Registered Number: 01063539

UCB Home Loans Corporation Limited

Annual Report and Financial Statements for the year ended 31 March 2022

Annual report and financial statements for the year ended 31 March 2022

Contents

Directors and company information

Directors
C Rhodes
R Sinclair
G Smyth

Company secretary
NBS CoSec Limited

Independent auditor
Ernst & Young LLP
25 Churchill Place
London
E14 5EY

Registered office
Nationwide House
Pipers Way
Swindon
SN38 1NW

Registered number
01063539

Directors' report for the year ended 31 March 2022

The directors present their annual report and the audited financial statements for the year ended 31 March 2022.

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

Principal activities

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

The principal activity of the Company is residential mortgage lending.

The Company has ceased to offer lending to new customers but provides existing customers access to switcher products. The Company continues to focus on maximising value for the Group by servicing its existing mortgage book and customers.

Results and dividends

The profit after tax was £68 million (2021: £45million). No dividends were proposed, approved or paid during the year (2021: £nil).

Business review, future developments and relationships with stakeholders

The Company's business and future plans are reviewed in the Strategic report, which also includes an overview of the Company's risk management objectives and policies and its relationships with stakeholders.

Employees

The Company has no employees (2021: none).

Environment

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

Further details of the Group's activities can be found in the Climate-related Financial Disclosures report on Nationwide Building Society's website at **nationwide.co.uk**

Directors and directors' interests

The directors who held office during the period were:

S Bennison (resigned 4 July 2022)
C Rhodes
R Sinclair (appointed 2 June 2021)
G Smyth

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

Company secretary

NBS CoSec Limited.

Domicile

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

Going concern

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

The Company is fully funded by its parent undertaking, Nationwide Building Society. The Society has confirmed that it will continue to fund the Company's activities for the foreseeable future. The foreseeable future is considered for this purpose to be a period of not less than 12 months from the date of approval of the financial statements and it is therefore appropriate to continue to adopt the going concern basis in preparing these financial statements.

Statement of directors' responsibilities

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

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

Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing these financial statements, the directors are required to:

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

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

Independent auditor

The auditors, Ernst & Young LLP, have expressed their willingness to continue in office.

Statement of disclosure of information to auditor

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

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

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

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

C Rhodes
Director
14 July 2022

Business review

The Company recorded a profit before tax for the year of £82 million (2021: £55 million).

This increase in profit reflects a net credit impairment release of £31 million for the year (2021: charge of £5 million) driven by an improvement in the macroeconomic outlook as pandemic related restrictions ease, partially offset by a reduction in net interest income (£9 million) due to the continued decline in the mortgage book.

The retained earnings carried forward are £710 million (2021: £642 million).

Future developments

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

Whilst the economy continues to recover following the Covid-19 pandemic, there remain several headwinds with increasing living costs and rising interest rates impacting landlords' finances and the long term impact of the conflict in Ukraine on government policy, supply chains, trade and economic growth yet to emerge. Further details can be found in the Strategic report of the Group's Annual Report and Accounts.

Section 172(1) statement

This section of the Strategic report describes how the directors considered the matters set out in section 172(1) of the Companies Act 2006. It also forms the directors' statement required under section 414CZA of the Companies Act 2006. As the Company is part of a wider Group, where matters impact other entities amongst the Group and have a broader application, stakeholder engagement is led by the Society and as such this information has been disclosed in the Group's Annual Report and Accounts.

How and what does the Board of the Company do to engage with stakeholders?

Every decision made by the Board considers in detail the impact on the Company's key stakeholders to ensure that the success of the company is promoted over the long term for the benefit of the Group. The Company engages with certain stakeholders directly, such as mortgage brokers that distribute the Company's products, and its customers.

The Board receives the latest guidance on stakeholder interests and receives management information and regular performance updates from the business, as well as matters escalated to the Board. This oversight of stakeholder matters provides an opportunity for the Board to ensure that the Company is operating effectively, and that stakeholders' interests are fairly balanced. The Board performs an annual self-assessment of its effectiveness including its regard for stakeholder interests.

Taking account of our stakeholders

Maintaining high standards of business conduct

The Board endeavours to help mortgage customers as the impact of the Covid-19 pandemic and changes in the economy have been experienced. Whilst the payment deferral scheme has ceased, customers continue to be supported with deferrals already in operation. As the bank base rate has changed over the financial year, the Board monitored changes to products.

Impact on environment

Throughout the year the Board considered environmental, social and governance issues and reviewed its lending policy to ensure it remains aligned to the Group's sustainability agenda. The Company continues to support green initiatives in the mortgage sector in recognising the priorities of the UK Government. In addition, the Company will keep under review its proposition and processes to support landlords' adherence to future regulation.

Meeting customer needs

Product switcher options were continually reviewed and monitored, and customers were kept informed of the internal switch options to allow them to take advantage of lower rates available to them. A sample pool of customers was selected for interview to understand reasons for and against switching to better meet customer needs, and resulting actions were reviewed and documented.

Strategic goals

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

Risk overview

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

Risks are managed through an Enterprise Risk Management Framework (ERMF), which articulates the Group's approach to risk management. The structure is based on eight principal risk categories, establishing risk appetite, and implementing risk management through the three lines of defence model. The ERMF is underpinned by processes, policies and standards that are specific to individual risk categories, and focus on the responsibilities of key executives and risk practitioners. The outputs of the ERMF are governed through the Group's Risk Committee structure. Further details of the Group's risk management policies can be found in the Risk report of the Group's Annual Report and Accounts.

The Group's principal risks are:

- credit risk
- liquidity and funding risk
- market risk
- capital risk
- pension risk
- business risk
- operational and conduct risk
- model risk

Details of the principal risks that are most relevant to the Company are set out below. Formal statements of risk appetite define how much risk the Group's Board is willing to accept in the delivery of its strategy and inform the Board's strategy for managing risk.

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

Credit, liquidity and funding risk and market risk.

Details of credit, liquidity and funding and market risk are included in note 13.

Business risk

Business risk is the risk that achievable volumes decline or margins decline relative to the cost base, affecting the sustainability of the business and the ability to deliver the strategy due to macro-economic, geopolitical, industry, competitor, regulatory or other external events. The Group actively manages this risk so that it continues to provide value to, and meet the needs of, current and future customers, with a focus on long-term sustainability rather than short-term benefit. The Group ensures that it can generate sustainable profits by focusing on recurrent sources of income that provide value commensurate with risk appetite. The Group monitors this risk as part of ongoing business performance reporting to, and through regular discussions of business model risks by, senior management and the Board.

Operational and conduct risk

Operational and conduct risk is the risk of impacts resulting from inadequate or failed internal processes, conduct and compliance management, people and systems, or from external events. The Group manages the operation of proportionate controls embedded within processes to identify and prevent failures that could affect customers, colleagues or the Group.

Risk overview (continued)

Model risk

Model risk is the risk of an adverse outcome as a direct result of weaknesses or failures in the development, implementation or use of a model. A model is defined as 'a simplification of a business system using assumptions and mathematical concepts to help describe, predict or forecast'. There is an inherent risk associated with models because, by their very nature, they are imperfect and incomplete representations that rely on assumptions and theoretical methodologies, and use historic data which may not represent future outcomes.

