NRAM

NRAM plc

Annual Report & Accounts

for the 12 months to 31 March 2016

Registered in England and Wales under company number 03273685

11-7-16 – S FES

Contents

The Directors present their Annual Report and Accounts for the year to 31 March 2016 NRAM plc ('NRAM' or 'the Company') is a public limited company which was incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales The Company and its subsidiary undertakings comprise the NRAM plc Group ('the Group')

Overview

The Group and Company primarily operates as a servicer of mortgage loans secured on residential properties and of associated services No new lending is carried out

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

NRAM was taken into public ownership on 22 February 2008 During 2007 and 2008 loan facilities to the Company 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 the Company confirming the facilities provided by HM Treasury, thereby removing the material uncertainty over the Company's ability to continue as a going concern which previously existed

Following the completion of legal and capital restructuring on 1 January 2010, the Company 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

In November 2015 UKAR announced the sale of £13bn of loans from NRAM to affiliates of Cerberus Capital Management LP ('Cerberus') The structure of the transaction means that Cerberus purchased NRAM plc after the financial year-end on 5 May 2016 Prior to the sale, 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 For further details see note 38 – Events after the reporting period

On 4 May 2016 it was announced that UKAR had signed a seven year contract with Computershare for the outsourcing of mortgage servicing operations On commencement of the outsourcing arrangement around 1,700 colleagues will transfer to Computershare

The overall aim of UKAR is to maximise value for the taxpayer This will be achieved by focusing on key activities and themes based on each of the following three objectives

- reduce, protect and optimise the Balance Sheet,
- to maximise cost effectiveness and efficiency through continuous improvement, and
- to be excellent in customer and debt management

These objectives are underpinned by the need to treat all stakeholders fairly

Following the acquisition of 100% of the shares of the Company by a Cerberus affiliate on 5 May 2016, the new Directors have an expectation of the Company to carry on as a servicer of mortgage loans secured on residential properties and of associated services The beneficial title to all the mortgage loans had been transferred outside of the Company following the events described in the above paragraphs As the Company does not have a servicing platform, the servicing of mortgage loans had been sub-delegated to an outsourced mortgage servicing supplier

The new aim of NRAM plc is to focus on ensuring that the sub-delegated mortgage servicing standards are of satisfactory quality and are sufficiently robust to meet the FCA regulatory requirements

Highlights of 2015/16

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

- Balance Sheet reduced by a further £22 0bn bringing the total reduction to £57 2bn, 82% since formation of UKAR in 2010
- Total payments of £6 5bn made to taxpayers for the year, including £6 2bn loan repayments
- Mortgage accounts three or more months in arrears, including possessions, have reduced by 58% since March 2015 to 3,574
- Underlying profit before tax of £618 9m is down by 31% but in line with expectations and reflects reducing mortgage balances driven by loan sales and customer redemptions
- Release of the remediation provision of £268 3m relating to unsecured loans greater than £25k, following the Court of Appeal ruling in July 2015
- Completed the sale of c £13bn customer loans to Cerberus
- Balance Sheet significantly simplified with the two remaining secured funding structures either repaid in full or now in a position to wind-up in the next three months

Key performance indicators ('KPIs')

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

Strategic priorities	Financial measures	March 2016	March 2015	Commentary
Optimise the Balance Sheet	Total lending balances £bn Secured £bn Unsecured £bn	10 6 10 2 0 4	25 4 24 3 1 1	Lending balances reduced by 58 7% during the year due to £11 7bn of asset sales, £2 8bn of residential redemptions, £0 1bn of unsecured loan redemptions and £0 3bn of other capital repayments
	Residential mortgage redemption rate % Residential redemptions £bn	11 5 2 8	11 7 3 5	Redemption rates have decreased compared to 2015 with increases in house prices improved levels of remortgage activity across the market and more competitive deals being available, being more than offset by the impact of asset sales
	Government loan repayments £bn Government loan balance £bn	6 2 7 5	1 3 13 6	£6 2bn was repaid against the government loan The main driver of the increase is the £13 0bn asset sale which enabled a repayment of £5 0bn from the transaction proceeds, after repaying the Granite securitisation liabilities
	Total cash payments to HM Treasury £bn	6 5	1 6	Total cash paid to HM Treasury during the year This includes principal and interest repayments, guarantee fees and corporation tax paid The main driver of the increase is the higher repayments of loan principal as explained above
Minimise impairment and losses	Residential arrears balance total residential mortgage balance % Residential payments overdue £m	0 33 33 4	0 30 71 3	This represents the value of customers' missed payments as a proportion of the total balance of all residential mortgages The increase largely reflects the mix of residential loans sold
	Residential arrears 3 months and over and possessions as % of the book - by value - by number of accounts Number of residential arrears 3 months and over and possessions cases	 5 49 4 06 3,574	 5 03 3 75 8,451	Arrears cases have fallen as a direct consequence of the sale of assets, continued focus on customers in financial difficulty and the continuing support provided to mortgage customers by low interest rates Arrears as a percentage of the book have increased largely due to the mix of residential loans sold
	Impairment provisions Residential secured £m Cover % Unsecured £m Cover % Commercial / other £m Cover %	 214 9 2 09 96 3 19 72 9 3 7 47	 388 5 1 58 205 1 16 20 15 9 10 40	The level of the residential impairment Balance Sheet provision reduced by £173 6m The reduced provision reflects the sale of assets, improved arrears performance, the benefit of improving house prices and realised losses within the year The level of cover increased from 1 58% to 2 09% largely due to the mix of residential mortgage loans sold during the year
Reduce costs	Total Costs £m Ongoing costs £m Ratio of costs to average interest-earning assets - statutory % - ongoing %	77 6 77 6 0 34 0 34	89 5 89 5 0 26 0 26	Ongoing costs have reduced primarily reflecting lower servicing costs following the sale of assets to Cerberus The ratio of ongoing costs to average interest-earning assets has increased as the Balance Sheet has reduced faster than costs

Business review

These financial results are for the year to 31 March 2016

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 certain gains or losses such as the repurchase of our own 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 which are expected to be held to maturity 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 measure of performance An analysis of the difference between the statutory profit and the underlying profit of the Group is provided below

Underlying profit for the year to March 2016 has decreased by £276 2m to £618 9m (March 2015 £895 1m) The decrease in comparable annual profits was primarily due to a lower net interest income from the reducing Balance Sheet

Underlying net operating income for the year to March 2016 decreased by £269 1m to £630 5m (March 2015 £899 6m), primarily due to lower income from the reducing Balance Sheet

Ongoing administrative expenses continue to fall For the year to March 2016 expenses were 13% lower than the previous year at £77 6m (March 2015 £89 5m) Impairment on loans to customers for the year to March 2016 was a credit of £60 9m (March 2015 £70 6m credit) a decrease of £9 7m from March 2015 Net impairment on investment securities was a £5 1m credit for the year to March 2016 (March 2015 £14 4m credit) The number of mortgage accounts three or more months in arrears including possessions reduced by 58% from 8,451 at March 2015 to 3,574 at March 2016

For the year to March 2016, statutory profit before tax was £843 0m (March 2015 £558 9m) and includes a £198 8m credit to customer redress, which principally relates to the release of a £268 3m provision for the court case regarding unsecured loans over £25k Please see page 54 for further details

Reconciliation of underlying profit before taxation to statutory profit before taxation

For the year ended 31 March	2016 £m	2015 £m
Net interest income	**619.4**	891 4
Underlying net non-interest income[1]	**11 1**	8 2
Underlying net operating income	**630 5**	899 6
Ongoing administrative expenses	**(77 6)**	(89 5)
Impairment on loans to customers credit	**60 9**	70 6
Net impairment release on investment securities	**5 1**	14 4
Underlying profit before taxation	**618 9**	895 1
Unrealised fair value movements on financial instruments	**0 2**	(31 6)
Hedge ineffectiveness	**(21 9)**	(7 1)
Provision for customer redress	**198 8**	(284 7)
Profit on sale of loans	**62 8**	7 0
Loss on repurchase of own liabilities	**(15 8)**	(19 8)
Statutory profit before taxation	**843 0**	558 9

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 2016 was £619 4m (March 2015 £891 4m) The reduction in income is primarily due to the decrease in average interest-earning assets over the year, driven by the sale of assets and customer redemptions

Net interest margin increased to 2 68% from 2 57% driven by an increase in the proportion of interest-free funding (i e equity and reserves) on the NRAM Balance Sheet

Underlying net non-interest income

Underlying net non-interest income was £11 1m for the year to March 2016 (March 2015 £8 2m) The increase is primarily due to the recognition of £6 3m of servicing fee income following the sale of loans to Cerberus, partly offset by lower redemption and arrears fee income

Provision for customer redress

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

In December 2014 the High Court ruled that customers with loans over £25,000, who had incorrectly been sent documentation stating that their loans were regulated under the CCA, should receive remediation in line with that provided in 2012 on CCA loans of less than £25,000 Therefore, a charge of £268 3m was recognised in the year ended March 2015 However, in July 2015 NRAM successfully appealed this decision through the Court of Appeal and as such the charge has been reversed in the current year

NRAM 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 A further charge of £69 5m for customer redress has been made during the year to address inherited issues largely relating to PPI following the publication of the FCA consultation paper regarding a potential time bar and Plevin v Paragon Personal Finance Limited ('the Plevin case')

Accounting volatility on derivative financial instruments

NRAM uses derivative financial instruments for economic hedging purposes During the year the number of such instruments reduced significantly due to the Covered Bond buybacks, the redemption of the Granite structure and the sale of assets Subsequently NRAM de-designated its remaining IAS 39 'Financial Instruments Recognition and Measurement' compliant fair value or cash flow hedge relationships

The Income Statement charge for hedge ineffectiveness was £21 9m in the year (March 2015 £7 1m)

Unrealised fair value movements were a gain of £0 2m in the year (March 2015 £31 6m loss) These gains and losses generally relate to derivatives that act as an economic hedge but were not treated as an accounting hedge under IAS 39 'Financial Instruments Recognition and Measurement'

Ongoing administrative expenses

Ongoing administrative expenses for the year to March 2016 were £77 6m (March 2015 £89 5m) The ratio of costs to average interest-earning assets was 0 34% (March 2015 0 26%) Ongoing costs have reduced primarily reflecting lower servicing costs following the sale of assets to Cerberus The ratio of ongoing costs to average interest-earning assets has increased as the Balance Sheet reduces faster than costs

Arrears and loan impairment

Strong arrears performance continues NRAM has seen arrears fall as a direct consequence of asset sales and proactive arrears management coupled with the continued low interest rate environment Residential loan impairment for the year was a £56 7m credit (March 2015 £91 1m credit) This was £34 4m lower than the prior year, reflecting slower house price growth and lower recoveries Write-offs in the year totalled £51 5m (March 2015 £91 5m)

The residential loan impairment provision has reduced by £173 6m since March 2015 to £214 9m (March 2015 £388 5m) reflecting the sale of assets, improved arrears performance, realised losses and the benefit of improving house prices As a proportion of balances, the residential impairment provision was 2 09% (March 2015 1 58%)

The number of cases three months or more in arrears, including those in possession, fell by 58% to close the year at 3,574 cases (March 2015 8,451 cases) due to improving arrears performance and the sale of loans

The number of properties in possession reduced from 590 cases at March 2015 to 180 at March 2016

The number of unsecured loans three months or more in arrears was 4,307 cases (March 2015 8,877) The charge for unsecured loan impairment for the year was £1 5m (March 2015 £22 7m) Asset coverage was 19 7% at 31 March 2016 (March 2015 16 2%)

Business review (continued)

Performance (continued)

Arrears and loan impairment (continued)

The provision for unsecured loans was £96 2m (March 2015 £205 1m) The reduction reflects the sale of assets, realised losses and the reduction in arrears cases Realised losses in the year were £16 5m (March 2015 £32 3m) all of which had previously been fully provided for

Net impairment release on investment assets

NRAM continues to review securities held on the Balance Sheet and believes the risk of further impairment is not significant During the financial year we have identified a number of assets where events have occurred that caused us to reverse impairments previously charged These have resulted in a net credit to impairment in the year of £5 1m (March 2015 £14 4m)

Profit on sale of loans to customers

In November 2015 we announced the £13bn asset sale to Cerberus The portfolio was sold via a competitive process which saw a high level of interest resulting in a sale price in excess of par and a premium in the region of £280m When adjusted for costs, hedging impacts and margins between June 2015 and the completion date this gave an accounting profit on disposal of £59 4m Also, during the year NRAM released £3 4m of warranty provisions relating to sales in earlier periods, as these provisions were no longer required

Loss on repurchase of own liabilities

In the year to 31 March 2016, NRAM repurchased £3,631 9m (March 2015 £253 5m) of its liabilities, resulting in a net loss of £15 8m (March 2015 £19 8m) Whilst this resulted in a net loss within the year, the transactions created value for the taxpayer by removing significant future liabilities, simplifying our Balance Sheet and unencumbering mortgages thus increasing our ability to deliver future sales transactions to the benefit of the taxpayer

Taxation

The overall tax charge for the year is £173 5m (March 2015 £116 7m), giving an effective tax rate of 20 6% (March 2015 20 9%) The effective tax rate is higher than the statutory rate due to disallowable expenses in relation to PPI customer compensation costs following legislation that came into effect on 8 July 2015

Balance Sheet

The Balance Sheet has decreased by £22 0bn since March 2015 primarily as a result of a £14 8bn reduction in lending balances to £10 6bn (March 2015 £25 4bn) The reduction in lending balances included the sale of £11 7bn of residential mortgages, £2 8bn of residential redemptions, £0 1bn of unsecured loan redemptions and £0 3bn of other regular repayments

Liabilities

Wholesale funding reduced by £16 2bn, which included the repayment of £8 1bn of Granite securitisation liabilities and the repurchase of £3 6bn of Covered Bonds At the start of the year, NRAM had £13 6bn of funding (excluding accrued interest) from HM Treasury Repayment of this debt remains a primary objective of NRAM In the year, £6 2bn of HM Treasury debt was repaid and £0 3bn of other cash flows were also generated for HM Treasury in the form of State Guarantee Fees, interest and taxes The Board considers the total of all these cash flows paid to HM Treasury to be an important measure Total cash repayments to HM Treasury in 2015/16 were £6 5bn (March 2015 £1 6bn) At the end of March 2016, the gross government loan balance (excluding accrued interest) was £7 5bn (March 2015 £13 6bn)

Capital

The Company operates under a MIPRU regulatory status While 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 As at 31 March 2016 capital in the Company represented 33 2% 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

The Company's total capital resources of £4,190 0m are £647 6m higher than at 31 March 2015, mainly due to profits generated in the year and the release of the cash flow hedge reserve following the unwind of Granite and Covered Bond funding structures, partly offset by an increase in the net pension adjustment reflecting an increase in the value of pension assets

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 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 Group's financial performance

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 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

At 31 March	Balance Sheet value 2016 £m	Provision 2016 £m	Balance Sheet value 2015 £m	Provision 2015 £m
Loans secured on residential property	**10,066**	**215**	24,169	389
Other secured loans	**115**	**9**	137	16
Unsecured personal loans	**392**	**96**	1,061	205
Wholesale assets	**1,781**	**227**	6,945	227

The Group's ability to influence the structure of its credit risk profiles, in the absence of asset sales, is largely restricted to the degree of control which it has 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 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 ten 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 exposure levels as agreed by the Board

Authorised credit risk limits for wholesale money market 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 Wholesale Risk 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 No new structured finance investments are permitted apart from the purchase of those issued by the Group's own secured funding vehicles

(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

Market risk comprises interest rate risk and foreign exchange risk 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 Market Risk Policy Responsibility for staying within risk appetite is delegated to the Finance & Investment Director and exposures are reported daily by Finance to senior management and monthly by Wholesale Risk to the Asset & Liability Committee ('ALCO') ALCO is responsible for ensuring that the Finance & Investment Director implements market risk strategies consistently 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 maintained within agreed HM Treasury facilities, with minimum liquidity levels set out in the Board approved Liquidity Risk Policy Responsibility for managing liquidity risk is delegated to the Finance & Investment Director Stress tests are used to assess the adequacy of liquidity both daily and monthly by Finance and Wholesale Risk and the results are reported to ALCO ALCO is responsible for ensuring that the strategies of the Finance & Investment Director 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 was established during 2013 The CRF forms part of UKAR's existing Enterprise Wide Risk Management Framework ('EWRMF') Through the EWRMF the approach to conduct risk will be led by Senior Management and the Board It ensures a joined-up and consistent approach to the management of conduct risk and has been integrated into business strategy, management and decision making

The CRF sets out the approach to the effective assessment, management and monitoring of conduct risk in accordance with our stated conduct risk appetite The Group has a zero risk appetite for systemic conduct risk that could lead to unfair customer outcomes or pose a risk to market integrity Conduct risk is an integral part of the way the Group does business, specifically, the interests of customers and market integrity are at the heart of the Group's strategy, business and culture With clear and visible leadership from the Board everyone takes responsibility for good conduct throughout our business model with established controls to deliver fair and appropriate outcomes to our customers Our market conduct ensures that the Group has no impact on market integrity To support this, annual mandatory conduct risk training has been introduced for all colleagues

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 the Group's 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 the Group to comply with its obligations under the regulatory system, as well as associated risks, and 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 objectives of the framework are as follows

