	**9.0**	**(124.9)**	**2,579.0**
Self-certified	**1,578.3**	**(176.9)**	**1.6**	**(68.2)**	**1,334.8**
Standard and other	**925.0**	**(106.0)**	**0.6**	**(36.4)**	**783.2**
Total residential mortgages	**5,514.6**	**(599.3)**	**11.2**	**(229.5)**	**4,697.0**
Residential loans	**5,514.6**	**(599.3)**	**11.2**	**(229.5)**	**4,697.0**
Commercial loans	**2.9**	**(0.2)**	**(0.2)**	**-**	**2.5**
Total secured loans	**5,517.5**	**(599.5)**	**11.0**	**(229.5)**	**4,699.5**
Unsecured loans	**-**	**-**	**-**	**-**	**-**
Total	**5,517.5**	**(599.5)**	**11.0**	**(229.5)**	**4,699.5**

9. Loans to customers (continued)

	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 most significant movements in fair value over the year are due to redemptions and increases to the observed cost of funding, including the cost of debt. The reduction due to movements in the fair value reserve is predominantly a result of increases in the observed market rates underpinning the cost of debt assumptions used in the modelling.

At 31 March 2020 72% (2019: 69%) of the Group's residential mortgage accounts (excluding buy-to-let) held by 11,981 (2019: 13,499) customers were 'interest only' with 63% (2019: 66%) of these having more than ten years until maturity.

In April 2018 the Group recognised the sale of two separate asset portfolios comprising performing buy-to-let and other residential loans; these loans were carried as held for sale at 31 March 2018. In December 2018 the Group sold the majority of its commercial loans and in March 2019 the Group sold two separate asset portfolios comprising performing residential and unsecured loans; the £4,473.7m balance of the proceeds of these two sales was received in April and May 2019.

Further analysis of the profit on sale of loans is provided in note 5.

10. Impairment on loans to customers

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

Residential mortgages	Stage 2: Lifetime ECL[1,2] £m	Stage 3: Lifetime ECL[1,2] £m	Total £m
At 1 April 2019	**120.5**	**41.4**	**161.9**
Movements during the year[3]:			
- net repayments	**(3.9)**	**(5.1)**	**(9.0)**
- changes in estimates	**(10.3)**	**17.8**	**7.5**
- changes in economic assumptions	**(9.1)**	**(0.6)**	**(9.7)**
- transfers	**(2.2)**	**2.2**	**-**
- loan impairment credit	**(25.5)**	**14.3**	**(11.2)**
- write-offs	**-**	**(19.9)**	**(19.9)**
Net movements during the year	**(25.5)**	**(5.6)**	**(31.1)**
At 31 March 2020	**95.0**	**35.8**	**130.8**
The Income Statement credit comprises:			
- loan impairment credit	**(25.5)**	**14.3**	**(11.2)**
- recoveries net of costs	**-**	**(16.4)**	**(16.4)**
Total Income Statement credit	**(25.5)**	**(2.1)**	**(27.6)**
Provision coverage	**2.1%**	**7.7%**	**2.6%**

[1] *Expected credit losses ('ECL').*

[2] *Further information as to which loans are categorised as stage 2 and which as stage 3 is provided in note 1(n).*

[3] *Movements during the year are calculated on a monthly basis and are aggregated to the full year in the above table. Changes in estimates relate to updates to behavioural assumptions and underlying changes to the loan data, whilst changes in economic assumptions relate to updates for actual economics and changes in forecast economics during the year.*

Of the write-offs in the above table £19.9m were still subject to enforcement action at 31 March 2020.

Commercial loans	Stage 2: Lifetime ECL £m	Stage 3: Lifetime ECL £m	Total £m
At 1 April 2019	**-**	**-**	**-**
Movements during the year:			
- changes in estimates	**-**	**0.2**	**0.2**
- loan impairment charge	**-**	**0.2**	**0.2**
- write-offs	**-**	**(0.2)**	**(0.2)**
Net movements during the year	**-**	**-**	**-**
At 31 March 2020	**-**	**-**	**-**
The Income Statement credit comprises:			
- loan impairment charge	**-**	**0.2**	**0.2**
- recoveries net of costs	**-**	**-**	**-**
Total Income Statement charge	**-**	**0.2**	**0.2**

Of the write-offs in the above table none were still subject to enforcement action at 31 March 2020.

10. Impairment on loans to customers (continued)

Unsecured loans	Stage 2: Lifetime ECL £m	Stage 3: Lifetime ECL £m	Total £m
At 1 April 2019	**-**	**0.1**	**0.1**
Movements during the year	**-**	**-**	**-**
At 31 March 2020	**-**	**0.1**	**0.1**
Provision coverage	**-**	**100%**	**100%**

Total loans to customers	Stage 2: Lifetime ECL £m	Stage 3: Lifetime ECL £m	Total £m
At 1 April 2019	**120.5**	**41.5**	**162.0**
Movements during the year:			
- net repayments	**(3.9)**	**(5.1)**	**(9.0)**
- changes in estimates	**(10.3)**	**18.0**	**7.7**
- changes in economic assumptions	**(9.1)**	**(0.6)**	**(9.7)**
- transfers	**(2.2)**	**2.2**	**-**
- loan impairment credit	**(25.5)**	**14.5**	**(11.0)**
- write-offs	**-**	**(20.1)**	**(20.1)**
Net movements during the year	**(25.5)**	**(5.6)**	**(31.1)**
At 31 March 2020	**95.0**	**35.9**	**130.9**
The Income Statement credit comprises:			
- loan impairment credit	**(25.5)**	**14.5**	**(11.0)**
- recoveries net of costs	**-**	**(16.4)**	**(16.4)**
Total Income Statement credit	**(25.5)**	**(1.9)**	**(27.4)**
Provision coverage	**2.1%**	**7.7%**	**2.6%**

Of the write-offs in the above table £19.9m were still subject to enforcement action at 31 March 2020.

10. Impairment on loans to customers (continued)

Residential mortgages	Stage 2: Lifetime ECL £m	Stage 3: Lifetime ECL £m	Total £m
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)
Provision coverage	2.4%	7.7%	2.9%

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 1 April 2018	-	12.2	12.2
Movements during the year:			
- net repayments	-	(0.4)	(0.4)
- changes in estimates	-	3.0	3.0
- 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.

10. Impairment on loans to customers (continued)

Unsecured loans	Stage 2: Lifetime ECL £m	Stage 3: Lifetime ECL £m	Total £m
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)
Provision coverage	-	100.0%	100.0%

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	-

At 31 March 2018 loans to customers carried at £4,991.6m were classified as held for sale.

Total loans to customers	Stage 2: Lifetime ECL £m	Stage 3: Lifetime ECL £m	Held for sale £m	Total £m
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)
Provision coverage	2.4%	7.7%	-	2.9%

Of the write-offs in the above table £45.8m were still subject to enforcement action at 31 March 2019.

11. Credit quality of loans to customers

Residential mortgages	Stage 2: Lifetime ECL [1] £m	Stage 3: Lifetime ECL [1] £m	Total £m
			At 31 March 2020
- Up-to-date [2]	4,320.9	146.4	4,467.3
- 1 - 2 months in arrears	131.5	65.5	197.0
- 2 - 3 months in arrears	34.8	52.6	87.4
- Greater than 3 months in arrears	-	199.4	199.4
Outstanding balance	**4,487.2**	**463.9**	**4,951.1**

[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 were £44.9m of loans that were in a cure period, on which £2.1m of impairment provisions are held.

Commercial loans	Stage 2: Lifetime ECL £m	Stage 3: Lifetime ECL £m	Total £m
			At 31 March 2020
- Up-to-date	3.4	-	3.4
- 1 - 2 months in arrears	-	-	-
- 2 - 3 months in arrears	-	-	-
- Greater than 3 months in arrears	-	-	-
Outstanding balance	**3.4**	**-**	**3.4**

Unsecured loans	Stage 2: Lifetime ECL £m	Stage 3: Lifetime ECL £m	Total £m
			At 31 March 2020
- 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 were in a cure period.

Total loans to customers	Stage 2: Lifetime ECL £m	Stage 3: Lifetime ECL £m	Total £m
			At 31 March 2020
- Up-to-date	4,324.3	146.5	4,470.8
- 1 - 2 months in arrears	131.5	65.5	197.0
- 2 - 3 months in arrears	34.8	52.6	87.4
- Greater than 3 months in arrears	-	199.4	199.4
Outstanding balance	**4,490.6**	**464.0**	**4,954.6**

Included in stage 3 loans above were £44.9m of loans that were in a cure period, on which £2.1m of impairment provisions are held.

11. Credit quality of loans to customers (continued)

Residential mortgages	Stage 2: Lifetime ECL [1] £m	Stage 3: Lifetime ECL [1] £m	At 31 March 2019 Total £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 were £56.3m of loans that were in a cure period, on which £1.9m of impairment provisions were held.

Commercial loans	Stage 2: Lifetime ECL £m	Stage 3: Lifetime ECL £m	At 31 March 2019 Total £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

Unsecured loans	Stage 2: Lifetime ECL £m	Stage 3: Lifetime ECL £m	At 31 March 2019 Total £m
- 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 were in a cure period.

Total loans to customers	Stage 2: Lifetime ECL £m	Stage 3: Lifetime ECL £m	At 31 March 2019 Total £m
- 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 were £56.3m of loans that were in a cure period, on which £1.9m of impairment provisions were held.

11. 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 2020
	Stage 2: Lifetime ECL £m	**Stage 3: Lifetime ECL £m**	**Total £m**
- Up-to-date	**7,708.3**	**258.7**	**7,967.0**
- 1 - 3 months in arrears	**276.3**	**199.2**	**475.5**
- Greater than 3 months in arrears	**-**	**305.2**	**305.2**
Total	**7,984.6**	**763.1**	**8,747.7**

			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 2020
	Stage 2: Lifetime ECL £m	**Stage 3: Lifetime ECL £m**	**Total £m**
- Up-to-date	**4,287.7**	**144.1**	**4,431.8**
- 1 - 3 months in arrears	**165.8**	**117.5**	**283.3**
- Greater than 3 months in arrears	**-**	**194.8**	**194.8**
Total	**4,453.5**	**456.4**	**4,909.9**
The greater than 3 months in arrears amounts above include the following carrying amount of assets in possession, capped at the balance outstanding	**-**	**24.9**	**24.9**

			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 HPI 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.

11. Credit quality of loans to customers (continued)

The indexed LTV of residential loan balances, weighted by loan balance, fell into the following ranges:

	31 March 2020	31 March 2019
	%	%
Up to 50%	**17.6**	15.1
50% to 75%	**55.7**	49.6
75% to 100%	**22.6**	30.8
Over 100%	**4.1**	4.5
Total	**100.0**	100.0

The average indexed LTV based on a simple average is 56.6% (31 March 2019: 58.7%) and on a weighted average is 66.2% (31 March 2019: 69.2%).