Model errors can arise when models are implemented incorrectly or misused, for instance when applied to uses that they were not designed for, or where there is a failure to update key assumptions when required. Model errors and uncertainty are the primary sources of model risk which, if crystallised, could result in poor lending decisions, holding inappropriate levels of capital, liquidity or provisions or financial loss.

The Group manages model risk at an enterprise level through the Model Risk Framework and within a defined risk appetite set by the Board. Further details on the management of model risk can be found in the Risk report of the Group's Annual Report and Accounts.

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

C Rhodes
Director
14 July 2022

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

Report on the financial statements

Opinion

We have audited the financial statements of UCB Home Loans Corporation Limited for the year ended 31 March 2022 which comprise the Statement of comprehensive income, the Balance sheet, the Statement of changes in equity and the related notes 1 to 16, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 March 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

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

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the Strategic report and Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are the Companies Act 2006, license conditions and supervisory requirements under Financial Conduct Authority ("FCA") and direct tax regulation in the United Kingdom.
- We understood how the Company is complying with those frameworks by making enquiries of management, those charged with governance, and group functions whose scope covers the Company such as board committees, internal audit and those responsible for legal and compliance matters. We corroborated our enquiries through review of meeting minutes of Board, and Board Risk Committee and key correspondence received from regulatory bodies and noted that there was no contradictory evidence.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved journal entry testing, with a focus on journal entries meeting our defined risk criteria based on our understanding of the business; enquiries with those charged with governance, senior management, internal audit and inspection of Board minutes and key correspondence with the FCA.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the controls that the Company has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. We made enquiries of management and internal audit to supplement our assessment of how fraud might occur. We also considered performance and incentive plan targets and their potential to influence management to manage earnings or influence the perceptions of investors and stakeholders. Our procedures to address the risks identified also included incorporation of unpredictability into the nature, timing and/or extent of our testing, challenging assumptions and judgements made by management in their significant accounting estimates, and testing year end adjustments and other targeted journal entries.

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

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Javier Faiz (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

14 July 2022

UCB HOME LOANS CORPORATION LIMITED

Statement of comprehensive income for the year ended 31 March 2022

	Note	2022 £m	2021 £m
Interest receivable and similar income	3	**58.1**	69.8
Interest expense and similar charges	4	**(5.8)**	(8.8)
Net interest income		**52.3**	61.0
Fee and commission income	5	**0.2**	0.2
Total income		**52.5**	61.2
Administrative expenses	6	**(1.5)**	(1.4)
Impairment release/(charge) on loans and advances to customers	7	**31.4**	(4.8)
Provisions for liabilities and charges		**-**	0.1
Profit before tax		**82.4**	55.1
Taxation	8	**(14.2)**	(10.5)
Profit after tax, being total comprehensive income for the year		**68.2**	44.6

The notes on pages 14 to 36 form part of these financial statements.

Balance sheet as at 31 March 2022

	Note	2022 £m	2021 £m
Assets			
Non-current assets			
Loans and advances to customers	10	**945.0**	1,143.1
Deferred tax	8	**7.1**	6.6
Current assets			
Cash		**0.1**	4.8
Loans and advances to customers	10	**96.2**	90.5
Total assets		**1,048.4**	1,245.0
Liabilities			
Non-current liabilities			
Amounts owed to parent undertaking	11	**290.0**	557.5
Current liabilities			
Amounts owed to parent undertaking	11	**0.7**	0.2
Current tax liabilities		**2.6**	0.4
Total liabilities		**293.3**	558.1
Equity			
Share capital	12	**45.1**	45.1
Retained earnings		**710.0**	641.8
Total equity		**755.1**	686.9
Total equity and liabilities		**1,048.4**	1,245.0

The notes on pages 14 to 36 form part of these financial statements.

The financial statements on pages 11 to 36 were approved by the Board of directors on 14 July 2022 and signed on its behalf by

C Rhodes
Director
14 July 2022

UCB HOME LOANS CORPORATION LIMITED

Statement of changes in equity for the year ended 31 March 2022

2022	**Share capital £m**	**Retained earnings £m**	**Total equity £m**
At 1 April 2021	**45.1**	**641.8**	**686.9**
Profit after tax	**-**	**68.2**	**68.2**
Total comprehensive income	**-**	**68.2**	**68.2**
At 31 March 2022	**45.1**	**710.0**	**755.1**

2021	Share capital £m	Retained earnings £m	Total equity £m
At 1 April 2020	45.1	597.2	642.3
Profit after tax	-	44.6	44.6
Total comprehensive income	-	44.6	44.6
At 31 March 2021	45.1	641.8	686.9

The notes on pages 11 to 36 form part of these financial statements.

1 Statement of accounting policies

Basis of preparation

The financial statements have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006, and in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). The financial statements have been prepared under the historical cost convention. As stated in the Directors' report, the directors consider that it is appropriate to continue to adopt the going concern basis in preparing the financial statements. Accounting policies have been consistently applied in preparing these financial statements, except for changes arising from adoption of new and revised International Financial Reporting Standards (IFRS). The Company's financial statements are presented in sterling and all values are rounded to the nearest hundred thousand pounds (£0.1 million) except where otherwise indicated.

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

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

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

Adoption of new and revised standards

The International Accounting Standards Board (IASB) issued 'Covid-19-Related Rent Concessions beyond 30 June 2021 – Amendment to IFRS 16' effective for annual reporting periods beginning on or after 1 April 2021. The adoption of this amendment had no impact on the Company.

a) Interest receivable and interest expense

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

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

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

1 Statement of accounting policies (continued)

b) Fees and commissions

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

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

The transaction prices and provision of services are defined within the product terms and conditions.

c) Segmental reporting

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

d) Taxation including deferred tax

Current tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise. Current tax assets and liabilities are measured at the amount expected to be recovered from, or paid to, the taxation authorities. Accounting for taxation involves estimation and judgement in relation to situations in which applicable tax regulations are subject to interpretation. Management evaluates where uncertain taxation positions exist and recognise provisions where appropriate to reflect the best estimate of the probable outcome.

Deferred tax is provided in full on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences can be utilised. The tax effects of tax losses available for carry forward are recognised as a deferred tax asset when it is probable that future taxable profits will be available against which these losses can be utilised.

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

e) Provisions

A provision is recognised where there is a present obligation as a result of a past event, it is probable that the obligation will be settled, and it can be reliably estimated.

f) Financial assets

Financial assets comprise cash and loans and advances to customers.

Recognition and derecognition

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

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

1 Statement of accounting policies (continued)

f) Financial assets (continued)

Modification of contractual terms

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

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

Classification and measurement

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

Amortised cost

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

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

g) Impairment of financial assets

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

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

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

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

Forward-looking economic inputs

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

1 Statement of accounting policies (continued)

g) Impairment of financial assets (continued)

Credit risk categorisation

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

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

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

Stage 2: significant increase in credit risk

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

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

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

Stage 3: credit impaired (or defaulted) loans

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

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

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

Transfers between stages

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

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

Write-off

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

1 Statement of accounting policies (continued)

h) Financial liabilities

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

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

The amortisation is recognised in interest expense and similar charges using the effective interest rate method.

