Registered Number: 02222856

The Mortgage Works (UK) plc

Annual Report and Financial Statements for the year ended 31 March 2020

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Directors and company information

Directors
I Andrew (resigned 9 December 2019)
S Bennison (appointed 15 October 2019)
T Carter (resigned 9 December 2019)
J Davy (resigned 9 December 2019)
J Dunn
H Jordan (appointed 1 May 2019 and resigned 9 December 2019)
M Mathieson (resigned 9 December 2019)
C Rhodes
P Wootton (resigned 9 December 2019)

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
02222856

Directors' report for the year ended 31 March 2020

The directors present their annual report and the audited financial statements for the year ended 31 March 2020.

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

The Mortgage Works (UK) plc ('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 specialist residential mortgage lending in the buy to let sector.

The main aim of the Company is to maximise value for the Group by originating a range of residential loans which are distributed primarily through intermediaries.

Results and dividends

The profit after tax was £232 million (2019: £255 million). No dividends were proposed, approved or paid during the year (2019: £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 (2019: nil).

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**

Directors and directors' interests

The directors who held office during the period were:

I Andrew (resigned 9 December 2019)
S Bennison (appointed 15 October 2019)
T Carter (resigned 9 December 2019)
J Davy (resigned 9 December 2019)
J Dunn
H Jordan (appointed 1 May 2019 and resigned 9 December 2019)
M Mathieson (resigned 9 December 2019)
C Rhodes
P Wootton (resigned 9 December 2019)

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 public limited company. 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 has 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 at least 12 months from the date of approval of the financial statements. Taking this into account, the directors have a reasonable expectation that the Company has adequate resources to continue in business for the foreseeable future.

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).

Statement of directors' responsibilities (continued)

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.

Statement of private company governance arrangements

The directors are committed to high standards of corporate governance and have continued to adopt the relevant parts of the UK Corporate Governance Code 2018 (the Code), which is available at **www.frc.org.uk**

Further details of the Group's corporate governance arrangements can be found in the 'Report of the directors on corporate governance' in the Group's Annual Report and Accounts. Details of the principles applicable to the Company, including where you can read more about how the Company complied with them, are set out below:

Section	Code principles	Where to read more on how the Company has complied	Page
Board leadership and Company purpose	A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.	Strategic report in the Group's Annual Report and Accounts	
	The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.	Strategic report	7
	The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.	Strategic report	7
	In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.	S.172(1) statement in the Directors' report	7
	The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.	The Company has no employees	

Section	Code principles	Where to read more on how the Company has complied	Page
Division of responsibilities	The chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information.	Strategic report in the Group's Annual Report and Accounts	
Audit, risk and internal control	The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.	Directors' report within the Group's Annual Report and Accounts	
	The board should present a fair, balanced and understandable assessment of the company's position and prospects.	Strategic report	7
	The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.	Strategic report	7

Independent auditor

Due to audit firm rotation regulations PricewaterhouseCoopers LLP resigned as the Company's auditor after the year ended 31 March 2019. Subsequently Ernst & Young LLP (EY) were appointed as external auditor for the year ended 31 March 2020 and they 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 are 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 are aware of that information.

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

C Rhodes
Director

13 July 2020

Business review

The Company recorded a profit before tax for the year of £286 million (2019: £315 million). Profits have decreased in the year primarily as a result of a £31 million increase in impairment losses on loans and advances to customers. This was partly offset by a £11 million increase in net interest income.

Impairment losses on loans and advances to customers have increased primarily due to an additional £28 million Expected Credit Loss (ECL) provision booked in respect of the anticipated impact of Covid-19. The increase in net interest income reflects a £59 million increase in interest receivable on mortgage assets due to the increased mortgage book, offset by an increase of £48 million of interest payable, primarily on amounts due to the Society.

Administrative expenses have increased by £7 million and fee and commission income have decreased by £2 million following a change in methodology in the application of the management recharge from the Society, which has been applied prospectively.

Positive net lending volumes resulted in the mortgage book growing from £31,546 million to £35,140 million.

The retained earnings carried forward are £1,837 million (2019: £1,605 million).

Future developments

The Company will continue to support the existing range of residential mortgages, with new lending predominantly focused on the buy to let market, maximising value for the Group as a specialist residential mortgage lender.

General market conditions have been dominated by the uncertainty primarily caused by the UK leaving the European Union and at the end of the financial year the uncertain impact of the Covid-19 pandemic and the responses to it. In particular, the Covid-19 outbreak 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 and Statement of engagement with stakeholders

Section 172(1) of the Companies Act 2006 requires directors to act in good faith and in a way that they consider most likely to promote the success of the Company for the benefit of its members as a whole.

As the Company is part of the wider Group, where matters impact other entities amongst the Group and have a wider application, stakeholder engagement is led by the Society. Further information on how the Group engages with its stakeholders can be found in the Strategic report within 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.

Section 172(1) statement and Statement of engagement with stakeholders (continued)

Taking account of our stakeholders

Maintaining high standards of business conduct

The Company retained its 5 star rating in the 2019 Financial Adviser Service Awards, as per the story published on its website, **www.themortgageworks.co.uk/news/2019/11/fasa-2019**

Payment holidays 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 to their tenants.

Impact on the environment

Throughout the year the Board considered environmental, social and governance issues and reviewed its lending policy to ensure it remains aligned to the Company's sustainability agenda, including regulatory risks linked to possible changes in minimum Environmental Performance Certificate ratings.

Meeting customer needs

TMW Online was introduced in August 2019 which has automated transactions and improved the system interface. Before going live the system was trialled with a select group of key stakeholders including one of the Company's top brokers. The new system has enabled online submission for Limited Company applications and simplified the portfolio assessment process.

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.

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 nine 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.

Risk overview (continued)

The Group's principal risks are:

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

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

Business risk

Business risk is the risk that volumes decline or margins shrink relative to the cost base, affecting the sustainability of the business and the ability to deliver the strategy, due to external or internal factors. The Group actively manages this risk so that it continues to benefit current and future customers, with a focus on long-term sustainability rather than short-term metrics. 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.

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, financial loss or inadequate reporting.

An enterprise level Model Risk Framework (MRF) 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.

Risk overview (continued)

Operational and conduct risk

Operational and conduct risk is the risk of loss resulting from inadequate or failed internal processes, conduct and compliance management, people and systems, or from external events. The Group manages operational and conduct risk across a number of sub-categories, which include cyber, IT resilience and security, business continuity, payments, fraud, financial crime and regulatory compliance.

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

C Rhodes
Director

13 July 2020

Independent auditor's report to the members of The Mortgage Works (UK) plc

Report on the financial statements

Opinion

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 March 2020 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.

We have audited the financial statements of The Mortgage Works (UK) plc for the year ended 31 March 2020 which comprise the Balance sheet, the Statement of comprehensive income, the Statement of changes in equity and the related notes 1 to 18, 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)".

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 below. 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

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Reporting on 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.

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.

In connection with our audit of the financial statements, 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 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 or a material misstatement of the other information. 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.

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 for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 4, 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.

Independent auditor's report to the members of The Mortgage Works (UK) plc (continued)

Responsibilities for the financial statements and the audit (continued)

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.

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/auditorresponsibilities**. This description forms part of our auditor's report.

Use of this 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.

Other required reporting

Companies Act 2006 exception reporting

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.

