Mortgage Express

Annual Report and Financial Statements

for the 12 months to 31 March 2020

Registered Number 02405490

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Mortgage Express

Annual Report and Financial Statements for the 12 months to 31 March 2020

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Strategic Report

The Directors present their Annual Report and Financial Statements for the year to 31 March 2020. Mortgage Express ('the Company') is an unlimited liability company incorporated and domiciled in the United Kingdom. The Company's immediate parent undertaking is Bradford & Bingley plc ('B&B').

Principal activities
The Company operates as an asset manager holding mortgage loans secured on residential properties and other financial assets. No new lending is carried out.

On 1 October 2010 UK Asset Resolution Limited ('UKAR') was established as the holding company for B&B and NRAM plc, bringing together the two brands under shared management and a common Board of Directors.

After the transfer into public ownership by the Bradford & Bingley plc Transfer of Securities & Property etc. Order 2008, the B&B Group closed its doors to new mortgage applications in 2008 and committed to lend only where a formal mortgage offer or further advance arrangement had already contractually been made. The Company ceased to increase loans to existing customers except in specific circumstances where doing so supported the strategic priorities of running down the Balance Sheet or minimising impairments and losses.

UKAR's overarching objective is to develop and execute an investment strategy for disposing of its underlying investments in NRAM and B&B in an orderly and active way through sale, redemption, buy-back or other means within the context of protecting and creating value for the taxpayer as shareholder and, where applicable, as provider of financial support, paying due regard to the maintenance of financial stability and to acting in a way that promotes competition.

The UKAR Group's mission to maximise value for the taxpayer is supported by four strategic objectives which are underpinned by the need to treat all stakeholders fairly:

- To reduce and protect the Balance Sheet;
- To challenge and maximise cost-effectiveness and efficiency;
- To work with our partners to ensure continued excellence in customer service and debt management; and
- To be a great place to work.

Review of the business
The results for the year are shown in the Income Statement on page 10. The profit before tax for the 12 months to 31 March 2020 was £7,830,000 (2019: £278,282,000 profit). The 2019 profit included a £237.0m profit on disposal of loans. No loans were sold in 2019/20.

There was an impairment (including recoveries net of costs) credit of £7,029,000 in the 12 months to March 2020 compared to a credit of £19,949,000 for the 12 months to March 2019. As the loans to customers are carried at fair value through other comprehensive income the carrying amount is not affected by impairment provisions.

Net interest income for the 12 months to 31 March 2020 was £26,688,000 (2019: £39,723,000) a decrease of £13,035,000 from the previous 12 months as a result of the falling size of the Company's mortgage book.

On 3 March 2020 the Company distributed a dividend of £230,000,000. The subsequent impact of the emergence of the COVID-19 Pandemic ('the Pandemic') on financial markets reduced the fair value of the Company's mortgage book which in turn reduced capital to 105% of the Board's assessed requirement, below its target of 125%. FCA requirements were met at all times.

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Strategic Report (continued)

Principal risks and uncertainties

In the ordinary course of business the Company is exposed to, and manages, a variety of risks, with credit risk and market risk being of particular significance. The key risks and uncertainties faced by the Company are managed within the framework established for B&B and its subsidiary undertakings (the B&B Group).

Key Performance Indicators ('KPIs')

In addition to the primary Financial Statements, we have adopted the following KPIs in measuring business performance:

	12 months to 31 March 2020	12 months to 31 March 2019
Profit before tax	**£7.8m**	£278.3m
Residential mortgage balance	**£1.1bn**	£1.2bn
Number of residential arrears 3 months and over and possession cases	**548**	551
Residential Arrears 3 months and over and possessions as a percentage of the book:		
- By value (%)	**7.54**	6.67
- By number of accounts (%)	**6.65**	6.07

On behalf of the Board.

Martin Scott
Director
21 July 2020
Registered Office:
P.O. Box 88
Croft Road
Crossflatts
Bingley
West Yorkshire
BD16 2UA

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Directors' Report

Dividends
During the year an interim dividend of £230m funded by a loan from B&B was declared on the ordinary shares (2019: £445m). The Directors do not recommend the payment of a final ordinary dividend.

Business review
A review of the performance of the Company for the 12 months to 31 March 2020 is included in the Strategic Report on pages 3 and 4.

Future outlook
The Directors expect that during 2020/21 the Company will continue to operate as an asset manager holding mortgage loans secured on residential properties and other financial assets. At the present time the Directors do not foresee any change in the Company's activities.

Risk management and control
The Directors have responsibility for the overall system of internal control and for reviewing its effectiveness. The effectiveness of risk management is monitored on an ongoing basis. Details of the Company's risks and their management and control are provided in note 19, and further discussion in the context of the B&B Group as a whole is provided in the B&B Group's 2019/20 Annual Report & Financial Statements which do not form part of this Report and Financial Statements.

Directors and their interests
The Directors who served during the year and up to the date of the signing of the Financial Statements were:

Ian Hares
Martin Scott

Directors' indemnities
B&B has provided each Director with a Deed of Indemnity, which constituted 'qualifying third party indemnity provision' in accordance with the provisions of the Companies Act 2006. The Deeds were in force during the whole of the financial year ended 31 March 2020 and remain in force as at the date of approval of the Directors' Report.

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

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

Going concern
The Directors have assessed the Company's ability to continue as a going concern, taking into consideration the principal risks set out on page 4, potential future strategic options and current and anticipated economic conditions. The validity of the going concern basis of accounting is dependent upon the funding position of the Company and on the Directors' expectations regarding the continuation of trading. The Company is dependent on both B&B and UKAR not seeking immediate repayment of amounts due to them by the Company.

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Directors' Report (continued)

Going concern (continued)
In order to satisfy the going concern assumption, reassurance is provided by HM Treasury that their support to B&B and UKAR will continue. At the signing date of these Financial Statements, HM Treasury has confirmed its intention to continue to provide funding to B&B, if required, until at least 1 January 2022 subject to B&B continuing to be a subsidiary company of UKAR. B&B has also confirmed its intention to continue to support the Company, if required, until at least 1 January 2022. The Directors therefore consider it appropriate to prepare these Financial Statements on a going concern basis.

Statement of Directors' responsibilities
The Directors are responsible for preparing the Strategic Report, Directors' Report and the Financial Statements in accordance with applicable law and regulations. Company law requires the Directors to prepare Financial Statements for each financial period. Under that law the Directors have prepared the Financial Statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union. Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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 then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRS as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and 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.

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

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

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Independent auditors
The Company's auditors, the National Audit Office ('NAO'), have indicated their willingness to continue in office. A resolution that they be reappointed will be proposed at the Annual General Meeting.

On behalf of the Board.

Martin Scott
Director
21 July 2020

Independent Auditor's Report to the Members of Mortgage Express

Opinion on financial statements

I have audited the financial statements of Mortgage Express for the year ended 31 March 2020 which comprise:

- the Income Statement;
- the Statement of Comprehensive Income;
- the Balance Sheet;
- the Statement of Changes in Equity;
- the Cash Flow Statement; and
- the related notes, including the significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union.

In my opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2020 and of the profit for the year then ended; and
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the Companies Act 2006.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK). My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my report. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of Mortgage Express in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- Mortgage Express's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- Mortgage Express have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about Mortgage Express's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Emphasis of matter

I draw attention to note 2 (b) of the financial statements, which describes the extent of estimation uncertainty in measuring the fair value of loans to customers as a result of the volatility of financial markets at 31 March 2020 due to the COVID-19 pandemic and potential macroeconomic consequences. I also draw attention to note 25 of the financial statements which describes management's expectation based on events after the reporting period that COVID-19 will result in a deeper and longer recession than the economic scenarios applicable at 31 March 2020 and that it expects customer arrears to increase during 2020-21 as a result of the challenging economic circumstances. My opinion is not modified in this respect.

Independent Auditor's Report to the Members of Mortgage Express (continued)

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities, the directors are responsible for:

- the preparation of the financial statements and for being satisfied that they give a true and fair view.
- such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
- assessing the company's ability to continue as a going concern, disclosing, if applicable, matters relating 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

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (ISAs) (UK).

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. 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.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Mortgage Express's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- conclude on the appropriateness of Mortgage Express's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Mortgage Express's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my report. However, future events or conditions may cause Mortgage Express to cease to continue as a going concern.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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Independent Auditor's Report to the Members of Mortgage Express (continued)

Other Information

Directors are responsible for the other information. The other information comprises information included in the Strategic Report and the Directors' Report, other than the Principal risks and uncertainties section of the Strategic Report on page 4, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

In my opinion:

- in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, I have not identified any material misstatements in the Strategic Report or the Directors' Report; and
- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements.

Matters on which I report by exception

I have nothing to report in respect of the following matters where the Companies Act 2006 requires me to report to you if, in my opinion:

- adequate accounting records have not been kept, or returns adequate for my audit have not been received from branches not visited by my staff; 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
- I have not received all of the information and explanations I require for my audit; or
- a corporate governance statement has not been prepared by the parent company.

