UK Asset Resolution Limited

Annual Report & Accounts

for the 12 months to 31 March 2016

Registered in England and Wales under company number 07301961

Cm 9288 May 2016

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

May 2016

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

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Company number 07301961

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About UKAR

UK Asset Resolution Limited ('UKAR') is the holding company established on 1 October 2010 to bring together the government-owned businesses of Bradford & Bingley plc ('B&B') and NRAM plc ('NRAM'). These businesses are both closed to new business and are in run-off. UKAR is wholly owned by Her Majesty's Treasury ('HM Treasury'), whose shareholding is managed by UK Financial Investments Limited ('UKFI'). The full governance structure is set out in a framework document ('the Framework Document') agreed between UKAR and HM Treasury (see page 20 for details).

In addition, UKAR Corporate Services Limited ('UKARcs'), a subsidiary business of UKAR, is responsible for the administration of the government's Help to Buy: mortgage guarantee scheme on behalf of HM Treasury and during the year also took on responsibility for its Help to Buy: ISA scheme. The schemes are managed on a nil-gain nil-loss basis with all costs being fully reimbursed by HM Treasury.

In November 2015 UKAR announced the sale of £13bn of loans from NRAM to affiliates of Cerberus Capital Management LP ('Cerberus'). The structure of the transaction means that Cerberus purchased NRAM plc after the financial year-end on 5 May 2016. Prior to the sale, assets and liabilities not included in the transaction transferred from NRAM plc to a newly established subsidiary of UKAR, known as NRAM (No.1) Limited. For further details see note 35 - Events after the reporting period.

On 4 May 2016 it was announced that UKAR had signed a seven year contract with Computershare, which owns the UK's largest third-party mortgage administration business, for the outsourcing of mortgage servicing operations. On commencement of the outsourcing arrangement, expected in early June 2016, around 1,700 colleagues will transfer to Computershare.

Mission and purpose

Our mission and purpose were established in 2010 and continue to be:

Mission	"To Maximise Value for the Taxpayer"	
Vision	"Creating Success Together"	
Strategic objectives	1. Reduce, protect and optimise the balance sheet.	2. Maximise cost effectiveness and efficiency through continuous improvement.
	3. Be excellent in customer and debt management.	4. Be a great place to work.
	Whilst treating all stakeholders fairly.	
Values	Straightforward, Positive, Caring, Responsible, Inspiring	

Key facts

Number of customers:	238,000
Value of customer loans:	£35.5bn
Employees:	1,912
Locations:	Crossflatts, West Yorkshire Doxford, Sunderland

Chairman's statement

When UKAR was established in October 2010 we had ambitions to repay our debt to the taxpayer as quickly as possible whilst treating our customers well. Our mandate was to bring together the government owned businesses of B&B and the then named Northern Rock Asset Management to carry out the orderly management and wind-down of the two closed mortgage books. It was inconceivable at that time that just six years later we would have repaid 42% of the government debt which has reduced from £48.7bn to £28.3bn. During 2015/16 we completed a £13bn sale of NRAM assets to Cerberus and we are now exploring plans to raise sufficient proceeds from asset sales for B&B to repay its loan from the Financial Services Compensation Scheme ('FSCS') and in turn, the corresponding loan from HM Treasury. In this reporting year I am pleased that UKAR achieved all its financial targets and these are detailed more fully in the Chief Executive's statement.

We are soon to complete the divestment of our mortgage servicing operations to Computershare which means our existing colleagues can continue to build on the good work we have done to date, serving UKAR's customers well and helping those in financial difficulty. UKAR will continue to manage the wind down of the legacy portfolios of mortgage assets through the oversight of the outsourcing contract and seeking future asset sales.

This fantastic success is as a result of UKAR's people and I would like to particularly mention our CEO, Richard Banks who has led UKAR since 2010 with a determination to do the right thing for customers, colleagues and the taxpayer. He has overseen many historical remediation projects through to closure, and his knowledge of all the business areas and attention to detail has ensured the business remained focussed on achieving the ambitious business targets we set whilst achieving the successful integration and transformation of the two businesses which has now enabled us to divest our mortgage servicing capability.

The Board

Richard will be stepping down from the UKAR Board as a result of the divestment of our mortgage servicing capabilities but he will continue as CEO of the mortgage servicing business leading the 1,700 or so colleagues who transfer to Computershare. At that time Ian Hares, currently Finance & Investment Director, will become CEO of UKAR. The two organisations will need to work closely together going forward and Richard's continued leadership of the mortgage operations as we develop the new working relationship with Computershare is very much welcomed by the Board.

At the end of the year our internal review of the performance of the Board saw a very positive response and demonstrated that the Board worked well as a team and in a constructive manner. The results of the evaluations for the various Board Committees were also positive and provided assurance that they remained fit for purpose.

In April 2016 we welcomed Brendan McDonagh to the Board who will replace Kent Atkinson, our Senior Independent Director when he steps down from the Board after the divestment of the mortgage servicing operations takes place. At that point Sue Langley will become our Senior Independent Director and Brendan will become Chairman of the Audit Committee and join the Risk Committee. I would like to take this opportunity to thank Kent for his contribution to the Boards of UKAR, B&B and NRAM since 2010 and prior to that, Northern Rock plc since August 2008.

Chairman's statement (continued)

The Board (continued)

I joined the Board of B&B in August 2008 initially with a view of staying for two years but just a few weeks later as the financial crisis progressed, the business was nationalised and I was invited to become Executive Chairman and subsequently tasked with the creation of UKAR. Eight years later the changes now occurring represent a natural break point and I feel it is time to pass over to new leadership for the next phase. As such, in June 2016 I will step down as Chairman to be replaced by John Tattersall although I will remain on the Board for a short transitional period. I wish Richard, Ian and John every success in their new roles and look forward to continuing to support them in the coming months. Further details of the Board changes, structure and biographies of each Director can be found on pages 21 to 25.

UKAR has been a success so far and I have every confidence that it will be in the future. There is a great team ready for the next phase of the project whose objective remains to return every last penny of the UK taxpayers' involuntary investment in both businesses. I thank all Directors for their contribution to the effective running of UKAR and their personal support for me as Chairman.

Richard Pym
Chairman
23 May 2016

Chief Executive Officer's introduction

This year has been characterised by a strong business as usual focus and acceleration of our strategic objective of reducing the government debt and divesting the mortgage service operations.

Financial Performance

I am pleased to report that UKAR achieved all four of its financial targets agreed with UKFI for 2015/16 (for details see page 41). Over the past 12 months we paid HM Treasury £6.8bn (March 2015: £4.4bn) including £6.3bn (March 2015: £3.7bn) of principal on our loans from the government. Administrative expenses for the year (excluding UKARcs costs) were marginally higher at £175.0m (March 2015: £174.2m) and we achieved £1,055.4m in underlying profits (March 2015: £1,398.1m) and £1,175.8m in statutory profits before tax (March 2015: £972.3m).

We have continued to see a good reduction in arrears and of the 2% of customers who are in arrears by 3 months or more, 37% are in a long term arrangement to repay and so ultimately will return to financial health.

A summary of UKAR's financial performance can be found on page 10, with more detail provided in the Financial Review on pages 60 to 69.

Balance Sheet

Since UKAR was formed in 2010 the UKAR companies have repaid £20.4bn of government funding, including £6.3bn in 2015/16. In addition, £4.6bn of third party debt was repurchased and £12.8bn of other funding was repaid in the year, including £8.1bn of Granite securitisation liabilities following the sale of assets.

These repayments have been funded largely from a £17.2bn reduction in lending balances reflecting £5.0bn of secured residential redemptions, £0.1bn of commercial redemptions, £0.1bn of unsecured redemptions and £0.3bn of ongoing repayments. In addition, in 2015/16, £13bn of residential mortgages were sold during the year.

In November 2015 we concluded a competitive process for the sale of £13bn of loans from NRAM to Cerberus. The structure of the transaction means that Cerberus purchased NRAM plc on 5 May 2016. Prior to the sale assets and liabilities not included in the transaction transferred from NRAM plc to a newly established subsidiary of UKAR, known as NRAM (No.1) Limited.

As at 31 March 2016, lending balances stand at £35.5bn (March 2015: £52.7bn). In total, the Balance Sheet has reduced by £72.5bn from £115.8bn at formation to £43.3bn at 31 March 2016.

Costs

Underlying cost reductions have been achieved as the size of the Balance Sheet reduces but costs have increased as we have invested in our IT infrastructure and made a £3.0m provision for voluntary redundancies, which is a consequence of the reducing Balance Sheet and our success in managing down arrears.

Divestment of Mortgage Servicing Operations

The transfer of our mortgage servicing operations to Computershare gives certainty on costs going forward and allows us to focus on the continuing wind down of UKAR's mortgage book and generation of taxpayer value. The expected total costs are £73.4m and include the cost of an internal transformation programme to separate the mortgage servicing capability from the asset management functions.

Chief Executive Officer's introduction (continued)

Customers

UKAR's approach to good conduct and delivering fair and appropriate outcomes to our customers is fully aligned with the Financial Conduct Authority's ('FCA's') principles. In March 2016 we implemented the Mortgage Credit Directive ('MCD') lending standards, with updated systems and processes and a full programme of training for colleagues. The aim of the MCD is to give customers clear, accurate, consistent and timely information which is aligned to our goal of putting customers at the heart of everything we do.

Following the £13bn sale of assets to Cerberus in November 2015 the number of UKAR customers have reduced by 151,000 to 238,000 (March 2015: 389,000), with 298,000 mortgage accounts (March 2015: 455,000) and 42,000 unsecured personal loan accounts (March 2015: 106,000). In the main, these loans continue to perform well and over 95% of customers are up to date with their mortgage repayments.

We continue to proactively seek to support customers in financial difficulty and the total number of mortgage cases three or more months in arrears, including those in possession, reduced by 47% to 6,377 cases as at 31 March 2016 (March 2015: 11,976). The reduction was driven by asset sales (3,349) and strong underlying performance (2,250).

In addition to our contact strategies for customers in arrears, we also engage proactively with other potentially vulnerable customers who may need help with their financial situation to ensure they are ready for the future, for example, those coming to the end of an interest only mortgage term. Our aim is to remind customers of their obligations, provide a range of useful information and help them plan ahead. It is encouraging that about half all the interest only customers we contact respond.

Although we aim for excellence in customer and debt management, we continue to deal with several legacy issues including Payment Protection Insurance ('PPI') and we continue to do the right thing for our customers and redress where appropriate. We have provided a further £88.2m for remediation in the year, including a £73.4m increase in PPI provisions following the publication of the FCA consultation paper regarding a potential time bar and Plevin v Paragon Personal Finance Ltd ('the Plevin case'). In July 2015 the Court of Appeal found in NRAM's favour that customers with loans greater than £25,000 should not receive remediation in line with Consumer Credit Act ('CCA') customers despite receiving the same incorrect documentation. As a result the £268.3m provision relating to this matter was released.

Further information on our customer strategy is at page 13.

UKAR Corporate Services

Alongside business as usual and building on the previous work of UKARcs on the government's Help to Buy: mortgage guarantee scheme we were asked to support the Help to Buy: ISA initiative by providing the administration services. Pleasingly, working with HM Treasury and the ISA providers, we successfully delivered the service to meet the launch of the scheme in December 2015.

Colleagues

'Being a great place to work' is one of our four strategic objectives and our internal survey results continued to show high levels of colleague engagement demonstrating that we are succeeding in this objective (see our people strategy on page 14).

Throughout UKAR we have a great deal of expertise in managing debt and customer service, and we are focused on ensuring that customers who contact us have a good experience and we reach the right outcome for them and for the taxpayer. Our customer offering also relies on the great work of colleagues in all our support areas who amongst many other things provide the training, technology and facilities that we need in order to serve our customers well. The transfer of our mortgage servicing operations to Computershare means that around 1,700 colleagues will be working for a growing business whilst continuing to provide stability of service to UKAR's customers. Those colleagues who remain within UKAR will be able to focus on repaying the government debt.

Conclusion

I thank all my colleagues at UKAR for their continued efforts and commitment and the Board and Executive management team for their support. It is only through their dedication and hard work that we have achieved the next stage of our strategy. It has always been our ambition to accelerate the repayment of the government debt and move the mortgage servicing operations back into the private sector. I am proud that the team have achieved both these goals after just six years. I will miss the interaction with those colleagues who remain with the business and with my fellow Board Directors and I hand the reins to Ian Hares as the new CEO knowing the business is in safe hands. However, as the CEO of the mortgage servicing business I expect to work closely with UKAR as it continues to achieve its strategic objectives and deliver good service and fair treatment to its customers.

Richard Banks
Chief Executive Officer
23 May 2016

Strategic Report

Key highlights

Highlights of 2015/16

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

Financial measure	March 2016	March 2015
Underlying Profit Before Tax	£1,055.4m	£1,398.1m
Government Loan Repayments	£6.3bn	£3.7bn
3m+ Residential Arrears	6,377	11,976
Ongoing Administrative Expenses	£175.0m	£174.2m

Underlying profit for the year to March 2016 has decreased by £342.7m to £1,055.4m (March 2015: £1,398.1m). The reduction was driven by lower net interest income as a result of the shrinking Balance Sheet, and a lower loan impairment credit reflecting slower house price growth than seen in the prior year.

Government loan repayments of £6.3bn were £2.6bn higher than the prior year. Loan repayments included £5.0bn of proceeds from the £13bn asset sale, which represented the balance of the cash proceeds once the outstanding Granite securitisation liabilities had been repaid. A further £4.1bn of cash was utilised for liability management projects to repurchase third party debt, thereby reducing and optimising the Balance Sheet. Other payments of £0.5bn, for interest costs, fees and taxes, were also made to the taxpayer during the year. Since the formation of UKAR in October 2010 payments to taxpayers now total £24.4bn, including £20.4bn of government loan repayments.

Arrears levels for both B&B and NRAM have fallen as a direct consequence of the asset sale and proactive arrears management coupled with the continued low interest rate environment. The total number of mortgage accounts three or more months in arrears, including those in possession, reduced by 47% from 11,976 at 31 March 2015 to 6,377 cases as at 31 March 2016.

Ongoing administrative expenses (excluding UKARcs costs) for the year were £175.0m, which is in line with the year to March 2015 (£174.2m).

Statutory profit before tax of £1,175.8m was £203.5m higher than the prior year (March 2015: £972.3m) and was impacted by the sale of a £13bn portfolio of NRAM loans, changes to customer redress provisions and an internal transformation programme.

In November 2015 UKAR announced the sale of £13bn of assets to Cerberus. The portfolio was sold via a competitive process which saw a high level of interest resulting in a sale price in excess of par and a premium in the region of £280m, which when adjusted for costs, hedging impacts and margins between June 2015 and the completion date gave an accounting profit on disposal of £59.4m. The sale has helped us to accelerate the delivery of value for the taxpayer and the repayment of the government loan. The cash proceeds from the sale were used to repay the outstanding Granite securitisation liabilities and the balance went towards the repayment of the NRAM government loan.

In July 2015 the Court of Appeal found in NRAM's favour that customers with loans greater than £25,000 should not receive remediation in line with CCA customers despite receiving the same incorrect documentation. As a result the £268.3m provision relating to this matter was released. This was partly offset by an £88.2m increase in customer redress provisions, largely relating to PPI, following the publication of the FCA consultation paper regarding a potential time bar and the Plevin case.

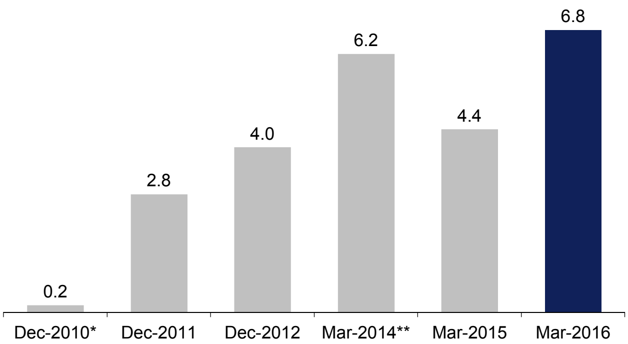
As announced on 4 May 2016 UKAR has signed a contract to outsource its mortgage servicing operations to Computershare. Costs of £73.4m have been recognised in the year, representing the cost of an internal transformation programme to separate the mortgage servicing capability from the asset management function and the costs of transaction advisors.

Please see pages 60 to 69 for a full review of the 2015/16 financial performance.

Key highlights (continued)

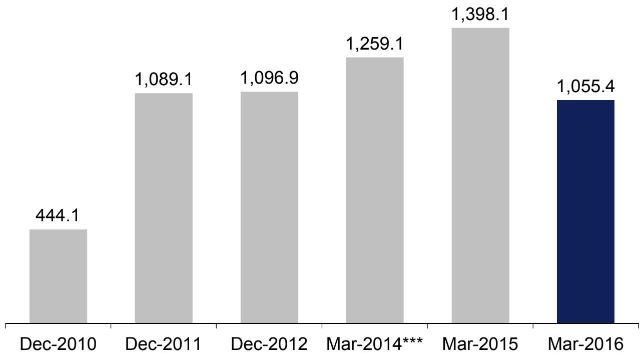
Highlights of 2015/16 (continued)

Total cash payments to HM Treasury (£bn)



** 3 months to December 2010*
*** 15 months to March 2014*

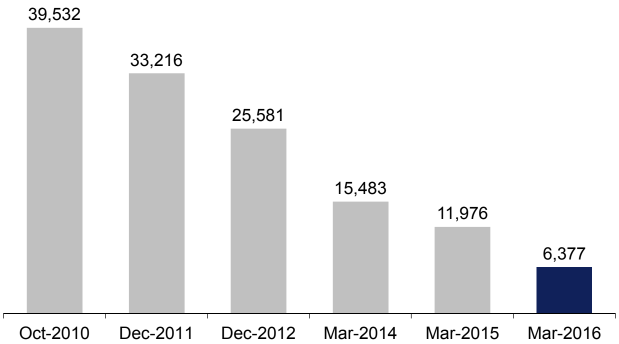
Underlying profit (£m)



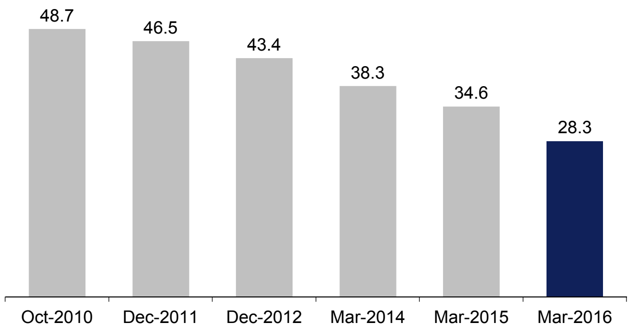
**** 12 months to March 2014*

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

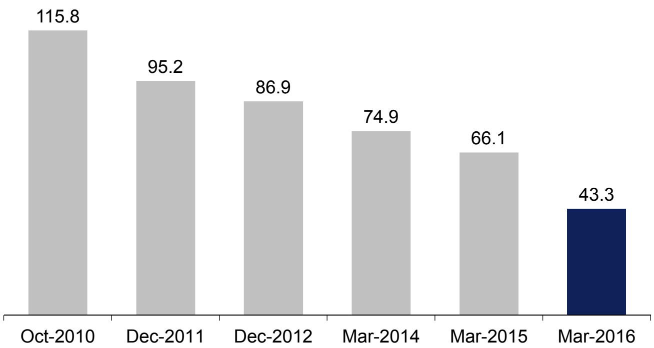
3m+ arrears down 84%



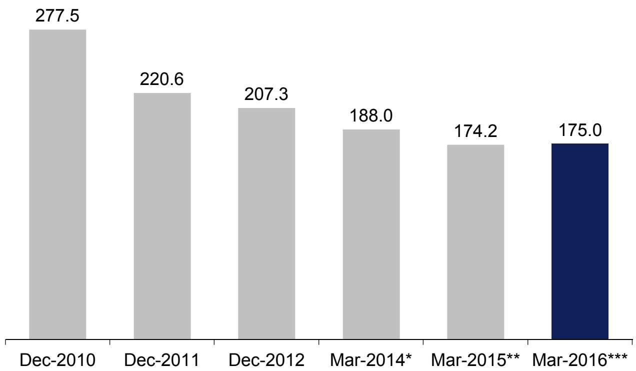
Repaid £20.4bn of government loans



Balance sheet assets (£bn) down 63%



Ongoing operating expenses (£m) down 37%



** 12 months to March 2014 excluding UKARcs costs of £1.8m*
*** 12 months to March 2015 excluding UKARcs costs of £3.0m*
**** 12 months to March 2016 excluding UKARcs costs of £5.4m*

Strategy and operating environment

Company strategy

On the formation of UKAR in October 2010 it was anticipated that our strategy would involve three elements.

Our first task of '**Repair and prepare**' focused on the formation of UKAR, the definition of our mission to maximise value for taxpayers whilst ensuring that we treat customers fairly and implementation of an efficient, integrated operating model.

We then moved to '**Implement and improve**' with a focus on maximising the value of the mortgage book through optimising redemptions and minimising losses, delivering consistently high levels of service and a proactive customer contact strategy to support those customers facing financial difficulty.

Our success in debt management and customer service enables us to complete the third element of '**Realise and release**' being the acceleration of asset sales. In addition the transfer of UKAR's mortgage servicing operations to Computershare, expected in early June 2016, provides stability of service for B&B, Mortgage Express ('MX') and NRAM customers. Computershare will be able to take on new business, which helps safeguard the jobs for our mortgage operations colleagues in Sunderland and West Yorkshire.

Importantly this transaction enables UKAR to focus on the continuing wind down of its mortgage book to maximise value for taxpayers by undertaking further asset sales and continuing to reduce the government debt. As announced in the Chancellor's Budget on 16 March 2016, UKAR is exploring the possibility of a major sales programme of B&B mortgages. This programme of sales will be designed to raise sufficient proceeds for B&B to repay the £15.65bn debt from the FSCS and for the FSCS to repay its corresponding loan from the Treasury. Any sales will be subject to market conditions and ensuring value for money. When selling loans UKAR perform due diligence on potential buyers to ensure ongoing fair treatment of customers. Purchasers of loans are not able to change customers' terms and conditions without the customer's consent.

Strategy and operating environment (continued)

Customer strategy

Our colleague survey demonstrates clearly that our people are very committed to providing excellent customer service and are focused on ensuring we the do the right things for our customers. UKAR has almost 238,000 customers (March 2015: 389,000), with 298,000 mortgage accounts (March 2015: 455,000) and 42,000 unsecured personal loan accounts (March 2015: 106,000). The majority of these loans continue to perform well with more than 95% of mortgage customers up to date with their monthly payments.

Support for customers experiencing payment difficulties

Although levels of arrears are reducing we continue to see a number of customers facing financial difficulty including some entering arrears for the first time. We endeavour to contact all customers following a missed payment to understand their situation and consider solutions to help them manage their mortgage. For customers experiencing temporary or short-term financial difficulty this includes a range of forbearance options. During the year, over 23,000 arrangements were successfully completed and approximately 600 account modifications were made to assist customers with the repayment of their mortgage. Where appropriate we actively encourage customers to seek help from non-fee charging debt advice agencies.

Repossession is always viewed as a last resort but unfortunately in some situations this is inevitable and the best course of action to prevent further indebtedness for the customer. Repossessions continue to decrease and totalled 1,853 in the year (March 2015: 2,856).

Proactive customer engagement

In addition to our contact strategies for customers in arrears, we also engage proactively with other potentially vulnerable customers who may need help with their financial situation to ensure they are ready for the future, for example, those coming to the end of an interest only mortgage term. Our aim is to remind customers of their obligations, provide a range of useful information and help them plan ahead. It is encouraging that about a half of all the interest only customers we contact responded.

Doing the right thing for our customers

UKAR remains committed to doing the right thing for our customers and where we identify issues that have caused customer detriment, we will ensure that they are fully remediated. An additional provision of £88.2m has been recognised following the publication of the FCA's consultation paper CP15/39 "Rules and guidance on payment protection insurance complaints" which proposes the setting of a deadline date for complaints in 2018 and provides guidance in relation to the Plevin case. The proposals include an FCA-led communications campaign to raise awareness of the deadline to prompt those who intend to complain to act ahead of the deadline. If the proposals are agreed we expect higher claims volumes in the run up to the implementation of time-barring than we have previously modelled.

Future customer servicing

As announced on 4 May 2016, UKAR will be transferring its mortgage servicing operations to Computershare in early June 2016. On the transfer of servicing, UKAR will retain legal and regulatory responsibility for customer outcomes and we take this responsibility seriously. Customers will continue to have their mortgages serviced by skilled colleagues and there will be no changes to customers' terms and conditions. UKAR will require the same contact strategies and arrears management practices highlighted above to continue under the new servicing arrangement.

Strategy and operating environment (continued)

People strategy

UKAR's Vision is 'Creating Success Together' and colleagues are the differentiating factor in delivering strong and sustained performance. Therefore, 'being a great place to work' is one of our four strategic objectives. We believe it is important that colleagues feel valued, are proud of the contribution they make and are given the opportunity to grow and learn new skills. Colleagues who enjoy their work strive to do the best they can which increases productivity, gives better service to our customers and maximises value for the taxpayer.

Culture

The UK Regulatory requirement to enhance culture across Financial Services is supported by UKAR's aspiration to build a culture focused on doing the right thing for all stakeholders. This includes recognising the importance of robust risk management, integrity and ethical behaviour and good conduct; placing customers at the heart of all we do.

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

Values

The values, behaviours and standards that underpin the way we do business were originally shaped by colleagues in 2011 to ensure that everyone had an opportunity to contribute to the creation of our values. These are embedded throughout UKAR from the approach we take to recruiting colleagues through to our performance framework, our training programmes and how we incentivise and thank colleagues for the work they do. It is not just 'what' is delivered, it is 'how' it is delivered and the behaviours that our colleagues demonstrate as part of their day-to-day work.

Engagement

Our 'engagement framework' encompasses all aspects of colleague life at UKAR and we track how we are doing against key areas by way of a twice yearly colleague engagement survey. Our most recent survey in March 2016 had an excellent response rate, with 89% of colleagues sharing their views and the survey tracker score, based upon five key questions measuring UKAR as an employer reached 90%, which is 14% above the benchmark figure provided by our survey business partner, People Insight.

Diversity

UKAR treats colleagues as individuals and we recognise the benefits of having a diverse workforce. Appointments and promotions are made according to the ability to meet the requirements of the job.

In particular, UKAR's workforce comprises 60% female to 40% male colleagues. On the Board at 31 March 2016 we had one female (11%) and eight male (89%) Directors. Two of the six members (33%) of the Executive Committee and 33% of the Senior Leadership Team were female compared to none and 21% respectively upon the formation of UKAR.

Learning and development

UKAR invests significantly in improving performance and increasing employability and we aim to provide an average of six days development per colleague each year. We also support a wide range of learning from process and operational training through to professional study. During the year we delivered 12,030 days of training and 89.5% of colleagues have undertaken development programmes to support their career.

Each year we endeavour to recruit circa 20 apprentices and 66 apprentices have secured permanent roles at UKAR since the Apprentice Scheme was introduced in 2010. Our Undergraduate and Graduate schemes continued with three Graduate, three Undergraduate and three summer Internship placements in 2015. We plan to recruit two Graduates, two Undergraduates and two summer Interns in 2016. We also support the government's Centre of Excellence initiative.

Well-being

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

Strategy and operating environment (continued)

People strategy (continued)

Recognition

We have a popular recognition scheme that enables colleagues to show their appreciation to others by sending an e-card or by means of other on-the-spot awards. Colleagues who are an inspiration to others by living the UKAR values, going the extra mile, delivering superior performance or demonstrating exemplary behaviour can be nominated for quarterly and annual awards. We also celebrate the work of teams across UKAR by having a team of the quarter and team of the year award.

Community and environmental strategy

Community

We are committed to:

- using the skills of the business to support education in our communities;
- building the skills of our colleagues through community engagement; and
- supporting colleagues with their own community and charity initiatives.

During 2015/16, UKAR supported a local charity chosen by our colleagues at each major site. These were Yorkshire Air Ambulance in Crossflatts and Children North East in Doxford. The total amount raised for these, plus Children in Need, Sport Relief and other local and national charities in 2015/16 was £82,844.

In addition, UKAR matched employee fundraising to the total of £33,909 and payroll giving totalled £39,885 through UKAR's Give As You Earn and Every Penny Counts schemes.

Colleagues in UKAR are given the opportunity to volunteer to help our communities by working with a number of charities including Young Enterprise, a charity set up to work with schools to inspire young people with the confidence, ability and ambition to succeed in a challenging and changing economy.

Environment

We are committed to:

- reducing environmental impact wherever possible;
- increasing recycling programmes; and
- creating awareness of environmental programmes and engaging colleagues in these activities.

We seek to improve our environmental performance through a range of initiatives and in 2015/16 we achieved the following:

- Recycling 96.5% of waste recycled.
- Landfill 3.5% of waste sent to landfill.
- Carbon emissions * Reduced by 12.5%.

** Carbon produced from utilities (Gas / Electric consumption).*

Further details on our community and environmental strategy can be found on page 80.

Risk overview

UKAR adopts an Enterprise-wide Risk Management Framework ('EWRMF') which is designed to support the identification, assessment, management and control of the principal risks that threaten the achievement of UKAR's strategic and business objectives. The EWRMF sits alongside the Ten Year Business Plan, the Capital Statement and the Liquidity Statement in defining the high-level architecture of UKAR's business planning and risk management systems. The EWRMF itself is underpinned by UKAR's Risk Appetite Framework and a suite of high level risk policies which define the breadth of UKAR's exposure to inherent risks and the management of these risks within appetite. The scope of the EWRMF extends to all principal risk types faced by UKAR. The table below illustrates the principal risk categories which could impact the delivery of the strategic objectives, key mitigating actions, key indicators and the 2016/17 focus.

Principal risk	Key mitigating actions	Key indicators	Focus 2016/17
Conduct risk The risk of UKAR treating its customers unfairly and delivering inappropriate outcomes leading to customer detriment or impacting market integrity.	▪ Conduct Risk Framework to ensure customers are central to the delivery of our objectives. ▪ Conduct risk assessments are integral to all business change and customer initiatives. ▪ Conduct Risk Dashboard tracked and actioned by relevant committees. ▪ Colleague rewards driven by Conduct risk metrics.	▪ Volume of upheld complaints. ▪ Market Regulatory Indicators. ▪ Quality assurance results. ▪ Incentive scheme tracking.	▪ Fair and appropriate customer outcomes. ▪ Complaint handling and Root Cause analysis. ▪ Risk culture.
Outsourcing risk (new) a. The risk of service disruption and/or not receiving services in line with contractual provisions through separation and transition. b. The risk of loss/disruption arising from inadequate or ineffective appointment, supervision and control or any subsequent contractual termination of third party service providers.	▪ Outsourcing Governance Model. ▪ Outsourcing Policy. ▪ Service management reporting. ▪ Assurance and monitoring activity. ▪ Comprehensive contract and SLA's. ▪ Clearly defined policies for the Servicer to comply with.	▪ SLA and contractual performance metrics assessment. ▪ Assurance Monitoring Results - outsourcer and UKAR. ▪ Independent Third Party Supplier Assessment Results.	▪ Separation activities and implementing the outsource agreement. ▪ Embed risk management and assurance monitoring activities. ▪ Regular assessment effectiveness of operations.
Operational risk The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.	▪ Operational Risk Policies. ▪ Quarterly Risk & Control Self-Assessment ('RCSA') process to identify and assess key operational risks. ▪ Scenario analysis to determine the potential impact of high impact, low likelihood events. ▪ Forward looking Key Risk Indicator monitoring to proactively identify shifts in risk exposure. ▪ Loss event monitoring to identify control failures and appropriate corrective action. ▪ Risk appetite monitoring to ensure we are operating within Board approved limits.	▪ Comparison of scenario analysis and RCSA financial impacts against defined risk appetite. ▪ Number and value of operational risk loss events. ▪ People risk metrics (attrition and absence). ▪ Systems risk metrics (availability and security incidents). ▪ Instances of customer and colleague financial crime.	▪ Assurance activity of core IT systems/infrastructure to limit systems outages and security breaches. ▪ Tracking of operational loss events and subsequent control improvements. ▪ Assessment of cyber risk exposure and control effectiveness through security penetration testing and colleague awareness campaigns. ▪ Ongoing monitoring of people and process risks associated with a reducing business.
Credit risk The current or prospective risk to earnings or capital arising when a customer (residential or commercial) or counterparty defaults on its contractual obligations to the company.	▪ Credit Risk Policy, incorporating Board approved risk appetite to support the ongoing management of credit risk. ▪ Forbearance Programme structured to support customers through periods of distress. ▪ Dedicated Credit Risk Committee and robust processes and controls to identify credit risk exposures and action appropriate mitigation. ▪ Euro and US dollar cash balances are placed with a range of banks and money market funds.	▪ Impairment charge. ▪ Loan to Value. ▪ Arrears. ▪ Counterparty ratings.	▪ Manage the credit risk on the underlying mortgage book, considering the high proportion of buy-to-let and the proposed fiscal and other changes to property management. ▪ Interest Only repayment strategy. ▪ End of Term Account Management including consideration of the impact of the new pension rules. ▪ Ongoing monitoring of asset sale influence on the overall credit quality of the book. ▪ Ongoing monitoring of credit rating movements of wholesale counterparties.

Risk overview (continued)

Principal risk	Key mitigating actions	Key indicators	Focus 2016/17
Strategic risk The current or prospective risk to earnings and/or fair value, given the B&B and the NRAM Balance Sheet structures, arising from changes in the business environment and from adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment.	▪ Governance structure. ▪ EWRMF. ▪ Risk Appetite Framework. ▪ Risk policies. ▪ Capital Assessment Framework.	▪ Material risks managed within defined risk appetite.	▪ Ongoing monitoring of strategic risks with the potential to significantly impact the delivery of strategic objectives. ▪ Oversight of the execution of asset sales and the transition and execution of outsourced mortgage servicing.
Liquidity risk The risk that either B&B and/or NRAM are unable to meet their obligations as they fall due.	▪ The defined appetite for liquidity risk is low. Sterling liquidity is held as cash balances at the Bank of England. ▪ Stress & Scenario testing is undertaken to ensure that B&B and NRAM will be able to meet their obligations in extreme conditions.	▪ Changes in the maturity profiles of assets and liabilities. ▪ Level of liquidity. ▪ Contingency funding plan early warning indicators.	▪ Manage liquidity to ensure UKAR has adequate levels of liquidity to meet its commitments at all times and maintain liquidity within levels agreed with HM Treasury facilities and the Liquidity Risk Policy.
Market risk The risk that changes in interest rates, the rate of exchange between currencies or the price of securities or other financial contracts, including derivatives, will have an impact on the results, operations or the financial condition of B&B and/or NRAM.	▪ Market risk is managed and monitored within defined risk appetite and policy. ▪ B&B and NRAM use derivative instruments to mitigate the market risk exposures. ▪ Stress & Scenario testing is undertaken to ensure losses are acceptable even under extreme conditions.	▪ The sensitivity of interest income to changes in market rates. ▪ Variations on the rate of repayment of fixed rate mortgages.	▪ Manage market risk within defined risk appetite.
Regulatory risk The risk of UKAR failing to comply with the legal and regulatory requirements applying to its arrangements and activities.	▪ Zero tolerance appetite in respect of Regulatory Risk. ▪ Minimum standards and responsibilities to ensure the effective management of Regulatory Risk. ▪ Regulatory Risk dashboard tracked and actioned by Executive Risk Committee.	▪ Volume of regulatory breaches. ▪ Industry relevant regulatory developments. ▪ Industry fines and cost of redress. ▪ Regulatory relationships.	▪ Ongoing monitoring of changes in regulation and legislation. ▪ Open dialogue with Regulators. ▪ Analysis of FCA fines.

Richard Banks
Chief Executive Officer, on behalf of the Board
23 May 2016

Directors' Report and Governance Statement

Corporate governance

Introduction

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

UKAR is 100% owned by the UK government which exercises control through UKFI. UKFI was set up on 3 November 2008 to manage the government's investments in Royal Bank of Scotland, Lloyds Banking Group, Northern Rock and B&B.

UKAR governed and controlled NRAM and B&B, as their sole shareholder during 2015/16. Although managed under a common board and management structure, NRAM and B&B (the 'Principal Subsidiaries') remained separate legal entities and continued to operate as individual companies with their own individual brands and Balance Sheets.

As explained in the overview on page 3, on 5 May 2016 NRAM plc was sold to Cerberus as part of the £13bn sale of assets announced in November 2015. For details see note 35 - Events after the reporting period. As part of this transaction certain assets and liabilities were transferred to a new wholly owned subsidiary of UKAR, NRAM (No.1) Limited, which will continue to operate similar governance arrangements as previously applied to NRAM plc.

This corporate governance section summarises the governance regime applicable to UKAR including its Principal Subsidiaries referred to above (the 'Group') during 2015/16.

UKAR Corporate Services Limited

In 2015/16, UKAR was appointed by HM Treasury to administrate the Help to Buy: ISA scheme on its behalf, in addition to the Help to Buy: mortgage guarantee scheme that UKAR undertook in 2013. The administration of the schemes are kept separate from UKAR's core operations through a separate company, UKARcs.

Governance structure

The governance structure for the Group in 2015/16 was determined by the UK Asset Resolution and UK Financial Investments Limited Framework Document agreed between UKAR and UKFI, acting on behalf of HM Treasury. The Framework Document sets out how the relationship between the Group and UKFI will work in practice. The terms of the Framework Document are reflected below and throughout this report.

The Framework Document is intended to ensure that the relationship between the companies in the Group, UKFI, HM Treasury (as Shareholder and the provider of financial support) and the FCA (as regulator), operates in the context of the over-arching objective of maximising value for the taxpayer, whilst paying due regard to the maintenance of financial stability and to acting in a way that promotes competition. The Framework Document requires the Group to set strategic aims and develop a business plan to achieve the overarching objectives.

Principles of the Framework Document

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

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

Corporate governance (continued)

Governance structure (continued)

Monitoring performance

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

- two UKFI appointed Directors attend each Board meeting; and
- monthly (or, at UKFI's request more frequent) meetings between the Group and UKFI to review performance against the Plan and any agreed objectives.

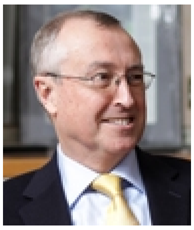
In addition, UKFI has certain monitoring and information access rights and its approval must be obtained for certain material actions and transactions, as defined in the Framework Document.

Board of Directors

UKAR, B&B and NRAM shared a common Board of Directors during 2015/16 whose biographies are set out below.

The biographical details of each Director demonstrate the broad range of experience and expertise they brought to the Board in 2015/16.

Richard Pym – Non-Executive Chairman



Richard became Chairman of UKAR in July 2010 having been appointed Chairman of B&B in November 2008 and NRAM in January 2010. He also chairs the Nomination Committees and the Transaction Approvals Committee. In June 2015 Richard was awarded a CBE for services to taxpayers and financial stability.

Richard is Chairman of Allied Irish Banks plc.

He was Group Chief Executive of Alliance & Leicester plc until July 2007. Formerly, he was Chairman of Nordax Bank AB (publ), the Co-operative Bank plc, BrightHouse Group plc and Halfords Group plc, and a Non-Executive Director of The British Land Company plc, Old Mutual plc and Selfridges plc. Richard is a Fellow of the Institute of Chartered Accountants in England and Wales.

Richard Banks - Chief Executive Officer

Richard became Chief Executive Officer of UKAR in July 2010 and was appointed Chief Executive Officer of B&B and NRAM in October 2010. He is also a member of the Transaction Approvals Committee.

Richard is Chairman of Shop Direct Financial Services Ltd and Non-Executive Director of Liverpool Compact, which provides work experience for 14-19 year olds.

Before joining the Board of B&B in May 2009, Richard's career has been in retail and commercial banking. He was previously a Director of Alliance & Leicester plc where he was Group Risk Director and before that Managing Director of Commercial Banking. Richard is an Associate of the Chartered Institute of Banking and was formerly a Non-Executive Director of ICICI Bank UK plc and an interim Non-Executive Director of the Student Loan Company Ltd.

Corporate governance (continued)

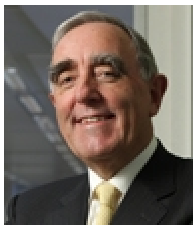
Board of Directors (continued)

Kent Atkinson - Senior Independent Director

Kent joined the Boards of UKAR and B&B in October 2010, and has been a Non-Executive Director of NRAM and prior to that Northern Rock plc, since August 2008. He is our Senior Independent Director, Chairman of the Audit Committees and a member of the Risk Committees.

Kent was previously Group Finance Director of Lloyds TSB Group plc and subsequently a Non-Executive Director. He is a Non-Executive Director, Chairman of the Audit Committee and a member of the Risk Committee of the Bank of Ireland Group. Previously he was a Non-Executive Director and a member of the Audit Committee and Mergers & Acquisition Committee of Gemalto NV; the Senior Independent Director and Chairman of the Audit Committee of Coca-Cola HBC AG; a Non-Executive Director, Chairman of the Group Audit and Compliance Committee and a member of the Risk and Investment Committees of Standard Life plc; a Non-Executive Director, Chairman of the Audit Committee and a member of the Risk Committee of Northern Rock plc; the Senior Independent Director and Chairman of the Audit Committees of Cookson Group plc and Telent plc (previously Marconi Corporation plc); and a Non-Executive Director and a member of the Audit Committee of Millicom International Cellular S.A.

Michael Buckley – Non-Executive Director



Michael joined the Boards of UKAR and NRAM in October 2010, and has been a Non-Executive Director of B&B since July 2007. He is a member of the Audit, Risk and Nomination Committees and the Transaction Approvals Committee.

Michael is Chairman of KKR Alternative Investment Management Ltd and KKR Credit Advisors (Ireland) Ltd. He is also a senior advisor to a number of privately held Irish and US based companies, and is an Adjunct Professor at the Department of Economics at NUI University College, Cork.

He was the Non-Executive Chairman of DCC plc from May 2008 to October 2014 and Senior Independent Director of DCC plc from September 2005 to May 2008. From April 2003 until April 2012 he was a Non-Executive Director of M&T Corporation in the USA. He was Group Chief Executive of Allied Irish Banks plc from 2001 to 2005 having earlier served as Managing Director of AIB Capital Markets and AIB Poland. Previously he was Managing Director of the NCB Group, and a senior public servant in Ireland and the EU.

Sue Langley – Non-Executive Director

Sue joined the Boards of UKAR and B&B in October 2010, having joined the Board of NRAM in January 2010. She is Chairman of the Remuneration Committees and a member of the Nomination Committees.

Sue was awarded an OBE in the 2015 New Year Honours list for services to Women in Business.

Sue is Chairman of AJ Gallagher (UK) Ltd and was previously CEO of UK Trade & Investment. Previous roles include Director of Market Operations and a member of the Executive Team for Lloyd's of London, Chairman of Lloyd's Japan and Director of Lloyd's Asia, Chief Operating Officer and a member of the Executive Team of the Hiscox Group and Board member for Hiscox Syndicates and Hiscox Insurance. She joined Hiscox from PricewaterhouseCoopers where she was a Principal Consultant working with a range of FTSE companies.

David Lunn – Non-Executive Director

David joined the Boards of UKAR, B&B and NRAM in November 2014 after being appointed by UKFI to manage HM Government's shareholdings in the UKAR companies. He is also a member of the Transaction Approvals Committee.

David came to UKFI from HM Treasury, where he worked on many of the interventions made by the UK government in response to the financial crisis. Most recently, he headed the HM Treasury team leading on the development of bank and other financial sector resolution policy. A career civil servant, he joined HM Treasury in 2009 from the Department for Transport, where he worked on a variety of policy areas, with a focus on the funding and financing of the Department's major projects. He joined the then Department of Transport as a Government Economist in 1995.

Corporate governance (continued)

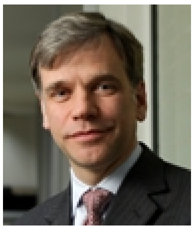
Board of Directors (continued)

John Tattersall – Non-Executive Director

John joined the Boards of UKAR and NRAM in October 2010, having joined the Board of B&B in April 2010. He is Chairman of the Risk Committees and a member of the Audit and Remuneration Committees.