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

14 July 2020

THE MORTGAGE WORKS (UK) PLC

Statement of comprehensive income for the year ended 31 March 2020

	Note	2020 £'000	2019 £'000
Interest receivable and similar income	3	**1,014,619**	955,175
Interest expense and similar charges	4	**(664,138)**	(615,672)
Net interest income		**350,481**	339,503
Fee and commission income	5	**3,351**	5,137
Total income		**353,832**	344,640
Administrative expenses	6	**(35,497)**	(28,622)
Impairment losses on loans and advances to customers	7	**(32,382)**	(1,475)
Provisions for liabilities and charges	8	**44**	(4)
Profit before tax		**285,997**	314,539
Taxation	9	**(53,731)**	(59,762)
Profit after tax, being total comprehensive income for the year		**232,266**	254,777

The notes on pages 17 to 51 form part of these financial statements.

Balance sheet as at 31 March 2020

	Note	2020 £'000	2019 £'000
Assets			
Non-current assets			
Loans and advances to customers	11	**34,775,264**	31,249,020
Deferred tax	9	**3,573**	3,647
Current assets			
Cash		**8,232**	2,102
Amounts due from parent undertaking		**3**	3
Corporation tax		**3,244**	-
Loans and advances to customers	11	**251,907**	213,529
Investments in subsidiary undertakings	12	**-**	-
Other assets		**206**	208
Total assets		**35,042,429**	31,468,509
Liabilities			
Non-current liabilities			
Amounts owed to parent undertaking	13	**31,712,225**	29,486,993
Current liabilities			
Amounts due to banks		**-**	-
Amounts owed to parent undertaking	13	**1,450,598**	303,826
Accruals, deferred income and other liabilities		**3,889**	4,038
Provisions for liabilities and charges	8	**50**	94
Group relief		**898**	744
Current tax liabilities		**-**	30,311
Total liabilities		**33,167,660**	29,826,006
Equity			
Share capital	14	**38,000**	38,000
Retained earnings		**1,836,769**	1,604,503
Total equity		**1,874,769**	1,642,503
Total equity and liabilities		**35,042,429**	31,468,509

The notes on pages 17 to 51 form part of these financial statements.

The financial statements on pages 14 to 51 were approved by the Board of directors on 13 July 2020 and signed on its behalf by

C Rhodes
Director

13 July 2020

Statement of changes in equity for the year ended 31 March 2020

2020

	Share capital £'000	Retained earnings £'000	Total equity £'000
At 1 April 2019	38,000	1,604,503	1,642,503
Profit after tax	-	**232,266**	**232,266**
Total comprehensive income	-	**232,266**	**232,266**
At 31 March 2020	**38,000**	**1,836,769**	**1,874,769**

2019

	Share capital £'000	Retained earnings £'000	Total equity £'000
At 1 April 2018	38,000	1,349,726	1,387,726
Profit after tax	-	254,777	254,777
Total comprehensive income	-	254,777	254,777
At 31 March 2019	38,000	1,604,503	1,642,503

The notes on pages 17 to 51 form part of these financial statements.

1. Statement of accounting policies

Basis of preparation

These financial statements have been prepared in accordance with the Companies Act 2006 as applicable to companies using 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

No new or revised standards became effective in the year which were applicable to the Company.

1 Statement of accounting policies (continued)

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 borne 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.

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 the Company's business activities are in the United Kingdom.

1 Statement of accounting policies (continued)

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, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences 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.

1 Statement of accounting policies (continued)

g) 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 (for example forbearance), 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. All of the Company's financial assets are held at amortised cost.

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.

h) 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 or 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.

1 Statement of accounting policies (continued)

h) Impairment of financial assets (continued)

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.

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, and is made 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 7.

1 Statement of accounting policies (continued)

h) Impairment of financial assets (continued)

Credit risk categorisation (continued)

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 cashflows; 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 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.

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.

i) 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.

1 Statement of accounting policies (continued)

j) Fair value of financial 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 ('unobservable inputs'). 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. Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

k) 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 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 2020, this evaluation has considered the potential impacts of Covid-19.

The most 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, including any additional information relating to Covid-19 where relevant, are disclosed in note 7. These accounting estimates include areas of significant judgement.

Notes to the financial statements for the year ended 31 March 2020 (continued)

3 Interest receivable and similar income

	2020 £'000	2019 £'000
On financial assets measured at amortised cost:		
Residential mortgages	**1,014,619**	955,173
On corporation tax overpaid	**-**	2
Total interest receivable and similar income calculated using the effective interest rate method	**1,014,619**	955,175

4 Interest expense and similar charges

	2020 £'000	2019 £'000
On loans from parent undertaking	**664,114**	615,672
On corporation tax underpaid	**24**	-
Total	**664,138**	615,672

5 Fees and commission income

	2020 £'000	2019 £'000
Mortgage related fees	**3,351**	3,322
Mortgage administration fees (note i)	**-**	1,815
Total	**3,351**	5,137

Note:
i. During the year there was a change in methodology in the application of the management recharge from the company's parent undertaking. This change has been applied prospectively.

6 Administrative expenses

	2020 £'000	2019 £'000
Recharge from parent undertaking (note i)	**33,755**	26,673
Other administrative expenses	**1,742**	1,949
Total	**35,497**	28,622

Note:
i. During the year there was a change in methodology in the application of the management recharge from the company's parent undertaking. This change has been applied prospectively.

Auditor's remuneration, relating solely to the statutory audit of these financial statements was £59 thousand (2019: £72 thousand) and borne by the parent undertaking. The Company has no employees (2019: nil). Administration of the Company's loans are 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 other employees within the Group. There were no loans to related parties as at 31 March 2020 (2019: £nil).

7 Impairment losses and provisions on loans and advances to customers

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

Impairment losses/(reversals)	2020	2019 (note i)
	£'000	£'000
Prime residential mortgages	(18)	(52)
Specialist residential mortgages	32,400	1,527
Total	32,382	1,475

Impairment provisions	2020	2019 (note i)
	£'000	£'000
Prime residential mortgages	193	211
Specialist residential mortgages	112,934	83,173
Total	113,127	83,384

Note:
i. Comparative amounts for prime and specialist have been updated in line with current year classification with no impact to the totals.

Provisions are based on a probability-weighted application of multiple economic scenarios (MES). The impact of applying MES is to increase provisions by £34,170 thousand (2019: £36,501 thousand), compared with the provisions based on the central economic scenario. Further information on MES is set out in the Critical accounting estimates and judgements section below.

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, and the Loss Given Default for each loan. The most significant areas of estimation uncertainty are:

- the impact on expected credit losses of Covid-19
- the use of forward-looking information
- the performance of interest only mortgages at maturity.

The most significant area of judgement is:

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

The Company's approach to each of these estimates and judgements is described in more detail below. The allowance for the severe downside economic scenario and the impact of Covid-19 are both calculated as additional provisions. In both cases therefore, the Company has considered the consequences of changes to staging in quantifying the additional provision, but has not reflected these changes in the reported staging outcomes and analyses in note 15.

Impact on expected credit losses of Covid-19

An additional provision for credit losses has been recognised in the financial statements to reflect the estimated impact of the Covid-19 pandemic on ECLs. Due to the limited observable data available at the reporting date, this additional provision is subject to significant levels of estimation. The analysis and estimates set out below were all subject to full internal governance at management and Board committee level. The additional provision at 31 March 2020 is £27,705 thousand.

