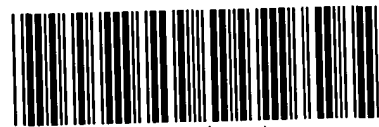


Registered Number: 02124900

E-Mex Home Funding Limited

**Annual Report and Financial Statements for the year ended
31 March 2018**

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E-MEX HOME FUNDING LIMITED

Annual report and financial statements for the year ended 31 March 2018

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E-MEX HOME FUNDING LIMITED

Directors and company information

Directors

T Carter
I Craig
J Dunn
M Mathieson
C Rhodes
P Wootton

Company secretary

V Orme

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Hay's Galleria
1 Hay's Lane
London
SE1 2RD

Registered office

Nationwide House
Pipers Way
Swindon
SN38 1NW

Registered number

02124900

E-MEX HOME FUNDING LIMITED

Directors' report for the year ended 31 March 2018

The directors have pleasure in presenting their annual report and the audited financial statements for the year ended 31 March 2018.

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

E-Mex Home Funding 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 the residential mortgage lending, principally near prime, self-certified and sub prime loans.

The Company has ceased to offer lending to new customers but provides existing specialist lending customers access to switcher products. The Company 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 £0.9 million (2017: £2.1 million). No dividends were proposed, approved or paid during the year (2017: £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. This report also includes the Company's principal key performance indicators.

Employees

The Company has no employees (2017: nil). All staff, including the directors of the Company, are employed by Nationwide Building Society.

Environment

The Company's environmental policy is set at a Group level. The Group remains committed to managing its environmental impacts and its goal is to be among the best performers for environmental sustainability in the UK financial services sector. To deliver this goal, the Group continues to pursue a number of targets to reduce the environmental impact of its activities and identify, target and address inefficiencies in its supply chain.

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

Directors' indemnities

The Group purchased and maintained throughout the year directors' and officers' liability insurance in respect of itself and its directors.

E-MEX HOME FUNDING LIMITED

Directors' report for the year ended 31 March 2018 (continued)

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 period were:

T Carter (appointed 8 December 2017)
I Craig
J Dunn
D Evans (resigned 1 May 2018)
C Rhodes
J Williams (resigned 1 December 2017)
P Wootton

The following director was appointed after the year end:

M Mathieson (appointed 1 May 2018)

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

Domicile

The Company is a private limited company and is incorporated, registered, domiciled and operates in the United Kingdom. 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 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.

E-MEX HOME FUNDING LIMITED

Directors' report for the year ended 31 March 2018 (continued)

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 period. 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 auditors, PricewaterhouseCoopers LLP, have expressed their willingness to continue in office.

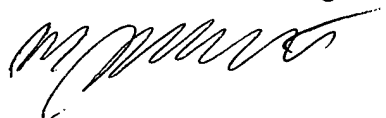
Statement of disclosure of information to auditors

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
13 July 2018



E-MEX HOME FUNDING LIMITED

Strategic report for the year ended 31 March 2018

Business review

The Company recorded a profit before tax for the year of £2.6 million (2017: £2.4 million). Profits have remained broadly stable in the year. A range of mortgage switcher products were launched in the year for existing Specialist Lending customers.

Retained earnings carried forward are £15.6 million (2017: £14.7 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.

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 and on Nationwide Building Society's website at nationwide.co.uk

Risk overview

The Company's risk management policies are set at Group level. Effective risk management is at the heart of the business. The Group has a well-established risk management processes to ensure risks are controlled and managed appropriately.

Risks are managed through an Enterprise Risk Management Framework (ERMF), which sets out the minimum standards, and associated processes, for successful risk management to support strategic decision making. Through this framework, the Group sets risk appetite which formally defines how much risk to take to achieve objectives. This shapes the Group's strategy for managing risks and determines the controls put in place to mitigate them. 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 Group's principal risks that are most relevant to the Company are set out below. For each of these principal risks, a formal statement of Board appetite for risk defines how much risk the 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.

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 external or internal factors. The Group ensures that it can generate sustainable profits by focusing on recurrent sources of income that provide value which is commensurate with the risks the Group takes. The Group manages and monitors this risk as part of ongoing business performance reporting.

Model risk

The Group defines model risk as the risk of weaknesses or failures in models used to support key decisions including in relation to the amount of capital and liquidity resources required, lending and pricing, resourcing and earnings.

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

E-MEX HOME FUNDING LIMITED

Strategic report for the year ended 31 March 2018 (continued)

Risk overview (continued)

Operational risk

The Group defines operational risk as the risk of loss resulting from failures of internal processes, people and systems, or from external events. The Group manages operational risk across a number of sub-categories, the most significant of which cover 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.

The Group adopts a three lines of defence model in the way it structures its risk management activities and has tailored its approach to reflect size, complexity and business model.