John retired as a partner in PricewaterhouseCoopers LLP in 2009, where he had worked since 1975, latterly as leader of the firm's Financial Services Regulatory Practice and a senior client relationship partner. He started his career in the financial services sector with Kleinwort Benson Ltd in 1973. Until 2009 he was Chairman of the Risk and Regulation Committee of the Financial Services Faculty of the Institute of Chartered Accountants in England and Wales, and a member of the faculty board. He is currently Chairman of UBS Ltd, The Oxford Diocesan Board of Finance, RC Bond Holdings Limited and Retail Charity Bonds Plc. He is also a Non-Executive Director of CCLA Investment Management Ltd, South East Institute for Theological Education and Diocesan Trustees (Oxford) Ltd. He is also Chairman of the Court of the Royal Foundation of St Katharine, and a non-stipendiary priest in the Church of England. He acted as Consultant Editor and joint author of two books 'A Practitioner's Guide to the Basel Accord' and 'A Practitioner's Guide to FSA Regulation of Banking', and served as a member of the Independent Commission on Equitable Life payments.

Keith Morgan – Non-Executive Director



Keith joined the Boards of UKAR and B&B in October 2010, having joined the Board of NRAM in January 2010. He is a member of the Risk and Remuneration Committees and the Transaction Approvals Committee.

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

Ian Hares - Finance & Investment Director

Ian Hares became Finance & Investment Director in December 2013 having been Investment Director since 2011. He was appointed to the Boards of UKAR, B&B and NRAM in July 2014. He is also a member of the Transaction Approvals Committee.

Ian has over 35 years experience within the financial services industry having previously worked for Santander UK Group, Alliance & Leicester plc, Girobank plc and National Westminster Bank Group.

Brendan McDonagh (Appointed post year end)

Brendan joined the Boards of UKAR and B&B on 4 April 2016.

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

Brendan is a member of the board of Ireland's National Treasury Management Agency. He is Chairman of the Remuneration Committee and Chairman of the Investment Committee of the Ireland Strategic Investment Fund. He also serves on the advisory board of the business school of Trinity College Dublin.

Corporate governance (continued)

Board of Directors (continued)

Resignations

There were no resignations during 2015/16.

However, on 5 May 2016, as part of the sale of NRAM plc, the Directors, except for Mr Richard Banks and Mr Ian Hares, resigned from the Board of NRAM plc. To ensure a smooth transition between 5 May 2016 and final completion Richard Banks and Ian Hares will remain on the Board of NRAM plc as Non-Executive Directors. Post final completion they will stand down. They will receive no fees for this directorship.

NRAM (No.1) Limited

In preparation for the sale of NRAM plc, the Directors of UKAR and B&B, with the exception of Brendan McDonagh, have been appointed to the Board of NRAM (No.1) Limited. It is intended that Brendan McDonagh will also join the Board of NRAM (No.1) Limited in due course, at which point there will be a common Board of Directors for UKAR, B&B and NRAM (No.1) Limited.

Future Changes to the Board

At the point of transfer of the mortgage servicing activities to Computershare the following changes to the UKAR, B&B and NRAM (No.1) Limited Boards will take place:

- John Tattersall will succeed Richard Pym as Chairman;
- Kent Atkinson will step down as a Non-Executive Director, Sue Langley will become Senior Independent Director and Brendan McDonagh will become Chairman of the Audit Committee;
- Richard Banks will step down as director and CEO and move to Computershare; and
- Ian Hares, currently Finance & Investment Director, will become CEO.

Balance of Executive and Non-Executive Directors

During 2015/16 the Board comprised a Non-Executive Chairman, four independent Non-Executive Directors, two Executive Directors and two UKFI nominated Non-Executive Directors. The Non-Executive Directors have experience in a range of commercial or banking activities. The Board has determined that the Non-Executive Directors, who were not appointed by the Shareholder, were independent, because of the commonality of purpose between UKAR and the Principal Subsidiaries and a rigorous focus on the identification of any specific conflicts of interest.

Relationship between the Chairman and the Chief Executive Officer

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

Senior Independent Director

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

Kent Atkinson was the Senior Independent Director of UKAR, NRAM and B&B throughout 2015/16.

Company Secretary

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

John Gornall was appointed Company Secretary of UKAR, NRAM and B&B with effect from 30 June 2014.

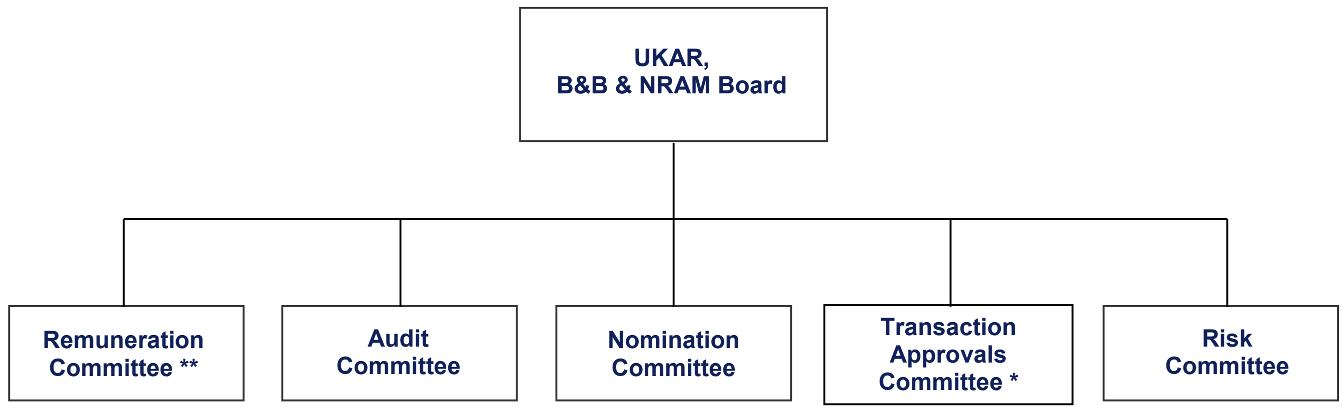
Corporate governance (continued)

How the Board operated in 2015/16

Board structure and governance

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

Board and Committee Structure



* The Principal Subsidiaries operate a Transaction Approvals Committee which is included in these accounts for a full understanding of the Group Committee Structure.
** A separate sub-committee has been established by the Board to set the fees of the Chairman and Non-Executive Directors see further detail on page 33.

During 2015/16, the Chairman of each Committee was:

Committee	Chairman
Remuneration Committee	Sue Langley
Audit Committee	Kent Atkinson
Nomination Committee	Richard Pym
Transaction Approvals Committee	Richard Pym
Risk Committee	John Tattersall

Each of the Board Committees have detailed Terms of Reference setting out their remit and authority. Details of the membership of each Committee, the role and key activities during 2015/16 are set out in the individual Committee Chairman's reports on pages 31 to 58.

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

Board and Committee meetings

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

The attendance of individual Board members at Board and Committee meetings during 2015/16, together with the overall number of meetings held is set out below.

Corporate governance (continued)

How the Board operated in 2015/16 (continued)

Board and Committee meetings (continued)

	Board	Audit	Nomination	Remuneration	Risk	Transaction Approvals *
Number of meetings held	**9**	**6**	**7**	**5**	**4**	**5**
Chairman						
Richard Pym	9	-	7	-	-	5
Chief Executive						
Richard Banks	9	-	-	-	-	5
Senior Independent Director						
Kent Atkinson	8	6	-	-	4	-
Independent Non-Executive Directors						
Michael Buckley	8	5	7	-	4	5
Sue Langley	9	-	7	5	-	-
John Tattersall	9	6	-	5	4	-
Non-Executive Directors						
David Lunn	9	-	-	-	-	4
Keith Morgan	9	-	-	5	4	4
Executive Directors						
Ian Hares	9	-	-	-	-	5

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

In addition to the scheduled Board and Committee meetings detailed above, the following meetings were held at short notice on a quorate basis to meet additional business requirements:

- three additional Board meetings were held in relation to the sale of assets and the divestment of the mortgage servicing business; and
- two Sub Committees were held for the approval of the Interim and Annual Financial Statements.

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

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

Board responsibilities

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

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

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

Corporate governance (continued)

How the Board operated in 2015/16 (continued)

Board activities 2015/16

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

These objectives, which are approved by UKFI, have included the sale of assets and the divestment of the mortgage servicing business, which are explained more fully in the Chairman and CEO statements.

These transactions have required significant Board oversight during the year and the Board has reviewed developments at each meeting and undertaken the following activities:

- approving and monitoring a competitive, transparent sales process;
- overseeing the sales process including the terms of bids, pricing decisions, selection of bidders to progress further in the process, agreement of contractual terms and final approval of the transaction;
- ensuring that the terms of the transactions protected the interests of customers and provided value for money to the taxpayer; and
- ongoing monitoring of conflicts of interest.

In addition to the above, the Board continued to provide oversight in relation to ongoing key business activities during 2015/16 which have included:

- approving the Annual and Interim Financial Statements;
- approving key performance indicators and endorsing Balanced Scorecard results;
- approving the Risk Appetite Statement;
- oversight and approval of high level remediation activity;
- reviewing the composition and approach to remediation activities;
- considering and approving refreshed Ten Year Plans;
- approving the Liquidity and Capital Statements;
- approving the tender and buy back of certain B&B Covered Bonds;
- receiving regular updates on finance, investment, risk and other key areas of the business to inform monitoring of progress against the Plan and future strategy;
- ensuring that decision making at all levels reflects good conduct and the fair treatment of customers; and
- approving the Board Governance Documentation, including the EWRMF.

Board appointments and composition

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

- the Chairman and either the Chairman of UKFI or a senior employee nominated by the Chairman of UKFI (the 'Nominated Officer'), will discuss and confirm Board composition and succession regularly in the light of performance and the requirements of the Plan;
- UKFI will be entitled to appoint to the Board one or more Non-Executive Directors nominated by UKFI (the 'Shareholder Directors'); Mr Lunn and Mr Morgan are currently appointed as such Directors. The Group acknowledges that the Shareholder Directors intend to liaise with and report to representatives of UKFI from time to time in relation to the business of the Group and decisions made, or to be made, by the Board in order to assist with the exercise of their powers and duties as Directors;
- one or more senior representatives of UKFI will, if so requested by UKFI, attend meetings of the Board in an observer capacity;
- the Chairman will discuss with the Nominated Officer any impending changes to Board membership;
- the Chairman of the Nomination Committee will meet with the Nominated Officer as necessary to obtain UKFI's approval to any proposed Board changes before they become subject to the formal appointment/consent procedure. The Articles of Association require that at every Annual General Meeting each Director, other than the Shareholder Directors who are expressly exempt from this provision, shall retire from office and may offer themselves for re-appointment;

Corporate governance (continued)

How the Board operated in 2015/16 (continued)

Board appointments and composition (continued)

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

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

Board evaluation

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

The review process provides the opportunity for the Board and its Committees to reflect on the effectiveness of their activities and the quality of their decisions.

During 2015/16, the Board and Committee evaluation exercise was conducted by the Chairman with assistance from the Company Secretary.

All Executive Directors, Non-Executive Directors and the Chairman participated in the annual evaluation process to ensure that the operation of the Board and its Committees continued to be of the highest standard. The process consisted of individual questionnaires which sought Directors' views on a wide range of key issues, including:

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

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

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

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

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

Induction and training

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

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

Corporate governance (continued)

How the Board operated in 2015/16 (continued)

Induction and training (continued)

Directors receive a tailored induction programme designed to meet their individual needs and level of knowledge and experience. Where appropriate this includes time with each of the Executive Directors, the Company Secretary, other members of the Executive Committee ('ExCo'), a wide range of senior management from across the business and a meeting with the Group's solicitors.

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

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

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

Timely and quality information

The Board believes that it receives and has access to, on a timely basis, all relevant information which is of a sufficient quality to make appropriate decisions and discharge its duties and obligations. The Board reviewed this matter as part of the annual evaluation process and there were no issues arising.

All Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that Board procedures and applicable rules are followed. Where necessary, Directors are able to take independent professional advice at the Group's expense.

Internal control and risk management

The Board is responsible for the Group's system of internal control and seeks regular assurance to satisfy itself that the system is functioning effectively in managing risks in the manner which it has approved. Such a system can only provide reasonable and not absolute, assurance against material misstatement or loss, as it is designed to manage, rather than eliminate, the risk of failure to achieve business objectives. Throughout the year ended 31 March 2016, the Group has operated a system of internal control, which includes an ongoing risk management process for identifying, evaluating and managing the principal risks faced by the Group. The Directors confirm that they have carried out a robust assessment of the principal risks facing the Group and have reviewed the effectiveness of the Group's system of financial and non-financial controls including operational and compliance controls, risk management systems and the Group's material risk exposures and associated mitigating actions.

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

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

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

The system of risk management and internal control has operated effectively throughout 2015/16 and up to the date of approval of the Annual Report and Accounts.

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

Corporate governance (continued)

How the Board operated in 2015/16 (continued)

Internal control and risk management (continued)

In addition, as part of the process of preparing this statement, the Board has also performed its annual assessment of the effectiveness of risk management and internal control systems. This annual assessment adopted the recommendations of current best practice guidance issued by the Financial Reporting Council. The Board of Directors is not aware of any material risk events or internal control failures that arose across the Group during 2015/16 that are not being addressed in accordance with the internal control procedures of the Group.

Going concern

The Directors have assessed, taking into consideration the post year-end transfer of assets and liabilities from NRAM plc to NRAM (No.1) Limited and subsequent sale of NRAM plc (see note 35 - Events after the reporting period), the principal risks set out on pages 16 to 17 and 74 to 77, potential future strategic options and the current and anticipated economic conditions, the Company's and the Group's ability to continue as a going concern. As set out in note 1 to the Financial Statements and in the Annual Reports and Accounts of B&B and NRAM (No.1) Limited, HM Treasury has provided confirmation to the Directors of those two companies that it is HM Treasury's intention to fund those companies so as to maintain them as a going concern and has provided various on-demand facilities to each of those companies, to enable those companies to meet their debts as and when they fall due, for a period up to at least 1 January 2018. Accordingly, the Directors of B&B and NRAM (No.1) Limited are satisfied at the time of approval of these Financial Statements that the B&B and NRAM (No.1) Limited companies and groups have adequate resources to continue in business for the foreseeable future. The Directors of the Company confirm that, therefore, they are satisfied that the Company and the Group have adequate resources to continue in business for the foreseeable future and for this reason they continue to adopt the going concern basis in preparing the Financial Statements.

Longer term viability

UKAR was established to oversee the orderly run-off of B&B and NRAM for the UK government and continues to receive funding and guarantees from HM Treasury to enable it to undertake this activity. The Board have no reason to believe that support from HM Treasury will be withdrawn or curtailed after 1 January 2018. With this in mind, the Directors have assessed the longer term viability of the Group, taking into account modelling undertaken as part of the annual refresh of the Ten Year Plan, the strategy set out on pages 12 to 15 and the principal risks set out on pages 16 to 17 and 74 to 77, and have concluded that, provided the financial support from HM Treasury continues, the Group will remain viable throughout the entire period of its run-off. The length of this period will depend on the success of strategic initiatives, including the current proposals to sell further mortgage assets.

Corporate governance codes

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

Directors' remuneration report

Sue Langley, Chairman of the Remuneration Committee, introduces the Directors' Remuneration Report and summarises the Committee's main areas of focus during 2015/16.

"As Chairman of the Remuneration Committee, I am pleased to present UKAR's report on Directors' Remuneration for 2015/16.

The work of the Committee during the year covered a range of topics within our Terms of Reference, including the annual review of the reward strategy to ensure it continues to remain aligned to UKAR's business strategy. The Committee focussed in particular on the operational risk within the business and particularly how to motivate and retain colleagues as we progressed our two major strategic projects - the divestment of our mortgage servicing activities and the sale of £13bn of assets to Cerberus whilst maintaining business as usual.

The Committee ensures that all of UKAR's incentive arrangements support appropriate customer outcomes in line with the FCA's conduct risk agenda and works closely with UKFI on remuneration matters in line with the Framework Document."

Membership

The Remuneration Committee was in place throughout 2015/16 and had the following membership at 31 March 2016:

Sue Langley (Chairman)
Keith Morgan
John Tattersall

There were no changes to the membership of the Remuneration Committee during 2015/16.

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

Summary of responsibilities

The Remuneration Committee is responsible for:

- making recommendations to the Board concerning the remuneration arrangements of Executives and other staff in senior roles with significant influence over the risk profile of the business remuneration arrangements (Code Staff);
- recommending proposals in respect of related pay schemes; and
- overseeing any major changes in benefit structures.

Meetings

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

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

- David Lunn, as a UKFI appointed Non-Executive Director;
- Richard Banks, CEO and Ian Hares, Finance & Investment Director;
- members of the Executive Committee responsible for HR and Risk;
- Company Secretary or his nominee; and
- other representatives from business functions and/or external advisors.

Reporting to the Board

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

Governance

The Committee completed an annual review of its Terms of Reference in February 2016 and undertook an evaluation process in accordance with the requirements of those Terms of Reference. The results of the evaluation were positive and provided assurance that the Committee remained fit for purpose.

Directors' remuneration report (continued)

Chairman's overview of 2015/16

UKAR manages all colleagues, regardless of their position within the company, against the same set of reward principles, which focus on fair and transparent remuneration.

Executive remuneration is aligned to UKAR's business strategy, aimed at delivering value for taxpayers. Base salaries are targeted at a mid-market level for companies of UKAR's size, to enable the business to retain talented individuals in key leadership roles. UKAR operates an annual Short Term Incentive Plan ('STIP') and a Medium Term Incentive Plan ('MTIP'), which usually operates over three years, for Executive Directors and the Senior Leadership team. This variable remuneration is modest by comparison with market levels. For Executive Directors, the annual bonuses are capped at 60% of base salary for excellent performance and the medium-term incentive plan has a maximum value of 20% of base salary per annum on an annualised basis.

Performance conditions for annual bonus are directly linked to business goals including financial, operational and non-financial objectives. Financial objectives comprise: underlying profitability, management of costs and repayment of government debt. Operational and non-financial criteria include customer service, management of arrears, people management and maintaining effective internal controls.

UKAR has shown strong performance for 2015/16 achieving all its targets for the year comprising of underlying profit before tax, government loan repayments, costs and the number of customers with 3 months or more arrears.

Although it is not required to do so UKAR continues to seek, as far as possible, to comply with the regulatory and governance requirements which apply to UK listed companies and the FCA's IFPRU Remuneration Code.

Variable Pay Cap

UKAR is not subject to the variable pay cap introduced under the European Union Capital Requirements Directive (CRD IV), and interpreted in the Prudential Regulation Authority ('PRA') remuneration rules. However, UKAR does seek to comply with the cap of a 1:1 ratio of variable to fixed pay. In addition, 40% of annual bonus is compulsorily deferred over a three-year period and clawback provisions enable variable pay to be recouped in exceptional circumstances. The approach taken for the different incentive payments is described below:

- The STIP for 2015/16 pays up to 60% for Executives and 30% for members of the Senior Leadership Team. Under the PRA remuneration rules and for accounting purposes it is reported in respect of the year to which performance relates, i.e. 2015/16.
- The MTIP scheme pays 60% for Executives and 30% for members of the Senior Leadership Team if targets are achieved. Should an event occur which the Committee considers would materially alter achievement against targets, it has the discretion to change the targets providing such change does not have the effect of making the objectives materially more onerous or easier to satisfy than immediately before the event in question. The Remuneration Committee enacted this rule following the £13bn sale of mortgage assets to Cerberus in November 2015 and as a result the scheme closed a year early, at the end of the 2015/16 performance year. Vesting will not take place until after the end of the 2016/17 year. As this scheme closed early it is envisaged that the next scheme will last for four years. For accounting purposes the current scheme is reported in the final year of the performance period and is shown in the 2015/16 accounts. Under the PRA's approach to calculation of the variable pay cap, an MTIP is counted in the financial year preceding the year of grant. Therefore, the new 2016/17-2019/20 scheme which will extend over four years to reflect the early closure of the current scheme will count towards the variable pay cap for 2015/16.
- During the year an additional incentive was developed to motivate and reward performance related to the successful delivery of the divestment of the mortgage servicing activities, with Executives eligible to earn up to 60% of base salary and Senior Leadership team members eligible to earn up to 30% dependent upon the success of the transaction and their contribution to the project. The scheme was designed to ensure that any incentive did not encourage the wrong behaviours, for example progressing the transaction at all costs. In line with best practice the same approach to deferral, malus and clawback applies for this incentive as to the STIP which is outlined later in this report. All other colleagues will be eligible to receive a one-off payment of £1,500 subject to certain criteria. The successful completion of this project will see around 1,700 colleagues transfer to Computershare in early June 2016. Any incentive payments in respect of this transaction will be made following the successful transfer. Under the PRA remuneration approach and for accounting purposes it is counted in respect of the year in which the transaction occurs as this is the relevant performance year, i.e. 2016/17.
- Should any individual's total variable remuneration exceed the cap in a given year, the amount over the cap would be deferred to the following year. This deferred amount would be subject to the following year's performance, and continued employment requirements, and as such it would be added to the potential STIP earnings for the following year.

Directors' remuneration report (continued)

Non-Executive Directors

The Chairman and Non-Executive Directors each have a letter of appointment which sets out the terms and conditions of their directorship, including fees payable.

Further detail in relation to Board appointments is provided on page 27.

The Board has delegated authority to set the fees of the Chairman and Non-Executive Directors to the Executive Remuneration Committee (Non-Executive Directors) consisting of Richard Banks, David Lunn and Ian Hares, subject to UKFI approval.

Non-Executive Director fees were decreased in 2012 in anticipation of the stabilisation of the business requiring less meetings and activity. However, as highlighted in last year's report, the Directors have subsequently been asked to give additional time to the company and as a result the fees paid reverted back to the original level from April 2015. The Chairman waived any increase to his fees. The fees are shown in table 2 below.

Table 1 – Details surrounding fees for Non-Executive Directors

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

Table 2 - Fees for the Chairman and Non-Executive Directors ('NEDs')

Per annum	2015/16	2014/15	% Change
Chairman	£125,000	£125,000	0%
NED Base fee / Senior Independent Director	£50,000	£47,500	5%
Committee Chairman	£15,000	£14,250	5%
Committee Member	£5,000	£4,750	5%

Directors' remuneration policy

Policy overview

UKAR's Reward Policy applies to all colleagues across the organisation and is reviewed annually by the Remuneration Committee taking account of UKAR's business goals and public ownership. The policy is published and available to all colleagues internally.

The main purpose of the policy is to support the achievement of UKAR's overall business strategy by establishing an objective, consistent and fair reward system. This in turn provides a competitive yet cost-effective salary, incentive and benefits package to all colleagues that reflects their role, competencies and the contribution they make, both now and in the future. The policy also seeks to support UKAR's unique circumstances and needs to be agile to respond to the changing economic and regulatory environment.

UKAR's reward policy aims to support the retention and attraction of high quality colleagues by differentiating reward for high performers. Reward is only one lever available to mitigate the risk of talented colleagues leaving the company and the reward policy is, therefore, aligned closely to the overarching HR strategy. This is becoming more important to UKAR's success given the contraction of the business and consequently the overall reward policy continues to be regularly reviewed.

UKAR recognises and consults with the Unite trade union. As part of the pay negotiations for all colleagues, UKAR discusses its approach to pay for executives to ensure that the Union is fully aware of the approach UKAR intends to take and has an opportunity to raise questions. In 2015/16, UKAR continued to apply a consistent salary review process across all of the Group including executives and senior managers.

Directors' remuneration report (continued)

Directors' remuneration policy (continued)

The remuneration policy for directors

Table 3 – Key aspects of the remuneration policy for Executive Directors

Element	Purpose and link to strategy	Operation	Maximum opportunity
Base salary	To attract and retain key talent by ensuring an appropriate, competitive benefits package.	Roles are benchmarked externally. Salaries are reviewed by the Remuneration Committee and recommendations are submitted to the Board and UKFI, the shareholder representative, based upon the skills and experience they bring to the role.	The base salary for each Executive Director is confirmed later in the report. There is no prescribed maximum. However, the Remuneration Committee reviews the salary against the salary range each year before considering whether any increase is appropriate. They also consider the pay approach used for all UKAR colleagues. The approach to pay increases, including that for promotions/ increased responsibility is in line with the approach taken for all colleagues.
Benefits	To provide a competitive package, aligned to market practice.	The benefit package for Executive Directors was agreed when UKAR was formed following external benchmarking. The package includes annual holiday entitlement, life assurance, car allowance, private medical insurance, income protection insurance, personal accident insurance and assistance with relocation, travel and accommodation where necessary. Individuals promoted to Executive Director from a below-Board role may retain entitlements under UKAR's Redundancy Policy.	Each benefit has its own maximum in line with the nature of the benefit and the policy that surrounds it.
Pension	To provide a competitive package, aligned to market practice.	Directors are either offered a pension allowance or employer contribution into UKAR's pension plan. The approach taken depends on the Director's individual circumstances.	The pension allowance for the CEO is set at 30% of base salary. Other Executive Directors receive either a pension contribution of 15% of base salary or an equivalent cash allowance.

Directors' remuneration report (continued)

Directors' remuneration policy (continued)

The remuneration policy for directors (continued)

Table 3 – Key aspects of the remuneration policy for Executive Directors (continued)

Element	Purpose and link to strategy	Operation	Maximum opportunity
Short-Term Incentive Plans **(Annual Bonus)**	To reward performance for delivery of key financial and operational targets.	UKAR's STIP is linked to achievement of the financial and operational targets in place for the relevant year alongside personal performance. Conduct risk is also a key element of the STIP aligned to UKAR's zero appetite for conduct risk. Targets for customer outcomes and conduct risk, plus other key organisational metrics, are included in the UKAR Balanced Scorecard. Failure to achieve these targets would result in a reduction to the bonus pool. Given UKAR's status, all awards are made in cash as there is no option to award shares and 60% is paid initially with the remainder paid in equal instalments over the following three years. The Remuneration Committee approves personal objectives for the year for Executive Directors. Any potential awards, including deferrals, are subject to Remuneration Committee discretion. Malus and clawback operate where appropriate and, in line with best practice, the Remuneration Committee considers whether there has been any significant issues, such as misstatement of results or misconduct as part of their consideration around approval of bonus awards. UKAR considered extending the period for deferral but decided not to do so, given the size of the awards that are made and the fact that it is a business with a limited lifespan. Should an event occur which the Remuneration Committee consider would materially alter achievement against targets, it has the discretion to change the personal objectives or targets. However, such change, in the opinion of the Committee, must not have the effect of making the performance objective or corporate assessments materially more onerous or easier to satisfy than it was immediately before the event in question.	Up to 60% of base annual salary.
Medium-Term Incentive Plan	To reward performance for delivery of key metrics directly linked to UKAR's overarching strategy.	The MTIP was put in place to measure performance over 3-year performance periods. MTIP performance periods run in sequence, rather than being a rolling annual grant programme with overlapping performance periods. Performance metrics are aligned to targets around driving additional cash from asset sales and other management activities which do not diminish taxpayer value. Given UKAR's status, all awards are made in cash as there is no option to award shares. Any potential awards are subject to Remuneration Committee discretion and malus and clawback operates where appropriate. Should an event occur which the Remuneration Committee consider would materially alter achievement against targets, it has the discretion to change the targets. However, such change, in the opinion of the Committee, must not have the effect of making the performance objective or corporate assessments materially more onerous or easier to satisfy than it was immediately before the event in question. The Remuneration Committee enacted this rule following the £13bn sale of mortgage assets as outlined above and as a result the performance period for the 2014/15 to 2016/17 scheme closed a year early, at the end of the 2015/16 performance year. Payment will not take place until after the end of the 2016/17 year. As this scheme closed early it is envisaged that the next scheme will last for four years.	Up to 60% of base annual salary. The MTIP is not cumulative. The Directors can only participate in one scheme at any time. Therefore, over a three year period the average annualised payment would be a maximum of 20% of base salary.

Directors' remuneration report (continued)

Directors' remuneration policy (continued)

The remuneration policy for directors (continued)

Table 3 – Key aspects of the remuneration policy for Executive Directors (continued)

Element	Purpose and link to strategy	Operation	Maximum opportunity
Phoenix Incentive Plan	To reward performance for delivery of the Phoenix Project	The Phoenix Incentive Plan was developed to incentivise and reward performance for the successful divestment of the mortgage servicing operations, recognising the operational people risk and reinforcing the need to retain high performing colleagues. All payments associated with the Scheme are driven by successful completion of the divestment, however, the scheme is designed to ensure that any incentive did not encourage the wrong behaviours, for example progressing the transaction at all costs. To qualify for the scheme, Executives and Senior Leadership Team members were required to increase their notice periods. Payment will be made once the transaction has been successfully completed and the same deferral arrangements as in the current STIP will apply with 60% paid initially, and the remainder spread and paid in equal instalments over the following three years. Participants must maintain an acceptable level of performance and attendance during the period to be eligible to a payment. Subject to the amount of individual contribution to the project payment will be up to 60% for Executive Directors. Any potential awards, including deferrals, are subject to Remuneration Committee discretion. Malus and clawback operate where appropriate and, in line with best practice, the Remuneration Committee considers whether there has been any significant issues as part of their consideration around approval of bonus awards.	Up to 60% of base annual salary.

Choice of performance measures and approach to target setting

UKAR has clear performance metrics understandable to every colleague in the business. In addition to financial and operational targets, a Balanced Scorecard brings together colleague measures and customer conduct measures. Given the nature of its ownership and the focus on repaying government debt, the MTIP scheme is aligned to driving additional cash from asset sales and other management activities which do not diminish taxpayer value. Details of schemes are found in table 3.

Differences in remuneration policy for Executive Directors compared to other employees

The reward policy applies to all colleagues in the organisation and aims for objectivity, consistency and fairness. However, market practice means that to ensure UKAR remains competitive there are different benefits at various levels. Executive Directors packages, when compared to other colleagues across the organisation, have higher holiday entitlement and employer pension contribution/allowance, increased car allowance, earlier eligibility for income protection insurance, eligibility for personal accident insurance and longer contractual notice periods.

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

Approach to recruitment and promotions

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

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

Service contracts and payments for loss of office

UKAR's policy is to employ Executive Directors on service agreements with 12 months employer notice periods. Wherever possible UKAR will seek to minimise any potential payments for loss of office. UKAR has not made any loss of office payments in this reporting period.

Directors' remuneration report (continued)

Directors' remuneration policy (continued)

The remuneration policy for directors (continued)

Table 4 – Details of service contracts and loss of office payments policy

Provision	Detailed terms
Employer notice period	12 months
Termination payment	In the event of termination by the company, other than for misconduct, Executive Directors' contracts provide for 12 months' notice, or payment of base salary, pension and fringe benefits in respect of the unexpired portion of the notice period. To qualify for the Phoenix Incentive Plan, Executive Directors' were required to increase their notice from 6 months to 12 months. 'Good leavers', who are colleagues who leave through redundancy or retirement, may also be eligible for: ▪ STIP subject to assessment of the normal performance conditions and payable on the normal payment date, pro-rata by leave date; and ▪ MTIP subject to the normal performance conditions and payment date, reduced pro-rata to the portion of the performance period that has expired. Individuals may also be eligible for statutory redundancy pay. Where an individual is appointed as an Executive Director through internal promotion, they may also retain eligibility for the company's redundancy policy which provides for a payment based on a number of weeks base salary per year of service. This does not apply to Richard Banks, as he was recruited from outside the organisation but Ian Hares has retained his rights under the company's redundancy policy. UKAR calculates redundancy pay as follows: ▪ Under 22 years of age – 2 weeks pay for each year of service in that age bracket. ▪ 22 – 41 years of age – 4 weeks pay for each year of service in that age bracket. ▪ >41 years of age – 6 weeks pay for each year of service in that age bracket. Colleagues receive a minimum of 12 weeks pay and maximum of 90 weeks pay.

Directors' remuneration report (continued)

Directors' remuneration policy (continued)

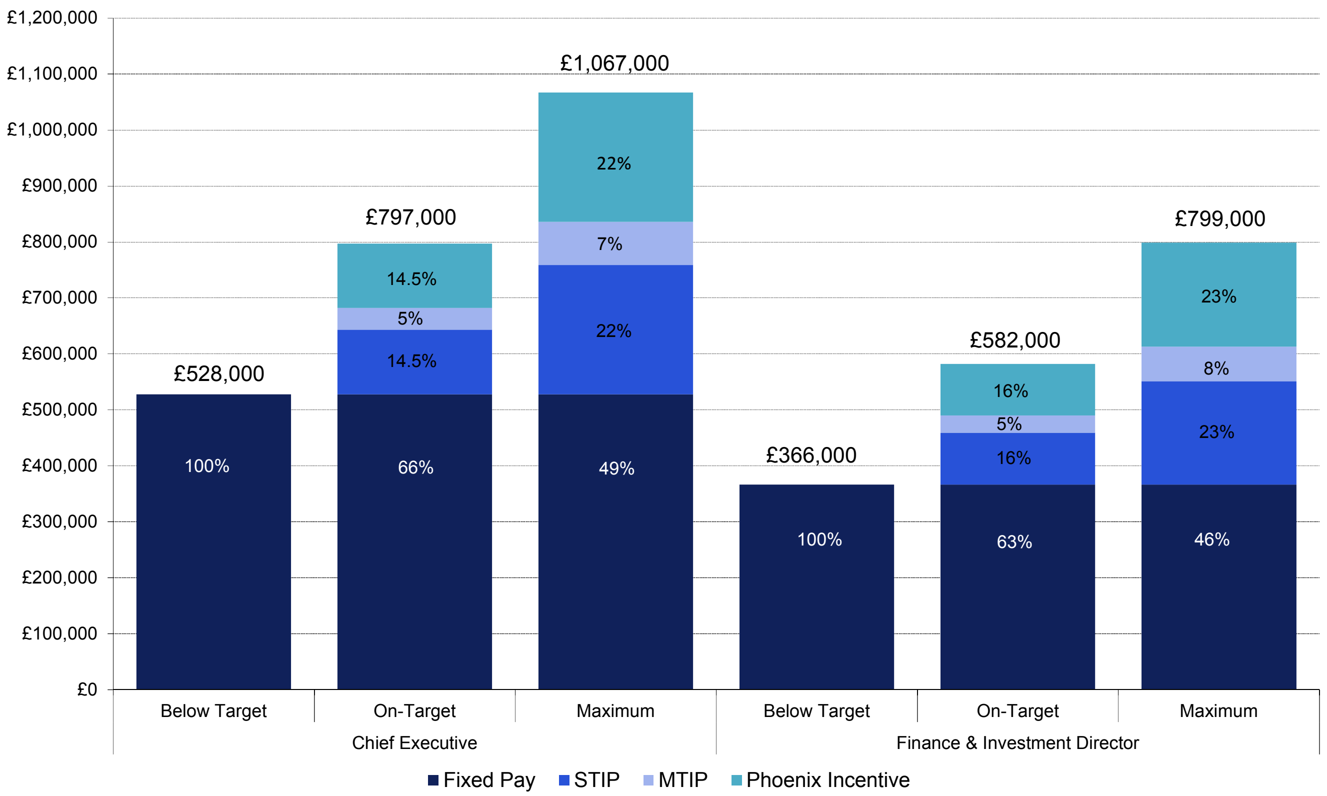
External Non-Executive Director positions

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

Reward scenarios

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

Figure A: Executive Director total annual remuneration at different levels of performance



Assumptions:
Minimum = fixed pay only (salary + benefits + pension)
On-target = 50% vesting of the STIP, Phoenix Incentive and MTIP awards (annualised)
Maximum = 100% vesting of the STIP, Phoenix Incentive and MTIP awards (annualised)

Directors' remuneration report (continued)

Annual report on remuneration

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

Remuneration for 2015/16

The tables below set out the earnings for both the Executive and Non-Executive Directors during the 2015/16 reporting year and compares them against the same period from the 2014/15 reporting period.

Table 5 – Remuneration payments for Executive Directors (Audited)

	Richard Banks	
	April 2015 - March 2016	April 2014 - March 2015
Base Salary	£381,925	£370,650
Benefits [1]	£27,358	£27,297
Pension [2]	£114,578	£111,195
STIP Awarded [3]		
- STIP Non Deferred	£127,050	£86,451
- STIP Deferred	£84,700	£57,634
MTIP Awarded [5]	£231,000	-
Total	**£966,611**	**£653,227**

	Ian Hares [4]	
	April 2015 - March 2016	April 2014 - March 2015
Base Salary	£306,000	£217,039
Benefits [1]	£10,767	£7,832
Pension [2]	£45,900	£32,496
STIP Awarded [3]		
- STIP Non Deferred	£101,970	£54,694
- STIP Deferred	£67,980	£36,463
MTIP Awarded [5]	£185,400	-
Total	**£718,017**	**£348,524**

1 *This includes Private Medical Insurance and any allowances for housing or a car.*
2 *Both Richard Banks and Ian Hares received a pension allowance.*
3 *The STIP is deferred as described on page 35.*
4 *Ian Hares' total emoluments for 2014/15 only covers the period from his appointment as Executive Director on 8 July 2014.*
5 *MTIP payments are for performance in 2014/15 and 2015/16.*

Directors' remuneration report (continued)

Annual report on remuneration (continued)

Remuneration for 2015/16 (continued)

Table 6 – Remuneration payments for Non-Executive Directors (Audited)

	Fees [1]	
	April 2015 - March 2016	April 2014 - March 2015
Richard Pym	£125,000	£125,000
Kent Atkinson	£70,000	£66,500
Michael Buckley	£70,000	£66,500
Sue Langley	£70,000	£66,500
John Tattersall	£75,000	£71,250
Christopher Fox [2]	-	-
David Lunn [2]	-	-
Keith Morgan [3]	£65,000	£61,750
Total	**£475,000**	**£457,500**

1 In addition, the company meets certain travel costs for Board Directors which are considered taxable. The company considers that such travel is an essential requirement of Directors' duties and does not confer any personal benefit. Total tax paid to HMRC on behalf of Directors for 2015/16 was £3,115.65.
2 Christopher Fox was replaced by David Lunn on 20 November 2014 as UKFI representative; neither of them received any fees.
3 Keith Morgan is a UKFI appointed Director but is not an employee of UKFI and as such he received fees.

Percentage increase in the remuneration of the Chief Executive Officer

During the year, UKAR's total remuneration costs have fallen marginally (see table 14) but the table below shows a summary of year-on-year changes between 31 March 2015 and 31 March 2016 for the Chief Executive Officer versus colleagues who were in the business at both year-ends. The 6.5% increase in average colleague base salary reflects UKAR's commitment to promote internally where possible. The percentage change to benefits for both the Chief Executive Officer and colleagues is primarily driven by a 6.86% increase to private medical insurance premiums, which constitute a larger part of the average colleague benefit package than it does for the Chief Executive Officer. The increase to the Chief Executive Officer's STIP is reflective of the achievement of all targets and personal performance, whereas for 2014/15 one of the four financial targets was only partially achieved.

Table 7 – Comparison of CEO remuneration change versus change for average employee

	% change year-on-year [1]
Chief Executive	
- base salary [2]	3.04%
- benefits	0.23%
- STIPs [3]	46.96%
Average per employee	
- base salary [2]	6.50%
- benefits	8.92%
- annual bonus [3]	23.08%

1 This information is based upon year-on-year comparison for colleagues who were in the business during both periods.
2 Following the annual pay review, employee base salaries were increased by an average of 2.53% in July 2015.
3 The CEO STIP is the actual 2015/16 STIP. For colleagues, bonus is still being calculated and was not available therefore the bonus number used is the 2014/15 number pro-rated up for achievement of all targets.

Directors' remuneration report (continued)

Annual report on remuneration (continued)

Highest-paid Director's remuneration change versus median

The table below shows the relationship between the remuneration of the highest-paid Director and the median remuneration of the organisation's workforce. For this purpose, total remuneration includes salary and taxable benefits and the MTIP awarded which will not be paid until 2017. It does not include pension contributions, however payments made in lieu of pension have been included.

Table 8 – Comparison of highest-paid Director's remuneration versus all colleagues

	All colleague ratio	
	2015/16	2014/15
Highest-paid Director's total remuneration	£966,611	£653,227
Median remuneration for UKAR colleagues	£23,998	£21,936
Remuneration ratio	**40.3***	**29.8**

* *The increase in the ratio primarily reflects the MTIP awarded to the Chief Executive Officer, for performance in 2014/15 and 2015/16 which is not paid until June 2017. If the MTIP were excluded the ratio would be 30.7.*

STIP for the year ended 31 March 2016

The individual targets used for the STIP scheme are based on key metrics and assessment of performance year-on-year. All four financial and operational elements are weighted equally. The business has achieved all four of these objectives. This means that STIP payments for 2015/16 would be paid at 4 targets and individual payments based upon assessment of personal performance, as shown in tables 10, 11 and 12. The Committee also considered whether there were any circumstances that could have justified clawback or malus in the year, taking input from the Risk Director. It determined that there were no circumstances that would have justified this.

Table 9 – STIP targets 2015/16

	Measure	Target	Weighting	Outcome
Financial	Underlying profit before tax	>£933.5m	25%	Achieved
	Costs [1]	<£172.1m	25%	Achieved
	Government loan repayments	>£5,549m	25%	Achieved
Operational	Reduction in number of customers 3 months or more in arrears	>1,852	25%	Achieved
Non-Financial [2]	Balanced Scorecard	Green	0% to -40%	Achieved

1 *The cost target excluded UKARcs and certain costs for ongoing strategic activity.*
2 *The Balanced Scorecard was reviewed last year and the targets realigned to the FCA's conduct risk agenda. As a result the Balanced Scorecard acts as a 'reducer' to the maximum bonus to ensure colleagues demonstrate the right behaviours. The 10 measures including internal control, customer metrics and people management are rated red, amber or green at the end of the year. Green results in no reduction, amber in a 2% reduction and red in a 4% reduction. In the most extreme case, with all 10 measures judged as red, the bonus pool would be reduced by 40%.*

Directors' remuneration report (continued)

Annual report on remuneration (continued)

STIP for the year ended 31 March 2016 (continued)

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

Table 10 – Richard Banks' 2015/16 Personal Objective Assessment

Objective detail	Achievement
Lead the process for the divestment of the mortgage servicing operation to enable UKAR to maximise value for the taxpayer.	Led by Richard, following a comprehensive bidding process UKAR entered into exclusive negotiations with Computershare in February 2016 and the successful completion of the divestment is expected in early June 2016.
Oversight of the Balance Sheet Optimisation programme.	The successful sale of £13bn of asset sales to Cerberus was approved by UKFI / HM Treasury, and the retention of the servicing of those assets has facilitated an ability to accelerate the next transaction.
Maintain high standards of compliance and quality and customer service during period of substantial change and uncertainty.	Service levels have been achieved throughout the year with significant improvement in complaints handling timelines.
Oversight continued delivery of strategies and tactics for reducing customers in arrears.	Delivery of strategies and tactics for helping customers in arrears has resulted in a reduction to below 10,000.
Lead colleagues to maintain the UKAR values and standards in line with principles of good governance, Conduct and TCF, maintaining morale in a declining Balance Sheet.	Excellent financial performance whilst Treating Customers Fairly and Conduct Risk standards have been maintained ensuring UKAR keeps the interests of customers and market integrity at the heart of the business. High levels of colleague engagement have been maintained in a period of uncertainty.

Table 11 – Ian Hares' 2015/16 Personal Objective Assessment

Objective detail	Achievement
Provide clear leadership and technical input to the successful delivery of the divestment of the mortgage servicing operations	Ian has participated in all key governance groups and led the Bidder Assessment Panel whilst leading and providing guidance to the transaction team.
Deliver cash generative Balance Sheet transactions creating additional government loan repayments.	Successfully completed asset sales and liability management exercises including the £13bn sale of a portfolio of assets in December 2015 and the repurchase of Covered Bonds.
Financial Reporting and Business support, Oversight of Banking Operations services and delivery of key projects.	Full year and interims delivered to high standard and key projects delivered as planned.
Lead delivery of proactive customer campaigns.	Continued leadership of activity with rollout of specific programmes in respect of interest only and interest rate susceptibility.

