UKAR

UK Asset Resolution Limited

Annual Report & Accounts

for the 12 months to 31 March 2021

Registered in England and Wales under company number 07301961

CP 449 July 2021

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Presented to Parliament
by the Economic Secretary to the Treasury
by Command of Her Majesty

July 2021

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Any enquiries related to this publication should be sent to us at pressoffice@ukar.co.uk.

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Company number 07301961

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About UKAR

UK Asset Resolution Limited ('UKAR') is the holding company established on 1 October 2010 to bring together the government-owned businesses of Bradford & Bingley plc ('B&B') and NRAM plc[1] with an overarching objective to develop and execute a strategy for disposing of UKAR's shareholdings in B&B and NRAM in an orderly and active way.

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 B&B was notified of the European Commission's approval of state aid. B&B's principal subsidiary is Mortgage Express ('MX'), a directly held unlimited company.

NRAM plc was taken into public ownership on 22 February 2008. During 2007 and 2008 loan facilities to NRAM plc were put in place by the Bank of England and subsequently novated to HM Treasury on 28 August 2008. On 28 October 2009 the European Commission approved state aid to NRAM plc confirming the facilities provided by HM Treasury, thereby removing the material uncertainty over NRAM plc's ability to continue as a going concern which previously existed.

UKAR is wholly owned by HM Treasury, whose shareholding is managed by UK Government Investments Limited ('UKGI'). The full governance structure is set out in a framework document ('the Framework Document') agreed between UKAR and UKGI, acting on behalf of HM Treasury (see page 20 for details).

In 2019 the UKAR Group ('the Group') fully repaid the government loans given to B&B and NRAM and in 2020 the repayment of the last of the Group's third party liabilities enabled HMT to terminate the guarantee arrangements which were put in place when the two businesses came into public ownership.

In February 2021, following a competitive process, UKAR agreed to sell the entire issued share capital of B&B and NRAM, along with their remaining loan assets, bringing to a close the government's intervention in 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 transaction that was agreed in February 2021 followed a competitive process, as a result of which 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 loan sale gave rise to an accounting loss of £18.8m which has been recognised in these accounts. See page 57 for further details.

The sale was based on the portfolio position as at 31 March 2020 of c.£5.0bn from which point the buyers retrospectively acquired the cashflows from ownership of c.38,000 loans held by B&B, MX and NRAM. B&B, MX and NRAM 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.

Mission and purpose

Mission	**"To Maximise Value for the Taxpayer"**
Vision	**"Achieving Success Together"**
Strategic Objectives	1 Reduce and protect the Balance Sheet. 2. Challenge and maximise cost effectiveness and efficiency 3. Working with our partners to ensure continued excellence in customer service and debt management. 4. Be a great place to work Whilst treating all stakeholders fairly
Values	Straightforward · Positive · Caring · Responsible · Inspiring

[1] *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.

UKAR Group overview (continued)

Key Facts

	31 March 2021	31 March 2020
Number of customers [2]	**27,200**	30,400
Outstanding customer balances [2]	-	£5.0bn
Employees	**78**	108

[2] Whilst B&B and NRAM sold the economic interest in their remaining loan assets in the period, legal title, and thus regulatory responsibility, remains with B&B and NRAM and they will continue to provide oversight of the service that these 27,200 customers receive.

Chair's statement

As I mentioned in my statement last year, these are unprecedented times, and the worldwide impact of COVID-19 is deeply saddening. Throughout the year we have supported our customers, suppliers and communities to the best of our ability as we worked our way through the constantly changing environment. We have focussed on the wellbeing of our colleagues, all of whom were given the technology to work remotely, and our offices were made COVID-secure, in line with government guidance, for those who needed to attend the workplace.

In February 2021 we agreed the sale of B&B and NRAM and their subsidiary companies and the return of all of UKAR's loan assets to private ownership. This sale will bring to a close the government's ownership of B&B and NRAM, with the taxpayer fully repaid and the legal and regulatory responsibility for the operating companies returning to the private sector. Throughout the process we worked closely with UKGI and HM Treasury to ensure that the transaction met all the conditions within our value for money framework and that customers were appropriately protected. Subject to the receipt of regulatory approvals, B&B and NRAM are expected to return to the private sector later in the year.

Over the year our focus on treating customers fairly continued and we worked with all customers, particularly those facing financial difficulty, to understand their needs and to look at various options to support them. In line with the rest of the industry, B&B and NRAM implemented additional measures to support customers impacted by the pandemic, including offering payment deferrals of up to six months and suspending repossessions. Notwithstanding the sale of the beneficial interest in the outstanding loans, B&B and NRAM remain responsible for the oversight of all aspects of customer outcomes.

Since the government's interventions in 2008, both B&B and NRAM have had access to low, or zero, cost funding, without which their capital base would have been eroded and they would not have made profits. The UK taxpayer has borne the costs of this funding over the past ten years. Having fully repaid the government loans any surplus funds will now be distributed to HM Treasury through dividends and, as confirmed in the Office for Budget Responsibility ("OBR") financial interventions table included within their Economic and Fiscal Outlook, the taxpayer has therefore substantially recovered all actual and opportunity costs suffered as a result. Further details on our financial and operational performance can be found in the CEO statement and throughout this Annual Report.

The Board

Our internal review of the performance of the Board confirmed that we continue to work well as a team and in a constructive manner. The results of the evaluations for the various Board committees were positive, and provided assurance that they remained fit for purpose. Upon the change in ownership of B&B and NRAM, the majority of Directors will step down from the Boards of those businesses.

I thank all Board members for their contribution to the effective operation of the business and their support for me as Chair.

Chair's statement (continued)

The Future

Following completion of the sale of B&B and NRAM, UKAR Ltd will remain in government ownership, responsible for meeting the contractual obligations to the buyer, sponsoring the legacy defined benefit pension schemes for B&B and NRAM, and administering other non-loan assets and liabilities. UKAR Ltd will have no employees, and this work will be undertaken on behalf of the Board by PricewaterhouseCoopers LLP ("PwC"). I am delighted that the majority of the UKAR Limited board will remain in place to oversee their work. However, we expect to lose the wise counsel of two independent board members, Brendan McDonagh and Brendan Russell, whose input to the UKAR Board in recent years has been very valuable. We expect that they will remain as independent board members of B&B and NRAM.

It is with great pride that I thank all colleagues whose efforts have enabled the Group to achieve its objective. When we were established in 2010, we had an enormous task ahead of us, and all of our colleagues have worked hard to ensure that we were successful in our goal, despite knowing that the simplified businesses would have a much reduced workforce. In line with the simplification, the CEO role is being replaced with a new Managing Director Role and our CEO, Ian Hares, will leave the business later in the year. Mark Wouldhave (formerly Asset Sales Director) was appointed Managing Director Designate in November 2020 and joined the Boards of the three companies on 1 April 2021. Mark will remain with B&B and NRAM as Managing Director following their return to the private sector.

As this is likely to be the final UKAR Group Annual Report & Accounts, on behalf of the Board I thank all of our colleagues for their commitment and wish each of them every success for the future.

John Tattersall LVO
Chair
5 July 2021

Chief Executive Officer's introduction

This was a year of significant challenges and change, and I share the Chair's pride as I thank all colleagues for their contribution to our success.

Balance Sheet / Transaction

In February 2021 we confirmed the sale of the entire issued share capital of B&B and NRAM.

The first stage of the transaction involved the sale of the beneficial interest in the loan portfolio comprising 27,200 customers. This was based on the position as at 31 March 2020, from which point the buyers retrospectively acquired the risks, rewards and cashflows of the portfolio. The sale of the loans resulted in an accounting loss of £18.8 million.

The remaining assets and liabilities of B&B and NRAM are separately identified on the Balance Sheet as a disposal group, valued at the agreed sales price for the companies at March 2021. As the value is lower than the previous book value of these assets and liabilities, an impairment charge of £94.7m is being recognised in the Income Statement in the year. The ultimate sale of the disposal group will be recognised in the 2021/22 accounting year when the share capital of B&B and NRAM is transferred to Davidson Kempner.

While the transaction has led to a material loss being reported in 2020/21, this needs to be set against the ongoing administration cost that UKAR would otherwise have incurred running these regulated companies for an indeterminate period and therefore represents good value for the taxpayer.

Financial Performance

As noted in the Chair's statement, this has been a difficult year for many of our customers and colleagues. For the first time for a number of years, 3 month plus arrears increased in the year by 298 cases from 1,375 to 1,673 (for details see page 57). Ongoing administrative expenses for the year were £38.6m (March 2020: £124.3m) which reflects a monthly fixed fee payable to Computershare ending in June 2020 and lower fees due to the reduction in the size of the mortgage book. Underlying profits were £87.4m (March 2020: £82.6m). The year-on-year increase was due to cost savings partly offset by lower income on the smaller mortgage book. There was a statutory loss before tax of £12.6m (March 2020: £48.2m loss). The difference between underlying and statutory profits primarily relates to the loss on the sale of customer loans and impairment of the disposal group and is explained more fully on page 54.

A summary of our financial performance can be found on page 10, with more detail provided in the Financial Review on pages 54 to 59.

Customers

Across the industry there has been a renewed focus on exploring ways of helping mortgage customers who may have limited options to move their mortgage. In accordance with the State Aid agreement with the European Commission, we are unable to offer any new mortgage deals but we have a number of options available to help customers who are looking for a better deal with another lender. These include waiving all early redemption charges, an on-line tool which helps customers search the market and referrals to specialist brokers whereby any fees are waived.

Chief Executive Officer's introduction (continued)

Customers (continued)

We work closely with customers who are finding it difficult to meet their monthly payments. As expected, due to the COVID-19 pandemic arrears increased during 2020/21 and, on a like for like basis, accounts under management in arrears by 3 months or more increased from 1,375 to 1,673. In March 2020 we put in place a number of additional measures to support customers affected by COVID-19 including suspending repossessions, temporarily waiving arrears fees and offering payment deferrals, which have been requested by over 10,200 customers (c.30% of the book). We are following FCA guidance on the roll off and/or extension of these arrangements.

Although we aim for excellence in customer and debt management, we continue to deal with several legacy issues including Payment Protection Insurance ('PPI') and we continue to do the right thing for our customers and redress where appropriate.

The PPI remediation process is almost complete. A £18.8m surplus in the PPI provision has been released to the income statement. This was partly offset by a £0.3m top-up of other remediation provisions.

Colleagues

We worked closely with our colleagues and Unite, the representative union, during the year as we completed activities to simplify the business and redistribute workloads. This enabled us to implement our optimum operating model, which resulted in a number of colleagues leaving the business. Against this background it is a testament to colleagues' commitment and professionalism that our quarterly internal survey results continued to show high levels of engagement which remain above the industry benchmark.

Conclusion

The effort and commitment of many colleagues since 2010 enabled UKAR to complete our objective of repaying the government debt and returning B&B and NRAM to the private sector. I am proud to have led the business through the final stage of our journey and I thank all colleagues for their tremendous efforts, and the Board and my Executive management team for their personal support.

Ian Hares
Chief Executive Officer
5 July 2021

Strategic Report

Key highlights

Highlights of 2020/21

During the year we have made progress against all our key objectives and overall mission of maximising value for the taxpayer. Internally, we have measured our financial performance against the following four key performance indicators:

Financial measure	2020/21 Target	March 2021	March 2020
3m+ Residential Arrears [1]	*<= 1,584*	**1,673**	1,375
Ongoing Administrative Expenses [2]	*<= £45.2m*	**£38.6m**	£124.3m
Underlying Profit Before Tax [3]		**£87.4m**	£82.6m
Cash Generation [3]		**£4.9bn**	£5.0bn

1 *3m+ arrears includes loans sold during the period. We continue to be responsible for the service that these customers receive.*
2 *Excluding non-recurring expenses (2020/21: £5.6m; 2019/20: £16.7m).*
3 *The Underlying Profit Before Tax and Cash Generation KPIs were excluded from the targets for 2020/21 due to the planned sale of customer loans.*

Although arrears levels for both B&B and NRAM have increased during the year, we have continued to support customers with proactive arrears management through forbearance and arrangement options in line with FCA guidance to manage the immediate impact of the pandemic on customers.

Ongoing administrative expenses for the year were £38.6m. This was £85.7m lower than the prior year (March 2020: £124.3m) primarily driven by the end of the fixed element of the Computershare servicing fee ending in June 2020 and the reduction in assets under management.

Underlying profit for the year to March 2021 increased by £4.8m to £87.4m (March 2020: £82.6m). The increase was primarily driven by lower operating expenses, partly offset by lower net interest income as a result of the shrinking Balance Sheet and mortgage book sale. Underlying profit is an internal performance measure which excludes the remediation of inherited regulatory defects, non-recurring administrative expenses and certain gains or losses such as the sale of assets.

Cash generated includes £4.5bn received in respect of the sale of loans and £0.4bn generated through BAU activities, primarily mortgage redemptions prior to the sale of the loans.

	March 2021	March 2020
Statutory (Loss) Before Tax	**(£12.6m)**	(£48.2m)

Statutory loss before tax of £12.6m (March 2020: £48.2m) includes an £18.2m loss on the sale of customer loans, a £94.7m impairment of the disposal group and £5.6m non-recurring costs, partly offset by a £18.5m net release of customer redress provisions, primarily for PPI. The £35.6m decrease in statutory loss before tax compared to the prior year primarily reflects £4.8m higher underlying profits and a £134.8m net lower charge for customer redress, partly offset by the £94.7m impairment of the disposal group and a £20.4m higher net loss on the sale of customer loans.

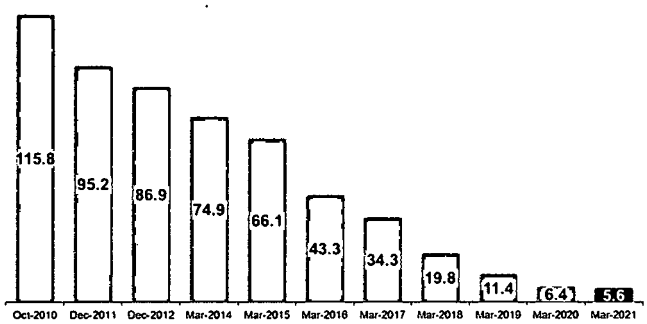
Please see pages 54 to 59 for a full review of the 2020/21 financial performance.

Key highlights (continued)

Highlights of 2020/21 (continued)

Since the formation of UKAR in October 2010 we have made significant progress towards our long term objectives by reducing arrears, repaying government loans, reducing the Balance Sheet and driving cost effectiveness.

Balance Sheet assets (£bn) down 95%*



** Following the sale of customer loans the Balance Sheet is primarily comprised of £5.1bn cash and a £0.5bn surplus on the defined benefit pension schemes.*

Repaid £48.7bn of government loans

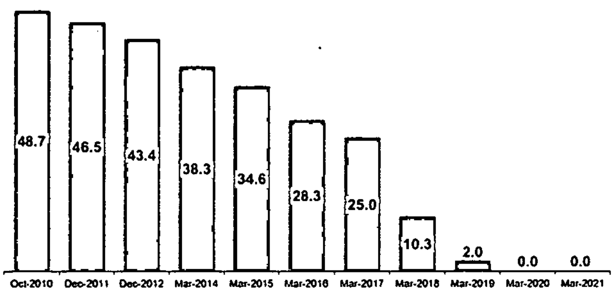
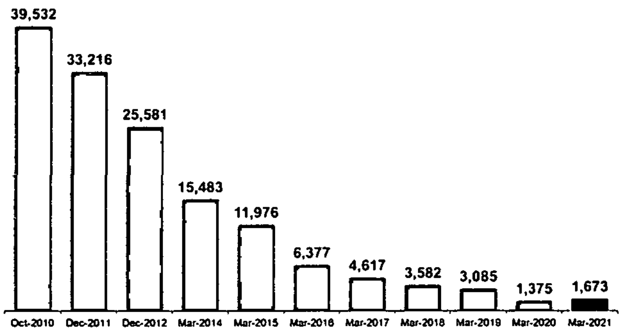


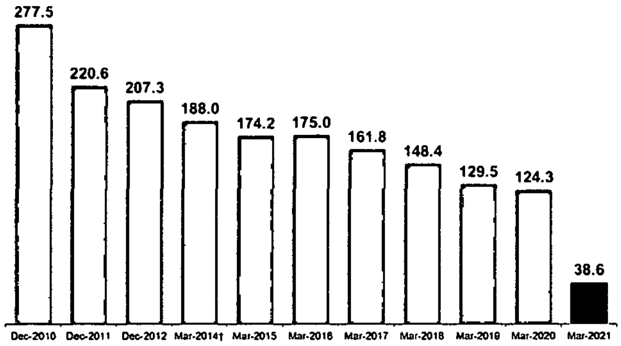
Chart shows outstanding balance of government loans.

3m+ arrears down 96%*



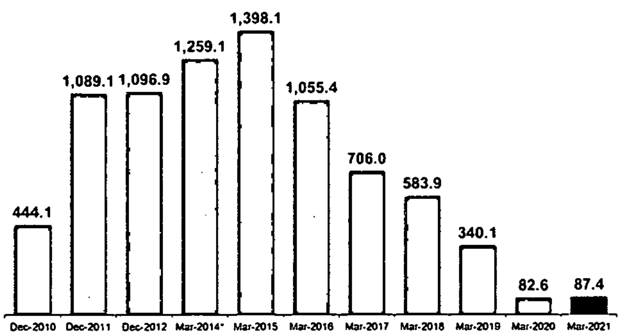
** 3m+ Arrears includes all accounts under management, including loans subject to interim servicing arrangements.*

Ongoing operating expenses* (£m) down 86%



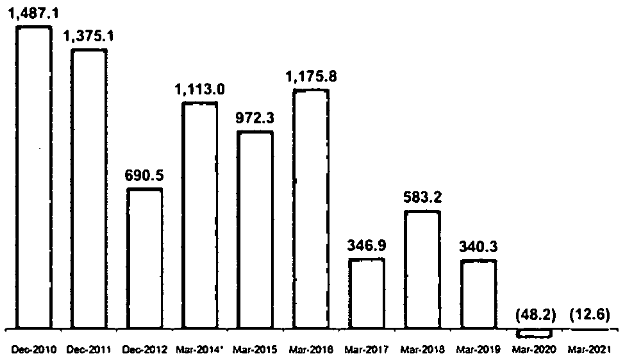
* *excluding* UKAR Corporate Services[1] *costs*
† *12 months to March 2014*

Underlying profit (£m)



** 12 months to March 2014*

Statutory profit / (loss) before tax (£m)



** 12 months to March 2014*

[1] UKAR Corporate Services Ltd administered the Help to Buy: mortgage guarantee scheme and the Help to Buy: ISA scheme on behalf of HM Treasury. The administration of the schemes was kept separate from UKAR's core operations. The activities of UKARcs were transferred to NS&I on 1 April 2019 and UKARcs was liquidated as planned during 2020. See page 20 for further details.

Company strategy

UKAR was formed in 2010 with an overarching objective to develop and execute a strategy for disposing of UKAR's shareholdings in B&B and NRAM in an orderly and active way. This was within the context of protecting and creating value for the taxpayer as shareholder and, where applicable, as provider of financial support, paying due regard to the maintenance of financial stability and to acting in a way that promotes competition.

In February 2021 we agreed to sell the issued share capital of B&B and NRAM and their remaining mortgage and loan portfolios to a consortium comprising Davidson Kempner and Citi. The first stage of the transaction, the sale of the beneficial interest of the loans, took place in March 2021. The second stage will be completion of the sale of the companies which is subject to the receipt of regulatory approvals and is expected to take place later in the year.

This transaction returns all of UKAR's loan assets to private ownership and brings to a close the government's ownership of B&B and NRAM, with the taxpayer fully repaid and the legal and regulatory responsibility for the operating companies returned to the private sector.

A key element in selecting the successful bidder was the treatment of customers, and bidders were required to agree to a robust package of customer protections before their bids were considered. Throughout the sales process we worked closely with UKGI and HM Treasury to ensure that the transaction met all the conditions within our value for money framework which has three key stages:

- An evaluation of whether it is a "good time to sell" which involves taking our own views on market conditions, advice from advisors and the views of UKGI and the shareholder;
- On the basis that we conclude that it is a good time to sell, testing ourselves on whether the sale process selected will drive enough competitive tension to achieve value for money; and
- A theoretical valuation framework that uses observable inputs such as economic drivers of the potential cash flows from the assets and market costs of debt and equity to determine a range of potential prices that a reasonable private sector investor would be prepared to pay.

Upon completion of the sale of the companies, the holding company, UKAR Ltd, will remain in government ownership and will manage its contractual obligations to the buyer of B&B and NRAM, sponsor the legacy defined benefit pension schemes and administer various non-loan assets and liabilities. PwC have been appointed to undertake this work.

Section 172(1) statement

The Board has complied with the requirements of Section 172(1) of the Companies Act during the year and clearly articulates our Vision, Mission, Strategic Objectives and Values.

UKAR's Vision of 'Achieving Success Together' relates to how we work with our customers, colleagues, outsourced partnerships, suppliers and the shareholder to achieve our goals. The Board, Executives and management set the cultural tone at the top, ensuring that our values and culture support the delivery of our objectives. This is supported by our Balanced Scorecard which places emphasis on conduct and how we achieve our targets which then feeds into our annual incentive schemes.

Our mission 'to maximise value for the taxpayer', has been in place since formation, and 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

Our five values of Caring, Responsible, Inspiring, Straightforward and Positive helped us to build on our culture of supporting, developing and challenging individuals to achieve success. Each of our values have exemplar behaviours and are supported by our policies and by the principle of good conduct which help us to understand what they mean and how they apply to what we do on a daily basis.

We publish "Our Code" on our website which sets out our objectives, the conduct policies and principles which drive our culture and the values and behaviours that underpin the way we operate. The Code highlights our commitment to doing the right thing for all stakeholders and acting in an ethical and fair manner consistent with all legal and regulatory requirements. In addition, all Board and Board Committee reports include a mandatory evaluation of Section 172(1) issues to ensure that the impact on stakeholders of any recommended actions are given appropriate consideration and these are highlighted to the Board when seeking their approval.

The directors had regard to the needs of all stakeholders and the effect of that regard, in making principal decisions during the financial year 2020/21 as follows:

Shareholder

UKGI act as representative of UKAR's sole shareholder, HM Treasury, as outlined in the Framework Document and appoint the Chair of the Board. Their views are considered through two UKGI appointed Non-Executive directors attending Board and Committee meetings and through close working relationships between representatives of UKGI and UKAR.

Customers

Customer Servicing

Whilst we have outsourced our mortgage servicing operations to Computershare since 2016, we retain the legal and regulatory responsibility for customer outcomes and we take this responsibility seriously. We have comprehensive oversight of the service our customers receive through regular monthly board reporting, customer complaint levels and root cause analysis, service level agreements, independent customer research programmes, and audit and compliance reporting. Purchasers of B&B and NRAM assets are required to comply with comprehensive customer protection measures to ensure that customers are no worse off than they are under our stewardship.

Our colleague surveys continue to demonstrate that our colleagues are committed to ensuring our customers receive excellent service and are focused on ensuring we do the right things for our customers. We have 27,200 customers under management (March 2020: 30,400), with 34,700 mortgage accounts (March 2020: 38,000). Despite the impact of COVID-19, the majority of loans continue to perform well with more than 92% of mortgage customers up to date with their monthly payments.

As referenced earlier in this statement, a key element in selecting the successful bidder for B&B and NRAM was the treatment of customers, and bidders were required to agree to a robust package of customer protections before their bids were considered. Customers will continue to receive the same protections for the lifetime of their mortgage as they do today and their ability to re-mortgage will be unaffected.

Section 172(1) statement (continued)

Customers (continued)

Support for customers experiencing payment difficulties

We continue to see a number of customers facing financial difficulty including some entering arrears for the first time. We endeavour to contact all customers following a missed payment to understand their situation and consider solutions to help them manage their mortgage. For customers experiencing temporary or short-term financial difficulty this includes a range of forbearance options. During the year, over 2,000 arrangements were successfully completed and approximately 115 account modifications were made to assist customers with the repayment of their mortgage. Where appropriate we actively encourage customers to seek help from non-fee charging debt advice agencies.

Repossession is always viewed as a last resort but unfortunately in some situations this is inevitable and the best course of action to prevent further indebtedness for the customer. During the year we have not actively enforced repossessions but in cases where customers have determined that relinquishing the property into our possession is their preferred option, or to protect our security in the event of abandonment, we have accepted these. Repossessions totalled 119 in the year (March 2020: 422).

Since the emergence of the global COVID-19 pandemic, the impact on our customers has been closely monitored to ensure we can support them appropriately through any period of financial disruption. The measures initially made available included:

- Payment deferrals of up to six months for affected customers who were up to date. Customers in arrears could also apply for payment deferrals with applications assessed on a case by case basis. Since March 2020 when measures were put in place, over 10,200 customers (c.30% of the book) have requested payment deferrals.
- The temporary waiving of all arrears fees.
- The suspension of all litigation and repossession activity.
- Website improvements including a Q&A and an online deferred payment application form for our residential customers.

We are following FCA guidance on the roll off and/or extension of these arrangements.

Doing the right thing for our customers

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.

The PPI remediation process is almost complete. An £18.8m surplus in the PPI provisions has been released to the Income Statement. This was partly offset by a £0.3m top-up of other remediation provisions.

Workforce

People Strategy

We believe colleagues are the differentiating factor in delivering strong performance and 'being a great place to work' has always been one of our four strategic objectives, ensuring colleagues feel valued and are given the opportunity to grow and learn new skills, which benefits the business and helps individuals to prepare for future opportunities. Our HR strategy enabled us to maintain our high standards of conduct whilst we simplified the organisation and prepared the business for sale.

The people risks associated with the strategic direction of the business increased further as we moved closer to completing our overarching objective and the Directors' had particular regard to employee interests by agreeing an incentive to motivate colleagues to remain with the business and deliver our goal. As highlighted in the Directors' Remuneration Report, colleagues are also incentivised through clear performance targets and a Balanced Scorecard which brings together customer, colleague, culture and conduct measures and is applied to all annual bonus schemes. Our progress against all our targets are published internally on a quarterly basis.

All colleagues were given the technology to work remotely when the social distancing measures were put in place as a result of the pandemic and we reviewed and updated relevant HR policies and processes to support their health and wellbeing whilst they worked from home. Our offices were made COVID-secure, in line with government guidance, for those who needed to attend the workplace.

Engagement

Our five values encompass all aspects of colleague work-life and we track how we are doing against each of them through regular colleague engagement surveys. Our most recent survey in March 2021 had a good response rate and the survey tracker score, based upon five key questions measuring UKAR as an employer, reached 92% which is 15% above the benchmark figure provided by our survey business partner, People Insight.

Section 172(1) statement (continued)

Workforce (continued)

Engagement (continued)

Along with the intranet, regular engagement forums provide colleagues with information on matters of concern to them and enable colleagues to share their views with management. During the period of home working required in response to the pandemic these forums take place through telephone and video conferences.

We recognise and consult with the Unite trade union. The Senior Independent Director is the designated Non-Executive Director for engaging with the workforce and is also Whistleblowing Champion. Directors engage directly with colleagues through monthly Board and Committee meetings.

Equality

We treat all colleagues as individuals and recognise the benefits of having a diverse workforce. We provide employment practices and policies which recognise the diversity of our workforce and ensure equality for employees regardless of gender, race, disability, age, sexual orientation, religious belief or any other protected characteristic. As a business in wind down, only a small number of appointments were made during the year, but they were made according to the ability to meet the requirements of the role.

The Managing Director (Designate) is the executive responsible for gender equality and inclusion. Despite our size we comply with the best practice as far as we can including the Women in Finance Charter, Gender Pay Gap and Equal Pay reporting. At 31 March 2021 41% of the workforce were female and 25% of the senior management team were female. The Board had one female and five male Non-Executive Directors and one of the six members of the Executive Committee was female. Details on gender pay can be found in the Directors' Remuneration Report on page 42.

Learning & Development

We adopt best practice policies and procedures which form a key part of our induction and annual mandatory training programmes. Learning and development programmes are available to provide all colleagues with the skills they need to achieve their potential. During the year 82% of colleagues have undertaken development programmes to support their future career.

Well-being

We support colleagues through various 'well-being' programmes, offering membership of a private medical insurance scheme or the opportunity to contribute towards a healthcare cash plan and access to the Employee Assistance Programme via Unum LifeWorks.

Pensioners

The Finance Director attends meetings of the Trustee Boards to discuss future funding of the closed Defined Benefit Pension Schemes for B&B and NRAM and hear any concerns of the Trustees. Both schemes are in surplus and no contributions were made in the year except to fund administration costs.

In his Spring 2020 Budget, the Chancellor of the Exchequer announced the government's intention to legislate to transfer the members of the B&B and NRAM Defined Benefit Pension Schemes to a new statutory, public service pension scheme.

Regulator

Every two years, the FCA carry out an evaluation of B&B and NRAM and may attend the Board to present their findings. The FCA also hold proactive engagement meetings with the Chair, Non-Executive Directors and the Chief Executive. Regular meetings take place with the Risk Director who keeps them fully informed on our conduct and culture agenda and progress against our strategic objectives.

Suppliers

The service from our four key suppliers is reviewed and reported through the Supplier Relationship Management Toolkit which is reviewed by the Executive Risk Committee each quarter. We engaged with all our suppliers at an early stage as we planned for the sale of B&B and NRAM.

In line with Department for Business Energy & Industrial Strategy requirements, we report on our payment practices, policies and performance on a half yearly basis. In the latest return, for the six months to March 2021, B&B made 282 payments. The average number of days taken to make a payment was 29, with 84% of payments made within 30 days; 17% of payments were classified as late. For the same period, NRAM made 23 payments. The average number of days taken to make a payment was 24, with 70% of payments made within 30 days; 35% of payments were classified as late.

Section 172(1) statement (continued)

Community

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.

Our carbon reduction strategy, energy usage and emissions reporting is set out within the Corporate Social Responsibility Report on pages 67 to 69.

Risk overview

An Enterprise-wide Risk Management Framework ('EWRMF') is adopted, which is designed to support the identification, assessment, management and control of the principal risks that threaten the achievement of strategic and business objectives. The EWRMF sits alongside the Business Plan, the Capital Statement and the Liquidity Statement in defining the high-level architecture of the overall risk management system. The EWRMF itself is underpinned by the Risk Appetite Framework and a suite of high level risk policies which define the breadth of exposure to inherent risks and the management of these risks within appetite. The scope of the EWRMF extends to all principal risk types that are faced. The table below illustrates the principal risk categories which could impact the delivery of the strategic objectives, key mitigating actions, key indicators and the 2021/22 focus.

As referenced in the Chair's statement, the successful completion of the first stage of the sale of B&B and NRAM and their subsidiary companies resulted in the transfer of the economic interest in the customer loan books. As a result this changed the nature and focus of the principal risks, which is reflected in the 2021/22 focus. In particular, UKAR, B&B and NRAM no longer have any material economic exposure to credit risk going forwards. B&B will continue to manage credit risk on behalf of the beneficial owners under the servicing contract.

Principal risk	Key mitigating actions	Key indicators	Focus 2021/22 – B&B/NRAM
Conduct risk The risk of treating customers unfairly and delivering inappropriate outcomes leading to customer detriment or impacting market integrity.	• Conduct Risk Framework to ensure customers are central to the delivery of our objectives. • Conduct risk assessments are integral to all business change and customer initiatives. • Customer & Conduct Risk Dashboard tracked and actioned by relevant committees. • Colleague rewards driven by conduct risk metrics.	• Volume of upheld complaints. • Market Regulatory Indicators. • Quality assurance results. • Findings from monitoring and outcome testing. • Customer Research. • Customer Journey including vulnerable customers.	• Fair and appropriate customer outcomes, including, during and after COVID-19 relevant to proactive forbearance options. • Complaint handling and Root Cause analysis. • Ensuring vulnerable customers are given the appropriate level of care and embedding the FCA's Finalised Guidance on the fair treatment of vulnerable customers published in February 2021.
Outsourcing risk The risk of loss/disruption arising from inadequate or ineffective appointment, supervision and control or any subsequent contractual termination of third party service providers.	• Outsourcing Governance Model. • Outsourcing Policy. • Service management reporting. • Assurance and monitoring activity. • Comprehensive contract and SLAs. • Clearly defined policies for the Servicer to comply with. • 'Working in Partnership' strategic approach. • Joint Strategic Group. • Alignment of Material Outsourced Service Agreements across the two major servicing contracts.	• SLA and contractual performance metrics assessment through Supplier Relationship Management process. • Assurance Monitoring Results - *outsourcer and client.* • Independent Third Party Supplier Assessment Results.	• Continuous monitoring and assessment of the effectiveness of outsourced operations. • Effective issues management by key suppliers. • Assurance activity of core IT systems/ infrastructure changes to limit systems outages and security breaches. • Engagement with suppliers in their development of Operational *Resilience approaches in response to regulatory requirements.* • Supplier response to and recovery from the COVID-19 pandemic .
Operational risk The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.	• Operational Risk Policies. • Risk & Control Self-Assessment ('RCSA') process to identify and assess key operational risks and control effectiveness. • Scenario analysis to determine the potential impact of high impact, low likelihood events. • Key Risk Indicator monitoring to identify shifts in risk exposure. • *Operational Risk event* monitoring to identify control failures and appropriate corrective action. • Risk appetite monitoring to ensure we are operating within Board approved limits. • Risk oversight of change activities. • Operational Resilience, Business Continuity and Disaster Recovery plans.	• Overall control effectiveness as assessed through the RCSA. • Comparison of scenario analysis and RCSA financial impacts against defined risk appetite. • Number and value of operational risk loss events. • Systems risk metrics (availability and security incidents) and assessment against the National Cyber *Security Centre's Ten Steps* approach. • Instances of customer and colleague financial crime. • Colleague attrition and engagement.	• Progressive improvement of cyber resilience through security threat assessment vulnerability testing and colleague awareness campaigns. • Data Management enhancements including review of our legacy data holdings and continual alignment with Data Protection regulatory guidance. • Development of operational resilience approach to meet regulatory requirements. • Continue to retain and motivate colleagues with the necessary expertise to deliver strategic plans. • Ongoing oversight of operating and control arrangements in light of COVID-19 responses

Risk overview (continued)

Principal risk	Key mitigating actions	Key indicators	Focus 2021/22 – B&B/NRAM
Credit risk The current or prospective risk to earnings or capital arising when a customer (residential or commercial) or counterparty defaults on its contractual obligations to the company. (UKAR, B&B & NRAM no longer have any material exposure to credit risk. B&B will continue to manage credit risk on behalf of the beneficial owners under the servicing contract.)	• Credit Risk Policy, incorporating Board approved risk appetite to support the ongoing management of credit risk. • Forbearance Programme structured to support customers through periods of distress. • Credit Risk Committee and robust processes and controls to identify credit risk exposures and action appropriate mitigation. • Ongoing monitoring of credit limits applied to approved counterparties. • Environmental Risk Analysis – covering key impacts on closed book – see below.	• Impairment charge. • Loan to Value. • Arrears. • Counterparty credit limits.	• Manage the credit risk on the underlying mortgage book, COVID-19 impact, considering the high proportion of buy-to-let and upstream fiscal and other changes to property management. • Interest Only repayment strategy. • In response to COVID-19 the FCA are allowing customers able to defer repayment of interest only capital to October 2021. • End of Term Account Management. • Ongoing monitoring of asset sale influence on the overall credit mix of the book. • Climate Risk – Environmental Risk – see below.
Environmental risk (whilst not classified as a Principal risk was considered as a subset of Credit risk.) Climate change risk recognises the risk associated with adverse climate change, and the impact on our business, the impact on our customers and the wider impact of a decrease in the value of our security.	Scenario planning and modelling of climate change impacts is an evolving industry wide activity. Key areas of risk emanating from climate change have been identified including those which may plausibly arise in the future.	• Loan to Value. • Impairment Charge. • Customers unable to redeem accounts.	• Monitor the Flooding Risk of specific areas and properties in the underlying mortgage book. • Energy Efficiency – EPC ratings of individual properties and timescales for the implementation of specific ratings for rented properties. Review plausible future risks emanating from climate change.
Strategic risk 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.	• Governance structure. • EWRMF. • Risk Appetite Framework. • Risk policies. • Capital Assessment Framework.	• Material risks managed within defined risk appetite.	• Ongoing monitoring of strategic risks with the potential to significantly impact the delivery of strategic objectives. • Oversight of the execution of strategic initiatives. • Continuous monitoring and awareness of market volatility – reflecting changes in the market driven by external changes, particularly, COVID-19.
Liquidity risk The risk that a Group Company is unable to meet its obligations as they fall due.	• The defined appetite for liquidity risk is low. Sterling liquidity is held as cash balances at the Bank of England and the Government Banking Service. • Stress & Scenario testing is undertaken to ensure that B&B and NRAM will be able to meet their obligations in extreme conditions.	• Changes in the maturity profiles of liabilities. • Level of liquidity.	• Manage liquidity to ensure adequate levels of liquidity to meet commitments at all times.
Regulatory risk The risk of failing to comply with the legal and regulatory requirements applying to its arrangements and activities.	• Zero tolerance appetite in respect of Regulatory Risk. • Minimum standards and responsibilities to ensure the effective management of Regulatory Risk. • Regulatory Risk dashboard tracked and actioned by the Executive Risk Committee.	• Volume of regulatory breaches. • Industry relevant regulatory developments and good practice. • Industry fines and cost of redress. • Regulatory relationships. • Precedent Court cases affecting borrowers and lenders.	• Ongoing monitoring of changes in regulation and legislation. • Open dialogue with Regulators. • Analysis of FCA and other regulatory fines. • Anti-Money Laundering requirements. • Ongoing operation of the Senior Managers & Certification Regime. • Consider the impact of any Regulation delayed following COVID-19 industry impact. • Publications delayed in response to COVID-19 are now starting to be published. This will continue throughout 2021. • Monitor impact on capital of changes to the fair value of financial assets.

Following the sale of B&B and NRAM back into the private sector, UKAR's principal risks and 2021/22 focus will be:

- Outsourcing Risk
  - Establishing the formal supplier review and oversight process; and
  - Continuous monitoring and assessment of the effectiveness of outsourced relationship.
- Operational Risk
  - Embedding the data inventory and standards aligned to Data Protection regulations;
  - Aligning processes with the National Cyber Security Centre's 10 Steps to Cyber Security;
  - Establishing / ongoing management and oversight over the effectiveness of the claims handling processes; and
  - Establishing / ongoing management and oversight over claims decisioning processes.

