Registered Number: 01063539

UCB Home Loans Corporation Limited

Annual Report and Financial Statements for the year ended 31 March 2019

Contents

Directors and company information

Directors
T Carter
J Davy
J Dunn
H Jordan
M Mathieson
C Rhodes
P Wootton

Company secretary
NBS CoSec Limited

Independent auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London
SE1 2RT

Registered office
Nationwide House
Pipers Way
Swindon
SN38 1NW

Registered number
01063539

The directors present their annual report and the audited financial statements for the year ended 31 March 2019.

As set out in the statement of accounting policies, the annual report and financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

Principal activities

UCB Home Loans Corporation Limited ('the Company') is a wholly owned subsidiary of Nationwide Building Society. Nationwide Building Society prepares consolidated financial statements, which includes the Company and other undertakings (herein 'the Group'). The Company is authorised and regulated by the Financial Conduct Authority (FCA).

The principal activity of the Company is specialist residential mortgage lending.

The Company no longer offers mortgages to new customers and continues to focus on maximising value for the Group by servicing its existing mortgage book and customers.

Results and dividends

The profit after tax was £73 million (2018: £59 million). No dividends were proposed, approved or paid during the year (2018: £nil).

Strategic report, future developments and key performance indicators

The Company's business and future plans are reviewed in the Strategic report, which also includes an overview of the Company's risk management and principal key performance indicators.

Employees

The Company has no employees (2018: nil).

Environment

The Company's environmental policy is set at a Group level. The Group remains committed to managing its environmental impacts and its ambition is to look for better, cleaner ways to run its operations.

Further details of the Group's activities can be found in the Strategic Report in its Annual Report and Accounts and on Nationwide Building Society's website at **nationwide.co.uk**

Directors and directors' interests

The Board of directors at the date of approval of the Directors' report is shown on page 2. The directors who held office during the year were:

T Carter
I Craig (resigned 5 October 2018)
J Davy (appointed 5 October 2018)
J Dunn
D Evans (resigned 1 May 2018)
M Mathieson (appointed 1 May 2018)
C Rhodes
P Wootton

The following director was appointed after the year end:

H Jordan (appointed 1 May 2019)

At no time during the year have the directors, or their families, had any beneficial interest in the shares of the Company. None of the directors had any interest in any contract significant to the Company's business.

Company secretary

V Orme (resigned 18 January 2019)
NBS CoSec Limited (appointed 18 January 2019)

Domicile

The Company is a private company limited by shares. It is incorporated and domiciled in the United Kingdom and is registered in England and Wales. The registered office is Nationwide House, Pipers Way, Swindon, SN38 1NW.

Going concern

The Company's business activities, together with the factors likely to affect its future development, financial position and its exposure to risk, are described in the Strategic report.

The Company is fully funded by its parent undertaking, Nationwide Building Society. Nationwide Building Society's Board of directors has confirmed that it will continue to fund the Company's activities for the foreseeable future. The foreseeable future is considered for this purpose to be a period of at least 12 months from the date of approval of the financial statements. Taking this into account, the directors have a reasonable expectation that the Company has adequate resources to continue in business for the foreseeable future.

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic report, Directors' report and financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (UK GAAP), including Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101).

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 Company and of the profit or loss of the Company for that year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK GAAP standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Independent auditors

The Group's audit tender process in 2017 resulted in a proposal to appoint, subject to member approval at Nationwide Building Society's 2019 AGM, Ernst & Young LLP as external auditor for the year ending 31 March 2020. Consequently, PricewaterhouseCoopers LLP will not be seeking re-appointment for the year ending 31 March 2020.

Statement of disclosure of information to auditors

In accordance with Section 418 of the Companies Act 2006, for each director in office at the date the Directors' report is approved:

(a) so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware

(b) they have taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Approved by the Board of directors and signed on its behalf by

M Mathieson
Director
12 July 2019

Strategic report for the year ended 31 March 2019

Business review

The Company recorded a profit before tax for the year of £90 million (2018: £83 million). Profits have increased in the year primarily as a result of a £19 million decrease in impairment losses on loans and advances to customers, offset by a £14 million reduction in net interest income.

Net interest income has reduced as a result of the declining mortgage book, which reduced to £1,741 million (2018: £2,053 million).

Retained earnings carried forward are £545 million (2018: £513 million).

Future developments

As the mortgage book remains closed to new business, the Company will continue to maintain its mortgage book and support existing customers.

In April 2019, the UK Government and the European Union agreed to delay the UK's departure from the European Union until 31 October 2019 unless a withdrawal agreement is agreed. As the Group's business model is primarily focused in the UK, it has limited direct exposure to the EU. Further details can be found in the Strategic Report of the Group's Annual Report and Accounts.

Strategic goals

Although strategic goals are set at Group level, the Board are aware of the Company's role in supporting the Group's ambition to meet these goals. The key performance indicators in relation to the Group's strategic goals are set out in the Strategic Report in its Annual Report and Accounts which is available on Nationwide Building Society's website, **nationwide.co.uk**

Risk overview

The Company's risk management policies are set at Group level. The Group has well-established risk management processes to ensure risks are controlled and managed appropriately.

Risks are managed through an enterprise risk management framework (ERMF), which describes the approach to risk management by setting out the minimum standards, and associated processes, for successful risk management, connecting the Group's strategy with day-to-day risk management activities. Whilst the Group has continued to evolve the ERMF in response to best practice and the risk landscape, the approach to risk management remains fundamentally unchanged from last year. Further details of the Group's risk management policies can be found in the Business and Risk Report of the Group's Annual Report and Accounts.

Risk overview (continued)

The Group's principal risks are:

- credit risk
- solvency risk
- market risk
- business risk
- liquidity and funding risk
- pension risk
- model risk
- operational risk
- conduct and compliance risk.

Details of the principal risks that are most relevant to the Company are set out below. For each of these principal risks, a formal statement of appetite for risk defines how much risk the Group's Board is prepared to take in pursuit of its goals and establishes a framework for decision making. Performance is reviewed regularly against these statements to ensure that the business operates within risk appetite.

Further details on principal risks can be found in the Business and risk report of the Group's Annual Report and Accounts.

Credit, market, liquidity and funding risk

Details of credit, market, liquidity and funding risk are included in note 14.

Business risk

The Group defines business risk as the risk that volumes decline or margins shrink relative to the cost base, affecting the sustainability of the business and the ability to deliver the strategy due to macro-economic, geopolitical, industry, regulatory or other external events. The Group ensures that it can generate sustainable profits by focusing on recurrent sources of income that provide value which is commensurate with risk appetite. The Group monitors this risk as part of ongoing business performance reporting.

Model risk

The Group defines model risk as the risk of an adverse outcome that occurs as a direct result of weaknesses or failures in the development, implementation or use of a model. The adverse consequences include financial loss, poor business or strategic decision making, or damage to the Company's reputation.

Model risk is established in the Group's ERMF and is managed using limits and triggers set according to risk appetite and is governed and supported by policies, standards and guidelines.

Risk overview (continued)

Operational risk

The Group defines operational risk as the risk of loss resulting from failures of internal processes, people or systems, or from external events. The Group manages operational risk across a number of sub-categories, which include cyber, IT resilience and security, business continuity, payments and fraud.

The Group operates a three lines of defence model to manage its operational risk. The Group's operational risk profile is informed by risk assessments from across the business and by review and challenge by both management and the Risk Oversight function. Risk Oversight supports the business in managing the risks it faces in its normal day-to-day activities and when implementing change programmes.

Conduct and compliance risk

Conduct and compliance risk is the risk that the Group exercises inappropriate judgement or makes errors in the execution of its business activities, leading to non-compliance with regulation or legislation, market integrity being undermined, or an unfair outcome being created for customers.

Approved by the Board of directors and signed on its behalf by

M Mathieson
Director
12 July 2019

Independent auditors' report to the members of UCB Home Loans Corporation Limited

Report on the financial statements

Opinion

In our opinion, UCB Home Loans Corporation Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements for the year ended 31 March 2019 (the "Annual Report"), which comprise: the Balance sheet as at 31 March 2019; the Statement of comprehensive income; and the Statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the 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.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 March 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Independent auditors' report to the members of UCB Home Loans Corporation Limited (continued)

Responsibilities for the financial statements and the audit (continued)

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. 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.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Laura Needham

Laura Needham (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
12 July 2019

Statement of comprehensive income for the year ended 31 March 2019

	Note	2019 £'000	2018 £'000
Interest receivable and similar income	3	**101,402**	118,258
Interest expense and similar charges	4	**(25,962)**	(28,865)
Net interest income		**75,440**	89,393
Fee and commission income	5	**240**	277
Total income		**75,680**	89,670
Administrative expenses	6	**(1,229)**	(1,282)
Impairment reversals/(losses) on loans and advances to customers	7	**15,065**	(4,344)
Provisions for liabilities and charges	8	**-**	(1,184)
Profit before tax		**89,516**	82,860
Taxation	9	**(17,008)**	(23,485)
Profit after tax, being total comprehensive income for the year		**72,508**	59,375

The notes on pages 15 to 45 form part of these financial statements.

