COUNTIES HOME LOAN MANAGEMENT LIMITED

Company No: 2436601

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended: 31 December 2015

COUNTIES HOME LOAN MANAGEMENT LIMITED

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 2015

1 DIRECTORS

The Directors during the year were:

Rodger Hughes (Chairman) - appointed 30 April 2015
Polly Williams (Chairman) - resigned 30 April 2015
Christopher Fry
Christopher Croft

2 COMPANY DETAILS

Counties Home Loan Management Limited ("the Company") is a wholly owned subsidiary of National Counties Building Society, which is registered in England and Wales, whose principal place of business is Ebbisham House, 30 Church Street, Epsom, Surrey KT17 4NL where Group accounts of the Society may be obtained from the Secretary.

The Company has no branches outside of the UK.

3 DIRECTORS' INTERESTS

There have been no significant contracts during the year in which any Director has had a material interest.

4 REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

The principal activity of the Company is the provision of mortgage related finance following the purchase of mortgage books from other financial institutions.

As a wholly owned subsidiary of National Counties Building Society, the Company's principal risks and uncertainties and financial risk management objectives and policies are managed in the context of the National Counties Group as a whole. Full disclosure of principal risks and risk management is made in the Directors' Report of the National Counties Building Society Annual Report and Accounts.

5 RESULTS & DIVIDEND

The results for the year are shown on page 4. The profit after tax for the financial year is £574,087 (2014: £1,511,615 profit as restated). The Directors have declared a dividend of £nil for the year (2014: £300,000). The retained profit of £574,087 will be transferred to reserves.

6 AUDITOR

A resolution to re-appoint KPMG LLP as Auditor to the Company will be proposed at the Annual General Meeting.

7 DISCLOSURE OF INFORMATION TO THE AUDITOR

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

8 GOING CONCERN

The Directors have considered the Company's ability to continue as a going concern and, after due enquiry, believe that the Company has sufficient resources to continue operating for the foreseeable future, with the full support of the group of which it is a part. Accordingly, the financial statements have been prepared on a going concern basis.

Signed on behalf of the Board

Rodger Hughes

Rodger Hughes

Chairman

Counties Home Loan Management Limited
Company registration number - 2436601
Ebbisham House
30 Church Street
Epsom
Surrey KT17 4NL

29 February 2016

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the 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 year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland.*

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Rodger Hughes

Rodger Hughes
Chairman

29 February 2016

Christopher Fry
Director

29 February 2016

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF COUNTIES HOME LOAN MANAGEMENT LIMITED

We have audited the financial statements of Counties Home Loan Management Limited for the year ended 31 December 2015 set out on pages 4 to 19. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland.*

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 2, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the Directors' were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.

Richard Gabbertas (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

One Snowhill

Snow Hill Queensway

Birmingham

B4 6GH

29 February 2016

COUNTIES HOME LOAN MANAGEMENT LIMITED

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015	2014 (restated)
		£	£
Interest receivable and similar income	3	**4,134,498**	4,242,066
Interest payable and similar charges	4	**(3,176,628)**	(3,288,597)
Net interest income		**957,870**	953,469
Fees and commissions receivable		**11,730**	16,517
Fees and commissions payable		**(170)**	(1,516)
Net (losses)/gains from financial instruments		**(256,975)**	1,012,347
Total income		**712,455**	1,980,817
Administrative expenses		**(130,635)**	(135,524)
Operating profit before impairment losses and provisions		**581,820**	1,845,293
Provision for impairment losses on loans and advances	7	**(17,855)**	62,049
Profit before tax		**563,965**	1,907,342
Tax credit/(expense)	8	**10,122**	(395,727)
Profit for the financial year		**574,087**	1,511,615

The above results are all derived from continuing activities.

The Company has no recognised gains/losses other than those for the years shown above.

The impact of adopting FRS 102 on the previously reported 2014 numbers is shown in note 19.

The notes on pages 8 to 19 form an integral part of these financial statements.

COUNTIES HOME LOAN MANAGEMENT LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015	2014 (restated)
		£	£
Profit for the financial year		**574,087**	1,511,615
Other comprehensive income for the year		**-**	-
Total comprehensive income for the year		**574,087**	1,511,615

The notes on pages 8 to 19 form an integral part of these financial statements.

