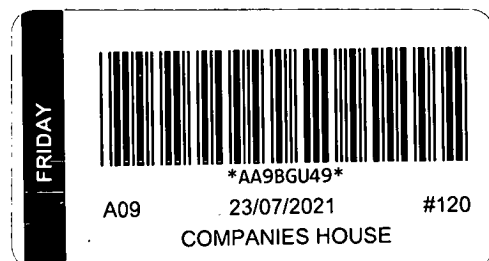


Registered Number: 02124900

E-Mex Home Funding Limited

**Annual Report and Financial Statements for the year ended
31 March 2021**



E-MEX HOME FUNDING LIMITED

Annual report and financial statements for the year ended 31 March 2021

Contents

Directors and company information	2
Directors' report for the year ended 31 March 2021	3
Statement of directors' responsibilities	5
Strategic report for the year ended 31 March 2021	6
Independent auditor's report	9
Statement of comprehensive income for the year ended 31 March 2021	12
Balance sheet as at 31 March 2021	13
Statement of changes in equity for the year ended 31 March 2021	14
Notes to the financial statements for the year ended 31 March 2021	15

E-MEX HOME FUNDING LIMITED

Directors and company information

Directors

S Bennison

J Dunn (resigned 16 November 2020)

C Rhodes

R Sinclair (appointed 2 June 2021)

G Smyth (appointed 24 March 2021)

Company secretary

NBS CoSec Limited

Independent auditor

Ernst & Young LLP

25 Churchill Place

London

E14 5EY

Registered office

Nationwide House

Pipers Way

Swindon

SN38 1NW

Registered number

02124900

E-MEX HOME FUNDING LIMITED

Directors' report for the year ended 31 March 2021

The directors present their annual report and the audited financial statements for the year ended 31 March 2021.

As set out in the statement of accounting policies, the annual report and financial statements have been prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101).

Principal activities

E-Mex Home Funding Limited ('the Company') is a wholly owned subsidiary of Nationwide Building Society ('the Society'). Nationwide Building Society prepares consolidated financial statements, which includes the Company and other undertakings (herein 'the Group'). The Company is authorised and regulated by the Financial Conduct Authority (FCA).

The principal activity of the Company is residential mortgage lending.

The Company has ceased to offer lending to new customers but provides existing customers access to switcher products. The Company continues to focus on maximising value for the Group by servicing its existing mortgage book and customers.

Results and dividends

The profit after tax was £1.2 million (2020: £1.8 million). No dividends were proposed, approved or paid during the year (2020: £nil).

Business review, future developments and relationships with stakeholders

The Company's business and future plans are reviewed in the Strategic report, which also includes an overview of the Company's risk management objectives and policies and its relationships with stakeholders.

Employees

The Company has no employees (2020: none).

Environment

The Company's environmental policy is set at a Group level. The Group remains committed to managing its environmental impacts and its ambition is to look for better, cleaner ways to run its operations.

Further details of the Group's activities can be found in the Strategic Report in its Annual Report and Accounts and on Nationwide Building Society's website at nationwide.co.uk

E-MEX HOME FUNDING LIMITED

Directors' report for the year ended 31 March 2021 (continued)

Directors and directors' interests

The directors who held office during the period were:

S Bennison
J Dunn (resigned 16 November 2020)
C Rhodes
G Smyth (appointed 24 March 2021)

The following director was appointed after the balance sheet date:

R Sinclair (appointed 2 June 2021)

At no time during the year have the directors, or their families, had any beneficial interest in the shares of the Company. None of the directors had any interest in any contract significant to the Company's business.

Company secretary

NBS CoSec Limited.

Domicile

The Company is a private company limited by shares. It is incorporated and domiciled in the United Kingdom and is registered in England and Wales. The registered office is Nationwide House, Pipers Way, Swindon, SN38 1NW.

Going concern

The Company's business activities, together with the factors likely to affect its future development, financial position and its exposure to risk, are described in the Strategic report.

The Company is fully funded by its parent undertaking, Nationwide Building Society. Nationwide Building Society's Board of directors have confirmed that it will continue to fund the Company's activities for the foreseeable future. The foreseeable future is considered for this purpose to be a period of not less than 12 months from the date of approval of the financial statements and it is therefore appropriate to continue to adopt the going concern basis in preparing these financial statements.

E-MEX HOME FUNDING LIMITED

Directors' report for the year ended 31 March 2021 (continued)

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic report, Directors' report and financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (UK GAAP), including Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101).

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

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK GAAP standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Independent auditor

The auditors, Ernst & Young LLP, have expressed their willingness to continue in office.

Statement of disclosure of information to auditor

In accordance with Section 418 of the Companies Act 2006, for each director in office at the date the Directors' report is approved:

- (a) so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware;
- (b) they have taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Approved by the Board of directors and signed on its behalf by



C Rhodes
Director
19 July 2021

E-MEX HOME FUNDING LIMITED

Strategic report for the year ended 31 March 2021

Business review

The Company recorded a profit before tax for the year of £1.5 million (2020: £2.2 million). Profits have decreased in the year in line with the ongoing run-off of the residential mortgage book, alongside a £0.4 million increase in impairment provisions on loans and advances to customers due to ongoing uncertainty over the Covid-19 pandemic.

Retained earnings carried forward are £20.1 million (2020: £18.8 million).

Future developments

As the mortgage book remains closed to new business, the Company will continue to maintain its mortgage book and support existing customers.

General market conditions have been dominated by uncertainty primarily caused by the impact of the ongoing Covid-19 pandemic and the responses to it. The pandemic is having far-reaching impacts on the economy, impacting financial performance, credit profile and the way the Company interacts with customers and its business operations. Further details can be found in the Strategic report of the Group's Annual Report and Accounts.

Section 172(1) statement

This section of the Strategic report describes how the directors considered the matters set out in section 172(1) of the Companies Act 2006. It also forms the directors' statement required under section 414CZA of the Companies Act 2006. As the Company is part of a wider Group, where matters impact other entities amongst the Group and have a broader application, stakeholder engagement is led by the Society and as such this information has been disclosed in the Group's Annual Report and Accounts.

How and what does the Board of the Company do to engage with stakeholders?

Every decision made by the Board considers in detail the impact on the Company's key stakeholders to ensure that the success of the company is promoted over the long term for the benefit of the Group. The Company engages with certain stakeholders directly, such as mortgage brokers that distribute the Company's products, and its customers.

The Board receives the latest guidance on stakeholder interests and has oversight over stakeholder matters in view of its receipt of management information and regular performance updates from the business, as well as matters escalated to the Board. This oversight provides an opportunity for the Board to ensure that the Company is operating effectively and that stakeholders' interests are fairly balanced. The Board performs an annual self-assessment of its effectiveness including its regard for stakeholder interests.

Taking account of our stakeholders

Maintaining high standards of business conduct

The Board endeavours to help mortgage customers through disruption experienced as a result of the Covid-19 pandemic. Payment deferrals have been made available to landlords whose tenants have lost income because of the impact of Covid-19, with landlords expected to pass this relief onto their tenants. Payment deferrals are also available to mortgage customers who have lost income as a result of the Covid-19 pandemic.

Impact on environment

Throughout the year the Board considered environmental, social and governance issues and reviewed its lending policy to ensure it remains aligned to the Group's sustainability agenda, including regulatory risks linked to possible changes in minimum Energy Performance Certificate (EPC) ratings. The Company continues to support green initiatives in the mortgage sector in recognising the priorities of the UK Government. In addition, the Company will keep under review its proposition and processes to support landlords' adherence to future regulation.

Meeting customer needs

Product switcher options were continually reviewed and monitored, and customers were kept informed of the internal switch options to allow them to take advantage of lower rates available to them.

E-MEX HOME FUNDING LIMITED

Strategic report for the year ended 31 March 2021 (continued)

Strategic goals

Although strategic goals are set at Group level, the Board are aware of the Company's role in supporting the Group's ambition to meet these goals. The key performance indicators in relation to the Group's strategic goals are set out in the Strategic report in its Annual Report and Accounts which is available on Nationwide Building Society's website, nationwide.co.uk

Risk overview

The Company's risk management policies are set at Group level. The Group has well-established risk management processes to ensure risks are controlled and managed appropriately.

Risks are managed through an Enterprise Risk Management Framework (ERMF), which articulates the approach to risk management. The structure is based on eight principal risk categories, establishing risk appetite, and implementing risk management through the three lines of defence model. The ERMF is underpinned by processes, policies and standards that are specific to individual risk categories, and focus on the responsibilities of key executives and risk practitioners. The outputs of the ERMF are governed through the Group's risk committee structure. Further details of the Group's risk management policies can be found in the Risk report of the Group's Annual Report and Accounts.

The Group's principal risks are:

- credit risk
- liquidity and funding risk
- market risk
- solvency risk
- pension risk
- business risk
- operational and conduct risk
- model risk

Details of the principal risks that are most relevant to the Company are set out below. Formal statements of risk appetite define how much risk the Group's Board is willing to accept in the delivery of its strategy and inform the Board's strategy for managing risk.

Further details on principal risks can be found in the Risk report of the Group's Annual Report and Accounts.

Credit, liquidity and funding risk and market risk.

Details of credit, liquidity and funding and market risk are included in note 15.

Business risk

Business risk is the risk that achievable volumes decline or margins decline relative to the cost base, affecting the sustainability of the business and the ability to deliver the strategy due to macro-economic, geopolitical, industry, competitor, regulatory or other external events. The Group actively manages this risk so that it continues to provide value to current and future customers, with a focus on long-term sustainability rather than short-term benefit. The Group ensures that it can generate sustainable profits by focusing on recurrent sources of income that provide value commensurate with risk appetite. The Group monitors this risk as part of ongoing business performance.

Operational and conduct risk

Operational and conduct risk is the risk of impacts resulting from inadequate or failed internal processes, conduct and compliance management, people and systems, or from external events. The Group manages the operation of proportionate controls embedded within processes to identify and prevent failures affecting our customers or colleagues.

E-MEX HOME FUNDING LIMITED

Strategic report for the year ended 31 March 2021 (continued)

Risk overview (continued)

Model risk

Model risk is the risk of an adverse outcome as a direct result of weaknesses or failures in the development, implementation or use of a model. A model is defined as 'a simplification of a business system using assumptions and mathematical concepts to help describe, predict or forecast' and may include approaches which are partially or wholly qualitative, or based on expert judgement. There is an inherent risk associated with models because, by their very nature, they are imperfect and incomplete representations that rely on assumptions and theoretical methodologies, and use historic data which may not represent future outcomes, leading to the potential for errors and uncertainty.