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

i) Fair value of assets and liabilities

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

Level 1 – Valuation using quoted market prices

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

Level 2 – Valuation technique using observable inputs

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

Level 3 – Valuation technique using significant unobservable inputs

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

j) Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only by the outcome of uncertain future events, and present obligations where the outflow of resources is uncertain or cannot be measured reliably. Contingent liabilities are not recognised on the balance sheet but are disclosed unless the likelihood of an outflow of economic resources is remote.

k) Share capital and dividends

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

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

2 Judgements in applying accounting policies and critical accounting estimates

The preparation of the Company's financial statements in accordance with FRS 101 involves management making judgements and estimates when applying those accounting policies that affect the reported amounts of assets, liabilities, income and expense. Actual results may differ from those on which management's estimates are based. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. For the year ended 31 March 2022, this evaluation has considered the ongoing impacts of Covid-19. In preparing the financial statements, management has also considered the impact of climate-related risks on its financial position and performance. While the effects of climate change represent a source of uncertainty, the Group does not consider there to be a material impact on its judgements and estimates from physical and transition risks of climate change in the short to medium term.

The key areas involving a higher degree of judgement or areas involving significant sources of estimation uncertainty made by management in applying the Company's accounting policies, which are deemed critical to the Company's results and financial position are disclosed in note 7, including any additional information relating to Covid-19 where relevant.

3 Interest receivable and similar income

Interest receivable and similar income of £58.1 million (2021: £69.8 million) relates to interest receivable on residential mortgages held at amortised cost and is calculated using the effective interest rate method.

4 Interest expense and similar charges

Interest expense and similar charges of £5.8 million (2021: £8.8 million) relates to interest payable on amounts owed to the parent undertaking.

5 Fees and commission income

Fee and commission income of £0.2 million (2021: £0.2 million) relates to mortgage-related fees.

6 Administrative expenses

	2022 £m	2021 £m
Recharge from parent undertaking	**1.4**	1.3
Other administrative expenses	**0.1**	0.1
Total	**1.5**	1.4

Auditor's remuneration, relating solely to the statutory audit of these financial statements, was £40 thousand (2021: £41 thousand).

The Company has no employees (2021: none). Administration of the Company's loans is carried out by staff who are employed by Nationwide Building Society.

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

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

Related party transactions may be entered into with directors in the normal course of business through the issuance of mortgage loans. Transactions with related parties are made on the same terms and conditions applicable to non-related parties. There were no loans to related parties as at 31 March 2022 (2021: £nil).

7 Impairment release/charge and provisions on loans and advances to customers

The following tables set out the impairment release/charge for the year and the closing provision balances which are deducted from the relevant asset values in the balance sheet:

	2022 £m	2021 £m
Impairment (release)/charge in the income statement	**(31.4)**	4.8
Impairment provisions in the balance sheet	**35.8**	68.1

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

Critical accounting estimates and judgements

Impairment is measured as the impact of credit risk on the present value of management's estimate of future cash flows. In determining the required level of impairment provisions, outputs from statistical models are used, and judgements incorporated to determine the probability of default (PD), the exposure at default (EAD), and the loss given default (LGD) for each loan. Provisions represent a probability weighted average of these calculations under multiple economic scenarios. Model outputs are adjusted with further judgements to reflect model limitations, or where insufficient data exists to fully reflect credit risks in the models.

The most significant areas of judgement are:

- the approach to identifying significant increases in credit risk
- the approach to identifying credit impaired loans.

The most significant areas of estimation uncertainty are:

- the use of forward-looking economic information using multiple economic scenarios
- the additional judgements made in adjustments to modelled expected credit losses (ECL) – these currently include the impact of Covid-19.

The Company has considered the potential impact of climate change on impairment provisions beyond their impact on economic assumptions and has concluded that an adjustment to modelled provisions is not currently appropriate.

Identifying significant increases in credit risk (stage 2)

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

- the residual lifetime PD exceeds a benchmark determined by reference to the maximum credit risk that would have been accepted at origination
- the residual lifetime PD is at least 75bps more than, and at least double, the original lifetime PD.

These complementary criteria have been reviewed through detailed back-testing, using management performance indicators and actual default experience, and found to be effective in capturing events which would constitute a significant increase in credit risk.

Identifying credit impaired loans (stage 3)

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

Use of forward-looking economic information

Management exercises judgement in estimating future economic conditions which are incorporated into provisions through modelling of multiple scenarios. The economic scenarios are reviewed and updated on a quarterly basis. The provision recognised is the probability-weighted sum of the provisions calculated under a range of economic scenarios. The scenarios and associated probability weights are derived using external data and statistical methodologies, together with management judgement. The Company continues to model four economic scenarios, which together encompass an appropriate range of potential economic outcomes, including the potential impacts of climate change. The base case scenario is aligned to the Company's financial planning process. The upside and downside scenarios are reasonably likely favourable and adverse alternatives to the base case, and the severe downside scenario is aligned with the Group's internal stress testing. The impact of applying multiple economic scenarios (MES) is an increase to provisions of £4.6 million (2021: £19.9 million), compared with provisions based on the base case economic scenario.

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

Critical accounting estimates and judgements (continued)

Probability weightings for each scenario are reviewed quarterly and updated to reflect economic conditions as they evolve. The changes in scenario weightings during the period primarily reflect the improvement in economic outlook during 2021. The downside scenario weighting decreased (and upside scenario weighting increased) as Covid-19 related risks reduced, but this trend was partially offset by increased risks associated with rising inflation and increased levels of economic uncertainty as a result of Russia's invasion of Ukraine. The probability weightings applied to the scenarios are shown in the table below:

Scenario probability weighting (%)	Upside scenario	Base case scenario (note i)	Downside scenario	Severe downside scenario
31 March 2022	**20**	**40**	**25**	**15**
31 March 2021	10	40	40	10

Note:
i. The base case scenario was previously referred to as the central scenario.

In the base case scenario at 31 March 2022, GDP recovers in line with the assumptions used in the base case scenario at 31 March 2021. The end of the government support schemes was previously expected to result in an increase in the unemployment rate; however, the resilience of the labour market to date has resulted in the forecast peak unemployment rate reducing to 4.2% (2021: 8.0%) in this scenario. For the same reason, a reduction to the peak unemployment rate has been made in each of the economic scenarios. House price growth in all scenarios has been driven by increased demand since the start of the pandemic, a limited supply of properties and also by policy support, including the stamp duty holiday. Base case scenario house price growth is more favourable than assumed at 31 March 2021 with reductions in house prices no longer expected, albeit with growth below long-term rates due to affordability pressures in the short term. The downside scenario assumes that house prices fall from autumn 2022, driven by deterioration in labour market conditions.

In the base case scenario at 31 March 2022, the bank base rate was forecast to increase to 1.25% by Q1 2023, reflecting tighter fiscal policy to mitigate inflation. Real incomes decline in each of the economic scenarios due to a rise in living costs, with inflation in the base case scenario expected to reach 7.5% during 2022; this increases to 10% in the downside scenario. The severe downside scenario reflects a severe long-lasting impact on the UK economy.