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

Critical accounting estimates and judgements (continued)

A revised Covid-19 central economic scenario has been modelled to estimate additional losses in the residential mortgage portfolio. This scenario takes into account the significant impact of the pandemic and also the government support measures announced in advance of the year end. Further information regarding the assumptions for, and ECLs associated with, this scenario is included in the forward-looking economic information section below. As a result of the pandemic, probability weights for the upside and downside scenarios were also changed with the upside scenario now allocated a 5% weighting (2019: 20%) and the downside scenario allocated a weighting of 35% (2019: 20%).

The estimation of losses relating to Covid-19 was performed using the latest IFRS 9 models and data, and has been recognised as an additional provision. Together, the revised scenario and probability weightings increased reported provisions by £21,242 thousand.

In addition, the Company has estimated the credit losses associated with payment holidays granted to borrowers as a result of Covid-19, recognising that in some cases borrowers will experience longer term financial difficulty as a result of the pandemic. Payment holidays or other similar concessions have been offered on all retail products. Unlike other concessions granted to borrowers in financial difficulty, these payment holidays have not been subject to detailed affordability assessments, and therefore the level of financial difficulty of the members and customers who apply for them requires estimation in a number of areas.

Analysis of the risk characteristics of the payment holiday population was carried out to estimate the proportion of these loans judged to have increased credit risk. This proportion was 20% of the highest risk loans (measured by PD) by product. For these loans the modelled PD was then uplifted by a multiple of 2.5, based on experience of the performance of lending with similar concessions granted following the previous financial crisis (where available) or on more recent performance of other types of forbearance. The increase in expected credit loss includes the impact of loans transferring to stage 2 as a result of the higher PD, as well as the impact of the PD increase itself. The increase in reported provisions to reflect the risk associated with borrowers who requested payment holidays as a result of Covid-19 is £6,463 thousand.

A 10% change in the number of payment holidays would increase/decrease the additional provision by £646 thousand. Inclusion of a further 10% of the higher risk loans with payment holidays would increase provisions by £395 thousand. If the payment holiday PDs were uplifted by a multiple of 3.0 rather than 2.5, the increase in provisions would be £2,207 thousand.

The analysis of portfolios by stage in note 15 has not been updated to include this revised staging for loans with payment holidays.

Use of forward-looking economic information

Management exercises judgement in estimating future economic conditions which are incorporated into provisions through modelling of MES. 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. As noted above, the scenario assumptions were changed at year end to reflect the impact of Covid-19 through an additional provision. The tables below therefore show the revised Covid-19 central scenario economic assumptions used in determining this additional provision, as well as the previous central scenario.

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

Critical accounting estimates and judgements (continued)

At 31 March 2020, the probability weightings for each scenario were reviewed and the probabilities allocated to the upside and downside scenarios were revised due to the impact of Covid-19, as noted above. Changes made to probability weightings applied to the scenarios over the year are shown in the table below:

Scenario probability weighting	2020 %	2019 %
Upside scenario	5	20
Previous central scenario	-	50
Covid-19 central scenario	50	-
Downside scenario	35	20
Severe downside scenario	10	10

The impact of the severe downside scenario is calculated as an additional provision separately from the other three scenarios, using information from internal stress testing models to estimate the non-linear impacts that could arise from severe scenarios.

In the Covid-19 central scenario, both GDP and house prices fall sharply during 2020, and unemployment rises significantly, though less than if government measures had not been in place. Economic recovery takes place from early 2021, reverting to longer term trends by 2024, reflecting an assumption that the pandemic impact will be severe but temporary. The downside scenario reflects a weak economy during 2020 and 2021, accompanied by a fall in house prices during this period, followed by gradual recovery in subsequent years and reversion to a lower long-term growth rate by 2029. The upside scenario reflects stable economic growth over the projection period. The severe downside scenario continues to be aligned with internal stress testing and reflects a severe non-linear impact arising from disruption to the UK economy. Whilst the Covid-19 scenario shows a severe but temporary decline in the key economic variables over the first 12 months, the key variables of house price index (HPI) and unemployment are less severe than the downside and severe downside scenarios from 2022 onwards, due to an assumed recovery from 2021.

Further details on historical and forecasted 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 if 100% weighting is applied to each scenario:

Sensitivity analysis impact of multiple economic scenarios on ECL	2020 £'000	2019 £'000
Upside scenario	68,187	41,811
Central scenario	49,751	46,884
Covid-19 central scenario	72,494	-
Downside scenario	131,455	117,986
Severe downside scenario	222,044	201,899

The increase in ECLs by applying the new Covid-19 central scenario (weighted at 100%) instead of the previous central scenario is £22,743 thousand. In estimating ECLs under the upside and downside scenarios above it is assumed that the economic impact of the pandemic has a similar impact on ECLs as in the central scenario. Therefore, when probability weights are applied across the scenarios, the provision impact of the Covid-19 economic assumptions is 90% of £22,743 thousand, the 90% representing the total weightings of the upside, central and downside scenarios. The table does not include the additional provision calculated for the impact of payment holidays granted due to Covid-19.

7 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 economic scenarios used reflect the Company's view of the range of potential future economic conditions at the balance sheet date. The impact of increasing/reducing the probability of a severe economic downside by 5% (and reducing/increasing the downside by a corresponding 5%) is an increase/reduction in provisions of £5,692 thousand.

For prime and specialist residential mortgages, the estimate of future HPI movements is a key assumption in estimating the eventual loss. The table below shows the sensitivity of provisions, in the Covid-19 central scenario only, to a decrease/increase in LGD as a result of an immediate increase/decrease in house prices, with no change to subsequent house price inflation or to other assumptions. As this is single-factor sensitivity analysis, it should not be extrapolated due to the likely non-linear effect:

Residential mortgages – change in key assumptions

2020	Increase/(decrease) in provision £'000
10% decrease in HPI	20,332
10% increase in HPI	(13,554)

Performance of interest only mortgages at maturity

An additional key area of management estimation is the allowance for the 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. Interest only balances for prime residential mortgages relate primarily to historical balances which were originally advanced as interest only mortgages or where a change in terms to an interest only basis has been agreed.

The impact of the allowance for unredeemed interest only mortgages at contractual maturity in the Covid-19 central scenario amounts to £24,140 thousand (2019: £25,068 thousand), and has also been calculated for the other modelled scenarios, with an additional impact of £16,373 thousand (2019: £15,458 thousand) included in the impact of forward looking economic information above. Interest only loans which are judged to have a significantly increased risk of inability to refinance at maturity are transferred to stage 2.

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

Critical accounting estimates and judgements (continued)

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 macroeconomic information to determine the probability of default (PD) at each reporting date. For retail loans, 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
- the residual lifetime PD has increased by at least 75bps and a 4x multiple of the original lifetime PD.

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 from stage 1 to stage 2 would increase provisions by £2,274 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.

8 Provisions for liabilities and charges

	Customer redress £'000	Other provisions £'000	Total £'000
At 1 April 2019	86	8	94
Provisions utilised	-	-	-
Release for the year	(53)	-	(53)
Charge for the year	-	9	9
At 31 March 2020	**33**	**17**	**50**

	Customer redress £'000	Other provisions £'000	Total £'000
At 1 April 2018	153	4	157
Provisions utilised	(67)	-	(67)
Charge for the year	-	4	4
At 31 March 2019	86	8	94

Customer redress

Amounts that are provided are an estimate of the potential cost of remediation and are subject to ongoing review of various matters. For these matters, the ultimate amount of redress that will be payable will depend upon a number of internal and external factors. These include the time period to which any redress should apply and an estimate of the amount of redress and associated costs that will be payable.

