04 July 2017

UK ASSET RESOLUTION LIMITED
RESULTS ANNOUNCEMENT

SUBSTANTIAL PROGRESS IN REDUCING THE BALANCE SHEET

UK Asset Resolution Limited ('UKAR') which incorporates Bradford & Bingley plc ('B&B') and NRAM Ltd ('NRAM') today issues its results for the year ended 31 March 2017 ('2016/17'). UKAR's mission is to maximise value for the taxpayer, whilst serving our customers well and treating all our stakeholders fairly.

Highlights

- Balance Sheet reduced by a further £9.0bn bringing the total reduction to £81.5bn (70%) since formation of UKAR in 2010.
- Reflecting the 31% reduction in the year's average Balance Sheet size, underlying profit before tax reduced by 33% to £706.0m.
- Agreed the sale of two separate asset portfolios comprising performing buy to let loans for a total of £11.8bn. Overall, lending balances reduced by 45% in the year to £19.5bn.
- Whilst financial settlement took place in April 2017, after the Balance Sheet date, the sale has been recognised in the 2016/17 accounts. Reflecting the low margin of the loans, an accounting loss of £384.7m was incurred.
- Statutory profit before tax of £346.9m including the loss on loans sold.
- Net government loan repayments of £3.3bn, bringing total repayments to £23.7bn since UKAR was formed. 49% of the government loans have now been repaid.
- Successfully outsourced the servicing of our customer loans ensuring continuity of service for our customers.
- Mortgage accounts three or more months in arrears, including possessions, have reduced by 28% bringing the total reduction to 88% since formation.

Ian Hares, Chief Executive, commented:
"I am pleased with the progress made during the year. In the first half, we completed the transfer of our mortgage servicing operations to Computershare, ensuring continuity of service for customers. We also repaid all outstanding secured funding on the B&B and NRAM Balance Sheets, enabling further asset sales, and in March we agreed the first phase of a programme to repay the FSCS loan extended to B&B. These actions are major steps towards realising our objective of reducing the Balance Sheet while continuing to maximise value for the taxpayer."

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Strategic Overview

During the past 18 months, UKAR has undergone a significant transformation as it successfully pursued its strategy of reducing its Balance Sheet, whilst creating value for the taxpayer and ensuring continued fair treatment of customers.

The first stage of this transformation was the sale of £13bn of assets in November 2015. This was followed by the outsourcing of UKAR's mortgage servicing operations to Computershare in June 2016 and, most recently, by the sale of buy-to-let loans to Prudential plc and to funds managed by Blackstone on 30 March 2017.

The Balance Sheet has been reduced by 70% since formation and future reported results for UKAR will reflect these changes. As the loan book and number of mortgages on UKAR's books reduce, so naturally will the reported profitability.

1. Financial Information

Since formation in October 2010, the UKAR Balance Sheet has reduced by £81.5bn, including £39.7bn of customer loan repayments and £27.2bn of asset sales, which have facilitated the repayment of £57.5bn of wholesale funding and £23.7bn of government funding. In the year to 31 March 2017 the Balance Sheet reduced by a further £9.0bn (2015/16: £22.8bn) including the repayment of £3.3bn of government funding (2015/16: £6.3bn). As at 31 March 2017 lending balances stood at £19.5bn (2015/16: £35.5bn).

Reflecting a 31% reduction in the year's average Balance Sheet size, underlying profit before tax for the year fell by 33% to £706.0m, a decrease of £349.4m from March 2016 (2015/16: £1,055.4m).

Administrative expenses for the year were £13.2m lower than 2015/16 at £161.8m (2015/16: £175.0m). The reduction primarily reflects the lower cost of administering a smaller mortgage book, partly offset by the VAT now incurred on outsourced mortgage servicing costs.

Statutory profit was £346.9m (2015/16: £1,175.8m). This included underlying profit of £706.0m, the recovery of £50.0m from insurers in relation to remediation losses incurred by NRAM in 2012 and a £51m profit on the sale of loans to Cerberus, partly offset by a £384.7m loss on the sale of the loans to Prudential and Blackstone and an additional £64.4m provision for remediation.