Hilary Lower

Hilary Lower (Senior Statutory Auditor)
For and on behalf of the
Comptroller and Auditor General (Statutory Auditor)
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP
21 July 2020

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Income Statement

	Note	12 months to 31 Mar 2020 £000	12 months to 31 Mar 2019 £000
Interest receivable and similar income	3	**38,758**	71,195
Interest expense and similar charges	4	**(12,070)**	(31,472)
Net interest income		**26,688**	39,723
Administrative expenses	5	**(26,340)**	(21,951)
Other operating income	5	**547**	698
Net impairment release on loans to customers	10	**7,029**	19,949
Net release of provision for insurance risk on equity release mortgages		**-**	2,879
Loss/(profit) on sale of loans	6	**(94)**	236,984
Profit before taxation		**7,830**	278,282
Taxation	7	**(1,346)**	(12,309)
Profit for the financial year		**6,484**	265,973

The notes on pages 15 to 47 form an integral part of these Financial Statements.

The results above arise from continuing activities.

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Statement of Comprehensive Income

For the 12 months to 31 March 2020

	Gross of tax £000	Tax £000	Net of tax £000
Profit for the financial year	**7,830**	**(1,346)**	**6,484**
Other comprehensive (expense)/income			
Items that may be reclassified subsequently to profit or loss:			
Assets carried at fair value through other comprehensive income:			
- net losses recognised in fair value reserve during the year	**(56,042)**	**10,648**	**(45,394)**
Total other comprehensive (expense)/income	**(56,042)**	**10,648**	**(45,394)**
Total comprehensive (expense)/income	**(48,212)**	**9,302**	**(38,910)**

For the 12 months to 31 March 2019

	Gross of tax £000	Tax £000	Net of tax £000
Profit for the financial year	278,282	(12,309)	265,973
Other comprehensive (expense)/income			
Items that may be reclassified subsequently to profit or loss:			
Assets carried at fair value through other comprehensive income:			
- net losses recognised in fair value reserve during the year	(33,171)	6,303	(26,868)
Total other comprehensive (expense)/income	(33,171)	6,303	(26,868)
Total comprehensive income/(expense)	245,111	(6,006)	239,105

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Balance Sheet

	Note	At 31 March 2020 £000	At 31 March 2019 £000
Assets			
Cash at bank and in hand	8	**765**	10,788
Loans to customers	9	**1,058,800**	1,231,728
Deferred tax asset	13	**8,815**	-
Total assets		**1,068,380**	1,242,516
Liabilities			
Amount due to Group undertakings	17	**945,930**	849,655
Other liabilities	12	**3,011**	2,040
Deferred tax liabilities	13	**-**	1,812
Provisions	14	**-**	660
Total liabilities		**948,941**	854,167
Equity			
Issued capital and reserves attributable to owners of the parent:			
Share capital	15	**100,004**	100,004
Fair value reserve	16	**(33,047)**	12,347
Retained earnings		**52,482**	275,998
Total equity		**119,439**	388,349
Total equity and liabilities		**1,068,380**	1,242,516

The notes on pages 15 to 47 form an integral part of these Financial Statements.

The Financial Statements on pages 10 to 47 were approved by the Board of Directors on 21 July 2020 and signed on its behalf by:

Martin Scott

Director

Mortgage Express is registered in England and Wales under company number 02405490.

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Statement of Changes in Equity

For the 12 months to 31 March 2020

	Share capital £000	Fair value reserve £000	Retained earnings £000	Total equity £000
At 1 April 2019	**100,004**	**12,347**	**275,998**	**388,349**
Net movement in fair value reserve	-	**(56,042)**	-	**(56,042)**
Tax on the above	-	**10,648**	-	**10,648**
Total other comprehensive income	-	**(45,394)**	-	**(45,394)**
Profit for the financial year	-	-	**6,484**	**6,484**
Total comprehensive income	-	**(45,394)**	**6,484**	**(38,910)**
Dividend declared [1]	-	-	**(230,000)**	**(230,000)**
At 31 March 2020	**100,004**	**(33,047)**	**52,482**	**119,439**

[1] *In March 2020 the Company declared an interim dividend of £230m; see note 15.*

For the 12 months to 31 March 2019

	Share capital £000	Share premium reserve £000	Capital contribution reserve £000	Fair value reserve £000	Retained earnings £000	Total equity £000
At 31 March 2018	100,004	42,496	75,000	-	343,307	560,807
Impact of adoption of IFRS 9 [1]	-	-	-	39,215	(5,778)	33,437
At 1 April 2018	100,004	42,496	75,000	39,215	337,529	594,244
Net movement in fair value reserve	-	-	-	(33,171)	-	(33,171)
Tax on the above	-	-	-	6,303	-	6,303
Total other comprehensive income	-	-	-	(26,868)	-	(26,868)
Profit for the financial year	-	-	-	-	265,973	265,973
Total comprehensive income	-	-	-	(26,868)	265,973	239,105
Release of share premium reserve	-	(42,496)	-	-	42,496	-
Release of capital contribution reserve	-	-	(75,000)	-	75,000	-
Dividend declared	-	-	-	-	(445,000)	(445,000)
At 31 March 2019	100,004	-	-	12,347	275,998	388,349

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Cash Flow Statement

	12 months to 31 Mar 2020 £000	12 months to 31 Mar 2019 £000
Cash flows from operating activities		
Profit before taxation for the financial year	**7,830**	278,282
Adjustments to reconcile profit to cash flows generated from operating activities:		
- interest expense and similar charges	**12,070**	31,472
- impairment on loans to customers and held for sale loans	**(7,029)**	(19,949)
- provision for insurance risk on equity release mortgages	**-**	(2,879)
- profit on sale of loans	**94**	(236,984)
Cash flows from operating activities before changes in operating assets and liabilities	**12,965**	49,942
Net decrease in operating assets:		
- loans to customers	**123,821**	170,040
- equity release mortgages	**-**	12,989
- sale of loans	**-**	2,214,302
Net increase/(decrease) in operating liabilities:		
- other liabilities	**971**	(55)
- provisions	**-**	(641)
Income taxes paid	**-**	(12,072)
Net cash generated from operating activities	**137,757**	2,434,505
Cash flows used in financing activities:		
- amounts due to Group undertakings	**(147,780)**	(2,429,701)
Net cash used in financing activities	**(147,780)**	(2,429,701)
Net (decrease)/increase in cash and cash equivalents	**(10,023)**	4,804
Cash and cash equivalents at beginning of year	**10,788**	5,984
Cash and cash equivalents at end of year	**765**	10,788
Represented by cash and assets with original maturity of three months or less within:		
- cash at bank and in hand	765	10,788
Total cash and cash equivalents at end of year	765	10,788

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Notes to the Financial Statements

1. Principal accounting policies
The Company is a private unlimited liability company incorporated and domiciled in the United Kingdom.

The Financial Statements on pages 10 to 47 were authorised for issue by the Directors on 21 July 2020 and will be put to the shareholder for approval at the Company's Annual General Meeting.

(a) Statement of compliance
The Company's Financial Statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU'). IFRS comprises accounting standards prefixed IFRS issued by the International Accounting Standards Board ('IASB') and those prefixed IAS which were issued by the IASB's predecessor body, along with interpretations issued by the IFRS Interpretations Committee ('IFRIC') prefixed IFRIC and those prefixed SIC which were issued by the IFRIC's predecessor body.

There have been no significant changes to the Company's accounting policies since 31 March 2019.

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

(b) Basis of preparation
The Financial Statements have been prepared on a going concern basis and using the historical cost convention, except for financial instruments categorised under IFRS 9 as 'held to collect and sell' which are carried at their fair value.

The validity of the going concern basis of accounting is dependent upon the funding position of the Company.

As at 31 March 2020 the Company owed £495,923,000 to its parent B&B and £450,007,000 to its ultimate parent UKAR. The Company is dependent on both B&B and UKAR not seeking immediate repayment of these loans. Although paid down to a nil balance, the B&B Group is itself reliant upon the Working Capital Facility ('WCF') provided to B&B by HM Treasury if additional funding was required. However, B&B does not have access to additional funding due to the restrictions placed on it through the state aid agreement, that was established when B&B was taken in to public ownership on 29 September 2008 and funding was provided to it by HM Treasury. Therefore, in order to satisfy the going concern assumption, reassurance is provided by HM Treasury that their support to B&B and UKAR will continue. In addition, the compliance with all state aid conditions over the 12 month period is necessary to ensure government funding is available. At the signing date of these Financial Statements, HM Treasury has confirmed its intention to continue to provide funding to B&B, if required, until at least 1 January 2022 subject to B&B continuing to be a subsidiary company of UKAR. B&B has also confirmed its intention to continue to support the Company, if required, until at least 1 January 2022.

The Company continues to monitor the impacts of the Pandemic. The Pandemic is expected to lead to an increase in the level of arrears in relation to loans to customers. At the date of signing these Accounts it is not believed the impact will be sufficient to require further support from B&B but, in any case, due to the support committed to by HM Treasury the Directors do not consider that the Pandemic will cause the Company to cease to be financially viable.

Accordingly, the Directors are satisfied at the time of approval of these Financial Statements that the UKAR and B&B companies and groups have adequate resources to continue in business for the foreseeable future. They are also satisfied that the UKAR Group's and Company's activities will continue for the foreseeable future. The Directors therefore consider it appropriate to prepare these Financial Statements on a going concern basis.

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

These accounting policies have been applied to all periods presented in these Financial Statements.

Notes to the Financial Statements (continued)

1. Principal accounting policies (continued)

(b) Basis of preparation (continued)
The Company is regulated by the Financial Conduct Authority ('FCA') as a mortgage administration company and the Directors believe that it has an appropriate and adequate level of capital to support these activities subject to the continuing support of B&B. Further details regarding capital are provided in note 20.

