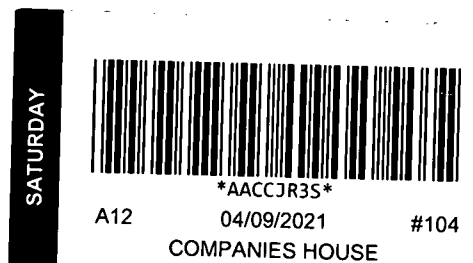


# Bradford & Bingley<sup>plc</sup>

## **Bradford & Bingley plc** **Annual Report & Accounts** for the 12 months to 31 March 2021



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The Directors present their Annual Report & Accounts for the year to 31 March 2021. Bradford & Bingley plc ('the Company') is a public limited company which was incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The Company and its subsidiary undertakings comprise the Bradford & Bingley plc Group ('B&B' or 'the Group'). The Company's principal subsidiary is Mortgage Express ('MX'), a directly held unlimited company. The subsidiaries which comprise the B&B Group and are fully consolidated into the Group Financial Statements are listed in note 11.

## Overview

The Group and Company primarily operated as an asset manager holding mortgage loans secured on residential properties. No new lending was carried out.

B&B was taken into public ownership on 29 September 2008 and funding was provided to the Company by Her Majesty's Treasury ('HM Treasury') and the Financial Services Compensation Scheme. On 25 January 2010 the Group was notified of the European Commission's approval of state aid.

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

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

UKAR's overarching objective is to develop and execute a strategy for disposing of its shareholdings in B&B and NRAM in an orderly and active way.

In 2019 the UKAR Group fully repaid the government loans given to B&B and NRAM and in 2020 the repayment of the last of the third party liabilities enabled HM Treasury to terminate the guarantee arrangements which were put in place when the two businesses came into public ownership. In February 2021 UKAR agreed to sell the issued share capital of B&B and NRAM, which will return all of UKAR's loan assets to private ownership and bring to a close the government's ownership of B&B and NRAM, with the taxpayer fully repaid. Subject to the receipt of regulatory approvals, B&B and NRAM are expected to return to the private sector later in the year.

To provide context for the financial disclosures within this report, the following details the transaction that took place in February 2021. Following a competitive process, UKAR agreed to sell B&B and NRAM along with their assets to a consortium comprising Davidson Kempner Capital Management LP ('Davidson Kempner') and Citibank ('Citi'). The price achieved was within expectations. The balances were de-recognised on contract signature and beneficial interest in the loans was transferred to the new owners in March 2021. The sale gave rise to an accounting loss in B&B of £16.4m which has been recognised in these accounts. See page 7 for further details.

The sale was based on the portfolio position as at 31 March 2020 of £3.3bn from which point the buyers retrospectively acquired the cashflows from ownership of 25,300 loans held by B&B and MX. B&B and MX continued to account for the loans from 1 April 2020 until contract signature but the purchase price was adjusted for the cashflows after 1 April accordingly.

Our mission to maximise value for the taxpayer is supported by four strategic objectives all of which are underpinned by the need to treat all our stakeholders fairly:

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

These strategic objectives continue to support our overarching objective and the successes achieved in those areas over the past 12 months are highlighted in this strategic overview.

<sup>1</sup> In 2016, NRAM plc was acquired by Cerberus Capital Management LP ('Cerberus') and the assets and liabilities not included in the transaction were transferred to a newly established subsidiary of UKAR, which is now known as NRAM Limited. Throughout the Annual Report & Accounts 'NRAM' refers to the underlying business.

## Highlights of 2020/21

During the year we have made significant progress against all our key objectives and overall mission of maximising value for the taxpayer. The key highlights are:

- Following a competitive process, B&B agreed to sell their mortgage assets to a consortium comprising Davidson Kempner and Citi;
- The balances were de-recognised on contract signature and beneficial interest in the loans was transferred to the new owners in March 2021. The sale gave rise to an accounting loss of £16.4m which has been recognised in these accounts;
- Balance Sheet reduced by £2.0bn bringing the total reduction to £44.7bn (97%) since formation of UKAR in 2010;
- Reflecting reducing administrative expenses, underlying profit before tax increased by £14.6m to £33.2m (March 2020: £18.6m);
- Statutory profit before tax of £21.7m (March 2020: £9.9m loss) included a £16.0m loss on the sale of customer loans (including a £0.4m credit relating to historic sales), partly offset by a £4.8m release in respect of customer redress provisions, primarily for Payment Protection Insurance ('PPI'); and
- Mortgage accounts three or more months in arrears, including possessions, have increased by 19% since March 2020 to 1,483<sup>1</sup>.

<sup>1</sup> At 31 March 2021 3m+ arrears reporting related to assets under interim servicing arrangements, where the economic interest had been sold but legal title, and thus regulatory responsibility, remained with B&B. At 31 March 2020 there were no loans under interim servicing arrangements and arrears of 1,251 related to retained loans only.

## Key performance indicators ('KPIs')

In addition to the primary Financial Statements, we have adopted the following KPIs in managing business performance in the context of its strategic priorities.

	March 2021	March 2020
<b>3m+ Residential Arrears <sup>1</sup></b>	<b>1,483</b>	<b>1,251</b>
- Residential Arrears Balance as a percentage of the Total Residential Mortgage Balance	0.29	0.24
- Residential Payments Overdue	£8.9m	£8.0m
<b>Ongoing Administrative Expenses</b>	<b>£31.3m</b>	<b>£96.2m</b>
<b>Underlying Profit Before Tax</b>	<b>£33.2m</b>	<b>£18.6m</b>
Statutory Profit / (Loss) Before Tax <sup>2</sup>	£21.7m	(£9.9m)
Net Interest Margin on Average Interest Earning Assets	1.96%	2.29%
<b>Cash Generation <sup>3</sup></b>	<b>£3.2bn</b>	<b>£0.4bn</b>
Outstanding Customer Balances	-	£3.3bn

<sup>1</sup> The March 2021 3m+ arrears of 1,483 relates to accounts for which B&B retains responsibility under interim servicing arrangements. The March 2020 comparator of 1,251 related to owned loans.

<sup>2</sup> An analysis of the difference between statutory and underlying profit is provided on page 5.

<sup>3</sup> £2.1bn of the cash generated by B&B in 2020/21 was transferred to UKAR to settle intercompany loans but has been included in the originating entity (2019/20: nil).

## Business review

These financial results are for the year to 31 March 2021.

### Performance

The Board continue to believe it is appropriate to assess performance based on the underlying profit of the business, which excludes the remediation of inherited regulatory defects, non-recurring administrative expenses and certain gains or losses such as the sale of assets at a discount or premium. Whilst these gains or losses permanently impact capital reserves, the Board does not believe that they reflect the performance of the underlying business. The commentary on the results in this statement uses underlying profits and its components as the primary measure of performance. An analysis of the difference between the statutory (loss) / profit and the underlying profit is provided below.

Underlying profit for the year to March 2021 increased by £14.6m to £33.2m (March 2020: £18.6m). The increase in underlying profit is primarily due to lower administrative expenses reflecting a monthly fixed fee payable to Computershare ending in June 2020, partly offset by lower net interest income due to a smaller mortgage book.

For the year to March 2021, underlying net operating income decreased by £33.7m to £63.9m (March 2020: £97.6m) reflecting the lower net interest income. Ongoing administrative expenses were £64.9m lower than the previous year at £31.3m (March 2020: £96.2m) as explained under Administrative Expenses below. Impairment on loans to customers was a credit of £0.6m, a decrease of £16.6m from the prior year (March 2020: £17.2m credit). The number of mortgage accounts 3 or more months in arrears including possessions increased by 19% to 1,483 cases at 31 March 2021.

There was a statutory profit before taxation of £21.7m (March 2020: £9.9m loss) which included a £4.8m credit in respect of customer redress provisions and a £16.0m loss on the sale of customer loans.

#### Reconciliation of underlying profit before taxation to statutory profit / (loss) before taxation

For the year ended 31 March	2021 £m	2020 £m
Net interest income	60.1	83.0
Underlying net non-interest income <sup>1</sup>	3.8	14.6
<b>Underlying net operating income</b>	<b>63.9</b>	<b>97.6</b>
Ongoing administrative expenses	(31.3)	(96.2)
Net impairment release on loans to customers	0.6	17.2
<b>Underlying profit before taxation</b>	<b>33.2</b>	<b>18.6</b>
Non-recurring administrative expenses	(0.3)	(1.3)
Provision for customer redress	4.8	(27.1)
Loss on sale of customer loans	(16.0)	(0.1)
<b>Statutory profit / (loss) before taxation</b>	<b>21.7</b>	<b>(9.9)</b>

<sup>1</sup> Underlying net non-interest income includes net fee and commission income and other operating income.

#### Net interest income

Net interest income for the year to March 2021 was £60.1m (March 2020: £83.0m). The underlying net interest margin decreased by 0.33% from 2.29% to 1.96% driven primarily by lower gross yields on interest earning assets following the reduction in the Bank Base Rate and a lower contribution from interest free funding as a consequence of B&B distributing its equity through the payment of dividends financed by intercompany loans in 2019/20. This intercompany funding was provided by UKAR at Bank Base Rate +0.80% and was repaid in full following the receipt of the loan sale proceeds in March 2021.

#### Underlying net non-interest income

Underlying net non-interest income reduced by £10.8m to £3.8m for the year to March 2021 (March 2020: £14.6m). The reduction was driven by lower interim servicing fees from the provision of mortgage services on assets sold and lower net fee and commission income as a result of the reducing mortgage book. In the current year non-interest income includes interim servicing fees of £1.1m (March 2020: £10.1m).

## Business review (continued)

### Performance (continued)

#### Administrative expenses

Ongoing administrative expenses for the year to March 2021 of £31.3m were £64.9m lower than the prior year (March 2020: £96.2m). The reduction in costs primarily reflects a monthly fixed fee payable to Computershare ending in June 2020. The ratio of ongoing costs to average interest-earning assets was 1.02% (March 2020: 2.65%). Non-recurring costs of £0.3m were £1.0m lower than the prior year (March 2020: £1.3m) and related to a top-up of redundancy provisions.

#### Provision for customer redress

We define conduct risk as the risk of treating our customers unfairly and delivering inappropriate outcomes leading to customer detriment or impacting market integrity. Since the creation of UKAR we have been remediating a series of conduct issues inherited from the legacy businesses, including the mis-selling of PPI.

We remain 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.

For the year to March 2021, the income statement includes a net credit of £4.8m (March 2020: £27.1m charge) to reduce the total customer redress provisions, primarily reflecting a release of £4.3m surplus PPI provisions having almost completed the remediation process.

#### Arrears and possessions – Accounts Under Management

The Group adheres to the FCA's regulatory guidance regarding Treating Customers Fairly and continues to work closely with customers experiencing, or likely to experience, financial difficulty in maintaining their mortgage payments. The Group offers a range of measures to support these customers depending upon their individual circumstances and ability to pay with the long term aim of sustaining their mortgage commitments and remaining in their homes. Possession continues to be a last resort.

Following the sale of the customer loans, the Group retains responsibility for the servicing of the loans which were sold under interim servicing arrangements but no longer has direct ownership of any loans. Although arrears levels have increased during the year, partly due to the suspension of litigation and repossession activity, which has meant that these cases have remained in arrears, we have continued to support customers with proactive arrears management and supporting customers through forbearance and arrangement options in line with FCA guidance to manage the immediate impact of the pandemic on customers. This included payment deferrals of up to six months which, since March 2020 when measures were put in place, have been requested by over 8,100 customers (c.35% of the book). All repossessions during the year have been voluntary.

The total number of residential cases 3 or more months in arrears, including those in possession, increased by 19% from 1,251 at 31 March 2020 to 1,483 at 31 March 2021. The proportion of total accounts 3 or more months in arrears has increased from 4.94% at 31 March 2020 to 6.40% at 31 March 2021.

The total value of payments overdue by residential customers has increased to £8.9m at 31 March 2020, equivalent to 0.29% of mortgage balances (March 2020: 0.24%).

As a result of the measures put in place to support customers to remain in their homes not pursuing litigation or enforcing repossessions, the total number of properties in possession decreased from 153 at 31 March 2020 to 74 at 31 March 2021. 'For sale' stock with Law of Property Act Receivers ('LPARs') was 31 cases at 31 March 2021 (March 2020: 86).

During the year 176 cases (March 2020: 376) were sold following possession, together with a further 56 cases (March 2020: 13) sold which were under LPAR management.

#### Loan impairment: residential loans

Whilst B&B retains the legal title and responsibility for servicing the loans sold, it no longer has direct ownership of any loans. Therefore, having been reduced to reflect realised losses through the year, the remaining provision for residential loan impairment was released in full when the assets were sold.

Residential loan impairment for the year to March 2021 was a £0.6m credit (March 2020: £17.2m credit). Write-offs in the year totalled £10.2m (March 2020: £16.5m).

Total realised losses on properties sold following possession or sold by an LPAR were £8.6m (March 2020: £11.3m), all of which had previously been fully provided for.

## Business review (continued)

### Performance (continued)

#### (Loss) / profit on sale of loans

A £16.0m loss on the sale of customer loans (March 2020: £0.1m loss) reflects a £16.4m loss on the loans sold to Davidson Kempner and Citi in February 2021 (including £2.5m of costs directly relating to the sale of the loans), partly offset by a £0.4m credit resulting from the release of provisions made in prior years in relation to loan sales.

#### Taxation

The total Income Statement tax charge for the year ended 31 March 2021 was £8.6m (March 2020: £7.4m charge). The statutory profit before taxation of £21.7m (March 2020: £9.9m loss) was adjusted for items which are not deductible for tax purposes including PPI remediation. In addition, the tax charge included a £5.5m write-off of deferred tax assets that are no longer expected to be utilised following the sale of customer loans, resulting in a higher tax charge than the standard weighted average rate of UK corporation tax of 19.0%.

### Balance Sheet

The Balance Sheet has reduced by £2.0bn since March 2020 to £1.3bn (March 2020: £3.3bn).

Lending balances have reduced by £3.1bn to £nil reflecting the sale of the beneficial interest in the loans. Cash at bank and in hand has increased by £1.2bn to £1.3bn primarily due to the cash proceeds of the customer loan sale proceeds less the repayment of intercompany loan balances.

#### Liabilities

The Group repaid its outstanding intercompany loans from UKAR in March 2021 (March 2020: £2.1bn).

### Capital

The Company operates under a MIPRU regulatory status. Having no loans on its Balance Sheet, FCA rules require the Company to hold capital in excess of 10% of income, however, the Board believes it appropriate to continue to hold a higher level of capital based on the size of the Balance Sheet and the retained operating risk, reflecting the increased risk in the business compared to a standard MIPRU firm.

As at 31 March 2021 capital in the Company represented 94.9% of the Company's assets (March 2020: 35.6%). Capital in MX, the Company's principal subsidiary, represented 81.3% (March 2020: 11.2%) of MX's assets.

The Company met its capital requirements in full throughout the year and received no additional capital from HM Treasury.

In March 2021, MX distributed a dividend of £150.0m. FCA requirements were met at all times.

#### Capital resources - B&B (company only)

	2021	2020
At 31 March	£m	£m
Share capital and reserves	1,231.6	1,131.6
Less: deductions <sup>1</sup>	(4.9)	(119.5)
<b>Total capital</b>	<b>1,226.7</b>	<b>1,012.1</b>

<sup>1</sup> The deduction from capital resources of £4.9m reflects the company's investment in Mortgage Express (March 2020: £119.5m). This has reduced following the distribution of a £150.0m dividend by MX in March 2021.

Total capital resources of £1,226.7m are £214.6m higher than at 31 March 2020. The increase is driven by the profit after tax for the year of £46.1m, which included £150.0m of dividend income from its subsidiary company MX, the release of the negative £53.3m IFRS 9 reserve at March 2020 and a £114.6m reduction in the deduction for the company's investment in MX, which was impaired following the declaration of dividends by that subsidiary.



## Principal risks and uncertainties

Pages 8 to 10 form an integral part of the audited Financial Statements

### Introduction

The following sections describe the Group's major risk categories under management. Other factors could affect the Group's results, including economic factors. Therefore, the categories of risk described below should not be considered to represent all of the potential risks and uncertainties which could impact the Group.

The transfer of the economic interest in the customer loan book has changed the nature and focus of the principal risks, in particular the Group no longer has any material exposure to credit risk. The Group will continue to manage credit risk on behalf of the beneficial owners under the servicing contract.

### Risk categorisation

During the year the Group categorised risk under the following headings:

#### (i) Conduct risk

Conduct risk is defined as the 'risk of treating customers unfairly and delivering inappropriate outcomes leading to customer detriment or impacting market integrity'.

This risk category is governed by a Conduct Risk Framework ('CRF') which forms part of UKAR's existing Enterprise-wide Risk Management Framework ('EWRMF'). Through the EWRMF the approach to conduct risk is led by the Board and Senior Management. It ensures a joined-up and consistent approach to the management of conduct risk and is integrated into business strategy, management and decision making.

The CRF sets out the approach to the effective assessment, management and monitoring of conduct risk in accordance with our stated conduct risk appetite. The Group has a zero risk appetite for systemic conduct risk that could lead to unfair customer outcomes or pose a risk to market integrity, including through those services provided by a third party. Conduct risk is an integral part of the way the Group does business, specifically, the interests of customers and market integrity are at the heart of the Group's strategy, business and culture. With clear and visible leadership from the Board everyone takes responsibility for good conduct throughout our business model with established controls to deliver fair and appropriate outcomes to our customers, including vulnerable customers. Our market conduct ensures that the Group has no impact on market integrity. Annual conduct risk training is included in the colleague mandatory training programme.

#### (ii) Outsourcing risk

Outsourcing risk is defined as the risk of loss/disruption arising from inadequate or ineffective appointment, supervision and control or any subsequent contractual termination of outsourced service providers.

The Group appoints outsourced service providers in accordance with the Board's Outsourcing Risk Policy and supporting Supplier Relationship Management Framework. The Group adopts a proportionate and risk based approach to the appointment and oversight of outsourced service providers based on the nature, scale and complexity of the outsource and deploys a range of policy, governance, reporting, monitoring and assurance activities.