COUNTIES HOME LOAN MANAGEMENT LIMITED
Company No: 2436601

STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2015

	Note	2015	2014 (restated)
		£	£
ASSETS			
Loans and advances to customers	10	98,905,876	102,318,821
Debtors	11	11,064	3,156
Deferred tax asset	9	191,000	225,919
		99,107,940	102,547,896
LIABILITIES			
Creditors: amounts falling due within one year	12	(54,781,472)	(58,969,660)
Creditors: amounts falling due after more than one year	13	(42,024,462)	(42,107,292)
Derivative financial instruments	14	(1,166,762)	(909,787)
		1,135,244	561,157
CAPITAL AND RESERVES			
Called-up share capital	15	2	2
Reserves	16	1,135,242	561,155
EQUITY SHAREHOLDERS' FUNDS		1,135,244	561,157

The notes on pages 8 to 19 form an integral part of these financial statements.

The impact of adopting FRS 102 on the previously reported 2014 numbers is shown in note 19.

These accounts were approved by the Board of Directors on 29 February 2016 and were signed on its behalf by:

Rodger Hughes

Rodger Hughes
Chairman

Christopher Fry
Director

COUNTIES HOME LOAN MANAGEMENT LIMITED

STATEMENT OF CHANGE IN SHAREHOLDERS' FUNDS

AT 31 DECEMBER 2015

2015	Called up share capital £	Reserves £	Total £
Balance as at 1 January 2015	2	561,157	561,159
Profit for the financial year	-	574,087	574,087
Other comprehensive income	-	-	-
Balance as at 31 December 2015	2	1,135,244	1,135,246
2014			
Balance as at 1 January 2014	2	(650,460)	(650,458)
Profit for the financial year	-	1,511,615	1,511,615
Dividend paid	-	(300,000)	(300,000)
Other comprehensive income	-	-	-
Balance as at 31 December 2014	2	561,155	561,157

The notes on pages 8 to 19 form an integral part of these financial statements.

1 ACCOUNTING POLICIES

1.1 Basis of preparation

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

The accounts have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102 (FRS 102) including IAS 39 Financial Instruments: Recognition and Measurement as permitted in Chapter 11 of FRS 102.

The Company transitioned from UK GAAP to FRS 102 with effect from 1 January 2014. An explanation of how this transition to FRS 102 has affected the previously reported financial position and performance is given in note 19.

The preparation of the accounts in accordance with FRS 102 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates. Details of the critical accounting estimates and judgements in applying the accounting policies are set out in note 2.

As noted in the Directors' report, the Directors are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future and therefore these Accounts are prepared on the going concern basis.

1.2 Interest receivable and payable

Interest income and interest expense for all interest bearing financial assets and liabilities that are measured at amortised cost, are recognised in interest receivable and interest payable in the Income Statement using the effective interest rate method.

The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. Premiums incurred on acquisition of mortgage books are included in the calculation of the effective interest rate. This has the effect of spreading these costs over the expected life of the mortgage. Expected lives are estimated using historic data and management judgement and the calculation is adjusted when actual experience differs from estimates, with the impact of these changes in estimates on the net carrying amount of the asset or liability being recognised immediately in the Income Statement.

Interest on impaired financial assets is recognised at the effective interest rate for the relevant loan. To the extent that interest is not expected to be recovered an allowance for this is included in the provisions for impairment losses.

1.3 Fees and commissions receivable and payable

Fees and commissions receivable and payable that are not part of the effective interest rate are recognised in the period during which they are earned or incurred.

1.4 Financial assets

The Company's loans and advances to customers are classified as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company values its loans and receivables at amortised cost less any impairment provisions. Premiums incurred on the acquisition of mortgage books are included in the value of the loan and then recognised over the expected life of the loan as part of the effective interest rate. Any short-term discount rate or fixed interest rate will be included within the initial effective interest rate calculation and spread over the expected life of the loan. Throughout the year and at each year end, the assumptions made around the average life of the loan are reviewed for appropriateness. The impact of any change to these assumptions on the values of the loans carried in the Statement of Financial Position will be recognised immediately through interest receivable and similar income and reflected in the carrying value of those assets.

1.5 Provision for impairment losses on loans and advances

Provisions are made to reduce the value of loans and advances secured on property to the amount which the Directors consider to be recoverable.

The company assesses during the year and at each year end date whether there is objective evidence that a loan is impaired. Objective evidence of impairment can be defined as one or more events occurring after the initial recognition of the loan that have an impact on the estimated future cash flows of the loan that can be reliably estimated.

The Company first assesses whether objective evidence of impairment exists for loans using the following criteria:

* when those properties are in possession, or,
* when monthly repayments on the loans have not been maintained for one month or more, or,
* when forbearance has been exercised in the conduct of the account due to actual or apparent financial stress of the borrower, whether in arrears or not, or,
* when there is other objective evidence of loan impairment.