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

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

(c) Interest income and expense
For loans to customers which are categorised for impairment purposes as stage 3 (see note 1(j)) interest income is recognised by applying the effective interest rate ('EIR') to the amortised cost of the loan less any impairment allowance against the loan.

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

(ii) Deferred tax
Deferred tax is calculated using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. The principal temporary differences arise from revaluation of certain financial assets and liabilities and changes in accounting basis on adoption of IFRS 9.

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

Deferred tax related to fair value re-measurements of loans to customers, which are recognised in other comprehensive income, is also recognised in other comprehensive income.

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Notes to the Financial Statements (continued)

1. Principal accounting policies (continued)

(e) Financial instruments
In accordance with IFRS 9 each financial asset is classified at initial recognition, or at the point of first adoption of IFRS 9, into one of three categories:

(i) Financial assets at fair value through profit and loss ('FVP&L');
(ii) Financial assets at fair value through other comprehensive income ('FVOCI'); or
(iii) Financial assets at amortised cost;
and each financial liability into one of two categories:
(iv) Financial liabilities at FVP&L; or
(v) Financial liabilities at amortised cost.

The classification of each financial asset is determined by the business model for the asset and whether the cash flows on the asset are 'solely payments of principal and interest' ('SPPI'). In respect of the Company's loans to customers, the business model is one of held to collect and sell as these assets are managed in order to maximise taxpayer value, with strategic asset sales undertaken where suitable market opportunities are identified. The cashflows on the loans are considered to satisfy the definition of SPPI. Therefore the Company's loans to customers are classified as at FVOCI.

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

(g) Recognition and de-recognition of assets and liabilities
Purchases and sales of assets are accounted for once the tests set out in IFRS 9 have been met, in relation to the contractual rights to the cash flows on the assets and the risks and rewards of ownership of the assets. When an asset carried at FVOCI is derecognised the element of the fair value reserve relating to that asset is reclassified to the Income Statement.

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

(h) Assets held for sale
In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', assets and liabilities are classified as 'held for sale' if they are available for immediate sale in their present condition, they are being actively marketed for sale at a reasonable price and sale is considered to be 'highly probable'.

(i) Cash at bank and in hand
Cash at bank and in hand comprises balances which are highly liquid and have an original maturity of three months or less. For the purposes of the Cash Flow Statement, accrued interest is excluded from the balance.

Notes to the Financial Statements (continued)

1. Principal accounting policies (continued)

(j) Impairment of financial assets
Loans to customers are carried at FVOCI. IFRS 9 requires that all financial assets are subject to impairment provisioning except those which are carried at FVP&L, and impairment charges/releases are taken through the Income Statement in the 'impairment on loans to customers' line. Because the loans are carried at fair value, their carrying amount is not reduced by the impairment provision.

Under IFRS 9 each financial asset subject to impairment provisioning is categorised as 'stage 1', 'stage 2' or 'stage 3'. Stage 1 assets are those for which there has been no significant increase in credit risk since the asset's origination. Stage 2 assets are those for which there has been a significant increase in credit risk since the asset's origination, but the asset is not in default. Stage 3 assets are those which are in default. Payment holidays approved under COVID-19 forbearance are not considered as a trigger of default. A case is considered to be in default when it is three months in arrears or there are other indicators of default e.g. bankruptcy, forbearance, possession or for sale with a Law of Property Act receiver. In addition, all cases that are past their term end are treated as in default. Generally, a loan remains in stage 3 until it has been up to date for three consecutive months, at which point it moves to stage 2. However, once a default account has returned to below three months in arrears, whilst still held in default it is considered to be in a cure period.

IFRS 9 requires a forward-looking 'expected credit loss' ('ECL') approach to impairment provisioning. In respect of stage 2 and stage 3 assets, the impairment provision reflects full lifetime expected losses.

The Company does not categorise any loans to customers as 'stage 1'. This is because ascertaining which loans have experienced a significant increase in credit risk since inception would be onerous and in some cases the information concerning credit quality at inception (which would have been in 2008 or earlier) may be incomplete. Under the transitional arrangements, IFRS 9 permitted the categorisation to omit stage 1 if the assessment of change in credit risk would involve 'undue cost and effort'.

For each loan an assessment is made of forecast cash flows against contractual cash flows over the life of the loan. Both cash flows are discounted, using the loan's EIR. Where there is a shortfall on the discounted forecast cash flow compared to the discounted contractual cash flow, an impairment is recognised.

A loan to a customer is written off and any associated impairment allowance released when and only when the property is sold or the account is redeemed. Any subsequent proceeds are recognised on a cash basis and offset against 'impairment on loans to customers' in the Income Statement.

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

Impairment of secured residential loans to customers
The Company uses a consistent approach to provisioning based on calculating ECLs using a probabilistic model, calculating losses on a loan by loan basis. In addition to segmenting the loans between the IFRS 9 stages, the approach segments the mortgage books and the underpinning key assumptions where historic experience shows the performance of these segments to be materially different. This grouping of similar performing loans also allows the modelling to be updated differently across the segments in line with observed performance. The segmentation can be different for each assumption, but factors used in segmentation include product type, loan to value ('LTV'), geographical area and repayment type.

Loan commitments
Loan commitments comprise previous voluntary overpayments by customers which are available to be drawn down. The impairment provision for each loan considers the potential that the customer could in future draw down the overpayment, the possibility of which increases the Company's exposure to potential future loss.

Mortgage Express

Notes to the Financial Statements (continued)

1. Principal accounting policies (continued)

(k) Provisions and contingent liabilities
Provisions are recognised when, and only when, the following criteria are all met:

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

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

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

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

(l) Dividends payable
Dividends payable by the Company are recognised in retained earnings once they are appropriately authorised and no longer at the Company's discretion.

(m) Amounts due to Group undertakings
Amounts due to Group undertakings are classified under IFRS 9 as at amortised cost.

Notes to the Financial Statements (continued)

2. Critical accounting judgements and estimates

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

Accounting estimates
(a) Impairment of loans to customers
(i) Modelling approach
The estimation of expected losses requires the use of models, the inputs to which require the use of estimates. Data used in the derivation of the inputs include for each loan the customer's payment record, credit reference information obtained from third parties and the ratio of the outstanding balance to the value of the property. Behavioural assumptions used in the ECL modelling are based on the historical performance of the mortgage book. At the year-end, consideration was given to how these behavioural assumptions may be impacted in the future by the Pandemic. In the absence of evidence on which to base any overlay, and in light of accounting guidance issued by the Financial Reporting Council prior to 31 March 2020, Management have incorporated the impact of the Pandemic in the underpinning economic scenarios at the year-end which reflected the worsening outlook. This is further explained below.

The key assumptions used in the modelling are explained below:

Arrears roll rates	Forecasts how cohorts of mortgage accounts will transition between up-to-date, arrears, default and possession.
Pre-payment rates	The forecast of customer-driven redemption activity up to and including term maturity.
Repossession sales and losses	The forecast timing of repossession sales and the associated forced sale discounts incurred in order to realise sales proceeds and credit losses in a timely manner. The forced sale discount represents the difference between the asset's indexed valuation and the realised sale value.
Payment rates	The level of cash payments expected compared with the customer's contractual monthly mortgage subscriptions.
Post-term assumptions	The forecast post term-end account behaviour, in particular the anticipated level of customer-driven redemptions before UKAR would consider enforcing repossession.

Top-up provisions are calculated where it is considered that additional areas of risk are not captured by the underlying modelling. This can be due to specific borrower circumstances or affordability, condition of the properties impacting the recoverable value or geographical concentration impacting LTV. Material post-model adjustments are reported to and approved by the Audit Committee.

Notes to the Financial Statements (continued)

2. Critical accounting judgements and estimates (continued)

Accounting estimates (continued)
(a) Impairment of loans to customers (continued)
(i) Modelling approach (continued)
The ECL model is run monthly and maintained by an experienced Third Party to agreed Service Levels. During the year, the contract for running the ECL model was transferred to another third party organisation. A detailed handover plan was followed and a series of parallel runs conducted to ensure consistency of both the service and model outputs. A strong control environment exists, with the models governed by the organisation's Macpherson framework, and an annual attestation to the recommendations included within the Macpherson Report. The Macpherson Report sets out best practice in quality assurance to ensure all business critical financial models are robust and trustworthy. A meeting of subject matter experts reviews the key modelling assumptions underpinning the ECL model on a quarterly basis. Reporting, including any material changes to assumptions, is provided through to the Executive Risk Committee and the Board on a monthly basis.

In order to ensure the ECL model remains robust and compliant, an annual review is undertaken to ensure that the segmentation and key assumptions used in the model are still fit for purpose, taking into account changes in the structure of the loan book. The last annual review took place in August 2019. Changes made to the modelling assumptions as a result of the annual review had an immaterial impact on total provisions.

Forward-looking assessments are made which are dependent on economic assumptions including interest rates, unemployment, gross domestic product ('GDP') and house price inflation ('HPI') as well as other factors such as net mortgage advances and mortgage arrears. Economic assumptions are generally sourced from independent specialist economic analysts based on an initial management view provided by UKAR and approved by the Board. Any changes required at the end of an accounting period are approved by the Audit Committee.

In respect of impairment provisioning, the Company utilises four macroeconomic scenarios:

- a base scenario;
- a downside scenario;
- a severe downside scenario; and
- an upside scenario.