Other provisions

Other provisions include expected credit losses on irrevocable mortgage lending commitments.

9 Taxation

Tax charge in the statement of comprehensive income	**2020 £'000**	2019 £'000
Current tax:		
UK corporation tax charge	**53,889**	59,310
Adjustments in respect of prior years	**(232)**	-
Total current tax	**53,657**	59,310
Deferred tax:		
Current year	**450**	452
Effect of corporation tax rate change	**(376)**	-
Total deferred taxation	**74**	452
Tax charge	**53,731**	59,762

The current tax charge includes £452 thousand (2019: £345 thousand) in respect of group relief due to fellow subsidiary companies.

9 Taxation (continued)

The actual tax charge differs from (2019: equates to) the theoretical amount that would arise using the standard rate of corporation tax in the UK as follows:

Reconciliation of tax charge	**2020**	2019
	£'000	£'000
Profit before tax	**285,997**	314,539
Tax calculated at a rate of 19%	**54,339**	59,762
Adjustments in respect of prior years	**(232)**	-
Effect of corporation tax rate change	**(376)**	-
Tax charge	**53,731**	59,762

Deferred taxation

Deferred tax is determined using tax rates and laws that are expected to apply in the period when the deferred tax asset is realised or deferred tax liability is settled based on rates enacted or substantively enacted at the balance sheet date. The main rate of corporation tax of 19% was announced in the Budget on 11 March 2020 and was substantively enacted on 17 March 2020.

The movements on the deferred tax account are as follows:

Movements in deferred taxation	**2020**	2019
	£'000	£'000
At 1 April	**3,647**	4,099
Deferred tax charge in the statement of comprehensive income		
Current year statement of comprehensive income charge	**(450)**	(452)
Effect of corporation tax rate change	**376**	-
At 31 March	**3,573**	3,647

Deferred tax assets are attributable to the following items:

Deferred tax assets	**2020**	2019
	£'000	£'000
Transitional adjustments on adoption of IFRS 9	**3,535**	3,605
Accelerated capital allowances	**38**	42
Total	**3,573**	3,647

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	**2020**	2019
	£'000	£'000
Transitional adjustments on adoption of IFRS 9	**70**	442
Accelerated capital allowances	**4**	10
Total	**74**	452

10 Dividends

No dividends were proposed, approved or paid during the year (2019: £nil).

11 Loans and advances to customers

Residential mortgages comprise both specialist and prime loans. Specialist lending consists principally of buy to let mortgages, together with smaller legacy portfolios in run off.

31 March 2020	Gross £'000	Provisions £'000	Total £'000
Prime residential mortgages	280,938	(193)	280,745
Specialist residential mortgages	34,859,360	(112,934)	34,746,426
Total	**35,140,298**	**(113,127)**	**35,027,171**

31 March 2019	Gross £'000	Provisions £'000	Total £'000
Prime residential mortgages	337,232	(211)	337,021
Specialist residential mortgages	31,208,701	(83,173)	31,125,528
Total	31,545,933	(83,384)	31,462,549

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			
	Stage 1		Stage 2		Stage 3			
	Gross balances £'000	Provisions £'000	Gross balances £'000	Provisions £'000	Gross balances £'000	Provisions £'000	Gross balances £'000	Provisions £'000
At 1 April 2019	25,871,518	9,982	5,409,596	61,206	264,819	12,196	31,545,933	83,384
Stage transfers:								
Transfers from Stage 1 to Stage 2	(9,350,526)	(10,759)	9,350,526	10,759	-	-	-	-
Transfers to Stage 3	(99,370)	(34)	(231,901)	(12,453)	331,271	12,487	-	-
Transfers from Stage 2 to Stage 1	7,536,962	40,299	(7,536,962)	(40,299)	-	-	-	-
Transfer from Stage 3	77,552	505	145,508	5,503	(223,060)	(6,008)	-	-
Net remeasurement of ECL arising from transfer of stage		(30,497)		44,019		(5,059)		8,463
Net movement arising from transfer of stage (note i)	**(1,835,382)**	**(486)**	**1,727,171**	**7,529**	**108,211**	**1,420**	**-**	**8,463**
New assets originated or purchased (note ii)	6,604,509	758	-	-	-	-	6,604,509	758
Further lending/ repayments (note iii)	(320,280)	(508)	(23,100)	(428)	(9,650)	(9)	(353,030)	(945)
Changes in risk parameters related to credit quality (note iv)	-	73	-	968	-	1,121	-	2,162
Other items impacting comprehensive income charge/(reversal) including recoveries	-	-	-	-	-	(782)	-	(782)
Redemptions (note v)	(2,151,930)	(583)	(419,401)	(4,070)	(71,922)	(326)	(2,643,253)	(4,979)
Additional provision for Covid-19 (note vi)								27,705
Comprehensive income charge for the year								32,382
Decrease due to write-offs	-	-	-	-	(13,861)	(3,421)	(13,861)	(3,421)
Other provision movements	-	-	-	-	-	782	-	782
At 31 March 2020	**28,168,435**	**9,236**	**6,694,266**	**65,205**	**277,597**	**10,981**	**35,140,298**	**113,127**
Net carrying amount		**28,159,199**		**6,629,061**		**266,616**		**35,027,171**

11 Loans and advances to customers (continued)

Reconciliation of movements in gross balances and impairment provisions	Non-credit impaired				Credit impaired			
	Subject to 12 month ECL		Subject to lifetime ECL		Subject to lifetime ECL		Total	
	Stage 1		Stage 2		Stage 3			
	Gross balances £'000	Provisions £'000	Gross balances £'000	Provisions £'000	Gross balances £'000	Provisions £'000	Gross balances £'000	Provisions £'000
At 1 April 2018	20,357,177	8,287	9,285,254	66,448	243,062	9,667	29,885,493	84,402
Stage transfers:								
Transfers from Stage 1 to Stage 2	(9,481,705)	(5,180)	9,481,705	5,180	-	-	-	-
Transfers to Stage 3	(88,714)	(31)	(241,727)	(10,184)	330,441	10,215	-	-
Transfers from Stage 2 to Stage 1	12,292,670	52,597	(12,292,670)	(52,597)	-	-	-	-
Transfer from Stage 3	75,480	320	147,099	4,469	(222,579)	(4,789)	-	-
Net remeasurement of ECL arising from transfer of stage		(46,126)		46,134		(2,127)		(2,119)
Net movement arising from transfer of stage (note i)	2,797,731	1,580	(2,905,593)	(6,998)	107,862	3,299	-	(2,119)
New assets originated or purchased (note ii)	4,956,454	1,669	-	-	-	-	4,956,454	1,669
Further lending/ repayments (note iii)	(338,718)	(448)	(19,941)	(975)	(8,709)	(169)	(367,368)	(1,592)
Changes in risk parameters related to credit quality (note iv)	-	(292)	-	8,257	-	2,839	-	10,804
Other items impacting comprehensive income charge/(reversal) including recoveries	1,304	-	-	-	-	(670)	1,304	(670)
Redemptions (note v)	(1,902,430)	(814)	(950,046)	(5,526)	(66,325)	(277)	(2,918,801)	(6,617)
Comprehensive income charge for the year								1,475
Decrease due to write-offs	-	-	(78)	-	(11,071)	(3,163)	(11,149)	(3,163)
Other provision movements	-	-	-	-	-	670	-	670
At 31 March 2019	25,871,518	9,982	5,409,596	61,206	264,819	12,196	31,545,933	83,384
Net carrying amount		25,861,536		5,348,390		252,623		31,462,549

Notes:

i. The remeasurement of provisions arising from a change in stage is reported within the stage to which the assets are transferred.

ii. If a new asset is generated in the month, the value included is the closing gross balance and provision for the month. All new business written is included in stage 1.

iii. 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 opening provision coverage for the month.

iv. 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.

v. For any asset that is derecognised in the month, the value disclosed is the provision at the start of that month.

vi. An additional provision for credit losses has been recognised to reflect the estimated impact of the Covid-19 pandemic on ECLs. For the Company, the additional provision at 31 March 2020 is £27,705 thousand. This additional provision has not been allocated to underlying loans nor has it been attributed to stages, but is shown in the total column of the table. Additional detail on the calculation of this value is included in note 7.