If there is objective evidence of impairment of an individual loan, the amount of the loss is measured as the difference between the outstanding loan balance and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. This calculation takes into account the Company's experience of default rates, collection periods, the effect of regional movements in house prices based upon a recognised index, adjustments to allow for a forced sale valuation and costs of the property sale. If this calculation shows a potential loss against the loan's carrying value then this is recognised in the Income Statement and included in the Statement of Financial Position.

Where a loan is not recoverable, it is written off against the related provision for loan impairment once all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the Income Statement.

1 ACCOUNTING POLICIES (CONTINUED)

1.5 Provision for impairment losses on loans and advances (continued)

For the remainder of the loans where no objective evidence of impairment has been identified at the reporting date, the loans are grouped together based on those with similar credit risk characteristics and they are collectively assessed for impairment.

A collective provision is made against a group of loans and advances where there is objective evidence based on the Company's experience that credit losses have been incurred, but not yet identified at the reporting date.

Where certain emerging impairment characteristics are considered significant but have not been included as part of the impairment calculation, management may elect to apply an overlay to the calculated impairment provision to ensure the Company has sufficient impairment provisions at the Statement of Financial Position date.

The amount charged in the Income Statement represents the net change in the individual and collective provisions, after allowing for impairment losses written off in the year and impairment recoveries.

Provisions for impairment losses on loans and advances are deducted from loans and advances to customers in the Statement of Financial Position. Interest on impaired financial assets is recognised at the effective interest rate for the relevant loan. To the extent that interest is not expected to be recovered an allowance for this is included in the provisions for impairment losses.

1.6 Financial instruments

Included within the loans and advances to customers is a pool of lifetime mortgage loans. The mortgage contracts contain a no negative equity guarantee which is treated as an embedded derivative with the fair value of this liability included in the Statement of Financial Position and changes in the fair value immediately recognised in the Income Statement.

1.7 Deferred taxation

Deferred taxation is recognised in full, without discounting, in respect of all such timing differences which have arisen but not reversed by the Statement of Financial Position date, except as otherwise required by FRS 102.

1.8 Cash flow Statement

The Company is exempt from the requirement to present a cash flow statement under FRS 102 on the basis that it is a wholly owned subsidiary of National Counties Building Society and the Annual Report and Accounts of National Counties Building Society in which the Company is included are publicly available.

1.9 Intra-Group Transactions

Where appropriate, advantage has been taken of the exemption available in FRS 102, not to disclose intra-group transactions.

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These are described below:

2.1 Effective interest rate – expected mortgage lives

The calculation of an effective interest rate requires the Company to make assumptions around the average expected lives of mortgage loans. In determining these expected lives the Company uses historical and forecast redemption data as well as management judgement. These assumptions are regularly reviewed for reasonableness taking into account changes in actual experience. If the Directors consider that a change in assumption is needed the impact of the change on the carrying value of the loans would be reflected immediately in the Income Statement.

If the average lives of the mortgage loans were to increase by 1 month, there would be an insignificant impact on the carrying value of mortgages.

2.2 Impairment losses on loans and advances

The creation of impairment provisions for a portfolio of mortgage loans is inherently uncertain and requires the exercise of a significant degree of judgment.
Provisions are calculated using historic default and loss experience, but require judgment to be exercised in predicting future economic conditions (e.g. interest rates and house prices), customer behaviour (e.g. default rates), the length of time before impairments are identified (emergence period) and the length of time before a security is taken into possession and sold (collection period) . The accuracy of the provision would therefore be affected by unexpected changes to these assumptions.
The most critical estimate is of the level of house prices where a further property value reduction of 10% would increase the loss provision by £28,000. Other sensitivities include the emergence period, although an increase of six months in this period would have an insignificant impact on the loss provision.

2.3 Deferred tax assets

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. The recognition of the deferred tax asset is dependent upon the projection of future taxable profits and future reversals of existing taxable temporary differences and it is necessary for management to evaluate whether the deferred tax asset has arisen due to temporary factors or is instead indicative of a permanent decline in earnings.

Management has made detailed forecasts of future taxable income in order to determine that profits will be available to offset the deferred tax asset. These projections are based on business plans, future capital requirements and current and future economic conditions.

The assumption surrounding changes in market interest rates represent the most subjective areas of judgment in management's projections of future taxable profits. Management's forecasts support the assumption that it is probable that the results of future operations will generate sufficient taxable income to utilise the deferred tax asset and it is on this basis that the deferred tax asset has been recognised. Deferred tax has been recognised at the relevant rates which will be in place when the tax differences are expected to reverse in the future.