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

Directors' Report and Governance Statement

Corporate governance

Introduction

UKAR Ltd is the holding company established on 1 October 2010 to bring together the government-owned businesses of B&B and NRAM plc. It is 100% owned by the UK government which exercises control through UKGI.

UKAR Ltd governed and controlled B&B and NRAM, as their sole shareholder, during 2020/21. Although managed under a common board and management structure, B&B and NRAM (the 'Principal Subsidiaries') remained separate legal entities and continued to operate as individual companies with their own individual brands and Balance Sheets. In February 2021 UKAR Ltd agreed to sell the Principal Subsidiaries, 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, the Principal Subsidiaries are expected to return to the private sector later in the year.

Following the return of B&B and NRAM to the private sector, the Board Committees in operation during 2020/21 will fall away with all matters referred to the Board going forward. Governance arrangements for B&B and NRAM will be determined by the new shareholder.

This corporate governance section summarises the governance regime applicable to UKAR Ltd including its Principal Subsidiaries referred to above (the 'UKAR Group') during 2020/21.

UKAR Corporate Services Limited

In 2013 UKAR Ltd was appointed by HM Treasury to administer the Help to Buy: mortgage guarantee scheme on its behalf and in 2015 it also undertook to administer the Help to Buy: ISA scheme. The administration of the schemes was kept separate from UKAR's core operations and the activities of UKARcs were transferred to NS&I on 1 April 2019. UKARcs was liquidated as planned during 2020.

Governance structure

The governance structure for the Group is determined by the UK Asset Resolution and UK Government Investments Limited Relationship Framework Document (the "Framework Document") agreed between UKAR and UKGI, acting on behalf of HM Treasury. The Framework Document sets out how the relationship between the Group and UKGI works in practice and required the UKAR Group to comply with the Wates Corporate Governance Principles for Large Private Companies (the "Wates Principles") wherever practicable.

Overarching Objective

The Framework Document is intended to ensure that the relationship between the companies in the Group, UKGI, HM Treasury (as Shareholder and the provider of financial support) and the FCA (as regulator), operates in the context of the stated overarching objective for UKAR Ltd:

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

The Framework Document requires the Group to set strategic aims and develop a business plan to achieve the overarching objective.

Principles of the Framework Document

The relationship between the Group and UKGI operates according to the following principles under which UKGI:

- appoints the Chair of the Board and is entitled to appoint one or more Non-Executive Directors ('NEDs');
- is required to consent to the appointment of other members of the Board proposed for appointment by the Nomination Committee and agrees the terms on which the Directors are appointed, remunerated and incentivised;
- agrees with the Board the high level objectives which the business plan ('the Plan') is designed to achieve and any revisions to it;
- reviews with the Board from time to time the Group's strategic options;
- requires that the Board is accountable to it for delivering the agreed Plan;
- gives the Board the freedom to take the action necessary to deliver the Plan;
- monitors the Group's performance to satisfy itself that the Plan is on track; and
- is to be informed if the Group proposes to take certain significant actions and provide prior written consent before such action is taken.

Corporate governance (continued)

Governance structure (continued)

Monitoring performance

UKGI monitors the Group's performance against the Plan by means of the following main mechanisms:

- two UKGI nominated Directors attended each Board meeting during the year; and
- at least monthly (or, at UKGI's request more frequently) meetings between the Group and UKGI to review performance against the Plan and any agreed objectives.

In addition, UKGI has certain monitoring and information access rights and its approval must be obtained for certain material actions and transactions, as defined in the Framework Document.

Board of Directors

UKAR Ltd, B&B and NRAM share a common Board of Directors whose biographies are set out below.

The biographical details of each Director demonstrate the broad range of experience and expertise they brought to the Board in 2020/21

John Tattersall – Non-Executive Chair

John joined the Board of B&B in April 2010, the Board of UKAR in October 2010 and the Board of NRAM in March 2016, having been a Non-Executive Director of NRAM plc from October 2010 until its sale in May 2016. He was appointed Chair of all three companies on 6 June 2016 and also chairs the Nomination Committee and Transaction Approvals Committee. John is also a member of the Remuneration Committee. John was made a Lieutenant of the Royal Victorian Order in the Queen's Birthday Honours List 2021 for services to the Court of the Royal Foundation of St Katharine.

John retired as a partner in PricewaterhouseCoopers LLP in 2009, where he had worked since 1975, latterly as leader of the firm's Financial Services Regulatory Practice and a senior client relationship partner. He started his career in the financial services sector with Kleinwort Benson Limited in 1973. Until March 2019 he was Chair of UBS Limited and had previously been Chair of the Gibraltar Financial Services Commission and also Chair of the Risk and Regulation Committee of the Financial Services Faculty of the Institute of Chartered Accountants in England and Wales. He is currently Chair of the Oxford Diocesan Board of Finance and Retail Charity Bonds Plc and is a Non-Executive Director of UBS Business Solutions AG. He is also Chair of the Court of the Royal Foundation of St Katharine, and a non-stipendiary priest in the Church of England. John served as a member of the Independent Commission on Equitable Life payments.

Ian Hares - Chief Executive Officer

Ian Hares was appointed as Chief Executive of UKAR in June 2016, having joined UKAR in 2011 as Investment Director and subsequently took the role of Finance & Investment Director in December 2013. He joined the Boards of UKAR, B&B and NRAM plc in July 2014. In June 2015 he was appointed a Director of NRAM and stood down as a Director of NRAM plc in July 2016, following the sale to Cerberus. He is a member of the Transaction Approvals Committee.

Ian has over 35 years experience within the financial services industry having previously worked for Santander UK Group, Alliance & Leicester plc, Girobank plc and National Westminster Bank Group. He is also a director of Four Seasons Country Club Limited.

Corporate governance (continued)

Board of Directors (continued)

Sue Langley - Senior Independent Director

Sue joined the Boards of UKAR and B&B in October 2010 and the Board of NRAM in March 2016, having been a Non-Executive Director of NRAM plc from January 2010 until its sale in May 2016. She is Chair of the Remuneration Committee and a member of the Nomination Committee of all three companies. Sue was awarded an OBE in the 2015 New Year Honours list for services to Women in Business.

Sue is Chair of Arthur J. Gallagher Holdings (UK) Limited and was previously CEO of UK Financial Services – Department of International Trade. She is a Trustee of Macmillan Cancer Support.

Previous roles also include Director of Market Operations and a member of the Executive Team for Lloyd's of London, Chair of Lloyd's Japan and Director of Lloyd's Asia, Chief Operating Officer and a member of the Executive Team of the Hiscox Group and Board member for Hiscox Syndicates and Hiscox Insurance. She joined Hiscox from PricewaterhouseCoopers where she was a Principal Consultant working with a range of FTSE companies.

Brendan McDonagh – Non-Executive Director

Brendan joined the Boards of UKAR and B&B in April 2016 and the Board of NRAM in June 2016. He is Chair of the Audit & Risk Committee and a member of the Nomination Committees of all three companies.

Brendan is a Non-Executive Director and member of the Audit, Risk, Remuneration and Nomination Committees of AIB Group plc, he was appointed Deputy Chair in October 2019. He is also the former Executive Chair of the Bank of N.T. Butterfield & Son Limited, Hamilton, Bermuda. He is a former CEO of HSBC North America Holdings Inc with responsibility for the Group's banking and consumer finance operations in the US and Canada. He was also Group Managing Director for HSBC Holdings Inc and a member of the HSBC Group Management Board. Brendan started his banking career with HSBC in 1979 and worked in Asia, Middle East, Europe and North America.

Brendan is Chair of the advisory board of the business school of Trinity College Dublin, a Non-Executive Director of The Ireland Fund, Dublin and a member of the Global Advisory Council of the Impact Ireland Fund. He was formerly a member of the Board of Ireland's National Treasury Management Agency and was Chair of the Remuneration Committee and previously Chair of the Audit Committee. He was also Chair of the Investment Committee of the Ireland Strategic Investment Fund.

Keith Morgan – Non-Executive Director

Keith joined the Boards of UKAR and B&B in October 2010 and the Board of NRAM in March 2016, having been a Non-Executive Director of NRAM plc from January 2010 until its sale in May 2016. He is a member of the Audit & Risk, Remuneration and Transaction Approvals Committees of all three companies. Keith was awarded a CBE in the 2020 New Year Honours list for services to Small Business Finance.

Keith is a Trustee of the Design Council and was formerly CEO of the British Business Bank and a Director of British Business Bank plc. Keith was also a Director of UKFI, responsible for managing the government's shareholdings in UKAR, B&B and NRAM plc until August 2012. Keith joined UKFI from Banco Santander where he was a Director of Sovereign Bancorp in the U.S.A. focusing on the integration of Sovereign into Santander. He was previously Director of Strategy & Planning at Abbey National, where he was a member of the Executive Committee and was also Chair of Santander's Asset Management and Credit Card businesses in the UK. Before joining Abbey in 2004, Keith spent 18 years at L.E.K. Consulting, where he was a partner specialising in financial services.

Brendan Russell – Non-Executive Director

Brendan joined the Boards of UKAR, B&B and NRAM in June 2017. He is a member of the Audit & Risk and Transaction Approvals Committees of all three companies.

Brendan is a Director and Trustee of the Royal College of General Practitioners and a Non-Executive Director of the Royal Surrey NHS Foundation Trust. He previously spent almost six years at the Royal Bank of Scotland ('RBS'), where he was Head of Corporate Finance, leading the team responsible for the disposal programme which formed a key component of RBS's recovery plan

Prior to joining RBS, Brendan was a Director with Barclays in its Corporate Development function, before which he spent five years as Head of the McKinsey Corporate Finance Centre.

Brendan has past experience of retail banking and capital markets and he has also served as financial adviser to both Ofwat and the Office of Rail Regulation.

Corporate governance (continued)

Board of Directors (continued)

Holger Vieten – Non-Executive Director

Holger joined the Boards of UKAR, B&B and NRAM in July 2018 after being appointed by UKGI to manage HM government's shareholding in the UKAR Group companies. He is also a member of the Transaction Approvals Committee.

Holger joined UKGI in May 2018 and is Director of UKGI's Financial Institutions Group. He has spent over 20 years advising UK and European financial institutions on a broad range of mergers and acquisitions, capital markets and restructuring transactions. Before joining UKGI, Holger was an investment banker at Moelis & Company for eight years and previously at Morgan Stanley, having started his career at Credit Suisse.

Mark Wouldhave – Managing Director

Mark joined the Boards of UKAR, B&B and NRAM in April 2021, subsequent to his appointment as Managing Director (Designate) in November 2020. He joined UKAR in 2011 to develop its transactional capabilities and subsequently took the role of Asset Sales Director in 2016 as a member of the Executive Committee.

Mark has over 17 years' experience within the financial services industry having previously worked for Northern Rock plc. He started his career with PricewaterhouseCoopers and is a fellow of the Institute of Chartered Accountants in England and Wales.

Appointments and Resignations during 2020/21

There were no appointments or resignations during the year.

Mark Wouldhave was appointed to the Boards of UKAR, B&B and NRAM with effect from 1 April 2021 and is an Executive Director. On completion of the sale of B&B and NRAM it is anticipated that Mark Wouldhave, Brendan McDonagh and Brendan Russell will resign from the Board of UKAR but remain members of the B&B and NRAM Boards.

Ian Hares will resign from the Boards of UKAR, B&B and NRAM when he leaves the business.

Balance of Executive and Non-Executive Directors

During 2020/21 the UKAR Ltd Board comprised:

Period	Non-Executive Chair	Independent Non-Executive Directors	Executive Directors	UKGI Nominated Directors	Total
1 April 2020 to 31 March 2021	1	3	1	2	7

The UKAR Ltd, B&B and NRAM Boards shared a common membership during 2020/21 and the Non-Executive Directors have experience in a range of commercial or banking activities.

Relationship between the Chair and the Chief Executive Officer

A clear division of responsibility exists between the Chair and the CEO, which is set out in writing in the UKAR Governance Documentation and has been approved by the Board. The Chair is responsible for leadership of the Board and the CEO is responsible for leadership of the business.

Senior Independent Director

The role of the Senior Independent Director is to act as a sounding board for the Chair, as a trusted intermediary for the other Directors and, where necessary, a point of contact for the Shareholder. The responsibilities of the role include the evaluation of the Chair's performance. Sue Langley is the Senior Independent Director of UKAR Ltd, B&B and NRAM and is also the designated Non-Executive Director for engaging with the workforce and the Whistleblowing Champion.

Company Secretary

The Company Secretary supports the Chair in designing the induction programme for new Directors, the delivery of the corporate governance agenda and by ensuring that information is made available to the Board members on a timely basis. The Company Secretary advises the Directors on Board procedures and corporate governance matters.

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

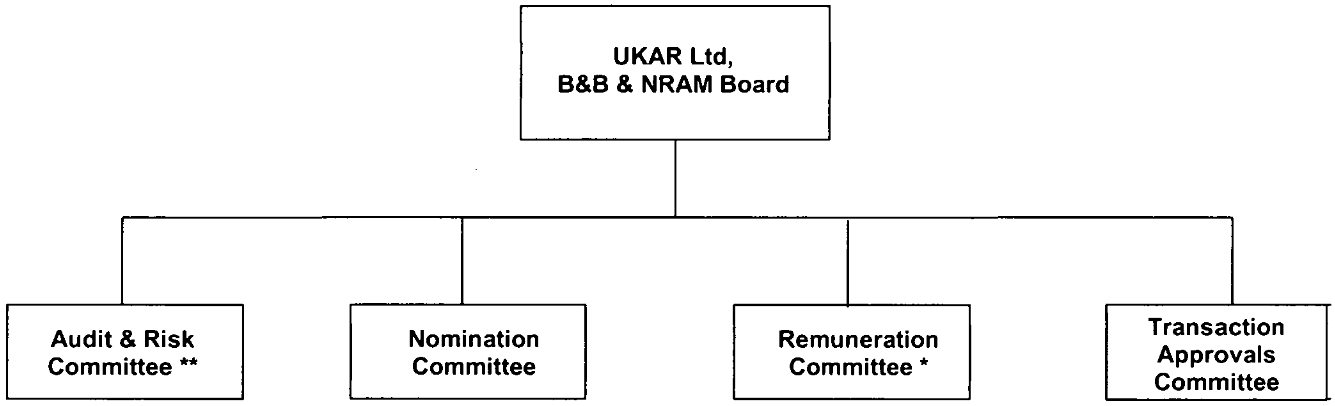
Corporate governance (continued)

How the Board operated in 2020/21

Board structure and governance

In accordance with the requirements of the Framework Document, the Board has delegated various powers and authorities to its Committees. They play a key role in ensuring the effectiveness of the corporate governance framework by supporting the Board and carrying out its functions.

Board and Committee Structure



** A separate sub-committee has been established by the Board to set the fees of the Chair and Non-Executive Directors see further detail on page 40.*
*** The Separate Risk and Audit Committees were combined in January 2021.*

During 2020/21 the Chair of each Committee was:

Committee	Chair
Audit Committee (to 31 December 2020) Audit & Risk Committee (from 1 January 2021)	Brendan McDonagh
Nomination Committee	John Tattersall
Remuneration Committee	Sue Langley
Risk Committee (until 31 December 2020)	Keith Morgan
Transaction Approvals Committee	John Tattersall

Each of the Board Committees have detailed Terms of Reference setting out their remit and authority. Details of the membership of each Committee, the role and key activities during 2020/21 are set out in the individual Committee Chair's reports on pages 30 to 50.

The Remuneration Committee Chair's Report and details of the role of the Remuneration Committee are provided in the Directors' Remuneration Report on pages 30 to 43.

Corporate governance (continued)

How the Board operated in 2020/21 (continued)

Board and Committee meetings

The Board and its Committees meet regularly throughout the year. All agendas are structured to allow adequate and sufficient time for discussions of the items on the agenda, particularly strategic issues.

The attendance of individual Board members at Board and Committee meetings during 2020/21, together with the overall number of meetings held is set out below.

	Board	Nomination	Remuneration	Audit *	Risk *	Transaction Approvals
Number of meetings held	**11**	**3**	**7**	**4**	**4**	**3**
Chair						
John Tattersall	11	3	7			3
Chief Executive						
Ian Hares	11					3
Senior Independent Director						
Sue Langley	11	3	7			
Independent Non-Executive Directors						
Brendan McDonagh	11	2		4	4	
Brendan Russell	11			4	4	3
Non-Executive Directors						
Keith Morgan	11		7	4	4	3
Holger Vieten	11					3

* From 1 January 2021 the Risk and Audit Committees were combined as set out in the Audit & Risk Committee Chair's report on page 44.

The Company Secretary or their nominee attended each meeting as Secretary to the Board and other representatives from specific business functions and/or external advisors were invited to attend as appropriate.

During the year each of the Non-Executive Directors met the time commitment specified in their letters of appointment.

Board responsibilities

The Board's role is to provide leadership and oversight of the management of the Company, whilst setting the strategic direction, in order to achieve its objectives. The Board is responsible for:

- setting the Group's strategic aims and developing and recommending revisions to the Plan to deliver the overarching objective set out in the Framework Document. Any proposed revisions to the Plan are subject to review and approval by UKGI;
- delivering the Plan in accordance with the requirements of the Framework Document. In this respect, decisions on the day-to-day running of the Group rest with the Board in accordance with the Directors' statutory, common law and fiduciary responsibilities. UKGI is committed to giving the Board the freedom necessary to deliver the agreed Plan and will not interfere in day-to-day operational and commercial matters;
- establishing the Group's values and strategy, and ensuring that these and its culture are aligned. The Group's Mission and Purpose, which includes the Group's values and strategy, are set out on page 3; and
- ensuring that the necessary financial and human resources are in place for the Group to deliver the agreed Plan, set the Group's values and standards and ensure that its obligations to HM Treasury as Shareholder are understood and met.

The Board has a written schedule of those matters reserved for its determination and those matters reserved for UKGI, in accordance with the Framework Document.

The way in which the Board works with customers, colleagues, outsourced partnerships, suppliers and the shareholder and ensures that our values and culture support delivery of the Plan is set out in the Section 172(1) Report on pages 13 to 16 of the Strategic Report.

Corporate governance (continued)

How the Board operated in 2020/21 (continued)

Board activities 2020/21

The Board's primary role throughout the year has continued to be to provide leadership and oversight to ensure the overarching objectives in the Framework Document are met.

In doing so, the Board has overseen the sale of B&B and NRAM and in this respect has:

- approved and monitored a competitive, transparent sales process;
- overseen the sales process, including the terms of initial bids, pricing decisions, and the selection of bidders to progress further in the process;
- ensured that the terms of the transaction protected the interests of customers and provided value for money to the taxpayer;
- approved the proposed governance arrangements to be introduced by UKAR Ltd following the sale of the Principal Subsidiaries;
- monitored the resolution of legacy issues; and
- identified and monitored any conflicts of interest.

In addition to the above, the Board continued to provide oversight in relation to ongoing key business activities during 2020/21 which have included:

- monitoring Computershare's servicing activity and performance in relation to customer outcomes and the consolidation of customer records on to a single IT platform;
- approving key performance indicators and endorsing Balanced Scorecard results;
- approving the Annual Conduct Risk Assessment, Risk Appetite, Liquidity and Capital Statements;
- ensuring that decision making at all levels reflects good conduct and the fair treatment of customers;
- monitoring business simplification activities and progress in achieving the Operating Model; and
- approving the payment of interim dividends.

Board appointments and composition

UKGI considers that the composition of the Board is a critical factor and seeks to secure an environment in which it shares a common view about Board composition and succession with the Chair, including size, balance of experience and diversity. To achieve this and ensure that a common governance approach is applied, the Group operates under the following principles:

- the Chair and either the Chair of UKGI or a senior employee nominated by the Chair of UKGI (the 'Nominated Officer'), will discuss and confirm Board composition and succession regularly in the light of performance and the requirements of the Plan;
- UKGI is entitled to appoint to the Board one or more Non-Executive Directors nominated by UKGI (the 'Shareholder Directors'); Keith Morgan and Holger Vieten are currently appointed as such Directors. The Group acknowledges that the Shareholder Directors intend to liaise with and report to representatives of UKGI from time to time in relation to the business of the Group and decisions made, or to be made, by the Board in order to assist with the exercise of their powers and duties as Directors;
- one or more senior representatives of UKGI will, if so requested by UKGI, attend meetings of the Board in an observer capacity;
- the Chair will discuss with the Nominated Officer any impending changes to Board membership;
- the Chair of the Nomination Committee will meet with the Nominated Officer as necessary to obtain UKGI's approval to any proposed Board changes before they become subject to the formal appointment/consent procedure. The Articles of Association require that at every Annual General Meeting each Director, other than the Shareholder Directors who are expressly exempt from this provision at B&B and NRAM, shall retire from office and may offer themselves for re-appointment;
- Non-Executive Directors are appointed for a term of 12 months, subject to re-appointment in accordance with the above procedures;
- the Chair and the Non-Executive Directors each have a letter of appointment which sets out the terms and conditions of their Directorships, including fees payable, where applicable, and the expected time commitment;
- the Nomination Committee reviews the leadership needs of the Group, including succession planning for both Executive and Non-Executive Directors and, in particular, the key roles of Chair and Chief Executive; and
- the Board will ensure that suitably rigorous appraisals are made of the effectiveness of the Chair and the Board.

Corporate governance (continued)

How the Board operated in 2020/21 (continued)

Board appointments and composition (continued)

The Nomination Committee considers the composition of the Board and its Committees annually to ensure this remains fit for purpose and makes any recommendations to the Board for consideration in accordance with its Terms of Reference. This takes into account the challenges and opportunities facing the Company, including the strategic direction, and the skills and expertise needed on the Board now and in the future.

The Chair regularly meets with UKGI, the shareholder representative to discuss UKAR matters, including the constitution of the Board.

Board evaluation

The Board is committed to undertaking a formal and rigorous annual evaluation of its own performance and that of its Committees and individual Directors. The review provides the opportunity for the Board and its Committees to reflect on the effectiveness of its activities and the quality of its decisions.

During 2020/21, the Board and Committee evaluation exercise was conducted by the Chair with assistance from the Company Secretary.

The process consisted of individual questionnaires to each Director which sought their views on a wide range of key issues, including:

- whether members work together constructively and how they interact;
- effectiveness of the Chair;
- Board and Committee culture;
- Board and Committee meeting processes; and
- approach to training and responsibility for maintaining skills and knowledge levels.

The Company Secretary reported to the Chair on the outcome of the evaluation exercise, which showed that the Board and its Committees are discharging their responsibilities effectively and meeting the requirements of their terms of reference.

The outcomes of the evaluation were positive and all comments have been reviewed by the Board and its Committees. The Chair comments further on the conclusions in his Chair's Statement on page 5 of these accounts.

Evaluation of individual Non-Executive Directors has also been addressed directly by the Chair.

The Chair's own performance was evaluated by the Directors and his annual review carried out on behalf of the Board by the Senior Independent Director.

Induction and training

The Group requires all newly appointed Directors to undergo a formal induction training programme appropriate to their skills and experience, to ensure that they:

- are fully aware of and understand their role, duties and responsibilities as a Director; and
- have a good understanding of the operation of the business, so as to contribute effectively.

Directors receive a tailored induction programme designed to meet their individual needs and level of knowledge and experience. Where appropriate this includes meetings with the Chief Executive, the Company Secretary, members of the Executive Committee ('ExCo') and senior management and a briefing from the Group's solicitors.

The Group also requires Non-Executive Directors to undertake relevant ongoing training and development to improve their capabilities and thereby contribute more effectively to Board decision making.

A comprehensive thematic training programme is in place, which covers key areas of the business and topical issues, such as regulatory developments, and takes account of the outcomes of the annual Board evaluation.

The Board is kept up to date on legal, regulatory and governance matters through regular papers from the Company Secretary, Risk Director and external advisors as appropriate.

Corporate governance (continued)

How the Board operated in 2020/21 (continued)

Timely and quality information

The Board believes that it receives and has access to, on a timely basis, all relevant information which is of a sufficient quality to make appropriate decisions and discharge its duties and obligations. Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that Board procedures and applicable rules are followed. Where necessary, Directors are able to take independent professional advice at the Group's expense.

Internal control and risk management

The Board is responsible for the Group's system of internal control and seeks regular assurance to satisfy itself that the system is functioning effectively in managing risks in the manner which it has approved. Such a system can only provide reasonable, not absolute, assurance against material misstatement or loss, as it is designed to manage, rather than eliminate, the risk of failure to achieve business objectives. Throughout the year ended 31 March 2021, the Group has operated a system of internal control, which includes an ongoing risk management process for identifying, evaluating and managing the principal risks faced by the Group. The Directors confirm that they have carried out a robust assessment of the principal risks facing the Group and have reviewed the effectiveness of the Group's system of financial and non-financial controls including operational and compliance controls, risk management systems and the Group's material risk exposures and associated mitigating actions.

Following the introduction of remote working arrangements in response to COVID-19, a small number of changes were made to our control environment in line with regulatory and government guidance, these remained in place across the year and continue to do so. For the period of this report no material control issues are noted and appropriate internal and outsourcer oversight and assurance is in place to continue to monitor the assessment of these controls and any potential increase in risk as regulatory and government guidance is updated.

The Group is committed to developing and maintaining an appropriate Risk Management Framework and culture with the aim of continuing to ensure that Management understand the key risks that the business faces and its appetite for them. This is achieved through an organisational structure with clear reporting lines governed by appropriate business monitoring mechanisms, codes of conduct and policy statements. Internal control and risk management systems are integrated into strategic considerations and business planning processes.

Under the Risk Management Framework, the Group operates a risk management process, producing an enterprise-wide risk profile. This identifies the Group's principal risks, the probability of those risks occurring and their impact should they occur. Management regularly takes action to improve the design and operation of suitable controls, either as a result of its own initiative or in response to reports from Internal Audit and other oversight review functions.

The risk management process is complemented by a formalised reporting and escalation process for emerging control issues. Internal Audit has a key role in maintaining the control environment by providing independent assurance on the effectiveness of the Group's internal control systems. The Audit & Risk Committee oversee the risk management process, regularly consider the enterprise-wide risk profile and receive monitoring reports to update them on progress.

The system of risk management and internal control has been in place throughout 2020/21 and up to the date of approval of the Annual Report & Accounts.

In monitoring the effectiveness of this system, the Board takes into account the work of the Audit & Risk Committee which reviews the Group's principal risks and how these are being managed. The Audit & Risk Committee considers reports from Compliance and from Management on the system of internal control, adherence to regulatory requirements and material control weaknesses, where these exist, together with actions taken to address them. The Audit & Risk Committee also considers reports from Internal Audit and External Audit on the system of internal control and material control weaknesses, where these exist, together with actions taken to address them. The Chair of the Audit & Risk Committee reports on the outcome of each meeting to the Board, where appropriate, and the Board also receives minutes of these Committee meetings.

In addition, as part of the process of preparing this statement, the Board has also performed its annual assessment of the effectiveness of risk management and internal control systems. This annual assessment adopted the recommendations of current best practice guidance issued by the Financial Reporting Council. The Board of Directors is not aware of any material risk events or internal control failures that arose across the Group during 2020/21 that are not being addressed in accordance with the internal control procedures of the Group.

No political donations have been made or any political expenditure incurred during the financial year.

Corporate governance (continued)

How the Board operated in 2020/21 (continued)

Going concern

The Directors have assessed, taking into consideration the principal risks set out on pages 17 to 18 and 60 to 64, potential future strategic options and the current and anticipated economic conditions, 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, B&B and NRAM and on the Directors' expectations regarding the continuation of trading.

In 2009 the European Commission ('EC') approved state aid to NRAM, and in 2010 to B&B, in each case the state aid comprising loans and guarantees from HM Treasury. On 26 February 2021, the Company entered into a contract which is expected to result in the sale of its shareholdings in B&B and NRAM subject to regulatory approval to Davidson Kempner later in the year. In order to satisfy the going concern assumption, UKAR Ltd, B&B and NRAM all have 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 accounts. HM Treasury has confirmed its intention to continue to provide funding to UKAR, if required until at least 1 January 2023 and to continue to provide funding to B&B and NRAM, if required, until the earlier of 1 January 2023 and the date that the companies cease to be subsidiary undertakings of UKAR.

The Directors draw comfort for the period after B&B and NRAM have 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 companies will be solvent throughout this period. Combined cash balances across the two companies are projected to be £86m at the end of March 2022 falling to £66m at the end of March 2023. This supports the conclusion that both B&B and NRAM have sufficient resources to meet their known commitments and liabilities as they fall due for a period of more than 12 months beyond the date of these accounts.

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

Longer term viability

UKAR was established to oversee the orderly run-off of B&B and NRAM for the UK government and continues to receive guarantees from HM Treasury to enable it to undertake this activity. Following the sale of B&B and NRAM, UKAR will be funded annually by Parliament through Grant-in-Aid financed from the HM Treasury supply estimate. The Board have no reason to believe that support to UKAR Limited from HM Treasury will be withdrawn or curtailed after 1 January 2023. With this in mind, the Directors have assessed the longer term viability of the Group, taking into account modelling undertaken as part of the annual refresh of long term forecasts, recent stress tests of capital and liquidity positions in respect of COVID-19 and the impact of the principal risks set out on pages 17 to 18 and 60 to 64 and have concluded that the Group will remain viable throughout the entire period of its run-off. The length of this period will depend on the success of strategic initiatives.

As stated above and as referenced in the strategy set out on page 12, in the circumstance of a sale of B&B and NRAM, HM Treasury's financial support to them would no longer be relevant. However, such a sale would not be contemplated by either party if it was not considered viable.

Corporate governance codes

The UKAR Group complied with the Wates Corporate Governance Principles for Large Private Companies, in accordance with the Framework Document, wherever this was practicable. The Board and UKGI consider the Group's compliance on at least an annual basis.

Engagement with suppliers, customers and others in a business relationship with the Group

Details of the Board's engagement with suppliers, customers and others is set out in the Section 172(1) Report on pages 13 to 16 of the Strategic Report.

Directors' remuneration report

Sue Langley, Chair of the Remuneration Committee, introduces the Directors' Remuneration Report and gives an overview of the Committee's main areas of focus during the past year.

Chair's Overview of 2020/21

"I am pleased to present the report on Directors' Remuneration for 2020/21.

Since UKAR was formed in 2010 our remuneration policies have been aligned with the interests of all our stakeholders. Annual and medium term incentives are designed to reward the achievement of the overall business strategy whilst ensuring we adhere to the Treating Customers Fairly principles laid down by the regulator alongside the prudent management of risk. There is a clear emphasis on sustained performance with Short Term Incentive Plans being subject to deferral and, in appropriate circumstances, the Remuneration Committee can recoup incentive awards.

Throughout the year, UKAR continued to deliver strong performance as detailed in the Chief Executive's report on page 7.

Since formation, we have managed all colleagues, regardless of their position within the company, according to reward principles which focus on fair and transparent remuneration and the need to motivate, retain and attract colleagues in order to achieve our objectives.

The work of the Committee during 2020/21 covered a variety of topics within its Terms of Reference and key activities undertaken during the year have included:

- the annual review of our reward strategy which determined that it was aligned to the business strategy and encouraged effective risk management and appropriate customer outcomes in line with the FCA's conduct risk and culture agenda;
- reviewing the objectives of the Chief Executive Officer and members of the Executive Committee ('ExCo') and recommending their remuneration packages;
- recommending the remuneration package for the Managing Director, which became an Executive Director role with effect from April 2021;
- reviewing quarterly business performance against the financial and operational targets;
- agreeing annual Short Term Incentive Plan (STIP) payments for the Executive Director and ExCo members, taking into account the overall results of business and individual performance. Annual incentive awards are determined by a Balanced Scorecard which can reduce (but cannot increase) the STIP outcome;
- agreeing the payment of an incentive ('Jupiter Incentive') to colleagues upon the signature of contracts in respect of the sale of B&B and NRAM. As referenced in previous reports, this incentive mitigated the people risks associated with the strategic direction of the business;
- considering 2021/22 Annual Incentive targets, taking into consideration that the sale of B&B and NRAM is due to complete later in the year.

The Committee worked closely with UKGI on remuneration matters in line with the Framework Agreement. Although not required to do so, we seek as far as possible to comply with the regulatory and governance requirements which apply to UK listed companies and the FCA's Remuneration Code."

Membership

There were no changes to the membership of the Committee which was in place throughout 2020/21 and had the following membership as at 31 March 2021:

Sue Langley (Chair)
Keith Morgan
John Tattersall

Details of the skills and experience of Committee members can be found in the Directors' biographies on pages 21 to 23.

Directors' remuneration report (continued)

Summary of responsibilities

The Remuneration Committee is responsible for:

- making recommendations to the Board concerning the remuneration arrangements of the Executive Directors and other members of the ExCo;
- recommending proposals in respect of related pay schemes; and
- overseeing remuneration for the wider workforce including all remuneration components and any major changes in benefit structures.

Meetings

The Committee held seven meetings during the year, complying with the requirements of its Terms of Reference. The attendance of individual members at meetings is set out on page 25. The Committee also invites the following to attend its regular meetings:

- the UKGI employed, appointed Non-Executive Director;
- members of the ExCo, including the CEO, Governance, Engagement & HR Director and Risk Director;
- Colleagues responsible for HR and Risk;
- Company Secretary or their nominee; and
- other representatives from business functions and/or external advisors.

Reporting to the Board

The Committee Chair reports to the Board after each Committee meeting, summarising the key matters discussed, and the Board also receives copies of the minutes of each meeting.

Governance

The Committee completed an annual review of its Terms of Reference and undertook an evaluation process in accordance with the requirements of those Terms of Reference. The results of the evaluation were positive and provided assurance that the Committee remained fit for purpose.

Directors' remuneration policy

Policy overview

Our Reward Policy and principles apply to all colleagues and are reviewed annually. As an unlisted company, and being outside the remit of the FCA Remuneration Code, we are not required to comply with all regulatory rules and guidance on remuneration, but we do so where appropriate. The main purpose of the policy is to support the achievement of the overall business strategy by establishing an objective, consistent and fair reward system that provides a competitive yet cost-effective salary, incentive and benefits package to all colleagues. However, reward was only one lever available to mitigate our people risk as we worked towards achieving our overall objective. Our strategic objective of 'being a great place to work' ensures that colleagues feel valued and are given the opportunity to grow and learn new skills which is important to our success and for their future.

Our culture is shaped by the 'tone from the top' and how colleagues behave is as important as what they do. Rewards and incentives are aligned to our culture and values, each of which have exemplar behaviours which help colleagues understand what they mean, and how they apply to what they do on a daily basis. We do not support, or reward, excessive or inappropriate risk-taking behaviours. The Risk Director's objectives specifically include the caveat that the delivery of all financial targets is achieved with due regard to risk and appropriate challenge.

UKAR recognises and consults with the Unite trade union and we ensure that the union is fully aware of the approach we propose to take in respect of pay negotiations and has an opportunity to raise questions. In 2020/21, we continued to apply a consistent salary review process; however, neither the Executive Director nor any members of ExCo received a salary increase as part of the annual salary review in July 2020. Two ExCo members were ineligible to receive an increase as they were serving their notice periods, and the Chief Executive and three other ExCo members waived their salary increase in view of the economic challenges facing the country as a result of the pandemic.

Directors' remuneration report (continued)

Directors' remuneration policy (continued)

The remuneration policy for Executive Directors

Table 1 – Key aspects of the remuneration policy for Executive Directors

Element	Purpose and link to strategy	Operation	Maximum opportunity
Base salary	To attract and retain key talent by ensuring an appropriate, competitive base salary.	Roles are benchmarked externally. Salaries are reviewed by the Remuneration Committee and recommendations are submitted to the Board and the shareholder representative, based upon the skills and experience the executive brings to the role. The approach to salary increases, including that for promotions or increased responsibility in role, is in line with the approach taken for all colleagues.	There is no prescribed maximum. However, the Remuneration Committee reviews the salary against the range each year and also considers the salary approach used for all colleagues.
Benefits	To provide a competitive package, aligned to market practice.	The benefits package for Executive Directors includes annual holiday entitlement, life assurance, car allowance, private medical insurance, income protection insurance, personal accident insurance and assistance with relocation, travel and accommodation where necessary. Individuals promoted to Executive Director may retain entitlements under the Redundancy Policy.	Each benefit has its own maximum in line with the nature of the benefit and the associated policy.
Pension	To provide a competitive package, aligned to market practice.	Executive Directors are either offered a pension allowance or employer contribution into the Company pension plan. The approach taken depends on the individual's circumstances. Newly appointed or promoted Executive Directors receive a pension allowance of 12% which is aligned to the level for the wider workforce.	The pension allowance for the Chief Executive is set at 15% of base salary. The Managing Director's pension allowance is aligned to the wider workforce.
Short-Term Incentive Plans **(Annual Bonus)**	To reward performance for delivery of key financial and operational targets.	The STIP is linked to achievement of the Balanced Scorecard alongside individual performance against personal objectives. The Remuneration Committee approves personal objectives for the year for Executive Directors. We promote a culture that supports, develops and challenges individuals to deliver results. Targets for financial and operational performance, customer outcomes and conduct risk, plus other key organisational metrics, are included in the Balanced Scorecard. Failure to achieve these targets results in a reduction to the bonus pool. Given UKAR's status, all awards are made in cash as there is no option to award shares and 60% of the award is paid initially with the remaining 40% paid in equal instalments over the following three years. We have decided not to extend the period for deferral given the size of the awards that are made and because we are a business with a limited lifespan that is not writing new business. Any potential awards, including deferrals, are subject to Remuneration Committee discretion. Malus and clawback operate where appropriate In line with best practice, the Remuneration Committee considers whether there have been any significant issues, such as misstatement of performance, a significant failure of risk management, regulatory censure, or misconduct, as part of its consideration around approval of bonus awards or vesting of the deferred portion. Should an event occur which the Remuneration Committee considers would materially alter achievement against targets, it has the discretion to change the personal objectives or targets provided these are at least as challenging as the previous targets, in the new circumstances.	Up to 60% of base annual salary, each year.