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

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

M Mathieson
Director
13 July 2018



E-MEX HOME FUNDING LIMITED

Independent auditors' report to the members of E-Mex Home Funding Limited

Report on the financial statements

Our opinion

In our opinion, E-Mex Home Funding Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2018 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, which comprise: the balance sheet as at 31 March 2018; the statement of comprehensive income for the year then ended; 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

We have nothing to report in respect of the following matters in relation to which 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.

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.

E-MEX HOME FUNDING LIMITED

Independent auditors' report to the members of E-Mex Home Funding Limited (continued)

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 2018 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.

E-MEX HOME FUNDING LIMITED

Independent auditors' report to the members of E-Mex Home Funding 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 (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

17 July 2018

E-MEX HOME FUNDING LIMITED**Statement of comprehensive income for the year ended 31 March 2018**

	Note	2018 £'000	2017 £'000
Interest receivable and similar income	3	4,065	4,615
Interest expense and similar charges	4	(1,370)	(1,902)
Net interest income		2,695	2,713
Fee and commission income	5	8	7
Fee and commission expense	5	(148)	(165)
Total income		2,555	2,555
Administrative expenses	6	(157)	(151)
Impairment recoveries on loans and advances to customers	7	245	38
Provisions for liabilities and charges	8	(51)	-
Profit before tax		2,592	2,442
Taxation	9	(1,660)	(362)
Profit after tax, being total comprehensive income for the year		932	2,080

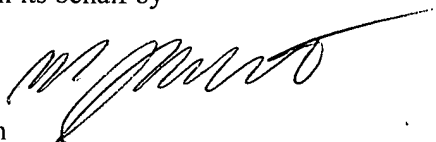
The notes on pages 15 to 39 form part of these financial statements.

Balance sheet as at 31 March 2018

	Note	2018 £'000	2017 £'000
Assets			
Non-current assets			
Loans and advances to customers	11	89,829	99,770
Deferred tax	9	753	862
Current assets			
Cash		2,753	2,173
Loans and advances to customers	11	3,562	2,745
Total assets		96,897	105,550
Liabilities			
Non-current liabilities			
Amounts owed to parent undertaking	12	12,579	18,398
Current liabilities			
Amounts owed to parent undertaking	12	68,354	72,386
Current tax liabilities		330	101
Other liabilities		2	6
Provisions for liabilities and charges	8	41	-
Total liabilities		81,306	90,891
Equity			
Share capital	13	-	-
Retained earnings		15,591	14,659
Total equity		15,591	14,659
Total equity and liabilities		96,897	105,550

The notes on pages 15 to 39 form part of these financial statements.

The financial statements on pages 12 to 39 were approved by the Board of directors on 13 July 2018 and signed on its behalf by



M Mathieson
Director
 13 July 2018

E-MEX HOME FUNDING LIMITED**Statement of changes in equity for the year ended 31 March 2018**

	2018			2017		
	Share capital	Retained earnings	Total equity	Share capital	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 April	-	14,659	14,659	-	12,579	12,579
Profit after tax	-	932	932	-	2,080	2,080
Total comprehensive income	-	932	932	-	2,080	2,080
At 31 March	-	15,591	15,591	-	14,659	14,659

The notes on pages 15 to 39 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. 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 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.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Further details on critical accounting estimates are given in note 2.

New standards, amendments and interpretations

Minor amendments to IAS 12 *Income Taxes* have also been adopted, together with amendments from the Annual Improvements to IFRS Standards 2014-2016 Cycle. The adoption of these amendments and improvements had no significant impact for the Company.

Future accounting developments

IFRS 9 Financial Instruments

IFRS 9 will be implemented in the financial statements for the year end 31 March 2019 and will replace IAS 39 *Financial Instruments: Recognition and Measurement*. It includes requirements for the classification and measurement of financial instruments, impairment of financial assets and hedge accounting.

It is estimated that the new IFRS 9 expected credit loss (ECL) provisioning approach will result in an increase in provisions of less than £1 million. The total impact on equity, net of deferred tax, is less than £1 million.

E-MEX HOME FUNDING LIMITED

Notes to the financial statements for the year ended 31 March 2018 (continued)

1 Statement of accounting policies (continued)

Future accounting developments (continued)

IFRS 9 Financial Instruments (continued)

These impacts are based on assumptions and judgements which will be reviewed periodically. IFRS 9 provisions may be more volatile compared to those calculated under IAS 39 due to the forward looking nature of ECL provisions.

