

COUNTIES HOME LOAN MANAGEMENT LIMITED

Company No: 2436601

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended: 31 December 2017

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COUNTIES HOME LOAN MANAGEMENT LIMITED

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 2017

1 DIRECTORS

The Directors during the year were:

Rodger Hughes (Chairman)
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 resulting from the purchase of mortgage books from other financial institutions.

As a wholly owned subsidiary of National Counties Building Society, the 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 Strategic and Directors' Reports of the National Counties Building Society Annual Report and Accounts.

On 29 December 2017 the Company received a £1m subordinated loan from its parent company National Counties Building Society. Unless agreed by the Prudential Regulatory Authority, this subordinated loan is not repayable before the 29 December 2022.

5 RESULTS & DIVIDEND

The results for the year are shown on page 4. The loss after tax for the financial year is £860,321 (2016 - Profit of £269,085) which will be deducted from reserves (2016 - transferred to reserves). The Directors have not declared a dividend for the year (2016 - £350,000).

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 ought to have taken as a Director to make himself 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

Chairman

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

28 February 2018

COUNTIES HOME LOAN MANAGEMENT LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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.

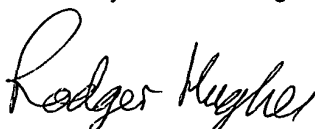
Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial 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
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



Rodger Hughes
Chairman

28 February 2018



Christopher Fry
Director

28 February 2018

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 ("the Company") for the year ended 31 December 2017 which comprise the Income Statement, Statement of Comprehensive Income, Statement of Financial Position and Statement of Changes in Shareholders' Funds and related notes including the accounting policies in Note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Directors' report

The Directors are responsible for the Directors' report. Our opinion on the financial statements does not cover that report and we do not express an audit opinion thereon.

Our responsibility is to read the Directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the Directors' report;
- in our opinion the information given in that report for the financial year is consistent with the financial statements; and
- in our opinion that report has been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their 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; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

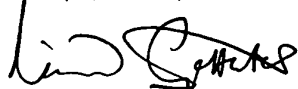
Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.



Richard Gabbertas (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

28 February 2018

COUNTIES HOME LOAN MANAGEMENT LIMITED

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	<u>2017</u>	<u>2016</u>
		£	£
Interest receivable and similar income	3	3,784,880	3,952,672
Interest payable and similar charges	4	(2,854,895)	(3,096,377)
Net interest income		929,985	856,295
Fees and commissions receivable		8,064	10,105
Net losses from financial instruments	5	(1,720,680)	(405,558)
Total (expense)/income		(782,631)	460,842
Administrative expenses		(146,847)	(121,394)
Operating (loss)/profit before impairment losses and provisions		(929,478)	339,448
Provision for impairment losses on loans and advances	8	(135,433)	3,027
		(1,064,911)	342,475
Tax credit/(expense)	9	204,590	(73,390)
(Loss)/profit for the financial year		(860,321)	269,085

The above results are all derived from continuing activities.

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

The notes on pages 8 to 17 form an integral part of these financial statements.

COUNTIES HOME LOAN MANAGEMENT LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017	2016
		<u>£</u>	<u>£</u>
(Loss)/profit for the financial year		(860,321)	269,085
Other comprehensive income for the year		-	-
Total comprehensive (loss)/income for the year		<u>(860,321)</u>	<u>269,085</u>

The notes on pages 8 to 17 form an integral part of these financial statements.

COUNTIES HOME LOAN MANAGEMENT LIMITED

Company No: 2436601

STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2017

	Note	2017	2016
		£	£
FIXED ASSETS			
Loans and advances to customers	11	88,521,589	93,174,318
CURRENT ASSETS			
Debtors	12	1,256,212	-
Deferred tax asset	10	138,907	160,957
		89,916,708	93,335,275
Creditors: amounts falling due within one year	13	(44,145,405)	(48,803,953)
TOTAL ASSETS LESS CURRENT LIABILITIES		45,771,303	44,531,322
Creditors: amounts falling due after more than one year	14	(41,284,295)	(41,904,673)
Derivative financial instruments	15	(3,293,000)	(1,572,320)
Subordinated liabilities	16	(1,000,000)	-
		194,008	1,054,329
CAPITAL AND RESERVES			
Called-up share capital	17	2	2
Reserves	18	194,006	1,054,327
EQUITY SHAREHOLDERS' FUNDS		194,008	1,054,329

The notes on pages 8 to 17 form an integral part of these financial statements.