The scenarios provided by the independent specialist economic analysts run for ten years. These are extended to 20 years with HPI running at a long term average and other key assumptions e.g. GDP and interest rates left flat from the tenth year of the forecast.

Impairment provisions are calculated separately for each scenario and the provision which is used for accounting purposes is the probability-weighted average of these.

(ii) Economic scenarios
Our full suite of scenarios was initially prepared for us by the independent economic analyst in February 2020. In recognition that the Pandemic was having a significant impact on the economy, a further COVID-19 base case scenario was requested from the analysts on 20 March and delivered on 27 March. The opening year of this scenario reflected the view held by us and guidance issued by the Bank of England and Prudential Regulation Authority ('PRA') on 26 March 2020, that the impact of the Pandemic was expected to be relatively short with a return to previous levels of activity on the back of the measures taken by Government. This opening year was then overlaid internally on to the base case and variant scenarios. Following the recovery, the base case scenario then follows a path which is broadly aligned to the Economic and Fiscal Outlook ('EFO') produced by the Office for Budget Responsibility ('OBR') for the Spring 2020 Budget and published on 11 March 2020. Some adjustments were made to all four scenarios from year 2 onwards so that they transition back to the longer-term trends as set out in the February 2020 set of forecasts..

Mortgage Express

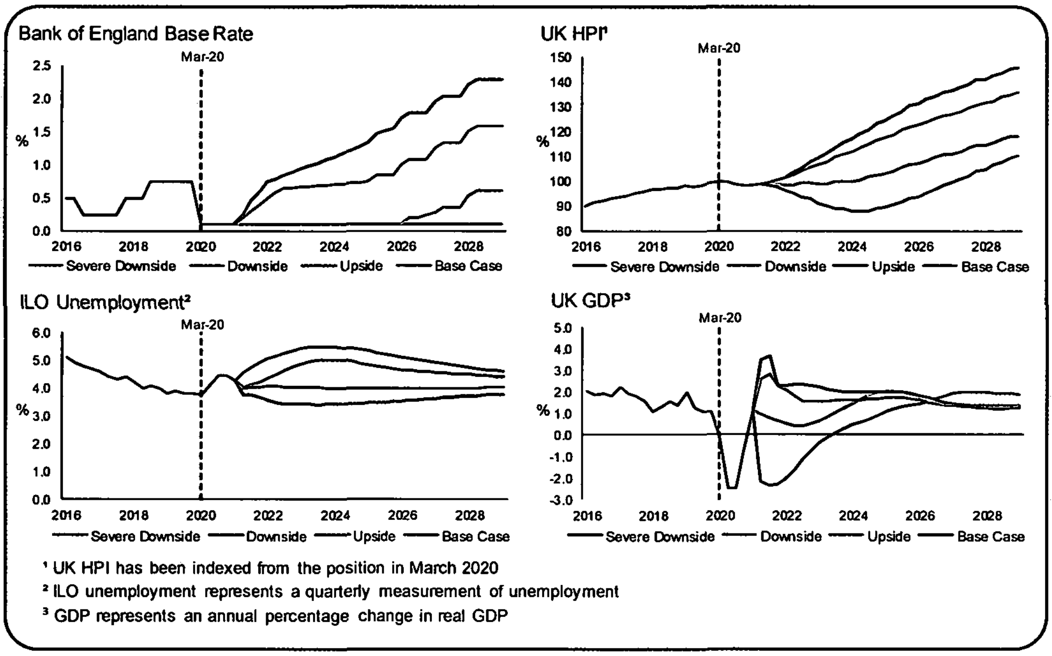
Notes to the Financial Statements (continued)

2. Critical accounting judgements and estimates (continued)

Accounting estimates (continued)
(a) Impairment of loans to customers (continued)
(ii) Economic scenarios (continued)
The variant scenarios assume that the UK leaving the EU has a more pronounced impact on the economy than seen in the base scenario. The downside scenario is modelled on a slowing of GDP growth as a result of a decision to trade with the EU on World Trade Organisation ('WTO') trading terms. The severe downside combines a number of factors, including a slowdown in the Chinese economy, driving a sharper downside but a stronger recovery than in the downside scenario. The upside models the agreement of favourable trading agreements with major trading partners that spurs UK business investment and growth. All variant scenarios include the overlay relating to the impact of the Pandemic.

The relative weighting of these four scenarios is a key area of management judgement. In making this judgement, management take into consideration the guidance provided by the independent source who prepared the economic scenarios as well as that of a forum of subject matter experts from across the business. The increase in weighting for the downside scenarios reflects market sentiment and also a narrowing of the differential between the base case and the downside scenarios. Updating the economic scenarios to include the impact of the Pandemic did not result in a significant increase in ECL provisions as all loans are already provided for on a lifetime loss basis.

The key assumptions in the forecast economic scenarios are as follows:



The key assumptions in the forecast economic scenarios are as follows:

At 31 March 2020	Base	Downside	Severe downside	Upside
Probability	30.00%	30.00%	20.00%	20.00%
Bank of England base rate March 2025	0.76%	0.10%	0.10%	1.35%
HPI March 2019 – March 2025 [1]	17.71%	2.98%	(10.71%)	24.52%
ILO unemployment March 2025 [2]	4.00%	4.83%	5.32%	3.45%
GDP March 2025 [3]	1.73%	2.06%	1.07%	2.01%

[1] *The percentage movement in UK property prices between March 2020 and March 2025.*
[2] *The International Labour Organisation ('ILO') unemployment rate as at March 2025.*
[3] *The annualised percentage increase in UK GDP as at March 2025.*

Notes to the Financial Statements (continued)

2. Critical accounting judgements and estimates (continued)

Accounting estimates (continued)
(a) Impairment of loans to customers (continued)
(ii) Economic scenarios (continued)

At 31 March 2019	Base	Downside	Severe downside	Upside
Probability	35.00%	22.50%	12.50%	30.00%
Bank of England base rate March 2024	1.52%	0.21%	0.21%	2.11%
HPI March 2019 – March 2024 [1]	17.97%	(2.12%)	(25.42%)	31.21%
ILO unemployment March 2024 [2]	3.90%	4.43%	5.85%	3.75%
GDP March 2024 [3]	1.64%	1.94%	1.03%	2.32%

[1] *The percentage movement in UK property prices between March 2019 and March 2024.*
[2] *The ILO unemployment rate as at March 2024.*
[3] *The annualised percentage increase in UK GDP as at March 2024.*

The model forecasts cash flows over a 20 year period. The assumptions above relate to the first five years where there is greatest variation between scenarios.

The ECL calculation is particularly sensitive to changes in:

- HPI, given the significant impact it has on mortgage collateral valuations; and
- Unemployment rate, given its impact on borrowers' ability to meet their loan repayments.

A fall in house prices of 5% at March 2020 would result in an increase in modelled ECL provisions of £5m on the base scenario (excluding top-ups).

Market sentiment continued to evolve after 31 March, with a growing expectation that the Pandemic would result in a deeper and longer recession than the scenarios adopted at the end of March. The OBR issued an illustrative coronavirus reference scenario on 14 April and based on that scenario, additional sensitivity analysis has been performed. The impact of this is disclosed below.

(iii) Key sensitivities
A significant degree of judgement relates to the relative weightings of the scenarios themselves, incorporating different views of HPI and Unemployment as indicated above. Our specialist economic analysts provide us with an independent view on the weighting of the scenarios, which are calculated based on the February 2020 Bank of England Fan Charts. The Bank of England's Monetary Policy Committee publishes fan charts to give a graphical representation of the uncertainty around the economic outlook of potential future outcomes from its central forecast. Given the uncertainty caused by the Pandemic, management reconsidered the weightings at 31 March 2020 and gave more prominence to the downside scenarios. In order to demonstrate the sensitivity, the impact on the reported IFRS 9 impairment provision of applying 100% of a particular scenario is shown below.

If the probability weighting of each of the scenarios were uprated to 100% the impact on the Company's total loan impairment loss allowance would be as follows:

	Impact on total impairment loss allowance
Base scenario	**Decrease of £4,630,000**
Downside scenario	**Increase of £838,000**
Severe downside scenario	**Increase of £13,698,000**
Upside scenario	**Decrease of £8,010,000**

2. **Critical accounting judgements and estimates** (continued)

Accounting estimates (continued)
(a) Impairment of loans to customers (continued)
(iii) Key sensitivities (continued)
The OBR coronavirus reference scenario published on 14 April assumed a three-month lockdown due to public health restrictions followed by another three-month period when they are partially lifted. In this scenario, GDP was assumed to fall by 35% in the second quarter of 2020 but bounce back relatively quickly (2020: 12.8% fall). Unemployment was forecast to rise to 10% in the second quarter of 2020 but then decline more slowly than GDP is forecast to recover (2020: 7.3%). The OBR did not publish a forecast for house prices, however, we overlaid an assumption in our modelling that house prices fall by 3.7% in 2020/21 and 2.9% in 2021/22, before rising by 2.1% in 2022/23 and 4.9% in 2023/24. The impact of this scenario given 100% weighting would be an increase in the Company's total loan impairment loss allowance of £3.4m.

(b) Fair value of loans to customers
(i) Modelling approach
Under IFRS 9 the Company's loans to customers are carried at fair value. Consistent with IFRS 13 'Fair Value Measurement' an 'income approach' has been adopted to valuations. Fair value is calculated using models which discount expected future cash flows to present value using market interest rates, the inputs to which require judgements. A meeting of subject matter experts reviews the fair value modelling assumptions on a quarterly basis.