Further details are included in note 1 to the financial statements in the Group's Annual Report and Accounts.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 is effective from accounting periods beginning on or after 1 January 2018. It provides a principles-based approach for revenue recognition, and introduces the concept of recognising revenue for obligations as they are satisfied. The Company has assessed its non-interest revenue streams and determined that IFRS 15 will have no significant impact on the recognition of income.

a) Interest receivable and interest expense

For instruments measured at amortised cost, the effective interest rate 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 through 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.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

b) Fees and commissions

Fees and commissions not directly attributable to generating a financial instrument are recognised on the accruals basis as services are provided, or on the performance of a significant act.

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.

f) 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, commercial 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.

Loans and receivables acquired through a business combination or portfolio acquisition are recognised at fair value at the acquisition date. The fair value at acquisition becomes the new amortised cost for acquired loans and receivables. Fair value adjustments are made to reflect both credit and interest rate risk associated with the acquired loan assets.

1 Statement of accounting policies (continued)**g) 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.

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.

Retail loans

For retail loans, 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.

1 Statement of accounting policies (continued)

g) Impairment of financial assets (continued)

Commercial loan

In assessing objective evidence of a loss event for the commercial loan, the following key indicators are considered:

- i) contractually due payments exceeding 30 days in arrears
- ii) high loan to value or low interest cover ratio
- iii) other covenant breaches
- iv) loss of significant tenants or other decreases in tenant quality
- v) the probability of the borrower entering bankruptcy
- vi) restructuring of the debt relating to the borrower's financial difficulties ('forbearance')
- vii) local economic conditions (for example, where this impacts on the value of underlying collateral).

Where there is objective evidence of impairment, cash flows are assessed considering the following factors:

- i) aggregate exposure to the customer
- ii) the viability of the customer's business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flows to service debt obligations
- iii) the amount and timing of expected receipts and recoveries of collateral
- iv) the likely dividend available on liquidation or bankruptcy
- v) the extent of other creditors' claims ranking ahead of the Company's and the likelihood of other creditors continuing to support the borrower
- vi) the complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident
- vii) the realisable value of security at the expected date of sale
- viii) the likely deduction of any costs involved in recovery of amounts outstanding
- ix) when available, the secondary market price of the debt.

Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired or are considered to be past due.

Where a loan is renegotiated on different terms such that it is substantially a different loan, the loan is derecognised and a new loan is recognised at its fair value.

For those loans for which no individual impairment is recognised, a collective impairment assessment is made, taking account of the following factors:

- i) size of the loan
- ii) arrears status
- iii) historical loss experience (adjusted for current market conditions)
- iv) the estimated period between impairment occurring and the loss being identified ('emergence period').

1 Statement of accounting policies (continued)

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.

i) Fair value of financial assets and liabilities

International Financial Reporting Standard 13 *Fair Value Measurement* (IFRS 13) 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.

E-MEX HOME FUNDING LIMITED

Notes to the financial statements for the year ended 31 March 2018 (continued)

2 Judgements in applying accounting policies and critical accounting estimates

The Company has to make judgements in applying its accounting policies which affect the amounts recognised in the accounts. In addition, estimates and assumptions are made that could affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates. The most significant area where judgements and estimates are made is impairment provisions on loans and advances to customers as disclosed in note 7.

3 Interest receivable and similar income

	2018	2017
	£'000	£'000
On residential mortgages	3,058	3,595
On commercial loan	1,007	1,020
Total	4,065	4,615

Interest receivable on residential mortgages includes £321 thousand (2017: £356 thousand) of interest accrued on loans three or more months in arrears; of which £7 thousand (2017: £7 thousand) relates to the unwind of discount on impairment provision.

Interest receivable on commercial loan includes amortisation of the discount recognised on acquisition of the loan by the Company.

4 Interest expense and similar charges

	2018	2017
	£'000	£'000
Interest payable to parent undertaking	1,312	1,902
Interest paid on corporation tax underpaid	58	-
Total	1,370	1,902

5 Fee and commission income and expense

Fee and commission income of £8 thousand (2017: £7 thousand) relates to charges on loans and advances to customers.

Fee and commission expense of £148 thousand (2017: £165 thousand) relates to expenditure on the administration of loans and advances to customers which has been recharged by the Group.

E-MEX HOME FUNDING LIMITED**Notes to the financial statements for the year ended 31 March 2018 (continued)****6 Administrative expenses**

	2018 £'000	2017 £'000
Recharge from parent undertaking	112	112
Auditors' remuneration – audit fees for the statutory audit	34	33
Other	11	6
Total	157	151

The Company has no employees (2017: nil). Administration of the Company's loans is 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 2018 (2017: £nil).

7 Impairment provisions on loans and advances to customers

The following provisions have been deducted from loans and advances to customers in the balance sheet.

