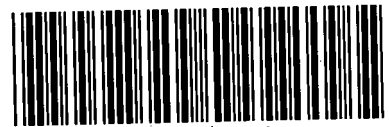


Registered Number: 02628265

**Derbyshire Home Loans Limited**

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

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# **DERBYSHIRE HOME LOANS LIMITED**

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

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## **DERBYSHIRE HOME LOANS LIMITED**

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### **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**

02628265

## **DERBYSHIRE HOME LOANS LIMITED**

### **Directors' report for the year ended 31 March 2018**

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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**

Derbyshire Home Loans 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 residential mortgage lending, principally near prime and self-certified 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 £15.3 million (2017: £16.6 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](http://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.

## **DERBYSHIRE HOME LOANS LIMITED**

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

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#### **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.

## **DERBYSHIRE HOME LOANS 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.

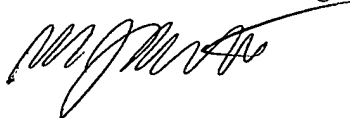
#### **Statement of disclosure of information to auditors**

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



## **DERBYSHIRE HOME LOANS LIMITED**

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### **Strategic report for the year ended 31 March 2018**

#### **Business review**

The Company recorded a profit before tax for the year of £20.8 million (2017: £20.8 million). Profits have remained the same as 2017, however, there has been a £1.0 million increase in income and a £0.2 million decrease in impairment provision charge, offset by a £1.2 million provision for liabilities and charges. Retained earnings carried forward are £24.6 million (2017: £9.3 million).

A range of mortgage switcher products were launched in the year for existing customers.

#### **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](http://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.

## **DERBYSHIRE HOME LOANS LIMITED**

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

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#### **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.



## **DERBYSHIRE HOME LOANS 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



## **DERBYSHIRE HOME LOANS LIMITED**

### **Independent auditors' report to the members of Derbyshire Home Loans Limited**

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#### **Report on the financial statements**

##### **Our opinion**

In our opinion, Derbyshire Home Loans 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.

## **DERBYSHIRE HOME LOANS LIMITED**

### **Independent auditors' report to the members of Derbyshire Home Loans 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 (UKs) 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.

## **DERBYSHIRE HOME LOANS LIMITED**

### **Independent auditors' report to the members of Derbyshire Home Loans 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](http://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

**DERBYSHIRE HOME LOANS LIMITED****Statement of comprehensive income for the year ended 31 March 2018**

	Note	2018 £'000	2017 £'000
Interest receivable and similar income	3	35,366	39,086
Interest expense and similar charges	4	(12,192)	(16,684)
<b>Net interest income</b>		<b>23,174</b>	<b>22,402</b>
Fee and commission income	5	138	139
Fee and commission expense	5	(1,859)	(2,056)
<b>Total income</b>		<b>21,453</b>	<b>20,485</b>
Administrative expenses	6	(72)	(77)
Impairment recoveries on loans and advances to customers	7	569	386
Provisions for liabilities and charges	8	(1,191)	-
<b>Profit before tax</b>		<b>20,759</b>	<b>20,794</b>
Taxation	9	(5,423)	(4,159)
<b>Profit after tax, being total comprehensive income for the year</b>		<b>15,336</b>	<b>16,635</b>

The notes on pages 15 to 37 form part of these financial statements.

**DERBYSHIRE HOME LOANS LIMITED**

Registered Number: 02628265

**Balance sheet as at 31 March 2018**

	Note	2018 £'000	2017 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Loans and advances to customers	11	959,616	1,059,156
Deferred tax	9	1,840	3,679
<b>Current assets</b>			
Cash		2,341	2,481
Loans and advances to customers	11	23,969	26,181
<b>Total assets</b>		<b>987,766</b>	<b>1,091,497</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Amounts owed to parent undertaking	12	85,022	346,871
<b>Current liabilities</b>			
Amounts owed to parent undertaking	12	585,876	443,543
Other liabilities		220	219
Provisions for liabilities and charges	8	968	-
Accruals and deferred income		60	65
Current tax liabilities		1,025	1,540
<b>Total liabilities</b>		<b>673,171</b>	<b>792,238</b>
<b>Equity</b>			
Share capital	13	-	-
Retained earnings		24,595	9,259
Capital contribution reserve		290,000	290,000
<b>Total equity</b>		<b>314,595</b>	<b>299,259</b>
<b>Total equity and liabilities</b>		<b>987,766</b>	<b>1,091,497</b>

The notes on pages 15 to 37 form part of these financial statements.

