

**Landmark Mortgages Limited (formerly known as
NRAM plc)**

Annual Report and Financial Statements

For the 9 Month Period Ended 31 December 2016

THURSDAY



A6FXQ65K

A41

28/09/2017

#270

COMPANIES HOUSE

CONTENTS

	Page
DIRECTORS AND OTHER INFORMATION	2
STRATEGIC REPORT	3 - 5
DIRECTORS' REPORT	6 - 7
STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT AND THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS	8
INDEPENDENT AUDITOR'S REPORT	9 - 10
INCOME STATEMENT	11
STATEMENT OF COMPREHENSIVE INCOME	12
STATEMENT OF FINANCIAL POSITION	13
STATEMENT OF CHANGES IN EQUITY	14
STATEMENT OF CASH FLOWS	15 - 16
NOTES TO THE FINANCIAL STATEMENTS	17 - 82

DIRECTORS AND OTHER INFORMATION

Directors

L J Kelly
J A Mayer
H R Patel
D R Clinton

Solicitors

Linklaters LLP
One Silk Street
London
EC2Y 8HQ

Secretary and Registered Office

H S Young
Admiral House
Harlington Way
Fleet
Hampshire
GU51 4YA

Registered Number: 03273685

Bankers

Royal Bank of Scotland
Drummond House
1 Redheughs Avenue
Edinburgh
EH12 9JN

Statutory Auditor

KPMG LLP
1 St Peter's Square
Manchester
M2 3AE

STRATEGIC REPORT

The Directors present their Strategic Report for the 9 month period ended 31 December 2016.

Principal activities

Landmark Mortgages Limited ("LML" or "the Company") (formerly NRAM plc) primarily operates as a master servicer and legal title holder, providing oversight of mortgage loans secured on residential properties (and of associated services) and unsecured loans. On 18 July 2016, the company was re-registered as a private limited company under the Companies Act 2006 and had its legal name changed from NRAM plc to Landmark Mortgages Limited. The servicing of the mortgage loans had been sub-delegated to an outsourced mortgage servicing supplier, Computershare Mortgage Services Limited ("Computershare"). The company is registered in Fleet and has an operational presence in Bingley, United Kingdom. It is authorised and regulated by the Financial Conduct Authority ("FCA").

In November 2015 UK Asset Resolution Limited ("UKAR" or the "Seller") announced the sale of £13bn of loans from NRAM plc to affiliates of Cerberus Capital Management LP ('Cerberus'). The structure of the transaction resulted in Cerberus purchasing NRAM plc on 5 May 2016 (the "Acquisition Date"). Prior to the sale, assets and liabilities not included in the transaction were transferred from NRAM plc to a newly established subsidiary of UKAR, known as NRAM Limited. NRAM plc was subsequently renamed Landmark Mortgages Limited.

Business review, results and future developments

The Company was acquired by Landmark Bidco Limited ("Bidco") on 5 May 2016, further details of this relationship are set out in note 38. The assets and liabilities not included in the Bidco acquisition transaction were transferred out from the Company prior to the sale to NRAM Limited, a subsidiary company of UKAR.

Following the events described in the principal activities section, the Company continues to hold legal title to the mortgage and unsecured loans forming part of the sale of £13bn of loans from NRAM plc to affiliates of Cerberus in November 2015. The Company also continues to hold legal title to the mortgage and unsecured loans sold to affiliates of Cerberus on 5 May 2016. The beneficial title to the entire Cerberus acquired loan portfolio had been transferred outside of the Company. Since the Acquisition Date to 31 December 2016, the Company had no subsidiaries, associates or joint venture companies.

During the current period the Company has remained in its role as the Master Servicer providing oversight to the Cerberus acquired loan portfolio. On 18 July 2016, LML entered into a material outsourced services agreement with Capital Home Loans Limited ("CHL"), an affiliate of Cerberus. Under the terms of this agreement, CHL employees have been seconded to the Company for the provision of services including formation of an executive team to provide a robust governance framework. Prior to this agreement, outsourced services were provided by Bradford & Bingley Plc.

Due to the mid-year acquisition of the Company, these financial statements for the 9 month period include the activities of the Company while owned by UKAR between 1 April 2016 to 4 May 2016, hence the explanation for the significant changes in the financial figures between the current financial period and the preceding financial year.

The Company carried over the legacy customer remediation issues that were recognised as a liability on the Statement of Financial Position as a provision for customer redress prior to acquisition. As part of the acquisition, the customer remediation activities are fully indemnified and managed directly by UKAR with LML providing oversight of the transactions.

STRATEGIC REPORT – continued

Business review, results and future developments (continued)

LML recorded a loss after tax of £10.2m in the 9 month period ended 31 December 2016 (31 March 2016: profit of £679.0m). The decrease in the profit was primarily due to the acquisition as explained above resulting in material changes to the business model and the composition of the underlying assets and liabilities held by the Company post acquisition. Should one remove the effect of the legacy activities, the Company recorded a loss after tax of £22.1m for the 9 month period ended 31 December 2016. The reason for such losses is mainly due to the £19.4m new PPI customer redress provision charges and the £1.6m loss on the sale of the last remaining T&C mortgage loan portfolio of £481.8m to affiliates of Cerberus.

The primary revenue streams for the Company post Acquisition Date, include the provision of oversight and master servicing, holding of legal title to the underlying assets and mortgage servicing which is sub-delegated to Computershare. This amounted to £8.4m in the period to 31 December 2016 (year ended 31 March 2016: £nil). The main operating costs and administrative expenses relate to the delegated servicing fee (31 December 2016: £7.1m; 31 March 2016: £nil) and CHL outsourced services fee 31 December 2016: £0.8m (31 March 2016: £nil) respectively.

LML's business strategy and objectives are underpinned by the following corporate values and ethical principles:

- Acting in accordance with laws and regulations
- Treating all our customers fairly and consistently
- Establishing a culture of integrity
- Behaving fairly and honestly
- Respecting others

The Company continuously works towards delivering on its strategic objectives through improved efficiency underpinned by a strong culture of risk and control. Management continue to focus on improving customer service with continuous oversight of the delegated sub-servicer (Computershare) servicing standards through active monitoring and review of customer activities.

Principal risks and uncertainties

The principal risks and uncertainties to which the Company is exposed and which could impact significantly on its ability to conduct its business successfully are summarised below.

Credit risk

Credit risk is the risk that counterparties engaging in transactions with the Company will not be able to meet their obligations as they fall due and arises principally from the Company's contractual arrangement under respective legal title holding trust deeds and master servicing agreements. For risk management reporting purposes the Company considers all elements of credit risk exposure (such as obligor default risk).

Conduct risk

This is the risk of treating customers unfairly associated with the failure to deliver appropriate customer outcomes which could impact the Company's reputation and its financial performance. The Company has a zero risk appetite for conduct risk that could lead to unfair customer outcomes. The senior management as delegated by the Board of Directors will manage conduct risk and ensure that it has been integrated into the business decision making and strategy.

Operational risk

As the Company operates in the highly regulated financial sector, compliance failures or failures to respond effectively to new and emerging regulatory developments could result in reputational damage and financial loss. Additionally, this also includes failure of key internal controls such as loss from theft, error, systems breakdown and failure to guard against cyber security risks. The Company's compliance department and its senior management are tasked with the monitoring and control of such risk throughout the business.

STRATEGIC REPORT – continued

Principal risks and uncertainties (continued)

Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet financial commitments arising from the cash flows generated by its business activities. This risk can arise from mismatches in the timing of cash flows relating to assets and liabilities. The Company's Finance department actively monitors its cash flow profiles to mitigate its exposure to liquidity risks, as far as possible, that the maturities of assets and liabilities are matched.

Capital management

LML operates under MIPRU regulatory status. At 31 December 2016, LML maintained a sound Statement of Financial Position with capital being held in excess of FCA rules requiring the Company to hold a minimum capital requirement of 10% of the Company's total income as the Directors believe it appropriate to hold a higher level of capital acting as a buffer in recognition of potential risk in the business. Accordingly, the Directors believe that the Company has sufficient capital to support the business strategy and objectives.

Going concern

The Directors have assessed, taking into consideration the principal risks and uncertainties set out above and in note 34, the financial support and funding likely to be made available by Cerberus European Residential Holdings B.V. ("CERH"), the current strategy and business objectives, existing and potential economic conditions, the Company's ability to continue as a going concern. The intention to support LML has been formally confirmed to the Company by CERH.

Having made enquiries and on the basis of current financial projections including stressed scenario analysis, the Directors have a reasonable expectation that the Company has adequate resources, as well as access to funding from CERH, to continue in operational existence for the foreseeable future and therefore believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

By order of the Board on 19 September 2017 and signed on behalf by



H S Young
Company Secretary

19 September 2017

DIRECTORS' REPORT

The Directors present their annual report on the affairs of Landmark Mortgages Limited, together with the financial statements and auditor's report, for the 9 month period ended 31 December 2016.

Dividends

On 30 April 2016, the Company, under UKAR ownership, paid a dividend of £3,787.4m to NRAM Limited. Post-Acquisition Date, no dividends were paid during the remaining financial period (31 March 2016: nil).

Directors and secretary

The Directors and secretary, who held office during the period and up to the date of signing of these financial statements, except as stated below, were as follows:

Name

R Pym	Chairman (resigned 5 May 2016)
R Andrews	Chief Executive (appointed 28 October 2016; resigned 30 June 2017)
L Kelly	Chief Executive (appointed 1 July 2017)
R Banks	Director (resigned 18 July 2016)
I Hares	Director (resigned 18 July 2016)
D Lunn	Director (resigned 5 May 2016)
M Atkinson	Director (resigned 5 May 2016)
M Buckley	Director (resigned 5 May 2016)
S Langley	Director (resigned 5 May 2016)
K Morgan	Director (resigned 5 May 2016)
J Gornall	Company Secretary (resigned 5 May 2016)
G Hickey	Managing Director (appointed 5 May 2016; resigned 28 October 2016)
D Clinton	Chairman (appointed 5 May 2016)
H Patel	Non-Executive Director (appointed 5 May 2016)
J Mayer	Non-Executive Director (appointed 5 May 2016)
H Ang	Company Secretary (appointed 5 May 2016; resigned 3 June 2016)
H Young	Company Secretary (appointed 3 June 2016)
S Jones	Non-Executive Director (appointed 23 January 2017; resigned 30 June 2017)

None of the above mentioned Directors are directors of Cerberus Capital Management L.P., or had beneficial interests in the share capital of the Company.

Directors' indemnities and Directors' and Officers' liability insurance

During the year, the Company paid a premium for a contract insuring the Directors and Officers of LML against personal liabilities which may arise in the course of the performance of their duties, as well as protecting the Company itself to the extent that it is obligated to indemnify Directors and Officers for such liability.

Corporate governance

In line with businesses of similar size and nature, the Board has an established Audit & Risk Committee which is composed of Executive and Non-executive Directors of the Company. The Committee has independent oversight of the external audit relationship, financial reporting, the internal audit function, the internal control systems, the risk management framework, and appropriateness of the Company's risk culture, to ensure it supports its stated risk appetite.

Policy on payment of creditors

The Company is responsible for agreeing terms and conditions under which business transactions with suppliers are conducted. It is the Company's policy that payments to suppliers are made in accordance with these terms, normally between 30 and 60 days, provided that the supplier is also complying with all relevant terms and conditions.

DIRECTORS' REPORT – continued

Political and charitable contributions

The Company made no political or charitable contributions during the period (31 March 2016: nil).

Employees

The Non-Executive Directors have service contracts with LML (31 March 2016: NRAM plc). All Executive Directors and staffing of relevant business functions are employed by CHL and provided to LML through an outsourced services arrangement during the current financial period (31 March 2016: Bradford & Bingley).

Disclosure of information to 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.

Events occurring after Statement of Financial Position date

There have not been any reportable subsequent events between the Statement of Financial Position date and the date of signing this report that would meet the criteria to be disclosed or adjusted in the financial statements as at 31 December 2016 and for the period then ended other than the Company has formalised a number of intercompany arrangements with its parent undertakings. This will result in net interest income to the Company.

Auditor

KPMG LLP have been appointed as auditors of the Company and will continue in office in accordance with the UK Companies Act 2006.

By order of the Board on 19 September 2017 and signed on behalf by



H S Young
Company Secretary

19 September 2017

Company Registered Number: 03273685

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

The Directors are responsible for preparing the Strategic Report, 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 period/year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law.

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 they have been prepared in accordance with IFRSs as adopted by the EU; 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LANDMARK MORTGAGES LIMITED

We have audited the financial statements of Landmark Mortgages Limited for the period ended 31 December 2016 set out on pages 11 to 82. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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 8, 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.

Basis for qualified opinion on financial statements

With respect to Indemnity assets having a carrying amount of £82,780,000, Assets Due from parent undertakings having a carrying amount of £648,635,000 within the Balance Sheet and the Provision for customer redress movement of £19,458,000 within the Income Statement the audit evidence available to us was limited. The agreements entered into relating to the sale of the Company to its current parent ('Bidco') resulted in the total indemnity given by the seller regarding redress claims being split between the Company and Bidco, at 31 December 2016. Owing to the nature of the company's and Bidco's records, we were unable to obtain sufficient appropriate audit evidence regarding the amount of the indemnity assets the Company held at 31 December 2016 and consequently the amount of the linked balances as highlighted above by using other audit procedures.

Qualified opinion on financial statements

In our opinion, except for the possible effects of the matter described in the basis for qualified opinion on financial statements paragraph, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the period then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LANDMARK MORTGAGES LIMITED

(continued)

Qualified opinion on other matters prescribed by the Companies Act 2006

Except for the possible consequential effects of the matter described in the basis for qualified opinion on financial statements paragraph on the related disclosures in the Strategic Report and Directors' Report, based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

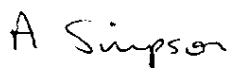
Matters on which we are required to report by exception

In respect solely of the limitation on our work relating to indemnity assets, Assets - Due from Parent Undertakings and the provision for customer redress movement, described above:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- we were unable to determine whether adequate accounting records have been kept.

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:

- 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.



