

Registered Number: 02124900

**E-Mex Home Funding Limited**

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



**E-MEX HOME FUNDING LIMITED**

**Annual report and financial statements for the year ended 31 March 2020**

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## **E-MEX HOME FUNDING LIMITED**

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### **Directors and company information**

#### **Directors**

S Bennison (appointed 15 October 2019)

T Carter (resigned 9 December 2019)

J Davy (resigned 9 December 2019)

J Dunn

H Jordan (appointed 1 May 2019 and resigned 9 December 2019)

M Mathieson (resigned 9 December 2019)

C Rhodes

P Wootton (resigned 9 December 2019)

#### **Company secretary**

NBS CoSec Limited

#### **Independent auditor**

Ernst & Young LLP

25 Churchill Place

London

E14 5EY

#### **Registered office**

Nationwide House

Pipers Way

Swindon

SN38 1NW

#### **Registered number**

02124900

## **E-MEX HOME FUNDING LIMITED**

### **Directors' report for the year ended 31 March 2020**

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

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

#### **Principal activities**

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

The principal activity of the Company is specialist residential mortgage lending.

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

#### **Results and dividends**

The profit after tax was £1.8 million (2019: £1.5 million). No dividends were proposed, approved or paid during the year (2019: £nil).

#### **Business review, future developments and relationships with stakeholders**

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

#### **Employees**

The Company has no employees (2019: nil).

#### **Environment**

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

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

## **E-MEX HOME FUNDING LIMITED**

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### **Directors' report for the year ended 31 March 2020 (continued)**

#### **Directors and directors' interests**

The directors who held office during the period were:

S Bennison (appointed 15 October 2019)

T Carter (resigned 9 December 2019)

J Davy (resigned 9 December 2019)

J Dunn

H Jordan (appointed 1 May 2019 and resigned 9 December 2019)

M Mathieson (resigned 9 December 2019)

C Rhodes

P Wootton (resigned 9 December 2019)

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

#### **Company secretary**

NBS CoSec Limited

#### **Domicile**

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

#### **Going concern**

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

The Company is fully funded by its parent undertaking, Nationwide Building Society. Nationwide Building Society's Board of directors has confirmed that it will continue to fund the Company's activities for the foreseeable future. The foreseeable future is considered for this purpose to be a period of at least 12 months from the date of approval of the financial statements. Taking this into account, the directors have a reasonable expectation that the Company has adequate resources to continue in business for the foreseeable future.

## **E-MEX HOME FUNDING LIMITED**

### **Directors' report for the year ended 31 March 2020 (continued)**

#### **Statement of directors' responsibilities**

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

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

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

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

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

#### **Independent auditor**

Due to audit firm rotation regulations PricewaterhouseCoopers LLP resigned as the Company's auditor after the year ended 31 March 2019. Subsequently Ernst & Young LLP (EY) were appointed as external auditor for the year ended 31 March 2020 and they have expressed their willingness to continue in office.

#### **Statement of disclosure of information to auditor**

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

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

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

C Rhodes  
**Director**

13 July 2020



## **E-MEX HOME FUNDING LIMITED**

### **Strategic report for the year ended 31 March 2020**

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#### **Business review**

The Company recorded a profit before tax for the year of £2.2 million (2019: £1.9 million). Profits have increased in the year despite the ongoing run-off of the residential mortgage book. This was driven by fair value gains on the commercial loan held at fair value, decreases in administrative expenses and fee and commission expenses following a change in methodology in the application of the management recharge from the Society, which has been applied prospectively.

Retained earnings carried forward are £18.8 million (2019: £17.0 million).

#### **Future developments**

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

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

#### **Section 172(1) Statement and Statement of engagement with stakeholders**

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

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

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

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

#### ***Taking account of our stakeholders***

##### ***Maintaining high standards of business conduct***

Payment holidays have been made available to landlords whose tenants have lost income because of the impact of Covid-19, with landlords expected to pass this relief to their tenants.

##### ***Impact on environment***

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

##### ***Meeting customer needs***

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

## **E-MEX HOME FUNDING LIMITED**

### **Strategic report for the year ended 31 March 2020 (continued)**

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#### **Strategic goals**

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

#### **Risk overview**

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

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

The Group's principal risks are:

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



## **E-MEX HOME FUNDING LIMITED**

### **Strategic report for the year ended 31 March 2020 (continued)**

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#### **Risk overview (continued)**

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

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

#### **Credit, market, liquidity and funding risk**

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

#### **Business risk**

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

#### **Model risk**

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

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

An enterprise level Model Risk Framework (MRF) provides the foundation for the management of model risk within defined risk appetite set by the Group Board. Further details on the management of model risk can be found in the Risk report of the Group's Annual Report and Accounts.

**E-MEX HOME FUNDING LIMITED**

**Strategic report for the year ended 31 March 2020 (continued)**

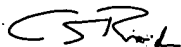
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**Risk overview (continued)**

**Operational and conduct risk**

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

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



C Rhodes

**Director**  
13 July 2020

## **E-MEX HOME FUNDING LIMITED**

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

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#### **Report on the financial statements**

##### **Opinion**

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 March 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006

We have audited the financial statements of E-Mex Home Funding Limited for the year ended 31 March 2020 which comprise the Balance sheet, the Statement of comprehensive income, the Statement of changes in equity and the related notes 1 to 19, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice)".

##### **Basis for opinion**

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

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

##### **Conclusions relating to going concern**

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

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

## **E-MEX HOME FUNDING LIMITED**

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

#### **Reporting on other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

#### ***Matters on which we are required to report by exception***

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

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

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

#### **Responsibilities for the financial statements and the audit**

##### ***Responsibilities of the directors for the financial statements***

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

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

## **E-MEX HOME FUNDING LIMITED**

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

#### **Responsibilities for the financial statements and the audit (continued)**

##### *Auditor's responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

##### *Use of this report*

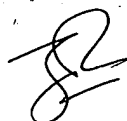
This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other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

#### **Other required reporting**

##### *Companies Act 2006 exception reporting*

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

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



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

14 July 2020

**E-MEX HOME FUNDING LIMITED****Statement of comprehensive income for the year ended 31 March 2020**

	Note	2020 £'000	2019 £'000
Interest receivable and similar income	3	2,856	3,171
Interest expense and similar charges	4	(1,256)	(1,560)
<b>Net interest income</b>		<b>1,600</b>	<b>1,611</b>
Fee and commission income	5	8	10
Fee and commission expense	5	-	(136)
Other operating income	6	673	519
<b>Total income</b>		<b>2,281</b>	<b>2,004</b>
Administrative expenses	7	(75)	(139)
Impairment (losses)/reversals on loans and advances to customers	8	(38)	23
Provisions for liabilities and charges	9	4	-
<b>Profit before tax</b>		<b>2,172</b>	<b>1,888</b>
Taxation	10	(343)	(359)
<b>Profit after tax, being total comprehensive income for the year</b>		<b>1,829</b>	<b>1,529</b>


The notes on pages 16 to 48 form part of these financial statements.

