NRAM Limited
(formerly NRAM (No.1) Limited)

Annual Report & Accounts

for the 12 months to 31 March 2017

Contents

The Directors present their Annual Report & Accounts for the year to 31 March 2017. NRAM Limited ('the Company') is a limited company which was incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The Company and its subsidiary undertakings comprise the NRAM Limited Group.

Overview

The NRAM Limited Group and Company primarily operates as an asset manager holding mortgage loans secured on residential properties and other financial assets. No new lending is carried out.

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

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

On 5 May 2016, UKAR sold NRAM plc to affiliates of Cerberus Capital Management LP ('Cerberus'). Prior to the sale, on 30 April 2016, assets and liabilities not included in the transaction were transferred from NRAM plc to a newly established subsidiary of UKAR, known as NRAM (No.1) Limited. On 18 July 2016, NRAM (No.1) Limited changed its name to NRAM Limited. Throughout the Annual Report & Accounts 'NRAM' refers to the underlying business and 'The Group' to the group headed by NRAM plc or NRAM Limited as appropriate.

Following the completion of legal and capital restructuring on 1 January 2010, NRAM no longer operates as a deposit taking institution under the supervision of the Financial Conduct Authority ('FCA'). It is now regulated by the FCA as a mortgage administration company and the Directors believe it has appropriate and adequate levels of capital to support these activities.

B&B is responsible for the servicing of NRAM mortgages, with costs recharged to NRAM. On 6 June 2016 B&B commenced a seven year contract with Computershare, which owns the UK's largest third-party mortgage administration business, for the outsourcing of mortgage servicing operations. As part of this process, c.1,700 colleagues transferred to Computershare.

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

Our mission to maximise value for the taxpayer is supported by four strategic objectives all of which are underpinned by the need to treat all our stakeholders fairly. In 2017 the four objectives were reviewed and updated to reflect UKAR's progress in simplifying the Balance Sheet and the role of the business following the outsourcing of the mortgage servicing operations:

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

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

Highlights of 2016/17

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

- Successfully completed the final stage of the sale of c.£13bn assets to affiliates of Cerberus. The structure of the transaction meant that UKAR sold NRAM plc to Cerberus on 5 May 2016, which yielded a profit of £51.0m.
- Balance Sheet reduced by a further £2.9bn bringing the total reduction to £60.1bn (86%) since formation of UKAR in 2010.
- Reflecting the 54% reduction in the year's average Balance Sheet size, underlying profit before tax reduced by 46% to £331.4m.
- Statutory profit before tax of £373.9m includes the £51.0m profit on the sale of NRAM plc.
- Government loan repayments of £2.9bn, bringing total repayments to £17.1bn since UKAR was formed.
- Successfully outsourced the servicing of our customer loans to Computershare.
- Mortgage accounts three or more months in arrears, including possessions, have reduced by 29% since March 2016 to 2,532.

Key performance indicators ('KPIs')

During the year we have made significant progress against all our key objectives and overall mission of achieving value for the taxpayer. Internally, NRAM measures its financial performance against four key performance indicators. The below table shows progress versus these KPIs as well as supporting financial measures.

	March 2017	March 2016
Underlying Profit Before Tax	**£331.4m**	**£618.9m**
- Statutory Profit Before Tax[1]	£373.9m	£843.0m
- Net Interest Margin on Average Interest Earning Assets	3.06	2.68
[1] *An analysis of the difference between statutory and underlying profit is provided on page 5.*		
Government Loan Repayments	**£2.9bn**	**£6.2bn**
- Government Loan Balance	£4.6bn	£7.5bn
- Total Lending Balances	£8.6bn	£10.6bn
3m+ Residential Arrears	**2,532**	**3,574**
- Residential Arrears Balance as a percentage of the Total Residential Mortgage Balance	0.31	0.33
- Residential Payments Overdue	£25.3m	£33.4m
- Residential Arrears 3 months and over and possessions as a percentage of the book:		
- By value	5.00	5.49
- By number of accounts	3.78	4.06
Ongoing Administrative Expenses	**£38.3m**	**£77.6m**
- Ratio of costs to average interest earning assets:		
- Statutory	0.36	0.34
- Ongoing	0.36	0.34

Business review

These financial results are for the year to 31 March 2017.

Performance

The Board continue to believe it is appropriate to assess performance based on the underlying profits of the business, which excludes the remediation of inherited regulatory defects and any associated insurance claims and certain gains or losses such as the sale of assets or repurchase of liabilities at a discount or premium. Whilst these gains or losses permanently impact capital reserves, the Board does not believe that they reflect the performance of the underlying business. Also excluded are movements in fair value and hedge ineffectiveness relating to financial instruments. These movements will have no material impact over the life of the associated financial instruments. The commentary on the results in this statement uses underlying profits and its components as the primary measure of performance. An analysis of the difference between the statutory profit and the underlying profit of NRAM is provided below.

Underlying profit for the year to March 2017 has decreased by £287.5m to £331.4m (March 2016: £618.9m). The 47% reduction in underlying profit principally reflects reduced net interest income due to the 54% reduction in the year's average Balance Sheet size.

For the year to March 2017 underlying net operating income has decreased by £311.9m to £318.6m (March 2016: £630.5m) due to lower income from the reducing Balance Sheet, partly offset by lower funding costs. For the year to March 2017 ongoing administrative expenses were £39.3m lower than the previous year at £38.3m (March 2016: £77.6m). Impairment on loans to customers for the year to March 2017 was a credit of £49.7m, a reduction of £11.2m from the prior year (March 2016: £60.9m credit). Net impairment on investment securities was a £1.4m credit for the year (March 2016: £5.1m credit). The number of mortgage accounts 3 or more months in arrears including possessions reduced by 29% compared to March 2016.

For the year to March 2017 statutory profit before tax of £373.9m (March 2016: £843.0m) includes a £51.0m gain on the sale of loans and business and £50.0m received from an insurance claim, partly offset by an additional £60.1m provision for customer redress.

Reconciliation of underlying profit before taxation to statutory profit before taxation

For the year ended 31 March	2017 £m	2016 £m
Net interest income	**321.5**	619.4
Underlying net non-interest income[1]	**(2.9)**	11.1
Underlying net operating income	**318.6**	630.5
Ongoing administrative expenses	**(38.3)**	(77.6)
Impairment on loans to customers credit	**49.7**	60.9
Net impairment release on investment securities	**1.4**	5.1
Underlying profit before taxation	**331.4**	618.9
Unrealised fair value movements on financial instruments	**1.6**	0.2
Hedge ineffectiveness	**-**	(21.9)
Provision for customer redress	**(60.1)**	198.8
Insurance claim	**50.0**	-
Profit on sale of loans	**51.0**	62.8
Loss on repurchase of own liabilities	**-**	(15.8)
Statutory profit before taxation	**373.9**	843.0

[1] *Underlying net non-interest income includes net fee and commission income, net gains on financial instruments designated at fair value, net realised gains less losses on investment securities and other operating income.*

Business review (continued)

Performance (continued)

Net interest income

Net interest income for the year to March 2017 was £321.5m (March 2016: £619.4m). The reduction in income is primarily due to the decrease in average interest-earning assets, driven by the sale of assets and customer redemptions.

Net interest margin increased to 3.06% from 2.68% driven by an increase in the proportion of interest-free funding due to the repayment of interest bearing funding following asset sales.

Underlying net non-interest income

Underlying net non-interest income was a £2.9m charge for the year to March 2017 (March 2016: £11.1m credit). Due to the reduction in the size of the Balance Sheet, the £12.0m fixed fee paid to HM Treasury for guaranteeing NRAM's liabilities now exceeds fee and commission income received. The prior year benefited from £6.3m of servicing fee income following the sale of loans to Cerberus compared to £0.9m in 2016/17.

Provision for customer redress

UKAR defines conduct risk as the risk of UKAR treating its customers unfairly and delivering inappropriate outcomes leading to customer detriment or impacting market integrity. Since the creation of UKAR we have been remediating a series of conduct issues inherited from the legacy businesses, including the mis-selling of Payment Protection Insurance ('PPI') by Northern Rock and the issue of non-compliant Consumer Credit Act ('CCA') loan documentation to certain customers.

UKAR remain committed to doing the right thing for our customers and where we identify issues that have caused customer detriment, we will ensure that they are fully remediated.

An additional provision of £46.7m has been recognised following the publication of the FCA's Policy Statement PS17/3 'Payment protection insurance complaints: feedback on CP16/10 and final rules and guidance', which sets a deadline date for complaints at 29 August 2019 and confirms the approach in relation to Supreme Court judgement in Plevin v Paragon Personal Finance Limited ('Plevin'). The rules and guidance include an FCA-led communications campaign to raise awareness of the deadline and the requirement to proactively contact previously rejected mis-selling complainants who are eligible to complain again in the light of Plevin. Reflecting heightened awareness of a potential PPI deadline, actual claims volumes received during the year have been higher than previously modelled, which combined with the final proposals is expected to lead to higher claims volumes throughout the period to 29 August 2019 than previously assumed.

In addition, a charge of £13.4m was made for other smaller legacy remediation issues.

Unrealised fair value movements on financial instruments

Unrealised fair value movements were a £1.6m gain in the year (March 2016: £0.2m gain). These generally relate to derivatives that act as an economic hedge but were not treated as an accounting hedge under IAS 39.

Ongoing administrative expenses

Ongoing administrative expenses for the year to March 2017 were £38.3m (March 2016: £77.6m). The ratio of costs to average interest-earning assets was 0.36% (March 2016: 0.34%). Ongoing costs have reduced reflecting the sale of assets to Cerberus in 2015/16 giving NRAM a lower proportion of the UKAR cost base. The ratio of ongoing costs to average interest-earning assets has increased due to the greater proportion of fixed costs as the Balance Sheet reduces.

Arrears and loan impairment

Strong arrears performance continues. NRAM has seen arrears fall as a direct consequence of the sale of assets and proactive arrears management coupled with the continued low interest rate environment. Residential loan impairment for the year was a £35.0m credit (March 2016: £56.7m credit). This was £21.7m lower than the prior year, reflecting slower house price growth and the smaller size of the mortgage book. Write-offs in the year totalled £29.0m (March 2016: £51.5m).

The residential loan impairment provision has reduced by £56.1m since March 2016 to £158.8m (March 2016: £214.9m) reflecting realised losses, the reduction in arrears cases, the benefit of improving house prices and the sale of assets. As a proportion of balances, the residential impairment provision was 1.91% (March 2016: 2.09%).

The number of cases three months or more in arrears, including those in possession, fell by 29% to close the year at 2,532 cases (March 2016: 3,574 cases) due to proactive arrears management coupled with the continued low interest rate environment and the sale of assets.

The number of properties in possession reduced from 180 cases at March 2016 to 165 at March 2017.

Business review (continued)

Performance (continued)

Arrears and loan impairment (continued)

The number of unsecured loans 3 months or more in arrears was 3,281 cases (March 2016: 4,307). The credit for unsecured loan impairment for the year was £13.9m, £15.4m favourable compared to the prior year (March 2016: £1.5m charge). Asset coverage was 19.06% at 31 March 2017 (March 2016: 19.72%).

The provision for unsecured loans was £74.9m at 31 March 2017 (March 2016: £96.2m). The reduction reflects realised losses and the reduction in arrears cases. Write-offs in the year were £6.3m (March 2016: £16.5m) all of which had previously been fully provided for.

Net impairment release on investment assets

The Group continues to review securities held on our Balance Sheet and believes the risk of further impairment is not significant. During the financial year a number of impaired assets have redeemed (in full or in part) causing the reversal of impairments previously charged. These have resulted in a net credit to impairment of £1.4m (March 2016: £5.1m).

Profit on sale of loans to customers

The 2016/17 accounts include a profit of £51.0m from the sale of NRAM plc to Cerberus on 5 May 2016 as part of the structure of the transaction to sell c.£13bn of NRAM loans. Combined with the profit recognised in 2015/16 the total accounting profit on the transaction was £110.4m. The National Audit Office report into the sale concluded that the complex transaction was carried out professionally, within a tight timeframe and achieved value for money for the taxpayer.

Taxation

The overall tax charge for the year is £68.4m (March 2016: £173.5m), giving an effective tax rate of 18.3% (March 2016: 20.6%). The effective tax rate of 18.3% is lower than the standard weighted average rate of UK corporation tax of 20.0% due to items which are expected to be non-taxable.

Balance Sheet

The Balance Sheet has decreased by £2.9bn since March 2016 primarily as a result of a £2.0bn reduction in lending balances to £8.6bn (March 2016 £10.6bn). The reduction in lending balances included £1.3bn of residential redemptions, £0.5bn loans sold as part of sale of NRAM plc to Cerberus and £0.2bn of other regular repayments.

Liabilities

HM Treasury loans (excluding accrued interest) have reduced by £2.9bn to £4.6bn (March 2016: £7.5bn) due to repayments of principal in the year. In addition, other external wholesale funding reduced by £0.1bn in the year to £0.2bn (2015/16: £0.3bn).

Capital

The Company operates under a MIPRU regulatory status. FCA rules require the Company to hold capital in excess of 1% of the Company's total Balance Sheet assets plus any undrawn commitments. The Board believes it appropriate to hold a higher level of capital reflecting the increased risk in the business compared to a standard MIPRU firm, however, the significant decrease in the size of the Company's Balance Sheet and our unique circumstances means that NRAM Limited holds significantly more capital than is required. As at 31 March 2017 the Company's total capital resources of £4,467.0m represented 45.8% of the Company's assets.

The Company's capital is provided by its shareholder. NRAM met its capital requirements in full throughout the year and has received no additional capital from HM Treasury.

Principal risks and uncertainties

Introduction

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

Risk categorisation

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

(i) Credit risk

Credit risk is the potential for financial loss caused by a retail or commercial customer, or wholesale counterparty, failing to meet their obligations to the Group as they become due. As the Group is no longer making any new retail loans, the absolute level of retail credit risk is expected to decline as the current assets mature and wholesale credit risk will decline in line with the maturity profile of financial instruments and investments. Credit risk is the largest risk the Group faces and the monitoring of the recoverability of loans and amounts due from counterparties is inherent across most of the Group's activities.

The Group employs credit behavioural scoring and fraud detection techniques through their outsourcing partners to support loss minimising strategies. As no new lending is now being undertaken, the focus of credit risk activities is on:

- a proactive approach to the identification and control of loan impairment in the residential and commercial credit risk and credit control areas;
- fraud and professional negligence investigation; and
- the use of credit behavioural scoring and other techniques to monitor the risk profile of the existing book.

Adverse changes in the credit quality of borrowers or a general deterioration in UK economic conditions could affect the recoverability and value of the Group's assets and therefore the financial performance of the Group.

As credit risk is the main source of risk for the Group, a Credit Risk Framework has been established as part of the overall governance framework to measure, mitigate and manage credit risk within risk appetite. To a lesser degree, the Group is exposed to other forms of credit risk such as those arising from settlement activities where the risk is a consequence of a transaction, rather than a driver of it.

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

	Balance Sheet value	Provision	Balance Sheet value	Provision
	2017	2017	2016	2016
At 31 March	£m	£m	£m	£m
Loans secured on residential property	**8,157**	**159**	10,066	215
Other secured loans	**79**	**12**	115	9
Unsecured loans	**318**	**75**	392	96
Wholesale assets	**961**	**154**	1,781	227

The Group's ability to influence the structure of their credit risk profiles, in the absence of asset sales, is largely restricted to the degree of control which they have over risk strategy, loan redemptions and credit collections activity. With the composition of the loan portfolio largely fixed in the short to medium term, the Group's credit risk profiles are now determined by the credit quality of the existing portfolio. Changes in credit quality will arise from changes in the underlying economic environment, assumptions about the future trends in the economy, changes in the specific characteristics of individual loans and the credit risk strategies developed to maintain and enhance the book whilst mitigating credit risk.

It is Group policy to monitor the profile of the Group's lending exposure quarterly. Changes in the risk profile are reported as part of the Group's stress tests. The stress tests forecast losses, impairment and capital requirements at a portfolio and product level over a 10 year horizon given a range of economic scenarios.

The Board receives a monthly update on changes in the key drivers of the lending credit risk profile, with more detailed information on the factors underlying these key drivers being reported monthly to the Executive Risk Committee ('ERC').

Principal risks and uncertainties (continued)

Risk categorisation (continued)

(i) Credit risk (continued)

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

Authorised credit risk limits for wholesale counterparties reflect their credit rating as well as size, depth and quality of their capital base. Wholesale credit related policies and limits are developed and maintained by our Treasury department and overseen by the Risk Function and are approved by the Board at least annually, or when material changes to policies are recommended.

The Group holds a structured finance portfolio that primarily consists of investments in Asset Backed Securities ('ABS'). The credit risk is determined by the quality of the underlying securitised assets. Credit risk continues to fall as the quality of underlying assets improves and the size of the portfolio reduces.

(ii) Market risk

Market risk is the potential for change in Group income or Group net worth arising from movements in interest rates, foreign exchange rates or other market prices. Effective identification and management of market risk is essential for maintaining stable net interest income. The Group does not trade or make markets in any areas and market risk only arises either as a legacy of past business or from supporting core activities. Interest rate risk is principally managed via interest rate swaps and foreign exchange risk by foreign exchange contracts.

The Board's appetite for market risk is set out in the Board approved Treasury Risk Policy. Responsibility for staying within risk appetite is delegated to the Treasurer, a member of the UKAR Executive Committee ('ExCo') and exposures are reported daily by Finance to senior management and monthly by the Treasurer to ERC. ERC is responsible for ensuring that the Treasurer implements market risk strategies consistent with the Board's risk appetite.

(iii) Liquidity risk

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

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

Sterling liquidity is held as cash balances at the Bank of England. Euro and US dollar cash balances are placed with a range of banks and money market funds.

(iv) Conduct risk

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

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

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

Principal risks and uncertainties (continued)

Risk categorisation (continued)

(v) Regulatory risk

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

(vi) Operational risk

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

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

(vii) Outsourcing risk

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

The Group adopts a proportional and risk based approach to the oversight of third party service providers based on the nature, scale and complexity of the outsource and deploys a range of policy, governance, reporting, monitoring and assurance activities.