Model errors can arise when models are implemented incorrectly or misused, for instance when applied to uses that they were not designed for, or where there is a failure to update key assumptions where appropriate. Model errors and uncertainty are the primary sources of model risk and, if crystallised, could result in poor lending decisions, holding inappropriate levels of capital or provisions, inappropriate pricing decisions or financial loss.

The ERMF provides the foundation for the management of model risk within defined risk appetite set by the Group Board. Further details on the management of model risk can be found in the Risk report of the Group's Annual Report and Accounts.

Approved by the Board of directors and signed on its behalf by



C Rhodes
Director
19 July 2021

E-MEX HOME FUNDING LIMITED

Independent auditor's report to the members of E-Mex Home Funding Limited

Report on the financial statements

Opinion

We have audited the financial statements of E-Mex Home Funding Limited for the year ended 31 March 2021 which comprise the Statement of comprehensive income, the Balance sheet and the Statement of changes in equity and the related notes 1 to 19, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice)".

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 March 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

E-MEX HOME FUNDING LIMITED

Independent auditor's report to the members of E-Mex Home Funding Limited (continued)

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

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

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our 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.

E-MEX HOME FUNDING LIMITED

Independent auditor's report to the members of E-Mex Home Funding Limited (continued)

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

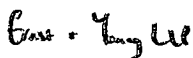
Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are the Companies Act 2006, license conditions and supervisory requirements under Financial Conduct Authority ("FCA") and direct tax regulation in the United Kingdom.
- We understood how the company is complying with those frameworks by making enquiries of management, those charged with governance, internal audit and those responsible for legal and compliance matters. We corroborated our enquiries through review of meeting minutes of Board, and Board Risk Committee and key correspondence received from regulatory bodies and noted that there was no contradictory evidence.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved journal entry testing, with a focus on journal entries meeting our defined risk criteria based on our understanding of the business; enquiries with those charged with governance, senior management, internal audit and inspection of Board minutes and key correspondence with the FCA.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by considering the controls that the company has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. We made enquiries of management and internal audit to supplement our assessment of how fraud might occur. We also considered performance and incentive plan targets and their potential to influence management to manage earnings or influence the perceptions of investors and stakeholders. Our procedures to address the risks identified also included incorporation of unpredictability into the nature, timing and/or extent of our testing, challenging assumptions and judgements made by management in their significant accounting estimates, and testing year end adjustments and other targeted journal entries.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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



Javier Faiz (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

19 July 2021

E-MEX HOME FUNDING LIMITED**Statement of comprehensive income for the year ended 31 March 2021**

	Note	2021 £'000	2020 £'000
Interest receivable and similar income	3	2,127	2,856
Interest expense and similar charges	4	(698)	(1,256)
Net interest income		1,429	1,600
Fee and commission income	5	8	8
Other operating income	6	607	673
Total income		2,044	2,281
Administrative expenses	7	(104)	(75)
Impairment losses on loans and advances to customers	8	(453)	(38)
Provisions for liabilities and charges	9	8	4
Profit before tax		1,495	2,172
Taxation	10	(284)	(343)
Profit after tax, being total comprehensive income for the year		1,211	1,829

The notes on pages 15 to 40 form part of these financial statements.

Balance sheet as at 31 March 2021

	Note	2021 £'000	2020 £'000
Assets			
Non-current assets			
Loans and advances to customers	12	67,239	74,661
Deferred tax	10	578	661
Current assets			
Cash		773	556
Current tax assets		103	64
Loans and advances to customers	12	3,821	2,439
Total assets		72,514	78,381
Liabilities			
Non-current liabilities			
Amounts owed to parent undertaking	13	52,451	9,419
Current liabilities			
Amounts owed to parent undertaking	13	-	50,103
Accruals, deferred income and other liabilities		5	4
Provisions for liabilities and charges	9	-	8
Total liabilities		52,456	59,534
Equity			
Share capital	14	-	-
Retained earnings		20,058	18,847
Total equity		20,058	18,847
Total equity and liabilities		72,514	78,381

The notes on pages 15 to 40 form part of these financial statements.

The financial statements on pages 12 to 40 were approved by the Board of directors on 19 July 2021 and signed on its behalf by

CSR

C Rhodes
Director
19 July 2021

E-MEX HOME FUNDING LIMITED**Statement of changes in equity for the year ended 31 March 2021**

2021	Share capital £'000	Retained earnings £'000	Total equity £'000
At 1 April 2020	-	18,847	18,847
Profit after tax	-	1,211	1,211
Total comprehensive income	-	1,211	1,211
At 31 March 2021	-	20,058	20,058

2020	Share capital £'000	Retained earnings £'000	Total equity £'000
At 1 April 2019	-	17,018	17,018
Profit after tax	-	1,829	1,829
Total comprehensive income	-	1,829	1,829
At 31 March 2020	-	18,847	18,847

The notes on pages 15 to 40 form part of these financial statements.

E-MEX HOME FUNDING LIMITED

Notes to the financial statements for the year ended 31 March 2021

1 Statement of accounting policies

Basis of preparation

The financial statements have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006, and in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). The financial statements have been prepared under the historical cost convention. As stated in the Directors' report, the directors consider that it is appropriate to continue to adopt the going concern basis in preparing the financial statements. Accounting policies have been consistently applied in preparing these financial statements except for changes arising from adoption of new and revised International Financial Reporting Standards (IFRS). The Company's financial statements are presented in sterling and all values are rounded to the nearest thousand pounds (£'000) except where otherwise indicated.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of International Accounting Standard (IAS) 7 'Statement of Cash Flows';
- the requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'; and
- the requirements in IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

Further information about judgements in applying accounting policies and critical accounting estimates is provided in note 2.

Adoption of new and revised standards

A number of amendments and improvements to accounting standards, as adopted for use in the UK, have been issued by the International Accounting Standards Board (IASB) with an effective date of 1 January 2020. Those relevant to these financial statements include minor amendments to IAS 1 'Presentation of Financial Statements', IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', and the Conceptual Framework. The adoption of these amendments and interpretations had no significant impact on the Company.

Interest Rate Benchmark Reform – Phase 2 amendments to IFRS 9, IAS 39 and IFRS 7

GBP Libor is expected to be discontinued on 31 December 2021.

In August 2020, the IASB issued amendments arising from Phase 2 of its work on Interest Rate Benchmark Reform. These amendments, which were endorsed by the EU and UK in January 2021, are applicable to the Company from 1 April 2021, with early adoption permitted. The Company has early adopted the amendments, with no impact as at 31 March 2021.

The Company has a small portfolio of legacy mortgages (£36 million at 31 March 2021) that reference GBP Libor. The Group's Libor Transition Working Group is managing the full range of transition-related issues, including the conversion of existing contracts. Further details on the Group's management of Interest Rate Benchmark Reform can be found in notes 1 and 15 of the Group's Annual Report and Accounts.

a) Interest receivable and interest expense

For instruments measured at amortised cost, the effective interest rate (EIR) method is used to measure the carrying value of a financial asset or liability and to allocate associated interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

In calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument (for example, early redemption penalty charges) and anticipated customer behaviour, but does not consider future credit losses. The calculation includes all fees received and paid and costs incurred that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts above or below market rates.

Interest income is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets. For credit-impaired financial assets the interest income is calculated by applying the EIR to the amortised cost of the credit-impaired financial assets (i.e. net of the allowance for expected credit losses (ECLs)). Where loans are credit impaired on origination, or when purchased from third parties, the carrying amount at initial recognition is net of the lifetime ECL at that date. For these assets the EIR reflects the ECLs in determining the future cash flows expected to be received from the financial asset.

E-MEX HOME FUNDING LIMITED

Notes to the financial statements for the year ended 31 March 2021 (continued)

1 Statement of accounting policies (continued)

b) Fees and commissions

Fees and commission income and expense includes fees other than those that are an integral part of EIR. Fees and commissions relating to mortgages are either:

- transaction-based and therefore recognised when the performance obligation related to the transaction is fulfilled, or
- related to the provision of services over a period of time and therefore recognised on a systematic basis over the life of the agreement as services are provided.

c) Segmental reporting

The Company has one reportable segment. No segmental analysis is required on geographical lines as substantially all of the Company's business activities are in the United Kingdom.

d) Taxation including deferred tax

Current tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise. Current tax assets and liabilities are measured at the amount expected to be recovered from, or paid to, the taxation authorities.

Deferred tax is provided in full 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.

Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences can be utilised. The tax effects of tax losses available for carry forward are recognised as a deferred tax asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and where the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle on a net basis.

e) Provisions

A provision is recognised where there is a present obligation as a result of a past event, it is probable that the obligation will be settled and it can be reliably estimated. This includes management's best estimate of amounts payable for customer redress.

f) Financial assets

Financial assets comprise cash and loans and advances to customers.

Recognition and derecognition

All financial assets are recognised initially at fair value. Purchases and sales of financial assets are accounted for at trade date. Financial assets acquired through a business combination or portfolio acquisition are recognised at fair value at the acquisition date. Financial assets are derecognised when the rights to receive cash flows have expired or where the assets have been transferred and substantially all the risks and rewards of ownership have been transferred.

The fair value of a financial instrument on initial recognition is normally the transaction price (plus directly attributable transaction costs for financial assets which are not subsequently measured at fair value through profit or loss). On initial recognition, it is presumed that the transaction price is the fair value unless there is observable information available in an active market to the contrary. Any difference between the fair value at initial recognition and the transaction price is recognised immediately as a gain or loss in the income statement where the fair value is based on a quoted price in an active market or a valuation using only observable market data. In all other cases, any gain or loss is deferred and recognised over the life of the transaction, or until valuation inputs become observable.

E-MEX HOME FUNDING LIMITED

Notes to the financial statements for the year ended 31 March 2021 (continued)

1 Statement of accounting policies (continued)

f) Financial assets (continued)

Modification of contractual terms

An instrument that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms. Residential mortgages reaching the end of a fixed interest deal period are deemed repricing events, rather than a modification of contractual terms, as the change in interest rate at the end of the fixed rate period was envisaged in the original mortgage contract.