Directors' remuneration report (continued)

Annual report on remuneration (continued)

STIP for the year ended 31 March 2016 (continued)

The UKAR STIP comprises financial and operational objectives. The Balanced Scorecard targets have all been achieved and there is no reduction. Personal objectives are measured in a range from 'under performing' at 0% to 'surpasses expectations' with a range of 40-60%. Discretion is applied in respect of the actual bonus awards within the ranges in the table 12.

Table 12 - STIP award matrix

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

Richard Banks' performance was discussed at the Remuneration Committee in March 2016 and subsequently with the whole Board. It was agreed that Richard had led UKAR by example for almost six years with a determination to do the right thing for customers, colleagues and the taxpayer and his leadership through the successful integration and transformation of the two businesses means we are now in a position to divest our mortgage servicing capability. Richard has an excellent knowledge of all the business areas and an attention to detail which has ensured the business remains focussed on achieving its business targets, whilst also managing complex strategic issues. His personal style of leadership has maintained high colleague engagement, he has made good appointments and driven high performance. It was agreed that his performance in the year under review had 'surpassed expectations' which under the bonus scheme rules gives the Committee discretion in the range of 40-60%. The Board agreed with the Chairman's recommendation to award Richard Banks a STIP bonus of 55% which equates to £211,750 for the year and a Phoenix Incentive Plan payout of 55% which also equates to £211,750. The MTIP bonus would also pay at the maximum of 60% equating to £231,000.

Ian Hares' annual performance was also discussed at the Remuneration Committee in March 2016. It was agreed that Ian has had a very successful year in terms of business as usual in overseeing the Finance function and customer strategy but more specifically in leading the Investment team in delivering the B&B and NRAM Covered Bond repurchases. He also made a very significant contribution in leading the £13bn sale of NRAM assets and, as importantly he has led the Bidder Assessment process for the divestment of the mortgage servicing operations. It was determined that his performance had 'surpassed expectations' which under the bonus scheme rules gives the Committee discretion in the range of 40%-60%. The Board agreed with the recommendation by the Chief Executive Officer to award him a STIP bonus of 55% which equates to £169,950 for the year and a Phoenix Incentive Plan payout of 55% which also equates to £169,950. The MTIP bonus would also pay at the maximum of 60% equating to £185,400.

The Phoenix Incentive awards are provisional, pending the transaction completing and will be reported in the 2016/17 Annual Report and Accounts.

Grant and vesting of MTIP awards

There was an MTIP grant made in the reporting period, linked to the launch of the new scheme which runs from 1 April 2014 to 31 March 2017.

As highlighted earlier the 2014-2017 scheme closed a year early and therefore awards vested during the reporting period. The targets for this scheme relate to driving additional shareholder value and/or early repayment of government loans.

Directors' remuneration report (continued)

Annual report on remuneration (continued)

Total pension entitlements

Richard Banks receives a cash supplement of 30% of basic salary in lieu of UKAR pension benefit and Ian Hares receives a cash supplement of 15%. Neither of the Executive Directors have ever been a member of the UKAR Pension Plan.

None of the Executive Directors have accrued any defined benefit pension during their tenure as a Director.

During the reporting period, NRAM pension payments due to former Directors of the former Northern Rock plc, paid directly by NRAM and not connected to the Northern Rock Staff Pension Scheme were £336,370 (March 2015: £326,679). No similar payments were made by B&B during any of these periods.

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

Payments within the period to past directors for loss of office

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

Performance

The table below shows a summary of Richard Banks' incentives that have been awarded for performance since UKAR was formed, and his total remuneration package.

Table 13 – Summary of CEO remuneration and incentives

	2011	2012	2013/14 (15 months)	2014/15	2015/16
Total Remuneration	£596,697	£642,820	£980,771	£653,227	£966,611
STIP (as % of maximum)	60%	43%	80%	64%	92%
MTIP Vesting (as % of maximum)	N/A	100%[1]	100%[1]	N/A	100%[2]

1 The 2011 - 2013 MTIP scheme payment was made in two parts. The total that could be earned under the scheme remained at 60%.
2 The 2014 - 2017 MTIP scheme closed a year early and as such vested in full in March 2016. Payment is due in June 2017, in line with the original scheme rules.

Relative importance of the spend on pay

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

Table 14 – Summary of colleague remuneration costs compared to statutory profit

	2012	2013/14*	2014/15	2015/16	% Change
Total remuneration costs for UKAR (salary, pension, bonus benefits)	£76.1m	£64.9m	£64.7m	£61.6m	(5%)
Profit after tax	£563.8m	£869.7m	£771.6m	£918.2m	19%

** Represents the 12 months to 31 March 2014.*

External advisors

UKAR is advised by New Bridge Street ('NBS') who were appointed by the Remuneration Committee in 2011. The total fees paid to NBS in respect of its services to the Committee during the year were charged on a time spent basis and amounted to £52,346.20. NBS is a signatory to the Remuneration Consultants' Code of Conduct which requires it to provide objective and impartial advice.

Directors' remuneration report (continued)

Annual report on remuneration (continued)

External Directorships

The tables below outline the external non-executive directorships that Richard Banks and Ian Hares held during the 2015/16 reporting period.

Table 15 – Richard Banks' External Directorships

Position	2013/14 (15 months)	2014/15	2015/16
ICICI Bank UK [1]	£75,000	£15,000	£0
Shop Direct Financial Services Ltd	£11,600	£70,000	£70,000
Liverpool Compact Education Business Partnership	£0	£0	£0

1 Richard Banks stepped down from his directorship with ICICI Bank UK with effect from 30 June 2014.

Richard Banks was also appointed to an interim role on the Board of the Student Loans Company for a period of 6 months with effect from 30 March 2015. For this appointment he received fees of £4,500 (£9,000 per annum).

Table 16 – Ian Hares' External Directorships

Position	2013/14 (15 months)	2014/15	2015/16
Asset & Liability Management Association Ltd	N/A	£0	£0

Following the sale of NRAM plc on 5 May 2016 (see note 35 – Events after the reporting period) both Richard Banks and Ian Hares have remained on the Board of NRAM plc as Non-Executive Directors until final completion of the transaction. They are receiving no fees for this role.

How the policy will be applied in 2016 onwards

Reward will continue to play an important part in the delivery of UKAR's strategy, both at executive level and across the organisation. Post divestment of the mortgage service operation UKAR will be a smaller organisation. The Committee is conscious of the need to continue to focus on a flexible and appropriate approach to the overall reward package for individuals in order to mitigate the operational risks inherent within a business with a reducing Balance Sheet.

2016/17 salary review

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

Richard Banks' current and previous salaries are as follows:

Table 17 – Salary history for the Executive Directors

	Salary as at 1 January 2012	Salary as at 1 January 2013	Salary as at 1 April 2014	Salary as at 1 April 2015	Salary as at 1 April 2016
Richard Banks	£346,800	£355,500 (+2.5%)	£364,500 (+2.5%)	£372,700 (+2.25%)[1]	£385,000 (+3.3%)[1]
Ian Hares	-	-	£297,000[2]	£297,000 (+0%)	£309,000 (+4.0%)[1]

1 Annual pay rises are effective from 1st July.
2 Effective from Ian Hares' appointment as Executive Director as at 8 July 2014.

Structure of STIP and MTIP

The maximum potential earnings under the STIP scheme for 2016/17 will be unchanged with the financial and operational targets updated to ensure they continue to be appropriate for UKAR post divestment of the mortgage servicing operation. Following the closure of the existing MTIP, with payment deferred to June 2017, a four year MTIP scheme will be put in place based on accelerated repayment of the government loans.

Performance targets for the STIP and MTIP awards to be granted in 2016 and beyond

The targets for both of these schemes will receive Remuneration Committee, Board and UKFI approval.

Directors' remuneration report (continued)

Annual report on remuneration (continued)

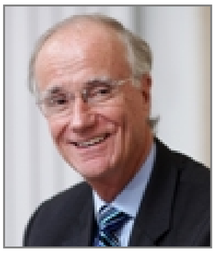
Approval

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

Signed on behalf of the Board of Directors.

Sue Langley
Chairman, Remuneration Committee

Audit Committee Chairman's report



Kent Atkinson, Chairman of the Audit Committee, reports on how the Audit Committee discharged its responsibilities during 2015/16.

"During 2015/16 the Audit Committee continued to fulfil its key role in monitoring the integrity of financial reporting for the business and supporting the Board in ensuring the Financial Statements are fair, balanced and understandable. In addition, we have continued to provide assurance that the Group has in place effective audit processes and internal control systems and have overseen the progress of UKAR's strategic transactions."

Membership

The Audit Committee was in place throughout 2015/16 and had the following membership at 31 March 2016:

Kent Atkinson (Chairman)
Michael Buckley
John Tattersall

There were no changes to the membership of the Audit Committee during 2015/16.

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

Summary of responsibilities

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

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

Meetings

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

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

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

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

Reporting to the Board

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

Governance

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

Audit Committee Chairman's report (continued)

Chairman's overview of 2015/16

The work of the Committee during 2015/16 has covered a variety of topics within its Terms of Reference, some of the more significant are set out below:

Financial reporting	Internal audit	External audit	Governance and other matters
Oversight of the Annual and Interim Financial Statements, taking into account the requirements of HM Treasury consolidation.	Approval of the Annual Plan and monitoring its effectiveness. Approval of the objectives for the Head of Internal Audit. Oversight of internal audit activity.	Oversight of the effectiveness of external audit. Approval of the year-end strategy and performance evaluation. Evaluation of the National Audit Office ('NAO') as successor to PricewaterhouseCoopers LLP ('PwC') as UKAR's auditors.	Oversight of effectiveness of systems of internal control. Oversight of the effectiveness of the Whistleblowing Policy. Approval of the Non-Audit Services Policy. Approval of the Recruitment of Audit Staff Policies. Senior Accounting Officer governance framework and certification. Oversight of the two strategic transactions: the sale of £13bn of assets and the divestment of the mortgage servicing operations.

Financial reporting and significant financial judgements

The Committee reviewed the content of the September Interim and Annual Financial Statements and advised the Board on whether, in the opinion of the Committee, taken as a whole, these are fair, balanced and understandable and provide the information necessary for the shareholder to assess the position and performance, business model and strategy. In addition, the Committee reviewed additional NRAM interim statements, as at December 2015, in support of a proposed intra-Group dividend payment.

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

Significant issue	Financial outcome
Loan loss provisioning	Despite further improvements in the level of arrears and the economy, the provision remains highly material and from necessity, is based on many judgemental assumptions. The Committee considered loss coverage ratios for the various elements of the book in light of these improvements and sought justification for changes from last year's levels. Particular focus was placed on the higher risk areas of the loan book, such as equity release loans and those subject to fraud and professional negligence.
Provision for customer redress	Throughout the year the Committee have been kept informed of the approach to customer remediation, considered any developments and agreed provisions where appropriate. The committee considered the decision of the Court of Appeal that redress was not required for non-compliance with CCA documentary requirements on NRAM loans for amounts greater than £25,000, which by definition fall outside of CCA regulation but for whom CCA documentation had been provided. It was agreed that the 2014/15 year-end provision should be reversed. The FCA proposal to introduce time-barring on PPI claims and the guidance provided in relation to the Plevin case were also carefully considered in determining the 2015/16 provision.
Fair value of derivatives	The number of derivatives held by UKAR has reduced significantly since formation as the inherited Balance Sheets are simplified. Methods continued to be reviewed against market best practice and the Audit Committee was satisfied that the bases adopted were appropriate.

Audit Committee Chairman's report (continued)

Financial reporting and significant financial judgements (continued)

Significant Issue	Financial Outcome
Hedge accounting	Over 95% of UKAR's total derivative books are in IAS39 hedge relationships at carrying value. The Audit Committee reviewed the approach and were satisfied that it remains compliant with IFRS.
Taxation	Existing provisions were reviewed for appropriateness and the Committee were satisfied that all tax matters were compliant.
Going concern and Long Term Viability	Following confirmation of HM Treasury's continued financial support for the Principal Subsidiaries and sight of the EU State Aid Report, the Audit Committee determined that it continued to be appropriate to prepare the accounts on a going concern basis. In addition, in reviewing UKAR's long term viability the Audit Committee took account of the Group's strategic objectives, its principle risks and the modelling undertaken as part of the annual refresh of the Ten Year Plan. It was concluded that so long as HM Treasury's financial support remains in place, the Group will remain viable for the duration of the Balance Sheet run-off.
Disclosures in the Annual Report and Accounts	The Committee were comfortable that, taken as a whole, the Annual Report provided a fair, balanced and understandable reflection of UKAR's performance for the year and the financial position as at 31 March 2016.

Internal audit

Deloitte LLP provide the internal audit services through an outsourced contract. Further details of the provision of the Internal Audit service can be found on page 74.

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

- considering reports at three of the meetings from the Head of Internal Audit. These reports highlight existing and emerging matters of significance, areas of concern, planned actions, monitoring procedures and any other matters which are likely to impact on internal controls;
- review and approval of the annual Internal Audit Plan, together with any changes required on a quarterly basis;
- approval of the Terms of Reference for Internal Audit on an annual basis;
- reviewing the adequacy and effectiveness of the activities carried out by the function; and
- the Head of Internal Audit attended four Audit Committee meetings during 2015/16 and has direct access to the Audit Committee and its Chairman.

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

Internal control

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

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

The Committee reviewed the processes governing the strategic transactions namely the £13bn asset sale announced in November 2015 and the divestment of the mortgage servicing operations.

Further information on the approach to the Board's review of the Group's system of internal control is given within the Corporate Governance section on pages 29 and 30.

External audit

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

The external auditors may attend all meetings of the Committee and they have direct access to the Committee and its Chairman at all times.

Audit Committee Chairman's report (continued)

External audit (continued)

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

The external audit contract was last put out to tender in 2010 with PwC being appointed as external auditors from 28 April 2011 for an initial three year term, subsequently agreed to be extended up to 31 March 2014 due to the change in financial period. In January 2014, the Audit Committee agreed to extend PwC's contract for a further two years, until the year ending 31 March 2016. A full evaluation of PwC's performance was undertaken in the February 2016 meeting, which reported continued satisfaction with their performance.

Recognising the right of the NAO under the Framework Agreement to seek to take responsibility for the audit, the Audit Committee followed the normal governance process in selection of an appropriate auditor. The Audit Committee have evaluated the NAO's capability to undertake this role through individual meetings and a presentation from the NAO senior team and have recommended to the Board that the appointment should proceed subject to formal approval at the AGM. The Committee recognised that the NAO will initially outsource most of the audit work to PwC, with a controlled handover occurring over a few years, which maintains continuity and facilitates a smooth transition.

Non-audit services

The Audit Committee also develops and recommends to the Board a policy on the supply of non-audit services by the internal or external auditors and reviews this annually, taking into account any relevant ethical guidance on the matter:

- the Policy clearly sets out the circumstances in which it is appropriate to employ any audit partner for additional work, the safeguards required and the mandate structure for approval;
- the Finance & Investment Director must be aware of the hiring of auditors for all non-audit work;
- the Chairman of the Audit Committee must sign off work which will cost more than £25,000;
- the auditors are required to demonstrate that accepting such a contract will not damage their independence or objectivity; and
- the Audit Committee reviews the audit and non-audit fees paid to the internal and external auditors every six months and monitors the total spend on non-audit work relative to the spend on audit work.

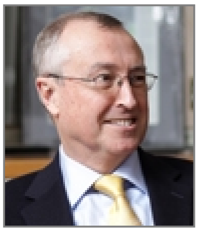
Priorities for 2016/17

For 2016/17, the key areas of focus for the Committee will include:

- ensuring continued oversight of the financial position and control environment of the Group, including oversight and review of the control environment following the impact of the strategic developments detailed in the Chairman's statement on pages 5 to 6;
- oversight of any further strategic decisions or Balance Sheet transactions that UKAR may undertake during 2016/17;
- oversight of the external audit transfer from PwC to the NAO; and
- proposals to be ready for the implementation of IFRS 9 in 2018/19.

Kent Atkinson
Chairman, Audit Committee

Nomination Committee Chairman's report



Richard Pym, Chairman of the Nomination Committee, reports on how the Nomination Committee discharged its responsibilities during 2015/16.

"The Nomination Committee has an important role in ensuring the composition of the Board and its Committees reflect the best governance practice, taking into account the strategic direction and unique nature of the business. During 2015/16 the Committee has overseen the development of future Board and Management structures for UKAR taking into account the planned divestment of the mortgage servicing operation."

Membership

The Nomination Committee was in place throughout 2015/16 and had the following membership as at 31 March 2016:

Richard Pym (Chairman)
Michael Buckley
Sue Langley

There were no changes to the membership of the Nomination Committee during 2015/16.

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

Summary of responsibilities

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

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

Meetings

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

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

- David Lunn, as a UKFI appointed Director;
- members of ExCo, including the CEO and the Governance, Engagement and HR Director;
- Company Secretary or his nominee; and
- other representatives from business functions and/or external advisors from time to time

Reporting to the Board

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

Governance

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

Nomination Committee Chairman's report (continued)

Chairman's overview of 2015/16

The work of the Committee during 2015/16 has covered a variety of topics within its Terms of Reference and the key activities undertaken during the year have included:

- oversight of the development of proposed Management structures following the divestment of the mortgage servicing business;
- review of the Constitution of the Board and its Committees, taking account of changing membership, and recommendation of required changes to the Board;
- oversight of the appointment process for a new Non-Executive Director;
- ongoing review of Executive Development and Succession Planning to ensure it remains fit for purpose taking account of any strategic developments;
- review and recommendation of the renewal of Non-Executive Director contracts; and
- recommendation for the reappointment of Directors at the Annual General Meeting.

Diversity Policy

The Board Diversity Policy endorses the principles of best practice and recognises the benefits of having a diverse Board. The policy requires that in reviewing Board composition, the Committee will consider the benefits of all aspects of diversity including skills, background, race, experience, gender and other qualities of Directors. Due to the unique nature of the business being in run-off and the anticipated reduction in the size of the Board, a gender target is considered to be inappropriate.

Appointment of Directors

Where possible UKAR complies with the UK Corporate Governance Code and the Committee is aware that the majority of independent NEDs have been on the Board since establishment in 2010. To facilitate the principles of orderly succession and refreshing of the Board, during the year the Committee engaged Russell Reynolds Associates to appoint a new independent Non-Executive Director with financial management and banking experience who would be able to take over the Chairmanship of the Audit Committee from Kent Atkinson. In March 2016, following a comprehensive selection process we announced the appointment of Brendan McDonagh who joined the Board in April. As mentioned in the Chairman's Statement, Kent Atkinson will step down from the Board later this year and the Committee agreed that his role as Senior Independent Director will be taken by Sue Langley.

Under the Framework Document, HM Treasury appoint the Chairman of the UKAR Board. Having determined that the changes now occurring represent a natural break point for me to step down as Chairman and handover to new leadership as we begin the next phase of UKAR's journey, the Committee considered the future Chairmanship and agreed to recommend to UKFI the appointment of John Tattersall. In considering John as my successor, both the UKAR and UKFI Boards recognised his excellent contribution to the business. We considered his extensive experience of financial services and noted that he continues to ensure his knowledge remains recent and relevant and maintains a challenging but constructive, relationship with the Executives.

Following the divestment of the mortgage servicing operations UKAR's mission will continue to be to maximise value for the taxpayer and it will continue with the objective of reducing, protecting and optimising the Balance Sheet. The Board will remain accountable for leadership and governance and must ensure compliance with the SYSC 8 requirements of the mortgage servicing contract through appropriate oversight and monitoring to deliver the right outcomes for UKAR and its customers. As such it is important to retain key knowledge and continuity on the Board which John Tattersall, Sue Langley, Keith Morgan and Michael Buckley all bring.

A role of the Committee is to ensure Succession Planning remains fit for purpose taking account of any strategic developments. As the divestment has moved forward the Committee has been overseeing the management structure and design of the organisations and the decision that Richard Banks would become CEO of the mortgage servicing business when it transfers to Computershare was welcomed by the Board. The two organisations will need to work closely together going forward and Richard's continued leadership as we develop the new working relationship gives the Board a high level of assurance as it provides continuity and maintains excellent leadership for c.1,700 colleagues who move across.

Ian Hares, Finance & Investment Director, has been the named successor for Richard Banks in our succession plan for a number of years and when considering who should lead UKAR post divestment, the Committee viewed Ian as the ideal candidate. The smaller, focussed UKAR business requires a leader with the skills and ability to lead asset sale programmes, which Ian has clearly demonstrated and his promotion also provides continuity and leadership for the c.250 colleagues who remain with UKAR. This will help reduce the operational risk that is inherent in what will be a much smaller organisation but with a complex mortgage book to manage and a continued mandate to repay the taxpayer in full. As such, the Committee determined that recruiting externally for this position would be very disruptive and was not necessary or appropriate.

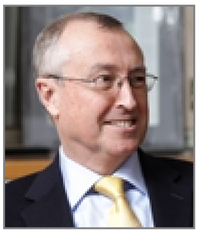
Nomination Committee Chairman's report (continued)

Priorities for 2016/17

In 2016/17 the Committee will continue to have a key role in ensuring that UKAR has appropriate management structures and succession plans for the number of smaller, more specialist roles within the organisation. It will oversee the development of the new CEO and the induction process for the new Non-Executive Director.

Richard Pym
Chairman, Nomination Committee

Transaction Approvals Committee Chairman's report



Richard Pym, Chairman of the Transaction Approvals Committee, reports on how the Transaction Approvals Committee discharged its responsibilities during 2015/16.

"During the year the Transaction Approvals Committee has overseen the tender and buy back of the remaining NRAM Covered Bonds and the sale of £13bn of NRAM assets, both of which accelerate the repayment of government loans."

Membership

The Transaction Approvals Committee was in place throughout 2015/16 and had the following membership at 31 March 2016:

Richard Pym (Chairman)
Richard Banks
Michael Buckley
Ian Hares
David Lunn
Keith Morgan

There were no changes to the membership of the Transaction Approvals Committee during the year.

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

Summary of responsibilities

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

Meetings

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

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

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

Reporting to the Board

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

Governance

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

Transaction Approvals Committee Chairman's report (continued)

Chairman's overview of 2015/16

The Transaction Approvals Committee fulfilled its remit during 2015/16 through the oversight of transactions requiring approval in principle by the Board under its reserved power. This included approval and oversight of the processes for the tender and buy back of the remaining NRAM Covered Bonds including agreeing the pricing and timing of the transaction together with the tender documentation. The successful completion of this transaction, and the repurchase of two B&B Covered Bonds that were approved separately by the full Board, have reduced the ongoing funding cost to UKAR and further simplified the Balance Sheet. This helped facilitate the sale of £13bn of NRAM assets to Cerberus announced in November 2015. The Committee considered and approved the structure of this transaction, the reserve pricing, the bidder assessment framework and the principal transaction documentation. The Committee also carefully considered the value for money of the transaction and that customers' interests were properly protected.

Priorities for 2016/17

During 2016/17 the Transaction Approvals Committee will continue to oversee any strategic transactions as requested by the Board, ensuring that these maximise value for the taxpayer.

Richard Pym
Chairman, Transaction Approvals Committee

Risk Committee Chairman's report

John Tattersall, Chairman of the Risk Committee, reports on how the Risk Committee discharged its responsibilities during 2015/16.

"During 2015/16 the Risk Committee continued to support the Board in ensuring that key risks are managed and monitored within the approved risk appetite. In conjunction with the Audit Committee, we ensure that an appropriate risk culture and systems of internal control to mitigate those key risks are maintained. Areas of focus this year have been to monitor the strategic change activity, including asset sales and the divestment of the mortgage servicing operations, to review and consider market and regulatory change, to review the credit concentration risk of the mortgage book and to ensure that conduct risk is embedded in everything we do."

Membership

The Risk Committee was in place throughout 2015/16 and had the following membership on 31 March 2016:

John Tattersall (Chairman)
Kent Atkinson
Michael Buckley
Keith Morgan

There were no changes to the membership of the Risk Committee during 2015/16.

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

Summary of responsibilities

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

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

Meetings

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

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

- David Lunn, as a UKFI appointed Director;
- members of the ExCo, including the CEO, Finance & Investment Director and Risk Director;
- Head of Compliance;
- Head of Internal Audit and the external auditors;
- Company Secretary or his nominee; and
- representatives from other business functions from time to time.

The Risk Director and Head of Compliance each held a separate private session with the Committee which provided an opportunity for any issues to be raised without any members of the Executive present.

Reporting to the Board

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

Governance

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

Risk Committee Chairman's report (continued)

Chairman's overview of 2015/16

The work of the Committee during 2015/16 has included the review of the principal risks each quarter, based on comprehensive reports from the Risk Director and Head of Compliance. The principal risks are:

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

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

- overseeing the conduct risk approach;
- monitoring the reducing business and the potential for increased operational risks;
- considering the risks involved in the sale of various parts of the loan book and of the mortgage servicing operations;
- considering the risk of management overstretch as a result of the significant amount of strategic change facing the business, and monitoring the steps taken to ensure that UKAR's ability to deliver business as usual was not compromised;
- considering the impact of emerging risks such as interest rate predictions;
- considering cyber risk exposure, trends and control measures;
- maintaining an overview of the key industry, legal and regulatory change issues;
- monitoring progress on control improvements to address historical legacy issues; and
- overseeing and monitoring the progress of the IT Refresh Programme and organisation restructure.

Risk Committee activities in 2015/16

The Risk Committee fulfilled its remit through:

- oversight of the embedding of a supportive culture in relation to the management of risk;
- making appropriate recommendations to the Board on all significant matters relating to the Group's risk appetite, strategy and policies;
- monitoring the overall risk appetite within the Group and risk management performance, taking into account the current and prospective macroeconomic and financial environment, drawing on financial stability assessments such as those published by the Bank of England, FCA and other relevant authoritative sources;
- assisting the Board in discharging its responsibilities for the setting of risk policies;
- periodically reviewing the Group's material risk exposures in relation to risk appetite and capital adequacy;
- ensuring public disclosure of information regarding the Group's risk management policies and key risk exposures is in accordance with statutory requirements and financial reporting standards;
- monitoring strategic change activity;
- considering reports from Compliance and Management on the system of internal control; and
- overseeing UKAR's insurance programme and claims recoveries.

Further information on the role of the Risk Committee and its oversight of the risk management process is provided on page 72 and 73.

Risk Committee Chairman's report (continued)

Priorities for 2016/17

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

- **Conduct risk** - ensuring fair and appropriate customer outcomes and meeting regulatory expectations are at the heart of the business. We will continue to work hard in partnership with our mortgage servicing providers to deal with customer complaints and review root cause analysis to improve our delivery of fair and appropriate customer outcomes.
- **Regulatory risk** - management oversight and control is key to ensuring compliance with the FCA's principles, rules and guidance. Our approach is focused on eliminating regulatory risk through a zero risk appetite.
- **Outsourcing/Contract risk** - will be a more relevant and substantial risk following the outsourcing of our mortgage servicing activity to Computershare. Our focus will be to ensure that appropriate customer outcomes and service are maintained in line with Board appetite and Regulatory and Legal requirements.
- **Operational risk** - as a business which is reducing in size and actively accelerating the sale of assets we are presented with some key operational risks in managing the people and process which this strategy creates Regulators and our business peers continue to express significant concern about the prevalence and impact of cyber security threats. The increasing importance of systems, the internet and telecommunications to complete business operations makes any threat to the security or availability of systems and information a risk to our success. This was a key focus in 2015/16 and will remain a high priority during 2016/17. We will continue to monitor significant cyber security risks and reported breaches to assess the effectiveness of implemented controls to mitigate such risks.
- **Credit risk** - given UKAR's customer profile, work continues to understand our customers' current financial position and in particular quantify the impact of interest rate rises and the fiscal changes affecting buy-to-let customers. Our focus is on the various cohorts of customers who might be most impacted, for example, those in retirement, and ensuring that customers with interest only mortgage balances are able to repay their loans at the end of their term.
- **Strategic risk** - the key strategic risks include those relating to management of a mortgage book in wind down. The proposals to sell significant proportions of the mortgage book potentially increases this risk. The outsourcing of the mortgage servicing capability once transitioned will help to mitigate this risk and the Committee will continue to monitor the risk of management overstretch during continuing asset sales. However, these major initiatives introduce strategic risk of their own and particular focus will continue to be on the execution of these initiatives, which are likely to carry a level of increased operational risk during the delivery phases. Mitigation will be through robust risk, contract management and project management oversight. In addition, the committee will continue to monitor historical remediation, the wider economic and political environment, the uncertain impact of the EU referendum and multiple regulation changes.

UKAR principal risks are described in detail on pages 16 to 17 and 74 to 77.

John Tattersall
Chairman, Risk Committee

Key performance indicators ('KPIs') - UKAR

In addition to the primary Financial Statements, we have adopted the following KPIs in managing business performance in the context of the Group's strategic priorities:

Strategic priorities	Financial measures	March 2016	March 2015	Commentary
Optimise the Balance Sheet	Total lending balances £bn Secured £bn Unsecured £bn	**35.5** **35.1** **0.4**	52.7 51.6 1.1	Lending balances reduced by 32.6% during the year due to £11.7bn of asset sales, £5.0bn of secured residential redemptions, £0.1bn of commercial redemptions, £0.1bn of unsecured loan redemptions and £0.3bn of other capital repayments.
	Residential mortgage redemption rate % Residential redemptions £bn	**9.7** **5.0**	9.0 5.3	Redemption rates have increased compared to 2015 reflecting increases in house prices, improved levels of remortgage activity across the market, and more competitive deals being available.
	Government loan repayments £bn Government loan balance £bn	**6.3** **28.3**	3.7 34.6	£0.1bn was repaid against the B&B Working Capital Facility and £6.2bn on the NRAM government loan. The main driver of the increase is the £13.0bn asset sale, which enabled a repayment of £5.0bn from the transaction proceeds.
	Total cash payments to HM Treasury £bn	**6.8**	4.4	Total cash paid to HM Treasury during the year. This includes principal and interest repayments, guarantee fees and corporation tax paid. The main driver of the increase is the higher repayments of loan principal as explained above.
Minimise impairment and losses	Residential arrears balance: total residential mortgage balance % Residential payments overdue £m	 **0.14** **49.3**	 0.18 90.6	This represents the value of customers' missed payments as a proportion of the total balance of all residential mortgages and reflects that the level of debt owed on mortgages is falling at a quicker rate than the reduction in the book.
	Residential arrears 3 months and over and possessions as % of the book: - by value - by number of accounts Number of residential arrears 3 months and over and possessions cases	 **2.69** **2.14** **6,377**	 3.35 2.64 11,976	Arrears have fallen as a direct consequence of the sale of assets, continued focus on customers in financial difficulty and the continuing support provided to mortgage customers by low interest rates.
	Impairment provisions: Residential secured £m Cover % Unsecured £m Cover % Commercial / other £m Cover %	 **663.4** **1.88** **96.2** **19.72** **85.4** **16.24**	 888.0 1.71 205.1 16.20 76.7 12.51	The level of the residential impairment Balance Sheet provision reduced by £224.6m. The reduced provision reflects the sale of assets, improved arrears performance, the benefit of improving house prices and realised losses within the year. Coverage has increased on the unsecured book due to an increase in the proportion of loans remaining that are delinked. Commercial coverage has increased due to additional provisions required on one property portfolio.
Reduce costs	Total Costs (excluding UKARcs) £m Ongoing costs (excluding UKARcs) £m Ratio of costs to average interest-earning assets: - statutory % - ongoing %	**248.4** **175.0** **0.48** **0.33**	174.2 174.2 0.26 0.26	Total Costs include £73.4m in relation to the outsourcing of mortgage servicing to Computershare. Ongoing costs have increased marginally reflecting investment in our IT infrastructure and a £3.0m provision for voluntary redundancies, offset by lower staffing levels as the Balance Sheet reduces. The ratio of ongoing costs to average interest-earning assets has increased reflecting a marginal increase in costs and a reduction in assets (including the sale of loans to Cerberus). The servicing of the Cerberus loans currently remains with UKAR but will move to Computershare on commencement of the outsourcing arrangement.

Financial review

These financial results are for the year to 31 March 2016.

Performance

Underlying profit for the year to March 2016 has decreased by £342.7m to £1,055.4m (March 2015: £1,398.1m). The reduction in underlying profit reflects reduced net interest income due to the shrinking Balance Sheet and a lower loan impairment credit, reflecting slower house price growth than seen in the prior year.

For the year to March 2016 underlying net operating income has decreased by £257.3m to £1,151.0m (March 2015: £1,408.3m) due to lower income from the reducing Balance Sheet, partly offset by lower funding costs. For the year to March 2016 ongoing administrative expenses, excluding £5.4m UKARcs costs, were in line with the previous year at £175.0m (March 2015: £174.2m, excluding £3.0m UKARcs costs). Impairment on loans to customers for the year to March 2016 was a credit of £77.6m, a reduction of £73.0m from the prior year (March 2015: £150.6m credit). Net impairment on investment securities was a £7.2m credit for the year (March 2015: £16.4m credit). The number of mortgage accounts 3 or more months in arrears including possessions reduced by 47% compared to March 2015, or by 20% when excluding the impact of asset sales.

The Board continue to believe it is appropriate to assess performance based on the underlying profits of the business, which excludes the remediation of inherited regulatory defects and certain gains or losses such as the repurchase of our own liabilities at a discount or premium. Whilst these gains or losses permanently impact capital reserves, the Board does not believe that they reflect the performance of the underlying business. Also excluded are movements in fair value and hedge ineffectiveness relating to financial instruments which are expected to be held to maturity. These movements will have no material impact over the life of the associated financial instruments. The commentary on the results in this statement uses underlying profits and its components as the primary measure of performance. An analysis of the difference between the statutory profit and the underlying profit of UKAR is provided below.

For the year to March 2016 statutory profit before tax of £1,175.8m (March 2015: £972.3m) includes a net release of £180.1m customer redress provision, which relates to the release of a £268.3m provision, following the successful appeal of the High Court Ruling regarding unsecured loans over £25k, partly offset by an additional £88.2m charge largely for PPI. Please see page 62 for further details.

Income Statement

	UKAR		B&B		NRAM	
For the year ended 31 March	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Net interest income	1,109.6	1,369.0	490.2	477.6	619.4	891.4
Underlying net non-interest income [1,2]	41.4	39.3	34.0	28.1	11.1	8.2
Underlying net operating income	**1,151.0**	**1,408.3**	**524.2**	**505.7**	**630.5**	**899.6**
Ongoing administrative expenses [1]	(180.4)	(177.2)	(106.7)	(84.7)	(77.6)	(89.5)
Impairment on loans to customers	77.6	150.6	16.7	80.0	60.9	70.6
Net impairment on investment securities	7.2	16.4	2.1	2.0	5.1	14.4
Underlying profit before taxation	**1,055.4**	**1,398.1**	**436.3**	**503.0**	**618.9**	**895.1**
Unrealised fair value movements on financial instruments	(2.3)	(8.1)	(2.5)	23.5	0.2	(31.6)
Hedge ineffectiveness	(28.6)	(74.9)	(6.7)	(67.8)	(21.9)	(7.1)
Other net administrative expenses	(73.4)	-	(73.4)	-	-	-
Provision for customer redress	180.1	(295.0)	(18.7)	(10.3)	198.8	(284.7)
Profit on sale of loans to customers	62.8	22.3	-	15.3	62.8	7.0
Loss on repurchase of own liabilities	(18.2)	(70.1)	(2.4)	(50.3)	(15.8)	(19.8)
Statutory profit before taxation	**1,175.8**	**972.3**	**332.6**	**413.4**	**843.0**	**558.9**

1 *UKAR underlying net non-interest income includes £5.6m (March 2015: £3.0m) and ongoing administrative expenses include £5.4m (March 2015: £3.0m) in relation to UKARcs and UKAR Limited. UKARcs is operated on an after tax nil-gain nil-loss basis. NRAM ongoing administration expenses include £9.3m charged by B&B for servicing loans on behalf of NRAM that were sold to Cerberus. This cost is excluded from the UKAR consolidated administration expenses, as is the corresponding income in B&B.*

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

Financial review (continued)

Net interest income

For the year ended 31 March	UKAR 2016 £m	UKAR 2015 £m	B&B 2016 £m	B&B 2015 £m	NRAM 2016 £m	NRAM 2015 £m
Interest receivable and similar income						
On secured loans	**1,495.0**	1,909.1	**671.0**	738.0	**824.0**	1,171.1
On other lending	**44.6**	54.3	**-**	-	**44.6**	54.3
On investment securities and deposits	**33.1**	47.4	**15.7**	18.9	**18.2**	29.8
Interest receivable and similar income	**1,572.7**	2,010.8	**686.7**	756.9	**886.8**	1,255.2
Interest expense and similar charges						
On amounts due to banks and HM Treasury	**(310.3)**	(402.5)	**(126.7)**	(183.9)	**(183.6)**	(218.6)
State guarantee fee [1]	**(28.0)**	(31.2)	**(28.0)**	(31.2)	**-**	-
On debt securities and other	**(124.8)**	(208.1)	**(41.8)**	(64.2	**(83.8)**	(145.2)
Interest expense and similar charges	**(463.1)**	(641.8)	**(196.5)**	(279.3)	**(267.4)**	(363.8)
Net interest income	**1,109.6**	1,369.0	**490.2**	477.6	**619.4**	891.4
Average balances						
Interest-earning assets ('IEA')	**52,850**	66,376	**29,745**	31,746	**23,105**	34,630
Financed by:						
- Interest-bearing funding	**26,886**	41,313	**7,991**	10,162	**18,895**	31,151
- Interest-free funding [2]	**25,964**	25,063	**21,754**	21,584	**4,210**	3,479
Average rates %	**%**	%	**%**	%	**%**	%
Gross yield on IEA	**3.07**	3.03	**2.31**	2.38	**3.84**	3.62
Cost of interest-bearing funding [1]	**(1.51)**	(1.48)	**(2.11)**	(2.44)	**(1.42)**	(1.17)
Interest spread	**1.56**	1.55	**0.20**	(0.06)	**2.42**	2.45
State guarantee fee [1]	**(0.05)**	(0.05)	**(0.09)**	(0.10)	**-**	-
Contribution of interest-free funding [2]	**0.67**	0.56	**1.54**	1.66	**0.26**	0.12
Net interest margin on average IEA	**2.18**	2.06	**1.65**	1.50	**2.68**	2.57
Annual average Bank Base Rate	**0.50**	0.50	**0.50**	0.50	**0.50**	0.50
Annual average 1-month LIBOR	**0.51**	0.50	**0.51**	0.50	**0.51**	0.50
Annual average 3-month LIBOR	**0.58**	0.55	**0.58**	0.55	**0.58**	0.55

1 *At the time of the nationalisation of B&B, HM Treasury provided a guarantee with regard to certain wholesale borrowings and derivative transactions existing at that time. The amount of this fee is dependent on balances outstanding and hence it is included within 'interest expense and similar charges'. The cost of interest-bearing funding is shown excluding this state guarantee fee.*

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

Net interest income for the year to March 2016 was £1,109.6m (March 2015: £1,369.0m). Across both books there was a reduction in income due to the decrease in average interest-earning assets over the year. At a UKAR level the underlying net interest margin for the year to March 2016 has increased to 2.18% from 2.06% in the year to March 2015.

On the B&B book the underlying net interest margin increased 0.15% to 1.65%, primarily due to reducing funding costs as the relatively expensive Working Capital Facility ('WCF') is repaid. The WCF interest rate of Bank Base Rate + 5.00% is in excess of the average yield on interest earning assets of 2.31%. Over the past three years, the cost of interest-bearing funding has fallen significantly as the WCF balance has reduced and is now 2.11% (March 2015: 2.44%).

In NRAM, the net interest margin increased to 2.68% from 2.57% driven by an increase in the proportion of interest-free funding (i.e. equity and reserves) on the NRAM Balance Sheet.

Financial review (continued)

Underlying net non-interest income

Underlying net non-interest income increased by £2.1m to £41.4m in the year to March 2016 (March 2015: £39.3m). In the current year other operating income includes interim servicing fees of £11.0m from the provision of mortgage services on the £13bn assets sold, whereas in the prior year it included profits of £9.6m from the sale and leaseback of the Crossflatts (West Yorkshire) property.

Other operating income includes £5.6m for UKARcs (March 2015: £3.0m), which reflects the reimbursement by HM Treasury of the costs associated with administering the Help to Buy: mortgage guarantee and Help to Buy: ISA schemes.

Net non-interest income

For the year ended 31 March	UKAR		B&B		NRAM		UKARcs	
	2016	2015	2016	2015	2016	2015	2016	2015
	£m	£m	£m	£m	£m	£m	£m	£m
Total net fee and commission income	**8.2**	10.5	**11.9**	11.8	**(3.7)**	(1.3)	**-**	-
Net realised gains less losses on investment securities	**15.5**	12.8	**7.7**	4.5	**7.8**	8.3	**-**	-
Other operating income [1]	**17.7**	16.0	**14.4**	11.8	**7.0**	1.2	**5.6**	3.0
Underlying net non-interest income	**41.4**	39.3	**34.0**	28.1	**11.1**	8.2	**5.6**	3.0
Unrealised fair value movements on financial instruments	**(2.3)**	(8.1)	**(2.5)**	23.5	**0.2**	(31.6)	**-**	-
Hedge ineffectiveness	**(28.6)**	(74.9)	**(6.7)**	(67.8)	**(21.9)**	(7.1)	**-**	-
Statutory net non-interest income	**10.5**	(43.7)	**24.8**	(16.2)	**(10.6)**	(30.5)	**5.6**	3.0

1 B&B other operating income includes £9.3m charged by B&B to NRAM for servicing loans sold to Cerberus. This income is excluded from the UKAR consolidated other operating income, as is the corresponding expense in NRAM.

Accounting volatility on derivative financial instruments

NRAM and B&B use derivative financial instruments for economic hedging purposes. Most of these are designated and accounted for as IAS 39 'Financial Instruments: Recognition and Measurement' compliant fair value or cash flow hedge relationships. Where effective hedge relationships can be established, the movement in the fair value of the derivative is offset in full or in part either by opposite movements in the fair value of the instrument being hedged or by being taken to reserves. Any ineffectiveness arising from different movements in fair value will offset over the life of the hedge relationship. The Income Statement charge for hedge ineffectiveness was £28.6m in the year (March 2015: £74.9m).

Unrealised fair value movements were a net loss of £2.3m in the year (March 2015: £8.1m loss). These losses generally relate to derivatives that act as an economic hedge but were not treated as an accounting hedge under IAS 39.

Provision for customer redress

UKAR defines conduct risk as the risk of UKAR treating its customers unfairly and delivering inappropriate outcomes leading to customer detriment or impacting market integrity. Since the creation of UKAR we have been remediating a series of conduct issues inherited from the legacy businesses, including the mis-selling of PPI by Northern Rock and the issue of non-compliant CCA loan documentation to certain customers.

In December 2014 the High Court ruled that customers with loans over £25,000, who had incorrectly been sent documentation stating that their loans were regulated under the CCA, should receive remediation in line with that provided in 2012 on CCA loans of less than £25,000. Therefore, a charge of £268.3m was recognised in the year ended March 2015. However, NRAM successfully appealed this decision through the Court of Appeal and as such the charge has been reversed in the current year.

UKAR remain committed to doing the right thing for our customers and where we identify issues that have caused customer detriment, we will ensure that they are fully remediated. A further charge of £88.2m for customer redress has been made during the year to address inherited issues largely relating to PPI following the publication of the FCA consultation paper regarding a potential time bar and the Plevin case.

Financial review (continued)

Administrative expenses

Costs for the year include £5.4m for UKARcs relating to the provision of administrative support to the government's Help to Buy: mortgage guarantee and Help to Buy: ISA schemes (March 2015: £3.0m). These costs were fully reimbursed by HM Treasury.

The Group has continued to focus on maximising cost effectiveness and efficiency through continuous improvement. Ongoing administrative expenses for the year were £180.4m (March 2015: £177.2m) which, when excluding UKARcs costs, is 0.5% higher. Costs include investment in our IT infrastructure and a £3.0m provision for voluntary redundancies, which is a consequence of the reducing Balance Sheet and our success in managing down arrears. It is anticipated costs will increase in 2016/17 as VAT will be payable on mortgage servicing fees to Computershare.

Non recurring costs of £73.4m are in relation to the outsourcing of mortgage servicing to Computershare and include the costs of an internal transformation programme to separate the mortgage servicing capability from the asset management function and the costs of transaction advisors.