(viii) Strategic risk

Strategic risk is managed at a UKAR Group level and is defined as the current or prospective risk to earnings and/or fair value, given the B&B Group and the NRAM Group Balance Sheet structure, arising from changes in the business environment and from adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment.

The UKAR Group considers the primary strategic risks to be macroeconomic environment, market pressures, structural asset/liability mix, political, regulatory and legal risk, infrastructure risk (including managing a mortgage book in wind down) and project risk.

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

Ian Hares
Chief Executive Officer, on behalf of the board
3 July 2017

Other matters

Financial risk management objectives and policies

Information regarding the financial risk management objectives and policies of the Group in relation to the use of financial instruments is given in note 36. A description of the principal risks to which the Group and Company are exposed is provided on pages 8 to 10 which form an integral part of the audited consolidated Financial Statements.

Group structure

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

UKAR itself is 100% owned by the UK government which exercises control through UK Financial Investments Limited ('UKFI') which was set up on 3 November 2008 to manage the government's investments in Royal Bank of Scotland, Lloyds Banking Group, Northern Rock and Bradford & Bingley.

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

On 5 May 2016, UKAR sold NRAM plc to affiliates of Cerberus. Prior to the sale, on 30 April 2016, assets and liabilities not included in the transaction transferred from NRAM plc to a newly established subsidiary of UKAR, known as NRAM (No.1) Limited. On 18 July 2016, NRAM (No.1) Limited changed its name to NRAM Limited.

Corporate Governance

During 2016/17 NRAM was governed and controlled by UKAR as its sole shareholder. Please refer to the UKAR Group Annual Report & Accounts for a summary of the governance regime applicable to NRAM throughout 2016/17.

Directors and Company Secretary

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

Chairman	
John Tattersall	Director for whole of 2016/17. Appointed as Chairman on 6 June 2016.
Richard Pym	Resigned as Chairman on 5 June 2016 and as a Director on 25 July 2016.
CEO	
Ian Hares	Director for whole of 2016/17. Appointed as CEO on 6 June 2016.
Richard Banks	Resigned as CEO and as a Director on 5 June 2016.
Senior Independent Director	
Sue Langley	Director for whole of 2016/17. Appointed Senior Independent Director on 6 June 2016.
Kent Atkinson	Resigned as a Director on 5 June 2016.
Independent Non-Executive Directors	
Michael Buckley	Director for whole of 2016/17.
Brendan McDonagh	Appointed as a Director on 6 June 2016.
Brendan Russell	Appointed as a Director after the year end on 27 June 2017.
UKFI Nominated Non-Executive Directors	
Keith Morgan	Director for whole of 2016/17
David Lunn	Resigned as a Director on 28 February 2017.
Peter Norton	Appointed as a Director after the year end on 6 April 2017.
Company Secretary	
John Gornall	Company Secretary for the whole of 2016/17.

Resignations

Richard Pym stepped down as Chairman on 5 June 2016 and resigned from the Board with effect from 26 July 2016. Kent Atkinson, the Senior Independent Director, resigned from the Board with effect from 5 June 2016. Richard Banks resigned from the Board with effect from 5 June 2016. David Lunn, one of the UKFI nominated directors, resigned from the Board with effect from 28 February 2017 to take up a role within HM Treasury.

In addition, Michael Buckley stepped down from the board on 27 June 2017.

Other matters (continued)

New appointments

Brendan McDonagh joined the Board on 4 April 2016. John Tattersall replaced Richard Pym as Chairman and Sue Langley replaced Kent Atkinson as Senior Independent Director with effect from 6 June 2016.

Peter Norton joined the Board on 6 April 2017 as a UKFI nominated director, replacing David Lunn. Brendan Russell joined the Board on 27 June 2017.

Directors' interests

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

Directors' remuneration

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

Directors' conflicts of interest

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

Directors' indemnities

UKAR has provided each Director with a Deed of Indemnity, which constituted 'qualifying third party indemnity provision' in accordance with the provisions of the Companies Act 2006. The Deeds were in force during the whole of the financial year ended 31 March 2017 and remain in force as at the date of approval of the Directors' Report.

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

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

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Audited consolidated Financial Statements in accordance with applicable law and regulations. Company law requires the Directors to prepare Financial Statements for each financial period. Under that law the Directors have prepared the NRAM Limited Group and Parent Company Financial Statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union. 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 NRAM Limited Group and the Company and of the profit or loss of the NRAM Limited Group for that period. In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRS as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company 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 the Group and enable them to ensure that the Financial Statements comply with the Companies Act 2006 and, as regards the NRAM Limited Group Financial Statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Other matters (continued)

Statement of Directors' responsibilities (continued)

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

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

Going concern

The Directors have assessed, taking into consideration the principal risks set out on page 8 to 10, potential future strategic options and the current and anticipated economic conditions, the Company's and the Group's ability to continue as a going concern. On the basis of current financial projections, the Directors have a reasonable expectation that the Company and Group has adequate resources to continue in operational existence for the foreseeable future and therefore believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook. Accordingly, they continue to adopt the going concern basis in preparing the Financial Statements.

As set out in note 1 to the Financial Statements, HM Treasury has provided confirmation to the Directors that it is HM Treasury's intention to fund the Company so as to maintain it as a going concern and has provided various on-demand facilities to the Company, to enable it to meet its debts as and when they fall due, for a period up to at least 1 January 2019. Accordingly, the Directors of the Company and the Group are satisfied at the time of approval of these Financial Statements that the NRAM Limited Company and Group have adequate resources to continue in business for the foreseeable future and for this reason they continue to adopt the going concern basis in preparing the Financial Statements.

Employees

The Non-Executive Directors have service contracts with UKAR. All Executive Directors and colleagues were employed by B&B (the legal employer) during 2016/17.

Dividends

No dividends were paid during the year to March 2017 (March 2016: nil).

Auditors and disclosure of information to auditors

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

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

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

A resolution to reappoint the National Audit Office as the NRAM Limited Group's auditors will be put to the Shareholder at the forthcoming Annual General Meeting.

Ian Hares
Chief Executive Officer, on behalf of the board

3 July 2017

Independent Auditor's report to the Members of NRAM Limited

I have audited the Financial Statements of NRAM Limited for the year ended 31 March 2017 which comprise:

- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Group and Company Balance Sheets;
- the Consolidated Statement of Changes in Equity;
- the Company Statement of Changes in Equity;
- the Group and Company Cash Flow Statements; and
- the related notes.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union and as regards the Parent Company Financial Statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of the Directors and the auditor

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the Financial Statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited Financial Statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on Financial Statements

In my opinion:

- the Financial Statements give a true and fair view of the state of affairs of the Group and the Parent Company as at 31 March 2017 and of the Group profit for the year then ended; and
- the Financial Statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- the Financial Statements have been prepared in accordance with the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In my opinion:

- 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 these reports have been prepared in accordance with the applicable legal requirements; and
- in light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, I have not identified any material misstatements in the Strategic Report or the Directors' Report.

Independent Auditor's report to the Members of NRAM Limited (continued)

Matters on which I report by exception

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

- adequate accounting records have not been kept by the Parent Company, or returns adequate for my audit have not been received from branches not visited by my staff; or
- the Financial Statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- I have not received all of the information and explanations I require for my audit.

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

3 July 2017

The Accounts

Notes to the Financial Statements

CONSOLIDATED INCOME STATEMENT

	Note	**12 months to 31 Mar 2017 £m**	12 months to 31 Mar 2016 £m
Interest receivable and similar income	4	**412.0**	886.8
Interest expense and similar charges	4	**(90.5)**	(267.4)
Net interest income	4	**321.5**	619.4
Fee and commission income		**3.6**	8.3
Fee and commission expense		**(12.0)**	(12.0)
Net fee and commission income		**(8.4)**	(3.7)
Net realised gains less losses on investment securities	5	**4.3**	7.8
Unrealised fair value movements on financial instruments	6	**1.6**	0.2
Hedge ineffectiveness	6	**-**	(21.9)
Other operating income		**1.2**	7.0
Non-interest income		**(1.3)**	(10.6)
Total income		**320.2**	608.8
Administrative expenses	7	**(38.3)**	(77.6)
Provision for customer redress	27	**(60.1)**	198.8
Insurance claim	8	**50.0**	-
Impairment on loans to customers	15	**49.7**	60.9
Net impairment release on investment securities	12	**1.4**	5.1
Profit on sale of loans	14	**51.0**	62.8
Loss on repurchase of own liabilities	9	**-**	(15.8)
Profit before taxation		**373.9**	843.0
Taxation	10	**(68.4)**	(173.5)
Profit for the financial year		**305.5**	669.5

The notes on pages 23 to 71 form an integral part of these Financial Statements.

The Company's profit after tax for the financial year was £300.7m (2016: £nil). As permitted by Section 408 of the Companies Act 2006, the Company's individual Income Statement, Statement of Comprehensive Income and related notes have not been presented in these Financial Statements.

The results above arise from continuing activities.

As detailed in note 2, the above financial information has been presented under predecessor accounting principles.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the 12 months to 31 March 2017

	Gross of tax £m	Tax £m	Net of tax £m
Profit for the financial year	**373.9**	**(68.4)**	**305.5**
Other comprehensive income/(expense)			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale instruments:			
- amounts transferred from available-for-sale reserve and recognised in profit during the year	**19.8**	**(4.0)**	**15.8**
	19.8	**(4.0)**	**15.8**
Items that will not be reclassified subsequently to profit or loss:			
- retirement benefit remeasurements	**(48.1)**	**11.6**	**(36.5)**
	(48.1)	**11.6**	**(36.5)**
Total other comprehensive (expense)/income	**(28.3)**	**7.6**	**(20.7)**
Total comprehensive income for the financial year	**345.6**	**(60.8)**	**284.8**

For the 12 months to 31 March 2016

	Gross of tax £m	Tax £m	Net of tax £m
Profit for the financial year	**843.0**	**(173.5)**	**669.5**
Other comprehensive income/(expense)			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale instruments:			
- net gains recognised in available-for-sale reserve during the year	**29.3**	**(14.6)**	**14.7**
- amounts transferred from available-for-sale reserve and recognised in profit during the year	**(11.8)**	**5.9**	**(5.9)**
Cash flow hedges:			
- net losses recognised in cash flow hedge reserve during the year	**(1,301.3)**	**271.8**	**(1,029.5)**
- amounts transferred from cash flow hedge reserve and recognised in profit during the year	**1,069.1**	**(223.3)**	**845.8**
	(214.7)	**39.8**	**(174.9)**
Items that will not be reclassified subsequently to profit or loss:			
- retirement benefit remeasurements	**56.9**	**(11.4)**	**45.5**
	56.9	**(11.4)**	**45.5**
Total other comprehensive (expense)/income	**(157.8)**	**28.4**	**(129.4)**
Total comprehensive income for the financial year	**685.2**	**(145.1)**	**540.1**

As detailed in note 2, the above financial information has been presented under predecessor accounting principles.

BALANCE SHEETS

	Note	Group 31 March 2017 £m	Group 31 March 2016 £m	Company 31 March 2017 £m	Company 31 March 2016 £m
Assets					
Cash at bank and in hand	11	**700.5**	1,445.4	**700.5**	-
Investment securities	12	**260.0**	335.5	**260.0**	-
Loans to customers	14	**8,553.6**	10,572.7	**8,553.6**	-
Derivative financial instruments	34(e)	**1.8**	11.5	**1.8**	-
Other assets	19	**19.4**	20.5	**19.3**	-
Retirement benefit assets	20	**222.1**	229.4	**222.1**	-
Total assets		**9,757.4**	12,615.0	**9,757.3**	-
Liabilities					
Amounts due to banks	23	**-**	0.6	-	-
HM Treasury loans	24	**4,594.2**	7,465.6	**4,594.2**	-
Derivative financial instruments	34(e)	**2.5**	11.7	**2.5**	-
Debt securities in issue	25	**204.2**	250.1	**204.2**	-
Other liabilities	26	**46.3**	201.5	**46.5**	-
Current tax liabilities		**50.4**	96.4	**50.4**	-
Deferred tax liabilities	18	**38.0**	43.6	**38.0**	-
Provisions	27	**132.4**	136.8	**132.4**	-
Capital instruments	28	**-**	4.1	-	-
Total liabilities		**5,068.0**	8,210.4	**5,068.2**	-
Equity					
Issued capital and reserves attributable to owners of the parent:					
- share capital	29	**124.0**	124.0	**124.0**	-
- reserves	30	**3,263.5**	4,182.1	**3,322.1**	-
- retained earnings		**1,301.9**	98.5	**1,243.0**	-
Share capital and reserves attributable to owners of the parent		**4,689.4**	4,404.6	**4,689.1**	-
Total equity and liabilities		**9,757.4**	12,615.0	**9,757.3**	-

The notes on pages 23 to 71 form an integral part of these Financial Statements.

As detailed in note 2, the above Group financial information has been presented under predecessor accounting principles.

The Financial Statements on pages 17 to 71 were approved by the Board of Directors on 3 July 2017 and signed on its behalf by:

John Tattersall
Chairman

Ian Hares
Chief Executive Officer

NRAM Limited is registered in England and Wales under company number 09655526.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the 12 months to 31 March 2017

Group	Share capital £m	Share premium reserve £m	Merger reserve £m	Other reserves £m	Retained earnings £m	Total share capital and reserves £m
At 1 April 2016	**124.0**	**1,022.0**	**3,175.9**	**(15.8)**	**98.5**	**4,404.6**
Other comprehensive income/(expense):						
- net movement in available-for-sale reserve	**-**	**-**	**-**	**19.8**	**-**	**19.8**
- retirement benefit remeasurements	**-**	**-**	**-**	**-**	**(48.1)**	**(48.1)**
- tax effects of the above	**-**	**-**	**-**	**(4.0)**	**11.6**	**7.6**
Total other comprehensive income/(expense)	**-**	**-**	**-**	**15.8**	**(36.5)**	**(20.7)**
Profit for the financial year	**-**	**-**	**-**	**-**	**305.5**	**305.5**
Release of merger reserve	**-**	**-**	**(934.4)**	**-**	**934.4**	**-**
Total comprehensive income	**-**	**-**	**(934.4)**	**15.8**	**1,203.4**	**284.8**
At 31 March 2017	**124.0**	**1,022.0**	**2,241.5**	**-**	**1,301.9**	**4,689.4**

For the 12 months to 31 March 2016

Group	Share capital £m	Share premium reserve £m	Merger reserve £m	Other reserves £m	Retained earnings £m	Total share capital and reserves £m
At 1 April 2015 as previously reported	124.0	403.2	-	166.4	3,170.9	3,864.5
Restatement*	-	618.8	3,175.9	(7.3)	(3,787.4)	-
At 1 April 2015 restated*	124.0	1,022.0	3,175.9	159.1	(616.5)	3,864.5
Other comprehensive income/(expense):						
- net movement in available-for-sale reserve	-	-	-	17.5	-	17.5
- net movement in cash flow hedge reserve	-	-	-	(232.2)	-	(232.2)
- retirement benefit remeasurements	-	-	-	-	56.9	56.9
- tax effects of the above	-	-	-	39.8	(11.4)	28.4
Total other comprehensive income	-	-	-	(174.9)	45.5	(129.4)
Profit for the financial year	-	-	-	-	669.5	669.5
Total comprehensive income	-	-	-	(174.9)	715.0	540.1
At 31 March 2016 restated*	124.0	1,022.0	3,175.9	(15.8)	98.5	4,404.6

*As detailed in note 2, the above financial information has been presented under predecessor accounting principles. This resulted in a restatement of the comparative period, comprising a transfer from retained earnings to merger reserve of £3,175.9m, an increase of £618.8m in share premium reserve and release of £7.3m of capital redemption reserve. £585.1m of the merger reserve was released to retained earnings on 5 May 2016 when NRAM Limited's shareholding in NRAM plc was sold. £349.3m has been released as loans which formed part of the pre-sale dividend in specie have been paid down. Further detail is provided in note 2.

COMPANY STATEMENT OF CHANGES IN EQUITY

For the 12 months to 31 March 2017

Company	Share capital £m	Share premium reserve £m	Merger reserve £m	Retained earnings £m	Total share capital and reserves £m
On incorporation and at 1 April 2016	**-**	**-**	**-**	**-**	**-**
Other comprehensive income/(expense):					
- retirement benefit remeasurements	**-**	**-**	**-**	**(22.9)**	**(22.9)**
- tax effects of the above	**-**	**-**	**-**	**6.5**	**6.5**
Total other comprehensive income	**-**	**-**	**-**	**(16.4)**	**(16.4)**
Profit for the financial year	**-**	**-**	**-**	**300.7**	**300.7**
Acquisition of NRAM plc	**124.0**	**1,022.0**	**3,258.8**	**-**	**4,404.8**
Release of merger reserve	**-**	**-**	**(958.7)**	**958.7**	**-**
Total comprehensive income	**124.0**	**1,022.0**	**2,300.1**	**1,243.0**	**4,689.1**
At 31 March 2017	**124.0**	**1,022.0**	**2,300.1**	**1,243.0**	**4,689.1**

As detailed in note 2, on 29 April 2016 the Company acquired the shares in NRAM plc from UKAR in a share-for-share exchange. This generated share premium of £1,022.0m and merger reserve of £3,258.8m. £600.4m of the merger reserve was released to retained earnings on 5 May 2016 when the Company sold its shareholding in NRAM plc. £358.3m has been released as loans which formed part of the pre-sale dividend in specie have been paid down. Further detail is provided in note 2.