Alexander Simpson (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

1 St Peters Square

Manchester

M2 3AE

19 September 2017

INCOME STATEMENT
9 Months Ended 31 December 2016

	Notes	9 Months to 31 Dec 2016 £'000	12 Months to 31 Mar 2016 £'000
Interest income and similar income	2	41,720	886,642
Interest expense and similar charge	2	(10,688)	(267,621)
Net interest income		<u>31,032</u>	<u>619,021</u>
Fee and commission income		355	10,409
Fee and commission expense		(1,000)	(12,005)
Legal title and master servicing fee income		8,347	-
Servicing fee costs		(7,070)	-
Net realised gains less losses on investment securities	3	(20,117)	7,820
Unrealised fair value movements on financial instruments	4	727	(802)
Hedge ineffectiveness	4	-	(14,151)
Other operating income		811	7,864
Administrative expenses	5	(4,477)	(77,364)
Net other operating expense		<u>(22,424)</u>	<u>(78,229)</u>
Operating income		<u>8,608</u>	<u>540,792</u>
Provision for customer redress	28	(19,458)	198,801
Impairment on loans to customers	14	1,055	60,874
Net impairment release on investment securities	12	261	5,049
(Loss)/profit on sale of loans	13	(1,577)	62,790
Loss on repurchase of own liabilities	6	-	(15,780)
(Loss)/profit before taxation		<u>(11,111)</u>	<u>852,526</u>
Taxation	7	873	(173,503)
(Loss)/profit for the financial period/year		<u>(10,238)</u>	<u>679,023</u>

STATEMENT OF COMPREHENSIVE INCOME
9 Months Ended 31 December 2016

For the 9 months to 31 December 2016	Gross of tax £'000	Tax £'000	Net of tax £'000
Loss for the financial period	(11,111)	873	(10,238)
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Available-for-sale instruments:			
- net gains recognised in available-for-sale reserve during the period	19,876	(4,044)	15,832
Cash flow hedges:			
- net losses recognised in cash flow hedge reserve during the period	-	-	-
- amounts transferred from cash flow hedge reserve and recognised in profit during the period	-	-	-
	19,876	(4,044)	15,832
Items that will not be reclassified subsequently to profit or loss:			
- retirement benefit remeasurements	(25,241)	5,048	(20,193)
Total other comprehensive expense	(5,365)	1,004	(4,361)
Total comprehensive expense for the financial period	(16,476)	1,877	(14,599)

For the 12 months to 31 March 2016	Gross of tax £'000	Tax £'000	Net of tax £'000
Profit for the financial year	852,526	(173,503)	679,023
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Available-for-sale instruments:			
- net gains recognised in available-for-sale reserve during the year	21,875	(4,375)	17,500
Cash flow hedges:			
- net losses recognised in cash flow hedge reserve during the year	(1,286,875)	257,375	(1,029,500)
- amounts transferred from cash flow hedge reserve and recognised in profit during the year	1,033,002	(206,600)	826,402
	(231,998)	46,400	(185,598)
Items that will not be reclassified subsequently to profit or loss:			
- retirement benefit remeasurements	56,946	(11,337)	45,609
Total other comprehensive expense	(175,052)	35,063	(139,989)
Total comprehensive income for the financial year	677,474	(138,440)	539,034

STATEMENT OF FINANCIAL POSITION
As at 31 December 2016

	Notes	31 Dec 2016 £'000	31 Mar 2016 £'000
Assets			
Balances with Bank of England	10	-	1,389,072
Cash at bank – restricted	11	4,055	-
Cash at bank – unrestricted	11	4,633	56,306
Investment securities	12	-	335,510
Loans to customers	13	-	10,572,721
Derivative financial instruments	34	-	1,638
Deferred tax assets	27	2,412	-
Due from parent undertakings	17	648,635	-
Indemnity assets	18	82,780	-
Retirement benefit assets	19	-	229,400
Other assets	20	3,160	20,335
Property and equipment	21	188	-
Total assets		745,863	12,604,982
Liabilities			
Amounts due to banks	22	-	590
Other deposits	23	-	36,994
HM Treasury loans	24	-	7,465,649
Derivative financial instruments	34	-	11,677
Debt securities in issue	25	-	204,128
Other liabilities	26	10,462	201,363
Current tax liabilities		6,228	96,426
Deferred tax liabilities	27	-	43,597
Provisions	28	127,586	136,823
Capital instruments	29	-	4,120
Total liabilities		144,276	8,201,367
Equity			
Share capital	30	123,990	123,990
Reserves	31	410,484	394,652
Retained earnings		67,113	3,884,973
Total equity attributable to equity holders of the company		601,587	4,403,615
Total liabilities and equity		745,863	12,604,982

The financial statements on pages 11 to 82 were approved by the board of directors on 19 September 2017 and were signed on its behalf by:



L J Kelly
Director

STATEMENT OF CHANGES IN EQUITY
9 Months Ended 31 December 2016

For the 9 months to 31 December 2016

	Share Capital £'000	Share premium reserve £'000	Capital redemption reserve £'000	Other reserves £'000	Retained earnings £'000	Total equity £'000
Balance at beginning of the period	123,990	403,185	7,299	(15,832)	3,884,973	4,403,615
Other comprehensive income/(expense):						
Net movement in available-for-sale reserve	-	-	-	15,832	-	15,832
Retirement benefit remeasurement	-	-	-	-	(20,193)	(20,193)
Total other comprehensive income	-	-	-	15,832	(20,193)	(4,361)
Loss for the financial period	-	-	-	-	(10,238)	(10,238)
Total comprehensive income/(expense)	-	-	-	15,832	(30,431)	(14,599)
Dividend	-	-	-	-	(3,787,429)	(3,787,429)
Balance at end of period	123,990	403,185	7,299	-	67,113	601,587

For the 12 months to 31 March 2016

	Share Capital £'000	Share premium reserve £'000	Capital redemption reserve £'000	Other reserves £'000	Retained earnings £'000	Total equity £'000
Balance at beginning of the period	123,990	403,185	7,299	169,767	3,160,340	3,864,581
Other comprehensive income/(expense):						
Net movement in available-for-sale reserve	-	-	-	17,500	-	17,500
Net movement in cash flow hedge reserve	-	-	-	(203,099)	-	(203,099)
Retirement benefit remeasurement	-	-	-	-	45,610	45,610
Total other comprehensive income/(expense)	-	-	-	(185,599)	45,610	(139,989)
Profit for the financial period	-	-	-	-	679,023	679,023
Total comprehensive income	-	-	-	(185,599)	724,633	539,034
Balance at end of year	123,990	403,185	7,299	(15,832)	3,844,973	4,403,615

STATEMENT OF CASH FLOWS
9 Months Ended 31 December 2016

	Notes	9 Months to 31 Dec 2016 £'000	12 Months to 31 Mar 2016 £'000
Cash flows from operating activities			
(Loss)/profit before tax for period/year		(11,111)	852,526
Adjustments for			
Loss/(profit) on sale of loans		1,577	(62,790)
Provision for customer redress		-	(198,801)
Depreciation	21	38	332
Defined benefit pension scheme credits		(602)	(4,948)
Cash contribution to defined benefit pension scheme		(23,300)	(15,340)
Impairment on loans to customers		1,055	(60,874)
Net impairment release on investment securities		261	(5,049)
Loss on repurchase of own liabilities		-	15,780
Fair value adjustments on financial instruments		-	5,700
Other non-cash movements in relation to transfer of assets		(764,737)	(46,552)
		(796,819)	479,984
<i>(Increase)/decrease in assets</i>			
Loans to customers		143,932	3,345,158
Sale of loans to customers		478,528	11,677,940
Derivative financial instruments receivable		1,638	1,148,940
Due from parent undertakings		(648,635)	-
Indemnity assets		(82,780)	-
Other assets		14,763	1,437
<i>Increase/(decrease) in liabilities</i>			
Amounts due to banks		(590)	(1,260,996)
Other deposits		(36,994)	(8,732,670)
Derivative financial instruments		(11,677)	(59,200)
Debt securities in issue		(204,128)	(1,115,300)
Other liabilities		(193,302)	(44,826)
Provisions		(9,237)	(34,000)
Tax paid		(91,098)	(129,357)
Net cash flows from operating activities		(1,436,399)	5,277,110
Cash flows from investing activities			
Purchase of property and equipment		(226)	-
Proceeds of sale of property and equipment		-	1,100
Proceeds from sale and redemption of debt securities		-	102,300
Net cash flows from investing activities		(226)	103,400
Cash flows from financing activities			
Repurchase of own liabilities & equity		-	(4,162,439)
Repayment of HM Treasury loans		-	(6,182,693)
Repayment of capital instruments		(4,120)	-
Net cash flows from financing activities		(4,120)	(10,345,132)
Net movement in cash and cash equivalent		(1,440,745)	(4,964,622)

STATEMENT OF CASH FLOWS – continued
9 Months Ended 31 December 2016

Analysis of changes in cash and cash equivalents in the 9 months to 31 December 2016

	Balances with Bank of England £'000	Non-restricted cash £'000	Total £'000
At start of period	1,389,072	56,306	1,445,378
Movement in period	(1,389,072)	(51,673)	(1,440,745)
At end of period	-	4,633	4,633

Analysis of changes in cash and cash equivalents in the 12 months to 31 March 2016

	Balances with Bank of England £'000	Non-restricted cash £'000	Total £'000
At start of year	5,869,000	541,000	6,410,000
Movement in year	(4,479,928)	(484,694)	(4,964,622)
At end of year	1,389,072	56,306	1,445,378

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting Policies

a) Statement of compliance

The statutory financial statements set out herein have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU. The standards adopted by the Company are those that are effective and adopted by the European Union as of the date of the Statement of Financial Position.

The financial statements also comply with the relevant provisions of the Companies Act 2006. The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

b) Basis of preparation

Landmark Mortgages Limited is a Company incorporated in the United Kingdom and is limited by shares. Its principal activities are outlined in the strategic report.

The financial statements have been prepared on the historical cost basis except for derivative financial instruments held in the prior year, which have been stated at their fair value. The accounting policies that the Company has applied in the preparation of the financial statements for the period ended 31 December 2016 have been set on pages 17 to 32.

The preparation of financial statements in conformity with IFRS as adopted by the EU requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances and are reflected in the judgements made about the carrying amounts of assets and liabilities. Actual results may differ from the estimates made. The estimates and assumptions are reviewed on an ongoing basis and where necessary are revised to reflect current conditions. The principal estimates and assumptions made by management relate to loans and advances impairment provisions including security valuations and interest rate assumptions in the prior year. Current year principal estimates and assumptions relate to customer redress provisions. Judgements made by management that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 34.

LML recorded a loss after tax of £10.2m in the 9 month period ended 31 December 2016 (31 March 2016: profit of £679.0m). The decrease in the profit was primarily due to the acquisition transaction as explained above resulting in material changes to the business model and the significantly different underlying assets and liabilities held by the Company post acquisition period. Should one remove the effect of legacy activities, the Company recorded a loss after tax of £22.1m for the 9 month period ended 31 December 2016. The reason for such losses is mainly due to the £19.4m new PPI customer redress provision charges and the £1.6m loss on the sale of the last remaining T&C mortgage loan portfolio of £481.8m to affiliates of Cerberus.

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting Policies (continued)

c) Going Concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. In addition, note 34 to the financial statements includes the Company's financial risk management objectives, policies and processes for managing its capital. The intention to support LML has been formally confirmed to the Company by CERH.

Having made due enquiries and on the basis of current financial projections including stressed scenario analysis, the Directors have a reasonable expectation that the Company has adequate resources as well as access to funding from CERH to continue in operational existence for the foreseeable future and therefore believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

d) Interest income and expense

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

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

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

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

e) Fee and commission income

Where Value Added Tax ('VAT') is charged, income is stated net of VAT.

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

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

f) Other operating income – Servicing fee income

Servicing fees, not integral to the effective interest rate, arise from mortgage administration services provided to third parties are recognised on an accrual basis when the service has been provided to which the fee relates.

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting Policies (continued)

g) Financial instruments

In accordance with IAS 39 each financial asset is classified at initial recognition into one of four categories:

- (i) Financial assets at fair value through Income Statement;
- (ii) Held-to-maturity;
- (iii) Loans and receivables; or
- (iv) Available-for-sale;

and each financial liability into one of two categories:

- (v) Financial liabilities at fair value through Income Statement; or
- (vi) Other liabilities.

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

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

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

h) Offsetting financial instruments

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

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting Policies (continued)

i) Derivative financial instruments and hedge accounting

In the prior year, all of the Company's derivative contracts were used for commercial management of exposures to interest rate risks, foreign currency risks and risks arising from forecast transactions.

For many of the Company's derivative contracts, hedge accounting was applied. However, in some cases natural offsets apply.

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

(i) Cash flow hedge accounting

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

(ii) Fair value hedge accounting

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

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

(iii) One-to-one fair value hedges

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

(iv) Portfolio fair value hedges

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

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting Policies (continued)

i) Derivative financial instruments and hedge accounting (continued)

(v) Hedge effectiveness

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

(vi) Termination of hedges

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

(vii) Embedded derivatives

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

j) Sale and repurchase agreements

In the prior year, securities sold subject to repurchase agreements ('repos') were reported as they were originally classified within the Statement of Financial Position as the risks and rewards associated with that asset had been retained. The counterparty liability was included in 'amounts due to banks' or 'other deposits'. Securities purchased under agreements to resell ('reverse repos') were recorded as 'cash at bank and in hand'. The difference between sale and repurchase price was treated as interest and accrued over the life of the agreements using the EIR method.

k) Impairment

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

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting Policies (continued)

l) Financial assets held at amortised cost

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

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

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

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

In the prior year, a loan to a customer was written off and any associated impairment allowance released when, and only when, the property was sold, the account was redeemed, or in respect of unsecured loans where the collections process indicated a loan was not recoverable. Any subsequent proceeds were recognised on a cash basis and offset against 'impairment on loans to customers' in the Income Statement. An investment security was written off and any associated impairment allowance released when there was strong evidence to suggest that nothing will be recovered.

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

m) Available-for-sale financial assets

In the prior year, investment securities classified as available-for-sale were carried at fair value which appropriately reflected any impairment. Impairment was recognised when the investment security exhibits objective evidence of impairment or was uncollectible. Such evidence may include:

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

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

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting Policies (continued)

m) Available-for-sale financial assets (continued)

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

n) Recognition and de-recognition of assets and liabilities

Purchases and sales of assets are accounted for once the parties are legally committed to the contract, completion is not subject to any material conditions and the risks and rewards of the loans have been transferred.

A financial asset is de-recognised (ie, removed from the Statement of Financial Position) only when substantially all of the risks and rewards associated with that asset have been transferred to another party.

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

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

o) Debt and equity securities in issue

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

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

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

p) Foreign currencies

The presentation and functional currency of the Company is pounds sterling.

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

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

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting Policies (continued)

q) Cash and cash equivalents and restricted cash balances

Cash and cash equivalents are held for the purpose of meeting short-term cash commitments rather than investing or other purposes. Cash and cash equivalents consist of cash and balances with banks that are freely available and non-equity investments with a maturity of three months or less from the date of acquisition and any bank overdrafts.

Restricted cash comprises cash held on trust for a short holding period to be transferred across to the respective beneficial owners of the mortgage loan portfolios under a servicing contract with the Company. These amounts are separate from any of the Company's own (unrestricted) cash balances in the Statement of Financial Position or in the statement of cash flows.

r) Taxation

(i) Current tax

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

(ii) Deferred tax

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting Policies (continued)

s) Retirement benefits

Prior to the transfer of assets on 30 April 2016, the Company operated a number of retirement benefit plans for its employees, including defined contribution plans and defined benefit plans. The costs of these plans were charged to the 'administrative expenses' line of the Income Statement and to other comprehensive income in accordance with IAS 19 'Employee Benefits' and IFRIC 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'.

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

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

A full actuarial valuation of the Company's defined benefit sections of the existing schemes was undertaken every three years, with interim reviews in the intervening years; these valuations were updated at each published Statement of Financial Position date by qualified independent actuaries. For the purpose of these updates, scheme assets were included at their fair value and scheme liabilities were measured on an actuarial basis using the projected unit credit method. The inflation assumption used to determine benefit obligations is RPI. Details of the actuarial assumptions made are provided in note 18. The resulting net surplus or deficit was included in full in the Company's Statement of Financial Position. Retirement benefit remeasurements were charged to retained earnings in full in the period in which they occur, and passed through other comprehensive income rather than the Income Statement. The Company's Income Statement included the service cost of providing pension benefits, the expected return on the scheme's assets, net of administration costs, and the interest cost on the scheme's liabilities. Following closure of the scheme, the current service cost is nil.

Though the scheme was in surplus on an accounting basis, it was in deficit on a trustee's funding basis. Surpluses on an accounting basis were only recognised on the Statement of Financial Position to the extent that they were recoverable through reduced contributions in the future or through refunds from the scheme. The Company effective from 5 May 2016 ceased all retirement benefits operations as the existing schemes had been transferred over to NRAM Limited. Accordingly, there is no requirement for the Company to consider the potential impact of the IASB's exposure draft of possible changes to IFRIC14.

For defined contribution plans, the Company has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. In the prior year, prepaid contributions were recognised as an asset to the extent that a cash refund or a reduction in future payments was available.

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting Policies (continued)

t) Leases

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

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

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

Where the Company leases assets out under an operating lease agreement, the asset was included in the Statement of Financial Position based on the nature of the asset. Lease income was recognised over the term of the lease on a straight line basis.