Where an instrument is renegotiated and not derecognised, the change is considered a modification of contractual terms. Where this arises, the gross carrying amount of the loan is recalculated as the present value of the renegotiated or modified contractual cash flows, discounted at the loan's original effective interest rate. Any gain or loss on recalculation is recognised immediately in the income statement.

Classification and measurement

The classification and subsequent measurement of financial assets is based on an assessment of the Company's business models for managing the assets and their contractual cash flow characteristics. Financial assets are classified into the following categories:

Amortised cost

Financial assets held to collect contractual cash flows and where contractual terms comprise solely payments of principal and interest (SPPI) are classified as amortised cost. This category of financial assets includes cash, amounts due from Group undertakings and residential mortgage loans.

Financial assets within this category are recognised on either the receipt of cash or deposit of funds into one of the Company's bank accounts (for cash), or when the funds are advanced to borrowers (for residential mortgage loans and amounts due from Group undertakings). After initial recognition, the assets are measured at amortised cost using the effective interest rate method, less provisions for expected credit losses.

Fair value through profit or loss (FVTPL)

All other financial assets are measured at FVTPL. Financial assets within this category include a commercial loan with contractual cash flow characteristics which do not meet the SPPI criteria. The contractual terms for these cash flows include contingent or leverage features, or returns based on movements in underlying collateral values such as house prices.

Fair values are based on observable market data, valuations obtained by third parties or, where these are not available, internal models. Gains or losses arising from changes in the fair value of these instruments and on disposal are recognised in the income statement within other operating income.

g) Impairment of financial assets

Financial assets within the scope of IFRS 9 expected credit loss (ECL) requirements comprise all financial debt instruments measured at amortised cost. These include cash, amounts due from Group undertakings, and loans and advances to customers. Also within scope are irrevocable undrawn commitments to lend.

The ECL represents the present value of expected cash shortfalls following the default of a financial instrument, including any undrawn commitment. A cash shortfall is the difference between the cash flows that are due in accordance with the contractual terms of the instrument and the cash flows that the Company expects to receive.

The allowance for ECLs is based on an assessment of the probability of default, exposure at default and loss given default, discounted at the effective interest rate to give a net present value. The estimation of ECLs is unbiased and probability weighted, taking into account all reasonable and supportable information, including forward looking economic assumptions and a range of possible outcomes. ECLs are typically calculated from initial recognition of the financial asset for the maximum contractual period that the Company is exposed to the credit risk.

For financial assets recognised in the balance sheet at amortised cost, the allowance for ECLs is offset against the gross carrying value so that the amount presented in the balance sheet is net of impairment provisions. For separately identifiable irrevocable loan commitments, where the related financial asset has not yet been advanced, the provision is presented in provisions for liabilities and charges in the balance sheet.

E-MEX HOME FUNDING LIMITED

Notes to the financial statements for the year ended 31 March 2021 (continued)

1 Statement of accounting policies (continued)

g) Impairment of financial assets (continued)

Forward looking economic inputs

ECLs are calculated by reference to information on past events, current conditions and forecasts of future economic conditions. Multiple economic scenarios are incorporated into ECL calculation models. These scenarios are based on external sources where available and appropriate, and internally generated assumptions in all other cases. To capture any non-linear relationship between economic assumptions and credit losses, a minimum of three scenarios is used. This includes a central scenario which reflects the Company's view of the most likely future economic conditions, together with an upside and a downside scenario representing alternative plausible views of economic conditions, weighted based on management's view of their probability.

Credit risk categorisation

For the purpose of calculating ECLs, assets are categorised into three 'stages' as follows:

Stage 1: no significant increase in credit risk since initial recognition

On initial recognition, and for financial assets where there has not been a significant increase in credit risk since the date of advance, provision is made for losses from credit default events expected to occur within the next 12 months. Expected credit losses for these stage 1 assets continue to be recognised on this basis unless there is a significant increase in the credit risk of the asset.

Stage 2: significant increase in credit risk

Financial assets are categorised as being within stage 2 where an instrument has experienced a significant increase in credit risk since initial recognition. For these assets, provision is made for losses from credit default events expected to occur over the lifetime of the instrument.

Whether a significant increase in credit risk has occurred is ascertained by comparing the probability of default at the reporting date to the probability of default at origination based on quantitative and qualitative factors. Quantitative considerations take into account changes in the residual lifetime probability of default (PD) of the asset. As a backstop, all assets with an arrears status of more than 30 days past due on contractual payments are considered to be in stage 2.

Qualitative factors that may indicate a significant change in credit risk include concession events where full repayment of principal and interest is envisaged, on a discounted basis. Further information about the identification of significant increases in credit risk is provided in note 8.

Stage 3: credit impaired (or defaulted) loans

Financial assets are transferred into stage 3 when there is objective evidence that an instrument is credit impaired. Provisions for stage 3 assets are made on the basis of credit default events expected to occur over the lifetime of the instrument. Assets are considered credit impaired when:

- contractual payments of either principal or interest are past due by more than 90 days;
- there are other indications that the borrower is unlikely to pay such as signs of financial difficulty, probable bankruptcy, breaches of contract and concession events which have a detrimental impact on the present value of future cash flows; or
- the loan is otherwise considered to be in default.

Interest income on stage 3 credit impaired loans is recognised in the income statement on the loan balance net of the ECL provision. The gross balance sheet value of stage 3 loans reflects the contractual terms of the assets, and continues to increase over time with the contractually accrued interest.

Transfers between stages

Transfers from stage 1 to 2 occur when there has been a significant increase in credit risk and from stage 2 to 3 when credit impairment is indicated as described above.

For assets in stage 2 or 3, loans can transfer back to stage 1 or 2 once the criteria for a significant increase in credit risk or impairment are no longer met. For loans subject to concession events such as forbearance, accounts are transferred back to stage 1 or 2 only after being up to date for a period of 12 months.

E-MEX HOME FUNDING LIMITED

Notes to the financial statements for the year ended 31 March 2021 (continued)

1 Statement of accounting policies (continued)

g) Impairment of financial assets (continued)

Write-off

Loans remain on the balance sheet net of associated provisions until they are deemed to have no reasonable expectation of recovery. Loans are generally written off after realisation of any proceeds from collateral and upon conclusion of the collections process, including consideration of whether an account has reached a point where continuing attempts to recover are no longer likely to be successful. Where a loan is not recoverable, it is written off against the related provision for loan impairment once all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the value of impairment losses recorded in the income statement.

h) Financial liabilities

Borrowings are recognised initially at fair value, being the issue proceeds net of premiums, discounts and transaction costs incurred.

All borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is adjusted for the amortisation of any premiums, discounts and transaction costs. The amortisation is recognised in interest expense and similar charges using the effective interest rate method.

Financial liabilities are derecognised when the obligation is discharged, cancelled or has expired.

i) Fair value of assets and liabilities

IFRS 13 'Fair Value Measurement' requires an entity to classify assets and liabilities held at fair value, and those not measured at fair value but for which the fair value is disclosed, according to a hierarchy that reflects the significance of observable market inputs in calculating those fair values. The three levels of the fair value hierarchy are defined below:

Level 1 – Valuation using quoted market prices

Assets and liabilities are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available and the price reflects actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

Level 2 – Valuation technique using observable inputs

Assets and liabilities classified as Level 2 have been valued using models whose inputs are observable in an active market.

Level 3 – Valuation technique using significant unobservable inputs

Assets and liabilities are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data. A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price. An input is deemed significant if it is shown to contribute more than 10% to the valuation of a financial instrument.

j) Share capital and dividends

Ordinary shares, net of directly attributable issue costs, are classified as equity.

Dividends paid on ordinary shares are recognised in equity in the period in which they are paid or, if earlier, approved by the directors.

2 Judgements in applying accounting policies and critical accounting estimates

The preparation of the Company's financial statements in accordance with FRS 101 involves management making judgements and estimates when applying those accounting policies that affect the reported amounts of assets, liabilities, income and expense. Actual results may differ from those on which management's estimates are based. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. For the year ended 31 March 2021, this evaluation has considered the ongoing impacts of Covid-19.

The key areas involving a higher degree of judgement or areas involving significant sources of estimation uncertainty made by management in applying the Company's accounting policies, which are deemed critical to the Company's results and financial position are disclosed in note 8, including any additional information relating to Covid-19 where relevant.

E-MEX HOME FUNDING LIMITED**Notes to the financial statements for the year ended 31 March 2021 (continued)****3 Interest receivable and similar income**

	2021 £'000	2020 £'000
On residential mortgages (measured at amortised cost and calculated using the effective interest rate method)	1,936	2,580
On commercial loan (measured at fair value through profit and loss)	191	276
Total	2,127	2,856

4 Interest expense and similar charges

Interest expense and similar charges of £698 thousand (2020: £1,256 thousand) relates to interest payable on amounts owed to the parent undertaking.

5 Fees and commission income and expense

Fees and commission income of £8 thousand (2020: £8 thousand) relates to charges on loans and advances to customers.

6 Other operating income

Other operating income of £607 thousand (2020: £673 thousand) relates to a gain on the commercial loan measured at fair value through profit and loss.

7 Administrative expenses

	2021 £'000	2020 £'000
Recharge from parent undertaking	95	58
Other administrative expenses	9	17
Total	104	75

Auditor's remuneration, relating solely to the statutory audit of these financial statements, was £29 thousand (2020: £29 thousand).

The Company has no employees (2020: none). Administration of the Company's loans is carried out by staff who are employed by Nationwide Building Society.

The Directors' contracts of service are with Nationwide Building Society and their remuneration is included within the Group's financial statements.

No remuneration or pension scheme benefits were paid or are payable by the Company to the directors. The directors provide services to the Group as a whole and their principal activities are not specific to the business of this Company. It is not possible to make an accurate apportionment of their emoluments to the Company. Hence, no directors' emoluments are disclosed in the financial statements of the Company.

Related party transactions may be entered into with directors in the normal course of business through the issuance of mortgage loans. Transactions with related parties are made on the same terms and conditions applicable to non-related parties. There were no loans to related parties as at 31 March 2021 (2020: £nil).