Administrative expenses

	UKAR		B&B		NRAM		UKARcs	
For the year ended 31 March	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m
Wages and salaries	**59.1**	58.6	**59.1**	58.6	**-**	-	**-**	-
Social security costs	**5.8**	5.9	**5.8**	5.9	**-**	-	**-**	-
Defined benefit pension costs	**(7.8)**	(4.3)	**(2.9)**	(0.6)	**(4.9)**	(3.7)	**-**	-
Defined contribution pension costs	**4.1**	4.1	**4.1**	4.1	**-**	-	**-**	-
Other retirement benefit costs	**0.4**	0.4	**0.5**	0.4	**-**	-	**-**	-
Total staff costs	**61.6**	64.7	**66.5**	68.4	**(4.9)**	(3.7)	**-**	-
IT costs	**43.2**	35.0	**40.9**	33.2	**1.6**	1.7	**0.7**	0.1
Outsourced and professional services[1]	**16.8**	19.6	**12.1**	14.9	**12.7**	3.8	**1.2**	0.9
Depreciation and amortisation	**22.2**	16.8	**21.1**	15.7	**0.3**	0.5	**0.8**	0.6
Management recharge to NRAM / UKARcs	**-**	-	**(61.1)**	(80.8)	**59.7**	79.6	**1.5**	1.2
Other administrative expenses	**36.6**	41.1	**27.2**	33.3	**8.2**	7.6	**1.2**	0.2
Total ongoing	**180.4**	177.2	**106.7**	84.7	**77.6**	89.5	**5.4**	3.0
Non-recurring	**73.4**	-	**73.4**	-	**-**	-	**-**	-
Total administrative expenses	**253.8**	177.2	**180.1**	84.7	**77.6**	89.5	**5.4**	3.0

1 NRAM outsourced and professional services expenses include £9.3m charged by B&B for servicing NRAM loans. This cost is excluded from the UKAR consolidated administration expenses as is the corresponding income in B&B.

Financial review (continued)

Arrears and loan impairment: residential and unsecured loans

Total UKAR loan impairment provisions as at 31 March 2016 were £845.0m (March 2015: £1,169.8m) comprising residential mortgages £663.4m (March 2015: £888.0m), unsecured loans £96.2m (March 2015: £205.1m) and commercial property of £85.4m (March 2015: £76.7m).

Arrears and possessions

At 31 March		UKAR			
		2016		2015	
		Residential	Unsecured	Residential	Unsecured
Arrears 3 months and over					
Number of cases	No.	**5,870**	**4,307**	11,005	8,877
Proportion of total accounts	%	**1.97**	**10.17**	2.43	8.38
Asset value	£m	**858.7**	**69.8**	1,575.5	147.8
Proportion of book	%	**2.47**	**17.81**	3.09	13.92
Total value of payments overdue	£m	**35.7**	**17.3**	62.8	26.3
Proportion of total book	%	**0.11**	**4.43**	0.12	2.48
Possessions					
Number of cases	No.	**507**	**-**	971	-
Proportion of total accounts	%	**0.17**	**-**	0.21	-
Asset value	£m	**76.4**	**-**	133.9	-
Proportion of book	%	**0.22**	**-**	0.26	-
Total value of payments overdue	£m	**4.4**	**-**	8.8	-
Proportion of total book	%	**0.01**	**-**	0.02	-
New possessions	No.	**1,853**	**-**	2,856	-
Total arrears 3 months and over and possessions					
Number of cases	No.	**6,377**	**4,307**	11,976	8,877
Proportion of total accounts	%	**2.14**	**10.17**	2.64	8.38
Asset value	£m	**935.1**	**69.8**	1,709.4	147.8
Proportion of book	%	**2.69**	**17.81**	3.35	13.92
Total value of payments overdue	£m	**40.1**	**17.3**	71.6	26.3
Proportion of total book	%	**0.12**	**4.43**	0.14	2.48
Payments overdue					
Total value of payments overdue	£m	**49.3**	**17.5**	90.6	26.8
Proportion of total book	%	**0.14**	**4.47**	0.18	2.53
Loan impairment provision					
As % of total balances	%	**1.88**	**19.72**	1.71	16.20

Financial review (continued)

Arrears and possessions (continued)

		B&B		NRAM			
At 31 March		2016	2015	2016		2015	
		Residential	Residential	Residential	Unsecured	Residential	Unsecured
Arrears 3 months and over							
Number of cases	No.	**2,476**	3,144	**3,394**	**4,307**	7,861	8,877
Proportion of total accounts	%	**1.17**	1.37	**3.86**	**10.17**	3.49	8.38
Asset value	£m	**340.2**	440.0	**518.5**	**69.8**	1,135.5	147.8
Proportion of book	%	**1.38**	1.64	**5.15**	**17.81**	4.70	13.92
Total value of payments overdue	£m	**10.6**	12.5	**25.1**	**17.3**	50.3	26.3
Proportion of total book	%	**0.04**	0.05	**0.25**	**4.43**	0.21	2.48
Possessions							
Number of cases	No.	**327**	381	**180**	**-**	590	-
Proportion of total accounts	%	**0.16**	0.17	**0.20**	**-**	0.26	-
Asset value	£m	**42.6**	54.6	**33.8**	**-**	79.3	-
Proportion of book	%	**0.17**	0.20	**0.34**	**-**	0.33	-
Total value of payments overdue	£m	**1.8**	2.4	**2.6**	**-**	6.4	-
Proportion of total book	%	**0.01**	0.01	**0.03**	**-**	0.03	-
New possessions	No.	**844**	958	**1,009**	**-**	1,898	-
Total arrears 3 months and over and possessions							
Number of cases	No.	**2,803**	3,525	**3,574**	**4,307**	8,451	8,877
Proportion of total accounts	%	**1.33**	1.54	**4.06**	**10.17**	3.75	8.38
Asset value	£m	**382.8**	494.6	**552.3**	**69.8**	1,214.8	147.8
Proportion of book	%	**1.55**	1.84	**5.49**	**17.81**	5.03	13.92
Total value of payments overdue	£m	**12.4**	14.9	**27.7**	**17.3**	56.7	26.3
Proportion of total book	%	**0.05**	0.06	**0.28**	**4.43**	0.24	2.48
Payments overdue							
Total value of payments overdue	£m	**15.9**	19.3	**33.4**	**17.5**	71.3	26.8
Proportion of total book	%	**0.06**	0.07	**0.33**	**4.47**	0.30	2.53
Loan impairment provision							
As % of total balances	%	**1.79**	1.82	**2.09**	**19.72**	1.58	16.20

Arrears and loan impairment: residential loans

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

Financial review (continued)

Arrears and loan impairment: residential loans (continued)

Strong arrears performance continues. UKAR has seen arrears in both companies fall as a direct consequence of the sale of assets and proactive arrears management coupled with the continued low interest rate environment. The total number of cases 3 or more months in arrears, including those in possession, reduced by 47% from 11,976 at 31 March 2015 to 6,377 at 31 March 2016. The reduction was driven by asset sales (3,349) and strong underlying performance (2,250). The total value of payments overdue by residential customers has reduced from £90.6m at 31 March 2015 to £49.3m at 31 March 2016, equivalent to 0.14% of mortgage balances (March 2015: 0.18%).

Provisions for residential loan impairment held on the Balance Sheet have reduced by £224.6m since 31 March 2015 to £663.4m (March 2015: £888.0m) reflecting the sale of assets, realised losses, the reduction in arrears cases and the benefit of improving house prices.

Included within the above, fraud and professional negligence provisions have decreased by £54.8m since 31 March 2015 to £197.9m (March 2015: £252.7m) as a result of write-offs following the sale of properties and the impact of reducing the level of provisions across a number of portfolios as valuations benefit from improving house prices. Total UKAR fraud provisions represent coverage of 37% of suspected fraud and professional negligence cases (March 2015: 39%). Within the B&B book, fraud and professional negligence provisions have reduced since 31 March 2015 by £38.8m to £171.0m (March 2015: £209.8m). In the NRAM book, fraud and professional negligence provisions have reduced by £16.0m to £26.9m (March 2015: £42.9m).

As a proportion of balances, the residential impairment provision was 1.88% (March 2015: 1.71%). The residential loan impairment credit was £88.7m for the year (March 2015: £170.4m credit). The reduction in the credit reflects slower house price growth than seen in the prior year.

The number of properties in possession for UKAR decreased from 971 at 31 March 2015 to 507 at 31 March 2016. Within B&B, possession stock decreased from 381 cases at 31 March 2015 to 327 at 31 March 2016. In NRAM possession stock reduced to 180 cases from 590 at 31 March 2015. A total of 1,853 properties were taken into possession in the year (March 2015: 2,856).

In addition to residential property possessions, there are also a number of buy-to-let properties managed by Law of Property Act ('LPA') receivers. The LPA 'for sale' stock increased from 240 cases at 31 March 2015 to 274 at 31 March 2016.

During the year 2,122 cases (March 2015: 3,229) were sold following possession and 195 were included as part of the sale of assets to Cerberus. In addition a further 266 cases (March 2015: 363) were sold which were under LPA management. Total realised losses on properties sold following possession or sold by an LPA were £95.3m (March 2015: £154.2m), all of which had previously been fully provided for. Within these losses £8.9m were fraudulent and professional negligence cases (March 2015: £28.0m).

Arrears and loan impairment: unsecured loans

The number of unsecured loans 3 months or more in arrears was 4,307 cases (March 2015: 8,877). The charge for unsecured loan impairment for the year was £1.5m, £21.2m lower than the prior year (March 2015: £22.7m). Asset coverage was 19.72% at 31 March 2016 (March 2015: 16.20%).

The provision for unsecured loans was £96.2m at 31 March 2016 (March 2015: £205.1m). The reduction reflects the sale of assets, realised losses and the reduction in arrears cases. Realised losses in the year were £16.5m (March 2015: £32.3m) all of which had previously been fully provided for.

Arrears and loan impairment: commercial loan book

The provision for the commercial book has increased to £85.4m from £76.7m at 31 March 2015, with coverage at 16.24% (March 2015: 12.51%). We continually review the level of provisions against each individual loan based on current and future property valuations, future rental income projections, tenant quality and general market conditions.

Net impairment release on investment securities

UKAR continues to review securities held on the Balance Sheet and believes the risk of further impairment is not significant. During the financial year we have identified a number of assets in both B&B and NRAM where events have occurred that caused us to reverse impairments previously charged. These have resulted in a net credit to impairment in the year of £7.2m (March 2015: £16.4m).

Financial review (continued)

Profit on sale of loans to customers

In November 2015 we announced the £13bn asset sale to Cerberus. The portfolio was sold via a competitive process which saw a high level of interest resulting in a sale price in excess of par and a premium in the region of £280m. When adjusted for costs, hedging impacts and margins between June 2015 and the completion date this gave an accounting profit on disposal of £59.4m. Also, during the year NRAM released £3.4m of warranty provisions relating to sales in earlier periods, as these provisions were no longer required.

Loss on repurchase of own liabilities

In the year to March 2016, B&B and NRAM repurchased £4,644.8m of their liabilities (March 2015: £708.6m) yielding £18.2m of net pre-tax losses (March 2015: £70.1m loss).

Whilst this resulted in a net loss within the year, the transactions created value for the taxpayer by removing significant future liabilities, simplifying our Balance Sheet and unencumbering mortgages thus increasing our ability to deliver future sales transactions to the benefit of the taxpayer.

Taxation

The total Income Statement tax charge for the year ended 31 March 2016 was £257.6m (March 2015: £200.7m). Given the statutory profit before taxation of £1,175.8m (March 2015: £972.3m), this equates to an effective tax rate of 21.9% (March 2015: 20.6%). The effective tax rate has been impacted by disallowable expenses in relation to restructuring costs and PPI customer compensation costs following legislation that came into effect on 8 July 2015.

Balance Sheet

Balance Sheet summary

	UKAR		B&B		NRAM	
At 31 March	2016	2015	2016	2015	2016	2015
	£m	£m	£m	£m	£m	£m
Loans to customers:						
- residential mortgages	**34,700.3**	51,085.1	**24,636.6**	26,916.1	**10,065.7**	24,169.0
- commercial loans	**440.5**	536.3	**325.3**	399.6	**115.2**	136.7
- unsecured lending	**391.8**	1,061.1	**-**	-	**391.8**	1,061.1
Wholesale assets	**5,951.1**	9,705.8	**4,183.6**	2,863.7	**1,780.9**	6,945.3
Fair value adjustments on portfolio hedging	**436.6**	467.7	**436.6**	414.5	**-**	53.2
Derivative financial instruments	**781.4**	2,962.7	**769.9**	877.2	**11.5**	2,085.5
Other assets	**567.5**	323.6	**316.9**	161.1	**249.9**	173.4
Total assets	**43,269.2**	66,142.3	**30,666.9**	31,632.2	**12,615.0**	34,624.2
Statutory Debt and HM Treasury loans	**28,353.9**	34,619.4	**20,888.3**	20,963.3	**7,465.6**	13,656.1
Wholesale funding	**5,713.1**	23,132.5	**5,496.1**	6,757.4	**250.7**	16,480.4
Derivative financial instruments	**527.7**	570.0	**516.0**	499.1	**11.7**	70.9
Other liabilities	**775.6**	750.2	**276.4**	215.9	**478.3**	543.0
Other capital instruments	**9.2**	17.1	**5.1**	7.8	**4.1**	9.3
Equity	**7,889.7**	7,053.1	**3,485.0**	3,188.7	**4,404.6**	3,864.5
Total equity and liabilities	**43,269.2**	66,142.3	**30,666.9**	31,632.2	**12,615.0**	34,624.2

The Balance Sheet has decreased by £22.8bn to £43.3bn from £66.1bn since March 2015.

Lending balances have reduced by £17.2bn (32.6%) to £35.5bn during the year to March 2016 due to £11.7bn asset sales, £5.0bn of secured residential redemptions, £0.1bn of commercial redemptions, £0.1bn of unsecured loan redemptions and £0.3bn of other regular repayments.

Financial review (continued)

Liabilities

Statutory Debt and HM Treasury loans (excluding accrued interest) have reduced by £6.3bn to £28.3bn (March 2015: £34.6bn) due to repayments of principal in the year (NRAM: £6.2bn, B&B: £0.1bn). In addition, £9.7bn of other external wholesale funding was repaid in the year, including £8.1bn of Granite securitisation liabilities.

Cash repayments

Repayment of the Statutory Debt and HM Treasury loans remains a primary objective of UKAR. In the year a further £6.3bn (March 2015: £3.7bn) of HM Treasury debt was repaid. In addition, £0.5bn of other cash flows were generated for HM Treasury in the form of state guarantee fees, interest and taxes. The Board considers the total of all these cash flows paid to HM Treasury to be an important measure. Total cash payments in the year to HM Treasury were £6.8bn (March 2015: £4.4bn). The increase in the repayment of debt and other cash flows to HM Treasury is primarily due to the £13bn NRAM asset sale, which, after the repayment of Granite securitisation liabilities, generated repayments of £5.0bn.

Capital

UKAR operates under a MIPRU regulatory status. While FCA rules require the regulated companies within the Group to hold capital in excess of 1% of total Balance Sheet assets plus any undrawn commitments, the Board believes it appropriate to hold a higher level of capital reflecting the increased risk in the business compared to a standard MIPRU firm. As at 31 March 2016 capital in B&B plc represented 9.4% of B&B Company assets and NRAM plc capital represented 33.3% of NRAM Company assets.

The Group's capital is provided by its shareholder (currently HM Treasury).

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

Capital resources - B&B plc

At 31 March	2016 £m	2015 £m
Share capital and reserves	**3,194.2**	3,008.9
Available-for-sale reserve adjustments	**(20.1)**	(26.7)
Cash flow hedge reserve adjustments	**11.2**	(43.0)
Net pension adjustment	**(253.1)**	(85.7)
Less: deductions [1]	**(206.4)**	(512.7)
Total capital	**2,725.8**	2,340.8

1 The deduction from B&B plc capital resources comprises £175.0m for the company's investment in MX (March 2015: £475.0m) and £31.4m for intangible assets (March 2015: £37.7m).

B&B plc total capital resources of £2,725.8m are £385.0m higher than at 31 March 2015, mainly due to a £300m reduction in the company's investment in MX following the maturity of an intercompany subordinated loan and profits generated in the year, partly offset by an increase in the net pension adjustment reflecting an increase in the value of pension assets.

Financial review (continued)

Capital (continued)

Capital resources - NRAM plc

At 31 March	2016 £m	2015 £m
Share capital and reserves	**4,403.6**	3,864.5
Available-for-sale reserve adjustments	**15.8**	24.6
Cash flow hedge reserve adjustments	**-**	(194.1)
Net pension adjustment	**(229.4)**	(151.9)
Less: deductions [1]	**-**	(0.7)
Total capital	**4,190.0**	3,542.4

1 In the prior year the deduction from NRAM plc capital resources of £0.7m was primarily for intangible assets.

NRAM plc total capital resources of £4,190.0m are £647.6m higher than at 31 March 2015, mainly due to profits generated in the year and the release of the cashflow hedge reserve following the unwind of the Granite and Covered Bond funding structures, partly offset by an increase in the net pension adjustment reflecting an increase in the value of pension assets.

Key performance indicators ('KPIs') - B&B

In addition to the primary Financial Statements, we have adopted the following KPIs in managing business performance in the context of its strategic priorities.

Strategic priorities	Financial measures	March 2016	March 2015	Commentary
Optimise the Balance Sheet	Total lending balances £bn	**25.0**	27.3	Lending balances reduced by 8.4% during the year primarily due to £2.2bn of residential redemptions and £0.1bn of commercial repayments.
	Residential mortgage redemption rate % Residential redemptions £bn	**8.1** **2.2**	6.3 1.9	Redemption rates have increased compared to 2015 reflecting increases in house prices, improved levels of remortgage activity across the market and more competitive deals being available.
	Government loan repayments £bn Government loan balance £bn	**0.1** **20.9**	2.4 21.0	Net repayments of £0.1bn were made in the year against the WCF. The reduction in loan repayments reflects the utilisation of cash to repurchase Covered Bonds in March 2016 and fund contractual maturities in May 2016. The WCF balance of £2.5bn, excluding accrued interest, is within the £11.5bn maximum facility level currently agreed with HM Treasury. No payments were made against the Statutory Debt and the balance remains at £18.4bn at 31 March 2016.
	Total cash payments to HM Treasury £bn	**0.3**	2.8	Total cash paid to HM Treasury during the year. This includes principal and interest repayments, State guarantee fees and corporation tax paid. The main driver of the decrease is the lower principal repayments explained above.
Minimise impairment and losses	Residential arrears balance: total residential mortgage balance % Residential payments overdue £m	**0.06** **15.9**	0.07 19.3	This represents the value of customers' missed payments as a proportion of the total balance of all residential mortgages and the reduction reflects that the level of overdue debt owed on mortgages is falling faster than the book.
	Residential arrears 3 months and over and possessions as % of the book: - by value - by number of accounts Number of residential arrears 3 months and over and possessions cases	 **1.55** **1.33** **2,803**	 1.84 1.54 3,525	The reduction in arrears reflects both our continued focus on customers in financial difficulty and the continuing support provided to mortgage customers by low interest rates.
	Impairment provisions: Residential secured £m Cover % Commercial / other £m Cover %	 **448.5** **1.79** **76.1** **18.97**	 499.5 1.82 60.8 13.21	The level of the residential impairment Balance Sheet provision reduced by £51.0m and the level of cover reduced to 1.79%. The level of the commercial impairment provision increased by £15.3m and the level of cover increased by 5.76%.
Reduce costs	Total Costs £m Ongoing costs £m Ratio of costs to average interest-earning assets: - statutory % - ongoing %	**180.1** **106.7** **0.61** **0.36**	84.7 84.7 0.27 0.27	Total Costs include £73.4m in relation to the project to outsource mortgage servicing to Computershare. Ongoing costs have increased. Since the sale of NRAM loans to Cerberus, B&B have retained the costs associated with servicing this book. Servicing fees are charged to Cerberus but are included in other income. The ratio of ongoing costs to average interest-earning assets has increased reflecting the increase in costs.

Key performance indicators ('KPIs') - NRAM

In addition to the primary Financial Statements, we have adopted the following KPIs in managing business performance in the context of its strategic priorities.

Strategic priorities	Financial measures	March 2016	March 2015	Commentary
Optimise the Balance Sheet	Total lending balances £bn Secured £bn Unsecured £bn	**10.6** **10.2** **0.4**	25.4 24.3 1.1	Lending balances reduced by 58.7% during the year due to £11.7bn of asset sales, £2.8bn of residential redemptions, £0.1bn of unsecured loan redemptions and £0.3bn of other capital repayments.
	Residential mortgage redemption rate % Residential redemptions £bn	**11.5** **2.8**	11.7 3.5	Redemption rates have decreased compared to 2015 with increases in house prices, improved levels of remortgage activity across the market and more competitive deals being available, being more than offset by the impact of asset sales.
	Government loan repayments £bn Government loan balance £bn	**6.2** **7.5**	1.3 13.6	£6.2bn was repaid against the government loan. The main driver of the increase is the £13.0bn asset sale, which enabled a repayment of £5.0bn from the transaction proceeds, after repaying the Granite securitisation liabilities.
	Total cash payments to HM Treasury £bn	**6.5**	1.6	Total cash paid to HM Treasury during the year. This includes principal and interest repayments, guarantee fees and corporation tax paid. The main driver of the increase is the higher repayments of loan principal as explained above.
Minimise impairment and losses	Residential arrears balance: total residential mortgage balance % Residential payments overdue £m	**0.33** **33.4**	0.30 71.3	This represents the value of customers' missed payments as a proportion of the total balance of all residential mortgages. The increase reflects that the level of debt owed on mortgages is falling at a marginally slower rate than the reduction in the book.
	Residential arrears 3 months and over and possessions as % of the book: - by value - by number of accounts Number of residential arrears 3 months and over and possessions cases	 **5.49** **4.06** **3,574**	 5.03 3.75 8,451	Arrears cases have fallen as a direct consequence of the sale of assets, continued focus on customers in financial difficulty and the continuing support provided to mortgage customers by low interest rates. Arrears as a percentage of the book have increased largely due to the mix of residential loans sold.
	Impairment provisions: Residential secured £m Cover % Unsecured £m Cover % Commercial / other £m Cover %	 **214.9** **2.09** **96.2** **19.72** **9.3** **7.47**	 388.5 1.58 205.1 16.20 15.9 10.40	The level of the residential impairment Balance Sheet provision reduced by £173.6m. The reduced provision reflects the sale of assets, improved arrears performance, the benefit of improving house prices and realised losses within the year. The level of cover increased from 1.58% to 2.09%, largely due to the mix of residential mortgage loans sold during the year.
Reduce costs	Total Costs £m Ongoing costs £m Ratio of costs to average interest-earning assets: - statutory % - ongoing %	**77.6** **77.6** **0.34** **0.34**	89.5 89.5 0.26 0.26	Ongoing costs have reduced primarily reflecting lower servicing costs following the sale of assets to Cerberus. The ratio of ongoing costs to average interest-earning assets has increased as the Balance Sheet has reduced faster than costs.

Risk management and control

Pages 72 to 77 form an integral part of the audited Financial Statements

Introduction

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

The following sections describe the Group's approach to risk management, including the risk governance structure and principal risk categories under management. Other than the risks described here, there are other factors which could also affect the Group's results, including economic factors. Therefore, the categories of risk described below should not be considered to represent all of the potential risks and uncertainties which could impact the Group's performance.

Risk governance

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

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

Management committees

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

Executive Committee ('ExCo')

ExCo is an advisory committee which supports the CEO in managing the business to achieve its strategic objectives. ExCo will normally meet three times each month with a specific focus to each meeting of either a) Customers and Conduct, b) Change, or c) Board reporting.

The following were sub-committees of ExCo at 31 March 2016:

- Investment Advisory Committee ('IAC');
- Remediation Steering Committee ('RSC'); and
- Executive Risk Committee ('ERC').

Other management committees include the Health & Safety Committee and the Customer Steering Group.

Investment Advisory Committee

The IAC supports, advises and makes recommendations to ExCo on the development and subsequent execution of proactive strategies that balance reduction of the UKAR Balance Sheet with the maximisation of taxpayer value.

Remediation Steering Committee

The RSC supports ExCo in effectively executing its obligations of ensuring fair and timely remediation to customers in circumstances where customer redress is appropriate. This includes providing oversight and challenge of the delivery of customer remediation or redress activities across the Group.

Risk management and control (continued)

Pages 72 to 77 form an integral part of the audited Financial Statements

Management committees (continued)

Executive Risk Committee

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

The following were sub-committees of the ERC at 31 March 2016:

- Asset & Liability Committee ('ALCO');
- Operational Risk Committee ('ORC'); and
- Credit Risk Committee ('CRC').

Asset & Liability Committee

The primary objectives of ALCO are to support and advise the ERC on managing market, liquidity, wholesale credit and capital risk. It does this by recommending risk appetite levels and analysing and reporting exposures to these risks.

Operational Risk Committee

Principally, ORC supports the ERC in its oversight of the Principal Subsidiaries' adherence to Operational Risk Framework elements including Operational Risk, Financial Crime, Information Security and Business Continuity Management policies and procedures. The Committee provides challenge on the content, accuracy and reliability of operational risk information and reports.

Credit Risk Committee

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

A review of the required management committee structure will be undertaken following the outsourcing of mortgage service operations to Computershare.

Risk management oversight

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

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

Risk management and control (continued)

Pages 72 to 77 form an integral part of the audited Financial Statements

Compliance

Compliance is provided through an in-house compliance team which operates in accordance with an RC approved annual compliance plan. The Head of Compliance is approved by the FCA and the RC to undertake this control function.

The role of Compliance is to:

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

Internal Audit

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

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

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

Additional detail is contained in the Audit Committee Chairman's Report on page 47.

Controls effectiveness

The role of Accounting Officer, as detailed on page 82, was held by our CEO, Richard Banks at the year end. The Accounting Officer has responsibility for maintaining and reviewing the effectiveness of the system of internal controls. He has confirmed that there were no significant control issues in the year under review.

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

Risk categorisation

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

(i) Credit risk

Credit risk is the potential for financial loss caused by a retail or commercial customer, or wholesale counterparty, failing to meet their obligations to the Principal Subsidiaries as they become due. As the Principal Subsidiaries are no longer making any new retail loans, the absolute level of retail credit risk is expected to decline as the current assets mature and wholesale credit risk will decline in line with the maturity profile of financial instruments and investments. Credit risk is the largest risk the Principal Subsidiaries face and the monitoring of the recoverability of loans and amounts due from counterparties is inherent across most of the Principal Subsidiaries' activities.

Risk management and control (continued)

Pages 72 to 77 form an integral part of the audited Financial Statements

Risk categorisation (continued)

(i) Credit risk (continued)

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

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

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

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

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

At 31 March	Balance Sheet value 2016 £m	Provision 2016 £m	Balance Sheet value 2015 £m	Provision 2015 £m
Loans secured on residential property	**34,700**	**663**	51,085	888
Other secured loans	**441**	**85**	536	77
Unsecured personal loans	**392**	**96**	1,061	205
Wholesale assets	**5,951**	**330**	9,706	381

The Principal Subsidiaries' ability to influence the structure of their credit risk profiles, in the absence of asset sales, is largely restricted to the degree of control which they have over risk strategy, loan redemptions and credit collections activity. With the composition of the loan portfolio largely fixed in the short to medium term, the Principal Subsidiaries' credit risk profiles are now determined by the credit quality of the existing portfolio. Changes in credit quality will arise from changes in the underlying economic environment, assumptions about the future trends in the economy, changes in the specific characteristics of individual loans and the credit risk strategies developed to maintain and enhance the book whilst mitigating credit risk.

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

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

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

Authorised credit risk limits for wholesale counterparties reflect their credit rating as well as size, depth and quality of their capital base. Wholesale credit related policies and limits are developed and maintained by Wholesale Risk and are approved by the Board at least annually, or when material changes to policies are recommended.

The Principal Subsidiaries each hold a structured finance portfolio that primarily consists of investments in Asset Backed Securities ('ABS'). The credit risk is determined by the quality of the underlying securitised assets. Credit risk continues to fall as the quality of underlying assets improves and the size of the portfolio reduces. No new structured finance investments are permitted apart from the purchase of those issued by the Group's own secured funding vehicles.

Risk management and control (continued)

Pages 72 to 77 form an integral part of the audited Financial Statements

Risk categorisation (continued)

(ii) Market risk

Market risk is the potential for change in Group income or Group net worth arising from movements in interest rates, foreign exchange rates or other market prices. Effective identification and management of market risk is essential for maintaining stable net interest income. The Principal Subsidiaries do not trade or make markets in any areas and market risk only arises either as a legacy of past business or from supporting core activities.

Market risk comprises interest rate risk and foreign exchange risk. Interest rate risk is principally managed via interest rate swaps and foreign exchange risk by foreign exchange contracts.

The Board's appetite for market risk is set out in the Board approved Market Risk Policy. Responsibility for staying within risk appetite is delegated to the Finance & Investment Director and exposures are reported daily by Finance to senior management and monthly by Wholesale Risk to ALCO. ALCO is responsible for ensuring that the Finance & Investment Director implements market risk strategies consistent with the Board's risk appetite.

(iii) Liquidity risk

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

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

Sterling liquidity is held as cash balances at the Bank of England. Euro and US dollar cash balances are placed with a range of banks and money market funds.

(iv) Conduct risk

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

This risk category is governed by a Conduct Risk Framework ('CRF') which was established during 2013. The CRF forms part of UKAR's existing EWRMF. Through the EWRMF the approach to conduct risk is led by the Board and Senior Management. It ensures a joined-up and consistent approach to the management of conduct risk and is integrated into business strategy, management and decision making.

The CRF sets out the approach to the effective assessment, management and monitoring of conduct risk in accordance with our stated conduct risk appetite. UKAR has a zero risk appetite for systemic conduct risk that could lead to unfair customer outcomes or pose a risk to market integrity. Conduct risk is an integral part of the way UKAR does business, specifically, the interests of customers and market integrity are at the heart of UKAR's strategy, business and culture. With clear and visible leadership from the Board everyone takes responsibility for good conduct throughout our business model with established controls to deliver fair and appropriate outcomes to our customers. Our market conduct ensures that UKAR has no impact on market integrity. To support this annual mandatory conduct risk training has been introduced for all colleagues.

(v) Regulatory risk

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

Risk management and control (continued)

Pages 72 to 77 form an integral part of the audited Financial Statements

Risk categorisation (continued)

(vi) Operational risk

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

The Operational Risk Framework consists of an appropriate suite of policies, standards and procedures to enable effective identification, assessment, monitoring and reporting of key operational risks. The Framework is overseen and reported on by the operational risk function. The key elements of the Framework are as follows:

- **Risk & Control Self Assessment**
  Provision of a consistent framework for the identification, assessment, monitoring and reporting of significant risks and key controls across the Group. Where controls are assessed as ineffective in design or operation, a defined Action process is in place to develop, track and implement control improvements.
- **Operational risk event reporting**
  Provision of a consistent framework for the identification, investigation, assessment and reporting of operational risk events (losses, gains and near misses) across the Group. Root cause analysis performed as part of operational risk event reporting enhances the control environment by directing control improvement effort where there is a risk of event recurrence.
- **Key Risk Indicators**
  Key Risk Indicators are defined as measured metrics that track changes in the level of risk exposure and control effectiveness through reference to defined risk tolerances that are aligned to UKAR's risk appetite. These metrics provide an early warning of shifting risk exposures to identify emerging risks and enable control implementation before risks materialise.
- **Operational risk weighted financial impact analysis and scenario analysis**
  The Group undertakes operational risk weighted financial impact analysis and scenario analysis to calculate the financial impact of both expected and unexpected operational risk events. This analysis facilitates a comparison between operational risk, financial exposure and the operational risk capital allocation derived under the Group's capital adequacy assessment process.

(vii) Strategic risk

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

UKAR considers the primary strategic risks to be macroeconomic environment, market pressures, structural asset/liability mix, political, regulatory and legal risk, infrastructure risk (including managing a mortgage book in wind down) and project risk.

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

Corporate social responsibility report

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

Customers

The Group has almost 238,000 customers (March 2015: 389,000), with 298,000 mortgage accounts (March 2015: 455,000) and 42,000 unsecured personal loan accounts (March 2015: 106,000).

We are committed to:

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

Workplace

UKAR's employment practices reflect international and national standards covering areas such as minimum working age, working hours, health and safety and discrimination.

UKAR aims to recruit high calibre employees from all sections of the community, ensuring that no employee or job applicant receives less favourable treatment on grounds which are not related to the job. We adopt best practice policies and procedures which form a key part of our induction programmes together with the standards of behaviour we should all abide by and expect from each other.

A comprehensive training and development programme for colleagues throughout UKAR provides colleagues with the skills and specialist development opportunities to achieve their potential in order to help them do their job today and for any future roles they may undertake. Since UKAR was formed, 434 colleagues have achieved an external qualification through the support of the UKAR training academy.

UKAR believes that promoting both a diverse culture and diverse working practices will help retain and engage talent, maintain motivation and improve the wellbeing of all colleagues in the workplace. We build a working environment based on trust and openness and encourage effective and efficient communication throughout the organisation.

Colleague engagement is important to us and that is why 'Being a Great Place to Work' is one of our four strategic objectives. It is important to us that colleagues feel valued, are proud of the contribution they make and are given the opportunity to grow and learn new skills. We use a variety of channels for communicating with our colleagues including our intranet site, monthly team meetings, regular open surgeries with our CEO and members of ExCo and a quarterly magazine which is developed with the support of an editorial panel drawn from colleagues throughout the business. We have a very popular recognition scheme based around our core values and new ideas are encouraged via a suggestion scheme. We publish weekly 'blogs' from ExCo members to highlight the efforts we are making to encourage a 'One Team' culture both within and between different sites and departments. We believe that colleagues who enjoy working at UKAR strive to do the best they can and act in a professional way which will ensure that our customers receive the best possible outcomes and the organisation maximises value for the taxpayer.

We have a good relationship with the Unite union and their representative attends the Health & Safety Committee, along with other colleagues from across the business. We are flexible in the way we approach the personal circumstances of colleagues, preventing discrimination, for example on family grounds, and ensuring the workplace needs of those with families are addressed. We report our sickness and stress absence data to the Board on a monthly basis and we remained below the national benchmark for stress-related absence throughout 2015/16.

Corporate social responsibility report (continued)

Workplace (continued)

Off-payroll engagements

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

Table 1 – Off-payroll engagements as at 31 March 2016 (for more than £220 per day and lasting longer than 6 months)

	No. Contractors
No. of existing engagements as of 31 March 2016:	169
Of which:	
No. that have existed for less than one year at the time of reporting:	61
No. that have existed for between one and two years at the time of reporting:	43
No. that have existed for between two and three years at the time of reporting:	22
No. that have existed for between three and four years at the time of reporting:	16
No. that have existed for four years or more at the time of reporting:	27
Total	**169**

A risk-based assessment was carried out in 2010 for off-payroll engagements and as a result a managed service arrangement was implemented with our main provider of contract resource, which includes contractual clauses stating that liability for tax and National Insurance sits with the provider.

Table 2 – New off-payroll engagements, or those that reached six months in duration (for more than £220 per day and last longer than 6 months)

	No. Contractors
No. of new engagements, or those that reached six months duration, between 1 April 2015 and 31 March 2016:	110
No. of new engagements which include contractual clauses giving the department the right to request assurance in relation to income tax and National Insurance obligations:	-
No. for whom an assurance has been requested:	-
Of which:	
No. for whom assurance has been received:	-
No. for whom assurance has not been received:	-
No. that have been terminated as a result of assurance not being received:	-
Total	**-**

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

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

Corporate social responsibility report (continued)

Community

We are committed to:

- using the skills of the business to support education in our communities;
- building the skills of our colleagues through community engagement; and
- supporting colleagues with their own community and charity initiatives.

During 2015/16, UKAR supported a local charity chosen by our colleagues at each major site. These were Yorkshire Air Ambulance in Crossflatts and Children North East in Doxford. The following amounts were raised for these charities in 2015/16:

- Yorkshire Air Ambulance £ 14,571
- Children North East £ 8,595

UKAR also donated £12,550 to Martin House Children's Hospice through colleague clothing donations.

A further £47,128 was also raised by colleagues for other charities in 2015/16 through fundraising activities in support of initiatives such as Children in Need, Comic Relief and other local and national charities, bringing the total amount raised for charities in the year to £82,844.

In addition, UKAR supports other charitable fundraising activities by adding up to £250 to funds raised per employee and by matching employee donations to charity through a payroll giving programme. During 2015/16, in total, UKAR matched employee fundraising to the total of £33,909 and payroll giving totalled £39,885 through the Give as You Earn and Every Penny Counts schemes.

Colleagues in UKAR are given the opportunity to volunteer to help our communities by working with a number of charities including Young Enterprise, a charity set up to work with schools to inspire young people with the confidence, ability and ambition to succeed in a challenging and changing economy.

Environment

We are committed to:

- reducing environmental impact wherever possible;
- increasing recycling programmes; and
- creating awareness of environmental programmes and engaging colleagues in these activities.

We seek to improve our environmental performance through a range of initiatives and in 2014/15 we achieved the following:

- Recycling 96.5% of waste recycled.
- Landfill 3.5% of waste sent to landfill.
- Carbon emissions * Reduced by 12.5%.

Wherever possible surplus furniture and equipment is donated to charitable organisations or is recycled in other ways.

** Carbon produced from utilities (Gas / Electric consumption).*

Other matters

Review of business, future developments and uncertainties

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

Principal risks

Principal risks of the UKAR Group are covered on pages 16 to 17 and 74 to 77.

Dividends

The Directors do not propose the payment of any dividend in respect of the year ended 31 March 2016.

Major shareholders

As at the date of this report, all shares in UKAR are held by HM Treasury. As part of the sale of assets to Cerberus, on 30 April 2016 assets and liabilities not included in the transaction were transferred from NRAM plc to a newly established subsidiary of UKAR, known as NRAM (No.1) Limited. On 5 May 2016 all shares in NRAM plc were sold by UKAR to Landmark BidCo Limited, a subsidiary of Cerberus. All shares in B&B and NRAM (No.1) Limited are held by UKAR.

Employee involvement

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

The Group is committed to employment policies which follow best practice, based on equal opportunities for all employees, irrespective of gender, race, colour, disability or marital status. The Group gives full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the Group. If members of staff become disabled the Group continues employment, either in the same or an alternative position, with appropriate retraining being given if necessary.

Directors' indemnities

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

UKAR has also provided each Director with a Deed of Indemnity, which constituted 'qualifying third party indemnity provision' in accordance with the provisions of the Companies Act 2006. The Deeds were in force during the whole of the financial year ended 31 March 2016 and remain in force as at the date of approval of the Directors' Report.

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

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

Annual General Meeting ('AGM')

It is proposed that the AGM of the Company will be held on 28 June 2016.

Independent Auditors

A resolution to appoint the NAO as the Group's auditors will be put to the Shareholder at the forthcoming AGM.

Disclosure of information to the Auditors

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

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

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRS as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company 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 the Group and enable them to ensure that the Financial Statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

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

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

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

In preparing the Financial Statements, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

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

Richard Banks
Chief Executive Officer, on behalf of the Board
23 May 2016

Independent Auditors' report to the Members of UK Asset Resolution Limited

Report on the Group Financial Statements

Our opinion

In our opinion, UK Asset Resolution Limited's Group Financial Statements (the 'Financial Statements'):

- give a true and fair view of the state of the Group's affairs as at 31 March 2016 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

What we have audited

The Financial Statements, included within the Annual Report and Accounts (the 'Annual Report'), comprise:

- the Consolidated Balance Sheet as at 31 March 2016;
- the Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the year then ended;
- the Consolidated Cash Flow Statement for the year then ended;
- the Consolidated Statement of Changes in Equity for the year then ended;
- the Accounting Policies; and
- the notes to the Financial Statements, which include other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the Financial Statements. These are cross-referenced from the Financial Statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the Financial Statements is IFRSs as adopted by the European Union and applicable law.

Our audit approach

Overview

- Overall Group materiality: £64.8 million which represents 0.15% of total assets of the Group.

- The significant components of the Group are Bradford & Bingley plc ('B&B') and its subsidiaries and NRAM plc ('NRAM') and its subsidiaries and were identified based on their contribution to the Group's total assets and key balances of the income statement. Components not subject to full scope audits were still subject to group level analytical reviews over their financial information. Our work performed on the individual components taken together accounted for 100% of Group Total Assets, and 99% of Group Total Income.

- Loan loss provision judgemental assumptions and management overlays and adjustments.
- Provisions for customer redress.
- Hedge accounting may not be appropriate.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)').

We designed our audit by determining materiality and assessing the risks of material misstatement in the Financial Statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

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

Report on the Group Financial Statements (continued)

The scope of our audit and our areas of focus (continued)

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the Financial Statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
Loan loss provision assumptions and management overlays and adjustments Loan loss provisioning is a highly subjective area due to the level of judgement applied by management in determining the level of provisions. Loan loss provisions are calculated by management using internal models which use historic data and estimates and judgements in respect of future performance. Management's judgements include ones around macro-economic measures including future house price inflation. The measurement of the provision differs based upon the type of lending and requires an analysis of economic conditions and historic experience when assessing the impairment in the portflios. Judgement is applied to determine appropriate parameters and assumptions for the models that are used to calculate the provision. The key assumptions are the probability of customer default and the valuation of any underlying security. Management also apply adjustments or overlays where they believe the data driven parameters and calculations are not appropriate, either as a result of emerging trends or models not capturing the risks in the loan portfolio. These adjustments include an overlay to adjust for the impact of potential historic valuation fraud indicators in the portfolio and the impact of the low interest rate environment on the current performance of the portfolio. These adjustments and overlays require significant judgement to be applied by management.	We understood and evaluated the design and implementation and tested key controls focussing on: - the identification of provision trigger events; - the transfer of data between underlying source systems and the impairment models that the Group operates; and - the review and approval process that management has in place for the inputs, including the key assumptions, to the Group's impairment models, and the adjustments and overlays that are applied to the modelled outputs. In addition to testing the key controls around the loan loss provision, we also performed the following procedures to obtain sufficient audit evidence: • we understood and assessed management's basis for determining whether a loan was impaired, taking account of our understanding of the Group's loan portfolio and our broader industry knowledge. Where impairment was calculated using models we tested the completeness and accuracy of data to the underlying systems that were used in the models; • we have reviewed the model calculation scripts and for any amendments from prior periods we gained an understanding and critically assessed where adjustments had been made to the parameters and assumptions in the models used, the reasons for those adjustments and used our industry knowledge and experience to evaluate the appropriateness of these; • we understood and critically assessed the models used. Modelling assumptions and parameters, such as probability of default and future house price inflation, are based on historic data and / or forward forecasts. We challenged whether historic experience was representative of current circumstances and we assessed forward forecasts against our independently determined ranges. We also challenged management by performing sensitivity analysis; • we considered whether overlays to modelled provisions appropriately reflected the risks in the portfolios. We challenged management to provide explanations and objective evidence to support the overlay adjustments made. This included consideration of the current economic conditions and the extended low interest rate environment; • where a provision was calculated on a portfolio basis, we tested a sample of loans and advances to ascertain whether the impairment event had been identified in a timely manner and whether the provision was reasonable given the specific provision indicators; and • we assessed the judgements management use to identify provision events on performing loans including the likelihood of default based on historic data and future events such as interest rate rises and challenged management to provide objective evidence that the overlays were appropriate. Based on the evidence we obtained we found that the impairment model assumptions, data used within the models and overlays to the modelled outputs were supportable and within our own independently determined ranges. However, the models are sensitive to the micro and macro-economic environment in the UK and other factors such as employment levels, interest base rates and house price inflation which could reasonably be expected to give rise to further provisions in the future.