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

u) Provisions and contingent liabilities

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

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

Provisions are reviewed at each Statement of Financial Position date and are released if they no longer meet the above criteria.

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

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting Policies (continued)

v) Provisions and contingent liabilities (continued)

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

w) Investment securities held

In the prior year, investment securities were categorised either as 'available-for-sale' or as 'loans and receivables'; for each instrument, the Directors adopted the category which they considered to be the most appropriate.

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

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

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

x) Financial guarantees

In the prior year, the Company applied insurance accounting to financial guarantee contracts and provided against any claims arising under such contracts.

y) Loan commitments

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

z) Lifetime mortgages

In the prior year and until the Acquisition Date, the Company had a portfolio of lifetime mortgage loans secured on residential property. Under the terms of the loans, where a borrower died or went into long term care and a redemption receipt is less than the contractual sum owed the Company did not have any further ability to recover amounts from the borrower or the estate. The Company accounted for lifetime loans in the same way as other loans to customers, with all income earned being accounted for as interest. The loans were included within 'loans to customers'. In respect of lifetime loans, impairment allowances on loans to customers included an additional provision reflecting estimated future impairment up to redemption.

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting Policies (continued)

aa) Property and equipment

Property and equipment is shown at cost less accumulated depreciation and impairment losses. Depreciation is provided at rates calculated to write off the cost, less the estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Freehold land	Not depreciated
Freehold and leasehold buildings	Over fifteen years
Fixtures and fittings	Over ten years (31 March 2016: four years)
Computer equipment	Over four years (31 March 2016: three to four years)
Motor vehicles	Over three years (31 March 2016: four years)

Subsequent costs are included in the assets' carrying amounts only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Property and equipment is assessed for impairment where there is an indication of impairment. Where impairment exists, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognised in the statement of comprehensive income. The depreciation charge for the asset is then adjusted to reflect the asset's revised carrying amount.

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

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

ab) Dividends

Final dividends on ordinary shares are recognised in the period in which they are approved by the Company's shareholder. Interim dividends are recognised in the period in which they are paid.

ac) Financial liabilities

Financial liabilities include borrowings from the Company's parent undertaking, and in the prior year other banks and credit institutions, debt securities and subordinated debt issued. Financial liabilities are initially recorded at fair value and then subsequently measured at amortised cost calculated on an effective interest basis.

ad) Adoption of new and revised reporting standards

The new standards, amendments and interpretations which are effective for the financial year beginning on 1 April 2016 are not considered to have a material impact on the Company.

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting Policies (continued)

ae) New reporting standards not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Company, except the following set out below:

IAS 1, 'Presentation of financial statements' clarifies guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The amendments form a part of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved. The changes to disclosures are not considered to have a material impact on the presentation of the accounts.

IFRS 9, largely replaces the requirements of the existing financial instruments standard, IAS 39: 'Financial Instruments: Recognition and Measurement' and was endorsed by the EU on 22 November 2016. The standard is effective for annual periods beginning on or after 1 January 2018 and is required to be applied retrospectively. However, prior periods need not be restated, instead an adjustment may be reflected in opening retained earnings at the start of the period when IFRS 9 is first adopted.

The standard includes requirements for classification and measurement of financial assets and liabilities, hedge accounting and the impairment of financial assets.

Classification and measurement

The classification of financial assets will be based on the objectives of the Company's business model and the contractual cash flow characteristics of the instruments. Financial assets will then be classified as held at amortised cost, at fair value through other comprehensive income ("FVOCI"), or at fair value through profit or loss ("FVTPL"). In most instances, the measurement outcomes will be similar to those under IAS 39 and therefore, any changes from the accounting treatment currently followed by the Company under IAS 39 are not expected to be significant. The classification of financial liabilities is essentially unchanged from the treatment under IAS 39.

Impairment of financial assets

Impairment provisions in all financial assets are recognised based on either 12 month expected losses or lifetime expected losses. This will result in the acceleration of the recognition of impairment provisions and will lead to more volatile impairment charges in the income statement. However, whilst IFRS9 represents a significant change compared to IAS 39, the quantum of impairment losses recorded against any one loan over the life of the loan will not change as IFRS 9 alters only the timing of recognition of impairment losses.

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting Policies (continued)

ae) New reporting standards not yet adopted (continued)

IFRS 9 introduces a number of changes to approach as compared to the current methodology under IAS 39. The main changes are:

- Expected credit losses ("ECL") are based on an assessment of the probability of default, loss given default and exposure at default discounted to give a net present value. The estimation of ECL should be unbiased and probability weighted to reflect a range of possible outcomes taking into account all reasonable and supportable information including forward-looking economic assumptions.
- On initial recognition, and for financial assets where there has not been a significant increase in credit risk since the date of origination, IFRS 9 provisions will be made to reflect ECL arising from expected credit default events within the next 12 months.
- A key requirement of IFRS 9, compared with the existing impairment approach under IAS 39, relates to assets where there has been a significant increase in credit risk since the date of origination. Provisions will be made for those assets expected to default at any point over their lifetime, reflecting the asset's full expected loss.
- For assets where there is evidence of credit impairment, provisions will be made under IFRS 9 for lifetime expected credit losses, taking account of forward looking economic assumptions and a range of possible outcomes. Under IAS 39, provisions are currently based on the asset's carrying value and the present value of the estimated future cash flows.

Application of IFRS 9 is not expected to have a significant impact on the Company's results and financial position as the Company is not expected to carry a significant number of financial assets on its Statement of Financial Position.

Hedge accounting

The hedge accounting requirements of IFRS 9 are designed to create a stronger link with financial risk management. The Company has limited exposures on hedging instruments as these relate only to the interest rate swap derivatives in the securitisation vehicles. Accordingly, its adoption is not expected to have a material impact on its results or financial position.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted subject to EU endorsement. Its adoption is not expected to have a material impact on its results or financial position.

Annual Improvements to IFRSs 2012 – 2014 cycle. The amendments are not expected to have a material effect on the financial statements.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting Policies (continued)

af) Significant judgements/estimates made by management

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

Impairment losses on loans

Prior to the transfer of assets, the Company reviewed its loan impairment on a monthly basis and assessed individual impairment losses by reference to an individual review of the underlying asset and utilises actual loss experience to provide both probabilities of defaults and property forced sale discounts across a portfolio of products. Collective impairment losses on loans were calculated using a statistical model. The key assumptions used in this model were: the probability of any balance entering into default as a result of an event that had occurred prior to the Statement of Financial Position date; the probability of this default resulting in possession or write-off; and the estimated subsequent loss incurred. These key assumptions were based on observed data trends and are updated on a regular basis within agreed methodology to ensure the impairment allowance was entirely representative of the current portfolio. The accuracy of the impairment calculation would, therefore, be affected by unanticipated changes to the economic situation and assumptions which differ from actual outcomes. To the extent that house prices were to change by +/- 10%, the residential impairment allowance in the 12 months to 31 March 2016 would have been an estimated £20.9m lower or £23.8m higher respectively. As the Company had de-recognised all mortgage loan portfolios from 5 May 2016 due to the transfer to NRAM Limited and sale of loan portfolio, no impairment loss calculation on loans was carried out thereafter. This policy was applied until the sale of the remaining loans on 5 May 2016.

Fair value of financial instruments

Provisions are carried in respect of certain known or forecast future expenditure as described in note 27. Where the future payment amount is unknown, provisions are set at a level which covers the estimated number of future payments and the estimated average payment amount. Provisions are calculated using the best available information but the actual future outcomes of items provided for may differ from expectations.

The PPI Provision has been increased by £40.3m following the publication of the Financial Conduct Authority's ('FCA') consultation paper CP15/39 'Rules and guidance on payment protection insurance complaints' which proposes the setting of a deadline date for complaints in August 2019 and provides guidance in relation to the Plevin case. The proposals include an FCA-led communications campaign to raise awareness of the deadline to prompt those who intend to complain to act ahead of the deadline. If the proposals are agreed and implemented, we expect higher claim volumes in the run up to the implementation of time-barring than we have previously modelled.

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting Policies (continued)

af) Significant judgements/estimates made by management (continued)

Fair value calculations

For the majority of instruments carried at fair value, fair value is determined by reference to quoted market prices or lead manager prices. Where these are not available, fair value is calculated using discounted cash flows applying independently sourced market parameters including interest rates and currency rates. Other factors are also considered, such as counterparty credit quality and liquidity. Management must use judgement to arrive at estimates where not all necessary data can be externally sourced or where factors specific to the Company's holdings need to be considered. The accuracy of the fair value calculations may, therefore, be affected by unexpected market movements or variations in actual outcomes when compared to estimates and assumptions used for modelling purposes.

2 Net interest income

On 30 April 2016 the Company transferred certain assets and liabilities to NRAM Limited (see note 8). On 5 May 2016 the remaining loans were transferred to Cerberus, resulting in the Company holding no loan assets on the Statement of Financial Position. The interest receivable on secured loans, other lending and investment securities and deposits was earned up to the transfer date, at which point no further income of this type was recorded.

	9 months to 31 Dec 2016 £'000	12 months to 31 Mar 2016 £'000
Interest receivable and similar income		
On secured loans	36,810	824,048
On other lending	1,112	44,564
On intercompany loans	3,001	-
On investment securities and deposits	797	18,030
Total interest receivable and similar income	41,720	886,642
Interest expense and similar charges		
On amounts due to banks and HM Treasury	(9,199)	(183,508)
On intercompany loans	(14)	-
On debt securities and other	(1,475)	(84,113)
Total interest expense and similar charges	(10,688)	(267,621)
Net interest income	31,032	619,021

Total interest receivable and similar income includes interest accrued on individually impaired assets of £nil (31 March 2016:£3.4m).

NOTES TO THE FINANCIAL STATEMENTS

3 Net realised gains less losses on investment securities

Prior to the transfer of assets to NRAM Limited on 30 April 2016 the company held investment securities. Net realised gains less losses on investment securities during the period to the transfer date which were recognised in the Income Statement comprised the following:

	9 months to 31 Dec 2016 £'000	12 months to 31 Mar 2016 £'000
Net realised (losses)/gains on instruments at amortised cost	(20,117)	7,820

4 Unrealised fair value movements on financial instruments and hedge ineffectiveness

	9 months to 31 Dec 2016 £'000	12 months to 31 Mar 2016 £'000
Net gain/(loss) in fair value:		
- translation gains/(losses) on underlying instruments	1,925	(49,202)
- fair value movements on derivatives which are economic hedges but are not in hedge accounting relationships	(2,652)	48,400
Unrealised fair value movements	727	(802)
Net gains on fair value hedging instruments	-	7,200
Net losses on fair value hedged items attributable to hedged risk	-	(14,051)
Ineffectiveness on cash flow hedges	-	(7,300)
Net hedge ineffectiveness losses	-	(14,151)
Total	727	(14,953)

5 Administrative expenses

The Company had no employees during the current period as services were provided to the Company by employees of CHL on a seconded basis. Similarly, the Company had no employees during the prior year as services were provided to the Company by employees of Bradford and Bingley plc.

The Company had engaged a full-time equivalent (seconded from CHL) of 10 permanent staff and specialist contractors at 31 December 2016 (31 March 2016: 13 temporary staff and specialist contractors).

	9 months to 31 Dec 2016 £'000	12 months to 31 Mar 2016 £'000
Defined benefit pension costs	(605)	(4,948)
IT costs	101	1,622
Insurance premiums	545	-
Directors fee	106	-
Outsourced and professional services	751	3,235
Depreciation and amortisation (see note 21)	38	332
Management recharge from B&B	1,669	59,467
Management and staff recharge from CHL	1,056	-
Other administrative expenses	816	17,656
Total administrative expenses	4,477	77,364

NOTES TO THE FINANCIAL STATEMENTS

5 Administrative expenses (continued)

The directors fee shown in the above analysis were amounts in respect of non-executive directors paid during the current period. The highest paid director amounted to £54,000. None of the directors accrued retirement benefits during the period.

Auditor's remuneration

The following costs are included within administrative expenses:

	9 months to 31 Dec 2016 £'000	12 months to 31 Mar 2016 £'000
Fees payable to Company auditors for the statutory audit of the Company	35	373
Fees payable to Company auditors and their associates for other services:		
- the audit of the Company's subsidiaries pursuant to legislation	-	67
- audit-related assurance services	-	64
Total	35	504

The prior year audit fee relates to the audit of the financial statements for the year ended 31 March 2016 conducted by PricewaterhouseCoopers LLP.

6 Loss on repurchase of own liabilities and equity

Debt securities in issue

	9 months to 31 Dec 2016 £'000	12 months to 31 Mar 2016 £'000
Principal amount of instruments repurchased	-	3,631,900
Amount paid to repurchase instruments	-	(4,162,380)
Other net gains resulting from the repurchase	-	514,700
Loss on repurchase	-	(15,780)

There were no debt securities in issue in the current year.

In the prior year, other net gains and losses taken to the Income Statement were principally hedge adjustments.

There were two Covered Bond acquisition tender offers during the prior year resulting in the purchase of all Covered Bonds issued by the Company at their fair value. The first offer closed on 5 May 2015 resulting in the purchase of notes with a face value of £1,451.0m for cash of £1,782.2m including costs. The second offer closed on 15 July 2015 resulting in the purchase of notes with a face value of £2,180.9m for cash of £2,380.2m including costs. The losses on the acquisitions were offset by a release of £514.7m which primarily comprised accrued interest and hedge accounting adjustments. These acquisitions have reduced the ongoing funding cost to the Company and further simplified the Company's Statement of Financial Position.

NOTES TO THE FINANCIAL STATEMENTS

7 Taxation

The tax credit/(charge) for the financial period/year comprises:

	9 months to 31 Dec 2016 £'000	12 months to 31 Mar 2016 £'000
Current tax:		
- on loss/profit for the period/year	496	(171,401)
- adjustments in respect of prior periods	2,752	7,398
Total current tax credit/(charge)	3,248	(164,003)
Deferred tax (see note 27):		
- origination and reversal of temporary differences	(2,375)	(9,500)
Total deferred tax charge	(2,375)	(9,500)
Total taxation credit/(charge) per the Income Statement	873	(173,503)

The following tax amounts have been credited/(charged) to equity:

	9 months to 31 Dec 2016 £'000	12 months to 31 Mar 2016 £'000
Current tax:		
- relating to available-for-sale investments	(4,044)	(4,375)
Deferred tax:		
- relating to cash flow hedge reserve	-	50,775
- relating to retirement benefit remeasurements	5,048	(11,337)
Net credit to equity	1,004	35,063

The tax assessed for the period differs from the standard rate of corporation tax in the United Kingdom of 20.00% (31 March 2016: 20%). The differences are explained below:

	9 months to 31 Dec 2016 £'000	12 months to 31 Mar 2016 £'000
(Loss)/profit before taxation	(11,111)	852,526
(Loss)/profit by standard rate of corporation tax in UK	2,222	(170,504)
Effects of:		
- expenses not deductible for tax purposes	(4,101)	(10,397)
- adjustments in respect of prior periods	2,752	7,398
Total taxation credit/(charge) for the period/year	873	(173,503)

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

NOTES TO THE FINANCIAL STATEMENTS

8 Significant events during the financial period

On 30 April 2016 the Company transferred certain assets and liabilities to NRAM Limited. The transfer of assets and liabilities to NRAM Limited had been accounted for as transactions between entities under common control. These assets and liabilities were those that were not to be included in the asset perimeter of the sale to Cerberus and included all of NRAM's investments in subsidiary undertakings, £9,947m of loans to customers, NRAM's 30 April balances in respect of certain bank accounts, investment securities, retirement benefit assets, HM Treasury loans, the EMTN debt securities in issue and derivative financial assets and liabilities. These balances were transferred at their carrying amounts and a net balance owed to the Company by NRAM Limited was left outstanding. These balances have not been classified as 'held for sale' in the Company's 31 March 2016 Statement of Financial Position as at that date the balances were not available for immediate sale in their current condition, substantial further conditions being required to be satisfied in order to complete the sale.