These accounts were approved by the Board of Directors on 28 February 2018 and were signed on its behalf by:


Rodger Hughes
Chairman


Christopher Fry
Director

COUNTIES HOME LOAN MANAGEMENT LIMITED
STATEMENT OF CHANGE IN SHAREHOLDERS' FUNDS
AT 31 DECEMBER 2017

	Called up share capital £	Reserves £	Total £
2017			
Balance as at 1 January 2017	2	1,054,327	1,054,329
Loss for the financial year	-	(860,321)	(860,321)
Other comprehensive income	-	-	-
Balance as at 31 December 2017	<u>2</u>	<u>194,006</u>	<u>194,008</u>
2016			
Balance as at 1 January 2016	2	1,135,242	1,135,244
Profit for the financial year	-	269,085	269,085
Dividend paid	-	(350,000)	(350,000)
Other comprehensive income	-	-	-
Balance as at 31 December 2016	<u>2</u>	<u>1,054,327</u>	<u>1,054,329</u>

The notes on pages 8 to 17 form an integral part of these financial statements.

COUNTIES HOME LOAN MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS

1 ACCOUNTING POLICIES

1.1 Basis of preparation

The principal accounting policies adopted and applied consistently in the preparation of the financial statements are described below.

The accounts have been prepared in accordance with applicable United Kingdom Accounting Standards issued by the Financial Reporting Council. Financial Reporting Standard 102 (FRS 102) including the recognition and measurement provisions of IAS 39 Financial Instruments: Recognition and Measurement (as adopted for use in the EU).

The accounts have been prepared under the historical cost convention as modified by the fair value revaluation of derivatives.

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, and based on the continued support of its parent National Counties Building Society, 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 the 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 loan. 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

Under the requirements of IAS 39, 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 provisions for impairment. Premiums incurred on the acquisition of mortgage books are included in the initial value of the loan and then amortised 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 loan'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.

COUNTIES HOME LOAN MANAGEMENT LIMITED
NOTES TO THE ACCOUNTS

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 loans 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 (NNEG) 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 Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

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.

COUNTIES HOME LOAN MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS

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 decrease 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, in addition to that already included in the provisioning methodology, of 10%, would increase the loss provision by £46,000. Other sensitivities include the emergence period, which is the time elapsed between a default event occurring and the company being made aware of it, where an increase of six months would result in an additional provision of £52,000.

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 represents the most subjective area 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 timing differences reverse.

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 most of 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 Society, the Society cannot pursue the borrower or the estate for the shortfall – a No Negative Equity Guarantee (NNEG). This exposes the Society 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 balance 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 dependant on the morbidity/mortality of the borrowers, 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 the average long-term annual house price rise included in the calculation was 0.25% per annum lower than forecast the Company's NNEG derivative value would increase, resulting in an additional charge to the income statement of £0.9m.

If the house price rise volatility assumption included in the calculation was to increase by 1%, the Company's NNEG derivative value would increase resulting in an additional charge of £0.8m to the Income Statement.