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

Report on the Group Financial Statements (continued)

The scope of our audit and our areas of focus (continued)

Area of focus	How our audit addressed the area of focus
Provisions for customer redress Given the continued regulatory focus on the financial services sector there is a significant risk that further claims or regulatory investigations will emerge that impact the Financial Statements. There is a risk across the Group that based on historical actions taken by B&B and NRAM there may be further areas where customer redress is required due to customer detriment arising from historic sales processes, product design or documentation that have not yet been identified or appropriately assessed by management for financial reporting purposes. Where such conduct risk matters have been identified, judgement is required as to the appropriate accounting treatment including an assessment of whether a provision is required to be recognised or a contingent liability is required to be disclosed. Where provisions or contingent liability disclosures have been made, judgement is required in measuring the liabilities due to a number of uncertain factors. Judgement is required in estimating future redress payments to be made to customers, and operational costs of processing complaints and reviewing past business.	We understood and evaluated the design and implementation of the controls and management's processes for: - identifying conduct risk exposures and assessing whether provisions or disclosures are required; and - the calculation and review of conduct provisions including governance processes and approvals of model assumptions and outputs. We met with management to understand the emerging and potential issues that they had identified. We independently assessed emerging and potential areas where exposures might have arisen based upon our knowledge and experience of emerging industry issues and the regulatory environment. We used this to challenge the completeness of the issues identified by management and whether a provision was required. We also reviewed customer complaints data to assess if there were indicators of more systemic issues being present to further challenge management's assessment of the completeness of the issues identified. We read the Group's correspondence with the Financial Conduct Authority and discussed the output of meetings held. We also met with the Chair of the Group Audit Committee. We read legal correspondence and opinions issued to the Group by external legal advisers to assess and challenge management over the completeness of provisions and the disclosures made. We read the minutes of key governance meetings including those of the Board, and of various management committees, as well as attending a number of Audit Committee meetings. We also understood the key activities of the Conduct and Compliance function. The majority of our detailed audit work focussed on the significant conduct provision for past sales of Payment Protection Insurance ('PPI') policies. We also focussed on the Group's decision to release £268.3m from the customer redress provision following the Court of Appeal finding in the Group's favour that customers with loans greater than £25,000 should not receive remediation in line with the CCA and assessed whether the release of the provision was appropriate given the available information. We also examined other areas of compensation payments made to customers. For significant provisions made, we understood and challenged the provisioning methodologies and underlying assumptions used by management. For example, we challenged the basis that management used for forecasting the number of PPI complaints that will be received in the future. For those assumptions based on historic information, we challenged whether this was appropriate for future experience. Where management made adjustments to historical experience in forming a provision, we challenged the basis for and appropriateness of such changes. For example when assessing the PPI provision we independently analysed the provision by considering the period of coverage it generated based on historic monthly redress payment trends. We then considered the results of this analysis in the context of the FCA's recent proposals regarding time barring.. Given the inherent uncertainty in the calculation of these provisions and their judgemental nature, we evaluated the disclosures made in the Financial Statements to ensure that this inherent uncertainty had been reflected. In particular, we focused on challenging management that the disclosures were sufficiently clear in highlighting the exposures that remain, significant uncertainties that exist in respect of the provisions and the sensitivity of the provisions to changes in the underlying assumptions. No additional material exposure for customer redress that would require either provision or disclosure in the Financial Statements were identified as a result of the audit work performed.

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

Report on the Group Financial Statements (continued)

The scope of our audit and our areas of focus (continued)

Area of focus	How our audit addressed the area of focus
Hedge accounting may not be appropriate In order to reduce the volatility of the income statement associated with the valuation of derivatives used for hedging interest rate and foreign currency risk, the Group has designated a number of hedge relationships; all of which were first designated as such in prior periods. Compliance with IAS 39 ‘Financial instruments: Recognition and measurement’ requires a number of factors to be considered, including the demonstration of retrospective and prospective hedge effectiveness. Complying with the detailed requirements of IAS 39 is complex, especially with regards to the models used to calculate historic hedge effectiveness. If compliance with IAS 39 cannot be demonstrated, there would be a material impact to the Financial Statements.	We understood and tested key controls focussing on: - the reconciliation of inputs into hedge effectiveness tests to the valuation source system; - the automated calculation of derivative values and hedge effectiveness within relevant systems; and - the review and approval of market data inputs into the system that drive the financial instrument valuation. The results of our controls testing enabled us to place reliance on these key controls for the purpose of our audit. In addition to testing the key controls, we also performed the following procedures: • we read the Group’s hedge documentation and considered whether it is appropriate in supporting the relationships designated as hedges. We read the hedge documentation in the context of the requirements of IAS 39 to ensure appropriate compliance, and challenged any judgements or assumptions included within each designation to ensure that they continue to remain appropriate; and • we selected a sample of models used to demonstrate the hedge effectiveness requirements of IAS 39 and recalculated effectiveness based on the inputs from the underlying valuation system, or agreeing these inputs to third party sources. Based on the results of our audit work, the judgements made by management were supportable and reasonable and the hedge accounting applied by the Group, and disclosures made in the Financial Statements, were in compliance with accounting standards.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the Financial Statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group comprises B&B and its subsidiaries, NRAM and its subsidiaries and UKAR Corporate Services Limited (‘UKARcs’). The Group Financial Statements are a consolidation of these companies.

We performed an audit of the complete financial information of the significant components of the Group, identified as B&B and NRAM. In addition both these significant components require group statutory audits and the work for these are carried out at the same time as the Group audit. All of the work on the significant components was performed by the Group engagement team.

Components not identified as significant and therefore not subjected to a full scope audit were still subject to Group level analytical review procedures over their financial information.

This, together with additional procedures performed on balances arising as a result of the Group’s consolidation process gave us the evidence we needed for our opinion on the Financial Statements as a whole.

The components within our audit scope accounted for 100% of the Group total assets. The range of audit scope on Income Statement account balances was between 98.5% and 100%. This is calculated using NRAM plus B&B as a proportion of UKAR Group post consolidation adjustments

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual Financial Statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the Financial Statements as a whole.

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

Report on the Group Financial Statements (continued)

Materiality (continued)

Based on our professional judgement, we determined materiality for the Financial Statements as a whole as follows:

Overall Group materiality	£64.8 million (2015: £99 million).
How we determined it	0.15% of total assets of the Group.
Rationale for benchmark applied	We have applied this benchmark as we feel that the key element of the Financial Statements is loans to customers, these represent a significant proportion of total assets and given the nature of the Group's activities in servicing mortgage loans there are a number of Key Performance Indicator's ('KPIs') around asset management.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £875k (2015: £1.9 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going Concern

The Directors have chosen to voluntarily report how they have applied the UK Corporate Governance Code (the 'Code') as if the parent company were a premium listed company. Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the Financial Statements. We have nothing material to add or to draw attention to.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the Financial Statements. The going concern basis presumes that the group has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the Financial Statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the group's ability to continue as a going concern.

Other required reporting

Consistency of other information

Companies Act 2006 opinion

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements.

ISAs (UK & Ireland) reporting

<table>
<tr><td colspan="2">As a result of the Directors' voluntary reporting on how they have applied the Code, under ISAs (UK & Ireland) we are required to report to you if, in our opinion:</td></tr>
<tr><td>• information in the Annual Report is:
- materially inconsistent with the information in the audited Financial Statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.</td><td>We have no exceptions to report arising from this responsibility.</td></tr>
<tr><td>• the statement given by the Directors on page 82, in accordance with provision C.1.1 of the Code, that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit.</td><td>We have no exceptions to report arising from this responsibility.</td></tr>
<tr><td>• the section of the Annual Report on pages 47-50, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.</td><td>We have no exceptions to report arising from this responsibility.</td></tr>
</table>

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

Other required reporting (continued)

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

As a result of the Directors' voluntary reporting on how they have applied the Code, under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:	
• the Directors' confirmation on pages 16-17 and 72-77 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
• the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
• the Directors' explanation on page 30 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Adequacy of information and explanations received

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. We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Other voluntary reporting

Matter on which we have agreed to report by exception

Corporate governance statement

The Company prepares a corporate governance statement in accordance with the Disclosure Rules and Transparency Rules of the Financial Conduct Authority and has chosen voluntarily to comply with the UK Corporate Governance Code. The Directors have requested that we review the parts of the Corporate Governance Statement relating to the Company's compliance with the ten provisions of the UK Corporate Governance Code specified for auditor review by the Listing Rules of the Financial Conduct Authority as if the Company were a premium listed company. We have nothing to report having performed our review.

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

Responsibilities for the Financial Statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' and Accounting Officer's Responsibilities set out on page 82, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Parent 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.

What an audit of Financial Statements involves

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the Financial Statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the Financial Statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited Financial Statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matter

We have reported separately on the Parent Company Financial Statements of UK Asset Resolution Limited for the year ended 31 March 2016 and on the information in the Directors' Remuneration Report that is described as having been audited.

Gary Shaw (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds

23 May 2016

The Accounts

Notes to the Financial Statements

UKAR Limited Company Accounts

Notes to the Company Financial Statements

CONSOLIDATED INCOME STATEMENT

	Note	**12 months to 31 March 2016 £m**	12 months to 31 March 2015 £m
Interest receivable and similar income	3	**1,572.7**	2,010.8
Interest expense and similar charges	3	**(463.1)**	(641.8)
Net interest income	3	**1,109.6**	1,369.0
Fee and commission income		**20.2**	22.6
Fee and commission expense		**(12.0)**	(12.1)
Net fee and commission income		**8.2**	10.5
Net realised gains less losses on investment securities	4	**15.5**	12.8
Unrealised fair value movements on financial instruments	5	**(2.3)**	(8.1)
Hedge ineffectiveness	5	**(28.6)**	(74.9)
Other operating income		**17.7**	16.0
Non-interest income		**10.5**	(43.7)
Total income		**1,120.1**	1,325.3
Administrative expenses:			
- ongoing	6	**(180.4)**	(177.2)
- other net expenses	6	**(73.4)**	-
Provision for customer redress	24	**180.1**	(295.0)
Impairment on loans to customers	13	**77.6**	150.6
Net impairment release on investment securities	10	**7.2**	16.4
Profit on sale of loans	12	**62.8**	22.3
Loss on repurchase of own liabilities	7	**(18.2)**	(70.1)
Profit before taxation		**1,175.8**	972.3
Taxation	8	**(257.6)**	(200.7)
Profit for the financial year		**918.2**	771.6

The notes on pages 97 to 148 form an integral part of these Financial Statements.

The results above arise from continuing activities.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the 12 months to 31 March 2016

	Gross of tax £m	Tax £m	Net of tax £m
Profit for the financial year	**1,175.8**	**(257.6)**	**918.2**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale instruments:			
- net gains recognised in available-for-sale reserve during the year	**19.1**	**(12.6)**	**6.5**
- amounts transferred from available-for-sale reserve and recognised in profit during the year	**(9.7)**	**5.5**	**(4.2)**
Cash flow hedges:			
- net losses recognised in cash flow hedge reserve during the year	**(1,329.1)**	**277.5**	**(1,051.6)**
- amounts transferred from cash flow hedge reserve and recognised in profit during the year	**1,030.3**	**(215.4)**	**814.9**
	(289.4)	**55.0**	**(234.4)**
Items that will not be reclassified subsequently to profit or loss:			
- retirement benefit remeasurements	**190.9**	**(38.1)**	**152.8**
	190.9	**(38.1)**	**152.8**
Total other comprehensive income	**(98.5)**	**16.9**	**(81.6)**
Total comprehensive income for the financial year	**1,077.3**	**(240.7)**	**836.6**

For the 12 months to 31 March 2015

	Gross of tax £m	Tax £m	Net of tax £m
Profit for the financial year	972.3	(200.7)	771.6
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale instruments:			
- net losses recognised in available-for-sale reserve during the year	(6.6)	1.3	(5.3)
- amounts transferred from available-for-sale reserve and recognised in profit during the year	13.5	(2.8)	10.7
Cash flow hedges:			
- net losses recognised in cash flow hedge reserve during the year	(1,355.5)	352.1	(1,003.4)
- amounts transferred from cash flow hedge reserve and recognised in profit during the year	1,407.1	(358.0)	1,049.1
	58.5	(7.4)	51.1
Items that will not be reclassified subsequently to profit or loss:			
- retirement benefit remeasurements	107.9	(22.0)	85.9
	107.9	(22.0)	85.9
Total other comprehensive income	166.4	(29.4)	137.0
Total comprehensive income for the financial year	1,138.7	(230.1)	908.6

CONSOLIDATED BALANCE SHEET

	Note	**31 March 2016 £m**	31 March 2015 £m
Assets			
Balances with the Bank of England	9	**3,807.2**	6,916.7
Cash at bank and in hand	11	**1,791.1**	2,266.4
Investment securities	10	**352.8**	522.7
Loans to customers	12	**35,532.6**	52,682.5
Fair value adjustments on portfolio hedging	12	**436.6**	467.7
Derivative financial instruments	31 (d)	**781.4**	2,962.7
Other assets	16	**31.7**	28.0
Retirement benefit assets	17	**482.5**	237.6
Property, plant and equipment	18	**16.1**	16.6
Intangible assets	19	**37.2**	41.4
Total assets		**43,269.2**	66,142.3
Liabilities			
Amounts due to banks	20	**553.9**	2,185.8
Statutory Debt and HM Treasury loans	21	**28,353.9**	34,619.4
Derivative financial instruments	31 (d)	**527.7**	570.0
Debt securities in issue	22	**5,159.2**	20,946.7
Other liabilities	23	**309.8**	134.1
Current tax liabilities		**153.1**	110.4
Deferred tax liabilities	15	**96.6**	103.3
Retirement benefit obligations	17	**1.8**	9.4
Provisions	24	**214.3**	393.0
Capital instruments	25	**9.2**	17.1
Total liabilities		**35,379.5**	59,089.2
Equity			
Issued capital and reserves attributable to owners of the parent:			
- share capital	26	**1.2**	1.2
- reserves	27	**1,129.9**	1,364.3
- retained earnings		**6,758.6**	5,687.6
Share capital and reserves attributable to owners of the parent		**7,889.7**	7,053.1
Total equity and liabilities		**43,269.2**	66,142.3

The notes on pages 97 to 148 form an integral part of these Financial Statements.

The Financial Statements on pages 92 to 148 were approved by the Board of Directors on 23 May 2016 and signed on its behalf by:

Richard Banks
Chief Executive Officer

Ian Hares
Finance & Investment Director

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the 12 months to 31 March 2016

	Share capital £m	Available-for-sale reserve £m	Cash flow hedge reserve £m	Merger reserve £m	Retained earnings £m	Total share capital and reserves £m	Non-controlling interests £m	Total equity £m
At 1 April 2015	**1.2**	**2.0**	**239.7**	**1,122.6**	**5,687.6**	**7,053.1**	**-**	**7,053.1**
Other comprehensive income/(expense):								
- net movement in available-for-sale reserve	**-**	**9.4**	**-**	**-**	**-**	**9.4**	**-**	**9.4**
- net movement in cash flow hedge reserve	**-**	**-**	**(298.8)**	**-**	**-**	**(298.8)**	**-**	**(298.8)**
- retirement benefit remeasurements	**-**	**-**	**-**	**-**	**190.9**	**190.9**	**-**	**190.9**
- tax effects of the above	**-**	**(7.1)**	**62.1**	**-**	**(38.1)**	**16.9**	**-**	**16.9**
Total other comprehensive income	**-**	**2.3**	**(236.7)**	**-**	**152.8**	**(81.6)**	**-**	**(81.6)**
Profit for the financial year	**-**	**-**	**-**	**-**	**918.2**	**918.2**	**-**	**918.2**
Total comprehensive income	**-**	**2.3**	**(236.7)**	**-**	**1,071.0**	**836.6**	**-**	**836.6**
At 31 March 2016	**1.2**	**4.3**	**3.0**	**1,122.6**	**6,758.6**	**7,889.7**	**-**	**7,889.7**

For the 12 months to 31 March 2015

	Share capital £m	Available-for-sale reserve £m	Cash flow hedge reserve £m	Merger reserve £m	Retained earnings £m	Total share capital and reserves £m	Non-controlling interests £m	Total equity £m
At 1 April 2014	1.2	(3.4)	194.0	1,122.6	4,830.0	6,144.4	196.6	6,341.0
Other comprehensive income/(expense):								
- net movement in available-for-sale reserve	-	6.9	-	-	-	6.9	-	6.9
- net movement in cash flow hedge reserve	-	-	51.6	-	-	51.6	-	51.6
- retirement benefit remeasurements	-	-	-	-	107.9	107.9	-	107.9
- tax effects of the above	-	(1.5)	(5.9)	-	(22.0)	(29.4)	-	(29.4)
Total other comprehensive income	-	5.4	45.7	-	85.9	137.0	-	137.0
Profit for the financial year	-	-	-	-	759.7	759.7	11.9	771.6
Total comprehensive income	-	5.4	45.7	-	845.6	896.7	11.9	908.6
Loss on repurchase of equity (see note 7)	-	-	-	-	12.0	12.0	(124.8)	(112.8)
Release of withheld coupons (see note 7)	-	-	-	-	-	-	(83.7)	(83.7)
At 31 March 2015	1.2	2.0	239.7	1,122.6	5,687.6	7,053.1	-	7,053.1

CONSOLIDATED CASH FLOW STATEMENT

	12 months to 31 March 2016 £m	12 months to 31 March 2015 £m
Cash flows from operating activities		
Profit before taxation for the financial year	**1,175.8**	972.3
Adjustments to reconcile profit to cash generated from/(used in) operating activities:		
- profit on sale of loans	**(62.8)**	(22.3)
- provision for customer redress	**(180.1)**	295.0
- provision for restructuring	**73.4**	-
- defined benefit pension scheme credits	**(7.8)**	(4.3)
- cash contributions to defined benefit pension schemes	**(54.0)**	(69.1)
- depreciation and amortisation	**22.2**	16.8
- profit on sale of property, plant and equipment	**-**	(9.6)
- impairment on loans to customers	**(77.6)**	(150.6)
- net impairment release on investment securities	**(7.2)**	(16.4)
- loss on repurchase of own liabilities	**18.2**	70.1
- fair value adjustments on financial instruments	**(113.6)**	(417.2)
- other non-cash movements	**327.1**	(759.8)
Cash flows generated from/(used in) operating activities before changes in operating assets and liabilities	**1,113.6**	(95.1)
Net decrease in operating assets:		
- loans to customers	**5,717.8**	6,260.5
- sale of loans	**11,677.9**	2,478.7
- derivative financial instruments receivable	**2,181.3**	1,653.5
- other assets	**14.6**	27.8
Net (decrease)/increase in operating liabilities:		
- amounts due to banks	**(1,631.4)**	(933.9)
- derivative financial instruments payable	**(42.3)**	124.0
- debt securities in issue	**(10,920.0)**	(3,204.9)
- other liabilities	**(72.4)**	(96.3)
- provisions	**(73.1)**	(72.8)
Income tax paid	**(204.7)**	(231.4)
Net cash generated from operating activities	**7,761.3**	5,910.1
Cash flows from investing activities:		
- purchases of property, plant and equipment and intangible assets	**(17.5)**	(15.1)
- proceeds from sale of property, plant and equipment and intangible assets	**-**	14.5
- proceeds from sale and redemption of investment securities	**212.1**	309.1
Net cash generated from investing activities	**194.6**	308.5
Cash flows used in financing activities:		
- repayment of HM Treasury loans	**(6,257.7)**	(3,717.2)
- repurchase of own liabilities and equity	**(5,281.7)**	(841.9)
Net cash used in financing activities	**(11,539.4)**	(4,559.1)
Net (decrease)/increase in cash and cash equivalents	**(3,583.5)**	1,659.5
Cash and cash equivalents at beginning of year	**9,180.6**	7,521.1
Cash and cash equivalents at end of year	**5,597.1**	9,180.6
Represented by cash and assets with original maturity of three months or less within:		
- balances with the Bank of England	**3,806.1**	6,914.3
- cash at bank and in hand	**1,791.0**	2,266.3
Total cash and cash equivalents at end of year	**5,597.1**	9,180.6

1. Principal accounting policies

UK Asset Resolution Limited ('UKAR' or 'the Company') is a private limited company incorporated on 1 July 2010 and domiciled in the United Kingdom. UKAR acquired B&B and NRAM by a share-for-share exchange on 1 October 2010. These consolidated Financial Statements are prepared under the 'predecessor accounting' method, which presents the UKAR consolidated results as if the UKAR Group ('the Group') had always been in existence in its present form. In addition, the Company owns 100% of the share capital of UKAR Corporate Services Limited, which was incorporated on 20 June 2013 (see note E to the Parent Company Financial Statements). The Financial Statements of the UKAR Company are presented on pages 152 to 158, and form an integral part of these Financial Statements.

These Financial Statements were authorised for issue by the Directors on 23 May 2016 and will be put to the shareholder for approval at UKAR's Annual General Meeting to be held on 28 June 2016.

(a) Statement of compliance

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

For these 2016 Financial Statements, including the 2015 comparative financial information where applicable, the Group and Company have adopted the following statements for the first time:

- The Annual Improvements to IFRSs 2010-2012 Cycle, issued in December 2013; these changes had no material impact on the Group or Company.
- The Annual Improvements to IFRSs 2011-2013 Cycle, issued in December 2013; these changes had no material impact on the Group or Company.

For these 2016 Financial Statements the Group and Company have not adopted the following statements; the Group and Company are assessing the impacts of these statements on their Financial Statements:

- IFRS 9 'Financial Instruments'; in July 2014 the IASB published the final version (excluding macro-hedging), replacing most of the requirements of IAS 39. The IASB intends that IFRS 9 will be effective for annual periods beginning on or after 1 January 2018, but the timing of EU endorsement is yet to be determined. IFRS 9 is expected to have major implications for the UKAR Group and companies, in relation to impairment of loans to customers, hedging and which assets are carried at amortised cost and which at fair value. The Group is undertaking an assessment of these impacts.
- IFRS 15 'Revenue from Contracts with Customers', issued May 2014, effective for periods beginning on or after 1 January 2018, and yet to be endorsed by the EU. No material impacts are expected for the UKAR Group or companies.
- Amendments to IAS 16 and IAS 38: 'Clarification of Acceptable Methods of Depreciation and Amortisation', issued May 2014. The amendments clarify that a revenue-based method is not considered to be an appropriate manifestation of consumption. These amendments are mandatory for the Group and Company Financial Statements for the year to 31 March 2017. No material impacts are expected for the UKAR Group or companies.
- The Annual improvements to IFRS 2012-2014 Cycle, issued in September 2014. These changes are mandatory for the Group and Company Financial Statements for the year to 31 March 2017. No material impacts are expected for the UKAR Group or companies.
- IFRS 16 'Leases', issued January 2016, effective for periods beginning on or after 1 January 2019 and yet to be endorsed by the EU. The Group and Company are assessing the impacts of this statement.
- Amendments to IAS 12 'Income Taxes' relating to 'Recognition of Deferred Tax Assets for Unrealised Losses', issued January 2016, effective for periods beginning on or after 1 January 2017 and yet to be endorsed by the EU. The Group and Company are assessing the impacts of this statement.

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

1. Principal accounting policies (continued)

(b) Basis of preparation

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

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

- derivative financial instruments; and
- financial instruments categorised under IAS 39 as 'available-for-sale'; and

(ii) where fair value hedge accounting has been applied, the carrying value of hedged items has been adjusted to take account of the fair value of the risk which has been hedged.

The validity of the going concern basis of accounting is dependent upon the funding position of the UKAR Company, B&B and NRAM (No.1) Limited. At the date of approval of these Financial Statements, the Group is reliant upon the financing facilities and also upon the guarantee arrangements provided to B&B and NRAM (No.1) Limited by HM Treasury. Withdrawal of the financing facilities or the guarantee arrangements would have a significant impact on the Group's operations and its ability to continue as a going concern, in which case adjustments may have to be made to reduce the carrying value of assets to recoverable amounts and to provide for further liabilities that might arise. At the signing date of these Financial Statements, HM Treasury has confirmed its intentions to continue to provide funding until at least 1 January 2018. Further details of the HM Treasury support to NRAM (No.1) Limited are provided in note 35.

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

The accounting policies have been applied to all periods presented in these Financial Statements, and are consistent with the accounting policies used by the B&B Group and the NRAM Group in preparing their Interim Financial Reports for the six months ended 30 September 2015.

B&B and NRAM (No.1) Limited are regulated by the FCA as mortgage administration companies, and the Directors believe that those companies have appropriate and adequate levels of capital to support their activities subject to the continuing support of HM Treasury.

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

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

(c) Basis of consolidation

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

An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Where subsidiaries have been acquired during a period, their results are consolidated into the UKAR Group's Financial Statements from the date control is transferred to UKAR. Where subsidiaries have been disposed of, their results are consolidated to the date of disposal. As detailed in note 35(a), on 5 May 2016 the Group sold its investment in NRAM plc; at that point the UKAR Group ceased to control NRAM and its subsidiaries. On the acquisition of a business, fair values are attributed to the assets, liabilities and contingent liabilities acquired. Any difference between the consideration given and the fair value of the net assets acquired is capitalised as goodwill, which is subject to impairment testing in accordance with IAS 36 'Impairment of Assets'. Where necessary, the Group Financial Statements include adjustments to bring the financial statements of subsidiaries into alignment with the accounting policies used by the Group. All intra-group transactions and balances are eliminated on consolidation.

The UKAR Group has securitised various residential mortgage loans, generally by sale or transfer to Special Purpose Vehicles ('SPVs') which in turn have issued securities to investors. The SPVs are consolidated line-by-line into the UKAR Group Financial Statements if they are, in substance, controlled by UKAR; all of the Group's SPVs are fully consolidated.

1. Principal accounting policies (continued)

(d) Interest income and expense
For all interest-bearing financial instruments except derivatives, interest income and expense are recognised in the Income Statement on an Effective Interest Rate ('EIR') basis.

The EIR method calculates the amortised cost of a financial asset or financial liability and spreads interest income or interest expense on a level yield basis over the expected life of the instrument, or an appropriate shorter period. The calculation includes all directly attributable incremental fees and costs, premia on acquisition of mortgage portfolios and all other premia and discounts as well as interest. In respect of loans to customers, the elements other than interest are spread over the period to which the product reprices to a Standard or Product Variable Rate. The EIR is the rate which at the inception of the instrument exactly discounts expected future cash flows over the appropriate period to the initial carrying amount. When calculating the EIR, future cash flows are estimated, considering all contractual terms of the instrument (for example prepayment options), but potential future credit losses are not considered.

Interest on derivatives is included in interest income where the derivative is hedging interest income, and interest expense where the derivative is hedging interest expense.

When a financial asset or a group of similar financial assets is written down as a result of an impairment loss, interest income continues to be recognised by applying the applicable EIR to the reduced balance.

(e) Fee and commission income
Where Value Added Tax (‘VAT’) is charged, income is stated net of VAT.

Commission receivable from the renewal of third party regulated financial services products was recognised as income within ‘fee and commission income’ when the renewal policy went ‘on risk’, net of any provision for repayment in the event of early termination by the customer. If the commission is receivable on deferred terms, a deemed interest element of the commission is separated and recognised on an EIR basis over the deferred payment period.

Fees charged to existing borrowers, including arrears and redemption fees, are recognised in fee and commission income as they arise.

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

(g) Financial instruments
In accordance with IAS 39 each financial asset is classified at initial recognition into one of four categories:
(i) Financial assets at fair value through profit or loss;
(ii) Held-to-maturity;
(iii) Loans and receivables; or
(iv) Available-for-sale;
and each financial liability into one of two categories:
(v) Financial liabilities at fair value through profit or loss; or
(vi) Other liabilities.

Where the Directors believed it appropriate to do so, financial assets have been reclassified out of the ‘available-for-sale’ category to ‘loans and receivables’ in accordance with the revisions to IAS 39 issued by the IASB in October 2008. Such reclassifications are permitted only under certain restricted circumstances, including that there is no active market for the asset. The asset is reclassified using its fair value at the point of transfer and from that point on is accounted for on an EIR basis. The difference between the carrying value at the point of reclassification and the expected value at the redemption date is recognised in profit or loss on an EIR basis over the expected life of the asset and the asset’s carrying value accretes to the redemption amount over that period, except where the asset has become impaired. The balance in the available-for-sale reserve which related to the asset is amortised to profit or loss over the expected life of the asset; in the Income Statement the amortisation of the difference between value at reclassification and at redemption and the amortisation out of the available-for-sale reserve exactly offset each other.

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

Amortised cost is the amount measured at initial recognition adjusted for subsequent principal and other payments, less cumulative amortisation calculated using the EIR method; the amortisation is taken to interest income or expense depending on whether the instrument is an asset or a liability. For assets, the amortised cost balance is reduced where appropriate by an allowance for amounts which are considered to be impaired or uncollectible.

1. Principal accounting policies (continued)

(g) Financial instruments (continued)

IFRS 13 'Fair Value Measurement' defines 'fair value' as 'the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date'. Where an active market is considered to exist, fair values are based on quoted prices or lead manager prices. For instruments which do not have active markets, fair value is calculated using present value models, which take individual cash flows together with assumptions based on market conditions and credit spreads, and are consistent with accepted economic methodologies for pricing financial instruments. Interest income and interest expense on instruments carried at fair value are included in the Income Statement in ‘interest receivable and similar income’ or ‘interest expense and similar charges’. Movements in fair value are recognised in the ‘unrealised fair value movements on financial instruments’ line in the Income Statement, except in the case of instruments categorised as ‘available-for-sale’, in which case the fair value movements are taken to the ‘available-for-sale’ reserve. On sale or de-recognition of an available-for-sale instrument the accumulated fair value movements are transferred from the ‘available-for-sale’ reserve to the ‘net realised gains less losses on investment securities’ line of the Income Statement.

(h) Offsetting financial instruments

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

(i) Derivative financial instruments and hedge accounting

All of the Group’s derivative contracts are used for commercial management of exposures to interest rate risks, foreign currency risks and risks arising from forecast transactions.

For many of the Group’s derivative contracts hedge accounting is applied. However, in some cases natural offsets apply.

Each derivative is carried at fair value in the Balance Sheet; as an asset when the fair value is positive and as a liability when the fair value is negative. The fair value of a derivative includes any interest accrued on that derivative. Changes in the fair value of derivatives are charged to the Income Statement; however by applying the hedge accounting rules set out in IAS 39 the changes in fair value of derivatives which are used to hedge particular risks can either be mitigated in the Income Statement (fair value hedge accounting) or recognised in other comprehensive income (cash flow hedge accounting). The Group has adopted cash flow hedge accounting and fair value hedge accounting.

(i) Cash flow hedge accounting

A cash flow hedge is used to hedge exposures to variability in cash flows, such as variable rate financial assets and liabilities. The effective portion of changes in the derivative fair value is recognised in other comprehensive income, and recycled to the Income Statement in the periods when the hedged item affects profit and loss. The fair value gain or loss relating to the ineffective portion is recognised immediately in the Income Statement.

(ii) Fair value hedge accounting

A fair value hedge is used to hedge exposures to variability in the fair value of financial assets and liabilities, such as fixed rate loans. Changes in fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Income Statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The Group uses fair value hedge accounting on one-to-one relationship and portfolio hedging bases, as described below.

Where hedge accounting is not applied, changes in fair values are recognised immediately in the Income Statement.

(iii) One-to-one fair value hedges

Where one or more specific derivative financial instruments hedge the changes in fair value of a specific asset or liability, provided that the hedge arrangement meets the requirements of IAS 39 to be classed as ‘highly effective’, the associated hedged item is carried on the Balance Sheet at fair value in respect of the hedged risk. Fair value gains and losses are recognised in the Income Statement, mitigating the fair value movements on the associated derivative financial instruments. The Income Statement immediately recognises any hedge accounting ‘ineffectiveness’, that is any difference between the fair value movement on the hedging instrument and that on the hedged item.

(iv) Portfolio fair value hedges

Where a group of derivative financial instruments hedges the interest rate exposure of a group of assets or liabilities, and the hedge meets the requirements of IAS 39 to be classed as ‘highly effective’, the hedge relationship is accounted for in the same way as a one-to-one fair value hedge except that the Balance Sheet carrying value of the hedged items is not adjusted; instead the difference between the carrying value and the fair value in respect of the hedged risk is carried on the Balance Sheet in ‘fair value adjustments on portfolio hedging’.

1. Principal accounting policies (continued)

(i) Derivative financial instruments and hedge accounting (continued)

(v) Hedge effectiveness
At the inception of each hedging arrangement, the relationship between the hedging instruments and the hedged items is documented, as well as the risk management objective and strategy. Also documented is an assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in the hedging arrangement are 'highly effective' in offsetting changes in fair values or cash flows of the hedged items. Under IAS 39 a hedge is deemed to be 'highly effective' if effectiveness is forecast to fall, and is actually found to fall, within the 80% to 125% range. Any hedge relationship falling outside these limits is deemed to be ineffective and hedge accounting is discontinued.

(vi) Termination of hedges
Where a hedge relationship is terminated or deemed not to be highly effective (other than as a result of the hedged item being de-recognised from the Balance Sheet due to sale or other reason), the adjustment relating to the terminated hedge relationship is amortised to the Income Statement over the period that the hedged item affects profit and loss.

(vii) Embedded derivatives
Certain financial instruments have derivative features embedded within them. Where the economic characteristics and risks of the embedded derivative are not closely related to those of the host instrument, and where changes in value of the host instrument are not reflected in the Income Statement, the embedded derivative is separated from the host and carried on the Balance Sheet at fair value, with gains and losses on the embedded derivative being recognised in the Income Statement. In accordance with IFRIC 9 'Reassessment of Embedded Derivatives' the decision as to whether to separate and value an embedded derivative is reassessed when and only when the terms of the host contract are significantly modified.

(j) Sale and repurchase agreements
Securities sold subject to repurchase agreements ('repos') continue to be reported as they were originally classified within the Balance Sheet, as the risks and rewards associated with that asset have been retained. The counterparty liability is included in 'amounts due to banks' or 'other deposits'. Securities purchased under agreements to resell ('reverse repos') are recorded as 'cash at bank and in hand'. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the EIR method.

(k) Impairment
Financial assets which are not held at fair value through profit or loss are reviewed for indications of possible impairment throughout the period and at each published Balance Sheet date. An impairment loss is recognised if, and only if, there is objective evidence that a loss event (or events) has occurred after initial recognition and before the Balance Sheet date and has a reliably measurable impact on the estimated future cash flows of the financial asset or group of financial assets. Losses that are incurred as a result of events occurring after the Balance Sheet date are not recognised.

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

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

Impairment of assets is charged/credited in the Income Statement in the 'impairment on loans to customers credit' and 'net impairment on investment securities' lines.

For impaired loans to customers, interest is accrued for accounting purposes on the loan amount after any impairment adjustments, in accordance with IAS 39, using the original EIR of the loan. However, for the purposes of the amount legally due from the borrower, interest continues to accrue on the full outstanding balance, and it is this full balance plus full interest which is pursued for collection.

1. Principal accounting policies (continued)

(k) Impairment (continued)
A loan to a customer is written off and any associated impairment allowance released when and only when the property is sold or the account is redeemed, or in respect of unsecured loans where the collections process indicates a loan is not recoverable. Any subsequent proceeds are recognised on a cash basis and offset against 'impairment on loans to customers' in the Income Statement. An investment security is written off and any associated impairment allowance released when there is strong evidence to suggest that nothing will be recovered.

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

(ii) Available-for-sale financial assets
Investment securities classified as available-for-sale are carried at fair value, which appropriately reflects any impairment. Impairment is recognised when the investment security exhibits objective evidence of impairment or is uncollectible. Such evidence may include:

- Significant financial difficulty;
- Payment defaults;
- Renegotiation of terms due to borrower difficulty;
- Sustained fall in credit rating or creditworthiness;
- Significant restructuring;
- Disappearance of an active market;
- Significant and sustained fall in market price; or
- Observable data indicating measurable decrease in the estimated future cash flows from a group of financial assets, although the decrease cannot yet be identified within individual assets in the group.

Movements in the fair value which are a reflection of impairment of the long term value of the investment security are charged to 'net impairment on investment securities' in the Income Statement. Impairment losses recognised against investment securities are reversed through 'net impairment on investment securities' in the Income Statement if the improvement relates to an event occurring after the initial impairment was recognised. An investment security is written off and any associated impairment allowance released when there is strong evidence to suggest that nothing will be recovered.

If there is a sustained increase in the fair value of an investment security where an impairment loss has previously been recognised, but no improvement can be attributed to a subsequent credit event, then the increase in value may be treated as a revaluation and recognised through other comprehensive income in the available-for-sale reserve.

(l) Recognition and de-recognition of assets and liabilities
Purchases and sales of assets are accounted for once the parties are legally committed to the contract, completion is not subject to any material conditions and substantially all of the risks and rewards of the assets have been transferred.

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

In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', assets and liabilities are classified as 'held for sale' if they are available for immediate sale in their present condition and the sale is considered to be 'highly probable'.

(m) Debt and equity securities in issue
Issued securities, including capital instruments, are classified as liabilities where the contractual arrangements result in the issuer having an obligation to deliver either cash or another financial asset to the security holder, or to exchange financial instruments under conditions that are potentially unfavourable to the issuer. Issued securities are classified as equity where they meet the definition of equity and confer a residual interest in the issuer's assets on the holder of the securities. Issued securities include ordinary and preference share capital. Preference shares are classified as equity instruments where dividend payments and redemptions are discretionary.

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

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

1. Principal accounting policies (continued)

(n) Foreign currencies
The presentation and functional currency of the Company and the presentation currency of the Group is pounds sterling.

Transactions which are not denominated in pounds sterling are translated into sterling at the spot rate of exchange on the date of the transaction. Monetary assets and liabilities which are not denominated in pounds sterling are translated into pounds sterling at the closing rate of exchange at the Balance Sheet date.

Foreign exchange gains and losses resulting from the restatement and settlement of such transactions are recognised in the Income Statement.

(o) Intangible assets
Intangible assets comprise capitalised computer software systems and licences.

Purchased computer software licences are capitalised as intangible assets where it is probable that future benefits will flow to the Group. Thereafter they are carried at cost less accumulated amortisation. Amortisation is provided on a straight line basis over their useful economic lives, which may be up to five years. Those which have a life expectancy at the outset of less than two years are not capitalised but instead their costs are charged to the Income Statement as they arise.

Costs that are directly associated with developing identifiable computer software systems are capitalised if the criteria in IAS 38 'Intangible Assets' are satisfied; the main criteria are that the successful completion of the development project is reasonably certain and that the software is expected to generate future economic benefits. Each item of capitalised developed computer software is carried at cost less accumulated amortisation; amortisation is provided on a straight line basis over its estimated useful life. Costs that do not qualify for capitalisation or are associated with maintaining software are charged to the Income Statement as they arise.

Intangible assets in the course of construction are not amortised until they have been completed. The costs of financing intangible assets in the course of construction are not included in the costs of the assets. Intangible assets in the course of construction are included in the impairment test referred to below, where appropriate.

All items of intangible assets are reviewed at each published Balance Sheet date for any indication of impairment. If there is indication of impairment, the carrying value is reviewed. If any impairment is identified, the asset is written down to the impaired value, being the higher of value in use and estimated net proceeds of sale, with the impairment being charged immediately to the Income Statement. In addition, the estimated useful lives are also reassessed annually, and if they are judged to have changed then the rate of amortisation charged in periods after the date of the change reflects the revised estimates.

(p) Cash and cash equivalents
Cash and cash equivalents comprise balances which are highly liquid and have an original maturity of three months or less.

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

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

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

Deferred tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax related to fair value re-measurement of available-for-sale investments and cash flow hedges, which are recognised in other comprehensive income, is also recognised in other comprehensive income, and subsequently in the consolidated Income Statement together with the associated gain or loss.

1. Principal accounting policies (continued)

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

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

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

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

Though the schemes are in surplus on an accounting basis, they are in deficit on a trustee's funding basis. The Group is committed to funding plans to address these deficits. Surpluses on an accounting basis are only recognised on the Balance Sheet to the extent that they are recoverable through reduced contributions in the future or through refunds from the scheme. The Group is considering the potential impact of the IASB's exposure draft of possible changes to IFRIC14.

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

(s) Property, plant and equipment
Property, plant and equipment are stated at cost less accumulated depreciation and provision for impairment, as appropriate. Additions and subsequent expenditure are included in the asset's carrying value or are recognised as a separate asset only when they improve the expected future economic benefits to be derived from the asset. All other expenditure is regarded as repairs and maintenance and is charged to the Income Statement in the period in which it is incurred. Depreciation is provided so as to write off the cost less the estimated residual value of each significant component of each item of property, plant and equipment over that component's estimated useful life, as follows:

- Freehold land is not depreciated
- Freehold and leasehold buildings 6.7% pa on a straight line basis
- Motor vehicles 25% pa on a reducing balance basis
- Computer equipment 20% - 33% pa on a straight line basis
- Fixtures and fittings 20% pa on a straight line basis
- Other plant and equipment and major alterations to buildings 10% pa on a straight line basis or over the remaining life of the building if shorter.

All items of property, plant and equipment are reviewed at each published Balance Sheet date for any indication of impairment. If there is indication of impairment, the carrying value is reviewed. If any impairment is identified, the asset is written down to the higher of value in use and estimated net proceeds of sale, with the impairment being charged immediately in the Income Statement. In addition, the estimated useful lives and estimated residual values are also reassessed annually, and if they are judged to have changed then the rate of depreciation charged in periods after the date of the change reflects the revised estimates.

Assets in the course of construction are not depreciated until they have been completed and transferred to the appropriate category of property, plant and equipment. The costs of financing assets in the course of construction are not included in the costs of the assets. Assets in the course of construction are included within the impairment test referred to above where appropriate.

A previously recognised impairment charge on an asset may be reversed in full or in part where a change in circumstances leads to a change in the estimates used to determine its recoverable amount. The carrying value of the asset will not be increased above the carrying value at which it would have been held had the impairment not been recognised.

1. Principal accounting policies (continued)

(t) Leases

Rentals under operating leases are charged to 'administrative expenses' on a straight line basis to the date of change in the rental amount. Typically operating leases have rent review dates in their terms, several years apart, and between those dates the annual rent remains constant. Any initial rent-free period and any lease premia paid are amortised over the full lease period on a straight line basis.

If a lease agreement in which the Group is a lessee transfers the risks and rewards of the asset, the lease is recorded as a finance lease and the related asset is capitalised. At inception the asset is recorded at the lower of the present value of the minimum lease payments and fair value. The asset is then depreciated in the same way as an owned asset, over the shorter of the useful life and the term of the lease. The finance element of the lease cost is charged to the Income Statement in 'interest expense and similar charges'. The lease obligations are recorded as borrowings. If the lease does not transfer the risks and rewards of the asset, the lease is recorded as an operating lease.

Where an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor in compensation is charged to the Income Statement in the period in which termination is made.

Where the Group leases assets out under an operating lease agreement, the asset is included in the Balance Sheet based on the nature of the asset. Lease income is recognised over the term of the lease on a straight line basis.

Where the Group sells and leases back an asset, provided the sale and the lease are each on arm's length terms, the two elements of the transaction are accounted for separately, with a profit or loss being immediately recognised on the sale.

(u) Provisions and contingent liabilities

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

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

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

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

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

(v) Investment securities held

Investment securities are categorised either as 'available-for-sale' or as 'loans and receivables'; for each instrument, the Directors adopt the category which they consider to be the most appropriate.

Investment securities categorised as available-for-sale are carried at fair value with movements in fair value, excluding impairment provisions, being taken to the available-for-sale reserve. If an investment security which has been categorised as available-for-sale becomes impaired, the impairment is charged to the Income Statement in the 'net impairment on investment securities' line.

Investment securities categorised as loans and receivables are carried at amortised cost less any impairment, with any impairment being charged to the Income Statement in the 'net impairment on investment securities' line.

Where the Directors believe it appropriate to do so, investment securities which were initially categorised as 'available-for-sale' have subsequently been re-categorised to 'loans and receivables' in accordance with the revisions to IAS 39 issued by the IASB in October 2008.

(w) Financial guarantees

The Group applies insurance accounting to financial guarantee contracts, and provides against any claims arising under such contracts.

(x) Loan commitments

Loan commitments are disclosed, but are accounted for only if there is an onerous commitment; there were no onerous loan commitments in either the current or previous year. The commitment ceases to be disclosed once it is advanced or expires. Loan commitments comprise commitments to advance cash sums and to allow drawdown of monies previously overpaid (where the terms of the loan specifically allow). In respect of monthly drawdown products, the commitment reflects an estimate of the future drawdowns to redemption.