9 Dividends paid

On 30 April 2016, the Company, under UKAR ownership, paid a dividend of £3,787.4m (£30.54 per share) to NRAM Limited. Post-Acquisition Date, no dividends were paid during the financial period (31 March 2016: nil).

10 Balances with Bank of England

Balances with the Bank of England represent cash liquidity and collateral held on account which earns Bank Base Rate. On 30 April 2016, these balances were transferred to NRAM Limited.

	31 Dec 2016 £'000	31 Mar 2016 £'000
Balances for liquidity purposes	-	1,388,501
Collateral balances	-	571
Total	-	1,389,072

11 Wholesale assets

The assets in the following tables are of a wholesale nature as opposed to individual customer assets. The credit and concentration risk characteristics of these portfolios should, therefore, be considered together.

	31 Dec 2016 £'000	31 Mar 2016 £'000
Balances with the Bank of England (see note 10)	-	1,389,072
Cash at bank – restricted	4,055	-
Cash at bank – unrestricted	4,633	56,306
Investment securities (see note 12)	-	335,510
Total	8,688	1,780,888

Cash balances held includes restricted cash balances to the value of £4.1m, which are owed to associates of Cerberus and are held as a corresponding creditor on the Statement of Financial Position.

The Company had no collateral or other credit enhancements in respect of these assets.

NOTES TO THE FINANCIAL STATEMENTS

11 Wholesale assets (continued)

(a) Credit risk

Impairment is set out in the table below:

	Balances with the Bank of England £'000	Cash at bank - restricted £'000	Cash at bank - unrestricted £'000	Available- for-sale securities £'000	Investment securities held as loans and receivables £'000	Unsecured investment loans £'000	Total £'000
At 31 December 2016							
Neither past due nor impaired	-	4,055	4,633	-	-	-	8,688
Impaired	-	-	-	-	-	-	-
Total	<u>-</u>	<u>4,055</u>	<u>4,633</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,688</u>

	Balances with the Bank of England £'000	Cash at bank and in hand - unrestricted £'000	Cash at bank and in hand - restricted £'000	Available- for-sale securities £'000	Investment securities held as loans and receivables £'000	Unsecured investment loans £'000	Total £'000
At 31 March 2016							
Neither past due nor impaired	1,389,072	56,306	-	-	325,510	-	1,770,888
Impaired	-	-	-	94,000	52,200	90,400	236,600
	<u>1,389,072</u>	<u>56,306</u>	<u>-</u>	<u>94,000</u>	<u>377,710</u>	<u>90,400</u>	<u>2,007,488</u>
Provisions	-	-	-	(94,000)	(42,200)	(90,400)	(226,600)
Total	<u>1,389,072</u>	<u>56,306</u>	<u>-</u>	<u>-</u>	<u>335,510</u>	<u>-</u>	<u>1,780,888</u>

In the prior year, all of the above loans which are neither past due nor impaired had no arrears arising on them.

The credit quality of wholesale assets by reference to credit ratings is set out in the table below:

	£'000	AAA %	AA %	A %	BBB to B %	CCC and below %
At 31 December 2016						
Cash at bank – restricted	4,055	-	-	-	100	-
Cash at bank – unrestricted	4,633	-	-	-	100	-
Total	<u>8,688</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>100</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS

11 Wholesale assets (continued)

(a) Credit risk (continued)

At 31 March 2016	£'000	AAA %	AA %	A %	BBB to B %	CCC and below %
Balances with the Bank of England	1,389,072	-	100	-	-	-
Cash at bank and in hand	56,306	-	25	25	50	-
Investment securities:						
- available-for-sale securities	-	-	-	-	-	-
- investment securities held as loans and receivables	335,510	9	16	42	29	4
Total investment securities	335,510	9	16	42	29	4
Total	1,780,888	2	82	9	6	1

Additional information in respect of investment securities held in the prior year is provided in note 12.

(b) Concentration risk

Wholesale assets are analysed by geographical region at their carrying amounts in the tables below:

At 31 December 2016	UK £'000	Europe £'000	US £'000	Other countries £'000	Total £'000
Cash at bank – restricted	4,055	-	-	-	4,055
Cash at bank – unrestricted	4,633	-	-	-	4,633
Total	8,688	-	-	-	8,688

At 31 March 2016	UK £'000	Europe £'000	US £'000	Other countries £'000	Total £'000
Balances with the Bank of England	1,389,072	-	-	-	1,389,072
Cash at bank and in hand	55,500	406	400	-	56,306
Investment securities:					
- investment securities held as loans and receivables	216,700	91,800	14,910	12,100	335,510
Total	1,661,272	92,206	15,310	12,100	1,780,888

At 31 December 2016 and 31 March 2016 the Company held no investment securities issued by the governments of Portugal, the Republic of Ireland, Italy, Greece or Spain.

NOTES TO THE FINANCIAL STATEMENTS

12 Investment securities

On 30 April 2016 the Company transferred investment securities held to NRAM Limited.

	31 Dec 2016 £'000	31 Mar 2016 £'000
Investment securities held as loans and receivables	-	335,510

In the Statement of Financial Position the carrying values of impaired assets are presented net of the impairment allowances shown in note 3.

Net impairment release on investment securities for the period/year comprised:

	9 months to 31 Dec 2016 £'000	12 months to 31 Mar 2016 £'000
Net impairment (charges)/reversals on available-for-sale securities	-	(500)
Net impairment reversals on investment securities held as loans and receivables and unsecured investment loans	261	5,549
	<u>261</u>	<u>5,049</u>

(a) Available-for-sale securities

	9 months to 31 Dec 2016 £'000	12 months to 31 Mar 2016 £'000
At start of period/year	-	700
Disposals (sales and redemptions)	-	(700)
At end of period/year	<u>-</u>	<u>-</u>

The net gains on changes in fair value include net impairment reversals.

(b) Investment securities held as loans and receivables

	31 Dec 2016 £'000	31 Mar 2016 £'000
Carrying value	-	335,510
Fair value	-	316,400
Listed	-	327,310
Unlisted	-	8,200
Total	<u>-</u>	<u>335,510</u>

Note 33(a) provides further information regarding investment securities which have been reclassified as loans and receivables.

NOTES TO THE FINANCIAL STATEMENTS

12 Investment securities (continued)

(c) Unsecured investment loans

	31 Dec 2016 £'000	31 Mar 2016 £'000
Carrying value	-	-
Fair value	-	19,600

The unsecured investment loans held in the prior year were listed and are fully impaired.

13 Loans to customers

As at the period end on 31 December 2016 the Company held no mortgage assets and had no associated provisions.

In the prior year, on 13 November 2015 UKAR announced that the Company had agreed to sell a £13bn asset portfolio to affiliates of Cerberus, which included £12bn of mortgages from the Granite securitisation structure. The sale of these Granite loans generated a profit of £59.4m before tax recognised in December when the beneficial interest of the loans transferred to Cerberus. During 2015/16 the Company also released £3.4m of warranty provisions relating to sales in earlier periods, as these provisions were no longer required.

On 30 April 2016, all of the mortgage loan portfolio, except for the T&C mortgage loan portfolio was transferred to NRAM Limited (see note 8).

On 5 May 2016, the last remaining T&C mortgage loan portfolio of £481.8m was sold to affiliates of Cerberus (see note 37(f)). This sale of T&C loans generated a loss of £1.6m when the beneficial interest of the loans transferred to Cerberus.

	31 Dec 2016 £'000	31 Mar 2016 £'000
Residential mortgages	-	10,065,700
Commercial loans	-	115,200
Total secured loans	-	10,180,900
Unsecured loans	-	391,821
Total loans	-	10,572,721

In the prior year, residential mortgages included all of the Company's buy-to-let loans. Commercial loans comprised loans secured on commercial properties. The 'Together' product, previously offered by the Company, combined a secured and unsecured loan all at one interest rate. Outstanding secured balances in respect of this product were included within total residential mortgages while outstanding unsecured balances are included within unsecured loans.

All of the Company's loans to customers were to UK customers.

Balances included accounting adjustments in respect of provisioning requirements.

NOTES TO THE FINANCIAL STATEMENTS

13 Loans to customers (continued)

Loans to customers and redemptions comprised the following product types:

	Balance as at 31 Dec 2016		Redemptions 9 months to 31 Dec 2016		Balances as at 31 Mar 2016		Redemptions 12 months to 31 Mar 2016	
	£'000	%	£'000		£'000	%	£'000	
Residential mortgages								
Buy-to-let	-	-	(33,955)		2,787,300	28	(351,800)	
Together	-	-	(52,085)		3,479,900	34	(1,271,800)	
Standard and other	-	-	(47,696)		3,798,500	38	(1,167,000)	
Total residential mortgages	-	-	(133,736)		10,065,700	100	(2,790,600)	
Residential loans	-	-	(133,736)		10,065,700	95	(2,790,600)	
Commercial loans	-	-	(142)		115,200	1	(20,300)	
Total secured loans	-	-	(133,878)		10,180,900	96	(2,810,900)	
Unsecured loans	-	-	(3,699)		391,821	4	(95,200)	
Total	-	-	(137,577)		10,572,721	100	(2,906,100)	

Redemptions comprise full redemptions, voluntary partial redemptions and cash receipts from possessions but exclude overpayments and regular monthly payments.

At 31 March 2016: 44% of the Company's residential mortgage accounts (excluding buy-to-let) held by 29,159 customers were 'interest only' with 70% of these having more than ten years until maturity.

14 Impairment on loans to customers

As stated in note 13, on 5 May 2016 the beneficial interest of all loans remaining in NRAM plc following the 'hive up' of assets and liabilities to NRAM (No.1) Limited transferred to Cerberus.

Up until the point of transfer, allowances for credit losses against loans to customers were made as follows:

	On residential mortgages £'000	On commercial loans £'000	On unsecured loans £'000	Total £'000
At 1 April 2016	214,900	9,300	96,200	320,400
Movements during the period:				
- losses	(3,129)	-	(622)	(3,751)
- movement in provision	390	3,500	(349)	3,541
- sale of loan book	(212,161)	(12,800)	(95,229)	(320,190)
At 31 December 2016	-	-	-	-
The Income Statement (credit)/charge comprises:				
- movement in provision	390	3,500	(349)	3,541
- recoveries	(743)	(3,852)	-	(4,595)
Total Income Statement (credit)/charge	(353)	(352)	(349)	(1,054)

NOTES TO THE FINANCIAL STATEMENTS

14 Impairment on loans to customers (continued)

	On residential mortgages £'000	On commercial loans £'000	On unsecured loans £'000	Total £'000
At 1 April 2015	388,500	15,900	205,100	609,500
Movements during the year:				
- write-offs	(51,500)	(3,900)	(16,500)	(71,900)
- loan impairment (credit)/charge	(37,200)	(2,700)	1,526	(38,374)
- sale of loan book	(84,900)	-	(93,926)	(178,826)
Net movements during the year	(173,600)	(6,600)	(108,900)	(289,100)
At 31 March 2016	214,900	9,300	96,200	320,400
The Income Statement (credit)/charge comprises:				
- loan impairment (credit)/charge	(37,200)	(2,700)	1,526	(38,374)
- recoveries net of costs	(19,500)	(3,000)	-	(22,500)
Total Income Statement (credit)/charge	(56,700)	(5,700)	1,526	60,874

In respect of lifetime mortgages the allowances included an additional provision reflecting estimated future impairment up to redemption.

In the Statement of Financial Position the carrying values of loans to customers are presented net of these allowances.

15 Credit quality of loans to customers

As stated in note 13, on 5 May 2016 the beneficial interest of all remaining loans transferred to Cerberus. Until the transfer date, in respect of loans to residential customers, the Company held collateral in the form of mortgages over residential properties. At the transfer date and period end, the Company no longer retained any beneficial interest in any loans or associated collateral. The fair value of this collateral at each period end was as follows:

	31 Dec 2016 £'000	31 Mar 2016 £'000
Neither past due nor impaired	-	14,618,300
Past due but not impaired	-	1,185,000
Impaired	-	222,200
Total	-	16,025,500

NOTES TO THE FINANCIAL STATEMENTS

15 Credit quality of loans to customers (continued)

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

	31 Dec 2016 £'000	31 Mar 2016 £'000
Neither past due nor impaired	-	9,151,200
Past due but not impaired	-	840,800
Impaired	-	179,900
Total	-	10,171,900
The impaired balances above include the following carrying amount of assets in possession, capped at the balance outstanding	-	27,300

The fair value of the collateral is estimated by taking the most recent valuation of the property and adjusting for house price inflation or deflation up to the Statement of Financial Position date.

NOTES TO THE FINANCIAL STATEMENTS

15 Credit quality of loans to customers (continued)

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

	31 Dec 2016 %	31 Mar 2016 %
To 50%	-	7.7
50% to 75%	-	31.5
75% to 100%	-	51.0
Over 100%	-	9.8
Total	-	100.0

The average indexed LTV based on a simple average is nil% (31 March 2016: 64.2%) and on a weighted average is nil% (31 March 2016: 78.1%).

	At 31 December 2016			
	Residential mortgages £'000	Commercial loans £'000	Unsecured loans £'000	Total £'000
Neither past due nor impaired	-	-	-	-
Past due but not impaired:				
- less than 3 months	-	-	-	-
- 3 to 6 months	-	-	-	-
- over 6 months	-	-	-	-
Impaired	-	-	-	-
	-	-	-	-
Impairment allowances	-	-	-	-
Loans to customers net of:	-	-	-	-
Impairment allowances:				
- individual	-	-	-	-
- collective	-	-	-	-
Total impairment allowances	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

15 Credit quality of loans to customers (continued)

	At 31 March 2016			
	Residential mortgages £'000	Commercial loans £'000	Unsecured loans £'000	Total £'000
Neither past due nor impaired	9,235,500	95,700	397,900	9,729,100
Past due but not impaired:				
- less than 3 months	484,900	-	15,421	500,321
- 3 to 6 months	213,200	-	5,700	218,900
- over 6 months	157,600	-	59,100	216,700
Impaired	189,400	28,800	9,900	228,100
	<u>10,280,600</u>	<u>124,500</u>	<u>488,021</u>	<u>10,893,121</u>
Impairment allowances	<u>(214,900)</u>	<u>(9,300)</u>	<u>(96,200)</u>	<u>(320,400)</u>
Loans to customers net of:	<u>10,065,700</u>	<u>115,200</u>	<u>391,821</u>	<u>10,572,721</u>
Impairment allowances:				
- individual	20,100	9,300	21,900	51,300
- collective	194,800	-	74,300	269,100
Total impairment allowances	<u>214,900</u>	<u>9,300</u>	<u>96,200</u>	<u>320,400</u>

The above table includes balances within 'neither past due nor impaired' which would have been shown as past due or impaired other than due to renegotiation; these were loans where arrears were capitalised during the previous 12 months. These loans amounted to £nil (31 March 2016: £nil). A loan is eligible for capitalisation of arrears only once the borrower has complied with stringent terms for a set period.

NOTES TO THE FINANCIAL STATEMENTS

15 Credit quality of loans to customers (continued)

Arrears and possessions on residential mortgages and unsecured loans.

Arrears and possessions are monitored for the Company as a whole and also split by type of product.