2018	Residential mortgages		
	Individual £'000	Collective £'000	Total £'000
At 1 April	36	1,001	1,037
Charge/(recovery) for the year	24	(269)	(245)
Amounts written off during the year	(42)	-	(42)
Unwind of discount	(7)	-	(7)
At 31 March	11	732	743

2017	Residential mortgages		
	Individual £'000	Collective £'000	Total £'000
At 1 April	81	1,080	1,161
Charge/(recovery) for the year	41	(79)	(38)
Amounts written off during the year	(79)	-	(79)
Unwind of discount	(7)	-	(7)
At 31 March	36	1,001	1,037

The impairment provision charges in the year ended 31 March 2017 include £117 thousand in relation to enhancements to provisioning methodology and assumptions to ensure that provisions continue to reflect appropriately the incurred losses within the portfolio.

E-MEX HOME FUNDING LIMITED

Notes to the financial statements for the year ended 31 March 2018 (continued)

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

Critical accounting estimates and judgements

Impairment is measured as the difference between an asset's carrying amount and 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 combined with management judgement.

Key assumptions included in the measurement of impairment include the probability of default and the amount of eventual loss given default. Assumptions are based on observed historical data and updated as management considers appropriate to reflect current conditions. The accuracy of the impairment provision will therefore be affected by unexpected changes in these assumptions.

For residential mortgages, the estimate of future house price index (HPI) movements is a key assumption in estimating the eventual loss. The Company does not take account of projected future HPI increases in establishing provisions, other than in relation to the future maturity of interest only mortgages. If no HPI growth is assumed for interest only mortgages, provisions would increase by £31 thousand. If a 10% HPI decrease is assumed for all residential mortgages, including interest only mortgages, provisions would further increase by an estimated £80 thousand.

8 Provisions for liabilities and charges

2018	Customer redress £'000
At 1 April	-
Provisions utilised	(10)
Charge for the year	51
At 31 March	41

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 income statement	2018 £'000	2017 £'000
Current tax		
UK corporation tax charge	383	236
Adjustments in respect of prior periods	1,168	-
Total current tax	1,551	236
Deferred tax:		
Current year	109	99
Effect of corporation tax rate change	-	27
Total deferred tax	109	126
Tax charge	1,660	362

E-MEX HOME FUNDING LIMITED**Notes to the financial statements for the year ended 31 March 2018 (continued)****9 Taxation (continued)**

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

Reconciliation of tax charge	2018	2017
	£'000	£'000
Profit before tax	2,592	2,442
UK corporation tax at 19% (2017: 20%)	492	488
Adjustments in respect of prior periods	1,168	-
Utilisation of losses not recognised	-	(153)
Effect of corporation tax rate change	-	27
Tax charge	1,660	362

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 reduced 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	2018	2017
	£'000	£'000
At 1 April	862	988
Deferred tax (charge)/credit in the statement of comprehensive income:		
Transitional adjustments on adoption of IFRS	42	60
Unamortised discount on assets on transfer from Cheshire Building Society	(151)	(185)
Accelerated capital allowances	-	(1)
At 31 March	753	862

Deferred tax assets and liabilities are attributable to the following items:

Deferred tax assets and liabilities	2018	2017
	£'000	£'000
Transitional tax adjustment on adoption of IFRS	-	(42)
Unamortised discount on assets on transfer from Cheshire Building Society	753	904
Net deferred tax asset	753	862

The majority of remaining deferred tax assets are anticipated to be recoverable in more than one year. The Company considers that there will be sufficient future trading profits to utilise the deferred tax assets.

E-MEX HOME FUNDING LIMITED**Notes to the financial statements for the year ended 31 March 2018 (continued)****10 Dividends**

No dividends were proposed, approved or paid during the year (2017: £nil).

11 Loans and advances to customers

	2018	2017
	£'000	£'000
Prime residential mortgages	3,724	4,234
Specialist residential mortgages	79,604	89,308
Commercial lending	15,046	15,045
	98,374	108,587
Impairment provision	(743)	(1,037)
Discount on acquisition	(4,240)	(5,035)
Total	93,391	102,515

Loans and advances to customers include one loan secured on commercial property which was acquired on 12 December 2008 and was recognised at fair value on the acquisition date. This fair value at acquisition became the new amortised cost for the acquired loan. Discount on acquisition relates to the discount recognised on acquisition of the commercial loan, which is being amortised over the life of the remaining loan.

Maturity analysis

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

	2018	2017
	£'000	£'000
In not more than three months	1,343	1,905
In more than three months but not more than one year	2,246	872
In more than one year but not more than five years	7,419	8,554
In more than five years	87,366	97,256
	98,374	108,587
Impairment provision	(743)	(1,037)
Discount on acquisition	(4,240)	(5,035)
Total	93,391	102,515

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.