- **Risk & Control Self Assessment**
  Provision of a consistent framework for the identification, assessment, monitoring and reporting of significant risks and key controls across the Group Where controls are assessed as ineffective in design or operation, a defined Corrective Action Plan process is in place to develop, track and implement control improvements
- **Operational risk event reporting**
  Provision of a consistent framework for the identification, investigation, assessment and reporting of operational risk events (losses, gains and near misses) across the Group Root cause analysis performed as part of operational risk event reporting enhances the control environment by directing control improvement effort where there is a risk of event recurrence
- **Key Risk Indicators**
  Key Risk Indicators are defined as measured metrics that track changes in the level of risk exposure and control effectiveness through reference to defined risk tolerances that are aligned to the Group's risk appetite These metrics provide an early warning of shifting risk exposures to identify emerging risks and enable control implementation before risks materialise
- **Operational risk weighted financial impact analysis and scenario analysis**
  The Group undertakes operational risk weighted financial impact analysis and scenario analysis to calculate the financial impact of both expected and unexpected operational risk events This analysis facilitates a comparison between operational risk, financial exposure and the operational risk capital allocation derived under the Group's capital adequacy assessment process

(vii) 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 the UKAR Group's overarching strategic objectives Thus, close oversight of movements in strategic risk (proximity, financial impact, probability) is maintained via monthly reporting to the Executive Committee 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

H Young
Company Secretary
29 June 2016

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 35 A description of the principal risks to which the Group and Company are exposed is provided on pages 7 to 9 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 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 NRAM plc was sold to Cerberus as part of the sale of £13bn assets announced in November 2015 As part of this transaction certain assets and liabilities were transferred to a new wholly owned subsidiary of UKAR, NRAM (No 1) Limited, which will continue to operate similar governance arrangements as previously applied to NRAM plc For details see note 38 Events after the Reporting Period

Corporate Governance

During 2015/16 NRAM was governed and controlled by UKAR as its sole shareholder Please refer to the UKAR Group Annual Report and Accounts for a summary of the governance regime applicable to NRAM throughout 2015/16

Directors and Company Secretary

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

R Pym	Chairman for whole of 2015/16, resigned 5 May 2016
R Banks	Director for whole of 2015/16
I Hares	Director for whole of 2015/16
D Lunn	Director for whole of 2015/16, resigned 5 May 2016
K Atkinson	Senior Independent Director for whole of 2015/16, resigned 5 May 2016
M Buckley	Director for whole of 2015/16, resigned 5 May 2016
S Langley	Director for whole of 2015/16, resigned 5 May 2016
K Morgan	Director for whole of 2015/16, resigned 5 May 2016
J Gornall	Company Secretary for whole of 2015/16, resigned 5 May 2016
G Hickey	Appointed 5 May 2016
D Clinton	Appointed 5 May 2016
H Patel	Appointed 5 May 2016
J Mayer	Appointed 5 May 2016
H Ang	Company Secretary appointed 5 May 2016, resigned 3 June 2016
H Young	Company Secretary appointed 3 June 2016

Resignations

There were no resignations during 2015/16

However, on 5 May 2016, as part of the sale of NRAM plc, the Directors, except for Mr Banks and Mr Hares, resigned from the Board of NRAM plc To ensure a smooth transition between 5 May 2016 and final completion Richard Banks and Ian Hares will remain on the Board of NRAM plc as Non-Executive Directors Post final completion they will stand down They will receive no fees for this directorship

New appointments

There were no new appointments during 2015/16

However, on 5 May 2016, as part of the sale of NRAM plc, new Directors are appointed to the Board of NRAM plc They are Mr Clinton (new Non-executive Chairman), Mr Hickey (Managing Director), Mr Patel (Non-executive Director) and Mr Mayer (Non-executive Director)

Directors' interests

Throughout the year UKAR, B&B and NRAM shared 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

Other matters (continued)

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 2016 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

Other matters (continued)

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 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 Group and the Company and of the profit or loss of the Group for that period In preparing these Financial Statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable 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 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

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 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 and 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 7 to 9, 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

Employees

The Non-Executive Directors have service contracts with UKAR All Executive Directors and colleagues were employed by B&B (the legal employer) during 2015/16

Dividends

No dividends were paid during the year to March 2016 (March 2015 nil) As described in note 38(a), on 30 April 2016 the Company paid a dividend of £3,787 4m to NRAM (No 1) Limited

Other matters (continued)

Statement of Directors' responsibilities (continued)

Auditors and disclosure of information to auditors

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

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

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

PricewaterhouseCoopers LLP ('PwC') will continue in office until the conclusion of the Company's next General Meeting The board will then consider the appointment of the Company's new independent auditor from the conclusion of this meeting

H Young
Company Secretary
29 June 2016

Independent Auditors' report to the Members of NRAM plc

Report on the Financial Statements

Our opinion

In our opinion

- NRAM plc's Group Financial Statements and Parent Company Financial Statements (the 'Financial Statements') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2016 and of the Group's profit and the Group's and the Parent Company's cash flows for the year then ended,
- the Group Financial Statements have been properly prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union,
- the Parent Company Financial Statements have been properly prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006

What we have audited

NRAM plc's Financial Statements comprise

- the Group and Parent Company Balance Sheets as at 31 March 2016,
- the Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the year then ended,
- the Group and Parent Company Cash Flow Statements for the year then ended,
- the Consolidated and Parent Company Statements of Changes in Equity for the year then ended,
- the accounting policies, and
- the notes to the Financial Statements, which include other explanatory information

The financial reporting framework that has been applied in the preparation of the Financial Statements is applicable law and IFRS 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

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates In making such estimates, they have made assumptions and considered future events

Opinion on other matter prescribed by the Companies Act 2006

In our 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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion

- we have not received all the information and explanations we require for our audit, or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us, or
- the Parent Company Financial Statements are not in agreement with the accounting records and returns

We have no exceptions to report arising from this responsibility

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made We have no exceptions to report arising from this responsibility

Independent Auditors' report to the Members of NRAM plc (continued)

Responsibilities for the Financial Statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities as set out on pages 12 to 13, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view

Our 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) ('ISAs (UK & Ireland)') Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

What an audit of Financial Statements involves

We conducted our audit in accordance with ISAs (UK & Ireland) 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's 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

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the Financial Statements

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both

In addition, we 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 us in the course of performing the audit If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Gary Shaw (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
29 June 2016

The Accounts

Notes to the Financial Statements

CONSOLIDATED INCOME STATEMENT

	Note	12 months to 31 Mar 2016 £m	12 months to 31 Mar 2015 £m
Interest receivable and similar income	3	**886 8**	1,255 2
Interest expense and similar charges	3	**(267 4)**	(363 8)
Net interest income	3	**619 4**	891 4
Fee and commission income		**8 3**	10 8
Fee and commission expense		**(12 0)**	(12 1)
Net fee and commission income		**(3 7)**	(1 3)
Net realised gains less losses on investment securities	4	**7 8**	8 3
Unrealised fair value movements on financial instruments	5	**0 2**	(31 6)
Hedge ineffectiveness	5	**(21 9)**	(7 1)
Other operating income		**7 0**	1 2
Non-interest income		**(10 6)**	(30 5)
Total income		**608 8**	860 9
Administrative expenses	6	**(77 6)**	(89 5)
Provision for customer redress	26	**198 8**	(284 7)
Impairment on loans to customers	13	**60 9**	70 6
Net impairment release on investment securities	10	**5 1**	14 4
Profit on sale of loans	12	**62 8**	7 0
Loss on repurchase of own liabilities	7	**(15 8)**	(19 8)
Profit before taxation		**843 0**	558 9
Taxation	8	**(173 5)**	(116 7)
Profit for the financial year		**669 5**	442 2

The notes on pages 23 to 77 form an integral part of these Financial Statements

The Company's profit after tax for the financial year was £678 9m (2015 £447 2m) 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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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	**(157 8)**	**28 4**	**(129 4)**
Total comprehensive income for the financial year	**685 2**	**(145 1)**	**540 1**

For the 12 months to 31 March 2015

	Gross of tax £m	Tax £m	Net of tax £m
Profit for the financial year	558 9	(116 7)	442 2
Other comprehensive income/(expense)			
Items that may be reclassified subsequently to profit or loss			
Available-for-sale instruments			
- net losses recognised in available-for-sale reserve during the year	(8 5)	1 7	(6 8)
- amounts transferred from available-for-sale reserve and recognised in profit during the year	15 1	(3 0)	12 1
Cash flow hedges			
- net losses recognised in cash flow hedge reserve during the year	(795 4)	124 2	(671 2)
- amounts transferred from cash flow hedge reserve and recognised in profit during the year	855 6	(133 6)	722 0
	66 8	(10 7)	56 1
Items that will not be reclassified subsequently to profit or loss			
- retirement benefit remeasurements	47 2	(9 8)	37 4
	47 2	(9 8)	37 4
Total other comprehensive income	114 0	(20 5)	93 5
Total comprehensive income for the financial year	672 9	(137 2)	535 7

BALANCE SHEETS

	Note	Group 31 March 2016 £m	Group 31 March 2015 £m	Company 31 March 2016 £m	Company 31 March 2015 £m
Assets					
Balances with the Bank of England	9	**1,389 1**	5,871 1	**1,389 1**	5,871 1
Cash at bank and in hand	11	**56 3**	669 5	**56 3**	541 0
Investment securities	10	**335 5**	404 7	**335.5**	404 7
Loans to customers	12	**10,572 7**	25,366 8	**10,572 7**	25,366 8
Fair value adjustments on portfolio hedging	12	**-**	53 2	**-**	53 2
Derivative financial instruments	33(e)	**11 5**	2,085 5	**1 6**	1,150 5
Other assets	17	**20 5**	20 1	**20 4**	19 9
Retirement benefit assets	18	**229 4**	151 9	**229 4**	151 9
Property, plant and equipment	19	**-**	0 9	**-**	0 9
Intangible assets	20	**-**	0 5	**-**	0 5
Total assets		**12,615 0**	34,624 2	**12,605 0**	33,560 5
Liabilities					
Amounts due to banks	21	**0 6**	1,682 2	**0 6**	1,262 0
Other deposits	22	**-**	-	**37 0**	8,769 7
HM Treasury loans	23	**7,465 6**	13,656 1	**7,465 6**	13,656 1
Derivative financial instruments	33(e)	**11 7**	70 9	**11 7**	70 9
Debt securities in issue	24	**250.1**	14,798 2	**204 1**	5,385 2
Other liabilities	25	**201.5**	50 2	**201 5**	50 0
Current tax liabilities		**96 4**	52 9	**96 4**	52 9
Deferred tax liabilities	16	**43 6**	71 4	**43 6**	71 4
Provisions	26	**136 8**	368 5	**136.8**	368 5
Capital instruments	27	**4 1**	9 3	**4 1**	9 3
Total liabilities		**8,210 4**	30,759 7	**8,201 4**	29,696 0
Equity					
Issued capital and reserves attributable to owners of the parent					
- share capital	28	**124 0**	124 0	**124 0**	124 0
- reserves	29	**394 7**	569 6	**394 7**	580 0
- retained earnings		**3,885 9**	3,170 9	**3,884 9**	3,160 5
Share capital and reserves attributable to owners of the parent		**4,404 6**	3,864 5	**4,403 6**	3,864 5
Total equity and liabilities		**12,615 0**	34,624 2	**12,605 0**	33,560 5

The notes on pages 23 to 77 form an integral part of these Financial Statements

The Financial Statements on pages 17 to 77 were approved by the Board of Directors on 29 June 2016 and signed on its behalf by

G Hickey.

I Hares
Director

G Hickey
Director

NRAM plc is registered in England and Wales under company number 03273685

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the 12 months to 31 March 2016

Group	Share capital £m	Share premium reserve £m	Capital redemption reserve £m	Other reserves £m	Retained earnings £m	Total share capital and reserves £m	Non-controlling interests £m	Total equity £m
At 1 April 2015	**124 0**	**403 2**	**7 3**	**159 1**	**3,170 9**	**3,864 5**	**-**	**3,864 5**
Other comprehensive income/(expense)								
- net movement in available-for-sale reserve	-	-	-	17 5	-	17.5	-	17 5
- net movement in cash flow hedge reserve	-	-	-	(232 2)	-	(232 2)	-	(232 2)
- retirement benefit remeasurements	-	-	-	-	56 9	56 9	-	56 9
- tax effects of the above	-	-	-	39 8	(11 4)	28 4	-	28 4
Total other comprehensive income/(expense)	-	-	-	(174 9)	45.5	(129 4)	-	(129 4)
Profit for the financial year	-	-	-	-	669 5	669 5	-	669 5
Total comprehensive income	-	-	-	(174 9)	715 0	540 1	-	540 1
At 31 March 2016	**124.0**	**403 2**	**7 3**	**(15 8)**	**3,885 9**	**4,404.6**	**-**	**4,404 6**

For the 12 months to 31 March 2015

Group	Share capital £m	Share premium reserve £m	Capital redemption reserve £m	Other reserves £m	Retained earnings £m	Total share capital and reserves £m	Non-controlling interests £m	Total equity £m
At 1 April 2014	124 0	403 2	7 3	103 0	2,691 2	3,328 7	196 6	3,525 3
Other comprehensive income/(expense)								
- net movement in available-for-sale reserve	-	-	-	6 6	-	6 6	-	6 6
- net movement in cash flow hedge reserve	-	-	-	60 2	-	60 2	-	60 2
- retirement benefit remeasurements	-	-	-	-	47 2	47 2	-	47 2
- tax effects of the above	-	-	-	(10 7)	(9 8)	(20 5)	-	(20 5)
Total other comprehensive income	-	-	-	56 1	37 4	93 5	-	93 5
Profit for the financial year	-	-	-	-	430 3	430 3	11 9	442 2
Total comprehensive income	-	-	-	56 1	467 7	523 8	11 9	535 7
Gain/(loss) on repurchase of equity (see note 7)	-	-	-	-	12 0	12 0	(124 8)	(112 8)
Release of withheld coupons (see note 7)	-	-	-	-	-	-	(83 7)	(83 7)
At 31 March 2015	124 0	403 2	7 3	159 1	3,170 9	3,864 5	-	3,864 5

COMPANY STATEMENT OF CHANGES IN EQUITY

For the 12 months to 31 March 2016

Company	Share capital £m	Share premium reserve £m	Capital redemption reserve £m	Other reserves £m	Retained earnings £m	Total share capital and reserves £m	Non-controlling interests £m	Total equity £m
At 1 April 2015	**124 0**	**403 2**	**7 3**	**169 5**	**3,160 5**	**3,864 5**	**-**	**3,864 5**
Other comprehensive income/(expense)								
- net movement in available-for-sale reserve	-	-	-	**17 5**	-	**17 5**	-	**17 5**
- net movement in cash flow hedge reserve	-	-	-	**(242 6)**	-	**(242 6)**	-	**(242 6)**
- retirement benefit remeasurements	-	-	-	-	**56 9**	**56 9**	-	**56 9**
- tax effects of the above	-	-	-	**39 8**	**(11 4)**	**28 4**	-	**28 4**
Total other comprehensive income	-	-	-	**(185 3)**	**45 5**	**(139 8)**	-	**(139 8)**
Profit for the financial year	-	-	-	-	**678 9**	**678 9**	-	**678 9**
Total comprehensive income	-	-	-	**(185 3)**	**724 4**	**539 1**	-	**539 1**
At 31 March 2016	**124 0**	**403 2**	**7 3**	**(15 8)**	**3,884 9**	**4,403 6**	**-**	**4,403 6**

For the 12 months to 31 March 2015

Company	Share capital £m	Share premium reserve £m	Capital redemption reserve £m	Other reserves £m	Retained earnings £m	Total share capital and reserves £m	Non-controlling interests £m	Total equity £m
At 1 April 2014	124 0	403 2	7 3	126 9	2,675 8	3,337 2	196 6	3,533 8
Other comprehensive income/(expense)								
- net movement in available-for-sale reserve	-	-	-	6 6	-	6 6	-	6 6
- net movement in cash flow hedge reserve	-	-	-	46 7	-	46 7	-	46 7
- retirement benefit remeasurements	-	-	-	-	47 2	47 2	-	47 2
- tax effects of the above	-	-	-	(10 7)	(9 8)	(20 5)	-	(20 5)
Total other comprehensive income	-	-	-	42 6	37 4	80 0	-	80 0
Profit for the financial year	-	-	-	-	435 3	435 3	11 9	447 2
Total comprehensive income	-	-	-	42 6	472 7	515 3	11 9	527 2
Gain/(loss) on repurchase of equity (see note 7)	-	-	-	-	12 0	12 0	(124 8)	(112 8)
Release of withheld coupons (see note 7)	-	-	-	-	-	-	(83 7)	(83 7)
At 31 March 2015	124 0	403 2	7 3	169 5	3,160 5	3,864 5	-	3,864 5