E-MEX HOME FUNDING LIMITED

Notes to the financial statements for the year ended 31 March 2021 (continued)

8 Impairment losses and provisions on loans and advances to customers

The following tables set out impairment losses during the year and the closing provision balances which are deducted from the relevant asset values in the balance sheet:

	2021 £'000	2020 £'000
Impairment losses in the income statement	453	38
Impairment provisions in the balance sheet	1,558	1,094

Critical accounting estimates and judgements

Impairment is measured as the impact of credit risk on the present value of management's estimate of future cash flows. In determining the required level of impairment provisions, the Company uses outputs from statistical models, incorporating a number of estimates and judgements to determine the probability of default (PD), the exposure at default (EAD), and the loss given default (LGD) for each loan.

The most significant areas of estimation uncertainty are:

- the impact on expected credit losses of Covid-19 (including government furlough and other support initiatives);
- the performance of interest only mortgages at maturity;
- the level of future recoveries impacted by collateral values; and
- the use of forward looking economic information.

The most significant area of judgement is:

- the approach to identifying significant increases in credit risk and impairment.

The table below shows the impact on impairment provisions at 31 March 2021 of the most significant areas of estimation uncertainty, with further details provided on the following pages.

Significant areas of estimation uncertainty	2021 £'000	2020 £'000
Impact on expected credit losses of Covid-19 (including government furlough and other support initiatives):		
Economic impact of Covid-19 scenario at 31 March 2020 (note i)	-	111
Suppressed credit risk associated with payment deferrals	74	97
Temporary reduction in arrears	402	-
Performance of interest only mortgages at maturity	277	148
Level of future recoveries impacted by collateral values	128	-
Use of forward looking economic information		
Impact of applying multiple economic scenarios (note ii)	419	301

Notes:

- The economic impact of Covid-19 was separately disclosed as at 31 March 2020; during the year ended 31 March 2021 this has been integrated into modelled provisions.
- £419 thousand (2020: £301 thousand) is the total impact of applying multiple economic scenarios, an element of which is also included in the values disclosed for other key judgements in the table.

Impact on expected credit losses of Covid-19 (including government furlough and other support initiatives)

As at 31 March 2020, an additional provision for credit losses totalling £208 thousand was recognised to reflect the estimated impact of the Covid-19 pandemic on ECLs. This additional provision comprised £111 thousand for economic impacts and £97 thousand to reflect suppressed credit risk associated with payment deferrals. For the year ended 31 March 2021 these risks have been integrated into the IFRS 9 provision process where required.

E-MEX HOME FUNDING LIMITED

Notes to the financial statements for the year ended 31 March 2021 (continued)

8 Impairment losses and provisions on loans and advances to customers (continued)

Critical accounting estimates and judgements (continued)

Suppressed credit risk associated with payment deferrals

Payment deferrals or other similar concessions have been offered as a result of Covid-19. The Company recognises that in some cases borrowers will experience longer-term financial difficulty as a result of the pandemic, and additional ECLs have therefore been recognised in respect of some borrowing with payment deferrals. Unlike other concessions granted to borrowers in financial difficulty, these payment deferrals have not been subject to detailed affordability assessments, and therefore the degree of financial difficulty experienced by the members and customers who apply for them requires estimation.

During the year, additional payment deferrals have been granted and the payment deferral schemes have been extended. The additional provision has been updated to reflect additional requests received during the year. Further analysis of the risk characteristics of the retail payment deferral population has been carried out using internal and external credit risk data to estimate the proportion of loans judged to carry increased risk, which may not be evident due to payment deferrals suppressing arrears. The probability of default has been increased where appropriate. These changes have decreased the total provision for this risk to £74 thousand (2020: £97 thousand). The proportion of payment deferrals to which the adjustment was applied totalled 28%; an increase in this proportion by 5 percentage points would have increased provisions by £13 thousand.

As a result of the recognition of increased probability of default in respect of payment deferrals, £2,240 thousand of residential mortgages have transferred to stage 2.

Temporary reduction in arrears

Arrears balances across all products have reduced during the year, leading to a reduction in modelled provisions. Management has judged this to be a temporary position due to the availability of government support and payment deferral schemes, and an adjustment has therefore been made to recognise the underlying risk, retaining provisions of £402 thousand that would have otherwise been released. This adjustment is expected to reduce once government support schemes come to an end and arrears start to return to the levels associated with prevailing economic conditions. This adjustment has been allocated to stage 2 loans.

Performance of interest only mortgages at maturity

There is a risk that a proportion of interest only mortgages will not be redeemed at their contractual maturity date, because a borrower does not have a means of capital repayment or has been unable to refinance the loan. Buy to let mortgages are typically advanced on an interest only basis. The impact of the allowance for unredeemed interest only mortgages at contractual maturity in the central scenario amounts to £186 thousand (2020: £71 thousand), with an additional impact of £91 thousand (2020: £77 thousand) reflecting the impact of forward looking economic information. Interest only loans which are judged to have a significantly increased risk of inability to refinance at maturity are transferred to stage 2. The ability of a borrower to refinance is calculated using current lending criteria which considers LTV and affordability assessments. If the interest rate used within the affordability assessment was increased by 1%, provisions would increase by £27 thousand.

Level of future recoveries impacted by collateral values

For residential mortgages, the estimate of future collateral values is a key source of estimation uncertainty. During the year ended 31 March 2021, two new model adjustments have been introduced to reflect risks which are not reflected in the modelled outputs.

Firstly, an adjustment has been introduced to reflect the risks associated with flats subject to fire safety risks such as unsuitable cladding. The current government funding available is anticipated to be below the amount required to remediate such properties, and the desirability of the properties is expected to be severely affected for several years. Due to limited data availability to identify affected properties individually, it is assumed that a proportion of the flats securing loans in the residential mortgage portfolios are affected, in line with UK market exposure estimates. Assumptions relating to property values have been applied based upon the height of the affected buildings. The ECL adjustment is £7 thousand.

Secondly, an adjustment has been introduced to reflect the idiosyncratic risk relating to recovery values for repossessed properties over the next few years. The uncertainty has arisen from shifts in the housing market, partly due to Covid-19, with the expectation that future repossessed properties may be more difficult to sell and may not follow the modelled HPI recovery assumed for the wider market. This adjustment has been applied by reducing modelled property valuations, and also by increasing the expected variance in valuations achieved across the portfolio. The ECL adjustment totals £121 thousand, which equates to a 1.5% increase in the stage 3 provision coverage ratio.

E-MEX HOME FUNDING LIMITED

Notes to the financial statements for the year ended 31 March 2021 (continued)

8 Impairment losses and provisions on loans and advances to customers (continued)

Critical accounting estimates and judgements (continued)

Use of forward looking economic information

Management exercises judgement in estimating future economic conditions which are incorporated into provisions through modelling of multiple scenarios. The economic scenarios are reviewed and updated on a quarterly basis. The provision recognised is the probability-weighted sum of the provisions calculated under a range of economic scenarios. The scenarios and associated probability weights are derived using external data and statistical methodologies, together with management judgement, to determine scenarios which span an appropriately wide range of plausible economic conditions. The Company continues to model four economic scenarios, which together encompass an appropriate range of potential economic outcomes. The impact of applying multiple economic scenarios (MES) is to increase provisions by £419 thousand (2020: £301 thousand), compared with provisions based on the central economic scenario.

At 31 March 2021, the probability weightings for each scenario were reviewed and updated. The increase in the upside weighting during the year reflects that this scenario now includes the impact of Covid-19, therefore incorporating more conservative economic assumptions than at 31 March 2020. The probabilities allocated to the central and downside scenarios reflect the uncertainty of the potential outcomes regarding Covid-19. The probability weightings applied to the scenarios are shown in the table below.

Scenario probability weighting (%)	Upside scenario	Central scenario	Downside scenario	Severe downside scenario
31 March 2021	10	40	40	10
31 March 2020	5	50	35	10

All four economic scenarios reflect the potential impact of Covid-19 to differing degrees. There is continued uncertainty regarding the economic impacts that could arise from new variants of Covid-19, offset by the effectiveness of the vaccination programme, and also uncertainty over the extent to which government support schemes will have avoided or merely delayed the adverse credit consequences of the pandemic.

The scenarios also reflect the fact that the UK reached a free trade agreement deal with the EU at the end of 2020, consistent with the assumptions incorporated in the prior year central scenario. In the central scenario at 31 March 2021, GDP recovers to levels slightly higher than those used in the central scenario at 31 March 2020. For unemployment the impacts are comparable to previous assumptions, albeit the adverse impacts are delayed and the peak of unemployment is slightly higher at 8.0%.

The house price forecast reflects the 7% growth during 2020, with reductions expected in 2022 across the central and downside scenarios. The bank base rate is forecast to remain at 0.1% across all scenarios between 2020 and 2025, with the exception of the upside scenario, where an increase to 0.25% is forecast in 2024. The downside scenario reflects both a higher peak level of unemployment and a more gradual recovery in the economy. The severe downside scenario continues to be aligned with internal stress testing and reflects a severe and long-lasting impact on the UK economy.

During the year, the severe downside scenario has been incorporated into the core provision models. However, due to the severity of the scenario it is management's judgement that the modelled outputs do not reflect the non-linear impacts that would arise from the economic assumptions. Using information from internal and external stress testing exercises, management have derived adjustments to probability of default and loss given default at a portfolio level, which increased provisions by £256 thousand (2020: £152 thousand). Further details on historical and forecast economic variables used to derive MES are provided in note 10 to the financial statements in the Group's Annual Report and Accounts.

To give an indication of the sensitivity of ECLs to different economic scenarios, the table below shows the ECL and stage 2 balance proportion if 100% weighting is applied to each scenario.

Sensitivity analysis impact of multiple economic scenarios	Upside scenario	Central scenario	Downside scenario	Severe downside scenario	Reported provision
	£'000	£'000	£'000	£'000	£'000
31 March 2021	1,010	1,139	1,388	4,005	1,558
31 March 2020	616	696	1,100	2,503	1,094
Proportion of balances in stage 2 (%) (note i)	28.9	29.2	32.0	36.8	29.2

Note:

i. The severe scenario stage 2 proportion reflects only the modelled output and not the additional ECL added on through judgement.

E-MEX HOME FUNDING LIMITED

Notes to the financial statements for the year ended 31 March 2021 (continued)

8 Impairment losses and provisions on loans and advances to customers (continued)

Critical accounting estimates and judgements (continued)

The ECL for each scenario multiplied by the scenario probability will not reconcile to the overall provision. Whilst the stage allocation of loans varies in each individual scenario, each loan is allocated to a single stage in the overall provision calculation; this is based on a weighted average PD which takes into account the economic scenarios. A probability weighted 12 month or lifetime ECL (which takes into account the economic scenarios) is then calculated based on the stage allocation.