CASH FLOW STATEMENTS

	Group		Company	
	12 months to 31 Mar 2017 £m	12 months to 31 Mar 2016 £m	**12 months to 31 Mar 2017 £m**	12 months to 31 Mar 2016 £m
Cash flows from operating activities				
Profit before taxation for the financial year	**373.9**	843.0	**367.7**	-
Adjustments to reconcile profit to cash generated from operating activities:				
- provision for customer redress	**60.1**	(198.8)	**60.1**	-
- defined benefit pension scheme credits	**(8.2)**	(4.9)	**(7.6)**	-
- cash contributions to defined benefit pension scheme	**(30.0)**	(15.3)	**-**	-
- depreciation and amortisation	**-**	0.3	**-**	-
- impairment on loans to customers	**(49.7)**	(60.9)	**(48.6)**	-
- net impairment release on investment securities	**(1.4)**	(5.1)	**(1.2)**	-
- loss on repurchase of own liabilities	**-**	15.8	**-**	-
- profit on sale of loans	**(51.0)**	(62.8)	**(51.5)**	-
- fair value adjustments on financial instruments	**-**	5.7	**-**	-
- other non-cash movements	**1.4**	(31.1)	**(20.4)**	-
Cash flows generated from operating activities before changes in operating assets and liabilities	**295.1**	485.9	**298.5**	-
Net decrease/(increase) in operating assets:				
- loans to customers	**1,586.9**	3,345.2	**1,442.0**	-
- sale of loans	**404.3**	11,677.9	**411.2**	-
- derivative financial instruments receivable	**9.7**	2,074.0	**-**	-
- other assets	**(0.1)**	1.4	**0.9**	-
Net decrease in operating liabilities:				-
- amounts due to banks	**(0.6)**	(1,681.1)	**(0.4)**	-
- derivative financial instruments payable	**(9.2)**	(59.2)	**(6.7)**	-
- debt securities in issue	**(44.7)**	(10,479.8)	**-**	-
- other liabilities	**(37.3)**	(52.8)	**(10.9)**	-
- provisions	**(63.1)**	(34.0)	**(59.5)**	-
Income tax paid	**(101.5)**	(129.4)	**(59.4)**	-
Net cash generated from operating activities	**2,039.5**	5,148.1	**2,015.7**	-
Cash flows from investing activities:				
- proceeds from sale of property, plant and equipment and intangible assets	**-**	1.1	**-**	-
- proceeds from sale and redemption of investment securities	**82.7**	102.3	**82.7**	-
Net cash generated from investing activities	**82.7**	103.4	**82.7**	-
Cash flows used in financing activities:				
- repayment of HM Treasury Loans	**(2,866.7)**	(6,182.7)	**(2,716.7)**	-
- repurchase of own liabilities	**-**	(4,162.4)	**-**	-
Net cash used in financing activities	**(2,866.7)**	(10,345.1)	**(2,716.7)**	-
Net decrease in cash and cash equivalents	**(744.5)**	(5,093.6)	**(618.3)**	-
Cash and cash equivalents at beginning of year	**1,444.9**	6,538.5	**-**	-
Cash transferred from NRAM plc (see note 2)	**-**	-	**1,318.7**	-
Cash and cash equivalents at end of year	**700.4**	1,444.9	**700.4**	-
Represented by cash and assets with original maturity of three months or less within:				
- cash at bank and in hand	**700.4**	1,444.9	**700.4**	-
Total cash and cash equivalents at end of year	**700.4**	1,444.9	**700.4**	-

As detailed in note 2, the above Group financial information has been presented under predecessor accounting principles.

1. Principal accounting policies

NRAM Limited or 'the Company' is a private limited company incorporated and domiciled in the United Kingdom. The Company was incorporated on 24 June 2015 as NRAM (No.1) Limited and changed its name to NRAM Limited on 18 July 2016.

As detailed in note 2, during the year the Company acquired and subsequently sold NRAM plc. The Company did not trade prior to 30 April 2016, other than entering into the agreement which led to the acquisition of NRAM plc on 13 November 2015.

These Financial Statements consolidate NRAM Limited and its subsidiaries (including NRAM plc until the date of disposal and including special purpose vehicles ('SPVs')).

These Financial Statements were approved by the Board of Directors on 3 July 2017 and will be put to the shareholder for approved approval at the Company's Annual General Meeting.

(a) Statement of compliance

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

For these 2017 Financial Statements, including the 2016 comparative financial information where applicable, the Group and Company have adopted the following statements for the first time:

- The Annual improvements to IFRS 2012-2014 Cycle, issued in September 2014; these changes had no material impact on the Group or Company.
- The amendments to IAS 16 and IAS 38: 'Clarification of Acceptable Methods of Depreciation and Amortisation', issued May 2014. The amendments clarify that a revenue-based method is not considered to be an appropriate manifestation of consumption. These amendments are mandatory for the Group and Company Financial Statements for the year to 31 March 2017. These amendments had no material impacts for the Group or Company.

For these 2017 Financial Statements the Group and Company have not adopted the following statements:

- IFRS 9 'Financial Instruments'; in July 2014 the IASB published the final version (excluding macro-hedging), replacing most of the requirements of IAS 39. IFRS 9 was endorsed for use in the EU in November 2016 and will be effective for annual periods beginning on or after 1 January 2018. The Group is not intending to take the option of early adoption. IFRS 9 is expected to have major implications for the Group and Company. Further detail is provided in note 34(h).
- IFRS 15 'Revenue from Contracts with Customers', issued May 2014, effective for periods beginning on or after 1 January 2018 and yet to be endorsed by the EU. No material impacts are expected for the Group or Company.
- IFRS 16 'Leases', issued January 2016, effective for periods beginning on or after 1 January 2019 and yet to be endorsed by the EU. The Group and Company are assessing the impacts of this statement.
- Amendments to IAS 12 'Income Taxes' relating to 'Recognition of Deferred Tax Assets for Unrealised Losses', issued January 2016, effective for periods beginning on or after 1 January 2017 and yet to be endorsed by the EU. The Group and Company are assessing the impacts of this statement.

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

1. Principal accounting policies (continued)

(b) Basis of preparation

The Financial Statements have been prepared on a going concern basis and using the historical cost convention except:

(i) the following assets and liabilities are carried at their fair value:

- derivative financial instruments; and
- financial instruments categorised under IAS 39 as 'available-for-sale'; and

(ii) where fair value hedge accounting has been applied, the carrying value of hedged items has been adjusted to take account of the fair value of the risk which has been hedged.

The validity of the going concern basis of accounting is dependent upon the funding position of the Company. At the date of approval of these Financial Statements the Group is reliant upon the financing facilities provided to the Company by HM Treasury. Withdrawal of the financing facilities would have a significant impact on the Company's operations and its ability to continue as a going concern, in which case adjustments may have to be made to reduce the carrying value of assets to recoverable amounts and to provide for further liabilities that might arise. At the signing date of these Financial Statements HM Treasury has confirmed its intentions to continue to provide funding until at least 1 January 2019.

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

The accounting policies have been applied to all periods presented in these Financial Statements and are consistent with the accounting policies used by the NRAM Group in preparing its Interim Financial Report for the six months ended 30 September 2016.

NRAM is regulated by the FCA as a mortgage administration company and the Directors believe that NRAM has an appropriate and adequate level of capital to support its activities.

The Financial Statements have been prepared in accordance with EU-adopted IFRS and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. A summary of accounting policies is set out below. The preparation of the Financial Statements in conformity with these accounting policies and generally accepted accounting principles requires the use of estimates and assumptions that affect the reported values of assets and liabilities at the date of the Financial Statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amounts, events or actions, actual results ultimately may differ from those estimates (see note 3).

The Directors consider the business to comprise one operating and geographical segment due to the similarity of risks faced within its UK-based residential, commercial and unsecured portfolios.

The Company included the assets, liabilities and transactions of NRAM Covered Bond LLP up to its liquidation within its own Financial Statements.

(c) Basis of consolidation

The Group's Financial Statements are prepared in accordance with IFRS 10 'Consolidated Financial Statements' and incorporate on a fully consolidated line-by-line basis the Financial Statements of the Company and those entities (including special purpose structures) which are controlled by the Company (its subsidiaries). An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Where subsidiaries have been acquired during a period, their results are consolidated into the Group's Financial Statements from the date control is transferred to the Group. Where subsidiaries have been disposed of, their results are consolidated to the date of disposal. On the acquisition of a business, fair values are attributed to the assets, liabilities and contingent liabilities acquired. Any difference between the consideration given and the fair value of the net assets acquired is capitalised as goodwill, which is subject to impairment testing in accordance with IAS 36 'Impairment of Assets'. Where necessary, the Group Financial Statements include adjustments to bring the financial statements of subsidiaries into alignment with the accounting policies used by the Group. All intra-group transactions and balances are eliminated on consolidation.

The Group securitised various residential mortgage loans, generally by sale or transfer to Special Purpose Vehicles ('SPVs'), which in turn issued securities to investors. The SPVs are consolidated line-by-line into the Group Financial Statements if they are, in substance, controlled by the Company; all of the Group's SPVs were fully consolidated until the funding structures were unwound and the companies were placed into liquidation.

1. Principal accounting policies (continued)

(d) Interest income and expense

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

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

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

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

(e) Financial instruments

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

(i) Financial assets at fair value through profit or loss;

(ii) Held-to-maturity;

(iii) Loans and receivables; or

(iv) Available-for-sale;

and each financial liability into one of two categories:

(v) Financial liabilities at fair value through profit or loss; or

(vi) Other liabilities.

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

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

Amortised cost is the amount measured at initial recognition, adjusted for subsequent principal and other payments, less cumulative amortisation calculated using the EIR method; the amortisation is taken to interest income or expense depending on whether the instrument is an asset or a liability. For assets, the amortised cost balance is reduced where appropriate by an allowance for amounts which are considered to be impaired or uncollectible.

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

(f) Offsetting financial instruments

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

1. Principal accounting policies (continued)

(g) Derivative financial instruments and hedge accounting

All of the Group's derivative contracts are used for commercial management of exposures to interest rate risks, foreign currency risks and risks arising from forecast transactions.

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

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

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

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

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

(iii) One-to-one fair value hedges
Where one or more specific derivative financial instruments hedge the changes in fair value of a specific asset or liability, provided that the hedge arrangement meets the requirements of IAS 39 to be classed as 'highly effective', the associated hedged item is carried on the Balance Sheet at fair value in respect of the hedged risk. Fair value gains and losses are recognised in the Income Statement, mitigating the fair value movements on the associated derivative financial instruments. The Income Statement immediately recognises any hedge accounting 'ineffectiveness'; that is any difference between the fair value movement on the hedging instrument and that on the hedged item.

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

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

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

(h) Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') continue to be reported as they were originally classified within the Balance Sheet as the risks and rewards associated with that asset have been retained. The counterparty liability is included in 'amounts due to banks'. Securities purchased under agreements to resell ('reverse repos') are recorded as 'cash at bank and in hand'. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the EIR method.

1. Principal accounting policies (continued)

(i) Impairment

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

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

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

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

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

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

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

(ii) Available-for-sale financial assets
Investment securities classified as available-for-sale are carried at fair value which appropriately reflects any impairment. Impairment is recognised when the investment security exhibits objective evidence of impairment or is uncollectible. Such evidence may include:

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

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

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

(j) Recognition and de-recognition of assets and liabilities

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

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

1. Principal accounting policies (continued)

(k) Assets held for sale

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

(l) Debt and equity securities in issue

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

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

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

(m) Foreign currencies

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

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

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

(n) Intangible assets

Intangible assets comprised capitalised computer software systems and licences.

Purchased computer software licences are capitalised as intangible assets where it is probable that future benefits will flow to the Group. Thereafter they are carried at cost less accumulated amortisation. Amortisation is provided on a straight line basis over their useful economic lives which may be up to five years. Those which have a life expectancy at the outset of less than two years are not capitalised but instead their costs are charged to the Income Statement as they arise.

Costs that are directly associated with developing identifiable computer software systems are capitalised if the criteria in IAS 38 'Intangible Assets' are satisfied; the main criteria are that the successful completion of the development project is reasonably certain and that the software is expected to generate future economic benefits. Each item of capitalised developed computer software is carried at cost less accumulated amortisation; amortisation is provided on a straight line basis over its estimated useful life. Costs that do not qualify for capitalisation or are associated with maintaining software are charged to the Income Statement as they arise.

Intangible assets in the course of construction are not amortised until they have been completed. The costs of financing intangible assets in the course of construction are not included in the costs of the assets. Intangible assets in the course of construction are included in the impairment test referred to below, where appropriate.

All items of intangible assets are reviewed at each published Balance Sheet date for any indication of impairment. If there is indication of impairment, the carrying value is reviewed. If any impairment is identified, the asset is written down to the impaired value, being the higher of value in use and estimated net proceeds of sale, with the impairment being charged immediately to the Income Statement. In addition, the estimated useful lives are also reassessed annually and if they are judged to have changed then the rate of amortisation charged in periods after the date of the change reflects the revised estimates.

(o) Cash and cash equivalents

Cash and cash equivalents comprise balances which are highly liquid and have an original maturity of three months or less.

(p) Taxation

(i) Current tax

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

1. Principal accounting policies (continued)

(p) Taxation (continued)

(ii) Deferred tax

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

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

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

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

(q) Retirement benefits

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

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

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

A full actuarial valuation of the Group's defined benefit sections of the existing schemes is undertaken every three years, with interim reviews in the intervening years; these valuations are updated at each published balance sheet date by qualified independent actuaries. For the purpose of these updates, scheme assets are included at their fair value and scheme liabilities are measured on an actuarial basis using the projected unit credit method. The inflation assumption used to determine benefit obligations is RPI. Details of the actuarial assumptions made are provided in note 20. The resulting net surplus or deficit is included in full in the Group's and Company's Balance Sheet. Retirement benefit remeasurements are charged to retained earnings in full in the period in which they occur, and pass through other comprehensive income rather than the Income Statement. The Group's Income Statement includes the current service cost of providing pension benefits, the expected return on the scheme's assets, net of administration costs, and the interest cost on the scheme's liabilities. Following closure of the scheme, the current service cost is nil.

Though the scheme is in surplus on an accounting basis, it is in deficit on a trustee's funding basis. The Group is committed to a funding plan to address this deficit Surpluses on an accounting basis are only recognised on the Balance Sheet to the extent that they are recoverable through reduced contributions in the future or through refunds from the scheme. The Group is considering the potential impact of the IASB's exposure draft of possible changes to IFRIC 14.

(r) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and provision for impairment, as appropriate. Additions and subsequent expenditure are included in the asset's carrying value or are recognised as a separate asset only when they improve the expected future economic benefits to be derived from the asset. All other expenditure is regarded as repairs and maintenance and is charged to the Income Statement in the period in which it is incurred. Depreciation is provided so as to write off the cost less the estimated residual value of each significant component of each item of property, plant and equipment over that component's estimated useful life, as follows:

- Freehold land is not depreciated
- Freehold and leasehold buildings 6.7% pa on a straight line basis
- Motor vehicles 25% pa on a reducing balance basis
- Computer equipment 20% - 33% pa on a straight line basis
- Fixtures and fittings 20% pa on a straight line basis
- Other plant and equipment and major alterations to buildings 10% pa on a straight line basis or over the remaining life of the building if shorter.

1. Principal accounting policies (continued)

(r) Property, plant and equipment (continued)

All items of property, plant and equipment are reviewed at each published balance sheet date for any indication of impairment. If there is indication of impairment, the carrying value is reviewed. If any impairment is identified, the asset is written down to the higher of value in use and estimated net proceeds of sale, with the impairment being charged immediately in the Income Statement. In addition, the estimated useful lives and estimated residual values are also reassessed annually, and if they are judged to have changed then the rate of depreciation charged in periods after the date of the change reflects the revised estimates.

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

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

(s) Provisions and contingent liabilities

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

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

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

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

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

(t) Investment securities held

Investment securities are categorised either as ‘available-for-sale’ or as ‘loans and receivables’; for each instrument, the Directors adopt the category which they consider to be the most appropriate.

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

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

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

(u) Investments in Group undertakings

In the Financial Statements of the Company, investments in Group undertakings are carried at cost less any impairment. Investments are reviewed at each published Balance Sheet date for any indication of impairment. If there is indication of impairment of any investment, the carrying value of the investment is reviewed and any impairment identified is charged immediately to the Company’s Income Statement.

(v) Loan commitments

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

1. Principal accounting policies (continued)

(w) Lifetime mortgages

The Group has a portfolio of lifetime (equity release) mortgage loans secured on residential property. Under the terms of these loans, when the borrower dies or goes into long term care the property is sold and the proceeds used to redeem the loan. Where the sale proceeds are less than the contractual sum owed the Group does not have any further ability to recover amounts from the borrower or the estate. The loans are carried within residential loans to customers. The Group accounts for lifetime loans in accordance with IFRS 4 'Insurance Contracts' as they are considered to meet the definition of an insurance contract ie that the Group has accepted the risk of negative equity arising on the loans. The loan assets are measured at the balance due from the customer, and as required by IFRS 4 the carrying amount is reduced by a provision for insurance risk. The loans are not unbundled between a deposit component and an insurance component as the net carrying amount appropriately reflects the value of the insurance risk. The insurance provision is calculated as the net present value of future estimated losses arising as a result of shortfalls of sale proceeds compared to outstanding balances. All income arising on the loans is accounted for as interest, with no element of the income being accounted for as insurance premium, and is recognised in line with interest on other loans to customers.

2. Group reorganisation

On 29 April 2016 NRAM Limited acquired NRAM plc from UKAR by way of a share-for-share exchange, NRAM Limited issuing the same number and class of shares as were acquired from UKAR. On 30 April 2016 NRAM plc declared a dividend of £3,787.4m to NRAM Limited and paid the dividend in specie, using mortgage loans. Also on 30 April 2016 NRAM plc transferred certain assets and liabilities to NRAM Limited, including NRAM plc's investments in subsidiary undertakings. On 5 May 2016 NRAM Limited sold 100% of the shares in NRAM plc to Cerberus for cash, generating an accounting profit of £51.0m.

NRAM Limited's acquisition of the shares in NRAM plc and the transfer of assets and liabilities to NRAM Limited have been accounted for as transactions between entities under common control and predecessor accounting principles have been applied.

Acquisition of shares: NRAM Limited initially carried its investment in NRAM plc at the net asset value of NRAM plc at the date of the transaction. The difference between UKAR Limited's carrying amount of its investment in NRAM plc and the new share capital issued by NRAM Limited in exchange for the shares in NRAM plc has been accounted for by NRAM Limited as share premium. The remaining difference between share capital and premium and the carrying value of the investment has been accounted for by NRAM Limited as merger reserve.

Dividend in specie: the dividend was accounted for by NRAM Limited as a partial return of its investment in NRAM plc.

Transfer of assets and liabilities: these were initially recognised by NRAM Limited at the same amounts as they had been carried at by NRAM plc immediately prior to the transfer.

NRAM Limited merger reserve: NRAM Limited considers that the merger reserve created on its acquisition of NRAM plc will become a realised profit and transferred to retained earnings following the sale of the shares in NRAM plc and as the mortgage loans which were used to pay the dividend are paid down in cash.