CASH FLOW STATEMENTS

	Group		Company	
	12 months to 31 Mar 2016 £m	12 months to 31 Mar 2015 £m	**12 months to 31 Mar 2016 £m**	12 months to 31 Mar 2015 £m
Cash flows from operating activities				
Profit before taxation for the financial year	**843 0**	558 9	**852 4**	563 9
Adjustments to reconcile profit to cash generated from operating activities				
- profit on sale of loans	**(62 8)**	(7 0)	**(62 8)**	(7 0)
- provision for customer redress	**(198 8)**	284 7	**(198 8)**	284 7
- defined benefit pension scheme credits	**(4 9)**	(3 7)	**(4 9)**	(3 7)
- cash contribution to defined benefit pension scheme	**(15 3)**	(34 0)	**(15 3)**	(34 0)
- depreciation and amortisation	**0 3**	0 5	**0 3**	0 5
- impairment on loans to customers	**(60 9)**	(70 6)	**(60 9)**	(70 6)
- net impairment release on investment securities	**(5 1)**	(14 4)	**(5 1)**	(14 4)
- loss on repurchase of own liabilities	**15 8**	19 8	**15 8**	19 8
- fair value adjustments on financial instruments	**5 7**	(99 9)	**5 7**	(99 9)
- other non-cash movements	**(31 1)**	(296 6)	**(46 6)**	93 8
Cash flows generated from operating activities before changes in operating assets and liabilities	**485 9**	337 7	**479 8**	733 1
Net decrease in operating assets				
- loans to customers	**3,345 2**	4,170 0	**3,345 2**	4,170 0
- sale of loans	**11,677 9**	1,576 8	**11,677 9**	1,576 8
- derivative financial instruments receivable	**2,074 0**	961 1	**1,148 9**	482 1
- other assets	**1 4**	2 6	**1 4**	2 6
Net increase/(decrease) in operating liabilities				
- amounts due to banks and other deposits	**(1,681 1)**	(763 2)	**(9,993 7)**	(3,265 6)
- derivative financial instruments payable	**(59 2)**	(43 2)	**(59 2)**	(36 8)
- debt securities in issue	**(10,479 8)**	(2,703 9)	**(1,115 3)**	(122 9)
- other liabilities	**(52 8)**	(20 2)	**(45 0)**	(21 4)
- provisions	**(34 0)**	(57 2)	**(34 0)**	(57 2)
Income tax paid	**(129 4)**	(162 4)	**(129 4)**	(162 4)
Net cash generated from operating activities	**5,148 1**	3,298 1	**5,276 6**	3,298 3
Cash flows from investing activities				
- purchases of property, plant and equipment	**-**	(0 4)	**-**	(0 4)
- proceeds from sale of property, plant and equipment and intangible assets	**1 1**	-	**1 1**	-
- proceeds from sale and redemption of investment securities	**102 3**	172 3	**102 3**	172 3
- return of capital from subsidiary undertakings	**-**	-	**-**	0 1
Net cash generated from investing activities	**103 4**	171 9	**103 4**	172 0
Cash flows used in financing activities				
- repayment of HM Treasury Loans	**(6,182 7)**	(1,277 5)	**(6,182 7)**	(1,277 5)
- repurchase of own liabilities and equity	**(4,162 4)**	(499 6)	**(4,162 4)**	(499 6)
Net cash used in financing activities	**(10,345 1)**	(1,777 1)	**(10,345 1)**	(1,777 1)
Net (decrease)/increase in cash and cash equivalents	**(5,093 6)**	1,692 9	**(4,965 1)**	1,693 2
Cash and cash equivalents at beginning of year	**6,538 5**	4,845 6	**6,410 0**	4,716 8
Cash and cash equivalents at end of year	**1,444 9**	6,538 5	**1,444 9**	6,410 0
Represented by cash and assets with original maturity of three months or less within				
- balances with the Bank of England	**1,388 6**	5,869 0	**1,388.6**	5,869 0
- cash at bank and in hand	**56 3**	669 5	**56.3**	541 0
Total cash and cash equivalents at end of year	**1,444 9**	6,538 5	**1,444 9**	6,410 0

1 Principal accounting policies

NRAM plc ('the Company') is a public limited company incorporated and domiciled in the United Kingdom

These Financial Statements were approved by the Board of Directors on 29 June 2016

(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 2016 Financial Statements, including the 2015 comparative financial information where applicable, the Group and Company have adopted the following statements for the first time

- The Annual Improvements to IFRSs 2010-2012 Cycle, issued in December 2013, these changes had no material impact on the Group or Company
- The Annual Improvements to IFRSs 2011-2013 Cycle, issued in December 2013, these changes had no material impact on the Group or Company

For these 2016 Financial Statements the Group and Company have not adopted the following statements, the Group and Company are assessing the impacts of these statements on their Financial 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 The IASB intends that IFRS 9 will be effective for annual periods beginning on or after 1 January 2018 but the timing of EU endorsement is yet to be determined IFRS 9 is expected to have major implications for the Group and Company, in relation to impairment of loans to customers, hedging and which assets are carried at amortised cost and which at fair value The Group is undertaking an assessment of these impacts
- 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
- 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 No material impacts are expected for the Group or Company
- The Annual improvements to IFRS 2012-2014 Cycle, issued in September 2014 These changes are mandatory for the Group and Company Financial Statements for the year to 31 March 2017 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,
- 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 Company's business activities, principal risks, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report

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

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 2015

NRAM is regulated by the Financial Conduct Authority ('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 2)

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 includes the assets, liabilities and transactions of NRAM Covered Bond LLP 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 has securitised various residential mortgage loans, generally by sale or transfer to Special Purpose Vehicles ('SPVs'), which in turn have 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 are fully consolidated

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) Fee and commission income

Where Value Added Tax ('VAT') is charged, income is stated net of VAT

Commission receivable from the renewal of third party regulated financial services products was recognised as income within 'fee and commission income' when the renewal policy went 'on risk', net of any provision for repayment in the event of early termination by the customer If the commission is receivable on deferred terms, a deemed interest element of the commission is separated and recognised on an EIR basis over the deferred payment period

Fees charged to existing borrowers, including arrears and redemption fees, are recognised in fee and commission income as they arise

(f) 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

1 Principal accounting policies (continued)

(f) Financial instruments (continued)

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

(g) 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

(h) 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) Portfolio fair value hedges
Where a group of derivative financial instruments hedges the interest rate exposure of a group of assets or liabilities, and the hedge meets the requirements of IAS 39 to be classed as 'highly effective', the hedge relationship is accounted for in the same way as a one-to-one fair value hedge except that the Balance Sheet carrying value of the hedged items is not adjusted, instead, the difference between the carrying value and the fair value in respect of the hedged risk is carried on the Balance Sheet in 'fair value adjustments on portfolio hedging'

1 **Principal accounting policies** (continued)

(h) Derivative financial instruments and hedge accounting (continued)

(v) 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

(vi) 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

(vii) 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

(i) 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' or 'other deposits' 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

(j) 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 in the Income Statement in the 'impairment on loans to customers' and 'net impairment 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'

1 Principal accounting policies (continued)

(j) Impairment (continued)
(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

(k) 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 asset is de-recognised (ie, removed from the Balance Sheet) only when substantially all of the risks and rewards associated with that asset have been transferred to another party

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

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 and the 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 and preference share capital Preference shares are classified as equity instruments where dividend payments and redemptions are discretionary

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

1 Principal accounting policies (continued)

(n) Intangible assets

Intangible assets comprise 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

(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

1 Principal accounting policies (continued)

(q) Retirement benefits (continued)
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 18 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 IFRIC14

For defined contribution plans, the Group has no further payment obligations once the contributions have been paid The contributions are recognised as an employee benefit expense when they are due Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available

(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

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) Leases
Rentals under operating leases are charged to 'administrative expenses' on a straight line basis to the date of change in the rental amount Typically, operating leases have rent review dates in their terms, several years apart, and between those dates the annual rent remains constant Any initial rent-free period and any lease premia paid are amortised over the full lease period on a straight line basis

If a lease agreement in which the Group is a lessee transfers the risks and rewards of the asset, the lease is recorded as a finance lease and the related asset is capitalised At inception the asset is recorded at the lower of the present value of the minimum lease payments and fair value The asset is then depreciated in the same way as an owned asset over the shorter of the useful life and the term of the lease The finance element of the lease cost is charged to the Income Statement in 'interest expense and similar charges' The lease obligations are recorded as borrowings If the lease does not transfer the risks and rewards of the asset, the lease is recorded as an operating lease

Where an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor in compensation is charged to the Income Statement in the period in which termination is made

1 Principal accounting policies (continued)

(s) Leases (continued)
Where the Group/Company leases assets out under an operating lease agreement, the asset is included in the Balance Sheet based on the nature of the asset Lease income is recognised over the term of the lease on a straight line basis

Where the Group sells and leases back an asset, provided the sale and the lease are each on arm's length terms, the two elements of the transaction are accounted for separately, with a profit or loss being immediately recognised on the sale

(t) 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

(u) 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

(v) 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

(w) Financial guarantees
The Group and Company apply insurance accounting to financial guarantee contracts and provide against any claims arising under such contracts

(x) Loan commitments
Loan commitments are disclosed, but are accounted for 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

(y) Lifetime mortgages
The Group has a portfolio of lifetime mortgage loans secured on residential property Under the terms of the loans, where a borrower dies or goes into long term care and a redemption receipt is less than the contractual sum owed the Group does not have any further ability to recover amounts from the borrower or the estate The Group accounts for lifetime loans in the same way as other loans to customers, with all income earned being accounted for as interest The loans are included within 'loans to customers' In respect of lifetime loans, impairment allowances on loans to customers include an additional provision reflecting estimated future impairment up to redemption

2 Critical judgements and accounting estimates

In preparing the Financial Statements management are required to make a series of judgements and estimates Judgements involve an interpretation of requirements to decide how to allocate, value or recognise an item Estimates arise from using assumptions which result in a range of possible outcomes 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 £20 9m lower (2015 £47 2m) or £23 8m higher (2015 £53 8m) respectively

(b) Provisions

Provisions are carried in respect of certain known or forecast future expenditure as described in note 26 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

The PPI Provision has been increased by £60 3m following the publication of the Financial Conduct Authority's ('FCA') consultation paper CP15/39 'Rules and guidance on payment protection insurance complaints' which proposes the setting of a deadline date for complaints in 2018 and provides guidance in relation to the Plevin case The proposals include an FCA-led communications campaign to raise awareness of the deadline to prompt those who intend to complain to act ahead of the deadline If the proposals are agreed and implemented, we expect higher claim volumes in the run up to the implementation of time-barring than we have previously modelled

(c) Fair value calculations

For the majority of instruments carried at fair value, fair value is determined by reference to quoted market prices or lead manager prices Where these are not available, fair value is calculated using discounted cash flows applying independently sourced market parameters including interest rates and currency rates Other factors are also considered, such as counterparty credit quality and liquidity Management must use judgement to arrive at estimates where not all necessary data can be externally sourced or where factors specific to the Group's holdings need to be considered The accuracy of the fair value calculations may, therefore, be affected by unexpected market movements or variations in actual outcomes when compared to estimates and assumptions used for modelling purposes For example, if management were to use a tightening in the credit spread of 10 basis points, the fair values of derivatives would decrease from the reported fair values by £0 1m (2015 £12 8m)

3 Net interest income

	12 months to 31 Mar 2016 £m	12 months to 31 Mar 2015 £m
Interest receivable and similar income		
On secured loans	**824 0**	1,171 1
On other lending	**44 6**	54 3
On investment securities and deposits	**18 2**	29 8
Total interest receivable and similar income	**886 8**	1,255 2
Interest expense and similar charges		
On amounts due to banks and HM Treasury	**(183 6)**	(218 6)
On debt securities and other	**(83 8)**	(145 2)
Total interest expense and similar charges	**(267 4)**	(363 8)
Net interest income	**619 4**	891 4
Average balances		
Interest-earning assets ('IEA')	**23,105**	34,630
Financed by		
- interest-bearing funding	**18,895**	31,151
- interest-free funding*	**4,210**	3,479
Average rates	**%**	%
- gross yield on IEA	**3 84**	3 62
- cost of interest-bearing funding	**(1 42)**	(1 17)
Interest spread	**2 42**	2 45
Contribution of interest-free funding*	**0 26**	0 12
Net interest margin on average IEA	**2 68**	2 57
Average Bank Base Rate	**0 50**	0 50
Average 1-month LIBOR	**0 51**	0 50
Average 3-month LIBOR	**0 58**	0 55

* 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 £3 4m (2015 £5 2m)

4 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 2016 £m	12 months to 31 Mar 2015 £m
Net realised gains on instruments at amortised cost	**7 8**	8 3
Total net realised gains on investment securities	**7 8**	8 3

5 Unrealised fair value movements on financial instruments and hedge ineffectiveness

	12 months to 31 Mar 2016 £m	12 months to 31 Mar 2015 £m
Net (loss)/gain in fair value		
- translation (losses)/gains on underlying instruments	**(48 2)**	19 0
- fair value movements on derivatives which are economic hedges but are not in hedge accounting relationships	**48 4**	(50 6)
Unrealised fair value movements	**0 2**	(31 6)
Net gains on fair value hedging instruments	**7 2**	6 1
Net losses on fair value hedged items attributable to hedged risk	**(21 8)**	(15 4)
Ineffectiveness on cash flow hedges	**(7 3)**	2 2
Net hedge ineffectiveness losses	**(21 9)**	(7 1)
Total	**(21 7)**	(38 7)

6 Administrative expenses

NRAM had no employees during the years presented as services were provided to NRAM by employees of B&B

NRAM had engaged a full-time equivalent of 13 temporary staff and specialist contractors at 31 March 2016 (31 March 2015 56)

	12 months to 31 Mar 2016 £m	12 months to 31 Mar 2015 £m
Defined benefit pension costs	**(4 9)**	(3 7)
IT costs	**1 6**	1 7
Outsourced and professional services	**3 4**	3 8
Depreciation and amortisation (see notes 19 and 20)	**0 3**	0 5
Other administrative expenses	**17 5**	7 6
	17 9	9 9
Management recharge from B&B	**59 7**	79 6
Total administrative expenses	**77 6**	89 5

Auditors' remuneration

The following costs are included within administrative expenses

	12 months to 31 Mar 2016 £m	12 months to 31 Mar 2015 £m
Fees payable to Company auditors for the statutory audit of the NRAM Company and Group Financial Statements	**0.3**	0 2
Fees payable to Company auditors and their associates for other services		
- the audit of the Company's subsidiaries pursuant to legislation	**0 1**	-
- audit-related assurance services	**0 1**	0 1
Total	**0 5**	0 3

Amounts shown in the above analysis are exclusive of VAT

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

7 Loss on repurchase of own liabilities and equity

12 months to 31 Mar 2016	Reserve capital instruments £m	Subordinated notes £m	Total losses taken to reserves £m	Tier one notes £m	Debt securities in issue £m	Total Income Statement losses £m
Principal amount of instruments repurchased	-	-	-	-	3,631.9	3,631 9
Amount paid to repurchase instruments	-	-	-	-	(4,162 4)	(4,162 4)
Other net gains resulting from the repurchase	-	-	-	-	514 7	514 7
Loss on repurchase	-	-	-	-	**(15 8)**	**(15 8)**

12 months to 31 Mar 2015	Reserve capital instruments £m	Subordinated notes £m	Total losses taken to reserves £m	Tier one notes £m	Debt securities in issue £m	Total Income Statement losses £m
Principal amount of instruments repurchased	101 4	23 4	124 8	30 5	223 0	253 5
Amount paid to repurchase instruments	(176 8)	(40 9)	(217 7)	(39 7)	(242 2)	(281 9)
Other net gains/(losses) resulting from the repurchase*	68 9	16 9	85 8	9 2	(0 6)	8 6
Loss on repurchase	(6 5)	(0 6)	(7 1)	-	(19 8)	(19 8)

* The other net gains and losses taken to reserves in 2014-15 were principally release of deferred coupons of £83 7m The other net gains and losses taken to the Income Statement were principally hedge adjustments

There were two Covered Bond acquisition tender offers during the year resulting in the purchase of all Covered Bonds issued by NRAM at their fair value The first offer closed on 5 May 2015 resulting in the purchase of notes with a face value of £1,451 0m for cash of £1,782 2m including costs The second offer closed on 15 July 2015 resulting in the purchase of notes with a face value of £2,180 9m for cash of £2,380 2m including costs The losses on the acquisitions were offset by a release of £514 7m which primarily comprised accrued interest and hedge accounting adjustments These acquisitions have reduced the ongoing funding cost to NRAM and further simplified the NRAM Balance Sheet

During 2014/15 the Company bought back all of its remaining reserve capital instruments, subordinated notes and tier one notes The losses on repurchase of reserve capital instruments and subordinated notes were reported in reserves as these instruments were accounted for as equity A tax credit of £19 1m applied to the £7 1m loss on reserve capital instruments and subordinated notes, giving a post-tax gain of £12 0m

8 Taxation

The tax charge for the year comprises	12 months to 31 Mar 2016 £m	12 months to 31 Mar 2015 £m
Current tax		
- on profit for the year	**(172 4)**	(105 9)
- adjustments in respect of prior periods	**8 4**	1 1
Total current tax	**(164 0)**	(104 8)
Deferred tax (see note 16)		
- origination and reversal of temporary differences	**(9 5)**	(11 9)
Total deferred tax	**(9 5)**	(11 9)
Total taxation charge per the Income Statement	**(173 5)**	(116 7)

8 Taxatıon (contınued)

The followıng tax amounts have been credıted/(charged) to equıty	12 months to 31 Mar 2016 £m	12 months to 31 Mar 2015 £m
Current tax		
- relatıng to avaılable-for-sale ınvestments	(8 7)	(1 3)
- relatıng to repurchase of equıty (see note 7)	-	19 1
Deferred tax		
- relatıng to cash flow hedge reserve	48 5	(9 4)
- relatıng to retırement benefit remeasurements	(11 4)	(9 8)
Net credıt/(charge) to equıty	**28 4**	(1 4)