Directors' remuneration report (continued)

Directors' remuneration policy (continued)

The remuneration policy for Executive Directors (continued)

Table 1 – Key aspects of the remuneration policy for Executive Directors (continued)

Element	Purpose and link to strategy	Operation	Maximum opportunity
Medium-Term Incentive Plan	To reward performance in the delivery of key medium-term metrics directly linked to UKAR's overarching strategy. There is no MTIP in place for the current performance period.	The MTIP performance periods ran in sequence, rather than being a rolling annual grant programme. The last plan was put in place for a four-year period from 2016 and, although the stretch target was achieved in 2019, payments were made in June 2020 as planned. There is no MTIP in place for the current performance period. The plan rewarded the delivery of material asset sales. The amounts paid were calculated on a linear basis, starting at 50% payment for achieving the target, and increasing to the maximum of 100% for a stretch target. Given UKAR's status, all awards were made in cash as there is no option to award shares. Malus and clawback can apply where appropriate.	Up to 60% of base annual salary over four years. The MTIP is not cumulative. There was only one plan in place at any time. Therefore, over a four- year period the average annualised payment was a maximum of 15% of base salary.
Jupiter Incentive	To reward the resolution of residual issues to facilitate the sale of B&B and NRAM.	The Jupiter Incentive was put in place to motivate and incentivise colleagues to remain with the business and deliver our goal of returning B&B and NRAM to the private sector. The Incentive was payable to colleagues when contracts were signed for the sale of B&B and NRAM. Payments for Executive Directors are deferred for one year and are subject to there being no material operational failures during the period of deferral.	25% of base annual salary. The Jupiter Incentive is a one-off plan.

Prudential Regulation Authority ('PRA') Remuneration Rules

UKAR is not subject to the variable pay cap or other remuneration rules introduced under the European Union Capital Requirements Directive (CRD IV) and interpreted in the PRA remuneration rules, as it is not taking deposits, nor is it writing new business and taking on new risk. However, we do seek to comply wherever possible. Table 2 provides further details.

Table 2 – The approach taken to comply with the PRA Remuneration Code on remuneration structure for the different incentive payments

Component	PRA Remuneration Code for large banks	UKAR's approach
Variable to fixed pay ratio	Cap of 1:1 ratio.	We seek to comply. Should any individual's total variable remuneration exceed the cap in a given year, the amount over the cap would be deferred to the following year and remain subject to performance.
Deferral	Extended for up to seven years for PRA Senior Managers.	As UKAR is not taking deposits or writing new business, the Committee has maintained the three-year deferral for STIP.
Short Term Incentive Plans including the Jupiter Incentive	Counts towards the 1:1 cap in respect of the performance year to which it relates.	We follow this approach. Awards are subject to malus and clawback which would be applied if it became known that the performance on which an award was based was misstated, there was a significant failure of risk management, regulatory censure, or an individual commits serious misconduct.
Medium Term Incentive Plan	Counts towards the 1:1 cap in the performance year immediately prior to when the 'grant' was made (i.e. when the performance period begins) and is counted at maximum value.	We followed this approach. The 2016/17-2019/20 scheme counted towards the variable pay cap for 2015/16. Awards are subject to malus and clawback which would be applied if it becomes known that the performance on which an award was based was misstated, there was a significant failure of risk management, regulatory censure, or an individual commits serious misconduct.

Directors' remuneration report (continued)

Directors' remuneration policy (continued)

Choice of performance measures and approach to target setting

UKAR has clear performance metrics, understandable to every colleague in the business. Our Balanced Scorecard brings together financial, operational, customer, colleague, culture and conduct measures and applies to all annual bonus schemes including the STIP.

Differences in remuneration policy for the Executive Director compared to other employees

The reward policy applies to all colleagues in the organisation and aims for objectivity, consistency and fairness. However, to ensure we remain competitive there are some differences in benefits at various levels and for Executive Directors packages, when compared to other colleagues across the organisation, including higher allowances and longer contractual notice periods.

A salary increase guideline matrix applies to all colleagues including Executive Directors with increases based upon an individual's position in their salary range and their personal performance.

Approach to recruitment and promotions

In the case of a new Executive appointment to the Board, the reward package is set in line with the structure agreed by the Remuneration Committee, as outlined above, and also requires Board and UKGI approval.

The Remuneration Committee has the discretion to make additional awards to replace remuneration forfeited if a new Executive Director were appointed from the external market. Any awards would take account of the size of the award the individual was leaving behind, together with the vesting and performance conditions and, if relevant, malus and clawback conditions. The Committee has not made any such awards to date.

Service agreements and payments for loss of office

Our policy is to employ Executive Directors on service agreements with 12-month employer notice periods. We have not made any loss of office payments in this reporting period, however, the Chief Executive was served 12 months notice of redundancy on 31 July 2020. The company's redundancy policy applies to all colleagues, including Executive Directors, with payments calculated as shown in Table 3. There have been no special severance payments made to senior staff.

Table 3 – Details of service agreements and loss of office payments policy

Provision	Detailed terms
Notice Period	**Employer notice period to the employee:** 12 months **Employee notice period to the employer:** 6 months
Termination payment	In the event of termination by the company, other than for misconduct, Executive Directors' service agreements provide for 12 months' notice, or payment of base salary, pension allowance and fringe benefits in respect of the unexpired portion of the notice period. They may also be eligible for: ▪ STIP, subject to assessment of the normal performance conditions and payable on the normal payment date, pro-rata by leave date; and ▪ Jupiter Incentive where a colleague has played their part in the process but is not required to remain in the business until resolution. Where an individual is appointed as an Executive Director through internal promotion, they may also retain eligibility for the company's redundancy policy which provides for a payment based on a number of weeks' base salary per year of service. Therefore, Ian Hares retained his rights under the company's redundancy policy. However, he voluntarily waived his eligibility for an STIP payment for the period following his notice of redundancy being served. Redundancy payments are calculated as below and are inclusive of any statutory redundancy pay entitlement; ▪ Under 22 years of age – 2 weeks' pay for each year of service in that age bracket. ▪ 22 – 41 years of age – 4 weeks' pay for each year of service in that age bracket. ▪ >41 years of age – 6 weeks' pay for each year of service in that age bracket. Colleagues receive a minimum of 12 weeks' pay and maximum of 90 weeks' pay.

Directors' remuneration report (continued)

Directors' remuneration policy (continued)

External Non-Executive Director positions

Executive Directors are permitted to take up external Non-Executive Director positions at the Board's discretion, providing they do not conflict with their duties at UKAR. Where the appointment is not related to UKAR's business activity the Executive Director is permitted to retain any fees they receive.

External Directorships

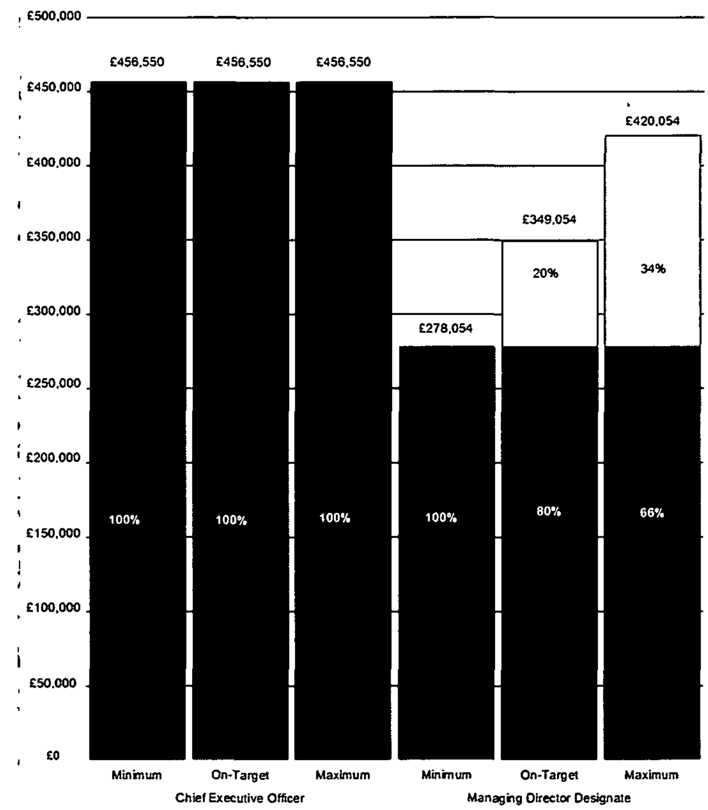
Ian Hares held one directorship during the 2020/21 reporting period, as detailed in the table below.

Table 4 – Ian Hares' External Directorships

Position	2020/21
Four Seasons Country Club Ltd	£750

Reward Scenarios

The following chart shows how the make-up of Executives' potential remuneration for 2021/22 varies depending on performance. It assumes that the Directors are employed for a whole financial year. As referenced earlier in the report, the Chief Executive will leave the business on 31 July 2021 and has waived any STIP during his notice period. The Managing Director (Designate) was appointed to the Board on 1 April 2021 and will become Managing Director on 1 August 2021.



Notes:
Minimum – fixed pay only (salary + benefits + pension)
On-Target – fixed pay plus 50% of maximum STIP
Maximum – fixed pay plus 100% of maximum STIP

Directors' remuneration report (continued)

Annual report on remuneration

This section of the report provides the detail behind the remuneration policy statements outlined earlier.

Remuneration for 2020/21

The tables below set out the earnings for both the Executive and Non-Executive Directors during the 2020/21 reporting year and compares them against the figures for 2019/20.

Table 5 – Remuneration payments for the Executive Director (Audited)

Ian Hares	April 2020 - March 2021	April 2019 - March 2020
Base Salary [1]	£385,415	£383,203
Benefits [2]	£13,323	£13,393
Pension [3]	£57,812	£57,480
STIP Awarded [4]		
- STIP Non Deferred	£31,995	£104,247
- STIP Deferred	£21,330	£69,498
MTIP Awarded [5]	-	£231,249
Jupiter Incentive [6]	£96,354	-
Total	**£606,230**	**£859,070**
Total Fixed	**£456,550**	**£454,076**
Total Variable	**£149,680**	**£404,994**

1 *There has been no increase since the salary review in July 2019.*
2 *Includes Private Medical Insurance and car allowance.*
3 *Ian Hares receives a pension allowance.*
4 *STIP payments are awarded for the 2020/21 financial year but are not paid until July 2021. Ian Hares voluntarily waived his entitlement to an STIP from 1 August 2020 when he was served notice of redundancy, therefore, the payment awarded is for a four-month period.*
5 *The MTIP was a four-year plan granted in 2016/17. All targets were achieved in the 2019/20 financial year but payment was not made until June 2020. The award equates to £57,812 on an annualised basis. No further MTIP has been put in place.*
6 *The Jupiter Incentive has been awarded during 2020/21 but payment is deferred for 12 months and is subject to performance criteria during 2021/22*

Directors' remuneration report (continued)

Annual report on remuneration (continued)

Percentage increase in the remuneration of the Chief Executive Officer

The table below shows a summary of year-on-year changes between 31 March 2020 and 31 March 2021 for the Chief Executive versus colleagues who were in the business at both year ends. Equivalent numbers for the Non-Executive Directors are shown at table 16.

Table 6 – Comparison of Chief Executive remuneration change versus change for average employee

	2020/21	2019/20
Chief Executive		
- base salary [1]	0.6%	2.3%
- benefits [2]	(0.5%)	1.6%
- STIPs [3]	(69.3%)	(16.1%)
Average per employee		
- base salary	3.4%	3.5%
- benefits[4]	1.4%	3.5%
- annual bonus	(2.1%)	(6.3%)

1 *Following the annual pay review, employee base salaries were increased by an average of 2.61% with effect from 1 July 2020. Ian Hares voluntarily waived his eligibility for an annual salary review.*
2 *The benefit percentage for Ian has reduced due to the PMI premium for the 2020/21 scheme being less than that for the 2019/20 scheme.*
3 *The STIP for Ian Hares shows a minus reduction as the STIP for 2020/21 is a pro-rated amount (no STIP for the period 1/8/20 - 31/3/21)*
4 *The benefits percentage for colleagues has increased due to a number of colleagues changing their private healthcare membership coverage during 2020/21 to an increased coverage.*

Chief Executive's remuneration versus median employee

The remuneration of the highest-paid director in the financial year 2020/21 was £606,230 (2019/20: £859,070). As shown in the table below, this is seven times the median remuneration of the workforce (2019/20: 14) which is £82,536 (2019/20: £59,968). In 2020/21, no employees (2019/20: nil) received remuneration in excess of the highest-paid director. Remuneration ranged from £30k to £430k (2019/20: £24k-£422k). Total remuneration includes salary, non-consolidated performance-related pay, employer pension contributions and benefits-in-kind. It does not include severance payments and the cash equivalent transfer value of pensions.

Table 7 – Comparison of Chief Executive's remuneration versus all colleagues

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2020/21	**A**	10 : 1	7 : 1	5 : 1
2019/20	**A**	18 : 1	14 : 1	8 : 1

1 *The 2020/21 total remuneration for the colleagues identified at the 25th percentile, median and 75th percentile are as follows: £61,030, £82,536 and £121,563 respectively.*
2 *The 2020/21 base salary for the colleagues identified at the 25th percentile, median and 75th percentile are as follows: £42,025, £58,482 and £78,499 respectively.*
3 *The median pay ratio has reduced for 2020/21 compared to 2019/20 mainly due to the payment under the MTIP scheme made in 2019/20 not being repeated in 2020/21.*

STIP for the year ended 31 March 2021

The individual targets used for the STIP scheme are based on key metrics and assessment of performance year-on-year and a Balanced Scorecard. The Balanced Scorecard is made up of ten measures: two financial/operational elements which each contribute up to 20% of the overall Scorecard, and eight non-financial measures which focus on our conduct, and each contribute up to 7.5%. If all measures are green, the bonus pot will be 100%, and if some measures are amber or red it will reduce. The financial target and all eight of the non-financial targets ended the year green, but the operational target was amber, thus reducing the business performance outcome by 10%. Individual payments are based upon an assessment of personal performance, as shown in table 1. The Committee also considered whether there were any circumstances that could have required downward risk-adjustment of the STIP, or application of malus or clawback in the year, taking input from the Risk Director and determined that there were no circumstances that would have required this.

Directors' remuneration report (continued)

Annual report on remuneration (continued)

STIP for the year ended 31 March 2021 (continued)

Table 8 – STIP targets 2020/21

	Measure	Target	Weighting (% of max)	Outcome
Financial	Costs	<£45.2m	20%	£38.6m - Achieved
Operational	Number of customers 3 months or more in arrears	Green <1,584 Amber >1,584 and <2,281	20%	1,673 – Amber Target
Non-Financial	Non-financial Balanced Scorecard	Green	60%	8 Green achieved
Total Balanced Scorecard			100%	90%

The individual objectives that influence the performance rating for Ian Hares, which in turn determine the amount of incentive earned, are detailed below.

Table 9 – Ian Hares' 2020/21 Personal Objective Assessment

Objective detail	Achievement
Oversight of Balance Sheet Reduction activities, including leadership of the programme of activities that facilitate the sale of B&B and NRAM and effective management of external stakeholders including media, government and regulators.	The Chief Executive led the process of reducing the inherent complexities which enabled the sale of the B&B and NRAM legal entities.
Maintain robust and reliable Board, Finance, Treasury and Risk Reporting with appropriate controls.	The Chief Executive maintained consistency of leadership with a determination to do the right things for customers, colleagues and the taxpayer. All reporting is delivered to a high standard.
Lead initiatives to mitigate operational risk against a background of uncertainty in timing of asset disposals.	The Chief Executive continued to drive initiatives to maintain colleague engagement and mitigate operational risk, whilst ensuring we keep the interests of customers and market integrity at the heart of the business. High levels of colleague engagement were maintained and there was minimal unplanned attrition.
Determine and agree the appropriate ExCo structure aligned to the optimum target operating model.	The Chief Executive agreed with the Nomination Committee and UKGI a reduced ExCo structure, notwithstanding the sale of the legal entities, and changes have been, or are in the process of being, implemented.
Lead oversight of outsourced providers and contract management to deliver appropriate outcomes for customers and to continue to focus on reducing arrears.	The Chief Executive worked closely with management in ensuring that that measures to support customers were quickly introduced and operationalised by Computershare Loan Services, and that they delivered appropriate customer service levels in light of the disruption caused by the coronavirus pandemic.

As referenced above, the STIP comprises a total Balanced Scorecard which gives the range of percentage awards as indicated in table 10 below. Personal objectives are then reviewed and achievement is measured in respect of what has been achieved and how it has been achieved in a range from 'under-performing' at 0% to 'surpasses expectations' with a range of 40-60% of base salary. Discretion is applied in respect of the actual bonus awards within the ranges in table 10a.

Directors' remuneration report (continued)

Annual report on remuneration (continued)

STIP for the year ended 31 March 2021 (continued)

Table 10a – ExCo STIP award matrix 2020/21 (if the business scorecard performance is at maximum of 100%)

		Personal performance			
Targets achieved	**Balanced Scorecard Reduction**	**Surpasses expectations**	**On track / Achieved**	**Too early to assess / Work in Progress / Developing**	**Under-performing**
10	0%	60.0% - 40.0%	39.9% - 20.0%	19.9% - 5.0%	0%

The outcome of the Balanced Scorecard in 2020/21 resulted in a reduction of 10% giving a range of awards as shown in table 10b.

Table 10b – ExCo Actual STIP award matrix 2020/21

		Personal performance			
Targets achieved	**Balanced Scorecard Reduction**	**Surpasses expectations**	**On track / Achieved**	**Too early to assess / Work in Progress / Developing**	**Under-performing**
9	10%	54.0% - 36.0%	35.9% – 18.0%	17.9% - 4.5%	0%

Ian Hares' performance was discussed at the Remuneration Committee in April 2021. It was agreed that he continued to show strong leadership of the business, with a determination to do the right thing for customers, colleagues and the taxpayer. He has a strong focus on customer service levels and the comprehensive oversight of our mortgage servicing operations ensures we comply with our legal and regulatory obligations. His leadership of negotiations with Jupiter bidders enabled us to meet our value for money and customer protection criteria. Notwithstanding the operational difficulties created by the pandemic, he maintained high levels of colleague engagement throughout the year, enabling us to mitigate operational risk whilst ensuring that the interests of customers and market integrity are at the heart of the business.

The Board agreed with the Chair's recommendation to award Ian Hares a STIP bonus of 41.4%. Having voluntarily waived his eligibility for a bonus during the period he was serving notice, this equates to £53,325 for the four months from 1 April to 31 July 2020.

Grant and vesting of MTIP awards

The last MTIP ran from 1 April 2016 to 31 March 2020. The targets for this plan, which related to driving additional shareholder value and/or earlier repayment of government loans, were achieved in 2019 and payment was made in June 2020.

Total pension entitlements (Audited)

Ian Hares receives a cash pension allowance of 15% of base salary in lieu of pension contribution. He has never been a member of the Company Pension Plan and has not accrued any defined benefit pension during his tenure as a Director.

During the reporting period, NRAM pension payments due to former Directors of the former Northern Rock plc, paid directly by NRAM and not connected to the Northern Rock Staff Pension Scheme were £477,543 (March 2020: £427,849). No similar payments were made to former B&B Directors during any of these periods.

For details of UKAR's accounting for retirement benefits see note 15 to the Financial Statements.

Payments within the period to past Directors or payments for loss of office (Audited)

There have been no payments made to any past Directors within the reporting period, or payments relating to loss of office.

Directors' remuneration report (continued)

Annual report on remuneration (continued)

Performance

The table below shows a summary of the Chief Executive incentives that have been awarded for performance over the past five years and the total remuneration package.

Table 11 – Summary of Chief Executive remuneration and incentives

	2016/17	2017/18	2018/19	2019/20	2020/21
Total Remuneration	£766,169	£610,773	£650,917	£859,070	£606,230
- Fixed Pay	£416,219	£434,085	£443,805	£454,076	£456,550
- Variable pay	£349,950	£176,688	£207,112	£404,994	£149,680
STIP (as % of maximum)	83%	80%	92%	75%	69%
MTIP Vesting (as % of maximum)[1]	N/A	N/A	N/A	100%	N/A

1 *The 2016-2020 MTIP was paid in June 2020, in line with scheme rules.*

Relative importance of the spend on pay

This section shows the percentage change in the cost of pay across the company, compared with statutory profit after tax.

Table 12 – Summary of colleague remuneration costs compared to statutory profit

	2019/20	2020/21	% Change
Total net remuneration cost / (credit) for UKAR [1] (salary, pension, bonus benefits)	(£2.7m)	(£3.3m)	22%
Underlying remuneration costs for UKAR	£10.1m	£9.1m	(10%)
Underlying profit before tax	£82.6m	£87.4m	6%
Statutory (loss) after tax	(£64.6m)	(£38.5m)	(40%)

1 *Total net remuneration costs do not give a true reflection as they include net credits to pension schemes of £12.4m (2019/20: £12.8m). The underlying remuneration costs give a more meaningful view. See note 5 to the Financial Statements.*

2020/21 salary review

We seek to apply the same approach to salary uplifts for the Executive Director as for the rest of the colleague population, with increases based upon a guideline matrix of position against salary range and performance rating. However, Ian Hares and the other ExCo members voluntarily waived any salary increase in 2020 in view of the economic challenges facing the country as a result of the pandemic.

Table 13 – Salary history for the Executive Director

	Salary as at 1 April 2020	Salary as at 1 April 2021
Ian Hares	£385,415 (+2.35%)	£385,415 (0.00%)

1 *Annual pay rises are effective from 1st July. Ian Hares did not receive an annual pay rise during 2020.*

Non-Executive Directors

The Board Chair and other Non-Executive Directors each have a letter of appointment which sets out the terms and conditions of their directorship, including fees payable. Further detail in relation to Board appointments is provided on page 26.

The Board has delegated authority to set the fees of the Chair and Non-Executive Directors to a Remuneration Committee (Non-Executive Directors) consisting of the UKGI appointed Non-Executive Director who receives no fees and the Chief Executive. The fees are subject to UKGI approval and are shown in table 15 below.

Directors' remuneration report (continued)

Annual report on remuneration (continued)

Non-Executive Directors (continued)

Table 14 – Key aspects of fees for Non-Executive Directors

Element	Purpose and link to strategy	Operation	Maximum opportunity
Fees	To provide a competitive level of fees that reflect the skills, experience and time commitment required for the roles.	The ongoing effectiveness and appropriateness of the remuneration of the Chair and the Non-Executive Directors is reviewed annually by the Executive Remuneration Committee (Non-Executive Directors) and agreed by the Shareholder. All Non-Executive Directors take part in an annual evaluation process.	The fees for each Non-Executive Director are provided below. Non-Executive Directors are not eligible to participate in any Group company's remuneration programme and receive no pension benefits.

Table 15 - Fees for the Chair and Non-Executive Directors ('NEDs')

Per annum	2019/20	2020/21	% Change
Board Chair	£125,000	£125,000	0%
NED Base fee / Senior Independent Director	£50,000	£50,000	0%
Committee Chair	£15,000	£15,000	0%
Committee Member	£5,000	£5,000	0%

Table 16 – Remuneration Payments for Non-Executive Directors (Audited)

Fees [1]	April 2019 - March 2020	April 2020 - March 2021
John Tattersall	£125,000	£125,000
Sue Langley	£70,000	£70,000
Brendan McDonagh [4]	£75,000	£73,750
Keith Morgan [2, 4]	£80,000	£76,250
Brendan Russell [4]	£65,000	£63,750
Holger Vieten [3]	-	-
Total	**£415,000**	**£408,750**

1 *In addition, the company meets certain travel costs for Board Directors which are considered taxable. The company considers that such travel is an essential requirement of Directors' duties and does not confer any personal benefit. Due to the travel restrictions imposed as a result of the pandemic, no tax was paid to HMRC on behalf of Directors for 2020/21.*

2 *Keith Morgan is a UKGI appointed Director but is not an employee of UKGI and as such he received fees.*

3 *Holger Vieten is a UKGI employed appointed Director and does not receive any fees.*

4 *Fees changed as a result of the merger of the Risk and Audit Committees in January 2021.*

External advisors

We were advised by Aon until June 2020 and by Alvarez and Marsal Executive Compensation Services ('A&M') from that date. The total fees paid to both in respect of services to the Committee during the year were charged on a time spent basis. The amounted paid to Aon totalled £16,527 (2019/20: £29,042) and to A&M £11,415 (2019/20: £nil). Both are a signatory to the Remuneration Consultants' Code of Conduct which requires them to provide objective and impartial advice.

How the Reward Policy will be applied in 2021 onwards

As highlighted throughout this Annual Report, following the sale of B&B and NRAM, UKAR Ltd will not have any employees. Until the sale completes, the Remuneration Committee will continue to have a key role in maintaining an objective, consistent and fair reward system that provides a competitive yet cost effective salary, incentive and benefits package to all colleagues which balances the need to maximise value for the taxpayer whilst mitigating operational risk and ensuring the continued retention, motivation and engagement of all colleagues, including Executive Directors who are required to lead the business through the significant changes taking place.

Directors' remuneration report (continued)

Annual report on remuneration (continued)

Gender Pay Gap and Equal Pay

We aimed to at least maintain the proportion of female senior management as the size of the organisation reduces. Details on diversity and the Women in Finance Charter can be found in the Nominations Committee Report.

Although not required to do so as we have less than 250 employees, we are voluntarily reporting on gender pay as shown in tables 17 to 20. Although the mean pay gap has reduced to 37.1% (2019/20: 37.7%) it is important to note that this is not a gap in pay between men and women doing the same or similar jobs. It is related to the higher percentage of males in higher grades which the size and stage of the organisation's life cycle makes it difficult to address. We remunerate based on role and individual merit, regardless of gender and there is no discrimination in our pay and reward, and all eligible colleagues received a bonus.

Salary ranges are determined from robust role profiles which clearly detail the scope, size, accountability and requirements of the role, together with the competencies that should be displayed. The role profile is benchmarked against industry standards to set the mid-point salary for the role and a +/- % differential is then applied to give a range for each role. All colleagues are generally positioned at 80% of the midpoint as a minimum. We consider that this open and transparent process mitigates against any discrimination, as shown by the comparison of where our male and female colleagues sat within the benchmark ranges at the year end.

Table 17 – Position within Salary Benchmark Range

Benchmark Range	No of Females	No of Males
<80%	0	1[1]
80% - 89.99%	12	16
90% - 99.99%	10	13
100% - 109.99%	7	9
>110%	3	7

1 *This is the Chief Executive Officer role.*

Table 18 – Gender Pay Report as at 5 April 2020

Women's hourly rate is	37.1% lower (mean)	25.9% lower (median)

Table 19 - Pay Quartiles

Pay Quartiles	Upper Quartile	Upper Middle Quartile	Lower Middle Quartile	Lower Quartile
Men	73.1%	66.7%	42.3%	48.1%
Women	26.9%	33.3%	57.7%	51.9%

Table 20 – Bonus Pay

Women's bonus pay is	52.7% lower (mean)	20.1% lower (median)
Who received a bonus	93.5% of men	100% of women

At the year end, we had 17* colleagues with flexible working patterns, namely condensed or part time hours. Of these 11* are female and 6* are male. A number of benefits we offer to employees under salary sacrifice arrangements including purchase of additional holidays, a cycle to work scheme and pension contributions are excluded from the data. Similarly, the data exclude any sacrifice of bonus into a pension.

Equal Pay

Our approach to Reward complies with relevant regulations and legislation, including that on equal pay. Our Reward Policy is applied consistently across the organisation and aims for objectivity, consistency and fairness. Appointments and promotions are made according to the ability to meet the requirements of the job and we consider the benefits of all aspects of equality and diversity including skills, background, race, experience, gender and other qualities.

Directors' remuneration report (continued)

Annual report on remuneration (continued)

Approval

This Directors' Remuneration Report, including both the Policy and Annual Remuneration Report has been approved by the Board of Directors.

Signed on behalf of the Board of Directors.

Sue Langley OBE
Chair of the Remuneration Committee

Audit & Risk Committee Chair's report

The separate Audit and Risk Committees were merged from 1 January 2021, and Brendan McDonagh, Chair of the combined Audit & Risk Committee, reports on how the Committees discharged their responsibilities during the year.

"During 2020/21 the Audit Committee continued to fulfil its key role in monitoring the integrity of financial reporting for the business and supporting the Board in ensuring the Financial Statements are fair, balanced and understandable. We have continued to provide assurance that the Group has in place effective audit processes and internal control systems and have overseen accounting for the asset and company sales. The Risk Committee continued to support the Board in ensuring that key risks are managed and monitored within the approved risk appetite, and that an appropriate risk culture and systems of internal control to mitigate those key risks were maintained, including the monitoring of our outsourced mortgage service providers. Conduct risk remained a priority in everything we do as the legal and regulatory environment continues to evolve, particularly during the pandemic."

Membership

The membership of the Audit & Risk Committee during 2020/21 was as follows:

Brendan McDonagh (Chair)
Keith Morgan (Chair of Risk Committee until 31 December 2020)
Brendan Russell

Details of the skills and experience of Committee members can be found in the Directors' biographies on pages 21 to 23.

Summary of responsibilities

The Audit & Risk Committee is responsible for monitoring, reviewing and advising the Board on:

- all regulatory, prudential and accounting requirements that may affect the Group;
- integrity of the Financial Statements and external reporting responsibilities;
- effectiveness of the Group's systems of internal control and auditing plans;
- adequacy of the Group's risk management frameworks and systems of internal control, which include financial, operational and compliance risk management controls;
- monitoring the overall risk appetite within the Group and risk management performance;
- reviewing material risk exposures in relation to risk appetite and capital adequacy;
- significant matters relating to the Group's risk appetite, strategy, framework and policies;
- discharging its responsibilities for the setting of risk policies and the whistleblowing policy;
- overseeing the insurance programme and claims recoveries;
- ensuring public disclosure of information regarding the Group's risk management policies and key risk exposures are in accordance with statutory requirements and financial reporting standards;
- the role, objectivity and effectiveness of internal and external auditors; and
- results of the external audit and any significant matters identified.

Meetings

The Risk and Audit Committees each held three separate meetings prior to January 2021 and the combined Audit & Risk Committee met once, meeting the requirements of the Terms of Reference. The attendance of individual members at meetings is set out on page 25.

The Committee also invites the following to attend its regular meetings:

- the Chair;
- the UKGI employed appointed Non-Executive Director;
- members of the ExCo, including the CEO, Finance Director and Risk Director;
- Head of Internal Audit and the external auditors;
- Company Secretary or their nominee; and
- other representatives from business functions and/or external advisors.

The Risk Director held separate private sessions with the Committee which provided an opportunity for any issues to be raised without any members of the Executive present, including sessions in his capacity as the holder for Compliance oversight and Money Laundering reporting. The internal and external auditors also each held a separate private session with the Committee which was not attended by the Executives and provided the opportunity for the Committee to discuss matters directly with the relevant audit teams.

Audit & Risk Committee Chair's report (continued)

Reporting to the Board

The Committee Chair reported to the Board after each Committee meeting, summarising the key matters discussed, and the Board has also received the minutes of each meeting.

Governance

The Committee completed an annual review of its Terms of Reference in January 2021, which had been revised to reflect the merger of the Risk and Audit Committees, and undertook an evaluation process in accordance with the requirements of those Terms of Reference. The results of the evaluation [were positive] and provided assurance that the Committee remained fit for purpose.

Chair's overview of 2020/21

The work of the Committees covered a variety of topics within the Terms of Reference during the year, some of the more significant are set out below:

- a review of the principal risks including:
  - Conduct Risk: overseeing the conduct risk approach;
  - Credit Risk: monitoring the performance of the assets and that any action undertaken is in line with the credit risk appetite and regulation;
  - Operational Risk: monitoring the impacts of the pandemic and the range of potential operational risks this presents;
  - Strategic Risk: reviewing the processes and internal controls governing the preparations for delivering the key strategic objective to return B&B and NRAM to public ownership;
  - Outsourcing Risk: monitoring and oversight of outsourced mortgage servicing;
  - Legal and Regulatory Risk: including monitoring the impact of the United Kingdom's exit from the European Union; and
  - Cyber risk: considering key trends, countermeasures and assurance.

- Oversight of financial reporting including:
  - Annual Report & Accounts;
  - Impact of the company and loan book sale on the balance sheet and income statement;
  - IFRS 9 modelling assumptions; and
  - Customer remediation and property provisions.

- Oversight of compliance activity including:
  - Approval of the terms of reference;
  - Reviewing the programme of activity including the annual Compliance Plan;
  - Approving any changes to the Compliance Monitoring plan;
  - Ensuring the Compliance function is adequately resourced and has appropriate standing; and
  - Reviewing the adequacy and effectiveness of the activities carried out by the function.

- Oversight of internal audit activity including:
  - Approval of the terms of reference;
  - Reviewing and approving the annual internal audit plan together with any changes as and when required, and monitoring its effectiveness;
  - Approval of the objectives for the Head of Internal Audit; and
  - Reviewing the adequacy and effectiveness of the activities carried out by the function.

- Oversight the effectiveness of external audit including:
  - Approval of the year end audit plan and performance evaluation.

- Approval of the Non-Audit Services Policy, Recruitment of Audit Staff Policy, Business Continuity Management Policy, Complaints Management Policy, Credit Risk Policy, Information Security Policy, Legal Risk Policy, Liquidity Risk Policy, Operational Risk Policy, Pension Risk Policy, Stress and Scenario Testing Policy, Credit Provisioning Policy, Financial Reporting and Group Tax Policies and Whistleblowing Policy.

- Senior Accounting Officer governance framework and certification.

Further information on the role of the Audit & Risk Committee and its oversight of the risk management process is provided on pages 60 to 64.

Financial reporting and significant financial judgements

The Committee reviewed the content of the Annual Report & Accounts and advised the Board on whether, in the opinion of the Committee, taken as a whole, these are fair, balanced and understandable and provide the information necessary for the shareholder to assess the position and performance, business model and strategy.

Audit & Risk Committee Chair's report (continued)

Financial reporting and significant financial judgements (continued)

During the period the Committee assessed the financial reporting processes, with assistance from management and the internal and external auditors. Management produced a comprehensive report providing details of judgements taken and other key reporting matters considered in preparing the results. The external auditors produced a similar report based on their audit findings. The Committee considered the following significant issues and judgements in relation to the Group's Financial Statements and disclosures:

Significant issue	Financial outcome
Measurement of loans	Following the sale of all mortgage loans, no loan balances were recorded on the Balance Sheet at the year-end. However, the assumptions and derivation of the Expected Credit Loss provision ("ECL") at the time of the sale were reviewed by the Committee. The calculation of ECL impacted the loss on disposal of the mortgage loans. ECL is based on a number of judgemental assumptions including Management's view of the likely future economic environment. The Committee approved the economic scenarios underpinning the IFRS 9 modelling and associated probabilities as at the date the customer loan sale contract was signed.
Impairment of the Disposal Group	Although the Company sales are not recognised until the share sale is completed, expected to be in 2021/22, their expected impact on the Income Statement is reflected in 2020/21 through impairment of the disposal group representing the B&B and NRAM assets and liabilities that are to be sold as part of the company sale. The Committee reviewed the amount of impairment which reflected the difference between the agreed sales proceeds and the net asset value of the companies, less costs of sale.
Provision for customer redress	The Committee have been kept informed of the approach to customer remediation, considered any developments and agreed the level of provisions, where appropriate. In particular, the required level of PPI provision for any outstanding payments following the 29 August 2019 PPI time-barring deadline, was carefully considered.
Property provisions	The Committee were informed of latest proposals being considered for the head office sites and agreed the level of IFRS 16 impairment and IAS 37 provisions on each site.
Going concern and Long Term Viability	The assessment that B&B and NRAM were going concerns considered both the period up to the Company sale and the period thereafter. Following the asset sales, both companies had a significant surplus of cash over requirements for the foreseeable future and this was confirmed in Davidson Kempner's application for regulatory approval. HM Treasury confirmed its continued financial support to UKAR and the Principal Subsidiaries whilst they remained subsidiaries of UKAR.
Disclosures in the Annual Report & Accounts	The Committee were comfortable that, taken as a whole, the Annual Report provided a fair, balanced and understandable reflection of UKAR's performance for the year and the financial position as at 31 March 2021.

Internal audit

Internal audit services are provided by our Head of Internal Audit, supported by Deloitte LLP. Further details of the provision of the Internal Audit service can be found on pages 61 to 62.

The Committee fulfilled its responsibility to monitor the objectiveness and effectiveness of internal audit through considering reports from the Head of Internal Audit which highlight existing and emerging matters of significance, areas of concern, planned actions, monitoring procedures and any other matters which are likely to impact on internal controls. The Head of Internal Audit attended all Committee meetings during the year and has direct access to the Audit & Risk Committee and its Chair.

The Committee has satisfied itself that the Internal Audit function was effective and adequately resourced through the regular meetings held with, and reports provided by, the Head of Internal Audit.

In March 2021 we commenced a process to re-tender the Internal Audit co-source arrangement and a preferred supplier has been identified with contractual discussions underway.

Audit & Risk Committee Chair's report (continued)

Internal control

The Audit Committee reviewed the effectiveness of the system of internal control during the year, reviewing reports on Whistleblowing and received assurance that the Policy is reinforced annually to all colleagues through mandatory training.

Further information on the approach to the Board's review of the Group's system of internal control is given within the Corporate Governance section on page 28.

External audit

The Committee places great importance on ensuring there are high standards of quality and effectiveness in the external audit process and is responsible for recommending the appointment, re-appointment and removal of the external auditors. It reviewed the scope and results of the annual external audit and its cost effectiveness.

The National Audit Office ('NAO') are the Group's external auditors. The external auditors attended all meetings of the Committee and they have direct access to the Committee and its Chair at all times. The NAO will resign as the auditors of B&B and NRAM, following the completion of their sale to Davidson Kempner later in the year. A tender process to appoint new auditors for B&B and NRAM will be commenced following completion of the sale.

The Audit & Risk Committee considered and approved the external audit plans and approach prior to the external auditors undertaking their audit work.

Non-audit services

The Audit & Risk Committee also develops and recommends to the Board a policy on the supply of non-audit services by the internal or external auditors and reviews this annually, taking into account any relevant ethical guidance on the matter. The NAO does not provide services that are not audit related to the extent of a private sector audit firm.