The residential impairment provision coverage by indexed LTV ranges is as follows:

	31 March 2020	31 March 2019
	%	%
Up to 50%	**0.4**	0.5
50% to 75%	**0.9**	0.9
75% to 100%	**4.1**	4.0
Over 100%	**27.6**	27.1
Total	**2.6**	2.9

11. Credit quality of loans to customers (continued)

Arrears and possessions on residential mortgages

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

		31 March 2020	31 March 2019
Arrears 3 months and over			
Number of cases	No.	**1,192**	1,189
Proportion of total cases	%	**3.14**	2.74
Asset value	£m	**181.2**	180.5
Proportion of book	%	**3.66**	3.24
Total value of payments overdue	£m	**5.8**	6.2
Proportion of total book	%	**0.12**	0.11
Possessions			
Number of cases	No.	**183**	216
Proportion of total cases	%	**0.48**	0.50
Asset value	£m	**27.3**	31.3
Proportion of book	%	**0.55**	0.56
Total value of payments overdue	£m	**1.0**	0.9
Proportion of total book	%	**0.02**	0.02
New possessions	No.	**422**	887
Total arrears 3 months and over and possessions			
Number of cases	No.	**1,375**	1,405
Proportion of total cases	%	**3.62**	3.24
Asset value	£m	**208.5**	211.8
Proportion of book	%	**4.21**	3.80
Total value of payments overdue	£m	**6.8**	7.1
Proportion of total book	%	**0.14**	0.13
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	**9.1**	9.2
Proportion of total book	%	**0.18**	0.16
Loan impairment provision			
As % of total balances	%	**2.64**	2.91

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

As stated in the CEO's Introduction at page 8, given the current challenging economic circumstances, the number of customers in arrears is expected to increase during 2020/21 once the impact of payment holidays has worked through.

11. Credit quality of loans to customers (continued)

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

		31 March 2020	31 March 2019
Buy-to-let			
Number of cases	No.	**365**	371
Proportion of total cases	%	**1.71**	1.56
Asset value	£m	**54.0**	57.6
Proportion of book	%	**1.95**	1.86
Total value of payments overdue	£m	**1.6**	1.9
Proportion of total book	%	**0.06**	0.06
Self-certified			
Number of cases	No.	**503**	466
Proportion of total cases	%	**5.14**	4.27
Asset value	£m	**83.6**	77.4
Proportion of book	%	**6.04**	4.95
Total value of payments overdue	£m	**2.7**	2.5
Proportion of total book	%	**0.19**	0.16
Standard and other			
Number of cases	No.	**324**	352
Proportion of total cases	%	**4.71**	4.05
Asset value	£m	**43.6**	45.5
Proportion of book	%	**5.47**	5.03
Total value of payments overdue	£m	**1.5**	1.8
Proportion of total book	%	**0.19**	0.20

12. Equity release mortgages

	31 March 2020 **£m**	31 March 2019 £m
Balances due from customers	**7.8**	8.2
Provision for insurance risk	**(0.2)**	(0.2)
Total	**7.6**	8.0

The Group's equity release mortgages are monthly income products. 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:

	31 March 2020 **£m**	31 March 2019 £m
At start of year	**0.2**	123.2
Movements during the year:		
- write-offs	**-**	(0.5)
- impairment (credit)/charge	**-**	(3.1)
- sale of loans	**-**	(119.4)
Net movements during the year	**-**	(123.0)
At end of year	**0.2**	0.2

In September 2018 the Group sold the majority of its equity release mortgages 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).

13. Lease assets and obligations

The Group adopted IFRS 16 with effect from 1 April 2019. The leases to which the Group is a party comprise leases on buildings; prior to 1 April 2019 these were accounted for as operating leases. Certain buildings on which the Group is the head-lessee are sub-let to other parties. The Group has therefore recognised a net investment in sub-leases in respect of the period over which properties are sub-let and a right-of-use asset in respect of the period over which properties are not sub-let.

The lease obligations recognised with effect from 1 April 2019 comprise the discounted value of the lease payments to which the Group is committed. The initial lease obligation included £0.1m of rentals which had been prepaid as at 31 March 2019 and released on adoption of IFRS 16. IFRS 16 requires that the discount rate applied should be the interest rate implicit in the lease if that rate can be readily determined, and otherwise the lessee's incremental borrowing rate. As the interest rate implicit in the leases could not be readily determined the Group used a rate at which it was considered that a similar entity would be able to borrow funds as at 1 April 2019 for a 10 year period, being 1.18% pa. It has been assumed that the Group will break leases at the earliest permitted break dates, or the end date if there is no break date, which are between 2022 and 2027. Certain leases have review dates on which the rent will increase by an amount calculated by reference to the Retail Prices Index ('RPI'). Other than for immaterial items, these reviews are either matched with an equal increase in the sub-lease rental, offsetting the Group's exposure to the head-lease rent increase, or correspond to the sub-lease break date.

For the properties which are sub-let to other parties, the terms of the sub-leases allow the sub-lessees to break the sub-leases at an earlier date than the Group's first permitted break date, being between 2023 and 2024. It has been assumed that the sub-leases will be broken at the sub-lessees' first permitted break dates as the Group cannot be reasonably certain (as defined in IFRS 16) that these breaks will not be exercised.

The transitional provisions of IFRS 16 allow a choice of approaches on first time adoption. The Group elected to adopt the approach whereby the initial carrying amount of the lease asset is equal to the initial lease obligation and there is no restatement of prior periods and no impact on equity as at the point of adoption.

The right-of-use lease assets have been reviewed for impairment and impairment of £6.7m has been recognised. This impairment reduced the carrying amount of the impaired assets to the weighted average of the projected future cash inflows from the properties after the sub-lease break dates. The remaining right-of-use assets are depreciated on a straight line basis over the period in which the property is not sub-let. In addition, an onerous contracts provision of £7.2m has been made (see note 20) for the Group's exposure to increased rentals and other costs of leased properties following the sub-lease break dates.

The net investment in sub-leases has been reviewed for impairment. Payments are up to date and this asset is categorised as 'stage 1' as defined by IFRS 9, i.e. that there has been no significant increase in credit risk since it was first recognised. No impairment has been recognised as 12-month ECLs, as defined in IFRS 9, are considered to be immaterial.

13. Lease assets and obligations (continued)

Right-of-use assets	£m
1 April 2019	8.6
Rent review	0.6
Impairment	(6.7)
Depreciation charge	(0.5)
31 March 2020	**2.0**

Net investment in sub-leases	£m
1 April 2019	10.3
Rent review	0.8
Lease receipts	(2.3)
Interest income	0.1
31 March 2020	**8.9**

Total lease assets	£m
1 April 2019	18.9
31 March 2020	**10.9**

Lease obligations	£m
1 April 2019	18.8
Rent review	1.4
Lease payments	(2.8)
Interest expense	0.2
31 March 2020	**17.6**

The lease obligations as at 31 March 2020 are payable in the following periods	£m
Year ending 31 March 2021	2.8
Year ending 31 March 2022	2.8
Year ending 31 March 2023	2.6
Year ending 31 March 2024	2.4
Year ending 31 March 2025	2.4
After 31 March 2025	5.3
Discounting	(0.7)
Total	**17.6**

The maturity analysis and future cash flows in respect of lease obligations are provided in note 28(b). The £18.8m lease obligations recognised at 1 April 2019 were lower than the £19.8m lease commitments at 31 March 2019 (see note 24) as a result of the discounting applied under IFRS 16.

The impact of adoption of IFRS 16 was not materially sensitive to the discount rate used. For instance, if the discount rate was 100 bps higher then the lease obligations at 31 March 2020 would be £0.6m lower than reported.

14. Other assets

	31 March 2020 £m	31 March 2019 £m
Prepayments and accrued income	**3.3**	6.2
Property, plant and equipment	**-**	0.2
Other	**0.1**	1.7
Total	**3.4**	8.1

15. 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.

On 20 June 2019 the Company became the sponsoring company of the B&B and NRAM funded defined benefit pension schemes; see note F to the Company Financial Statements. The transfer values were contractually set at their IAS 19 values at that date, totalling £653.8m.

The Chancellor announced in the March 2020 Budget that the government intends, subject to securing the necessary parliamentary time, to create a new central government pension scheme for the members of the B&B and NRAM schemes; see note F to the Company Financial Statements.

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

	Defined benefit pension plans		**Other***		**Total**	
	31 March 2020 £m	31 March 2019 £m	**31 March 2020 £m**	31 March 2019 £m	**31 March 2020 £m**	31 March 2019 £m
Present value of defined benefit obligations	**(1,345.4)**	(1,438.1)	**(20.6)**	(20.2)	**(1,366.0)**	(1,458.3)
Fair value of defined benefit assets	**2,180.8**	2,091.4	**-**	-	**2,180.8**	2,091.4
Net defined benefit asset/(liability)	**835.4**	653.3	**(20.6)**	(20.2)	**814.8**	633.1

** Other comprises unfunded post-retirement medical benefit obligations and other unfunded post-retirement benefits. The balance at 31 March 2019 has been re-presented to include £13.6m of unfunded obligations which were previously included in other liabilities (see note 15(b)).*

As noted in the Group's 2019 Financial Statements, the IASB had issued an exposure draft of possible changes to IFRIC 14, which would have restricted the recognition of net asset positions in respect of pension schemes under certain circumstances. In February 2020 the IASB announced that it had decided not to proceed with those changes.

The Group is considering the potential impacts of future reforms of RPI. On 4 September 2019, in response to a report from the House of Lords Economic Affairs Committee, correspondence was published between the UK Statistics Authority and the government. This correspondence proposed that, at a point in time between 2025 and 2030, the calculation of RPI should be changed to match the Consumer Prices Index ('CPI') including housing ('CPIH'). A consultation is ongoing as to whether, and if so when, this change should take place. Given the uncertainty as to any future change, the Directors have decided that, for the purposes of calculating the Group's defined benefit obligations as at 31 March 2020, the methodology used to derive the inflation assumptions should be unchanged from that used in previous years.