11 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:

	2020 £'000	2019 £'000
Repayable:		
In not more than three months	**102,913**	112,202
In more than three months but not more than one year	**149,808**	101,894
In more than one year but not more than five years	**1,332,117**	1,313,127
In more than five years	**33,555,460**	30,018,710
	35,140,298	31,545,933
Impairment provision (note 7)	**(113,127)**	(83,384)
Total	**35,027,171**	31,462,549

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.

12 Investments in subsidiary undertakings

The interests of the Company in its subsidiary undertakings, Exeter Trust Limited and Confederation Mortgage Services Limited, as at 31 March 2020 are set out below:

100% subsidiary undertakings	Nature of business
Exeter Trust Limited	Dormant
Confederation Mortgage Services Limited	Dormant

The above subsidiary undertakings are limited liability companies, which are registered in England and Wales. The registered office of both subsidiary undertakings is the same as that of the Company.

Neither of the above subsidiary undertakings are actively trading. The investment in Confederation Mortgage Services Limited (CMS) was £1 Ordinary share at both 31 March 2020 and 31 March 2019. The investment in Exeter Trust Limited (ETL) was £1 Ordinary share at both 31 March 2020 and 31 March 2019.

Both CMS and ETL were entitled to exemption from audit under Section 480 of the Companies Act 2006 relating to dormant companies for the year ended 31 March 2020.

13 Amounts owed to parent undertaking

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

	2020 £'000	2019 £'000
In not more than three months	**255,143**	32,995
In more than three months but not more than one year	**1,195,455**	270,831
In more than one year but not more than five years	**31,712,225**	29,486,993
Total	**33,162,823**	29,790,819

All intercompany transactions are entered into under normal market conditions. Funds borrowed from the parent undertaking are initially repayable five years after the date of advance, but 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 annually. All intercompany loans are unsecured.

14 Share capital

	2020 £'000	2019 £'000
Authorised:		
50,000,000 (2019: 50,000,000) ordinary shares of £1 each	**50,000**	50,000
Issued and fully paid:		
38,000,000 (2019: 38,000,000) ordinary shares of £1 each	**38,000**	38,000

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

15 Risk management

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;
- 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 we safeguard members and the financial strength of the Group throughout the credit cycle. To this end, the Board Risk Committee sets the level of risk appetite it is willing to take in pursuit of the Group's strategy, which is articulated as Board risk appetite statements and underlying principles.

The Company measures and manage risk profile and the performance of the portfolio on an ongoing basis, through a formal governance structure. Compliance with Board risk appetite is measured against absolute limits and risk metrics and is reported to the Group's Credit Committee monthly, with adverse trends being investigated and corrective action taken to mitigate the risk.

15 Risk management (continued)

Credit risk (continued)

The Company is committed to helping customers who may anticipate or find themselves experiencing a period of financial difficulty, offering a range of forbearance options tailored to their individual circumstances. Accounts in financial difficulty/arrears are managed by specialist teams to ensure an optimal outcome for customers and the Group.

Further details of the Group's approach to credit risk management 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.

Maximum exposure to credit risk 2020	**Gross balance**	**Impairment provisions**	**Carrying value**	**Commitments**	**Maximum credit risk exposure**	**% of total credit risk exposure**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	
Cash	**8,232**	**-**	**8,232**	**-**	**8,232**	**-**
Amounts due from parent undertaking	**3**	**-**	**3**	**-**	**3**	**-**
Loans and advances to customers	**35,140,298**	**(113,127)**	**35,027,171**	**1,536,675**	**36,563,846**	**100**
Total	**35,148,533**	**(113,127)**	**35,035,406**	**1,536,675**	**36,572,081**	**100**

Maximum exposure to credit risk 2019	Gross balance	Impairment provisions	Carrying value	Commitments	Maximum credit risk exposure	% of total credit risk exposure
	£'000	£'000	£'000	£'000	£'000	
Cash	2,102	-	2,102	-	2,102	-
Amounts due from parent undertaking	3	-	3	-	3	-
Loans and advances to customers	31,545,933	(83,384)	31,462,549	1,238,125	32,700,674	100
Total	31,548,038	(83,384)	31,464,654	1,238,125	32,702,779	100

Commitments

Irrevocable undrawn commitments to lend are within the scope of provision requirements. The commitments in the table above consist of separately identifiable irrevocable commitments for the pipeline of residential mortgages. These commitments are not recognised on the balance sheet, and the total associated provision of £17 thousand (2019: £8 thousand) is included within provisions for liabilities and charges.

15 Risk management (continued)

Credit risk (continued)

Lending and new business

The table below summarise the residential mortgage portfolios:

Residential mortgage gross balances	2020			2019
	£'000	%	£'000	%
Prime	**280,938**	**1**	337,232	1
Specialist				
Buy to let	**34,020,425**	**97**	30,265,756	96
Other (note i)	**838,935**	**2**	942,945	3
	34,859,360	**99**	31,208,701	99
Total residential mortgages	**35,140,298**	**100**	31,545,933	100

Note:
i. Other includes self-certified, near prime and sub-prime lending, all of which were discontinued in 2009.

All new business by borrower type for the year ended 31 March 2020 and 31 March 2019 was buy to let lending.

15 Risk management (continued)

Credit risk (continued)

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

2020	Stage 1	Stage 2 total	Stage 2 Up to date	Stage 2 1-30 DPD (note i)	Stage 2 >30 DPD (note i)	Stage 3	Covid-19 Additional Provision (note ii)	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Gross balances								
Prime	260,199	13,374	6,529	2,303	4,542	7,365	-	280,938
Specialist	27,908,236	6,680,892	6,345,827	182,891	152,174	270,232	-	34,859,360
Total	28,168,435	6,694,266	6,352,356	185,194	156,716	277,597	-	35,140,298
Provisions								
Prime	64	28	10	4	14	101	-	193
Specialist	9,172	65,177	50,007	4,894	10,276	10,880	27,705	112,934
Total	9,236	65,205	50,017	4,898	10,290	10,981	27,705	113,127
Provisions as a % of total balance	%	%	%	%	%	%	%	%
Prime	0.02	0.21	0.16	0.16	0.31	1.37	-	0.07
Specialist	0.03	0.98	0.79	2.68	6.75	4.03	-	0.32
Total	0.03	0.97	0.79	2.64	6.57	3.96	-	0.32