Third Party reports, covering the suitability of design and operating effectiveness of controls, are also utilised to provide an additional level of review and assurance over the Group's mortgage servicing partners. The Group are advised of any findings and subsequent action plans to resolve. These reports are prepared in accordance with the International Standard on Assurance Engagements (ISAE) 3402 and 3000, Assurance Reports on Controls at a Service Organisation, issued by the International Auditing and Assurance Standards Board.

#### (iii) Operational risk

Operational risk is defined as 'the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events'.

The Operational Risk Framework consists of an appropriate suite of policies, standards and procedures to enable effective identification, assessment, monitoring and reporting of key operational risks. The Framework is overseen and reported on by the Risk Function. The key elements of the Framework include Risk & Control Self-Assessment, Operational Risk Event reporting, Key Risk Indicators, the assessment and analysis of Operational Risk related financial impacts and scenario analysis. In addition, specialists supplement the Framework through the provision of expertise in relation to Financial Crime, Cyber Risk, Business Continuity and Disaster Recovery.

#### (iv) Credit risk

Credit risk is the potential for financial loss caused by a retail or commercial customer, or counterparty, failing to meet their obligations as they become due. A Credit Risk Framework is in place as part of the overall governance framework to measure, mitigate and manage credit risk. As highlighted previously, the Group no longer has any material exposure to credit risk. The Group will continue to manage credit risk using the same governance framework, credit behavioural scoring and fraud detection techniques on behalf of the beneficial owners under the servicing contract.

## Principal risks and uncertainties (continued)

Pages 8 to 10 form an integral part of the audited Financial Statements

### Risk categorisation (continued)

#### (iv) Credit risk (continued)

The impact of credit risk on the Group's Balance Sheet is shown by the following table of provisions for mark-downs on impaired assets:

	Outstanding Balance	Provision	Outstanding Balance	Provision
	2021	2021	2020	2020
At 31 March	£m	£m	£m	£m
Loans secured on residential property	-	-	3,285	103
Cash at bank and in hand	-	-	147	-

Counterparty credit risk is limited to operational bank accounts. Credit risk limits apply to all counterparties which reflect their credit rating as well as size, depth and quality of their capital base. The counterparty aspects of credit policies are developed and maintained by our Finance Department and overseen by the Risk Function. Policies are approved by the Board at least annually, or when material changes to policies are recommended.

Throughout the year, environmental risk, including Climate Change risk, has been recognised within Credit risk and considered the risks associated with adverse climate change and the impact on our business, on our customers and the wider impacts of a decrease in the value of security. Scenario planning and the modelling of climate change impacts is an evolving industry wide activity. We have identified key areas of risk exposure emanating from climate change, including those which may plausibly arise in the future.

Credit related policies and limits are developed and maintained within Credit Risk and are reviewed and approved annually by the Board, or when significant changes to policies are recommended. The ERC ensures that any exposure to credit risk remains within overall risk appetite levels as agreed by the Board.

#### (v) Strategic risk

Strategic risk is managed at a UKAR Group level and is defined as the current or prospective risk to earnings arising from changes in the business environment and from adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment.

The UKAR Group considers the primary strategic risks to be external environment, outsourcing, political, regulatory and legal risk, infrastructure, people and project risk.

The UKAR Group's focus is on continuous assessment and measurement of movement in strategic risk status in order to ensure continuous monitoring of potential impacts on the annual business and operating plans, and UKAR's overarching strategic objectives. Thus, close oversight of movements in strategic risk (proximity, financial impact, probability) is maintained via monthly reporting to the UKAR Executive Committee ('ExCo') and the Board. Where appropriate, and taking in to account the nature of strategic risk, risk management strategies can be defined to mitigate the impact of a risk event arising.

#### (vi) Liquidity risk

Liquidity risk is the risk of being unable to pay liabilities as they fall due and arises from both the mismatch in asset and liability cash flows and from unforeseen changes to these.

The Board's appetite for liquidity risk is low. Liquidity is managed to ensure there is adequate liquidity to meet commitments at all times and is maintained within agreed HM Treasury facilities, with minimum liquidity levels set out in the Board-approved Liquidity Risk Policy. Responsibility for managing liquidity risk is delegated to the Finance Director. Stress tests are used to assess the adequacy of liquidity both daily and monthly by Finance and are reported monthly to ERC. ERC is responsible for ensuring that the strategies of the Finance Director maintain liquidity risk within the Board's Risk Appetite.

Sterling liquidity is held as cash balances at the Bank of England and the Government Banking Service.

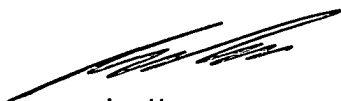
## Principal risks and uncertainties (continued)

Pages 8 to 10 form an integral part of the audited Financial Statements

### Risk categorisation (continued)

#### (vii) Regulatory risk

Regulatory risk is the risk of failing to comply with the legal and regulatory requirements applying to B&B arrangements and activities. The Group has a zero regulatory risk appetite and undertakes its activities in line with this. The Group has established, implements and maintains policies and procedures designed to detect any risk of failure by B&B to comply with its obligations under the regulatory system, as well as associated risks. The Group has put in place adequate measures and procedures designed to minimise these risks and to enable the FCA (and any relevant regulator) to exercise its powers effectively under the regulatory system.



**Ian Hares**

Chief Executive Officer, on behalf of the Board  
5 July 2020

## Other matters

### Financial risk management objectives and policies

Information regarding the financial risk management objectives and policies of the Group in relation to the use of financial instruments is given in note 26. A description of the principal risks to which the Group and Company are exposed is provided on pages 8 to 10 which form an integral part of the audited consolidated Financial Statements.

### Political Donations

The Company has not made any political donations or incurred any political expenditure during the financial year.

### Group structure

On 1 October 2010 UKAR was established as the holding company for B&B and NRAM, bringing together the two companies under shared management and a common Board of Directors.

UKAR itself is wholly owned by HM Treasury, whose shareholding is managed by UK Government Investments Limited ('UKGI').

Although managed under a common Board and management structure, B&B and NRAM remain separate legal entities and continue to operate as individual companies with their own individual brands and Balance Sheets.

The Company's principal subsidiary is MX, a directly held unlimited company. The subsidiaries which comprise the B&B Group and are fully consolidated into the Group Financial Statements are listed in note 11.

In February 2021 UKAR agreed to sell the issued share capital of B&B and its subsidiary companies to Davidson Kempner. The change in ownership is expected to take place later in the year.

### Corporate Governance

The Company is governed and controlled by UKAR as its sole shareholder. Please refer to the UKAR Group Annual Report & Accounts for a summary of the governance regime applicable to B&B.

### Directors and Company Secretary

The names of the Directors and Secretary of the Company are below.

Role		In office
Chair	John Tattersall	Director for whole of 2020/21
CEO	Ian Hares	Director for whole of 2020/21
Senior Independent Director	Sue Langley	Director for whole of 2020/21
Independent Non- Executive Directors	Brendan McDonagh	Director for whole of 2020/21
	Brendan Russell	Director for whole of 2020/21
UKGI Nominated Non-Executive Directors	Keith Morgan	Director for whole of 2020/21
	Holger Vieten	Director for whole of 2020/21
Company Secretary	John Gornall	Company Secretary to 07 January 2021
	Claire Craigie	Company Secretary from 08 January 2021

### Appointments and Resignations during 2020/21

There were no appointments or resignations during 2020/201.

John Gornall was the Company Secretary of B&B until January 2021 when he was succeeded by Claire Craigie.

Mark Wouldhave was appointed to the Board of B&B with effect from 1 April 2021 and is an Executive Director.

### Directors' interests

UKAR, B&B and NRAM share a common Board of Directors. Their individual profiles are included within the UKAR Group Annual Report & Accounts.

## Other matters (continued)

### Directors' remuneration

Details of Directors' remuneration are set out in the UKAR Group Annual Report & Accounts. These are available on UKAR's website at [www.ukar.co.uk](http://www.ukar.co.uk). The remuneration disclosed in the UKAR Group accounts is the total remuneration for the Directors for all UKAR companies.

### Directors' conflicts of interest

The Board, as permitted by the Company's articles of association, has authorised all potential conflicts of interest declared by individual Directors and a full register is reviewed and maintained.

### Directors' indemnities

UKAR has provided each Director with a Deed of Indemnity, which constituted 'qualifying third party indemnity provision' in accordance with the provisions of the Companies Act 2006. The Deeds were in force during the whole of the financial year ended 31 March 2021 and remain in force as at the date of approval of the Directors' Report.

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

There were no amounts paid or liabilities incurred by the company for the purpose of fulfilling the indemnities during the financial year ended 31 March 2021.

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

## Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations. Company law requires the Directors to prepare Financial Statements for each financial period. Under that law the Directors have prepared the Group and Parent Company Financial Statements in accordance with International Accounting Standards ('IAS') in conformity with the requirements of the Companies Act 2006. 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 Group and the Company and of the profit or loss of the Group 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 accounting estimates that are reasonable and prudent;
- state whether applicable IAS in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company and Group will continue in business.

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

The Directors are responsible for the maintenance and integrity of the Company's website and legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

Each of the Directors confirms that, to the best of each person's knowledge and belief:

- the Financial Statements, prepared in accordance with IAS in conformity with the requirements of the Companies Act 2006, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and Company;
- the Directors' Report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Company and Group, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report & Accounts, taken as a whole, is fair, balanced and understandable, providing the information necessary for shareholders to assess the Group's position, performance, business model and strategy.

## Other matters (continued)

### Statement of Directors' responsibilities (continued)

#### Going concern

The Directors have assessed, taking into consideration the principal risks set out on pages 8 to 10, potential future strategic options and the current and anticipated economic conditions, the Company's and the Group's ability to continue as a going concern. The validity of the going concern basis of accounting is dependent upon the funding position of the Company and on the Directors' expectations regarding the continuation of trading.

In 2010 the European Commission ('EC') approved state aid for the Group, the state aid comprising loans and guarantees from HM Treasury. On 26 February 2021, UKAR Ltd entered into a contract which is expected to result in the sale of its shareholdings in the Group subject to regulatory approval to Davidson Kempner later in the year. In order to satisfy the going concern assumption, the Group has significantly more liquidity than required to meet known commitments and liabilities as they fall due for a period of more than 12 months beyond the date of these Financial Statements. In addition, HM Treasury has also confirmed its intention to continue to provide funding to the Group, if required, until the earlier of 1 January 2023 and the date that B&B ceases to be a subsidiary undertaking of UKAR.

The Directors draw comfort for the period after B&B has returned to the private sector from Davidson Kempner's Change in Control application, submitted to the FCA on 12 March 2021. This included financial projections through until March 2025 that demonstrate an expectation that the Group will be solvent throughout this period. This supports the conclusion that the Group has sufficient resources to meet its known commitments and liabilities as they fall due for a period of more than 12 months beyond the date of these Financial Statements.

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

#### Employees

The B&B Group is committed to providing employment practices and policies which recognise the diversity of our workforce and ensure equality for employees regardless of gender, race, disability, age, sexual orientation or religious belief. The Group gives full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the Group. If members of staff become disabled the Group continues employment, either in the same or an alternative position, with appropriate retraining being given if necessary.

Employees are kept closely involved in major changes affecting them through measures such as team meetings, briefings, internal communications and engagement surveys. There are well established procedures, including regular meetings with our recognised union, to ensure that the views of employees are taken into account in reaching decisions.

The B&B Group is committed to providing employees with comprehensive coverage of the economic and financial issues affecting the Group. We have established a full suite of communication channels, including an extensive face-to-face briefing programme which allows us to update our employees on our performance and any financial issues on a regular basis.

The Non-Executive Directors have service contracts with UKAR. All Executive Directors and colleagues were employed by B&B (the legal employer) during 2020/21.

#### Charitable contributions

In August 2020 colleagues voted Sue Ryder as the Charity of the Year. We were unable to undertake voluntary action in the year due to the impact of the pandemic, but we continued to support virtual activities which raised £6,200 for our charity of the year, Sue Ryder, and through the Give As You Earn scheme which contributed £3,200.

#### Streamlined Energy and Carbon Reporting ('SECR')

Our carbon reduction strategy, energy usage and emissions reporting is set out within the UKAR Group Annual Report & Accounts. These are available on UKAR's website at [www.ukar.co.uk](http://www.ukar.co.uk).

#### Dividends

No dividends were declared in the year (2019/20: £0.6bn).

## Other matters (continued)

### Auditors and disclosure of information to auditors

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

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

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 (2) of the Companies Act 2006.

Following the completion of the sale to Davidson Kempner, which is currently anticipated later in the year, the NAO will resign as auditors. This will be followed by a tender process to appoint new auditors.



**Ian Hares**

Chief Executive Officer, on behalf of the Board  
5 July 2021

## Independent Auditor's report to the Members of Bradford & Bingley plc

### Opinion on financial statements

I have audited the company and group financial statements of Bradford & Bingley plc for the year ended 31 March 2021 which comprise:

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

The financial reporting framework that has been applied in their preparation is applicable law and the International Accounting Standards in conformity with the requirements of the Companies Act 2006.

In my opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 March 2021 and of the group's profit for the year then ended;
- have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK), and applicable law. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my report.

Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2019. I have also elected to apply the ethical standards relevant to listed entities. I am independent of the Bradford & Bingley plc group in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Conclusions relating to going concern

In auditing the financial statements, I have concluded that Bradford & Bingley plc company and group's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on Bradford & Bingley plc company and group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

### Other Information

The other information comprises information included in the Strategic Report and Director's Report and Governance Statement, but does not include the Risk Management and Control section of the Directors' Report and Governance Statement described in that report as having been audited, the financial statements and my auditor's report thereon. The directors are responsible for the other information. My opinion on the financial statements does not cover the other information and except to the extent otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.



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**Independent Auditor's report to the Members of Bradford & Bingley plc** (continued)**Opinion on other matters prescribed by the Companies Act 2006**

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

- the information given in the Strategic and Directors' Report and Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' Report and Governance Statement have been prepared in accordance with applicable legal requirements.

**Matters on which I report by exception**

In the light of the knowledge and understanding of Bradford & Bingley plc company and group and its environment obtained in the course of the audit, I have not identified material misstatements in the Strategic Report or the Directors' Report and Governance Statement.

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of director's remuneration specified by law are not made; or
- a corporate governance statement has not been prepared by the parent company; or
- I have not received all of the information and explanations I require for my audit.

**Responsibilities of the directors for the financial statements**

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

- the preparation of the financial statements in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view;
- internal controls as directors determine is necessary to enable the preparation of financial statement to be free from material misstatement, whether due to fraud or error.
- assessing Bradford & Bingley plc company and group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the financial statements**

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

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

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulation, including fraud.

**Independent Auditor's report to the Members of Bradford & Bingley plc** (continued)**Auditor's responsibilities for the audit of the financial statements** (continued)

My procedures included the following:

- Inquiring of management, Bradford & Bingley plc group's Head of Internal Audit and those charged with governance, including obtaining and reviewing supporting documentation relating to Bradford & Bingley plc group's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including Bradford & Bingley plc group's controls relating to Companies Act 2006, tax legislation and the regulatory requirements imposed by the Financial Conduct Authority under the mortgage and insurance prudential standards
- discussing among the engagement team (which covers all Bradford and Bingley plc group entities) and involving relevant internal and external specialists, including internal modelling and economic specialists, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I identified potential for fraud in the following areas: revenue recognition, posting of unusual journals and bias in the assumptions used in determining the movement into expected credit losses during the year;
- obtaining an understanding of Bradford & Bingley plc group's framework of authority as well as other legal and regulatory frameworks that the Bradford & Bingley plc group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of Bradford & Bingley plc group. The key laws and regulations I considered in this context included Companies Act 2006, employment law, tax legislation, European Union State Aid regulations (replaced by the UK subsidy control regime following EU exit) and regulatory requirements imposed by the Financial Conduct Authority under the mortgage and insurance prudential standards; and
- review of correspondence between Bradford & Bingley plc group management and its regulator, the Financial Conduct Authority.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance and the Board;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business; and
- I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of my report.

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



Hilary Lower (Senior Statutory Auditor)  
7 July 2021

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

## The Accounts

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**CONSOLIDATED INCOME STATEMENT**

	Note	12 months to 31 March 2021 £m	12 months to 31 March 2020 £m
Interest receivable and similar income	3	77.2	117.3
Interest expense and similar charges	3	(17.1)	(34.3)
<b>Net interest income</b>	3	<b>60.1</b>	<b>83.0</b>
Fee and commission income		2.6	4.2
Other operating income		1.2	10.4
<b>Non-interest income</b>		<b>3.8</b>	<b>14.6</b>
<b>Total income</b>		<b>63.9</b>	<b>97.6</b>
Administrative expenses	4	(31.6)	(97.5)
Provision for customer redress	19	4.8	(27.1)
Net impairment release on loans to customers	9	0.6	17.2
Loss on sale of loans	5	(16.0)	(0.1)
<b>Profit/(loss) before taxation</b>		<b>21.7</b>	<b>(9.9)</b>
Taxation	6	(8.6)	(7.4)
<b>Profit/(loss) for the financial year attributable to owners of the parent</b>		<b>13.1</b>	<b>(17.3)</b>

The notes on pages 25 to 61 form an integral part of these Financial Statements.

The Company's profit after tax for the financial year was £46.1m (2020: £150.7m) including dividends of £150.0m (2020: £230.0m) declared by its subsidiary MX. As permitted by Section 408 of the Companies Act 2006, the Company's individual Income Statement, Statement of Comprehensive Income and related notes have not been presented in these Financial Statements.

In February 2021 the Group recognised the sale of all of its loans to customers (see note 8). However, the Group does not consider the sold loans to constitute a discontinued operation (see note 2(b)).