Balance sheet as at 31 March 2019

	Note	31 March 2019 £'000	1 April 2018* £'000	31 March 2018 £'000
Assets				
Non-current assets				
Loans and advances to customers	11	**1,600,244**	1,883,872	1,931,084
Deferred tax	9	**7,671**	8,613	21
Current assets				
Cash		**3,645**	6,733	6,733
Loans and advances to customers	11	**76,034**	84,206	86,372
Total assets		**1,687,594**	1,983,424	2,024,210
Liabilities				
Non-current liabilities				
Amounts owed to parent undertaking	12	**514,339**	581,889	581,889
Current liabilities				
Amounts owed to parent undertaking	12	**569,336**	869,479	869,479
Accruals, deferred income and other liabilities		**4,283**	5,054	5,054
Provisions for liabilities and charges	8	**261**	695	695
Current tax liabilities		**9,317**	8,757	8,757
Total liabilities		**1,097,536**	1,465,874	1,465,874
Equity				
Share capital	13	**45,100**	45,100	45,100
Retained earnings		**544,958**	472,450	513,236
Total equity		**590,058**	517,550	558,336
Total equity and liabilities		**1,687,594**	1,983,424	2,024,210

*Balances at 1 April 2018 have been presented under IFRS 9 as detailed in note 1.

The notes on pages 15 to 45 form part of these financial statements.

The financial statements on pages 12 to 45 were approved by the Board of directors on 12 July 2019 and signed on its behalf by

M Mathieson
Director
12 July 2019

UCB HOME LOANS CORPORATION LIMITED

Statement of changes in equity for the year ended 31 March 2019

2019	**Share capital £'000**	**Retained earnings £'000**	**Total equity £'000**
At 31 March 2018	45,100	513,236	558,336
IFRS 9 transition (note i)	-	(40,786)	(40,786)
At 1 April 2018	45,100	472,450	517,550
Profit after tax	-	**72,508**	**72,508**
Total comprehensive income	-	**72,508**	**72,508**
At 31 March 2019	**45,100**	**544,958**	**590,058**

2018	Share capital £'000	Retained earnings £'000	Total equity £'000
At 1 April 2017	45,100	453,861	498,961
Profit after tax	-	59,375	59,375
Total comprehensive income	-	59,375	59,375
At 31 March 2018	45,100	513,236	558,336

Note:
i. Adjusted on implementation of IFRS 9 as detailed in note 1.

The notes on pages 15 to 45 form part of these financial statements.

1 Statement of accounting policies

Basis of preparation

These financial statements have been prepared in accordance with the Companies Act 2006 as applicable to companies using Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention. As stated in the Directors' report, the directors consider that it is appropriate to continue to adopt the going concern basis in preparing the financial statements. Accounting policies have been consistently applied in preparing these financial statements, except for changes arising from adoption of new and revised International Financial Reporting Standards (IFRS). The Company's financial statements are presented in sterling and all values are rounded to the nearest thousand pounds (£'000) except where otherwise indicated.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of International Accounting Standard (IAS) 7 'Statement of Cash Flows';
- the requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'; and
- the requirements in IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

Further information about judgements in applying accounting policies and critical accounting estimates is provided in note 2.

Adoption of new and revised standards

The Company has adopted the following standards with effect from 1 April 2018:

- IFRS 9 'Financial Instruments'
- IFRS 15 'Revenue from Contracts with Customers'.

Further information on the impacts of adopting these new standards is set out below.

1 Statement of accounting policies (continued)

Adoption of new and revised standards (continued)

IFRS 9 'Financial Instruments'

The Company has adopted the requirements of IFRS 9 from 1 April 2018. IAS 39 accounting policies that applied prior to 1 April 2018 are included in note 18. The classification and measurement and impairment requirements have been applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no restatement of comparatives. However, to support the understanding of the current year IFRS 9 disclosures, certain comparative balances are shown as at 1 April 2018. These 1 April 2018 comparatives include financial asset balance sheet carrying values that have changed as a result of adopting IFRS 9, and the stage distribution of gross lending and expected credit loss (ECL) provisions. The following table summarises the adjustments to the Company's balance sheet at 1 April 2018:

	As at 31 March 2018	Classification	Measurement	Impairment	As at 1 April 2018
	£'000	£'000	£'000	£'000	£'000
Assets					
Loans and advances to customers (note i)	2,017,456	-	1,200	(50,578)	1,968,078
Deferred tax (note ii)	21	-	(209)	8,801	8,613
Assets not impacted	6,733	-	-	-	6,733
Total assets	2,024,210	-	991	(41,777)	1,983,424
Liabilities					
Liabilities not impacted	1,465,874	-	-	-	1,465,874
Total liabilities	1,465,874	-	-	-	1,465,874
Equity					
Retained earnings	513,236	-	991	(41,777)	472,450
Equity not impacted	45,100	-	-	-	45,100
Total equity	558,336	-	991	(41,777)	517,550
Total equity and liabilities	2,024,210	-	991	(41,777)	1,983,424

Notes:

i. The reduction of the loans and advances to customers due to impairment is the difference between IFRS 9 expected credit loss (ECL) impairment and the IAS 39 incurred loss provisions.

ii. The valuation of the deferred tax assets recognised on adoption of IFRS 9 reflects legislation that the tax effect of the impact on adoption of IFRS 9 should be realised over the ten years following adoption. Deferred tax is determined using tax rates and laws that are expected to apply in the period when the deferred tax asset is realised based on rates enacted or substantively enacted at the balance sheet date.

The table below reconciles the opening IFRS 9 ECL provision to the increase in provision on the adoption of IFRS 9 on 1 April 2018:

Reconciliation of impairment provisions within staging bands

	12 month ECL Stage 1	Lifetime ECL – non-credit impaired Stage 2	Lifetime ECL – credit impaired Stage 3	Total ECL	Less IAS 39 provisions	Increase in provision on adoption of IFRS 9
	£'000	£'000	£'000	£'000	£'000	£'000
Prime residential mortgages	2	21	21	44	-	44
Specialist residential mortgages	1,749	63,104	21,266	86,119	(35,585)	50,534
Total	1,751	63,125	21,287	86,163	(35,585)	50,578

1 Statement of accounting policies (continued)

Adoption of new and revised standards (continued)

IFRS 15 'Revenue from Contracts with Customers'

The Company has applied IFRS 15 'Revenue from Contracts with Customers' from 1 April 2018. The standard applies to all contracts with customers but does not apply to financial instruments, lease contracts or non-monetary exchanges. IFRS 15 has introduced a principles-based approach for revenue recognition, with revenue being recognised as the related obligations are satisfied.

The Company has assessed revenue streams within the scope of IFRS 15 and concluded that the timing of revenue recognition is unchanged under the new standard. There is therefore no transitional impact from adopting this standard.

a) Interest receivable and interest expense

For instruments measured at amortised cost, the effective interest rate (EIR) method is used to measure the carrying value of a financial asset or liability and to allocate associated interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

In calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument (for example, early redemption penalty charges) and anticipated customer behaviour but does not consider future credit losses. The calculation includes all fees received and paid and costs borne that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts above or below market rates.

Interest income is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets. For credit impaired financial assets the interest income is calculated by applying the EIR to the amortised cost of the credit-impaired financial assets (i.e. net of the allowance for expected credit losses (ECLs)). Where loans are credit impaired on origination, or when purchased from third parties, the carrying amount at initial recognition is net of the lifetime ECL at that date. For these assets the EIR reflects the ECLs in determining the future cash flows expected to be received from the financial asset.

b) Fees and commissions

Fees and commission income and expense includes fees other than those that are an integral part of EIR. Fees and commissions relating to mortgages are either:

- transaction-based and therefore recognised when the performance obligation related to the transaction is fulfilled, or
- related to the provision of services over a period of time and therefore recognised on a systematic basis over the life of the agreement as services are provided.

c) Segmental reporting

The Company has one reportable segment. No segmental analysis is required on geographical lines as substantially all the Company's business activities are in the United Kingdom.

1 Statement of accounting policies (continued)

d) Taxation including deferred tax

Current tax payable on profits is recognised as an expense in the period in which profits arise.

Deferred tax is provided in full, 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.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and where the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle on a net basis.

e) Provisions

A provision is recognised where there is a present obligation as a result of a past event, it is probable that the obligation will be settled and it can be reliably estimated. This includes management's best estimate of amounts payable for customer redress.

f) Financial assets

Financial assets comprise cash and loans and advances to customers.

Recognition and derecognition

All financial assets are recognised initially at fair value. Purchases and sales of financial assets are accounted for at trade date. Financial assets acquired through a business combination or portfolio acquisition are recognised at fair value at the acquisition date. Financial assets are derecognised when the rights to receive cash flows have expired or where the assets have been transferred and substantially all the risks and rewards of ownership have been transferred.

The fair value of a financial instrument on initial recognition is normally the transaction price (plus directly attributable transaction costs for financial assets which are not subsequently measured at fair value through profit or loss). On initial recognition, it is presumed that the transaction price is the fair value unless there is observable information available in an active market to the contrary. Any difference between the fair value at initial recognition and the transaction price is recognised immediately as a gain or loss in the income statement where the fair value is based on a quoted price in an active market or a valuation using only observable market data. In all other cases, any gain or loss is deferred and recognised over the life of the transaction, or until valuation inputs become observable.