The amounts recognised in the UKAR Group Income Statement in respect of defined benefit arrangements were as follows:

	Defined benefit pension plans		**Other**		**Total**	
	12 months to 31 Mar 2020 £m	12 months to 31 Mar 2019 £m	**12 months to 31 Mar 2020 £m**	12 months to 31 Mar 2019 £m	**12 months to 31 Mar 2020 £m**	12 months to 31 Mar 2019 £m
GMP equalisation charge	**-**	(7.8)	**-**	-	**-**	(7.8)
Other net interest income/(expense)	**13.3**	12.8	**(0.2)**	(0.2)	**13.1**	12.6
Total recognised in the Income Statement	**13.3**	5.0	**(0.2)**	(0.2)	**13.1**	4.8

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 Directors considered that the High Court judgement resulted in an amendment to scheme benefits resulting in a past service cost adjustment, which the Group's actuaries estimated at £7.3m in respect of the B&B scheme and £0.5m in respect of the NRAM scheme, totalling £7.8m for the Group. This was charged to the Income Statement in the year ended 31 March 2019 (see note 4).

15. Retirement benefit assets and obligations (continued)

(a) Bradford & Bingley schemes

(i) Funded 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 Company became the sponsoring company of this scheme in place of B&B on 20 June 2019. 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 £10.1m (31 March 2019: £8.9m) and the retirement benefit remeasurement gain recognised in other comprehensive income during the year was £131.3m (2019: £11.4m).

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 the Company 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. In addition, £51.6m was held in an escrow account.

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 95% of the interest rate risk and approximately 95% of the inflation risk has been hedged.

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 had no liabilities or prepayments associated with this scheme at 31 March 2020 (31 March 2019: £nil). The cost in the year to the Group of this scheme was £0.6m (2019: £0.7m). The cost to the Group varies according to the number of employees in the Group and their salary levels but the Group has no risk of being required to provide additional funding to the scheme.

(iii) Other post-retirement benefits

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 value at 31 March 2020 was £7.0m (2019: £6.6m). The cost in the year to the Group of this scheme was £0.2m (2019: £0.2m) and the remeasurement loss recognised in the B&B Group's other comprehensive income during the year was £0.5m (2019: gain £1.5m). Other pension-related costs totalled £0.3m for the year (2019: £0.3m). The other post-retirement benefits are not considered material to the Group's Financial Statements and hence these Financial Statements do not include all of the disclosures in respect of these benefits that would be required under IAS 19.

(iv) Defined benefit obligations

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

	31 March 2020 £m	31 March 2019 £m
Present value of defined benefit obligations	**(866.4)**	(946.9)
Fair value of defined benefit assets	**1,447.1**	1,386.2
Net defined benefit asset	**580.7**	439.3

15. Retirement benefit assets and obligations (continued)

(a) Bradford & Bingley schemes (continued)

(iv) Defined benefit obligations (continued)

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

	12 months to 31 Mar 2020 £m	12 months to 31 Mar 2019 £m
GMP equalisation charge	**-**	(7.3)
Other net income	**10.1**	8.9
Total recognised in the Income Statement	**10.1**	1.6

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

	12 months to 31 Mar 2020 £m	12 months to 31 Mar 2019 £m
At start of year	**946.9**	947.0
Interest on defined benefit obligations	**21.9**	24.8
Remeasurements:		
- effect of GMP equalisation	**-**	7.3
- effect of changes in demographic assumptions	**-**	(42.1)
- effect of changes in financial assumptions	**(63.2)**	51.2
- effect of experience adjustments	**-**	13.6
Benefits paid from plan	**(39.2)**	(54.9)
At end of year	**866.4**	946.9

Movements in the fair value of defined benefit assets were as follows:

	12 months to 31 Mar 2020 £m	12 months to 31 Mar 2019 £m
At start of year	**1,386.2**	1,302.8
Interest income on defined benefit assets	**33.2**	34.8
Defined benefit company contributions	**-**	70.3
Remeasurements		
- return on plan assets (excluding interest income)	**68.1**	34.1
Administrative expenses paid from plan assets	**(1.2)**	(0.9)
Benefits paid from plan	**(39.2)**	(54.9)
At end of year	**1,447.1**	1,386.2

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

	31 March 2020			31 March 2019		
	Quoted £m	**Unquoted £m**	**Total £m**	Quoted £m	Unquoted £m	Total £m
Equity instruments	**-**	**6.7**	**6.7**	79.0	6.5	85.5
Property	**-**	**0.1**	**0.1**	-	0.1	0.1
Bonds:						
- of which UK	**119.9**	**-**	**119.9**	115.7	-	115.7
- of which overseas	**62.4**	**-**	**62.4**	61.7	-	61.7
Diversified growth fund	**-**	**-**	**-**	25.2	-	25.2
Liability hedging investments	**1,501.3**	**-**	**1,501.3**	1,058.3	-	1,058.3
Repurchase agreements	**(251.9)**	**-**	**(251.9)**	(21.6)	-	(21.6)
Cash and cash equivalents	**-**	**8.6**	**8.6**	-	61.3	61.3
Total	**1,431.7**	**15.4**	**1,447.1**	1,318.3	67.9	1,386.2

The categorisation of £2.2m of cash and cash equivalents at 31 March 2019 has been revised from quoted to unquoted to better reflect the nature of the assets.

15. Retirement benefit assets and obligations (continued)

(a) Bradford & Bingley schemes (continued)

(iv) Defined benefit obligations (continued)

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

	31 March 2020	31 March 2019
To determine benefit obligations:		
Discount rate	**2.30%**	2.50%
Inflation (RPI)	**2.55%**	3.20%
Inflation (CPI)	**1.55%**	2.20%
Future pension increases	**2.55%**	3.15%
To determine net pension cost:		
Discount rate	**2.50%**	2.70%
For post-retirement medical plan:		
Discount rate	**2.30%**	2.50%
Medical cost trend for duration of liability	**5.50%**	5.50%

In determining the expected long-term return on defined benefit assets, the Group considered the current level of expected returns on risk-free investments (primarily government bonds), the historical level of risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns on each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term return for the portfolio.

The table below shows the life expectancy assumptions from age 60:

	31 March 2020		31 March 2019	
	Pensioner	**Non-retired member**	Pensioner	Non-retired member
Male	**27.5**	**28.9**	27.4	28.8
Female	**30.0**	**31.4**	29.9	31.3

Maturity profile of the obligation

At 31 March 2020 the defined benefit pension scheme had a weighted average maturity of around 20 years (2019: 20 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 10%	**89.1**
Inflation	Increase by 0.5%	Increase by 9%	**75.1**
Mortality	Decrease by 1 year	Increase by 3%	**30.0**

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 2020 £m	31 March 2019 £m
Effect on cost	**-**	-
Effect on defined benefit obligation	**0.9**	0.8

15. Retirement benefit assets and obligations (continued)

(b) NRAM schemes

(i) Funded defined benefit pension 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 Company became the sponsoring company of the scheme in place of NRAM on 20 June 2019. 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 £3.2m (2019: £3.9m) and the retirement benefit remeasurement gain recognised in other comprehensive income during the year was £58.0m (2019: £7.5m 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 the Company 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. In addition, £41.8m was held in an escrow account.

The NRAM Scheme has instigated a liability-driven investment programme which currently hedges approximately 101% of the interest rate risk and 100% of the inflation risk.

(ii) Funded defined benefit obligations

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

	31 March 2020 £m	31 March 2019 £m
Present value of defined benefit obligations	**(479.0)**	(491.2)
Fair value of defined benefit assets	**733.7**	705.2
Net defined benefit asset	**254.7**	214.0

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

	12 months to 31 March 2020 £m	12 months to 31 March 2019 £m
GMP equalisation charge	**-**	(0.5)
Other net income	**3.2**	3.9
Total recognised in the Income Statement	**3.2**	3.4

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

	12 months to 31 March 2020 £m	12 months to 31 March 2019 £m
At start of year	**491.2**	525.4
Interest on defined benefit obligations	**12.7**	13.4
Remeasurements:		
- effect of GMP equalisation	**-**	0.5
- effect of changes in demographic assumptions	**0.8**	(18.1)
- effect of changes in financial assumptions	**(8.7)**	22.5
- effect of experience adjustments	**5.1**	9.3
Benefits paid from plan	**(22.1)**	(61.8)
At end of year	**479.0**	491.2

15. Retirement benefit assets and obligations (continued)

(b) NRAM schemes (continued)

(ii) Funded defined benefit obligations (continued)

Movements in the fair value of defined benefit assets were as follows:

	12 months to 31 March 2020 £m	12 months to 31 March 2019 £m
At start of year	**705.2**	713.5
Interest income on defined benefit assets	**16.7**	17.3
Defined benefit company contributions	**(20.5)**	30.0
Remeasurements:		
- return on plan assets (excluding interest income)	**55.2**	6.2
Administrative expenses paid from plan assets	**(0.8)**	-
Benefits paid from plan	**(22.1)**	(61.8)
At end of year	**733.7**	705.2

The assets at 31 March 2019 included £41.9m held in an escrow account. Prior to the transfer of the Scheme to the Company from NRAM, £20.5m of this was returned to NRAM.

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

	31 March 2020			31 March 2019		
	Quoted £m	**Unquoted £m**	**Total £m**	Quoted £m	Unquoted £m	Total £m
Bulk annuity contracts	**-**	**268.5**	**268.5**	-	273.3	273.3
Liability hedging investments	**460.8**	**-**	**460.8**	380.1	-	380.1
Cash and cash equivalents	**-**	**4.4**	**4.4**	-	51.8	51.8
Total	**460.8**	**272.9**	**733.7**	380.1	325.1	705.2

The categorisation of £9.9m of cash and cash equivalents at 31 March 2019 has been revised from quoted to unquoted to better reflect the nature of the assets.

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

	31 March 2020	31 March 2019
To determine benefit obligations:		
Discount rate	**2.30%**	2.50%
Inflation (RPI)	**2.55%**	3.20%
Future pension increases	**1.55% - 3.35%**	1.95% - 3.60%
To determine net pension cost:		
Discount rate	**2.50%**	2.70%

In determining the expected long-term return on defined benefit assets, the Group considered the current level of expected returns on risk-free investments (primarily government bonds), the historical level of risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns on each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term return for the portfolio.

The table below shows the life expectancy assumptions from age 60:

	31 March 2020		31 March 2019	
	Pensioner	**Non-retired member**	Pensioner	Non-retired member
Male	**28.3**	**29.7**	28.2	29.6
Female	**30.3**	**31.7**	30.2	31.6

Maturity profile of the obligation

At 31 March 2020 the defined benefit pension scheme had a weighted average maturity of around 20 years (2019: 20 years).

15. Retirement benefit assets and obligations (continued)

(b) NRAM schemes (continued)

(ii) Funded defined benefit obligations (continued)

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 10%	**47.9**
Inflation	Increase by 0.5%	Increase by 5%	**24.0**
Mortality	Decrease by 1 year	Increase by 3%	**14.0**

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.