1. Principal accounting policies (continued)

(y) Lifetime mortgages
The Group has a portfolio of lifetime mortgage loans secured on residential property. Under the terms of the loans, where a borrower dies or goes into long term care and a redemption receipt is less than the contractual sum owed the Group does not have any further ability to recover amounts from the borrower or the estate. The Group accounts for lifetime loans in the same way as other loans to customers, with all income earned being accounted for as interest. The loans are included within 'loans to customers'. In respect of lifetime loans, impairment allowances on loans to customers include an additional provision reflecting estimated future impairment up to redemption.

2. Critical judgements and accounting estimates

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

(a) Impairment losses on loans
The Group reviews its loan impairment on a monthly basis and assesses individual impairment losses by reference to an individual review of the underlying asset and utilises actual loss experience to provide both probabilities of defaults and property forced sale discounts across a portfolio of products. Collective impairment losses on loans are calculated using a statistical model. The key assumptions used in this model are: the probability of any balance entering into default as a result of an event that had occurred prior to the Balance Sheet date, the probability of this default resulting in possession or write-off, and the estimated subsequent loss incurred. These key assumptions are based on observed data trends and are updated on a regular basis within agreed methodology to ensure the impairment allowance is entirely representative of the current portfolio. The accuracy of the impairment calculation would, therefore, be affected by unanticipated changes to the economic situation and assumptions which differ from actual outcomes. To the extent that house prices were to change by +/- 10%, the residential impairment allowance would be an estimated £39.7m lower (2015: £76.4m) or £47.3m higher (2015: £87.3m) respectively.

(b) Provisions
Provisions are carried in respect of certain known or forecast future expenditure, as described in note 24. Where the future payment amount is unknown, provisions are set at a level which covers the estimated number of future payments and the estimated average payment amount. Provisions are calculated using the best available information but the actual future outcomes of items provided for may differ from expectations.

The PPI provision has been increased by £73.4m following the publication of the FCA's consultation paper CP15/39 'Rules and guidance on payment protection insurance complaints' which proposes the setting of a deadline date for complaints in 2018 and provides guidance in relation to the Plevin case. The proposals include an FCA-led communications campaign to raise awareness of the deadline to prompt those who intend to complain to act ahead of the deadline. If the proposals are agreed we expect higher claims volumes in the run up to the implementation of time-barring than we have previously modelled.

(c) Fair value calculations
For the majority of instruments carried at fair value, fair value is determined by reference to quoted market prices or lead manager prices. Where these are not available, fair value is calculated using discounted cash flows, applying independently sourced market parameters including interest rates and currency rates. Other factors are also considered, such as counterparty credit quality and liquidity. Management must use judgement to arrive at estimates where not all necessary data can be externally sourced or where factors specific to the Group's holdings need to be considered. The accuracy of the fair value calculations may, therefore, be affected by unexpected market movements or variations in actual outcomes when compared to estimates and assumptions used for modelling purposes. For example, if management were to use a tightening in the credit spread of 10 basis points, the fair value of derivatives would increase from the reported fair values by £20.4m (2015: £4.3m increase).

3. Net interest income

	12 months to 31 Mar 2016 £m	12 months to 31 Mar 2015 £m
Interest receivable and similar income		
On secured loans	**1,495.0**	1,909.1
On other lending	**44.6**	54.3
On investment securities and deposits	**33.1**	47.4
Total interest receivable and similar income	**1,572.7**	2,010.8
Interest expense and similar charges		
On amounts due to banks and HM Treasury	**(310.3)**	(402.5)
State guarantee fee*	**(28.0)**	(31.2)
On debt securities and other	**(124.8)**	(208.1)
Total interest expense and similar charges	**(463.1)**	(641.8)
Net interest income	**1,109.6**	1,369.0
Average balances		
Interest-earning assets ('IEA')	**52,850**	66,376
Financed by:		
- interest-bearing funding	**26,886**	41,313
- interest-free funding**	**25,964**	25,063
Average rates:	**%**	%
- gross yield on IEA	**3.07**	3.03
- cost of interest-bearing funding**	**(1.51)**	(1.48)
Interest spread	**1.56**	1.55
State guarantee fee*	**(0.05)**	(0.05)
Contribution of interest-free funding**	**0.67**	0.56
Net interest margin on average IEA	**2.18**	2.06
Average Bank Base Rate	**0.50**	0.50
Average 1-month LIBOR	**0.51**	0.50
Average 3-month LIBOR	**0.58**	0.55

* *At the time of the nationalisation of B&B, HM Treasury provided guarantees with regard to certain wholesale borrowings and derivative transactions existing at that time. The amount of this fee is dependent on balances outstanding and hence it is included within 'interest expense and similar charges'. The cost of interest-bearing funding is shown excluding this state guarantee fee. At the time of the nationalisation of NRAM, HM Treasury provided a guarantee with regard to certain wholesale borrowings and derivative transactions existing at that time. The amount of this fee was not dependent on balances outstanding and hence it is included within 'fee and commission expense'. As detailed in note 35(a), this guarantee ceased on 5 May 2016.*

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

Total interest receivable and similar income includes interest accrued on individually impaired assets of £11.2m (2015: £18.3m).

4. Net realised gains less losses on investment securities

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

	12 months to 31 Mar 2016 £m	12 months to 31 Mar 2015 £m
Net realised gains on available-for-sale instruments	**7.7**	4.5
Net realised gains on instruments at amortised cost	**7.8**	8.3
Total net realised gains on investment securities	**15.5**	12.8

5. Unrealised fair value movements on financial instruments and hedge ineffectiveness

	12 months to 31 Mar 2016 £m	12 months to 31 Mar 2015 £m
Net (loss)/gain in fair value:		
- translation (losses)/gains on underlying instruments	**(55.5)**	31.2
- fair value movements on derivatives which are economic hedges but are not in hedge accounting relationships	**53.2**	(39.3)
Unrealised fair value movements	**(2.3)**	(8.1)
Net gains on fair value hedging instruments	**41.5**	206.3
Net losses on fair value hedged items attributable to hedged risk	**(62.8)**	(232.0)
Hedge adjustment release	**-**	(51.4)
Ineffectiveness on cash flow hedges	**(7.3)**	2.2
Net hedge ineffectiveness losses	**(28.6)**	(74.9)
Total	**(30.9)**	(83.0)

Following reassessment of the lifetime mortgage portfolio in 2014-15 there was a release of deferred adjustments pertaining to hedged risk, reflecting a proportional reduction in lifetime mortgage balances.

6. Administrative expenses

Employees of B&B provide services to NRAM, UKAR and UKARcs. NRAM, UKAR and UKARcs had no direct employees during the years presented. The monthly average number of persons employed by B&B during the year was as follows:

	12 months to 31 Mar 2016 Number	12 months to 31 Mar 2015 Number
Average headcount:		
Full time	**1,580**	1,710
Part time	**412**	411
Total employed	**1,992**	2,121
Total average full time equivalent	**1,869**	1,993

The full time equivalent is based on the average hours worked by employees in the year.

The number of persons employed by B&B at the end of the year was as follows:

	31 Mar 2016 Number	31 Mar 2015 Number
Full time	**1,517**	1,648
Part time	**395**	430
Total employed	**1,912**	2,078
Total full time equivalent headcount	**1,793**	1,949

Staff numbers include Executive but not Non-Executive Directors.

In addition to the permanent staff above, the Group had engaged a full time equivalent of 296 temporary staff and specialist contractors at 31 March 2016 (31 March 2015: 221).

6. Administrative expenses (continued)

	12 months to 31 Mar 2016 £m	12 months to 31 Mar 2015 £m
The Group's aggregate costs of permanent staff were as follows:		
Wages and salaries	**59.1**	58.6
Social security costs	**5.8**	5.9
Defined benefit pension costs (see note 17)	**(7.8)**	(4.3)
Defined contribution pension costs (see note 17)	**4.1**	4.1
Other retirement benefit costs (see note 17)	**0.4**	0.4
Total staff costs	**61.6**	64.7
IT costs	**43.2**	35.0
Outsourced and professional services	**16.8**	19.6
Depreciation and amortisation (see notes 18 and 19)	**22.2**	16.8
Other administrative expenses	**36.6**	41.1
Ongoing administrative expenses	**180.4**	177.2
Other net administrative expenses:		
- Transformation costs	**73.4**	-
Total administrative expenses	**253.8**	177.2

The transformation costs of £73.4m (2015: £nil) relate to the ongoing organisational restructure. Further details are provided in notes 24 and 35.

Exit packages

No exit packages were paid in respect of Directors in the current or prior year.

For other employees, redundancy and other departure costs have been paid in accordance with the Group's policies and with legal requirements.

Exit costs are provided for in accordance with IAS 37 when there is a present obligation and it is probable that an exit payment will be made.

Exit package cost band				**12 months to 31 March 2016**
	Number of compulsory redundancies	**Number of voluntary redundancies**	**Number of other departures agreed**	**Total number of exit packages by cost band**
< £10,000	**6**	**7**	**1**	**14**
£10,001 - £25,000	**2**	**40**	**1**	**43**
£25,001 - £50,000	**3**	**23**	**2**	**28**
£50,001 - £100,000	**1**	**6**	**-**	**7**
£100,001 - £150,000	**-**	**-**	**-**	**-**
£150,001 - £200,000	**-**	**-**	**-**	**-**
£200,001 - £250,000	**-**	**-**	**-**	**-**
Total number of exit packages	**12**	**76**	**4**	**92**
Total cost (£'000)	**225**	**1,930**	**102**	**2,257**

Exit package cost band				12 months to 31 March 2015
	Number of compulsory redundancies	Number of voluntary redundancies	Number of other departures agreed	Total number of exit packages by cost band
< £10,000	2	-	10	12
£10,001 - £25,000	8	-	3	11
£25,001 - £50,000	9	-	-	9
£50,001 - £100,000	-	-	1	1
£100,001 - £150,000	-	-	2	2
£150,001 - £200,000	-	-	-	-
£200,001 - £250,000	-	-	1	1
Total number of exit packages	19	-	17	36
Total cost (£'000)	450	-	610	1,060

6. Administrative expenses (continued)

Auditors' remuneration
The following costs are included within administrative expenses:

	12 months to 31 Mar 2016 £m	12 months to 31 Mar 2015 £m
Fees payable to Company auditors for the statutory audit of the UKAR Company and Group Financial Statements	**0.1**	0.1
Fees payable to Company auditors and their associates for other services:		
- the audit of the Company's subsidiaries pursuant to legislation	**0.7**	0.6
- audit-related assurance services	**0.7**	0.3
Total	**1.5**	1.0

Amounts shown in the above analysis are exclusive of VAT.

No separate disclosure has been provided of fees payable in respect of the Company as the consolidated Financial Statements are required to disclose these fees on a consolidated basis, as shown in the above table.

7. Loss on repurchase of own liabilities and equity

12 months to 31 March 2016	**Reserve capital instruments £m**	**Subordinated notes £m**	**Total losses taken to reserves £m**	**Capital instruments £m**	**Debt securities in issue £m**	**Total Income Statement losses £m**
Principal amount of instruments repurchased	-	-	-	-	**4,644.8**	**4,644.8**
Amount paid to repurchase instruments	-	-	-	-	**(5,281.7)**	**(5,281.7)**
Other net gains resulting from the repurchase	-	-	-	-	**618.7**	**618.7**
Loss on repurchase	-	-	-	-	**(18.2)**	**(18.2)**

12 months to 31 March 2015	Reserve capital instruments £m	Subordinated notes £m	Total losses taken to reserves £m	Capital instruments £m	Debt securities in issue £m	Total Income Statement losses £m
Principal amount of instruments repurchased	101.4	23.4	124.8	152.1	431.7	583.8
Amount paid to repurchase instruments	(176.8)	(40.9)	(217.7)	(253.2)	(371.0)	(624.2)
Other net gains/(losses) resulting from the repurchase*	68.9	16.9	85.8	50.2	(79.9)	(29.7)
Loss on repurchase	(6.5)	(0.6)	(7.1)	(50.9)	(19.2)	(70.1)

** The other net gains and losses taken to reserves in 2014/15 were principally release of deferred coupons of £83.7m. The other net gains and losses taken to the Income Statement were principally hedge adjustments, less accelerated amortisation of the discounting effect of deferral of coupons and fees.*

During the year all Covered Bonds issued by NRAM were repurchased, giving rise to a release of £514.7m primarily comprising accrued interest and hedge accounting adjustments (see note 22). B&B also repurchased certain Covered Bonds during the year.

During 2014/15 NRAM repurchased all of its remaining reserve capital instruments, subordinated notes and tier one notes. The losses on repurchase of reserve capital instruments and subordinated notes were reported in reserves as these instruments were accounted for as equity. A tax credit of £19.1m applied to the £7.1m loss on reserve capital instruments and subordinated notes, giving a post-tax gain of £12.0m.

8. Taxation

The tax charge for the year comprises:	**12 months to 31 Mar 2016 £m**	12 months to 31 Mar 2015 £m
Current tax:		
- on profit for the year	**(250.4)**	(180.9)
- adjustments in respect of prior periods	**10.1**	4.8
Total current tax	**(240.3)**	(176.1)
Deferred tax (see note 15):		
- origination and reversal of temporary differences	**(17.3)**	(24.6)
Total deferred tax	**(17.3)**	(24.6)
Total taxation charge per the Income Statement	**(257.6)**	(200.7)

The following tax amounts have been (charged)/credited to equity:	**12 months to 31 Mar 2016 £m**	12 months to 31 Mar 2015 £m
Current tax:		
- relating to available-for-sale investments	**(7.1)**	(1.5)
- relating to repurchase of equity (see note 7)	**-**	19.1
Deferred tax:		
- relating to cash flow hedge reserve	**62.1**	(5.9)
- relating to retirement benefit remeasurements	**(38.1)**	(22.0)
Net credit/(charge) to equity	**16.9**	(10.3)

There was no foreign tax charged in the year (2015: £nil).

The tax charge on the Group's profit before tax differs from the theoretical amount that would arise using the standard weighted average rate of UK corporation tax of 20% (2015: 21%) as follows:

	12 months to 31 Mar 2016 £m	12 months to 31 Mar 2015 £m
Profit before taxation	**1,175.8**	972.3
Tax calculated at rate of 20% (2015: 21%)	**(235.2)**	(204.2)
Effects of:		
- expenses not deductible for tax purposes	**(31.2)**	(1.6)
- adjustments in respect of prior periods	**8.8**	5.1
Total taxation charge for the year	**(257.6)**	(200.7)

The effective tax rate is higher than the statutory rate due to disallowable expenses in relation to PPI customer compensation costs following legislation that came into effect on 8 July 2015 and disallowable restructuring costs.

9. Balances with the Bank of England

	31 Mar 2016 £m	31 Mar 2015 £m
Balances for liquidity purposes	**3,804.5**	5,637.5
Collateral balances	**2.7**	1,279.2
Total	**3,807.2**	6,916.7

Balances with the Bank of England represent cash liquidity and collateral held on account which earn Bank Base Rate.

10. Investment securities

	31 Mar 2016 £m	31 Mar 2015 £m
Available-for-sale securities	**51.0**	158.1
Investment securities held as loans and receivables	**301.8**	364.6
Unsecured investment loans	**-**	-
Total	**352.8**	522.7

In the Balance Sheet the carrying values of impaired assets are presented net of the impairment allowances shown in note 11.

Net impairment release on investment securities for the year comprised:

	12 months to 31 Mar 2016 £m	12 months to 31 Mar 2015 £m
Net impairment reversals on available-for-sale securities	**1.6**	2.1
Net impairment reversals on investment securities held as loans and receivables and unsecured investment loans	**5.6**	14.3
Total net impairment release	**7.2**	16.4

(a) Available-for-sale securities	31 Mar 2016 £m	31 Mar 2015 £m
At fair value:		
Listed	**51.0**	157.7
Unlisted	**-**	0.4
Total	**51.0**	158.1

The movement in available-for-sale securities was as follows:

	12 months to 31 Mar 2016 £m	12 months to 31 Mar 2015 £m
At start of year	**158.1**	321.3
Disposals (sales and redemptions)	**(113.8)**	(160.4)
Exchange differences	**6.9**	(5.1)
Net (losses)/gains on changes in fair value	**(0.2)**	2.3
At end of year	**51.0**	158.1

The net (losses)/gains on changes in fair value include net impairment reversals.

(b) Investment securities held as loans and receivables	31 Mar 2016 £m	31 Mar 2015 £m
Carrying value	**301.8**	364.6
Fair value	**283.5**	397.8
Listed	**293.6**	354.7
Unlisted	**8.2**	9.9
Total	**301.8**	364.6

Note 31(a) provides further information regarding investment securities which have been reclassified as loans and receivables.

(c) Unsecured investment loans	31 Mar 2016 £m	31 Mar 2015 £m
Carrying value	**-**	-
Fair value	**19.6**	16.0

These unsecured investment loans are listed and are fully impaired.

11. Wholesale assets

The assets in the following tables are of a wholesale nature as opposed to individual customer assets. The credit and concentration risk characteristics of these portfolios should, therefore, be considered together.

	31 Mar 2016 £m	31 Mar 2015 £m
Balances with the Bank of England (see note 9)	**3,807.2**	6,916.7
Cash at bank and in hand	**1,791.1**	2,266.4
Investment securities (see note 10)	**352.8**	522.7
Total	**5,951.1**	9,705.8

The Group had no collateral or other credit enhancements in respect of these assets.

(a) Credit risk

Impairment is set out in the table below:

At 31 March 2016	**Balances with the Bank of England £m**	**Cash at bank and in hand £m**	**Available-for-sale securities £m**	**Investment securities held as loans and receivables £m**	**Unsecured investment loans £m**	**Total £m**
Neither past due nor impaired	**3,807.2**	**1,791.1**	**3.6**	**291.8**	**-**	**5,893.7**
Impaired	**-**	**-**	**245.2**	**52.2**	**90.4**	**387.8**
	3,807.2	**1,791.1**	**248.8**	**344.0**	**90.4**	**6,281.5**
Provisions	**-**	**-**	**(197.8)**	**(42.2)**	**(90.4)**	**(330.4)**
Total	**3,807.2**	**1,791.1**	**51.0**	**301.8**	**-**	**5,951.1**

At 31 March 2015	Balances with the Bank of England £m	Cash at bank and in hand £m	Available-for-sale securities £m	Investment securities held as loans and receivables £m	Unsecured investment loans £m	Total £m
Neither past due nor impaired	6,916.7	2,266.4	59.5	338.5	-	9,581.1
Impaired	-	-	352.7	65.7	87.5	505.9
	6,916.7	2,266.4	412.2	404.2	87.5	10,087.0
Provisions	-	-	(254.1)	(39.6)	(87.5)	(381.2)
Total	6,916.7	2,266.4	158.1	364.6	-	9,705.8

The credit quality of wholesale assets by reference to credit ratings is set out in the table below:

At 31 March 2016	**£m**	**AAA %**	**AA %**	**A %**	**BBB to B %**	**CCC and below %**
Balances with the Bank of England	**3,807.2**	**-**	**100**	**-**	**-**	**-**
Cash at bank and in hand	**1,791.1**	**-**	**73**	**6**	**21**	**-**
Investment securities:						
- available-for-sale securities	**51.0**	**-**	**3**	**53**	**4**	**40**
- investment securities held as loans and receivables	**301.8**	**10**	**18**	**36**	**32**	**4**
Total investment securities	**352.8**	**8**	**16**	**39**	**28**	**9**
Total	**5,951.1**	**1**	**87**	**4**	**7**	**1**

11. Wholesale assets (continued)

(a) Credit risk (continued)

At 31 March 2015	£m	AAA %	AA %	A %	BBB to B %	CCC and below %
Balances with the Bank of England	6,916.7	-	100	-	-	-
Cash at bank and in hand	2,266.4	8	53	26	13	-
Investment securities:						
- available-for-sale securities	158.1	35	1	46	2	16
- investment securities held as loans and receivables	364.6	5	22	24	44	5
Total investment securities	522.7	14	16	31	31	8
Total	9,705.8	3	84	8	5	-

Additional information in respect of impairment of investment securities is provided in note 10.

(b) Concentration risk

Wholesale assets are analysed by geographical region at their carrying amounts in the table below:

At 31 March 2016	**UK £m**	**Europe £m**	**US £m**	**Other countries £m**	**Total £m**
Balances with the Bank of England	**3,807.2**	**-**	**-**	**-**	**3,807.2**
Cash at bank and in hand	**1,764.7**	**25.8**	**0.6**	**-**	**1,791.1**
Investment securities:					
- available-for-sale securities	**30.8**	**10.3**	**5.9**	**4.0**	**51.0**
- investment securities held as loans and receivables	**183.0**	**91.8**	**14.9**	**12.1**	**301.8**
Total investment securities	**213.8**	**102.1**	**20.8**	**16.1**	**352.8**
Total	**5,785.7**	**127.9**	**21.4**	**16.1**	**5,951.1**

At 31 March 2015	UK £m	Europe £m	US £m	Other countries £m	Total £m
Balances with the Bank of England	6,916.7	-	-	-	6,916.7
Cash at bank and in hand	1,876.1	345.1	45.2	-	2,266.4
Investment securities:					
- available-for-sale securities	49.9	93.8	7.5	6.9	158.1
- investment securities held as loans and receivables	195.5	130.6	23.6	14.9	364.6
Total investment securities	245.4	224.4	31.1	21.8	522.7
Total	9,038.2	569.5	76.3	21.8	9,705.8

At 31 March 2016 and 31 March 2015 the Group held no investment securities issued by the governments of Portugal, the Republic of Ireland, Italy, Greece or Spain.

12. Loans to customers

	31 Mar 2016 £m	31 Mar 2015 £m
Residential mortgages	**34,700.3**	51,085.1
Commercial loans	**440.5**	536.3
Total secured loans	**35,140.8**	51,621.4
Unsecured loans	**391.8**	1,061.1
Total	**35,532.6**	52,682.5

Residential mortgages include all of the Group's buy-to-let loans. Commercial loans comprise loans secured on commercial properties. The 'Together' product, previously offered by NRAM, combines a secured and unsecured loan all at one interest rate. Outstanding secured balances in respect of this product are included within total residential mortgages while outstanding unsecured balances are included within unsecured loans.

All of the Group's loans to customers are to UK customers.

Balances include accounting adjustments in respect of provisioning requirements.

Loans to customers include loans amounting to £15,173.2m (31 March 2015: £34,665.6m) which have been sold to bankruptcy-remote SPVs whereby substantially all of the risks and rewards of the portfolio are retained by the Group. Accordingly, all of these loans are retained on the Group's Balance Sheet. Further details are provided in note 22.

Fair value adjustments on portfolio hedging amounting to £436.6m (2015: £467.7m) relate to interest rate derivatives designated in a fair value portfolio hedge relationship.

Loans to customers and redemptions comprise the following product types:

	Balances		**Redemptions**	Balances		Redemptions
	At 31 Mar 2016 £m	**%**	**12 months to 31 Mar 2016 £m**	At 31 Mar 2015 £m	%	12 months to 31 Mar 2015 £m
Residential mortgages						
Buy-to-let	**19,839.4**	**57**	**(1,724.8)**	21,629.1	42	(1,396.1)
Self Cert	**5,040.8**	**15**	**(497.1)**	5,591.8	11	(427.0)
Together	**3,479.9**	**10**	**(1,271.8)**	9,962.5	20	(1,485.1)
Standard and other	**6,340.2**	**18**	**(1,468.2)**	13,901.7	27	(2,011.9)
Total residential mortgages	**34,700.3**	**100**	**(4,961.9)**	51,085.1	100	(5,320.1)
Residential loans	**34,700.3**	**98**	**(4,961.9)**	51,085.1	97	(5,320.1)
Commercial loans	**440.5**	**1**	**(75.3)**	536.3	1	(90.0)
Total secured loans	**35,140.8**	**99**	**(5,037.2)**	51,621.4	98	(5,410.1)
Unsecured loans	**391.8**	**1**	**(95.2)**	1,061.1	2	(104.6)
Total	**35,532.6**	**100**	**(5,132.4)**	52,682.5	100	(5,514.7)

Redemptions comprise full redemptions, voluntary partial redemptions and cash receipts from possessions but exclude overpayments and regular monthly payments.

At 31 March 2016 54% (2015: 46%) of the Group's residential mortgage accounts (excluding buy-to-let) held by 65,172 (2015: 121,810) customers were 'interest only' with 74% (2015: 75%) of these having more than ten years until maturity.

On 13 November 2015 UKAR announced that NRAM had agreed to sell a £13bn asset portfolio to affiliates of Cerberus, which included £12bn of mortgages from the Granite securitisation structure. The sale of these Granite loans generated a profit of £59.4m before tax recognised in December when the beneficial interest of the loans transferred to Cerberus. During the year NRAM also released £3.4m of warranty provisions relating to sales in earlier periods, as these provisions were no longer required. During 2014/15 the Group sold a portfolio of standard mortgages for £2.7bn realising a profit on sale of £18.3m and released £4.0m of provisions relating to sales in earlier periods. These sales are excluded from the redemptions disclosed in the above table.

13. Impairment on loans to customers

Allowances for credit losses against loans to customers have been made as follows:

	On residential mortgages	**On commercial loans**	**On unsecured loans**	**Total**
	£m	**£m**	**£m**	**£m**
At 1 April 2015	**888.0**	**76.7**	**205.1**	**1,169.8**
Movements during the year:				
- write-offs	**(95.3)**	**(3.9)**	**(16.5)**	**(115.7)**
- loan impairment (credit)/charge	**(44.4)**	**12.6**	**1.5**	**(30.3)**
- sale of loan book	**(84.9)**	**-**	**(93.9)**	**(178.8)**
Net movements during the year	**(224.6)**	**8.7**	**(108.9)**	**(324.8)**
At 31 March 2016	**663.4**	**85.4**	**96.2**	**845.0**
The Income Statement (credit)/charge comprises:				
- loan impairment (credit)/charge	**(44.4)**	**12.6**	**1.5**	**(30.3)**
- recoveries net of costs	**(44.3)**	**(3.0)**	**-**	**(47.3)**
Total Income Statement (credit)/charge	**(88.7)**	**9.6**	**1.5**	**(77.6)**

	On residential mortgages	On commercial loans	On unsecured loans	Total
	£m	£m	£m	£m
At 1 April 2014	1,151.8	90.9	214.7	1,457.4
Movements during the year:				
- write-offs	(154.2)	(12.0)	(32.3)	(198.5)
- loan impairment (credit)/charge	(109.6)	(2.2)	22.7	(89.1)
Net movements during the year	(263.8)	(14.2)	(9.6)	(287.6)
At 31 March 2015	888.0	76.7	205.1	1,169.8
The Income Statement (credit)/charge comprises:				
- loan impairment (credit)/charge	(109.6)	(2.2)	22.7	(89.1)
- recoveries net of costs	(60.8)	(0.7)	-	(61.5)
Total Income Statement (credit)/charge	(170.4)	(2.9)	22.7	(150.6)

In respect of lifetime mortgages, the allowances include an additional provision reflecting estimated future impairment up to redemption. In the Balance Sheet the carrying values of loans to customers are presented net of these allowances.

14. Credit quality of loans to customers

In respect of loans to residential customers, the Group holds collateral in the form of mortgages over residential properties. The fair value of this collateral was as follows:

	31 Mar 2016	31 Mar 2015
	£m	£m
Neither past due nor impaired	**54,997.6**	74,689.0
Past due but not impaired	**2,296.8**	4,078.5
Impaired	**433.6**	659.2
Total	**57,728.0**	79,426.7

If the collateral amount on each individual loan were capped at the amount of the balance outstanding and any surplus of collateral values over balances outstanding ignored, the fair value of collateral held would be as follows:

	31 Mar 2016	31 Mar 2015
	£m	£m
Neither past due nor impaired	**33,274.2**	47,989.3
Past due but not impaired	**1,581.3**	3,025.3
Impaired	**335.9**	539.4
Total	**35,191.4**	51,554.0
The impaired balances above include the following carrying amount of assets in possession, capped at the balance outstanding	**59.3**	107.2

The fair value of the collateral is estimated by taking the most recent valuation of the property and adjusting for house price inflation or deflation up to the Balance Sheet date.

14 Credit quality of loans to customers (continued)

The indexed loan to value ('LTV') of residential loan balances, weighted by loan balance, falls into the following ranges:

	31 March 2016	31 March 2015
	%	%
To 50%	**13.3**	9.5
50% to 75%	**43.3**	34.0
75% to 100%	**39.3**	47.9
Over 100%	**4.1**	8.6
Total	**100.0**	100.0

The average indexed LTV based on a simple average is 61.3% (31 March 2015: 65.4%) and on a weighted average is 71.1% (31 March 2015: 76.4%).

	At 31 March 2016				At 31 March 2015			
	Residential mortgages	Commercial loans	Unsecured loans	Total	Residential mortgages	Commercial loans	Unsecured loans	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Neither past due nor impaired	**33,401.6**	**329.4**	**397.9**	**34,128.9**	48,315.6	443.8	1,054.8	49,814.2
Past due but not impaired:								
- less than 3 months	**981.2**	**-**	**15.4**	**996.6**	1,874.2	2.4	48.1	1,924.7
- 3 to 6 months	**364.3**	**-**	**5.7**	**370.0**	705.7	-	16.7	722.4
- over 6 months	**252.7**	**-**	**59.1**	**311.8**	490.2	-	117.7	607.9
Impaired	**363.9**	**196.5**	**9.9**	**570.3**	587.4	166.8	28.9	783.1
	35,363.7	**525.9**	**488.0**	**36,377.6**	51,973.1	613.0	1,266.2	53,852.3
Impairment allowances	**(663.4)**	**(85.4)**	**(96.2)**	**(845.0)**	(888.0)	(76.7)	(205.1)	(1,169.8)
Loans to customers net of impairment allowances	**34,700.3**	**440.5**	**391.8**	**35,532.6**	51,085.1	536.3	1,061.1	52,682.5
Impairment allowances:								
- individual	**59.5**	**85.4**	**21.9**	**166.8**	83.8	76.7	38.1	198.6
- collective	**603.9**	**-**	**74.3**	**678.2**	804.2	-	167.0	971.2
Total impairment allowances	**663.4**	**85.4**	**96.2**	**845.0**	888.0	76.7	205.1	1,169.8

The above table includes balances within 'neither past due nor impaired' which would have been shown as past due or impaired other than due to renegotiation; these were loans where arrears were capitalised during the previous 12 months. These loans amounted to £1.4m (2015: £4.0m). A loan is eligible for capitalisation of arrears only once the borrower has complied with stringent terms for a set period.

14 Credit quality of loans to customers (continued)

Arrears and possessions on residential mortgages and unsecured loans

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

		At 31 March 2016		At 31 March 2015	
		Residential	**Unsecured**	Residential	Unsecured
Arrears 3 months and over					
Number of cases	No.	**5,870**	**4,307**	11,005	8,877
Proportion of total cases	%	**1.97**	**10.17**	2.43	8.38
Asset value	£m	**858.7**	**69.8**	1,575.5	147.8
Proportion of book	%	**2.47**	**17.81**	3.09	13.92
Total value of payments overdue	£m	**35.7**	**17.3**	62.8	26.3
Proportion of total book	%	**0.11**	**4.43**	0.12	2.48
Possessions					
Number of cases	No.	**507**	**-**	971	-
Proportion of total cases	%	**0.17**	**-**	0.21	-
Asset value	£m	**76.4**	**-**	133.9	-
Proportion of book	%	**0.22**	**-**	0.26	-
Total value of payments overdue	£m	**4.4**	**-**	8.8	-
Proportion of total book	%	**0.01**	**-**	0.02	-
New possessions	No.	**1,853**	**-**	2,856	-
Total arrears 3 months and over and possessions					
Number of cases	No.	**6,377**	**4,307**	11,976	8,877
Proportion of total cases	%	**2.14**	**10.17**	2.64	8.38
Asset value	£m	**935.1**	**69.8**	1,709.4	147.8
Proportion of book	%	**2.69**	**17.81**	3.35	13.92
Total value of payments overdue	£m	**40.1**	**17.3**	71.6	26.3
Proportion of total book	%	**0.12**	**4.43**	0.14	2.48

In respect of all arrears (including those which are less than 3 months in arrears) together with possessions, the total value of payments overdue was:

Payments overdue					
Total value of payments overdue	£m	**49.3**	**17.5**	90.6	26.8
Proportion of total book	%	**0.14**	**4.47**	0.18	2.53
Loan impairment provision					
As % of total balances	%	**1.88**	**19.72**	1.71	16.20

14. Credit quality of loans to customers (continued)

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

		At 31 March 2016		At 31 March 2015	
		Residential	**Unsecured**	Residential	Unsecured
Buy-to-let					
Number of cases	No.	**1,112**	**-**	1,590	-
Proportion of total cases	%	**0.66**	**-**	0.87	-
Asset value	£m	**163.9**	**-**	235.9	-
Proportion of book	%	**0.83**	**-**	1.09	-
Total value of payments overdue	£m	**4.7**	**-**	8.3	-
Proportion of total book	%	**0.02**	**-**	0.04	-
Self Cert					
Number of cases	No.	**878**	**-**	1,048	-
Proportion of total cases	%	**2.54**	**-**	2.76	-
Asset value	£m	**142.6**	**-**	179.0	-
Proportion of book	%	**2.83**	**-**	3.20	-
Total value of payments overdue	£m	**4.6**	**-**	4.9	-
Proportion of total book	%	**0.09**	**-**	0.09	-
Together					
Number of cases	No.	**1,357**	**4,307**	3,652	8,877
Proportion of total cases	%	**3.88**	**10.17**	3.55	8.38
Asset value	£m	**155.0**	**69.8**	409.3	147.8
Proportion of book	%	**4.45**	**17.81**	4.11	13.92
Total value of payments overdue	£m	**7.0**	**17.3**	17.3	26.3
Proportion of total book	%	**0.20**	**4.43**	0.17	2.48
Standard and other					
Number of cases	No.	**2,523**	**-**	4,715	-
Proportion of total cases	%	**4.29**	**-**	3.62	-
Asset value	£m	**397.2**	**-**	751.3	-
Proportion of book	%	**6.26**	**-**	5.41	-
Total value of payments overdue	£m	**19.4**	**-**	32.3	-
Proportion of total book	%	**0.31**	**-**	0.23	-

15. Deferred taxation

The net deferred taxation liability is attributable to the following:

	Assets		Liabilities		Net	
	31 Mar 2016 £m	31 Mar 2015 £m	**31 Mar 2016 £m**	31 Mar 2015 £m	**31 Mar 2016 £m**	31 Mar 2015 £m
Changes in accounting basis on adoption of IFRS	**-**	7.0	**-**	(3.2)	**-**	3.8
Cash flow hedges	**2.6**	-	**-**	(59.5)	**2.6**	(59.5)
Accelerated tax depreciation	**-**	1.4	**(3.4)**	(3.2)	**(3.4)**	(1.8)
Available-for-sale reserve and fair value	**-**	-	**(2.3)**	(3.5)	**(2.3)**	(3.5)
Employee benefits	**2.3**	2.3	**(95.8)**	(44.6)	**(93.5)**	(42.3)
	4.9	10.7	**(101.5)**	(114.0)	**(96.6)**	(103.3)
Offset	**(4.9)**	(10.7)	**4.9**	10.7	**-**	-
Total	**-**	-	**(96.6)**	(103.3)	**(96.6)**	(103.3)

There were no deferred tax assets unrecognised at 31 March 2016 (2015: £nil).

15. Deferred taxation (continued)

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

	At 1 April 2015 £m	**Recognised in income £m**	**Recognised in equity £m**	**At 31 March 2016 £m**
Changes in accounting basis on adoption of IFRS	**3.8**	**(3.8)**	**-**	**-**
Cash flow hedges	**(59.5)**	**-**	**62.1**	**2.6**
Accelerated tax depreciation	**(1.8)**	**(1.6)**	**-**	**(3.4)**
Available-for-sale reserve and fair value	**(3.5)**	**1.2**	**-**	**(2.3)**
Employee benefits	**(42.3)**	**(13.1)**	**(38.1)**	**(93.5)**
Total	**(103.3)**	**(17.3)**	**24.0**	**(96.6)**

	At 1 April 2014 £m	Recognised in income £m	Recognised in equity £m	At 31 March 2015 £m
Changes in accounting basis on adoption of IFRS	8.1	(4.3)	-	3.8
Cash flow hedges	(53.6)	-	(5.9)	(59.5)
Accelerated tax depreciation	(1.3)	(0.5)	-	(1.8)
Available-for-sale reserve and fair value	(5.2)	1.7	-	(3.5)
Employee benefits	(5.7)	(14.6)	(22.0)	(42.3)
Taxation value of losses carried forward	6.9	(6.9)	-	-
Total	(50.8)	(24.6)	(27.9)	(103.3)

16. Other assets

	At 31 Mar 2016 £m	At 31 Mar 2015 £m
Prepayments and accrued income	**8.9**	8.6
Other	**22.8**	19.4
Total	**31.7**	28.0

17. Retirement benefit assets and obligations

The UKAR Group operates a number of retirement benefit plans for its current and former employees, including defined benefit pension plans, a defined contribution pension plan and post-retirement healthcare benefits. Further details in respect of the Group's schemes are given in sections (a) (B&B schemes) and (b) (NRAM schemes) below. The 'administrative expenses' line of the Income Statement includes the cost of contributions to the healthcare and defined contribution pension schemes, the current service cost of providing pension benefits for each defined benefit scheme and the interest cost on the scheme's net asset or liability. The current service cost of the Group's defined benefit schemes is nil, as the schemes are now closed to future service accrual. The full net surplus or deficit in respect of the healthcare scheme and each defined benefit pension scheme is carried on the UKAR Group Balance Sheet, and gains and losses arising due to actuarial revaluations are taken to UKAR Group other comprehensive income rather than being credited or charged in the Income Statement.

The amounts carried on the UKAR Balance Sheets are as follows:

	Defined benefit pension plan		**Post-retirement medical benefits**		**Total**	
	At 31 Mar 2016 £m	At 31 Mar 2015 £m	**At 31 Mar 2016 £m**	At 31 Mar 2015 £m	**At 31 Mar 2016 £m**	At 31 Mar 2015 £m
Present value of defined benefit obligations	**(1,422.6)**	(1,566.2)	**(1.8)**	(9.4)	**(1,424.4)**	(1,575.6)
Fair value of defined benefit assets	**1,905.1**	1,803.8	**-**	-	**1,905.1**	1,803.8
Net defined benefit asset/(liability)	**482.5**	237.6	**(1.8)**	(9.4)	**480.7**	228.2

17. Retirement benefit assets and obligations (continued)

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

	Defined benefit pension plan		Post-retirement medical benefits		Total	
	12 months to 31 Mar 2016	12 months to 31 Mar 2015	**12 months to 31 Mar 2016**	12 months to 31 Mar 2015	**12 months to 31 Mar 2016**	12 months to 31 Mar 2015
	£m	£m	**£m**	£m	**£m**	£m
Net interest (income)/expense	**(7.8)**	3.1	**0.4**	0.4	**(7.4)**	3.5
Total recognised in the Income Statement	**(7.8)**	3.1	**0.4**	0.4	**(7.4)**	3.5

(a) Bradford & Bingley schemes

(i) Defined benefit pension scheme
The Group operated a defined benefit pension scheme, the Bradford & Bingley Staff Pension Scheme ('the B&B Scheme'), which is administered by 'the Trustee'. The Trustee is responsible for ensuring the B&B scheme meets its Statutory Funding Objective which is set by The Pensions Regulator. The B&B Scheme provided benefits to members on a final salary basis. On 31 December 2009 the B&B Scheme was closed to future service accrual; all members became deferred members and were given the option to join the Group's defined contribution scheme from 1 January 2010. The normal pension age of members of the B&B Scheme is 65 for those who left before 6 April 2005 and 60 for the other members. In respect of deferred members, deferred pension entitlement increases are calculated by reference to the Consumer Prices Index ('CPI').

The credit or cost to the Group of funding the B&B Scheme guaranteed benefits varies over time, dependent on market conditions and life expectancies. The credit in the year was £2.9m (31 March 2015: £0.6m credit) and the retirement benefit re-measurement gain recognised in other comprehensive income during the year was £125.8m (2015: £62.2m gain).

The assets of the B&B Scheme are held in a separate trustee-administered fund. The Trustee of the B&B Scheme has passed a resolution for the ultimate refund to B&B of any future surpluses on the B&B Scheme.

The last agreed formal triennial valuation of the B&B scheme, prepared by the scheme actuaries as at 30 June 2012, showed a deficit of £257.2m on a Trustee's valuation basis. The 30 June 2015 triennial valuation has not yet been finalised. A Recovery Plan was agreed between the Company and the Trustee committing the Company to a programme of annual deficit reduction payments up to and including June 2019. £38.7m was paid during the year to 31 March 2016 and future contributions will increase at a compounding annual rate of 10%. The Recovery Plan will be reassessed following the finalisation of the June 2015 formal triennial valuation.

The Trustee manages the volatility in the value of the B&B Scheme's assets by limiting the exposure to return-seeking assets and using liability-driven investment strategies to increase the level of hedging against investment risks. The two key investment risks are interest rate risk and inflation risk relating to the B&B Scheme's obligations. By holding swaps, fixed interest gilts, index-linked gilts and corporate bonds, approximately 71% of the interest rate risk and approximately 73% of the inflation risk has been hedged. The holding of return-seeking assets is close to the target level required to achieve the investment return assumed within the deficit recovery plan.

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

(ii) Defined contribution pension scheme
The Group also operates a defined contribution pension scheme, the UKAR Pension Plan, into which both employees and the Group make contributions. The assets of this scheme are independent from those of the Group. The Group and Company had no liabilities or prepayments associated with this scheme at 31 March 2016 (2015: £nil). The cost in the year to the Group of this scheme was £4.1m (2015: £4.1m). The cost to the Group varies according to the number of employees in the Group and their salary levels but the Group has no risk of being required to provide additional funding to the scheme.

(iii) Healthcare scheme
The Group provides healthcare benefits to some of its pensioners. The healthcare benefits are provided through a scheme into which the Group contributes 100% towards the cost of providing the benefits for members who retired before 1 January 1996 and 50% for members who retired after this date. The value of the Group's obligation is assessed in accordance with the advice of a qualified actuary. The cost in the year to the Group of this scheme was £0.4m (2015: £0.4m) and the re-measurement gain recognised in the B&B Group's other comprehensive income during the year was £8.1m (2015: gain £1.4m).