The table below shows the sensitivity at 31 March 2021 to some of the key assumptions used within the ECL calculation.

Sensitivity analysis impact of multiple economic scenarios	Increase in provision £'000
Single-factor sensitivity to key economic variables (note i)	
10% decrease in HPI at 31 March 2021 and throughout the forecast period (note ii)	150
Sensitivity to changes in scenario probability weightings	
10% increase in the probability of the downside scenario (reducing the upside by a corresponding 10%)	39
5% increase in the probability of the severe downside scenario (reducing the downside by a corresponding 5%)	135

Notes:

- As a single-factor sensitivity, it should not be extrapolated due to the likely non-linear effects.
- Central scenario impact on loss given default.

Identifying significant increases in credit risk (stage 2)

Loans are allocated to stage 1 or stage 2 according to whether there has been a significant increase in credit risk. The Company has used judgement to select both quantitative and qualitative criteria which are used to determine whether a significant increase in credit risk has taken place. The primary quantitative indicators are the outputs of internal credit risk assessments. While different approaches are used within each portfolio, the intention is to combine current and historical data relating to the exposure with forward looking economic information to determine the PD at each reporting date. The main indicators of a significant increase in credit risk are either of the following:

- the residual lifetime PD exceeds a benchmark determined by reference to the maximum credit risk that would have been accepted at origination; and
- the residual lifetime PD has increased by at least 75bps and a 2x multiple of the original lifetime PD (2020: 4x multiple).

These complementary criteria have been reviewed through detailed back-testing, using management performance indicators and actual default experience, and found to be effective in capturing events which would constitute a significant increase in credit risk. The sensitivity of ECLs to stage allocation is such that a transfer of 1% of current stage 1 balances to stage 2 would increase provisions by £23 thousand.

Identifying credit impaired loans (stage 3)

The identification of credit impaired loans is an important judgement within the IFRS 9 staging approach. A loan is credit impaired where it has an arrears status of more than 90 days past due, is considered to be in default or it is considered unlikely that the borrower will repay the outstanding balance in full, without recourse to actions such as realising security.

9 Provisions for liabilities and charges

Provisions for liabilities and charges for the year ended 31 March 2020 consisted of £8 thousand of customer redress provisions which were released during the year ended 31 March 2021. No new provisions were raised during 2021.

E-MEX HOME FUNDING LIMITED**Notes to the financial statements for the year ended 31 March 2021 (continued)****10 Taxation**

Tax charge in the statement of comprehensive income	2021	2020
	£'000	£'000
Current tax		
UK corporation tax charge	201	330
Total current tax	201	330
Deferred tax:		
Current year	83	83
Effect of corporation tax rate change	-	(70)
Total deferred tax	83	13
Tax charge	284	343

The actual tax charge equates to (2020: differs from) the theoretical amount that would arise using the standard rate of corporation tax in the UK as follows:

Reconciliation of tax charge	2021	2020
	£'000	£'000
Profit before tax	1,495	2,172
Tax calculated at a rate of 19%	284	413
Effect of corporation tax rate change	-	(70)
Tax charge	284	343

Deferred taxation

As part of the UK budget, it was announced on 3 March 2021 that the UK corporation tax rate will increase to 25% from 1 April 2023. The deferred tax balances recognised in the financial statements have been calculated with reference to the current 19% rate that was enacted at the time of the balance sheet date, in line with accounting standards. However, had the 25% rate been substantively enacted or enacted at the time of the balance sheet date, the recognised deferred tax asset would have increased by £130 thousand.

The movements on the deferred tax account are as follows:

Movements in deferred taxation	2021	2020
	£'000	£'000
At 1 April	661	674
Deferred tax charge in the statement of comprehensive income:		
Current year	(83)	(83)
Effect of corporation tax rate change	-	70
At 31 March	578	661

Deferred tax assets are attributable to the following items:

Deferred tax assets	2021	2020
	£'000	£'000
Transitional adjustments on adoption of IFRS 9	578	661
Total	578	661

The majority of deferred tax assets are anticipated to be recoverable in more than one year. The Company considers that there will be sufficient future trading profits in excess of profits arising from the reversal of existing taxable temporary differences to utilise the deferred tax assets.

The deferred tax charge in the statement of comprehensive income account comprises the following temporary differences:

Deferred tax charge in the statement of comprehensive income	2021	2020
	£'000	£'000
Transitional adjustments on adoption of IFRS 9	83	13
Total	83	13

E-MEX HOME FUNDING LIMITED

Notes to the financial statements for the year ended 31 March 2021 (continued)

11 Dividends

No dividends were proposed, approved or paid during the year (2020: £nil).

12 Loans and advances to customers

Loans and advances to customers comprise residential mortgages held at amortised cost and a commercial loan held at FVTPL.

Residential mortgages comprise both specialist and prime loans. Specialist lending consists of buy to let mortgages and other legacy residential mortgages (including self-certified, near prime and sub-prime lending, all of which were discontinued in 2008). The prime portfolio makes up 4.0% of the gross balance as at 31 March 2021.

2021	Gross (note i) £'000	Provisions £'000	Total £'000
Non-current assets	68,713	(1,474)	67,239
Current assets	3,905	(84)	3,821
Total	72,618	(1,558)	71,060

2020	Gross (note i) £'000	Provisions £'000m	Total £'000
Non-current assets	75,720	(1,059)	74,661
Current assets	2,474	(35)	2,439
Total	78,194	(1,094)	77,100

Note:

i. Gross balances include £12,923 thousand (2020: £12,342 thousand) of commercial loans measured at FVTPL.

The tables below summarise the movements in gross loans and advances to customers held at amortised cost, including the impact of ECL impairment provisions. The lines within the tables are an aggregation of monthly movements over the year.

Reconciliation of movements in gross balances and impairment provisions	Non-credit impaired				Credit impaired			Total	
	Subject to 12 month ECL		Subject to lifetime ECL		Subject to lifetime ECL		Total		
	Stage 1		Stage 2		Stage 3		Gross		
	Gross balances £'000	Provisions £'000	Gross balances £'000	Provisions £'000	Gross balances £'000	Provisions £'000	Gross balances £'000	Provisions £'000	
At 1 April 2020 (note i)	43,560	91	13,169	565	9,123	230	65,852	1,094	
Stage transfers:									
Transfers from Stage 1 to Stage 2	(24,879)	(157)	24,879	157	-	-	-	-	
Transfers to Stage 3	-	-	(5,333)	(492)	5,333	492	-	-	
Transfers from Stage 2 to Stage 1	20,028	436	(20,028)	(436)	-	-	-	-	
Transfer from Stage 3	57	-	6,114	173	(6,171)	(173)	-	-	
Net remeasurement of ECL arising from transfer of stage	-	(307)	-	554	-	(353)	-	(106)	
Net movement arising from transfer of stage (note ii)	(4,794)	(28)	5,632	(44)	(838)	(34)	-	(106)	
Further lending/ repayments (note iii)	(401)	(5)	(84)	(2)	55	6	(430)	(1)	
Changes in risk parameters related to credit quality (note iv)	-	181	-	541	-	131	-	853	
Other items impacting comprehensive income charge/(reversal) including recoveries	-	-	-	-	-	(11)	-	(11)	
Redemptions (note v)	(3,984)	(17)	(1,273)	(52)	(470)	(5)	(5,727)	(74)	
Removal of year- end additional provision for Covid-19 (note i)	-	-	-	-	-	-	-	(208)	
Comprehensive income charge for the year	-	-	-	-	-	-	-	453	
Decrease due to write-offs	-	-	-	-	-	-	-	-	
Other provision movements	-	-	-	-	-	11	-	11	
At 31 March 2021	34,381	222	17,444	1,008	7,870	328	59,695	1,558	
Net carrying amount		34,159		16,436		7,542		58,137	

E-MEX HOME FUNDING LIMITED
Notes to the financial statements for the year ended 31 March 2021 (continued)
12 Loans and advances to customers (continued)

Reconciliation of movements in gross balances and impairment provisions	Non-credit impaired				Credit impaired		Total	
	Subject to 12 month ECL		Subject to lifetime ECL		Subject to lifetime ECL			
	Stage 1 Gross balances £'000	Provisions £'000	Stage 2 Gross balances £'000	Provisions £'000	Stage 3 Gross balances £'000	Provisions £'000	Gross balances £'000	Provisions £'000
At 1 April 2019	47,963	107	15,894	700	11,192	368	75,049	1,175
Stage transfers:								
Transfers from Stage 1 to Stage 2	(13,239)	(65)	13,239	65	-	-	-	-
Transfers to Stage 3	(237)	-	(8,955)	(446)	9,192	446	-	-
Transfers from Stage 2 to Stage 1	14,285	385	(14,285)	(385)	-	-	-	-
Transfer from Stage 3	132	-	7,872	186	(8,004)	(186)	-	-
Net remeasurement of ECL arising from transfer of stage		(299)		421		(252)		(130)
Net movement arising from transfer of stage (note ii)	941	21	(2,129)	(159)	1,188	8	-	(130)
Further lending/ repayments (note iii)	(1,725)	(14)	(223)	(6)	(357)	4	(2,305)	(16)
Changes in risk parameters related to credit quality (note iv)	-	(11)	-	41	-	23	-	53
Other items impacting comprehensive income charge/(reversal) including recoveries	-	-	-	-	-	(15)	-	(15)
Redemptions (note v)	(3,619)	(12)	(373)	(11)	(2,338)	(39)	(6,330)	(62)
Additional provision for Covid-19 (note i)								208
Comprehensive income charge for the year								38
Decrease due to write-offs	-	-	-	-	(562)	(134)	(562)	(134)
Other provision movements	-	-	-	-	-	15	-	15
At 31 March 2020	43,560	91	13,169	565	9,123	230	65,852	1,094
Net carrying amount		43,469		12,604		8,893		64,758

Notes:

- At 31 March 2020, an additional provision for credit losses of £208 thousand was recognised to reflect the estimated impact of the Covid-19 pandemic on ECLs. At 31 March 2020, this additional provision was not allocated to underlying loans nor was it attributed to stages. During the period this provision has been allocated to underlying loans and is reflected in the movements within the table and the 31 March 2021 position.
- The remeasurement of provisions arising from a change in stage is reported within the stage to which the assets are transferred.
- This comprises further lending and capital repayments where the asset is not derecognised. The value for gross balances is calculated as the closing gross balance for the month less the opening gross balance for the month. The value for provisions is calculated as the change in exposure at default (EAD) multiplied by the opening provision coverage for the month.
- This comprises changes in risk parameters, and changes to modelling inputs and methodology. The provision movement for the change in risk parameters is calculated for assets that do not move stage in the month.
- For any asset that is derecognised in the month, the value disclosed is the provision at the start of that month.