During the year, judgements made in estimating losses in the severe downside scenario have been incorporated into the provision models and an adjustment to model outputs is no longer required, with all risks in the scenario now reflected through modelled probability of default (2021: adjustment to provisions of £11.6 million). Further details on historical and forecast economic variables used to derive MES are provided in note 10 to the financial statements in the Group's Annual Report and Accounts.

To give an indication of the sensitivity of ECLs to different economic scenarios, the table below shows the ECL and stage 2 balance proportion if 100% weighting is applied to each scenario:

Sensitivity analysis impact of multiple economic scenarios	Upside scenario	Base case scenario	Downside scenario	Severe downside scenario	Reported provision
	£m	£m	£m	£m	£m
31 March 2022	**33.0**	**31.2**	**39.0**	**48.1**	**35.8**
31 March 2021	39.3	48.2	61.2	196.8	68.1

Proportion of balances in stage 2 (%)	Upside scenario	Base case scenario	Downside scenario	Severe downside scenario	Reported
	%	%	%	%	%
31 March 2022	**31.5**	**27.6**	**32.0**	**33.8**	**27.6**
31 March 2021 (note i)	38.0	36.0	39.4	45.6	36.0

Note:
i. The 2021 severe scenario stage 2 proportion reflects only the modelled output and not the additional ECL added on through judgement. During the year these judgements have been incorporated into the provision models.

The expected losses in the severe downside scenario have reduced over the period, primarily reflecting improvements in the economic assumptions in this scenario, particularly the house price increases over the past year and the projections for future unemployment rates.

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

Critical accounting estimates and judgements (continued)

The ECL for each scenario multiplied by the scenario probability will not reconcile to the overall provision. Whilst the stage allocation of loans varies in each individual scenario, each loan is allocated to a single stage in the overall provision calculation; this is based on a weighted average PD which takes into account the economic scenarios. A probability weighted 12-month or lifetime ECL (which takes into account the economic scenarios) is then calculated based on the stage allocation.

The table below shows the sensitivity at 31 March 2022 to some of the key assumptions used within the ECL calculation:

Sensitivity analysis impact of multiple economic scenarios	**Increase in provision £m**
Single-factor sensitivity to key economic variables (note i)	
10% decrease in house prices (HPI) at 31 March 2022 and throughout the forecast period (note ii)	**3.4**
Sensitivity to changes in scenario probability weightings	
10% increase in the probability of the downside scenario (reducing the upside by a corresponding 10%)	**0.6**
5% increase in the probability of the severe downside scenario (reducing the downside by a corresponding 5%)	**0.5**

Notes:
i. As these are single-factor sensitivities, they should not be extrapolated due to the likely non-linear effects.
ii. Base case scenario impact on LGD.

The table below shows the adjustments made to modelled provisions in relation to the significant areas of estimation uncertainty, with further details provided on the following pages.

Significant adjustments to modelled ECL	**2022 £m**	2021 £m
Impact on expected credit losses of Covid-19:		
Temporary improvement in credit performance	**0.6**	4.4
Payment deferrals	-	6.2
Level of future recoveries	-	3.7

Impact on expected credit losses of Covid-19 (including government furlough and other support initiatives)

Temporary improvement in credit performance

Since the start of the Covid-19 pandemic arrears balances have reduced, resulting in a reduction in modelled provisions. As at 31 March 2021, management judged this to be a temporary position due to the availability of government support and payment deferral schemes, and an adjustment was made to recognise the underlying risk, leading to provisions of £4.4 million being held.

During the year, a new methodology has been developed which models the extent to which the improvement in observed borrower credit quality since the start of the pandemic is judged to be temporary. This new adjustment replaces the earlier provisions, resulting in an adjustment to provisions of £0.6 million at 31 March 2022.

Payment deferrals

At 31 March 2021, an adjustment was made to reflect the impact of Covid-19 which is no longer judged to be required. A proportion of loans which were granted payment deferrals were judged to carry an increased risk. This adjustment increased provisions by £6.2 million. Since there is now at least twelve months credit performance data for these borrowers following the end of the payment deferrals, the adjustment is no longer required.

Level of future recoveries

At 31 March 2021, estimation uncertainty was disclosed for the level of recoveries expected on residential mortgages of £3.7 million. These judgements have now been incorporated into the governed credit risk models and therefore are not included in the list of adjustments to modelled provisions at the reporting date. The judgements and their impact were materially unchanged over the year.

8 Taxation

Tax charge in the statement of comprehensive income	2022 £m	2021 £m
Current tax:		
UK corporation tax charge	**14.7**	9.6
Total current tax	**14.7**	9.6
Deferred tax:		
Current year	**0.9**	0.9
Effect of deferred tax provided at different tax rates	**(1.4)**	-
Total deferred taxation	**(0.5)**	0.9
Tax charge	**14.2**	10.5

The actual tax charge differs from (2021: equates to) the theoretical amount that would arise using the standard rate of corporation tax in the UK as follows:

Reconciliation of tax charge	2022 £m	2021 £m
Profit before tax	**82.4**	55.1
Tax calculated at a rate of 19%	**15.6**	10.5
Effect of deferred tax provided at different tax rates	**(1.4)**	-
Tax charge	**14.2**	10.5

Deferred taxation

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

It was announced in the Budget on 3 March 2021 that the main rate of corporation tax of 19% would be increased to 25% with effect from 1 April 2023. This legislative change was enacted on 10 June 2021. The impact of the increase in the rate of corporation tax to 25% is an increase in the Company's deferred tax asset of £1.4m recognised in the income and expenditure account.

The movements on the deferred tax account are as follows:

Movements in deferred taxation	2022 £m	2021 £m
At 1 April	**6.6**	7.5
Deferred tax credit/(charge) in the statement of comprehensive income:		
Current year	**(0.9)**	(0.9)
Effect of deferred tax provided at different tax rates	**1.4**	-
At 31 March	**7.1**	6.6

Deferred tax assets are attributable to the following items:

Deferred tax assets	2022 £m	2021 £m
Transitional adjustments on adoption of IFRS 9	**7.1**	6.6
Total	**7.1**	6.6

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

The deferred tax (credit)/charge in the statement of comprehensive income account comprises the following temporary differences:

Deferred tax (credit)/charge in the statement of comprehensive income	2022 £m	2021 £m
Transitional adjustments on adoption of IFRS 9	**(0.5)**	0.9

9 Dividends

No dividends were proposed, approved or paid during the year (2021: £nil).

10 Loans and advances to customers

Residential mortgages comprise both specialist and prime loans. Specialist lending consists of buy to let mortgages and other legacy residential mortgages (including self-certified, near prime and sub-prime lending, all of which were discontinued in 2009). At 31 March 2022 the prime portfolio makes up 0.2% (2021: 0.2%) of gross balances.

Residential mortgages
2022

	Gross £m	Provisions £m	Total £m
Non-current assets	**977.4**	**(32.4)**	**945.0**
Current assets	**99.6**	**(3.4)**	**96.2**
Total	**1,077.0**	**(35.8)**	**1,041.2**

Residential mortgages
2021

	Gross £m	Provisions £m	Total £m
Non-current assets	1,206.2	(63.1)	1,143.1
Current assets	95.5	(5.0)	90.5
Total	1,301.7	(68.1)	1,233.6

The tables below summarise the movements in gross loans and advances to customers held at amortised cost, including the impact of ECL impairment provisions. The lines within the tables are an aggregation of monthly movements over the year.