Priorities for 2021/22

As highlighted throughout this Annual Report, following the sale of B&B and NRAM, UKAR Ltd will not have any employees. Until the sale completes, the key areas of focus for the Committee will include:

- ensuring continued oversight of the financial position and control environment of the Group, including oversight and review of the control environment following the economic impacts of COVID-19;
- ensuring fair and appropriate customer outcomes and meeting regulatory expectations are at the heart of the business;
- monitoring the key strategic and operational risks whilst we return the business to the private sector;
- monitoring historical remediation, the wider economic and political environment and regulatory changes; and
- appointing internal and external auditors.

Following the sale of B&B and NRAM back into the private sector, the responsibilities of the ARC in respect of the Company will be returned to the Board.

Brendan McDonagh
Chair of the Audit & Risk Committee

Nomination Committee Chair's report

John Tattersall, Chair of the Nomination Committee, reports on how the Nomination Committee discharged its responsibilities during 2020/21.

"The Nomination Committee ensures the composition of the Board and its Committees is appropriate, taking into account best governance practice, and reviews the leadership needs of the business.

As I mentioned in my last report, during the year we moved to an operating model that is aligned to the simplified business. A number of colleagues were served notice of redundancy in line with business requirements including our CEO, Ian Hares, who will leave us in July 2021, and the role of CEO will be replaced by a Managing Director. Pleasingly, we were able to make an internal appointment, Mark Wouldhave, to this new role."

Membership

There were no changes to the membership of the Committee which was in place throughout the year and had the following membership as at 31 March 2021:

John Tattersall (Chair)
Sue Langley
Brendan McDonagh

Details of the skills and experience of Committee members can be found in the Directors' biographies on pages 21 to 23.

Summary of responsibilities

The Committee is responsible for monitoring, reviewing and advising the Board on:

- the composition of the Board and appropriate succession plans;
- identification of potential Executive and Non-Executive Directors;
- appointment or re-appointment of Directors, having regard to the requirement for the Board to have the appropriate range of skills and experience; and
- the leadership needs of the business, the succession plans for key executive roles and the companies' diversity policies.

Meetings

The Committee held three meetings during the year, complying with the requirements of its Terms of Reference. The attendance of individual members at meetings is set out on page 25. The Committee also invites the following to attend its regular meetings:

- the UKGI employed appointed Non-Executive Director;
- members of the ExCo, including the Chief Executive and the Governance, Engagement & HR Director;
- Company Secretary or their nominee; and
- other representatives from business functions and/or external advisors.

Reporting to the Board

The Committee Chair reports to the Board after each Committee meeting, summarising the key matters discussed, and the Board also receives the minutes of each meeting.

Governance

The Committee completed an annual review of its Terms of Reference and undertook an evaluation process in accordance with the requirements of those Terms of Reference. The results of the evaluation were positive and provided assurance that the Committee remained fit for purpose.

Nomination Committee Chair's report (continued)

Chair's overview of 2020/21

The work of the Committee has covered a variety of topics within its Terms of Reference. The key activities undertaken during the year have included:

- a review of the management structure for the simplified business, agreeing revised responsibilities and role profiles for the Executive Director and members of the Executive Committee ('ExCo') which resulted in two roles being made redundant, the CEO and the Governance, Engagement and HR Director, and a new role of Managing Director being created;
- agreeing the internal appointment of a Managing Director (Designate), with effect from 1 November 2020, who became an Executive Director in April 2021, and having oversight of the externally appointed ExCo role of Risk Director;
- agreeing the constitution of the Board and its Committees, including consideration of the composition and Chair of the combined Audit & Risk Committee with effect from 1 January 2021;
- a review and recommendation of the renewal of Non-Executive Director contracts, and consideration of appropriate board and board committee composition;
- the recommendation for the reappointment of Directors at the Annual General Meeting; and
- the ongoing review of the structure to ensure it remained fit for purpose and the timing of departures as the business simplifies and the number of roles within the organisation reduces.

Equality

We are committed to encouraging and promoting equal opportunities, diversity and inclusion amongst our workforce. Our approach to selection is to appoint the best candidate into any vacancy with selection processes measured against objective criteria that avoid discrimination.

Our Equality Policy endorses the principles of best practice and recognises the benefits of having a diverse Board. UKAR's existing board comprises six male and one female non-executive directors. The policy requires that in reviewing Board composition, the Committee will consider the benefits of all aspects of a prospective candidate including skills, experience, knowledge and other qualities of effective Directors irrespective of background, race, age, gender or any other protected characteristic.

Women in Finance Charter

Although not required to comply with the regulatory and governance requirements which apply to UK listed companies, UKAR continues to seek, as far as possible, to do so. The Managing Director (Designate) is responsible for gender equality and inclusion. Details on equal pay and gender pay can be found in the Directors' Remuneration Report.

Table 1 – Proportion of female to male colleagues

	Female	Male	Ratio
Colleagues	24	22	52:48
Management	8	24	25:75
Total	**32**	**46**	**41:59**

Priorities for 2021/22

As highlighted throughout this Annual Report, following the sale of B&B and NRAM, UKAR Ltd will not have any employees. Until the sale completes the Nomination Committee will continue to have a key role in ensuring that all three Group companies maintain appropriate governance and management structures and ensuring the continued motivation and engagement of all colleagues.

John Tattersall LVO
Chair of the Nomination Committee

Transaction Approvals Committee Chair's report

John Tattersall, Chair of the Transaction Approvals Committee, reports on how the Transaction Approvals Committee discharged its responsibilities during 2020/21.

Membership

The membership of the Committee during the year was as follows:

John Tattersall (Chair)
Ian Hares
Keith Morgan
Brendan Russell
Holger Vieten

Details of the skills and experience of Committee members can be found in the Directors' biographies on pages 21 to 23.

Summary of responsibilities

The Committee is authorised to approve the implementation of strategic transactions, including inter alia, the terms, timing, pricing, documentation and appointment of advisors, in accordance with any directions and limits set by the Board and with reference to the requirements of the Framework Document. In considering any transactions the Committee recognises the importance of ensuring that customers interests are properly protected and that all regulatory and conduct risks are taken into account.

Meetings

The Committee meets as and when necessary depending on proposals for strategic transactions. The attendance of individual members is set out on page 25.

The Committee also invites the following to attend its regular meetings:

- members of the ExCo, including the Asset Sales Director and Risk Director;
- Company Secretary or their nominee; and
- other representatives from business functions and/or external advisors from time to time, as appropriate.

Reporting to the Board

The Committee Chair reported to the Board after each Committee meeting, summarising the key matters discussed, and the Board has also received the minutes of each meeting.

Governance

The Committee completed an annual review of its Terms of Reference and undertook an evaluation process in accordance with the requirements of those Terms of Reference. The results of the evaluation were positive and provided assurance that the Committee remained fit for purpose.

Chair's overview

The Transaction Approvals Committee fulfilled its remit during the year through the oversight of the sale of the residual asset portfolios and B&B and NRAM legal entities (the Jupiter transaction) requiring approval in principle by the Board under its reserved powers. During the process, the Committee considered and approved the assumptions underpinning our cash flow model, the benchmark pricing range against which bids were assessed, the qualitative bidder assessment framework and the principal transaction documentation.

John Tattersall LVO
Chair of the Transaction Approvals Committee

Key performance indicators ('KPIs')

UKAR Group

During the year we have made significant progress against all our key objectives and overall mission of achieving value for the taxpayer. Internally, the Group has measured its financial performance against the following four KPIs:

Financial measure	2020/21 Target	March 2021	March 2020
3m+ Residential Arrears [1]	*<= 1,584*	**1,673**	1,375
Ongoing Administrative Expenses [2]	*<= £45.2m*	**£38.6m**	£124.3m
Underlying Profit Before Tax [3]		**£87.4m**	£82.6m
Cash Generation [3]		**£4.8bn**	£5.0bn

1 *The 3m+ arrears target includes loans sold during the period. UKAR continues to provide oversight of the service that these customers receive.*
2 *Excluding non-recurring expenses (2020/21:£5.6m; 2019/20: £16.7m).*
3 *The Underlying Profit Before Tax and Cash Generation KPIs were excluded from the targets for 2020/21 due to the planned sale of customer loans. Prior year cash generation figure has been restated to include £4.4bn proceeds from asset sales that were excluded from the 2019/20 target.*

Targets are not set at a subsidiary level, however, equivalent KPIs for UKAR Ltd, B&B and NRAM in 2020/21 and 2019/20 were as follows:

UKAR Ltd

Financial measure	March 2021	March 2020
3m+ Residential Arrears	-	-
Ongoing Administrative Expenses / (Credit) [4]	**(£12.9m)**	(£9.1m)
Underlying Profit Before Tax	**£41.2m**	£60.0m
Cash Generation [5]	-	-

4 *UKAR Ltd ongoing administrative expenses include net credits to pension schemes of £13.2m (2019/20: £9.6m).*

B&B

Financial measure	March 2021	March 2020
3m+ Residential Arrears	**1,483**	1,251
Ongoing Administrative Expenses	**£31.3m**	£96.2m
Underlying Profit Before Tax	**£33.1m**	£18.6m
Cash Generation [5]	**£3.2bn**	£0.4bn

NRAM

Financial measure	March 2021	March 2020
3m+ Residential Arrears	**190**	124
Ongoing Administrative Expenses	**£20.5m**	£38.7m
Underlying Profit Before Tax	**£13.1m**	£3.0m
Cash Generation [5]	**£1.6bn**	£4.6bn

5 *£2.1bn of the cash generated by B&B and £1.3bn of the cash generated by NRAM in 2020/21 was transferred to UKAR to settle intercompany loans but has been included in the originating entity (2019/20: B&B nil, NRAM £0.4bn). Prior year NRAM figure has been restated to include £4.4bn proceeds from asset sales that were excluded from the 2019/20 target.*

Key performance indicators ('KPIs') (continued)

Statutory (Loss) / Profit before Tax

Statutory loss is an important financial measure, however, the Board continue to believe it is appropriate to assess performance based on the underlying profits of the business. An analysis of the difference between statutory and underlying profit is provided on page 54.

Statutory (Loss) / Profit Before Tax	March 2021	March 2020
UKAR Group [1]	**(£12.6m)**	(£48.2m)
UKAR Ltd [2]	**£68.7m**	£4,143.7m
B&B	**£21.7m**	(£9.9m)
NRAM	**£24.6m**	(£83.9m)

1 *The £94.7m impairment of the disposal group is only made at Group level.*
2 *The £33.3m impairment of UKAR Ltd's investment in subsidiaries is offset by a consolidation adjustment in the Group accounts.*

Additional KPIs

Supporting financial measures for each of the key objectives are included in the table below.

	2020/21 Target	March 2021	March 2020
3m+ Residential Arrears [1]	***<= 1,584***	**1,673**	**1,375**
- Residential Arrears Balance as a percentage of the Total Residential Mortgage Balance (%)		0.22	0.18
- Residential Payments Overdue		£10.0m	£9.1m
Ongoing Administrative Expenses [2]	***<= £45.2m***	**£38.6m**	**£124.3m**
Underlying Profit Before Tax [3]		**£87.4m**	**£82.6m**
- Statutory Loss Before Tax		(£12.6m)	(£48.2m)
- Net Interest Margin on Average Interest Earning Assets		2.49%	2.85%
Cash Generation [3]		**£4.8bn**	**£5.0bn**
- Total Lending Balances [4]		-	£5.0bn

1 *The 3m+ arrears target includes loans sold during the period. UKAR continues to provide oversight of the service that these customers receive.*
2 *Excluding non-recurring expenses (2020/21: £5.6m; 2019/20: £16.7m).*
3 *The Underlying Profit Before Tax and Cash Generation KPIs were excluded from the targets for 2020/21 due to the planned sale of customer loans.*
4 *March 2020 total lending balances includes loans to customers held at fair value of £4,699.5m and equity release mortgages of £7.6m.*

Financial 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 profits 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 profit and the underlying profit is provided below.

Underlying profit for the year to March 2021 increased by £4.8m to £87.4m (March 2020: £82.6m). 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 £56.6m to £122.9m (March 2020: £179.5m) reflecting lower net interest income as a result of the shrinking balance sheet. Ongoing administrative expenses of £38.6m were £85.7m lower than the previous year (March 2020: £124.3m). Impairment on loans to customers was a credit of £3.1m (March 2020: £27.4m credit).

For the year to March 2021 the statutory loss before tax of £12.6m (March 2020: £48.2m loss) included a £94.7m impairment charge in respect of the disposal group (March 2020: nil), £18.2m loss on sale of loans (March 2020: £2.2m profit) and £5.6m non-recurring expenses (March 2020: £16.7m), partly offset by an £18.5m release of customer redress provisions (March 2020: £116.3m charge).

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

	UKAR Group		B&B		NRAM		UKAR Ltd	
For the year ended 31 March	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Net interest income	**118.1**	172.3	**60.1**	83.0	**30.1**	38.9	**27.9**	50.4
Underlying net non-interest income [1]	**4.8**	7.2	**3.8**	14.6	**1.0**	(7.4)	**0.3**	0.5
Underlying net operating income	**122.9**	179.5	**63.9**	97.6	**31.1**	31.5	**28.2**	50.9
Ongoing administrative expenses	**(38.6)**	(124.3)	**(31.3)**	(96.2)	**(20.5)**	(38.7)	**12.9**	9.1
Net impairment release on loans to customers	**3.1**	27.4	**0.6**	17.2	**2.5**	10.2	-	-
Underlying profit before taxation	**87.4**	82.6	**33.2**	18.6	**13.1**	3.0	**41.1**	60.0
Non-recurring administrative expenses	**(5.6)**	(16.7)	**(0.3)**	(1.3)	-	-	**(5.3)**	(15.4)
Provision for customer redress	**18.5**	(116.3)	**4.8**	(27.1)	**13.7**	(89.2)	-	-
(Loss) / profit on sale of loans	**(18.2)**	2.2	**(16.0)**	(0.1)	**(2.2)**	2.3	-	-
Impairment of disposal group	**(94.7)**	-	-	-	-	-	-	-
Dividend income [2]	-	-	-	-	-	-	-	5,210.7
Impairment of investment in subsidiaries [2]	-	-	-	-	-	-	**32.9**	(1,111.6)
Statutory (loss) / profit before taxation	**(12.6)**	(48.2)	**21.7**	(9.9)	**24.6**	(83.9)	**68.7**	4,143.7

1 *Underlying net non-interest income includes net fee and commission income and other operating income.*
2 *UKAR Ltd's dividend income relates entirely to dividends distributed by B&B and NRAM. UKAR Ltd impaired its investments in B&B and NRAM due to the reduction in their net assets following these dividends. This consolidates out at Group level.*

The income statement split between continuing and discontinued operations and the retained and disposal group is presented on page 79.

Financial review (continued)

Net interest income

For the year ended 31 March	UKAR Group 2021 £m	UKAR Group 2020 £m	B&B 2021 £m	B&B 2020 £m	NRAM 2021 £m	NRAM 2020 £m
Interest receivable and similar income						
On equity release mortgages	**0.5**	0.6	**-**	-	**0.5**	0.6
On other secured loans	**117.5**	177.2	**77.0**	115.7	**40.5**	61.5
On investment securities and deposits	**0.1**	4.7	**0.2**	1.6	**0.1**	3.2
Interest receivable and similar income	**118.1**	182.5	**77.2**	117.3	**41.1**	65.3
Interest expense and similar charges						
On HM Treasury Loans	**-**	(1.7)	**-**	-	**-**	(1.7)
Intercompany loans [1]	**-**	-	**(17.1)**	(34.3)	**(11.0)**	(16.2)
On wholesale funding	**-**	(8.5)	**-**	-	**-**	(8.5)
Interest expense and similar charges	**-**	(10.2)	**(17.1)**	(34.3)	**(11.0)**	(26.4)
Net interest income	**118.1**	172.3	**60.1**	83.0	**30.1**	38.9
Average balances						
Interest-earning assets ('IEA')	**4,743**	6,056	**3,064**	3,626	**1,678**	2,430
Financed by:						
- Interest-bearing funding [2]	**-**	233	**1,885**	2,249	**1,223**	1,315
- Interest-free funding [3]	**4,743**	5,823	**1,179**	1,377	**455**	1,115
Average rates %	**%**	%	**%**	%	**%**	%
Gross yield on IEA	**2.49**	3.01	**2.51**	3.23	**2.45**	2.69
Cost of interest-bearing funding	**-**	(4.38)	**(0.90)**	(1.52)	**(0.90)**	(2.01)
Interest spread	**2.49**	(1.37)	**1.61**	1.71	**1.55**	0.68
Contribution of interest-free funding [3]	**-**	4.22	**0.35**	0.58	**0.24**	0.92
Net interest margin on average IEA	**2.49**	2.85	**1.96**	2.29	**1.79**	1.60
Annual average Bank Base Rate	**0.10**	0.72	**0.10**	0.72	**0.10**	0.72
Annual average 1-month LIBOR	**0.07**	0.68	**0.07**	0.68	**0.07**	0.68
Annual average 3-month LIBOR	**0.14**	0.76	**0.14**	0.76	**0.14**	0.76

1 *Intercompany loan interest payable by B&B and NRAM is consolidated out at Group level.*
2 *Intercompany debt owed by B&B and NRAM is consolidated out at Group level.*
3 *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 – see note 16) and share capital and reserves.*

Net interest income

Net interest income for the year to March 2021 was £118.1m (March 2020: £172.3m). Across both books there was a reduction in income due to the decrease in average interest-earning assets over the year; following the sale of customer loans in February 2021, net interest income is now negligible. At a UKAR level, the underlying net interest margin for the year to March 2021 has decreased to 2.49% from 2.85% in the year to March 2020 driven primarily by lower gross yields on interest earning assets following the reduction in the Bank Base Rate. The average interest-bearing funding balance fell from £233m to nil reflecting the repayment of all outstanding wholesale and government funding in 2019/20.

On the B&B book the net interest margin decreased by 0.33% to 1.96% reflecting both lower net asset yields 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.

Financial review (continued)

Net interest income (continued)

NRAM's net interest margin increased to 1.79% from 1.60% reflecting the repayment of its final £200m Medium Term Note at a rate of 6.375% in December 2019, partially offset by a reduction in the contribution of interest-free funding following the distribution of dividends in 2019/20. £2.0bn of these dividends were financed by an intercompany loan provided by UKAR with an interest rate Bank Base Rate +0.80%. This intercompany loan was repaid in full following the receipt of the proceeds of the customer loan sale in March 2021.

Net non-interest income

For the year ended 31 March	UKAR Group		B&B		NRAM		UKAR Ltd	
	2021	2020	2021	2021	2021	2020	2021	2020
	£m	£m	£m	£m	£m	£m	£m	£m
Total net fee and commission income	**2.8**	(3.5)	**2.6**	4.2	**0.2**	(7.7)	**-**	-
Net realised gains less losses on investment securities	**0.3**	-	**-**	-	**0.3**	-	**-**	-
Other operating income	**1.7**	10.7	**1.2**	10.4	**0.5**	0.3	**-**	-
Net non-interest income	**4.8**	7.2	**3.8**	14.6	**1.0**	(7.4)	**-**	-

Underlying net non-interest income of £4.8m was in line with March 2020 (March 2020: £7.2m). Total net fee and commission income for the year ended 31 March 2020 included an £8.1m fixed fee paid to HM Treasury for guaranteeing NRAM's wholesale funding. This fee ended when NRAM repaid its remaining MTN programme in December 2019. Other operating income includes interim servicing fees of £1.1m (March 2020: £10.1m) from the provision of mortgage services on assets sold.

Administrative expenses

For the year ended 31 March	UKAR Group		B&B		NRAM		UKAR Ltd	
	2021	2020	2021	2020	2021	2020	2021	2020
	£m	£m	£m	£m	£m	£m	£m	£m
Wages and salaries	**7.6**	8.4	**7.6**	8.4	**-**	-	**-**	-
Social security costs	**1.0**	1.1	**1.0**	1.1	**-**	-	**-**	-
Defined benefit pension costs	**(12.9)**	(13.3)	**-**	(1.9)	**0.3**	(0.8)	**(13.2)**	(9.6)
Defined contribution pension costs	**0.5**	0.6	**0.5**	0.6	**-**	-	**-**	-
Other retirement benefit costs	**0.5**	0.5	**0.5**	0.5	**-**	-	**-**	-
Total staff costs	**(3.3)**	(2.7)	**9.6**	8.7	**0.3**	(0.8)	**(13.2)**	(9.6)
IT costs	**2.8**	3.3	**2.8**	3.3	**-**	-	**-**	-
Outsourced and professional services	**35.7**	102.2	**30.9**	100.6	**4.7**	1.6	**0.1**	-
Depreciation and amortisation	**0.5**	0.5	**0.5**	0.5	**-**	-	**-**	-
Management recharge to NRAM	**-**	-	**(15.0)**	(36.9)	**15.0**	36.9	**-**	-
Property Provision and impairment charge	**(2.2)**	13.9	**(2.2)**	13.9	**-**	-	**-**	-
Other administrative expenses [1]	**5.1**	7.1	**4.7**	6.1	**0.5**	1.0	**0.2**	0.5
Total ongoing [1]	**38.6**	124.3	**31.3**	96.2	**20.5**	38.7	**(12.9)**	(9.1)
Non-recurring	**5.6**	16.7	**0.3**	1.3	**-**	-	**5.3**	15.4
Total administrative expenses [1]	**44.2**	141.0	**31.6**	97.5	**20.5**	38.7	**(7.6)**	6.3

1 *Group administrative expenses include a consolidated £0.3m credit (2019/20: £1.5m credit).*

Ongoing administrative expenses for the year of £38.6m (March 2020: £124.3m) were 68.9% lower. The reduction in costs reflects a monthly fixed fee payable to Computershare ending in June 2020.

Non-recurring costs of £5.6m include a £3.8m charge to equalise the differing Guaranteed Minimum Pension entitlements for men and women on historic transfers from the defined benefit pension schemes following the further High Court ruling in November 2020, £1.5m of transition costs relating to the stand-up of UKAR Ltd as a separately managed entity following the company sale and a £0.3m top-up of redundancy provisions.

Financial review (continued)

Administrative expenses

Ongoing administration costs for the year include £0.7m for work in response to the COVID-19 pandemic as shown below. No costs were incurred in relation to the UK's exit from the European Union.

How funds were spent	2020/21 £000	2019/20 £000
Additional hardware such as laptops and equipment to enable staff to work from home.	42	19
Adjustments to office buildings and increased cleaning costs as well as a number of other contract variations in relation to maintaining standards in response of the pandemic.	52	-
Implementation of additional measures to support B&B and NRAM mortgage customers impacted by the pandemic, including offering payment deferrals of up to six months in line with FCA direction.	563	-
Total	**657**	**19**

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 £18.5m (March 2020: £116.3m charge) to reduce total customer redress provisions, primarily reflecting a release of £18.8m surplus PPI provisions having almost completed the remediation process.

(Loss) / profit on sale of loans

The £18.2m loss on the sale of customer loans (March 2020: £2.2m profit) reflects an £18.8m loss on the loans sold to Davidson Kempner and Citi in February 2021 (including £3.8m of costs directly relating to the sale of the loans), partly offset by a £0.6m credit resulting from the release of provisions made in prior years in relation to loan sales.

Impairment of disposal group

The UKAR Group income statement includes a £94.7m impairment of the 'disposal group' recognising the expected loss on the company sales. The amount of impairment reflects the difference between the sales proceeds and the projected Net Asset Value of B&B/NRAM at the point they are expected to be sold, less the costs of selling the companies and taking on any indemnified liabilities.

Arrears and possessions – Accounts Under Management

B&B and NRAM adhere to the FCA's regulatory guidance regarding Treating Customers Fairly and continue to work closely with customers experiencing, or likely to experience, financial difficulty in maintaining their mortgage payments. B&B and NRAM offer 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, B&B and NRAM retain responsibility for the servicing of the loans which were sold under interim servicing arrangements but no longer have direct ownership of any loans. Although arrears levels for both B&B and NRAM 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 10,200 customers (c.30% 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 22% from 1,375 at 31 March 2020 to 1,673 at 31 March 2021. The proportion of total accounts 3 or more months in arrears has increased from 3.62% at 31 March 2020 to 4.82% at 31 March 2021.

The total value of payments overdue by residential customers has increased from £9.1m at 31 March 2020 to £10.0m at 31 March 2021, equivalent to 0.22% of mortgage balances (March 2020: 0.18%).

Financial review (continued)

Arrears and possessions – Accounts Under Management (continued)

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 reduced from 183 at 31 March 2020 to 88 at 31 March 2021. 'For sale' stock with Law of Property Act Receivers ('LPARs') was 40 cases at 31 March 2021 (March 2020: 94).

During the year 214 cases (March 2020: 455) were sold following possession, together with a further 59 cases (March 2020: 16) sold which were under LPAR management.

Loan impairment: residential loans

Whilst B&B and NRAM retain responsibility for servicing the loans sold under interim servicing arrangements, they no longer have 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.

Total realised losses on properties sold following possession or sold by an LPAR were £9.9m (March 2020: £14.3m), all of which had previously been fully provided for.

Provision for insurance risk: equity release loan book

Having been reduced to reflect realised losses through the year, the remaining provision for insurance risk was released in full following the sale of the equity release loans in February 2021 (March 2020: £0.2m).

Taxation

The total Income Statement tax charge for the year ended 31 March 2021 was £25.9m (March 2020: £16.4m). Although a statutory loss before taxation of £12.6m was reported for the year (March 2020: £48.2m loss), this was adjusted for items which are not deductible for tax purposes including the impairment of the disposal Group and PPI remediation. In addition, the tax charge included an £11.9m write-off of deferred tax assets that are no longer expected to be utilised following the sale of customer loans and a £1.9m charge in respect of prior periods, resulting in a higher tax charge than the standard weighted average rate of UK corporation tax of 19.0%.

Balance Sheet

	UKAR Group		B&B		NRAM		UKAR Ltd	
At 31 March	2021	2020	2021	2020	2021	2020	2021	2020
	£m	£m	£m	£m	£m	£m	£m	£m
Loans to customers:								
- residential mortgages	-	4,697.0	-	3,075.3	-	1,621.7	-	-
- commercial loans	-	2.5	-	-	-	2.5	-	-
Equity release mortgages	-	7.6	-	-	-	7.6	-	-
Cash at bank and in hand	**5,087.1**	811.5	**1,274.8**	147.4	**445.3**	178.0	**3,367.0**	486.1
Intercompany debtors	-	-	**3.2**	26.1	-	-	-	3,415.8
Investment in subsidiaries	-	-	-	-	-	-	**1,562.2**	1,522.5
Other assets	**540.4**	869.4	**14.5**	47.0	**2.6**	14.1	**611.2**	846.7
Total assets	**5,627.5**	6,388.0	**1,292.5**	3,295.8	**447.9**	1,823.9	**5,540.4**	6,271.1
Intercompany creditors	-	-	-	2,079.4	**0.5**	1,339.3	**2.7**	23.2
Other liabilities	**253.6**	304.1	**60.9**	84.8	**26.4**	93.7	**166.3**	164.0
Equity	**5,373.9**	6,083.9	**1,231.6**	1,131.6	**421.0**	390.9	**5,371.4**	6,083.9
Total equity and liabilities	**5,627.5**	6,388.0	**1,292.5**	3,295.8	**447.9**	1,823.9	**5,540.4**	6,271.1

In the year to March 2021 the Balance Sheet has reduced by £0.8bn to £5.6bn (March 2020: £6.4bn). The Balance Sheet reduction reflects £0.6bn cash dividends distributed in the year and a £0.2bn reduction in the surplus on the defined benefit pension schemes, primarily due to reductions in corporate bond yields and increases in market implied inflation.

The majority of intercompany funding between UKAR Ltd, B&B and NRAM was settled following the receipt of the proceeds of the customer loan sale in March 2021. The residual balances relate to cost recharges.

Following the sale of customer loans the Balance Sheet is primarily comprised of £5.1bn cash and a £0.6bn surplus on the defined benefit pension schemes.

Financial review (continued)

Capital

The Group operates under a MIPRU regulatory status.

NRAM and MX are required to hold capital in excess of 1% of total Balance Sheet assets plus any undrawn commitments as NRAM retains a small portfolio of loans, albeit fully impaired and MX has an intercompany loan asset. Having no loans on its Balance Sheet, B&B is required 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.

At 31 March 2021 capital in B&B represented 94.9% (March 2020: 35.6%) of B&B Company assets, NRAM capital represented 93.9% (March 2020: 21.4%) of NRAM Company assets and MX capital represented 81.3% (2020: 11.2%) of MX's assets.

The regulated companies in the UKAR Group met their capital requirements in full throughout the year and have received no additional capital from HM Treasury.

Capital resources - B&B (company only)

At 31 March	2021 £m	2020 £m
Share capital and reserves	**1,231.6**	1,131.6
Less: deductions [1]	**(4.9)**	(119.5)
Total capital	**1,226.7**	1,012.1

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

B&B 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.

Capital resources - NRAM (company only)

At 31 March	2021 £m	2020 £m
Share capital and reserves	**420.8**	390.7
Total capital	**420.8**	390.7

NRAM total capital resources of £420.8m are £30.1m higher than at 31 March 2020 mainly due to the after tax profit for the year of £16.3m and the release of the negative IFRS 9 reserve of £14.4m.

Risk management and control

Pages 60 to 64 form an integral part of the audited Financial Statements

Introduction

In accordance with the requirements of the Framework Document, which is referred to on page 20, the Group's approach to risk management is built on formal governance processes and relies on individual responsibility and collective oversight, informed by comprehensive reporting.

The following sections describe the Group's current approach to risk management including the risk governance structure and principal risk categories, which also reflect the outsourcing of operations to Computershare. Other than the risks described here, there may be other factors, hitherto not identified, which could also affect the Group's results. To take into account new and / or emerging risks, the Board regularly reviews whether there are any such factors that may be a threat to our approach to risk management. 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's performance.

As referenced in the Chair's statement, the successful completion of the first stage of the sale of B&B and NRAM and their subsidiary companies resulted in the transfer of the economic interest in the customer loan books. As a result this changed the nature and focus of the principal risks, in particular, B&B and NRAM no longer have any material exposure to credit risk. B&B will continue to manage credit risk on behalf of the beneficial owners under the servicing contract.

Risk governance

The responsibility for the strategy and approach to risk governance and management lies with the Board. The Board is responsible for determining risk strategy, setting risk appetite and reviewing the effectiveness of risk and control processes in support of the Group's strategy. The Board is also responsible for establishing a clearly defined risk management structure with distinct roles and responsibilities. Under that structure, Internal Audit provides 'third line of defence' challenge and review of the management of risks and the adequacy and effectiveness of controls within the business. Management committees and the Risk Function provide 'second line of defence' oversight, challenge and review. Line managers have 'first line of defence' responsibility for the identification, measurement and management of the risks within their business areas.

The management of the risk framework, including oversight and challenge to the business on the effectiveness of its risk management activity and reporting of strategic, operational, conduct, regulatory and financial risk, is performed by specialist teams in the Risk Function. Second line of defence monitoring of the EWRMF is also performed by the Risk Function.

Management committees

The management committees, under the authority delegated by the Board are described below:

Executive Committee ('ExCo')

ExCo is an advisory committee which supports the CEO in managing the business to achieve its strategic objectives. ExCo will normally meet twice each month, with both meetings continuing to reference all matters relating to the business, with one meeting focussing on Customer, Conduct and Change matters and the other meeting addressing Board reporting. As at 31 March 2021, the Executive Risk Committee is the only sub-committee of ExCo.

Executive Risk Committee ('ERC')

The ERC is a management sub-committee of ExCo with a reporting line to the Audit & Risk Committee ('ARC'). The primary objective of the ERC is to provide technical oversight of key financial and operational risks and governance issues, including the review of the adequacy of risk mitigating actions, costs and capital effectiveness. The Committee supports, advises and makes recommendations to ExCo and the ARC.

The following were sub-committees of the ERC at 31 March 2021:

- Credit Risk Committee ('CRC');
- Risk, Audit and Compliance Service Review Meeting; and
- Claims Management Advisory Group ('CMAG').

The Impairment Assumptions Review Meeting ('IARM') and Liquidity Management Committee ('LMC') met throughout the year but were disbanded following sale of the mortgage books.

Credit Risk Committee

The CRC's primary purpose is to review credit policies, procedures and credit related proposals that have a financial impact on the business and to ensure the proposals balance the risk and reward ratio in line with the credit risk appetite set by the Board.

Risk management and control (continued)

Pages 60 to 64 form an integral part of the audited Financial Statements

Management committees (continued)

Risk, Audit and Compliance Service Review Meeting

The primary purpose of the Committee is to review and challenge customer risk exposures, from risk information that emanates predominantly from the suppliers contract management, including key assurance activities, operational risk, regulatory risk and conduct risk and ensure appropriate actions or improvements are taken.

Claims Management Advisory Group

The primary purpose of the CMAG is to review complaints management information and legal claims that may impact on the business.

Impairment Assumptions Review Meeting (Disbanded)

The primary objective of the IARM was to undertake a review of the key assumptions underpinning the IFRS 9 Excepted Credit Loss ('ECL') and Fair Value calculations in light of observed experience and future anticipated developments.

Liquidity Management Committee (Disbanded)

The primary objective of LMC was to support and advise the ERC on managing liquidity risk. It did this by recommending risk appetite levels and analysing and reporting on issues which could affect the Group's liquidity.

Risk management oversight

The Risk Function provides oversight and independent challenge to the management of risk across the Group, including that relating to the oversight of third party service providers. The Function comprises a team of risk management specialists with responsibility for the embedding and oversight of operational, conduct, financial and strategic risk management, plus analysis and reporting of risk matters to the Board and the Board advisory and management committees. Key functional responsibilities include:

- development of the EWRMF and policies for the identification, assessment and mitigation of financial, strategic and operational risks;
- provision of support to the Group business line management in the implementation of the EWRMF;
- aggregate analyses and review of risk concentrations and sensitivities across the Principal Subsidiaries;
- acting as a point of reference for risk and control matters, providing advice to management, sharing best practice and carrying out special reviews as directed by the Board, ARC, ExCo and ERC; and
- assessment and challenge of business areas' control framework and subsequent risk exposure to ensure this is within the organisation's risk appetite.

Compliance

Compliance is provided through an in-house compliance team, supported by an external co-source arrangement, which operates in accordance with an ARC approved annual compliance plan. The Risk Director is approved by the ARC and the FCA to undertake this control function.

The role of Compliance is to:

- provide assurance to ExCo and the Board (through the ARC) that control processes are in operation to manage all regulatory and conduct risks across the Group;
- contribute to the continuous improvement of regulatory compliance through provision of advice to the Group;
- support Executive management regarding conduct of the business in line with FCA principles and emerging conduct issues; and
- oversee and co-ordinate liaison with the FCA on a day to day basis to promote open and co-operative relationships.

Internal Audit

Internal Audit activities are led by the Head of Internal Audit and supported by the provision of services by Deloitte LLP. The Head of Internal Audit is approved for the position by the FCA and reports to the Chair of the Audit & Risk Committee and to the CEO.

The primary role of Internal Audit is to help the Board and Executive management to protect the assets, reputation and sustainability of the Group. The main objective of Internal Audit is to provide reliable, valued and timely assessment to the Board, Audit & Risk Committee and Executive management on the effectiveness of the system of internal controls in mitigating current and evolving key risks and in so doing, assist the organisation in enhancing the effectiveness of its approach to risk management.

Risk management and control (continued)

Pages 60 to 64 form an integral part of the audited Financial Statements

Internal Audit (continued)

Business and support activities of the Group are included in the scope of Internal Audit's responsibility and are subject to regular and appropriate internal audit review in accordance with Internal Audit's risk based Audit Plan.

Additional detail is contained in the Audit & Risk Committee Chair's Report on page 46.

Controls effectiveness

The role of Accounting Officer, as detailed on page 72, was held by our CEO, Ian Hares at the year end. The Accounting Officer has responsibility for maintaining and reviewing the effectiveness of the system of internal controls. He has confirmed that there were no significant control issues in the year under review. Following the introduction of remote working arrangements in response to COVID-19, a small number of changes were adopted to our control environment in line with regulatory and government guidance, these remained in place across the year and continue to do so. For the period of this report no material control issues are noted and appropriate internal and outsourcer oversight and assurance is in place to continue to monitor the assessment of these controls and any potential increase in risk as regulatory and government guidance is updated.

In addition, in line with the recommendations set out by the Macpherson Report, the Accounting Officer has confirmed that an appropriate QA framework is in place and used for all business critical models. A list of business critical models is maintained and the annual review by the Accounting Officer has confirmed that there were no significant control issues associated with these models during the financial year.

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 the existing 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. There is 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 we do business, specifically, the interests of customers and market integrity are at the heart of our 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 there is 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. We 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'.

Risk management and control (continued)

Pages 60 to 64 form an integral part of the audited Financial Statements

Risk categorisation (continued)

(iii) Operational risk (continued)

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, B&B and NRAM no longer have 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.

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:

At 31 March	Outstanding Balance 2021 £m	Provision 2021 £m	Outstanding Balance 2020 £m	Provision 2020 £m
Loans secured on residential property	-	-	4,951	131
Other secured loans	-	-	3	-
Equity release mortgages [1]	-	-	8	-
Cash at bank and in hand	-	-	812	-

1 *Equity release mortgages were considered to meet the definition of an insurance contract as the Group accepted the risk that negative equity may have arisen on the loans. The provision for the equity release mortgages in the table above reflects insurance risk, rather than credit risk.*

Counterparty credit risk is limited to operational bank accounts and deposits held with approved counterparties in connection with the legacy pension schemes. Credit risk limits apply to all counterparties which reflect their credit rating as well as size, depth and quality of their capital base. 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 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.

We consider the primary strategic risks to be external environment, outsourcing, political, regulatory and legal risk, infrastructure, people and project risk.

Our focus is on continuous assessment and measurement of movement in strategic risk status in order to ensure monitoring of potential impacts on the annual business and operating plans, and overarching strategic objectives. Thus, close oversight of movements in strategic risk (proximity, financial impact, probability) is maintained via monthly reporting to 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.

Risk management and control (continued)

Pages 60 to 64 form an integral part of the audited Financial Statements

Risk categorisation (continued)

(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.