E-MEX HOME FUNDING LIMITED

Notes to the financial statements for the year ended 31 March 2018 (continued)

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:

	2018	2017
	£'000	£'000
In not more than three months	7,630	5,395
In more than three months but not more than one year	60,724	66,991
In more than one year but not more than five years	12,579	18,398
Total	80,933	90,784

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

	2018	2017
	£	£
Authorised, issued and fully paid:		
100 (2017: 100) Ordinary shares of £1 each	100	100

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

14 Risk management and control

Credit risk

Credit risk is the risk of a customer or counterparty failing to meet their financial obligations. Credit risk also encompasses refinance risk and concentration risk. Refinance risk is the risk of loss arising when a repayment of a loan or other financial product occurs later than originally anticipated.

This section provides information on the Company's exposure to credit risk arising from loans and advances, together with details of the level of collateral held and impairment charges recognised during the period. It also provides information about the key risk measures for each of the loan portfolios.

E-MEX HOME FUNDING LIMITED**Notes to the financial statements for the year ended 31 March 2018 (continued)****14 Risk management and control (continued)****Maximum exposure to credit risk**

Credit risk 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 all other financial assets. For financial assets recognised on the balance sheet, the maximum exposure to credit risk represents the balance sheet carrying value after allowance for impairment. For loan commitments, the maximum exposure is the full amount of the committed facilities.

The Company's maximum exposure to credit risk has fallen from £104,688 thousand to £96,144 thousand, reflecting the fact that existing mortgages are being repaid with no new mortgages issued.

Maximum exposure to Credit risk	Gross balance £'000	31 March 2018		Carrying value £'000	Maximum Credit risk exposure £'000	% of total Credit risk exposure %
			Less: Impairment provision £'000			
Cash	2,753	-		2,753	2,753	3
Loans and advances to customers	94,134	(743)		93,391	93,391	97
Total	96,887	(743)		96,144	96,144	100

Maximum exposure to Credit risk	Gross balance £'000	31 March 2017		Carrying value £'000	Maximum Credit risk exposure £'000	% of total Credit risk exposure %
			Less: Impairment provision £'000			
Cash	2,173	-		2,173	2,173	2
Loans and advances to customers	103,552	(1,037)		102,515	102,515	98
Total	105,725	(1,037)		104,688	104,688	100

Note: The Company's residential mortgages comprise primarily specialist loans with no new lending as the mortgage book is now closed.

E-MEX HOME FUNDING LIMITED**Notes to the financial statements for the year ended 31 March 2018 (continued)****14 Risk management and control (continued)****Credit risk (continued)**

The table below summarises the residential mortgage portfolios:

Residential mortgage lending	2018		2017	
	£'000	%	£'000	%
Prime	3,724	4	4,234	5
Specialist:				
Buy to let	12,041	14	13,958	15
Self-certified	16,770	20	18,924	20
Near prime	37,785	46	41,644	44
Sub prime	13,008	16	14,782	16
	79,604	96	89,308	95
Total residential mortgages	83,328	100	93,542	100

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.

Average LTV of loan stock	2018	2017
	%	%
Prime	49	50
Specialist	56	58
Company	56	58

The average LTV on the overall stock has improved by 2% to 56% (2017: 58%) on a value basis.

E-MEX HOME FUNDING LIMITED
Notes to the financial statements for the year ended 31 March 2018 (continued)
14 Risk management and control (continued)
Credit risk (continued)
Geographical concentration

Residential mortgage balances by LTV and region 31 March 2018	Greater London £'000	Central England £'000	Northern England £'000	South East England £'000	South West England £'000	Wales & Northern Ireland £'000	Total £'000	%
Performing loans								
Fully collateralised								
LTV ratio:								
Up to 50%	14,337	3,246	2,226	2,743	1,967	523	25,042	
50% to 60%	3,892	2,991	1,884	1,557	965	528	11,817	
60% to 70%	570	1,782	2,428	2,374	1,685	340	9,179	
70% to 80%	-	3,241	3,392	-	880	1,511	9,024	
80% to 90%	-	753	2,742	-	-	517	4,012	
90% to 100%	-	-	906	-	-	445	1,351	
	18,799	12,013	13,578	6,674	5,497	3,864	60,425	73
Not fully collateralised								
- LTV more than 100% (A)	-	-	-	-	-	-	-	-
- Collateral value on A	-	-	-	-	-	-	-	-
- Negative equity on A	-	-	-	-	-	-	-	-
Total performing loans	18,799	12,013	13,578	6,674	5,497	3,864	60,425	73
Non-performing loans								
Fully collateralised								
LTV ratio:								
Up to 50%	6,306	406	289	611	304	159	8,075	
50% to 60%	1,107	522	500	608	74	-	2,811	
60% to 70%	1,796	1,350	507	1,660	242	175	5,730	
70% to 80%	-	1,125	533	220	987	180	3,045	
80% to 90%	-	411	1,507	-	-	438	2,356	
90% to 100%	-	109	575	-	-	202	886	
	9,209	3,923	3,911	3,099	1,607	1,154	22,903	27
Not fully collateralised								
- LTV more than 100% (B)	-	-	-	-	-	-	-	-
- Collateral value on B	-	-	-	-	-	-	-	-
- Negative equity on B	-	-	-	-	-	-	-	-
Total non-performing loans	9,209	3,923	3,911	3,099	1,607	1,154	22,903	27
Total residential mortgages	28,008	15,936	17,489	9,773	7,104	5,018	83,328	100
Geographical concentration	33%	19%	21%	12%	9%	6%	100%	