1 Statement of accounting policies (continued)

f) Financial assets (continued)

Modification of contractual terms

An instrument that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms. Residential mortgages reaching the end of a fixed interest deal period are deemed repricing events, rather than a modification of contractual terms, as the change in interest rate at the end of the fixed rate period was envisaged in the original mortgage contract.

Where an instrument is renegotiated and not derecognised (for example forbearance), the change is considered a modification of contractual terms. Where this arises, the gross carrying amount of the loan is recalculated as the present value of the renegotiated or modified contractual cash flows, discounted at the loan's original effective interest rate. Any gain or loss on recalculation is recognised immediately in the income statement.

Classification and measurement

The classification and subsequent measurement of financial assets is based on an assessment of the Company's business models for managing the assets and their contractual cash flow characteristics. All of the Company's financial assets are held at amortised cost.

Amortised cost

Financial assets held to collect contractual cash flows and where contractual terms comprise solely payments of principal and interest (SPPI) are classified as amortised cost. This category of financial assets includes cash and residential mortgage loans.

Financial assets within this category are recognised on either the receipt of cash or deposit of funds into one of the Company's bank accounts (for cash), or when the funds are advanced to borrowers (for residential mortgage loans). After initial recognition, the assets are measured at amortised cost using the effective interest rate method, less provisions for expected credit losses.

g) Impairment of financial assets

Financial assets within the scope of IFRS 9 expected credit loss (ECL) requirements comprise all financial debt instruments measured at amortised cost. These include cash and loans and advances to customers. Also within scope are irrevocable undrawn commitments to lend.

The ECL represents the present value of expected cash shortfalls following the default of a financial instrument or undrawn commitment. A cash shortfall is the difference between the cash flows that are due in accordance with the contractual terms of the instrument and the cash flows that the Company expects to receive.

The allowance for ECLs is based on an assessment of the probability of default, exposure at default and loss given default, discounted at the effective interest rate to give a net present value. The estimation of ECLs is unbiased and probability weighted, taking into account all reasonable and supportable information, including forward looking economic assumptions and a range of possible outcomes. ECLs are typically calculated from initial recognition of the financial asset for the maximum contractual period that the Company is exposed to the credit risk.

1 Statement of accounting policies (continued)

g) Impairment of financial assets (continued)

For financial assets recognised in the balance sheet at amortised cost, the allowance for ECLs is offset against the gross carrying value so that the amount presented in the balance sheet is net of impairment provisions. For separately identifiable irrevocable loan commitments, where the related financial asset has not yet been advanced, the provision is presented in provisions for liabilities and charges in the balance sheet.

Forward looking economic inputs

ECLs are calculated by reference to information on past events, current conditions and forecasts of future economic conditions. Multiple economic scenarios are incorporated into ECL calculation models. These scenarios are based on external sources where available and appropriate, and internally generated assumptions in all other cases. To capture any non-linear relationship between economic assumptions and credit losses, a minimum of three scenarios is used. This includes a central scenario which reflects the Company's view of the most likely future economic conditions, together with an upside and a downside scenario representing alternative plausible views of economic conditions, weighted based on management's view of their probability.

Credit risk categorisation

For the purpose of calculating ECLs, assets are categorised into three 'stages' as follows:

Stage 1: no significant increase in credit risk since initial recognition

On initial recognition, and for financial assets where there has not been a significant increase in credit risk since the date of advance, provision is made for losses from credit default events expected to occur within the next 12 months. Expected credit losses for these stage 1 assets continue to be recognised on this basis unless there is a significant increase in the credit risk of the asset.

Stage 2: significant increase in credit risk

Financial assets are categorised as being within stage 2 where an instrument has experienced a significant increase in credit risk since initial recognition. For these assets, provision is made for losses from credit default events expected to occur over the lifetime of the instrument.

Whether a significant increase in credit risk has occurred is ascertained by comparing the probability of default at the reporting date to the probability of default at origination, and is made based on quantitative and qualitative factors. Quantitative considerations take into account changes in the residual lifetime probability of default (PD) of the asset. As a backstop, all assets with an arrears status of more than 30 days past due on contractual payments are considered to be in stage 2.

Qualitative factors that may indicate a significant change in credit risk include concession events where full repayment of principal and interest is envisaged, on a discounted basis. Further information about the identification of significant increases in credit risk is provided in note 7.

1 Statement of accounting policies (continued)

g) Impairment of financial assets (continued)

Credit risk categorisation (continued)

Stage 3: credit impaired (or defaulted) loans

Financial assets are transferred into stage 3 when there is objective evidence that an instrument is credit impaired. Provisions for stage 3 assets are made on the basis of credit default events expected to occur over the lifetime of the instrument. Assets are considered credit impaired when:

- contractual payments of either principal or interest are past due by more than 90 days;
- there are other indications that the borrower is unlikely to pay such as signs of financial difficulty, probable bankruptcy, breaches of contract and concession events which have a detrimental impact on the present value of future cashflows; or
- the loan is otherwise considered to be in default.

Interest income on stage 3 credit impaired loans is recognised in the income statement on the loan balance net of the ECL provision. The balance sheet value of stage 3 loans reflects the contractual terms of the assets, and continues to increase over time with the contractually accrued interest.

Transfers between stages

Transfers from stage 1 to 2 occur when there has been a significant increase in credit risk and from stage 2 to 3 when credit impairment is indicated as described above.

For assets in stage 2 or 3, loans can transfer back to stage 1 or 2 once the criteria for a significant increase in credit risk or impairment are no longer met. For loans subject to concession events such as forbearance, accounts are transferred back to stage 1 or 2 only after being up to date for a period of 12 months.

Write-off

Loans remain on the balance sheet net of associated provisions until they are deemed to have no reasonable expectations of recovery. Loans are generally written off after realisation of any proceeds from collateral and upon conclusion of the collections process, including consideration of whether an account has reached a point where continuing attempts to recover are no longer likely to be successful. Where a loan is not recoverable, it is written off against the related provision for loan impairment once all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the value of impairment losses recorded in the income statement.

h) Financial liabilities

Borrowings are recognised initially at fair value, being the issue proceeds net of premiums, discounts and transaction costs incurred.

All borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is adjusted for the amortisation of any premiums, discounts and transaction costs. The amortisation is recognised in interest expense and similar charges using the effective interest rate method.

Financial liabilities are derecognised when the obligation is discharged, cancelled or has expired.

1 Statement of accounting policies (continued)

i) Fair value of financial assets and liabilities

IFRS 13 'Fair Value Measurement' requires an entity to classify assets and liabilities held at fair value and those not measured at fair value but for which the fair value is disclosed according to a hierarchy that reflects the significance of observable market inputs in calculating those fair values. The three levels of the fair value hierarchy are defined below:

Level 1 – Valuation using quoted market prices

Assets and liabilities are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available and the price reflects actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

Level 2 – Valuation technique using observable inputs

Assets and liabilities classified as Level 2 have been valued using models whose inputs are observable in an active market.

Level 3 – Valuation technique using significant unobservable inputs

Assets and liabilities are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data ('unobservable inputs'). A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price. An input is deemed significant if it is shown to contribute more than 10% to the valuation of a financial instrument. Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

j) Share capital and dividends

Ordinary shares, net of directly attributable issue costs, are classified as equity.

Dividends paid on ordinary shares are recognised in equity in the period in which they are paid or, if earlier, approved by the directors.

2 Judgements in applying accounting policies and critical accounting estimates

The preparation of the Company's financial statements involves management making judgements and estimates when applying those accounting policies that affect the reported amounts of assets, liabilities, income and expense. Actual results may differ from those on which management's estimates are based. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. The most significant sources of estimation uncertainty made by management in applying the Company's accounting policies, which are deemed critical to the Company's results and financial position, are disclosed in note 7. These accounting estimates include areas of significant judgement.

3 Interest receivable and similar income

Interest receivable and similar income of £101,402 thousand (2018: £118,258 thousand) relates to interest receivable on residential mortgages held at amortised cost and is calculated using the effective interest rate method.

4 Interest expense and similar charges

	2019 £'000	2018 £'000
On loans from parent undertaking	**25,962**	28,230
On corporation tax underpaid	**-**	635
Total	**25,962**	28,865

5 Fees and commission income

	2019 £'000	2018 £'000
Mortgage related fees	**239**	276
General insurance fees	**1**	1
Total	**240**	277

6 Administrative expenses

	2019 £'000	2018 (note i) £'000
Recharge from parent undertaking	**1,105**	1,138
Other administrative expenses	**124**	144
Total	**1,229**	1,282

Note:
i. Comparatives have bene restated to disclose information the same basis as the current year.

Auditors' remuneration, relating solely to the statutory audit of these financial statements was £48 thousand (2018: £47 thousand) and borne by the parent undertaking.

The Company has no employees (2018: nil). Administration of the Company's loans are carried out by staff who are employed by Nationwide Building Society.

The Directors' contracts of service are with Nationwide Building Society and their remuneration is included within the Group's financial statements.

No remuneration or pension scheme benefits were paid or are payable by the Company to the directors. The directors provide services to the Group as a whole, and their principal activities are not specific to the business of this Company. It is not possible to make an accurate apportionment of their emoluments to the Company. Hence, no directors' emoluments are disclosed in the financial statements of the Company.