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

For the 12 months to 31 March 2021

	Note	Gross of tax £m	Tax £m	Net of tax £m
<b>Profit for the financial year</b>		<b>21.7</b>	<b>(8.6)</b>	<b>13.1</b>
<b>Other comprehensive income/(expense)</b>				
Items that may be reclassified subsequently to profit or loss:				
Assets carried at fair value through other comprehensive income:				
- net gains recognised in fair value reserve during the year	18, 21	106.6	(20.3)	86.3
Items that will not be reclassified subsequently to profit or loss:				
- retirement benefit remeasurements	14, 18	(0.1)	-	(0.1)
<b>Total other comprehensive income/(expense)</b>		<b>106.5</b>	<b>(20.3)</b>	<b>86.2</b>
<b>Total comprehensive income/(expense) for the financial year</b>		<b>128.2</b>	<b>(28.9)</b>	<b>99.3</b>

For the 12 months to 31 March 2020

	Note	Gross of tax £m	Tax £m	Net of tax £m
<b>Loss for the financial year</b>		<b>(9.9)</b>	<b>(7.4)</b>	<b>(17.3)</b>
<b>Other comprehensive (expense)/income</b>				
Items that may be reclassified subsequently to profit or loss:				
Assets carried at fair value through other comprehensive income:				
- net losses recognised in fair value reserve during the year	18, 21	(160.9)	30.6	(130.3)
Items that will not be reclassified subsequently to profit or loss:				
- retirement benefit remeasurements	14, 18	12.5	83.9	96.4
<b>Total other comprehensive (expense)/income</b>		<b>(148.4)</b>	<b>114.5</b>	<b>(33.9)</b>
<b>Total comprehensive (expense)/income for the financial year</b>		<b>(158.3)</b>	<b>107.1</b>	<b>(51.2)</b>

## BALANCE SHEETS

		31 March	Group	31 March	Company
		2021	2020	2021	2020
	Note	£m	£m	£m	£m
<b>Assets</b>					
Cash at bank and in hand	7	1,274.8	147.4	1,269.4	145.4
Loans to customers	8	-	3,075.3	-	2,016.5
Amounts due from Group undertakings	23	3.2	26.1	3.2	525.2
Investments in Group undertakings	11	-	-	4.9	119.5
Current tax assets		4.0	5.0	4.6	5.0
Deferred tax assets	18	-	27.9	-	19.1
Lease assets	12	6.8	10.9	6.8	10.9
Other assets	13	3.7	3.2	3.7	3.2
<b>Total assets</b>		<b>1,292.5</b>	<b>3,295.8</b>	<b>1,292.6</b>	<b>2,844.8</b>
<b>Liabilities</b>					
Amounts due to Group undertakings	23	-	2,079.4	0.6	1,629.4
Lease obligations	12	15.0	17.6	15.0	17.6
Accruals	16	11.7	15.9	11.4	15.5
Other liabilities	17	11.4	4.6	11.2	4.0
Retirement benefit obligations	14	7.0	7.0	7.0	7.0
Provisions	19	15.8	39.7	15.8	39.7
<b>Total liabilities</b>		<b>60.9</b>	<b>2,164.2</b>	<b>61.0</b>	<b>1,713.2</b>
<b>Equity</b>					
Issued capital and reserves attributable to owners of the parent:					
- share capital	20	361.3	361.3	361.3	361.3
- other reserves	21	228.1	141.8	228.1	174.8
- retained earnings		642.2	628.5	642.2	595.5
<b>Share capital and reserves attributable to owners of the parent</b>		<b>1,231.6</b>	<b>1,131.6</b>	<b>1,231.6</b>	<b>1,131.6</b>
<b>Total equity and liabilities</b>		<b>1,292.5</b>	<b>3,295.8</b>	<b>1,292.6</b>	<b>2,844.8</b>

The disclosures regarding risk management and control on pages 8 to 10 and the notes on pages 25 to 61 form an integral part of these Financial Statements.

The Financial Statements on pages 19 to 61 were approved by the Board of Directors on 5 July 2021 and signed on its behalf by:

  
**John Tattersall LVO**  
 Chair

  
**Ian Hares**  
 Chief Executive Officer

Bradford & Bingley plc is registered in England and Wales under company number 03938288.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the 12 months to 31 March 2021

	Note	Share capital £m	Share premium reserve £m	Capital redemption reserve £m	Fair value reserve £m	Retained earnings £m	Total share capital and reserves £m
<b>At 1 April 2020</b>		<b>361.3</b>	<b>198.9</b>	<b>29.2</b>	<b>(86.3)</b>	<b>628.5</b>	<b>1,131.6</b>
Other comprehensive income/(expense):							
- net movement in fair value reserve	21	-	-	-	106.6	-	106.6
- retirement benefit remeasurements	14	-	-	-	-	(0.1)	(0.1)
- tax effects of the above		-	-	-	(20.3)	-	(20.3)
<b>Total other comprehensive income/(expense)</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>86.3</b>	<b>(0.1)</b>	<b>86.2</b>
Profit for the financial year		-	-	-	-	13.1	13.1
<b>Total comprehensive income</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>86.3</b>	<b>13.0</b>	<b>99.3</b>
Unclaimed dividends <sup>1</sup>		-	-	-	-	0.7	0.7
<b>At 31 March 2021</b>		<b>361.3</b>	<b>198.9</b>	<b>29.2</b>	<b>-</b>	<b>642.2</b>	<b>1,231.6</b>

For the 12 months to 31 March 2020

	Note	Share capital £m	Share premium reserve £m	Capital redemption reserve £m	Fair value reserve £m	Retained earnings £m	Total share capital and reserves £m
<b>At 1 April 2019</b>		<b>361.3</b>	<b>198.9</b>	<b>29.2</b>	<b>44.0</b>	<b>1,119.2</b>	<b>1,752.6</b>
Other comprehensive (expense)/income:							
- net movement in fair value reserve	21	-	-	-	(160.9)	-	(160.9)
- retirement benefit remeasurements	14	-	-	-	-	12.5	12.5
- tax effects of the above		-	-	-	30.6	83.9	114.5
<b>Total other comprehensive (expense)/income</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>(130.3)</b>	<b>96.4</b>	<b>(33.9)</b>
Loss for the financial year		-	-	-	-	(17.3)	(17.3)
<b>Total comprehensive (expense)/income</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>(130.3)</b>	<b>79.1</b>	<b>(51.2)</b>
Unclaimed dividends <sup>1</sup>		-	-	-	-	0.2	0.2
Dividends declared	20	-	-	-	-	(570.0)	(570.0)
<b>At 31 March 2020</b>		<b>361.3</b>	<b>198.9</b>	<b>29.2</b>	<b>(86.3)</b>	<b>628.5</b>	<b>1,131.6</b>

<sup>1</sup> During the year and previous year the Company released to retained earnings dividends which were declared in previous years and have never been claimed.

## COMPANY STATEMENT OF CHANGES IN EQUITY

For the 12 months to 31 March 2021

	Note	Share capital £m	Share premium reserve £m	Capital redemption reserve £m	Fair value reserve £m	Retained earnings £m	Total share capital and reserves £m
<b>At 1 April 2020</b>		<b>361.3</b>	<b>198.9</b>	<b>29.2</b>	<b>(53.3)</b>	<b>595.5</b>	<b>1,131.6</b>
Other comprehensive income/(expense):							
- net movement in fair value reserve	21	-	-	-	65.8	-	65.8
- retirement benefit remeasurements	14	-	-	-	-	(0.1)	(0.1)
- tax effects of the above		-	-	-	(12.5)	-	(12.5)
<b>Total other comprehensive income/(expense)</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>53.3</b>	<b>(0.1)</b>	<b>53.2</b>
Profit for the financial year		-	-	-	-	46.1	46.1
<b>Total comprehensive income</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>53.3</b>	<b>46.0</b>	<b>99.3</b>
Unclaimed dividends <sup>1</sup>		-	-	-	-	0.7	0.7
<b>At 31 March 2021</b>		<b>361.3</b>	<b>198.9</b>	<b>29.2</b>	<b>-</b>	<b>642.2</b>	<b>1,231.6</b>

For the 12 months to 31 March 2020

	Note	Share capital £m	Share premium reserve £m	Capital redemption reserve £m	Fair value reserve £m	Retained earnings £m	Total share capital and reserves £m
<b>At 1 April 2019</b>		<b>361.3</b>	<b>198.9</b>	<b>29.2</b>	<b>31.7</b>	<b>918.2</b>	<b>1,539.3</b>
Other comprehensive (expense)/income:							
- net movement in fair value reserve	21	-	-	-	(104.9)	-	(104.9)
- retirement benefit remeasurements	14	-	-	-	-	12.5	12.5
- tax effects of the above		-	-	-	19.9	83.9	103.8
<b>Total other comprehensive (expense)/income</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>(85.0)</b>	<b>96.4</b>	<b>11.4</b>
Profit for the financial year		-	-	-	-	150.7	150.7
<b>Total comprehensive (expense)/income</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>(85.0)</b>	<b>247.1</b>	<b>162.1</b>
Unclaimed dividends <sup>1</sup>		-	-	-	-	0.2	0.2
Dividends declared	20	-	-	-	-	(570.0)	(570.0)
<b>At 31 March 2020</b>		<b>361.3</b>	<b>198.9</b>	<b>29.2</b>	<b>(53.3)</b>	<b>595.5</b>	<b>1,131.6</b>

<sup>1</sup> During the year and previous year the Company released to retained earnings dividends which were declared in previous years and have never been claimed.



## CASH FLOW STATEMENTS

	Group		Company	
	12 months to 31 Mar 2021 £m	12 months to 31 Mar 2020 £m	12 months to 31 Mar 2021 £m	12 months to 31 Mar 2020 £m
<b>Cash flows from operating activities</b>				
Profit/(loss)/ before taxation for the financial year	21.7	(9.9)	53.0	156.8
<i>Adjustments to reconcile profit to cash generated from operating activities:</i>				
- interest expense and similar charges	17.1	34.3	13.2	29.3
- provision for customer redress	(4.8)	27.1	(4.8)	27.1
- non-recurring charges	0.3	1.3	0.3	1.3
- defined benefit pension scheme charges/(credits)	0.2	(1.9)	0.2	(1.9)
- contribution to defined benefit pension scheme	(0.3)	-	(0.3)	-
- depreciation and amortisation	0.5	0.5	0.5	0.5
- net impairment release on loans to customers	(0.6)	(17.2)	(0.6)	(10.2)
- loss on sale of loans	16.0	0.1	13.8	-
- profit on sale of property, plant and equipment	-	(0.2)	-	(0.2)
- impairment of right-of-use lease assets	1.3	6.7	1.3	6.7
- onerous contracts provision (credit)/charge	(3.5)	7.2	(3.5)	7.2
- impairment of investments in Group undertakings	-	-	114.6	55.5
- other non-cash movements	-	(0.1)	-	(0.1)
	47.9	47.9	187.7	272.0
<i>Net decrease/(increase) in operating assets:</i>				
- loans to customers	216.1	380.9	153.8	257.1
- sale of loans	2,950.0	-	1,915.3	-
- settlement of amounts owed in respect of sale of loans (see note 8)	-	8.7	-	8.7
- amounts due from Group undertakings	22.9	(20.0)	522.0	(113.0)
- other assets	(0.4)	25.6	(0.5)	26.3
<i>Net (decrease)/increase in operating liabilities:</i>				
- amounts due to Group undertakings	(2,074.2)	(41.4)	(1,628.8)	(41.4)
- other liabilities	3.9	(7.3)	4.2	(6.4)
- provisions	(16.1)	(31.2)	(16.1)	(31.3)
Interest paid	(22.3)	(34.7)	(13.2)	(34.7)
Income tax paid	-	(5.9)	-	(5.9)
<b>Net cash generated from operating activities</b>	<b>1,127.8</b>	<b>322.6</b>	<b>1,124.4</b>	<b>331.4</b>
<b>Cash flows from investing activities:</b>				
- proceeds from sale of property, plant and equipment	-	0.4	-	0.4
<b>Net cash generated from investing activities</b>	<b>-</b>	<b>0.4</b>	<b>-</b>	<b>0.4</b>
<b>Cash flows used in financing activities:</b>				
- repayment of Statutory Debt (see note 15)	-	(462.4)	-	(462.4)
- sub-lease receipts (see note 12)	2.4	2.3	2.4	2.3
- payment of lease obligations (see note 12)	(2.8)	(2.8)	(2.8)	(2.8)
<b>Net cash used in financing activities</b>	<b>(0.4)</b>	<b>(462.9)</b>	<b>(0.4)</b>	<b>(462.9)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>1,127.4</b>	<b>(139.9)</b>	<b>1,124.0</b>	<b>(131.1)</b>
Cash and cash equivalents at beginning of year	147.4	287.3	145.4	276.5
<b>Cash and cash equivalents at end of year</b>	<b>1,274.8</b>	<b>147.4</b>	<b>1,269.4</b>	<b>145.4</b>
<b>Represented by cash and assets with original maturity of three months or less within:</b>				
- cash at bank and in hand	1,274.8	147.4	1,269.4	145.4
<b>Total cash and cash equivalents at end of year</b>	<b>1,274.8</b>	<b>147.4</b>	<b>1,269.4</b>	<b>145.4</b>

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## 1. Principal accounting policies

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Bradford & Bingley plc ('the Company') is a public company limited by shares incorporated and domiciled in the United Kingdom.

These Financial Statements were authorised for issue by the Directors on 5 July 2021 and will be put to the shareholder for approval at the Company's Annual General Meeting.

### (a) Statement of compliance

Both the Company Financial Statements and the Group (comprising the Company and its subsidiaries) Financial Statements have been prepared and approved by the Directors in accordance with International Accounting Standards ('IAS') in conformity with the requirements of the Companies Act 2006. IAS comprises International Financial Reporting Standards prefixed IFRS issued by the International Accounting Standards Board ('IASB') and those prefixed IAS which were issued by the IASB's predecessor body, along with interpretations issued by the IFRS Interpretations Committee ('IFRIC') prefixed IFRIC and those prefixed SIC which were issued by the IFRIC's predecessor body. In publishing the Company Financial Statements here together with the Group Financial Statements, the Company has taken advantage of the exemption in s408 of the Companies Act 2006 not to present its individual Income Statement and related notes.

There have been no significant changes to the Group's and Company's accounting policies since 31 March 2020.

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

### (b) Basis of preparation

The Financial Statements have been prepared on a going concern basis and using the historical cost convention except that financial instruments categorised under IFRS 9 'Financial Instruments' as 'held to collect and sell' at 31 March 2020 were carried at their fair value.

On 26 February 2021 UKAR entered into a contract which is expected to result in the sale of its 100% shareholding in the Company, subject to approval by the FCA, to Davidson Kempner later in the year.

Following the sale of its loans to customers the Company has sufficient cash to meet its commitments for the foreseeable future. In its application to the FCA for change in control, Davidson Kempner has provided projections that surplus cash balances will be maintained beyond the sale of the Company for the four years of their plan. Regardless of whether the sale completes, therefore, the Company is expected to have sufficient resources to meet all of its commitments and will continue to trade, benefiting from recoveries of written-off debt and being in receipt of servicing fees. In addition, HM Treasury has confirmed its intention to support the Company until at least 1 January 2023, if required, whilst it remains a subsidiary of UKAR. Therefore the Company is expected to continue to have sufficient resources to meet its commitments.

The Group continues to monitor the impacts of the COVID-19 pandemic. The Directors do not consider that the pandemic will cause the Company or the Group to cease to be financially viable.

The Directors therefore consider it appropriate to prepare these Financial Statements on a going concern basis.

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

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

The Company and its subsidiary MX are regulated by the Financial Conduct Authority ('FCA') as mortgage administration companies, and the Directors believe that each has an appropriate and adequate level of capital to support its activities. Further details regarding capital are provided in note 24.

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

The Directors consider the business to comprise one operating and geographical segment due to the similarity of risks which were faced within its UK-based loan portfolios.

**1. Principal accounting policies (continued)****(c) Basis of consolidation**

The Group's Financial Statements are prepared in accordance with IFRS 10 'Consolidated Financial Statements', and incorporate on a fully consolidated line-by-line basis the Financial Statements of the Company and those entities which are controlled by the Company (its subsidiaries).

An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Where subsidiaries have been acquired during a period, their results are consolidated into the Group's Financial Statements from the date control is transferred to the Company. Where subsidiaries have been disposed of, their results are consolidated to the date of disposal. All intra-group transactions and balances are eliminated on consolidation.

**(d) Interest income and expense**

Prior to the sale of the loans, interest income on loans to customers categorised for impairment purposes as stage 3 (see note 9) was recognised by applying the effective interest rate ('EIR') to the amortised cost of the loan less any impairment allowance against the loan.

All of the Group's interest income and expense is recognised on the effective interest method.

**(e) Bonuses payable**

An accrual is made for all bonuses which have been earned by the Balance Sheet date, even though these may not subsequently be payable due to clawback or the employee leaving the Group.

**(f) Taxation****(i) Current tax**

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

**(ii) Deferred tax**

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

Deferred tax relating to items which are recognised in other comprehensive income is also recognised in other comprehensive income.

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 assets are released when it is determined that it is no longer probable that such future profits will be available. The release is recognised in other comprehensive income where the original credit to set up the deferred tax asset can be identified as having been recognised in other comprehensive income, and otherwise in the Income Statement.

**(g) Financial instruments**

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

- (i) Financial assets at fair value through profit and loss ('FVP&L');
- (ii) Financial assets at fair value through other comprehensive income ('FVOCI'); or
- (iii) Financial assets at amortised cost;

and each financial liability into one of two categories:

- (iv) Financial liabilities at FVP&L; or
- (v) Financial liabilities at amortised cost.

The classification of each financial asset is determined by the business model for the asset and whether the cash flows on the asset are 'solely payments of principal and interest' ('SPPI'). In respect of the Group's loans to customers, the business model was one of held to collect and sell as these assets were managed in order to maximise taxpayer value, with strategic asset sales undertaken where suitable market opportunities were identified. The cash flows on the loans were considered to satisfy the definition of SPPI. Therefore the Group's loans to customers were classified as at FVOCI. The sale of the Group's loans to customers was recognised in February 2021 (see note 8).

**(h) Offsetting financial instruments**

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

## 1. Principal accounting policies (continued)

**(i) Recognition and de-recognition of financial assets and liabilities**

Purchases and sales of financial assets are accounted for once the tests set out in IFRS 9 have been met in relation to the contractual rights to the cash flows on the assets and the risks and rewards of ownership of the assets. When an asset carried at FVOCI is derecognised the element of the fair value reserve relating to that asset is reclassified to the Income Statement. A financial liability is de-recognised only when the contractual obligation is discharged, cancelled or has expired.