E-MEX HOME FUNDING LIMITED
Notes to the financial statements for the year ended 31 March 2018 (continued)
14 Risk management and control (continued)
Credit risk (continued)
Geographical concentration (continued)

Residential mortgage balances by LTV and region	Greater London	Central England	Northern England	South East England	South West England	Wales & Northern Ireland	Total	
31 March 2017	£'000	£'000	£'000	£'000	£'000	£'000	£'000	%
Performing loans								
Fully collateralised								
LTV ratio:								
Up to 50%	16,833	2,855	2,044	2,920	2,102	440	27,194	
50% to 60%	4,294	3,302	1,337	2,576	851	263	12,623	
60% to 70%	522	1,728	2,216	2,363	1,792	780	9,401	
70% to 80%	-	3,461	4,099	-	1,445	1,121	10,126	
80% to 90%	-	1,618	2,104	-	-	1,062	4,784	
90% to 100%	-	-	1,949	-	-	172	2,121	
	21,649	12,964	13,749	7,859	6,190	3,838	66,249	71
Not fully collateralised								
- LTV more than 100% (A)	-	-	-	-	-	128	128	-
- Collateral value on A	-	-	-	-	-	122	122	-
- Negative equity on A	-	-	-	-	-	6	6	-
Total performing loans	21,649	12,964	13,749	7,859	6,190	3,966	66,377	71
Non-performing loans								
Fully collateralised								
LTV ratio:								
Up to 50%	6,639	321	69	646	390	68	8,133	
50% to 60%	2,542	385	691	737	78	95	4,528	
60% to 70%	1,988	1,086	751	1,651	536	-	6,012	
70% to 80%	-	1,287	556	216	817	275	3,151	
80% to 90%	-	1,012	1,311	-	-	266	2,589	
90% to 100%	-	243	1,672	-	-	423	2,338	
	11,169	4,334	5,050	3,250	1,821	1,127	26,751	29
Not fully collateralised								
- LTV more than 100% (B)	-	-	139	-	-	275	414	-
- Collateral value on B	-	-	138	-	-	262	400	-
- Negative equity on B	-	-	1	-	-	13	14	-
Total non-performing loans	11,169	4,334	5,189	3,250	1,821	1,402	27,165	29
Total residential mortgages	32,818	17,298	18,938	11,109	8,011	5,368	93,542	100
Geographical concentration	35%	18%	20%	12%	9%	6%	100%	

The geographical concentration of the portfolio has remained broadly stable during the year.

The value of partially collateralised non-performing loans has reduced to £nil (2017: £414 thousand), with the shortfall in collateral decreasing to £nil (2017: £14 thousand).

E-MEX HOME FUNDING LIMITED

Notes to the financial statements for the year ended 31 March 2018 (continued)

14 Risk management and control (continued)

Credit risk (continued)

Arrears

Number of cases more than 3 months in arrears as % of total book	2018 %	2017 %
Prime	15.15	10.26
Specialist	8.70	8.70
Company	8.99	8.77

The arrears performance of the mortgage portfolio has remained relatively stable during the year.

Impaired loans

Impaired and non-performing loans are identified primarily by arrears status. Impaired accounts are defined as those greater than three months in arrears and include accounts subject to possession. Non-performing accounts include:

- all impaired loans
- loans which are past due but not impaired, including any loan where a payment due is received late or missed
- past term interest only loans which have gone into litigation.

The non-performing loan amount represents the entire loan balance rather than just the payment overdue.

Loans on interest only or payment holiday concessions are initially categorised according to their payment status as at the date of concession, with subsequent revisions to this category assessed against the terms of the concession.

Impairment provisions are held in relation to both the performing and non-performing segments of the residential mortgage portfolio. Provisions reflect losses which have been incurred at the balance sheet date, based on objective evidence. Individual impairment provisions are assigned to accounts in possession and a collective provision is assigned to all other accounts. For currently performing loans, the provision reflects losses arising from impairment events that have occurred within the portfolio but are not identifiable at the reporting date.