Related party transactions may be entered into with directors in the normal course of business through the issuance of mortgage loans. Transactions with related parties are made on the same terms and conditions applicable to other employees within the Group. There were no loans to related parties secured on properties as at 31 March 2019 (2018: £nil).

7 Impairment losses and provisions on loans and advances to customers

The following tables set out impairment losses and reversals during the year and the closing provision balances which are deducted from the relevant asset values in the balance sheet:

Impairment (reversals)/losses for the year	Year ended 31 March 2019 £'000	Year ended 31 March 2018 (note i) £'000
Prime residential mortgages	16	-
Specialist residential mortgages	(15,081)	4,344
Total	(15,065)	4,344

Impairment provision at the end of the year	31 March 2019 £'000	1 April 2018 (note i) £'000	31 March 2018 (note i) £'000
Prime residential mortgages	60	44	-
Specialist residential mortgages	64,274	86,119	35,585
Total	64,334	86,163	35,585

Note:
i. 1 April 2018 balances are presented under IFRS 9. Comparatives for the year ended and as at 31 March 2018 are prepared under IAS 39.

Critical accounting estimates and judgements

Impairment is measured as the impact of credit risk on the present value of management's estimate of future cash flows. In determining the required level of impairment provisions, the Company uses outputs from statistical models, incorporating a number of estimates and judgements to determine the Probability of Default (PD), the Exposure at Default, and the Loss Given Default for each loan. The most significant areas of estimation uncertainty are:

- the use of forward-looking information
- the performance of interest only mortgages at maturity.

The most significant area of judgement is:

- the approach to identifying significant increases in credit risk and impairment.

The Company's approach to each of these estimates and judgements is described in more detail below.

Use of forward-looking economic information

Forward-looking economic information is incorporated into the measurement of provisions in two ways: as an input to the calculation of ECL and as a factor in determining the staging of an asset. Management exercises judgement in estimating future economic conditions which are incorporated through modelling of multiple economic scenarios (MES).

7 Impairment losses and provisions on loans and advances to customers (continued)

Critical accounting estimates and judgements (continued)

The use of MES ensures that the calculation of ECL captures a range of possible outcomes. It addresses the risk of non-linearity in the relationship between credit losses and economic conditions, with provisions increasing more in unfavourable conditions (particularly severe conditions) than they reduce in favourable conditions. The IFRS 9 ECL provision recognised is therefore the probability-weighted sum of the provisions calculated under a range of economic scenarios. The Company has adopted the use of three main economic scenarios (referred to as the central, upside and downside scenarios). The scenarios and the weightings are derived using external data and statistical methodologies, together with management judgement, to determine scenarios which span an appropriately wide range of plausible economic conditions.

The central scenario represents the most likely economic forecast and is aligned with the central scenario used in the Group's financial planning processes. This scenario reflects moderate economic growth and low house price inflation over the projection period of 2019-23, after which the economic variables are assumed to revert gradually to long run average rates by 2028. At 1 April 2018 and 31 March 2019 this scenario is assigned a 50% probability weighting. The upside and downside economic scenarios are judged less likely and have been given 20% and 30% weightings respectively at 31 March 2019 (1 April 2018: 30% and 20% respectively). The downside scenario reflects a period of recession in 2019 and 2020, accompanied by a fall in house prices during this period, followed by gradual recovery in subsequent years and reversion to a lower long-term growth rate by 2028. The upside scenario reflects stable economic growth over the projection period, accompanied by house price inflation in excess of 4% per year, and reversion to higher long-term growth rates by 2028.

In addition to the three economic scenarios described above, additional provision has been made to reflect the risks associated with a low probability, severe downside scenario. In management's judgement, this additional provision is required to fully reflect the non-linearity in the relationship between expected losses and economic conditions. The adjustment is calculated as the difference between a 10% probability for this scenario, and a reduction of 10% in the downside scenario; this probability has increased from 5% at 1 April 2018 due to increased economic uncertainty. At 31 March 2019, this additional provision represents £17,791 thousand (1 April 2018: £28,521 thousand) of the total £24,976 thousand (1 April 2018: £31,683 thousand) MES impact. In this severe downside scenario, real GDP growth over a five year period is slightly negative. In the first two years unemployment rises sharply by 4.8%, and house prices fall by 33% from peak to trough, before gradual recovery from year 3 onwards. Due to the way in which the additional provision has been calculated, the results of this scenario have not been used in determining the reported stage allocation of loans, although in this scenario an increased proportion of loans are assumed to migrate to stage 2 and stage 3 over the projection period.

The table below provides a summary of the simple average values of the key UK economic variables used within the economic scenarios, including the severe downside scenario over the period from April 2019 to March 2024:

Economic variables (average %)	Central scenario	Upside scenario	Downside scenario	Severe downside scenario (used for additional provision)
GDP growth	1.8	2.3	1.0	(0.1)
Unemployment	4.3	3.8	5.5	8.3
HPI	2.4	5.0	(2.4)	(5.2)
BoE base rate	1.1	2.2	0.1	3.5

7 **Impairment losses and provisions on loans and advances to customers (continued)**

Critical accounting estimates and judgements (continued)

To give an indication of the sensitivity of ECLs to different economic scenarios, the table below shows the ECL if 100% weighting is applied to the upside, central and downside scenarios.

31 March 2019	Upside scenario ECL £'000	Central scenario ECL £'000	Downside scenario ECL £'000
Residential mortgages	31,387	39,358	68,928
1 April 2018	£'000	£'000	£'000
Residential mortgages	47,143	44,357	75,943

The ECL for each scenario multiplied by the scenario probability will not reconcile to the final probability weighted ECL, since the stage allocation of loans varies in each scenario. In the probability weighted ECL, each loan is allocated to a discrete stage based on the weighted average PD under the economic scenarios. The impact of the severe downside scenario on impairment provisions is explained above.

For prime and specialist residential mortgages, the estimate of future house price index (HPI) movements is a key assumption in estimating the eventual loss. The table below shows the sensitivity of provisions, in the central scenario only, to a decrease/increase in Loss Given Default as a result of an immediate decrease/increase in house prices, with no change to subsequent house price inflation or to other assumptions:

Residential mortgages – impact of change in HPI

31 March 2019	Increase/(decrease) in provision £'000
10% decrease in HPI	5,926
10% increase in HPI	(4,986)

Performance of interest only mortgages at maturity

An additional key area of management estimation is the allowance for the risk that a proportion of interest only mortgages will not be redeemed at their contractual maturity date, because a borrower does not have a means of capital repayment or has been unable to refinance the loan. Buy to let mortgages are typically advanced on an interest only basis. The impact of the allowance for unredeemed interest only mortgages at contractual maturity in the central scenario amounts to £17,211 thousand (1 April 2018: £16,570 thousand), and has also been calculated for the other modelled scenarios, with an additional impact of £5,616 thousand (1 April 2018: £117 thousand) included in the impact of forward looking economic information above. Interest only loans which are judged to have a significantly increased risk of inability to refinance at maturity are transferred to stage 2.

7 Impairment losses and provisions on loans and advances to customers (continued)

Critical accounting estimates and judgements (continued)

Identifying significant increases in credit risk (stage 2)

Loans are allocated to stage 1 or stage 2 according to whether there has been a significant increase in credit risk. The Company has used judgement to select both quantitative and qualitative criteria which are used to determine whether a significant increase in credit risk has taken place. The primary quantitative indicators are the outputs of internal credit risk assessments. While different approaches are used within each portfolio, the intention is to combine current and historical data relating to the exposure with forward-looking macroeconomic information to determine the probability of default (PD) at each reporting date. For retail loans, the main indicators of a significant increase in credit risk are either of the following:

- the residual lifetime PD exceeds a benchmark determined by reference to the maximum credit risk that would have been accepted at origination;
- the residual lifetime PD has increased by at least 75bps and a 4x multiple of the original lifetime PD (1 April 2018: 8x). During the year the multiple has been reduced from 8x to 4x, following a review of staging criteria effectiveness. The impact on ECL of this change was immaterial.

These complementary criteria have been reviewed through detailed back-testing, using management performance indicators and actual default experience, and found to be effective in capturing events which would constitute a significant increase in credit risk. The sensitivity of ECLs to stage allocation is such that a transfer of 1% of current stage 1 balances from stage 1 to stage 2 would increase provisions by £495 thousand.

Identifying credit impaired loans (stage 3)

The identification of credit impaired loans is an important judgement within the IFRS 9 staging approach. A loan is credit impaired where it has an arrears status of more than 90 days past due, is considered to be in default or it is considered unlikely that the borrower will repay the outstanding balance in full, without recourse to actions such as realising security.

8 Provisions for liabilities and charges

2019	**Customer redress £'000**
At 1 April	695
Provisions utilised	**(434)**
At 31 March	**261**

2018	Customer redress £'000
At 1 April	3,175
Provision utilised	(3,664)
Charge for the year	1,184
At 31 March	695

Customer redress

Amounts that are provided are an estimate of the potential cost of remediation and are subject to ongoing review of various matters. For these matters, the ultimate amount of redress that will be payable will depend upon a number of internal and external factors. These include the time period to which any redress should apply and an estimate of the amount of redress and associated costs that will be payable.