(vii) Regulatory risk

Regulatory risk is the risk of failing to comply with the legal and regulatory requirements applying to arrangements and activities. We have a zero regulatory risk appetite and undertakes its activities in line with this. We have established, implemented and maintain policies and procedures designed to detect any risk of failure by us to comply with its obligations under the regulatory system, as well as associated risks. We have 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.

Corporate social responsibility report

UKAR aims to conduct its business in a socially responsible manner in respect of our customers, the workplace, the communities we operate in and the environment.

Customers

The Group has responsibility for over 27,200 customers (March 2020: 30,400), with 34,700 mortgage accounts (March 2020: 38,000) under interim servicing arrangements, although, following the sale of customer loans, UKAR no longer has direct ownership of any loans.

We are committed to:

- ensuring that simplicity, integrity and truth applies to everything we do;
- supporting vulnerable customers; and
- supporting customers in financial difficulty.

Workplace

As highlighted in the Section 172(1) Statement within the Strategy and operating environment report, we believe colleagues are the differentiating factor in ensuring we achieve our objectives and we promote a culture which is shaped by the 'tone from the top' and supports, develops and challenges individuals to deliver success. Personal and business success is driven not only on what we do but also how we do it and both of these principles are applied throughout our Competency Framework and performance management processes. Our rewards and incentives are aligned to our culture and our values, each of which have exemplar behaviours which help us to understand what they mean, and how they apply to what we do on a daily basis.

Our Code is published on our website which sets out the behaviours and standards we expect in the workplace to ensure we act with professional integrity and focus on doing the right thing for all our stakeholders, conducting our activities with honesty, integrity and according to ethical and legal standards.

We adopt best practice policies and procedures which form a key part of our induction programmes and comprehensive training and development programmes are available to provide all colleagues with the skills and specialist development opportunities they need to achieve their potential.

Our employment practices reflect international and national standards covering areas such as minimum working age, working hours, health and safety and discrimination. Our health and safety protocols were updated for the home working environment which was implemented during the COVID-19 pandemic. Our working environment is based on trust and openness and we encourage effective and efficient communication throughout the organisation to enable us to retain and engage talent, maintain motivation and improve the wellbeing of all colleagues in the workplace. We aim to recruit high calibre employees from all sections of the community, ensuring that no employee or job applicant receives less favourable treatment on grounds which are not related to the job.

Colleague engagement is important to us and that is why 'Being a Great Place to Work' is one of our four strategic objectives. It is important to us that colleagues feel valued, are proud of the contribution they make and are given the opportunity to grow and learn new skills. The much reduced size of the business with the majority of colleagues based at one site would normally enable colleagues to communicate with each other on a face to face basis. However, we also use a variety of channels to share information on a regular basis and whilst working under the restrictions required as a result of the pandemic, all colleagues have the technology to work from home and keep in touch with each other via the telephone or video conferences. Regular wellbeing updates are sent through email and we have replaced our face-to-face forums with telephone and video conferences.

We have a recognition scheme based around our core values and new ideas are encouraged through a suggestion scheme. We believe that colleagues who enjoy their work strive to do the best they can and act in a professional way which will ensure that our customers receive the best possible outcomes and the organisation maximises value for the taxpayer.

We have a good relationship with the Unite union and we are flexible in the way we approach the personal circumstances of colleagues, preventing discrimination, for example on family grounds, and ensuring the workplace needs of those with families are addressed. We report our sickness and stress absence data to the Board on a monthly basis and we remained below the national benchmark for stress-related absence throughout 2020/21.

Corporate social responsibility report (continued)

Workplace (continued)

Off-payroll engagements

UKAR uses the services of a number of individuals to support its business, both to support business as usual and project work. Details of these individuals are below:

Table 1 – Off-payroll engagements as at 31 March 2021 (for more than £245 per day and lasting longer than 6 months)

	No. Contractors
No. of existing engagements as of 31 March 2021:	5
Of which:	
No. that have existed for less than one year at the time of reporting:	0
No. that have existed for between one and two years at the time of reporting:	1
No. that have existed for between two and three years at the time of reporting:	0
No. that have existed for between three and four years at the time of reporting:	0
No. that have existed for four years or more at the time of reporting:	4
Total	**5**

The managed service arrangement with our main provider of contract resource includes contractual clauses stating that liability for tax and National Insurance sits with the provider.

Table 2 – New off-payroll engagements, or those that reached six months in duration (for more than £245 per day and lasting longer than 6 months)

	No. Contractors
No. of new engagements, or those that reached six months duration, between 1 April 2020 and 31 March 2021:	5
Of which:	
No. assessed as within scope of IR35*:	-
No. assessed as out of scope of IR35*:	5
No. engaged directly and on company payroll:	-
No. of engagements reassessed for consistency / assurance purposes throughout the year:	-
No. of engagements that saw a change to IR35* status following the consistency review:	-

* *IR35 is tax legislation designed to ensure that where an individual would have been an employee had they been providing their services directly; they pay broadly the same tax and National Insurance contributions ('NICs') as an employee.*

Table 3 – For any on payroll and off-payroll engagements of board members and/or senior officials with significant financial responsibility during the year

	No.
No. of off-payroll engagements of board members and/or senior officials with significant financial responsibility during the year:	-
No. of individuals on payroll and off-payroll that have been deemed 'board members and/or senior officials with significant financial responsibility during the year':	12*

* *All 12 individuals with significant financial responsibility were on the payroll.*

Community

As highlighted in the Community strategy on page 16 we are committed to community engagement and charitable initiatives with a caring culture that promotes welfare and goodwill in the wider community. This activity also provides great opportunities and experiences that enhance the quality of life for all concerned. Colleagues were unable to undertake voluntary action in the year due to the impact of the pandemic, but we continued to support virtual activities for our Charity of the Year, Sue Ryder, and other charitable causes.

Corporate social responsibility report (continued)

Environment

Streamlined Energy and Carbon Reporting ("SECR") was introduced in 2017 and is applicable for accounting periods starting on or after 1 April 2019. Information from our SECR report is presented below.

Our Carbon Reduction Strategy

We endeavour to reduce risk and build resilience collaboratively in our value chain through our direct and indirect assets, and engage with all our stakeholders, particularly our partners at Computershare. This year through a series of cross-functional workshops we identified and integrated the major non-financial impacts which are material to the business, categorised by the environmental, social and governance ("ESG") impacts and incorporated these into our business risk management processes so that climate change related risks continue to be integrated into the core risk framework. More detail can be found on pages 18 and 63 of this report.

Meeting the SECR Requirements

There has been significant progress with the reduction of energy and carbon emissions.

Table 4 – Energy Consumption and Emissions

	2020/21	2019/20	2018/19
Energy Consumption (MWh)	**49.0**	88.8	111.5
Electricity GHG Emissions CO_2e (Tonnes)	**10.72**	17.71	24.65
Transport GHG Emissions CO_2e (Tonnes)	**0.69**	3.45	4.32
Total GHG Emissions CO_2e (Tonnes)	**11.41**	21.16	28.97
Intensity Ratio GHG Emissions: headcount	**0.114**	0.149	0.146

Energy Consumption

In 2020/21, UKAR's total energy consumption was 49 MWh from the London office and transport. Gas and electricity emissions at the Crossflatts and Doxford offices, which are controlled by Computershare, are not in scope as the Group pays a flat serviced rate for office occupation regardless of energy consumption. Electricity forms the highest energy type used with 94% of overall consumption. Business travel via expensed mileage claims using personal vehicles account for 6% of total energy consumption.

Table 5 – 2020/21 Total Energy Consumption by Type

Energy Type	Energy User	2020/21 Consumption (MWh)	% Consumption
Electricity	**London Office**	46.0	94%
Gas	-	-	-
Vehicles	**Transport**	3.0	6%

COVID-19 restrictions on office occupation and travel have materially reduced energy consumption. The energy consumption associated with our direct activities are relatively limited.

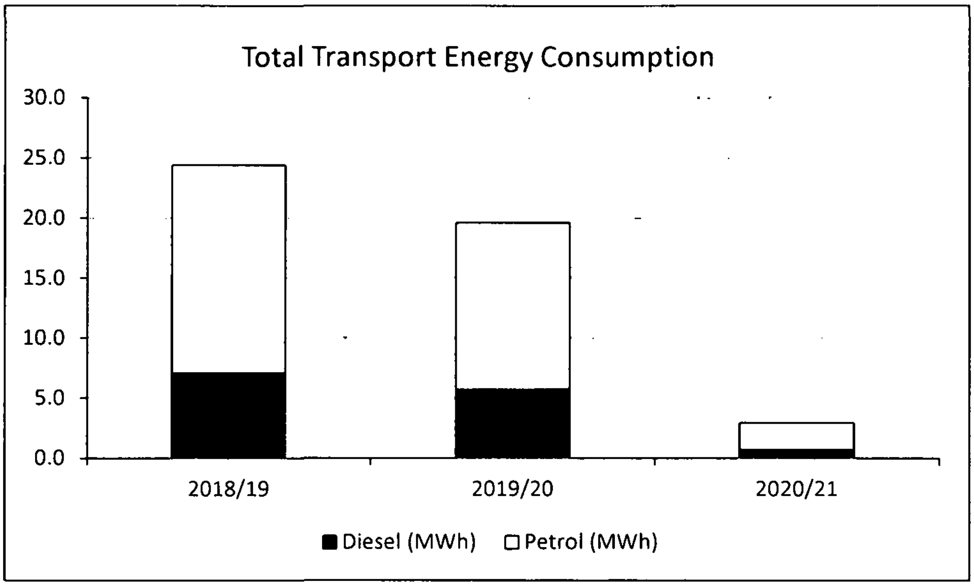
Whilst there are no company vehicles, transport between sites does take place and has been quantified through employee expensed business mileage. In 2020/21 a total of 2,498 miles were driven, equivalent to 3.0 MWh. Figure 1, below, shows that total transport energy consumption has fallen by 88% over the past three years, highlighting the significant reductions that have already been made, and the impact of COVID-19 travel restrictions.

Corporate social responsibility report (continued)

Environment (continued)

Energy Consumption (continued)

Figure 1 –Total Transport Energy Consumption 2018/19 to 2020/21

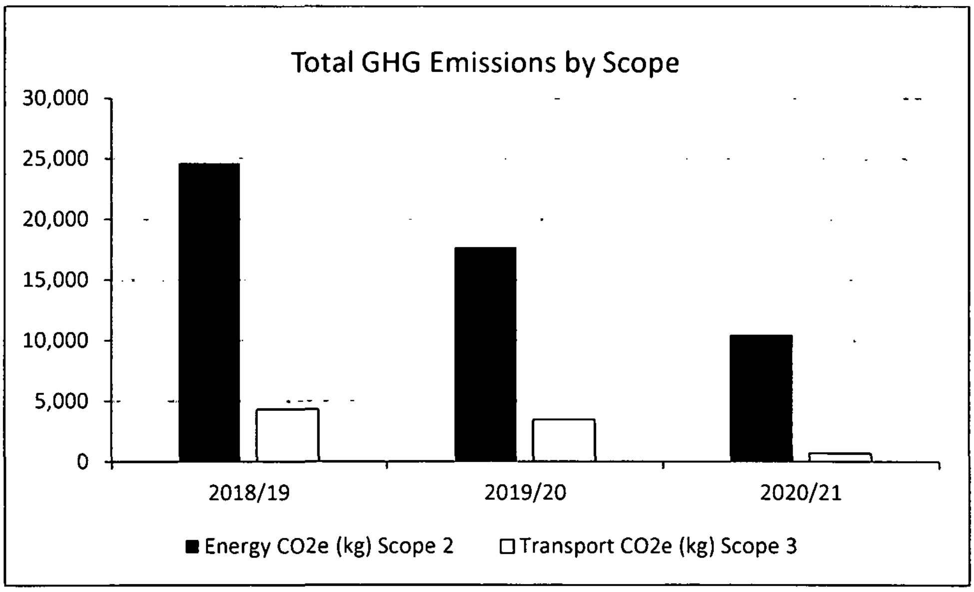


Greenhouse Gas Emissions

GHG emissions have also fallen significantly this year, due largely to the COVID-19 restrictions on office occupation and travel. This accelerated a previous three year trend due to transport reduction, London office operational improvements and also the reduction in the UK government's GHG carbon conversation factor[2]. This factor is used to convert an organisation's 'activity data' such as electricity consumed or distance travelled into carbon emissions and each year the UK government establishes tables of conversion factors to enable users to calculate and report their greenhouse gas emissions associated with the activities of their business.

Total GHG emissions have fallen by 60% over the past three years, with transport emissions falling by 84% over the same time. Our building and transport initiatives will also help to reduce any future increase in greenhouse gas emissions as the travel restrictions during the pandemic ease and more colleagues return to office working.

Figure 2 Total GHG Emissions by Scope 2018/19 to 2020/21



[2] Annual UK government conversion factors for GHG reporting - https://www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2020

Corporate social responsibility report (continued)

Environment (continued)

SECR Methodology

We have set the base year as 2019/2020 and collated energy and travel data for this period and calculated Scope 1, Scope 2 and Scope 3 emissions in accordance with Chapter 5 of the Greenhouse Gas ("GHG") Protocol. Data collection, estimation and inventory creation is described in the UKAR GHG Reporting Procedure.

For Scope 1, there is no natural gas consumption or owned and leased vehicles for business travel, so no reporting is provided for this scope. For Scope 2, monthly electric consumption data are recorded in the original unit of measure the data was provided in kilowatt hours (kWh). For Scope 3, expensed business travel data is sourced from the finance system as miles driven for each journey.

The electricity and transport emissions were calculated using UK government conversion factors. For Scope 3 a medium car was selected for both petrol and diesel as an average employee vehicle as the specific vehicle information is not known.

Energy and GHG emissions are normalised by the indicator of number of employees, as this better reflects the changes in the business rather than indicators relating to finance or space.

Other matters

Review of business, future developments and uncertainties

A review of the business, future developments and uncertainties is set out in the Strategic Report on pages 10 to 16.

Principal risks

Principal risks of the UKAR Group are covered on pages 17 to 18 and 60 to 64.

Dividends

UKAR declared two interim dividends during the year, totalling £0.6bn, which were settled in cash. £290.0m was declared on 28 July 2020 and £285.0m on 26 January 2021. The Directors do not propose the payment of any further dividends in respect of the year ended 31 March 2021.

Major shareholders

As at the date of this report, all shares in UKAR are held by HM Treasury. All shares in B&B and NRAM are held by UKAR.

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

Employee involvement

The People Strategy of UKAR is detailed on pages 14 to 15.

We are 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. We give 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 us, and if members of staff become disabled, we continue employment, either in the same or an alternative position, with appropriate retraining being given if necessary.

Personal data related incidents

While there have been a number of low risk incidents involving personal data during 2020/21 none of these have had a material impact on the privacy rights and freedoms of data subjects and there have been none that required reporting to the Information Commissioners Office.

Directors' indemnities

The Articles of Association provide the power to indemnify any Director against liabilities incurred as a result of their office.

UKAR has also 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 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 each Director and HM Treasury.

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

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

Independent Auditors

A resolution to reappoint the NAO as the Company's auditors will be put to the Shareholder at the forthcoming Annual General Meeting. The NAO will resign as the auditors of B&B and NRAM, following the completion of their sale to Davidson Kempner later in the year. A tender process to appoint new auditors for B&B and NRAM will be commenced following completion of the sale.

Other matters (continued)

Disclosure of information to the 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.

Statement of Directors' and Accounting Officer's responsibilities in respect of the Directors' Report and the Financial Statements

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration 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 and the Directors' Remuneration Report 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 and performance, business model and strategy.

This report has been approved by the Board of Directors and is signed by the Chief Executive Officer on behalf of the Board of Directors.

The Accounting Officer of HM Treasury has designated UKAR's Chief Executive Officer as the Accounting Officer of UKAR. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding UKAR's assets, are set out in 'Managing Public Money', published by HM Treasury.

In preparing the Financial Statements, the Accounting Officer is required to comply with the requirements of the government's Financial Reporting Manual where this requires additional disclosure that does not conflict with IAS and the Companies Act and in particular to:

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the government's Financial Reporting Manual have been followed, and disclose and explain any material departures in the Financial Statements;
- prepare the Financial Statements on a going concern basis; and
- taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the entity's auditors are aware of that information.

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

Independent Auditor's report to the Members of UK Asset Resolution Limited

Opinion on financial statements

I have audited the group financial statements of UK Asset Resolution Limited group for the year ended 31 March 2021 which comprise:

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

The financial reporting framework that has been applied in their preparation is applicable law and 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 affairs as at 31 March 2021 and of the group's loss 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 UK Asset Resolution Limited 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 UK Asset Resolution Limited 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 UK Asset Resolution Limited 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, the Director's Report and Governance Statement and the Unaudited appendix: additional disclosure requirements of the government's Financial Reporting Manual, but does not include the parts of the of the Directors' Remuneration Report and 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.

Independent Auditor's report to the Members of UK Asset Resolution Limited (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.
- the Strategic report and the Directors' report and Governance Statement have been prepared in accordance with applicable legal requirements.

I have reported separately on pages 129 to 131 on the Parent Company Financial Statements of UK Asset Resolution Limited for the year ended 31 March 2021 and on the information in the Directors' Remuneration Report that is described as having been audited.

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 UK Asset Resolution Limited 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.

My procedures included the following:

- Inquiring of management, UK Asset Resolution Limited group's Head of Internal Audit and those charged with governance, including obtaining and reviewing supporting documentation relating to UK Asset Resolution Limited 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 UK Asset Resolution Limited group's controls relating to Companies Act 2006, tax legislation and regulatory requirements imposed by the Financial Conduct Authority under the mortgage and insurance prudential standards.
- discussing among the engagement team (which covers all UK Asset Resolution group entities) and involving relevant internal and external specialists, including an actuarial expert to support the audit of UK Asset Resolution's retirement benefit plans and internal corporate finance 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: posting of unusual journals and bias in the assumptions used in determining the valuation of the retirement benefit plans;

Independent Auditor's report to the Members of UK Asset Resolution Limited (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

- obtaining an understanding of UK Asset Resolution Limited group's framework of authority as well as other legal and regulatory frameworks that the UK Asset Resolution Limited 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 UK Asset Resolution Limited 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), regulatory requirements imposed by the Financial Conduct Authority under the mortgage and insurance prudential standards and the statutory funding objectives set by the Pensions Regulator; and
- review of correspondence between UK Asset Resolution Limited 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. 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

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

Notes to the Financial Statements

UKAR Company Accounts

Notes to the Company Financial Statements

CONSOLIDATED INCOME STATEMENT

		12 months to 31 March 2021			12 months to 31 March 2020		
		Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
	Notes	£m	£m	£m	£m	£m	£m
Interest receivable and similar income	4	-	118.1	118.1	-	182.5	182.5
Interest expense and similar charges	4	-	-	-	-	(10.2)	(10.2)
Net interest income	4	-	118.1	118.1	-	172.3	172.3
Fee and commission income		-	2.8	2.8	-	4.6	4.6
Fee and commission expense		-	-	-	-	(8.1)	(8.1)
Net fee and commission income		-	2.8	2.8	-	(3.5)	(3.5)
Net realised gains less losses on investment securities		-	0.3	0.3	-	-	-
Other operating income		-	1.7	1.7	-	10.7	10.7
Non-interest income		-	4.8	4.8	-	7.2	7.2
Total income		-	122.9	122.9	-	179.5	179.5
Administrative expenses	5	7.1	(51.3)	(44.2)	(3.1)	(137.9)	(141.0)
Provision for customer redress	21	-	18.5	18.5	-	(116.3)	(116.3)
Impairment of disposal group held for sale	3	-	(94.7)	(94.7)	-	-	-
Net impairment release on loans to customers	10	-	3.1	3.1	-	27.4	27.4
(Loss)/profit on sale of loans	6	-	(18.2)	(18.2)	-	2.2	2.2
Profit/(loss) before taxation		7.1	(19.7)	(12.6)	(3.1)	(45.1)	(48.2)
Taxation	7	(3.6)	(22.3)	(25.9)	0.4	(16.8)	(16.4)
Profit/(loss) for the financial year attributable to owners of the parent		3.5	(42.0)	(38.5)	(2.7)	(61.9)	(64.6)

The disclosures regarding risk management and control on pages 60 to 64, the notes on pages 85 to 127 and the Company information on pages 132 to 146 form an integral part of these Financial Statements.

Further information regarding the analysis of continuing and discontinued operations is provided in note 3. The results for the year ended 31 March 2020 have been re-presented compared to the presentation in the 31 March 2020 Financial Statements in order to show this analysis.

In February 2021 the Group recognised the sale of all of its loans to customers (see notes 9 and 12).

CONSOLIDATED STATEMENT OF COMPREHENSIVE

For the 12 months to 31 March 2021

		Continuing operations			**Discontinued operations**		
		Gross of tax	**Tax**	**Net of tax**	**Gross of tax**	**Tax**	**Net of tax**
	Note	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Profit/(loss) for the financial year		**7.1**	**(3.6)**	**3.5**	**(19.7)**	**(22.3)**	**(42.0)**
Other comprehensive (expense)/income							
Items that may be reclassified subsequently to profit or loss:							
Net gains recognised in fair value reserve during the year on assets carried at fair value through other comprehensive income	20, 23	**-**	**-**	**-**	**124.2**	**(23.5)**	**100.7**
Items that will not be reclassified subsequently to profit or loss:							
Retirement benefit remeasurements	15, 20	**(244.4)**	**46.4**	**(198.0)**	**-**	**-**	**-**
Total other comprehensive (expense)/income		**(244.4)**	**46.4**	**(198.0)**	**124.2**	**(23.5)**	**100.7**
Total comprehensive (expense)/income for the financial year		**(237.3)**	**42.8**	**(194.5)**	**104.5**	**(45.8)**	**58.7**
Total continuing and discontinued operations		**(132.8)**	**(3.0)**	**(135.8)**			

For the 12 months to 31 March 2020

		Continuing operations			Discontinued operations		
		Gross of tax	Tax	Net of tax	Gross of tax	Tax	Net of tax
	Note	£m	£m	£m	£m	£m	£m
(Loss)/profit for the financial year		(3.1)	0.4	(2.7)	(45.1)	(16.8)	(61.9)
Other comprehensive income/(expense)							
Items that may be reclassified subsequently to profit or loss:							
Net losses recognised in fair value reserve during the year on assets carried at fair value through other comprehensive income	20, 23	-	-	-	(229.5)	43.5	(186.0)
Items that will not be reclassified subsequently to profit or loss:							
Retirement benefit remeasurements	15, 20	188.5	(35.8)	152.7	-	-	-
Total other comprehensive income/(expense)		188.5	(35.8)	152.7	(229.5)	43.5	(186.0)
Total comprehensive income/(expense) for the financial year		185.4	(35.4)	150.0	(274.6)	26.7	(247.9)
Total continuing and discontinued operations		(89.2)	(8.7)	(97.9)			

Further information regarding the analysis of continuing and discontinued operations is provided in note 3. The results for the year ended 31 March 2020 have been re-presented compared to the presentation in the 31 March 2020 Financial Statements in order to show this analysis.

CONSOLIDATED BALANCE SHEET

	Note	Retained group	Disposal group held for sale	31 March 2021 Total £m	31 March 2020 Total £m
Assets					
Cash at bank and in hand	8	**3,367.0**	**1,720.1**	**5,087.1**	811.5
Loans to customers	9	**-**	**-**	**-**	4,699.5
Equity release mortgages	12	**-**	**-**	**-**	7.6
Current tax assets		**5.0**	**-**	**5.0**	19.7
Lease assets	13	**-**	**-**	**-**	10.9
Other assets	14	**-**	**3.1**	**3.1**	3.4
Retirement benefit assets	15	**606.2**	**-**	**606.2**	835.4
Excess impairment of the disposal group	3	**-**	**(73.9)**	**(73.9)**	-
Total assets		**3,978.2**	**1,649.3**	**5,627.5**	6,388.0
Liabilities					
Deposit for sale of the disposal group	3	**50.0**	**-**	**50.0**	-
Lease obligations	13	**-**	**15.0**	**15.0**	17.6
Accruals	18	**1.0**	**16.4**	**17.4**	37.5
Other liabilities	19	**-**	**15.9**	**15.9**	7.4
Deferred tax liabilities	20	**115.2**	**-**	**115.2**	120.3
Retirement benefit obligations	15	**21.2**	**-**	**21.2**	20.6
Provisions	21	**-**	**18.9**	**18.9**	100.7
Total liabilities		**187.4**	**66.2**	**253.6**	304.1
Equity					
Issued capital and reserves attributable to owners of the parent:					
- share capital	22			**1.2**	1.2
- other reserves	23			**1,027.9**	1,028.4
- retained earnings				**4,344.8**	5,054.3
Share capital and reserves attributable to owners of the parent				**5,373.9**	6,083.9
Total equity and liabilities				**5,627.5**	6,388.0

Further information regarding the analysis of continuing and discontinued operations is provided in note 3.

The disclosures regarding risk management and control on pages 60 to 64, the notes on pages 85 to 127 and the Company information on pages 132 to 146 form an integral part of these Financial Statements.

The Financial Statements on pages 79 to 127 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

UK Asset Resolution Limited is registered in England and Wales under company number 07301961.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the 12 months to 31 March 2021

	Note	Share capital £m	Fair value reserve £m	Merger reserve £m	Retained earnings £m	Total share capital and reserves £m
At 1 April 2020		**1.2**	**(100.7)**	**1,129.1**	**5,054.3**	**6,083.9**
Other comprehensive income/(expense):						
- net movement in fair value reserve	23	-	**124.2**	-	-	**124.2**
- retirement benefit remeasurements	15	-	-	-	**(244.4)**	**(244.4)**
- tax effects of the above		-	**(23.5)**	-	**46.4**	**22.9**
Total other comprehensive income/(expense)		-	**100.7**	-	**(198.0)**	**(97.3)**
Loss for the financial year		-	-	-	**(38.5)**	**(38.5)**
Release of merger reserve	23	-	-	**(101.2)**	**101.2**	-
Total comprehensive income/(expense)		-	**100.7**	**(101.2)**	**(135.3)**	**(135.8)**
Unclaimed dividends [1]		-	-	-	**0.8**	**0.8**
Dividends declared	22	-	-	-	**(575.0)**	**(575.0)**
At 31 March 2021		**1.2**	-	**1,027.9**	**4,344.8**	**5,373.9**

For the 12 months to 31 March 2020

	Note	Share capital £m	Fair value reserve £m	Merger reserve £m	Retained earnings £m	Total share capital and reserves £m
At 1 April 2019		1.2	85.3	1,130.1	7,663.0	8,879.6
Other comprehensive (expense)/income:						
- net movement in fair value reserve	23	-	(229.5)	-	-	(229.5)
- retirement benefit remeasurements	15	-	-	-	188.5	188.5
- tax effects of the above		-	43.5	-	(35.8)	7.7
Total other comprehensive (expense)/income		-	(186.0)	-	152.7	(33.3)
Loss for the financial year		-	-	-	(64.6)	(64.6)
Release of merger reserve	23	-	-	(1.0)	1.0	-
Total comprehensive (expense)/income		-	(186.0)	(1.0)	89.1	(97.9)
Unclaimed dividends [1]		-	-	-	0.5	0.5
Dividends declared	22	-	-	-	(2,698.3)	(2,698.3)
At 31 March 2020		1.2	(100.7)	1,129.1	5,054.3	6,083.9

[1] *During the year and previous year B&B and NRAM released to retained earnings dividends which they had declared in prior years and have never been claimed. These dividends were declared prior to the acquisition of B&B and NRAM by UKAR. As the UKAR Group Financial Statements are prepared under predecessor accounting principles, these unclaimed dividends have been treated as though they had been declared to external shareholders of the UKAR Group.*

CONSOLIDATED CASH FLOW STATEMENT

	12 months to 31 March 2021			12 months to 31 March 2020		
	Continuing operations	**Discontinued operations**	**Total**	Continuing operations	Discontinued operations	Total
	£m	**£m**	**£m**	£m	£m	£m
Cash flows from operating activities						
Profit/(loss) before taxation for the financial year	**7.1**	**(19.7)**	**(12.6)**	(3.1)	(45.1)	(48.2)
Adjustments to reconcile profit to cash generated from operating activities:						
- interest expense and similar charges	-	-	-	-	10.2	10.2
- provision for customer redress	-	**(18.5)**	**(18.5)**	-	116.3	116.3
- non-recurring charges	**5.3**	**0.3**	**5.6**	15.4	1.3	16.7
- defined benefit pension scheme credits	**(12.7)**	-	**(12.7)**	(13.3)	-	(13.3)
- *cash contributions to defined benefit pension schemes*	**(5.7)**	-	**(5.7)**	-	-	-
- cash returned from defined benefit pension schemes	-	-	-	20.5	-	20.5
- depreciation and amortisation	-	**0.5**	**0.5**	-	0.5	0.5
Impairment of disposal group held for sale	-	**94.7**	**94.7**	-	-	-
- net impairment release on loans to customers	-	**(3.1)**	**(3.1)**	-	(27.4)	(27.4)
- loss/(profit) on sale of loans	-	**18.2**	**18.2**	-	(2.2)	(2.2)
- profit on disposal of property, plant and equipment	-	-	-	-	(0.2)	(0.2)
- impairment of right-of-use assets	-	**1.3**	**1.3**	-	6.7	6.7
- onerous contracts provision (credit)/charge	-	**(3.5)**	**(3.5)**	-	7.2	7.2
	(6.0)	**70.2**	**64.2**	19.5	67.3	86.8
Net decrease in operating assets:						
- loans to customers	-	**356.5**	**356.5**	-	615.7	615.7
- sale of loans	-	**4,458.9**	**4,458.9**	-	-	-
- settlement of amounts owed in respect of sale of loans (see note 9)	-	-	-	-	4,473.7	4,473.7
- equity release mortgages	-	**0.2**	**0.2**	-	0.4	0.4
- other assets	-	**(10.1)**	**(10.1)**	-	21.7	21.7
Net decrease in operating liabilities:					-	
- other liabilities	-	**(9.2)**	**(9.2)**	(0.1)	(5.1)	(5.2)
- provisions	-	**(59.5)**	**(59.5)**	-	(119.2)	(119.2)
Interest paid	-	-	-	-	(47.7)	(47.7)
Income tax paid	-	-	-	(11.3)	(54.5)	(65.8)
Net (used in)/cash generated from operating activities	**(6.0)**	**4,807.0**	**4,801.0**	8.1	4,952.3	4,960.4
Cash flows from investing activities:						
- deposit received in respect of sale of the disposal group	**50.0**	-	**50.0**	-	-	-
- proceeds from sale of property, plant and equipment	-	-	-	-	0.4	0.4
Net cash generated from investing activities	**50.0**	-	**50.0**	-	0.4	0.4
Cash flows used in financing activities:						
- repayment of HM Treasury loans (see note 16)	-	-	-	-	(1,511.2)	(1,511.2)
- repayment of Statutory Debt (see note 16)	-	-	-	-	(462.4)	(462.4)
- sub-lease receipts (see note 13)	-	**2.4**	**2.4**	-	2.3	2.3
- payment of lease obligations (see note 13)	-	**(2.8)**	**(2.8)**	-	(2.8)	(2.8)
- repayment of debt securities in issue (see note 17)	-	-	-	-	(200.0)	(200.0)
- dividends paid (see note 22)	**(575.0)**	-	**(575.0)**	(2,698.3)	-	(2,698.3)
Net cash used in financing activities	**(575.0)**	**(0.4)**	**(575.4)**	(2,698.3)	(2,174.1)	(4,872.4)

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

	12 months to 31 March 2021 £m	12 months to 31 March 2020 £m
Net increase in cash and cash equivalents	**4,275.6**	88.4
Cash and cash equivalents at beginning of year	**811.5**	723.1
Cash and cash equivalents at end of year	**5,087.1**	811.5
Represented by cash and assets with original maturity of three months or less within:		
- cash at bank and in hand	**5,087.1**	811.5
Total cash and cash equivalents at end of year	**5,087.1**	811.5

Further information regarding the analysis of continuing and discontinued operations is provided in note 3. The results for the year ended 31 March 2020 have been re-presented compared to the presentation in the 31 March 2020 Financial Statements in order to show this analysis.

1. Principal accounting policies

UK Asset Resolution Limited ('UKAR' or 'the Company') is a private company limited by shares incorporated on 1 July 2010 and domiciled in the United Kingdom. UKAR acquired Bradford & Bingley plc ('B&B') and NRAM plc by a share-for-share exchange on 1 October 2010. On 29 April 2016 NRAM Limited acquired NRAM plc from UKAR by way of a share-for-share exchange. NRAM Limited sold NRAM plc on 5 May 2016. These consolidated Financial Statements are prepared under the 'predecessor accounting' method, which presents the UKAR consolidated results as if the UKAR Group ('the Group') had always been in existence in its present form. The Financial Statements of the UKAR Company are presented on pages 132 to 146 and form an integral part of these Financial Statements.

The Financial Statements on pages 79 to 127 and 132 to 146 were authorised for issue by the Directors on 5 July 2021 and will be put to the shareholder for approval at UKAR's Annual General Meeting.

(a) Statement of compliance

Both the Company Financial Statements and the Group (comprising UKAR 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.

For these 2021 Financial Statements the Group and Company have not adopted the following standard:

- IFRS 17 'Insurance Contracts', issued May 2017, and amendments issued June 2020, effective for periods beginning on or after 1 January 2023 and yet to be endorsed by the UK Endorsement Board. IFRS 17 would replace IFRS 4 'Insurance Contracts'. The Group had a small portfolio of equity release mortgages (see note 12) which were accounted for as insurance contracts in accordance with IFRS 4 (see note 1(k)). These mortgages were sold in February 2021 (see note 12) and hence IFRS 17 is not expected to have any impacts on the Group or Company.

All other new 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 and the disposal group held for sale at 31 March 2021 is carried at its fair value less costs to sell.

In 2009 the European Commission ('EC') approved state aid to NRAM, and in 2010 to B&B, in each case the state aid comprising loans and guarantees from HM Treasury. Since then all government loans have been repaid. At the signing date of these Financial Statements, HM Treasury has confirmed its intention to continue to provide funding to B&B and NRAM, if required, until at least 1 January 2023, subject to those companies continuing in each case to be a subsidiary undertaking of UKAR. See page 29 for further details. At the signing date of these Financial Statements, HM Treasury has also confirmed its intention to continue to provide funding to the Company, if required, until at least 1 January 2023.

At the signing date of these Financial Statements the Company is contractually committed, subject to approval by the FCA, to the sale of its investments in B&B and NRAM to Davidson Kempner and the Directors expect that the sale will complete later in the year; see note 3 for further details. Regardless of whether the sale completes, the Directors expect that the Company will remain in government ownership and will continue to manage the government's legacy exposures which arose from the nationalisation of B&B and NRAM. However, the Company's activities will evolve from being the holding company overseeing the rundown of B&B and NRAM to that of being responsible for meeting contractual obligations resulting from previous asset sales, sponsorship of the legacy B&B and NRAM defined benefit pension schemes and administration of other non-loan assets and liabilities.

Following the sale of their loans to customers, B&B and NRAM have sufficient cash to meet their 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 companies for the four years of their plan. Regardless of whether the sale completes, therefore, B&B and NRAM are expected to have sufficient resources to meet all of their commitments and will continue to trade, benefiting from recoveries of written-off debt and B&B being in receipt of servicing fees. In addition, HM Treasury has confirmed its intention to support B&B and NRAM until at least 1 January 2023, if required, whilst they remain subsidiaries of UKAR. Therefore B&B and NRAM are expected to continue to have sufficient resources to meet their 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.

1. Principal accounting policies (continued)

(b) Basis of preparation (continued)

Accordingly, the Directors are satisfied at the time of approval of these Financial Statements that the Company and Group have 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.

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.

B&B, its subsidiary Mortgage Express ('MX'), and NRAM are regulated by the Financial Conduct Authority ('FCA') as mortgage administration companies, and the Directors believe that those companies have appropriate and adequate levels of capital to support their activities. Further details regarding capital are provided in note 26.

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.

(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) The Company's acquisition of the entire issued share capital of B&B and NRAM plc in a share-for-share exchange has been accounted for under 'predecessor accounting'. The difference between the Company's carrying value of investments and merger reserves, and the share capital and non-distributable reserves of the B&B Group and the NRAM Group, has been accounted for in the UKAR Group as a 'merger reserve'. As the carrying amount of the disposal group held for sale is impaired, an equal amount of merger reserve held in respect of these assets has been released to retained earnings.

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 10) 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.

1. Principal accounting policies (continued)

(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 9).

(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.

(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'. IFRS 5 requires that, in general, assets held for sale and disposal groups are carried at the lower of their previous carrying amount and their fair value less anticipated selling costs. IFRS 5, however, explicitly excludes financial assets and certain other assets from this measurement principle. IFRS 5 is unclear as to whether the amount of impairment of a disposal group should be restricted to the carrying amount of the assets against which the Group is permitted to apply the impairment. The Group has therefore chosen a policy of recognition of the full impairment charge and the creation of a balance described as 'excess impairment of the disposal group'.

In accordance with IFRS 5 the results of discontinued major lines of business are separately disclosed.

1. Principal accounting policies (continued)

(k) Equity release (Lifetime) mortgages

The Group's equity release mortgages were sold in February 2021 (see note 12). Prior to that sale, the Group held a small portfolio of equity release (Lifetime) mortgage loans secured on residential property. These were monthly drawdown products where the borrower continued to be paid a monthly income until the loan was repaid, and were at fixed rates of interest. Under the terms of these loans, when the final borrower died or went into long term care the property was sold and the proceeds used to redeem the loan. As is standard for this type of product, where the sale proceeds were less than the contractual sum owed the Group did not have any further ability to recover amounts from the borrower or the estate. The Group accounted for equity release mortgages in accordance with IFRS 4 'Insurance Contracts' as they were considered to meet the definition of an insurance contract i.e. that the Group had accepted the risk of negative equity arising on the loans. The loan assets were measured at the balance due from the customer, and as required by IFRS 4 the carrying amount was reduced by a provision for insurance risk. The loans were not unbundled between a deposit component and an insurance component as the net carrying amount appropriately reflected the value of the insurance risk. The insurance provision was calculated as the net present value of future estimated losses arising as a result of shortfalls of sale proceeds compared to balances outstanding at redemption. All income arising on the loans was accounted for as interest, with no element of the income being accounted for as insurance premium, and was recognised in line with interest on loans to customers.