Residential mortgages product and staging analysis

2019	Stage 1	Stage 2 total	Stage 2 Up to date	Stage 2 1-30 DPD (note i)	Stage 2 >30 DPD (note i)	Stage 3	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Gross balances							
Prime	315,006	14,401	8,403	4,409	1,589	7,825	337,232
Specialist	25,556,512	5,395,195	5,103,292	179,289	112,614	256,994	31,208,701
Total	25,871,518	5,409,596	5,111,695	183,698	114,203	264,819	31,545,933
Provisions							
Prime	74	55	26	17	12	82	211
Specialist	9,908	61,151	50,059	4,543	6,549	12,114	83,173
Total	9,982	61,206	50,085	4,560	6,561	12,196	83,384
Provisions as a % of total balance	%	%	%	%	%	%	%
Prime	0.02	0.38	0.31	0.38	0.76	1.05	0.06
Specialist	0.04	1.13	0.98	2.53	5.82	4.71	0.27
Total	0.04	1.13	0.98	2.48	5.75	4.61	0.26

Notes:
i) Days past due (DPD), a measure of arrears status.
ii) In recognition of the financial impact that Covid-19 may have on borrowers, an additional £27,705 thousand of provision has been added to the impairment provisions This additional provision has not been allocated to underlying loans and therefore has not been attributed to stages. Further detail on the calculation of the additional provision is included in note 7.

Stage 3 loans in the residential mortgage portfolio equate to 0.8% (2019: 0.8%) of the total residential mortgage exposure. Of the total £277,597 thousand (2019: £264,819 thousand) stage 3 loans, £134,129 thousand (2019: £138,242 thousand) is in respect of balances which are more than 90 days past due, with the remainder being impaired due to other indicators of unlikeness to pay such as distressed restructures or the bankruptcy of the borrower.

15 Risk management (continued)

Credit risk (continued)

Staging analysis (continued)

Reason for residential mortgages being included in stage 2 (notes i and iii)

2020	Prime		Specialist		Total	
	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions
	£'000	£'000	£'000	£'000	£'000	£'000
Quantitative criteria:						
Payment status (greater than 30 DPD) (note ii)	4,542	14	152,174	10,276	156,716	10,290
Increase in PD since origination (less than 30 DPD)	8,768	14	2,503,949	15,966	2,512,717	15,980
Qualitative criteria:						
Forbearance (less than 30 DPD)	48	-	1,793	3	1,841	3
Interest only – significant risk of inability to refinance at maturity (less than 30 DPD)	-	-	4,019,506	38,916	4,019,506	38,916
Other qualitative criteria	16	-	3,470	16	3,486	16
Total stage 2 gross balances	**13,374**	**28**	**6,680,892**	**65,177**	**6,694,266**	**65,205**

Reason for residential mortgages being included in stage 2 (note i)

2019	Prime		Specialist		Total	
	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions
	£'000	£'000	£'000	£'000	£'000	£'000
Quantitative criteria:						
Payment status (greater than 30 DPD) (note ii)	1,589	12	112,614	6,549	114,203	6,561
Increase in PD since origination (less than 30 DPD)	12,160	42	1,980,346	13,652	1,992,506	13,694
Qualitative criteria:						
Forbearance (less than 30 DPD)	476	1	3,914	16	4,390	17
Interest only – significant risk of inability to refinance at maturity (less than 30 DPD)	-	-	3,293,182	40,879	3,293,182	40,879
Other qualitative criteria	176	-	5,139	55	5,315	55
Total stage 2 gross balances	14,401	55	5,395,195	61,151	5,409,596	61,206

Notes:

i. 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.

ii. This category includes all loans greater than 30 DPD, including those where the original reason for being classified as stage 2 was not due to arrears over 30 DPD.

iii. In recognition of the financial impact that Covid-19 may have on borrowers, an additional provision of £27,705 thousand has been added to the impairment provisions. This additional provision has not been allocated to underlying loans and therefore has not been attributed to stages. Further detail on the calculation of the additional provision is given in note 7.

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 PD under IFRS 9 at the reporting date.

Loan balance and provisions by PD (residential mortgages) (note i)

2020	Gross balances				Provisions				Provision coverage
PD range	**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%	25,379,494	4,628,183	8,276	30,015,953	6,817	33,624	37	40,478	0.13
0.15 to < 0.25%	1,866,140	800,232	1,460	2,667,832	1,048	5,459	7	6,514	0.24
0.25 to < 0.50%	459,125	286,614	236	745,975	420	2,339	1	2,760	0.37
0.50 to < 0.75%	147,094	161,251	47	308,392	130	1,228	-	1,358	0.44
0.75 to < 2.50%	249,200	307,032	754	556,986	472	4,725	9	5,206	0.93
2.50 to < 10.00%	67,130	234,262	1,648	303,040	327	6,153	12	6,492	2.14
10.00 to < 100%	252	276,692	61,332	338,276	22	11,677	1,080	12,779	3.78
100% (default)	-	-	203,844	203,844	-	-	9,835	9,835	4.82
Total	**28,168,435**	**6,694,266**	**277,597**	**35,140,298**	**9,236**	**65,205**	**10,981**	**85,422**	**0.24**

Loan balance and provisions by PD (residential mortgages)

2019	Gross balances				Provisions				Provision coverage
PD range	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%	23,088,032	3,755,766	8,146	26,851,944	8,025	35,139	85	43,249	0.16
0.15 to < 0.25%	1,726,666	559,744	1,051	2,287,461	746	5,369	11	6,126	0.27
0.25 to < 0.50%	500,422	256,252	232	756,906	381	2,536	2	2,919	0.39
0.50 to < 0.75%	188,703	129,296	956	318,955	177	1,147	13	1,337	0.42
0.75 to < 2.50%	294,887	264,941	1,408	561,236	464	3,823	18	4,305	0.77
2.50 to < 10.00%	72,808	200,879	4,630	278,317	189	4,443	59	4,691	1.69
10.00 to < 100%	-	242,718	49,607	292,325	-	8,749	1,363	10,112	3.46
100% (default)	-	-	198,789	198,789	-	-	10,645	10,645	5.35
Total	25,871,518	5,409,596	264,819	31,545,933	9,982	61,206	12,196	83,384	0.26

Note:
i. The £27,705 thousand additional Covid-19 provision has not been allocated to underlying loans or attributed to stages and is therefore excluded from this table. The additional provision increases the total provision coverage to 0.32%

Over the year, the PD distribution has remained stable, reflecting the high quality of the residential mortgage portfolios and benign economic conditions. At year end, 98% of the portfolio had a PD of less than 2.5% (2019: 98%). The provisions allocated to the lowest PD range primarily reflect the fact that the majority of loans are in this range.

15 Risk management (continued)

Credit risk (continued)

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.

LTV distribution of new business	2020 %	2019 %
0% to 60%	**27**	45
60% to 75%	**70**	53
75% to 80%	**3**	2
Total	**100**	100

Average LTV of new business (note i)	2020 %	2019 %
Specialist	**65**	60

Note:
i. The LTV of new business excludes further advances and product switches.