There was no foreıgn tax charged ın the year (2015 £nıl)

The tax charge on the Group's profit before tax dıffers from the theoretıcal amount that would arıse usıng the standard weıghted average rate of UK corporatıon tax of 20% (2015 21 0%) as follows

	12 months to 31 Mar 2016 £m	12 months to 31 Mar 2015 £m
Profit before taxatıon	**843 0**	558 9
Tax calculated at rate of 20% (2015 21 0%)	(168 6)	(117 4)
Effects of		
- expenses not deductıble for tax purposes	(13 1)	(1 0)
- adjustments ın respect of prıor perıods	8 2	1 7
Total taxatıon charge for the year	**(173 5)**	(116 7)

The effectıve tax rate ıs hıgher than the statutory rate due to dısallowable expenses ın relatıon to PPI customer compensatıon costs followıng legıslatıon that came ınto effect on 8 July 2015

9 Balances wıth the Bank of England

Group and Company	31 Mar 2016 £m	31 Mar 2015 £m
Balances for lıquıdıty purposes	1,388 5	4,591 9
Collateral balances	0 6	1,279 2
Total	1,389 1	5,871 1

Balances wıth the Bank of England represent cash lıquıdıty and collateral held on account whıch earns Bank Base Rate

10 Investment securıtıes

Group and Company	31 Mar 2016 £m	31 Mar 2015 £m
Avaılable-for-sale securıtıes	-	0 7
Investment securıtıes held as loans and receıvables	335 5	404 0
Unsecured ınvestment loans	-	-
Total	335 5	404 7

In the Balance Sheet the carryıng values of ımpaıred assets are presented net of the ımpaırment allowances shown ın note 11

Net ımpaırment release on ınvestment securıtıes for the year comprısed	Group	
	12 months to 31 Mar 2016 £m	12 months to 31 Mar 2015 £m
Net ımpaırment (charges)/reversals on avaılable-for-sale securıtıes	(0 5)	0 1
Net ımpaırment reversals on ınvestment securıtıes held as loans and receıvables and unsecured ınvestment loans	5 6	14 3
Total net ımpaırment release	**5 1**	14 4

10 Investment securities (continued)

(a) Available-for-sale securities

Group and Company	31 Mar 2016 £m	31 Mar 2015 £m
At fair value		
Listed	-	0 3
Unlisted	-	0 4
Total	-	0 7

The movement in available-for-sale securities was as follows

	Group and Company	
	12 months to 31 Mar 2016 £m	12 months to 31 Mar 2015 £m
At start of year	**0 7**	18 5
Disposals (sales and redemptions)	**(0 7)**	(20 8)
Exchange differences	-	1 3
Net gains on changes in fair value	-	1 7
At end of year	-	0 7

The net gains on changes in fair value include net impairment reversals

(b) Investment securities held as loans and receivables

Group and Company	31 Mar 2016 £m	31 Mar 2015 £m
Carrying value	**335 5**	404 0
Fair value	**316 4**	436 2
Listed	**327 3**	394 1
Unlisted	**8 2**	9 9
Total	**335 5**	404 0

Note 33(a) provides further information regarding investment securities which have been reclassified as loans and receivables

(c) Unsecured investment loans

Group and Company	31 Mar 2016 £m	31 Mar 2015 £m
Carrying value	-	-
Fair value	**19 6**	16 0

These unsecured investment loans are listed and are fully impaired

11 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 2016 £m	31 Mar 2015 £m	31 Mar 2016 £m	31 Mar 2015 £m
Balances with the Bank of England (see note 9)	**1,389 1**	5,871 1	**1,389 1**	5,871 1
Cash at bank and in hand	**56 3**	669 5	**56 3**	541 0
Investment securities (see note 10)	**335 5**	404 7	**335 5**	404 7
Total	**1,780 9**	6,945 3	**1,780 9**	6,816 8

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

11 Wholesale assets (continued)

(a) Credit risk

Impairment is set out in the table below

Group **At 31 March 2016**	**Balances with the Bank of England £m**	**Cash at bank and in hand £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	**1,389 1**	**56 3**	**-**	**325 5**	**-**	**1,770 9**
Impaired	**-**	**-**	**94 0**	**52 2**	**90 4**	**236 6**
	1,389 1	**56 3**	**94 0**	**377 7**	**90 4**	**2,007 5**
Provisions	**-**	**-**	**(94 0)**	**(42 2)**	**(90 4)**	**(226 6)**
Total	**1,389 1**	**56 3**	**-**	**335 5**	**-**	**1,780 9**

Group At 31 March 2015	Balances with the Bank of England £m	Cash at bank and in hand £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	5,871 1	669 5	-	377 8	-	6,918 4
Impaired	-	-	100 7	65 8	87 5	254 0
	5,871 1	669 5	100 7	443 6	87 5	7,172 4
Provisions	-	-	(100 0)	(39 6)	(87 5)	(227 1)
Total	5,871 1	669 5	0 7	404 0	-	6,945 3

Company **At 31 March 2016**	**Balances with the Bank of England £m**	**Cash at bank and in hand £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	**1,389 1**	**56 3**	**-**	**325 5**	**-**	**1,770 9**
Impaired	**-**	**-**	**94 0**	**52 2**	**90.4**	**236 6**
	1,389 1	**56.3**	**94 0**	**377 7**	**90 4**	**2,007 5**
Provisions	**-**	**-**	**(94 0)**	**(42 2)**	**(90 4)**	**(226 6)**
Total	**1,389 1**	**56 3**	**-**	**335 5**	**-**	**1,780 9**

Company At 31 March 2015	Balances with the Bank of England £m	Cash at bank and in hand £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	5,871 1	541 0	-	377 8	-	6,789 9
Impaired	-	-	100 7	65 8	87 5	254 0
	5,871 1	541 0	100 7	443 6	87 5	7,043 9
Provisions	-	-	(100 0)	(39 6)	(87 5)	(227 1)
Total	5,871 1	541 0	0 7	404 0	-	6,816 8

11 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 **At 31 March 2016**	**£m**	**AAA** **%**	**AA** **%**	**A** **%**	**BBB to B** **%**	**CCC and below** **%**
Balances with the Bank of England	1,389 1	-	100	-	-	-
Cash at bank and in hand	56 3	-	25	25	50	-
Investment securities						
- available-for-sale securities	-	-	-	-	-	-
- investment securities held as loans and receivables	335 5	9	16	42	29	4
Total investment securities	335 5	9	16	42	29	4
Total	**1,780 9**	**2**	**82**	**9**	**6**	**1**

Group At 31 March 2015	£m	AAA %	AA %	A %	BBB to B %	CCC and below %
Balances with the Bank of England	5,871 1	-	100	-	-	-
Cash at bank and in hand	669 5	28	12	57	3	-
Investment securities						
- available-for-sale securities	0 7	-	-	-	-	100
- investment securities held as loans and receivables	404 0	8	20	28	40	4
Total investment securities	404 7	8	20	28	40	4
Total	6,945 3	3	87	7	3	-

Company **At 31 March 2016**	**£m**	**AAA** **%**	**AA** **%**	**A** **%**	**BBB to B** **%**	**CCC and below** **%**
Balances with the Bank of England	1,389 1	-	100	-	-	-
Cash at bank and in hand	56 3	-	25	25	50	-
Investment securities						
- available-for-sale securities	-	-	-	-	-	-
- investment securities held as loans and receivables	335 5	9	16	42	29	4
Total investment securities	335 5	9	16	42	29	4
Total	**1,780 9**	**2**	**82**	**9**	**6**	**1**

Company At 31 March 2015	£m	AAA %	AA %	A %	BBB to B %	CCC and below %
Balances with the Bank of England	5,871 1	-	100	-	-	-
Cash at bank and in hand	541 0	35	15	47	3	-
Investment securities						
- available-for-sale securities	0 7	-	-	-	-	100
- investment securities held as loans and receivables	404 0	8	20	28	40	4
Total investment securities	404 7	8	20	28	40	4
Total	6,816 8	3	89	5	3	-

Additional information in respect of impairment of investment securities is provided in note 10

11 Wholesale assets (continued)

(b) Concentration risk

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

Group **At 31 March 2016**	**UK** **£m**	**Europe** **£m**	**US** **£m**	**Other countries** **£m**	**Total** **£m**
Balances with the Bank of England	**1,389 1**	**-**	**-**	**-**	**1,389 1**
Cash at bank and in hand	**55 5**	**0 4**	**0 4**	**-**	**56.3**
Investment securities					
- available-for-sale securities	**-**	**-**	**-**	**-**	**-**
- investment securities held as loans and receivables	**216 7**	**91 8**	**14 9**	**12 1**	**335 5**
Total investment securities	**216 7**	**91 8**	**14 9**	**12 1**	**335 5**
Total	**1,661 3**	**92 2**	**15 3**	**12 1**	**1,780 9**

Group At 31 March 2015	UK £m	Europe £m	US £m	Other countries £m	Total £m
Balances with the Bank of England	5,871 1	-	-	-	5,871 1
Cash at bank and in hand	335 0	329 4	5 1	-	669 5
Investment securities					
- available-for-sale securities	-	-	0 3	0 4	0 7
- investment securities held as loans and receivables	234 9	130 6	23 6	14 9	404 0
Total investment securities	234 9	130 6	23 9	15 3	404 7
Total	6,441 0	460 0	29 0	15 3	6,945 3

Company **At 31 March 2016**	**UK** **£m**	**Europe** **£m**	**US** **£m**	**Other countries** **£m**	**Total** **£m**
Balances with the Bank of England	**1,389 1**	**-**	**-**	**-**	**1,389 1**
Cash at bank and in hand	**55 5**	**0 4**	**0 4**	**-**	**56 3**
Investment securities					
- available-for-sale securities	**-**	**-**	**-**	**-**	**-**
- investment securities held as loans and receivables	**216.7**	**91.8**	**14 9**	**12.1**	**335 5**
Total investment securities	**216 7**	**91 8**	**14 9**	**12 1**	**335 5**
Total	**1,661 3**	**92 2**	**15 3**	**12 1**	**1,780 9**

Company At 31 March 2015	UK £m	Europe £m	US £m	Other countries £m	Total £m
Balances with the Bank of England	5,871 1	-	-	-	5,871 1
Cash at bank and in hand	206 5	329 4	5 1	-	541 0
Investment securities					
- available-for-sale securities	-	-	0 3	0 4	0 7
- investment securities held as loans and receivables	234 9	130 6	23 6	14 9	404 0
Total investment securities	234 9	130 6	23 9	15 3	404 7
Total	6,312 5	460 0	29 0	15 3	6,816 8

At 31 March 2016 and 31 March 2015 the Group and Company held no investment securities issued by the governments of Portugal, the Republic of Ireland, Italy, Greece or Spain

12 Loans to customers

	Group and Company	
	31 Mar 2016	31 Mar 2015
	£m	£m
Residential mortgages	**10,065 7**	24,169 0
Commercial loans	**115 2**	136 7
Total secured loans	**10,180 9**	24,305 7
Unsecured loans	**391 8**	1,061 1
Total	**10,572 7**	25,366 8

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 included loans amounting to £nil (31 March 2015 £18,111 2m) for the Group and Company which had been sold to bankruptcy remote SPVs whereby substantially all of the risks and rewards of the portfolio were retained by the Group/Company Accordingly, all of these loans were retained on the Group's/Company's Balance Sheets Further details are provided in note 24

Fair value adjustments on portfolio hedging amounting to £nil (31 March 2015 £53 2m) related to interest rate derivatives designated in a fair value portfolio hedge relationship

Loans to customers and redemptions comprise the following product types

Group and Company	**Balances** At 31 Mar 2016 £m	%	**Redemptions** 12 months to 31 Mar 2016 £m	Balances At 31 Mar 2015 £m	%	Redemptions 12 months to 31 Mar 2015 £m
Residential mortgages						
Buy-to-let	**2,787 3**	**28**	**(351 8)**	3,131 4	13	(324 0)
Together	**3,479 9**	**34**	**(1,271 8)**	9,962 5	41	(1,485 1)
Standard and other	**3,798 5**	**38**	**(1,167 0)**	11,075 1	46	(1,649 9)
Total residential mortgages	**10,065 7**	**100**	**(2,790 6)**	24,169 0	100	(3,459 0)
Residential loans	**10,065 7**	**95**	**(2,790 6)**	24,169 0	95	(3,459 0)
Commercial loans	**115 2**	**1**	**(20 3)**	136 7	1	(31 4)
Total secured loans	**10,180 9**	**96**	**(2,810 9)**	24,305 7	96	(3,490 4)
Unsecured loans	**391 8**	**4**	**(95 2)**	1,061 1	4	(104 6)
Total	**10,572 7**	**100**	**(2,906 1)**	25,366 8	100	(3,595 0)

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

At 31 March 2016 44% (31 March 2015 40%) of the Group's residential mortgage accounts (excluding buy-to-let) held by 29,159 (31 March 2015 81,143) customers were 'interest only' with 70% (31 March 2015 74%) of these having more than ten years until maturity

On 13 November 2015 UKAR announced that NRAM 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 when the beneficial interest of the loans transferred to Cerberus During the year the Company also released £3 4m of warranty provisions relating to sales in earlier periods, as these provisions were no longer required During 2014/15 the Company sold a portfolio of standard mortgages for £1 7bn realising a profit on sale of £3 0m and released £4 0m of provisions relating to sales in earlier periods These sales are excluded from the redemptions disclosed in the above table

13 Impairment on loans to customers

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

Group and Company	**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)**

Group and Company	On residential mortgages £m	On commercial loans £m	On unsecured loans £m	Total £m
At 1 April 2014	549 0	27 9	214 7	791 6
Movements during the year				
- write-offs	(91 5)	(10 5)	(32 3)	(134 3)
- loan impairment (credit)/charge	(69 0)	(1 5)	22 7	(47 8)
Net movements during the year	(160 5)	(12 0)	(9 6)	(182 1)
At 31 March 2015	388 5	15 9	205 1	609 5
The Income Statement (credit)/charge comprises				
- loan impairment (credit)/charge	(69 0)	(1 5)	22 7	(47 8)
- recoveries net of costs	(22 1)	(0 7)	-	(22 8)
Total Income Statement (credit)/charge	(91 1)	(2 2)	22 7	(70 6)

In respect of lifetime mortgages the allowances include an additional provision reflecting estimated future impairment up to redemption

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

14 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 and Company	
	31 Mar 2016 £m	31 Mar 2015 £m
Neither past due nor impaired	**14,618 3**	34,575 1
Past due but not impaired	**1,185 0**	2,744 0
Impaired	**222 2**	411 4
Total	**16,025 5**	37,730 5

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 and Company	
	31 Mar 2016 £m	31 Mar 2015 £m
Neither past due nor impaired	**9,151 2**	21,863 4
Past due but not impaired	**840 8**	2,059 1
Impaired	**179 9**	341 1
Total	**10,171 9**	24,263 6
The impaired balances above include the following carrying amount of assets in possession, capped at the balance outstanding	**27 3**	64 3

14 Credit quality of loans to customers (continued)

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 and Company	
	31 Mar 2016	31 Mar 2015
	%	%
To 50%	**7 7**	9 1
50% to 75%	**31 5**	27 4
75% to 100%	**51 0**	51 0
Over 100%	**9.8**	12 5
Total	**100 0**	100 0

The average indexed LTV based on a simple average is 64 2% (31 March 2015 65 1%) and on a weighted average is 78 1% (31 March 2015 79 0%)

	At 31 March 2016				At 31 March 2015			
Group and Company	**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	**9,235 5**	**95 7**	**397 9**	**9,729 1**	22,092 3	139 4	1,054 8	23,286 5
Past due but not impaired								
- less than 3 months	**484 9**	**-**	**15 4**	**500 3**	1,223 8	2 4	48 1	1,274 3
- 3 to 6 months	**213 2**	**-**	**5 7**	**218 9**	509 1	-	16 7	525 8
- over 6 months	**157 6**	**-**	**59 1**	**216 7**	360 6	-	117 7	478 3
Impaired	**189 4**	**28 8**	**9 9**	**228 1**	371 7	10 8	28 9	411 4
	10,280 6	**124 5**	**488 0**	**10,893 1**	24,557 5	152 6	1,266 2	25,976 3
Impairment allowances	**(214 9)**	**(9 3)**	**(96 2)**	**(320 4)**	(388 5)	(15 9)	(205 1)	(609 5)
Loans to customers net of impairment allowances	**10,065 7**	**115 2**	**391 8**	**10,572 7**	24,169 0	136 7	1,061 1	25,366 8
Impairment allowances								
- individual	**20 1**	**9 3**	**21 9**	**51 3**	37 7	15 9	38 1	91 7
- collective	**194 8**	**-**	**74 3**	**269 1**	350 8	-	167 0	517 8
Total impairment allowances	**214 9**	**9 3**	**96 2**	**320 4**	388 5	15 9	205 1	609 5

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 £1 2m (31 March 2015 £2 9m) A loan is eligible for capitalisation of arrears only once the borrower has complied with stringent terms for a set period