2.4 Lifetime Mortgages

The Company's mortgage portfolio includes a pool of lifetime mortgages. All the loans were advanced at low loan to value ratios and the rates of interest charged are fixed for the duration of the mortgage. Borrowers do not make monthly repayments and instead under their contractual terms interest is capitalised within the balance and becomes repayable on redemption of the loan.

The mortgage contract for these loans contains a clause where in certain circumstances, if the amount received on the sale of the property on redemption of the loan is less than the contractual loan balance due to the company, the company cannot pursue the borrower or the estate for the shortfall – a No Negative Equity Guarantee (NNEG). This exposes the company to the risk that the redemption balance may not be fully recovered. This exposure is represented in the Statement of Financial Position as a derivative instrument and any change in the value of this exposure results in a change in the value of this derivative which is immediately recognised in the Income Statement. As redemptions can be many years in the future, the value of this derivative is most sensitive to the value of the property at redemption. A small change in the expected future house price inflation assumptions can have a notable impact on the estimated redemption proceeds from the property sale.

If house price inflation was 0.5% per annum lower than forecast the Company's NNEG derivative value would increase by £1.7m resulting in an additional charge of £1.7m to the income statement.

	2015	2014 (restated)
3 INTEREST RECEIVABLE	£	£
Mortgage interest	4,134,498	4,242,066
4 INTEREST PAYABLE		
Interest payable on loan from parent undertaking	3,176,628	3,288,597
5 AUDITOR'S REMUNERATION		
Remuneration of Auditor - fee (exc VAT) for audit of these financial statements (borne by the Company's parent undertaking)	5,640	5,640

6 DIRECTORS AND EMPLOYEES

None of the Directors received any emoluments for their services to the Company during the years covered by the accounts.
The Company's parent undertaking, National Counties Building Society, provides employee services to administer this Company for which a charge is made. The Company itself has no employees.

		2015	2014 (restated)
7 PROVISION FOR IMPAIRMENT LOSSES ON LOANS AND ADVANCES		£	£
At 1 January	Individual provision	97,030	158,718
	Collective provision	27,189	27,550
		124,219	186,268
Amounts written off in the year	Individual provision	-	-
	Collective provision	-	-
		-	-
Charge/(credit) for the year	Increase/(decrease) in provision during the year:		
	Individual provision	19,894	(61,688)
	Collective provision	(2,039)	(361)
		17,855	(62,049)
At 31 December	Individual provision	116,924	97,030
	Collective provision	25,150	27,189
		142,074	124,219

	2015	2014 (restated)
8 TAX EXPENSE		
Current tax	92,696	189,816
Adjustments in respect of prior years	(137,737)	-
	(45,041)	189,816
Deferred tax - current year	34,919	205,911
Tax (credit)/charge for the year	(10,122)	395,727

Factors affecting the corporation tax (credit)/charge for the year

The total tax (credit)/charge for the year differs from that calculated using the UK standard rate of corporation tax. The differences are explained below:

	2015	2014 (restated)
Tax on profit at the standard rate of corporation tax of 20.25% (2014: 21.5%)	114,203	410,079
Prior year adjustment	(137,737)	-
Corporation and deferred tax rate differences	13,412	(14,352)
Tax (credit)/expense for the year	(10,122)	395,727

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective from 1 April 2020) were substantively enacted on 26 October 2015. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31 December 2015 has been calculated based on these rates.

	2015	2014 (restated)
9 DEFERRED TAX	£	£
Movement on deferred tax		
At 1 January as reported	225,919	68,000
FRS 102 transitional adjustments	-	363,830
At 1 January as restated	225,919	431,830
Income statement charge	(34,919)	(205,911)
At 31 December	191,000	225,919

The deferred tax asset is attributable to the following items:

	2015	2014 (restated)
Premium amortisation timing difference	48,000	55,000
Collective loss provision	5,000	5,000
FRS 102 transitional adjustments	138,000	165,919
	191,000	225,919

The FRS 102 transistional adjustments reverse over the next 9 years and the expected reversal in 2016 is £17,000.