Expected future cash flows take account of estimated future losses and assumed redemptions, and are consistent with the cash flows used in the base scenario for impairment. Discount rates represent the blended rate between the cost of debt and the cost of equity and are included on the assumption an investor will securitise the assets and hold them to maturity. The underpinning debt to equity split is based on rating agency analysis commissioned during the year on the Mortgage Express mortgage book. In the prior year, benchmark securitised deals backed by UK mortgages were matched to similar groups of loans. The cost of debt and the cost of equity are then based on observed secondary market data.

At the Balance Sheet date, there were concerns over the potential for significant macroeconomic consequences of the Pandemic and significant volatility in the securitisation markets coupled with very low liquidity. As a result, the observable data for use as an input in the modelling was limited. Therefore, management have used a greater amount of judgement in relation to the estimated cost of capital and the term structure of financing,

In calculating the discount rates, an assumption has been made that markets return to pre Pandemic levels within a three year period, allowing an investor to re-finance the securitisation at this point on a rolling three year basis.

At the Balance Sheet dates the discount rates fell into the following ranges:

Discount rates range	**2020**	2019
Residential loans	**412 bps**	262 - 282 bps

Notes to the Financial Statements (continued)

2. Critical accounting judgements and estimates (continued)

Accounting estimates (continued)
(b) Fair value of loans to customers *(continued)*
(i) Modelling approach *(continued)*

A 3 year rolling financing has been assumed compared to 5 years previously. This is to reflect the assumption that costs of funding would fall in the future and a securitisation would not lock in current observable prices which have increased due to the Pandemic. In prior years, a 5 year refinancing horizon on constant terms was assumed. The ranges of the cost of debt, cost of equity and the debt equity split for the residential loans are as follows:

Cost of debt ranges	2020 initial rate	2020 refinance rate	2019
Residential loans	**283 - 302 bps**	**107 – 113 bps**	119 - 126 bps

% of equity	2020	2019
Residential loans	**500 - 650 bps**	628 - 798 bps

Discount rates range	2020	2019
Residential loans	**1500 bps**	1000 bps

The valuation is regarded as Level 3 as certain significant inputs to the valuation are defined as 'unobservable', i.e. inputs for which market data are not available; the most significant unobservable inputs are the expected future cash flows.

(ii) Key sensitivities
The modelled fair value of the Company's loans to customers is most sensitive to the assumptions which are used to derive the discount rates applied in the calculation and the respective cash flows. For the purposes of sensitivity, consideration has been given to movements in the discount rate and changes to the cash flows based on the alternative economic scenarios. The impacts due to a change in the weighted average cost of capital are as follows:

Change in discount rate:	Impact on fair value of loans to customers
100 bps increase	**Decrease of £55,191,000**
100 bps decrease	**Increase of £60,525,000**

Sensitivities to changing economic scenarios are shown below:

Fair value based on:	Impact on fair value of loans to customers
Upside scenario	**Increase of £2,117,000**
Downside scenario	**Decrease of £6,407,000**
Severe downside scenario	**Decrease of £19,055,000**

The OBR illustrative scenario noted above would result in a reduction in fair value of £13.0m.

Notes to the Financial Statements (continued)

3. Interest receivable and similar income

	12 months to 31 Mar 2020 £000	12 months to 31 Mar 2019 £000
Interest on loans to customers	**38,758**	44,305
Interest on equity release mortgages	-	26,890
	38,758	71,195

4. Interest expense and similar charges

	12 months to 31 Mar 2020 £000	12 months to 31 Mar 2019 £000
Interest on amounts due to Group undertakings	**12,070**	31,472

5. Administrative expenses and other operating income

Administrative expenses are primarily third party servicing charges and other operating income is primarily fees charged to mortgage customers.

There were no employees during the year (2019: nil).

The Company's audit fee of £133,000 for the year to 31 March 2020 (2019: £139,000) was borne by the Company's parent undertaking B&B. No non-audit fees were paid to the National Audit Office.

6. Profit on sale of loans

	12 months to 31 Mar 2020 £000	12 months to 31 Mar 2019 £000
Profit on sale of loans to customers carried as held for sale	-	23,558
(Loss)/profit on sale of equity release mortgages	**(81)**	213,377
(Loss)/profit on sale of loans to customers carried at amortised cost	**(13)**	49
Total	**(94)**	236,984

The loss on sale of loans to customers recognised during the year arose due to late invoicing of costs in relation to sales in prior years.

Notes to the Financial Statements (continued)

7. Taxation

The taxation charge relates to the profit for the year as follows:

The tax charge for the year comprises:	**12 months to 31 Mar 2020 £000**	12 months to 31 Mar 2019 £000
Current tax:		
- on profit for the year	**1,356**	12,198
- adjustments in respect of previous years	**(31)**	(22)
Total current tax	**1,325**	12,176
Deferred tax (see note 13)		
- origination and reversal of temporary differences	**21**	133
Total deferred tax	**21**	133
Total taxation charge per the Income Statement	**1,346**	12,309

	12 months to 31 Mar 2020 £000	12 months to 31 Mar 2019 £000
Profit before taxation	**7,830**	278,282
UK Corporation tax at 19% (2019: 19%)	**1,488**	52,874
Effects of:		
- adjustment to profit on sale of loans*	**-**	(40,543)
- adjustments in respect of previous years	**(31)**	(22)
- change in tax rate	**(111)**	-
Total taxation charge for the year	**1,346**	12,309

** For taxation purposes 'group continuity rules' applied to the sale of loans to the Company's parent B&B. Hence part of the Company's profit on this sale was taxed in B&B.*

Taxation appropriately reflects changes in future tax rates announced in the Spring Budget which had been substantively enacted by 31 March 2020. The 17.2% effective tax rate for the year (2019: 4.4%) has been impacted by changes in tax rates.

8. Cash at bank and in hand

	At 31 March 2020 £000	At 31 March 2019 £000
Balances with commercial banks	**765**	10,788

Cash balances are repayable on demand. None of the Company's cash at bank and in hand balances are impaired and all are with UK institutions. 100% (2019: 100%) of the balances are with institutions rated AA to A and nil% (2019: nil%) with institutions rated BBB to B. ECLs arising in the 12 months to 31 March 2021 are not material, and no provision has been made.

Mortgage Express

Notes to the Financial Statements (continued)

9. Loans to customers

Loans to customers comprise the following:

	At 31 March 2020			At 31 March 2019		
	Outstanding balance £000	**Carrying amount £000**	**Carrying amount %**	Outstanding balance £000	Carrying amount £000	Carrying amount %
Buy-to-let	**406,971**	**351,611**	**33**	442,715	402,602	33
Self-certified	**437,435**	**418,713**	**40**	492,605	494,435	40
Standard and other	**296,722**	**288,476**	**27**	330,231	334,691	27
Total residential mortgages	**1,141,128**	**1,058,800**	**100**	1,265,551	1,231,728	100

The table above shows the outstanding balances due from customers (i.e. with no allowance for impairment) at each Balance Sheet date as the credit quality of loans to customers note (note 11) uses outstanding balances.

The movements in fair value of the Company's loans to customers between 1 April 2019 and 31 March 2020 were as follows:

	At 1 April 2019 £000	**Reduction in gross balances outstanding £000**	**Impairment charged to Income Statement £000**	**Movements taken to fair value reserve £000**	**At 31 March 2020 £000**
Buy-to-let	**402,602**	**(30,341)**	**164**	**(20,814)**	**351,611**
Self-certified	**494,435**	**(54,694)**	**509**	**(21,537)**	**418,713**
Standard and other	**334,691**	**(32,991)**	**467**	**(13,691)**	**288,476**
Total residential mortgages	**1,231,728**	**(118,026)**	**1,140**	**(56,042)**	**1,058,800**

	At 1 April 2018 £000	Reduction in gross balances outstanding £000	Impairment charged to Income Statement £000	Movements taken to fair value reserve £000	At 31 March 2019 £000
Buy-to-let	466,475	(51,357)	447	(12,963)	402,602
Self-certified	567,265	(62,683)	1,536	(11,683)	494,435
Standard and other	381,681	(38,466)	1	(8,525)	334,691
Total residential mortgages	1,415,421	(152,506)	1,984	(33,171)	1,231,728

The most significant movements in fair value over the year are due to redemptions and increases to the cost of funding including the cost of debt. The reduction due to movements in the fair value reserve is predominantly a result of increases in the market rates underpinning the cost of debt assumptions used in the modelling.