14 Credıt qualıty of loans to customers (contınued)

Arrears and possessıons on resıdentıal mortgages and unsecured loans

Arrears and possessıons are monıtored for the Group as a whole and also splıt by type of product

		At 31 March 2016		At 31 March 2015	
		Resıdentıal	Unsecured	Resıdentıal	Unsecured
Arrears 3 months and over					
Number of cases	No	**3,394**	**4,307**	7,861	8,877
Proportıon of total cases	%	**3 86**	**10.17**	3 49	8 38
Asset value	£m	**518 5**	**69 8**	1,135 5	147 8
Proportıon of book	%	**5 15**	**17.81**	4 70	13 92
Total value of payments overdue	£m	**25 1**	**17 3**	50 3	26 3
Proportıon of total book	%	**0 25**	**4 43**	0 21	2 48
Possessıons					
Number of cases	No	**180**	-	590	-
Proportıon of total cases	%	**0.20**	-	0 26	-
Asset value	£m	**33 8**	-	79 3	-
Proportıon of book	%	**0 34**	-	0 33	-
Total value of payments overdue	£m	**2 6**	-	6 4	-
Proportıon of total book	%	**0 03**	-	0 03	-
New possessıons	No	**1,009**	-	1,898	-
Total arrears 3 months and over and possessıons					
Number of cases	No	**3,574**	**4,307**	8,451	8,877
Proportıon of total cases	%	**4 06**	**10 17**	3 75	8 38
Asset value	£m	**552 3**	**69 8**	1,214 8	147 8
Proportıon of book	%	**5 49**	**17 81**	5 03	13 92
Total value of payments overdue	£m	**27 7**	**17 3**	56 7	26 3
Proportıon of total book	%	**0 28**	**4 43**	0 24	2 48
In respect of all arrears (ıncludıng those whıch are less than 3 months ın arrears) together wıth possessıons, the total value of payments overdue was					
Payments overdue					
Total value of payments overdue	£m	**33 4**	**17 5**	71 3	26 8
Proportıon of total book	%	**0.33**	**4 47**	0 30	2 53
Loan ımpaırment provısıon					
As % of total balances	%	**2 09**	**19 72**	1 58	16 20

14 Credıt qualıty of loans to customers (contınued)

Analysıs of resıdentıal mortgages and unsecured loans 3 months and over ın arrears by product

		At 31 March 2016		At 31 March 2015	
		Resıdentıal	**Unsecured**	Resıdentıal	Unsecured
Buy-to-let					
Number of cases	No	**243**	-	405	-
Proportıon of total cases	%	**1 17**	-	1 74	-
Asset value	£m	**48 4**	-	82 8	-
Proportıon of book	%	**1 73**	-	2 64	-
Total value of payments overdue	£m	**1 8**	-	4 1	-
Proportıon of total book	%	**0 07**	-	0 13	-
Together					
Number of cases	No	**1,357**	**4,307**	3,652	8,877
Proportıon of total cases	%	**3 88**	**10 17**	3 55	8 38
Asset value	£m	**155 0**	**69 8**	409 3	147 8
Proportıon of book	%	**4 45**	**17 81**	4 11	13 92
Total value of payments overdue	£m	**7 0**	**17 3**	17 3	26 3
Proportıon of total book	%	**0 20**	**4 43**	0 17	2 48
Standard and other					
Number of cases	No	**1,794**	-	3,804	-
Proportıon of total cases	%	**5 56**	-	3 83	-
Asset value	£m	**315 1**	-	643 4	-
Proportıon of book	%	**8 30**	-	5 81	-
Total value of payments overdue	£m	**16 3**	-	28 9	-
Proportıon of total book	%	**0 43**	-	0 26	-

15 Investments ın Group undertakıngs

	Company	
	12 months to 31 Mar 2016 £m	12 months to 31 Mar 2015 £m
At start of year	-	0 1
Repayment of capıtal	-	(0 1)
At end of year	-	-

Certaın subsıdıarıes returned surplus capıtal to the Company durıng the prevıous year

The Dırectors consıder the value of ınvestments to be supported by theır underlyıng assets

The followıng companıes are fully consolıdated ınto the Group Fınancıal Statements, all operate ın theır country of ıncorporatıon All are dırectly wholly-owned except where ındıcated

	Nature of busıness	Country of ıncorporatıon	Class of shares held
Communıty Housıng Inıtıatıves Lımıted	Non-tradıng	UK	Ordınary*
F&NE (1990) Lımıted	Non-tradıng	UK	Ordınary*
F&NE Lımıted	Non-tradıng	UK	Ordınary*
Heron's Reach Developments Lımıted	Non-tradıng	UK	Ordınary
NRAM (No 2) Lımıted	Non-tradıng	UK	Ordınary
NRAM Homes Lımıted	Non-tradıng	UK	Ordınary

* The Group owns 50% of the shares of these companıes

As descrıbed ın note 38(a), on 30 Aprıl 2016 the Company transferred ıts ınvestments ın Group undertakıngs to NRAM (No 1) Lımıted

15 Investments in Group undertakings (continued)

SPVs

The following entities are SPVs established in connection with the Group's securitisation and secured funding programmes (see note 24) The Company has no contractual arrangement or intention to provide additional financial or other support to these SPVs Although the Company has no direct or indirect ownership interest in these entities and no rights to vote or to receive dividends, they are regarded as subsidiaries This is because they are principally engaged in providing a source of long-term funding to the Group which, in substance, has the rights to all benefits from the activities of the SPVs They are, therefore, effectively controlled by the Group The Company was a member of NRAM Covered Bond LLP until 30 April 2016

	Nature of business	Country of incorporation and operation
GPCH Limited	Post-enforcement call option holder	UK
Granite Finance Funding Limited	Holding company	Jersey
Granite Finance Funding 2 Limited	Holding company	UK
Granite Finance Holdings Limited	Holding company	UK
Granite Finance Trustees Limited	Mortgage trustee	Jersey
Granite Master Issuer plc	Issue of securitised notes	UK
Granite Mortgages 03-2 plc	Issue of securitised notes	UK
Granite Mortgages 03-3 plc	Issue of securitised notes	UK
Granite Mortgages 04-1 plc	Issue of securitised notes	UK
Granite Mortgages 04-2 plc	Issue of securitised notes	UK
Granite Mortgages 04-3 plc	Issue of securitised notes	UK
Moore Investments Limited	Member of NRAM Covered Bond LLP	Jersey
NRAM Covered Bond LLP	Mortgage funding	UK
Whinstone Capital Management Limited	Issue of credit linked notes	Jersey
Whinstone 2 Capital Management Limited	Issue of credit linked notes	Jersey

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 2016 £m	At 31 March 2015 £m	**At 31 March 2016 £m**	At 31 March 2015 £m	**12 months to 31 March 2016 £m**	12 months to 31 March 2015 £m
Granite Mortgages 03-2 plc	-	230 5	**0 1**	0 4	**(0 3)**	(0 9)
Granite Mortgages 03-3 plc	-	204 3	**0 1**	0 2	**(0 1)**	(0 1)
Granite Mortgages 04-1 plc	-	334 4	**0 1**	0 4	**(0 3)**	(0 7)
Granite Mortgages 04-2 plc	-	351 5	**0 1**	(0 1)	**0 2**	(0 3)
Granite Mortgages 04-3 plc	-	414 8	**0 1**	0 2	**(0 1)**	(0 3)
Granite Master Issuer plc	-	8,097 1	**0 5**	(3 6)	**4 0**	14 5
Granite Finance Funding Limited	-	-	**0 2**	0 3	**(0 2)**	-
Granite Finance Funding 2 Limited	-	-	-	0 1	**(0 1)**	-
Whinstone Capital Management Limited	**78 9**	238 4	**0 2**	48 4	**(48 2)**	(1 3)
Whinstone 2 Capital Management Limited	-	174 5	-	49 0	**(49 0)**	3 3

The majority of the securitised notes issued by the above companies were redeemed during December 2015 and January 2016, following the sale of mortgages detailed in note 12 The remaining notes issued by Whinstone Capital Management Limited were subsequently redeemed in April 2016, as described in note 38(b)

16 Deferred taxation

The net deferred taxation liability is attributable to the following

Group and Company	Assets		Liabilities		Net	
	31 Mar 2016 £m	31 Mar 2015 £m	**31 Mar 2016 £m**	31 Mar 2015 £m	**31 Mar 2016 £m**	31 Mar 2015 £m
Changes in accounting basis on adoption of IFRS	**-**	6 9	**-**	(3 1)	**-**	3 8
Cash flow hedges	**-**	-	**-**	(48 7)	**-**	(48 7)
Accelerated tax depreciation	**-**	1 4	**-**	-	**-**	1 4
Employee benefits	**2 3**	2 3	**(45 9)**	(30 2)	**(43.6)**	(27 9)
	2 3	10 6	**(45 9)**	(82 0)	**(43.6)**	(71 4)
Offset	**(2 3)**	(10 6)	**2 3**	10 6	**-**	-
Total	**-**	-	**(43 6)**	(71 4)	**(43 6)**	(71 4)

The Group and Company had no deferred tax assets unrecognised at 31 March 2016 (31 March 2015 £nil)

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

Group and Company	**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)**

Group and Company	At 1 April 2014 £m	Recognised in income £m	Recognised in equity £m	At 31 March 2015 £m
Changes in accounting basis on adoption of IFRS	8 9	(5 1)	-	3 8
Cash flow hedges	(39 3)	-	(9 4)	(48 7)
Accelerated tax depreciation	1 1	0 3	-	1 4
Employee benefits	(11 0)	(7 1)	(9 8)	(27 9)
Total	(40 3)	(11 9)	(19 2)	(71 4)

17 Other assets

	Group		Company	
	31 Mar 2016 £m	31 Mar 2015 £m	**31 Mar 2016 £m**	31 Mar 2015 £m
Prepayments and accrued income	**0 8**	1 1	**0 8**	1 1
Other	**19 7**	19 0	**19 6**	18 8
Total	**20 5**	20 1	**20 4**	19 9

18 Retirement benefit assets

(a) Pension schemes

Northern Rock plc operated a staff pension scheme, which was closed in 2010 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 As detailed in note 38(a) on 30 April 2016 the NRAM Scheme transferred to NRAM (No 1) Limited

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 £4 9m (31 March 2015 £3 7m) and the retirement benefit remeasurement gain recognised in other comprehensive income during the year was £57 4m (2015 gain £48 9m)

As at 31 March 2016 and 31 March 2015 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 £15 3m in the year and the level of contributions will be reassessed each year

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 85% of the interest rate risk and 86% of the inflation risk

(b) Defined benefit section of the NRAM Scheme

The amounts carried on the Group Balance Sheet are as follows

	31 Mar 2016 £m	31 Mar 2015 £m
Present value of defined benefit obligations	(583.4)	(606 2)
Fair value of defined benefit assets	812 8	758 1
Net defined benefit asset	**229 4**	151 9

The amounts recognised in the Group Income Statement were as follows

	12 months to 31 Mar 2016 £m	12 months to 31 Mar 2015 £m
Net interest income	4 9	3 7
Total recognised in the Income Statement	**4 9**	3 7

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

	12 months to 31 Mar 2016 £m	12 months to 31 Mar 2015 £m
At start of year	**606 2**	480 7
Interest on defined benefit obligations	20 3	21 8
Remeasurements		
- effect of changes in demographic assumptions	20 5	-
- effect of changes in financial assumptions	(38 1)	119 3
- effect of experience adjustments	(8 8)	(3 3)
Benefits paid from plan	(16 7)	(12 3)
At end of year	**583 4**	606 2

18 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 2016 £m	12 months to 31 Mar 2015 £m
At start of year	**758 1**	546 0
Interest income on defined benefit assets	**25 1**	25 5
Defined benefit company contributions	**15 3**	34 0
Remeasurements		
- return on plan assets (excluding interest income)	**31 0**	164 9
Benefits paid from plan	**(16 7)**	(12 3)
At end of year	**812 8**	758 1

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

	31 March 2016			31 March 2015		
	Quoted £m	**Unquoted £m**	**Total £m**	Quoted £m	Unquoted £m	Total £m
Equity instruments	-	**224 3**	**224 3**	-	225 9	225 9
Bonds						
- of which UK	**63 4**	-	**63 4**	65 2	-	65 2
Liability hedging investments	**512 9**	-	**512.9**	419 2	-	419 2
Cash and cash equivalents	**12 2**	-	**12.2**	47 8	-	47 8
Total	**588 5**	**224 3**	**812 8**	532 2	225 9	758 1

(c) Assumptions

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

	31 Mar 2016	31 Mar 2015
To determine benefit obligations		
Discount rate	**3 6%**	3 4%
Inflation (RPI)	**3 0%**	3 1%
Future pension increases	**1 85% - 3 55%**	3 0% - 3 55%
To determine net pension cost		
Discount rate	**3.4%**	4 6%

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 2016		31 Mar 2015	
	Pensioner	**Non-retired member**	Pensioner	Non-retired member
Male	**28 9**	**30 7**	27 8	29 3
Female	**31 2**	**33 0**	30 2	31 8

(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**
Discount rate	Decrease by 0 5%	Increase by 12%
Inflation	Increase by 0 5%	Increase by 9%
Mortality	Decrease by 1 year	Increase by 2%

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

19 Property, plant and equipment

Group and Company	**Land and buıldıngs £m**	**Plant, equıpment, fixtures, fittıngs and vehıcles £m**	**Total £m**
Cost			
At 1 Aprıl 2015	**0 3**	**1 7**	**2 0**
Transfer to fellow subsıdıary	**(0 3)**	**(1 1)**	**(1 4)**
Dısposals	-	**(0 6)**	**(0 6)**
At 31 March 2016	-	-	-
Depreciatıon			
At 1 Aprıl 2015	-	**1 1**	**1 1**
Charged ın year	**0 1**	**0 1**	**0 2**
Transfer to fellow subsıdıary	**(0 1)**	**(0 6)**	**(0 7)**
Dısposals	-	**(0.6)**	**(0 6)**
At 31 March 2016	-	-	-
Net book amount			
At 1 Aprıl 2015	**0 3**	**0 6**	**0 9**
At 31 March 2016	-	-	-

Group and Company	Land and buıldıngs £m	Plant, equıpment, fixtures, fittıngs and vehıcles £m	Total £m
Cost			
At 1 Aprıl 2014	-	1 7	1 7
Addıtıons	0 3	0 1	0 4
Dısposals	-	(0 1)	(0 1)
At 31 March 2015	0 3	1 7	2 0
Deprecıatıon			
At 1 Aprıl 2014	-	1 0	1 0
Charged ın year	-	0 2	0 2
Dısposals	-	(0 1)	(0 1)
At 31 March 2015	-	1 1	1 1
Net book amount			
At 1 Aprıl 2014	-	0 7	0 7
At 31 March 2015	0 3	0 6	0 9

In preparatıon for the ıntra-group reorganısatıon descrıbed ın note 38(a), certaın assets were transferred to B&B at theır wrıtten down value

All assets dısposed of ın the year and prevıous year had already been fully amortısed, and no sale proceeds were receıved, and hence there was no profit or loss on sales

20 Intangıble assets

Group and Company	£m
Cost	
At 1 Aprıl 2015	**1 2**
Transfer to fellow subsıdıary	**(1 2)**
At 31 March 2016	**-**
Impaırment and amortısatıon	
At 1 Aprıl 2015	**0 7**
Amortısatıon charged ın the year	**0 1**
Transfer to fellow subsıdıary	**(0 8)**
At 31 March 2016	**-**
Net book amount	
At 1 Aprıl 2015	**0 5**
At 31 March 2016	**-**

Group and Company	£m
Cost	
At 1 Aprıl 2014 and 31 March 2015	1 2
Impaırment and amortısatıon	
At 1 Aprıl 2014	0 4
Amortısatıon charged ın the year	0 3
At 31 March 2015	0 7
Net book amount	
At 1 Aprıl 2014	0 8
At 31 March 2015	0 5

Intangıble assets comprıse capıtalısed computer software systems and lıcences

In preparatıon for the ıntra-group reorganısatıon descrıbed ın note 38(a), certaın assets were transferred to B&B at theır wrıtten down value

21 Amounts due to banks

	Group		Company	
	31 Mar 2016 £m	31 Mar 2015 £m	**31 Mar 2016 £m**	31 Mar 2015 £m
Cash collateral receıved (see note 34)	**0 6**	1,682 2	**0 6**	1,262 0

22 Other deposıts

	Company	
	31 Mar 2016 £m	31 Mar 2015 £m
Amounts due to securıtısatıon SPVs	**36 9**	8,767 5
Amounts due to other subsıdıarıes	**0 1**	2 2
Total	**37 0**	8,769 7

Amounts due to securıtısatıon SPVs prıncıpally represented the benefıcıal ınterests held ın mortgage portfolıos by securıtısatıon SPVs (see note 24) Because the mortgage loans dıd not qualıfy for de-recognıtıon from the Company's Balance Sheet, the securıtısatıon SPVs' benefıcıal ınterests ın the mortgage portfolıos were represented by a deemed loan to the Company Thıs was equıvalent ın value to the benefıcıal ınterests ın the mortgage portfolıos plus assocıated ıntra-Group balances dırectly relatıng to the benefıcıal ınterests ın the mortgage portfolıos

23 HM Treasury loans

	Group and Company	
	31 Mar 2016 £m	31 Mar 2015 £m
Amount due to HM Treasury	**7,465 6**	13,656 1