NRAM Group: under the predecessor accounting approach, the NRAM Limited Group has been presented as though it had always existed in its current form. The prior period comparative information has not been labelled as 'restated', although it is the same as the NRAM plc Group numbers for those periods other than a change to the make-up of reserves.

3. Critical judgements and accounting estimates

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

(a) Impairment losses on loans

The Group reviews its loan impairment on a monthly basis and assesses individual impairment losses by reference to an individual review of the underlying asset and utilises actual loss experience to provide both probabilities of defaults and property forced sale discounts across a portfolio of products. Collective impairment losses on loans are calculated using a statistical model. The key assumptions used in this model are: the probability of any balance entering into default as a result of an event that had occurred prior to the Balance Sheet date; the probability of this default resulting in possession or write-off; and the estimated subsequent loss incurred. These key assumptions are based on observed data trends and are updated on a regular basis within agreed methodology to ensure the impairment allowance is entirely representative of the current portfolio. The accuracy of the impairment calculation would, therefore, be affected by unanticipated changes to the economic situation and assumptions which differ from actual outcomes. To the extent that house prices were to change by +/- 10%, the residential impairment allowance would be an estimated £15.3m lower (2016: £20.9m) or £18.0m higher (2016: £23.8m) respectively.

(b) Provisions

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

An additional provision of £46.7m has been recognised following the publication of the FCA's Policy Statement PS17/3 'Payment protection insurance complaints: feedback on CP16/10 and final rules and guidance', which sets a deadline date for complaints at 29 August 2019 and confirms the approach in relation to Plevin. The rules and guidance include an FCA-led communications campaign to raise awareness of the deadline and the requirement to proactively contact previously rejected mis-selling complainants who are eligible to complain again in the light of Plevin. Reflecting heightened awareness of a potential PPI deadline, actual claims volumes received during the year have been higher than previously modelled, which combined with the final proposals is expected to lead to higher claims volumes throughout the period to 29 August 2019 than previously assumed.

(c) Retirement benefit obligations

Liabilities in respect of the Group's defined benefit pension scheme are carried on the Balance Sheet at values calculated in accordance with IAS 19. In conjunction with the Group's actuaries, assumptions are adopted which have impacts on the calculated value of the liabilities and also on the amounts charged or credited to the Income Statement. The sensitivities of the liability values to key assumptions are detailed in note 20.

4. Net interest income

	12 months to 31 Mar 2017 £m	12 months to 31 Mar 2016 £m
Interest receivable and similar income		
On secured loans	**374.3**	824.0
On other lending	**21.6**	44.6
On investment securities and deposits	**16.1**	18.2
Total interest receivable and similar income	**412.0**	886.8
Interest expense and similar charges		
On amounts due to banks and HM Treasury	**(77.4)**	(183.6)
On debt securities and other	**(13.1)**	(83.8)
Total interest expense and similar charges	**(90.5)**	(267.4)
Net interest income	**321.5**	619.4
Average balances		
Interest-earning assets ('IEA')	**10,519**	23,105
Financed by:		
- interest-bearing funding	**5,939**	18,895
- interest-free funding*	**4,580**	4,210
Average rates:	**%**	%
- gross yield on IEA	**3.92**	3.84
- cost of interest-bearing funding	**(1.52)**	(1.42)
Interest spread	**2.40**	2.42
Contribution of interest-free funding*	**0.66**	0.26
Net interest margin on average IEA	**3.06**	2.68
Average Bank Base Rate	**0.34**	0.50
Average 1-month LIBOR	**0.34**	0.51
Average 3-month LIBOR	**0.44**	0.58

* Interest-free funding is calculated as an average over the financial year and includes share capital and reserves.

Total interest receivable and similar income includes interest accrued on individually impaired assets of £2.5m (2016: £3.4m).

5. Net realised gains less losses on investment securities

Net realised gains less losses on investment securities recognised in the Income Statement comprised the following:

	12 months to 31 Mar 2017 £m	12 months to 31 Mar 2016 £m
Net realised gains on instruments at amortised cost	**4.3**	7.8
Total net realised gains on investment securities	**4.3**	7.8

6. Unrealised fair value movements on financial instruments and hedge ineffectiveness

	12 months to 31 Mar 2017 £m	12 months to 31 Mar 2016 £m
Net gain in fair value:		
- translation losses on underlying instruments	**(3.0)**	(48.2)
- fair value movements on derivatives which are economic hedges but are not in hedge accounting relationships	**4.6**	48.4
Unrealised fair value movements	**1.6**	0.2
Net gains on fair value hedging instruments	**-**	7.2
Net losses on fair value hedged items attributable to hedged risk	**-**	(21.8)
Ineffectiveness on cash flow hedges	**-**	(7.3)
Net hedge ineffectiveness losses	**-**	(21.9)
Total	**1.6**	(21.7)

7. Administrative expenses

The NRAM Group had no employees during the years presented as services were provided to the NRAM Group by B&B, which has a mortgage servicing arrangement with Computershare.

The NRAM Group employed no temporary staff or specialist contractors at 31 March 2017 (31 March 2016: 13).

	12 months to 31 Mar 2017 £m	12 months to 31 Mar 2016 £m
Defined benefit pension costs	**(8.2)**	(4.9)
IT costs	**(1.9)**	1.6
Outsourced and professional services	**1.1**	3.4
Depreciation and amortisation (see notes 21 and 22)	**-**	0.3
Other administrative expenses	**1.3**	17.5
	(7.7)	17.9
Management recharge from B&B	**46.0**	59.7
Total administrative expenses	**38.3**	77.6

Auditor's remuneration

The following costs are included within administrative expenses:

	12 months to 31 Mar 2017 £m	12 months to 31 Mar 2016 £m
Fees payable to the parent's auditor and its associates in respect of audit of the parent Company's individual and consolidated Financial Statements	**0.2**	0.3
Fees payable to Company auditor and their associates for other services:		
- the audit of the Company's subsidiaries pursuant to legislation	**-**	0.1
- audit-related assurance services	**-**	0.1
Total	**0.2**	0.5

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

The National Audit Office succeeded PricewaterhouseCoopers as the Company's auditor following the 2015-16 financial year. Hence the 2016-17 figures in the above table relate to the National Audit Office and the 2015-16 figures to PricewaterhouseCoopers.

Note: the fees above included the statutory audit of NRAM plc in respect of the year ended 31 March 2016.

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

8. Insurance claim

In 2013 NRAM plc submitted a claim in respect of CCA remediation payments. Under the terms of the sale of the shares in NRAM plc (now Landmark Mortgages Limited) to Cerberus on 5 May 2016 any proceeds of this claim were payable by NRAM plc to NRAM. The £50.0m claim was settled in cash during the year to 31 March 2017.

9. Loss on repurchase of own liabilities

	12 months to 31 Mar 2017 £m	12 months to 31 Mar 2016 £m
Principal amount of instruments repurchased	**-**	3,631.9
Amount paid to repurchase instruments	**-**	(4,162.4)
Other net gains resulting from the repurchase	**-**	514.7
Loss on repurchase	**-**	(15.8)

There were two Covered Bond acquisition tender offers during the year ended 31 March 2016 resulting in the purchase of all Covered Bonds issued by NRAM at their fair value. The losses on the acquisitions were offset by a release of £514.7m which primarily comprised accrued interest and hedge accounting adjustments. These acquisitions reduced the ongoing funding cost to NRAM and further simplified the NRAM Balance Sheet.

10. Taxation

The tax charge for the year comprises:	**12 months to 31 Mar 2017 £m**	12 months to 31 Mar 2016 £m
Current tax:		
- on profit for the year	**(62.4)**	(172.4)
- adjustments in respect of prior periods	**-**	8.4
Total current tax	**(62.4)**	(164.0)
Deferred tax (see note 18):		
- origination and reversal of temporary differences	**(6.0)**	(9.5)
Total deferred tax	**(6.0)**	(9.5)
Total taxation charge per the Income Statement	**(68.4)**	(173.5)

The following tax amounts have been credited/(charged) to equity:	**12 months to 31 Mar 2017 £m**	12 months to 31 Mar 2016 £m
Current tax:		
- relating to available-for-sale investments	**(4.0)**	(8.7)
Deferred tax:		
- relating to cash flow hedge reserve	**-**	48.5
- relating to retirement benefit remeasurements	**11.6**	(11.4)
Net credit to equity	**7.6**	28.4

There was no foreign tax charged in the year (2016: £nil).

The tax charge on the Group's profit before tax differs from the theoretical amount that would arise using the standard weighted average rate of UK corporation tax of 20% (2016: 20.0%) as follows:

	12 months to 31 Mar 2017 £m	12 months to 31 Mar 2016 £m
Profit before taxation	**373.9**	843.0
Tax calculated at rate of 20% (2016: 20.0%)	**(74.8)**	(168.6)
Effects of:		
- income not taxable and expenses not deductible for tax purposes	**6.4**	(13.1)
- adjustments in respect of prior periods	**-**	8.2
Total taxation charge for the year	**(68.4)**	(173.5)

Taxation appropriately reflects changes in tax rates which have been substantively enacted by 31 March 2017.

The effective tax rate has largely been impacted as a result of the exemption from tax on the sale of shares exceeding those expenses which are disallowable for tax purposes and the release of prior year provisions.

11. Cash at bank and in hand

	Group		Company	
	31 Mar 2017 £m	31 Mar 2016 £m	**31 Mar 2017 £m**	31 Mar 2016 £m
Balances with the Bank of England	**192.1**	889.0	**192.1**	-
Balances with the Government Banking Service	**500.1**	500.1	**500.1**	-
Balances with other banks	**8.3**	56.3	**8.3**	-
Total	**700.5**	1,445.4	**700.5**	-

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

12. Investment securities

	Group		Company	
	31 Mar 2017 £m	31 Mar 2016 £m	**31 Mar 2017 £m**	31 Mar 2016 £m
Investment securities held as loans and receivables	**260.0**	335.5	**260.0**	-
Total	**260.0**	335.5	**260.0**	-

In the Balance Sheet the carrying values of impaired assets are presented net of the impairment allowances shown in note 13.

The net impairment release on investment securities for the year comprised:	Group	
	12 months to 31 Mar 2017 £m	12 months to 31 Mar 2016 £m
Net impairment charges on available-for-sale securities	**-**	(0.5)
Net impairment reversals on investment securities held as loans and receivables and unsecured investment loans	**1.4**	5.6
Total net impairment release	**1.4**	5.1

(a) Available-for-sale securities

	Group		Company	
	12 months to 31 Mar 2017 £m	12 months to 31 Mar 2016 £m	**12 months to 31 Mar 2017 £m**	12 months to 31 Mar 2016 £m
At start of year	**-**	0.7	**-**	-
Disposals (sales and redemptions)	**-**	(0.7)	**-**	-
At end of year	**-**	-	**-**	-

(b) Investment securities held as loans and receivables

	Group		Company	
	31 Mar 2017 £m	31 Mar 2016 £m	**31 Mar 2017 £m**	31 Mar 2016 £m
Carrying value	**260.0**	335.5	**260.0**	**-**
Fair value	**258.4**	316.4	**258.4**	**-**
Listed	**253.0**	327.3	**253.0**	**-**
Unlisted	**7.0**	8.2	**7.0**	**-**
Total	**260.0**	335.5	**260.0**	**-**

Note 34(a) provides further information regarding investment securities which have been reclassified as loans and receivables.

12. Investment securities (continued)

(c) Unsecured investment loans

	Group		Company	
	31 Mar 2017 £m	31 Mar 2016 £m	**31 Mar 2017 £m**	31 Mar 2016 £m
Carrying value	**-**	-	**-**	-
Fair value	**-**	19.6	**-**	-

The unsecured investment loans were listed and were fully impaired; all were disposed of during the year.

13. Wholesale assets

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

	Group		Company	
	31 Mar 2017 £m	31 Mar 2016 £m	**31 Mar 2017 £m**	31 Mar 2016 £m
Balances with the Bank of England (see note 11)	**192.1**	889.0	**192.1**	-
Balances with the Government Banking Service (see note 11)	**500.1**	500.1	**500.1**	-
Balances with other banks (see note 11)	**8.3**	56.3	**8.3**	-
Investment securities (see note 12)	**260.0**	335.5	**260.0**	-
Total	**960.5**	1,780.9	**960.5**	-

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

(a) Credit risk

Impairment is set out in the table below:

Group and Company **At 31 March 2017**	**Balances with the Bank of England £m**	**Balances with the Government Banking Service £m**	**Balances with other banks £m**	**Available for-sale securities £m**	**Investment securities held as loans and receivables £m**	**Unsecured investment loans £m**	**Total £m**
Neither past due nor impaired	**192.1**	**500.1**	**8.3**	**-**	**250.6**	**-**	**951.1**
Impaired	**-**	**-**	**-**	**90.2**	**73.5**	**-**	**163.7**
	192.1	**500.1**	**8.3**	**90.2**	**324.1**	**-**	**1,114.8**
Provisions	**-**	**-**	**-**	**(90.2)**	**(64.1)**	**-**	**(154.3)**
Total	**192.1**	**500.1**	**8.3**	**-**	**260.0**	**-**	**960.5**

Group At 31 March 2016	Balances with the Bank of England £m	Balances with the Government Banking Service £m	Balances with other banks £m	Available-for-sale securities £m	Investment securities held as loans and receivables £m	Unsecured investment loans £m	Total £m
Neither past due nor impaired	889.0	500.1	56.3	-	325.5	-	1,770.9
Impaired	-	-	-	94.0	52.2	90.4	236.6
	889.0	500.1	56.3	94.0	377.7	90.4	2,007.5
Provisions	-	-	-	(94.0)	(42.2)	(90.4)	(226.6)
Total	889.0	500.1	56.3	-	335.5	-	1,780.9

13. Wholesale assets (continued)

(a) Credit risk (continued)

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

Group and Company **At 31 March 2017**	**£m**	**AAA %**	**AA %**	**A %**	**BBB to B %**	**CCC and below %**
Balances with the Bank of England	**192.1**	**-**	**100**	**-**	**-**	**-**
Balances with the Government Banking Service	**500.1**	**-**	**100**	**-**	**-**	**-**
Balances with other banks	**8.3**	**-**	**-**	**23**	**77**	**-**
Investment securities held as loans and receivables	**260.0**	**11**	**14**	**39**	**31**	**5**
Total	**960.5**	**3**	**76**	**11**	**9**	**1**

Group At 31 March 2016	£m	AAA %	AA %	A %	BBB to B %	CCC and below %
Balances with the Bank of England	889.0	-	100	-	-	-
Balances with the Government Banking Service	500.1	-	100	-	-	-
Balances with other banks	56.3	-	25	25	50	-
Investment securities held as loans and receivables	335.5	9	16	42	29	4
Total	1,780.9	2	82	9	6	1

(b) Concentration risk

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

Group and Company **At 31 March 2017**	**UK £m**	**Europe £m**	**US £m**	**Other countries £m**	**Total £m**
Balances with the Bank of England	**192.1**	**-**	**-**	**-**	**192.1**
Balances with the Government Banking Service	**500.1**	**-**	**-**	**-**	**500.1**
Balances with other banks	**7.8**	**-**	**0.5**	**-**	**8.3**
Investment securities held as loans and receivables	**170.1**	**67.2**	**12.1**	**10.6**	**260.0**
Total	**870.1**	**67.2**	**12.6**	**10.6**	**960.5**

Group At 31 March 2016	UK £m	Europe £m	US £m	Other countries £m	Total £m
Balances with the Bank of England	889.0	-	-	-	889.0
Balances with the Government Banking Service	500.1	-	-	-	500.1
Balances with other banks	55.5	0.4	0.4	-	56.3
Investment securities held as loans and receivables	216.7	91.8	14.9	12.1	335.5
Total	1,661.3	92.2	15.3	12.1	1,780.9

At 31 March 2017 and 31 March 2016 the Group and Company held no investment securities issued by the governments of Portugal, the Republic of Ireland, Italy, Greece or Spain.

14. Loans to customers

	Group and Company 31 Mar 2017 £m	Group 31 Mar 2016 £m
Residential mortgages	**8,156.9**	10,065.7
Commercial loans	**78.9**	115.2
Total secured loans	**8,235.8**	10,180.9
Unsecured loans	**317.8**	391.8
Total	**8,553.6**	10,572.7

Residential mortgages include all of the Group's buy-to-let loans. Commercial loans comprise loans secured on commercial properties. The 'Together' product, previously offered by the Group, combines a secured and unsecured loan all at one interest rate. Outstanding secured balances in respect of this product are included within total residential mortgages while outstanding unsecured balances are included within unsecured loans.

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

Balances include accounting adjustments in respect of provisioning requirements.

Loans to customers and redemptions comprise the following product types:

Group	Balances At 31 Mar 2017 £m	%	Redemptions 12 months to 31 Mar 2017 £m	Balances At 31 Mar 2016 £m	%	Redemptions 12 months to 31 Mar 2016 £m
Residential mortgages						
Buy-to-let	**2,420.9**	**30**	**(361.9)**	2,787.3	28	(351.8)
Together	**2,824.0**	**34**	**(552.2)**	3,479.9	34	(1,271.8)
Standard and other	**2,912.0**	**36**	**(423.3)**	3,798.5	38	(1,167.0)
Total residential mortgages	**8,156.9**	**100**	**(1,337.4)**	10,065.7	100	(2,790.6)
Residential loans	**8,156.9**	**95**	**(1,337.4)**	10,065.7	95	(2,790.6)
Commercial loans	**78.9**	**1**	**(30.9)**	115.2	1	(20.3)
Total secured loans	**8,235.8**	**96**	**(1,368.3)**	10,180.9	96	(2,810.9)
Unsecured loans	**317.8**	**4**	**(39.3)**	391.8	4	(95.2)
Total	**8,553.6**	**100**	**(1,407.6)**	10,572.7	100	(2,906.1)

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

At 31 March 2017 44% (31 March 2016: 44%) of the Group's residential mortgage accounts (excluding buy-to-let) held by 21,490 (31 March 2016: 29,159) customers were 'interest only' with 77% (31 March 2016: 70%) of these having more than ten years until maturity.