10 LOANS AND ADVANCES TO CUSTOMERS

Loan maturity analysis

Mortgage accounts have remaining maturities from the Statement of Financial Position date as follows:

	2015	2014 (restated)
Repayable on call and at short notice	385,306	305,235
In not more than three months	-	167,160
In more than three months but not more than one year	101,598	101,529
In more than one year but not more than five years	4,915,462	4,168,651
In more than five years	91,814,025	95,633,930
Effective interest rate adjustment	1,831,559	2,066,535
Provision for impairment losses on loan and advances (*note 7*)	(142,074)	(124,219)
	98,905,876	102,318,821

The maturity analysis assumes that loans and advances run for their full, agreed term, or in the case of lifetime mortgages, for the actuarial life expectance of the borrower In practice, loans seldom continue to the maturity date and, therefore, the actual repayment profile of loans is likely to be significantly different from that disclosed above.

	2015	2014 (restated)
11 DEBTORS	£	£
Sundry debtors	421	3,156
Corporation tax	10,643	-
	11,064	3,156

12 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	2015	2014 (restated)
	£	£
Loan from parent undertaking	54,730,574	58,575,069
Corporation tax	-	245,432
Other liabilities	-	2,871
Accruals and deferred income	50,898	146,288
	54,781,472	58,969,660

The Company's parent undertaking, National Counties Building Society, has subordinated its claim on the loan and the other amounts due from the Company, to the claims of all the Company's other liabilities.

Interest on amounts due to the parent undertaking is payable at normal commercial rates.

13 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2015	2014 (restated)
	£	£
Loan from parent undertaking	42,024,482	42,107,292

The Company's parent undertaking, National Counties Building Society, has subordinated its claim on the loan and the other amounts due from the Company, to the claims of all the Company's other liabilities.

Interest on amounts due to the parent undertaking is payable at normal commercial rates.

14 DERIVATIVE FINANCIAL INSTRUMENTS

	2015	2014 (restated)
No negative equity guarantee on lifetime mortgage loans	1,166,762	909,787

15 SHARE CAPITAL

	2015	2014 (restated)
Authorised		
1,000,000 Ordinary shares of £1 each	1,000,000	1,000,000
Allotted, called-up and fully paid		
2 Ordinary shares of £1 each	2	2

16 RESERVES

	2015	2014 (restated)
At 1 January as reported	561,155	804,860
FRS 102 adjustments	-	(1,455,320)
At 1 January as restated	561,155	(650,460)
Profit for the year as restated	574,087	1,511,615
Dividend paid	-	(300,000)
At 31 December	1,135,242	561,155

17 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2015	2014 (restated)
Profit for the year as restated	574,087	1,511,615
Dividend paid	-	(300,000)
Retained profit for the year	574,087	1,211,615
At 1 January	561,157	(650,458)
At 31 December	1,135,244	561,157

18 FINANCIAL INSTRUMENTS

Categories of financial assets and liabilities

Carrying values as at 31 December 2015	**Held at Amortised cost**		**Held at Fair value**	
	Loans and Receivables £	**Other financial assets and liabilities at amortised cost £**	**Embedded derivative £**	**Total £**
Assets				
Loans and advances to customers	98,905,876	-	-	98,905,876
Total financial assets	98,905,876			98,905,876
Non financial assets	-	202,064	-	202,064
Total assets	98,905,876	202,064	-	99,107,940
Liabilities				
Derivative financial instruments	-	-	1,166,762	1,166,762
Loans from parent undertaking	-	96,755,036	-	96,755,036
Total financial liabilities	-	96,755,036	1,166,762	97,921,798
Non financial liabilities	-	1,186,142	-	1,186,142
Total liabilities	-	97,941,178	1,166,762	99,107,940

18 FINANCIAL INSTRUMENTS (CONTINUED)

Carrying values as at 31 December 2014	Held at Amortised cost		Held at Fair value	
	Loans and Receivables	Other financial assets and liabilities at amortised cost	Embedded derivative	Total
	£	£	£	£
Assets				
Loans and advances to customers	102,318,821	-	-	102,318,821
Total financial assets	102,318,821	-	-	102,318,821
Non financial assets	-	229,075	-	229,075
Total assets	102,318,821	229,075	-	102,547,896
Liabilities				
Derivative financial instruments	-	-	909,787	909,787
Loans from parent undertaking		100,682,361	-	100,682,361
Total financial liabilities	-	100,682,361	909,787	101,592,148
Non financial liabilities	-	955,748	-	955,748
Total liabilities	-	101,638,109	909,787	102,547,896

Fair values of financial assets and liabilities

The company holds certain financial liabilities at fair value, grouped into Levels 1 to 3 of the fair value hierarchy (see below).
Fair values are determined using the following fair value hierarchy that reflects the significance of the inputs in measuring fair value:
Level 1 The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
Level 2 Inputs other than quoted prices included within Level 1 that are observable (ie developed using market data) for the asset or liability, either directly or indirectly.
Level 3 Inputs are unobservable (ie for which market data is unavailable) for the asset or liability.