		At 31 Dec 2016		At 31 Mar 2016	
		Residential	Unsecured	Residential	Unsecured
Arrears 3 months and over					
Number of cases	No.	-	-	3,394	4,307
Proportion of total cases	%	-	-	3.86	10.17
Asset value	£'000m	-	-	518,500	69,800
Proportion of book	%	-	-	5.15	17.81
Total value of payments overdue	£'000m	-	-	25,100	17,300
Proportion of total book	%	-	-	0.25	4.43
Possessions					
Number of cases	No.	-	-	180	-
Proportion of total cases	%	-	-	0.20	-
Asset value	£'000m	-	-	33,800	-
Proportion of book	%	-	-	0.34	-
Total value of payments overdue	£'000m	-	-	2,600	-
Proportion of total book	%	-	-	0.03	-
New possessions	No.	-	-	1,009	-
Total arrears 3 months and over and possessions					
Number of cases	No.	-	-	3,574	4,307
Proportion of total cases	%	-	-	4.06	10.17
Asset value	£'000m	-	-	552,300	69,800
Proportion of book	%	-	-	5.49	17.81
Total value of payments overdue	£'000m	-	-	27,700	17,300
Proportion of total book	%	-	-	0.28	4.43
In respect of all arrears (including those which are less than 3 months in arrears) together with possessions, the total value of payments overdue was:					
Payments overdue					
Total value of payments overdue	£'000m	-	-	33,400	17,500
Proportion of total book	%	-	-	0.33	4.47
Loan impairment provision					
As % of total balances	%	-	-	2.09	19.72

NOTES TO THE FINANCIAL STATEMENTS

15 Credit quality of loans to customers (continued)

Analysis of residential mortgages and unsecured loans 3 months and over in arrears by product

		At 31 Dec 2016		At 31 Mar 2015	
		Residential	Unsecured	Residential	Unsecured
Buy-to-let					
Number of cases	No.	-	-	243	-
Proportion of total cases	%	-	-	1.17	-
Asset value	£'000m	-	-	48,400	-
Proportion of book	%	-	-	1.73	-
Total value of payments overdue	£'000m	-	-	1,800	-
Proportion of total book	%	-	-	0.07	-
Together					
Number of cases	No.	-	-	1,357	4,307
Proportion of total cases	%	-	-	3.88	10.17
Asset value	£'000m	-	-	155,000	69,800
Proportion of book	%	-	-	4.45	17.81
Total value of payments overdue	£'000m	-	-	7,000	17,300
Proportion of total book	%	-	-	0.20	4.43
Standard and other					
Number of cases	No.	-	-	1,794	-
Proportion of total cases	%	-	-	5.56	-
Asset value	£'000m	-	-	315,100	-
Proportion of book	%	-	-	8.30	-
Total value of payments overdue	£'000m	-	-	16,300	-
Proportion of total book	%	-	-	0.43	-

16 Investments in Group undertakings

On 30 April 2016 the Company transferred its investments in subsidiaries to NRAM Limited and effective from this date, the Company held no investment in any subsidiaries.

	31 Dec 2016 £'000	31 Mar 2016 £'000
At start of period/year	100	100
Transfer to NRAM Limited	(100)	-
At end of period/year	-	-

Certain subsidiaries returned surplus capital to the Company during the previous year.

SPVs

The following entities are SPVs established in connection with the Company's past securitisation and secured funding programmes (see note 25). The Company has no contractual arrangement or intention to provide additional financial or other support to these SPVs. Although the Company has no direct or indirect ownership interest in these entities and no rights to vote or to receive dividends, they are regarded as subsidiaries. This is because they are principally engaged in providing a source of long-term funding to the Company which, in substance, has the rights to all benefits from the activities of the SPVs. They are, therefore, effectively controlled by the Company. The Company was a member of NRAM Covered Bond LLP until 30 April 2016.

NOTES TO THE FINANCIAL STATEMENTS

16 Investments in Group undertakings (continued)

SPVs (continued)

There are no subsidiaries or related SPVs as at 31 December 2016.

	Nature of business	Country of incorporation and operation
GPCH Limited	Post-enforcement call option holder	UK
Granite Finance Funding Limited	Holding company	Jersey
Granite Finance Funding 2 Limited	Holding company	UK
Granite Finance Holdings Limited	Holding company	UK
Granite Finance Trustees Limited	Mortgage trustee	Jersey
Granite Master Issuer plc	Issue of securitised notes	UK
Granite Mortgages 03-2 plc	Issue of securitised notes	UK
Granite Mortgages 03-3 plc	Issue of securitised notes	UK
Granite Mortgages 04-1 plc	Issue of securitised notes	UK
Granite Mortgages 04-2 plc	Issue of securitised notes	UK
Granite Mortgages 04-3 plc	Issue of securitised notes	UK
Moore Investments Limited	Member of NRAM Covered Bond LLP	Jersey
NRAM Covered Bond LLP	Mortgage funding	UK
Whinstone Capital Management Limited	Issue of credit linked notes	Jersey
Whinstone 2 Capital Management Limited	Issue of credit linked notes	Jersey

Summarised financial information for material SPVs

Set out below is summarised financial information for each material SPV:

	Debt securities in issue		Net assets		Profit after tax	
	At 31 Dec 2016	At 31 March 2016	At 31 Dec 2016	At 31 March 2016	9 months to 31 Dec 2016	12 months to 31 Mar 2016
	£'000	£'000	£'000	£'000	£'000	£'000
Granite Mortgages 03-2 plc	-	-	-	100	-	(300)
Granite Mortgages 03-3 plc	-	-	-	100	-	(100)
Granite Mortgages 04-1 plc	-	-	-	100	-	(300)
Granite Mortgages 04-2 plc	-	-	-	100	-	200
Granite Mortgages 04-3 plc	-	-	-	100	-	(100)
Granite Master Issuer plc	-	-	-	500	-	4,000
Granite Finance Funding Limited	-	-	-	200	-	(200)
Granite Finance Funding 2 Limited	-	-	-	-	-	(100)
Whinstone Capital Management Limited	-	78,900	-	200	-	(48,200)
Whinstone 2 Capital Management Limited	-	-	-	-	-	(49,000)

The majority of the securitised notes issued by the above companies were redeemed during December 2015 and January 2016, following the sale of mortgages detailed in note 13. The remaining notes issued by Whinstone Capital Management Limited were subsequently redeemed in April 2016. These entities had been placed in liquidation process post their redemption date.

NOTES TO THE FINANCIAL STATEMENTS

17 Due from parent undertakings

	31 Dec 2016 £'000	31 Mar 2016 £'000
Amounts due from Landmark Bidco Limited	170,107	-
Amounts due from CERH	478,528	-
	<u>648,635</u>	<u>-</u>

18 Indemnity assets

	31 Dec 2016 £'000	31 Mar 2016 £'000
Indemnity receivable from NRAM Limited	<u>82,780</u>	<u>-</u>

19 Retirement benefit assets

(a) Pension schemes

Northern Rock plc operated a staff pension scheme, which was closed in 2010 and is now known as the NRAM Scheme. The assets of the NRAM Scheme are held in a separate trustee-administered fund. The normal pension age of employees in this Scheme is 60. The NRAM Scheme provided benefits to employees on a final salary basis. Deferred pension entitlement increases are calculated by reference to the Retail Prices Index ('RPI'). The trustees of the NRAM Scheme are responsible for ensuring the NRAM Scheme meets its Statutory Funding Objective which is set by The Pensions Regulator. The Trustee of the NRAM Scheme has passed a resolution for the ultimate refund to NRAM of any future surpluses on the NRAM Scheme. On 30 April 2016 the NRAM Scheme transferred to NRAM Limited. Post April 2016, the Company ceased all pension scheme operations.

The cost to the Company of funding the NRAM Scheme guaranteed benefits varies over time, dependent on market conditions and life expectancies. The credit in the prior year to 31 March 2016 was £4.9m the retirement benefit remeasurement gain recognised in other comprehensive income during the prior year to 31 March 2016 was £57.4m.

As at 31 March 2016 the NRAM Scheme was in surplus on an accounting basis but in deficit on a trustee's funding basis.

NOTES TO THE FINANCIAL STATEMENTS

19 Retirement benefit assets (continued)

(b) Defined benefit section of the NRAM Scheme

The amounts carried on the Statement of Financial Position are as follows:

	31 Dec 2016 £'000	31 Mar 2016 £'000
Present value of defined benefit obligations	-	(583,400)
Fair value of defined benefit assets	-	812,800
Net defined benefit asset	-	229,400

The amounts recognised in the Income Statement were as follows:

	9 months to 31 Dec 2016 £'000	12 months to 31 Mar 2016 £'000
Net interest income	-	4,932
Total recognised in the Income Statement	-	4,932

Movements in the present value of defined benefit obligations were as follows:

	9 months to 31 Dec 2016 £'000	12 months to 31 Mar 2016 £'000
At start of period/year	583,400	606,200
Interest on defined benefit obligations	(1,722)	20,300
Remeasurements:		
- effect of changes in demographic assumptions	-	20,500
- effect of changes in financial assumptions	-	(38,100)
- effect of experience adjustments	1,670	(8,800)
Benefits paid from plan	1,252	(16,700)
Transferred to NRAM Limited	(584,600)	-
At end of period/year	-	583,400

NOTES TO THE FINANCIAL STATEMENTS

19 Retirement benefit assets (continued)

(b) Defined benefit section of the NRAM Scheme (continued)

Movements in the fair value of defined benefit assets were as follows:

	9 months to 31 Dec 2016 £'000	12 months to 31 Mar 2016 £'000
At start of period/year	812,800	758,100
Interest income on defined benefit assets	2,399	26,000
Admin costs	(75)	(900)
Defined benefit company contributions	23,300	15,340
Remeasurements:		
- return on plan assets (excluding interest income)	(26,872)	30,960
Benefits paid from plan	(1,252)	(16,700)
Transferred to NRAM Limited	(810,300)	-
At end of period/year	-	812,800

The major categories of defined benefit assets at the end of the period/year were as follows:

	31 December 2016			31 March 2016		
	Quoted £'000	Unquoted £'000	Total £'000	Quoted £'000	Unquoted £'000	Total £'000
Equity instruments	-	-	-	-	224,300	224,300
Bonds:	-	-	-	-	-	-
- of which UK	-	-	-	63,400	-	63,400
Liability hedging investments	-	-	-	512,900	-	512,900
Cash and cash equivalents	-	-	-	12,200	-	12,200
Total	-	-	-	588,500	224,300	812,800

NOTES TO THE FINANCIAL STATEMENTS

19 Retirement benefit assets (continued)

(c) Assumptions

Summary actuarial assumptions (expressed as weighted averages) were as follows:

	31 Dec 2016	31 Mar 2016
To determine benefit obligations:		
Discount rate	3.6%	3.6%
Inflation (RPI)	3.0%	3.0%
Future pension increases	1.85% - 3.55%	1.85% - 3.55%
To determine net pension cost:		
Discount rate	3.4%	3.4%

In determining the expected long-term return on defined benefit assets, the Company considered the current level of expected returns on risk-free investments (primarily government bonds), the historical level of risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns on each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term return for the portfolio.

The table below shows the life expectancy assumptions from age 60:

	31 Dec 2016		31 Mar 2016	
	Pensioner	Non-retired member	Pensioner	Non-retired member
Male	n/a	n/a	28.9	30.7
Female	n/a	n/a	31.2	33.0

(d) Maturity profile of the obligation

The defined benefit pension scheme had a weighted average maturity of around 23 years.

(e) Sensitivity

The following table illustrates the sensitivity of the defined benefit pension Scheme obligations to three key assumptions: the discount rate, the rate of inflation and the mortality assumption:

Assumption	Change in assumption	Impact on obligations
Discount rate	Decrease by 0.5%	Increase by 12%
Inflation	Increase by 0.5%	Increase by 9%
Mortality	Decrease by 1 year	Increase by 2%

If the assumptions were to change by the same amount in the opposite direction to those illustrated, the obligations would decrease by a similar percentage to those shown in the table in each case.

20 Other assets

	31 Dec 2016 £'000	31 Mar 2016 £'000
Prepayments and accrued income	310	779
Other	2,850	19,556
	<u>3,160</u>	<u>20,335</u>

NOTES TO THE FINANCIAL STATEMENTS

21 Property and equipment

31 December 2016	Land and buildings £'000	Plant, equipment, fixtures, fittings and vehicles £'000	Total £'000
Cost			
At beginning of period	-	-	-
Additions in period	-	226	226
Disposals in period	-	-	-
At end of period	-	226	226
Depreciation			
At beginning of period	-	-	-
Charge for period	-	38	38
Elimination on disposal	-	-	-
At end of period	-	38	38
Net book value			
At 31 December 2016	-	188	188
At 31 March 2016	-	-	-

31 March 2016	Land and buildings £'000	Plant, equipment, fixtures, fittings and vehicles £'000	Total £'000
Cost			
At beginning of year	300	1,700	2,000
Transfer to fellow subsidiary	(300)	(1,100)	(1,400)
Disposals in year	-	(600)	(600)
At end of year	-	-	-
Depreciation			
At beginning of year	-	1,100	1,100
Charge for year	100	100	200
Transfer to fellow subsidiary	(100)	(600)	(700)
Elimination on disposal	-	(600)	(600)
At end of year	-	-	-
Net book value			
At 31 March 2016	-	-	-
At 31 March 2015	300	600	900

NOTES TO THE FINANCIAL STATEMENTS

22 Amounts due to banks

On 30 April 2016 the cash collateral was transferred to NRAM Limited.

	31 Dec 2016 £'000	31 Mar 2016 £'000
Cash collateral received	-	590

23 Other deposits

	31 Dec 2016 £'000	31 Mar 2016 £'000
Amounts due to securitisation SPVs	-	36,900
Amounts due to other subsidiaries	-	94
Total	-	36,994

Amounts due to securitisation SPVs principally represented the beneficial interests held in mortgage portfolios by securitisation SPVs (see note 25). Because the mortgage loans did not qualify for de-recognition from the Company's Statement of Financial Position, the securitisation SPVs' beneficial interests in the mortgage portfolios were represented by a deemed loan to the Company. This was equivalent in value to the beneficial interests in the mortgage portfolios plus associated intra-Group balances directly relating to the beneficial interests in the mortgage portfolios. On 30 April 2016, the above amounts were transferred to NRAM Limited.

24 HM Treasury loans

	31 Dec 2016 £'000	31 Mar 2016 £'000
Amount due to HM Treasury	-	7,465,649

The HM Treasury loan was repayable on demand. Interest has been charged at Bank of England Base Rate + 100 bps since 4 May 2012 (prior to that date interest was charged at Bank of England Base Rate + 25 bps). On 30 April 2016 this loan was transferred to NRAM Limited.

25 Debt securities in issue

	Covered Bonds £'000	Other £'000
At 1 April 2016	-	204,128
Transfer to NRAM Limited	-	(204,128)
At 31 December 2016	-	-

NOTES TO THE FINANCIAL STATEMENTS

25 Debt securities in issue (continued)

	Covered Bonds £'000	Other £'000
At 1 April 2015	5,146,900	238,328
Repayments	(1,082,900)	(32,400)
Repurchases	(3,631,900)	-
Other movements	(432,100)	(1,800)
At 31 March 2016	-	204,128

Other movements comprise exchange rate movements, accrued interest and hedge accounting adjustments.

The Company issued debt securities to securitise loans to customers through SPVs and Covered Bonds and also raised unsecured medium term funding, the amounts of which are shown above. Certain of these have been subject to fair value hedge designation and the carrying values of these instruments include unamortised adjustments in respect of the notes that were hedged.

HM Treasury provided guarantees with regard to certain wholesale borrowings of the Company; the Company paid a fee for these guarantees at the rate of £12.0m per annum. The fee was not dependent on balances outstanding and hence it is included within 'fee and commission expense'. These guarantees ceased on 5 May 2016.

Securitised assets represent loans to customers which have been used to securitise issued notes, including notes which are held by other companies in the UKAR Group, and cash balances.