E-MEX HOME FUNDING LIMITED**Notes to the financial statements for the year ended 31 March 2021 (continued)****12 Loans and advances to customers (continued)****Maturity analysis**

The following table shows the residual maturity of loans and advances to customers, based on their contractual maturity:

	2021 £'000	2020 £'000
Repayable:		
In not more than three months	1,774	2,133
In more than three months but not more than one year	2,132	341
In more than one year but not more than five years	19,836	21,556
In more than five years	48,876	54,164
	72,618	78,194
Impairment provision (note 8)	(1,558)	(1,094)
Total	71,060	77,100

The maturity analysis is produced on the basis that where a loan is repayable by instalments, each such instalment is treated as a separate repayment. The analysis is based on contractual maturity rather than actual redemption levels experienced, which are likely to be materially different. Arrears are spread across the remaining term of the loan.

13 Amounts owed to parent undertaking

Amounts owed to the parent undertaking are repayable from the date of the balance sheet in the ordinary course of business as follows:

	2021 £'000	2020 £'000
In not more than three months	-	10,034
In more than three months but not more than one year	-	40,069
In more than one year but not more than five years	52,451	9,419
Total	52,451	59,522

All intercompany transactions are entered into under normal market conditions. Funds borrowed from the parent undertaking are repayable five years after the effective date of the latest loan agreement, and may be extended for 12 month periods if not repaid. Interest is payable on the amounts owed based on an intercompany funds transfer pricing rate which is reset biannually. All intercompany loans are unsecured.

14 Share capital

	2021 £	2020 £
Authorised, issued and fully paid: 100 (2020: 100) Ordinary shares of £1 each	100	100

The Company has one class of ordinary shares which carry no right to fixed income.

E-MEX HOME FUNDING LIMITED

Notes to the financial statements for the year ended 31 March 2021 (continued)

15 Risk management

With the exception of the residential mortgage lending summary, the information within this note is presented at a total residential mortgage level.

Credit risk

Credit risk is the risk of loss as a result of a customer or counterparty failing to meet their financial obligations and encompasses:

- borrower/counterparty risk – the risk of loss arising from a borrower or counterparty failing to pay, or becoming increasingly likely not to pay the interest or principal on a loan, or on a financial product, or for a service, on time;
- security/collateral risk – the risk of loss arising from deteriorating security/collateral quality;
- concentration risk – the risk of loss arising from insufficient diversification; and
- refinance risk – the risk of loss arising when a repayment of a loan or other financial product occurs later than originally anticipated.

Management of credit risk

The Company lends in a responsible, affordable and sustainable way to ensure borrowers and the financial strength of the Company are safeguarded throughout the credit cycle. The Company manages credit risk in accordance with the Group's approach to credit risk management, further details of which are included in the Risk report of the Group's Annual Report and Accounts.

Maximum exposure to credit risk

Credit risk largely arises from the Company's exposure to loans and advances to customers.

In addition to loans and advances to customers, the Company is exposed to credit risk on all other financial assets. For all financial assets recognised on the balance sheet, the maximum exposure to credit risk represents the balance sheet carrying value after allowance for impairment plus off-balance sheet commitments. For off-balance sheet commitments, the maximum exposure is the maximum amount the Company would have to pay if the commitments were to be called upon. For loan commitments that are irrevocable over the life of the respective facilities, the maximum exposure is the full amount of the committed facilities.

Maximum exposure to credit risk 2021	Gross balance	Impairment provision	Carrying value	Maximum credit risk exposure	% of total credit risk exposure
	£'000	£'000	£'000	£'000	%
Cash	773	-	773	773	1
Loans and advances to customers (note i)	72,618	(1,558)	71,060	71,060	99
Total	73,391	(1,558)	71,833	71,833	100

Maximum exposure to credit risk 2020	Gross balance	Impairment provision	Carrying value	Maximum credit risk exposure	% of total credit risk exposure
	£'000	£'000	£'000	£'000	%
Cash	556	-	556	556	1
Loans and advances to customers (note i)	78,194	(1,094)	77,100	77,100	99
Total	78,750	(1,094)	77,656	77,656	100

Note:

- i. Loans and advances to customers includes £12,923 thousand (2020: £12,342 thousand) of commercial loans measured at FVTPL.

E-MEX HOME FUNDING LIMITED

Notes to the financial statements for the year ended 31 March 2021 (continued)

15 Risk management (continued)

Credit risk (continued)

Lending

Total residential mortgage lending of £59,695 thousand (2020: £65,852 thousand) comprises buy to let, prime and other smaller legacy residential mortgages (including self-certified, near prime and sub-prime lending, all of which were discontinued in 2008).

Staging analysis

The following table shows residential mortgage lending balances carried at amortised cost, the stage allocation of the loans, impairment provisions and the resulting provision coverage ratios:

Residential mortgages product and staging analysis	Gross	2021	Provisions	Gross	2020	Provisions
	balances	Provisions	% of total	balances	Provisions	% of total
	£'000	£'000	balance	£'000	£'000	balance
			%			%
Stage 1	34,381	222	0.65	43,560	91	0.21
Stage 2 total:	17,444	1,008	5.78	13,169	565	4.29
Up to date	10,730	794	7.40	4,978	131	2.63
1-30 DPD (note i)	2,727	36	1.32	1,862	56	2.99
>30 DPD (note i)	3,987	178	4.46	6,329	378	5.98
Stage 3	7,870	328	4.17	9,123	230	2.53
Covid-19 additional provision (note ii)	-	-	-	-	208	-
Total	59,695	1,558	2.61	65,852	1,094	1.66

Notes:

- Days past due (DPD), a measure of arrears status.
- In recognition of the financial impact that Covid-19 may have on borrowers, an additional provision of £208 thousand was included in the impairment provisions for residential mortgages at 31 March 2020. This additional provision was not allocated to underlying loans and therefore was not attributed to stages. During the reporting period the £208 thousand provision has been assigned across the stages and is reflected in the allocations for 31 March 2021.

Stage 3 loans in the residential mortgage portfolio equate to 13% (2020: 14%) of the total residential mortgage exposure. Of the total £7,870 thousand (2020: £9,123 thousand) stage 3 loans, £7,341 thousand (2020: £8,129 thousand) is in respect of balances which are more than 90 days past due, with the remainder being impaired due to other indicators of unlikeliness to pay such as distressed restructures or the bankruptcy of the borrower.

Reason for residential mortgages being included in stage 2 (note i and ii)	2021		2020	
	Gross balances	Provisions	Gross balances	Provisions
	£'000	£'000	£'000	£'000
Quantitative criteria:				
Payment status (greater than 30 DPD)	3,987	178	6,329	378
Increase in PD since origination (less than 30 DPD)	9,339	571	3,826	94
Qualitative criteria:				
Interest only – significant risk of inability to refinance at maturity (less than 30 DPD)	4,118	259	3,014	93
Total stage 2 gross balances	17,444	1,008	13,169	565

Notes:

- Where loans satisfy more than one of the criteria for determining a significant increase in credit risk, the corresponding gross balance has been assigned in the order in which the categories are presented above.
- In recognition of the financial impact that Covid-19 may have on borrowers, an additional provision of £208 thousand was included in the impairment provisions for residential mortgages at 31 March 2020. This additional provision was not allocated to underlying loans and therefore was not attributed to stages. During the reporting period, the £208 thousand provision has been assigned across the stages and is reflected in the allocations for 31 March 2021.

E-MEX HOME FUNDING LIMITED**Notes to the financial statements for the year ended 31 March 2021 (continued)****15 Risk management (continued)****Credit risk (continued)****Credit quality**

The residential mortgages portfolio comprises many relatively small loans which are broadly homogenous, have low volatility of credit risk outcomes and are geographically diversified.

The table below shows the loan balances and provisions for residential mortgages held at amortised cost, by PD range. The PD distributions shown are based on 12-month IFRS 9 PDs at the reporting date.

**Loan balance and provisions by PD
2021**

PD range	Gross balances				Provisions				Provision coverage
	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000	%
0.00 to < 0.15%	7,536	183	-	7,719	51	22	-	73	0.94
0.15 to < 0.25%	3,536	1,247	-	4,783	20	69	-	89	1.85
0.25 to < 0.50%	9,322	859	77	10,258	59	65	-	124	1.21
0.50 to < 0.75%	5,139	846	-	5,985	34	46	-	80	1.33
0.75 to < 2.50%	6,162	2,224	-	8,386	39	126	-	165	1.96
2.50 to < 10.00%	2,686	3,418	-	6,104	19	395	-	414	6.79
10.00 to < 100%	-	8,667	453	9,120	-	285	9	294	3.23
100% (default)	-	-	7,340	7,340	-	-	319	319	4.34
Total	34,381	17,444	7,870	59,695	222	1,008	328	1,558	2.61

**Loan balance and provisions by PD (note i)
2020**

PD range	Gross balances				Provisions				Provision coverage
	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000	%
0.00 to < 0.15%	9,523	689	-	10,212	16	20	-	36	0.36
0.15 to < 0.25%	11,303	1,252	-	12,555	17	42	-	59	0.47
0.25 to < 0.50%	9,599	615	-	10,214	20	10	-	30	0.30
0.50 to < 0.75%	3,770	74	-	3,844	4	3	-	7	0.17
0.75 to < 2.50%	5,728	306	-	6,034	14	10	-	24	0.39
2.50 to < 10.00%	3,637	3,290	76	7,003	20	77	-	97	1.39
10.00 to < 100%	-	6,943	918	7,861	-	403	7	410	5.22
100% (default)	-	-	8,129	8,129	-	-	223	223	2.74
Total	43,560	13,169	9,123	65,852	91	565	230	886	1.35

Note:

- i. In recognition of the financial impact that Covid-19 may have had on borrowers, an additional provision of £208 thousand was included in the impairment provisions for residential mortgages at 31 March 2020. This additional provision was not allocated to underlying loans or attributed to stages and is therefore excluded from this table. During the reporting period this provision has been assigned across the stages and is reflected in the allocations for 31 March 2021. The additional provision increased the total provision coverage to 1.66% at 31 March 2020.