## Balance sheet as at 31 March 2020

	Note	2020 £'000	2019 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Loans and advances to customers	12	74,661	83,162
Deferred tax	10	661	674
<b>Current assets</b>			
Cash		556	2,621
Current tax assets		64	-
Loans and advances to customers	12	2,439	2,385
<b>Total assets</b>		<b>78,381</b>	<b>88,842</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Amounts owed to parent undertaking	13	9,419	9,279
<b>Current liabilities</b>			
Amounts owed to parent undertaking	13	50,103	62,360
Accruals, deferred income and other liabilities		4	5
Current tax liabilities		-	168
Provisions for liabilities and charges	9	8	12
<b>Total liabilities</b>		<b>59,534</b>	<b>71,824</b>
<b>Equity</b>			
Share capital	14	-	-
Retained earnings		18,847	17,018
<b>Total equity</b>		<b>18,847</b>	<b>17,018</b>
<b>Total equity and liabilities</b>		<b>78,381</b>	<b>88,842</b>

The notes on pages 16 to 48 form part of these financial statements.

The financial statements on pages 13 to 48 were approved by the Board of directors on 13 July 2020 and signed on its behalf by



C Rhodes  
Director  
13 July 2020

**E-MEX HOME FUNDING LIMITED****Statement of changes in equity for the year ended 31 March 2020**

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

<b>2019</b>	<b>Share capital</b>	<b>Retained earnings</b>	<b>Total equity</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
At 1 April 2018	-	15,489	15,489
Profit after tax	-	1,529	1,529
Total comprehensive income	-	1,529	1,529
At 31 March 2019	-	17,018	17,018

The notes on pages 16 to 48 form part of these financial statements.



## **E-MEX HOME FUNDING LIMITED**

### **Notes to the financial statements for the year ended 31 March 2020**

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#### **1 Statement of accounting policies**

##### **Basis of preparation**

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

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

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

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

##### **Adoption of new and revised standards**

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

## **E-MEX HOME FUNDING LIMITED**

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

#### **1 Statement of accounting policies (continued)**

##### **a) Interest receivable and interest expense**

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

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

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

##### **b) Fees and commissions**

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

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

##### **c) Segmental reporting**

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

##### **d) Taxation including deferred tax**

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

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

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

## **E-MEX HOME FUNDING LIMITED**

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

#### **1 Statement of accounting policies (continued)**

##### **d) Taxation including deferred tax (continued)**

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

##### **e) Provisions**

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

##### **f) Financial assets**

Financial assets comprise cash and loans and advances to customers.

##### **Recognition and derecognition**

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

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

##### **Modification of contractual terms**

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

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

##### **Classification and measurement**

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

## **E-MEX HOME FUNDING LIMITED**

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

#### **1 Statement of accounting policies (continued)**

##### **f) Financial assets (continued)**

###### **Classification and measurement (continued)**

###### *Amortised cost*

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

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

###### *Fair value through profit or loss*

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

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

##### **g) Impairment of financial assets**

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

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

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

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

**1 Statement of accounting policies (continued)**

**g) Impairment of financial assets (continued)**

**Forward looking economic inputs**

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

**Credit risk categorisation**

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

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

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

*Stage 2: significant increase in credit risk*

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

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

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

## **E-MEX HOME FUNDING LIMITED**

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

#### **1 Statement of accounting policies (continued)**

##### **g) Impairment of financial assets (continued)**

###### **Credit risk categorisation (continued)**

###### *Stage 3: credit impaired (or defaulted) loans*

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

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

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

###### **Transfers between stages**

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

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

###### **Write-off**

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

##### **h) Financial liabilities**

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

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

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

## **E-MEX HOME FUNDING LIMITED**

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

#### **1 Statement of accounting policies (continued)**

##### **i) Fair value of financial assets and liabilities**

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

##### ***Level 1 – Valuation using quoted market prices***

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

##### ***Level 2 – Valuation technique using observable inputs***

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

##### ***Level 3 – Valuation technique using significant unobservable inputs***

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

##### **j) Share capital and dividends**

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

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

#### **2 Judgements in applying accounting policies and critical accounting estimates**

The preparation of the Company's financial statements involves management making judgements and estimates when applying those accounting policies that affect the reported amounts of assets, liabilities, income and expense. Actual results may differ from those on which management's estimates are based. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. For the year ended 31 March 2020, this evaluation has considered the potential impacts of Covid-19.

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

**E-MEX HOME FUNDING LIMITED****Notes to the financial statements for the year ended 31 March 2020 (continued)****3 Interest receivable and similar income**

	2020 £'000	2019 £'000
On residential mortgages (measured at amortised cost and calculated using the effective interest rate method)	2,580	2,889
On commercial loan (measured at fair value through profit and loss)	276	282
<b>Total</b>	<b>2,856</b>	<b>3,171</b>

**4 Interest expense and similar charges**

Interest expense and similar charges of £1,256 thousand (2019: £1,560 thousand) relates to interest payable on amounts owed to parent undertaking.

**5 Fees and commission income and expense**

Fees and commission income of £8 thousand (2019: £10 thousand) relates to charges on loans and advances to customers.

Fees and commission expense of £136 thousand in 2019 related to expenditure on the administration of loans and advances to customers which had been recharged by the Group. During the year there was a change in methodology in the application of the management recharge from the company's parent undertaking. This change has been applied prospectively.