(a) Securitised notes

The Company's results include the results, assets and liabilities of securitisation SPVs on a line-by-line basis, none of which qualify for de-recognition under IAS 39. Securitised assets are subject to non-recourse finance arrangements. These assets are primarily loans to customers which have been purchased at par from the Company, the purchase being funded through the issue by the SPVs of mortgage-backed bonds. The Company passes to the SPVs cash received in relation to the securitised assets. The SPVs use the cash to service the bonds, retain a margin specified under the terms of the issue and return any surplus cash to the Company. To the extent that the total cash receipts in relation to the securitised assets are insufficient to satisfy interest and principal payments in relation to the bonds, the holders of the bonds have no recourse against the Group. Provided that the total cash receipts in relation to the securitised assets are sufficient to satisfy interest and principal payments in relation to the bonds, in the prior year, the Company bore the cost of any impairment of the securitised assets. While the assets remain securitised, the Company may not use, sell or pledge these assets.

As detailed in note 13, during the prior year the Company sold £12bn of mortgages from the Granite securitisation structure. Following this sale, all of the remaining Granite notes in issue were redeemed, along with the majority of the Whinstone notes in issue.

On 25 April 2016, the remaining securities issued by Whinstone Capital Management Limited were redeemed.

(b) Covered Bonds

During the prior year all the Covered Bonds in issue were repurchased by the Company and cancelled (see note 16).

(c) Other debt securities in issue

Other debt securities in issue comprise notes issued under the Company's Medium Term Notes programme; these were transferred to NRAM Limited on 30 April 2016.

NOTES TO THE FINANCIAL STATEMENTS

26 Other liabilities	31 Dec 2016 £'000	31 Mar 2016 £'000
Accruals and deferred income	583	20,037
Other creditors	9,879	181,326
	<u>10,462</u>	<u>201,363</u>

27 Deferred taxation

The net deferred taxation asset/(liability) is attributable to the following:

	Assets 31 Dec 2016 £'000	Liabilities 31 Dec 2016 £'000	Net 31 Dec 2016 £'000
Intercompany interest	2,412	-	2,412
Total	<u>2,412</u>	<u>-</u>	<u>2,412</u>

	Assets 31 Mar 2016 £'000	Liabilities 31 Mar 2016 £'000	Net 31 Mar 2016 £'000
Employee benefits	2,300	(45,897)	(43,597)
Offset	(2,300)	2,300	-
Total	<u>-</u>	<u>(43,597)</u>	<u>(43,597)</u>

The Company had no deferred tax assets unrecognised at 31 December 2016 (31 March 2016: nil).

NOTES TO THE FINANCIAL STATEMENTS

27 Deferred taxation (continued)

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

	At 1 Apr 2016 £'000	Transfer to NRAM Ltd £'000	Recognised in income £'000	Recognised in equity £'000	At 31 Dec 2016 £'000
Intercompany interest	-	-	2,412	-	2,412
Employee benefits	(43,597)	43,336	(4,787)	5,048	-
Total	(43,597)	43,336	(2,375)	5,048	2,412

	At 1 Apr 2015 £'000	Recognised in income £'000	Recognised in equity £'000	At 31 Mar 2016 £'000
Changes in accounting basis on adoption of IFRS	3,800	(3,800)	-	-
Cash flow hedges	(48,700)	-	48,700	-
Accelerated tax depreciation	1,202	(1,202)	-	-
Employee benefits	(27,900)	(4,300)	(11,397)	(43,597)
Total	(71,598)	(9,302)	37,303	(43,597)

Deferred tax assets and liabilities are measured at the rates expected to apply in the period when the asset is realised or liability settled, based on tax rates that have been substantially enacted at the Statement of Financial Position date. Finance (No.2) Act 2015 enacted a reduction in the UK corporation tax main rate to 19% with effect from 1 April 2017 and Finance Act 2016 enacted a further reduction in the UK corporation tax main rate to 17% with effect from 1 April 2020.

28 Provisions

	Customer redress £'000	Onerous contracts £'000	Total £'000
At 1 April 2016	134,978	1,845	136,823
Utilised in the period	(44,500)	-	(44,500)
Charged in the period	42,140	-	42,140
Released in the period	(5,032)	-	(5,032)
Transferred to NRAM Limited	-	(1,845)	(1,845)
At 31 December 2016	127,586	-	127,586

	Customer redress £'000	Onerous contracts £'000	Total £'000
At 1 April 2015	365,500	3,000	368,500
Utilised in the year	(32,822)	(1,155)	(33,977)
Charged in the year	70,600	-	70,600
Released in the year	(268,300)	-	(268,300)
At 31 March 2016	134,978	1,845	136,823

NOTES TO THE FINANCIAL STATEMENTS

28 Provisions (continued)

The customer redress provision relates to a number of legacy issues including PPI, which are indemnified in respect of the costs by NRAM Limited and managed by Computershare on behalf of the Company.

NRAM Limited hosts monthly tripartite remediation governance committee forums and provides regular remediation action notices for review as appropriate to enable the Company to make an informed decision on customer contact protocols and customer outcomes ahead of remediation activities being mobilised.

The Company remains committed to doing the right thing for our customers and where we identify issues that have caused customer detriment, we will ensure that they are fully remediated. An additional provision of £42.1m has been recognised during the period, of which £40.3m relates to an increase in PPI provisions.

All customer redress payments are expected to be processed during the year to 31 December 2017 except for PPI, the majority of which is expected to be processed by Autumn 2019 following publication of the complaint time-bar of 29 August 2019.

In July 2015 the Court of Appeal found in the Company's favour that customers with loans greater than £25,000 should not receive remediation in line with Customer Credit Act ("CCA") despite receiving the same incorrect documentation. As a result the £268.3m provision relating to this matter was released during the prior financial year.

The Company, in addition to the above, is also subjected to other complaints and legal proceedings, as well as legal and regulatory reviews, challenges, investigations and enforcement actions. All such material matters are periodically reassessed and professional expert advice is taken on these assessments where appropriate. A provision is recognised when the criteria are all met in accordance with the relevant accounting standards (see accounting policies). In some cases it will not be possible to form a view, for example because the facts are unclear or because further time is needed properly to assess the merits of the case, and no provisions are held in relation to such matters. However the Company does not currently expect the final outcome of any such case to have a material adverse effect on its financial position, operations or cash flows.

The onerous contracts provision relates to empty leasehold premises which, as at the Statement of Financial Position date, were no longer used by the business but were subject to lease agreements. The rental payments are due to be made during the period to 2022. These leases were transferred to NRAM Limited on 30 April 2016 (see note 8).

NOTES TO THE FINANCIAL STATEMENTS

29 Capital instruments

	Initial interest rate	At 31 Dec 2016		At 31 Mar 2016	
		Carrying amount £'000	Principal £'000	Carrying amount £'000	Principal £'000
Subordinated loan	11.734%	-	-	4,120	4,000
Total subordinated liabilities		<u>-</u>	<u>-</u>	<u>4,120</u>	<u>4,000</u>

These capital instruments are all denominated in Sterling.

The carrying value of these instruments is measured on an amortised cost basis, as adjusted hedge accounting adjustments.

The remaining subordinated loan of £4.0m was fully repaid in December 2016 on their final maturity.

Redemptions of any subordinated liabilities prior to their final maturity date are subject to obtaining prior consent of the FCA.

The rights of repayment of holders of subordinated liabilities are subordinated to the claims of other creditors.

30 Share capital

Issued and fully paid	At 31 Dec 2016		At 31 Mar 2016	
	Number	£'000	Number	£'000
Ordinary shares of 25p each	<u>495,959,500</u>	<u>123,990</u>	<u>495,959,500</u>	<u>123,990</u>

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

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

A dividend of £3,787.4m was declared in the current period to NRAM Limited and paid in specie, using mortgage loans. No dividends were declared or paid in the previous year on the Company's Ordinary or Preference shares. No further dividends had been proposed by the date of approval of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

31 Reserves

Reserves comprise the following:

	31 Dec 2016 £'000	31 Mar 2016 £'000
Share premium reserve	403,185	403,185
Capital redemption reserve	7,299	7,299
Available-for-sale reserve	-	(15,832)
Total	410,484	394,652

The share premium reserve represents the excess of the consideration received for issued shares over the nominal value of those shares, net of transaction costs.

The capital redemption reserve was created to maintain the total amount of capital when shares were repurchased by the Company.

The paid in capital reserve relates to the indemnity coverage received for the legacy customer redress provisions.

	31 Dec 2016 £'000	31 Mar 2016 £'000
Available-for-sale reserve		
At start of period/year	(15,832)	(24,599)
Amounts recognised in equity	15,832	14,700
Amounts transferred to net income	-	(5,933)
At end of period/year	-	(15,832)

The available-for-sale reserve represents cumulative fair value movements on assets classified as available-for-sale.

	31 Dec 2016 £'000	31 Mar 2016 £'000
Cash flow hedge reserve		
At start of period/year	-	194,100
Amounts recognised in equity	-	(1,029,500)
Amounts transferred to net income	-	835,400
At end of period/year	-	-

The cash flow hedge reserve represents cumulative fair value movements on financial instruments which are effective cash flow hedges.

NOTES TO THE FINANCIAL STATEMENTS

32 Off-Balance Sheet commitments payable

The leases held by the Company were transferred to NRAM Limited on 30 April 2016 (see note 8).

	Within one year £'000	In one to five years £'000	Over five years £'000	Total £'000
At 31 December 2016				
Loan commitments:				
- lifetime mortgages	-	-	-	-
- other loans	-	-	-	-
Total loan commitments				
Operating lease commitments:				
- land and buildings	-	-	-	-
Total	-	-	-	-

	Within one year £'000	In one to five years £'000	Over five years £'000	Total £'000
At 31 March 2016				
Loan commitments:				
- lifetime mortgages	600	1,900	2,800	5,300
- other loans	412,000	-	-	412,000
Total loan commitments	412,600	1,900	2,800	417,300
Operating lease commitments:				
- land and buildings	900	3,600	2,200	6,700
Total	413,500	5,500	5,000	424,000

Loan commitments represent contractual amounts to which the Company is committed for extension of credit to customers. In respect of lifetime mortgages the commitment reflects estimates of future drawdowns. On other loans, the commitment comprises cash which could be drawn down by customers in respect of further advances and re-drawal of amounts voluntarily overpaid.

Operating lease commitments represent minimum future lease payments under non-cancellable operating leases.

NOTES TO THE FINANCIAL STATEMENTS

33 Financial instruments

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

The following table summarises the carrying amounts and fair values of financial assets and liabilities. Assets are generally presented at bid prices, whereas offer prices are used for liabilities. The accounting policy note 1(g) sets out the key principles used for estimating the fair values of financial instruments. Note 33(f) provides some additional information in respect of the methodologies used.

	Loans and receivables £'000	Total carrying value £'000	Fair value £'000
At 31 December 2016			
Financial assets:			
Cash at bank - restricted	4,055	4,055	4,055
Cash at bank - unrestricted	4,633	4,633	4,633
Other financial assets	2,850	2,850	2,850
Total financial assets	11,538	11,538	11,538

	Liabilities at amortised cost £'000	Total carrying value £'000	Fair value £'000
Financial liabilities:			
Other financial liabilities	10,361	10,361	10,361
Total financial liabilities	10,361	10,361	10,361

	Assets at fair value through profit or loss £'000	Loans and receivables £'000	Total carrying value £'000	Fair value £'000
At 31 March 2016				
Financial assets:				
Balances with the Bank of England	-	1,389,072	1,389,072	1,389,072
Cash at bank	-	56,306	56,306	56,306
Investment securities	-	335,510	335,510	336,000
Loans to customers	-	10,572,721	10,572,721	10,572,721
Derivative financial instruments	1,638	-	1,638	1,638
Other financial assets	-	19,600	19,600	19,600
Total financial assets	1,638	12,373,209	12,374,847	12,375,337

NOTES TO THE FINANCIAL STATEMENTS

33 Financial instruments (continued)

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

	Liabilities at fair value through profit or loss £'000	Liabilities at amortised cost £'000	Total carrying value £'000	Fair value £'000
Financial liabilities:				
Amounts due to banks	-	590	590	590
Other deposits	-	36,994	36,994	36,994
HM Treasury loans	-	7,465,649	7,465,649	7,465,649
Derivative financial instruments	11,677	-	11,677	11,677
Debt securities in issue	-	204,128	204,128	237,500
Capital instruments	-	4,120	4,120	4,120
Other financial liabilities	-	83,400	83,400	83,400
Total financial liabilities	11,677	7,794,881	7,806,558	7,839,930

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

At 31 December 2016, assets carried at amortised cost which were previously carried at fair value were carried at £nil (31 March 2016: £335.5m). The difference between the carrying value at the date of reclassification and the expected value at the redemption date is recognised in the Income Statement on an effective interest rate basis over the expected lives of the assets; their carrying amounts will accrete up to their redemption amounts over their expected lives. The amount recognised in the Income Statement during the current period was £nil (31 March 2016: a gain of £17.9m), which was exactly offset by losses transferred from the available-for-sale reserve during the prior year. If the assets had not been reclassified, it is estimated that fair value of £nil (31 March 2016: losses of £8.2m) would have been reflected in the available-for-sale reserve during the prior year in respect of these assets. The expected redemption value of the remaining assets was £nil (31 March 2016: £377.2m). The fair value of these assets was £nil (31 March 2016: £316.4m). As detailed in note 8, on 30 April 2016 the Company transferred all of these assets to NRAM Limited.

(b) Interest income and expense on financial instruments that are not at fair value through profit or loss

	9 months to 31 Dec 2016 £'000	12 months to 31 Mar 2016 £'000
Interest income	-	907,500
Interest expense	-	(280,900)
Net interest income	-	626,600

These amounts represent interest income and expense before hedging arrangements.

NOTES TO THE FINANCIAL STATEMENTS

33 Financial instruments (continued)

(c) Impaired financial assets

Allowance accounts for credit losses in respect of impairment of loans to customers are detailed in note 14 and in respect of investment securities in note 3. No impairment loss has been recognised in respect of any other class of financial asset, and no other class of financial asset includes assets that are past due.

(d) De-recognition of financial assets

In the prior year, loans to customers which have been securitised were not de-recognised from the Statement of Financial Position of the originator of the loan as the originator retains substantially all of the risks and rewards of the securitised loan (see note 25).

(e) Hedge accounting

Strategy in using derivative financial instruments

The Board has authorised the use of derivative instruments for the purpose of supporting the strategic and operational business activities of the Company and reducing the risk of loss arising in the Company from changes in interest rates and exchange rates. All use of derivative instruments within the Company is to hedge risk exposure and the Company takes no trading positions in derivatives.

The objective when using any derivative instrument is to ensure that the risk-to-reward profile of any transaction is optimised. The intention is only to use derivatives to create economically effective hedges. However, IAS 39 requires certain tests to be satisfied before hedge accounting is permitted. Consequently not all economic hedges are designated as accounting hedges either because natural accounting offsets are expected, or because obtaining hedge accounting would be especially onerous.

At 31 December 2016, the Company had £nil derivative financial instruments.

(i) Fair value hedges

In the prior year, the Company designated a number of derivatives as fair value hedges. In particular, the Company had three approaches establishing relationships for:

- Hedging the interest rate and foreign currency exchange rate risk of non-prepayable, foreign currency denominated fixed rate assets or liabilities on a one-for-one basis with fixed/floating or floating/fixed cross currency interest rate swaps.
- Hedging the interest rate risk of a single currency portfolio of sterling, US Dollar or Euro non-prepayable fixed rate assets/liabilities on a one-for-one basis with vanilla fixed/floating or floating/fixed interest rate swaps.
- Hedging the interest rate risk of a portfolio of prepayable fixed rate assets with interest rate derivatives. This solution is used to establish a macro fair value hedge for derivatives hedging fixed rate mortgages. The Company believes this solution is consistent with its policy for hedging fixed rate mortgages on an economic basis.

(ii) Cash flow hedges

In the prior year, the Company designated a number of derivatives as cash flow hedges. In particular, the Company adopted the following approaches:

- Using fixed interest rate swaps to hedge floating rate sterling liabilities.
- To address the volatility generated by floating/floating cross currency swaps, they are placed into cash flow hedges; the accounting hedge relationship is to hedge the foreign currency exchange rate risk of the foreign currency denominated asset/liability.
- Fixed/floating cross currency swaps are split into their separate risk components and separately designated into cash flow hedges.
- Basis swaps are split into their separate risk components and separately designated into cash flow hedges.