17. Retirement benefit assets and obligations (continued)

(a) Bradford & Bingley schemes (continued)

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

	Defined benefit pension plan		Post-retirement medical benefits		Total	
	31 Mar 2016 £m	31 Mar 2015 £m	**31 Mar 2016 £m**	31 Mar 2015 £m	**31 Mar 2016 £m**	31 Mar 2015 £m
Present value of defined benefit obligations	**(839.2)**	(960.0)	**(1.8)**	(9.4)	**(841.0)**	(969.4)
Fair value of defined benefit assets	**1,092.3**	1,045.7	**-**	-	**1,092.3**	1,045.7
Net defined benefit surplus/(liability)	**253.1**	85.7	**(1.8)**	(9.4)	**251.3**	76.3

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

	Defined benefit pension plan		Post-retirement medical benefits		Total	
	12 months to 31 Mar 2016 £m	12 months to 31 Mar 2015 £m	**12 months to 31 Mar 2016 £m**	12 months to 31 Mar 2015 £m	**12 months to 31 Mar 2016 £m**	12 months to 31 Mar 2015 £m
Net interest (income)/expense	**(2.9)**	(0.6)	**0.4**	0.4	**(2.5)**	(0.2)
Total recognised in the Income Statement	**(2.9)**	(0.6)	**0.4**	0.4	**(2.5)**	(0.2)

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

	Defined benefit pension plan		Post-retirement medical benefits		Total	
	12 months to 31 Mar 2016 £m	12 months to 31 Mar 2015 £m	**12 months to 31 Mar 2016 £m**	12 months to 31 Mar 2015 £m	**12 months to 31 Mar 2016 £m**	12 months to 31 Mar 2015 £m
At start of year	**960.0**	782.2	**9.4**	8.0	**969.4**	790.2
Interest on defined benefit obligations	**32.1**	35.6	**0.3**	0.4	**32.4**	36.0
Remeasurements:						
- effect of changes in demographic assumptions	**(25.7)**	-	**(0.1)**	-	**(25.8)**	-
- effect of changes in financial assumptions	**(55.4)**	165.8	**-**	1.4	**(55.4)**	167.2
- effect of experience adjustments	**(35.8)**	-	**(8.0)**	-	**(43.8)**	-
Benefits paid from plan	**(36.0)**	(23.6)	**0.2**	(0.4)	**(35.8)**	(24.0)
At end of year	**839.2**	960.0	**1.8**	9.4	**841.0**	969.4

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

	Defined benefit pension plan		Post-retirement Medical benefits		Total	
	12 months to 31 Mar 2016 £m	12 months to 31 Mar 2015 £m	**12 months to 31 Mar 2016 £m**	12 months to 31 Mar 2015 £m	**12 months to 31 Mar 2016 £m**	12 months to 31 Mar 2015 £m
At start of year	**1,045.7**	769.9	**-**	-	**1,045.7**	769.9
Interest income on defined benefit assets	**36.0**	37.2	**-**	-	**36.0**	37.2
Defined benefit company contributions	**38.7**	35.1	**(0.2)**	0.4	**38.5**	35.5
Remeasurements						
- return on plan assets (excluding interest income)	**8.9**	228.0	**-**	-	**8.9**	228.0
Administrative expenses paid from plan assets	**(1.1)**	(1.0)	**-**	-	**(1.1)**	(1.0)
Benefits paid from plan	**(35.9)**	(23.5)	**0.2**	(0.4)	**(35.7)**	(23.9)
At end of year	**1,092.3**	1,045.7	**-**	-	**1,092.3**	1,045.7

17. Retirement benefit assets and obligations (continued)

(a) Bradford & Bingley schemes (continued)

Defined benefit obligations (continued)

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

	31 March 2016			31 March 2015		
	Quoted £m	**Unquoted £m**	**Total £m**	Quoted £m	Unquoted £m	Total £m
Equity instruments	**159.3**	**5.9**	**165.2**	178.1	5.8	183.9
Property	**2.2**	**36.6**	**38.8**	1.5	37.9	39.4
Bonds:						
- of which UK	**100.3**	**-**	**100.3**	6.2	213.4	219.6
- of which overseas	**55.3**	**-**	**55.3**	55.8	-	55.8
Liability hedging investments	**629.3**	**-**	**629.3**	3.8	523.2	527.0
Cash and cash equivalents	**4.0**	**99.4**	**103.4**	-	20.0	20.0
Total	**950.4**	**141.9**	**1,092.3**	245.4	800.3	1,045.7

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

	31 March 2016	31 March 2015
To determine benefit obligations:		
Discount rate	**3.6%**	3.4%
Inflation (RPI)	**3.0%**	3.1%
Inflation (CPI)	**2.0%**	2.3%
Future pension increases	**2.95%**	3.0%
To determine net pension cost:		
Discount rate	**3.4%**	4.6%
For post-retirement medical plan:		
Discount rate	**3.6%**	3.4%
Medical cost trend for duration of liability	**5.5%**	5.5%

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

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

	31 March 2016		31 March 2015	
	Pensioner	**Non-retired member**	Pensioner	Non-retired member
Male	**28.2**	**29.6**	28.6	30.1
Female	**30.8**	**32.4**	31.4	32.9

Maturity profile of the obligation

The defined benefit pension scheme has a weighted average maturity of around 21 years.

Sensitivity

The following table illustrates the sensitivity of the defined benefit pension scheme obligations to three key assumptions: the discount rate, the rate of inflation and the mortality assumption:

Assumption	**Change in assumption**	**Impact on obligations**
Discount rate	Decrease by 0.5%	Increase by 11%
Inflation	Increase by 0.5%	Increase by 9%
Mortality	Decrease by 1 year	Increase by 3%

If the assumptions were to change by the same amount in the opposite direction to those illustrated, the obligations would decrease by a similar percentage to those shown in the table in each case.

Assumed healthcare cost trend rates have an effect on the amounts recognised in staff costs. A one percentage point change in assumed healthcare cost trend rates would have the following effects:

	31 Mar 2016 £m	31 Mar 2015 £m
Effect on interest cost	**-**	0.1
Effect on defined benefit obligation	**0.2**	1.5

17. Retirement benefit assets and obligations (continued)

(b) NRAM schemes

(i) Defined benefit pension scheme
Northern Rock plc operated a staff pension scheme, which was closed in 2010 and is now known as the NRAM Scheme. The assets of the NRAM Scheme are held in a separate trustee-administered fund. The normal pension age of members in this NRAM Scheme is 60. The NRAM Scheme provided benefits to the majority of members on a final salary basis. Deferred pension entitlement increases are calculated by reference to the Retail Prices Index ('RPI'). The Trustee of the NRAM Scheme is responsible for ensuring the Scheme meets its Statutory Funding Objective which is set by The Pensions Regulator. The Trustee of the NRAM Scheme has passed a resolution for the ultimate refund to NRAM of any future surpluses on the NRAM Scheme. As detailed in note 35(a) on 30 April 2016 the NRAM scheme transferred to NRAM (No.1) Limited.

The cost to the Group of funding the NRAM Scheme guaranteed benefits varies over time, dependent on market conditions and life expectancies. The credit in the year was £4.9m (2015: credit £3.7m) and the retirement benefit re-measurement gain recognised in other comprehensive income during the year was £57.4m (2015: gain £48.9m).

As at 31 March 2016 and 31 March 2015 the NRAM Scheme was in surplus on an accounting basis, but in deficit on a trustee's funding basis. Under an agreed recovery plan to address this deficit, the Group is committed to making annual contributions to the NRAM Scheme up to and including April 2019. Under this plan the Group has contributed £15.3m in the year and the level of contributions will be re-assessed each year.

Following the nationalisation of Northern Rock plc in 2007, the NRAM Scheme Trustee disposed of the majority of the return-seeking assets, retaining a small holding in private equity funds; the remaining assets are split between gilts and corporate bonds. The NRAM Scheme has instigated a liability-driven investment programme to hedge approximately 85% of the interest rate risk and 86% of the inflation risk.

(ii) Defined benefit section of the Scheme
The amounts carried on the UKAR Group Balance Sheet are as follows:

	31 Mar 2016 £m	31 Mar 2015 £m
Present value of defined benefit obligations	**(583.4)**	(606.2)
Fair value of defined benefit assets	**812.8**	758.1
Net defined benefit asset	**229.4**	151.9

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

	12 months to 31 Mar 2016 £m	12 months to 31 Mar 2015 £m
Net interest income	**4.9**	3.7
Total recognised in the Income Statement	**4.9**	3.7

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

	12 months to 31 Mar 2016 £m	12 months to 31 Mar 2015 £m
At start of year	**606.2**	480.7
Interest on defined benefit obligations	**20.3**	21.8
Remeasurements:		
- effect of changes in demographic assumptions	**20.5**	-
- effect of changes in financial assumptions	**(38.1)**	119.3
- effect of experience adjustments	**(8.8)**	(3.3)
Benefits paid from plan	**(16.7)**	(12.3)
At end of year	**583.4**	606.2

17. Retirement benefit assets and obligations (continued)

(**b**) **NRAM schemes** (continued)

(ii) Defined benefit section of the Scheme (continued)

Movements in the fair value of defined benefit assets were as follows:	**12 months to 31 Mar 2016 £m**	12 months to 31 Mar 2015 £m
At start of year	**758.1**	546.0
Interest income on defined benefit assets	**25.1**	25.5
Defined benefit company contributions	**15.3**	34.0
Remeasurements:		
- return on plan assets (excluding interest income)	**31.0**	164.9
Benefits paid from plan	**(16.7)**	(12.3)
At end of year	**812.8**	758.1

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

	31 March 2016			31 March 2015		
	Quoted £m	**Unquoted £m**	**Total £m**	Quoted £m	Unquoted £m	Total £m
Equity instruments	**-**	**224.3**	**224.3**	-	225.9	225.9
Bonds:						
- of which UK	**63.4**	**-**	**63.4**	65.2	-	65.2
Liability hedging investments	**512.9**	**-**	**512.9**	419.2	-	419.2
Cash and cash equivalents	**12.2**	**-**	**12.2**	47.8	-	47.8
Total	**588.5**	**224.3**	**812.8**	532.2	225.9	758.1

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

	31 March 2016	31 March 2015
To determine benefit obligations:		
Discount rate	**3.6%**	3.4%
Inflation (RPI)	**3.0%**	3.1%
Future pension increases	**1.85% - 3.55%**	3.0% - 3.55%
To determine net pension cost:		
Discount rate	**3.4%**	4.6%

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

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

	31 March 2016		31 March 2015	
	Pensioner	**Non-retired member**	Pensioner	Non-retired member
Male	**28.9**	**30.7**	27.8	29.3
Female	**31.2**	**33.0**	30.2	31.8

Maturity profile of the obligation
The defined benefit pension scheme has a weighted average maturity of around 23 years.

Sensitivity
The following table illustrates the sensitivity of the defined benefit pension scheme obligations to three key assumptions: the discount rate, the rate of inflation and the mortality assumption:

Assumption	**Change in assumption**	**Impact on obligations**
Discount rate	Decrease by 0.5%	Increase by 12%
Inflation	Increase by 0.5%	Increase by 9%
Mortality	Decrease by 1 year	Increase by 2%

If the assumptions were to change by the same amount in the opposite direction to those illustrated, the obligations would decrease by a similar percentage to those shown in the table in each case.

18. Property, plant and equipment

	Land and buildings £m	Plant, equipment, fixtures, fittings and vehicles £m	Total £m
Cost			
At 1 April 2015	**7.0**	**59.1**	**66.1**
Additions	**-**	**6.2**	**6.2**
Disposals	**-**	**(27.7)**	**(27.7)**
At 31 March 2016	**7.0**	**37.6**	**44.6**
Depreciation			
At 1 April 2015	**4.1**	**45.4**	**49.5**
Charged in year	**1.0**	**5.7**	**6.7**
Disposals	**-**	**(27.7)**	**(27.7)**
At 31 March 2016	**5.1**	**23.4**	**28.5**
Net book amount:			
At 1 April 2015	**2.9**	**13.7**	**16.6**
At 31 March 2016	**1.9**	**14.2**	**16.1**

	Land and buildings £m	Plant, equipment, fixtures, fittings and vehicles £m	Total £m
Cost			
At 1 April 2014	23.1	71.9	95.0
Additions	0.3	4.1	4.4
Disposals	(16.4)	(16.9)	(33.3)
At 31 March 2015	7.0	59.1	66.1
Depreciation			
At 1 April 2014	15.4	57.7	73.1
Charged in year	0.2	4.6	4.8
Disposals	(11.5)	(16.9)	(28.4)
At 31 March 2015	4.1	45.4	49.5
Net book amount:			
At 1 April 2014	7.7	14.2	21.9
At 31 March 2015	2.9	13.7	16.6

The land and buildings depreciation charge in 2015/16 includes accelerated depreciation of £0.9m relating to preparation for separation of the business.

At 31 March 2016, work in progress was £nil (2015: £4.0m had been capitalised and not depreciated). The work in progress related to an IT investment programme to simplify existing infrastructure and reduce ongoing costs.

Sale proceeds from asset disposals were £nil (2015: £14.5m) resulting in a profit on sale of £nil (2015: £9.6m profit).

19. Intangible assets

	£m
Cost	
At 1 April 2015	**89.1**
Additions	**11.3**
Disposals	**(0.2)**
At 31 March 2016	**100.2**
Impairment and amortisation	
At 1 April 2015	**47.7**
Amortisation charged in year	**15.5**
Disposals	**(0.2)**
At 31 March 2016	**63.0**
Net book amount:	
At 1 April 2015	**41.4**
At 31 March 2016	**37.2**

	£m
Cost	
At 1 April 2014	84.1
Additions	10.7
Disposals	(5.7)
At 31 March 2015	89.1
Impairment and amortisation	
At 1 April 2014	41.4
Amortisation charged in year	12.0
Disposals	(5.7)
At 31 March 2015	47.7
Net book amount:	
At 1 April 2014	42.7
At 31 March 2015	41.4

Intangible assets comprise capitalised computer software systems and licences.

At 31 March 2016, work in progress of £0.2m (2015: £13.8m) has been capitalised and is not being amortised. The work in progress relates to an IT investment programme to simplify existing infrastructure and reduce ongoing costs.

All assets sold in the year and previous year had already been fully amortised and no sale proceeds were received. Hence there was no profit or loss on the sales.

20. Amounts due to banks

	At 31 Mar 2016 £m	At 31 Mar 2015 £m
Cash collateral received (see note 32)	**553.8**	2,185.8
Other	**0.1**	-
Total	**553.9**	2,185.8

21. Statutory Debt and HM Treasury loans

	At 31 Mar 2016 £m	At 31 Mar 2015 £m
HM Treasury loan to NRAM	**7,465.6**	13,656.1
B&B Statutory Debt	**18,416.2**	18,416.2
HM Treasury Working Capital Facility to B&B	**2,472.1**	2,547.1
Total	**28,353.9**	34,619.4

The HM Treasury loan to NRAM is repayable on demand. Interest has been charged at Bank of England Base Rate + 100 bps since 4 May 2012 (prior to that date interest was charged at Bank of England Base Rate + 25 bps). As detailed in note 35(a), on 30 April 2016 this loan was transferred to NRAM (No.1) Limited. At the signing date of these Financial Statements, HM Treasury has confirmed its intentions to continue to fund NRAM (No.1) Limited as a going concern, and to enable NRAM (No.1) Limited to meet its debts as and when they fall due, until at least 1 January 2018.

B&B has an interest-free Statutory Debt of £18,416.2m as at 31 March 2016 and 31 March 2015. This replaced B&B's savings-related assets and liabilities which were transferred to Banco Santander Group on 29 September 2008. £15,654.5m of the Statutory Debt is owed to the FSCS. At the time of nationalisation, the FSCS covered the first £35,000 per depositor; HM Treasury agreed to cover the excess over £35,000, amounting to a total of £2,761.7m. It is expected that the Statutory Debt will be repaid out of the cash flows generated by B&B during its wind-down. These cash flows will principally comprise interest and redemptions arising on loans to customers, along with proceeds of asset sales. The redemption profile of loans to customers is uncertain; many of these loans have contractual maturities of 25 years or more from the date of advance but experience has been that most loans to customers redeem earlier than their contractual maturity dates. Consequently, the timing of the repayment of the Statutory Debt is uncertain.

B&B has an interest-bearing WCF provided by HM Treasury. Interest is charged at Bank of England Base Rate + 500bps. HM Treasury has the option to vary the rate charged. At 31 March 2016 B&B had drawn £2,460.3m (2015: £2,535.3m) of this facility; £2,472.1m including accrued interest (2015: £2,547.1m). At the signing date of these Financial Statements HM Treasury has confirmed its intentions to continue to fund B&B as a going concern and to enable B&B to meet its debts as and when they fall due, until at least 1 January 2018. HM Treasury has indicated that it expects the WCF to be repaid out of the cash flows generated by B&B during its wind-down. These cash flows will principally comprise interest and redemptions arising on loans to customers, along with proceeds of asset sales. The redemption profile of loans to customers is uncertain; many of these loans have contractual maturities of 25 years or more from the date of advance but experience has been that most loans to customers redeem earlier than their contractual maturity dates. Consequently, the timing of the repayment of the WCF is uncertain.

22. Debt securities in issue

	Securitised notes £m	**Covered Bonds £m**	**Other £m**	**Total £m**
At 1 April 2015	**12,730.1**	**7,946.9**	**269.7**	**20,946.7**
Repayments	**(9,721.1)**	**(1,165.9)**	**(33.0)**	**(10,920.0)**
Repurchases	**-**	**(4,644.8)**	**-**	**(4,644.8)**
Other movements	**136.9**	**(356.7)**	**(2.9)**	**(222.7)**
At 31 March 2016	**3,145.9**	**1,779.5**	**233.8**	**5,159.2**
Securitised assets	**9,150.4**	**7,044.4**	**-**	**16,194.8**
Reserve fund	**380.0**	**1.2**	**-**	**381.2**

	Securitised notes £m	Covered Bonds £m	Other £m	Total £m
At 1 April 2014	16,178.6	9,163.9	543.5	25,886.0
Repayments	(2,943.7)	-	(261.2)	(3,204.9)
Repurchases	(223.0)	(208.7)	-	(431.7)
Other movements	(281.8)	(1,008.3)	(12.6)	(1,302.7)
At 31 March 2015	12,730.1	7,946.9	269.7	20,946.7
Securitised assets	23,248.6	16,221.0	-	39,469.6
Reserve fund	1,384.6	18.1	-	1,402.7

Other movements comprise exchange rate movements, accrued interest and hedge accounting adjustments.

22. Debt securities in issue (continued)

The B&B and NRAM Groups issued debt securities to securitise loans to customers through SPVs and Covered Bonds and also raised unsecured medium term funding, the amounts of which are shown above. Certain of these were subject to fair value hedge designation and the carrying values of these instruments include unamortised adjustments in respect of the notes that were hedged.

HM Treasury has provided guarantees with regard to certain wholesale borrowings of the B&B and NRAM Groups; the Group pays fees for these guarantees, as detailed in note 3.

Securitised assets represent loans to customers which have been used to securitise issued notes, including notes which are held by other companies in the UKAR Group, and cash balances. B&B and NRAM pass cash received in relation to the securitised assets to their SPVs. The SPVs use the cash to service the bonds, retain a margin specified under the terms of the issue and return any surplus cash to B&B and NRAM. To the extent that the total cash receipts in relation to the securitised assets are insufficient to satisfy interest and principal payments in relation to the bonds, the holders of the bonds have no recourse against the Group. Provided that the total cash receipts in relation to the securitised assets are sufficient to satisfy interest and principal payments in relation to the bonds, B&B/NRAM bear the cost of any impairment of the securitised assets. While the assets remain securitised the Group may not use, sell or pledge these assets.

As detailed in note 12, during the year NRAM sold £12bn of mortgages from the Granite securitisation structure. Following this sale, all of the remaining Granite notes in issue were redeemed, along with the majority of the Whinstone notes in issue. As detailed in note 35(c), the remaining securities issued by Whinstone Capital Management Limited have been redeemed since the Balance Sheet date.

In respect of Covered Bonds, B&B and NRAM pass to Bradford & Bingley Covered Bonds LLP and NRAM Covered Bond LLP all cash received in relation to the securitised assets. Bradford & Bingley Covered Bonds LLP and NRAM Covered Bond LLP use cash receipts to service the bonds and return any surplus cash to B&B/NRAM. B&B and NRAM bear the cost of any impairment of the securitised assets. While the assets remain securitised, the Group may not use, sell or pledge these assets.

As detailed in note 7, during the year all Covered Bonds issued by NRAM were repurchased.

Further details of debt securities in issue are provided in the Annual Reports and Accounts of B&B and NRAM, copies of which are available on the corporate website of each of these companies.

At 31 March 2016 the SPVs had cash deposits (including accrued interest) amounting to £1,227.5m, including collateral deposits of £551.1m (2015: £2,932.0m, including collateral deposits of £943.6m). These balances (excluding the collateral deposits) are restricted in use to the servicing of the debt securities issued by the SPVs and other legal obligations.

On 10 May 2012 a Non-Asset Trigger Event (as defined in the Offering Circular) occurred within B&B's Master Trust securitisation structure due to the aggregate current balance of loans comprising the Trust Property falling below the minimum trust size of £10.7bn. The impact of this event is to change the order of priority of the Funding 1 Available Principal Receipts. As a result of the Non-Asset Trigger Event, all principal receipts from customers are allocated to Funding 1 and will continue to be so allocated until all holders of Aire Valley residential mortgage-backed securities have been repaid in full if sufficient funds are ultimately available. The principal is then passed to the Issuers based on their respective notes outstanding. Each Issuer then utilises this principal to pay down notes pro-rata and sequentially by class. The timing of future redemptions will be dependent on the availability of funds.

Other debt securities in issue comprise notes issued under B&B's and NRAM's Medium Term Notes programmes.

23. Other liabilities

	At 31 Mar 2016 £m	At 31 Mar 2015 £m
Accruals and deferred income	**80.6**	69.5
Other	**229.2**	64.6
Total	**309.8**	134.1

24. Provisions

	Customer redress £m	Onerous contracts £m	Restructuring £m	Total £m
At 1 April 2015	**388.0**	**3.0**	**2.0**	**393.0**
Utilised in the year	**(43.2)**	**(1.2)**	**(28.7)**	**(73.1)**
Charged in the year	**89.3**	**-**	**73.4**	**162.7**
Released in the year	**(268.3)**	**-**	**-**	**(268.3)**
At 31 March 2016	**165.8**	**1.8**	**46.7**	**214.3**

	Customer redress £m	Onerous contracts £m	Restructuring £m	Total £m
At 1 April 2014	156.7	4.6	6.4	167.7
Utilised in the year	(66.8)	(1.6)	(4.4)	(72.8)
Charged in the year	298.1	-	-	298.1
At 31 March 2015	388.0	3.0	2.0	393.0

Although we aim for excellence in customer and debt management, we continue to deal with several legacy issues including PPI and we continue to do the right thing for our customers and redress where appropriate.

In July 2015 the Court of Appeal found in NRAM's favour that customers with loans greater than £25,000 should not receive remediation in line with Consumer Credit Act ('CCA') customers despite receiving the same incorrect documentation. As a result the £268.3m provision relating to this matter was released.

UKAR remains committed to doing the right thing for our customers and where we identify issues that have caused customer detriment, we will ensure that they are fully remediated. An additional provision of £89.3m has been recognised, of which £73.4m relates to an increase in PPI provisions following the publication of the FCA's consultation paper CP15/39 'Rules and guidance on payment protection insurance complaints' which proposes the setting of a deadline date for complaints in 2018 and provides guidance in relation to the Plevin case. The proposals include an FCA-led communications campaign to raise awareness of the deadline to prompt those who intend to complain to act ahead of the deadline. If the proposals are agreed we expect higher claims volumes in the run up to the implementation of time-barring than we had previously modelled.

All customer redress payments are expected to be processed during the year to 31 March 2017 except for PPI, the majority of which is expected to be processed by Spring 2018 to align with the expected deadline date in the FCA consultation paper.

The onerous contracts provision relates to empty leasehold premises which, as at the Balance Sheet date, were no longer used by the business but were subject to lease agreements. The rental payments are due to be made up to 2022.

The restructuring provision relates primarily to the ongoing organisational restructure. The transfer of our mortgage servicing operations to Computershare gives certainty on costs going forward and allows us to focus on the continuing wind down of UKAR's mortgage book and generation of taxpayer value. The expected total costs are £73.4m and include the cost of an internal transformation programme to separate the mortgage servicing capability from the asset management functions and the cost of transaction advisors. Further details are provided in note 35.

25. Capital instruments

	Initial interest rate	Issuer	31 March 2016 Carrying amount £m	31 March 2016 Principal £m	31 March 2015 Carrying amount £m	31 March 2015 Principal £m
Dated subordinated notes	7.625%	B&B	**5.1**	**5.0**	7.8	5.0
Subordinated loan	11.734%	NRAM	**4.1**	**4.0**	9.3	8.0
Total			**9.2**	**9.0**	17.1	13.0

These capital instruments are all denominated in sterling.

The carrying values of these instruments is measured on an amortised cost basis, as adjusted for hedge accounting adjustments.

As detailed in note 7, in 2014/15 the Group bought back certain of the capital instruments in issue.

The 7.625% dated subordinated notes have no call dates. Interest is payable annually in February. In February 2016 all accrued and unpaid interest was paid, the previous payment having been in February 2009.

Of the subordinated loans, £4.0m was repaid during the year and the remaining £4.0m is repayable in December 2016.

Redemptions of any capital instruments prior to their final maturity date are subject to obtaining prior consent of the FCA.

The rights of repayment of holders of capital instruments are subordinated to the claims of other creditors.

Further details of capital instruments are provided in the Annual Reports and Accounts of B&B and NRAM.

26. Share capital

Group and Company	**25p Ordinary shares Number**	**25p Preference shares Number**	**25p Ordinary shares £**	**25p Preference shares £**	**Total share capital £**
At 1 April 2014, 31 March 2015 and 31 March 2016	**4,955,595**	**4,000**	**1,238,899**	**1,000**	**1,239,899**

In accordance with the Companies Act 2006, the Company does not have authorised capital other than its issued capital.

The Ordinary shares rank equally in respect of rights attached to voting, dividends and in the event of a winding up.

Dividends on Preference shares are discretionary and, subject to Board approval, are payable annually on 4 July at a rate of 6.8509% based on a principal amount of £1,000 per share.

No dividends were declared or paid in 2015/16 or 2014/15 on the Company's Ordinary or Preference shares. No dividends had been proposed by the date of approval of these Financial Statements.

27. Reserves

Reserves comprise the following:

	31 Mar 2016 £m	31 Mar 2015 £m
Available-for-sale reserve	**4.3**	2.0
Cash flow hedge reserve	**3.0**	239.7
Merger reserve	**1,122.6**	1,122.6
Total	**1,129.9**	1,364.3

Available-for-sale reserve

	31 Mar 2016 £m	31 Mar 2015 £m
At start of year	**2.0**	(3.4)
Amounts recognised in equity	**6.5**	(5.3)
Amounts transferred to net income	**(4.2)**	10.7
At end of year	**4.3**	2.0

The available-for-sale reserve represents cumulative fair value movements on assets classified as available-for-sale.

Cash flow hedge reserve

	31 Mar 2016 £m	31 Mar 2015 £m
At start of year	**239.7**	194.0
Amounts recognised in equity	**(1,051.6)**	(1,003.4)
Amounts transferred to net income	**814.9**	1,049.1
At end of year	**3.0**	239.7

The cash flow hedge reserve represents cumulative fair value movements on financial instruments which are effective cash flow hedges.

Merger reserve

	31 Mar 2016 £m	31 Mar 2015 £m
At start and end of year	**1,122.6**	1,122.6
Generated on acquisition of B&B	**589.3**	589.3
Generated on acquisition of NRAM	**533.3**	533.3
Total	**1,122.6**	1,122.6

The merger reserve was generated on 1 October 2010 when the Company acquired all the issued shares of B&B and NRAM from the Treasury Solicitor via a share-for-share exchange. The merger reserve represents the difference between the value attributed to the Company's investment in each company and the capital and non-distributable reserves of the acquired groups.

28. Off-Balance Sheet commitments payable

At 31 March 2016	**Within one year £m**	**In one to five years £m**	**Over five years £m**	**Total £m**
Loan commitments:				
- lifetime mortgages	**0.6**	**1.9**	**2.8**	**5.3**
- other loans	**613.4**	**-**	**-**	**613.4**
Total loan commitments	**614.0**	**1.9**	**2.8**	**618.7**
Operating lease commitments:				
- land and buildings	**2.3**	**8.5**	**6.4**	**17.2**
Capital commitments	**0.8**	**-**	**-**	**0.8**
Total	**617.1**	**10.4**	**9.2**	**636.7**

At 31 March 2015	Within one year £m	In one to five years £m	Over five years £m	Total £m
Loan commitments:				
- lifetime mortgages	0.7	2.3	3.6	6.6
- other loans	1,423.8	-	-	1,423.8
Total loan commitments	1,424.5	2.3	3.6	1,430.4
Operating lease commitments:				
- land and buildings	2.3	8.6	13.0	23.9
Capital commitments	5.2	-	-	5.2
Total	1,432.0	10.9	16.6	1,459.5

Loan commitments represent contractual amounts to which the Group is committed for extension of credit to customers. In respect of lifetime mortgages, the commitment reflects estimates of future drawdowns. On other loans, the commitment comprises cash which could be drawn down by customers in respect of further advances and re-drawal of amounts voluntarily overpaid.

Operating lease commitments represent minimum future lease payments under non-cancellable operating leases.

Capital commitments represent contractual amounts to which the Group is committed in respect of IT infrastructure investment.

29. Related party disclosures

(a) Key management personnel

The Group considers the Boards of Directors and the members of the Executive Committees of UKAR, B&B and NRAM to be the key management personnel. There were no amounts owed to or by key management personnel at any time during the year (2015: £nil).

A summary of the Group's remuneration of the 15 (2015: 15) key management personnel is set out in the table below. These amounts include the remuneration of the Directors which is set out in more detail in the Directors' Remuneration Report on pages 31 to 46. The Directors' Remuneration Report gives details of the UKAR Group's Directors' salaries, fees, bonuses, pension benefits, other incentives and other benefits.

Remuneration of key management personnel	**12 months to 31 Mar 2016 £000**	12 months to 31 Mar 2015 £000
Short-term employee benefits	**4,202**	2,835
Post-employment benefits	**314**	299
Total	**4,516**	3,134

Further details of the accounting treatment of pensions and of the Group's transactions and balances with the Group's pension schemes are given in note 17. There were no amounts due to or from the schemes at 31 March 2016 (31 March 2015: £nil). The key management personnel contributed £45,000 (2015: £42,000) to Group pension schemes during the year.

29. Related party disclosures (continued)

(a) Key management personnel (continued)
Included in the Group's Income Statement, the aggregate Directors' emoluments and the emoluments of the highest paid Director amounted to £2,159,628 and £966,611 respectively (2015: £1,459,251 and £653,227 respectively). Included in these amounts are £nil (2015: £nil) which the Group paid into the Group's money purchase pension scheme. In addition, Directors paid £nil (2015: £nil) into this scheme. The Group did not make any loss of office payments to Directors in the year (2015: £nil).

(b) UK government
As described in note I to the Parent Company Financial Statements, the Company considers the UK government to be its ultimate controlling party. The Group's material balances with departments and bodies of the government comprise deposits with the Bank of England (see note 9), loans from HM Treasury (see note 21) and the Statutory Debt (see note 21). HM Treasury has also provided guarantee arrangements to the Group, for which the Group pays fees (see note 3). In addition to these loans and guarantees, the Group has balances and transactions with numerous government bodies on an arm's length basis in relation to the payment of corporation tax, VAT and employee taxes and the payment of regulatory fees and levies. The Group has balances and transactions with UKFI and with banks over which the UK government has significant influence; these were made in the ordinary course of business and are not unusual in their nature or conditions. In the year, the Group paid £1.2m (2015: £0.5m) relating to advisors to UKFI on UKAR's future strategy.

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

30. Capital structure

The UK financial regulator the FCA regulates B&B, NRAM (No.1) Limited and Mortgage Express under the MIPRU regime which applies to mortgage administration companies. Each of these companies manages its capital resources in order to meet the FCA's regulatory requirements. Capital adequacy is monitored on an ongoing basis by the Group's executive management and Board based on the regulations established by the FCA. Each of these companies met its capital requirements in full throughout 2015/16 and 2014/15; further information in respect of B&B and Mortgage Express is available in the Annual Reports and Accounts of those companies, which do not form part of these Financial Statements. As detailed in note 35(a), on 5 May 2016 the Group sold its shareholding in NRAM to Cerberus, and NRAM left the Group at that point. The Board considers core equity, formerly Tier 1 capital, to be of pre-eminent importance in the capital structure of the regulated companies and continues to monitor this closely in addition to the total level of capital. The Directors believe that each regulated Group company has an appropriate and adequate level of capital to support its activities, subject to the continuing support of HM Treasury. While FCA rules require the regulated companies within the Group to hold capital in excess of 1% of total Balance Sheet assets plus any undrawn commitments, the Board believes it appropriate that they should hold a higher level of capital and as at 31 March 2016, capital in B&B represented 9.4% of B&B assets and NRAM capital represented 33.2% of NRAM assets.

The primary objectives of the Group's capital management are to maintain capital resources to support the objectives of the business, to cover risks inherent in its activities and to ensure compliance with externally imposed capital requirements. The capital structure is managed in response to changes in the nature of the Group's activities and economic conditions.

The Group defines equity and certain other capital instruments as capital. Capital excludes accounting reserves for available-for-sale assets and cash flow hedges. The Group's capital adequacy and capital resources are managed and monitored in accordance with the regulatory capital rules of the FCA. The Group must at all times monitor and demonstrate compliance with the relevant regulatory capital requirements of the FCA. The required capital information is filed with the FCA on a quarterly basis.

The Company's capital is represented by the capital and reserves attributable to the equity holder. The Company is not subject to externally imposed capital requirements other than the minimum share capital required by the Companies Act, with which it complies. The Company manages its capital and reserves in order that there is sufficient capital to meet the needs of the Company in its operations.

31. Financial instruments

(a) Categories of financial assets and financial liabilities: carrying value compared to fair value

The following table summarises the carrying amounts and fair values of financial assets and liabilities. Assets are generally presented at bid prices, whereas offer prices are used for liabilities. The accounting policy note 1(g) sets out the key principles used for estimating the fair values of financial instruments. Note 31(e) provides some additional information in respect of the methodologies used.

At 31 March 2016	**Available-for-sale £m**	**Assets at fair value through profit or loss £m**	**Loans and receivables £m**	**Hedging adjustments £m**	**Total carrying value £m**	**Fair value £m**
Financial assets:						
Balances with the Bank of England	**-**	**-**	**3,807.2**	**-**	**3,807.2**	**3,807.2**
Cash at bank and in hand	**-**	**-**	**1,791.1**	**-**	**1,791.1**	**1,791.1**
Investment securities	**51.0**	**-**	**301.8**	**-**	**352.8**	**354.1**
Loans to customers	**-**	**-**	**35,532.6**	**-**	**35,532.6**	**32,563.0**
Fair value adjustments on portfolio hedging	**-**	**-**	**-**	**436.6**	**436.6**	**-**
Derivative financial instruments	**-**	**781.4**	**-**	**-**	**781.4**	**781.4**
Other financial assets	**-**	**-**	**22.8**	**-**	**22.8**	**22.8**
Total financial assets	**51.0**	**781.4**	**41,455.5**	**436.6**	**42,724.5**	**39,319.6**

	Liabilities at fair value through profit or loss £m	**Liabilities at amortised cost £m**	**Hedging adjustments £m**	**Total carrying value £m**	**Fair value £m**
Financial liabilities:					
Amounts due to banks	**-**	**553.9**	**-**	**553.9**	**553.9**
Statutory Debt and HM Treasury loans	**-**	**28,353.9**	**-**	**28,353.9**	**28,353.9**
Derivative financial instruments	**527.7**	**-**	**-**	**527.7**	**527.7**
Debt securities in issue	**-**	**5,150.0**	**9.2**	**5,159.2**	**5,104.3**
Capital instruments	**-**	**9.2**	**-**	**9.2**	**14.4**
Other financial liabilities	**-**	**182.6**	**-**	**182.6**	**182.6**
Total financial liabilities	**527.7**	**34,249.6**	**9.2**	**34,786.5**	**34,736.8**

At 31 March 2015	Available-for-sale £m	Assets at fair value through profit or loss £m	Loans and receivables £m	Hedging adjustments £m	Total carrying value £m	Fair value £m
Financial assets:						
Balances with the Bank of England	-	-	6,916.7	-	6,916.7	6,916.7
Cash at bank and in hand	-	-	2,266.4	-	2,266.4	2,266.4
Investment securities	158.1	-	364.6	-	522.7	571.9
Loans to customers	-	-	52,681.1	1.4	52,682.5	49,932.7
Fair value adjustments on portfolio hedging	-	-	-	467.7	467.7	-
Derivative financial instruments	-	2,962.7	-	-	2,962.7	2,962.7
Other financial assets	-	-	19.4	-	19.4	19.4
Total financial assets	158.1	2,962.7	62,248.2	469.1	65,838.1	62,669.8

	Liabilities at fair value through profit or loss £m	Liabilities at amortised cost £m	Hedging adjustments £m	Total carrying value £m	Fair value £m
Financial liabilities:					
Amounts due to banks	-	2,185.8	-	2,185.8	2,185.8
Statutory Debt and HM Treasury loans	-	34,619.4	-	34,619.4	34,619.4
Derivative financial instruments	570.0	-	-	570.0	570.0
Debt securities in issue	-	20,562.5	384.2	20,946.7	21,438.5
Capital instruments	-	16.0	1.1	17.1	22.3
Other financial liabilities	-	107.2	-	107.2	107.2
Total financial liabilities	570.0	57,490.9	385.3	58,446.2	58,943.2

31. Financial instruments (continued)

(a) Categories of financial assets and financial liabilities: carrying value compared to fair value (continued)

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

At 31 March 2016 assets carried by NRAM at amortised cost which were previously carried at fair value were carried at £335.5m (31 March 2015: £404.0m). The difference between the carrying value at the date of reclassification and the expected value at the redemption date is recognised in profit and loss on an effective interest rate basis over the expected lives of the assets; their carrying amounts will accrete up to their redemption amounts over their expected lives. The amount recognised in profit and loss during the year was a gain of £17.9m (2015: gain of £7.3m), which was exactly offset by losses transferred from the available-for-sale reserve during the year. If the assets had not been reclassified, it is estimated that fair value losses of £8.2m would have been reflected in the available-for-sale reserve during 2015/16 in respect of these assets (2014/15: gains of £25.5m). The expected redemption value of the remaining assets is £377.2m (2015: £481.5m). The fair value of these assets at 31 March 2016 was £316.4m (31 March 2015: £436.2m). As detailed in note 35(a) on 30 April 2016 NRAM transferred all of these assets to NRAM (No.1) Limited.

(b) Interest income and expense on financial instruments that are not at fair value through profit or loss

	12 months to 31 Mar 2016 £m	12 months to 31 Mar 2015 £m
Interest income	**1,645.8**	2,117.4
Interest expense	**(563.1)**	(902.9)
Net interest income	**1,082.7**	1,214.5

These amounts represent interest income and expense before hedging arrangements.

(c) Impaired financial assets

Allowance accounts for credit losses in respect of impairment of loans to customers are detailed in note 13 and in respect of investment securities in note 11. No impairment loss has been recognised in respect of any other class of financial asset and no other class of financial asset includes assets that are past due.

(d) Hedge accounting

Strategy in using derivative financial instruments

The Board has authorised the use of derivative instruments for the purpose of supporting the strategic and operational business activities of the Group and reducing the risk of loss arising from changes in interest rates and exchange rates. All use of derivative instruments within the Group is to hedge risk exposure and the Group takes no trading positions in derivatives.

The objective when using any derivative instrument is to ensure that the risk-to-reward profile of any transaction is optimised. The intention is only to use derivatives to create economically effective hedges. However, IAS 39 requires certain tests to be satisfied before hedge accounting is permitted. Consequently not all economic hedges are designated as accounting hedges, either because natural accounting offsets are expected, or because obtaining hedge accounting would be especially onerous.

31. Financial instruments (continued)

(d) Hedge accounting (continued)

(i) Fair value hedges

The Group designates a number of derivatives as fair value hedges. In particular, the Group has three approaches establishing relationships for:

- Hedging the interest rate and foreign currency exchange rate risk of non-prepayable, foreign currency denominated fixed rate assets or liabilities on a one-for-one basis with fixed/floating or floating/fixed cross currency interest rate swaps.
- Hedging the interest rate risk of a single currency portfolio of sterling, US Dollar or Euro non-prepayable fixed rate assets/liabilities on a one-for-one basis with vanilla fixed/floating or floating/fixed interest rate swaps.
- Hedging the interest rate risk of a portfolio of prepayable fixed rate assets with interest rate derivatives. This solution is used to establish a macro fair value hedge for derivatives hedging fixed rate mortgages. The Group believes this solution is consistent with its policy for hedging fixed rate mortgages on an economic basis.

(ii) Cash flow hedges

The Group designates a number of derivatives as cash flow hedges. In particular, the Group adopts the following approaches:

- Using fixed interest rate swaps to hedge floating rate sterling liabilities.
- To address the volatility generated by floating/floating cross currency swaps, they are placed into cash flow hedges; the accounting hedge relationship is to hedge the foreign currency exchange rate risk of the foreign currency denominated asset/liability.
- Fixed/floating cross currency swaps are split into their separate risk components and separately designated into cash flow hedges.
- Basis swaps are split into their separate risk components and separately designated into cash flow hedges.

(iii) Net investment hedges

The Group has not designated any derivatives as net investment hedges in 2015/16 or 2014/15.

The Group had the following types of hedges:

At 31 March 2016	**Fair value hedges £m**	**Cash flow hedges £m**	**Economic hedges £m**	**Total £m**	**Notional amounts £m**
Exchange rate contracts	**-**	**769.5**	**11.5**	**781.0**	**3,445.1**
Interest rate contracts	**-**	**-**	**0.4**	**0.4**	**4.0**
Total asset balances	**-**	**769.5**	**11.9**	**781.4**	
Exchange rate contracts	**-**	**-**	**10.6**	**10.6**	**338.1**
Interest rate contracts	**499.1**	**11.7**	**6.3**	**517.1**	**7,006.2**
Total liability balances	**499.1**	**11.7**	**16.9**	**527.7**	
Fair value of hedging instruments	**(499.1)**	**757.8**	**(5.0)**	**253.7**	

At 31 March 2015	Fair value hedges £m	Cash flow hedges £m	Economic hedges £m	Total £m	Notional amounts £m
Exchange rate contracts	7.1	2,883.7	70.6	2,961.4	16,232.6
Interest rate contracts	1.1	0.2	-	1.3	28.0
Total asset balances	8.2	2,883.9	70.6	2,962.7	
Exchange rate contracts	-	-	5.5	5.5	593.2
Interest rate contracts	498.9	47.6	18.0	564.5	19,634.5
Total liability balances	498.9	47.6	23.5	570.0	
Fair value of hedging instruments	(490.7)	2,836.3	47.1	2,392.7	

31. Financial instruments (continued)

(e) Fair value measurement

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

At 31 March 2016	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets:				
Investment securities - available-for-sale	**0.1**	**50.9**	**-**	**51.0**
Derivative financial instruments	**-**	**781.4**	**-**	**781.4**
Financial liabilities:				
Derivative financial instruments	**-**	**(527.7)**	**-**	**(527.7)**
Net financial assets	**0.1**	**304.6**	**-**	**304.7**

At 31 March 2015	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets:				
Investment securities - available-for-sale	31.8	126.3	-	158.1
Derivative financial instruments	-	2,962.7	-	2,962.7
Financial liabilities:				
Derivative financial instruments	-	(570.0)	-	(570.0)
Net financial assets	31.8	2,519.0	-	2,550.8

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability, whether directly (i.e. as price) or indirectly (i.e. derived from the implications of prices).

Level 3: Inputs for the asset or liability that are not based on observable market data, or have significant unobservable inputs.

There were no transfers between Levels 1, 2 and 3 during the year (2015: none).

Available-for-sale investment securities which are categorised as Level 1 are valued based on quoted market prices.

Available-for-sale investment securities which are categorised as Level 2 are those which are less frequently traded, hence trade prices cannot always be relied on as evidence of fair value. For such securities, fair value is estimated by the securities' lead managers, taking into account recent trades, similar assets adjusted for credit spreads and where applicable the underlying performance of assets backing the securities (so unobservable inputs are not considered significant). These prices are reviewed against quoted prices where available.

Derivative financial instruments which are categorised as Level 2 are those which either:

(a) Have future cash flows which are on known dates and for which the cash flow amounts are known or calculable by reference to observable interest and foreign currency exchange rates; or

(b) Have future cash flows which are not pre-defined but for which the fair value of the instrument has very low sensitivity to unobservable inputs.

In each case the fair value is calculated by discounting future cash flows using observable market parameters including swap rates, interest rates and currency rates.

31. Financial instruments (continued)

(e) Fair value measurement (continued)

For financial assets and liabilities which are not carried at fair value, the fair values disclosed in note 31(a) are calculated on the following bases:

At 31 March 2016	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets:				
Balances with the Bank of England	**3,807.2**	**-**	**-**	**3,807.2**
Cash at bank and in hand	**1,791.1**	**-**	**-**	**1,791.1**
Investment securities	**-**	**303.1**	**-**	**303.1**
Loans to customers	**-**	**-**	**32,563.0**	**32,563.0**
Other financial assets	**-**	**22.8**	**-**	**22.8**
	5,598.3	**325.9**	**32,563.0**	**38,487.2**
Financial liabilities:				
Amounts due to banks	**553.9**	**-**	**-**	**553.9**
Statutory Debt and HM Treasury loans	**28,353.9**	**-**	**-**	**28,353.9**
Debt securities in issue	**-**	**5,104.3**	**-**	**5,104.3**
Capital instruments	**-**	**14.4**	**-**	**14.4**
Other financial liabilities	**-**	**182.6**	**-**	**182.6**
	28,907.8	**5,301.3**	**-**	**34,209.1**

At 31 March 2015	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets:				
Balances with the Bank of England	6,916.7	-	-	6,916.7
Cash at bank and in hand	2,266.4	-	-	2,266.4
Investment securities	-	413.8	-	413.8
Loans to customers	-	-	49,932.7	49,932.7
Other financial assets	-	19.4	-	19.4
	9,183.1	433.2	49,932.7	59,549.0
Financial liabilities:				
Amounts due to banks	2,185.8	-	-	2,185.8
Statutory Debt and HM Treasury loans	34,619.4	-	-	34,619.4
Debt securities in issue	-	21,438.5	-	21,438.5
Capital instruments	-	22.3	-	22.3
Other financial liabilities	-	107.2	-	107.2
	36,805.2	21,568.0	-	58,373.2

Valuation methods for calculations of fair values in the table above are as follows:

Balances with the Bank of England

Fair value approximates to carrying value because they have minimal credit losses and are either short term in nature or reprice frequently.