**6 Other operating income**

Other operating income of £673 thousand (2019: £519 thousand) relates to a gain on the commercial loan measured at fair value through profit and loss.

**7 Administrative expenses**

	2020 £'000	2019 £'000
Recharge from parent undertaking (note i)	58	123
Other administrative expenses	17	16
<b>Total</b>	<b>75</b>	<b>139</b>

Note:

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

Auditor's remuneration, relating solely to the statutory audit of these financial statements was £29 thousand (2019: £35 thousand) and borne by the parent undertaking.

The Company has no employees (2019: nil). Administration of the Company's loans are carried out by staff who are employed by Nationwide Building Society.

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

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



## E-MEX HOME FUNDING LIMITED

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

#### 7 Administrative expenses (continued)

Related party transactions may be entered into with directors in the normal course of business through the issuance of mortgage loans. Transactions with related parties are made on the same terms and conditions applicable to other employees within the Group. There were no loans to related parties as at 31 March 2020 (2019: £nil).

#### 8 Impairment losses and provisions on loans and advances to customers

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

<b>Impairment (reversals)/losses for the year</b>	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Prime residential	(21)	9
Specialist residential	59	(32)
<b>Total</b>	<b>38</b>	<b>(23)</b>

<b>Impairment provision at the end of the year</b>	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Prime residential	20	41
Specialist residential	1,074	1,134
<b>Total</b>	<b>1,094</b>	<b>1,175</b>

Provisions are based on a probability-weighted application of multiple economic scenarios (MES). The impact of applying MES is to increase provisions by £301 thousand (2019: £446 thousand), compared with the provisions based on the central economic scenario. Further information on MES is set out in the Critical accounting estimates and judgements section below.

#### Critical accounting estimates and judgements

Impairment is measured as the impact of credit risk on the present value of management's estimate of future cash flows. In determining the required level of impairment provisions, the Company uses outputs from statistical models, incorporating a number of estimates and judgements to determine the Probability of Default (PD), the Exposure at Default, and the Loss Given Default for each loan. The most significant areas of estimation uncertainty are:

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

The most significant area of judgement is:

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

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

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

**Critical accounting estimates and judgements (continued)**

**Impact on expected credit losses of Covid-19**

An additional provision for credit losses has been recognised in the financial statements to reflect the estimated impact of the Covid-19 pandemic on ECLs. Due to the limited observable data available at the reporting date, this additional provision is subject to significant levels of estimation. The analysis and estimates set out below were all subject to full internal governance at management and Board committee level. The additional provision at 31 March 2020 is £208 thousand.

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

The estimation of losses relating to Covid-19 was performed using the latest IFRS 9 models and data, and has been recognised as an additional provision. Together, the revised scenario and probability weightings increased reported provisions by £111 thousand.

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

Analysis of the risk characteristics of the payment holiday population was carried out to estimate the proportion of these loans judged to have increased credit risk. This proportion was 20% of the highest risk loans (measured by PD) by product. For these loans the modelled PD was then uplifted by a multiple of 2.5, based on experience of the performance of lending with similar concessions granted following the previous financial crisis (where available) or on more recent performance of other types of forbearance. The increase in expected credit loss includes the impact of loans transferring to stage 2 as a result of the higher PD, as well as the impact of the PD increase itself. The increase in reported provisions to reflect the risk associated with borrowers who requested payment holidays as a result of Covid-19 is £97 thousand.

A 10% change in the number of payment holidays would increase/decrease the additional provision by £10 thousand. If the payment holiday PDs were uplifted by a multiple of 3.0 rather than 2.5, the increase in provisions would be £33 thousand.

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

## **E-MEX HOME FUNDING LIMITED**

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

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

##### **Critical accounting estimates and judgements (continued)**

###### **Use of forward-looking economic information**

Management exercises judgement in estimating future economic conditions which are incorporated into provisions through modelling of MES. The economic scenarios are reviewed and updated on a quarterly basis. The provision recognised is the probability-weighted sum of the provisions calculated under a range of economic scenarios. The scenarios and associated probability weights are derived using external data and statistical methodologies, together with management judgement, to determine scenarios which span an appropriately wide range of plausible economic conditions. The Company continues to model four economic scenarios, which together encompass an appropriate range of potential economic outcomes. As noted above, the scenario assumptions were changed at year end to reflect the impact of Covid-19 through an additional provision. The tables below therefore show the revised Covid-19 central scenario economic assumptions used in determining this additional provision, as well as the previous central scenario

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

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

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

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

Further details on historical and forecasted economic variables used to derive MES are provided in note 10 to the financial statements in the Group's Annual Report and Accounts.

**E-MEX HOME FUNDING LIMITED****Notes to the financial statements for the year ended 31 March 2020 (continued)****8 Impairment losses and provisions on loans and advances to customers (continued)****Critical accounting estimates and judgements (continued)**

To give an indication of the sensitivity of ECLs to different economic scenarios, the table below shows the ECL if 100% weighting is applied to each scenario:

Sensitivity analysis impact of multiple economic scenarios on ECL	2020 £'000	2019 £'000
Upside scenario	616	621
Central scenario	582	729
Covid-19 central scenario	696	-
Downside scenario	1,100	1,269
Severe downside scenario	2,503	3,656

The increase in ECLs by applying the new Covid-19 central scenario (weighted at 100%) instead of the previous central scenario is £114 thousand. In estimating ECLs under the upside and downside scenarios above it is assumed that the economic impact of the pandemic has a similar impact on ECLs as in the central scenario. Therefore, when probability weights are applied across the scenarios, the provision impact of the Covid-19 economic assumptions is 90% of £114 thousand, the 90% representing the total weightings of the upside, central and downside scenarios. The table does not include the additional provision calculated for the impact of payment holidays granted due to Covid-19.

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

The economic scenarios used reflect the Company's view of the range of potential future economic conditions, at the balance sheet date. The impact of increasing/reducing the probability of a severe economic downside by 5% (and reducing/increasing the downside by a corresponding 5%) is an increase/reduction in provisions of £76 thousand.