**(j) Assets held for sale and discontinued operations**

In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', assets and liabilities are classified as 'held for sale' if they are available for immediate sale in their present condition, they are being actively marketed for sale at a reasonable price and sale is considered to be 'highly probable'. In accordance with IFRS 5 the results of discontinued major lines of business are separately disclosed.

**(k) Cash at bank and in hand**

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

**(l) Impairment of financial assets**

The sale of the Group's loans to customers was recognised in February 2021 (see note 8). Loans to customers were carried at FVOCI. IFRS 9 requires that all financial assets are subject to impairment provisioning except those which are carried at FVPL and impairment charges/releases are taken through the Income Statement in the 'impairment on loans to customers' line. Because the loans were carried at fair value, their carrying amount was not reduced by the impairment provision.

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

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

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

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

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

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

**Impairment of secured residential loans to customers**

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

**Loan commitments**

Loan commitments comprised previous voluntary overpayments by customers which were available to be drawn down. The impairment provision for each loan considered the potential that the customer could in future draw down the overpayment, the possibility of which increased the Group's exposure to potential future loss.

**1. Principal accounting policies (continued)****(m) Leases**

The leases to which the Group is a party comprise leases on buildings. Under IFRS 16 'Leases' the Group recognises on its Balance Sheet a lease obligation and a lease asset. The lease obligations comprise the discounted value of the lease payments to the date at which the Company expects to break the lease. The discount rate applied by the Group is an assumed interest rate at which it was considered that a similar company would be able to borrow funds as at 1 April 2019 for a 10-year period.

**(n) Debt and equity securities in issue**

Issued securities 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 share capital.

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

**(o) Retirement benefits**

The Group has operated a number of retirement benefit plans for its employees, including defined contribution plans, defined benefit plans and post retirement medical benefits. The Group's funded defined benefit scheme was transferred to UKAR on 20 June 2019 as detailed in note 14. The costs of the remaining plans are 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'.

The Group's actuaries provide a valuation of each of the Group's remaining retirement benefit plans as at each published Balance Sheet date.

Post-retirement medical benefits are accounted for in the same way as pension benefits, with the present value of the defined benefit obligation being carried as a liability on the Balance Sheet.

**(p) Provisions and contingent liabilities**

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

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

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

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

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

**(q) Investments in Group undertakings**

In the Financial Statements of the Company, investments in Group undertakings are carried at cost less any impairment. Investments are reviewed at each published Balance Sheet date and when other significant changes arise in the subsidiaries, for any indication of impairment. If there is indication of impairment of any investment, the carrying value of the investment is reviewed and any impairment identified is charged immediately to the Company's Income Statement. The net assets of the subsidiary falling below the carrying value of the investment is considered an indicator of impairment. An impairment loss recognised in prior periods is reversed if, and only if, there has been a change in the estimates used to determine the investment's recoverable amount since the last impairment loss was recognised. An increase in the net assets of the subsidiary would constitute such a change in estimate. The increased carrying amount following a reversal of impairment may not exceed the carrying amount that would have been the case had no impairment loss previously been recognised.

**(r) Dividends receivable and payable**

Dividends receivable from subsidiary undertakings are recognised as income once the right to receive payment is established, in accordance with IAS 27 'Separate Financial Statements'.

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

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**1. Principal accounting policies (continued)**

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**(s) Amounts due to and from Group undertakings**

Amounts due from Group undertakings are classified under IFRS 9 as at amortised cost. The balances are considered to be 'stage 1', i.e. that there has been no significant increase in credit risk since the asset's origination. Expected credit losses are considered not to be material and no provision is made.

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

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**2. Critical judgements and accounting estimates**

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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. Following the sale of the Group's loans to customers, the most important judgements and estimates used in preparing these Financial Statements are described below.

**Critical judgements****(a) Going concern**

As detailed in note 1(b), the Directors consider it appropriate to prepare these Financial Statements on a going concern basis. If the Financial Statements were prepared on a basis other than a going concern basis consideration would be required as to whether the carrying amounts of any assets should be impaired and whether any additional costs should be provided for.

**(b) Continuing operations**

In February 2021 the Group recognised the sale of all of its loans to customers (see note 8). However, the Group does not consider the sold loans to constitute a discontinued operation as defined by IFRS 5 as the operations and cash flows in respect of the loans, being the Group's primary activity, could not be clearly distinguished, operationally and for financial reporting purposes, from the rest of the Group.

**(c) Carrying amount of deferred tax assets**

Based on forecast future results of the Group, it is not considered that the Group will have sufficient profits to utilise deferred tax assets regardless of whether the sale of the Company completes, and consequently these assets have been released (see note 18).

**Accounting estimates****(d) Impairment of investments in Group undertakings**

During the year a dividend was declared to the Company by its subsidiary undertaking MX. In February 2021 MX recognised the sale of all of its loans to customers. Following these transactions the carrying value of the Company's investment in MX was reviewed for impairment. The carrying value has been impaired to £4.9m, which is considered to be the value in use of the investment in MX at 31 March 2021 (see note 11).

IAS 36 'Impairment of Assets' requires that the carrying amount of an impaired asset be reduced to its 'recoverable amount'. 'Recoverable amount' is defined as the higher of the fair value less costs of disposal and the 'value in use' of the asset. The 'value in use' is defined as the present value of the future cash flows expected to be derived from the asset. It is considered that the present value of the future cash flows which the Company should expect to derive from its investment in MX approximates to the net asset value of MX as the Company could extract value from MX by dividends or other return of capital.

The carrying values of the assets and liabilities of MX are not significantly different from the present values of their future cash flows, as they are principally financial assets and liabilities which are short-term in nature. It is considered that it is not practicable to derive a reliable estimate of the fair value of the investment other than the present value of the expected future cash flows.

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

### Accounting estimates (continued)

#### (e) Impairment of loans to customers

##### (i) Modelling approach

Prior to the sale of the Group's loans to customers, the estimation of expected losses required the use of models, the inputs to which required the use of estimates. Data used in the derivation of the inputs included for each loan the customer's payment record, credit reference information obtained from third parties and the ratio of the outstanding balance to the value of the property. Behavioural assumptions used in the ECL modelling were based on the historical performance of the mortgage book. During the year, consideration was given to how these behavioural assumptions may be impacted in the future by the COVID-19 pandemic. In the absence of evidence on which to base any overlay, and in light of accounting guidance issued by the Financial Reporting Council, Management incorporated the impact of COVID-19 in the underpinning economic scenarios during the year.

The key assumptions used in the modelling are explained below.

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

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

The ECL model was run monthly and maintained by an experienced Third Party to agreed Service Levels. A strong control environment existed, with the models governed by the organisation's Macpherson framework, and an annual attestation to the recommendations included within the Macpherson Report. The Macpherson Report sets out best practice in quality assurance to ensure all business critical financial models are robust and trustworthy. A meeting of subject matter experts reviewed the key modelling assumptions underpinning the ECL model on a quarterly basis. Reporting, including any material changes to assumptions, was provided through to the Executive Risk Committee and the Board on a monthly basis.

Forward-looking assessments were made which were dependent on economic assumptions including interest rates, unemployment, gross domestic product ('GDP') and house price inflation ('HPI') as well as other factors such as net mortgage advances and mortgage arrears. Economic assumptions were sourced from independent specialist economic analysts based on an initial management view provided by the Group and approved by the Board. In respect of impairment provisioning, the Group utilised four macroeconomic scenarios:

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

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

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

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

### Accounting estimates (continued)

#### (e) Impairment of loans to customers (continued)

##### (ii) Economic scenarios

Our full suite of scenarios were initially prepared by our independent economic analyst in December 2020 based the Economic and Fiscal Outlook ('EFO') produced by the Office of Budget Responsibility and published on 25 November 2020. Ahead of the sale of the customer loan book, the scenario suite was reviewed in light of the EU trade deal, COVID-19 restrictions and latest economic outlook. Management's view was that the scenario suite remained appropriate, however probabilities were updated based on the latest available information.

The various scenarios reflected differing assumptions regarding the recovery from the Pandemic. The downside scenario assumed that COVID-19 restrictions would remain in place for longer than in the base case scenario but with similar levels of government support remaining in place. The severe downside also assumed that COVID-19 restrictions would remain in place for longer but that government support was withdrawn. The upside was a more positive variant of the Base Case and assumed a quicker easing of public health restrictions and a revival in world trade, with optimism over longer-term growth prospects helping to spur a pick-up in business investment and consumption.

The relative weighting of these four scenarios was a key area of management judgement. In making this judgement, management took into consideration the guidance provided by the independent source who prepared the economic scenarios as well as that of a forum of subject matter experts from across the business.

At the point of sale of the Group's loans to customers the key assumptions used in these scenarios and their relative probability weightings were as follows:

26 February 2021	Base	Downside	Severe downside	Upside
Probability	32.50%	25.00%	12.5%	30.00%
Bank of England base rate March 2026	0.33%	0.19%	(0.25%)	0.91%
HPI March 2021 – March 2026 <sup>1</sup>	16.08%	(1.03%)	8.31%	25.01%
ILO unemployment March 2026 <sup>2</sup>	4.36%	5.35%	5.64%	3.59%
GDP March 2026 <sup>3</sup>	1.79%	2.13%	1.85%	1.85%

<sup>1</sup> The percentage movement in UK property prices between March 2021 and March 2026.

<sup>2</sup> The International Labour Organisation ('ILO') unemployment rate as at March 2026.

<sup>3</sup> The annualised percentage increase in UK GDP as at March 2026.

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

<sup>1</sup> The percentage movement in UK property prices between March 2020 and March 2025.

<sup>2</sup> The International Labour Organisation ('ILO') unemployment rate as at March 2025.

<sup>3</sup> The annualised percentage increase in UK GDP as at March 2025.

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

The ECL calculation is particularly sensitive to changes in:

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

A fall in house prices of 5% at the date of sale would have resulted in an increase in modelled ECL provisions of £14.0m on the base scenario (excluding top-ups).



**2. Critical judgements and accounting estimates (continued)****Accounting estimates (continued)****(e) Impairment of loans to customers (continued)****(iii) Key sensitivities**

A significant degree of judgement related to the relative weightings of the scenarios themselves, incorporating different views of HPI and Unemployment as indicated above. Our specialist economic analysts provided us with an independent view on the weighting of the scenarios, which were calculated based on the December 2020 Bank of England Fan Charts. The Bank of England's Monetary Policy Committee publishes fan charts to give a graphical representation of the uncertainty around the economic outlook of potential future outcomes from its central forecast. Given the uncertainty caused by COVID-19, management reconsidered the weightings at 1 March 2021 and gave more prominence to the base case and severe downside scenarios.

If the probability weighting of each of the scenarios were uprated to 100% the impact on the Group's total loan impairment loss allowance at the date of sale would have been as follows:

	<b>Impact on total impairment loss allowance</b>
Base scenario	<b>Decrease of £6.4m</b>
Downside scenario	<b>Increase of £19.1m</b>
Severe downside scenario	<b>Increase of £15.0m</b>
Upside scenario	<b>Decrease of £15.0m</b>

**3. Net interest income**

	<b>12 months to 31 March 2021 £m</b>	<b>12 months to 31 March 2020 £m</b>
<b>Interest receivable and similar income</b>		
On secured loans	77.0	115.7
Other	0.2	1.6
<b>Total interest receivable and similar income</b>	<b>77.2</b>	<b>117.3</b>
<b>Interest expense and similar charges</b>		
Inter-company loan interest	(17.1)	(34.3)
<b>Total interest expense and similar charges</b>	<b>(17.1)</b>	<b>(34.3)</b>
<b>Net interest income</b>	<b>60.1</b>	<b>83.0</b>
<b>Average balances</b>		
Interest-earning assets ('IEA')	3,064	3,626
<b>Financed by:</b>		
- interest-bearing funding	1,885	2,249
- interest-free funding*	1,179	1,377
<b>Average rates:</b>	<b>%</b>	<b>%</b>
- gross yield on IEA	2.51	3.23
- cost of interest-bearing funding	(0.90)	(1.52)
<b>Interest spread</b>	<b>1.61</b>	<b>1.71</b>
Contribution of interest-free funding*	0.35	0.58
<b>Net interest margin on average IEA</b>	<b>1.96</b>	<b>2.29</b>
<b>Average Bank Base Rate</b>	<b>0.10</b>	<b>0.72</b>
<b>Average 1-month LIBOR</b>	<b>0.07</b>	<b>0.68</b>
<b>Average 3-month LIBOR</b>	<b>0.14</b>	<b>0.76</b>

\* Interest-free funding is calculated as an average over the financial year and includes the Statutory Debt (until it was repaid during the year ended 31 March 2020) and share capital and reserves.

An analysis of interest income and expense by category of financial instrument is provided in note 25(b).

In February 2021 the Group recognised the sale of all of its loans to customers (see note 8).

**4. Administrative expenses**

B&B provides services to NRAM and UKAR. NRAM and UKAR had no direct employees during the years presented.

The monthly average number of persons employed by B&B during the year was as follows:

	12 months to 31 March 2021 Number	12 months to 31 March 2020 Number
<b>Average headcount:</b>		
Full time	86	115
Part time	6	10
<b>Total employed</b>	<b>92</b>	<b>125</b>
<b>Total average full time equivalent</b>	<b>91</b>	<b>123</b>

The full time equivalent is based on the average hours worked by employees in the year.

The number of persons employed by B&B at the end of the year was as follows:

	31 March 2021 Number	31 March 2020 Number
Full time	72	100
Part time	6	8
<b>Total employed</b>	<b>78</b>	<b>108</b>
<b>Total full time equivalent</b>	<b>77</b>	<b>106</b>

Staff numbers include Executive but not Non-Executive Directors. In addition to the permanent staff above, the B&B Group had engaged a full time equivalent of 11 temporary staff and specialist contractors at 31 March 2021 (31 March 2020: 10). Staff numbers reduced during the year reflecting business simplification.

	12 months to 31 March 2021 £m	12 months to 31 March 2020 £m
The Group's aggregate costs of permanent staff were as follows:		
Wages and salaries	7.6	8.4
Social security costs	1.0	1.1
Defined benefit pension credits (see note 14)	-	(1.9)
Defined contribution pension costs (see note 14)	0.5	0.6
Other retirement benefit costs (see note 14)	0.5	0.5
<b>Total staff costs</b>	<b>9.6</b>	<b>8.7</b>
IT costs	2.8	3.3
Outsourced and professional services	30.9	100.6
Depreciation and amortisation	0.5	0.5
Provision for onerous contracts (see note 12)	(3.5)	7.2
Impairment of right-of-use assets (see note 12)	1.3	6.7
Other administrative expenses	4.7	6.1
	<b>46.3</b>	<b>133.1</b>
<b>Management recharge to NRAM</b>	<b>(15.0)</b>	<b>(36.9)</b>
<b>Total ongoing administrative expenses</b>	<b>31.3</b>	<b>96.2</b>
Non-recurring costs	0.3	1.3
<b>Total administrative expenses</b>	<b>31.6</b>	<b>97.5</b>

Non-recurring costs of £0.3m (2020: £1.3m) in the year related to business simplification.

**Auditor's remuneration**

The following costs are included within administrative expenses:

	12 months to 31 March 2021 £m	12 months to 31 March 2020 £m
Fees payable to the Company's auditor and its associates in respect of audit of the parent Company's individual and consolidated Financial Statements	0.2	0.2
Fees payable to Company's auditor and its associates for other services:		
- the audit of the Company's subsidiaries pursuant to legislation	0.1	0.1
<b>Total</b>	<b>0.3</b>	<b>0.3</b>

The amounts shown in the above analysis are exclusive of VAT.

No separate disclosure has been provided of fees payable in respect of the Company as the consolidated Financial Statements are required to disclose these fees on a consolidated basis as shown in the above table.

**5. (Loss) on sale of loans**

	12 months to 31 March 2021 £m	12 months to 31 March 2020 £m
(Loss) on sale of loans to customers during the year (see note 8)	(16.4)	-
Release of accruals for costs/(costs incurred) in relation to sales in prior years	0.4	(0.1)
<b>Total</b>	<b>(16.0)</b>	<b>(0.1)</b>

In February 2021 the Group recognised the sale of all of its loans to customers. Of the £16.4m loss on sale of loans to customers in the year, £12.6m of losses were reclassified from the fair value reserve (see note 21) representing the accumulated fair value movements up to the point of sale.

**6. Taxation**

	12 months to 31 March 2021 £m	12 months to 31 March 2020 £m
The tax (charge) for the year comprises:		
Current tax:		
- on profit/(loss) for the year	(1.0)	6.1
- adjustments in respect of prior periods	-	(4.6)
<b>Total current tax (charge)/credit</b>	<b>(1.0)</b>	<b>1.5</b>
Deferred tax (see note 18):		
- origination and reversal of temporary differences	(7.6)	(8.9)
<b>Total deferred tax</b>	<b>(7.6)</b>	<b>(8.9)</b>
<b>Total taxation (charge) per the Income Statement</b>	<b>(8.6)</b>	<b>(7.4)</b>

	12 months to 31 March 2021 £m	12 months to 31 March 2020 £m
The following tax amounts have been (charged)/credited to equity:		
Deferred tax:		
- relating to assets at FVOCI	(20.3)	30.6
- relating to retirement benefit remeasurements	-	(2.4)
- relating to transfer of retirement benefits	-	86.3
<b>Net (charge)/credit to equity</b>	<b>(20.3)</b>	<b>114.5</b>

There was no foreign tax charged in the year (2020: £nil).

The tax (charge) on the Group's profit/(loss) before tax differs from the theoretical amount that would arise using the standard weighted average rate of UK corporation tax of 19.0% (2020: 19.0%) as follows:

	12 months to 31 March 2021 £m	12 months to 31 March 2020 £m
<b>Profit/(loss) before taxation</b>	<b>21.7</b>	<b>(9.9)</b>
Tax calculated at rate of 19.0% (2020: 19.0%)	(4.1)	1.9
Effects of:		
- net credits not taxable/expenses not deductible for tax purposes	1.0	(4.9)
- adjustments in respect of prior periods	-	(4.6)
- change in tax rate	-	0.2
- release of deferred tax assets	(5.5)	-
<b>Total taxation (charge) for the year</b>	<b>(8.6)</b>	<b>(7.4)</b>

Taxation appropriately reflects changes in tax rates which had been substantively enacted by 31 March 2021.