Average LTV of loan stock	2020 %	2019 %
Prime	**38**	39
Specialist	**59**	58
Company	**58**	58

15 Risk management (continued)

Credit risk (continued)

Geographical concentration by stage

The following table shows the 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 2020	Greater London £'000	Central England £'000	Northern England £'000	South East England £'000	South West England £'000	Scotland £'000	Wales & Northern Ireland £'000	Total £'000	%
Stage 1 and 2 loans									
Fully collateralised									
LTV ratio: Up to 50%	4,708,636	1,043,626	642,172	867,716	589,461	136,446	139,060	8,127,117	
50% to 60%	4,330,380	1,503,787	931,111	1,150,285	779,002	158,811	183,879	9,037,255	
60% to 70%	4,692,658	1,640,830	1,919,418	1,046,583	815,588	400,664	370,203	10,885,944	
70% to 80%	2,477,630	990,092	1,222,487	642,174	452,162	525,945	173,128	6,483,618	
80% to 90%	40,278	30,199	126,941	13,988	18,486	42,520	15,196	287,608	
90% to 100%	316	672	21,875	343	3,247	4,200	917	31,570	
	16,249,898	5,209,206	4,864,004	3,721,089	2,657,946	1,268,586	882,383	34,853,112	99
Not fully collateralised									
– Over 100% LTV	590	478	4,780	1,062	-	2,446	233	9,589	-
– Collateral value	*470*	*415*	*4,221*	*953*	-	*2,284*	*225*	*8,568*	
– Negative equity	*120*	*63*	*559*	*109*	-	*162*	*8*	*1,021*	
Total stage 1 and 2 loans	16,250,488	5,209,684	4,868,784	3,722,151	2,657,946	1,271,032	882,616	34,862,701	99
Stage 3 loans									
Fully collateralised									
LTV ratio: Up to 50%	40,916	9,485	4,631	10,929	7,186	2,380	1,301	76,828	
50% to 60%	28,210	9,594	9,765	7,559	9,285	1,817	1,900	68,130	
60% to 70%	12,119	12,088	14,395	7,569	8,972	3,638	1,585	60,366	
70% to 80%	4,391	11,436	12,904	2,673	3,273	6,868	3,952	45,497	
80% to 90%	801	2,718	6,906	742	281	2,187	2,936	16,571	
90% to 100%	-	194	4,395	-	115	901	553	6,158	
	86,437	45,515	52,996	29,472	29,112	17,791	12,227	273,550	1
Not fully collateralised									
– Over 100% LTV	435	269	2,427	522	-	101	293	4,047	-
– Collateral value	364	257	1,844	517	-	79	267	3,328	
– Negative equity	71	12	583	5	-	22	26	719	
Total stage 3 loans	86,872	45,784	55,423	29,994	29,112	17,892	12,520	277,597	1
Total residential mortgages	16,337,360	5,255,468	4,924,207	3,752,145	2,687,058	1,288,924	895,136	35,140,298	100
Total geographical concentrations	46%	15%	14%	11%	8%	4%	2%	100%	

15 Risk management (continued)

Credit risk (continued)

Geographical concentration by stage (continued)

Residential mortgage gross balances by LTV and region 2019	Greater London £'000	Central England £'000	Northern England £'000	South East England £'000	South West England £'000	Scotland £'000	Wales & Northern Ireland £'000	Total £'000	%
Stage 1 and 2 loans									
Fully collateralised									
LTV ratio:									
Up to 50%	4,456,126	949,026	549,330	810,891	564,087	126,788	111,000	7,567,248	
50% to 60%	4,120,568	1,399,700	763,189	1,108,264	763,890	151,570	133,597	8,440,778	
60% to 70%	4,061,722	1,618,556	1,824,618	943,745	768,303	371,379	296,301	9,884,624	
70% to 80%	1,578,764	734,022	1,243,746	394,350	283,344	466,540	254,883	4,955,649	
80% to 90%	28,860	28,575	213,352	10,023	17,849	43,615	34,208	376,482	
90% to 100%	316	2,843	29,292	1,129	2,444	5,354	5,656	47,034	
	14,246,356	4,732,722	4,623,527	3,268,402	2,399,917	1,165,246	835,645	31,271,815	99
Not fully collateralised									
– Over 100% LTV	594	293	4,450	1,312	-	1,824	826	9,299	-
– Collateral value	*465*	*270*	*3,866*	*1,158*	-	*1,698*	*795*	*8,252*	
– Negative equity	*129*	*23*	*584*	*154*	-	*126*	*31*	*1,047*	
Total stage 1 and 2 loans	14,246,950	4,733,015	4,627,977	3,269,714	2,399,917	1,167,070	836,471	31,281,114	99
Stage 3 residential mortgages									
Fully collateralised									
LTV ratio:	37,703	9,720	3,570	9,755	6,688	1,657	1,188	70,281	
Up to 50%									
50% to 60%	27,074	8,472	7,309	6,510	6,194	2,413	1,092	59,064	
60% to 70%	13,673	14,806	14,920	7,525	7,306	3,927	2,031	64,188	
70% to 80%	3,109	10,070	14,892	2,137	4,154	5,195	2,682	42,239	
80% to 90%	-	2,208	7,016	-	139	4,945	2,389	16,697	
90% to 100%	801	-	5,793	-	-	660	944	8,198	
	82,360	45,276	53,500	25,927	24,481	18,797	10,326	260,667	1
Not fully collateralised									
– Over 100% LTV	423	545	2,719	-	-	210	255	4,152	-
– Collateral value	*360*	*469*	*2,330*	-	-	*181*	*247*	*3,587*	
– Negative equity	*63*	*76*	*389*	-	-	*29*	*8*	*565*	
Total stage 3 loans	82,783	45,821	56,219	25,927	24,481	19,007	10,581	264,819	1
Total loans	14,329,733	4,778,836	4,684,196	3,295,641	2,424,398	1,186,077	847,052	31,545,933	100
Total geographical concentrations	45%	15%	15%	10%	8%	4%	3%	100%	

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 46% of the total (31 March 2019: 45%).

15 Risk management (continued)

Credit risk (continued)

Arrears and possessions

Number of cases more than 3 months in arrears as % of total book (note i)

	2020 %	2019 %
Prime	**1.09**	0.75
Specialist	**0.26**	0.31
Company	**0.27**	0.32

Note:
i. 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.

The reduction in the number of specialist cases more than 3 months in arrears as a percentage of the total book is principally due to a change in the treatment of deceased accounts, where a 12 month non-arrears bearing concession has been applied to allow time for the estate to redeem the account. If the full contractual payment is not received during the period of the concession the account is classed as forborne and is not considered to be past due.

Residential mortgages by payment status

The following table shows the payment status of residential mortgages:

Residential mortgages gross balances by payment status	31 March 2020				31 March 2019			
	Prime £'000	Specialist £'000	Total £'000	%	Prime £'000	Specialist £'000	Total £'000	%
Not past due	**268,300**	**34,343,728**	**34,612,028**	**98.5**	326,165	30,714,149	31,040,314	98.4
Past due 0 to 1 month	**4,201**	**221,327**	**225,528**	**0.6**	5,929	228,438	234,367	0.8
Past due 1 to 3 months	**4,546**	**161,316**	**165,862**	**0.5**	1,710	129,170	130,880	0.4
Past due 3 to 6 months	**1,628**	**56,150**	**57,778**	**0.2**	1,760	64,073	65,833	0.2
Past due 6 to 12 months	**1,490**	**41,556**	**43,046**	**0.1**	1,470	43,979	45,449	0.1
Past due over 12 months	**702**	**22,170**	**22,872**	**0.1**	198	17,004	17,202	0.1
Possessions	**71**	**13,113**	**13,184**	**-**	-	11,888	11,888	-
Total residential mortgages	**280,938**	**34,859,360**	**35,140,298**	**100.0**	337,232	31,208,701	31,545,933	100.0

The Company is providing support to customers who have been financially affected by Covid-19. Payment holidays granted in this respect will suppress the impact of the pandemic on arrears in the short term. Details of payment holidays are given below.