(l) 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.

(m) Impairment of financial assets

The sale of the Group's loans to customers was recognised in February 2021 (see note 9). 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 FVP&L, 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 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, or in respect of unsecured loans where the collections process indicated a loan was not recoverable. 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.

1. Principal accounting policies (continued)

(m) Impairment of financial assets (continued)

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.

(n) 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.

(o) Debt and equity securities in issue

The last of the Group's debt securities, NRAM's Medium Term Notes, redeemed on 2 December 2019. 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.

(p) 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 costs of these 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'.

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

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

A full actuarial valuation of the Group's funded defined benefit schemes is undertaken every three years, with interim reviews in the intervening years, these valuations being updated at each published Balance Sheet date by qualified independent actuaries. For the purpose of these updates, scheme assets are included at their fair value and scheme liabilities are measured on an actuarial basis using the projected unit credit method. The group's actuaries provide a valuation of each of the Group's unfunded schemes as at each published Balance Sheet date. Details of the actuarial assumptions made are provided in note 15. The resulting net surplus or deficit is included in full on the Balance Sheet. Contributions made into a scheme during the year are added to the carrying amount of the scheme's assets. A surplus on one scheme cannot be used to offset a deficit on another. Retirement benefit remeasurements are charged to retained earnings in full in the period in which they occur and pass through other comprehensive income rather than the Income Statement. The Income Statement includes, for each scheme, a credit or charge representing the discount rate applied to the Balance Sheet carrying amount. Following closure of the schemes, the current service cost is nil.

A past service cost arising as a result of an amendment to defined benefit scheme benefits is charged to the Income Statement when the plan amendment occurs. Such a past service cost arose during the year ended 31 March 2019 as a result of the GMP Equalisation Case and a further past service cost arose in November 2020 as a result of the High Court ruling that the GMP Equalisation Case should be applied to previous transfers out (see note 15).

Surpluses on an accounting basis are only recognised on the Balance Sheet to the extent that they are recoverable through reduced contributions in the future or through refunds from the scheme.

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.

1. Principal accounting policies (continued)

(q) 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.

(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.

2. Critical judgements and accounting estimates

In preparing the Financial Statements, management are required to make a series of judgements and estimates. Judgements involve an interpretation of requirements to decide how to allocate, value or recognise an item. Estimates arise from using assumptions which result in a range of possible outcomes. Following the sale of the Group's loans to customers, the most important accounting 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) Classification of the disposal group held for sale

As detailed in note 3, on 26 February 2021 the Company entered into a contract which, subject to approval by the FCA, is expected to result in the sale of its 100% shareholdings in B&B and NRAM to Davidson Kempner later in the year. As at the Balance Sheet date it was considered that the sale of these shareholdings was highly probable, as defined in IFRS 5, and consequently a disposal group has been classified as held for sale. The sale of the disposal group will be accounted for at the point that the shares in B&B and NRAM are transferred to the purchaser as this is the point at which the Company will cease to have any power or control over the subsidiaries.

(c) Presentation of the impairment of the disposal group

As detailed in note 3, the carrying value of the disposal group has been impaired, with the disposal group assets which are within the scope of the measurement principles of IFRS 5 being impaired to nil. IFRS 5 is unclear as to whether the amount of impairment of a disposal group should be restricted to the carrying amount of the assets against which the Group is permitted to apply the impairment. The Group has therefore chosen a policy of recognition of the full impairment charge and the creation of a separate balance described as 'excess impairment of the disposal group' to reduce the total carrying amount of the net assets in the disposal group to their fair value less costs to sell. It is considered appropriate to reflect the full impairment of the carrying value of the disposal group at 31 March 2021 as otherwise a loss on sale would be expected to be recognised in 2021/22.

(d) Carrying amount of net retirement benefit assets

As detailed in note 15, the Group carries on its Balance Sheet net assets in respect of its defined benefit retirement schemes. The Trustee of each such scheme has passed a resolution for the ultimate refund to the Company of any future surpluses on the scheme and therefore it is considered that any surplus will ultimately be available to the Company either in the form of a refund or in the form of reduced future contributions to the scheme. Hence it is considered appropriate to carry these net assets in full on the Company's Balance Sheet.

(e) Carrying amount of deferred tax assets

Based on forecast future results of B&B and NRAM, it is not considered that the Group will have sufficient profits to utilise deferred tax assets of those companies regardless of whether the sale of those companies completes, and consequently these assets have been released (see note 20).

Accounting estimates

(f) Impairment of the disposal group held for sale

As detailed in note 3, the carrying value of the disposal group has been impaired to fair value less costs to sell, in accordance with IFRS 5. The fair value was derived by reference to the agreed sale price.

(g) Retirement benefit obligations

Liabilities in respect of the Group's defined benefit pension schemes are carried on the Balance Sheet at values calculated in accordance with IAS 19. Economic assumptions are adopted which have impacts on the calculated value of the liabilities and also on the amounts charged or credited to the Income Statement; these assumptions are determined by the Group's management taking account of recommendations made by the Group's actuaries. The sensitivities of the liability values to key assumptions are disclosed in note 15.

2. Critical judgements and accounting estimates (continued)

(h) 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)

(h) 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 [1]	**16.08%**	**(1.03%)**	**8.31%**	**25.01%**
ILO unemployment March 2026 [2]	**4.36%**	**5.35%**	**5.64%**	**3.59%**
GDP March 2026 [3]	**1.79%**	**2.13%**	**1.85%**	**1.85%**

[1] *The percentage movement in UK property prices between March 2021 and March 2026.*

[2] *The International Labour Organisation ('ILO') unemployment rate as at March 2026.*

[3] *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 [1]	17.71%	2.98%	(10.71%)	24.52%
ILO unemployment March 2025 [2]	4.00%	4.83%	5.32%	3.45%
GDP March 2025 [3]	1.73%	2.06%	1.07%	2.01%

[1] *The percentage movement in UK property prices between March 2020 and March 2025.*

[2] *The International Labour Organisation ('ILO') unemployment rate as at March 2025.*

[3] *The annualised percentage increase in UK GDP as at March 2025.*

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 £17.3m on the base scenario (excluding top-ups).

2. Critical judgements and accounting estimates (continued)

(h) 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:

	Impact on total impairment loss allowance
Base scenario	**Decrease of £8.0m**
Downside scenario	**Increase of £23.8m**
Severe downside scenario	**Increase of £19.5m**
Upside scenario	**Decrease of £19.2m**

3. Disposal group held for sale and discontinued operations

On 26 February 2021 UKAR entered into a contract which is expected to result in the sale of its 100% shareholdings in B&B and NRAM, along with their subsidiaries, to Davidson Kempner. The Directors expect that the sale will complete later in the year. At 31 March 2021 Davidson Kempner had paid a deposit of £50.0m in respect of this transaction. Should the sale not complete, the deposit is to be returned to the purchaser, unless the purchaser has breached the relevant terms of the sale contract. Under the sale contract the Company will provide certain warranties to Davidson Kempner and also indemnities against certain remediation and other payments which B&B and NRAM may make after the date of the sale.

Completion of the sale is subject to the FCA granting regulatory approval, which the Directors consider to be highly probable. This approval is the only condition remaining to be satisfied, following which the Company will be legally committed to completion of the sale.

The assets and liabilities which are to be disposed of have been classified as a disposal group held for sale as their carrying amount will be recovered principally through a sale transaction rather than through continuing use. At 31 March 2021 the disposal group comprises the assets and liabilities of B&B and NRAM other than the B&B post-retirement healthcare scheme (see note 15(a)) and the NRAM unfunded pension scheme (see note 15(b)), which will be transferred to UKAR prior to the completion of the sale of B&B and NRAM, cash balances which B&B and NRAM will pay UKAR to take on those obligations, and associated deferred tax balances.

The Group's assets and liabilities at 31 March 2021 which are not classified as part of the disposal group are referred to in these Financial Statements as the retained group.

The analysis of the assets and liabilities of the disposal group and the impairments applied is as follows:

	Gross £m	Impairment £m	Net of impairment £m
Assets			
Cash at bank and in hand	**1,720.1**	-	**1,720.1**
Current tax assets	**6.5**	**(6.5)**	-
Lease assets	**6.8**	**(6.8)**	-
Other assets	**3.9**	**(0.8)**	**3.1**
Excess impairment of the disposal group	-	**(73.9)**	**(73.9)**
Total assets	**1,737.3**	**(88.0)**	**1,649.3**
Liabilities			
Lease obligations	**15.0**	-	**15.0**
Accruals	**16.4**	-	**16.4**
Other liabilities	**15.9**	-	**15.9**
Provisions	**18.9**	-	**18.9**
Total liabilities	**66.2**	-	**66.2**
Net assets			**1,583.1**

In accordance with IFRS 5, as it is held for sale the carrying value of the disposal group has been impaired to its fair value less costs to sell. The fair value was derived by reference to the agreed sale price. The impairment charge was £94.7m. After applying £6.8m to prepaid costs net of cost accruals, £14.1m has been applied to the assets of the disposal group which are within the scope of the measurement principles of IFRS 5, being lease assets, tax assets and prepayments. The £73.9m excess of the total impairment over the pre-impairment carrying value of these assets has been carried as a separate 'excess impairment of the disposal group' to reduce the total carrying amount of the assets in the disposal group. As detailed in note 2(c), IFRS 5 is unclear as to whether the amount of impairment of a disposal group should be restricted to the carrying amount of the assets against which the Group is permitted to apply the impairment. The Group has therefore chosen a policy of recognition of the full impairment charge and the creation of a separate balance described as 'excess impairment of the disposal group' to reduce the total carrying amount of the net assets in the disposal group to their fair value less costs to sell. The gross carrying amounts shown above are measured under the same IAS and accounting policies as if these items had not been in the disposal group. As shown in note 23, £94.7m has been released from merger reserves to retained earnings as a result of the £94.7m impairment charge.

At 31 March 2021 the disposal group held for sale is carried at £1,583.1m, being its fair value less costs to sell. The fair value was derived by reference to the agreed sale price and hence is considered to be Level 1 as defined by IFRS 13 'Fair Value Measurement'. The individual fair values of the financial assets and liabilities within the disposal group are considered to approximate to their carrying amounts except for lease obligations where the fair value is estimated to be £14.3m. The fair value of cash at bank and in hand is considered to be Level 1. The fair values of the other financial assets and liabilities in the disposal group are considered to be Level 2. Further information on the basis of the fair values is provided in note 27(d). In accordance with IFRS 5, the Group's Income Statement, Statement of Comprehensive Income and Cash Flow Statement have been analysed between continuing operations and discontinued operations. The discontinued operations comprise the operations of the disposal group held for sale, i.e. the operations of B&B and NRAM other than (a) interest on intercompany loans and (b) costs and remeasurements relating to the post-retirement healthcare and unfunded pension schemes of B&B and NRAM which will be transferred to UKAR prior to the completion of the sale of B&B and NRAM.

4. Net interest income

All interest income and expense in the year and previous year relates to discontinued operations (see note 3).

	12 months to 31 March 2021 £m	12 months to 31 March 2020 £m
Interest receivable and similar income		
On equity release mortgages	**0.5**	0.6
On other secured loans	**117.5**	177.2
Other	**0.1**	4.7
Total interest receivable and similar income	**118.1**	182.5
Interest expense and similar charges		
On amounts due to banks and HM Treasury loans	**-**	(1.7)
On wholesale funding	**-**	(8.5)
Total interest expense and similar charges	**-**	(10.2)
Net interest income	**118.1**	172.3
Average balances		
Interest-earning assets ('IEA') of the whole Group	**4,743**	6,056
Financed by:		
- interest-bearing funding of the whole Group	**-**	233
- interest-free funding of the whole Group*	**4,743**	5,823
Average rates for the whole Group:	**%**	%
- gross yield on IEA	**2.49**	3.01
- cost of interest-bearing funding	**-**	(4.38)
Interest spread	**2.49**	(1.37)
Contribution of interest-free funding*	**-**	4.22
Net interest margin on average IEA	**2.49**	2.85
Average Bank Base Rate	**0.10**	0.72
Average 1-month LIBOR	**0.07**	0.68
Average 3-month LIBOR	**0.14**	0.76

* *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 27(b).

In February 2021 the Group recognised the sale of all of its loans to customers (see note 9).

5. 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
Average headcount:		
Full time	**86**	115
Part time	**6**	10
Total employed	**92**	125
Total average full time equivalent	**91**	123

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
Total employed	**78**	108
Total full time equivalent	**77**	106

Staff numbers include Executive but not Non-Executive Directors. In addition to the permanent staff above, the 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			12 months to 31 March 2020		
	Continuing operations	**Discontinued operations**	**Total**	Continuing operations	Discontinued operations	Total
	£m	**£m**	**£m**	£m	£m	£m
The Group's aggregate costs of permanent staff were as follows:						
Wages and salaries	**-**	**7.6**	**7.6**	-	8.4	8.4
Social security costs	**-**	**1.0**	**1.0**	-	1.1	1.1
Defined benefit pension credits (see note 15)	**(12.9)**	**-**	**(12.9)**	(13.3)	-	(13.3)
Defined contribution pension costs (see note 15)	**-**	**0.5**	**0.5**	-	0.6	0.6
Other retirement benefit costs (see note 15)	**0.5**	**-**	**0.5**	0.5	-	0.5
Total staff costs	**(12.4)**	**9.1**	**(3.3)**	(12.8)	10.1	(2.7)
IT costs	**-**	**2.8**	**2.8**	-	3.3	3.3
Outsourced and professional services	**-**	**35.7**	**35.7**	-	102.2	102.2
Depreciation and amortisation	**-**	**0.5**	**0.5**	-	0.5	0.5
Provision for onerous contracts (see note 13)	**-**	**(3.5)**	**(3.5)**	-	7.2	7.2
Impairment of right-of use assets (see note 13)	**-**	**1.3**	**1.3**	-	6.7	6.7
Other administrative expenses	**-**	**5.1**	**5.1**	0.5	6.6	7.1
Total ongoing administrative expenses	**(12.4)**	**51.0**	**38.6**	(12.3)	136.6	124.3
GMP equalisation (see note 15)	**3.8**	**-**	**3.8**	-	-	-
Non-recurring costs	**1.5**	**0.3**	**1.8**	15.4	1.3	16.7
Total administrative (credit)/expenses	**(7.1)**	**51.3**	**44.2**	3.1	137.9	141.0

Further information regarding the analysis of continuing and discontinued operations is provided in note 3.

As stated in the Strategic Report on page 12, in February 2021 UKAR agreed the sale of the Company's shareholdings in B&B and NRAM. During the year £1.5m of costs in respect of this programme have been treated as non-recurring, being the costs incurred prior to the re-launch. Non-recurring costs of £15.4m in the previous year related to the same programme prior to its being put on hold in March 2020. £0.3m of other non-recurring costs in the year (2020: £1.3m) related to business simplification.

5. Administrative expenses (continued)

Exit packages

There were no special severance payments made to senior staff during the year or previous year.

All employees' redundancy and other departure costs have been paid in accordance with the Group's policies and with legal requirements. One ExCo member received a redundancy payment in the year (2020: none).

Exit costs are provided for in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' when there is a present obligation and it is probable that an exit payment will be made.

The exit packages paid in the year were as follows:

Exit package cost band				**12 months to 31 March 2021**
	Number of compulsory redundancies	**Number of voluntary redundancies**	**Number of other departures agreed**	**Total number of exit packages by cost band**
< £10,000	**1**	**-**	**-**	**1**
£10,001 - £25,000	**8**	**-**	**-**	**8**
£25,001 - £50,000	**4**	**-**	**1**	**5**
£50,001 - £100,000	**11**	**-**	**-**	**11**
£100,001 - £150,000	**1**	**-**	**1**	**2**
£150,001 - £200,000	**1**	**-**	**1**	**2**
£200,001 - £250,000	**2**	**-**	**-**	**2**
Total number of exit packages	**28**	**-**	**3**	**31**
Total cost (£'000)	**1,795**	**-**	**334**	**2,129**

Exit package cost band				12 months to 31 March 2020
	Number of compulsory redundancies	Number of voluntary redundancies	Number of other departures agreed	Total number of exit packages by cost band
< £10,000	2	-	1	3
£10,001 - £25,000	5	-	1	6
£25,001 - £50,000	9	-	1	10
£50,001 - £100,000	3	-	2	5
£100,001 - £150,000	-	-	1	1
£150,001 - £200,000	-	-	-	-
£200,001 - £250,000	-	-	-	-
Total number of exit packages	19	-	6	25
Total cost (£'000)	647	-	308	955

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 the parent Company's individual and consolidated Financial Statements	**0.1**	0.1
Fees payable to Company's auditor and its associates for other services:		
- the audit of the Company's subsidiaries pursuant to legislation	**0.5**	0.5
- non-audit services (audit related)	**-**	0.3
Total	**0.6**	0.9

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.

The non-audit services of £0.3m during the previous year related to the review of 30 June 2019 Special Purpose Accounts prepared for the proposed sale of B&B and NRAM.

6. (Loss)/profit on sale of loans: discontinued operations

	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 9)	(16.7)	-
(Loss) on sale of equity release mortgages during the year (see note 12)	(2.1)	-
Release of accruals for costs in relation to sales in prior years	0.6	2.2
Total	(18.2)	2.2

In February 2021 the Group recognised the sale of all of its equity release mortgages and all of its loans to customers other than £0.1m of unsecured loans. Of the £16.7m loss on sale of loans to customers during the year, £11.0m of losses were reclassified from the fair value reserve (see note 23) representing the accumulated fair value movements up to the point of sale.

7. Taxation

The tax (charge)/credit for the year comprises:	12 months to 31 March 2021			12 months to 31 March 2020		
	Continuing operations £m	Discontinued operations £m	Total £m	Continuing operations £m	Discontinued operations £m	Total £m
Current tax:						
- on (loss)/profit for the year	5.5	(11.7)	(6.2)	3.3	(13.9)	(10.6)
- tax relief on contributions to pension schemes	-	-	-	14.0	-	14.0
- adjustments in respect of prior periods	(1.9)	-	(1.9)	-	(3.6)	(3.6)
Total current tax credit/(charge)	3.6	(11.7)	(8.1)	17.3	(17.5)	(0.2)
Deferred tax (see note 20):						
- origination and reversal of temporary differences	(7.2)	(10.6)	(17.8)	(16.9)	0.7	(16.2)
Total deferred tax	(7.2)	(10.6)	(17.8)	(16.9)	0.7	(16.2)
Total taxation (charge)/credit per the Income Statement	(3.6)	(22.3)	(25.9)	0.4	(16.8)	(16.4)

The following tax amounts have been credited/(charged) to equity:	12 months to 31 March 2021			12 months to 31 March 2020		
	Continuing operations £m	Discontinued operations £m	Total £m	Continuing operations £m	Discontinued operations £m	Total £m
Deferred tax:						
- relating to assets at FVOCI	-	(23.5)	(23.5)	-	43.5	43.5
- relating to retirement benefit remeasurements	46.4	-	46.4	(35.8)	-	(35.8)
Net credit/(charge) to equity	46.4	(23.5)	22.9	(35.8)	43.5	7.7

Further information regarding the analysis of continuing and discontinued operations is provided in note 3.

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

7. Taxation (continued)

The tax (charge) on the Group's (loss) before tax differs from the theoretical amount that would arise using the standard weighted average rate of UK corporation tax of 19% (2020: 19%) as follows:

	12 months to 31 March 2021 £m	12 months to 31 March 2020 £m
(Loss) before taxation	**(12.6)**	(48.2)
Tax credit calculated at rate of 19% (2020: 19%)	**2.4**	9.2
Effects of:		
- impairment of disposal group not deductible for tax purposes	**(18.0)**	-
- other net credits not taxable/expenses not deductible for tax purposes	**3.5**	(22.6)
- adjustments in respect of prior periods	**(1.9)**	(3.6)
- change in tax rate	**-**	0.6
- release of deferred tax assets	**(11.9)**	-
Total taxation (charge) for the year	**(25.9)**	(16.4)

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

The negative 205.6% effective tax rate for the year (2020: negative 34.0%) is primarily due to impairment and expenses not deductible for tax purposes and the release of deferred tax assets (see note 20).

As the impairment of the disposal group held for sale is applied at the UKAR Group level and not in any taxable entity there have been no tax impacts of the impairment.

As at 31 March 2021, the Group's tax assets have been impaired by £6.5m as part of the impairment of the disposal group held for sale (see note 3).

8. Cash at bank and in hand

	31 March 2021			31 March 2020
	Retained group £m	**Disposal group held for sale £m**	**Total £m**	Total £m
Balances with the Bank of England	**-**	**66.4**	**66.4**	75.3
Balances with the Government Banking Service	**3,355.3**	**1,643.7**	**4,999.0**	714.0
Balances with other banks	**11.7**	**10.0**	**21.7**	22.2
Total	**3,367.0**	**1,720.1**	**5,087.1**	811.5

Balances with the Bank of England and the Government Banking Service earn interest at rates linked to 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 the Government Banking Service are rated AA. All of the balances with other banks 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.

Further details of the analysis between the disposal group and the retained group are provided in note 3.

Of the disposal group's balances held with the Government Banking Service at 31 March 2021, the contractual terms for the sale of B&B and NRAM (see note 1(b)) require that £1,483.2m be retained in those companies' accounts in anticipation of the sale of B&B and NRAM.

9. Loans to customers

In February 2021 the Group recognised the sale of all of its loans to customers other than £0.1m of unsecured loans. These unsecured loans had been fully impaired prior to 1 April 2019 (see note 10) and their fair value is considered to be nil. The Group recognised a loss of £16.7m on the sale (see note 6) and the Group has no further commitments to extend credit to customers. All of the sale proceeds were received prior to 31 March 2021. In March 2019 the Group sold two separate asset portfolios comprising performing residential and unsecured loans; the £4,465.0m balance of the proceeds of these two sales was received in April and May 2019. In December 2018 the Group sold the majority of its commercial loans; the £8.7m balance of the sale proceeds were received in May 2019. These receipts totalled £4,473.7m; 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:

	Outstanding balance £m	Carrying amount £m	Carrying amount %
Residential mortgages			
Buy-to-let	2,769.1	2,579.0	55
Self-certified	1,385.9	1,334.8	28
Standard and other	796.1	783.2	17
Total residential mortgages	4,951.1	4,697.0	100
Commercial loans	3.4	2.5	-
Total secured loans	4,954.5	4,699.5	100
Unsecured loans	0.1	-	-
Total	4,954.6	4,699.5	100

Commercial loans comprised loans secured on commercial properties. 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 11) uses outstanding balances.

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

	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**
Residential mortgages						
Buy-to-let	**2,579.0**	**(189.5)**	**(2,569.8)**	**102.8**	**77.5**	**-**
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**	**-**
Total residential mortgages	**4,697.0**	**(353.2)**	**(4,586.4)**	**119.3**	**123.3**	**-**
Commercial loans	**2.5**	**(0.4)**	**(3.0)**	**-**	**0.9**	**-**
Total	**4,699.5**	**(353.6)**	**(4,589.4)**	**119.3**	**124.2**	**-**

	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
Residential mortgages						
Buy-to-let	3,011.3	(316.4)	-	9.0	(124.9)	2,579.0
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
Total residential mortgages	5,514.6	(599.3)	-	11.2	(229.5)	4,697.0
Commercial loans	2.9	(0.2)	-	(0.2)	-	2.5
Total	5,517.5	(599.5)	-	11.0	(229.5)	4,699.5

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

10. Impairment on loans to customers

In February 2021 the Group recognised the sale of all of its loans to customers other than £0.1m of unsecured loans. These unsecured loans had been fully impaired prior to 1 April 2019. At the point of recognition of the sale all other impairment allowances were released. Prior to that, allowances for credit losses against loans to customers, which were part of discontinued operations, were made as follows:

Total loans to customers	**Stage 2: Lifetime ECL[1,2]**	**Stage 3: Lifetime ECL[1,2]**	**Total**
	£m	**£m**	**£m**
At 1 April 2020	**95.0**	**35.9**	**130.9**
Movements during the year[3]:			
- net repayments	**(2.4)**	**(5.8)**	**(8.2)**
- changes in estimates	**(16.7)**	**5.6**	**(11.1)**
- changes in economic assumptions	**19.3**	**5.5**	**24.8**
- transfers	**(2.8)**	**2.8**	**-**
- loan impairment charge	**(2.6)**	**8.1**	**5.5**
- sale of loans	**(92.4)**	**(32.4)**	**(124.8)**
- write-offs	**-**	**(11.5)**	**(11.5)**
Net movements during the year	**(95.0)**	**(35.8)**	**(130.8)**
At 31 March 2021	**-**	**0.1**	**0.1**
The Income Statement credit comprises:			
- loan impairment charge	**(2.6)**	**8.1**	**5.5**
- recoveries net of costs	**-**	**(8.6)**	**(8.6)**
Total Income Statement credit	**(2.6)**	**(0.5)**	**(3.1)**

[1] *Expected credit losses ('ECL').*

[2] *Further information as to which loans are categorised as stage 2 and which as stage 3 is provided in note 1(m).*

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

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.

Total loans to customers	Stage 2: Lifetime ECL	Stage 3: Lifetime ECL	Total
	£m	£m	£m
At 1 April 2019	120.5	41.5	162.0
Movements during the year:			
- net repayments	(3.9)	(5.1)	(9.0)
- changes in estimates	(10.3)	18.0	7.7
- changes in economic assumptions	(9.1)	(0.6)	(9.7)
- transfers	(2.2)	2.2	-
- loan impairment credit	(25.5)	14.5	(11.0)
- write-offs	-	(20.1)	(20.1)
Net movements during the year	(25.5)	(5.6)	(31.1)
At 31 March 2020	95.0	35.9	130.9
The Income Statement credit comprises:			
- loan impairment credit	(25.5)	14.5	(11.0)
- recoveries net of costs	-	(16.4)	(16.4)
Total Income Statement credit	(25.5)	(1.9)	(27.4)
Provision coverage	2.1%	7.7%	2.6%

Of the write-offs in the above table £19.9m were still subject to enforcement action at 31 March 2020.

11. Credit quality of loans to customers

In February 2021 the Group recognised the sale of all of its loans to customers other than £0.1m of unsecured loans. This note provides detail of the credit quality of the Group's and the Company's 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.

Total loans to customers	Stage 2: Lifetime ECL [1] £m	Stage 3: Lifetime ECL [1] £m	Total £m
- Up-to-date [2]	4,324.3	146.5	4,470.8
- 1 - 2 months in arrears	131.5	65.5	197.0
- 2 - 3 months in arrears	34.8	52.6	87.4
- Greater than 3 months in arrears	-	199.4	199.4
Outstanding balance	4,490.6	464.0	4,954.6

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

Included in stage 3 loans above were £44.9m of loans that were in a cure period, on which £2.1m of impairment provisions were held.

In respect of loans to residential customers, the Group held collateral in the form of mortgages over residential properties. The fair value of this collateral at 31 March 2020 was as follows:

	Stage 2: Lifetime ECL £m	Stage 3: Lifetime ECL £m	Total £m
- Up-to-date	7,708.3	258.7	7,967.0
- 1 - 3 months in arrears	276.3	199.2	475.5
- Greater than 3 months in arrears	-	305.2	305.2
Total	7,984.6	763.1	8,747.7

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

	Stage 2: Lifetime ECL £m	Stage 3: Lifetime ECL £m	Total £m
- Up-to-date	4,287.7	144.1	4,431.8
- 1 - 3 months in arrears	165.8	117.5	283.3
- Greater than 3 months in arrears	-	194.8	194.8
Total	4,453.5	456.4	4,909.9
The greater than 3 months in arrears amounts above include the following carrying amount of assets in possession, capped at the balance outstanding	-	24.9	24.9

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:

	%
Up to 50%	17.6
50% to 75%	55.7
75% to 100%	22.6
Over 100%	4.1
Total	100.0

The average indexed LTV based on a simple average was 56.6% and on a weighted average was 66.2%.

11. Credit quality of loans to customers (continued)

The residential impairment provision coverage by indexed LTV ranges is as follows:

	%
Up to 50%	0.4
50% to 75%	0.9
75% to 100%	4.1
Over 100%	27.6
Total	2.6

Arrears and possessions on residential mortgages

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

		31 March 2020
Arrears 3 months and over		
Number of cases	No.	1,192
Proportion of total cases	%	3.14
Asset value	£m	181.2
Proportion of book	%	3.66
Total value of payments overdue	£m	5.8
Proportion of total book	%	0.12
Possessions		
Number of cases	No.	183
Proportion of total cases	%	0.48
Asset value	£m	27.3
Proportion of book	%	0.55
Total value of payments overdue	£m	1.0
Proportion of total book	%	0.02
New possessions	No.	422
Total arrears 3 months and over and possessions		
Number of cases	No.	1,375
Proportion of total cases	%	3.62
Asset value	£m	208.5
Proportion of book	%	4.21
Total value of payments overdue	£m	6.8
Proportion of total book	%	0.14
In respect of all arrears (including those which are less than 3 months in arrears) together with possessions, the total value of payments overdue was:		
Payments overdue		
Total value of payments overdue	£m	9.1
Proportion of total book	%	0.18
Loan impairment provision		
As % of total balances	%	2.64

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

11. Credit quality of loans to customers (continued)

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

		31 March 2020
Buy-to-let		
Number of cases	No.	365
Proportion of total cases	%	1.71
Asset value	£m	54.0
Proportion of book	%	1.95
Total value of payments overdue	£m	1.6
Proportion of total book	%	0.06
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

12. Equity release mortgages

	31 March 2021 £m	31 March 2020 £m
Balances due from customers	-	7.8
Provision for insurance risk	-	(0.2)
Total	-	7.6

In February 2021 the Group recognised the sale of all of its equity release mortgages at a loss of £2.1m (see note 6).

The Group's equity release mortgages were monthly income products. Under the terms of these loans, when the final borrower died or went into long term care the property was sold and the proceeds used to redeem the loan. As is standard for this type of product, where the sale proceeds were less than the contractual sum owed the Group did not have any further ability to recover amounts from the borrower or the estate. Hence the Group was exposed to the risk of negative equity on these mortgages. The Group carried a provision for this insurance risk on equity release mortgages, calculated in accordance with IFRS 4, as follows:

	31 March 2021 £m	31 March 2020 £m
At start of year	**0.2**	0.2
Movements during the year:		
- sale of loans	**(0.2)**	-
Net movements during the year	**(0.2)**	-
At end of year	-	0.2

13. Lease assets and obligations

The Group's lease assets and obligations are part of the disposal group held for sale (see note 3), being held by B&B.

The leases to which the Group is a party comprise leases on buildings. Certain buildings on which the Group is the head-lessee are sub-let to other parties. The Group 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 Group 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 Group 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 Group 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 Group'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 Group'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 Group 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 Group'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 30). The remaining right-of-use assets have been impaired as part of the impairment of the disposal group (see note 3). In addition, at 31 March 2020 an onerous contracts provision (see note 21) of £7.2m was made at for the Group'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. However, the carrying amount of this asset has been impaired as part of the impairment of the disposal group (see note 3).

	Year ended 31 March 2021	Year ended 31 March 2020
Right-of-use assets	**£m**	£m
At start of year	**2.0**	8.6
Rent review	**-**	0.6
Impairment	**(1.3)**	(6.7)
Depreciation charge	**(0.5)**	(0.5)
	0.2	2.0
Impairment of disposal group (see note 3)	**(0.2)**	-
At end of year	**-**	2.0
Net investment in sub-leases		
At start of year	**8.9**	10.3
Rent review	**-**	0.8
Lease receipts	**(2.4)**	(2.3)
Interest income	**0.1**	0.1
	6.6	8.9
Impairment of disposal group (see note 3)	**(6.6)**	-
At end of year	**-**	8.9
Total lease assets at end of year	**-**	10.9

13. Lease assets and obligations (continued)

Lease obligations	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
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

The lease obligations are payable in the following periods	At 31 March 2021 £m	At 31 March 2020 £m
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)
Total	**15.0**	17.6

The maturity analysis and future cash flows in respect of lease obligations are provided in note 28(b).

14. Other assets: disposal group held for sale

	31 March 2021 £m	31 March 2020 £m
Prepayments and accrued income	**3.1**	3.3
Other	-	0.1
Total	**3.1**	3.4

Other assets form part of the disposal group held for sale. The amounts within the measurement principles of IFRS 5 have been impaired by £0.8m as shown in note 3.

15. Retirement benefit assets and obligations

The UKAR Group has operated a number of retirement benefit plans for its current and former employees, including defined benefit pension plans, a defined contribution pension plan and post-retirement healthcare benefits. All of the Group's defined benefit retirement benefit assets and obligations have been classified as part of the retained group (see note 3). Prior to the sale of B&B and NRAM, responsibility for the funding of the B&B post-retirement healthcare scheme (see note 15(a)) and the NRAM unfunded pension scheme (see note 15(b)) will be transferred to UKAR. The defined contribution pension plan is part of discontinued operations as it will remain in B&B when B&B is sold. Further details in respect of the Group's schemes are given in sections (a) B&B schemes and (b) NRAM schemes below. HM Treasury has committed that it will ensure that the Company has sufficient funds to make any necessary future contributions to the defined benefit schemes for which the Company is responsible.

The 'administrative expenses' line of the Income Statement includes the cost of contributions to the defined contribution pension scheme, the current service cost of providing pension benefits for each defined benefit scheme and the interest credit or cost on each defined benefit scheme's net asset or liability. The current service cost of the Group's defined benefit schemes is nil, as the schemes are now closed to future service accrual. The full net surplus or deficit in respect of the healthcare scheme and each defined benefit pension scheme is carried on the UKAR Group Balance Sheet, and gains and losses arising due to actuarial revaluations are taken to the UKAR Group's other comprehensive income rather than being credited or charged in the Income Statement.

In his Spring 2020 Budget, the Chancellor of the Exchequer announced the government's intention to legislate to transfer the members of the B&B and NRAM defined benefit schemes to a new statutory, public service pension scheme.

15. Retirement benefit assets and obligations (continued)

The amounts carried on the UKAR Group Balance Sheet are as follows:

	Funded defined benefit pension plans		Other*		Total	
	31 March 2021 £m	31 March 2020 £m	**31 March 2021 £m**	31 March 2020 £m	**31 March 2021 £m**	31 March 2020 £m
Present value of defined benefit obligations	**(1,496.8)**	(1,345.4)	**(21.2)**	(20.6)	**(1,518.0)**	(1,366.0)
Fair value of defined benefit assets	**2,103.0**	2,180.8	**-**	-	**2,103.0**	2,180.8
Net defined benefit asset/(liability)	**606.2**	835.4	**(21.2)**	(20.6)	**585.0**	814.8

** Other comprises unfunded post-retirement medical benefit obligations and other unfunded post-retirement benefits.*

The amounts recognised in the UKAR Group Income Statement and other comprehensive income for continuing operations in respect of defined benefit arrangements were as follows:

	Funded defined benefit pension plans		Other		Total	
	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	**12 months to 31 Mar 2021 £m**	12 months to 31 Mar 2020 £m
GMP equalisation (charge) (see note 5)	**(3.8)**	-	**-**	-	**(3.8)**	-
Other credit/(charge) to administrative expenses (see note 5)	**13.2**	13.3	**(0.5)**	(0.2)	**12.7**	13.1
Total recognised in the Income Statement: continuing operations	**9.4**	13.3	**(0.5)**	(0.2)	**8.9**	13.1
(Charges)/credits to other comprehensive income: continuing operations	**(243.5)**	189.3	**(0.9)**	(0.8)	**(244.4)**	188.5

On 26 October 2018 the High Court handed down judgement in Lloyds Banking Group Pensions Trustees Ltd v. Lloyds Bank PLC and others (the 'GMP Equalisation Case'). The High Court ruled that the trustee of a defined benefit pension scheme is under a duty to adjust scheme benefits in excess of guaranteed minimum pensions ('GMPs') so that the total benefits received by male and female members with equivalent age, service and earnings histories are equal. It was considered that the High Court judgement resulted in an amendment to scheme benefits resulting in a past service cost adjustment totalling £7.8m for the Group, which was charged to the Income Statement in the year ended 31 March 2019.

On 20 November 2020 the High Court ruled that the trustee of a defined benefit pension scheme is likewise under a duty to adjust in the same way transfer values in respect of scheme members who had transferred out of defined benefit pension schemes prior to 26 October 2018. It was considered that the ruling resulted in a past service cost adjustment, which was estimated at £3.4m in respect of the B&B scheme and £0.4m in respect of the NRAM scheme, totalling £3.8m for the Group, which was charged to the Income Statement in the year ended 31 March 2021. In accordance with IAS 19 the discount rate was reassessed as at 20 November 2020 and a revised discount rate of 1.65% was used to calculate the Income Statement credits between 20 November 2020 and 31 March 2021.

15. Retirement benefit assets and obligations *(continued)*

(a) Bradford & Bingley schemes

(i) Funded defined benefit pension scheme

B&B operated a defined benefit staff pension scheme, the Bradford & Bingley Staff Pension Scheme ('the B&B Scheme'), which is administered by 'the Trustee'. The Company became the sponsoring company of this scheme in place of B&B on 20 June 2019. The Trustee is responsible for ensuring the Scheme meets its Statutory Funding Objective which is set by The Pensions Regulator. The Scheme provided benefits to members on a final salary basis. On 31 December 2009 the Scheme was closed to future service accrual; all members became deferred members and were given the option to join the Group's defined contribution scheme from 1 January 2010. The normal pension age of members of the B&B Scheme is 60 for those who left before 6 April 2005 and 65 for the other members. Deferred pension entitlement increases are calculated by reference to the Consumer Price Index ('CPI').

The credit or cost to the Group of funding the Scheme guaranteed benefits varies over time, dependent on market conditions and life expectancies. Excluding the cost of GMP equalisation, the credit in the year was £9.4m (31 March 2020: £10.1m) and the retirement benefit remeasurement loss recognised in other comprehensive income during the year was £164.3m (2020: gain of £131.3m).