Notes to the Financial Statements (continued)

10. Impairment on loans to customers and held for sale loans

Allowances have been made for credit losses on loans to customers and held for sale loans as follows:

	At 31 March 2020		
Loans to customers	**Stage 2: Lifetime ECL [1,2]**	**Stage 3: Lifetime ECL [1,2]**	**Total**
	£000	**£000**	**£000**
At 1 April 2019	**33,738**	**15,289**	**49,027**
Movements during the year[3]:			
- net repayments	(547)	(2,487)	(3,034)
- changes in estimates	(2,653)	7,036	4,383
- changes in economic assumptions	(2,388)	(101)	(2,489)
- transfers	(643)	643	-
- loan impairment credit	(6,231)	5,091	(1,140)
- write-offs	-	(6,360)	(6,360)
Net movements during the year	(6,231)	(1,269)	(7,500)
At 31 March 2020	**27,507**	**14,020**	**41,527**
The Income Statement credit comprises:			
- loan impairment credit	(6,231)	5,091	(1,140)
- recoveries net of costs	-	(5,889)	(5,889)
Total Income Statement credit	**(6,231)**	**(798)**	**(7,029)**
Provision coverage	**2.8%**	**8.0%**	**3.6%**

[1] *Expected credit losses ('ECL').*
[2] *Further information as to which loans are categorised as stage 2 and which as stage 3 is provided in note 1(j).*
[3] *Movements during the year are calculated on a monthly basis and are aggregated to the full year in the above table. Changes in estimates relate to updates to behavioural assumptions and underlying changes to the loan data, whilst changes in economic assumptions relate to updates for actual economics and changes in forecast economics during the year.*

Of the write-offs in the above table £6.4m were still subject to enforcement action at 31 March 2020.

Mortgage Express

Notes to the Financial Statements (continued)

10. Impairment on loans to customers and held for sale loans (continued)

	At 31 March 2019		
Loans to customers	Stage 2: Lifetime ECL	Stage 3: Lifetime ECL	Total
	£000	£000	£000
At 31 March 2018			51,760
Remeasurement on adoption of IFRS 9			6,995
At 1 April 2018	43,958	14,797	58,755
Movements during the year:			
- net repayments	(1,600)	343	(1,257)
- changes in estimates	(4,294)	2,635	(1,659)
- changes in economic assumptions	663	269	932
- transfers	(4,989)	4,989	-
- loan impairment credit	(10,220)	8,236	(1,984)
- write-offs	-	(7,744)	(7,744)
Net movements during the year	(10,220)	492	(9,728)
At 31 March 2019	33,738	15,289	49,027
The Income Statement credit comprises:			
- loan impairment credit	(10,220)	8,236	(1,984)
- recoveries net of costs	-	(17,965)	(17,965)
Total Income Statement credit	(10,220)	(9,729)	(19,949)

Notes to the Financial Statements (continued)

10. Impairment on loans to customers and held for sale loans (continued)

Held for sale loans	Total £000
At 31 March 2018	3,105
Movement during the year:	
- sale of loans	(3,105)
At 31 March 2019	-

Total loans to customers and held for sale loans	Stage 2: Lifetime ECL £000	Stage 3: Lifetime ECL £000	Held for sale £000	Total £000
At 31 March 2018				54,865
Remeasurement on adoption of IFRS 9				6,995
At 1 April 2018	43,958	14,797	3,105	61,860
Movements during the year:				
- net repayments	(1,600)	343	-	(1,257)
- changes in estimates	(4,294)	2,635	-	(1,659)
- changes in economic assumptions	663	269	-	932
- transfers	(4,989)	4,989	-	-
- loan impairment credit	(10,220)	8,236	-	(1,984)
- sale of loans	-	-	(3,105)	(3,105)
- write-offs	-	(7,744)	-	(7,744)
Net movements during the year	(10,220)	492	(3,105)	(12,833)
At 31 March 2019	33,738	15,289	-	49,027
The Income Statement credit comprises:				
- loan impairment credit	(10,220)	8,236	-	(1,984)
- recoveries net of costs	-	(17,965)	-	(17,965)
Total Income Statement credit	(10,220)	(9,729)	-	(19,949)

Of the write-offs in the above table £7.7m were still subject to enforcement action at 31 March 2019.

Mortgage Express

Notes to the Financial Statements (continued)

11. Credit quality of loans to customers

Total loans to customers	**At 31 March 2020**		
	Stage 2: Lifetime ECL [1]	**Stage 3: Lifetime ECL [1]**	**Total**
	£000	**£000**	**£000**
- Up-to-date [2]	**913,821**	**48,118**	**961,939**
- 1 - 2 months in arrears	**41,005**	**24,882**	**65,887**
- 2 - 3 months in arrears	**11,389**	**18,721**	**30,110**
- Greater than 3 months in arrears	**-**	**83,192**	**83,192**
Outstanding balance	**966,215**	**174,913**	**1,141,128**

[1] *Further information as to which loans are categorised as Stage 2 and which as Stage 3 is provided in note 1(j).*
[2] *Up-to-date loans are those which are less than one month in arrears*

Included in Stage 3 loans above are £17.3m of loans that are in a cure period, on which £0.9m of impairment provisions are held.

Total loans to customers	At 31 March 2019		
	Stage 2: Lifetime ECL [1]	Stage 3: Lifetime ECL [1]	Total
	£000	£000	£000
- Up-to-date [2]	1,011,824	74,547	1,086,371
- 1 - 2 months in arrears	35,236	26,953	62,189
- 2 - 3 months in arrears	10,611	18,962	29,573
- Greater than 3 months in arrears	-	87,418	87,418
Outstanding balance	1,057,671	207,880	1,265,551

Included in Stage 3 loans above are £20.9m of loans that are in a cure period, on which £0.7m of impairment provisions are held.

In respect of loans to residential customers, the Company hold collateral in the form of mortgages over residential properties. The fair value of this collateral was as follows:

			31 Mar 2020
	Stage 2: Lifetime ECL	**Stage 3: Lifetime ECL**	**Total**
	£000	**£000**	**£000**
- Up-to-date	**1,517,574**	**81,829**	**1,599,403**
- 1 - 3 months in arrears	**84,380**	**69,889**	**154,269**
- Greater than 3 months in arrears	**-**	**126,254**	**126,254**
Total	**1,601,954**	**277,972**	**1,879,926**

Notes to the Financial Statements (continued)

11. Credit quality of loans to customers (continued)

	Stage 2: Lifetime ECL £000	Stage 3: Lifetime ECL £000	31 Mar 2019 Total £000
- Up-to-date	1,612,810	121,917	1,734,727
- 1 - 3 months in arrears	67,880	70,951	138,831
- Greater than 3 months in arrears	-	131,734	131,734
Total	1,680,690	324,602	2,005,292

If the collateral amount on each individual loan was capped at the amount of the balance outstanding and any surplus of collateral values over balances outstanding ignored, the fair value of collateral held would be as follows:

	Stage 2: Lifetime ECL £000	**Stage 3: Lifetime £000**	**31 Mar 2020 Total £000**
- Up-to-date	**904,092**	**46,993**	**951,085**
- 1 - 3 months in arrears	**52,318**	**43,358**	**95,676**
- Greater than 3 months in arrears	**-**	**80,850**	**80,850**
Total	**956,410**	**171,201**	**1,127,611**

	Stage 2: Lifetime ECL £000	Stage 3: Lifetime ECL £000	31 Mar 2019 Total £000
- Up-to-date	1,000,041	72,924	1,072,965
- 1 - 3 months in arrears	45,682	45,694	91,376
- Greater than 3 months in arrears	-	85,794	85,794
Total	1,045,723	204,412	1,250,135

The fair value of the collateral is estimated by taking the most recent valuation of the property and adjusting for house price inflation or deflation up to the Balance Sheet date. This value does not reflect any costs or discount that may arise if the mortgage was enforced.

Notes to the Financial Statements (continued)

11. Credit quality of loans to customers (continued)

The indexed loan to value ('LTV') of residential loan balances, weighted by loan balance, falls into the following ranges:

	At 31 March 2020	At 31 March 2019
	%	%
To 50%	**14.4**	12.8
50% to 75%	**54.1**	47.7
75% to 100%	**25.9**	33.8
Over 100%	**5.6**	5.7
Total	**100.0**	100.0

The average indexed loan to value based on simple average 60.7% (2019: 63.1%) and on weighted average is 69.2% (2019: 70.4%)

The residential impairment provision coverage by indexed loan to value ('LTV') ranges is as follows:

	At 31 March 2020	At 31 March 2019
	%	%
To 50%	**0.5**	0.5
50% to 75%	**0.9**	1.0
75% to 100%	**5.0**	5.0
Over 100%	**31.8**	29.3
Total	**3.6**	3.9

Arrears and possessions - total		At 31 March 2020	At 31 March 2019
Arrears			
3 months and over			
Number of cases	Number	**495**	489
Proportion of total	%	**6.01**	5.39
Asset value	£m	**77.3**	75.7
Proportion of book	%	**6.78**	5.98
Possessions			
Number of cases	Number	**53**	62
Proportion of total	%	**0.64**	0.68
Asset value	£m	**8.7**	8.8
Proportion of book	%	**0.76**	0.69
Total arrears 3 months and over and possessions			
Number of cases	Number	**548**	551
Proportion of total	%	**6.65**	6.07
Asset value	£m	**86.0**	84.5
Proportion of book	%	**7.54**	6.67

Mortgage Express

Notes to the Financial Statements (continued)

11. Credit quality of loans to customers (continued)

Analysis of accounts in 3 months and over in arrears by product		At 31 March 2020	At 31 March 2019
Arrears			
Buy-to-let			
Number of cases	Number	**134**	145
Proportion of total	%	**4.36**	4.33
Asset value	£m	**19.5**	20.9
Proportion of book	%	**4.79**	4.71
Self-certified			
Number of cases	Number	**209**	192
Proportion of total	%	**7.01**	5.79
Asset value	£m	**35.1**	32.3
Proportion of book	%	**8.03**	6.56
Standard and other			
Number of cases	Number	**152**	152
Proportion of total	%	**6.96**	6.29
Asset value	£m	**22.7**	22.5
Proportion of book	%	**7.65**	6.82

In the above table the asset value, total book and total balances represent outstanding balances and not fair values.