Reconciliation of movements in gross balances and impairment provisions	**Non-credit impaired**				**Credit impaired**			
	Subject to 12 month ECL		**Subject to lifetime ECL**		**Subject to lifetime ECL**		**Total**	
	Stage 1		**Stage 2**		**Stage 3**			
	Gross balances £m	**Provisions £m**	**Gross balances £m**	**Provisions £m**	**Gross balances £m**	**Provisions £m**	**Gross balances £m**	**Provisions £m**
At 1 April 2021	692.7	9.5	468.7	42.1	140.3	16.5	1,301.7	68.1
Stage transfers:								
Transfers from stage 1 to stage 2	**(236.6)**	**(3.5)**	**236.6**	**3.5**	**-**	**-**	**-**	**-**
Transfers to stage 3	**(0.6)**	**-**	**(54.2)**	**(4.6)**	**54.8**	**4.6**	**-**	**-**
Transfers from stage 2 to stage 1	**258.2**	**13.2**	**(258.2)**	**(13.2)**	**-**	**-**	**-**	**-**
Transfer from stage 3	**11.2**	**0.6**	**37.6**	**3.4**	**(48.8)**	**(3.9)**	**-**	**0.1**
Net remeasurement of ECL arising from transfer of stage		**(10.5)**		**5.3**		**(0.9)**		**(6.1)**
Net movement arising from transfer of stage (note i)	**32.2**	**(0.2)**	**(38.2)**	**(5.6)**	**6.0**	**(0.2)**	**-**	**(6.0)**
New assets originated or purchased (note ii)	**0.4**	**-**	**-**	**-**	**-**	**-**	**0.4**	**-**
Net impact of further lending and repayments (note iii)	**(24.5)**	**(0.3)**	**(5.6)**	**(0.5)**	**(3.0)**	**0.3**	**(33.1)**	**(0.5)**
Changes in risk parameters in relation to credit quality (note iv)	**-**	**(6.6)**	**-**	**(15.7)**	**-**	**5.8**	**-**	**(16.5)**
Other items impacting comprehensive income (including recoveries)	**-**	**-**	**-**	**-**	**-**	**(1.6)**	**-**	**(1.6)**
Redemptions (note v)	**(93.9)**	**(1.1)**	**(66.0)**	**(3.8)**	**(28.4)**	**(1.9)**	**(188.3)**	**(6.8)**
Comprehensive income release for the year								**(31.4)**
Decrease due to write-offs	**-**	**-**	**-**	**-**	**(3.7)**	**(2.5)**	**(3.7)**	**(2.5)**
Other provision movements	**-**	**-**	**-**	**-**	**-**	**1.6**	**-**	**1.6**
At 31 March 2022	**606.9**	**1.3**	**358.9**	**16.5**	**111.2**	**18.0**	**1,077.0**	**35.8**
Net carrying amount		**605.6**		**342.4**		**93.2**		**1,041.2**

10 Loans and advances to customers (continued)

Reconciliation of movements in gross balances and impairment provisions	Non-credit impaired				Credit impaired			
	Subject to 12 month ECL		Subject to lifetime ECL		Subject to lifetime ECL		Total	
	Stage 1		Stage 2		Stage 3			
	Gross balances £m	Provisions £m	Gross balances £m	Provisions £m	Gross balances £m	Provisions £m	Gross balances £m	Provisions £m
At 1 April 2020 (note vi)	696.6	2.6	641.1	41.9	141.8	12.4	1,479.5	65.6
Stage transfers:								
Transfers from stage 1 to stage 2	(343.4)	(4.7)	343.4	4.7	-	-	-	-
Transfers to stage 3	(0.7)	-	(77.9)	(12.4)	78.6	12.4	-	-
Transfers from stage 2 to stage 1	444.0	10.7	(444.0)	(10.7)	-	-	-	-
Transfer from stage 3	2.1	0.1	55.1	2.7	(57.2)	(2.8)	-	-
Net remeasurement of ECL arising from transfer of stage		(5.5)		5.8		(7.2)		(6.9)
Net movement arising from transfer of stage (note i)	102.0	0.6	(123.4)	(9.9)	21.4	2.4	-	(6.9)
Net impact of further lending and repayments (note iii)	(21.3)	(0.1)	(2.0)	-	(2.5)	(0.1)	(25.8)	(0.2)
Changes in risk parameters in relation to credit quality (note iv)	-	7.2	-	12.8	-	5.7	-	25.7
Other items impacting comprehensive income (including recoveries)	-	-	-	-	-	(1.6)	-	(1.6)
Redemptions (note v)	(84.6)	(0.8)	(47.0)	(2.7)	(16.5)	-	(148.1)	(3.5)
Removal of year-end additional provision for Covid-19 (note vi)								(8.7)
Comprehensive income charge for the year								4.8
Decrease due to write-offs	-	-	-	-	(3.9)	(3.9)	(3.9)	(3.9)
Other provision movements	-	-	-	-	-	1.6	-	1.6
At 31 March 2021	692.7	9.5	468.7	42.1	140.3	16.5	1,301.7	68.1
Net carrying amount		683.2		426.6		123.8		1,233.6

Notes:

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

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

iii. This comprises further lending and capital repayments where the asset is not derecognised. The value for gross balances is calculated as the closing gross balance for the month less the opening gross balance for the month. The value for provisions is calculated as the change in exposure at default (EAD) multiplied by the opening provision coverage for the month.

iv. This comprises changes in risk parameters, and changes to modelling inputs and methodology. The provision movement for the change in risk parameters is calculated for assets that do not move stage in the month.

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

vi. At 31 March 2020, an additional provision for credit losses of £2,907 thousand was recognised to reflect the estimated impact of the Covid-19 pandemic on ECLs. At 31 March 2020, this additional provision was not allocated to underlying loans nor was it allocated to stages. The provision was allocated to underlying loans and is reflected in the movements within the table and the 31 March 2021 position.

Maturity analysis

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

	2022 £m	2021 £m
Repayable:		
In not more than three months	**59.0**	54.1
In more than three months but not more than one year	**40.6**	41.4
In more than one year but not more than five years	**213.4**	200.8
In more than five years	**764.0**	1,005.4
	1,077.0	1,301.7
Impairment provision (note 7)	**(35.8)**	(68.1)
Total	**1,041.2**	1,233.6

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

11 Amounts owed to parent undertaking

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

	2022 **£m**	2021 £m
In not more than three months	**-**	-
In more than three months but not more than one year	**0.7**	0.2
In more than one year but not more than five years	**290.0**	557.5
Total	**290.7**	557.7

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

12 Share capital

	2022 **£m**	2021 £m
Authorised:		
100,000,000 (2021: 100,000,000) ordinary shares of £1 each	**100.0**	100.0
Issued and fully paid:		
45,100,000 (2021: 45,100,000) ordinary shares of £1 each	**45.1**	45.1

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

13 Risk management

Credit risk

Credit risk is the risk of loss as a result of a customer or counterparty failing to meet their financial obligations. Credit risk encompasses:

- borrower/counterparty risk – the risk of loss arising from a borrower or counterparty failing to pay, or becoming increasingly likely not to pay, the interest or principal on a loan, or on a financial product, or for a service, on time;
- security/collateral risk – the risk of loss arising from deteriorating security/collateral quality;
- concentration risk – the risk of loss arising from insufficient diversification; and
- refinance risk – the risk of loss arising when a repayment of a loan or other financial product occurs later than originally anticipated.