Fair values of financial assets and liabilities carried at fair value

The tables below show the fair values of the Company's financial liabilities analysed according to the fair value hierarchy.

As at 31 December 2015	Carrying Value	Fair Value Level 3	Fair Value Total
	£	£	£
Liabilities			
Derivative financial instruments	1,166,762	1,166,762	1,166,762

As at 31 December 2014	Carrying Value	Fair Value Level 3	Fair Value Total
	£	£	£
Liabilities			
Derivative financial instruments	909,787	909,787	909,787

18 FINANCIAL INSTRUMENTS (CONTINUED)

Credit Risk

Credit risk can be described as the risk of customers being unable to meet their financial obligations to the Company as they become due.
The Company is exposed to this risk through its lending to individuals.

The controlled management of credit risk is critical to the Company's overall strategy. The Company has therefore embedded a comprehensive and robust credit risk management framework with clear lines of accountability and oversight as part of its overall governance framework. The Company has effective policies and procedures to identify, monitor, control, mitigate and manage credit risk within the Company's risk appetite

The Company's maximum credit risk exposure is detailed below:

	2015	2014 (restated)
	£	£
Loans and advances to customers	97,074,317	100,252,286

Loans and advances to customers

Concentration by loan		
Loans fully secured on residential property		
Owner occupied and buy to let	55,191,929	58,269,213
Lifetime	42,024,462	42,107,292
Gross balances	97,216,391	100,376,505
Impairment provisions	(142,074)	(124,219)
Effective interest rate adjustment	1,831,559	2,066,535
	98,905,876	102,318,821

Geographical analysis of gross loan balances	2015	2014
	%	%
North	3	3
North East	8	8
North West	11	10
East Midlands	5	5
West Midlands	8	8
East Anglia	4	4
South East	43	44
South West	8	8
Wales	5	5
Scotland	5	5
	100	100

Indexed loan to value distribution of lifetime gross loan balances		
75% – 85%	1	-
50% – 75%	34	25
<50%	65	75
Total	100	100
Average loan to value of lifetime mortgage portfolio	48	45

Indexed loan to value distribution of owner occupied and buy-to-let gross loan balances		
> 95%	1	3
90% – 95%	4	4
85% – 90%	3	3
75% – 85%	12	17
50% – 75%	49	47
<50%	31	26
Total	100	100
Average loan to value of owner occupied and buy-to-let mortgage portfolio	60	62

The Company's average indexed loan to value at the year end date is 54% (2014: 55%).

18 FINANCIAL INSTRUMENTS (CONTINUED)

The table below provides further information on the Company's residential loans and advances to customers by payment due status at the year end:

	2015	2014 (restated)
	£	£
Loans neither past due nor impaired	93,507,724	96,682,571
Past due but not impaired		
Past due to 3 months	1,147,935	1,341,851
Past due 3 to 6 months	250,498	167,875
Past due 6 to 12 months	-	-
Past due over 12 months	-	-
Possessions	-	-
Impaired	-	-
Not past due	-	-
Past due to 3 months	1,054,934	918,691
Past due 3 to 6 months	727,206	679,385
Past due 6 to 12 months	371,123	586,332
Past due over 12 months	-	-
Possessions	156,971	-
	97,216,391	100,376,505

Liquidity risk

The Company's principal purpose is to invest in loans secured by way of mortgage on residential property funded by its parent undertaking.
The contractual maturity of the mortgages is typically up to 25 years although loans are often repaid early due to borrowers moving house or remortgaging.
The Company is wholly funded by loans from it's parent, National Counties Building Society (NCBS), or through accumulated reserves. NCBS has stated that it intends to continue to support fully its subsidiary undertakings,.
As a wholly owned subsidiary of NCBS, the Company's liquidity risks are managed in the context of the National Counties Group as a whole. Full disclosure of principal risks and risk management is made in the National Counties Building Society Annual Report and Accounts.