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

**Residential mortgages – change in key assumptions**

2020	Increase/(decrease) in provision £'000
10% decrease in HPI	139
10% increase in HPI	(104)

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

**Critical accounting estimates and judgements (continued)**

**Performance of interest only mortgages at maturity**

An additional key area of management estimation is the allowance for the risk that a proportion of interest only mortgages will not be redeemed at their contractual maturity date, because a borrower does not have a means of capital repayment or has been unable to refinance the loan. Buy to let mortgages are typically advanced on an interest only basis. Interest only balances for prime residential mortgages relate primarily to historical balances which were originally advanced as interest only mortgages or where a change in terms to an interest only basis has been agreed.

The impact of the allowance for unredeemed interest only mortgages at contractual maturity in the Covid-19 central scenario amounts to £71 thousand (2019: £104 thousand), and has also been calculated for the other modelled scenarios, with an additional impact of £77 thousand (2019: £74 thousand) included in the impact of forward looking economic information above. Interest only loans which are judged to have a significantly increased risk of inability to refinance at maturity are transferred to stage 2.

**Identifying significant increases in credit risk (stage 2)**

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

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

These complementary criteria have been reviewed through detailed back-testing, using management performance indicators and actual default experience, and found to be effective in capturing events which would constitute a significant increase in credit risk. The sensitivity of ECLs to stage allocation is such that a transfer of 1% of current stage 1 balances from stage 1 to stage 2 would increase provisions by £11 thousand.

**E-MEX HOME FUNDING LIMITED****Notes to the financial statements for the year ended 31 March 2020 (continued)****8 Impairment losses and provisions on loans and advances to customers (continued)****Identifying credit impaired loans (stage 3)**

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

**9 Provisions for liabilities and charges**

<b>Customer redress</b>	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
At 1 April	12	41
Provisions utilised	-	(29)
Release for the year	(4)	-
<b>At 31 March</b>	<b>8</b>	<b>12</b>

**Customer redress**

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

**10 Taxation**

<b>Tax charge in the statement of comprehensive income</b>	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Current tax		
UK corporation tax charge	330	276
Adjustments in respect of prior years	-	-
<b>Total current tax</b>	<b>330</b>	<b>276</b>
Deferred tax:		
Current year	83	83
Effect of corporation tax rate change	(70)	-
<b>Total deferred tax</b>	<b>13</b>	<b>83</b>
<b>Tax charge</b>	<b>343</b>	<b>359</b>

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

<b>Reconciliation of tax charge</b>	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
<b>Profit before tax</b>	<b>2,172</b>	<b>1,888</b>
Tax calculated at a rate of 19%	413	359
Effect of corporation tax rate change	(70)	-
<b>Tax charge</b>	<b>343</b>	<b>359</b>

**E-MEX HOME FUNDING LIMITED****Notes to the financial statements for the year ended 31 March 2020 (continued)****10 Taxation (continued)****Deferred taxation**

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

The movements on the deferred tax account are as follows:

<b>Movements in deferred taxation</b>	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
At 1 April	674	757
<b>Deferred tax charge in the statement of comprehensive income:</b>		
Current year	(83)	(83)
Effect of corporation tax rate change	70	-
<b>At 31 March</b>	<b>661</b>	<b>674</b>

Deferred tax assets are attributable to the following items:

<b>Deferred tax assets</b>	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Transitional adjustments on adoption of IFRS 9	661	674
<b>Total</b>	<b>661</b>	<b>674</b>

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

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

<b>Deferred tax charge in the statement of comprehensive income</b>	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Transitional adjustments on adoption of IFRS 9	13	83
<b>Total</b>	<b>13</b>	<b>83</b>

**11 Dividends**

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

**E-MEX HOME FUNDING LIMITED**
**Notes to the financial statements for the year ended 31 March 2020 (continued)**
**12 Loans and advances to customers**

Residential mortgages comprise both specialist and prime loans. Specialist lending consists principally of legacy portfolio lending that was discontinued in 2009, together with buy to let mortgages.

2020	Loans held at amortised cost		Loan held at FVTPL	Total £'000
	Gross £'000	Provisions £'000	£'000	
Prime residential mortgages	2,742	(20)	-	2,722
Specialist residential mortgages	63,110	(1,074)	-	62,036
Commercial loan	-	-	12,342	12,342
<b>Total</b>	<b>65,852</b>	<b>(1,094)</b>	<b>12,342</b>	<b>77,100</b>

2019	Loans held at amortised cost		Loan held at at FVTPL	Total £'000
	Gross £'000	Provisions £'000	£'000	
Prime residential mortgages	3,253	(41)	-	3,212
Specialist residential mortgages	71,796	(1,134)	-	70,662
Commercial loan	-	-	11,673	11,673
<b>Total</b>	<b>75,049</b>	<b>(1,175)</b>	<b>11,673</b>	<b>85,547</b>

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

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



**E-MEX HOME FUNDING LIMITED**
**Notes to the financial statements for the year ended 31 March 2020 (continued)**
**12 Loans and advances to customers (continued)**

Reconciliation of movements in gross balances and impairment provisions	Non-credit impaired				Credit impaired		Total	
	Subject to 12 month ECL		Subject to lifetime ECL		Subject to lifetime ECL	ECL		
	Stage 1		Stage 2				Stage 3	
	Gross balances £'000	Provisions £'000	Gross balances £'000	Provisions £'000	Gross balances £'000	Provisions £'000	Gross balances £'000	Provisions £'000
At 1 April 2018	42,150	54	30,148	798	11,038	333	83,336	1,185
Stage transfers:								
Transfers from Stage 1 to Stage 2	(16,179)	(49)	16,179	49	-	-	-	-
Transfers to Stage 3	(63)	(1)	(8,629)	(418)	8,692	419	-	-
Transfers from Stage 2 to Stage 1	26,926	681	(26,926)	(681)	-	-	-	-
Transfer from Stage 3	157	-	7,051	189	(7,208)	(189)	-	-
Net remeasurement of ECL arising from transfer of stage		(603)		494		(226)		(335)
Net movement arising from transfer of stage (note i)	10,841	28	(12,325)	(367)	1,484	4	-	(335)
New assets originated or purchased (note ii)	-	-	-	-	-	-	-	-
Further lending/ repayments (note iii)	(1,123)	(3)	(375)	(11)	44	8	(1,454)	(6)
Changes in risk parameters related to credit quality (note iv)	-	31	-	351	-	60	-	442
Other items impacting comprehensive income charge/(reversal) including recoveries	-	-	-	-	-	(13)	-	(13)
Redemptions (note v)	(3,905)	(3)	(1,554)	(71)	(1,136)	(37)	(6,595)	(111)
Comprehensive income charge for the year								(23)
Decrease due to write-offs	-	-	-	-	(238)	-	(238)	-
Other provision movements	-	-	-	-	-	13	-	13
At 31 March 2019	47,963	107	15,894	700	11,192	368	75,049	1,175
Net carrying amount		47,856		15,194		10,824		73,874