Management of credit risk

The Company lends in a responsible, affordable and sustainable way to ensure borrowers and the financial strength of the Company are safeguarded throughout the credit cycle. The Company manages credit risk in accordance with the Group's approach to credit risk management, further details of which are included in the Risk report of the Group's Annual Report and Accounts.

13 Risk management (continued)

Maximum exposure to credit risk

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

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

Maximum exposure to credit risk 2022	**Gross balance**	**Less: Impairment provisions**	**Carrying value**	**Commitments**	**Maximum credit risk exposure**	**% of total credit risk exposure**
	£m	**£m**	**£m**	**£m**	**£m**	**%**
Cash	**0.1**	**-**	**0.1**	**-**	**0.1**	**-**
Loans and advances to customers	**1,077.0**	**(35.8)**	**1,041.2**	**8.8**	**1,050.0**	**100**
Total	**1,077.1**	**(35.8)**	**1,041.3**	**8.8**	**1,050.1**	**100**

Maximum exposure to credit risk 2021	Gross balance	Less: Impairment provisions	Carrying value	Commitments	Maximum credit risk exposure	% of total credit risk exposure
	£m	£m	£m	£m	£m	%
Cash	4.8	-	4.8	-	4.8	-
Loans and advances to customers	1,301.7	(68.1)	1,233.6	10.2	1,243.8	100
Total	1,306.5	(68.1)	1,238.4	10.2	1,248.6	100

Lending

Total lending of £1,077.0 million (2021: £1,301.7 million) comprises buy to let, prime and other smaller legacy residential mortgages (including self-certified, near prime and sub-prime lending, all of which were discontinued in 2009).

Staging analysis

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

Residential mortgages product and staging analysis		**2022**			2021	
	Gross balances	**Provisions**	**Provisions % of total balance**	Gross balances	Provisions	Provisions % of total balance
	£m	**£m**	**%**	£m	£m	%
Stage 1	**606.9**	**1.3**	**0.21**	692.7	9.5	1.37
Stage 2 total:	**358.9**	**16.5**	**4.61**	468.7	42.1	8.99
Up to date	**305.4**	**13.3**	**4.36**	402.2	36.7	9.12
1-30 DPD (note i)	**33.4**	**1.3**	**3.98**	36.9	3.1	8.35
>30 DPD (note i)	**20.1**	**1.9**	**9.31**	29.6	2.3	7.92
Stage 3	**111.2**	**18.0**	**16.19**	140.3	16.5	11.76
Total	**1,077.0**	**35.8**	**3.32**	1,301.7	68.1	5.23

Note:
i. Days past due (DPD), a measure of arrears status.

Stage 3 loans in the residential mortgage portfolio equate to 10% (2021: 11%) of the total residential mortgage exposure. Of the total £111.2 million (2021: £140.3 million) stage 3 loans, £70.2 million (2021: £90.1 million) is in respect of balances which are more than 90 days past due, with the remainder being impaired due to other indicators of unlikeness to pay such as distressed restructures or the bankruptcy of the borrower.

13 Risk management (continued)

Credit risk (continued)

Staging analysis (continued)

Reason for residential mortgages being included in stage 2 (note i)	**2022 Gross balances £m**	**2022 Provisions £m**	**2022 Provisions as a % of balance %**	2021 Gross balances £m	2021 Provisions £m	2021 Provisions as a % of balance %
Quantitative criteria:						
Payment status (greater than 30 DPD)	**20.1**	**1.9**	**9.31**	29.6	2.3	7.92
Increase in PD since origination (less than 30 DPD)	**110.8**	**4.8**	**4.32**	163.8	16.8	10.27
Qualitative criteria:						
Forbearance (less than 30 DPD)	**1.1**	**-**	**0.07**	0.7	-	0.79
Interest only – significant risk of inability to refinance at maturity (less than 30 DPD)	**225.2**	**9.8**	**4.34**	273.7	23.0	8.41
Other qualitative criteria	**1.7**	**-**	**0.76**	0.9	-	3.08
Total stage 2 gross balances	**358.9**	**16.5**	**4.61**	468.7	42.1	8.99

Note:
i. Where loans satisfy more than one of the criteria for determining a significant increase in credit risk, the corresponding gross balance has been assigned in the order in which the categories are presented above.

Further details on the quantitative and qualitative criteria that are used to determine whether there has been a significant increase in credit risk are included in the Credit risk section of the Risk report in the Group's Annual Report and Accounts.

Credit quality

The residential mortgages portfolio comprises many relatively small loans which are broadly homogenous, have low volatility of credit risk outcomes and are geographically diversified. The table below shows the loan balances and provisions for residential mortgages held at amortised cost, by PD range. The PD distributions shown are based on 12-month IFRS 9 PDs at the reporting date:

Loan balance and provisions by PD 2022

PD range	**Gross balances Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	**Provisions Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	**Provision coverage %**
0.00 to < 0.15%	**54.0**	**12.3**	**0.1**	**66.4**	**0.1**	**0.2**	**-**	**0.3**	**0.36**
0.15 to < 0.25%	**84.4**	**17.9**	**-**	**102.3**	**0.2**	**0.4**	**-**	**0.6**	**0.67**
0.25 to < 0.50%	**161.2**	**54.1**	**0.3**	**215.6**	**0.3**	**2.4**	**-**	**2.7**	**1.25**
0.50 to < 0.75%	**85.6**	**40.2**	**0.1**	**125.9**	**0.2**	**1.7**	**-**	**1.9**	**1.52**
0.75 to < 2.50%	**173.8**	**84.2**	**0.7**	**258.7**	**0.4**	**4.0**	**-**	**4.4**	**1.70**
2.50 to < 10.00%	**47.9**	**64.4**	**1.6**	**113.9**	**0.1**	**2.4**	**-**	**2.5**	**2.26**
10.00 to < 100%	**-**	**85.8**	**2.6**	**88.4**	**-**	**5.4**	**0.4**	**5.8**	**6.60**
100% (default)	**-**	**-**	**105.8**	**105.8**	**-**	**-**	**17.6**	**17.6**	**16.63**
Total	**606.9**	**358.9**	**111.2**	**1,077.0**	**1.3**	**16.5**	**18.0**	**35.8**	**3.32**

Loan balance and provisions by PD 2021

PD range	Gross balances Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Provisions Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Provision coverage %
0.00 to < 0.15%	107.3	30.6	-	137.9	1.4	1.8	-	3.2	2.33
0.15 to < 0.25%	118.9	40.5	-	159.4	1.6	3.5	-	5.1	3.13
0.25 to < 0.50%	203.0	82.8	0.2	286.0	2.8	7.7	-	10.5	3.66
0.50 to < 0.75%	92.0	45.6	0.3	137.9	1.3	4.2	-	5.5	4.01
0.75 to < 2.50%	143.9	79.5	1.5	224.9	2.0	7.6	0.1	9.7	4.32
2.50 to < 10.00%	27.6	52.2	4.4	84.2	0.4	4.2	0.1	4.7	5.64
10.00 to < 100%	-	137.5	12.1	149.6	-	13.1	1.1	14.2	9.54
100% (default)	-	-	121.8	121.8	-	-	15.2	15.2	12.46
Total	692.7	468.7	140.3	1,301.7	9.5	42.1	16.5	68.1	5.23

13 Risk management (continued)

Credit risk (continued)

Credit quality (continued)

Over the year, the PD distribution has remained stable, reflecting the high quality of the residential mortgage portfolios. At 31 March 2022, 71% (2021: 73%) of the portfolio had a PD of less than 2.5%.