Residual maturity as at 31 December 2015

	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	No defined maturity	Total
	£	£	£	£	£	£	£
Financial assets							
Loans and advances to customers	385,306	-	101,598	4,915,462	91,814,025	1,689,485	98,905,876
Other debtors	-	-	-	-	-	11,064	11,064
Deferred tax asset	-	-	-	-	-	191,000	191,000
	385,306	-	101,598	4,915,462	91,814,025	1,891,549	99,107,940
Financial liabilities and reserves							
Loan from parent undertaking	385,306	-	101,598	4,915,462	91,352,670	-	96,755,036
Other creditors	-	-	-	-	-	50,898	50,898
Derivative financial instruments	-	-	-	-	-	1,166,762	1,166,762
Reserves	-	-	-	-	-	1,135,244	1,135,244
	385,306	-	101,598	4,915,462	91,352,670	2,352,904	99,107,940

18 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Residual maturity as at 31 December 2014

	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	No defined maturity	Total
	£	£	£	£	£	£	£
Financial assets							
Loans and advances to customers	305,235	167,160	101,529	4,168,651	95,633,930	1,942,316	102,318,821
Other debtors	-	-	-	-	-	3,156	3,156
Deferred tax asset	-	-	-	-	-	225,919	225,919
	305,235	167,160	101,529	4,168,651	95,633,930	2,171,391	102,547,896
Financial liabilities and reserves							
Loans from parent undertaking	305,235	167,160	101,529	4,168,651	95,633,930	305,856	100,682,361
Other creditors	-	-	-	-	-	394,591	394,591
Derivative financial instruments	-	-	-	-	-	909,787	909,787
Reserves	-	-	-	-	-	561,157	561,157
	305,235	167,160	101,529	4,168,651	95,633,930	2,171,391	102,547,896

The loans from the parent undertaking are repayable as the loans and advances to customers repay.
Loans and advances to customers that have no specific maturity date have been included in the more than 5 years category.

Market risk
The Company's market risk exposures are managed by the parent undertaking National Counties Building Society.

19 TRANSITION TO FRS 102

This is the first year that the Company has prepared its accounts under Financial Reporting Standard 102 including IAS 39 Financial Instruments: Recognition and Measurement.
The following disclosures are required in the year of transition. The last set of accounts prepared under UK GAAP were for the year ended 31 December 2014 and date of transition was 1 January 2014. As a consequence of adopting FRS 102, a number of accounting policies have changed to comply with that standard.

Derivatives

Under FRS 102, all derivatives are recorded in the Statement of Financial Position at fair value with changes in fair value being recognised immediately in the Income Statement.

The No Negative Equity Guarantee attached to the lifetime mortgage loans is treated as an embedded derivative.

Effective interest rate

Under FRS 102, interest on assets and liabilities held at amortised cost is recognised in the Income Statement on an effective interest rate (EIR) basis.
The premiums paid on the acquisition of the mortgage loans are included in the EIR and spread over the average life of the loan.

Provision for impairment losses

Under FRS 102, the calculation of provisions for impairment losses is based on discounting expected future cashflows using the EIR of the loan compared with the current outstanding balance of the loan.

Reconciliation of reserves at 1 January 2014

	£
As at 1 January 2014 under UK GAAP	804,860
Effective interest rate	111,856
Provision for impairment losses	(8,872)
Lifetime loans - NNEG	(1,922,134)
Deferred tax	363,830
At 1 January 2014 under FRS 102	(650,460)

Reconciliation of reserves at 31 December 2014

	£
As at 31 December 2014 under UK GAAP	1,224,832
Effective interest rate	88,418
Provision for impairment losses	(8,227)
Lifetime loans - NNEG	(909,787)
Deferred tax	165,919
At 31 December 2014 under FRS 102	561,155

Reconciliation of profit and loss for the year ended 31 December 2014

	£
Profit for the year ended 31 December 2014 under UK GAAP	719,972
Effective interest rate	(23,438)
Provision for impairment losses	645
Lifetime loans - NNEG	1,012,347
Deferred tax	(197,911)
Profit for the year ended 31 December 2014 under FRS 102	1,511,615

19 TRANSITION TO FRS 102 (CONTINUED)

Statement of Financial Position at 31 December 2014 (restated)

	UK GAAP £	Fair value adjustments £	EIR adjustments £	Provision for impairment losses £	Tax £	FRS 102 £
Assets						
Loans and advances to customers	100,260,512	-	2,066,536	(8,227)	-	102,318,821
Debtors	3,156	-	-	-	-	3,156
Prepayments and accrued income	1,978,118	-	(1,978,118)	-	-	-
Deferred tax asset	60,000	-	-	-	165,919	225,919
	-	-	-	-	-	-
	102,301,786	-	88,418	(8,227)	165,919	102,547,896
Liabilities						
Creditors: amounts falling due within one year	58,969,660					58,969,660
Creditors: amounts falling due after more than one year	42,107,292	-	-	-	-	42,107,292
Derivative financial instruments	-	909,787	-	-	-	909,787
	101,076,952	909,787	-	-	-	101,986,739
	1,224,834	(909,787)	88,418	(8,227)	165,919	561,157
Called-up share capital	2	-	-	-	-	2
Reserves	1,224,832	(909,787)	88,418	(8,227)	165,919	561,155
Equity Shareholders' funds	1,224,834	(909,787)	88,418	(8,227)	165,919	561,157