(iii) Unfunded defined benefit obligations

NRAM has unfunded pension obligations in respect of a small number of former employees, all of whom are receiving their pension. Benefits are provided on a final salary basis and pension increases are either calculated by reference to RPI or increase by 3.0% pa.

In the 31 March 2019 Financial Statements these obligations were included within 'other liabilities'.

The cost to the Group of funding these obligations varies over time, dependent on market conditions and life expectancies. The cost in the year was £nil (2019: £nil) and the retirement benefit remeasurement loss recognised in other comprehensive income during the year was £0.3m (2019: £0.5m loss). Payments to the beneficiaries during the year totalled £0.3m (2019: £0.4m).

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

	12 months to 31 March 2020 £m	12 months to 31 March 2019 £m
At start of year	**13.6**	13.5
Remeasurements	**0.3**	0.5
Company contributions	**(0.3)**	(0.4)
At end of year	**13.6**	13.6

The actuarial assumptions used in respect of discount rates and inflation were consistent with those for the funded NRAM Scheme.

The life expectancy assumption for a male from age 60 is 28.3 years (2019: 28.2 years). At 31 March 2020 the obligation had a weighted average maturity of around 15 years (2019: 16 years).

The value of the obligation is not materially sensitive to the discount rate, the rate of inflation or the mortality assumption used.

16. Statutory Debt and HM Treasury loans

	31 March 2020 £m	31 March 2019 £m
HM Treasury loan to NRAM	-	1,513.6
B&B Statutory Debt	-	462.4
Total	-	1,976.0

At 31 March 2019 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 had a fixed charge on certain NRAM assets and a floating charge over all of NRAM's assets. During the year the remaining balance on this loan was repaid.

B&B had an interest-free Statutory Debt which replaced its savings-related liabilities which were transferred to Banco Santander Group on 29 September 2008. At 31 March 2019 this had been paid down to £462.4m. 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 and during the year the remaining balance of £462.4m was repaid.

B&B has an interest-bearing working capital facility ('WCF') provided by HM Treasury. Interest is charged at Bank of England Base Rate + 500 bps. HM Treasury has the option to vary the rate charged. The balance on the WCF had been fully repaid before 31 March 2019 but the facility remains in place.

17. Debt securities in issue

At 31 March 2019 debt securities in issue comprised £200.0m of notes issued under NRAM's Medium Term Notes programme. These notes bore interest at 6.375% p.a. and were redeemed on 2 December 2019. At 31 March 2019 the carrying amount of these securities included £4.2m of accrued interest.

18. Accruals

Of the accruals of £37.5m (2019: £41.7m) £15.4m (2019: £nil) comprised amounts which have been agreed as payable to specific persons as remediation for PPI mis-selling in previous years and the remaining £22.1m (2019: £41.7m) comprised accruals relating to costs.

19. Deferred taxation

The net deferred taxation liability is attributable to the following:

	Assets		Liabilities		Net	
	31 Mar 2020 £m	31 Mar 2019 £m	**31 Mar 2020 £m**	31 Mar 2019 £m	**31 Mar 2020 £m**	31 Mar 2019 £m
Available-for-sale reserve	**0.5**	0.8	**-**	-	**0.5**	0.8
Fair value reserve	**23.5**	-	**-**	(20.0)	**23.5**	(20.0)
Impairment of loans to customers	**5.2**	5.3	**-**	-	**5.2**	5.3
Employee benefits	**6.1**	-	**(158.7)**	(99.9)	**(152.6)**	(99.9)
Accelerated tax depreciation	**1.3**	1.5	**-**	-	**1.3**	1.5
Losses carried forward	**1.8**	0.5	**-**	-	**1.8**	0.5
	38.4	8.1	**(158.7)**	(119.9)	**(120.3)**	(111.8)
Offset	**(38.4)**	(8.1)	**38.4**	8.1	**-**	-
Total	**-**	-	**(120.3)**	(111.8)	**(120.3)**	(111.8)

There were no deferred tax assets unrecognised at 31 March 2020 (2019: £nil).

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

	1 April 2019 £m	**Recognised in income £m**	**Recognised in equity £m**	**31 March 2020 £m**
Available-for-sale reserve	**0.8**	**(0.3)**	**-**	**0.5**
Fair value reserve	**(20.0)**	**-**	**43.5**	**23.5**
Impairment of loans to customers	**5.3**	**(0.1)**	**-**	**5.2**
Employee benefits	**(99.9)**	**(16.9)**	**(35.8)**	**(152.6)**
Accelerated tax depreciation	**1.5**	**(0.2)**	**-**	**1.3**
Losses carried forward	**0.5**	**1.3**	**-**	**1.8**
Total	**(111.8)**	**(16.2)**	**7.7**	**(120.3)**

	1 April 2018 £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	(188.2)	(12.6)	89.0	(111.8)

The Group's deferred taxation liabilities were unaffected by the transfer of the retirement benefit assets and obligations from B&B and NRAM to the Company described in note 15.

20. Provisions

	Customer redress £m	**Onerous contracts £m**	**Restructuring £m**	**Total £m**
At 1 April 2019	**87.8**	**0.2**	**7.0**	**95.0**
Utilised in the year	**(116.4)**	**(0.1)**	**(2.7)**	**(119.2)**
Charged in the year	**123.0**	**7.2**	**3.6**	**133.8**
Released in the year	**(6.7)**	**-**	**(2.2)**	**(8.9)**
Reclassified in the year	**-**	**-**	**-**	**-**
At 31 March 2020	**87.7**	**7.3**	**5.7**	**100.7**

	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

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. Customer redress provisions total £87.7m (2019: £87.8m), of which £72.3m (2019: £58.9m) is in respect of potential claims from customers regarding PPI and £15.4m (2019: £28.9m) is for other customer redress and related costs.

£116.4m of the customer redress provisions were utilised during the year, of which £103.1m related to PPI. An increase of £123.0m was recognised, of which £116.5m reflects the estimated PPI redress cost. This is attributable to the significantly higher than predicted claims and information requests from customers, claims management companies and the Official Receiver in relation to bankrupt individuals in advance of the 29 August 2019 deadline.

Immediately prior to the FCA's 29 August 2019 deadline for claims, a large volume of new enquiries and complaints claims was received in respect of PPI products sold in previous years. We continue to work through the pipeline, but evidence to date has shown that a large proportion of enquiries and claims received did not result in remediation being paid. The Group's increase in provision for PPI claims represents management's best estimate. This is based on the policy found and uphold rate of the enquiries and complaints worked in the last six months. A 70% uphold rate has been assumed, however, this has been volatile over the last six months. If the upheld rate reduced to 67% (which represents the lowest in the last six months) the provision would reduce by c.£1.9m. Alternatively, if the upheld rate increased to 74% (which represents the highest in the last six months) the provision would increase by c.£2.4m.

The future estimated redress level required judgement to determine the key assumptions used to estimate the quantum of the provision. The key assumptions used in the provision calculation as at 31 March 2020, excluding enquiries from the Official Receiver, were the average validity of the claim, average uphold rate and average claim redress. The assumptions remain sensitive and subject to uncertainty with a number of outstanding claims and information requests yet to be resolved.

The amount provided relating to enquiries from the Official Receiver has been aligned to the amount agreed in principle after the Balance Sheet date.

During the year provisions were also increased by £6.5m for certain other remediation issues and £6.7m released.

It is expected that the majority of the remaining customer redress provisions will be utilised by the end of 2020.

As stated in the Strategic Report on page 12, throughout the financial year UKAR was engaged on a programme of work that, if successful, would have resulted in the sale of the Company's shareholdings in B&B and NRAM. At 31 March 2020 £1.4m of the restructuring provision of £5.7m relates to committed expenditure associated with this programme. The remainder of the restructuring provision relates primarily to costs in relation to the staffing restructure in 2019/20.

As detailed in note 13, an onerous contracts provision of £7.2m was made during the year in respect of potential future costs of leased properties including rent, rates, service charges and maintenance during future periods beyond the dates on which sub-lessees are able to break their leases. The Group's total discounted exposure to costs during these future periods is £13.9m. The right-of-use assets have been impaired by £6.7m in addition to the provision made for the remaining exposure of £7.2m.

The remaining £0.1m of 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.

21. Share capital

Group and Company Issued and fully paid	25p Ordinary shares Number	25p Ordinary shares £	Total share capital £
At 1 April 2018, 31 March 2019 and 31 March 2020	**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.

During the year the Company declared and paid interim dividends totalling £2,698.3m (year ended 31 March 2019: £nil) equating to £544 per Ordinary share. No further dividends had been proposed by the date of approval of these Financial Statements.

22. Other reserves

Other reserves comprise the following:

	31 March 2020 **£m**	31 March 2019 £m
Fair value reserve	**(100.7)**	85.3
Merger reserve	**1,129.1**	1,130.1
Total	**1,028.4**	1,215.4

Fair value reserve	**Year ended 31 March 2020** **£m**	Year ended 31 March 2019 £m
At start of year	**85.3**	468.6
Amounts recognised in equity	**(229.5)**	(354.6)
Amounts reclassified to profit or loss	**-**	(118.6)
Movement in deferred tax	**43.5**	89.9
At end of year	**(100.7)**	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 in the year ended 31 March 2019 represented the accumulated fair value movements up to the point of sale of FVOCI assets sold during that year.

Merger reserve

The balance is made up of:	**31 March 2020** **£m**	31 March 2019 £m
Relating to B&B	**589.3**	589.3
Relating to NRAM	**539.8**	540.8
Total	**1,129.1**	1,130.1

Movements on the merger reserve were as follows:	**12 months to 31 March 2020** **£000**	12 months to 31 March 2019 £000
Merger reserve at start of year	**1,130.1**	1,141.7
Release	**(1.0)**	(11.6)
Merger reserve at end of year	**1,129.1**	1,130.1

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.

22. Other reserves (continued)

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.

23. 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.

	Year ended 31 March 2020				Year ended 31 March 2019		
	Statutory Debt and HM Treasury loans £m	**Debt securities In issue £m**	**Lease obligations £m**	**Total £m**	Statutory Debt and HM Treasury loans £m	Debt securities In issue £m	Total £m
Principal balance at start of year	**1,973.6**	**200.0**	**-**	**2,173.6**	10,274.3	200.0	10,474.3
Adoption of IFRS 16 (see note 13)	**-**	**-**	**18.8**	**18.8**	-	-	-
Principal repayments	**(1,973.6)**	**(200.0)**	**(2.8)**	**(2,176.4)**	(8,300.7)	-	(8,300.7)
Other non-cash movements	**-**	**-**	**1.6**	**1.6**	-	-	-
Principal balance at end of year	**-**	**-**	**17.6**	**17.6**	1,973.6	200.0	2,173.6

Other non-cash movements comprise rent reviews and interest added under the effective interest method (see note 13).