The financial statements on pages 12 to 37 were approved by the Board of directors on 13 July 2018 and signed on its behalf by

M Mathieson  
Director  
13 July 2018



**DERBYSHIRE HOME LOANS LIMITED****Statement of changes in equity for the year ended 31 March 2018**

<b>2018</b>	<b>Share capital</b>	<b>Retained earnings</b>	<b>Capital contribution reserve</b>	<b>Total equity</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
At 1 April	-	9,259	290,000	299,259
Profit after tax	-	15,336	-	15,336
<b>Total comprehensive income</b>	-	<b>15,336</b>	-	<b>15,336</b>
<b>At 31 March</b>	-	<b>24,595</b>	<b>290,000</b>	<b>314,595</b>

<b>2017</b>	<b>Share capital</b>	<b>(Accumulated losses)/ Retained earnings</b>	<b>Capital contribution reserve</b>	<b>Total equity</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
At 1 April	-	(7,376)	290,000	282,624
Profit after tax	-	16,635	-	16,635
<b>Total comprehensive income</b>	-	<b>16,635</b>	-	<b>16,635</b>
<b>At 31 March</b>	-	<b>9,259</b>	<b>290,000</b>	<b>299,259</b>

The notes on pages 15 to 37 form part of these financial statements.

## **DERBYSHIRE HOME LOANS LIMITED**

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

#### **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 £7 million. The total impact on equity, net of deferred tax, is £6 million.

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.



## **DERBYSHIRE HOME LOANS 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 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.

##### **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.

## **DERBYSHIRE HOME LOANS LIMITED**

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

#### **1 Statement of accounting policies (continued)**

##### **d) Taxation including deferred tax (continued)**

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 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.

##### **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.

## **DERBYSHIRE HOME LOANS LIMITED**

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

#### **1 Statement of accounting policies (continued)**

##### **g) Impairment of financial assets (continued)**

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.

##### **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.

## **DERBYSHIRE HOME LOANS LIMITED**

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

#### **1 Statement of accounting policies (continued)**

##### **i) Fair value of financial assets and liabilities (continued)**

###### ***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 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**

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
On residential mortgages	<b>35,366</b>	39,085
On other liquid assets	-	1
<b>Total</b>	<b>35,366</b>	39,086

Included within interest receivable is £3,742 thousand (2017: £4,069 thousand) of interest accrued on loans three or more months in arrears; of which £100 thousand (2017: £100 thousand) relates to the unwind of discount on impairment provision.

## DERBYSHIRE HOME LOANS LIMITED

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

#### 4 Interest expense and similar charges

	2018 £'000	2017 £'000
Interest payable to parent undertaking	12,119	16,684
Interest paid on corporation tax underpaid	73	-
<b>Total</b>	<b>12,192</b>	<b>16,684</b>

#### 5 Fee and commission income and expense

Fee and commission income	2018 £'000	2017 £'000
Mortgage related fees	136	137
Other commissions	2	2
<b>Total</b>	<b>138</b>	<b>139</b>

Fee and commission expense of £1,859 thousand (2017: £2,056 thousand) relates to expenditure on the administration of loans and advances to customers which has been recharged by the Group.