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 38(a), on 30 April 2016 this loan was transferred to NRAM (No 1) Limited

24 Debt securities in issue

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**

Group	Securitised notes £m	Covered Bonds £m	Other £m	Total £m
At 1 April 2014	12,396 6	5,704 9	366 1	18,467 6
Repayments	(2,581 0)	-	(122 9)	(2,703 9)
Repurchases	(223 0)	-	-	(223 0)
Other movements	(179 6)	(558 0)	(4 9)	(742 5)
At 31 March 2015	9,413 0	5,146 9	238 3	14,798 2
Securitised assets	13,488 2	8,533 8	-	22,022 0
Reserve fund	1,004 6	16 7	-	1,021 3

Company	**Securitised notes £m**	**Covered Bonds £m**	**Other £m**	**Total £m**
At 1 April 2015	-	**5,146 9**	**238 3**	**5,385 2**
Repayments	-	**(1,082 9)**	**(32 4)**	**(1,115 3)**
Repurchases	-	**(3,631 9)**	-	**(3,631 9)**
Other movements	-	**(432 1)**	**(1 8)**	**(433 9)**
At 31 March 2016	-	-	**204 1**	**204 1**

Company	Securitised notes £m	Covered Bonds £m	Other £m	Total £m
At 1 April 2014	-	5,704 9	366 1	6,071 0
Repayments	-	-	(122 9)	(122 9)
Other movements	-	(558 0)	(4 9)	(562 9)
At 31 March 2015	-	5,146 9	238 3	5,385 2
Securitised assets	-	8,533 8	-	8,533 8
Reserve fund	-	16 7	-	16 7

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

24 Debt securities in issue (continued)

The Group issued debt securities to securitise loans to customers through SPVs and Covered Bonds and also raised unsecured medium term funding, the amounts of which are shown above Certain of these have been subject to fair value hedge designation and the carrying values of these instruments include unamortised adjustments in respect of the notes that were hedged

HM Treasury provided guarantees with regard to certain wholesale borrowings of the Company, the Group paid a fee for these guarantees at the rate of £12 0m per annum The fee was not dependent on balances outstanding and hence it is included within 'fee and commission expense' As detailed in note 38(a), these guarantees ceased on 5 May 2016

Securitised assets represent loans to customers which have been used to securitise issued notes, including notes which are held by other companies in the UKAR Group, and cash balances

(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 qualify for de-recognition under IAS 39 Securitised assets are subject to non-recourse finance arrangements These assets are primarily loans to customers which have been purchased at par from the Company, the purchase being funded through the issue by the SPVs of mortgage-backed bonds The Company passes to the SPVs cash received in relation to the securitised assets The SPVs use the cash to service the bonds, retain a margin specified under the terms of the issue and return any surplus cash to the Company To the extent that the total cash receipts in relation to the securitised assets are insufficient to satisfy interest and principal payments in relation to the bonds, the holders of the bonds have no recourse against the Group Provided that the total cash receipts in relation to the securitised assets are sufficient to satisfy interest and principal payments in relation to the bonds, the Company bears the cost of any impairment of the securitised assets While the assets remain securitised, the Group may not use, sell or pledge these assets

As detailed in note 12, during the year the Company sold £12bn of mortgages from the Granite securitisation structure Following this sale, all of the remaining Granite notes in issue were redeemed, along with the majority of the Whinstone notes in issue

As detailed in note 38(b), the remaining securities issued by Whinstone Capital Management Limited have been redeemed since the Balance Sheet date

(b) Covered Bonds

During the year all the Covered Bonds in issue were repurchased by the Company and cancelled (see note 7) The process of winding up NRAM Covered Bond LLP has begun and is expected to be completed in 2016

(c) Other debt securities in issue

Other debt securities in issue comprise notes issued under the Company's Medium Term Notes programme, these were transferred to NRAM (No 1) Limited on 30 April 2016, as described in note 38(a)

25 Other lıabılıtıes

	Group		Company	
	31 Mar 2016 £m	31 Mar 2015 £m	**31 Mar 2016 £m**	31 Mar 2015 £m
Accruals and deferred income	**20 0**	9 0	**20 0**	9 0
Other	**181 5**	41 2	**181 5**	41 0
Total	**201 5**	50 2	**201 5**	50 0

Other lıabılıtıes include £2 9m (31 March 2015 £14 2m) owed to B&B

26 Provisions

Group and Company	**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**

Group and Company	Customer redress £m	Onerous contracts £m	Total £m
At 1 April 2014	133 9	4 5	138 4
Utilised in the year	(55 7)	(1 5)	(57 2)
Charged in the year	287 3	-	287 3
At 31 March 2015	365 5	3 0	368 5

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

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 Consumer Credit Act ('CCA') customers despite receiving the same incorrect documentation As a result the £268 3m provision relating to this matter was released

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 £70 6m has been recognised, of which £60 3m relates to an increase in PPI provisions following the publication of the FCA's consultation paper CP15/39 'Rules and guidance on payment protection insurance complaints' which proposes the setting of a deadline date for complaints in 2018 and provides guidance in relation to the Plevin case The proposals include an FCA-led communications campaign to raise awareness of the deadline to prompt those who intend to complain to act ahead of the deadline If the proposals are agreed, we expect higher claims volumes in the run up to the implementation of time-barring than we have previously modelled

All customer redress payments are expected to be processed during the year to 31 March 2017 except for PPI, the majority of which is expected to be processed by spring 2018 to align with the expected deadline date in the FCA consultation paper

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 (t)) 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 These leases were transferred to NRAM (No 1) Limited on 30 April 2016 (see note 38(a))

27 Capıtal ınstruments

Group and Company		At 31 March 2016		At 31 March 2015	
	Inıtıal ınterest rate	Carryıng amount £m	Prıncıpal £m	Carryıng amount £m	Prıncıpal £m
Subordınated loan	11 734%	**4 1**	**4 0**	9 3	8 0
Total subordınated lıabılıtıes		**4 1**	**4 0**	9 3	8 0

These capıtal ınstruments are all denomınated ın Sterlıng

The carryıng values of these ınstruments ıs measured on an amortısed cost basıs, as adjusted hedge accountıng adjustments

Of the subordınated loan, £4 0m was repaıd durıng the year, and the remaınıng £4 0m ıs repayable ın December 2016

Redemptıons of any subordınated lıabılıtıes prıor to theır final maturıty date are subject to obtaınıng prıor consent of the FCA

The rıghts of repayment of holders of subordınated lıabılıtıes are subordınated to the claıms of other credıtors

28 Share capıtal

			Group and Company	
Issued and fully paıd at 1 Aprıl 2014, 31 March 2015 and 31 March 2016	**31 Mar 2016 Number**	31 Mar 2015 Number	**31 Mar 2016 £m**	31 Mar 2015 £m
Ordınary shares of 25p each	**496 0m**	495 6m	**124 0**	123 9
Perpetual non-cumulatıve callable Preference shares of 25p each	-	0 4m	-	0 1
Total	**496 0m**	496 0m	**124 0**	124 0

In accordance wıth the Companıes Act 2006, the Company no longer has authorısed capıtal other than ıts ıssued capıtal

The Ordınary shares rank equally ın respect of rıghts attached to votıng, dıvıdends and ın the event of a wındıng up

The Preference shares were converted ınto Ordınary shares ın June 2015

No dıvıdends were declared or paıd ın the current or prevıous year on the Company's Ordınary or Preference shares No dıvıdends had been proposed by the date of approval of these Fınancıal Statements

29 Reserves

Reserves comprıse the followıng

	Group		Company	
	31 Mar 2016 £m	31 Mar 2015 £m	**31 Mar 2016 £m**	31 Mar 2015 £m
Share premıum reserve	**403 2**	403 2	**403 2**	403 2
Capıtal redemptıon reserve	**7 3**	7 3	**7 3**	7 3
Avaılable-for-sale reserve	**(15 8)**	(24 6)	**(15 8)**	(24 6)
Cash flow hedge reserve	**-**	183 7	**-**	194 1
Total	**394 7**	569 6	**394 7**	580 0

The share premıum reserve represents the excess of the consıderatıon receıved for ıssued shares over the nomınal value of those shares, net of transactıon costs

The capıtal redemptıon reserve was created to maıntaın the total amount of capıtal when shares were repurchased by the Company

29 Reserves (continued)

Available-for-sale reserve	Group 31 Mar 2016 £m	Group 31 Mar 2015 £m	Company 31 Mar 2016 £m	Company 31 Mar 2015 £m
At start of year	**(24 6)**	(29 9)	**(24 6)**	(29 9)
Amounts recognised in equity	**14 7**	(6 8)	**14 7**	(6 8)
Amounts transferred to net income	**(5 9)**	12 1	**(5 9)**	12 1
At end of year	**(15 8)**	(24 6)	**(15 8)**	(24 6)

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

Cash flow hedge reserve	Group 31 Mar 2016 £m	Group 31 Mar 2015 £m	Company 31 Mar 2016 £m	Company 31 Mar 2015 £m
At start of year	**183 7**	132 9	**194 1**	156 8
Amounts recognised in equity	**(1,029 5)**	(671 2)	**(1,029 5)**	(312 6)
Amounts transferred to net income	**845 8**	722 0	**835 4**	349 9
At end of year	**-**	183 7	**-**	194 1

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

30 Off-Balance Sheet commitments payable

Group and Company 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**

Group and Company At 31 March 2015	Within one year £m	In one to five years £m	Over five years £m	Total £m
Loan commitments				
- lifetime mortgages	0 7	2 3	3 6	6 6
- other loans	1,239 5	-	-	1,239 5
Total loan commitments	1,240 2	2 3	3 6	1,246 1
Operating lease commitments				
- land and buildings	0 9	3 6	7 6	12 1
Total	1,241 1	5 9	11 2	1,258 2

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

Operating lease commitments represent minimum future lease payments under non-cancellable operating leases These leases were transferred to NRAM (No 1) Limited on 30 April 2016 (see note 38(a))

31 Related party dısclosures

(a) Key management personnel

The Group consıders the Board of Dırectors and the members of the Executıve Commıttee to be the key management personnel There were no amounts owed to or by key management personnel at any tıme durıng the year (2015 £nıl)

A summary of the Group's share of the remuneratıon of the 15 (2015 15) key management personnel ıs set out ın the table below These amounts ınclude the Group's share of the remuneratıon of the Dırectors whıch ıs set out ın more detaıl ın the Dırectors' Remuneratıon Report on pages 31 to 46 of the 2016 Annual Report and Accounts of UKAR The Dırectors' Remuneratıon Report gıves detaıls of the UKAR Group's Dırectors' salarıes, fees, bonuses, pensıon benefits, other ıncentıves and other benefits The aggregate UKAR Group emoluments of the UKAR Group's Dırectors were £2,159,628 (2015 £1,459,251) and the emoluments of the hıghest paıd Dırector were £966,611 (2015 £653,227) Included ın these amounts are £nıl (2015 £nıl) whıch the Group paıd ınto the Group's money purchase pensıon scheme In addıtıon, Dırectors paıd £nıl (2015 £nıl) ınto thıs scheme In 2015/16 the NRAM Group bore half of the cost of the UKAR Dırectors ın ıts Income Statement, the other half beıng borne by B&B Included ın the NRAM Group's Income Statement, the aggregate Dırectors' emoluments and the emoluments of the hıghest paıd Dırector amounted to £1,079,814 and £483,306 respectıvely (2015 £729,625 and £326,614 respectıvely) The UKAR Group dıd not make any loss of office payments to Dırectors durıng the year (2015 £nıl) The key management personnel contrıbuted £45,000 (2015 £42,000) to UKAR Group pensıon schemes durıng the year

Remuneratıon of key management personnel	31 Mar 2016 £000	31 Mar 2015 £000
Short-term employee benefits	**2,101**	1,418
Post-employment benefits	**157**	149
Total	**2,258**	1,567

Further detaıls of the accountıng treatment of pensıons and of the Group's and Company's transactıons and balances wıth the Group's pensıon schemes are gıven ın note 18 There were no amounts due to or from the schemes at 31 March 2016 (31 March 2015 £nıl)

(b) UK government

As descrıbed ın note 37, the Company consıders the UK government to be ıts ultımate controllıng party The Group's materıal balances wıth departments and bodıes of the government comprıse deposıts wıth the Bank of England (see note 9) and loans from HM Treasury (see note 23) HM Treasury has also provıded guarantee arrangements to the Group, for whıch the Group pays fees In addıtıon to these loans and guarantees, the Group has balances and transactıons wıth numerous government bodıes on an arm's length basıs ın relatıon to the payment of corporatıon tax and VAT and the payment of regulatory fees and levıes The Group has balances and transactıons wıth UKFI and wıth banks over whıch the UK government has sıgnıficant ınfluence, these were made ın the ordınary course of busıness and are not unusual ın theır nature or condıtıons

(c) Subsıdıary companıes

Balances outstandıng wıth subsıdıary companıes and movements ın these balances were as follows

Payables	Securitisatıon SPVs £m	Other subsıdıarıes £m	2016 Total £m	Securıtısatıon SPVs £m	Other subsıdıarıes £m	2015 Total £m
At start of year	**8,767 5**	**2 2**	**8,769 7**	11,454 7	2 2	11,456 9
Net movement over the year	**(8,730 6)**	**(2 1)**	**(8,732 7)**	(2,687 2)	-	(2,687 2)
At end of year	**36 9**	**0 1**	**37 0**	8,767 5	2 2	8,769 7

The Company held £32 9m of loan notes ıssued by SPV subsıdıarıes at 31 March 2016 (31 March 2015 £631 4m) In order to avoıd recognısıng the underlyıng mortgage assets twıce, the securıtıes are netted off the Company's lıabılıtıes to the subsıdıarıes which ıssued the securıtıes

31 Related party disclosures (continued)

(d) Fellow subsidiary

The Company held £33 8m of loan notes issued by B&B at 31 March 2016 (2015 £39 4m) Interest income earned by the Company on these notes during the year amounted to £0 3m (2015 £0 4m) The Group incurred interest expense of £0 6m (2015 £0 9m) during the year on loan notes issued by the Group and held by B&B B&B held £65 8m of these loan notes at 31 March 2015, these were redeemed during the year

During the year B&B recharged a total of £81 3m (2015 £89 1m) to the Company

At 31 March 2016 the Company owed £2 9m to B&B (2015 £14 2m)

(e) Parent company

During the year the Company was charged £0 3m (2015 £0 3m) by UKAR for the services of Non-Executive Directors

32 Capital structure

The Company met its capital requirements in full throughout 2015/16 and 2014/15 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 2016 capital in the Company represented 33 2% (31 March 2015 10 6%) of the Company's assets

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

Company	**At 31 March 2016 £m**	At 31 March 2015 £m
Share capital and reserves	**4,403 6**	3,864 5
Available-for-sale reserve adjustments	**15 8**	24 6
Cash flow hedge reserve adjustments	**-**	(194 1)
Net pension adjustment	**(229 4)**	(151 9)
Less deductions	**-**	(0 7)
Total capital	**4,190 0**	3,542 4

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 and certain other capital instruments as capital Capital excludes accounting reserves for available-for-sale assets and cash flow hedges 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

33 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(f) sets out the key principles used for estimating the fair values of financial instruments Note 33(f) provides some additional information in respect of the methodologies used

Group **At 31 March 2016**	**Available-for-sale £m**	**Assets at fair value through profit or loss £m**	**Loans and receivables £m**	**Hedging adjustments £m**	**Total carrying value £m**	**Fair value £m**
Financial assets						
Balances with the Bank of England	-	-	1,389 1	-	1,389 1	1,389 1
Cash at bank and in hand	-	-	56 3	-	56 3	56 3
Investment securities	-	-	335 5	-	335 5	336 0
Loans to customers	-	-	10,572 7	-	10,572 7	10,572 7
Fair value adjustments on portfolio hedging	-	-	-	-	-	-
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**	**Hedging adjustments £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

Group At 31 March 2015	Available-for-sale £m	Assets at fair value through profit or loss £m	Loans and receivables £m	Hedging adjustments £m	Total carrying value £m	Fair value £m
Financial assets						
Balances with the Bank of England	-	-	5,871 1	-	5,871 1	5,871 1
Cash at bank and in hand	-	-	669 5	-	669 5	669 5
Investment securities	0 7	-	404 0	-	404 7	452 9
Loans to customers	-	-	25,365 4	1 4	25,366 8	25,366 8
Fair value adjustments on portfolio hedging	-	-	-	53 2	53 2	-
Derivative financial instruments	-	2,085 5	-	-	2,085 5	2,085 5
Other financial assets	-	-	19 0	-	19 0	19 0
Total financial assets	0 7	2,085 5	32,329 0	54 6	34,469 8	34,464 8

	Liabilities at fair value through profit or loss £m	Liabilities at amortised cost £m	Hedging adjustments £m	Total carrying value £m	Fair value £m
Financial liabilities					
Amounts due to banks	-	1,682 2	-	1,682 2	1,682 2
HM Treasury loans	-	13,656 1	-	13,656 1	13,656 1
Derivative financial instruments	70 9	-	-	70 9	70 9
Debt securities in issue	-	14,520 4	277 8	14,798 2	15,200 4
Capital instruments	-	8 2	1 1	9 3	9 3
Other financial liabilities	-	28 9	-	28 9	28 9
Total financial liabilities	70 9	29,895 8	278 9	30,245 6	30,647 8