Over the year, the PD distribution has remained stable, reflecting the high quality of the residential mortgage portfolios. At 31 March 2021, 62% (2020: 65%) of the portfolio had a PD of less than 2.5%.

LTV and credit risk concentration

Loan to value (LTV) is calculated by weighting the borrower level LTV by the individual loan balance to arrive at an average LTV. This approach is considered to most appropriately reflect the exposure at risk.

The average LTV of loan stock is 50% (2020: 54%).

E-MEX HOME FUNDING LIMITED
Notes to the financial statements for the year ended 31 March 2021 (continued)
15 Risk management (continued)
Credit risk (continued)
Geographical concentration by stage

The following table shows residential mortgages by LTV and region across stages 1 and 2 (non-credit impaired) and stage 3 (credit impaired):

Residential mortgage gross balances by LTV and region	Greater London	Central England	Northern England	South East England	South West England	Wales & Northern Ireland	Total	Provision coverage (note i)
2021	£'000	£'000	£'000	£'000	£'000	£'000	£'000	%
Stage 1 and 2 loans								
<i>Fully collateralised</i>								
LTV ratio:								
Up to 50%	13,671	4,419	3,464	4,175	2,119	640	28,488	2.09
50% to 60%	3,609	1,426	1,696	2,290	790	1,106	10,917	1.67
60% to 70%	541	1,702	2,012	374	296	1,103	6,028	1.88
70% to 80%	-	1,215	1,958	-	304	-	3,477	4.11
80% to 90%	-	359	1,736	-	147	396	2,638	6.10
90% to 100%	-	-	184	-	-	-	184	3.20
	17,821	9,121	11,050	6,839	3,656	3,245	51,732	2.32
<i>Not fully collateralised</i>								
- Over 100% LTV	-	-	93	-	-	-	93	29.35
- Collateral value	-	-	93	-	-	-	93	
- Negative equity	-	-	-	-	-	-	-	
Total stage 1 and 2 loans	17,821	9,121	11,143	6,839	3,656	3,245	51,825	2.37
Stage 3 loans:								
<i>Fully collateralised</i>								
LTV ratio:								
Up to 50%	2,189	228	519	-	246	202	3,384	0.98
50% to 60%	1,112	273	-	-	-	-	1,385	1.41
60% to 70%	-	405	224	511	114	153	1,407	2.01
70% to 80%	-	386	-	223	166	-	775	5.07
80% to 90%	-	132	-	-	138	110	380	15.19
90% to 100%	-	114	425	-	-	-	539	27.85
	3,301	1,538	1,168	734	664	465	7,870	4.17
<i>Not fully collateralised</i>								
- Over 100% LTV	-	-	-	-	-	-	-	-
- Collateral value	-	-	-	-	-	-	-	-
- Negative equity	-	-	-	-	-	-	-	-
Total stage 3 loans	3,301	1,538	1,168	734	664	465	7,870	4.17
Total residential mortgages	21,122	10,659	12,311	7,573	4,320	3,710	59,695	2.61
Total geographical concentration	35%	18%	21%	13%	7%	6%	100%	

E-MEX HOME FUNDING LIMITED

Notes to the financial statements for the year ended 31 March 2021 (continued)

15 Risk management (continued)

Credit risk (continued)

Geographical concentration by stage (continued)

Residential mortgage gross balances by LTV and region	Greater London	Central England	Northern England	South East England	South West England	Wales & Northern Ireland	Total	Provision coverage (note i)
2020	£'000	£'000	£'000	£'000	£'000	£'000	£'000	%
Stage 1 and 2 loans								
Fully collateralised								
LTV ratio:								
Up to 50%	13,157	3,597	2,333	3,399	2,196	572	25,254	0.57
50% to 60%	5,120	1,685	2,486	1,429	239	414	11,373	0.47
60% to 70%	749	3,402	1,906	2,437	1,026	1,055	10,575	1.01
70% to 80%	-	1,698	2,462	-	619	919	5,698	2.26
80% to 90%	-	-	2,770	-	-	320	3,090	6.48
90% to 100%	-	-	468	-	-	271	739	3.23
	19,026	10,382	12,425	7,265	4,080	3,551	56,729	1.16
Not fully collateralised								
- Over 100% LTV	-	-	-	-	-	-	-	-
- Collateral value	-	-	-	-	-	-	-	-
- Negative equity	-	-	-	-	-	-	-	-
Total stage 1 and 2 loans	19,026	10,382	12,425	7,265	4,080	3,551	56,729	1.16
Stage 3 loans:								
Fully collateralised								
LTV ratio:								
Up to 50%	2,542	267	325	91	82	49	3,356	1.05
50% to 60%	759	222	431	118	101	93	1,724	0.97
60% to 70%	356	446	460	500	160	69	1,991	1.19
70% to 80%	-	264	276	222	430	151	1,343	2.95
80% to 90%	-	245	244	-	-	110	599	15.26
90% to 100%	-	-	110	-	-	-	110	21.56
	3,657	1,444	1,846	931	773	472	9,123	2.53
Not fully collateralised								
- Over 100% LTV	-	-	-	-	-	-	-	-
- Collateral value	-	-	-	-	-	-	-	-
- Negative equity	-	-	-	-	-	-	-	-
Total stage 3 loans	3,657	1,444	1,846	931	773	472	9,123	2.53
Total residential mortgages	22,683	11,826	14,271	8,196	4,853	4,023	65,852	1.35
Total geographical concentration	34%	18%	22%	12%	7%	6%	100%	

Note:

- i. In recognition of the financial impact that Covid-19 may have had on borrowers, an additional provision of £208 thousand was included in the impairment provisions for residential mortgages at 31 March 2020. This additional provision was not allocated to underlying loans or attributed to stages and is therefore excluded from this table. During the reporting period this provision has been assigned across the stages and is reflected in the allocations for 31 March 2021. The additional provision increased the total provision coverage to 1.66% at 31 March 2020.

Over the year, the geographical distribution of residential mortgages across the UK has remained stable, with the highest concentration continuing to be in Greater London, at 35% of the total (2020: 34%).

E-MEX HOME FUNDING LIMITED**Notes to the financial statements for the year ended 31 March 2021 (continued)****15 Risk management (continued)****Credit risk (continued)****Arrears and possessions****Number of cases more than 3 months in arrears as % of total book**

The number of cases more than 3 months in arrears as a % of the total book is 8.99% (2020: 9.97%).

The methodology for calculating mortgage arrears is based on the UK Finance definition of arrears, where months in arrears is determined by dividing the arrears balance outstanding by the latest contractual payment.

Residential mortgages by payment status

The following table shows the payment status of residential mortgages:

Residential mortgages gross balances by payment status	2021		2020	
	£'000	%	£'000	%
Not past due	44,862	75.2	46,645	70.8
Past due 0 to 1 month	3,195	5.4	4,538	6.9
Past due 1 to 3 months	4,297	7.2	6,540	9.9
Past due 3 to 6 months	2,349	3.9	3,693	5.6
Past due 6 to 12 months	1,807	3.0	1,811	2.8
Past due over 12 months	3,173	5.3	2,625	4.0
Possessions	12	-	-	-
Total residential mortgages	59,695	100.0	65,852	100.0

The Company is providing support to borrowers who have been financially affected by Covid-19. Payment deferrals granted in this respect will suppress the impact of the pandemic on arrears in the short term. Details of payment deferrals are given below. This support also includes a possessions moratorium for borrowers who co-operate. This moratorium was in place until the end of May 2021. This is the main driver of lower possession balances during the period.

Interest only mortgages

Maturities on interest only mortgages are managed closely, engaging regularly with borrowers to ensure the loan is redeemed or to agree a strategy for repayment.

The majority of the portfolio was advanced on an interest only basis.

Interest only mortgages (gross balances) - term to maturity	Term expired (still open)	Due within one year	Due after one year and before two years	Due after two years and before five years	Due after more than five years	Total	% of total book
							%
	£'000	£'000	£'000	£'000	£'000	£'000	%
2021	1,489	2,337	1,625	5,091	39,014	49,556	83
2020	1,433	972	2,406	6,418	43,160	54,389	83

Interest only loans that are term expired (still open) are not considered to be past due where contractual interest payments continue to be met, pending renegotiation of the facility. These loans are, however, treated as credit impaired and form part of the stage 3 balance from three months after the maturity date.

E-MEX HOME FUNDING LIMITED**Notes to the financial statements for the year ended 31 March 2021 (continued)****15 Risk management (continued)****Credit risk (continued)****Forbearance**

The Company is committed to supporting customers facing financial difficulty by working with them to find a solution through proactive arrears management and forbearance. The Company applies the European Banking Authority (EBA) definition of forbearance. Further details of the Group's forbearance activities can be found in the Risk report of the Group's Annual Report and Accounts.

The table below provides details of residential mortgages subject to forbearance. Accounts that are currently subject to forbearance are assessed as in either stage 2 or stage 3:

Gross balances subject to forbearance (note i)	2021 £'000	2020 £'000
Past term interest only (note ii)	1,923	2,276
Interest only concessions	1,410	1,703
Capitalisation	556	833
Capitalisation – notification of death of borrower	-	59
Term extensions (within term)	275	281
Total forbearance (note iii)	4,164	5,152
Impairment provisions on forborne loans	131	130

Notes:

- Where more than one concession event has occurred, balances are reported under the latest event.
- Includes interest only mortgages where a customer is unable to renegotiate the facility within six months of maturity and no legal enforcement is pursued. Should a concession event such as a term extension occur within the six-month period, this will also be classed as forbearance.
- For loans subject to concession events, accounts are transferred back to stage 1 or 2 only after being up to date and meeting contractual obligations for a period of 12 months.

Support for borrowers impacted by Covid-19

Payment deferrals continue to be offered to impacted borrowers in accordance with regulatory guidance; in isolation these payment deferrals are not recorded as forbearance and do not automatically have an impact on the default status of borrowers. For borrowers who continue to need financial support after completion of a payment deferral period, the Company offers tailored concessions. Under regulatory guidance, where these concessions are not arrears-bearing they are treated as forbearance and are included, as applicable, in the reported staging balance.