The assets of the Scheme are held in a separate trustee-administered fund. The Trustee of the Scheme has passed a resolution for the ultimate refund to the Company of any future surpluses on the Scheme and as detailed in note 2(d) it is considered appropriate to carry net surpluses on the Scheme in full on the Balance Sheet.

The latest formal triennial valuation of the Scheme, prepared by the scheme actuaries as at 30 June 2018 and agreed in May 2019, showed a deficit of £22.3m on a Trustee's valuation basis. In addition, £51.6m was held in an escrow account.

The Trustee manages the volatility in the value of the Scheme's assets by limiting the exposure to return-seeking assets and using liability-driven investment strategies to increase the level of hedging against investment risks. The two key investment risks are interest rate risk and inflation risk relating to the B&B Scheme's obligations. By holding swaps, fixed interest gilts, index linked gilts and corporate bonds, approximately 95% of the interest rate risk and approximately 95% of the inflation risk has been hedged.

The Scheme has a written guarantee from HM Treasury that benefits will be paid in full to the members.

(ii) 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 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 to the Group varies according to the number of employees in the Group and their salary levels but the Group has no risk of being required to provide additional funding to the scheme.

(iii) Other post-retirement benefits

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 value at 31 March 2021 was £7.0m (2020: £7.0m). 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).

(iv) Defined benefit obligations

The amounts carried on the UKAR Group Balance Sheet are as follows:

	31 March 2021 £m	31 March 2020 £m
Present value of defined benefit obligations	**(978.3)**	(866.4)
Fair value of defined benefit assets	**1,403.6**	1,447.1
Net defined benefit asset	**425.3**	580.7

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

	12 months to 31 Mar 2021 £m	12 months to 31 Mar 2020 £m
GMP equalisation (charge) (see note 5)	**(3.4)**	-
Other credit to administrative expenses (see note 5)	**9.4**	10.1
Total recognised in the Income Statement	**6.0**	10.1

15. Retirement benefit assets and obligations (continued)

(a) Bradford & Bingley schemes (continued)

(iv) Defined benefit obligations (continued)

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

	12 months to 31 Mar 2021 £m	12 months to 31 Mar 2020 £m
At start of year	**866.4**	946.9
Interest on defined benefit obligations	**18.7**	21.9
Remeasurements:		
- effect of GMP equalisation	**3.4**	-
- effect of changes in financial assumptions	**130.6**	(63.2)
Benefits paid from plan	**(40.8)**	(39.2)
At end of year	**978.3**	866.4

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

	12 months to 31 Mar 2021 £m	12 months to 31 Mar 2020 £m
At start of year	**1,447.1**	1,386.2
Interest income on defined benefit assets	**30.2**	33.2
Defined benefit company contributions	**2.9**	-
Remeasurements:		
- return on plan assets (excluding interest income)	**(33.7)**	68.1
Administrative expenses paid from plan assets	**(2.1)**	(1.2)
Benefits paid from plan	**(40.8)**	(39.2)
At end of year	**1,403.6**	1,447.1

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

	31 March 2021			31 March 2020		
	Quoted £m	**Unquoted £m**	**Total £m**	Quoted £m	Unquoted £m	Total £m
Equity instruments	**9.1**	**-**	**9.1**	-	6.7	6.7
Property	**-**	**0.1**	**0.1**	-	0.1	0.1
Bonds:						
- of which UK	**67.2**	**-**	**67.2**	119.9	-	119.9
- of which overseas	**1.7**	**-**	**1.7**	62.4	-	62.4
Liability-hedging investments	**1,441.2**	**-**	**1,441.2**	1,501.3	-	1,501.3
Repurchase agreements	**(127.9)**	**-**	**(127.9)**	(251.9)	-	(251.9)
Cash and cash equivalents	**-**	**12.2**	**12.2**	-	8.6	8.6
Total	**1,391.3**	**12.3**	**1,403.6**	1,431.7	15.4	1,447.1

15. Retirement benefit assets and obligations (continued)

(a) Bradford & Bingley schemes (continued)

(iv) Defined benefit obligations (continued)

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

	31 March 2021	31 March 2020
To determine benefit obligations:		
Discount rate	**2.10%**	2.30%
Inflation (RPI)	**3.30%**	2.55%
Inflation (CPI)	**2.40%**	1.55%
Future pension increases	**3.20%**	2.55%
To determine net pension credit:		
Discount rate	**1.65% from 20 November 2020, 2.30% prior to 20 November 2020**	2.50%
For post-retirement medical plan:		
Discount rate	**2.10%**	2.30%
Medical cost trend for duration of liability	**5.50%**	5.50%

In November 2020, HM Treasury and the UK Statistics Authority ('UKSA') released their joint response to a consultation on changing the methodology used to calculate the Retail Price Index ('RPI'). As part of this, the UKSA confirmed that they plan from 2030 to align the calculation of RPI closely to CPIH, a variant of CPI with includes owner occupiers' housing costs. The Directors have decided that, for the purposes of calculating the Group's defined benefit obligations as at 31 March 2021, they will continue to assume that RPI will be 1% higher than CPI until 2030 but that thereafter CPI and RPI will be equal.

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

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

	31 March 2021		31 March 2020	
	Pensioner	**Non-retired member**	Pensioner	Non-retired member
Male	**27.6**	**29.0**	27.5	28.9
Female	**30.1**	**31.5**	30.0	31.4

Maturity profile of the obligation

At 31 March 2021 the defined benefit pension scheme had a weighted average maturity of around 20 years (2020: 20 years).

Sensitivity

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

Assumption	Change in assumption	Impact on obligations	£m
Discount rate	Decrease by 0.5%	Increase by 9%	**89.0**
Inflation	Increase by 0.5%	Increase by 7%	**65.4**
Mortality	Decrease by 1 year	Decrease by 4%	**36.2**

In each case, the impact is calculated by applying the one change, with all other assumptions unchanged. If the assumptions were to change by the same amount in the opposite direction to those illustrated, the obligations would decrease by a similar percentage to those shown in the table in each case.

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

15. Retirement benefit assets and obligations (continued)

(b) NRAM schemes

(i) Funded defined benefit pension scheme

Northern Rock plc operated a staff pension scheme which was closed on 31 December 2009 and is now known as the NRAM Scheme. The Company became the sponsoring company of the scheme in place of NRAM on 20 June 2019. The Scheme is administered by 'the Trustee' who is responsible for ensuring the Scheme meets its Statutory Funding Objective which is set by The Pensions Regulator. The Scheme provided benefits to members on a final salary basis. The normal pension age of members of the Scheme is 60. Deferred pension entitlement increases are calculated by reference to RPI.

The credit or cost to the Group of funding the Scheme guaranteed benefits varies over time, dependent on market conditions and life expectancies. Excluding the cost of GMP equalisation, the credit in the year was £3.8m (2020: £3.2m) and the retirement benefit remeasurement loss recognised in other comprehensive income during the year was £79.2m (2020: gain of £58.0m).

The assets of the Scheme are held in a separate trustee-administered fund. The Trustee of the Scheme has passed a resolution for the ultimate refund to the Company of any future surpluses on the Scheme and as detailed in note 2(d) it is considered appropriate to carry net surpluses on the scheme in full on the Balance Sheet.

The latest formal triennial valuation of the Scheme, prepared by the scheme actuaries at 5 April 2018 and agreed in May 2019, showed a surplus of £37.2m on a Trustee's valuation basis. In addition, £41.8m was held in an escrow account.

The Scheme has instigated a liability-driven investment programme, including bulk annuity contracts and liability-hedging investments, which currently hedges approximately 95% of the interest rate risk and approximately 95% of the inflation risk.

(ii) Funded defined benefit obligations

The amounts carried on the UKAR Group Balance Sheet are as follows:

	31 March 2021 £m	31 March 2020 £m
Present value of defined benefit obligations	**(518.5)**	(479.0)
Fair value of defined benefit assets	**699.4**	733.7
Net defined benefit asset	**180.9**	254.7

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

	12 months to 31 March 2021 £m	12 months to 31 March 2020 £m
GMP equalisation (charge) (see note 5)	**(0.4)**	-
Other credit to administrative expenses (see note 5)	**3.8**	3.2
Total recognised in the Income Statement	**3.4**	3.2

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

	12 months to 31 March 2021 £m	12 months to 31 March 2020 £m
At start of year	**479.0**	491.2
Interest on defined benefit obligations	**10.2**	12.7
Remeasurements:		
- effect of GMP equalisation	**0.4**	-
- effect of changes in demographic assumptions	**3.1**	0.8
- effect of changes in financial assumptions	**53.1**	(8.7)
- effect of experience adjustments	**(6.2)**	5.1
Benefits paid from plan	**(21.1)**	(22.1)
At end of year	**518.5**	479.0

15. Retirement benefit assets and obligations (continued)

(b) NRAM schemes (continued)

(ii) Funded defined benefit obligations (continued)

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

	12 months to 31 March 2021 £m	12 months to 31 March 2020 £m
At start of year	**733.7**	705.2
Interest income on defined benefit assets	**15.1**	16.7
Defined benefit company contributions	**2.0**	(20.5)
Remeasurements:		
- return on plan assets (excluding interest income)	**(29.2)**	55.2
Administrative expenses paid from plan assets	**(1.1)**	(0.8)
Benefits paid from plan	**(21.1)**	(22.1)
At end of year	**699.4**	733.7

The assets at 1 April 2019 included £41.9m held in an escrow account. Prior to the transfer of the Scheme to the Company from NRAM, £20.5m of this was returned to NRAM.

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

	31 March 2021			31 March 2020		
	Quoted £m	**Unquoted £m**	**Total £m**	Quoted £m	Unquoted £m	Total £m
Bulk annuity contracts	**-**	**277.1**	**277.1**	-	268.5	268.5
Liability-hedging investments	**419.3**	**-**	**419.3**	460.8	-	460.8
Cash and cash equivalents	**-**	**3.0**	**3.0**	-	4.4	4.4
Total	**419.3**	**280.1**	**699.4**	460.8	272.9	733.7

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

	31 March 2021	31 March 2020
To determine benefit obligations:		
Discount rate	**2.10%**	2.30%
Inflation (RPI)	**3.30%**	2.55%
Future pension increases	**2.40% - 3.65%**	1.55% - 3.35%
To determine net pension credit:		
Discount rate	**1.65% from 20 November 2020, 2.30% prior to 20 November 2020**	2.50%

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

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

	31 March 2021		31 March 2020	
	Pensioner	**Non-retired Member**	Pensioner	Non-retired member
Male	**28.4**	**29.8**	28.3	29.7
Female	**30.4**	**31.8**	30.3	31.7

Maturity profile of the obligation

At 31 March 2021 the defined benefit pension scheme had a weighted average maturity of around 20 years (2020: 20 years).

15. Retirement benefit assets and obligations (continued)

(b) NRAM schemes (continued)

(ii) Funded defined benefit obligations (continued)

Sensitivity

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

Assumption	Change in assumption	Impact on obligations	£m
Discount rate	Decrease by 0.5%	Increase by 10%	**51.7**
Inflation	Increase by 0.5%	Increase by 4%	**21.1**
Mortality	Decrease by 1 year	Decrease by 4%	**18.5**

In each case, the impact is calculated by applying the one change, with all other assumptions unchanged. If the assumptions were to change by the same amount in the opposite direction to those illustrated, the obligations would decrease by a similar percentage to those shown in the table in each case.

(iii) Unfunded defined benefit obligations

NRAM has unfunded pension obligations in respect of a small number of former employees, all of whom are receiving their pension.

Benefits are provided on a final salary basis and pension increases are either calculated by reference to RPI or increase by 3.0% pa.

The cost to the Group of funding these obligations varies over time, dependent on market conditions and life expectancies. The cost in the year was £0.3m (2020: £nil) and the retirement benefit remeasurement loss recognised in other comprehensive income during the year was £0.8m (2020: loss of £0.3m). Payments to the beneficiaries during the year totalled £0.5m (2020: £0.3m).

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

	12 months to 31 March 2021 £m	12 months to 31 March 2020 £m
At start of year	**13.6**	13.6
Net interest cost	**0.3**	-
Remeasurements	**0.8**	0.3
Company contributions	**(0.5)**	(0.3)
At end of year	**14.2**	13.6

The actuarial assumptions used in respect of discount rates and inflation were consistent with those for the funded NRAM Scheme.

The life expectancy assumption for a male from age 60 is 28.4 years (2020: 28.3 years). At 31 March 2021 the obligation had a weighted average maturity of around 16 years (2020: 15 years).

The following table illustrates the sensitivity of the unfunded scheme obligations to three key assumptions: the discount rate, the rate of inflation and the mortality assumption:

Assumption	Change in assumption	Impact on obligations	£m
Discount rate	Decrease by 0.5%	Increase by 8%	**1.2**
Inflation	Increase by 0.5%	Increase by 3%	**0.5**
Mortality	Decrease by 1 year	Decrease by 4%	**0.6**

In each case, the impact is calculated by applying the one change, with all other assumptions unchanged. If the assumptions were to change by the same amount in the opposite direction to those illustrated, the obligations would decrease by a similar percentage to those shown in the table in each case.

16. Statutory Debt and HM Treasury loans

At 1 April 2019 NRAM had a loan from HM Treasury. Interest was charged at Bank of England Base Rate + 100 bps with effect from 4 May 2012 and prior to that date at Bank of England Base Rate + 25 bps. In respect of this loan, HM Treasury had a fixed charge on certain NRAM assets and a floating charge over all of NRAM's assets. During the year ended 31 March 2020 the remaining principal balance of £1,511.2m was repaid.

At 1 April 2019 B&B had an interest-free Statutory Debt to HM Treasury which replaced its 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.

B&B 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.

17. Debt securities in issue

At 1 April 2019 debt securities in issue comprised £200.0m of notes issued under NRAM's Medium Term Notes programme. These notes bore interest at 6.375% p.a. and were redeemed on 2 December 2019.

18. Accruals

Of the accruals of £17.4m (2020: £37.5m), £5.1m (2020: £15.4) comprised amounts which have been agreed as payable to specific persons as remediation for PPI mis-selling in previous years and the remaining £12.3m (2020: £22.1m) comprised accruals relating to costs.

19. Other liabilities

Of the other liabilities of £15.9m (2020: £7.4m), £12.7m (2020: £3.0m) comprised cash received in respect of loans which had been sold and which was owed to the purchaser of the loans.

20. Deferred taxation

The net deferred taxation liability, all of which is within the retained group at 31 March 2021, is attributable to the following:

	Assets		Liabilities		Net	
	31 Mar 2021	31 Mar 2020	**31 Mar 2021**	31 Mar 2020	**31 Mar 2021**	31 Mar 2020
	£m	£m	**£m**	£m	**£m**	£m
Available-for-sale reserve	**-**	0.5	**-**	-	**-**	0.5
Fair value reserve	**-**	23.5	**-**	-	**-**	23.5
Impairment of loans to customers	**-**	5.2	**-**	-	**-**	5.2
Employee benefits	**-**	6.1	**(115.2)**	(158.7)	**(115.2)**	(152.6)
Accelerated tax depreciation	**-**	1.3	**-**	-	**-**	1.3
Losses carried forward	**-**	1.8	**-**	-	**-**	1.8
	-	38.4	**(115.2)**	(158.7)	**(115.2)**	(120.3)
Offset	**-**	(38.4)	**-**	38.4	**-**	-
Total	**-**	-	**(115.2)**	(120.3)	**(115.2)**	(120.3)

Based on forecast future results of B&B and NRAM, it is not considered that the Group will have sufficient profits to utilise deferred tax assets of those companies regardless of whether the sale of those companies completes, and consequently these assets have been released. Consequently the Group had £11.9m of deferred tax assets unrecognised at 31 March 2021 (31 March 2020: £nil).

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

	1 April 2020	**Recognised in income: continuing operations**	**Recognised in income: discontinued operations**	**Recognised in equity: continuing operations**	**Recognised in equity: discontinued operations**	**31 March 2021: retained group**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Available-for-sale reserve	**0.5**	**-**	**(0.5)**	**-**	**-**	**-**
Fair value reserve	**23.5**	**-**	**-**	**-**	**(23.5)**	**-**
Impairment of loans to customers	**5.2**	**-**	**(5.2)**	**-**	**-**	**-**
Employee benefits	**(152.6)**	**(7.2)**	**(1.8)**	**46.4**	**-**	**(115.2)**
Accelerated tax depreciation	**1.3**	**-**	**(1.3)**	**-**	**-**	**-**
Losses carried forward	**1.8**	**-**	**(1.8)**	**-**	**-**	**-**
Total	**(120.3)**	**(7.2)**	**(10.6)**	**46.4**	**(23.5)**	**(115.2)**

	1 April 2019	Recognised in income: continuing operations	Recognised in income: discontinued operations	Recognised in equity: continuing operations	Recognised in equity: discontinued operations	31 March 2020
	£m	£m	£m	£m	£m	£m
Available-for-sale reserve	0.8	-	(0.3)	-	-	0.5
Fair value reserve	(20.0)	-	-	-	43.5	23.5
Impairment of loans to customers	5.3	-	(0.1)	-	-	5.2
Employee benefits	(99.9)	(16.4)	(0.5)	(35.8)	-	(152.6)
Accelerated tax depreciation	1.5	-	(0.2)	-	-	1.3
Losses carried forward	0.5	(0.5)	1.8	-	-	1.8
Total	(111.8)	(16.9)	0.7	(35.8)	43.5	(120.3)

The Group's deferred taxation liabilities were unaffected by the transfer of the funded retirement benefit schemes from B&B and NRAM to the Company during the year ended 31 March 2020 described in note 15.

21. Provisions

	Customer redress £m	Onerous contracts £m	Restructuring £m	Total £m
At 1 April 2020	**87.7**	**7.3**	**5.7**	**100.7**
Utilised in the year	**(56.4)**	**-**	**(3.1)**	**(59.5)**
Charged in the year: discontinued operations	**3.9**	**0.2**	**0.3**	**4.4**
Released in the year: continuing operations	**-**	**-**	**(0.8)**	**(0.8)**
Released in the year: discontinued operations	**(22.4)**	**(3.5)**	**-**	**(25.9)**
Total at 31 March 2021	**12.8**	**4.0**	**2.1**	**18.9**
Transferred to the disposal group	**(12.8)**	**(4.0)**	**(2.1)**	**(18.9)**
At 31 March 2021: retained group	**-**	**-**	**-**	**-**

	Customer redress £m	Onerous contracts £m	Restructuring £m	Total £m
At 1 April 2019	87.8	0.2	7.0	95.0
Utilised in the year	(116.4)	(0.1)	(2.7)	(119.2)
Charged in the year	123.0	7.2	3.6	133.8
Released in the year	(6.7)	-	(2.2)	(8.9)
At 31 March 2020	87.7	7.3	5.7	100.7

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 including claims in respect of certain loans which have been sold. The Group also retains obligations in respect of certain sales in previous years of financial products other than loans. These provisions form part of the disposal group held for sale (see note 3).

Customer redress provisions at 31 March 2021 total £12.8m (2020: £87.7m, of which £72.3m related to PPI). £56.4m of the provisions were utilised during the year, of which £52.2m related to PPI including £17.0m paid to the Official Receiver in full and final settlement of PPI claims in relation to bankrupt individuals. A release of £22.4m was recognised in the year, of which £18.8m 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 £3.9m 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.

The provisions for customer redress and restructuring will remain obligations of B&B and NRAM after the sale of those companies and therefore these have been treated as part of the disposal group held for sale. The Company will provide an indemnity to the purchaser for the majority of these exposures.

As detailed in note 13, 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. Following classification as part of the disposal group held for sale the right-of-use assets have been impaired by a further £6.8m to a carrying value of nil (see note 3).

The restructuring provision of £2.3m relates primarily to outstanding costs in relation to business simplification commenced in 2019/20. This provision forms part of the disposal group held for sale (see note 3).

22. Share capital

Group and Company Issued and fully paid	25p Ordinary shares Number	25p Ordinary shares £	Total share capital £
At 1 April 2019, 31 March 2020 and 31 March 2021	**4,959,595**	**1,239,899**	**1,239,899**

In accordance with the Companies Act 2006, the Company does not have authorised capital other than its issued capital.

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

During the year the Company declared and paid interim dividends totalling £575.0m (year ended 31 March 2020: £2,698.3m) equating to £116 per Ordinary share (year ended 31 March 2020: £544 per Ordinary share). No further dividends had been proposed by the date of approval of these Financial Statements.

23. Other reserves

Other reserves comprise the following:

	31 March 2021 **£m**	31 March 2020 £m
Fair value reserve	**-**	(100.7)
Merger reserve	**1,027.9**	1,129.1
Total	**1,027.9**	1,028.4

Fair value reserve	**Year ended 31 March 2021** **£m**	Year ended 31 March 2020 £m
At start of year	**(100.7)**	85.3
Amounts recognised in equity	**113.2**	(229.5)
Amounts reclassified to profit or loss	**11.0**	-
Movement in deferred tax	**(23.5)**	43.5
At end of year	**-**	(100.7)

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 represented the accumulated fair value movements up to the point of sale of FVOCI assets sold during the year.

Merger reserve

The balance is made up of:	**31 March 2021** **£m**	31 March 2020 £m
Relating to B&B	**512.9**	589.3
Relating to NRAM	**515.0**	539.8
Total	**1,027.9**	1,129.1

Movements on the merger reserve were as follows:	**12 months to 31 March 2021** **£000**	12 months to 31 March 2020 £000
Merger reserve at start of year	**1,129.1**	1,130.1
Release	**(101.2)**	(1.0)
Merger reserve at end of year	**1,027.9**	1,129.1

The majority of the merger reserve was generated on 1 October 2010 when the Company acquired all the issued shares of B&B and NRAM plc from the Treasury Solicitor via a share-for-share exchange and is non-distributable. This merger reserve represents the difference between the value attributed to the Company's investment in each company and the capital and non-distributable reserves of the acquired groups.

Of the £101.2m release of merger reserves during the year, £94.7m was a result of the impairment of the carrying value of the held for sale disposal group (see note 3). In addition, at 31 March 2020 £6.5m of merger reserve remained which had been created in 2016 when loans to customers were transferred to NRAM Limited from its then-subsidiary NRAM plc; as the remainder of those loans was sold during the year (see note 9) this reserve has been released.

24. 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.

	Year ended 31 March 2021		Year ended 31 March 2020			
	Lease obligations £m	**Total £m**	Statutory Debt and HM Treasury loans £m	Debt securities In issue £m	Lease obligations £m	Total £m
Principal balance at start of year	**17.6**	**17.6**	1,973.6	200.0		2,173.6
Adoption of IFRS 16 (see note 13)	**-**	**-**	-	-	18.8	18.8
Principal repayments	**(2.8)**	**(2.8)**	(1,973.6)	(200.0)	(2.8)	(2,176.4)
Other non-cash movements	**0.2**	**0.2**	-	-	1.6	1.6
Principal balance at end of year	**15.0**	**15.0**	-	-	17.6	17.6

Other non-cash movements comprise rent reviews and interest added under the effective interest method (see note 13).

The lease obligations have been classified as part of the disposal group (see note 3).

25. Related party disclosures

(a) Key management personnel

The Group considers the Boards of Directors and the members of the Executive Committees of UKAR, B&B and NRAM 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 remuneration of the 12 (2020: 12) key management personnel is set out in the table below. These amounts include the remuneration of the Directors which is set out in more detail in the Directors' Remuneration Report on pages 30 to 43. The Directors' Remuneration Report gives details of the Group's Directors' salaries, fees, bonuses, pension benefits, other incentives and other benefits. These amounts are part of discontinued operations.

Remuneration of key management personnel	**12 months to 31 March 2021 £000**	12 months to 31 March 2020 £000
Short-term employee benefits	**2,493**	2,913
Other long-term benefits	**142**	205
Post-employment benefits	**8**	40
Termination benefits	**108**	-
Total	**2,751**	3,158

Further details of the accounting treatment of pensions and of the Group's transactions and balances with the Group's pension schemes are given in note 15. There were no amounts due to or from the schemes at 31 March 2021 (31 March 2020: £nil). The key management personnel contributed £8,000 (2020: £40,000) to Group pension schemes during the year.

Included in the Group's Income Statement, the aggregate Directors' emoluments and the emoluments of the highest paid Director amounted to £1,014,980 and £606,230 respectively (2020: £1,274,070 and £859,070 respectively). 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. The Group did not make any loss of office payments to Directors in the year (2020: £nil).

(b) UK government

As described in note I to the Parent Company Financial Statements, 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 included deposits with the Bank of England and the Government Banking Service (see note 8), loans from HM Treasury (see note 16) and the Statutory Debt (see note 16). During the year ended 31 March 2020 the Group repaid the remaining balances on the HM Treasury loans and 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 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 Group declared and paid dividends totalling £575.0m (2020: £2,698.3m) to HM Treasury. During the year, the Group bore a cost of £0.5m (2020: £0.6m) relating to advisors to UKGI on UKAR's future strategy.

25. Related party disclosures (continued)

(c) UKAR Company

The Company's balances and transactions with related parties are detailed in note H to the Parent Company Financial Statements.

26. Capital structure

The UK financial regulator the FCA regulates B&B, NRAM and MX under the MIPRU regime which applies to mortgage administration companies.

Each of these companies manages its capital resources in order to meet the FCA's regulatory and the Board's requirements. Capital adequacy is monitored on an ongoing basis by the Group's executive management and Board based on the regulations established by the FCA. Each of these companies met its capital requirements throughout 2020/21 and 2019/20; further information in respect of B&B, NRAM and MX is available in the Annual Reports & Accounts of those companies, which do not form part of these Financial Statements.

The Board considers core equity, formerly tier 1 capital, to be of pre-eminent importance in the capital structure of the regulated companies and continues to monitor this closely, in addition to the total level of capital. The Directors believe that each regulated Group company has an appropriate and adequate level of capital to support its activities.

As at 31 March 2021, capital in B&B represented 94.9% (2020: 35.6%) of B&B company assets, NRAM capital represented 93.9% (2020: 21.4%) of NRAM company assets and capital of MX represented 81.3% (2020: 11.2%) of MX's assets. In each case the increase in capital is mainly due to the company's profit for the year and release of negative fair value reserves.

The primary objectives of the Group'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 Group's activities and economic conditions.

The Group defines equity as capital. The Group's capital adequacy and capital resources are managed and monitored in accordance with the regulatory capital rules of the FCA. Each regulated 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.

As detailed in note 3, on 26 February 2021 the Company entered into a contract which, subject to approval by the FCA, is expected to result in the sale of its 100% shareholdings in B&B and NRAM to Davidson Kempner later in the year. The purchaser has stated that its intention is that after the sale B&B, NRAM and MX will each retain sufficient capital to meet its requirements.

The Company's capital is represented by the capital and reserves attributable to the equity holder. The Company is not subject to externally imposed capital requirements other than the minimum share capital required by the Companies Act, with which it complies. The Company manages its capital and reserves in order that there is sufficient capital to meet the needs of the Company in its operations.

27. Financial instruments

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

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

At 31 March 2021	Retained group: assets at amortised cost £m	Disposal group: assets at amortised cost £m	Total carrying value £m	Fair value £m
Financial assets:				
Cash at bank and in hand	3,367.0	1,720.1	5,087.1	5,087.1
Other financial assets	-	3.1	3.1	3.1
Total financial assets	**3,367.0**	**1,723.2**	**5,090.2**	**5,090.2**

	Retained group: liabilities at amortised cost £m	Disposal group: liabilities at amortised cost £m	Total carrying value £m	Fair value £m
Financial liabilities:				
Deposit for sale of the disposal group	50.0	-	50.0	50.0
Lease obligations	-	15.0	15.0	14.3
Accruals	1.0	16.4	17.4	17.4
Other financial liabilities	-	15.9	15.9	15.9
Total financial liabilities	**51.0**	**47.3**	**98.3**	**97.6**

At 31 March 2020	Assets at amortised cost £m	Assets at FVOCI £m	Total carrying value £m	Fair value £m
Financial assets:				
Cash at bank and in hand	811.5	-	811.5	811.5
Loans to customers	-	4,699.5	4,699.5	4,699.5
Net investment in sub-leases	8.9	-	8.9	8.6
Other financial assets	0.1	-	0.1	0.1
Total financial assets	820.5	4,699.5	5,520.0	5,519.7

	Liabilities at fair value through profit or loss £m	Liabilities at amortised cost £m	Total carrying value £m	Fair value £m
Financial liabilities:				
Lease obligations	-	17.6	17.6	14.8
Accruals	-	37.5	37.5	37.5
Other financial liabilities	-	7.4	7.4	7.4
Total financial liabilities	-	62.5	62.5	59.7

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

27. Financial instruments (continued)

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

	12 months to 31 March 2021 £m	12 months to 31 March 2020 £m
Interest income recognised on an EIR method:		
On equity release mortgages	**0.5**	0.6
On other financial assets carried at amortised cost	**0.1**	4.7
	0.6	5.3
On loans to customers carried at FVOCI	**117.5**	177.2
Total interest income per the Income Statement	**118.1**	182.5
Interest expense recognised on an EIR method:		
On financial liabilities carried at amortised cost	**-**	(10.2)
Total interest expense per the Income Statement	**-**	(10.2)

All interest income and expense in each year were in discontinued operations.

(c) Impaired financial assets

Allowance accounts for credit losses in respect of impairment of loans to customers are detailed in note 10. 15 (2020: 15) investment securities are held which were written off and derecognised in previous years and the associated impairment allowance released as there is strong evidence to support that nothing will be recovered; at 31 March 2021 these are held within the disposal group held for sale. No impairment loss has been recognised in respect of any other class of financial asset and no other class of financial asset includes assets that are past due.

(d) 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 £4,699.5m were valued on a Level 3 basis.

Additionally, at 31 March 2021 the disposal group held for sale is carried at its fair value less costs to sell (see note 3) of £1,583.1m. The fair value was derived by reference to the agreed sale price and hence is considered to be Level 1.

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

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

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

There were no transfers between Levels 1, 2 and 3 during the year (2020: none).

27. Financial instruments *(continued)*

(d) Fair value measurement (continued)

For the Group's financial assets and liabilities which are not carried at fair value, the fair values disclosed in note 27(a) are calculated on the following bases:

At 31 March 2021	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets:				
Cash at bank and in hand	**5,087.1**	**-**	**-**	**5,087.1**
Other financial assets	**-**	**2.9**	**-**	**2.9**
	5,087.1	**2.9**	**-**	**5,090.0**
Financial liabilities:				
Deposit for sale of the disposal group	**50.0**	**-**	**-**	**50.0**
Lease obligations	**-**	**14.3**	**-**	**14.3**
Accruals	**-**	**17.4**	**-**	**17.4**
Other financial liabilities	**-**	**15.9**	**-**	**15.9**
	50.0	**47.6**	**-**	**97.6**

At 31 March 2020	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets:				
Cash at bank and in hand	811.5	-	-	811.5
Net investment in sub-leases	-	8.6	-	8.6
Other financial assets	-	0.1	-	0.1
	811.5	8.7	-	820.2
Financial liabilities:				
Lease obligations	-	14.8	-	14.8
Accruals	-	37.5	-	37.5
Other financial liabilities	-	7.4	-	7.4
	-	59.7	-	59.7

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.

Deposit for sale of the disposal group

Fair value approximates to carrying value because the balance is short term in nature.

Lease obligations

As detailed in note 13, 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 each balance sheet date.

Other financial assets and liabilities

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

(e) Offsetting

No financial assets have been offset against financial liabilities. No balances are subject to enforceable master netting arrangements or similar agreements.

28. Financial risk management

A description of the principal risks to which the Group is exposed is provided on pages 60 to 64 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 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:

	Retained group £m	**Disposal group £m**	**31 March 2021 Total £m**	31 March 2020 Total £m
On Balance Sheet:				
Cash at bank and in hand	**3,367.0**	**1,720.1**	**5,087.1**	811.5
Loans to customers [1]	**-**	**-**	**-**	4,954.6
Equity release mortgages [1]	**-**	**-**	**-**	7.8
Other financial assets	**-**	**3.1**	**3.1**	0.1
Total on Balance Sheet	**3,367.0**	**1,723.2**	**5,090.2**	5,782.9
Off Balance Sheet:				
Loan commitments	**-**	**-**	**-**	67.5

[1] *Outstanding balances*

Loans to customers were secured on property; additional information in respect of credit risk as at 31 March 2020 is provided in note 11. 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 8.

28. Financial risk management (continued)

(b) Liquidity risk

The Group closely monitors its 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 financial assets and liabilities into relevant maturity groupings:

At 31 March 2021	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
Financial assets:							
Cash at bank and in hand	5,087.1	-	-	-	-	-	5,087.1
Other financial assets	-	3.1	-	-	-	-	3.1
Total financial assets	**5,087.1**	**3.1**	-	-	-	-	**5,090.2**
Financial liabilities:							
Deposit for sale of the disposal group	-	50.0	-	-	-	-	50.0
Lease obligations	-	0.7	0.7	1.4	9.3	2.9	15.0
Accruals	-	17.4	-	-	-	-	17.4
Other financial liabilities	-	15.9	-	-	-	-	15.9
Total financial liabilities	-	**84.0**	**0.7**	**1.4**	**9.3**	**2.9**	**98.3**

At 31 March 2020	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
Financial assets:							
Cash at bank and in hand	811.5	-	-	-	-	-	811.5
Loans to customers [1]	77.9	29.5	29.6	63.2	655.2	3,968.3	4,823.7
Equity release mortgages	-	0.2	0.2	0.4	2.6	4.2	7.6
Net investment in sub-leases	-	0.6	0.6	1.1	6.6	-	8.9
Other financial assets	-	0.1	-	-	-	-	0.1
Total financial assets	889.4	30.4	30.4	64.7	664.4	3,972.5	5,651.8
Financial liabilities:							
Lease obligations	-	0.7	0.7	1.4	9.8	5.0	17.6
Accruals	-	37.5	-	-	-	-	37.5
Other financial liabilities	-	7.4	-	-	-	-	7.4
Total financial liabilities	-	45.6	0.7	1.4	9.8	5.0	62.5

[1] *Outstanding balances less impairment provisions at 31 March 2020.*

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

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 amount to £537.3m and £155.3m respectively (2020: £860.4m and £241.6m) of which £5.0m and £nil respectively are classed as current (2020: £23.0m and £nil) and £532.3m and £155.3m respectively are classed as non-current (2020: £837.4m and £241.6m).

28. Financial risk management (continued)

(b) Liquidity risk (continued)

The table below analyses the Group's cash flows payable into relevant periods. The assumptions used in the preparation of this table are consistent with those used in the maturity table on page 125. 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.

At 31 March 2021	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
Financial liabilities:							
Retained group:							
Deposit for sale of the disposal group	-	50.0	-	-	-	-	50.0
Accruals	-	1.0	-	-	-	-	1.0
Total retained group	-	51.0	-	-	-	-	51.0
Disposal group:							
Lease obligations	-	0.7	0.7	1.4	9.7	3.0	15.5
Accruals	-	16.4	-	-	-	-	16.4
Other financial liabilities	-	15.9	-	-	-	-	15.9
Total disposal group	-	33.0	0.7	1.4	9.7	3.0	47.8
Total	-	84.0	0.7	1.4	9.7	3.0	98.8

At 31 March 2020	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
Financial liabilities:							
Lease obligations	-	0.7	0.7	1.4	10.2	5.3	18.3
Accruals	-	37.5	-	-	-	-	37.5
Other financial liabilities	-	7.4	-	-	-	-	7.4
Loan commitments	64.6	0.1	0.1	0.2	1.2	1.3	67.5
Total	64.6	45.7	0.8	1.6	11.4	6.6	130.7

(c) Market risk

At 31 March 2021 and 31 March 2020 the Group 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. Detail of the management of risk in the pension schemes is provided in note 15.

29. Contingent liabilities

(a) As detailed in note 9, in February 2021 the Group recognised the sale of all of its loans to customers other than £0.1m of unsecured loans. As legal title to the loans is still held by B&B and NRAM, they continue to be responsible for ensuring the fair treatment of these customers and continue to carry provisions for customer remediation (see note 21). B&B and NRAM have provided certain warranties and indemnities in respect of these sales which have been guaranteed by the Company and which, in turn, are further protected by a Credit Support Deed from HM Treasury. Following completion of the company sales, the Company will assume ultimate liability for these warranties and indemnities. 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 the Company of its shares in B&B and NRAM (see note 1(b)) and the time limits to bring claims under the indemnities are up to 20 years. Under the terms of the company sales, the Company will also provide the purchaser of the companies certain warranties and indemnities in respect of the sale which will commence on completion of the sales 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) As detailed in note 9, in March 2019 NRAM sold two separate asset portfolios comprising performing residential and unsecured loans. NRAM provided certain warranties and indemnities in respect of this sale. The sale agreements set various time limits for the purchaser to bring claims under the warranties with the latest expiring in April 2024. The Company has provided a guarantee that should NRAM fail to make payment under a valid claim made under the warranties and indemnities then the Company will make payment in satisfaction of the claim. Through commitments made by HM Treasury, the Company is satisfied that it will have sufficient funds to meet its liabilities arising from any claims made under the guarantee. It is not possible to provide any meaningful estimate or range of the possible cost. No provision has been made.

(c) NRAM provided certain warranties and indemnities in respect of the sale in 2015-16 of certain loans and the shares in NRAM plc. The sale agreements set various time limits for the purchaser to bring claims under the warranties. For most of the warranties this time limit was on or before 5 May 2019, and hence no contingent liability remains, while for certain tax-related warranties the time limit is 5 May 2023. The Company has provided a guarantee that should NRAM fail to make payment under a valid claim made under the warranties and indemnities then the Company will make payment in satisfaction of the claim. Through commitments made by HM Treasury, the Company is satisfied that it will have sufficient funds to meet its liabilities arising from any claims made under the guarantee. It is not possible to provide any meaningful estimate or range of the possible cost. No provision has been made.

(d) 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 material 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.

30. Events after the reporting period

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 13). No material impacts are expected on the Group's Income Statement.

Unaudited appendix: additional disclosure requirements of the government's Financial Reporting Manual ('FReM')

The disclosures in this appendix are requirements of the FReM which are in addition to the disclosure requirements of the Companies Act 2006 and of IAS. These disclosures are unaudited. The Group's Financial Statements depart from the requirements of the FReM in two respects:

(a) The FReM has deferred adoption of IFRS 16 until 1 April 2022 whereas the Group adopted IFRS 16 with effect from 1 April 2019, in accordance with the IASB's and the EU's implementation date.