COUNTIES HOME LOAN MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS

	2017	2016
	£	£
3 INTEREST RECEIVABLE		
Mortgage interest	3,784,654	3,952,672
Interest receivable on loan to parent company	226	-
	<u>3,784,880</u>	<u>3,952,672</u>
4 INTEREST PAYABLE		
Interest payable on loans from parent undertaking	<u>2,854,895</u>	<u>3,096,377</u>
5 NET LOSSES FROM FINANCIAL INSTRUMENTS		
Change in provision for negative equity guarantee on lifetime mortgage loans	<u>1,720,680</u>	<u>405,558</u>
6 AUDITOR'S REMUNERATION		
Remuneration of Auditor - fee (exc VAT) for audit of these financial statements (borne by the Company's parent undertaking)	<u>5,800</u>	<u>5,800</u>
7 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.		
	2017	2016
	£	£
8 PROVISION FOR IMPAIRMENT LOSSES ON LOANS AND ADVANCES		
At 1 January		
Individual provision	19,936	116,924
Collective provision	76,643	25,150
	<u>96,579</u>	<u>142,074</u>
Amounts written off in the year		
Individual provision	-	(42,468)
Collective provision	-	-
	<u>-</u>	<u>(42,468)</u>
Charge/(credit) for the year		
Increase/(decrease) in provision during the year:		
Individual provision	123,295	(54,520)
Collective provision	12,138	51,493
	<u>135,433</u>	<u>(3,027)</u>
At 31 December		
Individual provision	143,231	19,936
Collective provision	88,781	76,643
	<u>232,012</u>	<u>96,579</u>
9 TAX EXPENSE		
Group relief from parent undertaking	(226,202)	-
Current tax	-	43,511
Adjustments in respect of prior years	(438)	(164)
	<u>(226,640)</u>	<u>43,347</u>
Deferred tax - current year	22,050	30,073
Adjustments in respect of prior years	-	(30)
Tax (credit)/charge for the year	<u>(204,590)</u>	<u>73,390</u>
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:		
Tax on profit at the standard rate of corporation tax of 19.25% (2016: 20%)	(204,995)	68,495
Adjustments in respect of prior years	(438)	(194)
Corporation and deferred tax rate differences	843	5,089
Tax (credit)/charge for the year	<u>(204,590)</u>	<u>73,390</u>

Reductions in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and to 17% (effective from 1 April 2020) were substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31 December 2017 has been calculated based on these rates.

COUNTIES HOME LOAN MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS

	2017	2016
	£	£
10 DEFERRED TAX		
Movement on deferred tax		
At 1 January	160,957	191,000
Income statement charge	(22,050)	(30,043)
At 31 December	138,907	160,957

The deferred tax asset is attributable to the following items:

Premium amortisation timing difference	33,095	38,652
FRS 102 transitional adjustments	105,812	122,305
	138,907	160,957

The FRS 102 transitional adjustments reverse over the next 7 years and the expected reversal in 2018 is £16,000.

11 LOANS AND ADVANCES TO CUSTOMERS

Loan maturity analysis

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

Repayable on call and at short notice	920,271	271,375
In not more than three months	3,494	441
In more than three months but not more than one year	-	1,596,934
In more than one year but not more than five years	6,631,285	4,402,546
In more than five years	79,785,421	85,397,279
Effective interest rate adjustment	1,413,130	1,602,322
Provision for impairment losses on loan and advances (note 8)	(232,012)	(96,579)
	88,521,589	93,174,318

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 expectancy 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.

	2017	2016
	£	£
12 DEBTORS		
Sundry debtors	30,010	-
Corporation tax - group relief due from parent undertaking	226,202	-
Loan to parent undertaking	1,000,000	-
	1,256,212	-

The loan to the parent undertaking is repayable on demand and interest is charged on the loan at commercial rates.

13 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2017	2016
	£	£
Loans from parent undertaking	44,073,793	48,653,270
Corporation tax	-	43,511
Other liabilities	7,544	2,120
Accruals and deferred income	64,068	105,052
	44,145,405	48,803,953

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

Interest on the loans from the parent undertaking is payable at commercial rates.

COUNTIES HOME LOAN MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS

14 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2017	2016
	£	£
Loan from parent undertaking	41,284,295	41,904,673
	<u>41,284,295</u>	<u>41,904,673</u>

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

Interest on the loan from the parent undertaking is payable at commercial rates.

15 DERIVATIVE FINANCIAL INSTRUMENTS

No negative equity guarantee on lifetime mortgage loans	3,293,000	1,572,320
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16 SUBORDINATED LIABILITIES

Subordinated loan from parent undertaking	1,000,000	-
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On 29 December 2017 the Company received a £1m subordinated loan from its parent company National Counties Building Society. Unless agreed by the Prudential Regulatory Authority, this loan is not repayable before the 29 December 2022 and is subordinated to the claims of all the Company's other creditors.