9 Taxation

Tax charge in the statement of comprehensive income	**2019 £'000**	2018 £'000
Current tax:		
UK corporation tax charge	**16,066**	15,738
Adjustments in respect of prior years	**-**	7,742
Total current tax	**16,066**	23,480
Deferred tax:		
Current year	**942**	5
Total deferred taxation	**942**	5
Tax charge	**17,008**	23,485

The actual tax charge equates to (2018: differs from) the theoretical amount that would arise using the standard rate of corporation tax in the UK as follows:

Reconciliation of tax charge	**2019 £'000**	2018 £'000
Profit before tax	**89,516**	82,860
Tax calculated at a rate of 19%	**17,008**	15,743
Adjustments in respect of prior years	**-**	7,742
Tax charge	**17,008**	23,485

9 Taxation (continued)

Deferred taxation

Deferred tax is determined using tax rates and laws that are expected to apply in the period when the deferred tax asset is realised or deferred tax liability is settled based on rates enacted or substantively enacted at the balance sheet date.

The Finance (No. 2) Act 2015 reduced the corporation tax rate from 20% to 19% with effect from 1 April 2017. The Finance Act 2016 was enacted on 15 September 2016, and reduces the corporation tax rate from 19% to 17% from 1 April 2020.

The movements on the deferred tax account, including the deferred tax charge in the statement of comprehensive income are as follows:

Movements in deferred taxation	**2019**	2018
	£'000	£'000
At 31 March 2018	21	
IFRS 9 transition (note i)	8,592	
At 1 April	8,613	26
Deferred tax charge in the statement of comprehensive income:		
Transitional adjustments on adoption of IFRS 9	(938)	-
Accelerated capital allowances	(4)	(5)
At 31 March	7,671	21

Note:
i. Adjusted on implementation of IFRS 9 as detailed in note 1.

Deferred tax assets are attributable to the following items:

Deferred tax assets	**2019**	2018
	£'000	£'000
Transitional adjustments on adoption of IFRS 9	**7,654**	-
Accelerated capital allowances	**17**	21
Total	7,671	21

The majority of deferred tax assets are anticipated to be recoverable in more than one year. The Company considers that there will be sufficient future trading profits in excess of profits arising from the reversal of existing taxable temporary differences to utilise the deferred tax assets.

10 Dividends

No dividends were proposed, approved or paid during the year (2018: £nil).

11 Loans and advances to customers

Residential mortgages comprise both specialist and prime loans. Specialist lending consists principally of buy to let mortgages, together with legacy portfolios.

31 March 2019	Gross balances £'000	Provisions £'000	Total £'000
Prime residential mortgages	2,280	(60)	2,220
Specialist residential mortgages	1,738,332	(64,274)	1,674,058
Total	**1,740,612**	**(64,334)**	**1,676,278**

1 April 2018 (note i)	Gross balances £'000	Provisions £'000	Total £'000
Prime residential mortgages	2,903	(44)	2,859
Specialist residential mortgages	2,051,338	(86,119)	1,965,219
Total	2,054,241	(86,163)	1,968,078

31 March 2018	Gross balances £'000	Provisions £'000	Total £'000
Prime residential mortgages	2,903	-	2,903
Specialist residential mortgages	2,050,138	(35,585)	2,014,553
Total	2,053,041	(35,585)	2,017,456

Note:
i. 1 April 2018 balances are presented under IFRS 9. Adjustments made on transition to IFRS 9 are detailed in note 1.

11 Loans and advances to customers (continued)

Reconciliation of movements in gross balances and impairment provisions	Non-credit impaired				Credit impaired			
	Subject to 12 month ECL		Subject to lifetime ECL		Subject to lifetime ECL		Total	
	Stage 1		Stage 2		Stage 3			
	Gross balances £'000	Provisions £'000	Gross balances £'000	Provisions £'000	Gross balances £'000	Provisions £'000	Gross balances £'000	Provisions £'000
At 1 April 2018	968,603	1,751	913,864	63,125	171,774	21,287	2,054,241	86,163
Stage transfers:								
Transfers from Stage 1 to Stage 2	(356,369)	(1,088)	356,369	1,088	-	-	-	-
Transfers to Stage 3	(7,144)	(25)	(116,173)	(11,481)	123,317	11,506	-	-
Transfers from Stage 2 to Stage 1	416,093	18,932	(416,093)	(18,932)	-	-	-	-
Transfer from Stage 3	4,763	63	78,143	4,542	(82,906)	(4,605)	-	-
Net remeasurement of ECL arising from transfer of stage		(17,110)		18,915		(3,940)	-	(2,135)
Net movement arising from transfer of stage (note i)	57,343	772	(97,754)	(5,868)	40,411	2,961	-	(2,135)
New assets originated or purchased (note ii)	-		-	-	-	-	-	-
Repayments and changes in risk parameters (note iii)	(32,588)	1,506	(6,208)	(6,931)	(4,819)	522	(43,615)	(4,903)
Other items impacting comprehensive income charge/(reversal) including recoveries	(133)	-	-	-	-	(2,225)	(133)	(2,225)
Redemptions (note iv)	(118,042)	(196)	(111,908)	(5,606)	(29,710)	-	(259,660)	(5,802)
Comprehensive income charge for the year								(15,065)
Decrease due to write-offs	-	-	-	-	(10,221)	(8,989)	(10,221)	(8,989)
Other provision movements	-	-	-	-	-	2,225	-	2,225
At 31 March 2019	**875,183**	**3,833**	**697,994**	**44,720**	**167,435**	**15,781**	**1,740,612**	**64,334**
Net carrying amount		**871,350**		**653,274**		**151,654**		**1,676,278**

Notes:

i. The remeasurement of provisions arising from a change in stage is reported within the stage to which the assets are transferred.

ii. If a new asset is generated in the month, the value included is the closing gross balance and provision for the month. All new business written is included in Stage 1.

iii. This line comprises capital repayments where the asset is not derecognised, changes in risk parameters, and changes to modelling inputs and methodology. The repayment value for gross balances is calculated as the closing gross balance for the month less the opening gross balance for the month. The repayment value for provisions is calculated as the change in exposure at default (EAD) multiplied by opening provision coverage for the month. The provision movement for the change in risk parameters is calculated for assets that do not move stage in the month.

iv. For any asset that is derecognised in the month, the value disclosed is the provision at the start of that month.

ECL models are subject to ongoing review to ensure they continue to reflect actual experience as it evolves. Consequential model updates during the year reduced PDs, resulting in a shift in loans from stage 2 to stage 1. This movement was partly offset by a decision to change one of our staging criteria from a multiple of 8 times origination PD to a multiple of 4, thus making the models more sensitive to relative PD changes over time.

In addition, we have changed assumptions for income growth on buy to let loans (BTL) to be correlated to wage growth, rather than CPI, to align more closely with other aspects of our risk assessment on these loans. This change also reduced the number of stage 2 loans.

The reduction in gross balances is principally a result of repayments and redemptions; this, combined with write-offs, decreased impairment provisions by £21,829 thousand to £64,334 thousand.

11 Loans and advances to customers (continued)

Maturity analysis

The following table shows the residual maturity of loans and advances to customers, based on their contractual maturity:

	31 March 2019 £'000	1 April 2018 (note i) £'000	31 March 2018 £'000
Repayable:			
In not more than three months	**54,924**	56,458	56,425
In more than three months but not more than one year	**24,029**	31,488	31,470
In more than one year but not more than five years	**244,235**	255,817	255,668
In more than five years	**1,417,424**	1,710,478	1,709,478
	1,740,612	2,054,241	2,053,041
Impairment provision (note 7)	**(64,334)**	(86,163)	(35,585)
Total	**1,676,278**	1,968,078	2,017,456

Note:
i. 1 April 2018 balances are presented under IFRS 9. Adjustments made on transition to IFRS 9 are detailed in note 1.

The maturity analysis is produced on the basis that where a loan is repayable by instalments, each such instalment is treated as a separate repayment. The analysis is based on contractual maturity rather than actual redemption levels experienced, which are likely to be materially different. Arrears are spread across the remaining term of the loan.

12 Amounts owed to parent undertaking

Amounts owed to parent undertaking are repayable from the date of the balance sheet in the ordinary course of business as follows:

	2019 £'000	2018 £'000
In not more than three months	**224,939**	215,112
In more than three months but not more than one year	**344,397**	654,367
In more than one year but not more than five years	**514,339**	581,889
Total	**1,083,675**	1,451,368

All intercompany transactions are entered into under normal market conditions. Funds borrowed from the parent undertaking are initially repayable five years after the date of advance, but may be extended for 12 month periods if not repaid. Interest is payable on the amounts owed based on an intercompany funds transfer pricing rate which is reset annually. All intercompany loans are unsecured.

13 Share Capital

	2019 £'000	2018 £'000
Authorised:		
100,000,000 (2018: 100,000,000) ordinary shares of £1 each	**100,000**	100,000
Issued and fully paid:		
45,100,000 (2018: 45,100,000) ordinary shares of £1 each	**45,100**	45,100

The Company has one class of ordinary shares which carry no right to fixed income.

14 Risk management

With the exception of the residential mortgage lending summary, the information within this note is presented at a total residential mortgage level.