(b) The FReM mandates the use of government discount rates whereas the Group has applied discount rates which are appropriate to the Group under IAS. Discount rates are a significant input into the Group's calculation of IAS 19 pension scheme valuations, lease liabilities on adoption of IFRS 16 and the fair value of loans to customers at 31 March 2020.

Sickness absence

The average number of working days lost through sickness absence was as follows:

	12 months to 31 March 2021 Number	12 months to 31 March 2020 Number
Days per full time equivalent employee	**1.4**	3.8

Staff turnover

The staff turnover percentage for the year ended 31 March 2021 was 38% (2020: 25%). The FReM defines staff turnover as the full time equivalent number of leavers during the year divided by the average full time equivalent number of staff during the year. The high turnover and the increase year-on-year were a result of business simplification.

Consultancy

During the year ended 31 March 2021 the Group incurred costs totalling £13.9m in respect of consultancy (2020: £9.6m) and £1.3m in respect of temporary staff and specialist contractors (2020: £2.6m). The costs in 2020/21 are mainly due to advice on the sale of remaining mortgage assets, the sale of B&B and NRAM and legal advice.

Fees and charges income

Where the Group has sold loans to customers, the Group generally continues to service the loans for a period on behalf of the purchaser. This servicing fee income is included in the Income Statement within 'other operating income' and amounted to £1.1m for the year (2020: £10.1m).

Losses as defined in the FReM

The FReM requires that the Annual Report disclose audited information regarding losses as defined in the FReM. Losses in the year and previous year, comprising write-offs of loans to customers, were as follows:

	12 months to 31 March 2021 £m	12 months to 31 March 2020 £m
Write-offs (see note 10)	**11.5**	20.1

The principal cause of write-offs is shortfalls following possession sales. During the year ended 31 March 2021 and the year ended 31 March 2020 no losses were incurred which individually exceeded £300,000.

Remote contingent liabilities

In addition to the contingent liabilities disclosed in note 29 in accordance with IAS 37, the FReM requires disclosure of remote contingent liabilities, i.e. contingent liabilities which are not required to be disclosed under IAS 37 as the possibility of an outflow is remote but for which the maximum exposure is a material amount. The Group's remote contingent liabilities at 31 March 2021 comprised certain fundamental market-standard warranties, customary for such transactions, which were issued to facilitate sales of loan portfolios. The crystallisation of any liability is dependent on the occurrence and identification of any defects covered by the warranties. Given their nature, the probability of such occurrence is considered remote. The warranties remaining at 31 March 2021 and the maximum exposures to the Group were:

(a) Warranties and indemnities in connection with the sale of loans in February 2021 (see note 29(a)) limited to the £4.8bn base sale price.

(b) Warranties and indemnities in connection with the sale of loans in March 2019 (see note 29(b)) limited to the £4.9bn sale price.

(c) Indemnities in connection with a sale of loans in December 2018 limited to the £58.4m sale price.

(d) Warranties in connection with a sale of loans in September 2018 limited to £194.5m.

(e) Warranties and indemnities in connection with a sale of loans in April 2018 limited to the £5.4bn sale price.

(f) Warranties and indemnities in connection with a sale of loans in March 2017 limited to the £11.4bn sale price.

Independent Auditor's report to the Members of UK Asset Resolution Limited

Opinion on financial statements

I have audited the company financial statements of UK Asset Resolution Limited for the year ended 31 March 2021 which comprise:

the Company Balance Sheet;

the Company Statement of Changes in Equity;

the 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.

I have also audited the information in the Director's Remuneration Report that is described in that report as having been audited.

In my opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2021;
- 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 UK Asset Resolution Limited 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 UK Asset Resolution Limited'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 UK Asset Resolution Limited'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 parts of the of the Directors' Remuneration Report and 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.

Independent Auditor's report to the Members of UK Asset Resolution Limited (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 parts of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 2006;
- 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.
- 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 UK Asset Resolution Limited 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 and the parts of the Directors' Remuneration Report to be audited 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 UK Asset Resolution'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 UK Asset Resolution Limited (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

My procedures included the following:

- Inquiring of management, UK Asset Resolution Limited's Head of Internal Audit and those charged with governance, including obtaining and reviewing supporting documentation relating to UK Asset Resolution Limited'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 UK Asset Resolution Limited's controls relating to Companies Act 2006 and tax legislation.
- discussing among the engagement team (which covers all UK Asset Resolution group entities) and involving relevant internal and external specialists, including an actuarial expert to support the audit of UK Asset Resolution's retirement benefit plans and internal corporate finance 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: posting of unusual journals and bias in the assumptions used in determining the valuation of the retirement benefit plans; and
- obtaining an understanding of UK Asset Resolution Limited's framework of authority as well as other legal and regulatory frameworks that the UK Asset Resolution Limited 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 UK Asset Resolution Limited. 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 the statutory funding objectives set by the Pensions Regulator.

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. 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

Hilary Lower (Senior Statutory Auditor)
7 ~~8~~ July 2021

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

COMPANY BALANCE SHEET

	Note	31 March 2021 £m	31 March 2020 £m
Assets			
Cash at bank and in hand	D	**3,367.0**	486.1
Assets held for sale: investments in Group undertakings	E	**1,562.2**	-
Investments in Group undertakings	E	**-**	1,522.5
Amounts due from Group undertakings	H	**-**	3,415.8
Current tax assets		**5.0**	11.3
Retirement benefit assets	F	**606.2**	835.4
Total assets		**5,540.4**	6,271.1
Liabilities			
Deposit for sale of investments in Group undertakings	E	**50.0**	-
Amounts due to Group undertakings	H	**2.7**	23.2
Accruals		**1.1**	3.9
Deferred tax liabilities	C	**115.2**	158.7
Provisions		**-**	1.4
Total liabilities		**169.0**	187.2
Equity			
Issued capital and reserves attributable to owners of the parent:			
- share capital	22	**1.2**	1.2
- merger reserve	G	**1,554.1**	1,521.2
- retained earnings		**3,816.1**	4,561.6
Total equity		**5,371.4**	6,083.9
Total equity and liabilities		**5,540.4**	6,271.1

The notes on pages 135 to 146 and note 22 on page 118 form an integral part of these Financial Statements.

The Company's profit after tax for the financial year was £59.7m (31 March 2020: £4,135.1m) including dividends from subsidiaries totalling £nil (year ended 31 March 2020: £5,210.7m). As permitted by s408 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.

The Financial Statements on pages 132 to 146 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

UK Asset Resolution Limited is registered in England and Wales under company number 07301961.

COMPANY STATEMENT OF CHANGES IN EQUITY

For the 12 months to 31 March 2021	**Note**	**Share capital £m**	**Merger Reserve £m**	**Retained earnings £m**	**Total share capital and reserve £m**
At 1 April 2020		**1.2**	**1,521.2**	**4,561.5**	**6,083.9**
Other comprehensive (expense)/income:					
- retirement benefit remeasurements	F	-	-	**(243.5)**	**(243.5)**
- tax effects of the above		-	-	**46.3**	**46.3**
Total other comprehensive (expense)		-	-	**(197.2)**	**(197.2)**
Profit for the financial year		-	-	**59.7**	**59.7**
Reversal of release of merger reserve	G	-	**32.9**	**(32.9)**	-
Total comprehensive income/(expense)		-	**32.9**	**(170.4)**	**(137.5)**
Dividends declared	22	-	-	**(575.0)**	**(575.0)**
At 31 March 2021		**1.2**	**1,554.1**	**3,816.1**	**5,371.4**

For the 12 months to 31 March 2020	Note	Share capital £m	Merger Reserve £m	Retained earnings £m	Total share capital and reserve £m
At 1 April 2019		1.2	2,632.8	1,997.8	4,631.8
Other comprehensive income/(expense):					
- retirement benefit remeasurements	F	-	-	172.0	172.0
- tax effects of the above		-	-	(156.7)	(156.7)
Total other comprehensive income		-	-	15.3	15.3
Profit for the financial year		-	-	4,135.1	4,135.1
Release of merger reserve	G	-	(1,111.6)	1,111.6	-
Total comprehensive (expense)/income		-	(1,111.6)	5,262.0	4,150.4
Dividends declared	22	-	-	(2,698.3)	(2,698.3)
At 31 March 2020		1.2	1,521.2	4,561.5	6,083.9

COMPANY CASH FLOW STATEMENT

	12 months to 31 March 2021 £m	12 months to 31 March 2020 £m
Cash flows from operating activities		
Profit before taxation for the financial year	**68.7**	4,143.7
Adjustments to reconcile profit to cash generated from operating activities:		
- non-recurring charges	**5.3**	15.4
- interest expense and similar charges	**0.2**	0.1
- defined benefit pension scheme credits	**(13.2)**	(9.6)
- cash contributions to defined benefit pension schemes	**(4.9)**	-
- impairment of investments in subsidiary undertakings	**(32.9)**	1,111.6
- other non-cash movements	**-**	0.1
	23.2	5,261.3
Net increase/(decrease) in operating assets:		
- amounts due from Group undertakings	**3,415.8**	(4,755.0)
- other assets	**(9.6)**	-
Net decrease in operating liabilities:		
- amounts due to Group undertakings	**(22.8)**	(1.1)
- other liabilities	**0.1**	(0.1)
provisions	**(0.6)**	-
Interest paid	**(0.2)**	(0.1)
Income tax paid	**-**	(11.3)
Net cash generated from operating activities	**3,405.9**	493.7
Cash flows generated from investing activities:		
- deposit received in respect of sale of investments in subsidiary undertakings	**50.0**	-
Net cash generated from investing activities	**50.0**	-
Cash flows used in financing activities:		
- dividends received	**-**	2,690.7
- dividends paid (see note 22)	**(575.0)**	(2,698.3)
Net cash used in financing activities	**(575.0)**	(7.6)
Net increase in cash and cash equivalents	**2,880.9**	486.1
Cash and cash equivalents at beginning of year	**486.1**	-
Cash and cash equivalents at end of year	**3,367.0**	486.1
Represented by cash and assets with original maturity of three months or less within:		
- cash at bank and in hand	**3,367.0**	486.1
Total cash and cash equivalents at end of year	**3,367.0**	486.1

A. Principal accounting policies

The Company is a private company limited by shares incorporated on 1 July 2010 and domiciled in the United Kingdom. The principal activity of the Company is to provide management services to its subsidiary undertakings. As detailed in note E, on 26 February 2021 the Company entered into a contract which, subject to approval by the FCA, is expected to result in the sale of its 100% shareholdings in B&B and NRAM, along with their subsidiaries, and the Directors expect that the sale will complete later in the year. Regardless of whether the sale completes, the Directors expect that the Company will remain in government ownership and continue to manage the government's legacy exposures which arose from the nationalisation of B&B and NRAM. However, the activities of the Company will evolve from being the holding company overseeing the rundown of B&B and NRAM to that of being responsible for meeting contractual obligations resulting from previous asset sales, sponsorship of the legacy B&B and NRAM pension schemes and administration of other non-loan assets and liabilities.

The accounting policies of the UKAR Group are set out in note 1 on pages 85 to 90. The policies which are of particular significance to the Company are: 1(b) basis of preparation; 1(d) interest income and expense; 1(f) taxation; 1(g) financial instruments; 1(j) assets held for sale and discontinued operations; 1(l) cash at bank and in hand; 1(o) debt and equity securities in issue; 1(p) retirement benefits; 1(q) provisions and contingent liabilities and 1(r) dividends receivable and payable. The Company applies the accounting policies of the UKAR Group with the following additional items.

(a) Investments in Group undertakings

At 31 March 2020, the Company's investments in Group undertakings were carried at cost less any impairment. UKAR's acquisition of the entire issued share capital of B&B and NRAM plc in a share-for-share exchange has been accounted for under 'predecessor accounting' and the initial cost of each of these investments was deemed to be the net assets of the B&B company and the NRAM plc company at 30 June 2010. On 29 April 2016 NRAM Limited acquired NRAM plc from the Company by way of a share-for-share exchange, NRAM Limited issuing the same number and class of shares as were acquired from UKAR. 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, with a corresponding release from the Company's merger reserve. 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 (along with the release from merger reserve) 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.

At 31 March 2021, the Company's investments in group undertakings are classified as held for sale and hence are carried at the lower of previous carrying amount and fair value less costs to sell (see note E).

(b) 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.

(c) Deferred tax

At the point at which the B&B and NRAM funded defined benefit pension schemes transferred to the Company (see note F) an associated deferred tax obligation was recognised by the Company (see note C).

B. Critical judgements and accounting estimates

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

Critical judgements

(a) Classification of the assets held for sale

As detailed in note E on 26 February 2021 the Company entered into a contract which, subject to approval by the FCA, is expected to result in the sale of its 100% shareholdings in B&B and NRAM to Davidson Kempner later in the year. As at the Balance Sheet date it was considered that the sale of these shareholdings was highly probable, as defined in IFRS 5, and that their carrying amount will be recovered principally through a sale transaction rather than through continuing use, and consequently the investments have been classified as held for sale. However, the sale will be accounted for at the point that the shares are transferred to the purchaser as this is the point at which the Company will cease to have any power or control over the subsidiaries. No discontinued operation has been disclosed as the Company will continue to perform administrative functions and no clearly-distinguishable cash flows will cease.

(b) Recognition of indemnity provision

As detailed in note E on 26 February 2021 the Company entered into a contract which, subject to approval by the FCA, is expected to result in the sale of its 100% shareholdings in B&B and NRAM to Davidson Kempner later in the year. Under the terms of the sale, the Company will indemnify Davidson Kempner against certain remediation and other payments which require to be made by B&B and NRAM after the date of the sale. The Company will first make a provision in respect of these indemnities at the point of recognition of the sale as this is considered to be the date at which the Company first has a financial obligation.

(c) Carrying amount of net retirement benefit assets

As detailed in note F, the Company carries on its Balance Sheet net assets in respect of its defined benefit retirement schemes. The Trustee of each such scheme has passed a resolution for the ultimate refund to the Company of any future surpluses on the scheme and it is therefore considered that any surplus will ultimately be available to the sponsoring company either in the form of a refund or in the form of reduced future contributions to the scheme. Hence it is considered appropriate to carry these net assets in full on the Company's Balance Sheet.

Accounting estimates

(d) Impairment of investments in Group undertakings

As detailed in note E, at 31 March 2021 in accordance with IFRS 5, as they are held for sale the carrying value of the investments in Group undertakings has been impaired to the estimated fair value less costs to sell. The fair value was derived by reference to the agreed sale price.

(e) Retirement benefit obligations

Liabilities in respect of the Company's defined benefit pension schemes are carried on the Balance Sheet at values calculated in accordance with IAS 19. Economic assumptions are adopted which have impacts on the calculated value of the liabilities; these assumptions are determined by the Company's management taking account of recommendations made by the Group's actuaries. The sensitivities of the liability values to key assumptions are disclosed in note F.

C. Taxation

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

	1 April 2020 £m	Recognised in income £m	Recognised in equity £m	31 March 2021 £m
Employee benefits	**(158.7)**	**(2.8)**	**46.3**	**(115.2)**
Losses carried forward	**-**	**-**	**-**	**-**
Total	**(158.7)**	**(2.8)**	**46.3**	**(115.2)**

	1 April 2019 £m	Recognised in income £m	Recognised in equity £m	31 March 2020 £m
Employee benefits	-	(2.0)	(156.7)	(158.7)
Losses carried forward	0.6	(0.6)	-	-
Total	0.6	(2.6)	(156.7)	(158.7)

As detailed in note F, the funded defined benefit pension schemes of B&B and NRAM transferred to the Company on 20 June 2019, at their IAS 19 values at that date. On that date the Company recognised in full deferred tax provisions in relation to the schemes, totalling £124.2m, recognised in equity. This treatment of deferred tax on initial recognition of the schemes was considered appropriate as the Company would be liable for any tax arising on any future refunds from the schemes and acquired the schemes at a price which did not reflect this potential future exposure.

The Company bears tax at the standard weighted average rate of UK corporation tax of 19.0% (2020: 19.0%) and has no unprovided deferred tax (2020: none).

D. Cash at bank and in hand

	31 March 2021 £m	31 March 2020 £m
Balances with the Government Banking Service	**3,355.3**	468.0
Balances with other banks	**11.7**	18.1
Total	**3,367.0**	486.1

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

None of the Company's cash at bank and in hand balances are impaired and all are with UK institutions. The Government Banking Service is rated AA. All of the balances with other banks 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.

E. Assets held for sale: investments in Group undertakings

On 26 February 2021 UKAR entered into a contract which, subject to approval by the FCA, is expected to result in the sale of its 100% shareholdings in B&B and NRAM, along with their subsidiaries, to Davidson Kempner. The Directors expect that the sale will complete later in the year. At 31 March 2021 Davidson Kempner had paid a deposit of £50.0m in respect of this transaction. Should the sale not complete, the deposit is to be returned to the purchaser, unless the purchaser has breached the relevant terms of the sale contract. Under the sale contract the Company will provide certain warranties to Davidson Kempner and also indemnities against certain remediation and other payments which B&B and NRAM may make after the date of the sale.

At 31 March 2021 the Company has classified its investments in B&B and NRAM as held for sale in accordance with IFRS 5 and the carrying value of the investments has been impaired to the estimated fair value less costs to sell.

E. Assets held for sale: investments in Group undertakings (continued)

Completion of the sale is subject to the FCA granting regulatory approval, which the Directors consider to be highly probable. This approval is the only condition remaining to be satisfied, following which the Company will be legally committed to completion of the sale.

The Company's principal subsidiary undertakings at 31 March 2021 held directly or indirectly, all of which are wholly-owned and are fully consolidated into the Group Financial Statements, are listed below. All operate in their country of incorporation.

	Registered number	Nature of business	Country of incorporation	Class of shares held
Direct				
Bradford & Bingley plc	03938288	Asset management	UK	Ordinary
NRAM Limited	09655526	Asset management	UK	Ordinary
Indirect				
Mortgage Express	02405490	Asset management	UK	Ordinary

The Company also directly held the following subsidiaries at 31 March 2021:

	Registered number	Nature of business	Country of incorporation	Class of shares held
Northern Rock (Asset Management) Limited	08655131	Application made to strike off	UK	Ordinary
UKAR Corporate Services Limited	08578384	In liquidation	UK	Ordinary

The following companies are wholly-owned subsidiaries of B&B or NRAM and therefore fully consolidated into the Group Financial Statements; all operate in their country of incorporation. It is intended that these companies remain subsidiaries of B&B and NRAM at the point of sale of B&B and NRAM and hence these companies are part of the disposal group.

	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
NRAM (No. 2) Limited	02190427	Non-trading	UK	Ordinary
NRAM Homes Limited	02306045	Property management	UK	Ordinary
Scotlife Homeloans (No. 2) Limited	02220177	Non-trading	UK	Ordinary
Silhouette Mortgages Limited	02356078	Non-trading	UK	Ordinary

Being in liquidation, UKAR Corporate Services Limited has its registered office at 1 Bridgewater Place, Water Lane, Leeds, West Yorkshire LS11 5QR. All of the Company's other subsidiary undertakings have their registered office at Croft Road, Crossflatts, Bingley, West Yorkshire BD16 2UA.

	31 March 2021 £m	31 March 2020 £m
At start of year	**1,522.5**	2,634.1
Reversal of impairment/(impairment)	**32.9**	(1,111.6)
Prepaid costs	**6.8**	-
At end of year	**1,562.2**	1,522.5

In accordance with IFRS 5, as the investments are held for sale, £32.9m of previously recognised impairment has been reversed, taking the carrying value of the investments at 31 March 2021 to £1,562.2m, being the estimated fair value less costs to sell. The fair value was derived by reference to the agreed sale price. £32.9m of previously recognised release of merger reserve has been reversed, representing a deduction from retained earnings (see note G).

During the year ended 31 March 2020 the carrying value of the Company's investments in its subsidiary undertakings was reviewed for impairment following the declaration of dividends by those subsidiaries and the fall in the fair value of their loan books as a result of the impact on markets of the COVID-19 pandemic. The carrying amounts of the investments were impaired by £1,111.6m to reduce them to their value in use at 31 March 2020. A release of £1,111.6m, equal to the amount of impairment of the carrying amount of the investments, was made from the Company's merger reserve to retained earnings (see note G).

F. Retirement benefit assets and obligations

Full details of the Group's retirement benefit assets and obligations are provided in note 15.

On 20 June 2019 the Company became the sponsoring company of the B&B and NRAM funded defined benefit pension schemes. The transfer values were contractually set at their IAS 19 values at that date, being £454.2m for the B&B Scheme and £199.6m for the NRAM Scheme.

The amounts carried on the Company Balance Sheet are as follows:

	31 March 2021			31 March 2020		
	B&B Scheme £m	**NRAM Scheme £m**	**Total £m**	B&B Scheme £m	NRAM Scheme £m	Total £m
Present value of defined benefit obligations	**(978.3)**	**(518.5)**	**(1,496.8)**	(866.4)	(479.0)	(1,345.4)
Fair value of defined benefit assets	**1,403.6**	**699.4**	**2,103.0**	1,447.1	733.7	2,180.8
Net defined benefit asset	**425.3**	**180.9**	**606.2**	580.7	254.7	835.4

The assets of the B&B Scheme and of the NRAM Scheme are each held in a separate trustee-administered fund. The Trustee of each has passed a resolution for the ultimate refund to the Company of any future surpluses on the scheme and as detailed in note B(c) it is considered appropriate to carry net surpluses on each scheme in full on the Balance Sheet.

The Trustee of the B&B Scheme manages the volatility in the value of the scheme's assets by limiting the exposure to return-seeking assets and using liability-driven investment strategies to increase the level of hedging against investment risks. The two key investment risks are interest rate risk and inflation risk relating to the B&B Scheme's obligations. By holding swaps, fixed interest gilts, index-linked gilts and corporate bonds, approximately 95% of the interest rate risk and approximately 95% of the inflation risk has been hedged. The NRAM Scheme has instigated a liability-driven investment programme, including bulk annuity contracts and liability-hedging investments, which currently hedges approximately 95% of the interest rate risk and approximately 95% of the inflation risk.

HM Treasury has committed that it will ensure that the Company has sufficient funds to make any necessary future contributions to the defined benefit schemes for which the Company is responsible. The B&B Scheme has a written guarantee from HM Treasury that benefits will be paid in full to the members.

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

	Year ended 31 March 2021			Year ended 31 March 2020		
	B&B Scheme £m	**NRAM Scheme £m**	**Total £m**	B&B Scheme £m	NRAM Scheme £m	Total £m
At start of year	**866.4**	**479.0**	**1,345.4**	-	-	-
On transfer in on 20 June 2019	**-**	**-**	**-**	981.4	509.6	1,491.0
Interest on defined benefit obligations	**18.7**	**10.2**	**28.9**	15.3	9.3	24.6
Remeasurements:						
- effect of GMP equalisation	**3.4**	**0.4**	**3.8**	-	-	-
- effect of changes in demographic assumptions	**-**	**3.1**	**3.1**	-	0.8	0.8
- effect of changes in financial assumptions	**130.6**	**53.1**	**183.7**	(99.8)	(27.9)	(127.7)
- effect of experience adjustments	**-**	**(6.2)**	**(6.2)**	-	4.8	4.8
Benefits paid from plan	**(40.8)**	**(21.1)**	**(61.9)**	(30.5)	(17.6)	(48.1)
At end of year	**978.3**	**518.5**	**1,496.8**	866.4	479.0	1,345.4

See note 15 for details of the GMP Equalisation Case.

F. Retirement benefit assets and obligations (continued)

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

	Year ended 31 March 2021			Year ended 31 March 2020		
	B&B Scheme £m	**NRAM Scheme £m**	**Total £m**	B&B Scheme £m	NRAM Scheme £m	Total £m
At start of year	**1,447.1**	**733.7**	**2,180.8**	-	-	-
On transfer in on 20 June 2019	**-**	**-**	**-**	1,435.6	709.2	2,144.8
Interest income on defined benefit assets	**30.2**	**15.1**	**45.3**	23.7	12.2	35.9
Defined benefit company contributions	**2.9**	**2.0**	**4.9**	-	-	-
Remeasurements:						
- return on plan assets (excluding interest income)	**(33.7)**	**(29.2)**	**(62.9)**	19.2	30.7	49.9
Administrative expenses paid from plan assets	**(2.1)**	**(1.1)**	**(3.2)**	(0.9)	(0.8)	(1.7)
Benefits paid from plan	**(40.8)**	**(21.1)**	**(61.9)**	(30.5)	(17.6)	(48.1)
At end of year	**1,403.6**	**699.4**	**2,103.0**	1,447.1	733.7	2,180.8

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

At 31 March 2021		**B&B Scheme**			**NRAM Scheme**	
	Quoted £m	**Unquoted £m**	**Total £m**	**Quoted £m**	**Unquoted £m**	**Total £m**
Equity instruments	**9.1**	**-**	**9.1**	**-**	**-**	**-**
Property	**-**	**0.1**	**0.1**	**-**	**-**	**-**
Bonds:						
- of which UK	**67.2**	**-**	**67.2**	**-**	**-**	**-**
- of which overseas	**1.7**	**-**	**1.7**	**-**	**-**	**-**
Bulk annuity contracts	**-**	**-**	**-**	**-**	**277.1**	**277.1**
Liability-hedging investments	**1,441.2**	**-**	**1,441.2**	**419.3**	**-**	**419.3**
Repurchase agreements	**(127.9)**	**-**	**(127.9)**	**-**	**-**	**-**
Cash and cash equivalents	**-**	**12.2**	**12.2**	**-**	**3.0**	**3.0**
Total	**1,391.3**	**12.3**	**1,403.6**	**419.3**	**280.1**	**699.4**

At 31 March 2020		B&B Scheme			NRAM Scheme	
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equity instruments	-	6.7	6.7	-	-	-
Property	-	0.1	0.1	-	-	-
Bonds:						
- of which UK	119.9	-	119.9	-	-	-
- of which overseas	62.4	-	62.4	-	-	-
Bulk annuity contracts	-	-	-	-	268.5	268.5
Liability hedging investments	1,501.3	-	1,501.3	460.8	-	460.8
Repurchase agreements	(251.9)	-	(251.9)	-	-	-
Cash and cash equivalents	-	8.6	8.6	-	4.4	4.4
Total	1,431.7	15.4	1,447.1	460.8	272.9	733.7

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

	31 March 2021	31 March 2020	20 June 2019
To determine benefit obligations:			
Discount rate	**2.10%**	2.30%	2.30%
Inflation (RPI)	**3.30%**	2.55%	3.20%
Inflation (CPI)	**2.40%**	1.55%	2.20%
Future pension increases	**2.40% - 3.65%**	1.55% - 3.35%	2.00% - 3.60%

F. Retirement benefit assets and obligations (continued)

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

	31 March 2021		31 March 2020		20 June 2019	
	Pensioner	**Non-retired member**	Pensioner	Non-retired member	Pensioner	Non-retired member
B&B Scheme: male	**27.6**	**29.0**	27.5	28.9	27.4	28.8
B&B Scheme: female	**30.1**	**31.5**	30.0	31.4	29.9	31.3
NRAM Scheme: male	**28.4**	**29.8**	28.3	29.7	28.2	29.6
NRAM Scheme: female	**30.4**	**31.8**	30.3	31.7	30.2	31.6

Maturity profile of the obligation

At 31 March 2021 the B&B Scheme had a weighted average maturity of around 20 years (2020: 20 years) and the NRAM Scheme of around 20 years (2020: 20 years).

Sensitivity

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

B&B Scheme: assumption	**Change in assumption**	**Impact on obligations**	**£m**
Discount rate	Decrease by 0.5%	Increase by 9%	**89.0**
Inflation	Increase by 0.5%	Increase by 7%	**65.4**
Mortality	Decrease by 1 year	Decrease by 4%	**36.2**

NRAM Scheme: assumption	**Change in assumption**	**Impact on obligations**	**£m**
Discount rate	Decrease by 0.5%	Increase by 10%	**51.7**
Inflation	Increase by 0.5%	Increase by 4%	**21.1**
Mortality	Decrease by 1 year	Decrease by 4%	**18.5**

In each case, the impact is calculated by applying the one change, with all other assumptions unchanged. If the assumptions were to change by the same amount in the opposite direction to those illustrated, the obligations would decrease by a similar percentage to those shown in the table in each case.

G. Merger reserve

The merger reserve was generated on 1 October 2010 when the Company acquired all the issued shares of B&B and NRAM plc from the Treasury Solicitor via a share-for-share exchange. The merger reserve represents the difference between the value attributed to the Company's investment in each company and the nominal value of the share capital issued by the Company in exchange. On 29 April 2016 NRAM Limited acquired NRAM plc from the Company by way of a share-for-share exchange, NRAM Limited issuing the same number and class of shares as were acquired from UKAR.

	12 months to 31 March 2021 £000	12 months to 31 March 2020 £000
Merger reserve at start of year	**1,521.2**	2,632.8
Reversal of release/(release)	**32.9**	(1,111.6)
Merger reserve at end of year	**1,554.1**	1,521.2

As detailed in note E, during the year £32.9m of previously recognised impairment of the carrying amount of the Company's investments in its subsidiary undertakings was released. During the year ended 31 March 2020 impairment of £1,111.6m was recognised. In each case a transfer of an equal amount has been made between the merger reserve and retained earnings.

H. Related party disclosures

(a) Subsidiary companies

	31 March 2021 £m	31 March 2020 £m
Amounts due from subsidiary undertakings:		
B&B	-	1,629.4
Mortgage Express	-	450.0
NRAM	-	1,336.4
Total	-	3,415.8
Amounts due to subsidiary undertakings:		
B&B	**2.7**	23.2
Total	**2.7**	23.2

The amounts due to and from subsidiary undertakings were settled, other than for small balances, following the sale of the Group's loans to customers in February 2021.

At 31 March 2020 the debtor balances were repayable on demand but the Company had committed to its subsidiaries that the Company would not demand payment while the subsidiaries were owned by the Company. Under IFRS 9 the receivables were categorised as at amortised cost and their fair value was estimated to be their carrying amount. This was deemed to be a Level 1 valuation as it represented the outstanding balance.

The Company had transactions with its subsidiaries as follows:

	12 months to 31 March 2021 £000	12 months to 31 March 2020 £000
Management charges to subsidiary undertakings	**286**	490
Interest income on inter-company loans	**28,069**	50,487
Interest expense on inter-company loans	**177**	-
Costs recharged by subsidiary undertakings	**9,053**	15,382

As detailed in note F, on 20 June 2019 the Company became the sponsoring company of the B&B and NRAM funded defined benefit pension schemes. The balances were transferred for their IAS 19 carrying amounts, totalling £653.8m and B&B and NRAM made loans to the Company totalling £653.8m to finance the transfer of the schemes.

During the year the Company's subsidiaries declared no dividends to the Company (2020: £5,210.7m).

During the year the Company reversed impairment of the carrying value of its investments in its subsidiaries by £32.9m (2020: impairment of £1,111.6m) (see note E).

(b) Key management personnel

The Group considers the Boards of Directors and the members of the Executive Committees of UKAR, B&B and NRAM to be the key management personnel. The Company had no transactions or balances directly with any key management personnel during the year. The Company's non-executive Directors have service contracts with the Company. Their fees are paid by B&B. £14,000 of fees were borne by the Company during the year (2020: £23,000) and the remainder were borne by B&B and NRAM.

(c) Directors' emoluments

The aggregate Group emoluments of the Directors of the Company for the 12 months to 31 March 2021 were £1,014,980 and of the highest paid Director £606,230 (12 months to 31 March 2020: £1,274,070 and £859,070 respectively). The cost is borne by B&B and NRAM.

I. Ultimate controlling party

All shares in the Company are owned by the Treasury Solicitor as nominee for HM Treasury, and 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. HM Treasury is domiciled in the United Kingdom and is located at 1 Horse Guards Road, London SW1A 2HQ.

J. Financial instruments

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

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

	At 31 March 2021			At 31 March 2020		
	Amortised cost £m	**Total carrying value £m**	**Fair value £m**	Amortised cost £m	Total carrying value £m	Fair value £m
Financial assets:						
Cash at bank and in hand	**3,367.0**	**3,367.0**	**3,367.0**	486.1	486.1	486.1
Amounts due from Group undertakings	**-**	**-**	**-**	3,415.8	3,415.8	3,415.8
Total financial assets	**3,367.0**	**3,367.0**	**3,367.0**	3,901.9	3,901.9	3,901.9

	At 31 March 2021			At 31 March 2020		
	Amortised cost £m	**Total carrying value £m**	**Fair value £m**	Amortised cost £m	Total carrying value £m	Fair value £m
Financial liabilities:						
Deposit for sale of investments	**50.0**	**50.0**	**50.0**	-	-	-
Amounts due to Group undertakings	**2.7**	**2.7**	**2.7**	23.2	23.2	23.2
Accruals	**1.1**	**1.1**	**1.1**	3.9	3.9	3.9
Total financial assets	**53.8**	**53.8**	**53.8**	27.1	27.1	27.1

(b) Impaired financial assets

No impairment allowance has been recognised in respect of any class of financial asset, and no class of financial asset includes assets that are past due.

J. Financial instruments (continued)

(c) Fair value measurement

The fair values disclosed in note J(a) are calculated on the following bases:

	At 31 March 2021			At 31 March 2020		
	Level 1 £m	**Level 2 £m**	**Total £m**	Level 1 £m	Level 2 £m	Total £m
Financial assets:						
Cash at bank and in hand	**3,367.0**	**-**	**3,367.0**	486.1	-	486.1
Amounts due from Group undertakings	**-**	**-**	**-**	3,415.8	-	3,415.8
Total financial assets	**3,367.0**	**-**	**3,367.0**	3,901.9	-	3,901.9

	At 31 March 2021			At 31 March 2020		
	Level 1 £m	**Level 2 £m**	**Total £m**	Level 1 £m	Level 2 £m	Total £m
Financial liabilities:						
Deposit for sale of investments	**50.0**	**-**	**50.0**	-	-	-
Amounts due to Group undertakings	**2.7**	**-**	**2.7**	23.2	-	23.2
Accruals	**-**	**1.1**	**1.1**	-	3.9	3.9
Total financial liabilities	**52.7**	**1.1**	**53.8**	23.2	3.9	27.1

Additionally, the Company's investments in B&B and NRAM are carried at their fair value less costs to sell (see note E) of £1,562.2m. The fair value was derived by reference to the agreed sale price and hence is considered to be Level 1.

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).

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

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

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

Deposit for sale of investments
Fair value approximates to carrying value because the balance is short term in nature.

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

(d) Offsetting
As detailed in note F, on 20 June 2019 B&B made a loan to the Company of £454.2m and NRAM made a loan to the Company of £199.6m to finance the transfer of the pension schemes. At 31 March 2020 these loans were offset against the existing loans from the Company to B&B and NRAM. During the year these loans were repaid. No other financial assets have been offset against financial liabilities. No balances are subject to enforceable master netting arrangements or similar agreements.

K. Financial risk management

A description of the principal risks to which the Group is exposed is provided on pages 60 to 64 which form an integral part of the audited Financial Statements.

(a) Credit risk

Credit risk is the potential loss caused by a party failing to meet an obligation as it becomes due.

The maximum credit risk exposure at the Balance Sheet date was as follows:

	31 March 2021 £m	31 March 2020 £m
On Balance Sheet:		
Cash at bank and in hand	**3,367.0**	486.1
Amounts due from Group undertakings	**-**	3,415.8
Total	**3,367.0**	3,901.9

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

(b) Liquidity risk

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

	31 March 2021			31 March 2020		
At 31 March 2020	**On demand £m**	**Within three months £m**	**Total £m**	On demand £m	Within three months £m	Total £m
Financial assets:						
Cash at bank and in hand	**3,367.0**	**-**	**3,367.0**	486.1	-	486.1
Amounts due from Group undertakings	**-**	**-**	**-**	3,415.8	-	3,415.8
Total financial assets	**3,367.0**	**-**	**3,367.0**	3,901.9	-	3,901.9
Financial liabilities:						
Deposit for sale of investments	**-**	**50.0**	**50.0**	-	-	-
Amounts due to Group undertakings	**2.7**	**-**	**2.7**	23.2	-	23.2
Accruals	**-**	**1.1**	**1.1**	-	3.9	3.9
Total financial liabilities	**2.7**	**51.1**	**53.8**	23.2	3.9	27.1

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

Assets and liabilities with a remaining period to contractual maturity of within one year are classed as current and those with a remaining period of more than one year are classed as non-current. Non-financial assets and liabilities of the Company amount to £2,173.4m and £115.2m respectively (2020: £2,369.2m and £160.1m) of which £5.0m and £nil respectively are classed as current (2020: £11.3 and £nil) and £2,168.4m and £115.2m respectively are classed as non-current (2020: £2,357.9m and £160.1m).

(c) Market risk

At 31 March 2021 and 31 March 2020 the Company had no material exposure to market risk. Detail of the management of risk in the pension schemes is provided in note 15.

L. Contingent liabilities

As detailed in note 29(a), the Company has provided guarantees to the purchasers of the loan portfolios sold in February 2021, that should B&B or NRAM fail to make payment under a valid claim made under the warranties and indemnities provided in respect of the sale of the loans, then the Company will make payment to the purchasers in satisfaction of the claim. Following completion of the company sales, the Company will assume ultimate liability for the warranties and indemnities provided to the purchasers of these loan portfolios. Under the terms of the company sales, the Company will also provide the purchaser of the companies certain warranties and indemnities in respect of the sale which will commence on completion of the sales 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.

As detailed in notes 29(b) and 29(c), the Company has provided guarantees to the purchasers of certain loan portfolios that should B&B or NRAM fail to make payment under a valid claim made under the warranties and indemnities provided in respect of the sale of the loans then the Company will make payment to the purchasers in satisfaction of the claim. Through commitments made by HM Treasury in relation to the sales, the Company is satisfied that it will have sufficient funds to meet its liabilities arising from any claims made under the guarantees. It is not possible to provide any meaningful estimate or range of the possible cost. No provision has been made.

M. Events after the reporting period

The Directors are of the opinion that there have been no significant events which have occurred since 31 March 2021 to the date of this Report that are likely to have a material effect on the Company's financial position as disclosed in these Financial Statements.

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