The 39.6% effective tax rate for the year (2020: negative 74.7%) has been impacted by expenses not deductible for tax purposes, an increase in prior year tax provisions and the release of deferred tax assets (see note 18).

**7. Cash at bank and in hand**

	<b>Group</b>		<b>Company</b>	
	<b>31 March 2021</b>	<b>31 March 2020</b>	<b>31 March 2021</b>	<b>31 March 2020</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Balances with the Bank of England	36.9	34.0	36.9	34.0
Balances with the Government Banking Service	1,229.5	110.0	1,229.5	110.0
Balances with other banks	8.4	3.4	3.0	1.4
<b>Total</b>	<b>1,274.8</b>	<b>147.4</b>	<b>1,269.4</b>	<b>145.4</b>

Balances with the Bank of England and the Government Banking Service earn interest at rates linked to the Bank Base Rate.

None of the Group's cash at bank and in hand balances are impaired and all are with UK institutions. The Bank of England and Government Banking Service are rated AA. Of the balances with other banks, 100% (2020: 100%) are with institutions rated AA to A. Expected credit losses arising in the 12 months to 31 March 2022 are not material, and no provision has been made.

Of the balances held with the Government Banking Service at 31 March 2021, the contractual terms for the sale of the Company (see note 1(b)) require that £1,154.6m be retained in the account in anticipation of the sale of the Company.

**8. Loans to customers**

In February 2021 the Group and Company recognised the sale of all of their loans to customers at a loss to the Group of £16.4m (see note 5) and the Group has no further commitments to extend credit to customers. All of the sale proceeds were received by the Group prior to 31 March 2021. In December 2018 the Group sold all of its commercial loans; the £8.7m balance of the sale proceeds were received in May 2019 (see 'settlement of amounts owed in respect of sale of loans' in the Cash Flow Statement).

At 31 March 2020 loans to customers comprised the following product types:

	<b>Group</b>			<b>Company</b>		
	<b>Outstanding balance</b>	<b>Carrying amount</b>	<b>Carrying amount</b>	<b>Outstanding balance</b>	<b>Carrying amount</b>	<b>Carrying amount</b>
	<b>£m</b>	<b>£m</b>	<b>%</b>	<b>£m</b>	<b>£m</b>	<b>%</b>
Residential mortgages						
Buy-to-let	1,102.6	957.3	31	695.6	605.9	30
Self-certified	1,385.9	1,334.8	43	948.5	916.2	45
Standard and other	796.1	783.2	26	499.4	494.4	25
<b>Total residential mortgages</b>	<b>3,284.6</b>	<b>3,075.3</b>	<b>100</b>	<b>2,143.5</b>	<b>2,016.5</b>	<b>100</b>

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

The table above shows the outstanding balances due from customers (i.e. with no allowance for impairment) at 31 March 2020 as the credit quality of loans to customers note (note 10) uses outstanding balances.

**8. Loans to customers (continued)**

The movements in fair value of the Group's and Company's loans to customers were as follows:

**Group**

	At 1 April 2020 £m	Reduction in gross balances outstanding £m	Asset sale £m	Impairment released to Income Statement £m	Movements taken to fair value reserve £m	At 31 March 2021 £m
<b>Residential mortgages</b>						
Buy-to-let	957.3	(51.4)	(1,042.7)	76.0	60.8	-
Self-certified	1,334.8	(106.4)	(1,278.8)	10.3	40.1	-
Standard and other	783.2	(57.3)	(737.8)	6.2	5.7	-
<b>Total residential mortgages</b>	<b>3,075.3</b>	<b>(215.1)</b>	<b>(3,059.3)</b>	<b>92.5</b>	<b>106.6</b>	<b>-</b>

**Group**

	At 1 April 2019 £m	Reduction in gross balances outstanding £m	Asset sale £m	Impairment released to Income Statement £m	Movements taken to fair value reserve £m	At 31 March 2020 £m
<b>Residential mortgages</b>						
Buy-to-let	1,096.8	(88.7)	-	5.5	(56.3)	957.3
Self-certified	1,578.3	(176.9)	-	1.6	(68.2)	1,334.8
Standard and other	925.0	(106.0)	-	0.6	(36.4)	783.2
<b>Total residential mortgages</b>	<b>3,600.1</b>	<b>(371.6)</b>	<b>-</b>	<b>7.7</b>	<b>(160.9)</b>	<b>3,075.3</b>

**Company**

	At 1 April 2020 £m	Reduction in gross balances outstanding £m	Asset sale £m	Impairment released to Income Statement £m	Movements taken to fair value reserve £m	At 31 March 2021 £m
<b>Residential mortgages</b>						
Buy-to-let	605.9	(33.9)	(657.1)	45.4	39.7	-
Self-certified	916.2	(80.2)	(867.9)	6.4	25.5	-
Standard and other	494.4	(39.5)	(459.2)	3.7	0.6	-
<b>Total residential mortgages</b>	<b>2,016.5</b>	<b>(153.6)</b>	<b>(1,984.2)</b>	<b>55.5</b>	<b>65.8</b>	<b>-</b>

**Company**

	At 1 April 2019 £m	Reduction in gross balances outstanding £m	Asset sale £m	Impairment released to Income Statement £m	Movements taken to fair value reserve £m	At 31 March 2020 £m
<b>Residential mortgages</b>						
Buy-to-let	694.2	(58.3)	-	5.3	(35.3)	605.9
Self-certified	1,083.8	(122.2)	-	1.1	(46.5)	916.2
Standard and other	590.4	(73.0)	-	0.1	(23.1)	494.4
<b>Total residential mortgages</b>	<b>2,368.4</b>	<b>(253.5)</b>	<b>-</b>	<b>6.5</b>	<b>(104.9)</b>	<b>2,016.5</b>

In addition to the sale of loans, the most significant movement in fair value over the year was due to redemptions.

## 9. Impairment on loans to customers

In February 2021 the Group and Company recognised the sale of all of its loans to customers at which point all impairment allowances were released. Prior to that, allowances for credit losses against loans to customers were made as follows:

## Group

Total loans	Stage 2: Lifetime ECL <sup>1,2</sup> £m	Stage 3: Lifetime ECL <sup>1,2</sup> £m	Total £m
<b>At 1 April 2020</b>	<b>73.0</b>	<b>29.7</b>	<b>102.7</b>
Movements during the year <sup>3</sup> :			
- net repayments	(1.6)	(1.9)	(3.5)
- changes in estimates	(16.9)	1.5	(15.4)
- changes in economic assumptions	18.5	4.6	23.1
- transfers	(1.2)	1.2	-
- loan impairment charge	(1.2)	5.4	4.2
- sale of loans	(71.8)	(24.9)	(96.7)
- write-offs	-	(10.2)	(10.2)
Net movements during the year	(73.0)	(29.7)	(102.7)
<b>At 31 March 2021</b>	<b>-</b>	<b>-</b>	<b>-</b>
The Income Statement credit comprises:			
- loan impairment charge	(1.2)	5.4	4.2
- recoveries net of costs	-	(4.8)	(4.8)
<b>Total Income Statement credit</b>	<b>(1.2)</b>	<b>0.6</b>	<b>(0.6)</b>

<sup>1</sup> Expected credit losses ('ECL').

<sup>2</sup> Further information as to which loans are categorised as stage 2 and which as stage 3 is provided in note 1(l).

<sup>3</sup> Movements during the year are calculated on a monthly basis and are aggregated to the full year in the above table. Changes in estimates relate to updates to behavioural assumptions and underlying changes to the loan data, whilst changes in economic assumptions relate to updates for actual economics and changes in forecast economics during the year.

Following the sale of its loans to customers the Group has retained the right to collect balances which had previously been written off and are still subject to enforcement. Written off debt is recovered in line with MCOB rules, however decisions on whether to pursue to recover the debt are taken on a case-by-case basis taking into account the individual circumstances of the customer.

## Group

Total loans	Stage 2: Lifetime ECL £m	Stage 3: Lifetime ECL £m	Total £m
<b>At 1 April 2019</b>	<b>92.4</b>	<b>34.5</b>	<b>126.9</b>
Movements during the year:			
- net repayments	(2.7)	(3.3)	(6.0)
- changes in estimates	(8.6)	13.6	5.0
- changes in economic assumptions	(6.0)	(0.7)	(6.7)
- transfers	(2.1)	2.1	-
- loan impairment credit	(19.4)	11.7	(7.7)
- write-offs	-	(16.5)	(16.5)
Net movements during the year	(19.4)	(4.8)	(24.2)
<b>At 31 March 2020</b>	<b>73.0</b>	<b>29.7</b>	<b>102.7</b>
The Income Statement credit comprises:			
- loan impairment credit	(19.4)	11.7	(7.7)
- recoveries net of costs	-	(9.5)	(9.5)
<b>Total Income Statement credit</b>	<b>(19.4)</b>	<b>2.2</b>	<b>(17.2)</b>
<b>Provision coverage</b>	<b>2.5%</b>	<b>7.3%</b>	<b>3.1%</b>

Of the write-offs in the above table £16.5m were still subject to enforcement action at 31 March 2020.

## 9. Impairment on loans to customers (continued)

Company			
Total loans	Stage 2: Lifetime ECL £m	Stage 3: Lifetime ECL £m	Total £m
<b>At 1 April 2020</b>	<b>45.4</b>	<b>15.8</b>	<b>61.2</b>
Movements during the year:			
- net repayments	(0.9)	(1.1)	(2.0)
- changes in estimates	(11.2)	0.8	(10.4)
- changes in economic assumptions	11.7	2.7	14.4
- transfers	(1.7)	1.7	-
- loan impairment charge	(2.1)	4.1	2.0
- sale of loans	(43.3)	(14.2)	(57.5)
- write-offs	-	(5.7)	(5.7)
Net movements during the year	(45.4)	(15.8)	(61.2)
<b>At 31 March 2021</b>	<b>-</b>	<b>-</b>	<b>-</b>
The Income Statement credit comprises:			
- loan impairment charge	(2.1)	4.1	2.0
- recoveries net of costs	-	(2.6)	(2.6)
<b>Total Income Statement credit</b>	<b>(2.1)</b>	<b>1.5</b>	<b>(0.6)</b>
Company			
Total loans	Stage 2: Lifetime ECL £m	Stage 3: Lifetime ECL £m	Total £m
<b>At 1 April 2019</b>	<b>58.6</b>	<b>19.2</b>	<b>77.8</b>
Movements during the year:			
- net repayments	(2.1)	(0.8)	(2.9)
- changes in estimates	(6.0)	6.6	0.6
- changes in economic assumptions	(3.6)	(0.6)	(4.2)
- transfers	(1.5)	1.5	-
- loan impairment credit	(13.2)	6.7	(6.5)
- write-offs	-	(10.1)	(10.1)
Net movements during the year	(13.2)	(3.4)	(16.6)
<b>At 31 March 2020</b>	<b>45.4</b>	<b>15.8</b>	<b>61.2</b>
The Income Statement credit comprises:			
- loan impairment credit	(13.2)	6.7	(6.5)
- recoveries net of costs	-	(3.7)	(3.7)
<b>Total Income Statement credit</b>	<b>(13.2)</b>	<b>3.0</b>	<b>(10.2)</b>
<b>Provision coverage</b>	<b>2.4%</b>	<b>6.8%</b>	<b>2.9%</b>

Of the write-offs in the above table £10.1m were still subject to enforcement action at 31 March 2020.

**10. Credit quality of loans to customers**

In February 2021 the Group and Company recognised the sale of all of their loans to customers. This note provides detail of the credit quality of the Group's and the Company's residential loans to customers at 31 March 2020. The credit quality disclosures as at 31 March 2020 are representative of the credit exposure during the period from 1 April 2020 to the date of sale.

**Group**

	Stage 2: Lifetime ECL <sup>1</sup>	Stage 3: Lifetime ECL <sup>1</sup>	Total
	£m	£m	£m
- Up-to-date <sup>2</sup>	2,747.6	119.8	2,867.4
- 1 - 2 months in arrears	103.5	59.5	163.0
- 2 - 3 months in arrears	26.7	47.6	74.3
- Greater than 3 months in arrears	-	179.9	179.9
Outstanding balance	2,877.8	406.8	3,284.6

<sup>1</sup> Further information as to which loans were categorised as stage 2 and which as stage 3 is provided in note 1(I).

<sup>2</sup> Up-to-date loans were those which were less than one month in arrears.

Included in stage 3 loans above were £41.3m of loans that were in a cure period, on which £2.0m of impairment provisions are held.

**Company**

	Stage 2: Lifetime ECL	Stage 3: Lifetime ECL	Total
	£m	£m	£m
- Up-to-date	1,833.8	71.7	1,905.5
- 1 - 2 months in arrears	62.5	34.6	97.1
- 2 - 3 months in arrears	15.3	28.9	44.2
- Greater than 3 months in arrears	-	96.7	96.7
Outstanding balance	1,911.6	231.9	2,143.5

Included in stage 3 loans above were £24.0m of loans that were in a cure period, on which £1.1m of impairment provisions are held.

The Group and Company held collateral in the form of mortgages over residential properties. The fair value of this collateral at 31 March 2020 was as follows:

**Group**

	Stage 2: Lifetime ECL	Stage 3: Lifetime ECL	Total
	£m	£m	£m
- Up-to-date	4,832.2	214.5	5,046.7
- 1 - 3 months in arrears	217.2	183.3	400.5
- Greater than 3 months in arrears	-	278.7	278.7
Total	5,049.4	676.5	5,725.9

**Company**

	Stage 2: Lifetime ECL	Stage 3: Lifetime ECL	Total
	£m	£m	£m
- Up-to-date	3,314.7	132.6	3,447.3
- 1 - 3 months in arrears	132.8	113.5	246.3
- Greater than 3 months in arrears	-	152.4	152.4
Total	3,447.5	398.5	3,846.0



**10. Credit quality of loans to customers (continued)**

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

**Group**

	Stage 2: Lifetime ECL £m	Stage 3: Lifetime ECL £m	Total £m
- Up-to-date	2,718.7	117.7	2,836.4
- 1 - 3 months in arrears	129.8	106.6	236.4
- Greater than 3 months in arrears	-	176.0	176.0
<b>Total</b>	<b>2,848.5</b>	<b>400.3</b>	<b>3,248.8</b>
The greater than 3 months in arrears amounts above include the following carrying amount of assets in possession, capped at the balance outstanding			
	-	21.3	21.3

**Company**

	Stage 2: Lifetime ECL £m	Stage 3: Lifetime ECL £m	Total £m
- Up-to-date	1,814.6	70.7	1,885.3
- 1 - 3 months in arrears	77.5	63.2	140.7
- Greater than 3 months in arrears	-	95.2	95.2
<b>Total</b>	<b>1,892.1</b>	<b>229.1</b>	<b>2,121.2</b>
The greater than 3 months in arrears amounts above include the following carrying amount of assets in possession, capped at the balance outstanding			
	-	13.6	13.6

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

The indexed LTV of residential loan balances at 31 March 2020, weighted by loan balance, fell into the following ranges:

	Group %	Company %
Up to 50%	17.1	18.5
50% to 75%	53.5	53.1
75% to 100%	24.1	23.2
Over 100%	5.3	5.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

For the Group, the average indexed LTV based on a simple average was 57.3% and on a weighted average was 67.6%.

The residential impairment provision coverage at 31 March 2020 by indexed LTV ranges was as follows:

	Group %	Company %
Up to 50%	0.3	0.2
50% to 75%	0.8	0.7
75% to 100%	4.5	4.3
Over 100%	29.5	28.1
<b>Total</b>	<b>3.1</b>	<b>2.9</b>

**10. Credit quality of loans to customers (continued)****Arrears and possessions on residential mortgages**

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

At 31 March 2020

<b>Arrears 3 months and over</b>		
Number of cases	No.	1,098
Proportion of total cases	%	4.34
Asset value	£m	164.9
Proportion of book	%	5.02
Total value of payments overdue	£m	5.3
Proportion of total book	%	0.16
<b>Possessions</b>		
Number of cases	No.	153
Proportion of total cases	%	0.60
Asset value	£m	23.1
Proportion of book	%	0.70
Total value of payments overdue	£m	0.8
Proportion of total book	%	0.03
New possessions	No.	348
<b>Total arrears 3 months and over and possessions</b>		
Number of cases	No.	1,251
Proportion of total cases	%	4.94
Asset value	£m	188.0
Proportion of book	%	5.72
Total value of payments overdue	£m	6.1
Proportion of total book	%	0.19
<b>Payments overdue</b>		
Total value of payments overdue	£m	8.0
Proportion of total book	%	0.24
<b>Loan impairment provision</b>		
As % of residential balances	%	3.13

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

**10. Credit quality of loans to customers (continued)****Analysis of residential mortgages 3 months and over in arrears by product**

At 31 March 2020

**Buy-to-let**

Number of cases	No.	271
Proportion of total cases	%	3.13
Asset value	£m	37.7
Proportion of book	%	3.42
Total value of payments overdue	£m	1.1
Proportion of total book	%	0.10

**Self-certified**

Number of cases	No.	503
Proportion of total cases	%	5.14
Asset value	£m	83.6
Proportion of book	%	6.04
Total value of payments overdue	£m	2.7
Proportion of total book	%	0.19

**Standard and other**

Number of cases	No.	324
Proportion of total cases	%	4.71
Asset value	£m	43.6
Proportion of book	%	5.47
Total value of payments overdue	£m	1.5
Proportion of total book	%	0.19

**11. Investments in Group undertakings**

The Company's principal subsidiary at 31 March 2021 is detailed below:

	Registered number	Nature of business	Country of incorporation	Class of shares held
Mortgage Express	02405490	Asset management	UK	Ordinary

MX is a directly wholly-owned, unlimited company. Its registered office is at Croft Road, Crossflatts, Bingley BD16 2UA. It operates in the UK and is fully consolidated into the Group Financial Statements.

The following companies are also fully consolidated into the Group Financial Statements; all operate in their country of incorporation. All are wholly-owned and have their registered office at Croft Road, Crossflatts, Bingley BD16 2UA.