Interest on the the subordinated loan from the parent undertaking is payable at commercial rates.

17 SHARE CAPITAL

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

18 RESERVES

At 1 January	1,054,327	1,135,242
(Loss)/profit for the year	(860,321)	269,085
Dividend paid	-	(350,000)
At 31 December	<u>194,006</u>	<u>1,054,327</u>

19 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

(Loss)/profit for the year	(860,321)	269,085
Dividend paid	-	(350,000)
Retained loss for the year	(860,321)	(80,915)
At 1 January	1,054,329	1,135,244
At 31 December	<u>194,008</u>	<u>1,054,329</u>

20 FINANCIAL INSTRUMENTS

Categories of financial assets and liabilities

Carrying values as at 31 December 2017

	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	88,521,589	-	-	-	88,521,589
Loan to parent undertaking	-	1,000,000	-	-	1,000,000
Total financial assets	88,521,589	1,000,000	-	-	89,521,589
Non financial assets	-	395,119	-	-	395,119
Total assets	88,521,589	1,395,119	-	-	89,916,708
Liabilities					
Derivative financial instruments	-	-	3,293,000	-	3,293,000
Subordinated loan from parent undertaking	-	1,000,000	-	-	1,000,000
Other loans from parent undertaking	-	85,358,088	-	-	85,358,088
Total financial liabilities	-	86,358,088	3,293,000	-	89,651,088
Non financial liabilities	-	265,620	-	-	265,620
Total liabilities	-	86,623,708	3,293,000	-	89,916,708

COUNTIES HOME LOAN MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS

20 FINANCIAL INSTRUMENTS (CONTINUED)

Carrying values as at 31 December 2016

	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	93,174,318	-	-		93,174,318
Total financial assets	93,174,318				93,174,318
Non financial assets	-	160,957	-		160,957
Total assets	93,174,318	160,957	-		93,335,275
Liabilities					
Derivative financial instruments	-	-	1,572,320		1,572,320
Other loans from parent undertaking	-	90,557,943	-		90,557,943
Total financial liabilities	-	90,557,943	1,572,320		92,130,263
Non financial liabilities	-	1,205,012	-		1,205,012
Total liabilities	-	91,762,955	1,572,320		93,335,275

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 2017

	Carrying Value £	Fair Value Level 3 £	Fair Value Total £
Liabilities			
Derivative financial instruments	3,293,000	3,293,000	3,293,000

As at 31 December 2016

	Carrying Value £	Fair Value Level 3 £	Fair Value Total £
Liabilities			
Derivative financial instruments	1,572,320	1,572,320	1,572,320

COUNTIES HOME LOAN MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS

20 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:

	<u>2017</u>	<u>2016</u>
	£	£
Loans and advances to customers	<u>87,108,459</u>	<u>91,571,996</u>
Loans and advances to customers		
Concentration by loan type		
Loans fully secured on residential property		
Owner occupied and buy to let	46,056,177	49,763,902
Lifetime	<u>41,284,294</u>	<u>41,904,673</u>
Gross balances	87,340,471	91,668,575
Impairment provisions	(232,012)	(96,579)
Effective interest rate adjustment	<u>1,413,130</u>	<u>1,602,322</u>
	<u>88,521,589</u>	<u>93,174,318</u>
Geographical analysis of gross loan balances		
	2017	2016
	%	%
North	3	3
North East	9	9
North West	11	11
East Midlands	5	5
West Midlands	8	8
East Anglia	4	4
South East	40	40
South West	8	8
Wales	6	6
Scotland	6	6
	<u>100</u>	<u>100</u>
Indexed loan to value distribution of lifetime gross loan balances		
75% – 85%	3	2
50% – 75%	31	25
<50%	66	73
Total	<u>100</u>	<u>100</u>
Average loan to value of lifetime mortgage portfolio	<u>47</u>	<u>45</u>
Indexed loan to value distribution of owner occupied and buy-to-let gross loan balances		
90% – 95%	2	4
85% – 90%	6	4
75% – 85%	6	8
50% – 75%	49	49
<50%	37	35
Total	<u>100</u>	<u>100</u>
Average loan to value of owner occupied and buy-to-let mortgage portfolio	<u>56</u>	<u>57</u>

The Company's average indexed loan to value at the year end date is 51% (2016: 51%).