Cash at bank and in hand

Fair value is estimated by using discounted cash flows applying either market rates where practicable or rates offered by other financial institutions for accounts with similar characteristics. The fair value of floating rate placements, fixed rate placements with less than six months to maturity and overnight deposits is estimated to be their carrying amount.

Investment securities

The fair values of investment securities held as loans and receivables are based on quoted prices or lead manager prices where available or by using discounted cash flows applying independently sourced market parameters including interest rates and currency rates. The fair value of unsecured investment loans is based on prices supplied by third parties.

Loans to customers

Loans to customers include loans of varying rates and maturities. Fair value is estimated by discounting expected future cash flows using market interest rates. Expected future cash flows take account of estimated future losses. Market interest rates are based on current lending activity in the mortgage market. In respect of the majority of the Group's fixed interest rate loans, the change in interest rates since inception means that their fair value can vary significantly from their carrying value, however, as the Group's policy is to hedge fixed rate loans in respect of interest rate risk, the Group has no material exposure to this difference in fair value.

31. Financial instruments (continued)

(e) Fair value measurement (continued)

Amounts due to banks
Fair values of deposit liabilities repayable on demand or with variable interest rates are considered to approximate to carrying value. The fair value of fixed interest deposits with less than six months to maturity is estimated to be their carrying amount. The fair value of all other deposit liabilities is estimated using discounted cash flows, applying independently sourced market parameters including interest rates and currency rates.

Statutory Debt and HM Treasury loans
The fair value is estimated to be the carrying amount as the interest rate charged varies in line with changes in market rates, and the loans are considered to be repayable on demand subject to timing of repayment of loans to customers.

Debt securities in issue and capital instruments
Fair values are based on quoted prices or lead manager prices where available, or by using discounted cash flows, applying independently sourced market parameters including interest rates and currency rates.

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

(f) Transferred financial assets

As set out in note 22, the Group has transferred financial assets (loans and receivables) to securitisation structures. The Group retains all of the risks and rewards associated with these loans and they are, therefore, retained on the Group's Balance Sheet.

The table below sets out the carrying values of the transferred assets and the associated liabilities. For securitisation structures, the associated liabilities represent the external notes in issue (see note 22). None of these notes have recourse to the transferred assets.

At 31 March 2016	**Transferred assets Carrying amount £m**	**Associated liabilities Carrying amount £m**
Loans to customers securitised	**15,946.0**	**4,879.4**

At 31 March 2015	Transferred assets Carrying amount £m	Associated liabilities Carrying amount £m
Loans to customers securitised	38,988.3	20,677.0

(g) Offsetting

No financial assets have been offset against financial liabilities. Balances which are subject to enforceable master netting arrangements or similar agreements are as follows:

At 31 March 2016	**Gross and net amounts, as reported on the Balance Sheet**	**Amounts available to be offset (but not offset on the Balance Sheet)**		**Net amounts after offsetting under IFRS 7**
		Master netting arrangements	**Financial collateral**	
	£m	**£m**	**£m**	**£m**
Derivative financial assets	**781.4**	**(4.3)**	**(539.1)**	**238.0**
Derivative financial liabilities	**(527.7)**	**4.3**	**519.6**	**(3.8)**
	253.7	**-**	**(19.5)**	**234.2**

At 31 March 2015	Gross and net amounts, as reported on the Balance Sheet	Amounts available to be offset (but not offset on the Balance Sheet)		Net amounts after offsetting under IFRS 7
		Master netting arrangements	Financial collateral	
	£m	£m	£m	£m
Derivative financial assets	2,962.7	(23.2)	(1,800.1)	1,139.4
Derivative financial liabilities	(570.0)	23.2	531.6	(15.2)
	2,392.7	-	(1,268.5)	1,124.2

32. Collateral pledged and received

	31 Mar 2016 £m	31 Mar 2015 £m
Cash collateral which the Group has provided in respect of derivative contracts	**520.9**	549.1
Total collateral pledged	**520.9**	549.1

	31 Mar 2016 £m	31 Mar 2015 £m
Cash collateral which the Group has received in respect of derivative contracts	**553.8**	2,185.8
Securities collateral held	**196.7**	147.2
Total collateral received	**750.5**	2,333.0

In addition to the collateral amounts shown above, certain loans to customers provide security in respect of securitised note and Covered Bond funding as detailed in note 22. These loans and also cash collateral pledged shown above are carried on the Balance Sheet. The liability to repay the cash collateral received is included within amounts due to banks in the Balance Sheet. In the absence of counterparty default, the Group has no right to sell or re-pledge the securities collateral received and therefore in accordance with the provisions of IAS 39 such securities are not recognised on the Balance Sheet.

33. Financial risk management

A description of the principal risks to which the Group is exposed is provided on pages 72 to 77 which form an integral part of the audited Financial Statements.

(a) Credit risk

Credit risk is the potential for financial loss caused by a party failing to meet an obligation as it becomes due. The Group considers its most significant credit risk to be the exposure to retail, commercial and wholesale counterparties failing to meet their obligations. As credit risk is the main risk to the Group, a credit risk framework has been established as part of the overall governance framework to measure, mitigate and manage credit risk within risk appetite. The Group closely monitors its credit risk against the Board's credit policies.

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

	31 Mar 2016 £m	31 Mar 2015 £m
On Balance Sheet:		
Balances with the Bank of England	**3,807.2**	6,916.7
Cash at bank and in hand	**1,791.1**	2,266.4
Investment securities	**352.8**	522.7
Loans to customers	**35,532.6**	52,682.5
Derivative financial instruments	**781.4**	2,962.7
Other financial assets	**22.8**	19.4
Total on Balance Sheet	**42,287.9**	65,370.4
Off Balance Sheet:		
Loan commitments (see note 28)	**618.7**	1,430.4

Loans to customers include loans which are secured on property. Additional information in respect of credit risk is provided in note 11 (for wholesale assets) and note 14 (for loans to customers).

The Board has approved a framework for maximum wholesale credit counterparty limits against which total wholesale credit exposures are continually monitored and controlled. The credit limit structure adopts a risk based matrix whereby lower rated counterparties are afforded lower overall levels of limit. Although publicly available ratings produced by rating agencies provide a useful guide to the creditworthiness of counterparties, an internal evaluation is also used in the limit assignment process. Counterparties are assigned maximum limits in accordance with the ratings matrix, based on the lowest rating afforded to any part of the counterparty group.

For derivative financial instruments the Group uses a range of approaches to mitigate credit risk, including internal control policies, obtaining collateral, using master netting agreements and other credit risk transfers. Derivative transactions with wholesale counterparties are typically collateralised, in the form of cash or highly liquid securities, under a Credit Support Annex in conjunction with the ISDA Master Agreement. All outstanding positions are held with wholesale counterparties with a minimum of a BBB+ credit rating.

33. Financial risk management (continued)

(a) Credit risk (continued)

Concentration risk

The Group has investments in a range of investment securities issued by government bodies and banks and in asset-backed securities, in both the UK and overseas. At 31 March 2016 the Group held no UK government securities, bank and supranational bonds as investment securities (31 March 2015: 6% of investment securities held). 53% (2015: 42%) of the asset-backed securities are backed by UK assets. Further details in respect of concentrations in the wholesale assets portfolio are given in note 11.

The Group operates primarily in the UK and adverse changes to the UK economy could impact all areas of the Group's business. Residential loans to customers are all secured on property in the UK. 57% (2015: 42%) of residential loans to customers are concentrated in the buy-to-let market; most of the remaining balances are secured on residential owner-occupied properties.

The residential loan book of £34.7bn (2015: £51.1bn) is geographically spread across the UK broadly in line with the country's housing stock. Consequently, there is a geographic concentration of mortgages secured on properties in London and the South-East representing 43% (2015: 41%) of the book.

Within the commercial mortgage portfolio there are 71 loans (2015: 89) totalling £0.4bn (2015: £0.5bn), with the largest 10 loans accounting for 88% (2015: 73%) of the portfolio. All of these loans are secured on commercial and housing association properties.

(b) Liquidity risk

The Group closely monitors its liquidity position against the Board's liquidity policy. Minimum and target liquidity levels are established through stress testing and cash flow forecasting, taking into consideration an assessment of any emerging and potentially extreme funding conditions.

The table below analyses the Group's financial assets and liabilities into relevant maturity groupings:

At 31 March 2016	On demand £m	Within three months £m	After three months but within six months £m	After six months but within one year £m	After one year but within five years £m	After five years £m	Total £m
Financial assets:							
Balances with the Bank of England	3,806.1	1.1	-	-	-	-	3,807.2
Cash at bank and in hand	1,745.6	45.5	-	-	-	-	1,791.1
Investment securities	11.8	0.7	21.0	0.2	7.6	311.5	352.8
Loans to customers	265.4	168.0	167.6	357.1	2,612.0	31,962.5	35,532.6
Fair value adjustments on portfolio hedging	-	0.8	0.8	1.6	6.0	427.4	436.6
Derivative financial instruments	-	339.1	-	1.0	-	441.3	781.4
Other financial assets	-	22.8	-	-	-	-	22.8
Total financial assets	5,828.9	578.0	189.4	359.9	2,625.6	33,142.7	42,724.5
Financial liabilities:							
Amounts due to banks	553.9	-	-	-	-	-	553.9
Statutory Debt and HM Treasury loans	28,332.3	21.6	-	-	-	-	28,353.9
Derivative financial instruments	-	1.3	8.2	2.7	8.3	507.2	527.7
Debt securities in issue	1.6	1,945.6	110.8	214.2	1,958.6	928.4	5,159.2
Capital instruments	-	0.1	-	4.1	-	5.0	9.2
Other financial liabilities	-	182.6	-	-	-	-	182.6
Total financial liabilities	28,887.8	2,151.2	119.0	221.0	1,966.9	1,440.6	34,786.5

33. Financial risk management (continued)

(b) Liquidity risk (continued)

At 31 March 2015	On demand £m	Within three months £m	After three months but within six months £m	After six months but within one year £m	After one year but within five years £m	After five years £m	Total £m
Financial assets:							
Balances with the Bank of England	6,914.3	2.4	-	-	-	-	6,916.7
Cash at bank and in hand	1,754.7	511.7	-	-	-	-	2,266.4
Investment securities	-	32.1	18.0	26.5	28.2	417.9	522.7
Loans to customers	322.3	119.6	135.6	412.2	3,371.8	48,321.0	52,682.5
Fair value adjustments on portfolio hedging	-	2.5	3.0	5.9	30.3	426.0	467.7
Derivative financial instruments	-	114.8	46.6	191.7	877.5	1,732.1	2,962.7
Other financial assets	-	19.4	-	-	-	-	19.4
Total financial assets	8,991.3	802.5	203.2	636.3	4,307.8	50,897.0	65,838.1
Financial liabilities:							
Amounts due to banks	2,185.8	-	-	-	-	-	2,185.8
Statutory Debt and HM Treasury loans	34,590.0	29.4	-	-	-	-	34,619.4
Derivative financial instruments	-	6.6	6.5	19.7	45.1	492.1	570.0
Debt securities in issue	2.5	1,906.3	820.6	1,346.6	12,836.5	4,034.2	20,946.7
Capital instruments	-	0.2	-	4.5	4.6	7.8	17.1
Other financial liabilities	-	107.2	-	-	-	-	107.2
Total financial liabilities	36,778.3	2,049.7	827.1	1,370.8	12,886.2	4,534.1	58,446.2

The maturity profiles in the above table do not reflect the sale of NRAM on 5 May 2016, as detailed in note 35(a).

HM Treasury has indicated that it expects the loans and the WCF provided to the Group by HM Treasury and the Statutory Debt due to the FSCS to be repaid out of the cash flows generated by the Group during its wind-down. It is not possible to specify the contractual maturity dates of the loans to the Group from HM Treasury and from the FSCS and therefore they have been included in the table above as though repayable on demand.

Debt securities in issue include notes which securitise loans to customers through SPVs. These notes are repaid on a pass-through basis. In the above table, maturities of such notes are based on the expected repayment of notes which, in turn, are derived from the expected redemption profiles of securitised loans.

In the above table, where derivatives have been taken out to hedge mortgage backed securitised notes, the timings of derivative payments are based on the expected repayment dates of the hedged notes.

Following the repurchase and cancellation during 2014/15 of the majority of the Group's capital instruments, the remaining notes in issue are £4.0m principal of NRAM notes which are payable in December 2016 and £5.0m principal of B&B notes which are not callable but are assumed in the above table to be redeemed on 31 December 2055; further details are provided in note 25.

Other assets and liabilities are included in the above table according to the earliest date that payment can be contractually demanded. It should be noted that many financial instruments are settled earlier than their contractual maturity date; in particular, many mortgage loans are repaid early, in full or in part.

Assets and liabilities with a remaining period to contractual maturity of within one year are classed as current and those with a remaining period of more than one year are classed as non-current. Non-financial assets and liabilities amount to £544.7m and £593.0m respectively (2015: £304.2m and £643.0m) of which £8.9m and £280.3m respectively are classed as current (2015: £8.6m and £113.5m) and £535.8m and £312.7m respectively are classed as non-current (2015: £295.6m and £529.5m).

33. Financial risk management (continued)

(b) Liquidity risk (continued)

Non-derivative cash flows

The table below analyses the Group's non-derivative cash flows payable into relevant periods. The assumptions used in the preparation of this table are consistent with those used in the maturity table on pages 142 to 143. The amounts disclosed are the contractual undiscounted cash outflows; these differ from Balance Sheet values due to the effects of discounting on certain Balance Sheet items and due to the inclusion of contractual future interest flows.

At 31 March 2016	**On demand £m**	**Within three months £m**	**After three months but within six months £m**	**After six months but within one year £m**	**After one year but within five years £m**	**After five years £m**	**Total £m**
Financial liabilities:							
Amounts due to banks	**553.9**	**-**	**-**	**-**	**-**	**-**	**553.9**
Statutory Debt and HM Treasury loans	**28,332.3**	**21.6**	**-**	**-**	**-**	**-**	**28,353.9**
Debt securities in issue	**-**	**1,901.4**	**116.4**	**238.9**	**2,068.5**	**1,066.8**	**5,392.0**
Capital instruments	**-**	**0.2**	**-**	**4.7**	**1.5**	**15.7**	**22.1**
Other financial liabilities	**-**	**182.6**	**-**	**-**	**-**	**-**	**182.6**
Loan commitments	**613.4**	**0.2**	**0.2**	**0.2**	**1.9**	**2.8**	**618.7**
Total	**29,499.6**	**2,106.0**	**116.6**	**243.8**	**2,071.9**	**1,085.3**	**35,123.2**

At 31 March 2015	On demand £m	Within three months £m	After three months but within six months £m	After six months but within one year £m	After one year but within five years £m	After five years £m	Total £m
Financial liabilities:							
Amounts due to banks	2,185.8	-	-	-	-	-	2,185.8
Statutory Debt and HM Treasury loans	34,590.0	29.4	-	-	-	-	34,619.4
Debt securities in issue	2.5	1,873.2	843.0	1,519.1	13,287.3	5,355.2	22,880.3
Capital instruments	-	0.2	0.2	4.3	4.3	18.0	27.0
Other financial liabilities	-	107.2	-	-	-	-	107.2
Loan commitments	1,423.8	0.2	0.2	0.3	2.3	3.6	1,430.4
Total	38,202.1	2,010.2	843.4	1,523.7	13,293.9	5,376.8	61,250.1

Derivative cash flows

The following table analyses cash outflows for the Group's derivative financial liabilities. The amounts are allocated into relevant periods using assumptions consistent with those used in the preparation of the maturity table on pages 142 to 143.

At 31 March 2016	**On demand £m**	**Within three months £m**	**After three months but within six months £m**	**After six months but within one year £m**	**After one year but within five years £m**	**After five years £m**	**Total £m**
Derivative financial liabilities to be settled on a net basis	**-**	**12.9**	**12.7**	**22.8**	**152.5**	**579.4**	**780.3**
Derivative financial liabilities to be settled on a gross basis:							
- outflows	**-**	**0.4**	**79.7**	**0.9**	**7.1**	**127.9**	**216.0**
- inflows	**-**	**(0.9)**	**(73.7)**	**(1.4)**	**(11.1)**	**(137.4)**	**(224.5)**
Total	**-**	**12.4**	**18.7**	**22.3**	**148.5**	**569.9**	**771.8**

At 31 March 2015	On demand £m	Within three months £m	After three months but within six months £m	After six months but within one year £m	After one year but within five years £m	After five years £m	Total £m
Derivative financial liabilities to be settled on a net basis	-	16.0	15.8	31.3	203.8	811.7	1,078.6
Derivative financial liabilities to be settled on a gross basis:							
- outflows	-	-	-	-	0.1	24.5	24.6
- inflows	-	-	-	(0.1)	(0.5)	(26.9)	(27.5)
Total	-	16.0	15.8	31.2	203.4	809.3	1,075.7

33. Financial risk management (continued)

(c) Market risk
The following table describes the significant activities that were undertaken by the Group prior to nationalisation and which currently give rise to financial or market risk, the potential consequences associated with such activities and the derivative instruments used by the Group to mitigate the risks arising.

Activity	Risk	Type of derivative instrument used
Legacy funding in sterling involving either fixed rate instruments or instruments with embedded options	Sensitivity to changes in interest rates	Interest rate swaps
Fixed and capped rate mortgages and legacy investments involving either fixed rate instruments or instruments with embedded options	Sensitivity to changes in interest rates	Interest rate swaps and options
Variable rate mortgage balances	Sensitivity to changes in interest rates	Interest rate swaps
Legacy investments and funding in foreign currencies	Sensitivity to changes in foreign currency exchange rates	Cross-currency interest rate swaps and foreign exchange contracts

Interest rate swaps:
The notional principal amounts of the outstanding interest rate swap contracts in Cash Flow Hedge Relationships ('CFHR') as at 31 March 2016 were £1.8bn (31 March 2015: £11.3bn).

Gains and losses recognised in the cash flow hedge reserve on interest rate swap contracts as at 31 March 2016 will be continually released to the Income Statement up until the maturity of the hedging instruments in 2022.

Cross currency swaps:
The notional principal amounts of the outstanding cross currency swaps in an eligible CFHR as at 31 March 2016 were £3.3bn (31 March 2015: £15.2bn).

The hedged transactions denominated in foreign currency are expected to mature at various intervals over the next 15 years. Gains and losses recognised in the cash flow hedge reserve on cross currency swap contracts as at 31 March 2016 will be released to the Income Statement during the periods in which the hedged transactions affect the Income Statement, the latest maturity of these transactions being in 2031.

The accounting policy for derivatives and hedge accounting is described in note 1 (i), and further details of hedge accounting are provided in note 31(d).

Interest rate risk
Interest rate risk typically arises from mismatches between the repricing dates of interest-bearing assets and liabilities on the Group's Balance Sheet, and from the investment profile of the Group's capital and reserves. The Finance & Investment Director is responsible for managing this exposure within the risk exposure limits set out in the Market Risk policy, as approved by the Board. This policy sets out the nature of the market risks that may be taken along with aggregate risk limits, and stipulates the procedures, instruments and controls to be used in managing market risk.

Market risk is the potential adverse change in income or net worth arising from movements in interest rates, exchange rates or other market prices. Effective identification and management of market risk is essential for maintaining stable net interest income.

The Group measures, monitors and controls the following interest rate risks and sensitivities:

- Mismatch risk
- Curve
- Prepayment risk
- Basis risk
- Reset risk

Exposures are reviewed as appropriate by senior management and the Board with a frequency between daily and monthly, related to the granularity of the position.

Interest rate risk exposure is predominantly managed through the use of interest rate derivatives, principally interest rate swaps. The Group also uses asset and liability positions to offset exposures naturally wherever possible to minimise the costs and risks of arranging transactions external to the Group.

33. Financial risk management (continued)

(c) Market risk (continued)

Interest rate risk (continued)

Interest rate sensitivities are reported to ALCO monthly and are calculated using a range of interest rate scenarios, including non-parallel shifts in the yield curve. The main metrics used by management are:

(i) the change in value of the Group's net worth due to a notional 2% parallel move in market and base rates.

	At 31 Mar 2016 £m	At 31 Mar 2015 £m
2% increase	**(29.1)**	18.3
2% decrease	**29.8**	(13.0)

(ii) the sensitivity of the Group's interest margin over 12 months to a notional 2% parallel move in market and base rates.

	At 31 Mar 2016 £m	At 31 Mar 2015 £m
2% increase	**516.3**	518.1
2% decrease	**(130.6)**	(125.5)

Foreign currency risk

The Group's policy is to hedge all material foreign currency exposures by use of naturally offsetting foreign currency assets and liabilities or by the use of derivatives. Consequently, at 31 March 2016 and 31 March 2015 the Group had no net material exposure to foreign exchange rate fluctuations or changes in foreign currency interest rates. The impact on the Group's profit and equity of reasonably possible changes in exchange rates compared to actual rates would not have been material at 31 March 2016 or 31 March 2015.

The table below summarises the Group's exposure to foreign currency exchange rate risk at the Balance Sheet date. Included in the table are the Group's financial instruments under the relevant currency headings. The amounts disclosed are the sterling equivalents of the notional amounts due on maturity, including interest accrued at the Balance Sheet date, less any impairment provisions.

At 31 March 2016	**€ £m**	**$ £m**	**Other £m**	**Total £m**
Financial assets:				
Cash at bank and in hand	**570.1**	**27.0**	**-**	**597.1**
Investment securities	**208.7**	**10.4**	**-**	**219.1**
Derivative financial instruments	**3,036.2**	**834.2**	**175.9**	**4,046.3**
Total financial assets	**3,815.0**	**871.6**	**175.9**	**4,862.5**
Financial liabilities:				
Amounts due to banks	**551.1**	**-**	**-**	**551.1**
Derivative financial instruments	**312.6**	**34.8**	**-**	**347.4**
Debt securities in issue	**2,949.6**	**839.4**	**175.9**	**3,964.9**
Total financial liabilities	**3,813.3**	**874.2**	**175.9**	**4,863.4**
Net currency gap	**1.7**	**(2.6)**	**-**	**(0.9)**

At 31 March 2015	€ £m	$ £m	Other £m	Total £m
Financial assets:				
Cash at bank and in hand	772.0	236.6	-	1,008.6
Investment securities	333.3	54.2	-	387.5
Derivative financial instruments	10,676.2	5,325.8	487.6	16,489.6
Total financial assets	11,781.5	5,616.6	487.6	17,885.7
Financial liabilities:				
Amounts due to banks	1,040.6	203.4	-	1,244.0
Derivative financial instruments	(313.1)	122.8	-	(190.3)
Debt securities in issue	11,055.0	5,289.2	487.6	16,831.8
Total financial liabilities	11,782.5	5,615.4	487.6	17,885.5
Net currency gap	(1.0)	1.2	-	(0.2)

34. Contingent liabilities

(a) On 20 January 2009 a solicitor's letter was received notifying B&B and certain present and former B&B directors of a potential claim by former individual shareholders who subscribed for additional shares in the £401m rights issue approved on 17 July 2008. These former shareholders claim to have suffered loss through having been induced to subscribe for shares in the rights issue by allegedly materially misleading and/or incomplete statements made in the associated prospectus dated 24 June 2008 as revised and supplemented by the supplementary prospectus dated 11 July 2008. Should such a claim result in proceedings which are pursued through the courts and which succeed, the defendant directors and/or B&B could be liable in damages to certain former shareholders in B&B who subscribed for shares in the rights issue. In May 2009 B&B together with its legal advisors responded to the allegations raised. Nothing further was heard until 23 January 2012 when correspondence was received from the solicitors representing the former shareholders, to which B&B together with its legal advisors responded. This correspondence contained no further allegations or details of the former shareholders' potential claim. It is not possible at this stage to determine the outcome or timing of any conclusion to this matter. No provision has been made in respect of these allegations.

(b) In October 2014 the Group sold a portfolio of standard mortgages for £2,478.7m. Under the terms of the sale, the Group provided certain warranties. Any claim under these warranties must be made by August 2016. The Group's maximum liability under these warranties is limited to £122.1m.

(c) As detailed in note 24, whilst the Court of Appeal provided clarity that loans greater than £25,000 were not covered under the Consumer Credit Act, there is a risk that individual customers could make claims against NRAM. This could result in costs to NRAM where such claims are upheld. It is not possible to provide any meaningful estimate or range of the possible cost.

(d) A 2014 decision of the Supreme Court in the Plevin case held that the non-disclosure of commissions on a single premium PPI policy made the relationship between the lender and the borrower unfair under section 140A of the Consumer Credit Act 1974. The FCA is formally consulting on its position and has issued a preliminary statement which indicates that if a firm failed to disclose commission which represents 50% or more of the premium, customers may have to be compensated. No additional compensation is required where customers have already had a complaint handled and upheld under the FCA's current PPI complaint handling rules. At this stage, it is not possible to estimate reliably any potential financial impact for the Group.

(e) The Group's lending and other consumer credit business is governed by consumer credit law and other regulations. Claims upheld in favour of customers in relation to potential breaches of these could result in costs to the Group. It is not possible to provide any meaningful estimate or range of the possible cost.

(f) On 29 April 2016, NRAM (No.1) Limited became the parent company of NRAM plc as part of an inter-company reorganisation. On 5 May 2016 NRAM (No.1) Limited completed the sale of its 100% shareholding in NRAM plc to Landmark Bidco Limited. From the date of the Option Agreement on 13 November 2015, NRAM (No.1) Limited provided certain warranties and indemnities to Cerberus in respect of the sale of the shares and certain loans sold with NRAM plc and from 5 May 2016 also became liable for the warranties and indemnities which had been provided by NRAM plc to Cerberus in respect of certain loans which were sold to Cerberus by NRAM plc on 7 December 2015. The Option Agreement sets various time limits for bringing claims under the warranties. For most of the warranties this time limit is 5 May 2018 or 5 May 2019, while for certain tax-related warranties the time limit is 5 May 2023.

(g) From the date of the contract with Computershare detailed in note 35(b), B&B provided certain warranties and indemnities to Computershare in respect of the transfer of the mortgage servicing business. The contract sets various time limits for bringing claims under the warranties and indemnities which vary depending upon the nature of such warranties and indemnities, with the majority being limited to 24 months from the date on which the outsourced servicing contract commences.

35. Events after the reporting period

(a) As detailed in note 12, on 13 November 2015 UKAR announced that NRAM had agreed to sell a £13bn asset portfolio to affiliates of Cerberus, which included £12bn of mortgages from the Granite securitisation structure plus a further £1bn of non-Granite assets. The sale of the Granite loans was recognised in December 2015 when the beneficial interest of those loans transferred to Cerberus. As detailed in note 34(f), the Group provided certain warranties and indemnities to Cerberus.

The second stage of this transaction completed in April and May 2016 as follows:

29 April – NRAM was acquired by NRAM (No.1) Limited in a share-for-share exchange. At this point HM Treasury committed to providing financing facilities and guarantee arrangements to NRAM (No.1) Limited and confirmed its intentions to continue to provide funding to NRAM (No.1) Limited until at least 1 January 2018.

30 April – NRAM declared a dividend of £3,787.4m to NRAM (No.1) Limited and paid the dividend in specie, using mortgage loans.

30 April – NRAM transferred certain assets and liabilities to NRAM (No.1) Limited. These assets and liabilities were those that were not to be included in the sale to Cerberus and included all of NRAM's investments in subsidiary undertakings, £9,947m of loans to customers, NRAM's 30 April balances in respect of certain bank accounts, investment securities, retirement benefit assets, HM Treasury loans, the EMTN debt securities in issue and derivative financial assets and liabilities. These balances were transferred at their carrying amounts and a net balance owed to NRAM by NRAM (No.1) Limited was left outstanding.

5 May – NRAM (No.1) Limited sold 100% of the shares of NRAM to Cerberus, generating a small accounting profit. At this point, HM Treasury ceased its funding and guarantees to NRAM. No assets and liabilities have been classified as 'held for sale' in the Group's 31 March 2016 Balance Sheet as at that date the balances were not available for immediate sale in their current condition, substantial further conditions being required to be satisfied in order to complete the sale.

(b) On 4 May 2016 the Group announced that it had signed a contract to transfer the Group's mortgage servicing operations and associated servicing assets of c. £43m, to Computershare. The agreement, which will see Computershare service the Group's mortgage assets and unsecured loans for a seven year period, will also involve around 1,700 colleagues transferring to Computershare. No assets were classified as 'held for sale' at 31 March 2016 as, at that date, the servicing operations remained fully integrated with the wider business of the Group and were not available for immediate sale. Under the terms of the contract, the Group provided certain warranties and indemnities to Computershare, as detailed in note 34(g).

(c) On 25 April 2016 the remaining debt securities issued by Whinstone Capital Management Limited were redeemed.

Independent Auditors' report to the Members of UK Asset Resolution Limited

Report on the Parent Company Financial Statements

Our opinion

In our opinion, UK Asset Resolution Limited's Parent Company Financial Statements (the 'Financial Statements'):

- give a true and fair view of the state of the Parent Company's affairs as at 31 March 2016 and of its cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The Financial Statements, included within the Annual Report and Accounts (the 'Annual Report'), comprise:

- the Company Balance Sheet as at 31 March 2016;
- the Company Statement of Changes in Equity for the year then ended;
- the accounting policies; and
- the notes to the Financial Statements, which include other explanatory information.

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

Other required reporting

Consistency of other information

Companies Act 2006 opinion

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements.

ISAs (UK & Ireland) reporting

The Directors have chosen to voluntarily comply with the UK Corporate Governance Code (the "Code") as if the Parent Company were a premium listed company. Under International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)') we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited Financial Statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Parent Company acquired in the course of performing our audit; or
- otherwise misleading.

We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received

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 Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Financial Statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

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

Other voluntary reporting

Opinion on additional disclosures

Directors' Remuneration Report

The Parent Company voluntarily prepares a Directors' Remuneration Report in accordance with the provisions of the Companies Act 2006. The Directors have requested that we audit the part of the Directors' Remuneration Report specified by the Companies Act 2006 to be audited as if the Parent Company were a quoted company.

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Matter on which we have agreed to report by exception

Directors' remuneration

The Parent Company voluntarily provides the disclosures relating to directors' remuneration required by the Listing Rules of the Financial Conduct Authority as if it were a premium listed company and the directors have requested that we review the elements of the report to shareholders by the Board on directors' remuneration specified for auditor review by the Listing Rules. We have nothing to report having performed our review.

Responsibilities for Financial Statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' and Accounting Officers Responsibilities set out on page 82, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Parent 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.

What an audit of Financial Statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Parent Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the Financial Statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the Financial Statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited Financial Statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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

Other matter

We have reported separately on the Group Financial Statements of UK Asset Resolution Limited for the year ended 31 March 2016.

Gary Shaw (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds

23 May 2016

COMPANY BALANCE SHEET

	Note	**31 March 2016 £m**	31 March 2015 £m
Assets			
Investments in Group undertakings	E	**2,634.1**	2,634.1
Other assets		**0.1**	0.1
Total assets		**2,634.2**	2,634.2
Equity			
Issued capital and reserves attributable to owners of the parent:			
- share capital	26	**1.2**	1.2
- merger reserve	F	**2,632.8**	2,632.8
- retained earnings		**0.2**	0.2
Total equity		**2,634.2**	2,634.2

The notes on pages 154 to 158 and note 26 on page 131 form an integral part of these Financial Statements.

The Financial Statements on pages 152 to 158 were approved by the Board of Directors on 23 May 2016 and signed on its behalf by:

Richard Banks
Chief Executive Officer

Ian Hares
Finance & Investment Director

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

COMPANY STATEMENT OF CHANGES IN EQUITY

For the 12 months to 31 March 2016	**Share capital £m**	**Merger reserve £m**	**Retained earnings £m**	**Total share capital and reserves £m**
At 1 April 2015	**1.2**	**2,632.8**	**0.2**	**2,634.2**
Profit for the financial year	**-**	**-**	**-**	**-**
At 31 March 2016	**1.2**	**2,632.8**	**0.2**	**2,634.2**

For the 12 months to 31 March 2015	Share capital £m	Merger reserve £m	Retained earnings £m	Total share capital and reserves £m
At 1 April 2014	1.2	2,632.8	0.1	2,634.1
Profit for the financial year	-	-	0.1	0.1
At 31 March 2015	1.2	2,632.8	0.2	2,634.2

COMPANY CASH FLOW STATEMENT

During the 12 month period ended 31 March 2016 and the comparative 12 month period ended 31 March 2015 the Company had no material cash flows or balances. Consequently no Cash Flow Statement has been presented.

The Company had no significant non-cash transactions during the current or previous year.

A. Principal accounting policies

The Company is a private limited company incorporated on 1 July 2010 and domiciled in the United Kingdom. The principal activity of the Company is to provide management services to its subsidiary undertakings. The Company applies the accounting policies of the UKAR Group, set out on pages 97 to 106, with the following additional item.

Investments in Group undertakings

In the Financial Statements of the UKAR Company, investments in Group undertakings are carried at cost less any impairment. UKAR's acquisition of the entire issued share capital of B&B and NRAM in a share-for-share exchange has been accounted for under 'predecessor accounting' and the cost of each of these investments has been deemed to be the net assets of the B&B company and the NRAM company at 30 June 2010. Investments are reviewed at each published Balance Sheet date for any indication of impairment. If there is indication of impairment of any investment, the carrying value of the investment is reviewed, and any impairment identified is charged immediately to the Company's Income Statement.

B. Critical judgements and accounting estimates

In preparing the Financial Statements, management have made the following critical judgement.

Investments in Group undertakings

The Directors consider the value of the Company's investments in subsidiary undertakings to be supported by their underlying assets.

C. Profit

The Company's profit after tax for the financial year was £22,000 (31 March 2015: £19,000). As permitted by s408 of the Companies Act 2006, the Company's individual Income Statement, Statement of Comprehensive Income and related notes have not been presented in these Financial Statements. The Company’s retained earnings at 31 March 2016 were £177,000 (2015: £155,000).

D. Taxation

The Company bears tax at the standard weighted average rate of UK corporation tax of 20.0% (2015: 21.0%) and has no deferred tax provided or unprovided.

E. Investments in Group undertakings

The investments in Group undertakings represent the Company's holdings of the entire issued share capital of B&B and NRAM, which were acquired in a share-for-share exchange on 1 October 2010 and also of UKARcs which was incorporated on 20 June 2013.

The Company's principal subsidiary undertakings at 31 March 2016 held directly or indirectly, all of which are wholly owned and are fully consolidated into the Group Financial Statements, are listed below. All operate in their country of incorporation.

	Nature of business	Country of incorporation	Class of shares held
Direct			
Bradford & Bingley plc	Mortgage administration	UK	Ordinary
NRAM plc	Mortgage administration	UK	Ordinary
Northern Rock (Asset Management) Limited	Non-trading	UK	Ordinary
NRAM (No.1) Limited	Mortgage administration	UK	Ordinary
UKAR Corporate Services Limited	Administration	UK	Ordinary
Indirect			
Mortgage Express	Mortgage administration	UK	Ordinary

As detailed in note 35(a), on 29 April 2016 NRAM was acquired by NRAM (No.1) Limited, and on 5 May 2016 NRAM was acquired from NRAM (No.1) Limited by Landmark Bidco Limited.

E. Investments in Group undertakings (continued)

The following companies are also fully consolidated into the Group Financial Statements; all operate in their country of incorporation. All are indirectly wholly-owned except where indicated.

	Nature of business	Country of incorporation	Class of shares held
Bradford & Bingley Homeloans Limited	Non-trading	UK	Ordinary
Bradford & Bingley Investments	Non-trading	UK	Ordinary
Bradford & Bingley Mortgage Management Limited	Non-trading	UK	Ordinary
Community Housing Initiatives Limited	Non-trading	UK	Ordinary*
F&NE (1990) Limited	Non-trading	UK	Ordinary*
F&NE Limited	Non-trading	UK	Ordinary*
FFM Limited	Non-trading	UK	Ordinary
Finance for Mortgages Limited	Non-trading	UK	Ordinary
Heron's Reach Developments Limited	Non-trading	UK	Ordinary
HSMS	Non-trading	UK	Ordinary
Leamington Mortgage Corporation Limited	Non-trading	UK	Ordinary
Mortgage Express (No. 2)	Non-trading	UK	Ordinary
Mortgage Express Holdings	Non-trading	UK	Ordinary
NRAM (No. 2) Limited	Non-trading	UK	Ordinary
NRAM Homes Limited	Non-trading	UK	Ordinary
Scotlife Homeloans (No. 2) Limited	Non-trading	UK	Ordinary
Silhouette Mortgages Limited	Non-trading	UK	Ordinary

** The Group owns 50% of the shares of these companies.*

The Directors consider the value of investments in Group undertakings to be supported by their underlying assets.

E. Investments in Group undertakings (continued)

SPVs

The following entities are SPVs established in connection with the Group's securitisation and secured funding programmes (see note 22). UKAR, B&B and NRAM have no contractual arrangement or intention to provide additional financial or other support to these SPVs. Although the Company has no direct or indirect ownership interest in these entities and no rights to vote or to receive dividends they are regarded as subsidiaries. This is because they are principally engaged in providing a source of long-term funding to the Group, which in substance has the rights to all benefits from the activities of the SPVs. They are, therefore, effectively controlled by the Group. B&B is a member of Bradford & Bingley Covered Bonds LLP and NRAM was a member of NRAM Covered Bond LLP until 30 April 2016.

	Nature of business	Country of incorporation and operation
Aire Valley Funding 1 Limited	Holder of interest in loans	UK
Aire Valley Funding 2 Limited	Non-trading	UK
Aire Valley Funding 3 plc	Dissolved	UK
Aire Valley Holdings Limited	Holding company	UK
Aire Valley Mortgages 2004-1 plc	Issue of securitised notes	UK
Aire Valley Mortgages 2005-1 plc	Issue of securitised notes	UK
Aire Valley Mortgages 2006-1 plc	Issue of securitised notes	UK
Aire Valley Mortgages 2007-1 plc	Issue of securitised notes	UK
Aire Valley Mortgages 2007-2 plc	Issue of securitised notes	UK
Aire Valley Mortgages 2008-1 plc	Issue of securitised notes	UK
Aire Valley PECOH Limited	Post-enforcement call option holder	UK
Aire Valley Trustee Limited	Mortgage trustee	Jersey
Aire Valley Warehousing 1 Limited	Liquidation	UK
Aire Valley Warehousing 2 Limited	Liquidation	UK
Aire Valley Warehousing 3 Limited	Liquidation	UK
Bradford & Bingley Covered Bonds LLP	Mortgage funding	UK
Designated Member No.1 Limited	Member of Bradford & Bingley Covered Bonds LLP	Jersey
Designated Member No.2 Limited	Member of Bradford & Bingley Covered Bonds LLP	UK
GPCH Limited	Post-enforcement call option holder	UK
Granite Finance Funding Limited	Holding company	Jersey
Granite Finance Funding 2 Limited	Holding company	UK
Granite Finance Holdings Limited	Holding company	UK
Granite Finance Trustees Limited	Mortgage trustee	Jersey
Granite Master Issuer plc	Issue of securitised notes	UK
Granite Mortgages 03-2 plc	Issue of securitised notes	UK
Granite Mortgages 03-3 plc	Issue of securitised notes	UK
Granite Mortgages 04-1 plc	Issue of securitised notes	UK
Granite Mortgages 04-2 plc	Issue of securitised notes	UK
Granite Mortgages 04-3 plc	Issue of securitised notes	UK
Ivybond Holdings Limited	Holding company	Jersey
Moore Investments Limited	Member of NRAM Covered Bond LLP	Jersey
NRAM Covered Bond LLP	Mortgage funding	UK
Whinstone Capital Management Limited	Issue of credit linked notes	Jersey
Whinstone 2 Capital Management Limited	Issue of credit linked notes	Jersey

E. Investments in Group undertakings (continued)

Summarised financial information for material SPVs

Set out below is summarised financial information for each material SPV:

	Debt securities in issue		Net assets		Profit after tax	
	At 31 March 2016 £m	At 31 March 2015 £m	**At 31 March 2016 £m**	At 31 March 2015 £m	**12 months to 31 March 2016 £m**	12 months to 31 March 2015 £m
Aire Valley Mortgages 2004-1 plc	**480.3**	511.5	**4.1**	3.2	**0.9**	0.3
Aire Valley Mortgages 2005-1 plc	**306.5**	330.4	**2.2**	1.3	**0.9**	0.5
Aire Valley Mortgages 2006-1 plc	**1,644.5**	1,783.5	**12.4**	13.8	**0.5**	(0.1)
Aire Valley Mortgages 2007-1 plc	**1,096.0**	1,118.1	**2.2**	2.8	**(0.6)**	(0.2)
Granite Mortgages 03-2 plc	**-**	230.5	**0.1**	0.4	**(0.3)**	(0.9)
Granite Mortgages 03-3 plc	**-**	204.3	**0.1**	0.2	**(0.1)**	(0.1)
Granite Mortgages 04-1 plc	**-**	334.4	**0.1**	0.4	**(0.3)**	(0.7)
Granite Mortgages 04-2 plc	**-**	251.5	**0.1**	(0.1)	**0.2**	(0.3)
Granite Mortgages 04-3 plc	**-**	414.8	**0.1**	0.2	**(0.1)**	(0.3)
Granite Master Issuer plc	**-**	8,097.1	**0.5**	(3.6)	**4.0**	14.5
Granite Finance Funding Limited	**-**	-	**0.2**	0.3	**(0.2)**	-
Granite Finance Funding 2 Limited	**-**	-	**-**	0.1	**(0.1)**	-
Whinstone Capital Management Limited	**78.9**	238.4	**0.2**	48.4	**(48.2)**	(1.3)
Whinstone 2 Capital Management Limited	**-**	174.5	**-**	49.0	**(49.0)**	3.3

F. Merger reserve

	£m
At 1 April 2014, 31 March 2015 and 31 March 2016	**2,632.8**

The merger reserve was generated on 1 October 2010 when the Company acquired all the issued shares of B&B and NRAM from the Treasury Solicitor via a share-for-share exchange. The merger reserve represents the difference between the value attributed to the Company's investment in each company and the nominal value of the share capital issued by the Company in exchange.

G. Related party disclosures

(a) Subsidiary companies

The Company had no material balances outstanding with subsidiary companies during the period.

The Company had transactions with its subsidiaries as follows:

	12 months to 31 March 2016 £000	12 months to 31 March 2015 £000
Management charges to subsidiary undertakings	**626**	537
Costs recharged by subsidiary undertakings	**599**	514

(b) Key management personnel

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

(c) Directors' emoluments

The aggregate UKAR Group emoluments of the Directors of the UKAR Company for the 12 months ended 31 March 2016 were £2,159,628 and of the highest paid Director £966,611 (12 months ended 31 March 2015: £1,459,251 and £653,227 respectively).

H. Financial risk management

The Company has no significant financial risks.

I. Ultimate controlling party

All shares in the Company are owned by the Treasury Solicitor as nominee for HM Treasury, and the Company considers the UK government to be its ultimate controlling party. The results of the UKAR Group are consolidated into those of HM Treasury as presented in HM Treasury's Annual Report and Accounts.

UK Asset Resolution Limited

Registered Office:
Croft Road
Crossflatts
Bingley
West Yorkshire
BD16 2UA

Registered in England and Wales under company number 07301961

www.ukar.co.uk