#### 6 Administrative expenses

	2018 £'000	2017 £'000
Auditors' remuneration – audit fees for the statutory audit	51	50
Money transmission and other bank costs	31	21
Other	(10)	6
<b>Total</b>	<b>72</b>	<b>77</b>

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

## DERBYSHIRE HOME LOANS LIMITED

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

#### 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	Individual £'000	Collective £'000	Total £'000
At 1 April	1,937	12,125	14,062
Charge/(recovery) for the year	875	(1,444)	(569)
Amounts written off during the year	(1,126)	-	(1,126)
Unwind of discount	(100)	-	(100)
<b>At 31 March</b>	<b>1,586</b>	<b>10,681</b>	<b>12,267</b>

2017	Individual £'000	Collective £'000	Total £'000
At 1 April	1,724	13,985	15,709
Charge/(recovery) for the year	1,474	(1,860)	(386)
Amounts written off during the year	(1,161)	-	(1,161)
Unwind of discount	(100)	-	(100)
<b>At 31 March</b>	<b>1,937</b>	<b>12,125</b>	<b>14,062</b>

The impairment provision charges in the year ended 31 March 2017 include £538 thousand in relation to enhancements to provisioning methodology and assumptions to ensure that provisions continue to reflect appropriately the incurred losses within the portfolio.

#### 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 £573 thousand. If a 10% HPI decrease is assumed for all residential mortgages, including interest only mortgages, provisions would further increase by an estimated £1,666 thousand.

**DERBYSHIRE HOME LOANS LIMITED****Notes to the financial statements for the year ended 31 March 2018 (continued)****8 Provisions for liabilities and charges**

<b>2018</b>	<b>Customer redress £'000</b>
At 1 April	-
Provisions utilised	(223)
Charge for the year	1,191
<b>At 31 March</b>	<b>968</b>

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**

<b>Tax charge in the income statement</b>	<b>2018 £'000</b>	<b>2017 £'000</b>
Current tax:		
UK corporation tax charge	2,105	2,223
Adjustments in respect of prior years	1,479	-
<b>Total current tax</b>	<b>3,584</b>	<b>2,223</b>
Deferred tax:		
Current year	1,839	1,936
<b>Total deferred taxation</b>	<b>1,839</b>	<b>1,936</b>
<b>Tax charge</b>	<b>5,423</b>	<b>4,159</b>

The actual tax charge differs from (2017: equates to) the theoretical amount that would arise using the standard rate of corporation tax in the UK as follows:

<b>Reconciliation of tax charge</b>	<b>2018 £'000</b>	<b>2017 £'000</b>
<b>Profit before tax</b>	<b>20,759</b>	<b>20,794</b>
UK corporation tax at 19% (2017: 20%)	3,944	4,159
Adjustments in respect of prior years	1,479	-
<b>Tax charge</b>	<b>5,423</b>	<b>4,159</b>

**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.

**DERBYSHIRE HOME LOANS LIMITED****Notes to the financial statements for the year ended 31 March 2018 (continued)****9 Taxation (continued)****Deferred taxation (continued)**

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

<b>Movements in deferred taxation</b>	<b>2018 £'000</b>	<b>2017 £'000</b>
At 1 April	3,679	5,615
Deferred tax charge in the statement of comprehensive income:		
Transitional adjustments on adoption of IFRS	(1,839)	(1,936)
<b>At 31 March</b>	<b>1,840</b>	<b>3,679</b>

Deferred tax assets are attributable to the following items:

<b>Deferred tax assets</b>	<b>2018 £'000</b>	<b>2017 £'000</b>
Transitional adjustments on adoption of IFRS	1,840	3,679

The deferred tax assets are anticipated to be recoverable within one year. The Company considers that there will be sufficient future trading profits to utilise the deferred tax assets.

**10 Dividends**

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

**11 Loans and advances to customers**

	<b>2018 £'000</b>	<b>2017 £'000</b>
Prime residential mortgages	33,266	37,152
Specialist residential mortgages	960,624	1,059,933
	993,890	1,097,085
Impairment provision	(12,267)	(14,062)
Premium on acquisition	1,962	2,314
<b>Total</b>	<b>983,585</b>	<b>1,085,337</b>



## DERBYSHIRE HOME LOANS LIMITED

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

#### 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:

	2018 £'000	2017 £'000
In not more than three months	14,123	11,110
In more than three months but not more than one year	10,097	15,354
In more than one year but not more than five years	88,253	78,836
In more than five years	881,417	991,785
	993,890	1,097,085
Impairment provision	(12,267)	(14,062)
Premium on acquisition	1,962	2,314
<b>Total</b>	<b>983,585</b>	<b>1,085,337</b>

Premium on acquisition relates to the premium recognised on acquisition of the residential mortgage book.