	Registered number	Nature of business	Country of incorporation	Class of shares held
Bradford & Bingley Homeloans Limited	02405307	Non-trading	UK	Ordinary
Bradford & Bingley Investments	03326913	Non-trading	UK	Ordinary
Bradford & Bingley Mortgage Management Limited	02405306	Non-trading	UK	Ordinary
Finance for Mortgages Limited	02220176	Non-trading	UK	Ordinary
HSMS	01192730	Non-trading	UK	Ordinary
Leamington Mortgage Corporation Limited	02066450	Non-trading	UK	Ordinary
Mortgage Express (No. 2)	00891681	Non-trading	UK	Ordinary
Scotlife Homeloans (No. 2) Limited	02220177	Non-trading	UK	Ordinary
Silhouette Mortgages Limited	02356078	Non-trading	UK	Ordinary

**11. Investments in Group undertakings (continued)**

The Directors consider the value of investments in Group undertakings to be supported by their underlying assets.

	31 March 2021 £m	31 March 2020 £m
At start of year	119.5	175.0
Impairment	(114.6)	(55.5)
<b>At end of year</b>	<b>4.9</b>	<b>119.5</b>

During the year ended 31 March 2021 the carrying value of the Company's investment in its subsidiary MX was reviewed for impairment following the declaration of dividends by that subsidiary and the sale of its loans to customers (see note 8). The carrying amount of the investment was impaired by £114.6m to reduce it to its value in use at 31 March 2021.

During the year ended 31 March 2020 the carrying value of the Company's investment in MX was reviewed for impairment following the declaration of dividends by that subsidiary and the fall in the fair value of its loan book as a result of the impact on markets of the COVID-19 pandemic. The carrying amount of the investment was impaired by £55.5m to reduce it to its value in use at 31 March 2020.

Further detail of the judgements involved in the impairment is provided in note 2(d).

**12. Lease assets and obligations**

The leases to which the Company is a party comprise leases on buildings. Certain buildings on which the Company is the head-lessee are sub-let to other parties. The Company has therefore recognised a net investment in sub-leases in respect of the period over which properties are sub-let and a right-of-use asset in respect of the period over which properties are not sub-let.

The lease obligations comprise the discounted value of the lease payments to which the Company is committed. IFRS 16 requires that the discount rate applied should be the interest rate implicit in the lease if that rate can be readily determined, and otherwise the lessee's incremental borrowing rate. As the interest rate implicit in the leases could not be readily determined, the Company used a rate at which it was considered that a similar entity would be able to borrow funds as at 1 April 2019 for a 10 year period, being 1.18% pa. It has been assumed that the Company will break leases at the earliest permitted break dates, or the end date if there is no break date, which are between 2022 and 2027. Certain leases have review dates on which the rent will increase by an amount calculated by reference to the Retail Price Index ('RPI'). Other than for immaterial items, these reviews are either matched with an equal increase in the sub-lease rental, offsetting the Company's exposure to the head-lease rent increase, or correspond to the sub-lease break date.

For the properties which are sub-let to other parties, the terms of the sub-leases allow the sub-lessees to break the sub-leases at an earlier date than the Company's first permitted break date, being between 2023 and 2024. It has been assumed that the sub-leases will be broken at the sub-lessees' first permitted break dates as the Company cannot be reasonably certain (as defined in IFRS 16) that these breaks will not be exercised.

The right-of-use lease assets have been reviewed for impairment. At 31 March 2020 impairment of £6.7m was recognised. This impairment reduced the carrying amount of the impaired assets to the weighted average of the projected future cash inflows from the properties after the sub-lease break dates. At 31 March 2021 additional impairment of £1.3m was recognised; this was a result of discussions with the landlord and sub-lessee in respect of the Company's head office. As at 31 March 2021 a negotiated surrender or variation of the lease was considered highly probable. In June 2021, subsequent to the Balance Sheet date, Heads of Terms were agreed with the Group's landlord and sub-lessee in respect of the surrender of the lease on the Group's head office (see note 29). The remaining right-of-use assets are depreciated on a straight line basis over the period in which the property is not sub-let. In addition, at 31 March 2020 an onerous contracts provision (see note 19) of £7.2m was made for the Company's exposure to increased rentals and other costs of leased properties following the sub-lease break dates. At 31 March 2021 this provision was reassessed and was adjusted to £3.9m as a negotiated surrender or variation of the head office lease was considered highly probable.

The net investment in sub-leases has been reviewed for impairment. Payments are up to date and this asset is categorised as 'stage 1' as defined by IFRS 9, i.e. that there has been no significant increase in credit risk since it was first recognised. No impairment has been recognised as 12-month expected credit losses, as defined in IFRS 9, are considered to be immaterial.

**12. Lease assets and obligations (continued)**

	Year ended 31 March 2021	Year ended 31 March 2020
	£m	£m
<b>Right-of-use assets</b>		
At start of year	2.0	8.6
Rent review	-	0.6
Impairment	(1.3)	(6.7)
Depreciation charge	(0.5)	(0.5)
At end of year	0.2	2.0
<b>Net investment in sub-leases</b>		
At start of year	8.9	10.3
Rent review	-	0.8
Lease receipts	(2.4)	(2.3)
Interest income	0.1	0.1
At end of year	6.6	8.9
<b>Total lease assets at end of year</b>	<b>6.8</b>	<b>10.9</b>

	Year ended 31 March 2021	Year ended 31 March 2020
	£m	£m
<b>Lease obligations</b>		
At start of year	17.6	18.8
Rent review	-	1.4
Lease payments	(2.8)	(2.8)
Interest expense	0.2	0.2
At end of year	15.0	17.6

	At 31 March 2021	At 31 March 2020
		£m
<b>The lease obligations are payable in the following periods</b>		
Year ending 31 March 2021	-	2.8
Year ending 31 March 2022	2.8	2.8
Year ending 31 March 2023	2.6	2.6
Year ending 31 March 2024	2.4	2.4
Year ending 31 March 2025	2.4	2.4
After 31 March 2025	5.3	5.3
Discounting	(0.5)	(0.7)
<b>Total</b>	<b>15.0</b>	<b>17.6</b>

The maturity analysis and future cash flows in respect of lease obligations are provided in note 26(b).

**13. Other assets**

	Group and Company	
	31 March 2021	31 March 2020
	£m	£m
Prepayments and accrued income	3.7	3.2
<b>Total</b>	<b>3.7</b>	<b>3.2</b>

**14. Retirement benefit assets and obligations****(a) Defined benefit pension scheme**

The Group operated a defined benefit staff pension scheme, the Bradford & Bingley Staff Pension Scheme ('the B&B Scheme'), until 20 June 2019 when UKAR became the sponsoring company of the B&B Scheme. The Group derecognised its IAS 19 balance and released its associated deferred tax provision at that date.

**(b) Defined contribution pension scheme**

The Group also operates a defined contribution pension scheme, the UKAR Pension Plan, into which both employees and the Group make contributions. The assets of this scheme are independent from those of the Group. The Group and Company had no liabilities or prepayments associated with this scheme at 31 March 2021 (31 March 2020: £nil). The cost in the year to the Group of this scheme was £0.5m (2020: £0.6m). The cost varies according to the number of employees and their salary levels, but the Group has no risk of being required to provide additional funding to the scheme.

**(c) Other retirement benefit costs**

The Group provides healthcare benefits to some of its pensioners. The healthcare benefits are provided through a scheme into which the Group contributes 100% towards the cost of providing the benefits for members who retired before 1 January 1996 and 50% for members who retired after this date. The value of the Group's obligation is assessed in accordance with the advice of a qualified actuary. The cost in the year to the Group of this scheme was £0.2m (2020: £0.2m) and the remeasurement loss recognised in the B&B Group's other comprehensive income during the year was £0.1m (2020: loss of £0.5m). Other pension-related costs totalled £0.3m for the year (2020: £0.3m).

**(d) Defined benefit schemes**

The amounts carried on the Group and Company Balance Sheets are as follows:

	Defined benefit pension plan		Post-retirement medical benefits		Total	
	31 Mar 2021	31 Mar 2020	31 Mar 2021	31 Mar 2020	31 Mar 2021	31 Mar 2020
	£m	£m	£m	£m	£m	£m
Present value of defined benefit obligations	-	-	(7.0)	(7.0)	(7.0)	(7.0)
Fair value of defined benefit assets	-	-	-	-	-	-
<b>Net defined benefit (liability)/asset</b>	<b>-</b>	<b>-</b>	<b>(7.0)</b>	<b>(7.0)</b>	<b>(7.0)</b>	<b>(7.0)</b>

The amounts recognised in the Group Income Statement were as follows:

	Defined benefit pension plan		Post-retirement medical benefits		Total	
	12 months to 31 Mar 2021	12 months to 31 Mar 2020	12 months to 31 Mar 2021	12 months to 31 Mar 2020	12 months to 31 Mar 2021	12 months to 31 Mar 2020
	£m	£m	£m	£m	£m	£m
Credit/(charge) to administrative expenses (see note 4)	-	1.9	(0.2)	(0.2)	(0.2)	1.7
<b>Total recognised in the Income Statement</b>	<b>-</b>	<b>1.9</b>	<b>(0.2)</b>	<b>(0.2)</b>	<b>(0.2)</b>	<b>1.7</b>

**14. Retirement benefit assets and obligations (continued)****(d) Defined benefit schemes (continued)**

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

	Defined benefit pension plan		Post-retirement medical benefits		Total	
	12 months to 31 Mar 2021	12 months to 31 Mar 2020	12 months to 31 Mar 2021	12 months to 31 Mar 2020	12 months to 31 Mar 2021	12 months to 31 Mar 2020
	£m	£m	£m	£m	£m	£m
<b>At start of year</b>	-	946.9	7.0	6.6	7.0	953.5
Interest on defined benefit obligations	-	5.2	0.2	0.2	0.2	5.4
Remeasurements:						
- effect of changes in financial assumptions	-	38.0	0.2	0.4	0.2	38.4
- effect of experience adjustments	-	-	(0.1)	0.1	(0.1)	0.1
Benefits paid from plan	-	(8.7)	(0.3)	(0.3)	(0.3)	(9.0)
Transfer out on 20 June 2019	-	(981.4)	-	-	-	(981.4)
<b>At end of year</b>	-	-	7.0	7.0	7.0	7.0

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

	Defined benefit pension plan		Post-retirement medical benefits		Total	
	12 months to 31 Mar 2021	12 months to 31 Mar 2020	12 months to 31 Mar 2021	12 months to 31 Mar 2020	12 months to 31 Mar 2021	12 months to 31 Mar 2020
	£m	£m	£m	£m	£m	£m
<b>At start of year</b>	-	1,386.2	-	-	-	1,386.2
Interest income on defined benefit assets	-	7.4	-	-	-	7.4
Defined benefit company contributions	-	-	0.3	0.3	0.3	0.3
Remeasurements:						
- return on plan assets (excluding interest income)	-	51.0	-	-	-	51.0
Administrative expenses paid from plan assets	-	(0.3)	-	-	-	(0.3)
Benefits paid from plan	-	(8.7)	(0.3)	(0.3)	(0.3)	(9.0)
Transfer out on 20 June 2019	-	(1,435.6)	-	-	-	(1,435.6)
<b>At end of year</b>	-	-	-	-	-	-

**(e) Actuarial assumptions for the post-retirement medical plan**

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

	31 March 2021	31 March 2020
Discount rate	2.10%	2.30%
Medical cost trend for duration of liability	5.50%	5.50%

**(f) Sensitivity**

Assumed healthcare cost trend rates have an effect on the amounts recognised in staff costs. A one percentage point increase in assumed healthcare cost trend rates would have the following effects:

	31 March 2021	31 March 2020
	£m	£m
Effect on cost	-	-
Effect on defined benefit obligation	0.9	0.9

## 15. Statutory Debt and HM Treasury loans

At 1 April 2019 the Company had an interest-free Statutory Debt to HM Treasury which replaced the Group's savings-related liabilities which had been transferred to Banco Santander Group on 29 September 2008. During the year ended 31 March 2020 the remaining balance of £462.4m was repaid.

The Company has an interest-bearing working capital facility ('WCF') provided by HM Treasury. Interest is charged at Bank of England Base Rate + 500 bps. HM Treasury has the option to vary the rate charged. The balance on the WCF had been fully repaid before 1 April 2019 but the facility remains in place.

## 16. Accruals

Of the Group's accruals of £11.7m (2020: £15.9m), £1.0m (2020: £2.2m) comprised amounts which have been agreed as payable to specific persons as remediation for PPI mis-selling in previous years and the remaining £10.7m (2020: £13.7m) comprised accruals relating to costs.

## 17. Other liabilities

Of the Group's other liabilities of £11.4m (2020: £4.6m), £9.9m (2020: £3.2m) comprised cash received in respect of loans which had been sold and which was owed to the purchaser of the loans, and of the Company's other liabilities of £11.2m (2020: £4.0m), £9.9m (2020: £2.9m) comprised such cash.

## 18. Deferred taxation

The net deferred taxation asset at 31 March 2020 was attributable to the following:

	Group		Company	
	31 Mar 2021	31 Mar 2020	31 Mar 2021	31 Mar 2020
	£m	£m	£m	£m
Available-for-sale reserve	-	0.5	-	0.5
Fair value reserve	-	20.3	-	12.5
Impairment of loans to customers	-	1.6	-	0.6
Employee benefits	-	2.4	-	2.4
Accelerated tax depreciation	-	1.3	-	1.3
Losses carried forward	-	1.8	-	1.8
<b>Total</b>	<b>-</b>	<b>27.9</b>	<b>-</b>	<b>19.1</b>

Based on forecast future results of the Group, it is not considered that the Group or Company will have sufficient profits to utilise deferred tax assets regardless of whether the sale of the Company completes, and consequently these assets have been released. Consequently the Group had £5.5m of deferred tax assets unrecognised at 31 March 2021 (31 March 2020: £nil) and the Company had £4.5m (2020: £nil).



**18. Deferred taxation (continued)**

The movements in the Group's and Company's deferred taxation during the current and previous year were as follows:

Group	At 1 April 2020 £m	Recognised in income £m	Recognised in equity £m	At 31 March 2021 £m
Available-for-sale reserve	0.5	(0.5)	-	-
Fair value reserve	20.3	-	(20.3)	-
Impairment of loans to customers	1.6	(1.6)	-	-
Employee benefits	2.4	(2.4)	-	-
Accelerated tax depreciation	1.3	(1.3)	-	-
Losses carried forward	1.8	(1.8)	-	-
<b>Total</b>	<b>27.9</b>	<b>(7.6)</b>	<b>(20.3)</b>	<b>-</b>

Group	At 1 April 2019 £m	Recognised in income £m	Recognised in equity £m	At 31 March 2020 £m
Available-for-sale reserve	0.8	(0.3)	-	0.5
Fair value reserve	(10.3)	-	30.6	20.3
Impairment of loans to customers	1.7	(0.1)	-	1.6
Employee benefits	(71.4)	(10.1)	83.9	2.4
Accelerated tax depreciation	1.5	(0.2)	-	1.3
Losses carried forward	-	1.8	-	1.8
<b>Total</b>	<b>(77.7)</b>	<b>(8.9)</b>	<b>114.5</b>	<b>27.9</b>

Company	At 1 April 2020 £m	Recognised in income £m	Recognised in equity £m	At 31 March 2021 £m
Available-for-sale reserve	0.5	(0.5)	-	-
Fair value reserve	12.5	-	(12.5)	-
Impairment of loans to customers	0.6	(0.6)	-	-
Employee benefits	2.4	(2.4)	-	-
Accelerated tax depreciation	1.3	(1.3)	-	-
Losses carried forward	1.8	(1.8)	-	-
<b>Total</b>	<b>19.1</b>	<b>(6.6)</b>	<b>(12.5)</b>	<b>-</b>

Company	At 1 April 2019 £m	Recognised in income £m	Recognised in equity £m	At 31 March 2020 £m
Available-for-sale reserve	0.8	(0.3)	-	0.5
Fair value reserve	(7.4)	-	19.9	12.5
Impairment of loans to customers	0.6	-	-	0.6
Employee benefits	(71.4)	(10.1)	83.9	2.4
Accelerated tax depreciation	1.5	(0.2)	-	1.3
Losses carried forward	-	1.8	-	1.8
<b>Total</b>	<b>(75.9)</b>	<b>(8.8)</b>	<b>103.8</b>	<b>19.1</b>

As detailed in note 14, the Group's funded retirement benefit scheme transferred to UKAR during the year ended 31 March 2020. The Group derecognised its IAS 19 balances and released its associated deferred tax provisions of £86.3m through other comprehensive income.

**19. Provisions**

Group	Customer redress £m	Onerous contracts £m	Restructuring £m	Total £m
<b>At 1 April 2020</b>	<b>28.2</b>	<b>7.2</b>	<b>4.3</b>	<b>39.7</b>
Utilised in the year	(13.6)	-	(2.5)	(16.1)
Charged in the year	2.9	0.2	0.3	3.4
Released in the year	(7.7)	(3.5)	-	(11.2)
<b>At 31 March 2021</b>	<b>9.8</b>	<b>3.9</b>	<b>2.1</b>	<b>15.8</b>

Group	Customer redress £m	Onerous contracts £m	Restructuring £m	Total £m
<b>At 1 April 2019</b>	<b>29.6</b>	<b>-</b>	<b>7.0</b>	<b>36.6</b>
Utilised in the year	(28.5)	-	(2.7)	(31.2)
Charged in the year	29.4	7.2	2.2	38.8
Released in the year	(2.3)	-	(2.2)	(4.5)
<b>At 31 March 2020</b>	<b>28.2</b>	<b>7.2</b>	<b>4.3</b>	<b>39.7</b>

Company	Customer redress £m	Onerous contracts £m	Restructuring £m	Total £m
<b>At 1 April 2020</b>	<b>28.2</b>	<b>7.2</b>	<b>4.3</b>	<b>39.7</b>
Utilised in the year	(13.6)	-	(2.5)	(16.1)
Charged in the year	2.9	0.2	0.3	3.4
Released in the year	(7.7)	(3.5)	-	(11.2)
<b>At 31 March 2021</b>	<b>9.8</b>	<b>3.9</b>	<b>2.1</b>	<b>15.8</b>

Company	Customer redress £m	Onerous contracts £m	Restructuring £m	Total £m
<b>At 1 April 2019</b>	<b>29.0</b>	<b>-</b>	<b>7.0</b>	<b>36.0</b>
Utilised in the year	(28.5)	-	(2.7)	(31.2)
Charged in the year	29.4	7.2	2.2	38.8
Released in the year	(2.3)	-	(2.2)	(4.5)
Transferred from subsidiary undertaking	0.6	-	-	0.6
<b>At 31 March 2020</b>	<b>28.2</b>	<b>7.2</b>	<b>4.3</b>	<b>39.7</b>

The Group remains committed to doing the right thing for our former customers and where we identify issues that have caused customer detriment we will ensure that they are fully remediated. Although all loans to customers have been sold, the Group retains obligations in respect of some former customers where the Group still holds legal title to their mortgage. Also, since the FCA's 29 August 2019 deadline for claims in respect of PPI, some claims have been made through the courts, which are not subject to the FCA's deadline, and provisions include an estimate of the cost of further such court claims. The Group also retains obligations in respect of certain sales in previous years of financial products other than loans.