E-MEX HOME FUNDING LIMITED

Notes to the financial statements for the year ended 31 March 2018 (continued)

14 Risk management and control (continued)

Credit risk (continued)

Impaired loans (continued)

Residential mortgage balances by payment status

	2018			2017				
	Prime lending	Specialist lending	Total	Prime lending	Specialist lending	Total		
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	%
Performing:								
Neither past due nor impaired	2,204	58,221	60,425	72.5	2,415	63,962	66,377	71.0
Non-performing:								
Past due up to 3 months but not impaired	169	12,703	12,872	15.4	714	15,640	16,354	17.5
Impaired:								
Past due 3 to 6 months	223	4,678	4,901	5.9	248	3,153	3,401	3.6
Past due 6 to 12 months	414	2,025	2,439	2.9	367	2,845	3,212	3.4
Past due over 12 months	487	1,977	2,464	3.0	490	3,232	3,722	4.0
Litigation (past term interest only)	-	-	-	-	-	160	160	0.2
Possessions	227	-	227	0.3	-	316	316	0.3
Total non-performing loans	1,520	21,383	22,903	27.5	1,819	25,346	27,165	29.0
Total	3,724	79,604	83,328	100.0	4,234	89,308	93,542	100.0
Non-performing loans as a % of total residential mortgages	40.8%	26.9%	27.5%		43.0%	28.4%	29.0%	
Impairment provisions (£'000)	-	743	743		-	1,037	1,037	
Impairment provisions as a % of non-performing balances	-	3.5%	3.2%		-	4.1%	3.8%	
Impairment provisions as a % of total residential mortgages	-	0.93%	0.89%		-	1.16%	1.11%	

The proportion of non-performing loans has decreased to 27.5% (2017: 29.0%) due to a reduction in the portfolio size.

Possessions

Number of properties in possession as % of total book	2018		2017	
	Number of properties	%	Number of properties	%
Prime	1	3.03	-	-
Specialist	-	-	2	0.26
Total	1	0.14	2	0.25

Repossession 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.

E-MEX HOME FUNDING LIMITED**Notes to the financial statements for the year ended 31 March 2018 (continued)****14 Risk management and control (continued)****Credit risk (continued)****Interest only mortgages**

The Company has historical balances which were originally advanced as interest only mortgages or where a change in terms to interest only basis was agreed (this option was withdrawn in 2012). Maturities on interest only mortgages are managed closely, engaging regularly with customers to ensure the loan is redeemed or to agree a strategy for repayment.

The majority of the specialist portfolio comprises buy to let loans, of which 81% (2017: 82%) were advanced on an interest only basis.

2018	Term expired (still open)	Due within one year	Due after one year and before two years	Due after two years and before five years	Due after more than five years	Total	% of total book
	£'000	£'000	£'000	£'000	£'000		%
Prime	-	206	-	158	2,830	3,194	86.0
Specialist	996	2,301	510	6,292	54,425	64,524	81.0
Total	996	2,507	510	6,450	57,255	67,718	81.0

2017	Term expired (still open)	Due within one year	Due after one year and before two years	Due after two years and before five years	Due after more than five years	Total	% of total book
	£'000	£'000	£'000	£'000	£'000		%
Prime	-	-	207	158	3,090	3,455	82.0
Specialist	1,743	999	2,484	5,052	62,799	73,077	82.0
Total	1,743	999	2,691	5,210	65,889	76,532	82.0

Interest only loans that are 'term expired (still open)' are, to the extent that they are not otherwise in arrears, considered performing for six months, pending renegotiation of the facility. After six months, the loans are, if not in litigation, classified as forborne.

Negative equity on non-performing loans

Collateral held against residential mortgages is the Company's principal method of mitigating Credit risk on these loans.

Negative equity relates to specialist residential mortgages only.

Negative equity on non-performing residential mortgages	2018	2017
	£'000	£'000
Past due but not impaired	-	-
Impaired	-	14
Total	-	14

Note: Collateral held is capped at the amount outstanding on an individual loan basis.

Negative equity on non-performing residential mortgages, being the excess of loan balances over collateral held, has reduced in the year to nil.

14 Risk management and control (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. This is the case for residential mortgages and commercial lending.

Forbearance occurs when concessions are made to the contractual terms of a loan when the customer is facing or about to face difficulties in meeting their financial commitments. A concession is where the customer receives assistance, which could be a modification to the previous terms and conditions of a facility or a total or partial refinancing of debt, either mid-term or at maturity. Requests for concessions are principally attributable to:

- temporary cash flow problems
- breaches of financial covenants
- an inability to repay at contractual maturity.

The concession events and exit criteria which are used to classify balances subject to forbearance are as follows:

Past term interest only concession

The Company works with customers who are unable to repay the capital at term expiry of their interest only mortgage. Where a customer is unable to renegotiate the facility within six months of maturity but no legal enforcement is pursued, the account is considered forborne. Should another concession event such as a term extension occur within the six month period, this will also be classed as forbearance.