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:

	2018 £'000	2017 £'000
In not more than three months	76,693	54,575
In more than three months but not more than one year	509,183	388,968
In more than one year but not more than five years	85,022	346,871
<b>Total</b>	<b>670,898</b>	<b>790,414</b>

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:		
1,000 (2017: 1,000) ordinary shares of £1 each	1,000	1,000
Issued and fully paid:		
2 (2017: 2) ordinary shares of £1 each	2	2

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

## DERBYSHIRE HOME LOANS LIMITED

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

#### 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.

##### 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.

The Company's maximum exposure to credit risk has fallen from £1,087,818 thousand to £985,926 thousand, reflecting the fact that existing mortgages are being repaid with no new mortgages issued.

Maximum exposure to credit risk	31 March 2018			Maximum credit risk exposure	% of total credit risk exposure
	Gross balance	Less: Impairment provisions	Carrying value		
	£'000	£'000	£'000	£'000	%
Cash	2,341	-	2,341	2,341	-
Loans and advances to customers	995,852	(12,267)	983,585	983,585	100
Total	998,193	(12,267)	985,926	985,926	100

Maximum exposure to credit risk	31 March 2017			Maximum credit risk exposure	% of total credit risk exposure
	Gross balance	Less: Impairment provisions	Carrying value		
	£'000	£'000	£'000	£'000	%
Cash	2,481	-	2,481	2,481	-
Loans and advances to customers	1,099,399	(14,062)	1,085,337	1,085,337	100
Total	1,101,880	(14,062)	1,087,818	1,087,818	100

**DERBYSHIRE HOME LOANS LIMITED****Notes to the financial statements for the year ended 31 March 2018 (continued)****14 Risk management and control (continued)****Credit risk (continued)****Lending and new business**

The table below summarises the residential mortgage portfolios:

Residential mortgage lending	2018		2017	
	£'000	%	£'000	%
Prime	33,266	3	37,152	3
Specialist:				
Buy to let	150,202	15	163,007	15
Self-certified	244,180	25	267,644	24
Near prime	341,949	34	376,066	35
Sub prime	226,255	23	253,216	23
	962,586	97	1,059,933	97
<b>Total residential mortgages</b>	<b>995,852</b>	<b>100</b>	<b>1,097,085</b>	<b>100</b>

**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	56	59
Specialist	61	62
<b>Company</b>	<b>60</b>	<b>62</b>

The average LTV on the overall stock has decreased by 2% points to 60% (2017: 62%) on a value basis.