On 13 November 2015 UKAR announced that NRAM plc had agreed to sell a £13bn asset portfolio to affiliates of Cerberus, which included £12bn of mortgages from the Granite securitisation structure. The sale of these Granite loans generated a profit of £59.4m before tax recognised in December 2015 when the beneficial interest of the loans transferred to Cerberus. During the year ended 31 March 2016 NRAM plc also released £3.4m of warranty provisions relating to sales in earlier periods, as these provisions were no longer required.

As detailed in note 2, the sale to Cerberus was completed by the sale by the Company of its shareholding in NRAM plc in May 2016, which generated a profit of £51.0m. This profit to the NRAM Group has been treated as a profit on sale of the loans which were retained by NRAM plc.

15. Impairment on loans to customers

Allowances for credit losses against loans to customers have been made as follows:

Group	**On residential mortgages £m**	**On commercial loans £m**	**On unsecured loans £m**	**Total £m**
At 1 April 2016	**214.9**	**9.3**	**96.2**	**320.4**
Movements during the year:				
- write-offs	**(29.0)**	**-**	**(6.3)**	**(35.3)**
- loan impairment (credit)/charge	**(25.3)**	**3.0**	**(13.9)**	**(36.2)**
- sale of loan book	**(1.8)**	**-**	**(1.1)**	**(2.9)**
Net movements during the year	**(56.1)**	**3.0**	**(21.3)**	**(74.4)**
At 31 March 2017	**158.8**	**12.3**	**74.9**	**246.0**
The Income Statement credit comprises:				
- loan impairment (credit)/charge	**(25.3)**	**3.0**	**(13.9)**	**(36.2)**
- recoveries net of costs	**(9.7)**	**(3.8)**	**-**	**(13.5)**
Total Income Statement credit	**(35.0)**	**(0.8)**	**(13.9)**	**(49.7)**

Group	On residential mortgages £m	On commercial loans £m	On unsecured loans £m	Total £m
At 1 April 2015	388.5	15.9	205.1	609.5
Movements during the year:				
- write-offs	(51.5)	(3.9)	(16.5)	(71.9)
- loan impairment (credit)/charge	(37.2)	(2.7)	1.5	(38.4)
- sale of loan book	(84.9)	-	(93.9)	(178.8)
Net movements during the year	(173.6)	(6.6)	(108.9)	(289.1)
At 31 March 2016	214.9	9.3	96.2	320.4
The Income Statement (credit)/charge comprises:				
- loan impairment (credit)/charge	(37.2)	(2.7)	1.5	(38.4)
- recoveries net of costs	(19.5)	(3.0)	-	(22.5)
Total Income Statement (credit)/charge	(56.7)	(5.7)	1.5	(60.9)

Company	**On residential mortgages £m**	**On commercial loans £m**	**On unsecured loans £m**	**Total £m**
At 1 April 2016	**-**	**-**	**-**	**-**
Transferred from NRAM plc on 30 April 2016 (see note 2)	**210.4**	**12.8**	**94.1**	**317.3**
Movements during the year:				
- write-offs	**(25.9)**	**-**	**(5.7)**	**(31.6)**
- loan impairment credit	**(25.7)**	**(0.5)**	**(13.5)**	**(39.7)**
Net movements during the year	**(51.6)**	**(0.5)**	**(19.2)**	**(71.3)**
At 31 March 2017	**158.8**	**12.3**	**74.9**	**246.0**
The Income Statement credit comprises:				
- loan impairment credit	**(25.7)**	**(0.5)**	**(13.5)**	**(39.7)**
- recoveries net of costs	**(9.0)**	**0.1**	**-**	**(8.9)**
Total Income Statement credit	**(34.7)**	**(0.4)**	**(13.5)**	**(48.6)**

In the Balance Sheet the carrying values of loans to customers are presented net of these allowances.

16. Credit quality of loans to customers

In respect of loans to residential customers, the Group and Company hold collateral in the form of mortgages over residential properties. The fair value of this collateral was as follows:

	Group		Company	
	31 Mar 2017 £m	31 Mar 2016 £m	**31 Mar 2017 £m**	31 Mar 2016 £m
Neither past due nor impaired	**11,747.7**	14,618.3	**11,747.7**	-
Past due but not impaired	**781.0**	1,185.0	**781.0**	-
Impaired	**197.0**	222.2	**197.0**	-
Total	**12,725.7**	16,025.5	**12,725.7**	-

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

	Group		Company	
	31 Mar 2017 £m	31 Mar 2016 £m	**31 Mar 2017 £m**	31 Mar 2016 £m
Neither past due nor impaired	**7,550.3**	9,151.2	**7,550.3**	-
Past due but not impaired	**540.0**	840.8	**540.0**	-
Impaired	**153.4**	179.9	**153.4**	-
Total	**8,243.7**	10,171.9	**8,243.7**	-
The impaired balances above include the following carrying amount of assets in possession, capped at the balance outstanding	**24.5**	27.3	**24.5**	-

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

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

	Group		Company	
	31 Mar 2017 %	31 Mar 2016 %	**31 Mar 2017 %**	31 Mar 2016 %
To 50%	**7.6**	7.7	**7.6**	-
50% to 75%	**43.2**	31.5	**43.2**	-
75% to 100%	**43.6**	51.0	**43.6**	-
Over 100%	**5.6**	9.8	**5.6**	-
Total	**100.0**	100.0	**100.0**	-

16. Credit quality of loans to customers (continued)

The average indexed LTV based on a simple average is 65.4% (31 March 2016: 64.2%) and on a weighted average is 68.8% (31 March 2016: 78.1%).

	Group and Company at 31 March 2017				Group at 31 March 2016			
	Residential mortgages £m	**Commercial loans £m**	**Unsecured loans £m**	**Total £m**	Residential mortgages £m	Commercial loans £m	Unsecured loans £m	Total £m
Neither past due nor impaired	**7,607.4**	**67.5**	**322.1**	**7,997.0**	9,235.5	95.7	397.9	9,729.1
Past due but not impaired:								
- less than 3 months	**290.3**	**-**	**10.8**	**301.1**	484.9	-	15.4	500.3
- 3 to 6 months	**153.0**	**-**	**4.1**	**157.1**	213.2	-	5.7	218.9
- over 6 months	**101.6**	**-**	**47.8**	**149.4**	157.6	-	59.1	216.7
Impaired	**163.4**	**23.7**	**7.9**	**195.0**	189.4	28.8	9.9	228.1
	8,315.7	**91.2**	**392.7**	**8,799.6**	10,280.6	124.5	488.0	10,893.1
Impairment allowances	**(158.8)**	**(12.3)**	**(74.9)**	**(246.0)**	(214.9)	(9.3)	(96.2)	(320.4)
Loans to customers net of impairment allowances	**8,156.9**	**78.9**	**317.8**	**8,553.6**	10,065.7	115.2	391.8	10,572.7
Impairment allowances:								
- individual	**15.8**	**12.3**	**19.1**	**47.2**	20.1	9.3	21.9	51.3
- collective	**143.0**	**-**	**55.8**	**198.8**	194.8	-	74.3	269.1
Total impairment allowances	**158.8**	**12.3**	**74.9**	**246.0**	214.9	9.3	96.2	320.4

The above table includes balances within 'neither past due nor impaired' which would have been shown as past due or impaired other than due to renegotiation; these were loans where arrears were capitalised during the previous 12 months. These loans amounted to £0.2m (31 March 2016: £1.2m). A loan is eligible for capitalisation of arrears only once the borrower has complied with stringent terms for a set period.

16. Credit quality of loans to customers (continued)

Arrears and possessions on residential mortgages and unsecured loans

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

		At 31 March 2017		At 31 March 2016	
		Residential	**Unsecured**	Residential	Unsecured
Arrears 3 months and over					
Number of cases	No.	**2,367**	**3,281**	3,394	4,307
Proportion of total cases	%	**3.53**	**9.32**	3.86	10.17
Asset value	£m	**378.9**	**55.6**	518.5	69.8
Proportion of book	%	**4.65**	**17.50**	5.15	17.81
Total value of payments overdue	£m	**20.0**	**15.8**	25.1	17.3
Proportion of total book	%	**0.25**	**4.97**	0.25	4.43
Possessions					
Number of cases	No.	**165**	**-**	180	-
Proportion of total cases	%	**0.25**	**-**	0.20	-
Asset value	£m	**28.6**	**-**	33.8	-
Proportion of book	%	**0.35**	**-**	0.34	-
Total value of payments overdue	£m	**1.8**	**-**	2.6	-
Proportion of total book	%	**0.02**	**-**	0.03	-
New possessions	No.	**451**	**-**	1,009	-
Total arrears 3 months and over and possessions					
Number of cases	No.	**2,532**	**3,281**	3,574	4,307
Proportion of total cases	%	**3.78**	**9.32**	4.06	10.17
Asset value	£m	**407.5**	**55.6**	552.3	69.8
Proportion of book	%	**5.00**	**17.50**	5.49	17.81
Total value of payments overdue	£m	**21.8**	**15.8**	27.7	17.3
Proportion of total book	%	**0.27**	**4.97**	0.28	4.43

In respect of all arrears (including those which are less than 3 months in arrears) together with possessions, the total value of payments overdue was:

Payments overdue					
Total value of payments overdue	£m	**25.3**	**16.8**	33.4	17.5
Proportion of total book	%	**0.31**	**5.30**	0.33	4.47
Loan impairment provision					
As % of total balances	%	**1.91**	**19.06**	2.09	19.72

16. Credit quality of loans to customers (continued)

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

		At 31 March 2017		At 31 March 2016	
		Residential	**Unsecured**	Residential	Unsecured
Buy-to-let					
Number of cases	No.	**153**	**-**	243	-
Proportion of total cases	%	**0.83**	**-**	1.17	-
Asset value	£m	**34.4**	**-**	48.4	-
Proportion of book	%	**1.42**	**-**	1.73	-
Total value of payments overdue	£m	**1.0**	**-**	1.8	-
Proportion of total book	%	**0.04**	**-**	0.07	-
Together					
Number of cases	No.	**1,047**	**3,281**	1,357	4,307
Proportion of total cases	%	**3.66**	**9.32**	3.88	10.17
Asset value	£m	**119.5**	**55.6**	155.0	69.8
Proportion of book	%	**4.23**	**17.50**	4.45	17.81
Total value of payments overdue	£m	**6.2**	**15.8**	7.0	17.3
Proportion of total book	%	**0.22**	**4.97**	0.20	4.43
Standard and other					
Number of cases	No.	**1,167**	**-**	1,794	-
Proportion of total cases	%	**5.82**	**-**	5.56	-
Asset value	£m	**225.0**	**-**	315.1	-
Proportion of book	%	**7.73**	**-**	8.30	-
Total value of payments overdue	£m	**12.8**	**-**	16.3	-
Proportion of total book	%	**0.44**	**-**	0.43	-

17. Investments in Group undertakings

		Company
	12 months to 31 Mar 2017 £m	12 months to 31 Mar 2016 £m
At start of year	**-**	-
Acquisition of NRAM plc	**4,404.9**	-
Dividend in specie received from NRAM plc	**(3,787.4)**	-
Sale of NRAM plc	**(617.5)**	-
At end of year	**-**	-

As detailed in note 2, on 29 April 2016 the Company acquired NRAM plc from UKAR in a share for share exchange. The Company received a pre-sale dividend in specie from NRAM plc on 30 April 2016, and on 5 May 2016 sold its investment in NRAM plc to Cerberus for cash.

As detailed in note 2, on 30 April 2016 NRAM plc transferred its investments in subsidiary undertakings to the Company.

The following companies are fully consolidated into the Group Financial Statements; all operate in their country of incorporation. All are directly wholly-owned except where indicated.

	Registered number	Nature of business	Country of incorporation	Class of shares held
Community Housing Initiatives Limited[1]	02433437	Non-trading	UK	Ordinary*
F&NE (1990) Limited[2]	02481908	Non-trading	UK	Ordinary*
F&NE Limited[2]	02428779	Non-trading	UK	Ordinary*
Heron's Reach Developments Limited	02554549	Non-trading	UK	Ordinary
NRAM (No. 2) Limited[2]	02190427	Non-trading	UK	Ordinary
NRAM Homes Limited[2]	02306045	Non-trading	UK	Ordinary

* The Group owns 50% of the shares of these companies.

[1] Registered office: Berkeley House, 19 Portsmouth Road, Cobham, Surrey, KT11 1JG.

[2] Registered office: Croft Road, Crossflatts, Bingley BD16 2UA.

17. Investments in Group undertakings (continued)

SPVs

The following entities were SPVs established in connection with the Group's securitisation and secured funding programmes (see note 25). The Company had no contractual arrangement or intention to provide additional financial or other support to these SPVs. Although the Company had no direct or indirect ownership interest in these entities and no rights to vote or to receive dividends, they were regarded as subsidiaries. This is because they were principally engaged in providing a source of long-term funding to the Group which, in substance, had the rights to all benefits from the activities of the SPVs. They were, therefore, effectively controlled by the Group. They were fully consolidated until the funding structures were unwound and the companies were placed into liquidation. During the year the remaining securitised notes were redeemed.

	Nature of business	Country of incorporation and operation
GPCH Limited[1]	Liquidation	UK
Granite Finance Funding Limited[2]	Liquidation	Jersey
Granite Finance Funding 2 Limited[1]	Liquidation	UK
Granite Finance Holdings Limited[1]	Liquidation	UK
Granite Finance Trustees Limited[2]	Liquidation	Jersey
Granite Master Issuer plc[1]	Liquidation	UK
Granite Mortgages 03-2 plc[1]	Liquidation	UK
Granite Mortgages 03-3 plc[1]	Liquidation	UK
Granite Mortgages 04-1 plc[1]	Liquidation	UK
Granite Mortgages 04-2 plc[1]	Liquidation	UK
Granite Mortgages 04-3 plc[1]	Liquidation	UK
Moore Investments Limited[2]	Member of NRAM Covered Bond LLP	Jersey
NRAM Covered Bond LLP[1]	Liquidation	UK
Whinstone Capital Management Limited[2]	Liquidation	Jersey
Whinstone 2 Capital Management Limited[2]	Liquidation	Jersey

[1] Registered office: 15 Canada Square, London, E14 5GL.
[2] Registered office: 13 Castle Street, St Helier, Jersey, JE4 5UT.

All of the above entities were placed in liquidation during the year except for Moore Investments Limited.

Summarised financial information for material SPVs

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

	Debt securities in issue		Net assets		Profit after tax	
	At 31 March 2017 £m	At 31 March 2016 £m	**At 31 March 2017 £m**	At 31 March 2016 £m	**12 months to 31 March 2017 £m**	12 months to 31 March 2016 £m
Granite Mortgages 03-2 plc	**-**	-	**-**	0.1	**(0.1)**	(0.3)
Granite Mortgages 03-3 plc	**-**	-	**-**	0.1	**(0.1)**	(0.1)
Granite Mortgages 04-1 plc	**-**	-	**-**	0.1	**(0.1)**	(0.3)
Granite Mortgages 04-2 plc	**-**	-	**-**	0.1	**(0.1)**	0.2
Granite Mortgages 04-3 plc	**-**	-	**-**	0.1	**(0.1)**	(0.1)
Granite Master Issuer plc	**-**	-	**-**	0.5	**(0.5)**	4.0
Granite Finance Funding Limited	**-**	-	**-**	0.2	**(0.2)**	(0.2)
Granite Finance Funding 2 Limited	**-**	-	**-**	-	**-**	(0.1)
Whinstone Capital Management Limited	**-**	78.9	**-**	0.2	**(0.2)**	(48.2)
Whinstone 2 Capital Management Limited	**-**	-	**-**	-	**-**	(49.0)

In April 2016 the remaining debt securities issued by Whinstone Capital Management Limited were redeemed.

18. Deferred taxation

The net deferred taxation liability is attributable to the following:

Group	Assets		Liabilities		Net	
	31 Mar 2017 £m	31 Mar 2016 £m	**31 Mar 2017 £m**	31 Mar 2016 £m	**31 Mar 2017 £m**	31 Mar 2016 £m
Employee benefits	**-**	2.3	**(38.0)**	(45.9)	**(38.0)**	(43.6)
	-	2.3	**(38.0)**	(45.9)	**(38.0)**	(43.6)
Offset	**-**	(2.3)	**-**	2.3	**-**	-
Total	**-**	-	**(38.0)**	(43.6)	**(38.0)**	(43.6)

Company	Assets		Liabilities		Net	
	31 Mar 2017 £m	31 Mar 2016 £m	**31 Mar 2017 £m**	31 Mar 2016 £m	**31 Mar 2017 £m**	31 Mar 2016 £m
Employee benefits	**-**	-	**(38.0)**	-	**(38.0)**	-
	-	-	**(38.0)**	-	**(38.0)**	-
Offset	**-**	-	**-**	-	**-**	-
Total	**-**	-	**(38.0)**	-	**(38.0)**	-

The Group and Company had no deferred tax assets unrecognised at 31 March 2017 (31 March 2016: £nil).

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

Group	**At 1 April 2016 £m**	**Recognised in income £m**	**Recognised in equity £m**	**At 31 March 2017 £m**
Employee benefits	**(43.6)**	**(6.0)**	**11.6**	**(38.0)**
Total	**(43.6)**	**(6.0)**	**11.6**	**(38.0)**

Group	At 1 April 2015 £m	Recognised in income £m	Recognised in equity £m	At 31 March 2016 £m
Changes in accounting basis on adoption of IFRS	3.8	(3.8)	-	-
Cash flow hedges	(48.7)	-	48.7	-
Accelerated tax depreciation	1.4	(1.4)	-	-
Employee benefits	(27.9)	(4.3)	(11.4)	(43.6)
Total	(71.4)	(9.5)	37.3	(43.6)

Company	**Transfer* £m**	**Recognised in income £m**	**Recognised in equity £m**	**At 31 March 2017 £m**
Employee benefits	**(43.3)**	**(1.2)**	**6.5**	**(38.0)**
Total	**(43.3)**	**(1.2)**	**6.5**	**(38.0)**

*Arising due to transfer of assets and liabilities from NRAM plc on 30 April 2016 (see note 2).