NOTES TO THE FINANCIAL STATEMENTS

33 Financial instruments (continued)

(e) Hedge accounting (continued)

(iii) Net investment hedges

The Company has not designated any derivatives as net investment hedges in the 9 month period to 31 December 2016 or in the 12 month period to 31 March 2016.

The Company had the following types of hedges:

	31 Dec 2016			31 Mar 2016		
	Economic hedges £'000	Total £'000	Notional amounts £'000	Economic hedges £'000	Total £'000	Notional amounts £'000
Exchange rate contracts	-	-	-	1,200	1,200	44,300
Interest rate contracts	-	-	-	400	400	4,000
Total asset balances	-	-	-	1,600	1,600	-
Exchange rate contracts	-	-	-	7,277	7,277	210,200
Interest rate contracts	-	-	-	4,400	4,400	60,500
Total liability balances	-	-	-	11,677	11,677	-
Fair value of hedging instruments	-	-	-	(10,077)	(10,077)	-

(f) Fair value measurement

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

At 31 December 2016	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets:				
Derivative financial instruments	-	-	-	-
Financial liabilities:				
Derivative financial instruments	-	-	-	-
Net financial liabilities	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

33 Financial instruments (continued)

(f) Fair value measurement (continued)

At 31 March 2016	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets:				
Derivative financial instruments	-	1,600	-	1,600
Financial liabilities:				
Derivative financial instruments	-	(11,677)	-	(11,677)
Net financial liabilities	-	(10,077)	-	(10,077)

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

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

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

There were no transfers between Levels 1, 2 and 3 during the period (year to 1 March 2016: none).

Available-for-sale investment securities which are categorised as Level 2 are those which are less frequently traded, hence trade prices cannot always be relied on as evidence of fair value. For such securities, fair value is estimated by the securities' lead managers, taking into account recent trades, similar assets adjusted for credit spreads and where applicable the underlying performance of assets backing the securities (so unobservable inputs are not considered significant). These prices are reviewed against quoted prices where available.

Derivative financial instruments which are categorised as Level 2 are those which either:

(a) Have future cash flows which are on known dates and for which the cash flow amounts are known or calculable by reference to observable interest and foreign currency exchange rates; or

(b) Have future cash flows which are not pre-defined but for which the fair value of the instrument has very low sensitivity to unobservable inputs.

In each case the fair value is calculated by discounting future cash flows using observable market parameters including swap rates, interest rates and currency rates.

For financial assets and liabilities which are not carried at fair value, the fair values disclosed in note 32(a) are calculated on the following bases:

31 December 2016	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial Assets:				
Cash at bank - restricted	4,055	-	-	4,055
Cash at bank - unrestricted	4,633	-	-	4,633
Other financial assets	-	2,850	-	2,850
	8,688	2,850	-	11,538

NOTES TO THE FINANCIAL STATEMENTS

33 Financial instruments (continued)

(f) Fair value measurement (continued)

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial liabilities:				
Other financial liabilities	-	10,361	-	10,361
Total	<u>-</u>	<u>10,361</u>	<u>-</u>	<u>10,361</u>

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
At 31 March 2016				
Financial assets:				
Balances with the Bank of England	1,389,072	-	-	1,389,072
Cash at bank	56,306	-	-	56,306
Investment securities	-	336,000	-	336,000
Loans to customers	-	-	10,572,721	10,572,721
Other financial assets	-	19,600	-	19,600
Total	<u>1,445,378</u>	<u>355,600</u>	<u>10,572,721</u>	<u>12,373,699</u>

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial liabilities:				
Amounts due to banks	590	-	-	590
Other deposits	36,994	-	-	36,994
HM Treasury loans	7,465,649	-	-	7,465,649
Debt securities in issue	-	237,500	-	237,500
Capital instruments	-	4,120	-	4,120
Other financial liabilities	-	83,400	-	83,400
Total	<u>7,503,233</u>	<u>325,020</u>	<u>-</u>	<u>7,828,253</u>

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

Balances with the Bank of England

Fair value approximates to carrying value because they have minimal credit losses and are either short term in nature or repriced frequently.

Cash at bank and in hand

Fair value is estimated by using discounted cash flows applying either market rates where practicable or rates offered by other financial institutions for accounts with similar characteristics. The fair value of floating rate placements, fixed rate placements with less than six months to maturity and overnight deposits is estimated to be their carrying amount.

Investment securities

The fair values of investment securities held as loans and receivables are based on quoted prices or lead manager prices where available or by using discounted cash flows applying independently sourced market parameters including interest rates and currency rates. The fair value of unsecured investment loans is based on prices supplied by third parties.

NOTES TO THE FINANCIAL STATEMENTS

33 Financial instruments (continued)

(f) Fair value measurement (continued)

Loans to customers

Loans to customers include loans of varying rates and maturities. Fair value is estimated by discounting expected future cash flows using market interest rates. Expected future cash flows take account of estimated future losses. Market interest rates are based on current lending activity in the mortgage market. In respect of the majority of the Company's fixed interest rate loans, the change in interest rates since inception means that their fair value can vary significantly from their carrying value; however, as the Company's policy is to hedge fixed rate loans in respect of interest rate risk, the Company has no material exposure to this difference in fair value.

Amounts due to banks and other deposits

Fair values of deposit liabilities repayable on demand or with variable interest rates are considered to approximate to carrying value. The fair value of fixed interest deposits with less than six months to maturity is estimated to be their carrying amount. The fair value of all other deposit liabilities is estimated using discounted cash flows, applying independently sourced market parameters including interest rates and currency rates.

HM Treasury loans

The fair value is estimated to be the carrying amount as the interest rate charged varies in line with changes in market rates and the loans are considered to be repayable on demand subject to timing of repayment of loans to customers.

Debt securities in issue and capital instruments

Fair values are based on quoted prices or lead manager prices where available or by using discounted cash flows, applying independently sourced market parameters including interest rates and currency rates.

Other financial assets and liabilities

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

(h) Offsetting

No financial assets have been offset against financial liabilities. Balances which are subject to enforceable master netting arrangements or similar agreements are as follows:

At 31 December 2016	Gross and net amounts as reported on the Statement of Financial Position	Amounts available to be offset (but not offset on the Statement of Financial Position)		Net amounts after offsetting under IFRS 7
		Master netting arrangements	Financial collateral	
	£000's	£000's	£000's	£000's
Derivative financial assets	-	-	-	-
Derivative financial liabilities	-	-	-	-
	-	-	-	-

At 31 March 2016	Gross and net amounts as reported on the Statement of Financial Position	Amounts available to be offset (but not offset on the Statement of Financial Position)		Net amounts after offsetting under IFRS 7
		Master netting arrangements	Financial collateral	
	£000's	£000's	£000's	£000's
Derivative financial assets	1,600	(1,200)	(400)	-
Derivative financial liabilities	(11,677)	1,200	8,900	(1,577)
	(10,077)	-	8,500	(1,577)

NOTES TO THE FINANCIAL STATEMENTS

34 Financial risk management

A description of the principal risks to which the Company is exposed is provided on pages 4 to 5 which form an integral part of the audited Financial Statements.

(a) Credit risk

Credit risk is the potential for financial loss caused by a party failing to meet an obligation as it becomes due. As credit risk was the main risk to the Company until the transfer of loans on 5 May 2016, a credit risk framework has been established as part of the overall governance framework to measure, mitigate and manage credit risk within risk appetite. The Company closely monitors its credit risk against the Board's credit policies. The Company considered its most significant credit risk to be the exposure to retail, commercial and wholesale counterparties failing to meet their obligations.

The maximum credit risk exposure at the Statement of Financial Position date, before taking account of any collateral netting and other credit enhancements, was as follows:

	31 Dec 2016 £'000	31 Mar 2016 £'000
On Statement of Financial Position:		
Balances with the Bank of England	-	1,389,072
Cash at bank - restricted	4,055	-
Cash at bank - unrestricted	4,633	56,306
Investment securities	-	335,510
Loans to customers	-	10,572,721
Derivative financial instruments	-	1,638
Other financial assets	2,850	19,600
Total on Statement of Financial Position	11,538	12,374,847
Off Statement of Financial Position:		
Loan commitments (see note 29)	-	417,300

Loans to customers included loans which were secured on property. Additional information in respect of credit risk is provided in note 11 (for wholesale assets) and note 13 (for loans to customers).

The Board had approved a framework for maximum wholesale credit counterparty limits against which total wholesale credit exposures were continually monitored and controlled. The credit limit structure adopted a risk based matrix whereby lower rated counterparties were afforded lower overall levels of limit. Although publicly available ratings produced by rating agencies provide a useful guide to the creditworthiness of counterparties, an internal evaluation was also used in the limit assignment process. Counterparties were assigned maximum limits in accordance with the ratings matrix based on the lowest rating afforded to any part of the counterparty group.

For derivative financial instruments the Company used a range of approaches to mitigate credit risk, including internal control policies, obtaining collateral, using master netting agreements and other credit risk transfers. Derivative transactions with wholesale counterparties were typically collateralised, in the form of cash or highly liquid securities, under a Credit Support Annex in conjunction with the ISDA Master Agreement. All outstanding positions are held with wholesale counterparties with at a minimum of a BBB+ credit rating.

NOTES TO THE FINANCIAL STATEMENTS

34 Financial risk management (continued)

Concentration risk

In the prior year, the Company had investments in a range of investment securities issued by government bodies and banks, and in asset-backed securities, in both the UK and overseas. At 31 December 2016 the Group had no UK Government securities, bank or supranational bonds (31 March 2016: £nil). In the prior year to 31 March 2016 57% of the asset-backed securities are backed by UK assets. Further details in respect of concentrations in the wholesale assets portfolio are given in note 11.

The Company operates primarily in the UK and adverse changes to the UK economy could impact all areas of the Company's business. Residential loans to customers were all secured on property in the UK. In the prior year to 31 March 2016 28% of residential loans to customers were concentrated in the buy-to-let market; the remaining balances were mainly secured on residential owner-occupied properties.

In the prior year to 31 March 2016 the residential loan book of £10.1bn was geographically spread across the UK broadly in line with the country's housing stock. Consequently, there was a geographic concentration of mortgages secured on properties in London and the South-East representing 30% of the book.

Within the commercial mortgage portfolio in the prior year to 31 March 2016 there were 48 loans totalling £115.2m, the largest 10 loans accounting for 84% of the portfolio. All of these loans are secured on commercial and housing association properties.

(b) Liquidity risk

The Company closely monitor their liquidity position against the Board's liquidity policy. Minimum and target liquidity levels are established through stress testing and cash flow forecasting, taking into consideration an assessment of any emerging and potentially extreme funding conditions.

The table below analyses the Company's financial assets and liabilities into relevant maturity groupings:

At 31 December 2016	On demand £'000	Within three months £'000	After three months but within six months £'000	After six months but within one year £'000	After one year but within five years £'000	After five years £'000	Total £'000
Financial assets:							
Cash at bank - restricted	4,055	-	-	-	-	-	4,055
Cash at bank - unrestricted	4,633	-	-	-	-	-	4,633
Other financial assets	-	2,850	-	-	-	-	2,850
Total financial assets	8,688	2,850	-	-	-	-	11,538
Financial liabilities:							
Other financial liabilities	-	10,361	-	-	-	-	10,361
Total financial liabilities	-	10,361	-	-	-	-	10,361

NOTES TO THE FINANCIAL STATEMENTS

34 Financial risk management (continued)

	On demand	Within three months	After three months but within six months	After six months but within one year	After one year but within five years	After five years	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 31 March 2016							
Financial assets:							
Balances with the Bank of England	1,388,600	572	-	-	-	-	1,389,172
Cash at bank	36,400	19,906	-	-	-	-	56,306
Investment securities	11,800	1,700	1,400	2,700	25,900	292,010	335,510
Loans to customers	153,200	52,900	37,300	67,500	630,700	9,631,121	10,572,721
Derivative financial instruments	-	638	-	1,000	-	-	1,638
Other financial assets	-	19,600	-	-	-	-	19,600
Total financial assets	1,590,000	95,316	38,700	71,200	656,600	9,923,131	12,374,947
Financial liabilities:							
Amounts due to banks	590	-	-	-	-	-	590
Other deposits	36,994	-	-	-	-	-	36,994
HM Treasury loans	7,455,849	9,800	-	-	-	-	7,465,649
Derivative financial instruments	-	1,000	6,300	-	1,700	2,677	11,677
Debt securities in issue	-	-	-	4,200	199,289	-	203,489
Capital instruments	-	120	-	4,000	-	-	4,120
Other financial liabilities	-	83,400	-	-	-	-	83,400
Total financial liabilities	7,493,433	94,320	6,300	8,200	200,989	2,677	7,805,919

The maturity profiles in the above table do not reflect the transfer of certain assets and liabilities to NRAM Limited at 30 April 2016. HM Treasury has indicated that it expects the loan provided to the Company to be repaid out of the cash flows generated by the Company during its wind-down. It is not possible to specify the contractual maturity dates of the loan to the Company from HM Treasury and therefore it has been included in the table above as though repayable on demand. This loan was transferred to NRAM Limited on 30 April 2016.

Debt securities in issue include notes which securitise loans to customers through SPVs. These notes are repaid on a pass-through basis. In the above table, maturities of such notes are based on the expected repayment of notes which, in turn, are derived from the expected redemption profiles of securitised loans. In the above table, where derivatives have been taken out in order to hedge mortgage backed securitised notes, the timings of derivative payments are based on the expected repayment dates of the hedged notes.

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

Assets and liabilities with a remaining period to contractual maturity of within one year are classed as current and those with a remaining period of more than one year are classed as non-current. Non-financial assets and liabilities of the Company amount to £728.0m and £128.1m respectively (31 March 2016: £230.2m and £394.9m) of which £0.3m and £0.9m respectively are classed as current (31 March 2016: £0.8m and £214.5m) and £727.7m and £127.2m respectively are classed as non-current (31 March 2016: £229.4m and £180.4m).

NOTES TO THE FINANCIAL STATEMENTS

34 Financial risk management (continued)

Non-derivative cash flows

The table below analyses the Company's non-derivative cash flows payable into relevant periods. The assumptions used in the preparation of this table are consistent with those used in the maturity table on pages 70 and 71. The amounts disclosed are the contractual undiscounted cash outflows; these differ from Statement of Financial Position values due to the effects of discounting on certain Statement of Financial Position items and due to the inclusion of contractual future interest flows.

	On demand £'000	Within three months £'000	After three months but within six months £'000	After six months but within one year £'000	After one year but within five years £'000	After five years £'000	Total £'000
At 31 December 2016							
Financial liabilities:							
Other financial liabilities	-	10,361	-	-	-	-	10,361
Total	-	10,361	-	-	-	-	10,361

	On demand £'000	Within three months £'000	After three months but within six months £'000	After six months but within one year £'000	After one year but within five years £'000	After five years £'000	Total £'000
At 31 March 2016							
Financial liabilities:							
Amounts due to banks	590	-	-	-	-	-	590
Other deposits	36,994	-	-	-	-	-	36,994
HM Treasury loans	7,455,849	9,800	-	-	-	-	7,465,649
Debt securities in issue	-	-	-	12,800	238,328	-	251,128
Capital instruments	-	220	-	4,300	-	-	4,520
Other financial liabilities	-	83,400	-	-	-	-	83,400
Loan commitments	412,000	200	200	200	1,900	2,800	417,300
Total	7,905,433	93,620	200	17,300	240,228	2,800	8,259,581

NOTES TO THE FINANCIAL STATEMENTS

34 Financial risk management (continued)

Derivative cash flows

The following table analyses cash outflows for the Company's derivative financial liabilities. The amounts are allocated into relevant periods using assumptions consistent with those used in the preparation of the maturity table on pages 70 and 71.