# DERBYSHIRE HOME LOANS 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	Greater London	Central England	Northern England	South East England	South West England	Wales & Northern Ireland	Total	
31 March 2018	£'000	£'000	£'000	£'000	£'000	£'000	£'000	%
<b>Performing loans</b>								
Fully collateralised								
LTV ratio:								
Up to 50%	145,369	29,802	23,080	21,133	11,400	4,434	235,218	
50% to 60%	73,645	22,061	19,716	19,662	6,956	3,629	145,669	
60% to 70%	14,646	33,008	21,020	29,055	21,325	4,618	123,672	
70% to 80%	484	49,635	35,894	3,430	17,560	6,635	113,638	
80% to 90%	-	5,164	61,288	-	350	11,627	78,429	
90% to 100%	-	-	16,157	-	-	1,814	17,971	
	234,144	139,670	177,155	73,280	57,591	32,757	714,597	72
Not fully collateralised								
- LTV more than 100% (A)	-	103	343	-	-	1,408	1,854	-
- Collateral value on A	-	102	309	-	-	1,191	1,602	-
- Negative equity on A	-	1	34	-	-	217	252	-
<b>Total performing loans</b>	<b>234,144</b>	<b>139,773</b>	<b>177,498</b>	<b>73,280</b>	<b>57,591</b>	<b>34,165</b>	<b>716,451</b>	<b>72</b>
<b>Non-performing loans</b>								
Fully collateralised								
LTV ratio:								
Up to 50%	40,475	7,583	7,576	4,795	3,140	1,876	65,445	
50% to 60%	38,451	6,550	6,597	5,282	3,673	1,713	62,266	
60% to 70%	9,303	10,802	9,794	13,088	4,844	1,275	49,106	
70% to 80%	261	19,968	13,351	3,158	7,462	2,947	47,147	
80% to 90%	-	9,691	20,789	-	363	3,325	34,168	
90% to 100%	-	-	14,054	-	369	2,852	17,275	
	88,490	54,594	72,161	26,323	19,851	13,988	275,407	28
Not fully collateralised								
- LTV more than 100% (B)	-	156	1,534	-	348	1,956	3,994	-
- Collateral value on B	-	147	1,415	-	324	1,600	3,486	-
- Negative equity on B	-	9	119	-	24	356	508	-
<b>Total non-performing loans</b>	<b>88,490</b>	<b>54,750</b>	<b>73,695</b>	<b>26,323</b>	<b>20,199</b>	<b>15,944</b>	<b>279,401</b>	<b>28</b>
<b>Total residential mortgages</b>	<b>322,634</b>	<b>194,523</b>	<b>251,193</b>	<b>99,603</b>	<b>77,790</b>	<b>50,109</b>	<b>995,852</b>	<b>100</b>
<b>Geographical concentration</b>	<b>32%</b>	<b>20%</b>	<b>25%</b>	<b>10%</b>	<b>8%</b>	<b>5%</b>	<b>100%</b>	

# DERBYSHIRE HOME LOANS 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%	166,394	27,905	22,289	21,451	11,371	3,852	253,262	
50% to 60%	81,395	22,425	19,034	19,928	8,783	3,321	154,886	
60% to 70%	19,996	32,581	24,288	30,350	17,135	4,216	128,566	
70% to 80%	439	49,897	31,195	9,031	24,938	6,196	121,696	
80% to 90%	-	24,278	54,597	-	1,258	10,009	90,142	
90% to 100%	-	-	42,266	-	-	9,213	51,479	
	268,224	157,086	193,669	80,760	63,485	36,807	800,031	73
Not fully collateralised								
- LTV more than 100% (A)	-	101	1,854	-	-	1,996	3,951	-
- Collateral value on A	-	97	1,787	-	-	1,648	3,532	
- Negative equity on A	-	4	67	-	-	348	419	
<b>Total performing loans</b>	<b>268,224</b>	<b>157,187</b>	<b>195,523</b>	<b>80,760</b>	<b>63,485</b>	<b>38,803</b>	<b>803,982</b>	<b>73</b>
Non-performing loans								
Fully collateralised								
LTV ratio:								
Up to 50%	41,687	6,008	5,977	3,817	2,854	1,271	61,614	
50% to 60%	35,163	5,763	6,551	5,732	1,845	706	55,760	
60% to 70%	11,784	10,124	8,900	13,347	7,031	1,531	52,717	
70% to 80%	1,006	19,303	13,037	4,260	9,682	2,845	50,133	
80% to 90%	332	15,839	18,984	-	1,249	2,286	38,690	
90% to 100%	-	2,020	21,443	-	356	3,413	27,232	
	89,972	59,057	74,892	27,156	23,017	12,052	286,146	26
Not fully collateralised								
- LTV more than 100% (B)	-	458	3,514	-	316	2,669	6,957	1
- Collateral value on B	-	457	3,507	-	315	2,664	6,943	
- Negative equity on B	-	1	7	-	1	5	14	
<b>Total non-performing loans</b>	<b>89,972</b>	<b>59,515</b>	<b>78,406</b>	<b>27,156</b>	<b>23,333</b>	<b>14,721</b>	<b>293,103</b>	<b>27</b>
<b>Total residential mortgages</b>	<b>358,196</b>	<b>216,702</b>	<b>273,929</b>	<b>107,916</b>	<b>86,818</b>	<b>53,524</b>	<b>1,097,085</b>	<b>100</b>
<b>Geographical concentration</b>	<b>32%</b>	<b>20%</b>	<b>25%</b>	<b>10%</b>	<b>8%</b>	<b>5%</b>	<b>100%</b>	

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

The value of partially collateralised non-performing loans has reduced to £3,994 thousand (2017: £6,957 thousand), with the shortfall in collateral increasing to £508 thousand (2017: £14 thousand).