19. Other assets

	Group		Company	
	31 Mar 2017 £m	31 Mar 2016 £m	**31 Mar 2017 £m**	31 Mar 2016 £m
Prepayments and accrued income	**-**	0.8	**-**	-
Other	**19.4**	19.7	**19.3**	-
Total	**19.4**	20.5	**19.3**	-

20. Retirement benefit assets

(a) Pension schemes

Northern Rock plc operated a staff pension scheme, which was closed on 31 December 2009 and is now known as the NRAM Scheme. The assets of the NRAM Scheme are held in a separate trustee-administered fund. The normal pension age of employees in this Scheme is 60. The NRAM Scheme provided benefits to employees on a final salary basis. Deferred pension entitlement increases are calculated by reference to the Retail Prices Index ('RPI'). The trustees of the NRAM Scheme are responsible for ensuring the NRAM Scheme meets its Statutory Funding Objective which is set by The Pensions Regulator. The Trustee of the NRAM Scheme has passed a resolution for the ultimate refund to NRAM of any future surpluses on the NRAM Scheme. NRAM Limited replaced NRAM plc as sponsoring employer of the Scheme with effect from 30 April 2016.

The cost to the Group of funding the NRAM Scheme guaranteed benefits varies over time, dependent on market conditions and life expectancies. The credit in the year was £8.2m (31 March 2016: £4.9m) and the retirement benefit remeasurement loss recognised in other comprehensive income during the year was £45.5m (2016: £57.4m gain).

As at 31 March 2017 and 31 March 2016 the NRAM Scheme was in surplus on an accounting basis but in deficit on a trustee's funding basis. Under an agreed recovery plan to address this deficit, the Group is committed to making annual contributions to the NRAM Scheme up to and including April 2019. Under this plan the Group has contributed £30.0m in the year and the level of contributions will be reassessed each year.

The Group is considering the potential impact of the IASB's exposure draft of possible changes to IFRIC 14, which would restrict the recognition of net asset positions in respect of pension schemes under certain circumstances.

Following the nationalisation of Northern Rock plc in 2008, the NRAM Scheme's trustees disposed of the majority of the return-seeking assets, retaining a small holding in private equity funds; the remaining assets are split between gilts and corporate bonds. The NRAM Scheme has instigated a liability-driven investment programme to hedge approximately 92% of the interest rate risk and 92% of the inflation risk.

(b) Defined benefit section of the NRAM Scheme

The amounts carried on the Group Balance Sheet, and the Company Balance Sheet at 31 March 2017, are as follows:

	31 Mar 2017 £m	31 Mar 2016 £m
Present value of defined benefit obligations	**(702.9)**	(583.4)
Fair value of defined benefit assets	**925.0**	812.8
Net defined benefit asset	**222.1**	229.4

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

	12 months to 31 Mar 2017 £m	12 months to 31 Mar 2016 £m
Net interest income	**8.2**	4.9
Total recognised in the Income Statement	**8.2**	4.9

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

	12 months to 31 Mar 2017 £m	12 months to 31 Mar 2016 £m
At start of year	**583.4**	606.2
Interest on defined benefit obligations	**20.0**	20.3
Remeasurements:		
- effect of changes in demographic assumptions	**3.8**	20.5
- effect of changes in financial assumptions	**155.6**	(38.1)
- effect of experience adjustments	**(3.9)**	(8.8)
Transfer payments	**(43.3)**	-
Benefits paid from plan	**(12.7)**	(16.7)
At end of year	**702.9**	583.4

20. Retirement benefit assets (continued)

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

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

	12 months to 31 Mar 2017 £m	12 months to 31 Mar 2016 £m
At start of year	**812.8**	758.1
Interest income on defined benefit assets	**28.4**	25.1
Defined benefit company contributions	**30.0**	15.3
Remeasurements:		
- return on plan assets (excluding interest income)	**109.8**	31.0
Transfer payments	**(43.3)**	-
Benefits paid from plan	**(12.7)**	(16.7)
At end of year	**925.0**	812.8

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

	31 March 2017			31 March 2016		
	Quoted £m	**Unquoted £m**	**Total £m**	Quoted £m	Unquoted £m	Total £m
Equity instruments	**-**	**276.4**	**276.4**	-	224.3	224.3
Bonds:						
- of which UK	**30.3**	**-**	**30.3**	63.4	-	63.4
Liability hedging investments	**606.1**	**-**	**606.1**	512.9	-	512.9
Cash and cash equivalents	**12.2**	**-**	**12.2**	12.2	-	12.2
Total	**648.6**	**276.4**	**925.0**	588.5	224.3	812.8

(c) Assumptions

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

	31 Mar 2017	31 Mar 2016
To determine benefit obligations:		
Discount rate	**2.60%**	3.60%
Inflation (RPI)	**3.25%**	3.00%
Future pension increases	**1.95% - 3.60%**	1.85% - 3.55%
To determine net pension cost:		
Discount rate	**3.60%**	3.40%

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

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

	31 Mar 2017		31 Mar 2016	
	Pensioner	**Non-retired member**	Pensioner	Non-retired member
Male	**29.1**	**30.8**	28.9	30.7
Female	**31.3**	**33.1**	31.2	33.0

(d) Maturity profile of the obligation

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

(e) Sensitivity

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

Assumption	**Change in assumption**	**Impact on obligations**	**£m**
Discount rate	Decrease by 0.5%	Increase by 13%	(91.4)
Inflation	Increase by 0.5%	Increase by 7%	(49.2)
Mortality	Decrease by 1 year	Increase by 3%	(21.1)

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

21. Property, plant and equipment

Group	Land and buildings £m	Plant, equipment, fixtures, fittings and vehicles £m	Total £m
Cost			
At 1 April 2015	0.3	1.7	2.0
Transfer to fellow subsidiary	(0.3)	(1.1)	(1.4)
Disposals	-	(0.6)	(0.6)
At 31 March 2016	-	-	-
Depreciation			
At 1 April 2015	-	1.1	1.1
Charged in year	0.1	0.1	0.2
Transfer to fellow subsidiary	(0.1)	(0.6)	(0.7)
Disposals	-	(0.6)	(0.6)
At 31 March 2016	-	-	-
Net book amount:			
At 31 March 2015	0.3	0.6	0.9
At 31 March 2016	-	-	-

All assets disposed of in the previous year had already been fully amortised, and no sale proceeds were received, and hence there was no profit or loss on sales.

22. Intangible assets

Group	£m
Cost	
At 1 April 2015	1.2
Transfer to fellow subsidiary	(1.2)
At 31 March 2016	-
Impairment and amortisation	
At 1 April 2015	0.7
Amortisation charged in the year	0.1
Transfer to fellow subsidiary	(0.8)
At 31 March 2016	-
Net book amount:	
At 31 March 2015	0.5
At 31 March 2016	-

Intangible assets comprised capitalised computer software systems and licences.

23. Amounts due to banks

	Group		Company	
	31 Mar 2017 £m	31 Mar 2016 £m	**31 Mar 2017 £m**	31 Mar 2016 £m
Cash collateral received (see note 35)	**-**	0.6	**-**	-

24. HM Treasury loans

	Group		Company	
	31 Mar 2017 £m	31 Mar 2016 £m	**31 Mar 2017 £m**	31 Mar 2016 £m
Amount due to HM Treasury	**4,594.2**	7,465.6	**4,594.2**	-

The HM Treasury loan is repayable on demand. Interest has been charged at Bank of England Base Rate + 100 bps since 4 May 2012 (prior to that date interest was charged at Bank of England Base Rate + 25 bps). As detailed in note 2, on 30 April 2016 this loan was transferred from NRAM plc to NRAM Limited. At the signing date of these Financial Statements, HM Treasury has confirmed its intentions to continue to fund NRAM Limited as a going concern, and to enable NRAM Limited to meet its debts as and when they fall due, until at least 1 January 2019.

25. Debt securities in issue

Group	**Securitised notes £m**	**Covered Bonds £m**	**Other £m**	**Total £m**
At 1 April 2016	**46.0**	**-**	**204.1**	**250.1**
Repayments	**(44.7)**	**-**	**-**	**(44.7)**
Other movements	**(1.3)**	**-**	**0.1**	**(1.2)**
At 31 March 2017	**-**	**-**	**204.2**	**204.2**
Securitised assets	**-**	**-**	**-**	**-**

Group	Securitised notes £m	Covered Bonds £m	Other £m	Total £m
At 1 April 2015	9,413.0	5,146.9	238.3	14,798.2
Repayments	(9,364.5)	(1,082.9)	(32.4)	(10,479.8)
Repurchases	-	(3,631.9)	-	(3,631.9)
Other movements	(2.5)	(432.1)	(1.8)	(436.4)
At 31 March 2016	46.0	-	204.1	250.1
Securitised assets	69.4	-	-	69.4

Company	**Securitised notes £m**	**Covered Bonds £m**	**Other £m**	**Total £m**
At 1 April 2016	**-**	**-**	**-**	**-**
Transfer from NRAM plc (see note 2)	**-**	**-**	**204.1**	**204.1**
Other movements	**-**	**-**	**0.1**	**0.1**
At 31 March 2017	**-**	**-**	**204.2**	**204.2**

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

The Group issued debt securities to securitise loans to customers through SPVs and Covered Bonds and also raised unsecured medium term funding. Certain of these were subject to fair value hedge designation and the carrying values of these instruments included unamortised adjustments in respect of the notes that were hedged.

HM Treasury provided guarantees with regard to certain wholesale borrowings of NRAM plc and those guarantees have been provided to the Company since 30 April 2016. The Group pays a fee for these guarantees at the rate of £12.0m per annum. The fee is not dependent on balances outstanding and hence it is included within 'fee and commission expense'.

Securitised assets represented loans to customers which had been used to securitise issued notes including notes which were held by other companies in the UKAR Group and cash balances.

In April 2016 the remaining debt securities issued by Whinstone Capital Management Limited were redeemed.

25. Debt securities in issue (continued)

(a) Securitised notes

The Group's results include the results, assets and liabilities of securitisation SPVs on a line-by-line basis, none of which qualified for de-recognition under IAS 39. Securitised assets were subject to non-recourse finance arrangements. These assets were primarily loans to customers which had been purchased at par from NRAM plc, the purchase being funded through the issue by the SPVs of mortgage-backed bonds.

(b) Other debt securities in issue

Other debt securities in issue comprise notes issued under NRAM plc's Medium Term Notes programme; these were transferred from NRAM plc to NRAM Limited on 30 April 2016, as described in note 2.

26. Other liabilities

	Group		**Company**	
	31 Mar 2017 £m	31 Mar 2016 £m	**31 Mar 2017 £m**	31 Mar 2016 £m
Accruals and deferred income	**13.0**	20.0	**13.0**	-
Amounts due to fellow subsidiaries of UKAR	**9.9**	2.9	**9.9**	**-**
Other	**23.4**	178.6	**23.6**	-
Total	**46.3**	201.5	**46.5**	-

27. Provisions

Group	**Customer redress £m**	**Onerous contracts £m**	**Total £m**
At 1 April 2016	**135.0**	**1.8**	**136.8**
Utilised in the year	**(63.0)**	**(0.1)**	**(63.1)**
Charged in the year	**60.1**	**-**	**60.1**
Released in the year	**-**	**(1.4)**	**(1.4)**
At 31 March 2017	**132.1**	**0.3**	**132.4**

Group	Customer redress £m	Onerous contracts £m	Total £m
At 1 April 2015	365.5	3.0	368.5
Utilised in the year	(32.8)	(1.2)	(34.0)
Charged in the year	70.6	-	70.6
Released in the year	(268.3)	-	(268.3)
At 31 March 2016	135.0	1.8	136.8

Company	**Customer redress £m**	**Onerous contracts £m**	**Total £m**
At 1 April 2016	**-**	**-**	**-**
Transfer of assets and liabilities from NRAM plc (see note 2)	**131.4**	**1.8**	**133.2**
Utilised in the year	**(59.4)**	**(0.1)**	**(59.5)**
Charged in the year	**60.1**	**-**	**60.1**
Released in the year	**-**	**(1.4)**	**(1.4)**
At 31 March 2017	**132.1**	**0.3**	**132.4**

27. Provisions (continued)

UKAR remains committed to doing the right thing for our customers and where we identify issues that have caused customer detriment, we will ensure that they are fully remediated. An additional provision of £60.1m has been recognised during the year, of which £46.7m relates to an increase in PPI provisions.

An additional provision of £46.7m has been recognised following the publication of the FCA's Policy Statement PS17/3 'Payment protection insurance complaints: feedback on CP16/10 and final rules and guidance', which sets a deadline date for complaints at 29 August 2019 and confirms the approach in relation to Plevin. The rules and guidance include an FCA-led communications campaign to raise awareness of the deadline and the requirement to proactively contact previously rejected mis-selling complainants who are eligible to complain again in the light of Plevin. Reflecting heightened awareness of a potential PPI deadline, actual claims volumes received during the year have been higher than previously modelled, which combined with the final proposals is expected to lead to higher claims volumes throughout the period to 29 August 2019 than previously assumed.

In addition, a charge of £13.4m was made for other smaller legacy remediation issues.

In July 2015 the Court of Appeal found in NRAM's favour that customers with loans greater than £25,000 should not receive remediation in line with CCA customers despite receiving the same incorrect documentation. As a result the £268.3m provision relating to this matter was released in 2015/16.

All customer redress payments are expected to be processed during the year to 31 March 2018 except for PPI, the majority of which is expected to be processed by Autumn 2019 following publication of the complaint time-bar of 29 August 2019.

The Group, in addition to the above, is also subjected to other complaints and legal proceedings, as well as legal and regulatory reviews, challenges, investigations and enforcement actions. All such material matters are periodically reassessed and professional expert advice is taken on these assessments where appropriate. A provision is recognised when the criteria are all met in accordance with the relevant accounting standards (see note 1 (s)). In some cases it will not be possible to form a view, for example because the facts are unclear or because further time is needed properly to assess the merits of the case, and no provisions are held in relation to such matters. However the Group does not currently expect the final outcome of any such case to have a material adverse effect on its financial position, operations or cash flows.

The onerous contracts provision relates to empty leasehold premises which, as at the Balance Sheet date, were no longer used by the business but were subject to lease agreements. The rental payments are due to be made during the period to 2022.

28. Capital instruments

Group		At 31 March 2017		At 31 March 2016	
	Initial interest rate	Carrying amount £m	Principal £m	Carrying amount £m	Principal £m
Subordinated loan	11.734%	-	-	4.1	4.0
Total subordinated liabilities		-	-	4.1	4.0

These capital instruments were all denominated in Sterling and were retained by NRAM plc and not transferred to NRAM Limited (see note 2).

The carrying values of these instruments were measured on an amortised cost basis, as adjusted for hedge accounting adjustments.

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

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

29. Share capital

Issued and fully paid at 1 April 2015, 31 March 2016 and 31 March 2017	Group 31 Mar 2017 Number	31 Mar 2016 Number	31 Mar 2017 £m	31 Mar 2016 £m
Ordinary shares of 25p each	**496.0m**	496.0m	**124.0**	124.0
Total	**496.0m**	496.0m	**124.0**	124.0

	Company 31 Mar 2017 Number	31 Mar 2016 Number	31 Mar 2017 £m	31 Mar 2016 £m
At start of year	**-**	-	**-**	-
Issued on incorporation 24 June 2015	**-**	-	**-**	-
Issued 30 April 2016	**496.0m**	-	**124.0**	-
At end of year	**496.0m**	-	**124.0**	-

The Company was incorporated on 24 June 2015 with one 25p ordinary share. On 30 April 2016 496.0m shares were issued in order to acquire the shares in NRAM plc (see note 2).

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

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

No dividends were declared or paid in the current or previous year on the Company's Ordinary Shares. No dividends had been proposed by the date of approval of these Financial Statements.

30. Reserves

Reserves comprise the following:

	Group 31 Mar 2017 £m	31 Mar 2016 £m	Company 31 Mar 2017 £m	31 Mar 2016 £m
Share premium reserve	**1,022.0**	1,022.0	**1,022.0**	-
Merger reserve	**2,241.5**	3,175.9	**2,300.1**	-
Available-for-sale reserve	**-**	(15.8)	-	-
Total	**3,263.5**	4,182.1	**3,322.1**	-

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

The acquisition of NRAM plc was accounted for under predecessor accounting, as detailed in note 2. This resulted in a transfer from retained earnings to merger reserve. The merger reserve is non-distributable.

Available-for-sale reserve	Group 31 Mar 2017 £m	31 Mar 2016 £m
At start of year	**(15.8)**	(24.6)
Amounts recognised in equity	**-**	14.7
Amounts transferred to net income	**15.8**	(5.9)
At end of year	**-**	(15.8)

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

Cash flow hedge reserve	Group 31 Mar 2017 £m	31 Mar 2016 £m
At start of year	**-**	183.7
Amounts recognised in equity	**-**	(1,029.5)
Amounts transferred to net income	**-**	845.8
At end of year	**-**	-

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

31. Off-Balance Sheet commitments payable

Group and Company At 31 March 2017	**Within one year £m**	**In one to five years £m**	**Over five years £m**	**Total £m**
Loan commitments:				
- lifetime mortgages	**0.5**	**1.7**	**2.2**	**4.4**
- other loans	**319.1**	**-**	**-**	**319.1**
Total loan commitments	**319.6**	**1.7**	**2.2**	**323.5**
Operating lease commitments:				
- land and buildings	**-**	**-**	**-**	**-**
Total	**319.6**	**1.7**	**2.2**	**323.5**

Group At 31 March 2016	Within one year £m	In one to five years £m	Over five years £m	Total £m
Loan commitments:				
- lifetime mortgages	0.6	1.9	2.8	5.3
- other loans	412.0	-	-	412.0
Total loan commitments	412.6	1.9	2.8	417.3
Operating lease commitments:				
- land and buildings	0.9	3.6	2.2	6.7
Total	413.5	5.5	5.0	424.0

Loan commitments represent contractual amounts to which the Group/Company is committed for extension of credit to customers. In respect of lifetime mortgages the commitment reflects estimates of future drawdowns. On other loans, the commitment comprises cash which could be drawn down by customers in respect of further advances and re-drawal of amounts voluntarily overpaid. With effect from 30 April 2016 the Company took over commitments in respect of the loans which were transferred from NRAM plc.