The following table shows the value of residential mortgages with a payment deferral related to Covid-19, showing total deferrals granted and those still in place at 31 March 2021.

Payments and interest deferrals granted due to Covid-19 2021

	31 March 2021		31 March 2020
	Payment deferrals granted to date	Payment deferrals outstanding	Payment deferrals outstanding
Number of properties (000s)	0.2	0.0	0.1
Balance (£000)	20,166	1,152	14,664
Share of book, balance (%)	33.8	1.9	22.3
Weighted average LTV (%)	53	49	58

The majority of the payment deferrals which have expired to date have resumed payments. A provision of £74 thousand (2020: £97 thousand) has been recognised in respect of Covid-19 payment deferrals; this includes payment deferrals taken during the period that have since expired but where the risk is judged to remain elevated.

E-MEX HOME FUNDING LIMITED**Notes to the financial statements for the year ended 31 March 2021 (continued)****15 Risk management (continued)****Liquidity and funding risk**

Liquidity risk is the risk that the Company is unable to meet its liabilities as they fall due and maintain stakeholder confidence. Funding risk is the risk that the Company is unable to maintain its funding sources.

The Company has minimal liquidity and funding risk provided that the Company's parent, Nationwide Building Society, continues to fund the Company's activities in accordance with its current funding arrangements. Assurance as to the continuance of these arrangements forms part of the going concern basis adopted in preparing the financial statements.

The Group manages liquidity and funding risks within a comprehensive risk framework which includes its policy, strategy, limit setting and monitoring, stress testing and robust governance controls. This framework ensures that the Group maintains stable and diverse funding sources and a sufficient holding of high-quality liquid assets such as that there is no significant risk that liabilities cannot be met as they fall due.

Further details of the Group's approach to liquidity and funding risk management are included in the Risk report of the Group's Annual Report and Accounts.

Residual maturity of financial assets and liabilities

The table below segments the carrying value of financial assets and financial liabilities into relevant maturity groupings based on the contractual maturity date (residual maturity):

Residual maturity	Due less than one month (note i) £'000	Due between one and three months £'000	Due between three and twelve months £'000	Due between one and five years £'000	Due after more than five years £'000	Total £'000
2021						
Financial assets:						
Cash	773	-	-	-	-	773
Loans and advances to customers	1,364	371	2,086	19,410	47,829	71,060
Total financial assets	2,137	371	2,086	19,410	47,829	71,833
Financial liabilities:						
Amounts owed to parent undertaking	-	-	-	52,451	-	52,451
Total financial liabilities	-	-	-	52,451	-	52,451
Net liquidity difference	2,137	371	2,086	(33,041)	47,829	19,382
2020						
Financial assets:						
Cash	556	-	-	-	-	556
Loans and advances to customers	1,449	654	336	21,253	53,408	77,100
Total financial assets	2,005	654	336	21,253	53,408	77,656
Financial liabilities:						
Amounts owed to parent undertaking	3,779	6,255	40,069	9,419	-	59,522
Total financial liabilities	3,779	6,255	40,069	9,419	-	59,522
Net liquidity difference	(1,774)	(5,601)	(39,733)	11,834	53,408	18,134

Note:

i. Due less than one month includes amounts repayable on demand.

The balance sheet structure and risks are managed and monitored at a Group level by the Assets and Liabilities Committee (ALCO). The Group uses judgement and past behavioural performance of each asset and liability class to forecast likely cash flow requirements.

E-MEX HOME FUNDING LIMITED**Notes to the financial statements for the year ended 31 March 2021 (continued)****15 Risk management (continued)****Financial liabilities – gross undiscounted contractual cash flows**

The tables below provide an analysis of gross contractual cash flows. The totals differ from the analysis of residual maturity as they include estimated future interest payments and are calculated using balances outstanding at the balance sheet date, contractual maturities and appropriate forward looking interest rates.

Amounts are allocated to the relevant maturity band based on the timing of individual contractual cash flows.

Gross contractual cash flows	Due less than one month (note i) £'000	Due between one and three months £'000	Due between three and twelve months £'000	Due between one and five years £'000	Total £'000
2021					
Amounts owed to parent undertaking	55	112	503	54,465	55,135
Gross contractual cash flows	Due less than one month (note i) £'000	Due between one and three months £'000	Due between three and twelve months £'000	Due between one and five years £'000	Total £'000
2020					
Amounts owed to parent undertaking	3,853	6,389	40,485	9,718	60,445

Note:

i. Due less than one month includes amounts repayable on demand.

Market risk

Market risk is the risk that the net value of, or net income arising from, assets and liabilities is impacted as a result of changes in market prices or rates, specifically interest rates.

Interest rate risk

The main market risk faced is interest rate risk. Market movements in interest rates affect the interest rate margin realised from lending and borrowing activities.

Interest rate risk is managed at a Group level. To reduce the impact of market movements, hedging activities are undertaken by the Group's Treasury function. For example, interest rate risks generated by lending to and receiving deposits from customers are offset against each other internally where possible. The remaining net exposure is managed using derivatives, within parameters set by ALCO.

Further details of the Group's interest rate risk monitoring processes are included in the Risk report of the Group's Annual Report and Accounts.

E-MEX HOME FUNDING LIMITED**Notes to the financial statements for the year ended 31 March 2021 (continued)****16 Fair value of financial assets and liabilities held at fair value – Level 3 portfolio**

The commercial loan held by the company is a Level 3 asset (2019: Level 3).

The table below sets out movements in the Level 3 portfolio.

Movements in Level 3 portfolio	Loans and advances to customers £'000
1 April 2020	12,342
Gains recognised in the income statement, within:	
Net interest income	191
Other operating income	607
Settlements/repayments	(217)
31 March 2021	12,923

Movements in Level 3 portfolio	Loans and advances to customers £'000
1 April 2019	11,673
Gains recognised in the income statement, within:	
Net interest income	276
Other operating income	673
Settlements/repayments	(280)
31 March 2020	12,342

Level 3 portfolio sensitivity analysis of valuations using unobservable inputs

The fair value of financial instruments is, in certain circumstances, measured using valuation techniques based on market prices that are not observable in an active market or significant unobservable market inputs.

Reasonable alternative assumptions can be applied for sensitivity analysis, taking account of the nature of valuation techniques used, as well as the availability and reliability of observable proxy and historic data. The following table shows the sensitivity of the Level 3 fair values to reasonable alternative assumptions (as set out in the table of significant unobservable inputs below) and the resultant impact of such changes in fair value on the income statement or statement of changes in equity.

Sensitivity of Level 3 fair values

	Fair value £'000	Income statement	
		Favourable changes £'000	Unfavourable changes £'000
2021	12,923	507	(487)
2020	12,342	693	(655)

E-MEX HOME FUNDING LIMITED

Notes to the financial statements for the year ended 31 March 2021 (continued)

16 Fair value of financial assets and liabilities held at fair value – Level 3 portfolio (continued)

Alternative assumptions are considered and varied according to the quality of the data and variability of the underlying market.

The following table discloses the significant unobservable inputs underlying the above alternative assumptions for assets and liabilities recognised at fair value and classified as Level 3, along with the range of values for those significant unobservable inputs. Where sensitivities are described the inverse relationship will also generally apply.

Significant unobservable inputs

	Total assets £'000	Valuation technique £'000	Significant unobservable inputs £'000	Range (note i)	Weighted average (note ii)	Units
2021						%
Loans and advances to customers	12,923	Discounted cash flows	Discount rate	6.25-9.75	8.00	%
	Total assets £'000	Valuation technique £'000	Significant unobservable inputs £'000	Range (note i)	Weighted average (note ii)	Units
2020						%
Loans and advances to customers	12,342	Discounted cash flows	Discount rate	6.25-9.75	8.00	%

Notes:

- The range represents the values of the highest and lowest levels used in the calculation of favourable and unfavourable changes as presented in the previous table of sensitivities above.
- Weighted average represents the input values used in calculating the fair values for the above financial instruments.

17 Fair value of financial assets and liabilities measured at amortised cost

The following table summarises the carrying value and fair value of financial assets and liabilities presented on the Company's balance sheet at amortised cost.

Fair value of financial assets and liabilities measured at amortised cost	Carrying value £'000	Fair value based on Level 3 £'000	Total fair value £'000
2021			
Financial assets:			
Loans and advances to customers	58,137	52,605	52,605
Financial liabilities:			
Amounts owed to parent undertaking	52,451	52,451	52,451
	Carrying value £'000	Fair value based on Level 3 £'000	Total fair value £'000
2020			
Financial assets:			
Loans and advances to customers	64,758	58,515	58,515
Financial liabilities:			
Amounts owed to parent undertaking	59,522	59,522	59,522

Note:

- The table above excludes cash for which fair value approximates to carrying value.

E-MEX HOME FUNDING LIMITED

Notes to the financial statements for the year ended 31 March 2021 (continued)

17 Fair value of financial assets and liabilities measured at amortised cost (continued)

Loans and advances to customers

In arriving at the fair value of loans and advances to customers, the Company uses modelling techniques consistent with those used by the Group. The estimates take into account expected future cash flows and future lifetime expected losses, based on historic trends and discount rates appropriate to the loans, to reflect a hypothetical exit price value on an asset by asset basis.

Amounts owed to parent undertaking

The estimated fair value of amounts owed to the parent undertaking approximates carrying value as the rate payable resets biannually based on current market conditions.

18 Capital management

Capital comprises the retained earnings and share capital. Capital is managed on a Group basis.

Further details about the Group's capital position can be found in the Solvency risk section of the Risk report in its Annual Report and Accounts.

19 Parent undertaking and ultimate controlling entity

The Company is a wholly owned subsidiary of Nationwide Building Society, its immediate and ultimate parent and controlling party, which is a building society incorporated and registered in England and Wales.

The results of E-Mex Home Funding Limited are included in the consolidated financial statements of Nationwide Building Society, which is the parent undertaking of the smallest and largest group to consolidate these financial statements.

Nationwide Building Society is registered at Nationwide House, Pipers Way, Swindon, SN38 1NW. The Group's Annual Report and Accounts can be obtained from this address or at nationwide.co.uk