Given the current challenging economic circumstances, the number of customers in arrears is expected to increase during 2020/21 once the impact of payment holidays has worked through.

Notes to the Financial Statements (continued)

12. Other liabilities

	At 31 March 2020	At 31 March 2019
	£000	£000
Mortgage related and operational costs	**2,664**	542
Accruals and deferred income	**347**	1,498
Total	**3,011**	2,040

13. Deferred taxation

The movements in the Company's temporary differences during the current and previous year were as follows:

	At 1 April 2019	**Recognised in income**	**Recognised in equity**	**At 31 March 2020**
	£000	**£000**	**£000**	**£000**
Fair value reserve	**(2,896)**	**-**	**10,648**	**7,752**
Impairment of loans to customers	**1,084**	**(21)**	**-**	**1,063**
Total	**(1,812)**	**(21)**	**10,648**	**8,815**

	At 1 April 2018	Impact of adoption of IFRS 9	Recognised in income	Recognised in equity	At 31 March 2019
	£000	£000	£000	£000	£000
Fair value reserve	-	(9,199)	-	6,303	(2,896)
Impairment of loans to customers	-	1,217	(133)	-	1,084
Total	-	(7,982)	(133)	6,303	(1,812)

Notes to the Financial Statements (continued)

14. Provisions

	Provision for customer redress	
	2020	2019
	£000	£000
Provisions balance at start of year	**660**	1,301
Utilised in the year	**-**	(641)
Transferred to parent	**(660)**	-
Provisions balance at end of year	**-**	660

The Company remains committed to doing the right thing for our customers and where we identify issues that have caused customer detriment, we will ensure that they are fully remediated.

15. Share capital

	At 31 March 2020	At 31 March 2019
	£000	£000
Ordinary shares of £1 each (100,004,250 shares)	**100,004**	100,004

In accordance with the Companies Act 2006, the Company no longer has 'authorised capital' other than its issued capital.

The ordinary shares rank equally in respect of rights attached to voting, dividends and in the event of a winding up.

In March 2020 the Company declared an interim dividend of £230m which was funded by a loan from B&B to the Company, which equates to 230p per ordinary share. No other dividends were declared or paid in the current year on the Company's shares. No dividends have been proposed by the date of the approval of these Financial Statements.

16. Fair value reserve

	£000
At 1 April 2019	**12,347**
Amounts recognised in equity	**(45,394)**
At 31 March 2020	**(33,047)**

The fair value reserve represents cumulative fair value movements on assets carried at FVOCI.

Notes to the Financial Statements (continued)

17. Related party disclosures

The Income Statement includes the following transactions with related parties:

	12 months to 31 March 2020	12 months to 31 March 2019
	£000	£000
Mortgage processing and servicing fees charged by B&B	(26,335)	(21,951)

The balances due to related parties were as follows:

	Due to B&B	Due to UKAR	Total
	£000	£000	£000
Loan balance outstanding at 1 April 2019	849,655	-	849,655
Dividend	230,000	-	230,000
Loan reassigned	(445,000)	445,000	-
Other movements	(138,732)	5,007	(133,725)
Loan balance outstanding at the end of the year	495,923	450,007	945,930

	Due to B&B	Total
	£000	£000
Loan balance outstanding at 1 April 2018	2,790,576	2,790,576
Dividend	445,000	445,000
Other movements	(2,385,921)	(2,385,921)
Loan balance outstanding at 31 March 2019	849,655	849,655

	12 months to 31 March 2020	12 months to 31 March 2019
	£000	£000
Interest charged by B&B	7,063	31,472
Interest charged by UKAR	5,007	-
	12,070	31,472

The reduction in the loan balance is principally due to the repayments and redemptions of Loans to customers received by B&B. During the year B&B assigned the £445m dividend loan to UKAR. These balances are included within 'amounts due to Group undertakings'. The balances are payable on demand.

The Company declared a dividend of £230m during the year which was funded by a loan from B&B to the Company (see note 15).

The remuneration of the Directors is paid by B&B and no part of their remuneration is specifically attributable to their services to the Company. The Company's key management personnel are its Directors. The Company had no transactions or balances with its key management personnel during the current or preceding financial years.

Auditors' remuneration of £133,000 (2019: £139,000) was borne by the Company's parent undertaking B&B.

The accruals and deferred income balance includes accruals totalling £347,000 (2019: £1,498,000) in respect of costs due to be paid by B&B and recharged to the Company.

Notes to the Financial Statements (continued)

18. Financial instruments

(a) Categories of financial assets and financial liabilities: carrying value compared to fair value

The following table summarises the carrying amounts and fair values of financial assets and liabilities.

At 31 March 2020	Amortised cost £000	FVOCI £000	Total carrying value £000	Fair value £000
Financial assets:				
Cash at bank and in hand	765	-	765	765
Loans to customers	-	1,058,800	1,058,800	1,058,800
Total financial assets	**765**	**1,058,800**	**1,059,565**	**1,059,565**

	Liabilities at amortised cost £000	Total carrying value £000	Fair value £000
Financial liabilities:			
Amounts due to Group undertakings	945,930	945,930	945,930
Other financial liabilities	3,011	3,011	3,011
Total financial liabilities	**948,941**	**948,941**	**948,941**

At 31 March 2019	Amortised cost £000	FVOCI £000	Total carrying value £000	Fair value £000
Financial assets:				
Cash at bank and in hand	10,788	-	10,788	10,788
Loans to customers	-	1,231,728	1,231,728	1,231,728
Total financial assets	10,788	1,231,728	1,242,516	1,242,516

	Liabilities at amortised cost £000	Total carrying value £000	Fair value £000
Financial liabilities:			
Amounts due to Group undertakings	849,655	849,655	849,655
Other financial liabilities	2,040	2,040	2,040
Total financial liabilities	851,695	851,695	851,695

No financial assets or liabilities were reclassified during the current or previous year between amortised cost and fair value categories.

Mortgage Express

Notes to the Financial Statements (continued)

18. Financial instruments (continued)

(b) Interest income and expense by category of financial instrument

	12 months to 31 March 2020	12 months to 31 March 2019
	£000	£000
Interest income recognised on an EIR method:		
On equity release mortgages	-	26,890
On loans to customers carried at amortised cost	**38,758**	44,305
Total interest income recognised on an EIR method	**38,758**	71,195
On financial liabilities carried at amortised cost	**12,070**	31,472
Total interest expense per the Income Statement	**12,070**	31,472

(c) Impaired financial assets

Allowance accounts for credit losses in respect of impairment of loans to customers and held for sale loans are detailed in note 10. No impairment allowance has been recognised in respect of any other class of financial asset, and no other class of financial asset includes assets that are past due.

(d) Fair value measurement

Financial assets and liabilities carried at fair value are valued on the following bases:

	Level 1	**Level 2**	**Level 3**	**Total**
At 31 March 2020	**£000**	**£000**	**£000**	**£000**
Financial assets:				
Loans to customers	-	-	**1,058,800**	**1,058,800**
Total financial assets	-	-	**1,058,800**	**1,058,800**

	Level 1	Level 2	Level 3	Total
At 31 March 2019	£000	£000	£000	£000
Financial assets:				
Loans to customers	-	-	1,231,728	1,231,728
Total financial assets	-	-	1,231,728	1,231,728

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability, whether directly (i.e. as price) or indirectly (i.e. derived from the implications of prices).

Level 3: Inputs for the asset or liability that are not based on observable market data, or have significant unobservable inputs.

There were no transfers between Levels 1, 2 and 3 during the year (2019: none).The methodology for calculating the fair value of loans to customers is detailed in note 2(b).

The same methodology is used for loans to customers which are held for sale, but taking into account indicative sale prices if these are available.

Notes to the Financial Statements (continued)

18. Financial instruments (continued)

(d) Fair value measurement (continued)

For financial assets and liabilities which are not carried at fair value, the fair values disclosed in note 18(a) are calculated on the following basis:

At 31 March 2020	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial assets:				
Cash at bank and in hand	**765**	**-**	**-**	**765**
	765	**-**	**-**	**765**
Financial liabilities:				
Amounts due to Group undertakings	**945,930**	**-**	**-**	**945,930**
Other financial liabilities	**-**	**3,011**	**-**	**3,011**
	945,930	**3,011**	**-**	**948,941**

At 31 March 2019	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets:				
Cash at bank and in hand	10,788	-	-	10,788
	10,788	-	-	10,788
Financial liabilities:				
Amounts due to Group undertakings	849,655	-	-	849,655
Other financial liabilities	-	2,040	-	2,040
	849,655	2,040	-	851,695

Valuation methods for calculations of fair values in the table above are as follows:

Cash at bank and in hand
The fair value is estimated to be the carrying amount as the balances are considered to be repayable on demand.

Amounts due to Group undertakings
The fair value is estimated to be their carrying amount as the balances are considered to be repayable on demand.

Other financial liabilities
Fair value approximates to carrying value because the balances are short term in nature.

(e) Offsetting

No financial assets have been offset against financial liabilities, and none are subject to enforceable master netting arrangements or similar agreements.

Notes to the Financial Statements (continued)

19. Financial risk management

The Company does not enter into transactions involving financial assets or liabilities which are listed or publicly traded or for which a liquid market exists.

The main financial risks arising from the Company's activities are credit risk, liquidity risk and market risk (interest rate risk).