LTV and credit risk concentration

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

The average LTV of loan stock is 53% (2021: 59%).

Geographical concentration by stage

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

Residential mortgage gross balances by LTV and region	Greater London	Central England	Northern England	South East England	South West England	Scotland	Wales & Northern Ireland	Total	Provision coverage (note i)
2022	£m	£m	£m	£m	£m	£m	£m	£m	%
Stage 1 and 2 loans									
Fully collateralised									
LTV ratio:									
Up to 50%	204.7	65.1	43.6	53.1	35.2	13.6	32.6	447.9	0.35
50% to 60%	18.3	80.6	44.3	19.6	28.9	9.2	23.0	223.9	1.15
60% to 70%	0.7	10.6	82.9	0.5	0.4	12.7	35.1	142.9	2.28
70% to 80%	0.2	0.4	25.1	0.1	0.3	6.9	31.4	64.4	3.55
80% to 90%	-	0.5	1.7	-	-	-	27.5	29.7	6.54
90% to 100%	-	0.7	1.1	-	-	-	21.4	23.2	8.01
	223.9	157.9	198.7	73.3	64.8	42.4	171.0	932.0	1.45
Not fully collateralised									
- Over 100% LTV	-	0.1	3.7	-	0.3	-	29.7	33.8	12.76
- Collateral value	-	0.1	3.0	-	0.3	-	27.5	30.9	
- Negative equity	-	-	0.7	-	-	-	2.2	2.9	
Total stage 1 and 2 loans	223.9	158.0	202.4	73.3	65.1	42.4	200.7	965.8	1.84
Stage 3 loans									
Fully collateralised									
LTV ratio:									
Up to 50%	21.9	5.1	4.1	5.0	3.3	2.2	2.8	44.4	2.75
50% to 60%	5.9	4.7	4.6	2.0	2.4	1.0	2.0	22.6	5.62
60% to 70%	0.6	2.7	8.3	2.1	1.2	1.9	4.8	21.6	15.81
70% to 80%	0.2	0.2	3.4	-	-	0.7	3.0	7.5	30.57
80% to 90%	-	0.2	1.7	-	-	0.7	2.1	4.7	56.04
90% to 100%	-	-	0.3	-	-	0.3	2.5	3.1	68.77
	28.6	12.9	22.4	9.1	6.9	6.8	17.2	103.9	12.49
Not fully collateralised									
- Over 100% LTV	-	0.1	0.7	-	0.1	0.1	6.3	7.3	68.17
- Collateral value	-	0.1	0.5	-	0.1	0.1	5.4	6.2	
- Negative equity	-	-	0.2	-	-	-	0.9	1.1	
Stage 3 loans	28.6	13.0	23.1	9.1	7.0	6.9	23.5	111.2	16.19
Total residential mortgages	252.5	171.0	225.5	82.4	72.1	49.3	224.2	1,077.0	3.32
Total geographical concentrations	23%	16%	21%	8%	7%	5%	20%	100%	

UCB HOME LOANS CORPORATION LIMITED

Notes to the financial statements for the year ended 31 March 2022 (continued)

13 Risk management (continued)

Credit risk (continued)

Geographical concentration by stage (continued)

Residential mortgage balances by LTV and region 2021	Greater London £m	Central England £m	Northern England £m	South East England £m	South West England £m	Scotland £m	Wales & Northern Ireland £m	Total £m	Provision coverage %
Stage 1 and 2 loans									
Fully collateralised									
LTV ratio:									
Up to 50%	203.5	52.5	38.9	41.8	27.3	12.0	29.9	405.9	1.72
50% to 60%	60.1	50.1	25.8	36.8	26.5	8.5	17.7	225.5	2.30
60% to 70%	0.6	86.3	64.7	10.5	23.3	10.4	30.4	226.2	3.46
70% to 80%	0.9	2.1	89.9	0.5	0.3	14.4	43.7	151.8	5.70
80% to 90%	-	0.5	17.3	0.1	0.4	6.4	31.7	56.4	9.12
90% to 100%	-	0.6	1.0	-	-	-	29.2	30.8	13.58
	265.1	192.1	237.6	89.7	77.8	51.7	182.6	1,096.6	3.46
Not fully collateralised									
- Over 100% LTV	-	1.0	5.9	-	0.2	-	57.7	64.8	20.99
- *Collateral value*	-	0.9	4.6	-	0.2	-	50.9	56.6	
- *Negative equity*	-	0.1	1.3	-	-	-	6.8	8.2	
Total stage 1 and 2 loans	265.1	193.1	243.5	89.7	78.0	51.7	240.3	1,161.4	4.44
Stage 3 loans									
Fully collateralised									
LTV ratio: Up to 50%	19.8	5.4	4.5	5.7	2.6	1.7	3.0	42.7	1.59
50% to 60%	10.9	3.8	2.3	2.4	2.9	1.7	1.8	25.8	2.43
60% to 70%	2.5	6.1	5.6	3.1	4.1	0.5	2.7	24.6	6.97
70% to 80%	-	2.0	10.1	0.8	0.8	2.8	3.7	20.2	17.31
80% to 90%	-	0.5	4.2	-	-	1.5	4.0	10.2	32.68
90% to 100%	-	0.1	1.6	-	-	0.5	2.1	4.3	44.31
	33.2	17.9	28.3	12.0	10.4	8.7	17.3	127.8	9.21
Not fully collateralised									
- Over 100% LTV	-	0.1	1.2	-	0.1	0.1	11.0	12.5	37.98
- *Collateral value*	-	0.1	0.9	-	0.1	0.1	9.2	10.4	
- *Negative equity*	-	-	0.3	-	-	-	1.8	2.1	
Stage 3 loans	33.2	18.0	29.5	12.0	10.5	8.8	28.3	140.3	11.76
Total residential mortgages	298.3	211.1	273.0	101.7	88.5	60.5	268.6	1,301.7	5.23
Total geographical concentrations	23%	16%	21%	8%	7%	5%	20%	100%	

Over the year, the geographical distribution of residential mortgages across the UK has remained stable, with the highest concentration continuing to be in Greater London, at 23% of the total (2021: 23%).

13 Risk management (continued)

Credit risk (continued)

Arrears

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

The number of cases more than 3 months in arrears as a % of the total book is 4.11% (2021: 4.71%). The number of cases more than 3 months in arrears has remained broadly stable however the % has increased due to the reduction in the total book volume.