**Notes:**

- i. The remeasurement of provisions arising from a change in stage is reported within the stage to which the assets are transferred.
- ii. If a new asset is generated in the month, the value included is the closing gross balance and provision for the month. All new business written is included in stage 1.
- iii. This comprises further lending and capital repayments where the asset is not derecognised. The value for gross balances is calculated as the closing gross balance for the month less the opening gross balance for the month. The value for provisions is calculated as the change in exposure at default (EAD) multiplied by opening provision coverage for the month.
- iv. This comprises changes in risk parameters, and changes to modelling inputs and methodology. The provision movement for the change in risk parameters is calculated for assets that do not move stage in the month.
- v. For any asset that is derecognised in the month, the value disclosed is the provision at the start of that month.
- vi. An additional provision for credit losses has been recognised to reflect the estimated impact of the Covid-19 pandemic on ECLs. For the Company, the additional provision at 31 March 2020 is £208 thousand. This additional provision has not been allocated to underlying loans nor has it been attributed to stages, but is shown in the total column of the table. Additional detail on the calculation of this value is included in note 8.

**E-MEX HOME FUNDING LIMITED****Notes to the financial statements for the year ended 31 March 2020 (continued)****12 Loans and advances to customers (continued)****Maturity analysis**

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

	2020	2019
	£'000	£'000
Repayable:		
In not more than three months	2,133	2,004
In more than three months but not more than one year	341	415
In more than one year but not more than five years	21,556	20,190
In more than five years	54,164	64,113
	78,194	86,722
Impairment provision (note 8)	(1,094)	(1,175)
Discount on acquisition	-	-
<b>Total</b>	<b>77,100</b>	<b>85,547</b>

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

**13 Amounts owed to parent undertaking**

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

	2020	2019
	£'000	£'000
In not more than three months	10,034	9,785
In more than three months but not more than one year	40,069	52,575
In more than one year but not more than five years	9,419	9,279
<b>Total</b>	<b>59,522</b>	<b>71,639</b>

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

**14 Share capital**

	2020	2019
	£	£
Authorised, issued and fully paid:		
100 (2019: 100) Ordinary shares of £1 each	100	100

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

**15 Risk management**

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

**Credit risk**

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

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

**Management of credit risk**

The Company lends in a responsible, affordable and sustainable way to ensure we safeguard members and the financial strength of the Group throughout the credit cycle. To this end, the Board Risk Committee sets the level of risk appetite it is willing to take in pursuit of the Group's strategy, which is articulated as Board risk appetite statements and underlying principles.

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

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

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

**E-MEX HOME FUNDING LIMITED****Notes to the financial statements for the year ended 31 March 2020 (continued)****15 Risk management (continued)****Credit risk (continued)****Maximum exposure to credit risk**

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

In addition to loans and advances to customers, the Company is exposed to credit risk on other financial assets. For all financial assets recognised on the balance sheet, the maximum exposure to credit risk represents the balance sheet carrying value after allowance for impairment plus off-balance sheet commitments. The company has no off-balance sheet commitments (2019: £nil).

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

Maximum exposure to credit risk 2019	Gross balance	Impairment provision	Carrying value	Maximum credit risk exposure	% of total credit risk exposure
	£'000	£'000	£'000	£'000	%
Cash	2,621	-	2,621	2,621	3
Loans and advances to customers (note i)	86,722	(1,175)	85,547	85,547	97
<b>Total</b>	<b>89,343</b>	<b>(1,175)</b>	<b>88,168</b>	<b>88,168</b>	<b>100</b>

## Note:

i. Loans and advances to customers includes £12,342 thousand (2019: £11,673 thousand) of commercial loans measured at FVTPL.

**E-MEX HOME FUNDING LIMITED**
**Notes to the financial statements for the year ended 31 March 2020 (continued)**
**15 Risk management (continued)**
**Credit risk (continued)**
**Lending**

The table below summarises the residential mortgage portfolios:

Residential mortgage gross balances	2020		2019	
	£'000	%	£'000	%
Prime	2,742	4	3,253	4
Specialist:				
Buy to let	9,086	14	11,021	15
Other (note i)	54,024	82	60,775	81
	63,110	96	71,796	96
<b>Total residential mortgages</b>	<b>65,852</b>	<b>100</b>	<b>75,049</b>	<b>100</b>

Note:

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

**Staging analysis**

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

2020	Stage 1	Stage 2	Stage 2	Stage 2	Stage 2	Stage 3	Covid-19	Total
		total	Up to date	1-30 DPD	>30 DPD		Additional Provision	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Gross balance	43,560	13,169	4,978	1,862	6,329	9,123	-	65,852
Provisions	91	565	131	56	378	230	208	1,094
Provisions as a % of total balance	%	%	%	%	%	%	%	%
<b>Total</b>	<b>0.21</b>	<b>4.29</b>	<b>2.63</b>	<b>2.99</b>	<b>5.98</b>	<b>2.53</b>	<b>-</b>	<b>1.66</b>

**E-MEX HOME FUNDING LIMITED**
**Notes to the financial statements for the year ended 31 March 2020 (continued)**
**15 Risk management (continued)**
**Credit risk (continued)**
**Staging analysis (continued)**

2019	Residential mortgages product and staging analysis						Stage 3	Total
	Stage 1	Stage 2 total	Stage 2 Up to date	Stage 2 1-30 DPD (note i)	Stage 2 >30 DPD (note i)			
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Gross balances	47,963	15,894	5,655	3,715	6,524	11,192	75,049	
Provisions	107	700	194	166	340	368	1,175	
Provisions as a % of total balance	%	%	%	%	%	%	%	
Total	0.22	4.41	3.43	4.47	5.22	3.29	1.57	

**Notes:**

- Days past due (DPD), a measure of arrears status.
- In recognition of the financial impact that Covid-19 may have on borrowers, an additional £208 thousand of provision has been added to the impairment provisions. This additional provision has not been allocated to underlying loans and therefore has not been attributed to stages. Further detail on the calculation of the additional provision is included in note 8.