(a) Credit risk
Credit risk is the potential for financial loss caused by a party failing to meet an obligation as it becomes due. Credit risk arises in the normal course of the Company's business, principally on its loans to customers. The Company's exposure to credit risk is managed within the framework operated by B&B. The Company has a credit policy in place and exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers. For further details refer to the 2019/20 Annual Report and Accounts of B&B.

The maximum credit risk exposure at the Balance Sheet date before taking account of any collateral netting and other credit enhancements was as follows:

	At 31 March 2020	At 31 March 2019
	£000	£000
Cash at bank and in hand	**765**	10,788
Loans to customers*	**1,141,128**	1,265,551
Total on Balance Sheet	**1,141,893**	1,276,339
Irrevocable undrawn facilities (off balance sheet) (note 21)	**2,300**	2,390
Total maximum exposure to credit risk	**1,144,193**	1,278,729

* *Outstanding balances*

Loans to customers include loans which are secured on property; additional information in respect of credit risk on loans to customers is provided in note 11. In respect of loans to customers, credit risk is managed by reference to the balances outstanding and not the IFRS 9 fair value.

Additional information in respect of credit risk on cash at bank and in hand is provided in note 8.

Mortgage Express

Notes to the Financial Statements (continued)

19. Financial risk management (continued)

(b) Liquidity risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due. The Company is funded by B&B and as a result liquidity risk is managed within the B&B Group. For further details refer to the 2019/20 Annual Report and Accounts of B&B.

It should be noted that some financial instruments are settled earlier than their contractual maturity dates; in particular, many mortgage loans are repaid early.

The contractual maturities of the Company's financial assets and liabilities were as follows:

At 31 March 2020

	On demand	Within three months	After three months but within one year	After one year but within five years	After five years	Total
	£000	£000	£000	£000	£000	£000
Financial assets						
Cash at bank and in hand	765	-	-	-	-	765
Loans to customers *	28,017	6,813	18,916	148,387	897,468	1,099,601
Total financial assets	28,782	6,813	18,916	148,387	897,468	1,100,366

* *Outstanding balances less impairment provisions at 31 March 2020.*

At 31 March 2020

	On demand	Within three months	After three months but within one year	After one year but within five years	After five years	Total
	£000	£000	£000	£000	£000	£000
Financial liabilities						
Amounts due to Group undertakings	945,930	-	-	-	-	945,930
Other financial liabilities	-	3,011	-	-	-	3,011
Total financial liabilities	945,930	3,011	-	-	-	948,941

Notes to the Financial Statements (continued)

19. Financial risk management (continued)

(b) Liquidity risk (continued)

At 31 March 2019

	On demand	Within three months	After three months but within one year	After one year but within five years	After five years	Total
	£000	£000	£000	£000	£000	£000
Financial assets						
Cash at bank and in hand	10,788	-	-	-	-	10,788
Loans to customers *	39,515	6,891	19,989	158,514	991,615	1,216,524
Total financial assets	50,303	6,891	19,989	158,514	991,615	1,227,312

** Outstanding balances less impairment provisions at 31 March 2019.*

At 31 March 2019

	On demand	Within three months	After three months but within one year	After one year but within five years	After five years	Total
	£000	£000	£000	£000	£000	£000
Financial liabilities						
Amounts due to Group undertakings	849,655	-	-	-	-	849,655
Other financial liabilities	-	2,040	-	-	-	2,040
Total financial liabilities	849,655	2,040	-	-	-	851,695

For the Company's financial liabilities repayable within three months, the undiscounted cash flows associated with the Company's financial liabilities equal the contractual maturities shown above.

Assets and liabilities with a remaining period to contractual maturity of within one year are classed as current and those with a remaining period of more than one year are classed as non-current.

Other assets and liabilities are included in the above table according to the earliest date that payment can be contractually demanded. It should be noted that many financial instruments are settled earlier than their contractual maturity date; in particular, many mortgage loans are repaid early, in full or in part.

Notes to the Financial Statements (continued)

19. Financial risk management (continued)

(c) Market risk
The most significant market risk in respect of balance sheet value is the fair value of loans to customers. The sensitivity of the fair value of the Company's loans to customers to discount rates (which are sensitive to interest rates) and economic scenarios is disclosed in note 2(b).

Other market risks
At the year end the Company had no other material exposure to market risks.

(d) Concentration risk
The Company operates primarily in the UK, and adverse changes to the UK economy could impact all areas of the Company's business. Residential loans to customers are all secured on property in the UK. Based on outstanding balances, 36% (2019: 33%) of residential loans to customers are concentrated in the buy-to-let market; most of the remaining balances are secured on residential owner-occupied properties.

20. Capital structure

The Company is regulated under MIPRU rules. MIPRU regulation is applied at individual company level, not at Group level. While FCA rules require the Company to hold capital in excess of 1% of total Balance Sheet assets plus any undrawn commitments, the Board believes it appropriate to hold a higher level of capital and as at 31 March 2020 capital in the Company represented 11.2% (2019: 30.3%) of the Company's assets. In early March 2020 Mortgage Express distributed a dividend of £230.0m. The subsequent impact of the Pandemic on the fair value of the Company's mortgage book reduced capital to 105% of the Board's assessed requirement, below its target of 125%. FCA requirements were met at all times.

The table below sets out the Company's regulatory capital resources under MIPRU.

	At 31 March 2020	At 31 March 2019
	£000	£000
Share capital and reserves	**119,439**	388,349
Fair value reserve adjustments	-	(12,347)
Total capital	**119,439**	376,002

The primary objectives of the Company's capital management are to maintain capital resources to support the objectives of the business, to cover risks inherent in its activities and to ensure compliance with externally imposed capital requirements. The capital structure is managed in response to changes in the nature of the Company's activities and economic conditions.

The Company defines equity as capital. Capital excludes accounting reserves for assets carried at FVOCI under IFRS 9 and hence capital is unaffected by IFRS 9 fair value movements on loans to customers. The Company's capital adequacy and capital resources are managed and monitored in accordance with the regulatory capital rules of the FCA. The Company must at all times monitor and demonstrate compliance with the relevant regulatory capital requirements of the FCA. The required capital information is filed with the FCA on a quarterly basis.

In March 2020 the Company declared an interim dividend of £230m, which equates to 230p per ordinary share.

Notes to the Financial Statements (continued)

21. Commitments

	At 31 March 2020	At 31 March 2019
	£000	£000
Irrevocable undrawn loan facilities	**2,300**	2,390

Loan facilities represent contractual amounts to which the Company is committed for extension of credit to customers. The commitment comprises cash which could be drawn down by customers in respect of amounts previously overpaid.

22. Financing activities

This note provides disclosure of movements during the year in the liabilities which the Company categorises for the purposes of the Cash Flow Statement as financing.

	2020	2019
	Amounts due to Group undertakings	Amounts due to Group undertakings
	£000	£000
Principal balance at start of year	**849,655**	2,790,576
Principal repayments	**(147,780)**	(2,429,701)
Dividend	**230,000**	445,000
Interest	**12,070**	31,472
Transfer of provision	**660**	-
Group corporation tax relief	**1,325**	12,308
Principal balance at end of year	**945,930**	849,655

23. Contingent liabilities

The Company's lending and other consumer credit business is governed by consumer credit law, the FCA's Mortgage Conduct of Business ('MCOB') rules and other laws and regulations. The Company's contractual relationships with its customers are also determined by the specific product terms and conditions which applied when products were sold. Claims upheld in favour of customers in relation to potential breaches of contractual terms or other requirements could result in costs to the Company. It is not possible to provide any meaningful estimate or range of the possible cost.

Mortgage Express

Notes to the Financial Statements (continued)

24. Ultimate parent undertaking and controlling party

B&B, a public limited company incorporated and domiciled in the United Kingdom, is the Company's immediate parent undertaking. The Company's Financial Statements are consolidated into the Financial Statements of the B&B Group.

All shares in B&B were transferred to the Treasury Solicitor as nominee for HM Treasury on 29 September 2008 as a result of The Bradford & Bingley plc Transfer of Securities and Property etc. Order 2008. On 1 October 2010 all shares in B&B were acquired via a share-for-share exchange by UKAR, a private limited company incorporated and domiciled in the United Kingdom, which is wholly owned by the Treasury Solicitor as nominee for HM Treasury. The Company considers the UK Government to be its ultimate controlling party. UKAR heads the largest group of companies into which the financial statements of the Company are consolidated. Copies of the financial statements of UKAR may be obtained from the Company Secretary at P.O. Box 88, Croft Road, Crossflatts, Bingley BD16 2UA. B&B heads the smallest group of companies into which the Financial Statements of the Company are consolidated. Copies of the Financial Statements of B&B may be obtained from the Company Secretary at P.O. Box 88, Croft Road, Crossflatts, Bingley BD16 2UA. The results of the UKAR group are consolidated into the Annual Report and Accounts of HM Treasury which are available at www.gov.uk/official-documents.

25. Events after the reporting period

As detailed in note 2, market sentiment has continued to evolve since the balance sheet date, with a growing expectation that the Pandemic will result in a deeper and longer recession than the economic scenarios applicable at 31 March 2020. As a result of the challenging economic circumstances we expect the number of customers in arrears to increase during 2020/21 with a consequent increase in loss provisions. Note 2 details the sensitivity of the Company's loss provisions to the assumptions used.