At 31 December 2016	On demand £'000	Within three months £'000	After three months but within six months £'000	After six months but within one year £'000	After one year but within five years £'000	After five years £'000	Total £'000
Derivative financial liabilities to be settled on a net basis	-	-	-	-	-	-	-
Derivative financial liabilities to be settled on a gross basis:							
- outflows	-	-	-	-	-	-	-
- inflows	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-

At 31 March 2016	On demand £'000	Within three months £'000	After three months but within six months £'000	After six months but within one year £'000	After one year but within five years £'000	After five years £'000	Total £'000
Derivative financial liabilities to be settled on a net basis	-	500	300	600	2,200	1,200	4,800
Derivative financial liabilities to be settled on a gross basis:							
- outflows	-	-	79,300	100	800	3,600	83,800
- inflows	-	(200)	(73,000)	(100)	(700)	(3,400)	(77,400)
Total	-	300	6,600	600	2,300	1,400	11,200

NOTES TO THE FINANCIAL STATEMENTS

34 Financial risk management (continued)

(c) Market risk

The following table describes the significant activities that were undertaken by the Company prior to nationalisation and which gave rise to financial or market risk in the prior year, the potential consequences associated with such activities and the derivative instruments used by the Company to mitigate the risks arising.

Activity	Risk	Type of derivative instrument used
Legacy funding in sterling involving either fixed rate instruments or instruments with embedded options	Sensitivity to changes in interest rates	Interest rate swaps
Fixed and capped rate mortgages and legacy investments involving either fixed rate instruments or instruments with embedded options	Sensitivity to changes in interest rates	Interest rate swaps and options
Variable rate mortgage balances	Sensitivity to changes in interest rates	Interest rate swaps
Legacy investments and funding in foreign currencies	Sensitivity to changes in foreign currency exchange rates	Cross-currency interest rate swaps and foreign exchange contracts

Interest rate swaps:

The notional principal amounts of the outstanding interest rate swap contracts in Cash Flow Hedge Relationships ('CFHR') at 31 December 2016 were £nil (31 March 2016: £nil), for the Company.

Cross currency swaps:

The notional principal amounts of the outstanding cross currency swaps in an eligible CFHR as at 31 December 2016 were £nil in the Company (31 March 2016: £nil).

The accounting policy for derivatives and hedge accounting is described in note 1(i), and further details of hedge accounting are provided in note 33(e).

Interest rate risk

Interest rate risk typically arises from mismatches between the repricing dates of interest-bearing assets and liabilities on the Company's Statement of Financial Position and from the investment profile of the Company's capital and reserves. The Chief Financial Officer is responsible for managing this exposure in accordance with the Company's Risk Appetite Statement ("RAS"), as approved by the Board.

Market risk is the potential adverse change in income or net worth arising from movements in interest rates, exchange rates or other market prices. Effective identification and management of market risk is essential for maintaining stable net interest income.

The interest rate risk is managed within a framework determined by Senior Management; however, on a day to day basis, the Company minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of its assets and liabilities are similar.

In the prior year the Finance & Investment Director was responsible for managing the interest rate risk exposure within the risk exposure limits set-out in the Market Risk policy, as approved by the Board. This policy sets out the nature of the market risks that may be taken along with aggregate risk limits, and stipulates the procedures, instruments and controls to be used in managing market risk.

NOTES TO THE FINANCIAL STATEMENTS

34 Financial risk management (continued)

(c) Market risk (continued)

Interest rate risk (continued)

Exposures in the prior year were reviewed as appropriate by senior management and the Board with a frequency between daily and monthly, related to the granularity of the position.

Interest rate risk exposure was in the prior year predominantly managed through the use of interest rate derivatives, principally interest rate swaps. The Company also used asset and liability positions to offset exposures naturally wherever possible to minimise the costs and risks of arranging transactions external to the Company.

Interest rate sensitivities in the prior year were reported to ALCO monthly and were calculated using a range of interest rate scenarios, including non-parallel shifts in the yield curve. In the current period, the interest rate risk exposure is limited to the intercompany loan arrangements with the term of LIBOR + a fixed margin.

The main metrics used by management are:

(i) the change in value of the Company's net worth due to a notional 2% parallel move in market and base rates.

	31 Dec 2016 £'000	31 Mar 2016 £'000
2% increase	3,593	(18,200)
2% decrease	(3,593)	22,900

(ii) the sensitivity of the Company's interest margin over 12 months to a notional 2% parallel move in market and base rates.

	31 Dec 2016 £'000	31 Mar 2016 £'000
2% increase	3,593	74,300
2% decrease	(3,593)	(14,800)

Foreign currency risk

The Company's policy is to hedge all material foreign currency exposures by use of naturally offsetting foreign currency assets and liabilities or by the use of derivatives. Consequently, at 31 December 2016 and 31 March 2016 the Company had no net material exposure to foreign exchange rate fluctuations or changes in foreign currency interest rates. The impact on the Company's profit or loss and equity of reasonably possible changes in exchange rates compared to actual rates would not have been material at 31 December 2016 or 31 March 2016.

NOTES TO THE FINANCIAL STATEMENTS

34 Financial risk management (continued)

(c) Market risk (continued)

Foreign currency risk (continued)

The table below summarises the Company's exposure to foreign currency exchange rate risk at the Statement of Financial Position date. Included in the table are the Company's financial instruments under the relevant currency headings. The amounts disclosed are the sterling equivalents of the notional amounts due on maturity, including interest accrued at the Statement of Financial Position date in the prior year, less any impairment provisions.

	€ £'000	\$ £'000	Other £'000	Total £'000
At 31 December 2016				
Financial assets:				
Cash at bank	-	-	-	-
Investment securities	-	-	-	-
Derivative financial instruments	-	-	-	-
Total financial assets	-	-	-	-
Financial liabilities:				
Derivative financial instruments	-	-	-	-
Total financial liabilities	-	-	-	-
Net currency gap	-	-	-	-

	€ £'000	\$ £'000	Other £'000	Total £'000
At 31 March 2016				
Financial assets:				
Cash at bank	6,100	14,200	-	20,300
Investment securities	231,000	10,300	-	241,300
Derivative financial instruments	(22,300)	(20,900)	-	(43,200)
Total financial assets	214,800	3,600	-	218,400
Financial liabilities:				
Derivative financial instruments	213,800	3,500	-	217,300
Total financial liabilities	213,800	3,500	-	217,300
Net currency gap	1,000	100	-	1,100

NOTES TO THE FINANCIAL STATEMENTS**35 Capital structure**

The Company met its capital requirements in full throughout the current 9 month period to 31 December 2016 and the prior year to 31 March 2016. LML is regulated by the FCA as a mortgage administration company under the MIPRU regime. MIPRU regulation is applied at individual company level. The Board considers core equity, formerly tier 1 capital, to be of pre-eminent importance in the capital structure of the business and continues to monitor this closely, in addition to the total level of capital. The Directors believe the Company has appropriate and adequate levels of capital to support its activities. FCA rules require the Company to hold capital in excess of 10% of total income, the Company met this requirement throughout the period ended 31 December 2016 and throughout the year ended 31 March 2016.

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

Company	At 31 Dec 2016	At 31 Mar
	£'000	2016 £'000
Share capital and reserves	601,587	4,403,615
Available-for-sale reserve adjustments	-	15,832
Net pension adjustment	-	(229,400)
Total capital	601,587	4,190,047

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

The Company defines equity and certain other capital instruments as capital. Capital excludes accounting reserves for available-for-sale assets and cash flow hedges. The Company's capital adequacy and capital resources are managed and monitored in accordance with the regulatory capital rules of the FCA. The Company must at all times monitor and demonstrate compliance with the relevant regulatory capital requirements of the FCA. The required capital information is filed with the FCA on a quarterly basis.

NOTES TO THE FINANCIAL STATEMENTS

36 Collateral pledged and received

	At 31 Dec 2016 £'000	At 31 Mar 2016 £'000
Cash collateral which the Company has provided in respect of derivative contracts	-	9,100
Total collateral pledged	-	9,100

	At 31 Dec 2016 £'000	At 31 Mar 2016 £'000
Cash collateral which the Company has received in respect of derivative contracts	-	600
Total collateral received	-	600

In addition to the collateral amounts shown above, in the prior year certain loans to customers provided security in respect of securitised note and Covered Bond funding as detailed in note 25. These loans, and also cash collateral pledged shown above, are carried on the Statement of Financial Position. The liability to repay the cash collateral received is included within amounts due to banks in the Statement of Financial Position. In the absence of counterparty default, the Company has no right to sell or re-pledge the securities collateral received and, therefore, in accordance with the provisions of IAS 39 such securities are not recognised on the Statement of Financial Position.

37 Related party disclosures

(a) Key management personnel

The Company considers the Board of Directors and the members of the Executive Committee to be the key management personnel. There were no amounts owed to or by key management personnel at any time during the year (31 March 2016: £nil).

A summary of the Company's share of the remuneration of the 8 (2016: 15) key management personnel is set out in the table below. These comprise of the Directors fee and the recharging of costs on the seconded members of the executive committee during the current period.

	31 Dec 2016 £'000	31 Mar 2016 £'000
Remuneration of key management personnel		
Short-term employee benefits	298	2,101
Post-employment benefits	-	157
Total	298	2,258

Further details of the accounting treatment of pensions and of the Company's transactions and balances with the Company's pension schemes are given in note 19. There were no amounts due to or from the schemes at 31 December 2016 (31 March 2016: £nil).

NOTES TO THE FINANCIAL STATEMENTS

37 Related party disclosures (continued)

(b) UK government

The Company considered the UK government to be its ultimate controlling party up until the 100% share acquisition by Cerberus on the Acquisition Date. In the prior year, the Company's material balances with departments and bodies of the government comprised deposits with the Bank of England (see note 10) and loans from HM Treasury (see note 24). HM Treasury also provided guarantee arrangements to the Company, for which the Company paid fees. In addition to these loans and guarantees, the Company had balances and transactions with numerous government bodies on an arm's length basis in relation to the payment of corporation tax and VAT and the payment of regulatory fees and levies. The Company had balances and transactions with UKFI and with banks over which the UK government has significant influence; these were made in the ordinary course of business and are not unusual in their nature or conditions.

(c) Subsidiary companies

The Company post Acquisition Date does not have any subsidiary companies. The disclosure below refers to prior year.

Balances outstanding with subsidiary companies and movements in these balances were as follows:

	Securitisation SPVs £'000	Other subsidiaries £'000	Dec 2016 Total £'000	Securitisation SPVs £'000	Other subsidiaries £'000	March 2016 Total £'000
Payables						
At start of period/year	36,900	100	37,000	8,767,500	2,200	8,769,700
Net movement over the period/year	(36,900)	(100)	(37,000)	(8,730,600)	(2,100)	(8,732,700)
At end of period/year	-	-	-	36,900	100	37,000

The Company held no loan notes issued by SPV subsidiaries at 31 December 2016 (31 March 2016: £32.9m). In order to avoid recognising the underlying mortgage assets twice, the securities are netted off the Company's liabilities to the subsidiaries which issued the securities.

(d) Fellow subsidiary

The Company held no loan notes in issuance at 31 December 2016 (31 March 2016: £33.8m). Interest income earned by the Company on these notes during the period amounted to nil (31 March 2016: £0.3m). The Company incurred interest expense of £nil (31 March 2016: £0.6m) during the period on loan notes issued by the Company and held by B&B.

During the current period B&B recharged a total of £nil to the Company (31 March 2016: £81.3m).

At 31 December 2016 the Company owed £nil to B&B (31 March 2016: £2.9m).

During the current period CHL recharged a total of £0.8m to the Company (31 March 2016: £nil).

At 31 December 2016 the Company owed £0.1m to CHL (31 March 2016: £nil).

NOTES TO THE FINANCIAL STATEMENTS

37 Related party disclosures (continued)

(e) Parent company

During the current period the Company had related party relationships with its current parent undertaking, CERH and Landmark Bidco Limited.

The Company undertook the following transactions in the period/year with respect to its current parent undertakings, CERH and Landmark Bidco Limited:

Balances at period/year end:

	31 Dec 2016	31 Mar 2016
	£'000	£'000
Balances with Landmark Bidco Limited	170,107	-
Balances with CERH	478,528	-
Legal title and master servicing fees (CERH)	251	-
	<u>648,886</u>	<u>-</u>

Income/(expense) during the period/year:

	9 months to 31 Dec 2016 £'000	12 months to 31 Mar 2016 £'000
Interest receivable on intercompany loan	3,001	-
Interest payable on intercompany loan	(14)	-
Consultancy and secondment fee	(210)	-
CERH legal title and master servicing fee	1,077	-
UKAR Non-Executive Directors fees	-	300
	<u>3,854</u>	<u>300</u>

f) Affiliates of Cerberus

Additionally, the Company had the following balances with, and income/expense arising from, transactions with affiliates of Cerberus in the period as follows:

- Towd Point Mortgage Funding 2016-Granite1 plc
- Towd Point Mortgage Funding 2016-Granite2 plc
- Towd Point Mortgage Funding 2016-Granite3 plc
- Bawag P.S.K. Bank
- Feldspar 2016-1 plc

Balances as at period/year end:

	31 Dec 2016 £'000	31 Mar 2016 £'000
Assets		
Servicer fee income receivable	2,522	-
Legal title and master servicing fee receivable	77	-
	<u>2,599</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS**37 Related party disclosures (continued)****f) Affiliates of Cerberus (continued)**

Income/(expense) during the period/year:	9 months to 31 Dec 2016 £'000	12 months to 31 Mar 2016 £'000
Servicer fee income	7,052	-
Legal title and master servicing fees	218	-
	<hr/> 7,270	<hr/> -

38 Immediate, penultimate and ultimate parent undertaking

The Company's immediate parent is Landmark Bidco Limited whose registered office is at 35 Great St. Helen's, London, EC3A 6AP and whose penultimate parent company in the United Kingdom is Landmark Holdco Limited. Both companies are private limited companies incorporated and domiciled in the United Kingdom.

The ultimate parent company is Cerberus European Residential Holdings B.V. whose registered office is at Oude Utrechtseweg 32, 3743 KN Baarn, The Netherlands (incorporated under the laws of The Netherlands with registered number 62579533). Cerberus European Residential Holdings B.V. is owned by certain investment funds managed and advised by Cerberus Capital Management L.P. a global investment manager headquartered in New York City, USA and registered with the United States Securities and Exchange Commission.

39 Contingent liabilities

(a) As detailed in note 28, whilst the Court of Appeal provided clarity that loans greater than £25,000 were not covered under the Consumer Credit Act, there is a risk that individual customers could make claims against the Company. This could result in costs to LML where such claims are upheld. It is not possible to provide any meaningful estimate or range of the possible cost.

(b) Under the terms of the Option Agreement dated 13 November 2015, the Company sold certain loans to Cerberus on 7 December 2015 and the Company provided certain warranties and indemnities to Cerberus. On 5 May 2016 NRAM Limited sold its 100% shareholding in the Company to Landmark Bidco Limited and from that date NRAM Limited became liable for the warranties and indemnities which had been given by the Company under the Option Agreement. In addition NRAM Limited has given indemnities to the Company in respect of the business it transferred out of the Company under the Business Transfer and Share Sale Agreement. NRAM Limited also gave certain indemnities in the Option Agreement. The Directors consider the probability that the Company has any direct liability in respect of legacy issues for which provisions have not been made is remote and hence no additional provision has been made.

NOTES TO THE FINANCIAL STATEMENTS

40 Events after the reporting period

There have been no significant events that are likely to have a material effect on the financial position of the Company since the year end other than the Company has formalised a number of intercompany arrangements with its parent undertakings. This will result in net interest income to the Company.

41 Approval of financial statements

The board of directors approved these financial statements on 19 September 2017.