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

Residential mortgage by payment status

The following table shows the payment status of residential mortgages:

Residential mortgages gross balances by payment status	2022		2021	
	£m	%	£m	%
Not past due	**942.4**	**87.5**	1,129.4	86.8
Past due 0 to 1 month	**39.9**	**3.7**	48.2	3.7
Past due 1 to 3 months	**23.7**	**2.2**	34.2	2.6
Past due 3 to 6 months	**16.4**	**1.5**	25.9	2.0
Past due 6 to 12 months	**15.7**	**1.5**	26.0	2.0
Past due over 12 months	**33.2**	**3.1**	35.4	2.7
Possessions	**5.7**	**0.5**	2.6	0.2
Total residential mortgages	**1,077.0**	**100.0**	1,301.7	100.0

The balance of cases past due by more than 3 months has reduced to £71.0 million (2021: £89.9 million).

Interest only mortgages

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

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

Interest only mortgages (gross balances) - term to maturity	Term Expired (still open)	Due within one year	Due after one year and before two years	Due after two years and before five years	Due after more than five years	Total	% of total book
	£m	£m	£m	£m	£m	£m	%
2022	**50.5**	**47.6**	**31.6**	**166.7**	**639.6**	**936.0**	**87**
2021	43.2	50.6	60.3	126.9	849.9	1,130.9	87

There is a risk that a proportion of interest only mortgages will not be redeemed at their contractual maturity date, because a borrower does not have a means of capital repayment or has been unable to refinance the loan. Interest only loans which are judged to have a significantly increased risk of inability to refinance at maturity are transferred to stage 2. The ability of a borrower to refinance is calculated using current lending criteria which considers LTV and affordability assessments. The impact of recognising the risk of inability to refinance or repay at maturity is to increase provisions by £11.7 million (2021: £23.4 million).

13 Risk management (continued)

Credit risk (continued)

Forbearance

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

The table below provides details of residential mortgages held at amortised cost subject to forbearance. Accounts that are currently subject to concession are assessed as in either stage 2 or stage 3. Accounts are transferred back to stage 1 or 2 only after being up to date and meeting contractual obligations for a period of 12 months:

Gross balances subject to forbearance (note i)	2022 £m	2021 £m
Past term interest only (note ii)	**40.6**	39.0
Interest only concessions	**11.0**	14.1
Capitalisation	**4.6**	5.1
Term extensions (within term)	**2.1**	6.2
Permanent interest only conversions	**25.9**	31.9
Total forbearance	**84.2**	96.3
Of which stage 2	**14.4**	14.7
Of which stage 3	**61.8**	74.3
Impairment provision on forborne loans	**10.6**	9.6

Notes:
i. Where more than one concession event has occurred, balances are reported under the latest event.
ii. Includes interest only mortgages where a customer is unable to renegotiate the facility within six months of maturity and no legal enforcement is pursued. Should a concession event such as a term extension occur within the six-month period, this will also be classed as forbearance.

13 Risk management (continued)

Liquidity and funding risk

Liquidity risk is the risk that the Company is unable to meet its liabilities as they fall due and maintain stakeholder confidence. Funding risk is the risk that the Company is unable to maintain its funding sources.

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

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

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

Residual maturity of financial assets and liabilities

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

Residual maturity	**Due less than one month (note i)**	**Due between one and three months**	**Due between three and twelve months**	**Due between one and five years**	**Due after more than five years**	**Total**
2022	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Financial assets						
Cash	**0.1**	**-**	**-**	**-**	**-**	**0.1**
Loans and advances to customers	**51.8**	**5.2**	**39.2**	**206.3**	**738.7**	**1,041.2**
Total financial assets	**51.9**	**5.2**	**39.2**	**206.3**	**738.7**	**1,041.3**
Financial liabilities						
Amounts owed to parent undertaking	**-**	**-**	**0.7**	**290.0**	**-**	**290.7**
Total financial liabilities	**-**	**-**	**0.7**	**290.0**	**-**	**290.7**
Off balance sheet commitments (note ii)	**8.8**	**-**	**-**	**-**	**-**	**8.8**
Net liquidity difference	**43.1**	**5.2**	**38.5**	**(83.7)**	**738.7**	**741.8**

13 Risk management (continued)

Liquidity and funding risk (continued)

Residual maturity of financial assets and liabilities (continued)

Residual maturity	Due less than one month (note i)	Due between one and three months	Due between three and twelve months	Due between one and five years	Due after more than five years	Total
2021	£m	£m	£m	£m	£m	£m
Financial assets						
Cash	4.8	-	-	-	-	4.8
Loans and advances to customers	44.6	6.6	39.3	190.3	952.8	1,233.6
Total financial assets	49.4	6.6	39.3	190.3	952.8	1,238.4
Financial liabilities						
Amounts owed to parent undertaking	-	-	0.2	557.5	-	557.7
Total financial liabilities	-	-	0.2	557.5	-	557.7
Off balance sheet commitments (note ii)	10.2	-	-	-	-	10.2
Net liquidity difference	39.2	6.6	39.1	(367.2)	952.8	670.5

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

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

13 Risk management (continued)

Financial liabilities – gross undiscounted contractual cash flows

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

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

Gross contractual cash flows	**Due less than one month (note i)**	**Due between one and three months**	**Due between three and twelve months**	**Due between one and five years**	**Total**
2022	**£m**	**£m**	**£m**	**£m**	**£m**
Amounts owed to parent undertaking	**0.4**	**0.8**	**4.3**	**300.0**	**305.5**
Gross contractual cash flows	**0.4**	**0.8**	**4.3**	**300.0**	**305.5**
Off balance sheet commitments (note ii)	**8.8**	**-**	**-**	**-**	**8.8**

Gross contractual cash flows	Due less than one month (note i)	Due between one and three months	Due between three and twelve months	Due between one and five years	Total
2021	£m	£m	£m	£m	£m
Amounts owed to parent undertaking	0.7	1.2	6.8	579.2	587.9
Gross contractual cash flows	0.7	1.2	6.8	579.2	587.9
Off balance sheet commitments (note ii)	10.2	-	-	-	10.2

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

Market risk

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

Interest rate risk

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

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

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

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

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

Fair value of financial assets and liabilities measured at amortised cost	**Carrying value**	**Fair value based on Level 3**	**Total fair value**
2022	**£m**	**£m**	**£m**
Financial assets			
Loans and advances to customers	**1,041.2**	**1,045.9**	**1,045.9**
Financial liabilities			
Amounts owed to parent undertaking	**290.7**	**290.7**	**290.7**

	Carrying value	Fair value based on Level 3	Total fair value
2021	£m	£m	£m
Financial assets			
Loans and advances to customers	1,233.6	1,241.1	1,241.1
Financial liabilities			
Amounts owed to parent undertaking	557.7	557.7	557.7

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

Loans and advances to customers

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

Amounts owed to parent undertaking

The estimated fair value of amounts owed to the parent undertaking approximates carrying value as the rate resets biannually based on current market conditions.

15 Capital management

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

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

16 Parent undertaking and ultimate controlling entity

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

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

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