24. Off-Balance Sheet commitments payable

At 31 March 2020	**Within one year £m**	**In one to five years £m**	**Over five years £m**	**Total £m**
Loan commitments:				
- equity release mortgages	**0.4**	**1.2**	**1.3**	**2.9**
- other loans	**64.6**	**-**	**-**	**64.6**
Total	**65.0**	**1.2**	**1.3**	**67.5**

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 (restated – see below)	2.7	9.9	7.2	19.8
Total	74.1	11.3	8.8	94.2

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.

At 31 March 2019 operating lease commitments represented minimum future lease payments under non-cancellable operating leases. The value of these commitments at 31 March 2019 has been restated from that disclosed in the Group's 31 March 2019 Annual Report & Accounts in order to correct an error; the undiscounted obligations at that date were £19.8m rather than the disclosed £22.5m. Although the error was not considered material, the restatement has been made in order to aid the comparability of the opening IFRS 16 lease obligation to the 31 March 2019 commitments. The Group adopted IFRS 16 on 1 April 2019 which changed the way it accounts for contracts previously classified as operating leases (see note 13).

25. 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 (2019: £nil).

A summary of the Group's remuneration of the 12 (2019: 12) key management personnel is set out in the table below. These amounts include the remuneration of the Directors which is set out in more detail in the Directors' Remuneration Report on pages 31 to 43. The Directors' Remuneration Report gives details of the Group's Directors' salaries, fees, bonuses, pension benefits, other incentives and other benefits.

Remuneration of key management personnel	**12 months to 31 March 2020 £000**	12 months to 31 March 2019 £000
Short-term employee benefits	**2,913**	2,291
Other long-term benefits	**205**	241
Post-employment benefits	**40**	27
Termination benefits	**-**	269
Total	**3,158**	2,828

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 15. There were no amounts due to or from the schemes at 31 March 2020 (31 March 2019: £nil). The key management personnel contributed £40,000 (2019: £9,131) 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 £1,274,070 and £859,070 respectively (2019: £1,065,917 and £650,917 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 (2019: £nil).

(b) UK government

As described in note K 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 8), loans from HM Treasury (see note 16) and the Statutory Debt (see note 16). In addition to these, 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 UK Government Investments Limited ('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. During the year, the Group bore a cost of £0.6m (2019: £0.6m) relating to advisors to UKGI on UKAR's future strategy.

During the year the Group repaid the remaining balances on the HM Treasury loans and the Statutory Debt.

(c) UKAR Company

The UKAR Company's balances and transactions with related parties are detailed in note J to the Parent Company Financial Statements.

26. 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. In addition to the 1% of total Balance Sheet assets required under MIPRU, add-ons relating to additional credit and operational risks are included plus a further 25% buffer.

Each of these companies manages its capital resources in order to meet the FCA's regulatory and Board 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 throughout 2019/20 and 2018/19; 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.

In early March 2020 Mortgage Express distributed a dividend of £230.0m. The subsequent impact of COVID-19 on the fair value of the Mortgage Express mortgage book reduced capital to 105% of the Mortgage Express Board's assessed requirement, below its target of 125%. FCA requirements were met at all times.

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, although the capital position of Mortgage Express is being monitored closely. However, if required, B&B has sufficient capital to address any shortfall should the Mortgage Express position decline further.

As at 31 March 2020, capital in B&B represented 35.6% (2019: 21.5%) of B&B company assets, NRAM capital represented 21.4% (2019: 69.3%) of NRAM company assets and capital of Mortgage Express represented 11.2% (2019: 30.3%) of Mortgage Express's assets. B&B total capital resources of £1,012.1m are £118.8m higher than at 31 March 2019. The increase in B&B's capital is driven by the £454.2m impact of the pension scheme asset no longer being a deduction to capital following the transfer of the scheme to UKAR in June 2019 (see note F), the consequent release of £86.3m of deferred tax, the profit after tax for the year of £150.7m, which included £230.0m of dividend income from its subsidiary company Mortgage Express, and a £55.5m reduction in the deduction for B&B's investment in Mortgage Express. These increases were partly offset by the distribution of an interim dividend of £570.0m and the negative IFRS 9 fair value reserve of £53.3m. The £4,483.1m decrease in NRAM's capital to £390.7m is mainly due to the dividends of £4,640.7m declared during the year and the loss after tax of £84.3m. These were offset by the £199.6m impact of the pension scheme asset no longer being a deduction to capital following the transfer of the scheme to UKAR in June 2019 (see note F) and the consequent release of £37.9m of deferred tax. The £256.5m decrease in Mortgage Express's capital to £119.5m is mainly due to the dividend of £230.0m declared during the year and the negative IFRS 9 fair value reserve of £33.0m, offset by the profit after tax of £6.5m.

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 positive accounting reserves for assets carried as FVOCI under IFRS 9. 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.

27. 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 2020	**Assets at amortised cost £m**	**Assets at FVOCI £m**	**Total carrying value £m**	**Fair value £m**
Financial assets:				
Cash at bank and in hand	**811.5**	**-**	**811.5**	**811.5**
Loans to customers	**-**	**4,699.5**	**4,699.5**	**4,699.5**
Net investment in sub-leases	**8.9**	**-**	**8.9**	**8.6**
Other financial assets	**0.1**	**-**	**0.1**	**0.1**
Total financial assets	**820.5**	**4,699.5**	**5,520.0**	**5,519.7**

	Liabilities at fair value through profit or loss £m	**Liabilities at amortised cost £m**	**Total carrying value £m**	**Fair value £m**
Financial liabilities:				
Lease obligations	**-**	**17.6**	**17.6**	**14.8**
Accruals	**-**	**37.5**	**37.5**	**37.5**
Other financial liabilities	**-**	**7.4**	**7.4**	**7.4**
Total financial liabilities	**-**	**62.5**	**62.5**	**59.7**

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
Accruals	-	41.6	41.6	41.6
Other financial liabilities	-	9.8	9.8	9.8
Total financial liabilities	-	2,231.6	2,231.6	2,237.5

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

27. Financial instruments (continued)

(b) Interest income and expense by category of financial instrument

	12 months to 31 March 2020 £m	12 months to 31 March 2019 £m
Interest income recognised on an EIR method:		
On equity release mortgages	**0.6**	42.5
On other financial assets carried at amortised cost	**4.7**	10.1
	5.3	52.6
On loans to customers carried at FVOCI	**177.2**	417.4
Total interest income recognised on an EIR method	**182.5**	470.0
Derivative interest expense recognised on an accruals basis, in hedging relationships and offset against interest income	**-**	(14.8)
Total interest income per the Income Statement	**182.5**	455.2
Interest expense recognised on an EIR method:		
On financial liabilities carried at amortised cost	**(10.2)**	(48.9)
Other interest expense:		
Interest on tax released	**-**	8.4
Total interest expense per the Income Statement	**(10.2)**	(40.5)

(c) Impaired financial assets

Allowance accounts for credit losses in respect of impairment of loans to customers are detailed in note 10. 15 (2019: 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) Derivatives and hedge accounting

The Group had no hedge accounting during the year or previous year other than the portfolio fair value hedge of the interest rate swaps used to mitigate the interest rate risk in the equity release mortgages prior to their sale in the year ended 31 March 2019 (see note 6). No derivative instruments were held at 31 March 2020 or 31 March 2019.

(e) Fair value measurement

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

At 31 March 2020	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets:				
Loans to customers	**-**	**-**	**4,699.5**	**4,699.5**
Net financial assets	**-**	**-**	**4,699.5**	**4,699.5**

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

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 (2019: none).

The methodology for calculating the fair value of loans to customers is detailed in note 2(d).

27. Financial instruments (continued)

(e) Fair value measurement (continued)

For financial assets and liabilities which are not carried at fair value, the fair values disclosed in note 27(a) are calculated on the following bases:

At 31 March 2020	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets:				
Cash at bank and in hand	**811.5**	**-**	**-**	**811.5**
Net investment in sub-leases	**-**	**8.6**	**-**	**8.6**
Other financial assets	**-**	**0.1**	**-**	**0.1**
	811.5	**8.7**	**-**	**820.2**
Financial liabilities:				
Lease obligations	**-**	**14.8**	**-**	**14.8**
Accruals	**-**	**37.5**	**-**	**37.5**
Other financial liabilities	**-**	**7.4**	**-**	**7.4**
	-	**59.7**	**-**	**59.7**

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
Accruals	-	41.6	-	41.6
Other financial liabilities	-	9.8	-	9.8
	1,976.0	261.5	-	2,237.5

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.

Net investment in sub-leases
As detailed in note 13, the net investment in sub-leases was calculated using a discount rate of 1.18%. The fair value of the net investment in sub-leases has been calculated using a market interest rate as at 31 March 2020.

Lease obligations
As detailed in note 13, the lease obligations were calculated using a discount rate of 1.18%. The fair value of the lease obligations has been calculated using a market interest rate as at 31 March 2020.

Statutory Debt and HM Treasury loans
The fair value was estimated to be the carrying amount as the loans were considered to be repayable on demand subject to timing of repayment of loans to customers.

Debt securities in issue
Fair values were based on quoted prices.

Other financial assets and liabilities
Fair value approximates to carrying value because the balances are short term in nature.

(f) Offsetting

No financial assets have been offset against financial liabilities. No balances are subject to enforceable master netting arrangements or similar agreements.

28. Financial risk management

A description of the principal risks to which the Group is exposed is provided on pages 68 to 70 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. As credit risk is the main risk to the Group, a credit risk framework has been established as part of the overall governance framework to measure, mitigate and manage credit risk within risk appetite. The Group closely monitors its credit risk against the Board's credit policies.

The maximum credit risk exposure at the Balance Sheet date before taking account of any collateral netting and other credit enhancements was as follows:

	31 March 2020 £m	31 March 2019 £m
On Balance Sheet:		
Cash at bank and in hand	**811.5**	723.6
Amount owed in respect of sale of loans	**-**	4,473.7
Loans to customers [1]	**4,954.6**	5,574.3
Equity release mortgages [1]	**7.8**	8.2
Net investment in sub-leases	**8.9**	-
Other financial assets	**0.1**	1.7
Total on Balance Sheet	**5,782.9**	10,781.5
Off Balance Sheet:		
Loan commitments (see note 24)	**67.5**	74.4

[1] *Outstanding balances*

Loans to customers include loans which are secured on property; additional information in respect of credit risk is provided in note 11. 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 8.

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% (2019: 56%) 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 £5.0bn (2019: £5.6bn) 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% (2019: 40%) of the book.