32. Related party disclosures

(a) Key management personnel

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

A summary of the Group's share of the remuneration of the 14 (2016: 15) key management personnel is set out in the table below. These amounts include the Group's share of the remuneration of the Directors which is set out in more detail in the Directors' Remuneration Report on pages 31 to 44 of the 2017 Annual Report & Accounts of UKAR. The Directors' Remuneration Report gives details of the UKAR Group's Directors' salaries, fees, bonuses, pension benefits, other incentives and other benefits. The aggregate UKAR Group emoluments of the UKAR Group's Directors were £1,529,449 (2016: £2,159,628) and the emoluments of the highest paid Director were £766,169 (2016: £966,611). The Directors made no payments during the year or previous year into the Group's money purchase pension scheme, and the Group made no payments into this scheme in respect of the Directors during the year or previous year. In 2016/17 the B&B Group bore half of the cost of the UKAR Directors in its Income Statement, the other half being borne by NRAM. Included in the NRAM Group's Income Statement, the aggregate Directors' emoluments and the emoluments of the highest paid Director amounted to £764,725 and £383,085 respectively (2016: £1,079,814 and £483,306 respectively). The key management personnel contributed £103,000 (2016: £45,000) to UKAR Group pension schemes during the year.

Remuneration of key management personnel	**31 Mar 2017 £000**	31 Mar 2016 £000
Short-term employee benefits	**1,745**	2,101
Post-employment benefits	**101**	157
Total	**1,846**	2,258

Further details of the accounting treatment of pensions and of the Group's and Company's transactions and balances with the Group's pension schemes are given in note 20. There were no amounts due to or from the schemes at 31 March 2017 (31 March 2016: £nil).

32. Related party disclosures (continued)

(b) UK government

As described in note 38, the Company considers the UK government to be its ultimate controlling party. The Group's material balances with departments and bodies of the government comprise deposits with the Bank of England and the Government Banking Service (see note 11) and loans from HM Treasury (see note 24). HM Treasury has also provided guarantee arrangements to the Group, for which the Group pays fees. In addition to these loans and guarantees, the Group has balances and transactions with numerous government bodies on an arm's length basis in relation to the payment of corporation tax and VAT and the payment of regulatory fees and levies. The Group has balances and transactions with UKFI and with banks over which the UK government has significant influence; these were made in the ordinary course of business and are not unusual in their nature or conditions.

(c) Fellow subsidiary

During the year B&B recharged a total of £46.0m (2016: £81.3m) to the Company.

At 31 March 2017 the Company owed £9.9m to B&B (2016: nil).

(d) Parent company

During the year the Company was charged £0.3m (2016: £0.3m) by UKAR for the services of Non-Executive Directors.

33. Capital structure

The Company met its capital requirements in full throughout 2016/17. NRAM is regulated by the FCA as a mortgage administration company under the MIPRU regime. MIPRU regulation is applied at individual company level, not at NRAM Group level. The Board considers core equity, formerly tier 1 capital, to be of pre-eminent importance in the capital structure of the business and continues to monitor this closely, in addition to the total level of capital. The Directors believe the Company has appropriate and adequate levels of capital to support its activities. While FCA rules require the Company to hold capital in excess of 1% of total Balance Sheet assets plus any undrawn commitments, the Board believes it appropriate to hold a higher level of capital and as at 31 March 2017 capital in the Company represented 45.8% of the Company's assets.

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

Company	**At 31 March 2017 £m**
Share capital and reserves	**4,689.1**
Net pension adjustment	**(222.1)**
Total capital	**4,467.0**

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

The Company defines equity as capital. The Company's capital adequacy and capital resources are managed and monitored in accordance with the regulatory capital rules of the FCA. The Company must at all times monitor and demonstrate compliance with the relevant regulatory capital requirements of the FCA. The required capital information is filed with the FCA on a quarterly basis.

34. Financial instruments

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

The following table summarises the carrying amounts and fair values of financial assets and liabilities. Assets are generally presented at bid prices, whereas offer prices are used for liabilities. The accounting policy note 1(e) sets out the key principles used for estimating the fair values of financial instruments. Note 34(f) provides some additional information in respect of the methodologies used.

Group At 31 March 2017	Assets at fair value through profit or loss £m	Loans and receivables £m	Total carrying value £m	Fair value £m
Financial assets:				
Cash at bank and in hand	**-**	**700.5**	**700.5**	**700.5**
Investment securities	**-**	**260.0**	**260.0**	**258.4**
Loans to customers	**-**	**8,553.6**	**8,553.6**	**8,553.6**
Derivative financial instruments	**1.8**	**-**	**1.8**	**1.8**
Other financial assets	**-**	**19.4**	**19.4**	**19.4**
Total financial assets	**1.8**	**9,533.5**	**9,535.3**	**9,533.7**

	Liabilities at fair value through profit or loss £m	Liabilities at amortised cost £m	Total carrying value £m	Fair value £m
Financial liabilities:				
HM Treasury loans	**-**	**4,594.2**	**4,594.2**	**4,594.2**
Derivative financial instruments	**2.5**	**-**	**2.5**	**2.5**
Debt securities in issue	**-**	**204.2**	**204.2**	**230.9**
Other financial liabilities	**-**	**32.5**	**32.5**	**32.5**
Total financial liabilities	**2.5**	**4,830.9**	**4,833.4**	**4,860.1**

Group At 31 March 2016	Assets at fair value through profit or loss £m	Loans and receivables £m	Total carrying value £m	Fair value £m
Financial assets:				
Cash at bank and in hand	-	1,445.4	1,445.4	1,445.4
Investment securities	-	335.5	335.5	336.0
Loans to customers	-	10,572.7	10,572.7	10,572.7
Derivative financial instruments	11.5	-	11.5	11.5
Other financial assets	-	19.7	19.7	19.7
Total financial assets	11.5	12,373.3	12,384.8	12,385.3

	Liabilities at fair value through profit or loss £m	Liabilities at amortised cost £m	Total carrying value £m	Fair value £m
Financial liabilities:				
Amounts due to banks	-	0.6	0.6	0.6
HM Treasury loans	-	7,465.6	7,465.6	7,465.6
Derivative financial instruments	11.7	-	11.7	11.7
Debt securities in issue	-	250.1	250.1	283.4
Capital instruments	-	4.1	4.1	4.1
Other financial liabilities	-	83.4	83.4	83.4
Total financial liabilities	11.7	7,803.8	7,815.5	7,848.8

34. Financial instruments (continued)

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

Company **At 31 March 2017**	**Assets at fair value through profit or loss £m**	**Loans and receivables £m**	**Total carrying value £m**	**Fair value £m**
Financial assets:				
Cash at bank and in hand	-	700.5	700.5	700.5
Investment securities	-	260.0	260.0	258.4
Loans to customers	-	8,553.6	8,553.6	8,553.6
Derivative financial instruments	1.8	-	1.8	1.8
Other financial assets	-	19.3	19.3	19.3
Total financial assets	**1.8**	**9,533.4**	**9,535.2**	**9,533.6**

	Liabilities at fair value through profit or loss £m	**Liabilities at amortised cost £m**	**Total carrying value £m**	**Fair value £m**
Financial liabilities:				
HM Treasury loans	-	4,594.2	4,594.2	4,594.2
Derivative financial instruments	2.5	-	2.5	2.5
Debt securities in issue	-	204.2	204.2	230.9
Other financial liabilities	-	32.8	32.8	32.8
Total financial liabilities	**2.5**	**4,831.2**	**4,833.7**	**4,860.4**

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

At 31 March 2017, the Group had no assets carried at amortised cost which were previously carried at fair value (31 March 2016: £335.5m). The amount recognised in profit and loss during the year was a gain of £10.4m (12 months to 31 March 2016: £17.9m gain). If the assets had not been reclassified, it is estimated that fair value gains of £8.3m would have been reflected in the available-for-sale reserve during the year in respect of these assets (12 months to 31 March 2016: losses of £8.2m). On 30 April 2016 these transferred from NRAM plc to the Company (see note 2).

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

	Group	
	12 months to 31 Mar 2017 £m	12 months to 31 Mar 2016 £m
Interest income	**412.2**	907.5
Interest expense	**(90.5)**	(280.9)
Net interest income	**321.7**	626.6

These amounts represent interest income and expense before hedging arrangements.

(c) Impaired financial assets

Allowance accounts for credit losses in respect of impairment of loans to customers are detailed in note 15 and in respect of investment securities in note 12. No impairment loss has been recognised in respect of any other class of financial asset, and no other class of financial asset includes assets that are past due.

(d) De-recognition of financial assets

Loans to customers which were securitised were not de-recognised from the Balance Sheet of the originator of the loan as the originator retained substantially all of the risks and rewards of the securitised loan (see note 25).

34. Financial instruments (continued)

(e) Hedge accounting

Strategy in using derivative financial instruments

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

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

The Group had the following types of hedges:

At 31 March 2017	**Economic hedges £m**	**Total £m**	**Notional amounts £m**
Exchange rate contracts	**1.8**	**1.8**	**107.9**
Interest rate contracts	**-**	**-**	**-**
Total asset balances	**1.8**	**1.8**	
Exchange rate contracts	**0.8**	**0.8**	**158.6**
Interest rate contracts	**1.7**	**1.7**	**6.2**
Total liability balances	**2.5**	**2.5**	
Fair value of hedging instruments	**(0.7)**	**(0.7)**	

At 31 March 2016	Economic hedges £m	Total £m	Notional amounts £m
Exchange rate contracts	11.1	11.1	100.4
Interest rate contracts	0.4	0.4	4.0
Total asset balances	11.5	11.5	
Exchange rate contracts	7.3	7.3	210.2
Interest rate contracts	4.4	4.4	60.5
Total liability balances	11.7	11.7	
Fair value of hedging instruments	(0.2)	(0.2)	

34. Financial instruments (continued)

(e) Hedge accounting (continued)

The Company had the following types of hedges:

At 31 March 2017	Economic hedges £m	Total £m	Notional amounts £m
Exchange rate contracts	1.8	1.8	107.9
Interest rate contracts	-	-	-
Total asset balances	**1.8**	**1.8**	
Exchange rate contracts	0.8	0.8	158.6
Interest rate contracts	1.7	1.7	6.2
Total liability balances	**2.5**	**2.5**	
Fair value of hedging instruments	**(0.7)**	**(0.7)**	

(f) Fair value measurement

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

Group At 31 March 2017	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets:				
Derivative financial assets	-	1.8	-	1.8
Financial liabilities:				
Derivative financial liabilities	-	(2.5)	-	(2.5)
Net financial liabilities	-	(0.7)	-	(0.7)

Group At 31 March 2016	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets:				
Derivative financial assets	-	11.5	-	11.5
Financial liabilities:				
Derivative financial liabilities	-	(11.7)	-	(11.7)
Net financial assets	-	(0.2)	-	(0.2)

34. Financial instruments (continued)

(f) Fair value measurement (continued)

Company

At 31 March 2017	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets:				
Derivative financial assets	-	1.8	-	1.8
Financial liabilities:				
Derivative financial liabilities	-	(2.5)	-	(2.5)
Net financial liabilities	-	(0.7)	-	(0.7)

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

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

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

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

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

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

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

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

For financial assets and liabilities which are not carried at fair value, the fair values disclosed in note 34(a) are calculated on the following bases:

Group

At 31 March 2017	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets:				
Cash at bank and in hand	700.5	-	-	700.5
Investment securities	-	258.4	-	258.4
Loans to customers	-	-	8,553.6	8,553.6
Other financial assets	-	19.4	-	19.4
	700.5	277.8	8,553.6	9,531.9
Financial liabilities:				
HM Treasury loans	4,594.2	-	-	4,594.2
Debt securities in issue	-	230.9	-	230.9
Other financial liabilities	-	32.5	-	32.5
	4,594.2	263.4	-	4,857.6

34. Financial instruments (continued)

(f) Fair value measurement (continued)

Group

At 31 March 2016	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets:				
Cash at bank and in hand	1,445.4	-	-	1,445.4
Investment securities	-	336.0	-	336.0
Loans to customers	-	-	10,572.7	10,572.7
Other financial assets	-	19.7	-	19.7
	1,445.4	355.7	10,572.7	12,373.8
Financial liabilities:				
Amounts due to banks	0.6	-	-	0.6
HM Treasury loans	7,465.6	-	-	7,465.6
Debt securities in issue	-	283.4	-	283.4
Capital instruments	-	4.1	-	4.1
Other financial liabilities	-	83.4	-	83.4
	7,466.2	370.9	-	7,837.1

Company

At 31 March 2017	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets:				
Cash at bank and in hand	**700.5**	**-**	**-**	**700.5**
Investment securities	**-**	**258.4**	**-**	**258.4**
Loans to customers	**-**	**-**	**8,553.6**	**8,553.6**
Other financial assets	**-**	**19.3**	**-**	**19.3**
	700.5	**277.7**	**8,553.6**	**9,531.8**
Financial liabilities:				
HM Treasury loans	**4,594.2**	**-**	**-**	**4,594.2**
Debt securities in issue	**-**	**230.9**	**-**	**230.9**
Other financial liabilities	**-**	**32.8**	**-**	**32.8**
	4,594.2	**263.7**	**-**	**4,857.9**

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

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

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

Loans to customers
Loans to customers include loans of varying rates and maturities. Fair value is estimated by discounting expected future cash flows using market interest rates. Expected future cash flows take account of estimated future losses. Market interest rates are based on current lending activity in the mortgage market. In respect of the majority of the Group's fixed interest rate loans, the change in interest rates since inception means that their fair value can vary significantly from their carrying value; the Group's policy is to hedge fixed rate loans in respect of interest rate risk.

34. Financial instruments (continued)

(f) Fair value measurement (continued)

Amounts due to banks

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

HM Treasury loans

The fair value is estimated to be the carrying amount as the loan is considered to be repayable on demand subject to timing of repayment of loans to customers.

Debt securities in issue and capital instruments

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

Other financial assets and liabilities

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

(g) Offsetting

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

Group **At 31 March 2017**	**Gross and net amounts as reported on the Balance Sheet**	**Amounts available to be offset (but not offset on the Balance Sheet)**		**Net amounts after offsetting under IFRS 7**
		Master netting arrangements	**Financial collateral**	
	£m	**£m**	**£m**	**£m**
Derivative financial assets	**1.8**	**(1.4)**	**-**	**0.4**
Derivative financial liabilities	**(2.5)**	**1.4**	**1.1**	**-**
	(0.7)	**-**	**1.1**	**0.4**

Group At 31 March 2016	Gross and net amounts as reported on the Balance Sheet	Amounts available to be offset (but not offset on the Balance Sheet)		Net amounts after offsetting under IFRS 7
		Master netting arrangements	Financial collateral	
	£m	£m	£m	£m
Derivative financial assets	11.5	(1.2)	(0.4)	9.9
Derivative financial liabilities	(11.7)	1.2	8.9	(1.6)
	(0.2)	-	8.5	8.3

Company **At 31 March 2017**	**Gross and net amounts as reported on the Balance Sheet**	**Amounts available to be offset (but not offset on the Balance Sheet)**		**Net amounts after offsetting under IFRS 7**
		Master netting arrangements	**Financial collateral**	
	£m	**£m**	**£m**	**£m**
Derivative financial assets	**1.8**	**(1.4)**	**-**	**0.4**
Derivative financial liabilities	**(2.5)**	**1.4**	**1.1**	**-**
	(0.7)	**-**	**1.1**	**0.4**

34. Financial instruments (continued)

(h) IFRS 9

In July 2014 the IASB published the final version of IFRS 9 'Financial Instruments', which will replace IAS 39 except for the elements of IAS 39 relating to macro-hedging. IFRS 9 will be effective for annual periods beginning on or after 1 January 2018. The Group is not intending to take the option of early adoption, and hence will first apply IFRS 9 for the 2018/19 financial year. IFRS 9 does not require prior period comparative information to be restated to comply with IFRS 9, and the Group intends to follow this approach.

Implementation will require significant judgements in respect of the Group's business model, and changes to the Group's established fair value and provisioning models, methods and management judgements. The Group summarises below its expected approach to the classification and measurement, impairment and hedge accounting IFRS 9 requirements for financial instruments.

Classification and measurement

Under IFRS 9, classification of financial assets is determined by the business model under which the assets are managed and the contractual cash flow characteristics of the assets. Financial assets may be measured at amortised cost, fair value through profit and loss ('FVP&L') or fair value through other comprehensive income ('FVOCI'). For assets carried at FVOCI, impairment charges and credits are still taken to the Income Statement.

The business model may be considered to be one of holding the asset to collect the cash flows arising; holding the asset to sell it or to collect the cash flows arising; or holding the asset to sell it. IFRS 9 requires the business model to be assessed on the date of first application of IFRS 9, i.e. 1 April 2018.

The contractual cash flow characteristics of an asset may be considered to be 'solely payments of principal and interest' on the principal amount outstanding ('SPPI') or not to be SPPI.

The measurement classifications of financial assets are as follows:

	SPPI	Not SPPI
Held to collect	Amortised cost	FVP&L
Held to collect and sell	FVOCI	FVP&L
Held to sell	FVP&L	FVP&L

The Group expects to continue to hold most of its non-lending financial assets at amortised cost as they are used in the normal day to day operation of the business. Derivative financial assets will continue to be classified as FVP&L.

The Group's business model for its principle financial asset, loans to customers, is expected to be one of held to collect and sell, as these assets are managed in order to maximise taxpayer value with strategic assets sales undertaken where suitable market opportunities are identified. The cash flows of the majority of the loans are expected to be SPPI. Therefore it is expected that the majority of the Group's loans to customers will be carried at FVOCI.

The accounting treatment of the Group's financial liabilities is not expected to change upon implementation of IFRS 9.

Impairment of financial assets

IFRS 9 replaces the IAS 39 'incurred loss' approach to impairment provisioning with a forward looking 'expected loss' approach.

Each financial asset is categorised as 'stage 1', 'stage 2' or 'stage 3'. Stage 1 assets are those for which there has been no significant increase in credit risk since the asset's origination. Stage 2 assets are those for which there has been a significant increase in credit risk since the asset's origination. Stage 3 assets are those which are in default.

In respect of stage 1 assets, the impairment provision reflects the next 12 months' expected losses. In respect of stage 2 and 3 assets, the impairment provision reflects full lifetime expected losses. In respect of stage 3 assets, interest income is recognised only in respect of the balance net of impairment.