Stage 3 loans in the residential mortgage portfolio equate to 14% (2019: 15%) of the total residential mortgage exposure. Of the total £9,123 thousand (2019: £11,192 thousand) stage 3 loans, £8,129 thousand (2019: £10,045 thousand) is in respect of balances which are more than 90 days past due, with the remainder being impaired due to other indicators of unlikeliness to pay such as distressed restructures or the bankruptcy of the borrower.

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

	2020		2019	
	Gross balances £'000	Provisions £'000	Gross balances £'000	Provisions £'000
<b>Quantitative criteria:</b>				
Payment status (greater than 30 DPD) (note ii)	6,329	378	6,524	340
Increase in PD since origination (less than 30 DPD)	3,826	94	5,450	196
<b>Qualitative criteria:</b>				
Forbearance (less than 30 DPD)	-	-	317	4
Interest only – significant risk of inability to refinance at maturity (less than 30 DPD)	3,014	93	3,603	160
<b>Total stage 2 gross balances</b>	<b>13,169</b>	<b>565</b>	<b>15,894</b>	<b>700</b>

**Notes:**

- Where loans satisfy more than one of the criteria for determining a significant increase in credit risk, the corresponding gross balance has been assigned in the order in which the categories are presented above.
- This category includes all loans greater than 30 DPD, including those where the original reason for being classified as stage 2 was not due to arrears over 30 DPD.

**E-MEX HOME FUNDING LIMITED****Notes to the financial statements for the year ended 31 March 2020 (continued)****15 Risk management (continued)****Credit risk (continued)****Credit quality**

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

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

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

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

**Loan balance and provisions by PD (residential mortgages)**

PD range	Gross balances				Provisions				Provision coverage
	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000	%
0.00 to < 0.15%	10,696	598	33	11,327	20	32	-	52	0.46
0.15 to < 0.25%	9,854	941	427	11,222	18	30	3	51	0.46
0.25 to < 0.50%	12,248	1,212	-	13,460	25	57	-	82	0.61
0.50 to < 0.75%	4,343	320	-	4,663	12	10	-	22	0.47
0.75 to < 2.50%	5,997	641	-	6,638	18	30	-	48	0.72
2.50 to < 10.00%	4,825	4,002	217	9,044	14	102	2	118	1.31
10.00 to < 100%	-	8,180	983	9,163	-	439	12	451	4.92
100% (default)	-	-	9,532	9,532	-	-	351	351	3.68
<b>Total</b>	<b>47,963</b>	<b>15,894</b>	<b>11,192</b>	<b>75,049</b>	<b>107</b>	<b>700</b>	<b>368</b>	<b>1,175</b>	<b>1.57</b>

Note:

- i. The £208 thousand additional Covid-19 provision has not been allocated to underlying loans or attributed to stages and is therefore excluded from this table. The additional provision increases the total provision coverage to 1.66%

Over the year, the PD distribution has remained stable, reflecting the high quality of the residential mortgage portfolios and benign economic conditions. At year end, 65% of the portfolio had a PD of less than 2.5% (2019: 63%). The provisions allocated to the lowest PD range primarily reflect the fact that the majority of loans are in this range.

**LTV and credit risk concentration**

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

The average LTV of loan stock is 54% (2019: 55%).

**E-MEX HOME FUNDING LIMITED**
**Notes to the financial statements for the year ended 31 March 2020 (continued)**
**15 Risk management (continued)**
**Credit risk (continued)**
**Geographical concentration by stage**

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

Residential mortgage gross balances by LTV and region 2020	Greater London £'000	Central England £'000	Northern England £'000	South East England £'000	South West England £'000	Wales & Northern Ireland £'000	Total £'000	%
<b>Stage 1 and 2 loans</b>								
Fully collateralised								
LTV ratio:								
Up to 50%	13,157	3,597	2,333	3,399	2,196	572	25,254	
50% to 60%	5,120	1,685	2,486	1,429	239	414	11,373	
60% to 70%	749	3,402	1,906	2,437	1,026	1,055	10,575	
70% to 80%	-	1,698	2,462	-	619	919	5,698	
80% to 90%	-	-	2,770	-	-	320	3,090	
90% to 100%	-	-	468	-	-	271	739	
	19,026	10,382	12,425	7,265	4,080	3,551	56,729	86
Not fully collateralised								
- Over 100% LTV	-	-	-	-	-	-	-	-
- Collateral value	-	-	-	-	-	-	-	-
- Negative equity	-	-	-	-	-	-	-	-
<b>Total stage 1 and 2 loans</b>	<b>19,026</b>	<b>10,382</b>	<b>12,425</b>	<b>7,265</b>	<b>4,080</b>	<b>3,551</b>	<b>56,729</b>	<b>86</b>
<b>Stage 3 loans:</b>								
Fully collateralised								
LTV ratio:								
Up to 50%	2,542	267	325	91	82	49	3,356	
50% to 60%	759	222	431	118	101	93	1,724	
60% to 70%	356	446	460	500	160	69	1,991	
70% to 80%	-	264	276	222	430	151	1,343	
80% to 90%	-	245	244	-	-	110	599	
90% to 100%	-	-	110	-	-	-	110	
	3,657	1,444	1,846	931	773	472	9,123	14
Not fully collateralised								
- Over 100% LTV	-	-	-	-	-	-	-	-
- Collateral value	-	-	-	-	-	-	-	-
- Negative equity	-	-	-	-	-	-	-	-
<b>Total stage 3 loans</b>	<b>3,657</b>	<b>1,444</b>	<b>1,846</b>	<b>931</b>	<b>773</b>	<b>472</b>	<b>9,123</b>	<b>14</b>
<b>Total residential mortgages</b>	<b>22,683</b>	<b>11,826</b>	<b>14,271</b>	<b>8,196</b>	<b>4,853</b>	<b>4,023</b>	<b>65,852</b>	<b>100</b>
<b>Total geographical concentration</b>	<b>34%</b>	<b>18%</b>	<b>22%</b>	<b>12%</b>	<b>7%</b>	<b>6%</b>	<b>100%</b>	