33 Financial instruments (continued)

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

Company **At 31 March 2016**	**Available-for-sale £m**	**Assets at fair value through profit or loss £m**	**Loans and receivables £m**	**Hedging adjustments £m**	**Total carrying value £m**	**Fair value £m**
Financial assets						
Balances with the Bank of England	-	-	1,389 1	-	1,389 1	1,389 1
Cash at bank and in hand	-	-	56 3	-	56 3	56 3
Investment securities	-	-	335 5	-	335 5	336 0
Loans to customers	-	-	10,572 7	-	10,572 7	10,572 7
Fair value adjustments on portfolio hedging	-	-	-	-	-	-
Derivative financial instruments	-	1 6	-	-	1.6	1.6
Other financial assets	-	-	19 6	-	19.6	19 6
Total financial assets	-	1 6	12,373 2	-	12,374.8	12,375 3

	Liabilities at fair value through profit or loss £m	**Liabilities at amortised cost £m**	**Hedging adjustments £m**	**Total carrying value £m**	**Fair value £m**
Financial liabilities					
Amounts due to banks	-	0 6	-	0 6	0 6
Other deposits	-	37 0	-	37 0	37 0
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	-	204 1	-	204 1	237 5
Capital instruments	-	4 1	-	4 1	4 1
Other financial liabilities	-	83 4	-	83 4	83 4
Total financial liabilities	11 7	7,794 8	-	7,806 5	7,839 9

Company At 31 March 2015	Available-for-sale £m	Assets at fair value through profit or loss £m	Loans and receivables £m	Hedging adjustments £m	Total carrying value £m	Fair value £m
Financial assets						
Balances with the Bank of England	-	-	5,871 1	-	5,871 1	5,871 1
Cash at bank and in hand	-	-	541 0	-	541 0	541 0
Investment securities	0 7	-	404 0	-	404 7	452 9
Loans to customers	-	-	25,365 3	1 5	25,366 8	25,366 8
Fair value adjustments on portfolio hedging	-	-	-	53 2	53 2	-
Derivative financial instruments	-	1,150 5	-	-	1,150 5	1,150 5
Other financial assets	-	-	18 8	-	18 8	18 8
Total financial assets	0 7	1,150 5	32,200 2	54 7	33,406 1	33,401 1

	Liabilities at fair value through profit or loss £m	Liabilities at amortised cost £m	Hedging adjustments £m	Total carrying value £m	Fair value £m
Financial liabilities					
Amounts due to banks	-	1,262 0	-	1,262 0	1,262 0
Other deposits	-	8,769 7	-	8,769 7	8,769 7
HM Treasury loans	-	13,656 1	-	13,656 1	13,656 1
Derivative financial instruments	70 9	-	-	70 9	70 9
Debt securities in issue	-	5,107 3	277 9	5,385 2	6,108 3
Capital instruments	-	8 2	1 1	9 3	9 3
Other financial liabilities	-	28 6	-	28 6	28 6
Total financial liabilities	70 9	28,831 9	279 0	29,181 8	29,904 9

33 Financial instruments (continued)

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

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

At 31 March 2016, assets carried at amortised cost which were previously carried at fair value were carried at £335 5m (31 March 2015 £404 0m) The difference between the carrying value at the date of reclassification and the expected value at the redemption date is recognised in profit and loss on an effective interest rate basis over the expected lives of the assets, their carrying amounts will accrete up to their redemption amounts over their expected lives The amount recognised in profit and loss during the year was a gain of £17 9m (12 months to 31 March 2015 £7 3m), which was exactly offset by losses transferred from the available-for-sale reserve during the year If the assets had not been reclassified, it is estimated that fair value losses of £8 2m would have been reflected in the available-for-sale reserve during the year in respect of these assets (12 months to 31 March 2015 gains of £25 5m) The expected redemption value of the remaining assets is £377 2m (31 March 2015 £481 5m) The fair value of these assets at 31 March 2016 was £316 4m (31 March 2015 £436 2m) As detailed in note 38(a), on 30 April 2016 the Company transferred all of these assets to NRAM (No 1) Limited

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

	Group	
	12 months to 31 Mar 2016 £m	12 months to 31 Mar 2015 £m
Interest income	**907 5**	1,297 0
Interest expense	**(280 9)**	(522 2)
Net interest income	**626 6**	774 8

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 13 and in respect of investment securities in note 11 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 have been securitised are not de-recognised from the Balance Sheet of the originator of the loan as the originator retains substantially all of the risks and rewards of the securitised loan (see note 24)

(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

(i) Fair value hedges

The Group designates a number of derivatives as fair value hedges In particular, the Group has three approaches establishing relationships for

- Hedging the interest rate and foreign currency exchange rate risk of non-prepayable, foreign currency denominated fixed rate assets or liabilities on a one-for-one basis with fixed/floating or floating/fixed cross currency interest rate swaps
- Hedging the interest rate risk of a single currency portfolio of sterling, US Dollar or Euro non-prepayable fixed rate assets/liabilities on a one-for-one basis with vanilla fixed/floating or floating/fixed interest rate swaps
- Hedging the interest rate risk of a portfolio of prepayable fixed rate assets with interest rate derivatives This solution is used to establish a macro fair value hedge for derivatives hedging fixed rate mortgages The Group believes this solution is consistent with its policy for hedging fixed rate mortgages on an economic basis

33 Financial instruments (continued)

(e) Hedge accounting (continued)

(ii) Cash flow hedges

The Group designates a number of derivatives as cash flow hedges In particular, the Group adopts the following approaches

- Using fixed interest rate swaps to hedge floating rate sterling liabilities
- To address the volatility generated by floating/floating cross currency swaps, they are placed into cash flow hedges, the accounting hedge relationship is to hedge the foreign currency exchange rate risk of the foreign currency denominated asset/liability
- Fixed/floating cross currency swaps are split into their separate risk components and separately designated into cash flow hedges
- Basis swaps are split into their separate risk components and separately designated into cash flow hedges

(iii) Net investment hedges

The Group has not designated any derivatives as net investment hedges in 2015/16 or 2014/15

The Group had the following types of hedges

At 31 March 2016	**Fair value hedges £m**	**Cash flow hedges £m**	**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)**	

At 31 March 2015	Fair value hedges £m	Cash flow hedges £m	Economic hedges £m	Total £m	Notional amounts £m
Exchange rate contracts	7 1	2,016 0	61 3	2,084 4	11,652 9
Interest rate contracts	1 1	-	-	1 1	8 0
Total asset balances	8 2	2,016 0	61 3	2,085 5	
Exchange rate contracts	-	-	3 2	3 2	454 4
Interest rate contracts	35 5	22 0	10 2	67 7	9,932 4
Total liability balances	35 5	22 0	13 4	70 9	
Fair value of hedging instruments	(27 3)	1,994 0	47 9	2,014 6	

The Company had the following types of hedges

At 31 March 2016	**Fair value hedges £m**	**Cash flow hedges £m**	**Economic hedges £m**	**Total £m**	**Notional amounts £m**
Exchange rate contracts	-	-	**1 2**	**1 2**	**44 3**
Interest rate contracts	-	-	**0 4**	**0 4**	**4 0**
Total asset balances	-	-	**1 6**	**1 6**	
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	-	-	**(10 1)**	**(10 1)**	

33. Financial instruments (continued)

(e) Hedge accounting (continued)

At 31 March 2015	Fair value hedges £m	Cash flow hedges £m	Economic hedges £m	Total £m	Notional amounts £m
Exchange rate contracts	7 1	1,081 0	61 3	1,149 4	5,204 5
Interest rate contracts	1 1	-	-	1 1	8 0
Total asset balances	8 2	1,081 0	61 3	1,150 5	
Exchange rate contracts	-	-	3 2	3 2	454 4
Interest rate contracts	35 5	22 0	10 2	67 7	9,932 4
Total liability balances	35 5	22 0	13 4	70 9	
Fair value of hedging instruments	(27 3)	1,059 0	47 9	1,079 6	

(f) Fair value measurement

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

Group

At 31 March 2016	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets				
Derivative financial instruments	-	**11 5**	-	**11 5**
Financial liabilities				
Derivative financial instruments	-	**(11 7)**	-	**(11 7)**
Net financial liabilities	-	**(0 2)**	-	**(0.2)**

Group

At 31 March 2015	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Investment securities - available-for-sale	-	0 7	-	0 7
Derivative financial instruments	-	2,085 5	-	2,085 5
Financial liabilities				
Derivative financial instruments	-	(70 9)	-	(70 9)
Net financial assets	-	2,015 3	-	2,015 3

Company

At 31 March 2016	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets				
Derivative financial instruments	-	**1 6**	-	**1 6**
Financial liabilities				
Derivative financial instruments	-	**(11 7)**	-	**(11 7)**
Net financial liabilities	-	**(10 1)**	-	**(10 1)**

33 Fınancıal ınstruments (contınued)

(f) Faır value measurement (contınued)

Company

At 31 March 2015	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Fınancıal assets				
Investment securıtıes - avaılable-for-sale	-	0 7	-	0 7
Derıvatıve financıal ınstruments	-	1,150 5	-	1,150 5
Fınancıal lıabılıtıes				
Derıvatıve financıal ınstruments	-	(70 9)	-	(70 9)
Net financıal assets	-	1,080 3	-	1,080 3

Level 1 Quoted prıces (unadjusted) ın actıve markets for ıdentıcal assets and lıabılıtıes

Level 2 Inputs other than quoted prıces that are observable for the asset or lıabılıty, whether dırectly (ıe as prıce) on ındırectly (ıe derıved from the ımplıcatıons of prıces)

Level 3 Inputs for the asset or lıabılıty that are not based on observable market data, or have sıgnıficant unobservable ınputs

There were no transfers between Levels 1, 2 and 3 durıng the year (2015 none)

Avaılable-for-sale ınvestment securıtıes whıch are categorısed as Level 2 are those whıch are less frequently traded, hence trade prıces cannot always be relıed on as evıdence of faır value For such securıtıes, faır value ıs estımated by the securıtıes' lead managers, takıng ınto account recent trades, sımılar assets adjusted for credıt spreads and where applıcable the underlyıng performance of assets backıng the securıtıes (so unobservable ınputs are not consıdered sıgnıficant) These prıces are revıewed agaınst quoted prıces where avaılable

Derıvatıve financıal ınstruments whıch are categorısed as Level 2 are those whıch eıther

(a) Have future cash flows whıch are on known dates and for whıch the cash flow amounts are known or calculable by reference to observable ınterest and foreıgn currency exchange rates, or

(b) Have future cash flows whıch are not pre-defined but for whıch the faır value of the ınstrument has very low sensıtıvıty to unobservable ınputs

In each case the faır value ıs calculated by dıscountıng future cash flows usıng observable market parameters ıncludıng swap rates, ınterest rates and currency rates

For financıal assets and lıabılıtıes whıch are not carrıed at faır value, the faır values dısclosed ın note 33(a) are calculated on the followıng bases

Group

At 31 March 2016	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Fınancıal assets				
Balances wıth the Bank of England	1,389 1	-	-	1,389 1
Cash at bank and ın hand	56 3	-	-	56 3
Investment securıtıes	-	336 0	-	336 0
Loans to customers	-	-	10,572 7	10,572 7
Other financıal assets	-	19 7	-	19 7
	1,445 4	355 7	10,572 7	12,373 8
Fınancıal lıabılıtıes				
Amounts due to banks	0 6	-	-	0 6
HM Treasury loans	7,465 6	-	-	7,465 6
Debt securıtıes ın ıssue	-	283 4	-	283.4
Capıtal ınstruments	-	4 1	-	4 1
Other financıal lıabılıtıes	-	83 4	-	83 4
	7,466 2	370 9	-	7,837 1

33 Financial instruments (continued)

(f) Fair value measurement (continued)

Group

At 31 March 2015	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Balances with the Bank of England	5,871 1	-	-	5,871 1
Cash at bank and in hand	669 5	-	-	669 5
Investment securities	-	452 2	-	452 2
Loans to customers	-	-	25,366 8	25,366 8
Other financial assets	-	19 0	-	19 0
	6,540 6	471 2	25,366 8	32,378 6
Financial liabilities				
Amounts due to banks	1,682 2	-	-	1,682 2
HM Treasury loans	13,656 1	-	-	13,656 1
Debt securities in issue	-	15,200 4	-	15,200 4
Capital instruments	-	9 3	-	9 3
Other financial liabilities	-	28 9	-	28 9
	15,338 3	15,238 6	-	30,576 9

Company

At 31 March 2016	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets				
Balances with the Bank of England	**1,389 1**	**-**	**-**	**1,389 1**
Cash at bank and in hand	**56 3**	**-**	**-**	**56 3**
Investment securities	**-**	**336 0**	**-**	**336 0**
Loans to customers	**-**	**-**	**10,572 7**	**10,572 7**
Other financial assets	**-**	**19 6**	**-**	**19 6**
	1,445 4	**355 6**	**10,572 7**	**12,373 7**
Financial liabilities				
Amounts due to banks	**0 6**	**-**	**-**	**0 6**
Other deposits	**37 0**	**-**	**-**	**37 0**
HM Treasury loans	**7,465 6**	**-**	**-**	**7,465 6**
Debt securities in issue	**-**	**237 5**	**-**	**237 5**
Capital instruments	**-**	**4 1**	**-**	**4 1**
Other financial liabilities	**-**	**83 4**	**-**	**83 4**
	7,503 2	**325 0**	**-**	**7,828 2**

Company

At 31 March 2015	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Balances with the Bank of England	5,871 1	-	-	5,871 1
Cash at bank and in hand	541 0	-	-	541 0
Investment securities	-	452 2	-	452 2
Loans to customers	-	-	25,366 8	25,366 8
Other financial assets	-	18 8	-	18 8
	6,412 1	471 0	25,366 8	32,249 9
Financial liabilities				
Amounts due to banks	1,262 0	-	-	1,262 0
Other deposits	8,769 7	-	-	8,769 7
HM Treasury loans	13,656 1	-	-	13,656 1
Debt securities in issue	-	6,108 3	-	6,108 3
Capital instruments	-	9 3	-	9 3
Other financial liabilities	-	28 6	-	28 6
	23,687 8	6,146 2	-	29,834 0

33. Financial instruments (continued)

(f) Fair value measurement (continued)

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

Balances with the Bank of England
Fair value approximates to carrying value because they have minimal credit losses and are either short term in nature or reprice frequently

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, however, as the Group's policy is to hedge fixed rate loans in respect of interest rate risk, the Group has no material exposure to this difference in fair value

Amounts due to banks and other deposits
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 interest rate charged varies in line with changes in market rates and the loans are 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) Transferred financial assets

As set out in note 24 the Group/Company has transferred financial assets (loans and receivables) to securitisation structures The Group/Company retains all of the risks and rewards associated with these loans and they are, therefore, retained on the Group's/Company's Balance Sheets

The table below sets out the carrying values of the transferred assets and the associated liabilities For securitisation structures, the associated liabilities represent the external notes in issue (see note 24) None of these notes have recourse to the transferred assets

	Group and Company	**Group**
At 31 March 2016	**Transferred assets Carrying amount £m**	**Associated liabilities Carrying amount £m**
Loans to customers securitised	-	-

	Group and Company	Group
At 31 March 2015	Transferred assets Carrying amount £m	Associated liabilities Carrying amount £m
Loans to customers securitised	21,747 2	14,559 9

33 Fınancial instruments (contınued)

(h) Offsettıng

No financıal assets have been offset against financıal lıabılıtıes Balances whıch are subject to enforceable master nettıng arrangements or sımilar agreements are as follows

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**

Group At 31 March 2015	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	2,085 5	(22 9)	(1,374 8)	687 8
Derivative financial liabilities	(70 9)	22 9	37 3	(10 7)
	2,014 6	-	(1,337 5)	677 1

Company **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	**1 6**	**(1 2)**	**(0 4)**	**-**
Derivative financial liabilities	**(11 7)**	**1 2**	**8 9**	**(1 6)**
	(10 1)	**-**	**8 5**	**(1 6)**

Company At 31 March 2015	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	1,150 5	(22 9)	(1,090 5)	37 1
Derivative financial liabilities	(70 9)	22 9	37 3	(10 7)
	1,079 6	-	(1,053 2)	26 4

34 Collateral pledged and received

	Group		Company	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Cash collateral which the Group/Company has provided in respect of derivative contracts	**9 1**	51 1	**9 1**	51 1
Total collateral pledged	**9 1**	51 1	**9 1**	51 1

	Group		Company	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Cash collateral which the Group/Company has received in respect of derivative contracts	**0 6**	1,682 2	**0 6**	1,262 0
Securities collateral held	**-**	16 4	**-**	16 4
Total collateral received	**0 6**	1,698 6	**0 6**	1,278 4

34 Collateral pledged and received (continued)

In addition to the collateral amounts shown above, certain loans to customers provide security in respect of securitised note and Covered Bond funding as detailed in note 24 These loans, and also cash collateral pledged shown above, are carried on the Balance Sheet The liability to repay the cash collateral received is included within amounts due to banks in the Balance Sheet In the absence of counterparty default, the Group has no right to sell or re-pledge the securities collateral received and, therefore, in accordance with the provisions of IAS 39 such securities are not recognised on the Balance Sheet