COUNTIES HOME LOAN MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS

20 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:

	2017	2016
	£	£
Loans neither past due nor impaired	85,114,093	89,347,194
Past due but not impaired		
Past due to 3 months	736,351	739,684
Past due 3 to 6 months	397,947	356,711
Past due 6 to 12 months	-	-
Past due over 12 months	-	-
Possessions	-	-
Impaired		
Not past due	518,374	-
Past due to 3 months	454,229	889,966
Past due 3 to 6 months	119,477	335,020
Past due 6 to 12 months	-	-
Past due over 12 months	-	-
Possessions	-	-
	<u>87,340,471</u>	<u>91,668,575</u>

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 its 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 2017

	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	920,271	3,494	-	6,631,285	79,785,421	1,181,118	88,521,589
Loan to parent undertaking	1,000,000	-	-	-	-	-	1,000,000
Other debtors	-	-	-	-	-	256,212	256,212
Deferred tax asset	-	-	-	-	-	138,907	138,907
	<u>1,920,271</u>	<u>3,494</u>	<u>-</u>	<u>6,631,285</u>	<u>79,785,421</u>	<u>1,576,237</u>	<u>89,916,708</u>
Financial liabilities and reserves							
Subordinated loan from parent undertaking	-	-	-	1,000,000	-	-	1,000,000
Other loans from parent undertaking	920,271	3,494	-	6,631,285	77,803,038	-	85,358,088
Other creditors	-	-	-	-	-	71,612	71,612
Derivative financial instruments	-	-	-	-	-	3,293,000	3,293,000
Reserves	-	-	-	-	-	194,008	194,008
	<u>920,271</u>	<u>3,494</u>	<u>-</u>	<u>7,631,285</u>	<u>77,803,038</u>	<u>3,558,620</u>	<u>89,916,708</u>

COUNTIES HOME LOAN MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS

20 FINANCIAL INSTRUMENTS (CONTINUED)

Residual maturity as at 31 December 2016

	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	271,375	441	1,596,934	4,402,546	85,397,279	1,505,743	93,174,318
Other debtors	-	-	-	-	-	-	-
Deferred tax asset	-	-	-	-	-	160,957	160,957
	<u>271,375</u>	<u>441</u>	<u>1,596,934</u>	<u>4,402,546</u>	<u>85,397,279</u>	<u>1,666,700</u>	<u>93,335,275</u>
Financial liabilities and reserves							
Other loans from parent undertaking	271,375	441	1,596,934	4,402,546	84,286,647	-	90,557,943
Other creditors	-	-	-	-	-	150,683	150,683
Derivative financial instruments	-	-	-	-	-	1,572,320	1,572,320
Reserves	-	-	-	-	-	1,054,329	1,054,329
	<u>271,375</u>	<u>441</u>	<u>1,596,934</u>	<u>4,402,546</u>	<u>84,286,647</u>	<u>2,777,332</u>	<u>93,335,275</u>

The loan to the parent undertaking is repayable on demand.

Unless agreed by the Prudential Regulatory Authority, the subordinated loan is not repayable before 29 December 2022.

The other loans from the parent undertaking are repayable as the loans and advances to customers repay.

The lifetime loans, which have no specific maturity date, have been included in the more than 5 years category.

Gross contractual cashflows of financial liabilities

Unless agreed by the Prudential Regulatory Authority, the subordinated loan is not repayable before 29 December 2022.

The other loans from the parent undertaking have no contractual repayment profile and are repayable as the loans and advances to customers repay.

Corporation tax creditors included in other creditors are payable within one year. The remaining other creditors have no contractual payment dates.

The derivative financial instrument is the NNEG embedded derivative and has no contractual repayment profile.

Market risk

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

21 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.