Customer redress provisions at 31 March 2021 total £9.8m (2020: £28.2m, of which £14.3m related to PPI). £13.6m of the provisions were utilised during the year, of which £9.9m related to PPI including £1.6m paid to the Official Receiver in full and final settlement of PPI claims in relation to bankrupt individuals. A release of £7.7m was recognised in the year, of which £4.3m related to a reduction in PPI redress cost; this reflects the uncertainty of this provision at 31 March 2020, following the influx of complaints ahead of the FCA's deadline for claims. A further charge of £2.9m was recognised in the year in respect of other remediation. Redress provisions represent management's best estimate of future costs and all are expected to be utilised by 31 March 2024.

As detailed in note 12, an onerous contracts provision of £7.2m was made during the year ended 31 March 2020 in respect of potential future costs of leased properties including rent, rates, service charges and maintenance during future periods beyond the dates on which sub-lessees are able to break their leases. At 31 March 2021 the provision was reassessed and adjusted to £3.9m. The Group's expected discounted exposure to costs during these future periods is £11.7m. The right-of-use assets have been impaired in addition to the provision made for the remaining exposure of £3.9m.

The restructuring provision relates primarily to costs in relation to business simplification commenced in 2019/20.

**20. Share capital**

Issued and fully paid at 1 April 2019, 31 March 2020 and 31 March 2021	Group and Company	
	Number	£m
Ordinary shares of 25p each	1,445.3m	361.3

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

The Company has one class of shares: Ordinary shares of 25p each, ranking equally in respect of rights attached to voting, dividends and in the event of a winding-up.

No dividends were declared or paid during the year. During the year ended 31 March 2020 the Company declared interim dividends of £570.0m, which equated to 39.4p per ordinary share, settled by assigning to UKAR a balance of £445.0m owed to the Company by MX and by a new loan of £125.0m. No dividends had been proposed by the date of approval of these Financial Statements.

**21. Other reserves**

Other reserves comprise the following:	Group	Group	Company	Company
	31 March 2021 £m	31 March 2020 £m	31 March 2021 £m	31 March 2020 £m
Share premium reserve	198.9	198.9	198.9	198.9
Capital redemption reserve	29.2	29.2	29.2	29.2
Fair value reserve	-	(86.3)	-	(53.3)
<b>Total</b>	<b>228.1</b>	<b>141.8</b>	<b>228.1</b>	<b>174.8</b>

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 on the sale of surplus conversion shares and to maintain the total amount of capital when shares were repurchased by the Company.

Fair value reserve	Group	Group	Company	Company
	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
<b>At start of year</b>	<b>(86.3)</b>	44.0	<b>(53.3)</b>	31.7
Amounts recognised in equity	94.0	(160.9)	54.4	(104.9)
Amounts reclassified to profit or loss	12.6	-	11.4	-
Movement in deferred tax	(20.3)	30.6	(12.5)	19.9
<b>At end of year</b>	<b>-</b>	<b>(86.3)</b>	<b>-</b>	<b>(53.3)</b>

The fair value reserve represented cumulative fair value movements on assets carried at FVOCI net of deferred tax. The amounts reclassified to profit or loss in the year represented the accumulated fair value movements up to the point of sale of FVOCI assets sold during the year.

## 22. Financing activities

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

	2021			2020		
	Statutory Debt and HM Treasury loans £m	Lease obligations £m	Total £m	Statutory Debt and HM Treasury loans £m	Lease obligations £m	Total £m
Principal balance at start of year	-	17.6	17.6	462.4	-	462.4
Adoption of IFRS 16 (see note 12)	-	-	-	-	18.8	18.8
Principal repayments	-	(2.8)	(2.8)	(462.4)	(2.8)	(465.2)
Other non-cash movements	-	0.2	0.2	-	1.6	1.6
<b>Principal balance at end of year</b>	<b>-</b>	<b>15.0</b>	<b>15.0</b>	<b>-</b>	<b>17.6</b>	<b>17.6</b>

Other non-cash movements comprise rent reviews and interest added under the effective interest method (see note 12).

## 23. Related party disclosures

### (a) Key management personnel

The Group 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 (2020: £nil).

A summary of the Group's share of the remuneration of the 12 (2020: 12) key management personnel is set out in the table below. These amounts include the Group's share of the remuneration of the Directors which is set out in more detail in the Directors' Remuneration Report on pages 30 to 43 of the 2021 Annual Report & Accounts of UKAR. The Directors' Remuneration Report gives details of the UKAR Group's Directors' salaries, fees, bonuses, pension benefits, other incentives and other benefits. The aggregate UKAR Group emoluments of the UKAR Group's Directors were £1,014,980 (2020: £1,274,070) and the emoluments of the highest paid Director were £606,230 (2020: £859,070). The Directors made no payments during the year or previous year into the Group's money purchase pension scheme, and the Group made no payments into this scheme in respect of the Directors during the year or previous year. In 2020/21 the B&B Group bore two thirds of the cost of the UKAR Directors in its Income Statement, the other third being borne by NRAM (2020: B&B bore half and NRAM bore half). Included in the B&B Group's Income Statement, the aggregate Directors' emoluments and the emoluments of the highest paid Director amounted to £676,653 and £404,153 respectively (2020: £637,035 and £429,535 respectively). The UKAR Group did not make any loss of office payments to Directors during the year (2020: £nil). The key management personnel contributed £8,000 (2020: £40,000) to Group pension schemes during the year.

	12 months to 31 March 2021 £000	12 months to 31 March 2020 £000
<b>Remuneration of key management personnel: cost borne by the B&amp;B Group</b>		
Short-term employee benefits	1,662	1,457
Other long-term benefits	95	102
Post-employment benefits	5	20
Termination benefits	72	-
<b>Total</b>	<b>1,834</b>	<b>1,579</b>

Further details of the accounting treatment of pensions and of the Group's and Company's transactions and balances with the Group's pension schemes are given in note 14. There were no amounts due to or from the schemes at 31 March 2021 (2020: £nil).

### (b) UK government

As described in note 28, the Company considers the UK government to be its ultimate controlling party. The Group's material balances with departments and bodies of the government have comprised deposits with the Bank of England and the Government Banking Service (see note 7) and the Statutory Debt (see note 15). During the year ended 31 March 2020 the Group repaid the remaining balance of the Statutory Debt. In addition to these, the Group has balances and transactions with numerous government bodies on an arm's length basis in relation to the payment of corporation tax, VAT and employee taxes, and the payment of regulatory fees and levies. The Group has balances and transactions with UK Government Investments Limited ('UKGI') 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. During the year the Company paid £0.5m (2020: £0.6m) relating to advisors to UKGI on UKAR's future strategy.

**23. Related party disclosures (continued)****(c) Balances with UKAR Group companies**

Balances with UKAR Group companies were as follows:

	Group	Group	Company	Company
	31 March 2021	31 March 2020	31 March 2021	31 March 2020
	£m	£m	£m	£m
<b>Assets:</b>				
Subsidiaries (see (d) below)	-	-	-	499.1
Fellow subsidiaries (see (e) below)	0.5	2.9	0.5	2.9
Parent (see (f) below)	2.7	23.2	2.7	23.2
<b>Total</b>	<b>3.2</b>	<b>26.1</b>	<b>3.2</b>	<b>525.2</b>
<b>Liabilities:</b>				
Subsidiaries (see (d) below)	-	-	0.6	-
Parent (see (f) below)	-	2,079.4	-	1,629.4
<b>Total</b>	<b>-</b>	<b>2,079.4</b>	<b>0.6</b>	<b>1,629.4</b>

**(d) Subsidiary companies**

Amounts due from the Company's subsidiary companies and movements in these balances were as follows:

	2021	2020
	£m	£m
<b>Receivables/(payables)</b>		
At start of year	499.1	849.8
Net movement over the year	(499.7)	(350.7)
<b>At end of year</b>	<b>(0.6)</b>	<b>499.1</b>

The Company's subsidiary MX declared and paid a dividend of £150.0m to the Company in March 2021 (March 2020: £230.0m). During the year MX repaid the loan which it owed to the Company from the proceeds of sale of its loans to customers (see note 8) and lent its surplus funds to the Company, being £0.6m at 31 March 2021.

During the year the Company impaired the carrying value of its investment in MX by £114.6m and during the year ended 31 March 2020 by £55.5m (see note 11).

**(e) Fellow subsidiaries**

During the year, the Company recharged a total of £15.0m (2020: £36.9m) to NRAM, which was deducted from the Company's ongoing administrative expenses.

At 31 March 2021 the Company was owed £0.5m by NRAM (2020: £2.9m).

**(f) Parent company**

During the year, the Company was charged £0.1m (2020: £0.2m) by UKAR for the services of Non-Executive Directors. The Company recharged UKAR £0.3m (2020: £0.5m) in respect of fees and other costs of Non-Executive Directors which were paid by B&B on UKAR's behalf. At 31 March 2021 the Company owed £nil to UKAR (2020: £1,629.4m) and the Group owed £nil to UKAR (2019: £2,079.4m). The balance was repaid during the year from the proceeds of sale of its loans to customers (see note 8). During the year the Group incurred £17.1m (2020: £34.3m) of interest on this balance. At 31 March 2021 the Company was owed £2.7m by UKAR (2020: £23.2m).

The Company did not declare or pay any dividends during the year. The Company declared dividends of £570.0m in July 2019 which was settled by assigning a balance of £445.0m owed to the Company by MX to UKAR and by a new loan of £125.0m.

As detailed in note 14, on 20 June 2019 UKAR became the sponsoring company of the Group's funded defined benefit staff pension scheme. The balance was transferred for its IAS 19 carrying amount of £454.2m and the Company made a loan to UKAR of £454.2m to finance the transfer of the scheme. The loan was repaid during the year at the same time as the balance owed by the Company to UKAR was repaid.

## 24. Capital structure

The Company met its capital requirements in full throughout 2020/21 and 2019/20. The Company is regulated by the FCA as a mortgage administration company under the MIPRU regime. MIPRU regulation is applied at individual company level, not at B&B Group level. FCA rules require the Company to hold capital in excess of 10% of income. Because the Company's subsidiary MX held loans and continues to hold a loan on its Balance Sheet, the intercompany loan, FCA rules require MX to hold capital in excess of 1% of total Balance Sheet assets plus any undrawn commitments. The Board considers core equity, formerly tier 1 capital, to be of pre-eminent importance in the capital structure of the Company and continues to monitor this closely, in addition to the total level of capital. The Directors believe the Company has an appropriate and adequate level of capital to support its activities. As at 31 March 2021 capital in the Company represented 94.9% (31 March 2020: 35.6%) of the Company's assets. At 31 March 2021 capital in MX represented 81.3% (31 March 2020: 11.2%) of its assets. The increase in the Company's capital is mainly due to the Company's profit for the year of £46.1m, which included £150.0m of dividend income from MX, the release of the negative fair value reserve of £53.3m and a reduction of £114.6m in the deduction for the Company's investment in MX. The increase in MX's capital is also mainly due to its profit for the year and release of its negative fair value reserve.

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

Company	At 31 March 2021 £m	At 31 March 2020 £m
Share capital and reserves	1,231.6	1,131.6
Less: deductions for investments in Group undertakings	(4.9)	(119.5)
<b>Total capital</b>	<b>1,226.7</b>	<b>1,012.1</b>

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

The Company defines equity as capital. 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.

On 26 February 2021 UKAR entered into a contract which is expected to result in the sale of its 100% shareholding in the Company, subject to approval by the FCA, to Davidson Kempner later in the year. The purchaser has stated that its intention is that after the sale the Company will retain sufficient capital to meet its requirements.

**25. 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.

Group	Assets at amortised cost £m	Assets at FVOCI £m	Total carrying value £m	Fair value £m
<b>At 31 March 2021</b>				
<b>Financial assets:</b>				
Cash at bank and in hand	1,274.8	-	1,274.8	1,274.8
Amounts due from Group undertakings	3.2	-	3.2	3.2
Net investment in sub-leases	6.6	-	6.6	6.4
Other financial assets	2.9	-	2.9	2.9
<b>Total financial assets</b>	<b>1,287.5</b>	<b>-</b>	<b>1,287.5</b>	<b>1,287.3</b>

	Liabilities at amortised cost £m	Total carrying value £m	Fair value £m
<b>Financial liabilities:</b>			
Lease obligations	15.0	15.0	14.3
Accruals	11.7	11.7	11.7
Other financial liabilities	11.4	11.4	11.4
<b>Total financial liabilities</b>	<b>38.1</b>	<b>38.1</b>	<b>37.4</b>

Group	Assets at amortised cost £m	Assets at FVOCI £m	Total carrying value £m	Fair value £m
<b>At 31 March 2020</b>				
<b>Financial assets:</b>				
Cash at bank and in hand	147.4	-	147.4	147.4
Loans to customers	-	3,075.3	3,075.3	3,075.3
Amounts due from Group undertakings	26.1	-	26.1	26.1
Net investment in sub-leases	8.9	-	8.9	8.6
<b>Total financial assets</b>	<b>182.4</b>	<b>3,075.3</b>	<b>3,257.7</b>	<b>3,257.4</b>

	Liabilities at amortised cost £m	Total carrying value £m	Fair value £m
<b>Financial liabilities:</b>			
Amounts due to Group undertakings	2,079.4	2,079.4	2,079.4
Lease obligations	17.6	17.6	14.8
Accruals	15.9	15.9	15.9
Other financial liabilities	4.6	4.6	4.6
<b>Total financial liabilities</b>	<b>2,117.5</b>	<b>2,117.5</b>	<b>2,114.7</b>

**25. Financial instruments (continued)****(a) Categories of financial assets and financial liabilities: carrying value compared to fair value (continued)**

Company	Assets at amortised cost £m	Assets at FVOCI £m	Total carrying value £m	Fair value £m
<b>At 31 March 2021</b>				
<b>Financial assets:</b>				
Cash at bank and in hand	1,269.4	-	1,269.4	1,269.4
Amounts due from Group undertakings	3.2	-	3.2	3.2
Net investment in sub-leases	6.6	-	6.6	6.4
Other financial assets	2.9	-	2.9	2.9
<b>Total financial assets</b>	<b>1,282.1</b>	<b>-</b>	<b>1,282.1</b>	<b>1,281.9</b>

	Liabilities at amortised cost £m	Total carrying value £m	Fair value £m
<b>Financial liabilities:</b>			
Amounts due to Group undertakings	0.6	0.6	0.6
Lease obligations	15.0	15.0	14.3
Accruals	11.4	11.4	11.4
Other financial liabilities	11.2	11.2	11.2
<b>Total financial liabilities</b>	<b>38.2</b>	<b>38.2</b>	<b>37.5</b>

Company	Assets at amortised cost £m	Assets at FVOCI £m	Total carrying value £m	Fair value £m
<b>At 31 March 2020</b>				
<b>Financial assets:</b>				
Cash at bank and in hand	145.4	-	145.4	145.4
Loans to customers	-	2,016.5	2,016.5	2,016.5
Amounts due from Group undertakings	525.2	-	525.2	525.2
Net investment in sub-leases	8.9	-	8.9	8.6
<b>Total financial assets</b>	<b>679.5</b>	<b>2,016.5</b>	<b>2,696.0</b>	<b>2,695.7</b>

	Liabilities at amortised cost £m	Total carrying value £m	Fair value £m
<b>Financial liabilities:</b>			
Amounts due to Group undertakings	1,629.4	1,629.4	1,629.4
Lease obligations	17.6	17.6	14.8
Accruals	15.5	15.5	15.5
Other financial liabilities	4.0	4.0	4.0
<b>Total financial liabilities</b>	<b>1,666.5</b>	<b>1,666.5</b>	<b>1,663.7</b>

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

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

	12 months to 31 March 2021 £m	12 months to 31 March 2020 £m
<b>Interest income recognised on an EIR method:</b>		
On financial assets carried at amortised cost	0.2	1.6
On loans to customers carried at FVOCI	77.0	115.7
<b>Total interest income per the Income Statement</b>	<b>77.2</b>	<b>117.3</b>
<b>Interest expense recognised on an EIR method:</b>		
On financial liabilities carried at amortised cost	(17.1)	(34.3)
<b>Total interest expense per the Income Statement</b>	<b>(17.1)</b>	<b>(34.3)</b>



**25. Financial instruments (continued)****(c) Impaired financial assets**

Allowance accounts for credit losses in respect of impairment of loans to customers are detailed in note 9. No impairment allowance has been recognised in respect of any other class of financial asset and no other class of financial asset includes assets that are past due.

**(d) Fair value measurement**

At 31 March 2021 no financial assets or financial liabilities were carried at fair value. At 31 March 2020 the loans to customers carried at fair value of £3,075.3m by the Group and at fair value of £2,016.5m by the Company were valued on a Level 3 basis.