Interest only concession

Where a temporary interest only concession is granted, the loans do not accrue arrears for the period of the concession and are not categorised as impaired, unless already impaired, provided the revised interest only repayment amount is maintained.

Capitalisation

When a customer emerges from financial difficulty, provided they have made at least six full monthly instalments, they are offered the ability to capitalise standing arrears. This results in the account being repaired and the loans are categorised as not impaired provided contractual repayments are maintained.

E-MEX HOME FUNDING LIMITED

Notes to the financial statements for the year ended 31 March 2018 (continued)

14 Risk management and control (continued)

Credit risk (continued)

Forbearance (continued)

Term extension (within term)

Customers in financial difficulty may be allowed to extend the term of their mortgage. On a capital repayment mortgage this will reduce their monthly commitment; interest only customers will benefit by having a longer period to repay the capital at maturity.

The table below provides details of residential mortgages subject to forbearance.

Balances subject to forbearance	2018 £'000	2017 £'000
Past term interest only concessions	1,204	1,010
Interest only concessions	1,704	2,010
Capitalisation	1,567	2,684
Term extensions (within term)	1,049	928
Total forbearance	5,524	6,632
Impairment provision on forborne loans	22	95

Loans where more than one concession event has occurred are reported under the latest event.

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.

E-MEX HOME FUNDING LIMITED

Notes to the financial statements for the year ended 31 March 2018 (continued)

14 Risk management and control (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).

At 31 March 2018 – Residual maturity	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	Due after more than five years £'000	Total £'000
Financial assets:						
Cash	2,753	-	-	-	-	2,753
Loans and advances to customers	1,029	246	2,132	7,043	82,941	93,391
Total financial assets	3,782	246	2,132	7,043	82,941	96,144
Financial liabilities:						
Amounts owed to parent undertaking	2,827	4,803	60,724	12,579	-	80,933
Total financial liabilities	2,827	4,803	60,724	12,579	-	80,933
Net liquidity gap	955	(4,557)	(58,592)	(5,536)	82,941	15,211
At 31 March 2017 –						
Residual maturity	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	Due after more than five years £'000	Total £'000
Financial assets:						
Cash	2,173	-	-	-	-	2,173
Loans and advances to customers	1,834	49	862	8,457	91,313	102,515
Total financial assets	4,007	49	862	8,457	91,313	104,688
Financial liabilities:						
Amounts owed to parent undertaking	1,985	3,410	66,991	18,398	-	90,784
Total financial liabilities	1,985	3,410	66,991	18,398	-	90,784
Net liquidity gap	2,022	(3,361)	(66,129)	(9,941)	91,313	13,904

Note:

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

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.

E-MEX HOME FUNDING LIMITED

Notes to the financial statements for the year ended 31 March 2018 (continued)

14 Risk management and control (continued)

Liquidity and funding risk (continued)

Gross undiscounted contractual cash flows of financial liabilities

The table below provides an analysis of gross contractual cash flows. The totals differ from the analysis of residual maturity as they include interest, accrued at current rates for the average period until maturity, on the balances outstanding at the balance sheet date.

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

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	3,146	5,052	61,650	12,723	82,571
Gross contractual cash flows – 31 March 2017	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	2,127	3,685	68,097	18,845	92,754

Note:

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

Market risk

Market risk is the risk that the net value of, or net income arising from, assets and liabilities is impacted because of market price or rate changes, 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. 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.

E-MEX HOME FUNDING LIMITED**Notes to the financial statements for the year ended 31 March 2018 (continued)****15 Fair value of financial assets and liabilities measured at amortised cost**

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Company's balance sheet at fair value.

2018	Carrying value £'000	Fair value based on Level 1 £'000	Fair value based on Level 3 £'000	Total fair value £'000
Financial assets:				
Loans and advances to customers	93,391	-	84,833	84,833
Cash	2,753	2,753	-	2,753
Financial liabilities:				
Amounts owed to parent undertaking	80,933	-	80,933	80,933
<hr/>				
2017	Carrying value £'000	Fair value based on Level 1 £'000	Fair value based on Level 3 £'000	Total fair value £'000
Financial assets:				
Loans and advances to customers	102,515	-	95,724	95,724
Cash	2,173	2,173	-	2,173
Financial liabilities:				
Amounts owed to parent undertaking	90,784	-	90,784	90,784

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.

Variable rate retail mortgages are discounted at the currently available market standard variable interest rate (SVR). For the variable rate commercial loan, separate market interest rates are utilised to discount the Company's commercial real estate portfolio.

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.

E-MEX HOME FUNDING LIMITED

Notes to the financial statements for the year ended 31 March 2018 (continued)

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 E-Mex Home Funding 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