## DERBYSHIRE HOME LOANS 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	7.36	8.24
Specialist	10.01	10.10
Company	9.91	10.02

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.

# DERBYSHIRE HOME LOANS 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 mortgages by payment status	2018				2017			
	Prime lending	Specialist lending	Total		Prime lending	Specialist lending	Total	
	£'000	£'000	£'000	%	£'000	£'000	£'000	%
<b>Performing:</b>								
Neither past due nor impaired	25,668	690,783	716,451	71.9	28,226	775,756	803,982	73.3
<b>Non-performing:</b>								
Past due up to 3 months but not impaired	5,189	156,824	162,013	16.3	5,206	156,871	162,077	14.8
<b>Impaired:</b>								
Past due 3 to 6 months	1,253	52,397	53,650	5.4	1,720	56,280	58,000	5.3
Past due 6 to 12 months	832	38,127	38,959	3.9	1,352	41,138	42,490	3.9
Past due over 12 months	324	20,192	20,516	2.1	558	27,389	27,947	2.5
Litigations (past term interest only)	-	103	103	-	7	-	7	-
Possessions	-	4,160	4,160	0.4	83	2,499	2,582	0.2
<b>Total non-performing loans</b>	<b>7,598</b>	<b>271,803</b>	<b>279,401</b>	<b>28.1</b>	<b>8,926</b>	<b>284,177</b>	<b>293,103</b>	<b>26.7</b>
<b>Total</b>	<b>33,266</b>	<b>962,586</b>	<b>995,852</b>	<b>100.0</b>	<b>37,152</b>	<b>1,059,933</b>	<b>1,097,085</b>	<b>100.0</b>
Non-performing loans as a % of total residential mortgages	22.8%	28.2%	28.1%		24.0%	26.8%	26.7%	
Impairment provisions (£'000)	-	12,267	12,267		-	14,062	14,062	
Impairment provisions as a % of non-performing balances	-	4.5%	4.4%		-	4.9%	4.8%	
Impairment provisions as a % of total residential mortgages	-	1.27%	1.23%		-	1.33%	1.28%	

The proportion of non-performing loans has increased to 28.1% (2017: 26.7%).

#### Possessions

Number of properties in possession as % of total book	2018		2017	
	Number of Properties	%	Number of properties	%
Prime	-	-	1	0.27
Specialist	23	0.29	17	0.19
<b>Company</b>	<b>23</b>	<b>0.28</b>	<b>18</b>	<b>0.20</b>

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.

**DERBYSHIRE HOME LOANS 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 84% (2017: 84%) 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	£'000	%
Prime	398	431	440	1,692	22,668	25,629	77
Specialist	11,140	12,714	10,863	70,177	708,267	813,161	84
<b>Total</b>	<b>11,538</b>	<b>13,145</b>	<b>11,303</b>	<b>71,869</b>	<b>730,935</b>	<b>838,790</b>	<b>84</b>

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	£'000	%
Prime	303	167	440	1,687	24,892	27,489	74
Specialist	8,633	17,537	14,169	57,746	792,281	890,366	84
<b>Total</b>	<b>8,936</b>	<b>17,704</b>	<b>14,609</b>	<b>59,433</b>	<b>817,173</b>	<b>917,855</b>	<b>84</b>

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 on non-performing residential mortgages	2018		2017	
	Prime £'000	Specialist £'000	Prime £'000	Specialist £'000
Past due but not impaired	-	92	-	154
Impaired	-	226	-	538
Possessions	-	190	-	53
<b>Total</b>	<b>-</b>	<b>508</b>	<b>-</b>	<b>745</b>

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.



## **DERBYSHIRE HOME LOANS LIMITED**

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

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#### **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.

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.