28. 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 2020	**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	**811.5**	**-**	**-**	**-**	**-**	**-**	**811.5**
Loans to customers [1]	**77.9**	**29.5**	**29.6**	**63.2**	**655.2**	**3,968.3**	**4,823.7**
Equity release mortgages	**-**	**0.2**	**0.2**	**0.4**	**2.6**	**4.2**	**7.6**
Net investment in sub-leases	**-**	**0.6**	**0.6**	**1.1**	**6.6**	**-**	**8.9**
Other financial assets	**-**	**0.1**	**-**	**-**	**-**	**-**	**0.1**
Total financial assets	**889.4**	**30.4**	**30.4**	**64.7**	**664.4**	**3,972.5**	**5,651.8**
Financial liabilities:							
Lease obligations	**-**	**0.7**	**0.7**	**1.4**	**9.8**	**5.0**	**17.6**
Accruals	**-**	**37.5**	**-**	**-**	**-**	**-**	**37.5**
Other financial liabilities	**-**	**7.4**	**-**	**-**	**-**	**-**	**7.4**
Total financial liabilities	**-**	**45.6**	**0.7**	**1.4**	**9.8**	**5.0**	**62.5**

[1] Outstanding balances less impairment provisions at 31 March 2020.

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
Accruals	-	41.6	-	-	-	-	41.6
Other financial liabilities	-	9.8	-	-	-	-	9.8
Total financial liabilities	1,973.5	53.9	-	204.2	-	-	2,231.6

[1] Outstanding balances less impairment provisions at 31 March 2019.

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 was not possible to specify the contractual maturity dates of these and therefore they are included in the table above as though repayable on demand. As detailed in note 16, these loans 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.

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 £860.4m and £241.6m respectively (2019: £659.7m and £273.0m) of which £23.0m and £nil respectively are classed as current (2019: £10.1m and £63.2m) and £837.4m and £241.6m respectively are classed as non-current (2019: £649.6m and £209.8m).

28. Financial risk management (continued)

(b) Liquidity risk (continued)

The table below analyses the Group's 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 144. 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 2020	**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:							
Lease obligations	**-**	**0.7**	**0.7**	**1.4**	**10.2**	**5.3**	**18.3**
Accruals	**-**	**37.5**	**-**	**-**	**-**	**-**	**37.5**
Other financial liabilities	**-**	**7.4**	**-**	**-**	**-**	**-**	**7.4**
Loan commitments	**64.6**	**0.1**	**0.1**	**0.2**	**1.2**	**1.3**	**67.5**
Total	**64.6**	**45.7**	**0.8**	**1.6**	**11.4**	**6.6**	**130.7**

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
Accruals	-	41.6	-	-	-	-	41.6
Other financial liabilities	-	9.8	-	-	-	-	9.8
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

(c) Market risk

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 2020 and 31 March 2019 the Group had no exposure to foreign exchange rate fluctuations or changes in foreign currency interest rates.

29. Contingent liabilities

(a) As detailed in note 9, in March 2019 the Group sold two separate asset portfolios comprising performing residential and unsecured loans. 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 transferred to the purchasing entity; legal title transferred in November 2019. UKAR provided a guarantee that should NRAM fail to make payment under a valid claim made 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 9, the sale of two portfolios of buy-to-let and other residential loans 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 transferred to the purchasing entities; legal title transferred in July 2019. UKAR provided a guarantee that should B&B fail to make payment under a valid claim made 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 12, in September 2018 the Group sold the majority of its equity release mortgages. 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 transferred to the purchasing entity; legal title transferred in March 2020. UKAR provided a guarantee that should B&B fail to make payment under a valid claim made 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 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 and hence a contingent liability existed at 31 March 2019 but not at 31 March 2020, while for certain tax-related warranties the time limit is 5 May 2023. UKAR has provided a guarantee that should NRAM fail to make payment under a valid claim made 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 9, in December 2018 the Group sold the majority of its commercial loans. B&B and NRAM provided certain warranties and indemnities in respect of this sale. The sale agreement set a time limit of September 2020 for bringing claims under the warranties. UKAR provided a guarantee that should B&B or NRAM fail to make payment under a valid claim made 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.

(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.

30. Events after the reporting period

HM Treasury announced in June 2020 that it was terminating the guarantee arrangements which were put in place when B&B and NRAM came into public ownership, as the liabilities covered by the arrangements have now been discharged in full.

As detailed in note 2, market sentiment has continued to evolve since the balance sheet date, with a growing expectation that COVID-19 will result in a deeper and longer recession than the economic scenarios applicable at 31 March 2020. As a result of the challenging economic circumstances we expect the number of customers in arrears to increase during 2020/21 with a consequent increase in loss provisions. Note 2 details the sensitivity of the Group's loss provisions to the assumptions used.

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 Company for the year ended 31 March 2020 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 2020 and of the profit for the year then ended; 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 opinion

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 Company 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 have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- UK Asset Resolution Limited Company’s use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- UK Asset Resolution Limited Company have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about UK Asset Resolution Limited Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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 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 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 UK Asset Resolution Limited 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 financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- conclude on the appropriateness of UK Asset Resolution Limited Company'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 UK Asset Resolution Limited Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my 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 report. However, future events or conditions may cause UK Asset Resolution Limited Company to cease to continue as a going concern.

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 Strategic Report and Directors’ Report and Governance Statement, 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.

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

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.

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, 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 78 to 86, on the Group Financial Statements of UK Asset Resolution Limited for the year ended 31 March 2020.

Hilary Lower (Senior Statutory Auditor)
6 July 2020

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 2020 £m**	31 March 2019 £m
Assets			
Cash at bank and in hand	D	**486.1**	-
Investments in Group undertakings	E	**1,522.5**	2,634.1
Amounts due from Group undertakings	J	**3,415.8**	2,005.3
Current tax assets		**11.3**	-
Deferred tax assets	C	**-**	0.6
Retirement benefit assets	F	**835.4**	-
Total assets		**6,271.1**	4,640.0
Liabilities			
Deferred tax liabilities	C	**158.7**	-
Amounts due to Group undertakings*	J	**23.2**	4.2
Other liabilities*	G	**3.9**	4.0
Provisions	H	**1.4**	-
Total liabilities		**187.2**	8.2
Equity			
Issued capital and reserves attributable to owners of the parent:			
- share capital	21	**1.2**	1.2
- merger reserve	I	**1,521.2**	2,632.8
- retained earnings		**4,561.5**	1,997.8
Total equity		**6,083.9**	4,631.8
Total equity and liabilities		**6,271.1**	4,640.0

**Other liabilities at 31 March 2019 have been re-presented to exclude £4.2m of amounts due to Group undertakings.*

The notes on pages 153 to 162 and note 21 on page 136 form an integral part of these Financial Statements.

The Company's profit after tax for the financial year was £4,135.1m (31 March 2019: £1,997.6m) including dividends from subsidiaries totalling £5,210.7m (year ended 31 March 2019: £2,000.0m). 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 150 to 162 were approved by the Board of Directors on 6 July 2020 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 2020	Note	**Share capital £m**	**Merger Reserve £m**	**Retained earnings £m**	**Total share capital and reserve £m**
At 1 April 2019		**1.2**	**2,632.8**	**1,997.8**	**4,631.8**
Other comprehensive income/(expense):					
- retirement benefit remeasurements	G	**-**	**-**	**172.0**	**172.0**
- tax effects of the above		**-**	**-**	**(156.7)**	**(156.7)**
Total other comprehensive income		**-**	**-**	**15.3**	**15.3**
Profit for the financial year		**-**	**-**	**4,135.1**	**4,135.1**
Release of merger reserve	I	**-**	**(1,111.6)**	**1,111.6**	**-**
Total comprehensive (expense)/income		**-**	**(1,111.6)**	**5,262.0**	**4,150.4**
Dividends declared	21	**-**	**-**	**(2,698.3)**	**(2,698.3)**
At 31 March 2020		**1.2**	**1,521.2**	**4,561.5**	**6,083.9**

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

COMPANY CASH FLOW STATEMENT

	12 months to 31 March 2020 £m	12 months to 31 March 2019 £m
Cash flows from operating activities		
Profit before taxation for the financial year	**4,143.7**	1,997.0
Adjustments to reconcile profit to cash generated from operating activities:		
- non-recurring charge	**15.4**	-
- interest expense and similar charges	**0.1**	-
- defined benefit pension scheme credits	**(9.6)**	-
- impairment of investments in subsidiary undertakings	**1,111.6**	-
- other non-cash movements	**0.1**	-
	5,261.3	1,997.0
Net increase in operating assets:		
- amounts due from Group undertakings	**(4,755.0)**	(2,005.2)
Net decrease in operating liabilities:		
- amounts due to Group undertakings	**(1.1)**	-
- other liabilities	**(0.1)**	8.2
Interest paid	**(0.1)**	-
Income tax paid	**(11.3)**	-
Net cash generated from operating activities	**493.7**	-
Cash flows used in financing activities:		
- dividends received	**2,690.7**	-
- dividends paid	**(2,698.3)**	-
Net cash used in financing activities	**(7.6)**	-
Net increase in cash and cash equivalents	**486.1**	-
Cash and cash equivalents at beginning of year	**-**	-
Cash and cash equivalents at end of year	**486.1**	-
Represented by cash and assets with original maturity of three months or less within:		
- cash at bank and in hand	**486.1**	-
Total cash and cash equivalents at end of year	**486.1**	-

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 accounting policies of the UKAR Group are set out in note 1 on pages 95 to 100. The policies which are of particular significance to the Company are: 1(b) basis of preparation; 1(f) taxation; 1(g) financial instruments; 1(i) recognition and derecognition of financial assets and liabilities; 1(j) assets held for sale and disposal groups; 1(m) cash at bank and in hand; 1(q) retirement benefits; and 1(s) dividends receivable and payable. The Company applies the accounting policies of the UKAR Group with the following additional items.

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 initial cost of each of these investments was 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, and when other significant changes arise in the subsidiaries, 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. The net assets of the subsidiary falling below the carrying value of the investment is considered an indicator of impairment.

Amounts due to and from Group undertakings

Amounts due from Group undertakings are classified under IFRS 9 as at amortised cost. The balances are considered to be 'stage 1', i.e. that there has been no significant increase in credit risk since the asset's origination, as the counterparties benefit from HM Treasury support. Expected credit losses are considered not to be material and no provision is made.

Amounts due to Group undertakings are classified under IFRS 9 as at amortised cost.

Deferred tax

At the point at which the B&B and NRAM funded defined benefit pension schemes transferred to the Company (see note F) an associated deferred tax obligation was recognised by the Company's (see note C).

B. 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) Carrying amount of net retirement benefit assets

As detailed in note F, the Company 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 Company of any future surpluses on the scheme and it is therefore 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 Company's Balance Sheet.