For financial assets and liabilities which are not carried at fair value, the fair values disclosed in note 25(a) are calculated on the following bases:

<b>Group</b>				
<b>At 31 March 2021</b>	<b>Level 1 £m</b>	<b>Level 2 £m</b>	<b>Level 3 £m</b>	<b>Total £m</b>
<b>Financial assets:</b>				
Cash at bank and in hand	1,274.8	-	-	1,274.8
Amounts due from Group undertakings	3.2	-	-	3.2
Net investment in sub-leases	-	6.4	-	6.4
Other financial assets	-	2.9	-	2.9
	<b>1,278.0</b>	<b>9.3</b>	<b>-</b>	<b>1,287.3</b>
<b>Financial liabilities:</b>				
Lease obligations	-	14.3	-	14.3
Accruals	-	11.7	-	11.7
Other financial liabilities	-	11.4	-	11.4
	<b>-</b>	<b>37.4</b>	<b>-</b>	<b>37.4</b>
<b>Group</b>				
<b>At 31 March 2020</b>	<b>Level 1 £m</b>	<b>Level 2 £m</b>	<b>Level 3 £m</b>	<b>Total £m</b>
<b>Financial assets:</b>				
Cash at bank and in hand	147.4	-	-	147.4
Amounts due from Group undertakings	26.1	-	-	26.1
Net investment in sub-leases	-	8.6	-	8.6
	<b>173.5</b>	<b>8.6</b>	<b>-</b>	<b>182.1</b>
<b>Financial liabilities:</b>				
Amounts due to Group undertakings	2,079.4	-	-	2,079.4
Lease obligations	-	14.8	-	14.8
Accruals	-	15.9	-	15.9
Other financial liabilities	-	4.6	-	4.6
	<b>2,079.4</b>	<b>35.3</b>	<b>-</b>	<b>2,114.7</b>
<b>Company</b>				
<b>At 31 March 2021</b>	<b>Level 1 £m</b>	<b>Level 2 £m</b>	<b>Level 3 £m</b>	<b>Total £m</b>
<b>Financial assets:</b>				
Cash at bank and in hand	1,269.4	-	-	1,269.4
Amounts due from Group undertakings	3.2	-	-	3.2
Net investment in sub-leases	-	6.4	-	6.4
Other financial assets	-	2.9	-	2.9
	<b>1,272.6</b>	<b>9.3</b>	<b>-</b>	<b>1,281.9</b>
<b>Financial liabilities:</b>				
Amounts due to Group undertakings	0.6	-	-	0.6
Lease obligations	-	14.3	-	14.3
Accruals	-	11.4	-	11.4
Other financial liabilities	-	11.2	-	11.2
	<b>0.6</b>	<b>36.9</b>	<b>-</b>	<b>37.5</b>

**25. Financial instruments (continued)****(d) Fair value measurement (continued)**

Company	Level 1	Level 2	Level 3	Total
At 31 March 2020	£m	£m	£m	£m
<b>Financial assets:</b>				
Cash at bank and in hand	145.4	-	-	145.4
Amounts due from Group undertakings	525.2	-	-	525.2
Net investment in sub-leases	-	8.6	-	8.6
	670.6	8.6	-	679.2
<b>Financial liabilities:</b>				
Amounts due to Group undertakings	1,629.4	-	-	1,629.4
Lease obligations	-	14.8	-	14.8
Accruals	-	15.5	-	15.5
Other financial liabilities	-	4.0	-	4.0
	1,629.4	34.3	-	1,663.7

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

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

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

There were no transfers between Levels 1, 2 and 3 (as defined in IFRS 13 'Fair Value Measurement') during the year (2020: none).

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

*Cash at bank and in hand*

The fair value is estimated to be the carrying amount as the balances are considered to be repayable on demand.

*Net investment in sub-leases*

As detailed in note 12, the net investment in sub-leases was calculated using a discount rate of 1.18%. The fair value of the net investment in sub-leases has been calculated using a market interest rate as at each balance sheet date.

*Lease obligations*

As detailed in note 12, the lease obligations were calculated using a discount rate of 1.18%. The fair value of the lease obligations has been calculated using a market interest rate as at each balance sheet date.

*Amounts due to and from Group undertakings*

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

*Accruals and other financial assets and liabilities*

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

**(e) Offsetting**

As detailed in note 14, on 20 June 2019 the Company made a loan to UKAR of £454.2m to finance the transfer of the pension scheme. At 31 March 2020 this loan was offset against the existing loan from UKAR to the Company. During the year the loan from UKAR to the Company was repaid. No other financial assets have been offset against financial liabilities. No balances are subject to enforceable master netting arrangements or similar agreements.

**26. Financial risk management**

A description of the principal risks to which the Group is exposed is provided on pages 8 to 10 which form an integral part of the audited Financial Statements.

**(a) Credit risk**

Credit risk is the risk of financial loss caused by a party failing to meet an obligation as it becomes due. The Group's exposure to credit risk has fallen markedly following the sale of the loans but was managed as part of the Group's overall governance framework. The Group closely monitors its credit risk against the Board's credit policies.

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

	<b>Group</b>		<b>Company</b>	
	<b>31 March 2021</b>	<b>31 March 2020</b>	<b>31 March 2021</b>	<b>31 March 2020</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>On Balance Sheet:</b>				
Cash at bank and in hand	1,274.8	147.4	1,269.4	145.4
Loans to customers <sup>1</sup>	-	3,284.6	-	2,143.5
Amounts due from Group undertakings	3.2	26.1	3.2	525.2
Net investment in sub-lease	6.6	8.9	6.6	8.9
Other financial assets	2.9	-	2.9	-
<b>Total on Balance Sheet</b>	<b>1,287.5</b>	<b>3,467.0</b>	<b>1,282.1</b>	<b>2,823.0</b>
<b>Off Balance Sheet:</b>				
Loan commitments	-	9.5	-	7.2

<sup>1</sup> Outstanding balances

Loans to customers included loans which were secured on property; additional information in respect of credit risk on loans to customers as at 31 March 2020 is provided in note 10. In respect of loans to customers, credit risk was managed by reference to the balances outstanding and not the IFRS 9 fair value.

Additional information in respect of credit risk on cash at bank and in hand is provided in note 7.

**(b) Liquidity risk**

The Group and 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 Group's and Company's financial assets and liabilities into relevant maturity groupings:

<b>Group</b>							<b>Total</b>
	<b>On demand</b>	<b>Within three months</b>	<b>After three months but within six months</b>	<b>After six months but within one year</b>	<b>After one year but within five years</b>	<b>After five years</b>	
<b>At 31 March 2021</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Financial assets:</b>							
Cash at bank and in hand	1,274.8	-	-	-	-	-	1,274.8
Amounts due from Group undertakings	3.2	-	-	-	-	-	3.2
Net investment in sub-leases	-	0.6	0.6	1.1	4.3	-	6.6
Other financial assets	-	2.9	-	-	-	-	2.9
<b>Total financial assets</b>	<b>1,278.0</b>	<b>3.5</b>	<b>0.6</b>	<b>1.1</b>	<b>4.3</b>	<b>-</b>	<b>1,287.5</b>
<b>Financial liabilities:</b>							
Lease obligations	-	0.7	0.7	1.4	9.3	2.9	15.0
Accruals	-	11.7	-	-	-	-	11.7
Other financial liabilities	-	11.4	-	-	-	-	11.4
<b>Total financial liabilities</b>	<b>-</b>	<b>23.8</b>	<b>0.7</b>	<b>1.4</b>	<b>9.3</b>	<b>2.9</b>	<b>38.1</b>

**26. Financial risk management (continued)****(b) Liquidity risk (continued)****Group**

	On demand £m	Within three months £m	After three months but within six months £m	After six months but within one year £m	After one year but within five years £m	After five years £m	Total £m
<b>At 31 March 2020</b>							
<b>Financial assets:</b>							
Cash at bank and in hand	147.4	-	-	-	-	-	147.4
Loans to customers <sup>1</sup>	65.4	19.9	20.5	39.3	429.4	2,607.4	3,181.9
Amounts due from Group undertakings	26.1	-	-	-	-	-	26.1
Net investment in sub-leases	-	0.6	0.6	1.1	6.6	-	8.9
<b>Total financial assets</b>	<b>238.9</b>	<b>20.5</b>	<b>21.1</b>	<b>40.4</b>	<b>436.0</b>	<b>2,607.4</b>	<b>3,364.3</b>
<b>Financial liabilities:</b>							
Amounts due to Group undertakings	2,079.4	-	-	-	-	-	2,079.4
Lease obligations	-	0.7	0.7	1.4	9.8	5.0	17.6
Accruals	-	15.9	-	-	-	-	15.9
Other financial liabilities	-	4.6	-	-	-	-	4.6
<b>Total financial liabilities</b>	<b>2,079.4</b>	<b>21.2</b>	<b>0.7</b>	<b>1.4</b>	<b>9.8</b>	<b>5.0</b>	<b>2,117.5</b>

<sup>1</sup> Outstanding balances less impairment provisions**Company**

	On demand £m	Within three months £m	After three months but within six months £m	After six months but within one year £m	After one year but within five years £m	After five years £m	Total £m
<b>At 31 March 2021</b>							
<b>Financial assets:</b>							
Cash at bank and in hand	1,269.4	-	-	-	-	-	1,269.4
Amounts due from Group undertakings	3.2	-	-	-	-	-	3.2
Net investment in sub-leases	-	0.6	0.6	1.1	4.3	-	6.6
Other financial assets	-	2.9	-	-	-	-	2.9
<b>Total financial assets</b>	<b>1,272.6</b>	<b>3.5</b>	<b>0.6</b>	<b>1.1</b>	<b>4.3</b>	<b>-</b>	<b>1,282.1</b>
<b>Financial liabilities:</b>							
Amounts due to Group undertakings	0.6	-	-	-	-	-	0.6
Lease obligations	-	0.7	0.7	1.4	9.3	2.9	15.0
Accruals	-	11.4	-	-	-	-	11.4
Other financial liabilities	-	11.2	-	-	-	-	11.2
<b>Total financial liabilities</b>	<b>0.6</b>	<b>23.3</b>	<b>0.7</b>	<b>1.4</b>	<b>9.3</b>	<b>2.9</b>	<b>38.2</b>

**Company**

	On demand £m	Within three months £m	After three months but within six months £m	After six months but within one year £m	After one year but within five years £m	After five years £m	Total £m
<b>At 31 March 2020</b>							
<b>Financial assets:</b>							
Cash at bank and in hand	145.4	-	-	-	-	-	145.4
Loans to customers <sup>1</sup>	37.4	13.1	14.8	26.0	281.0	1,710.0	2,082.3
Amounts due from Group undertakings	525.2	-	-	-	-	-	525.2
Net investment in sub-leases	-	0.6	0.6	1.1	6.6	-	8.9
<b>Total financial assets</b>	<b>708.0</b>	<b>13.7</b>	<b>15.4</b>	<b>27.1</b>	<b>287.6</b>	<b>1,710.0</b>	<b>2,761.8</b>
<b>Financial liabilities:</b>							
Amounts due to Group undertakings	1,629.4	-	-	-	-	-	1,629.4
Lease obligations	-	0.7	0.7	1.4	9.8	5.0	17.6
Accruals	-	15.5	-	-	-	-	15.5
Other financial liabilities	-	4.0	-	-	-	-	4.0
<b>Total financial liabilities</b>	<b>1,629.4</b>	<b>20.2</b>	<b>0.7</b>	<b>1.4</b>	<b>9.8</b>	<b>5.0</b>	<b>1,666.5</b>

<sup>\*</sup> Outstanding balance less impairment provisions

Other assets and liabilities are included in the above table according to the earliest date that payment can be contractually demanded.

**26. Financial risk management (continued)****(b) Liquidity risk (continued)**

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 Group amount to £5.0m and £22.8m respectively (2020: £38.1m and £46.7m) of which £4.8m and £nil respectively are classed as current (2020: £8.2m and £nil) and £0.2m and £22.8m respectively are classed as non-current (2020: £29.9m and £46.7m). Non-financial assets and liabilities of the Company amount to £10.5m and £22.8m respectively (2020: £148.8m and £46.7m) of which £5.4m and £nil respectively are classed as current (2020: £8.2m and £nil) and £5.1m and £22.8m respectively are classed as non-current (2020: £140.6m and £46.7m).

The table below analyses the Group's and Company's cash flows payable into relevant periods. The assumptions used in the preparation of this table are consistent with those used in the maturity tables on pages 58 to 59. The amounts disclosed are the contractual undiscounted cash outflows; these differ from Balance Sheet values due to the effects of discounting on certain Balance Sheet items and due to the inclusion of contractual future interest flows.

Group	On demand £m	Within three months £m	After three months but within six months £m	After six months but within one year £m	After one year but within five years £m	After five years £m	Total £m
<b>At 31 March 2021</b>							
<b>Financial liabilities:</b>							
Lease obligations	-	0.7	0.7	1.4	9.7	3.0	15.5
Accruals	-	11.7	-	-	-	-	11.7
Other financial liabilities	-	11.4	-	-	-	-	11.4
<b>Total</b>	-	23.8	0.7	1.4	9.7	3.0	38.6

Group	On demand £m	Within three months £m	After three months but within six months £m	After six months but within one year £m	After one year but within five years £m	After five years £m	Total £m
<b>At 31 March 2020</b>							
<b>Financial liabilities:</b>							
Amounts due to Group undertakings	2,079.4	-	-	-	-	-	2,079.4
Lease obligations	-	0.7	0.7	1.4	10.2	5.3	18.3
Accruals	-	15.9	-	-	-	-	15.9
Other financial liabilities	-	4.6	-	-	-	-	4.6
Loan commitments	9.5	-	-	-	-	-	9.5
<b>Total</b>	2,088.9	21.2	0.7	1.4	10.2	5.3	2,127.7

Company	On demand £m	Within three months £m	After three months but within six months £m	After six months but within one year £m	After one year but within five years £m	After five years £m	Total £m
<b>At 31 March 2021</b>							
<b>Financial liabilities:</b>							
Amounts due to Group undertakings	0.6	-	-	-	-	-	0.6
Lease obligations	-	0.7	0.7	1.4	9.7	3.0	15.5
Accruals	-	11.4	-	-	-	-	11.4
Other financial liabilities	-	11.2	-	-	-	-	11.2
<b>Total</b>	0.6	23.3	0.7	1.4	9.7	3.0	38.7

Company	On demand £m	Within three months £m	After three months but within six months £m	After six months but within one year £m	After one year but within five years £m	After five years £m	Total £m
<b>At 31 March 2020</b>							
<b>Financial liabilities:</b>							
Amounts due to Group undertakings	1,629.4	-	-	-	-	-	1,629.4
Lease obligations	-	0.7	0.7	1.4	10.2	5.3	18.3
Accruals	-	15.5	-	-	-	-	15.5
Other financial liabilities	-	4.0	-	-	-	-	4.0
Loan commitments	7.2	-	-	-	-	-	7.2
<b>Total</b>	1,636.6	20.2	0.7	1.4	10.2	5.3	1,674.4

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**26. Financial risk management (continued)**

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**(c) Market risk**

At 31 March 2021 and 31 March 2020 the Group and Company had no exposure to foreign exchange rate fluctuations or changes in foreign currency interest rates. Following the sale of the Group's loans to customers the Group has no significant exposure to other market risk.

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**27. Contingent liabilities**

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(a) As detailed in note 8, in February 2021 the Group recognised the sale of all of its loans to customers. As legal title to the loans is still held by the Group, the Group continues to be responsible for ensuring the fair treatment of these customers and in respect of these loans the Group continues to carry provisions for customer remediation (see note 19). The Group has provided certain warranties and indemnities in respect of this sale, which have been guaranteed by UKAR Ltd and which, in turn, are further protected by a Credit Support Deed from HM Treasury. The sale agreements set various time limits for the purchaser to bring claims under the warranties and indemnities. For most warranties the time limit to bring claims varies from 1 to 5 years from the completion of the sale by UKAR of its shares in the Company (see note 1(b)) and the time limits to bring claims under the indemnities are up to 20 years. Liability for these warranties and indemnities will ultimately lie with UKAR Ltd following completion of the sale of its shares in the Company later in the year. It is not possible to provide any meaningful estimate or range of the possible cost over and above the remediation provision currently carried and no such provision has been made.

(b) The Group's previous lending and other consumer credit business is governed by consumer credit law, the FCA's Mortgage Conduct of Business ('MCOB') rules and other laws and regulations. The Group's contractual relationships with its customers were also determined by the specific product terms and conditions which applied when products were sold. Claims upheld in favour of former customers in relation to potential breaches of contractual terms or other requirements could result in costs to the Group. Although the Group has no loans to customers on its Balance Sheet at 31 March 2021, claims could arise in respect of loans which have redeemed or been sold and in respect of loans for which the Group still holds legal title. It is not possible to provide any meaningful estimate or range of the possible cost.

(c) The Company has confirmed its intentions to continue to support its subsidiary MX until at least 1 January 2023 in order that MX is able to meet its liabilities as they fall due. In addition the Company has confirmed its intentions to honour all intragroup balances in this same timeframe. It is not possible to provide any meaningful estimate or range of the possible cost. No provision has been made.

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**28. Ultimate controlling party**

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The Company is a wholly-owned subsidiary of UKAR, a private limited company incorporated and domiciled in the United Kingdom, which is wholly owned by the Treasury Solicitor as nominee for HM Treasury. UKAR heads the smallest group of companies into which the Financial Statements of the Company are consolidated. Copies of the financial statements of UKAR may be obtained from the Company Secretary, Croft Road, Crossflatts, Bingley BD16 2UA. The Company considers the UK government to be its ultimate parent and controlling party. The Group's Financial Statements are consolidated into the Annual Report & Accounts of HM Treasury which are available at [www.gov.uk/official-documents](http://www.gov.uk/official-documents). HM Treasury is domiciled in the United Kingdom and is located at 1 Horse Guards Road, London SW1A 2HQ.

On 26 February 2021 UKAR entered into a contract which is expected to result in the sale of its 100% shareholding in the Company, subject to approval by the FCA, to Davidson Kempner later in the year.

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**29. Events after the reporting period**

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In June 2021, subsequent to the Balance Sheet date, Heads of Terms were agreed with the Group's landlord and sub-lessee in respect of the surrender of the lease on the Group's head office (see note 12). No material impacts are expected on the Group's Income Statement.

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Registered in England and Wales under company number 03938288  
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