Statement of Financial Position at 1 January 2014 (restated)

	UK GAAP £	Fair value adjustments £	EIR adjustments £	Provision for impairment losses £	Tax £	FRS 102 £
Assets						
Loans and advances to customers	104,960,584	-	2,292,985	(8,872)	-	107,244,697
Debtors	4,462	-	-	-	-	4,462
Prepayments and accrued income	2,181,129	-	(2,181,129)	-	-	-
Deferred tax asset	68,000	-	-	-	363,830	431,830
	-	-	-	-	-	-
	107,214,175	-	111,856	(8,872)	363,830	107,680,989
Liabilities						
Creditors: amounts falling due within one year	64,756,106					64,756,106
Creditors: amounts falling due after more than one year	41,653,207	-	-	-	-	41,653,207
Derivative financial instruments	-	1,922,134	-	-	-	1,922,134
	106,409,313	1,922,134	-	-	-	108,331,447
	804,862	(1,922,134)	111,856	(8,872)	363,830	(650,458)
Called-up share capital	2	-	-	-	-	2
Reserves	804,860	(1,922,134)	111,856	(8,872)	363,830	(650,460)
Equity Shareholders' funds	804,862	(1,922,134)	111,856	(8,872)	363,830	(650,458)

19 TRANSITION TO FRS 102 (CONTINUED)

Income Statement for the year ended 31 December 2014 (Restated)

	UK GAAP £	Fair value adjustments £	EIR adjustments £	Provisions for Impairment losses £	Tax £	FRS 102 £
Interest receivable and similar income	4,265,504	-	(23,438)	-	-	4,242,066
Interest payable and similar charges	(3,288,597)	-	-	-	-	(3,288,597)
Net interest income	976,907	-	(23,438)	-	-	953,469
Fees and commissions receivable	16,517	-	-	-	-	16,517
Fees and commissions payable	(1,516)	-	-	-	-	(1,516)
Net gains from financial instruments	-	1,012,347	-	-	-	1,012,347
Total income	991,908	1,012,347	(23,438)	-	-	1,980,817
Administrative expenses	(135,524)	-	-	-	-	(135,524)
Operating profit before impairment losses and provisions	856,384	1,012,347	(23,438)	-	-	1,845,293
Provision for impairment losses on loans and advances	61,404	-	-	645	-	62,049
Profit before tax	917,788	1,012,347	(23,438)	645	-	1,907,342
Tax expense	(197,816)	-	-	-	(197,911)	(395,727)
Profit for the financial year	719,972	1,012,347	(23,438)	645	(197,911)	1,511,615

Notes to the above reconciliations

1. Fair value adjustment - lifetime loans - NNEG
The Company has a historic pool of lifetime loans. Included within the terms of these loans is a clause termed a No Negative Equity Guarantee (NNEG) which means that if there is a shortfall on the balance of the loan after the property has been sold the Company cannot pursue the borrower or the estate for the shortfall. Under UK GAAP this risk was provided for as part of the provision for impairment losses on loans and advances to customers. Under FRS 102 this is treated as an embedded derivative and is required to be valued at fair value. This adjustment reflects the adoption of this fair value at the reporting date.

2. Effective interest rate adjustments
Under UK GAAP, mortgages with a discounted interest rate from the standard variable rate (SVR) or at a fixed interest rate are carried in the Statement of Financial Position at cost with interest being accrued at the discounted or fixed rate during the discount/fixed rate period and at the SVR thereafter. Premiums paid associated with the purchase of mortgage loans are recognised in the Income Statement on an accruals basis.

FRS 102 requires that mortgage loans are carried in the Statement of Financial Position at amortised cost and income be recognised in the Income Statement on an effective interest rate (EIR) basis over the estimated average lives of the loans taking into account the different interest rates charged and premiums paid.

The adjustment reflects the change in the recognition of the income on the loans from an accruals basis to an effective interest rate (EIR) basis.

3. Provision for impairment losses
The change in provision for impairment losses reflects the discounting of expected receipts on property sales using the effective interest rate of the relevant loans.

20 ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The ultimate and immediate parent and controlling party of the Company is National Counties Building Society, registered in England and Wales. The result of the Company is included in the Annual Report and Accounts of National Counties Building Society.