In respect of loans to customers carried at FVOCI, we have taken the view that we cannot ascertain which loans have experienced a significant increase in credit risk since the loan's origination without undue cost and effort, and hence the Group intends to categorise all FVOCI loans as stage 2 or 3; this approach is permitted by IFRS 9.

Hedge accounting

IFRS 9 is expected to better align risk management activities and financial hedge accounting. The Group expects to adopt IFRS 9 although this is not expected to have any material impact upon the existing IAS 39 accounting for one-to-one hedge accounting relationships. As IFRS 9 does not deal with macro-hedging, the Group expects to continue to apply the existing IAS 39 macro-hedge accounting rules. Development of the IASB's 'Dynamic Risk Management' project, which is intended to replace the existing macro-hedge accounting rules in due course, are being monitored.

Implementation

The Group established an IFRS 9 Implementation Project Steering Committee in January 2016 including representatives of finance and risk. Progress is reported to the Audit Committee at regular intervals. The Group has engaged a firm of external technical accounting specialists to support the project and external modelling consultants to build fair value and impairment models. It is planned that the IFRS 9 models will be tested on a monthly basis commencing during the first half of 2017/18 and that parallel running of IFRS 9 and IAS 39 models and processes will commence during the second half of 2017/18.

35. Collateral pledged and received

	Group		Company	
	2017	2016	**2017**	2016
	£m	£m	**£m**	£m
Cash collateral which the Group/Company has provided in respect of derivative contracts	**3.4**	9.1	**3.4**	-
Total collateral pledged	**3.4**	9.1	**3.4**	-

	Group		Company	
	2017	2016	**2017**	2016
	£m	£m	**£m**	£m
Cash collateral which the Group/Company has received in respect of derivative contracts	-	0.6	-	-
Total collateral received	-	0.6	-	-

The cash collateral pledged shown above is carried on the Balance Sheet within cash at bank and in hand. The liability to repay the cash collateral received is included within amounts due to banks in the Balance Sheet.

36. Financial risk management

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

(a) Credit risk

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

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

	Group		Company	
	31 Mar 2017	31 Mar 2016	**31 Mar 2017**	31 Mar 2016
	£m	£m	**£m**	£m
On Balance Sheet:				
Cash at bank and in hand	**700.5**	1,445.4	**700.5**	-
Investment securities	**260.0**	335.5	**260.0**	-
Loans to customers	**8,553.6**	10,572.7	**8,553.6**	-
Derivative financial instruments	**1.8**	11.5	**1.8**	-
Other financial assets	**19.4**	19.7	**19.3**	-
Total on Balance Sheet	**9,535.3**	12,384.8	**9,535.2**	-
Off Balance Sheet:				
Loan commitments (see note 31)	**323.5**	417.3	**323.5**	-

Loans to customers include loans which are secured on property. Additional information in respect of credit risk is provided in note 13 (for wholesale assets) and note 14 (for loans to customers).

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

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

36. Financial risk management (continued)

(a) Credit risk (continued)

Concentration risk

The Group has investments in a range of investment securities issued by government bodies and banks, and in asset-backed securities, in both the UK and overseas. 62% (31 March 2016: 57%) of the asset-backed securities are backed by UK assets. Further details in respect of concentrations in the wholesale assets portfolio are given in note 13.

The Group operates primarily in the UK and adverse changes to the UK economy could impact all areas of the Group's business. Residential loans to customers are all secured on property in the UK. 30% (31 March 2016: 28%) of residential loans to customers are concentrated in the buy-to-let market; the remaining balances are mainly secured on residential owner-occupied properties.

The residential loan book of £8.2bn (31 March 2016: £10.1bn) is geographically spread across the UK broadly in line with the country's housing stock. Consequently, there is a geographic concentration of mortgages secured on properties in London and the South-East representing 29% (31 March 2016: 30%) of the book.

Within the commercial mortgage portfolio there are 38 loans (31 March 2016: 48) totalling £78.9m (31 March 2016: £115.2m), the largest 10 loans accounting for 89% (31 March 2016: 84%) of the portfolio. All of these loans are secured on commercial and housing association properties.

(b) Liquidity risk

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

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

Group At 31 March 2017	On demand £m	Within three months £m	After three months but within six months £m	After six months but within one year £m	After one year but within five years £m	After five years £m	Total £m
Financial assets:							
Cash at bank and in hand	700.4	0.1	-	-	-	-	700.5
Investment securities	10.6	0.2	-	0.1	3.9	245.2	260.0
Loans to customers	119.1	31.4	48.6	54.2	466.2	7,834.1	8,553.6
Derivative financial instruments	-	1.8	-	-	-	-	1.8
Other financial assets	-	19.4	-	-	-	-	19.4
Total financial assets	830.1	52.9	48.6	54.3	470.1	8,079.3	9,535.3
Financial liabilities:							
HM Treasury loans	4,589.2	5.0	-	-	-	-	4,594.2
Derivative financial instruments	-	0.8	-	-	0.2	1.5	2.5
Debt securities in issue	-	-	-	4.2	200.0	-	204.2
Other financial liabilities	-	32.5	-	-	-	-	32.5
Total financial liabilities	4,589.2	38.3	-	4.2	200.2	1.5	4,833.4

36. Financial risk management (continued)

(b) Liquidity risk (continued)

Group At 31 March 2016	On demand £m	Within three months £m	After three months but within six months £m	After six months but within one year £m	After one year but within five years £m	After five years £m	Total £m
Financial assets:							
Cash at bank and in hand	1,425.0	20.4	-	-	-	-	1,445.4
Investment securities	11.8	1.7	1.4	2.7	25.9	292.0	335.5
Loans to customers	153.2	52.9	37.3	67.5	630.7	9,631.1	10,572.7
Derivative financial instruments	-	10.5	-	1.0	-	-	11.5
Other financial assets	-	19.7	-	-	-	-	19.7
Total financial assets	1,590.0	105.2	38.7	71.2	656.6	9,923.1	12,384.8
Financial liabilities:							
Amounts due to banks	0.6	-	-	-	-	-	0.6
HM Treasury loans	7,455.8	9.8	-	-	-	-	7,465.6
Derivative financial instruments	-	1.0	6.3	-	1.7	2.7	11.7
Debt securities in issue	-	50.2	-	-	199.9	-	250.1
Capital instruments	-	0.1	-	4.0	-	-	4.1
Other financial liabilities	-	83.4	-	-	-	-	83.4
Total financial liabilities	7,456.4	144.5	6.3	4.0	201.6	2.7	7,815.5

Company **At 31 March 2017**	**On demand £m**	**Within three months £m**	**After three months but within six months £m**	**After six months but within one year £m**	**After one year but within five years £m**	**After five years £m**	**Total £m**
Financial assets:							
Cash at bank and in hand	**700.4**	**0.1**	**-**	**-**	**-**	**-**	**700.5**
Investment securities	**10.6**	**0.2**	**-**	**0.1**	**3.9**	**245.2**	**260.0**
Loans to customers	**119.1**	**31.4**	**48.6**	**54.2**	**466.2**	**7,834.1**	**8,553.6**
Derivative financial instruments	**-**	**1.8**	**-**	**-**	**-**	**-**	**1.8**
Other financial assets	**-**	**19.3**	**-**	**-**	**-**	**-**	**19.3**
Total financial assets	**830.1**	**52.8**	**48.6**	**54.3**	**470.1**	**8,079.3**	**9,535.2**
Financial liabilities:							
HM Treasury loans	**4,589.2**	**5.0**	**-**	**-**	**-**	**-**	**4,594.2**
Derivative financial instruments	**-**	**0.8**	**-**	**-**	**0.2**	**1.5**	**2.5**
Debt securities in issue	**-**	**-**	**-**	**4.2**	**200.0**	**-**	**204.2**
Other financial liabilities	**-**	**32.8**	**-**	**-**	**-**	**-**	**32.8**
Total financial liabilities	**4,589.2**	**38.6**	**-**	**4.2**	**200.2**	**1.5**	**4,833.7**

HM Treasury has indicated that it expects the loan provided to the Group to be repaid out of the cash flows generated by the Group during its wind-down. It is not possible to specify the contractual maturity dates of the loan to the Group from HM Treasury and therefore it has been included in the table above as though repayable on demand.

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

Assets and liabilities with a remaining period to contractual maturity of within one year are classed as current and those with a remaining period of more than one year are classed as non-current. Non-financial assets and liabilities of the Group and Company amount to £222.1m and £234.6m respectively (31 March 2016: £230.2m and £394.9m) of which £nil and £64.2m respectively are classed as current (31 March 2016: £0.8m and £214.5m) and £222.1m and £170.4m respectively are classed as non-current (31 March 2016: £229.4m and £180.4m).

36. Financial risk management (continued)

(b) Liquidity risk (continued)

Non-derivative cash flows

The table below analyses the Group's and Company's non-derivative cash flows payable into relevant periods. The assumptions used in the preparation of this table are consistent with those used in the maturity table on pages 65 and 66. The amounts disclosed are the contractual undiscounted cash outflows; these differ from Balance Sheet values due to the effects of discounting on certain Balance Sheet items and due to the inclusion of contractual future interest flows.

Group **At 31 March 2017**	**On demand £m**	**Within three months £m**	**After three months but within six months £m**	**After six months but within one year £m**	**After one year but within five years £m**	**After five years £m**	**Total £m**
Financial liabilities:							
HM Treasury loans	**4,589.2**	**5.0**	**-**	**-**	**-**	**-**	**4,594.2**
Debt securities in issue	**-**	**-**	**-**	**12.8**	**225.5**	**-**	**238.3**
Other financial liabilities	**-**	**32.5**	**-**	**-**	**-**	**-**	**32.5**
Loan commitments	**319.1**	**0.1**	**0.1**	**0.3**	**1.7**	**2.2**	**323.5**
Total	**4,908.3**	**37.6**	**0.1**	**13.1**	**227.2**	**2.2**	**5,188.5**

Group At 31 March 2016	On demand £m	Within three months £m	After three months but within six months £m	After six months but within one year £m	After one year but within five years £m	After five years £m	Total £m
Financial liabilities:							
Amounts due to banks	0.6	-	-	-	-	-	0.6
HM Treasury loans	7,455.8	9.8	-	-	-	-	7,465.6
Debt securities in issue	-	50.3	0.5	13.7	245.9	-	310.4
Capital instruments	-	0.2	-	4.3	-	-	4.5
Other financial liabilities	-	83.4	-	-	-	-	83.4
Loan commitments	412.0	0.2	0.2	0.2	1.9	2.8	417.3
Total	7,868.4	143.9	0.7	18.2	247.8	2.8	8,281.8

Company **At 31 March 2017**	**On demand £m**	**Within three months £m**	**After three months but within six months £m**	**After six months but within one year £m**	**After one year but within five years £m**	**After five years £m**	**Total £m**
Financial liabilities:							
HM Treasury loans	**4,589.2**	**5.0**	**-**	**-**	**-**	**-**	**4,594.2**
Debt securities in issue	**-**	**-**	**-**	**12.8**	**225.5**	**-**	**238.3**
Other financial liabilities	**-**	**32.8**	**-**	**-**	**-**	**-**	**32.8**
Loan commitments	**319.1**	**0.1**	**0.1**	**0.3**	**1.7**	**2.2**	**323.5**
Total	**4,908.3**	**37.9**	**0.1**	**13.1**	**227.2**	**2.2**	**5,188.8**

36. Financial risk management (continued)

(b) Liquidity risk (continued)

Derivative cash flows

The following table analyses cash outflows for the Group's and Company's derivative financial liabilities. The amounts are allocated into relevant periods using assumptions consistent with those used in the preparation of the maturity table on pages 65 and 66.

Group and Company	**On demand**	**Within three months**	**After three months but within six months**	**After six months but within one year**	**After one year but within five years**	**After five years**	**Total**
At 31 March 2017	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Derivative financial liabilities to be settled on a net basis	**-**	**0.1**	**0.1**	**0.1**	**0.9**	**0.7**	**1.9**
Derivative financial liabilities to be settled on a gross basis:							
- outflows	**-**	**158.6**	**-**	**-**	**-**	**-**	**158.6**
- inflows	**-**	**(157.9)**	**-**	**-**	**-**	**-**	**(157.9)**
Total	**-**	**0.8**	**0.1**	**0.1**	**0.9**	**0.7**	**2.6**

Group	On demand	Within three months	After three months but within six months	After six months but within one year	After one year but within five years	After five years	Total
At 31 March 2016	£m	£m	£m	£m	£m	£m	£m
Derivative financial liabilities to be settled on a net basis	-	0.5	0.3	0.6	2.2	1.2	4.8
Derivative financial liabilities to be settled on a gross basis:							
- outflows	-	-	79.3	0.1	0.8	3.6	83.8
- inflows	-	(0.2)	(73.0)	(0.1)	(0.7)	(3.4)	(77.4)
Total	-	0.3	6.6	0.6	2.3	1.4	11.2

(c) Market risk

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

Activity	**Risk**	**Type of derivative instrument used**
Fixed rate mortgages	Sensitivity to changes in interest rates	Interest rate swaps
Variable rate mortgage balances	Sensitivity to changes in interest rates	Interest rate swaps
Legacy investments and funding in foreign currencies	Sensitivity to changes in foreign currency exchange rates	Foreign exchange contracts

36. Financial risk management (continued)

(c) Market risk (continued)

Cross currency swaps:

The accounting policy for derivatives and hedge accounting is described in note 1(g), and further details of hedge accounting are provided in note 34(e).

Interest rate risk

Interest rate risk typically arises from mismatches between the repricing dates of interest-bearing assets and liabilities on the Group's / Company's Balance Sheet and from the investment profile of the Group's/ Company's capital and reserves. The Group's Treasury function is responsible for managing this exposure within the risk exposure limits set out in the Treasury Risk policy, as approved by the Board. This policy sets out the nature of the market risks that may be taken along with aggregate risk limits, and stipulates the procedures, instruments and controls to be used in managing market risk.

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

The Group / Company measures, monitors and controls the following interest rate risks and sensitivities:

- Mismatch risk
- Curve
- Prepayment risk
- Basis risk
- Reset risk

Interest rate risk exposure is predominantly managed through the use of interest rate derivatives, principally interest rate swaps.

Interest rate sensitivities are reviewed by senior management with a frequency between daily and monthly dependant on the granularity of the position and reported to ERC monthly. Exposures are calculated using a range of interest rate scenarios, including non-parallel shifts in the yield curve. The main metrics used by management are:

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

	31 Mar 2017 £m	31 Mar 2016 £m
2% increase	**(13.4)**	**(18.2)**
2% decrease	**17.4**	**22.9**

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

	31 Mar 2017 £m	31 Mar 2016 £m
2% increase	**81.9**	74.3
2% decrease	**(12.0)**	(17.9)

36. Financial risk management (continued)

(c) Market risk (continued)

Foreign currency risk

The Group's policy is to hedge all material foreign currency exposures by use of naturally offsetting foreign currency assets and liabilities or by the use of derivatives. Consequently, at 31 March 2017 and 31 March 2016 the Group and Company had no net material exposure to foreign exchange rate fluctuations or changes in foreign currency interest rates. The impact on the Group's and Company's profit and equity of reasonably possible changes in exchange rates compared to actual rates would not have been material at 31 March 2017 or 31 March 2016.

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

Group and Company

At 31 March 2017	€ £m	$ £m	Total £m
Financial assets:			
Cash at bank and in hand	**0.3**	**0.5**	**0.8**
Investment securities	**162.2**	**7.0**	**169.2**
Derivative financial instruments	**(98.1)**	**(8.0)**	**(106.1)**
Total financial assets	**64.4**	**(0.5)**	**63.9**
Financial liabilities:			
Derivative financial instruments	**64.0**	**-**	**64.0**
Total financial liabilities	**64.0**	**-**	**64.0**
Net currency gap	**0.4**	**(0.5)**	**(0.1)**

Group

At 31 March 2016	€ £m	$ £m	Total £m
Financial assets:			
Cash at bank and in hand	6.1	14.2	20.3
Investment securities	207.1	8.3	215.4
Derivative financial instruments	31.2	(7.8)	23.4
Total financial assets	244.4	14.7	259.1
Financial liabilities:			
Derivative financial instruments	213.8	3.5	217.3
Debt securities in issue	29.6	11.0	40.6
Total financial liabilities	243.4	14.5	257.9
Net currency gap	1.0	0.2	1.2

37. Contingent liabilities

(a) As detailed in note 27, whilst the Court of Appeal provided clarity that loans greater than £25,000 were not covered under the Consumer Credit Act, there is a risk that individual customers could make claims against the Company. This could result in costs to NRAM where such claims are upheld. It is not possible to provide any meaningful estimate or range of the possible cost.

(b) NRAM Limited provided certain warranties and indemnities to Cerberus in respect of the sale to Cerberus of certain loans and the shares in NRAM plc. The sale agreement set various time limits for bringing claims under the warranties. For most of the warranties this time limit is 5 May 2018 or 5 May 2019, while for certain tax-related warranties the time limit is 5 May 2023.

(c) The Group's lending and other consumer credit business is governed by consumer credit law and other regulations. Claims upheld in favour of customers in relation to potential breaches of requirements could result in costs to the Group. It is not possible to provide any meaningful estimate or range of the possible cost.

(d) The Company has provided a number of financial guarantees to other NRAM Group companies. The Directors believe the probability that any claims will be made under these guarantees is remote and hence no provision has been made.

38. Ultimate controlling party

The Company is a wholly-owned subsidiary of UK Asset Resolution Limited, a private limited company incorporated and domiciled in the United Kingdom, which is wholly owned by the Treasury Solicitor as nominee for HM Treasury and is the Group's ultimate parent undertaking. UK Asset Resolution Limited heads the largest and smallest group of companies into which these Financial Statements of NRAM are consolidated. Copies of the financial statements of UK Asset Resolution Limited may be obtained from the Company Secretary at Croft Road, Crossflatts, Bingley BD16 2UA. The results of the UKAR Group are consolidated into those of HM Treasury as presented in HM Treasury's Annual Report & Accounts.

39. Events after the reporting period

The Directors are of the opinion that there have been no significant events which have occurred since 31 March 2017 to the date of this report that are likely to have a material effect on the financial position of the Group or Company as disclosed in these Financial Statements.