Credit risk

Credit risk is the risk of loss as a result of a customer or counterparty failing to meet their financial obligations. Credit risk encompasses borrower/counterparty risk, security/collateral risk, concentration risk and refinance risk.

Management of credit risk

Details of the Group's approach to credit risk management are included in the Business and Risk Report of the Group's Annual Report and Accounts.

Maximum exposure to credit risk

Credit risk largely arises from the Company's exposure to loans and advances to customers.

In addition to loans and advances to customers, the Company is exposed to credit risk on other financial assets. For all financial assets recognised on the balance sheet, the maximum exposure to credit risk represents the balance sheet carrying value after allowance for impairment plus off-balance sheet commitments.

Maximum exposure to credit risk 31 March 2019	**Gross balance**	**Less: Impairment provisions**	**Carrying value**	**Commitments**	**Maximum credit risk exposure**	**% of total credit risk exposure**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**%**
Cash	**3,645**	**-**	**3,645**	**-**	**3,645**	**-**
Loans and advances to customers	**1,740,612**	**(64,334)**	**1,676,278**	**14,199**	**1,690,477**	**100**
Total	**1,744,257**	**(64,334)**	**1,679,923**	**14,199**	**1,694,122**	**100**

Maximum exposure to credit risk 1 April 2018 (note i)	Gross balance	Less: Impairment provisions	Carrying value	Commitments	Maximum credit risk exposure	% of total credit risk exposure
	£'000	£'000	£'000	£'000	£'000	%
Cash	6,733	-	6,733	-	6,733	-
Loans and advances to customers	2,054,241	(86,163)	1,968,078	16,961	1,985,039	100
Total	2,060,974	(86,163)	1,974,811	16,961	1,991,772	100

Maximum exposure to credit risk 31 March 2018	Gross balance	Less: Impairment provisions	Carrying value	Commitments	Maximum credit risk exposure	% of total credit risk exposure
	£'000	£'000	£'000	£'000	£'000	%
Cash	6,733	-	6,733	-	6,733	-
Loans and advances to customers	2,053,041	(35,585)	2,017,456	16,961	2,034,417	100
Total	2,059,774	(35,585)	2,024,189	16,961	2,041,150	100

Note:

i. Balances presented under IFRS 9 as detailed in note 1.

14 Risk management (continued)

Credit risk (continued)

Lending

The table below summarises the residential mortgage portfolios:

Residential mortgage gross balances	31 March 2019		1 April 2018 (note i)		31 March 2018	
	£'000	%	£'000	%	£'000	%
Prime	2,280	-	2,903	-	2,903	-
Specialist:						
Buy to let	1,034,129	59	1,226,962	60	1,226,244	60
Other (note ii)	704,203	41	824,376	40	823,894	40
	1,738,332	100	2,051,338	100	2,050,138	100
Total residential mortgages	1,740,612	100	2,054,241	100	2,053,041	100

Notes:
i. Balances presented under IFRS 9 as detailed in note 1.
ii. Other includes self-certified, near prime and sub prime lending that were discontinued in 2009.

Staging analysis

The following table shows residential mortgage lending balances carried at amortised cost, the stage allocation of the loans, impairment provisions and the resulting provision coverage ratios:

Residential mortgages staging analysis

31 March 2019	Stage 1	Stage 2 total	Stage 2 <30 DPD (note i)	Stage 2 >30 DPD (note i)	Stage 3	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Gross balance	875,183	697,994	648,626	49,368	167,435	1,740,612
Provisions	3,833	44,720	39,533	5,187	15,781	64,334
Provisions as a % of total balance	%	%	%	%	%	%
Total	0.44	6.41	6.09	10.51	9.43	3.70

Residential mortgages staging analysis

1 April 2018 (note ii)	Stage 1	Stage 2 total	Stage 2 <30 DPD (note i)	Stage 2 >30 DPD (note i)	Stage 3	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Gross balances	968,603	913,864	858,684	55,180	171,774	2,054,241
Provisions	1,751	63,125	57,818	5,307	21,287	86,163
Provisions as a % of total balance	%	%	%	%	%	%
Total	0.18	6.91	6.73	9.62	12.39	4.19

Notes:
i. Days past due (DPD), a measure of arrears status.
ii. 1 April 2018 balances are presented under IFRS 9 as detailed in note 1.

14 Risk management (continued)

Credit risk (continued)

Staging analysis (continued)

Stage 3 loans in the residential mortgage portfolio equate to 10% (1 April 2018: 10%) of the total residential mortgage exposure. Of the total £167,435 thousand (1 April 2018: £171,774 thousand) stage 3 loans, £109,873 thousand (1 April 2018: £125,032 thousand) is in respect of balances which are more than 90 days past due, with the remainder being impaired due to other indicators of unlikeness to pay such as distressed restructures or the bankruptcy of the borrower.

Reason for residential mortgages being included in stage 2
31 March 2019

	£'000	%
Quantitative criteria:		
Payment status (greater than 30 DPD) (note i)	**49,368**	**7**
Increase in PD since origination (less than 30 DPD)	**140,345**	**20**
Qualitative criteria:		
Forbearance (less than 30 DPD)	**1,931**	**-**
Interest only – significant risk of inability to refinance at maturity (less than 30 DPD)	**505,808**	**73**
Other qualitative criteria	**542**	**-**
Total stage 2 gross balances	**697,994**	**100**

Note:
i. This category includes all loans greater than 30 DPD, including those where the original reason for being classified as stage 2 was not arrears over 30 DPD.

Credit quality

The residential mortgages portfolio comprises many relatively small loans which are broadly homogenous, have low volatility of credit risk outcomes and are geographically diversified.

14 Risk management (continued)

Credit risk (continued)

Credit quality (continued)

The table below shows the loan balances and provisions for residential mortgages held at amortised cost, by PD range. The PD distributions shown are based on 12 month PD under IFRS 9 at the reporting date.

Loan balance and provisions by PD (residential mortgages)

31 March 2019	Gross balances				Provisions				Provision coverage
PD range	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000	%
0.00 to < 0.15%	375,064	132,390	760	508,214	1,478	4,039	11	5,528	1.09
0.15 to < 0.25%	218,185	89,456	113	307,754	974	3,427	2	4,403	1.43
0.25 to < 0.50%	159,212	96,783	220	256,215	712	4,525	5	5,242	2.05
0.50 to < 0.75%	38,301	41,210	-	79,511	192	3,022	-	3,214	4.04
0.75 to < 2.50%	68,395	114,569	426	183,390	388	12,140	15	12,543	6.84
2.50 to < 10.00%	16026	115,238	5,882	137,146	89	7,972	345	8,406	6.13
10.00 to < 100%	-	108,348	13,003	121,351	-	9,595	1,130	10,725	8.84
100% (default)	-	-	147,031	147,031	-	-	14,273	14,273	9.71
Total	875,183	697,994	167,435	1,740,612	3,833	44,720	15,781	64,334	3.70

Loan balance and provisions by PD (residential mortgages)

1 April 2018 (note i)	Gross balances				Provisions				Provision coverage
PD range	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000	%
0.00 to < 0.15%	405,427	197,243	790	603,460	613	7,738	18	8,369	1.39
0.15 to < 0.25%	257,117	134,626	668	392,411	519	6,122	13	6,654	1.70
0.25 to < 0.50%	176,507	95,441	986	272,934	294	4,527	22	4,843	1.77
0.50 to < 0.75%	54,891	38,986	69	93,946	111	2,968	2	3,081	3.28
0.75 to < 2.50%	74,661	128,660	229	203,550	214	12,850	31	13,095	6.43
2.50 to < 10.00%	-	175,537	2,017	177,554	-	14,967	156	15,123	8.52
10.00 to < 100%	-	143,371	8,294	151,665	-	13,953	391	14,344	9.46
100% (default)	-	-	158,721	158,721	-	-	20,654	20,654	13.01
Total	968,603	913,864	171,774	2,054,241	1,751	63,125	21,287	86,163	4.19

Note:
i. 1 April 2018 balances are presented under IFRS 9 as detailed in note 1.

Over the year, the PD distribution has remained stable, reflecting the high quality of the residential mortgage portfolios and benign economic conditions. At year end, 77% of the portfolio had a PD of less than 2.5% (1 April 2018: 77%).

14 Risk management (continued)

Credit risk (continued)

LTV and credit risk concentration

Loan to value (LTV) is calculated by weighting the borrower level LTV by the individual loan balance to arrive at an average LTV. This approach is considered to most appropriately reflect the exposure at risk.

The average LTV of loan stock is 63% (31 March 2018: 63%).

Geographical concentration by stage

The following table shows the residential mortgages by LTV and region across stages 1 and 2 (non-credit impaired) and stage 3 (credit impaired).