15 Risk management (continued)

Credit risk (continued)

Interest only mortgages

Interest only balances for prime residential mortgages relate primarily to historical balances which were originally advanced as interest only mortgages or where a change in terms to an interest only basis was agreed. 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 specialist 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**
2020	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**%**
Prime	2,773	5,898	8,322	32,778	129,478	179,249	64
Specialist	80,244	157,724	237,361	967,865	29,739,994	31,183,188	89
Total	83,017	163,622	245,683	1,000,643	29,869,472	31,362,437	89

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
2019	£'000	£'000	£'000	£'000	£'000	£'000	%
Prime	2,720	5,902	7,190	36,543	155,675	208,030	62
Specialist	71,647	118,394	208,703	956,447	26,452,923	27,808,114	89
Total	74,367	124,296	215,893	992,990	26,608,598	28,016,144	89

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.

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. 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)	**2020** **£'000**	2019 £'000
Past term interest only (note ii)	**62,422**	71,455
Interest only concessions	**13,226**	16,681
Capitalisation	**12,721**	14,667
Capitalisation – notification of death of borrower (note iii)	**56,948**	-
Term extensions (within term)	**6,042**	4,425
Permanent interest only conversions	**7,965**	8,280
Total forbearance (note iv)	**159,324**	115,508
Impairment provisions on forborne loans	**3,795**	2,980

Notes:
i. Where more than one concession event has occurred, balances are reported under the latest event.
ii. 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.
iii. When we are notified of the death of a borrower, we offer a 12-month capitalisation concession to allow time for the estate to redeem the account. The loan does not accrue arrears for the period of the concession although interest will continue to be added. Accounts subject to this concession will be classed as forborne if the full contractual payment is not received. This is a new type of forbearance offered during the year ended 31 March 2020.
iv. For loans subject to concession events, accounts are transferred back to stage 1 or 2 only after being up to date for a period of 12 months; £14,432 thousand (2019: £19,885 thousand) of the stage 3 balances in forbearance are in this cure period.

Support for borrowers impacted by Covid-19

The Company recognises that the impact of Covid-19 is a concern for borrowers and is offering help and support in these challenging times. One way in which the Company is providing this support is by offering three-month mortgage payment holidays. These are a temporary break from mortgage payments which gives borrowers a period of flexibility where they are experiencing or reasonably expect to experience payment difficulties caused by Covid-19. These payment holidays have no negative impact on the customer's credit file, and in accordance with regulatory guidance, have not been included within the forbearance population and do not automatically have an impact on the reported staging balances.

Total gross balances subject to a payment holiday due to Covid-19 were £4,421,673 thousand, representing 13% of the total and with a weighted average LTV of 62%. Further information is included in note 7.

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. 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 a stable and diverse funding base and sufficient holdings of high-quality liquid assets. This ensures 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.

15 Risk management (continued)

Liquidity and funding risk (continued)

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)**	**Due between one and three months**	**Due between three and twelve months**	**Due between one and five years**	**Due after more than five years**	**Total**
2020	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Financial assets						
Cash	**8,232**	**-**	**-**	**-**	**-**	**8,232**
Deposit with parent	**3**	**-**	**-**	**-**	**-**	**3**
Loans and advances to customers	**87,148**	**15,434**	**149,325**	**1,327,829**	**33,447,435**	**35,027,171**
Total financial assets	**95,383**	**15,434**	**149,325**	**1,327,829**	**33,447,435**	**35,035,406**
Financial liabilities						
Amounts owed to parent undertaking	**98,540**	**156,603**	**1,195,455**	**31,712,225**	**-**	**33,162,823**
Total financial liabilities	**98,540**	**156,603**	**1,195,455**	**31,712,225**	**-**	**33,162,823**
Off-balance sheet commitments (note ii)	**1,536,675**	**-**	**-**	**-**	**-**	**1,536,675**
Net liquidity difference	**(1,539,832)**	**(141,169)**	**(1,046,130)**	**(30,384,396)**	**33,447,435**	**335,908**

Residual maturity	Due less than one month (note i)	Due between one and three months	Due between three and twelve months	Due between one and five years	Due after more than five years	Total
2019	£'000	£'000	£'000	£'000	£'000	£'000
Financial assets						
Cash	2,102	-	-	-	-	2,102
Amounts due from parent undertaking	3	-	-	-	-	3
Loans and advances to customers	91,711	20,194	101,624	1,309,656	29,939,364	31,462,549
Total financial assets	93,816	20,194	101,624	1,309,656	29,939,364	31,464,654
Financial liabilities						
Amounts owed to parent undertaking	16,366	16,629	270,831	29,486,993	-	29,790,819
Total financial liabilities	16,366	16,629	270,831	29,486,993	-	29,790,819
Off-balance sheet commitments (note ii)	1,238,125	-	-	-	-	1,238,125
Net liquidity difference	(1,160,675)	3,565	(169,207)	(28,177,337)	29,939,364	435,710

Notes:
i. Due less than one month includes amounts repayable on demand.
ii. Off-balance sheet commitments include amounts payable on demand for unrecognised loan commitments.

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.

15 Risk management and control (continued)

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, 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 2020	**Due less than one month** £'000	**Due between one and three months** £'000	**Due between three and twelve months** £'000	**Due between one and five years** £'000	**Total** £'000
Amounts due to parent undertaking	**156,204**	**273,332**	**1,707,718**	**33,553,966**	**35,691,220**
Gross contractual cash flows	**156,204**	**273,332**	**1,707,718**	**33,553,966**	**35,691,220**
Off-balance sheet commitments (note ii)	**1,536,675**	**-**	**-**	**-**	**1,536,675**

Gross contractual cash flows 2019	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
Amounts due to parent undertaking	71,259	128,153	771,332	31,463,869	32,434,613
Gross contractual cash flows	71,259	128,153	771,332	31,463,869	32,434,613
Off-balance sheet commitments (note ii)	1,238,125	-	-	-	1,238,125

Notes:
i. Due less than one month includes amounts repayable on demand.
ii. Off-balance sheet commitments include amounts payable on demand for unrecognised loan commitments.

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.

16 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	Fair value based on Level 1	Fair value based on Level 3	Total fair value
2020	**£'000**	**£'000**	**£'000**	**£'000**
Financial assets				
Loans and advances to customers	**35,027,171**	**-**	**35,502,199**	**35,502,199**
Financial liabilities				
Amounts owed to parent undertaking	**33,162,823**	**-**	**33,162,823**	**33,162,823**

	Carrying value	Fair value based on Level 1	Fair value based on Level 3	Total fair value
2019	£'000	£'000	£'000	£'000
Financial assets				
Loans and advances to customers	31,462,549	-	31,527,228	31,527,228
Financial liabilities				
Amounts owed to parent undertaking	29,790,819	-	29,790,819	29,790,819

Note:
i. The table above excludes cash and amounts due from parent undertaking for which fair value approximates to carrying value.

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 parent undertaking approximates carrying value as the loan is short term and the rate payable resets annually based on current market conditions.

17 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.

18 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 The Mortgage Works (UK) plc 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**

16 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.

17 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 UCB Home Loans Corporation 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**