Accounting estimates

(b) Impairment of investments in Group undertakings

During the year dividends were declared to the Company by its subsidiary undertakings. Following these dividend declarations, the carrying value of the Company's investments was reviewed for impairment. Their carrying value has been impaired down to £1,522.5m, being the value in use of the investments in the subsidiary groups at 31 March 2020.

B. Critical judgements and accounting estimates (continued)

Accounting estimates *(continued)*

(b) Impairment of investments in Group undertakings (continued)
IAS 36 'Impairment of Assets' requires that impaired assets be written down to their 'recoverable amount', being the higher of an asset's fair value less costs of disposal and its value in use. 'Value in use' is defined as 'the present value of the future cash flows expected to be derived from an asset'. The expected future cash flows in respect of an investment in a subsidiary are considered to equal the present value of the expected future cash flows of that subsidiary, as those future cash flows could be used to declare dividends, or otherwise to return capital, to the parent. The net asset value is considered to equal the present value of the future cash flows because the subsidiaries have no financial assets or liabilities which are carried at values which are different from their fair values. The fair values themselves are considered to represent the present value of their future cash flows. In the case of loans to customers, the loans are carried at a fair value which is calculated as the present value of future cash flows using market interest rates; the discount rates used are detailed in note 2(d). It is considered that there are no factors specific to the subsidiaries which would mean that the appropriate discount rate to use to establish value in use would differ from the market interest rates used for the purposes of deriving the fair value for the purposes of IFRS 9. Non-financial assets and liabilities are not considered sufficiently material to suggest that the net asset value of the subsidiary could be materially different to the present value of its future cash flows.

(c) Retirement benefit obligations

Liabilities in respect of the Company'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; these assumptions are determined by the Company'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 F.

C. Taxation

The Company's net deferred taxation (liability)/asset is attributable to the following:

	Assets		**Liabilities**		**Net**	
	31 Mar 2020 £m	31 Mar 2019 £m	**31 Mar 2020 £m**	31 Mar 2019 £m	**31 Mar 2020 £m**	31 Mar 2019 £m
Employee benefits	**-**	-	**(158.7)**	-	**(158.7)**	-
Losses carried forward	**-**	0.6	**-**	-	**-**	0.6
Total	**-**	0.6	**(158.7)**	-	**(158.7)**	0.6

The movements in the Company's deferred taxation during the current and previous year were as follows:

	1 April 2019 £m	**Recognised in income £m**	**Recognised in equity £m**	**31 March 2020 £m**
Employee benefits	**-**	**(2.0)**	**(156.7)**	**(158.7)**
Losses carried forward	**0.6**	**(0.6)**	**-**	**-**
Total	**0.6**	**(2.6)**	**(156.7)**	**(158.7)**

	1 April 2018 £m	Recognised In income £m	Recognised in equity £m	31 March 2019 £m
Employee benefits	-	-	-	-
Losses carried forward	-	0.6	-	0.6
Total	-	0.6	-	0.6

As detailed in note F, the funded defined benefit pension schemes of B&B and NRAM transferred to UKAR on 20 June 2019, at their IAS 19 values at that date. On that date the Company recognised in full deferred tax provisions in relation to the schemes, totalling £124.2m, recognised in equity. This treatment of deferred tax on initial recognition of the schemes was considered appropriate as the Company would be liable for any tax arising on any future refunds from the schemes and acquired the schemes at a price which did not reflect this potential future exposure.

The Company bears tax at the standard weighted average rate of UK corporation tax of 19.0% (2019: 19.0%) and has no unprovided deferred tax.

D. Cash at bank and in hand

	31 March 2020 £m	31 March 2019 £m
Balances with the Government Banking Service	**468.0**	-
Balances with other banks	**18.1**	-
Total	**486.1**	-

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

None of the Company's cash at bank and in hand balances are impaired and all are with UK institutions. The Government Banking Service is rated AA. Of the balances with other banks, 100% (2019: 96%) are with institutions rated AA to A and nil% (2019: 4%) with institutions rated BBB to B. ECLs arising in the 12 months to 31 March 2021 are not material, and no provision has been made.

E. 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 2020 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	Non-trading*	UK	Ordinary
Indirect				
Mortgage Express	02405490	Asset management	UK	Ordinary

* *The operations of UKARcs were transferred to NS&I with effect from 1 April 2019.*

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	Dissolved 3 April 2020	UK	Ordinary
F & N E (1990) Limited	02481908	Dissolved 3 April 2020	UK	Ordinary
Finance for Mortgages Limited	02220176	Non-trading	UK	Ordinary
Heron's Reach Developments Limited	02554549	Dissolved 3 April 2020	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

All of the Group's subsidiary undertakings have their registered office at Croft Road, Crossflatts, Bingley, West Yorkshire BD16 2UA.

E. Investments in Group undertakings (continued)

	31 March 2020 £m	31 March 2019 £m
At start of year	**2,634.1**	2,634.1
Impairment	**(1,111.6)**	-
At end of year	**1,522.5**	2,634.1

During the year the carrying value of the Company's investments in its subsidiary undertakings was reviewed for impairment following the declaration of dividends by those subsidiaries and the fall in the fair value of their loan books as a result of the impact on markets of the COVID-19 pandemic. The carrying amounts of the investments were impaired by £1,111.6m to reduce them to their value in use at 31 March 2020. A release of £1,111.6m, equal to the amount of impairment of the carrying amount of the investments, has been made from the merger reserve to retained earnings.

IAS 36 requires that the carrying amount of an impaired asset be reduced to its 'recoverable amount'. 'Recoverable amount' is defined as the higher of the fair value less costs of disposal and the 'value in use' of the asset. The 'value is use' is defined as the present value of the future cash flows expected to be derived from the asset. It is considered that the present value of the future cash flows which the Company should expect to derive from its investments in subsidiaries approximates to the net asset value of those subsidiaries as the Company could extract value from them by dividends or other return of capital. The carrying values of the assets and liabilities of B&B and NRAM are not significantly different from the present values of their future cash flows, as they are principally loans to customers carried at fair value and other financial assets and liabilities which are short-term in nature.

The discount rates used in calculating the carrying value of B&B's and NRAM's residential loans to customers at 31 March 2020 were in the range 349 - 412 bps.

It is considered that it is not practicable to derive a reliable estimate of the fair value of the investments other than the present value of the expected future cash flows.

F. Retirement benefit assets and obligations

Full details of the Group's retirement benefit assets and obligations are provided in note 15.

On 20 June 2019 the Company became the sponsoring company of the B&B and NRAM funded defined benefit pension schemes. The transfer values were contractually set at their IAS 19 values at that date, being £454.2m for the B&B Scheme and £199.6m for the NRAM Scheme.

The Chancellor announced in the March 2020 Budget that the government intends, subject to securing the necessary parliamentary time, to create a new central government pension scheme for the members of the B&B and NRAM schemes. Members' pensions will not be affected by this transfer. Following the establishment of a new central government pension scheme, the government intends to sell assets held by the B&B and NRAM schemes over 2023-24 and 2024-25, subject to the necessary legislation being brought forward, supportive market conditions and achieving value for money.

The amounts carried on the Company Balance Sheet at 31 March 2020 are as follows:

	B&B Scheme £m	**NRAM Scheme £m**	**Total £m**
Present value of defined benefit obligations	**(866.4)**	**(479.0)**	**(1,345.4)**
Fair value of defined benefit assets	**1,447.1**	**733.7**	**2,180.8**
Net defined benefit asset	**580.7**	**254.7**	**835.4**

As noted in the Group's 2019 Financial Statements, the IASB had issued an exposure draft of possible changes to IFRIC 14, which would have restricted the recognition of net asset positions in respect of pension schemes under certain circumstances. In February 2020 the IASB announced that it had decided not to proceed with those changes.

The assets of the B&B Scheme and of the NRAM Scheme are each held in a separate trustee-administered fund. The Trustee of each has passed a resolution for the ultimate refund to the Company of any future surpluses on the scheme and as detailed in note B(a) it is considered appropriate to carry net surpluses on each scheme in full on the Balance Sheet.

The Trustee of the B&B Scheme manages the volatility in the value of the 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 95% of the interest rate risk and approximately 95% of the inflation risk has been hedged. The NRAM Scheme has instigated a liability-driven investment programme which currently hedges approximately 101% of the interest rate risk and 100% of the inflation risk.

F. Retirement benefit assets and obligations (continued)

The B&B Scheme has a written guarantee from HM Treasury that benefits will be paid in full to the members.

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

	B&B Scheme £m	NRAM Scheme £m	Total £m
On transfer in on 20 June 2019	**981.4**	**509.6**	**1,491.0**
Interest on defined benefit obligations	**15.3**	**9.3**	**24.6**
Remeasurements:			
- effect of changes in demographic assumptions	**-**	**0.8**	**0.8**
- effect of changes in financial assumptions	**(99.8)**	**(27.9)**	**(127.7)**
- effect of experience adjustments	**-**	**4.8**	**4.8**
Benefits paid from plan	**(30.5)**	**(17.6)**	**(48.1)**
At end of year	**866.4**	**479.0**	**1,345.4**

Movements in the fair value of defined benefit assets were as follows:

	B&B Scheme £m	NRAM Scheme £m	Total £m
On transfer in on 20 June 2019	**1,435.6**	**709.2**	**2,144.8**
Interest income on defined benefit assets	**23.7**	**12.2**	**35.9**
Remeasurements			
- return on plan assets (excluding interest income)	**19.2**	**30.7**	**49.9**
Administrative expenses paid from plan assets	**(0.9)**	**(0.8)**	**(1.7)**
Benefits paid from plan	**(30.5)**	**(17.6)**	**(48.1)**
At end of year	**1,447.1**	**733.7**	**2,180.8**

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

	B&B Scheme			NRAM Scheme		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equity instruments	**-**	**6.7**	**6.7**	**-**	**-**	**-**
Property	**-**	**0.1**	**0.1**	**-**	**-**	**-**
Bonds:						
- of which UK	**119.9**	**-**	**119.9**	**-**	**-**	**-**
- of which overseas	**62.4**	**-**	**62.4**	**-**	**-**	**-**
Bulk annuity contracts	**-**	**-**	**-**	**-**	**268.5**	**268.5**
Liability hedging investments	**1,501.3**	**-**	**1,501.3**	**460.8**	**-**	**460.8**
Repurchase agreements	**(251.9)**	**-**	**(251.9)**	**-**	**-**	**-**
Cash and cash equivalents	**-**	**8.6**	**8.6**	**-**	**4.4**	**4.4**
Total	**1,431.7**	**15.4**	**1,447.1**	**460.8**	**272.9**	**733.7**

Summary actuarial assumptions (expressed as weighted averages) at the 20 June 2019 transfer date and at the end of the year were as follows:

	31 March 2020	20 June 2019
To determine benefit obligations:		
Discount rate	**2.30%**	2.30%
Inflation (RPI)	**2.55%**	3.20%
Inflation (CPI)	**1.55%**	2.20%
Future pension increases	**1.55% - 3.35%**	2.00% - 3.60%

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.