Residential mortgage gross balances by LTV and region 31 March 2019	Greater London £'000	Central England £'000	Northern England £'000	South East England £'000	South West England £'000	Scotland £'000	Wales & Northern Ireland £'000	Total £'000	%
Stage 1 and 2 loans									
Fully collateralised									
LTV ratio: Up to 50%	255,888	60,436	40,680	48,525	31,464	12,651	31,718	481,362	
50% to 60%	96,564	39,548	22,779	43,160	25,889	10,031	16,993	254,964	
60% to 70%	13,235	95,882	46,637	39,093	41,411	14,960	24,540	275,758	
70% to 80%	1,102	64,144	95,306	1,453	15,783	16,694	43,628	238,110	
80% to 90%	215	1,099	107,017	366	147	16,601	54,413	179,858	
90% to 100%	-	763	2,738	273	415	255	38,643	43,087	
	367,004	261,872	315,157	132,870	115,109	71,192	209,935	1,473,139	84
Not fully collateralised									
– Over 100% LTV	-	1,916	8,492	-	559	-	89,071	100,038	6
– Collateral value	-	*1,686*	*6,252*	-	*424*	-	*75,980*	*84,342*	
– Negative equity	-	*230*	*2,240*	-	*135*	-	*13,091*	*15,696*	
Total stage 1 and 2 loans	367,004	263,788	323,649	132,870	115,668	71,192	299,006	1,573,177	90
Stage 3 loans									
Fully collateralised									
LTV ratio: Up to 50%	26,016	5,584	3,527	4,093	1,895	1,551	2,526	45,192	
50% to 60%	13,903	2,778	2,420	2,727	2,250	811	2,025	26,914	
60% to 70%	4,773	5,401	3,829	4,656	3,992	1,164	1,777	25,592	
70% to 80%	638	7,219	7,418	1,293	2,230	1,879	3,501	24,178	
80% to 90%	269	705	13,175	-	-	1,895	4,862	20,906	
90% to 100%	-	469	3,371	-	-	1,263	4,029	9,132	
	45,599	22,156	33,740	12,769	10,367	8,563	18,720	151,914	9
Not fully collateralised									
– Over 100% LTV	-	393	1,307	-	-	92	13,729	15,521	1
– Collateral value	-	*301*	*1,092*	-	-	*68*	*11,506*	*12,967*	
– Negative equity	-	*92*	*215*	-	-	*24*	*2,223*	*2,554*	
Stage 3 loans	45,599	22,549	35,047	12,769	10,367	8,655	32,449	167,435	10
Total residential mortgages	412,603	286,337	358,696	145,639	126,035	79,847	331,455	1,740,612	100
Total geographical concentrations	24%	16%	21%	8%	7%	5%	19%	100%	

14 Risk management (continued)

Credit risk (continued)

Geographical concentration by stage (continued)

Residential mortgage balances by LTV and region 1 April 2018 (note i)	Greater London £'000	Central England £'000	Northern England £'000	South East England £'000	South West England £'000	Scotland £'000	Wales & Northern Ireland £'000	Total £'000	%
Stage 1 and 2 loans									
Fully collateralised									
LTV ratio: Up to 50%	327,869	70,719	45,054	62,387	36,999	13,760	33,658	590,446	
50% to 60%	108,046	44,454	27,208	55,958	33,227	8,912	20,387	298,192	
60% to 70%	9,730	98,598	46,557	43,279	52,390	17,782	25,946	294,282	
70% to 80%	1,314	106,557	96,308	1,048	22,939	17,839	46,098	292,103	
80% to 90%	-	1,179	146,498	-	147	23,476	59,880	231,180	
90% to 100%	-	637	5,920	273	415	2,752	40,289	50,286	
	446,959	322,144	367,545	162,945	146,117	84,521	226,258	1,756,489	86
Not fully collateralised									
– Over 100% LTV	-	2,561	10,365	-	560	-	112,492	125,978	6
– Collateral value	-	2,219	7,563	-	422	-	95,429	105,633	
– Negative equity	-	342	2,802	-	138	-	17,063	20,345	
Total stage 1 and 2 loans	446,959	324,705	377,910	162,945	146,677	84,521	338,750	1,882,467	92
Stage 3 loans									
Fully collateralised									
LTV ratio: Up to 50%	30,771	3,763	3,354	4,106	1,738	1,140	3,851	48,723	
50% to 60%	13,229	3,233	2,348	3,499	1,875	1,413	2,012	27,609	
60% to 70%	3,321	6,320	2,648	4,589	4,056	1,348	2,103	24,385	
70% to 80%	257	5,969	7,081	905	1,750	1,088	2,358	19,408	
80% to 90%	-	1,113	14,516	-	-	2,119	4,136	21,884	
90% to 100%	-	470	3,517	-	-	1,671	2,964	8,622	
	47,578	20,868	33,464	13,099	9,419	8,779	17,424	150,631	7
Not fully collateralised									
– Over 100% LTV	-	366	1,787	-	-	90	18,900	21,143	1
– Collateral value	-	282	1,646	-	-	66	15,133	17,127	
– Negative equity	-	84	141	-	-	24	3,767	4,016	
Stage 3 loans	47,578	21,234	35,251	13,099	9,419	8,869	36,324	171,774	8
Total residential mortgages	494,537	345,939	413,161	176,044	156,096	93,390	375,074	2,054,241	100
Total geographical concentrations	24%	17%	20%	9%	8%	5%	18%	100%	

Note:

i. The distribution of the portfolio by geography, and LTV ratios at 31 March 2018 is the same as that disclosed for 1 April 2018.

Over the year, the geographical distribution of residential mortgages across the UK has remained stable, with the highest concentration continuing to be in Greater London, at 24% of the total (1 April 2018: 24%).

14 Risk management (continued)

Credit risk (continued)

Arrears and possessions

Number of cases more than 3 months in arrears as % of total book

The arrears performance of the mortgage portfolio has remained relatively stable during the year and the number of cases more than 3 months in arrears as a % of the total book is 4.16% (2018: 3.90%).

Residential mortgage balances by payment status

The following table shows the payment status of residential mortgages:

Residential mortgages gross balances by payment status	31 March 2019 £'000	%	31 March 2018 £'000	%
Not past due	1,498,075	86.1	1,781,570	86.8
Past due up to 3 months	132,276	7.6	145,974	7.1
Past due 3 to 6 months	41,695	2.4	43,201	2.1
Past due 6 to 12 months	33,208	1.9	37,124	1.8
Past due over 12 months	28,608	1.6	36,982	1.8
Possessions	6,750	0.4	8,190	0.4
Total residential mortgages	1,740,612	100	2,053,041	100.0

The methodology for calculating mortgage arrears is based on the UK Finance definition of arrears, where months in arrears is determined by dividing the arrears balance outstanding by the latest contractual payment.

Possession numbers remain low, partly due to the strong performance of the portfolio and partly due to the current economic environment. This is consistent with the low arrears and impairment rates.

Interest only mortgages

Maturities on interest only mortgages are managed closely, engaging regularly with borrowers to ensure the loan is redeemed or to agree a strategy for repayment.

The majority of the portfolio was advanced on an interest only basis.

Interest only mortgages (gross balance– term to maturity	Term Expired (still open) £'000	Due within one year £'000	Due after one year and before two years £'000	Due after two years and before five years £'000	Due after more than five years £'000	Total £'000	% of total book %
31 March 2019	43,975	31,432	36,086	193,925	1,188,013	1,493,431	86
31 March 2018	40,706	45,615	35,494	207,320	1,426,125	1,755,260	85

Interest only loans that are 'term expired (still open)' are not considered to be past due where contractual interest payments continue to be met, pending renegotiation of the facility. However under IFRS 9 these are now treated as credit impaired and form part of the stage 3 balance from three months after the maturity date. Previously, term expired (still open) loans were not categorised as impaired unless in litigation or more than 3 months in arrears on the contractual interest payments.

14 Risk management (continued)

Credit risk (continued)

Forbearance

The Company is committed to supporting customers facing financial difficulty by working with them to find a solution through proactive arrears management and forbearance. Further details of the Group's forbearance activities can be found in the Business and Risk Report of the Group's Annual Report and Accounts.

The table below provides details of residential mortgages subject to forbearance, which are all assessed as in either stage 2 or stage 3:

Gross balances subject to forbearance (note i)	**31 March 2019 £'000**	1 April 2018 £'000
Past term interest only (note ii)	**49,153**	55,805
Interest only concessions	**18,795**	24,481
Capitalisation	**6,303**	6,757
Term extensions (within term)	**4,783**	6,154
Permanent interest only conversions (note iii)	**23,886**	14,858
Total forbearance	**102,920**	108,055
Impairment provision on forborne loans	**7,180**	6,953

Notes:

i. Where more than one concession event has occurred, balances are reported under the latest event.

ii. Includes interest only mortgages where a customer is unable to renegotiate the facility within six months of maturity and no legal enforcement is pursued. Should a concession event such as a term extension occur within the six-month period, this will also be classed as forbearance.

iii. The increase from 2018 represents loans which were part interest only and part capital repayment, where the capital repayment element has been repaid and the loan categorised as an interest only conversion.

Liquidity and funding risk

The Company has minimal liquidity and funding risk provided that the Company's parent, Nationwide Building Society, continues to fund the Company's activities in accordance with its current funding arrangements. Assurance as to the continuance of these arrangements forms part of the going concern basis adopted in preparing the financial statements.

The Group manages liquidity and funding risks within a comprehensive risk framework which includes its policy, strategy, limit setting and monitoring, stress testing and robust governance controls. This framework ensures that the Group maintains a stable and diverse funding base and sufficient holdings of high-quality liquid assets. This ensures that there is no significant risk that liabilities cannot be met as they fall due.