###### **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.

###### **Permanent interest only conversion**

In the past, some customers in financial difficulty were granted a permanent interest only conversion, normally reducing their monthly commitment. This facility was withdrawn in March 2012.

## DERBYSHIRE HOME LOANS 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)

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

Balances subject to forbearance	2018 £'000	2017 £'000
Past term interest only concessions	12,261	13,615
Interest only concessions	25,806	27,005
Capitalisation	34,597	40,030
Term extensions (within term)	4,106	4,478
Permanent interest only conversions	321	1,422
<b>Total forbearance</b>	<b>77,091</b>	<b>86,550</b>
<b>Impairment provision on forborne loans</b>	<b>1,027</b>	<b>1,267</b>

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.

# DERBYSHIRE HOME LOANS 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
<b>Financial assets</b>						
Cash	2,341	-	-	-	-	2,341
Loans and advances to customers	11,658	2,319	9,992	87,338	872,278	983,585
<b>Total financial assets</b>	<b>13,999</b>	<b>2,319</b>	<b>9,992</b>	<b>87,338</b>	<b>872,278</b>	<b>985,926</b>
<b>Financial liabilities</b>						
Amounts owed to parent undertaking	30,069	46,624	509,183	85,022	-	670,898
<b>Total financial liabilities</b>	<b>30,069</b>	<b>46,624</b>	<b>509,183</b>	<b>85,022</b>	<b>-</b>	<b>670,898</b>
<b>Net liquidity gap</b>	<b>(16,070)</b>	<b>(44,305)</b>	<b>(499,191)</b>	<b>2,316</b>	<b>872,278</b>	<b>315,028</b>
<b>At 31 March 2017 – Residual maturity</b>	<b>Due less than one month (note i) £'000</b>	<b>Due between one and three months £'000</b>	<b>Due between three and twelve months £'000</b>	<b>Due between one and five years £'000</b>	<b>Due after more than five years £'000</b>	<b>Total £'000</b>
<b>Financial assets</b>						
Cash	2,481	-	-	-	-	2,481
Loans and advances to customers	9,221	1,770	15,190	77,992	981,164	1,085,337
<b>Total financial assets</b>	<b>11,702</b>	<b>1,770</b>	<b>15,190</b>	<b>77,992</b>	<b>981,164</b>	<b>1,087,818</b>
<b>Financial liabilities</b>						
Amounts owed to parent undertaking	16,100	38,475	388,968	346,871	-	790,414
<b>Total financial liabilities</b>	<b>16,100</b>	<b>38,475</b>	<b>388,968</b>	<b>346,871</b>	<b>-</b>	<b>790,414</b>
<b>Net liquidity gap</b>	<b>(4,398)</b>	<b>(36,705)</b>	<b>(373,778)</b>	<b>(268,879)</b>	<b>981,164</b>	<b>297,404</b>

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.

## DERBYSHIRE HOME LOANS 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	30,935	50,426	514,849	83,941	680,151
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	17,334	40,886	398,307	354,237	810,764

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.

**DERBYSHIRE HOME LOANS 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.

<b>2018</b>	<b>Carrying value £'000</b>	<b>Fair value based on Level 1 £'000</b>	<b>Fair value based on Level 3 £'000</b>	<b>Total fair value £'000</b>
<b>Financial assets:</b>				
Loans and advances to customers	983,585	-	911,458	911,458
Cash	2,341	2,341	-	2,341
<b>Financial liabilities:</b>				
Amounts owed to parent undertaking	670,898	-	670,898	670,898
<b>2017</b>	<b>Carrying value £'000</b>	<b>Fair value based on Level 1 £'000</b>	<b>Fair value based on Level 3 £'000</b>	<b>Total fair value £'000</b>
<b>Financial assets:</b>				
Loans and advances to customers	1,085,337	-	993,336	993,336
Cash	2,481	2,481	-	2,481
<b>Financial liabilities:</b>				
Amounts owed to parent undertaking	790,414	-	790,414	790,414

**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).

**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.

## **DERBYSHIRE HOME LOANS LIMITED**

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

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#### **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 Derbyshire Home Loans 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](http://nationwide.co.uk)**