**E-MEX HOME FUNDING LIMITED**
**Notes to the financial statements for the year ended 31 March 2020 (continued)**
**15 Risk management (continued)**
**Credit risk (continued)**
**Geographical concentration by stage (continued)**

Residential mortgage gross balances by LTV and region	Greater London	Central England	Northern England	South East England	South West England	Wales & Northern Ireland	Total	
2019	£'000	£'000	£'000	£'000	£'000	£'000	£'000	%
<b>Stage 1 and 2 loans</b>								
Fully collateralised								
LTV ratio:								
Up to 50%	15,186	3,711	2,429	3,218	2,398	636	27,578	
50% to 60%	5,324	2,087	2,018	1,688	317	416	11,850	
60% to 70%	697	3,196	2,590	2,728	1,433	414	11,058	
70% to 80%	-	2,778	3,014	-	450	1,605	7,847	
80% to 90%	-	373	3,291	-	-	409	4,073	
90% to 100%	-	-	936	-	-	515	1,451	
	21,207	12,145	14,278	7,634	4,598	3,995	63,857	85
Not fully collateralised								
- Over 100% LTV	-	-	-	-	-	-	-	-
- Collateral value	-	-	-	-	-	-	-	-
- Negative equity	-	-	-	-	-	-	-	-
<b>Total stage 1 and 2 loans</b>	<b>21,207</b>	<b>12,145</b>	<b>14,278</b>	<b>7,634</b>	<b>4,598</b>	<b>3,995</b>	<b>63,857</b>	<b>85</b>
<b>Stage 3 loans</b>								
Fully collateralised								
LTV ratio:								
Up to 50%	3,161	323	195	146	89	51	3,965	
50% to 60%	978	592	467	-	98	-	2,135	
60% to 70%	919	366	63	775	162	95	2,380	
70% to 80%	-	262	236	222	594	69	1,383	
80% to 90%	-	245	360	-	-	108	713	
90% to 100%	-	298	268	-	-	50	616	
	5,058	2,086	1,589	1,143	943	373	11,192	15
Not fully collateralised								
- Over 100% LTV	-	-	-	-	-	-	-	-
- Collateral value	-	-	-	-	-	-	-	-
- Negative equity	-	-	-	-	-	-	-	-
<b>Total stage 3 residential mortgages</b>	<b>5,058</b>	<b>2,086</b>	<b>1,589</b>	<b>1,143</b>	<b>943</b>	<b>373</b>	<b>11,192</b>	<b>15</b>
<b>Total residential mortgages</b>	<b>26,265</b>	<b>14,231</b>	<b>15,867</b>	<b>8,777</b>	<b>5,541</b>	<b>4,368</b>	<b>75,049</b>	<b>100</b>
<b>Total geographical concentration</b>	<b>35%</b>	<b>19%</b>	<b>21%</b>	<b>12%</b>	<b>7%</b>	<b>6%</b>	<b>100%</b>	

Over the year, the geographical distribution of residential mortgages across the UK has remained stable, with the highest concentration continuing to be in Greater London, at 34% of the total (2019: 35%).

**E-MEX HOME FUNDING LIMITED****Notes to the financial statements for the year ended 31 March 2020 (continued)****15 Risk management (continued)****Credit risk (continued)****Arrears and possessions****Number of cases more than 3 months in arrears as % of total book**

The arrears performance of the mortgage portfolio has remained relatively stable during the year and the number of cases more than 3 months in arrears as a % of the total book is 9.97% (2019: 9.23%).

**Residential mortgages by payment status**

The following table shows the payment status of residential mortgages:

Residential mortgages gross balances by payment status	2020		2019	
	£'000	%	£'000	%
Not past due	46,645	70.8	52,442	69.9
Past due 0 to 1 month	4,538	6.9	6,303	8.4
Past due 1 to 3 months	6,540	9.9	6,998	9.3
Past due 3 to 6 months	3,693	5.6	3,482	4.6
Past due 6 to 12 months	1,811	2.8	3,445	4.6
Past due over 12 months	2,625	4.0	2,067	2.8
Possessions	-	-	312	0.4
<b>Total residential mortgages</b>	<b>65,852</b>	<b>100.0</b>	<b>75,049</b>	<b>100.0</b>

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

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

**Interest only mortgages**

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

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

Interest only mortgages (gross balances) – term to maturity	Term expired (still open)	Due within one year	Due after one year and before two years	Due after two years and before five years	Due after more than five years	Total	% of book
	£'000	£'000	£'000	£'000	£'000	£'000	%
2020	1,433	972	2,406	6,418	43,160	54,389	83
2019	1,935	393	965	7,094	50,498	60,885	81

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

## E-MEX HOME FUNDING LIMITED

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

#### 15 Risk management (continued)

##### Credit risk (continued)

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

##### Forbearance

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

The table below provides details of residential mortgages subject to forbearance, which are all assessed as in either stage 2 or stage 3:

##### Gross balances subject to forbearance

(note i)	2020 £'000	2019 £'000
Past term interest only (note ii)	2,276	2,441
Interest only concessions	1,703	1,734
Capitalisation	833	1,434
Capitalisation – notification of death of borrower (note iii)	59	-
Term extensions (within term)	281	671
<b>Total forbearance (note iv)</b>	<b>5,152</b>	<b>6,280</b>
<b>Impairment provisions on forborne loans</b>	<b>130</b>	<b>214</b>

##### Notes:

- Where more than one concession event has occurred, balances are reported under the latest event.
- Includes interest only mortgages where a customer is unable to renegotiate the facility within six months of maturity and no legal enforcement is pursued. Should a concession event such as a term extension occur within the six-month period, this will also be classed as forbearance.
- When we are notified of the death of a borrower, we offer a 12-month capitalisation concession to allow time for the estate to redeem the account. The loan does not accrue arrears for the period of the concession although interest will continue to be added. Accounts subject to this concession will be classed as forborne if the full contractual payment is not received. This is a new type of forbearance offered during the year ended 31 March 2020.
- For loans subject to concession events, accounts are transferred back to stage 1 or 2 only after being up to date for a period of 12 months; £153 thousand (2019: £677 thousand) of the stage 3 balances in forbearance are in this cure period.