F. Retirement benefit assets and obligations (continued)

The Company is considering the potential impacts of future reforms of RPI. On 4 September 2019, in response to a report from the House of Lords Economic Affairs Committee, correspondence was published between the UK Statistics Authority and the government. This correspondence proposed that, at a point in time between 2025 and 2030, the calculation of RPI should be changed to match CPIH. A consultation is ongoing as to whether, and if so when, this change should take place. Given the uncertainty as to any future change, the Directors have decided that, for the purposes of calculating the Group's defined benefit obligations as at 31 March 2020, the methodology used to derive the inflation assumptions should be unchanged from that used in previous years.

The table below shows the life expectancy assumptions from age 60:

	31 March 2020		20 June 2019	
	Pensioner	**Non-retired member**	Pensioner	Non-retired member
B&B Scheme: male	**27.5**	**28.9**	27.4	28.8
B&B Scheme: female	**30.0**	**31.4**	29.9	31.3
NRAM Scheme: male	**28.3**	**29.7**	28.2	29.6
NRAM Scheme: female	**30.3**	**31.7**	30.2	31.6

Maturity profile of the obligation

At 31 March 2020 the B&B Scheme had a weighted average maturity of around 20 years (2019: 20 years) and the NRAM Scheme of around 20 years (2019: 20 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:

B&B Scheme: assumption	**Change in assumption**	**Impact on obligations**	**£m**
Discount rate	Decrease by 0.5%	Increase by 10%	**89.1**
Inflation	Increase by 0.5%	Increase by 9%	**75.1**
Mortality	Decrease by 1 year	Increase by 3%	**30.0**

NRAM Scheme: assumption	**Change in assumption**	**Impact on obligations**	**£m**
Discount rate	Decrease by 0.5%	Increase by 10%	**47.9**
Inflation	Increase by 0.5%	Increase by 5%	**24.0**
Mortality	Decrease by 1 year	Increase by 3%	**14.0**

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.

G. Other liabilities

Other liabilities comprise accruals. Other liabilities at 31 March 2019 have been re-presented to exclude £4.2m of amounts due to Group undertakings.

H. Provisions

As stated in the Strategic Report on page 12, throughout the financial year UKAR was engaged on a programme of work that, if successful, would have resulted in the sale of the Company's shareholdings in B&B and NRAM. At 31 March 2020 the restructuring provision of £1.4m (2019: £nil) relates to committed expenditure associated with this programme.

I. Merger reserve

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.

	12 months to 31 March 2020 £000	12 months to 31 March 2019 £000
Merger reserve at start of year	**2,632.8**	2,632.8
Release	**(1,111.6)**	-
Merger reserve at end of year	**1,521.2**	2,632.8

As detailed in note E, during the year the carrying amount of the Company's investments in its subsidiary undertakings was impaired by £1,111.6m. A release of £1,111.6m, equal to the amount of impairment of the carrying amount of the investments, has been made from the merger reserve to retained earnings.

J. Related party disclosures

(a) Subsidiary companies

	31 March 2020 £m	31 March 2019 £m
Amounts due from subsidiary undertakings:		
B&B	**1,629.4**	2,005.3
Mortgage Express	**450.0**	-
NRAM	**1,336.4**	-
Total	**3,415.8**	2,005.3
Amounts due to subsidiary undertakings:		
B&B	**23.2**	-
Other	**-**	4.2
Total	**23.2**	4.2

The debtor balances are repayable on demand but the Company has committed to its subsidiaries that the Company will not demand payment while the subsidiaries are owned by the Company. Under IFRS 9 the receivables are categorised as at amortised cost and their fair value is estimated to be their 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 2020 £000	12 months to 31 March 2019 £000
Management charges to subsidiary undertakings	**490**	490
Interest income on inter-company loans	**50,487**	5,266
Costs recharged by subsidiary undertakings	**15,382**	8,662

As detailed in note F, on 20 June 2019 the Company became the sponsoring company of the B&B and NRAM funded defined benefit pension schemes. The balances were transferred for their IAS 19 carrying amounts, totalling £653.8m and B&B and NRAM made loans to UKAR totalling £653.8m to finance the transfer of the schemes.

During the year the Company's subsidiaries declared dividends totalling £5,210.7m to the Company (2019: £2,000.0m).

During the year the Company impaired the carrying value of its investments in its subsidiaries by £1,111.6m (see note E).

(b) Key management personnel

The Group considers the Boards of Directors and the members of the Executive Committees of UKAR, B&B and NRAM to be the key management personnel. The Company had no transactions or balances directly with any key management personnel during the year. The Company's non-executive Directors have service contracts with the Company. Their fees are paid by B&B and recharged at cost to the Company, along with other related costs.

(c) Directors' emoluments

The aggregate Group emoluments of the Directors of the UKAR Company for the 12 months to 31 March 2020 were £1,274,070 and of the highest paid Director £859,070 (12 months to 31 March 2019: £1,065,917 and £650,917 respectively).

K. 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/official-documents.

L. 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 2020			At 31 March 2019		
	Amortised cost £m	**Total carrying value £m**	**Fair value £m**	Amortised cost £m	Total carrying value £m	Fair value £m
Financial assets:						
Cash at bank and in hand	**486.1**	**486.1**	**486.1**	-	-	-
Amounts due from Group undertakings	**3,415.8**	**3,415.8**	**3,415.8**	2,005.3	2,005.3	2,005.3
Total financial assets	**3,901.9**	**3,901.9**	**3,901.9**	2,005.3	2,005.3	2,005.3

	At 31 March 2020			At 31 March 2019		
	Amortised cost £m	**Total carrying value £m**	**Fair value £m**	Amortised cost £m	Total carrying value £m	Fair value £m
Financial liabilities:						
Amounts due to Group undertakings	**23.2**	**23.2**	**23.2**	4.2	4.2	4.2
Other financial liabilities	**3.9**	**3.9**	**3.9**	4.0	4.0	4.0
Total financial liabilities	**27.1**	**27.1**	**27.1**	8.2	8.2	8.2

(b) Impaired financial assets

No impairment allowance has been recognised in respect of any class of financial asset, and no class of financial asset includes assets that are past due.

(c) Fair value measurement

The fair values disclosed in note L(a) are calculated on the following bases:

	At 31 March 2020			At 31 March 2019		
	Level 1 £m	**Level 2 £m**	**Total £m**	Level 1 £m	Level 2 £m	Total £m
Financial assets:						
Cash at bank and in hand	**486.1**	**-**	**486.1**	-	-	-
Amounts due from Group undertakings	**3,415.8**	**-**	**3,415.8**	2,005.3	2,005.3	2,005.3
Total financial assets	**3,901.9**	**-**	**3,901.9**	2,005.3	2,005.3	2,005.3

	At 31 March 2020			At 31 March 2019		
	Level 1 £m	**Level 2 £m**	**Total £m**	Level 1 £m	Level 2 £m	Total £m
Financial liabilities:						
Amounts due to Group undertakings	**23.2**	**-**	**23.2**	4.2	-	4.2
Other financial liabilities	**-**	**3.9**	**3.9**	-	4.0	4.0
Total financial liabilities	**23.2**	**3.9**	**27.1**	4.2	4.0	8.2

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).

L. Financial instruments (continued)

(c) Fair value measurement (continued)

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.

Amounts due from Group undertakings
The fair value is estimated to be their carrying amount as the balances are considered to be repayable on demand.

Other financial assets and liabilities
Fair value approximates to carrying value because the balances are short term in nature.

(d) Offsetting
As detailed in note F, on 20 June 2019 B&B made a loan to UKAR of £454.2m and NRAM made a loan to UKAR of £199.6m to finance the transfer of the pension schemes. These loans were offset against the existing loans from UKAR to B&B and NRAM. No other financial assets have been offset against financial liabilities. No balances are subject to enforceable master netting arrangements or similar agreements.

M. Financial risk management

A description of the principal risks to which the Group is exposed is provided on pages 68 to 70 which form an integral part of the audited Financial Statements.

(a) Credit risk
Credit risk is the potential loss caused by a party failing to meet an obligation as it becomes due.

The maximum credit risk exposure at the Balance Sheet date was as follows:

	31 March 2020 £m	31 March 2019 £m
On Balance Sheet:		
Cash at bank and in hand	**486.1**	-
Amounts due from Group undertakings	**3,415.8**	2,005.3
Total	**3,901.9**	2,005.3

Additional information in respect of credit risk on cash at bank and in hand is provided in note D.

(b) Liquidity risk
The table below analyses the Company's financial assets and liabilities into relevant maturity groupings:

	31 March 2020			31 March 2019		
At 31 March 2020	**On demand £m**	**Within three months £m**	**Total £m**	On demand £m	Within three months £m	Total £m
Financial assets:						
Cash at bank and in hand	**486.1**	**-**	**486.1**	-	-	-
Amounts due from Group undertakings	**3,415.8**	**-**	**3,415.8**	2,005.3	-	2,005.3
Total financial assets	**3,901.9**	**-**	**3,901.9**	2,005.3	-	2,005.3
Financial liabilities:						
Amounts due to Group undertakings	**23.2**	**-**	**23.2**	4.2	-	4.2
Other financial liabilities	**-**	**3.9**	**3.9**	-	4.0	4.0
Total financial liabilities	**23.2**	**3.9**	**27.1**	4.2	4.0	8.2

Financial assets and liabilities are included in the above table according to the earliest date that payment can be contractually demanded.

The amounts due from Group undertakings are repayable on demand but the Company has committed that it will not demand repayment from subsidiaries while they are owned by UKAR.

M. 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 of the Company amount to £2,369.2m and £160.1m respectively (2019: £2,634.7m and £nil) of which £11.3m and £nil respectively are classed as current (2019: £nil and £nil) and £2,357.9m and £160.1m respectively are classed as non-current (2019: £2,634.7m and £nil).

(c) Market risk

At 31 March 2020 and 31 March 2019 the Company had no material exposure to market risk.

N. Contingent liabilities

As detailed in note 29, 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.

O. Events after the reporting period

The Directors are of the opinion that there have been no significant events which have occurred since 31 March 2020 to the date of this Report that are likely to have a material effect on the Company's financial position as disclosed in these Financial Statements.

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ISBN 978-1-5286-1931-8
CCS0520560412