35 Financial risk management

A description of the principal risks to which the Group is exposed is provided on pages 7 to 9 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 2016	31 Mar 2015	**31 Mar 2016**	31 Mar 2015
	£m	£m	**£m**	£m
On Balance Sheet				
Balances with the Bank of England	**1,389 1**	5,871 1	**1,389 1**	5,871 1
Cash at bank and in hand	**56 3**	669 5	**56 3**	541 0
Investment securities	**335 5**	404 7	**335 5**	404 7
Loans to customers	**10,572 7**	25,366 8	**10,572 7**	25,366 8
Derivative financial instruments	**11 5**	2,085 5	**1 6**	1,150 5
Other financial assets	**19 7**	19 0	**19 6**	18 8
Total on Balance Sheet	**12,384 8**	34,416 6	**12,374 8**	33,352 9
Off Balance Sheet				
Loan commitments (see note 30)	**417 3**	1,246 1	**417 3**	1,246 1

Loans to customers include loans which are secured on property Additional information in respect of credit risk is provided in note 11 (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

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 At 31 March 2016 the Group had no UK Government securities, bank or supranational bonds (31 March 2015 £nil) 57% (31 March 2015 49%) 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 11

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 28% (31 March 2015 13%) 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 £10 1bn (31 March 2015 £24 2bn) 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 30% (31 March 2015 31%) of the book

Within the commercial mortgage portfolio there are 48 loans (31 March 2015 60) totalling £115 2m (31 March 2015 £136 7m), the largest 10 loans accounting for 84% (31 March 2015 75%) of the portfolio All of these loans are secured on commercial and housing association properties

35 Financial risk management (continued)

(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 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							
Balances with the Bank of England	1,388 6	0 5	-	-	-	-	1,389 1
Cash at bank and in hand	36 4	19 9	-	-	-	-	56 3
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
Fair value adjustments on portfolio hedging	-	-	-	-	-	-	-
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

Group At 31 March 2015	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							
Balances with the Bank of England	5,869 0	2 1	-	-	-	-	5,871 1
Cash at bank and in hand	188 3	481 2	-	-	-	-	669 5
Investment securities	-	0 4	0 1	0 1	5 2	398 9	404 7
Loans to customers	225 9	51 3	58 0	114 3	1,254 1	23,663 2	25,366 8
Fair value adjustments on portfolio hedging	-	2 1	2 6	5 1	26 8	16 6	53 2
Derivative financial instruments	-	112 9	8 5	191 7	375 6	1,396 8	2,085 5
Other financial assets	-	19 0	-	-	-	-	19 0
Total financial assets	6,283 2	669 0	69 2	311 2	1,661 7	25,475 5	34,469 8
Financial liabilities							
Amounts due to banks	1,682 2	-	-	-	-	-	1,682 2
HM Treasury loans	13,638 5	17 6	-	-	-	-	13,656 1
Derivative financial instruments	-	3 0	6 3	14 4	21 6	25 6	70 9
Debt securities in issue	-	1,732 6	633 8	1,144 5	8,809 9	2,477 4	14,798 2
Capital instruments	-	0 2	-	4 5	4 6	-	9 3
Other financial liabilities	-	28 9	-	-	-	-	28 9
Total financial liabilities	15,320 7	1,782 3	640 1	1,163 4	8,836 1	2,503 0	30,245 6

35 Financial risk management (continued)

(b) Liquidity risk (continued)

Company 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							
Balances with the Bank of England	1,388 6	0 5	-	-	-	-	1,389 1
Cash at bank and in hand	36 4	19 9	-	-	-	-	56 3
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
Fair value adjustments on portfolio hedging	-	-	-	-	-	-	-
Derivative financial instruments	-	0.6	-	1 0	-	-	1 6
Other financial assets	-	19.6	-	-	-	-	19 6
Total financial assets	**1,590 0**	**95.2**	**38 7**	**71 2**	**656 6**	**9,923 1**	**12,374 8**
Financial liabilities							
Amounts due to banks	0 6	-	-	-	-	-	0 6
Other deposits	37 0	-	-	-	-	-	37 0
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	-	-	-	4 2	199 9	-	204 1
Capital instruments	-	0.1	-	4 0	-	-	4 1
Other financial liabilities	-	83 4	-	-	-	-	83 4
Total financial liabilities	**7,493 4**	**94.3**	**6 3**	**8 2**	**201 6**	**2 7**	**7,806 5**

Company At 31 March 2015	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							
Balances with the Bank of England	5,869 0	2 1	-	-	-	-	5,871 1
Cash at bank and in hand	59 8	481 2	-	-	-	-	541 0
Investment securities	-	0 4	0 1	0 1	5 2	398 9	404 7
Loans to customers	225 9	51 3	58 0	114 3	1,254 1	23,663 2	25,366 8
Fair value adjustments on portfolio hedging	-	2 1	2 6	5 1	26 8	16 6	53 2
Derivative financial instruments	-	112 9	8 5	191 7	375 6	461 8	1,150 5
Other financial assets	-	18 8	-	-	-	-	18 8
Total financial assets	6,154 7	668 8	69 2	311 2	1,661 7	24,540 5	33,406 1
Financial liabilities							
Amounts due to banks	1,262 0	-	-	-	-	-	1,262 0
Other deposits	8,769 7	-	-	-	-	-	8,769 7
HM Treasury loans	13,638 5	17 6	-	-	-	-	13,656 1
Derivative financial instruments	-	3 0	6 3	14 4	21 6	25 6	70 9
Debt securities in issue	-	1,173 3	-	26 4	2,625 4	1,560 1	5,385 2
Capital instruments	-	0 2	-	4 5	4 6	-	9 3
Other financial liabilities	-	28 6	-	-	-	-	28 6
Total financial liabilities	23,670 2	1,222 7	6 3	45 3	2,651 6	1,585 7	29,181 8

The maturity profiles in the above table do not reflect the transfer of certain assets and liabilities to NRAM (No 1) Limited at 30 April 2016, as detailed in note 38(a) 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

Debt securities in issue include notes which securitise loans to customers through SPVs These notes are repaid on a pass-through basis In the above table, maturities of such notes are based on the expected repayment of notes which, in turn, are derived from the expected redemption profiles of securitised loans

In the above table, where derivatives have been taken out in order to hedge mortgage backed securitised notes, the timings of derivative payments are based on the expected repayment dates of the hedged notes

35 Financial risk management (continued)

(b) Liquidity risk (continued)

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 £230 2m and £394 9m respectively (31 March 2015 £154 4m and £514 1m) of which £0 8m and £214 5m respectively are classed as current (31 March 2015 £1 1m and £56 0m) and £229 4m and £180 4m respectively are classed as non-current (31 March 2015 £153 4m and £458 1m)

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 69 and 70 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 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**

Group At 31 March 2015	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	1,682 2	-	-	-	-	-	1,682 2
HM Treasury loans	13,638 5	17 6	-	-	-	-	13,656 1
Debt securities in issue	-	1,685 8	650 3	1,302 5	9,230 6	3,715 6	16,584 8
Capital instruments	-	0 2	0 2	4 3	4 3	-	9 0
Other financial liabilities	-	28 9	-	-	-	-	28 9
Loan commitments	1,239 5	0 2	0 2	0 3	2 3	3 6	1,246 1
Total	16,560 2	1,732 7	650 7	1,307 1	9,237 2	3,719 2	33,207 1

35 Financial risk management (continued)

(b) Liquidity risk (continued)

Company **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**
Other deposits	**37 0**	**-**	**-**	**-**	**-**	**-**	**37 0**
HM Treasury loans	**7,455 8**	**9 8**	**-**	**-**	**-**	**-**	**7,465 6**
Debt securities in issue	**-**	**-**	**-**	**12 8**	**238 3**	**-**	**251 1**
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	**7,905 4**	**93 6**	**0 2**	**17 3**	**240.2**	**2 8**	**8,259 5**

Company At 31 March 2015	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	1,262 0	-	-	-	-	-	1,262 0
Other deposits	8,769 7	-	-	-	-	-	8,769 7
HM Treasury loans	13,638 5	17 6	-	-	-	-	13,656 1
Debt securities in issue	-	1,114 2	0 1	152 2	2,891 7	1,446 3	5,604 5
Capital instruments	-	0 2	0 2	4 3	4 3	-	9 0
Other financial liabilities	-	28 6	-	-	-	-	28 6
Loan commitments	1,239 5	0 2	0 2	0 3	2 3	3 6	1,246 1
Total	24,909 7	1,160 8	0 5	156 8	2,898 3	1,449 9	30,576 0

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 69 and 70

Group and Company **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**
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**

Group At 31 March 2015	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
Derivative financial liabilities to be settled on a net basis	-	5 8	5 5	9 8	37 2	6 3	64 6
Derivative financial liabilities to be settled on a gross basis							
- outflows	-	-	-	-	0 1	8 4	8 5
- inflows	-	-	-	(0 1)	(0 2)	(8 0)	(8 3)
Total	-	5 8	5 5	9 7	37 1	6 7	64 8

35 Financial risk management (continued)

(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
Legacy funding in sterling involving either fixed rate instruments or instruments with embedded options	Sensitivity to changes in interest rates	Interest rate swaps
Fixed and capped rate mortgages and legacy investments involving either fixed rate instruments or instruments with embedded options	Sensitivity to changes in interest rates	Interest rate swaps and options
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	Cross-currency interest rate swaps and foreign exchange contracts

Interest rate swaps

The notional principal amounts of the outstanding interest rate swap contracts in Cash Flow Hedge Relationships ('CFHR') at 31 March 2016 were £nil (31 March 2015 £9 5bn), for Group and Company

35 Financial risk management (continued)

(c) Market risk (continued)

Cross currency swaps

The notional principal amounts of the outstanding cross currency swaps in an eligible CFHR as at 31 March 2016 were £nil in the Group (2015 £10 8bn) and £nil in the Company (2015 £4 3bn)

The accounting policy for derivatives and hedge accounting is described in note 1(h), and further details of hedge accounting are provided in note 33(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 Finance & Investment Director is responsible for managing this exposure within the risk exposure limits set out in the Market 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

Exposures are reviewed as appropriate by senior management and the Board with a frequency between daily and monthly, related to the granularity of the position

Interest rate risk exposure is predominantly managed through the use of interest rate derivatives, principally interest rate swaps The Group / Company also uses asset and liability positions to offset exposures naturally wherever possible to minimise the costs and risks of arranging transactions external to the Group / Company

Interest rate sensitivities are reported to ALCO monthly and 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 2016 £m	31 Mar 2015 £m
2% increase	**(18 2)**	6 4
2% decrease	**22 9**	2 8

(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 2016 £m	31 Mar 2015 £m
2% increase	**74 3**	67 0
2% decrease	**(17 9)**	(14 8)

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 2016 and 31 March 2015 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 2016 or 31 March 2015

35 Financial risk management (continued)

(c) Market risk (continued)

Foreign currency risk (continued)

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

At 31 March 2016	€ £m	$ £m	Other £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

Group

At 31 March 2015	€ £m	$ £m	Other £m	Total £m
Financial assets				
Cash at bank and in hand	262 0	220 7	-	482 7
Investment securities	267 7	10 2	-	277 9
Derivative financial instruments	7,078 2	4,385 3	71 4	11,534 9
Total financial assets	7,607 9	4,616 2	71 4	12,295 5
Financial liabilities				
Amounts due to banks	546 8	203 4	-	750 2
Derivative financial instruments	(347 1)	48 8	-	(298 3)
Debt securities in issue	7,409 5	4,363 5	71 4	11,844 4
Total financial liabilities	7,609 2	4,615 7	71 4	12,296 3
Net currency gap	(1 3)	0 5	-	(0 8)

Company

At 31 March 2016	€ £m	$ £m	Other £m	Total £m
Financial assets				
Cash at bank and in hand	6 1	14 2	-	20 3
Investment securities	231 0	10 3	-	241 3
Derivative financial instruments	(22 3)	(20 9)	-	(43.2)
Total financial assets	214 8	3 6	-	218 4
Financial liabilities				
Derivative financial instruments	213 8	3 5	-	217 3
Total financial liabilities	213 8	3 5	-	217.3
Net currency gap	1 0	0 1	-	1.1

35 Financial risk management (continued)

(c) Market risk (continued)

Foreign currency risk (continued)

Company

At 31 March 2015	€ £m	$ £m	Other £m	Total £m
Financial assets				
Cash at bank and in hand	262 0	220 7	-	482 7
Investment securities	267 7	10 2	-	277 9
Derivative financial instruments	3,007 6	1,072 4	-	4,080 0
Total financial assets	3,537 3	1,303 3	-	4,840 6
Financial liabilities				
Amounts due to banks	492 6	184 8	-	677 4
Derivative financial instruments	(347 0)	57 2	-	(298 8)
Debt securities in issue	3,401 3	1,050 6	-	4,451 9
Total financial liabilities	3,546 9	1,292 6	-	4,839 5
Net currency gap	(9 6)	10 7	-	1 1

36 Contingent liabilities

(a) As detailed in note 26, 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) A 2014 decision of the Supreme Court in the Plevin case held that the non-disclosure of commissions on a single premium PPI policy made the relationship between the lender and the borrower unfair under section 140A of the Consumer Credit Act 1974 The FCA is formally consulting on its position and has issued a preliminary statement which indicates that if a firm failed to disclose commission which represents 50% or more of the premium, customers may have to be compensated No additional compensation is required where customers have already had a complaint handled and upheld under the FCA's current PPI complaint handling rules At this stage, it is not possible to estimate reliably any potential financial impact for NRAM

(c) In October 2014 the Group sold a portfolio of standard mortgages for £1,576 8m Under the terms of the sale, the Group provided certain warranties Any claim under these warranties must be made by August 2016 The Group's maximum liability under these warranties is limited to £77 8m

(d) Under the terms of the Option Agreement dated 13 November 2015, the Company sold certain loans to Cerberus on 7 December 2015 and the Company provided certain warranties and indemnities to Cerberus On 5 May 2016 when NRAM (No 1) Limited sold its 100% shareholding in the Company to Landmark Bidco Limited, NRAM (No 1) Limited became liable for the warranties and indemnities which had been given by NRAM plc under the Option Agreement

(e) 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

37 Ultimate controlling party

All shares in the Company were transferred to the Treasury Solicitor as nominee for HM Treasury on 22 February 2008 as a result of The Northern Rock Transfer Order 2008 On 1 October 2010 all shares in the Company were acquired via a share-for-share exchange by 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 During the year and previous year, and as at 31 March 2016, UK Asset Resolution Limited was the Group's ultimate parent undertaking and NRAM considered the UK government to be its ultimate controlling party 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 and Accounts

As detailed in note 38(a), on 29 April 2016 all shares in the Company were acquired via a share-for-share exchange by NRAM (No 1) Limited, a private limited company incorporated and domiciled in the United Kingdom, which is wholly owned by UK Asset Resolution Limited On 5 May 2016, all shares in the Company were acquired from NRAM (No 1) Limited by Landmark Bidco Limited, a private limited company incorporated and domiciled in the United Kingdom The ultimate parent company is Cerberus European Residential Holdings B V whose registered office is at Oude Utrechtseweg 32, 3743 KN Baarn, The Netherlands (incorporated under the laws of The Netherlands with registered number 62579533) Cerberus European Residential Holdings B V is owned by certain investment funds managed and advised by Cerberus Capital Management L P a global investment manager headquartered in New York City, USA and registered with the United States Securities and Exchange Commission

38 Events after the reporting period

(a) As detailed in note 12, on 13 November 2015 UKAR announced that NRAM had agreed to sell a £13bn asset portfolio to affiliates of Cerberus, which included £12bn of mortgages from the Granite securitisation structure plus a further £1bn of non-Granite assets The sale of the Granite loans was recognised in December 2015 when the beneficial interest of those loans transferred to Cerberus As detailed in note 36(d), the Company provided certain warranties and indemnities to Cerberus in connection with the sale

The second stage of this transaction completed in April and May 2016 as follows

29 April – the Company was acquired by NRAM (No 1) Limited, a wholly-owned subsidiary undertaking of UKAR, in a share-for-share exchange

30 April – the Company declared a dividend of £3,787 4m to NRAM (No 1) Limited and paid the dividend in specie, using mortgage loans

30 April – the Company transferred certain assets and liabilities to NRAM (No 1) Limited These assets and liabilities were those that were not to be included in the asset perimeter of the sale to Cerberus and included all of NRAM's investments in subsidiary undertakings, £9,947m of loans to customers, NRAM's 30 April balances in respect of certain bank accounts, investment securities, retirement benefit assets, HM Treasury loans, the EMTN debt securities in issue and derivative financial assets and liabilities These balances were transferred at their carrying amounts and a net balance owed to the Company by NRAM (No 1) Limited was left outstanding These balances have not been classified as 'held for sale' in the Company's 31 March 2016 Balance Sheet as at that date the balances were not available for immediate sale in their current condition, substantial further conditions being required to be satisfied in order to complete the sale

5 May – NRAM (No 1) Limited sold 100% of the shares of the Company to Cerberus At this point, HM Treasury ceased its funding and guarantees to the Company Also at this point the Company's liabilities for the warranties and indemnities to Cerberus described under paragraph (a) above ceased The liability for these warranties and indemnities to Cerberus was instead assumed by NRAM (No 1) Limited

(b) On 25 April 2016 the remaining debt securities issued by Whinstone Capital Management Limited were redeemed