##### Support for borrowers impacted by Covid-19

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

Total gross balances subject to a payment holiday due to Covid-19 were £14,664 thousand, representing 22% of the total and with a weighted average LTV of 58%. Further information is included in note 8.

**15 Risk management (continued)**

**Credit risk (continued)**

**Liquidity and funding risk**

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

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

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

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

**E-MEX HOME FUNDING LIMITED****Notes to the financial statements for the year ended 31 March 2020 (continued)****15 Risk management (continued)****Liquidity and funding risk (continued)****Residual maturity of financial assets and liabilities**

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

Residual maturity	Due less than one month (note i) £'000	Due between one and three months £'000	Due between three and twelve months £'000	Due between one and five years £'000	Due after more than five years £'000	Total £'000
<b>2020</b>						
<b>Financial assets:</b>						
Cash	556	-	-	-	-	556
Loans and advances to customers	1,449	654	336	21,253	53,408	77,100
<b>Total financial assets</b>	<b>2,005</b>	<b>654</b>	<b>336</b>	<b>21,253</b>	<b>53,408</b>	<b>77,656</b>
<b>Financial liabilities:</b>						
Amounts owed to parent undertaking	3,779	6,255	40,069	9,419	-	59,522
<b>Total financial liabilities</b>	<b>3,779</b>	<b>6,255</b>	<b>40,069</b>	<b>9,419</b>	<b>-</b>	<b>59,522</b>
<b>Net liquidity difference</b>	<b>(1,774)</b>	<b>(5,601)</b>	<b>(39,733)</b>	<b>11,834</b>	<b>53,408</b>	<b>18,134</b>
<b>2019</b>						
<b>Financial assets:</b>						
Cash	2,621	-	-	-	-	2,621
Loans and advances to customers	1,976	-	409	19,916	63,246	85,547
<b>Total financial assets</b>	<b>4,597</b>	<b>-</b>	<b>409</b>	<b>19,916</b>	<b>63,246</b>	<b>88,168</b>
<b>Financial liabilities:</b>						
Amounts owed to parent undertaking	3,731	6,054	52,575	9,279	-	71,639
<b>Total financial liabilities</b>	<b>3,731</b>	<b>6,054</b>	<b>52,575</b>	<b>9,279</b>	<b>-</b>	<b>71,639</b>
<b>Net liquidity difference</b>	<b>866</b>	<b>(6,054)</b>	<b>(52,166)</b>	<b>10,637</b>	<b>63,246</b>	<b>16,529</b>

Note:

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

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

## E-MEX HOME FUNDING LIMITED

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

#### 15 Risk management (continued)

##### Gross undiscounted contractual cash flows

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

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

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

Gross contractual cash flows	Due less than one month (note i) £'000	Due between one and three months £'000	Due between three and twelve months £'000	Due between one and five years £'000	Total £'000
2019					
Amounts owed to parent undertaking	3,852	6,278	53,343	9,730	73,203

Note:

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

##### Market risk

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

##### Interest rate risk

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

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

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

**E-MEX HOME FUNDING LIMITED****Notes to the financial statements for the year ended 31 March 2020 (continued)****16 Fair value of financial assets and liabilities held at fair value – Level 3 portfolio**

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

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

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

<b>Movements in Level 3 portfolio</b>	<b>Loans and advances to customers £'000</b>
1 April 2018	11,134
Gains recognised in the income statement, within:	
Net interest income	282
Other operating income	519
Settlements/repayments	(262)
<b>31 March 2019</b>	<b>11,673</b>

**Level 3 portfolio sensitivity analysis of valuations using unobservable inputs**

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

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

**Sensitivity of Level 3 fair values  
2020**

	<b>Fair value £'000</b>	<b>Income statement</b>	
		<b>Favourable changes £'000</b>	<b>Unfavourable changes £'000</b>
Loans and advances to customers	12,342	693	(655)

**2019**

	<b>Fair value £'000</b>	<b>Income statement</b>	
		<b>Favourable changes £'000</b>	<b>Unfavourable changes £'000</b>
Loans and advances to customers	11,673	868	(806)

## E-MEX HOME FUNDING LIMITED

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

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

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

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

#### Significant unobservable inputs

	Total assets	Valuation technique	Significant unobservable inputs	Range (note i)	Weighted average (note ii)	Units
2020	£'000	£'000	£'000			%
Loans and advances to customers	12,342	Discounted cash flows	Discount rate	6.25-9.75	8.00	%
	Total assets	Valuation technique	Significant unobservable inputs	Range (note i)	Weighted average (note ii)	Units
2019	£'000	£'000	£'000			%
Loans and advances to customers	11,673	Discounted cash flows	Discount rate	5.50-9.00	7.25	%

#### Notes:

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

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

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

Fair value of financial assets and liabilities measured at amortised cost	Carrying value	Fair value based on Level 1	Fair value based on Level 3	Total fair value
31 March 2020	£'000	£'000	£'000	£'000
Financial assets:				
Loans and advances to customers	64,758	-	58,515	58,515
Financial liabilities:				
Amounts owed to parent undertaking	59,522	-	59,522	59,522
Fair value of financial assets and liabilities measured at amortised cost	Carrying value	Fair value based on Level 1	Fair value based on Level 3	Total fair value
31 March 2019	£'000	£'000	£'000	£'000
Financial assets:				
Loans and advances to customers	73,874	-	66,161	66,161
Financial liabilities:				
Amounts owed to parent undertaking	71,639	-	71,639	71,639

#### Note:

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



## **E-MEX HOME FUNDING LIMITED**

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

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

##### **Loans and advances to customers**

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

##### **Amounts owed to parent undertaking**

The estimated fair value of amounts owed to parent undertaking approximates carrying value as the loan is short term and the rate payable resets annually based on current market conditions.

#### **18 Capital management**

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

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

#### **19 Parent undertaking and ultimate controlling entity**

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

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

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