Further details of the Group's approach to liquidity and funding risk management are included in the Business and Risk Report of the Group's Annual Report and Accounts.

14 Risk management (continued)

Liquidity and funding risk (continued)

Residual maturity of financial assets and liabilities

The table below segments the carrying value of financial assets and financial liabilities into relevant maturity groupings based on the contractual maturity date (residual maturity).

Residual maturity	Due less than one month (note i)	Due between one and three months	Due between three and twelve months	Due between one and five years	Due after more than five years	Total
31 March 2019	£'000	£'000	£'000	£'000	£'000	£'000
Financial assets						
Cash	3,645	-	-	-	-	3,645
Loans and advances to customers	47,459	5,434	23,141	235,208	1,365,036	1,676,278
Total financial assets	51,104	5,434	23,141	235,208	1,365,036	1,679,923
Financial liabilities						
Amounts owed to parent undertaking	65,894	159,045	344,397	514,339	-	1,083,675
Total financial liabilities	65,894	159,045	344,397	514,339	-	1,083,675
Off balance sheet commitments (note ii)	14,199	-	-	-	-	14,199
Net liquidity difference	(28,989)	(153,611)	(321,256)	(279,131)	1,365,036	582,049

Residual maturity	Due less than one month (note i)	Due between one and three months	Due between three and twelve months	Due between one and five years	Due after more than five years	Total
31 March 2018	£'000	£'000	£'000	£'000	£'000	£'000
Financial assets						
Cash	6,733	-	-	-	-	6,733
Loans and advances to customers	47,226	8,220	30,925	251,237	1,679,848	2,017,456
Total financial assets	53,959	8,220	30,925	251,237	1,679,848	2,024,189
Financial liabilities						
Amounts owed to parent undertaking	78,331	136,781	654,367	581,889	-	1,451,368
Total financial liabilities	78,331	136,781	654,367	581,889	-	1,451,368
Off balance sheet commitments (note ii)	16,961	-	-	-	-	16,961
Net liquidity difference	(41,333)	(128,561)	(623,442)	(330,652)	1,679,848	555,860

Notes:

i. Due less than one month includes amounts repayable on demand.

ii. Off-balance sheet commitments include amounts payable on demand for customer overpayments on residential mortgages where the borrower is able to draw down the amount overpaid.

The balance sheet structure and risks are managed and monitored at a Group level by the Assets and Liabilities Committee (ALCO). The Group uses judgement and past behavioural performance of each asset and liability class to forecast likely cash flow requirements.

14 Risk management (continued)

Gross undiscounted contractual cash flows of financial liabilities

The tables below provide an analysis of gross contractual cash flows. The totals differ from the analysis of residual maturity as they include estimated future interest payments, calculated using balances outstanding at the balance sheet date, contractual maturities and appropriate forward looking interest rates.

Amounts are allocated to the relevant maturity band based on the timing of individual contractual cash flows.

Gross contractual cash flows 31 March 2019	Due less than one month (note i) £'000	Due between one and three months £'000	Due between three and twelve months £'000	Due between one and five years £'000	Total £'000
Amounts owed to parent undertaking	69,101	162,381	355,023	536,554	1,123,060
Gross contractual cash flows	69,101	162,381	355,023	536,554	1,123,060
Off balance sheet commitments (note ii)	14,199	-	-	-	14,199

Gross contractual cash flows 31 March 2018	Due less than one month (note i) £'000	Due between one and three months £'000	Due between three and twelve months £'000	Due between one and five years £'000	Total £'000
Amounts owed to parent undertaking	83,028	141,105	668,771	602,577	1,495,481
Gross contractual cash flows	83,028	141,105	668,771	602,577	1,495,481
Off balance sheet commitments (note ii)	16,961	-	-	-	16,961

Notes:
i. Due less than one month includes amounts repayable on demand.
ii. Off-balance sheet commitments include amounts payable on demand for customer overpayments on residential mortgages where the borrower is able to draw down the amount overpaid.

Market risk

Market risk is the risk that the net value of, or net income arising from, assets and liabilities is impacted as a result of changes in market prices or rates, specifically interest rates, currency rates or equity prices.

Interest rate risk

The main market risk faced is interest rate risk. Market movements in interest rates affect the interest rate margin realised from lending and borrowing activities.

Interest rate risk is managed at a Group level. To reduce the impact of market movements, hedging activities are undertaken by the Group's Treasury function. For example, interest rate risks generated by lending to and receiving deposits from customers are offset against each other internally where possible. The remaining net exposure is managed using derivatives, within parameters set by ALCO.

Further details of the Group's interest rate risk monitoring processes are included in the Business and Risk Report of the Group's Annual Report and Accounts.

15 Fair value of financial assets and liabilities measured at amortised cost

The following table summarises the carrying value and fair value of those financial assets and liabilities presented on the Company's balance sheet at amortised cost.

Fair value of financial assets and liabilities measured at amortised cost	**Carrying value**	**Fair value based on Level 1**	**Fair value based on Level 3**	**Total fair value**
31 March 2019	**£'000**	**£'000**	**£'000**	**£'000**
Financial assets				
Loans and advances to customers	**1,676,278**	-	**1,679,781**	**1,679,781**
Financial liabilities				
Amounts owed to parent undertaking	**1,083,675**	-	**1,083,675**	**1,083,675**

	Carrying value	Fair value based on Level 1	Fair value based on Level 3	Total fair value
31 March 2018	£'000	£'000	£'000	£'000
Financial assets				
Loans and advances to customers	2,017,456	-	1,969,718	1,969,718
Financial liabilities				
Amounts owed to parent undertaking	1,451,368	-	1,451,368	1,451,368

Note:
i. The table above excludes cash for which fair value approximates to carrying value.

Loans and advances to customers

In arriving at the fair value of loans and advances to customers, the Company uses modelling techniques consistent with those used by the Group. The estimates take into account expected future cash flows and future lifetime expected losses, based on historic trends and discount rates appropriate to the loans, to reflect a hypothetical exit price value on an asset by asset basis.

Amounts owed to parent undertaking

The estimated fair value of amounts owed to parent undertaking approximates carrying value as the rate payable is short term and resets annually based on current market conditions.

16 *Capital management*

Capital comprises the retained earnings and share capital. Capital is managed on a Group basis.

Further details about the Group's capital position can be found in the solvency risk section of the Business and Risk Report in its Annual Report and Accounts.

17 Parent undertaking and ultimate controlling entity

The Company is a wholly owned subsidiary of Nationwide Building Society, its immediate and ultimate parent and controlling party, which is a building society incorporated and registered in England and Wales.

The results of UCB Home Loans Corporation Limited are included in the consolidated financial statements of Nationwide Building Society, which is the parent undertaking of the smallest and largest group to consolidate these financial statements.

Nationwide Building Society is registered at Nationwide House, Pipers Way, Swindon, SN38 1NW. The Group's Annual Report and Accounts can be obtained from this address or at **nationwide.co.uk**

18 IAS 39 accounting policies applied for comparative periods

Financial assets

Financial assets are recognised initially at fair value. Purchases and sales of financial assets are accounted for at trade date. Financial assets are derecognised when the rights to receive cash flows have expired or where the assets have been transferred and substantially all of the risks and rewards of ownership have been transferred.

The Company's financial assets comprise loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's residential mortgage loans and cash are classified as loans and receivables.

Loans are recognised when the funds are advanced to customers. Loans and receivables are carried at amortised cost using the effective interest rate method less provisions for impairment.

Impairment of financial assets

The Company assesses at each balance sheet date whether, as a result of one or more events that occurred after initial recognition, there is objective evidence that a financial asset or group of financial assets are impaired. Evidence of impairment may include:

i) indications that the borrower or group of borrowers are experiencing significant financial difficulty
ii) default or delinquency in interest or principal payments
iii) debt being restructured to reduce the burden on the borrower.

The Company first assesses whether objective evidence of impairment exists either individually for assets that are separately significant, or individually or collectively for assets that are not separately significant. If there is no objective evidence of impairment for an individually assessed asset it is included in a group of assets with similar credit risk characteristics and collectively assessed for impairment.

18 IAS 39 accounting policies applied for comparative periods (continued)

Impairment of financial assets (continued)

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The resultant provisions are deducted from the appropriate asset values on the balance sheet.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Company to reduce any differences between loss estimates and actual loss experience. If, in a subsequent period, the amount of impairment loss changes, the provision is adjusted and the amount of additional provision or reversal is recognised in the income statement.

Loans remain on the balance sheet net of associated provisions until they are deemed no longer recoverable. Where a loan is not recoverable, it is written off against the related provision for loan impairment once all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the income statement.

Cash flows are estimated based on past experience combined with the Company's view of the future considering the following factors:

i) exposure to the customer
ii) based on the number of days in arrears at the balance sheet date, the likelihood that a loan will progress through the various stages of delinquency and ultimately be written off
iii) the amount and timing of expected receipts and recoveries
iv) the realisable value of any security at the estimated date of sale
v) the likely deduction of any costs involved in the recovery of amounts outstanding.

The Company's provision methodology recognises previous arrears as a driver of future possible default and therefore accounts which have either capitalised arrears or have been in arrears in the last 12 months typically attract a higher provision level.