In March 2017 the Financial Conduct Authority ('FCA') confirmed a Payment Protection Insurance ('PPI') complaints deadline of 29 August 2019. In addition, the FCA confirmed the rules in relation to unfair relationships following Plevin v Paragon Personal Finance Ltd. As a result of this and increased complaint volumes received during the year, PPI provisions have been increased by £49.2m. Other customer remediation provisions of £15.2m relate to smaller legacy issues.

2. Customers and Conduct

In June 2016 the outsourcing relationship with Computershare saw over 1,700 skilled colleagues transfer to Computershare ensuring continuity of service for our customers. We continue to have oversight of our customers via a strong governance structure and we are pleased to see that excellent service levels have been maintained following the transfer.

The total number of customers continues to fall in line with our objective to reduce our Balance Sheet. In total UKAR has just over 148,000 customers (2015/16: 238,000), with 158,000 mortgage accounts (2015/16: 298,000) and 35,000 unsecured personal loan accounts (2015/16: 42,000). The majority of these loans continue to perform well with more than 93% of mortgage customers up to date with their monthly payments. In addition, UKAR continues to provide oversight of the 104,000 accounts (57,000 customers) sold to Prudential and Blackstone as part of an interim servicing arrangement.

The number of mortgage accounts three or more months in arrears, including those in possession, reduced by 28% from 6,377 to 4,617 as at 31 March 2017. This was driven by underlying performance (1,441) and asset sales (319). The total value of arrears owed by customers has fallen by £11.6m to £37.7m, a reduction of 23.6%. This reduction is a direct consequence of proactive arrears management and the sale of assets coupled with the continued low interest rate environment.

Although levels of arrears are reducing we continue to see a number of customers facing financial difficulty including some entering arrears for the first time. We endeavour to contact all customers following a missed payment to understand their situation and consider solutions to help them manage their mortgage. Where appropriate we actively encourage customers to seek help from non-fee charging debt advice agencies. Repossession is always viewed as a last resort but unfortunately in some situations this is inevitable and the best course of action to prevent further indebtedness for the customer. Repossessions continue to decrease and totalled 1,242 in the year (2015/16: 1,853).

In addition to our contact strategies for customers in arrears, we also engage proactively with other customers who may need help with their financial situation to ensure they are ready for the future. In January 2017 we launched a campaign to our Buy-to-Let borrowers to inform them of recent changes to the tax rules surrounding Buy-to-Let loans and to help them plan ahead.

UKAR remains committed to doing the right thing for our customers and where we identify issues that have caused customer detriment, we will ensure that they are fully remediated. An additional provision of £49.2m has been recognised following the publication of the FCA's Policy Statement PS17/3 "Payment protection insurance complaints: feedback on CP16/10 and final rules and guidance", which sets a deadline date for complaints at 29 August 2019 and confirms the approach in relation to Plevin v Paragon Personal Finance Ltd ('Plevin'). The rules and guidance include an FCA-led communications campaign to raise awareness of the deadline and the requirement to proactively contact previously rejected mis-selling complainants who are eligible to complain again in the light of Plevin. Reflecting heightened awareness of a potential PPI deadline, actual claims volumes received during the year have been higher than previously modelled, which combined with the final proposals is expected to lead to higher claims volumes throughout the period to 29 August 2019 than previously assumed.

3. Reducing and Simplifying the Balance Sheet

The final completion of the sale of £13bn of assets to Cerberus in July 2016 saw 113,000 customer loans move to the Landmark Mortgages or Whistletree brands. The National Audit Office report[1] into the sale concluded that the complex transaction was carried out professionally, within a tight timeframe and achieved value for money for the taxpayer.

In September 2016 B&B redeemed the notes outstanding under the Aire Valley securitisation programme. This achieved the twin objectives of simplifying the Balance Sheet and unencumbering £8.1bn of mortgage loans, which facilitated the sale to Prudential and Blackstone. All legacy secured funding on the B&B and NRAM Balance Sheets has now been repaid.

As announced on 31 March 2017, B&B agreed to sell two separate asset portfolios comprising performing buy to let loans for a total of £11.8bn to Prudential plc and to funds managed by Blackstone on 30 March 2017. Following completion of the sale in April 2017, the UKAR Balance Sheet has reduced to £23bn.

The sale was the result of a highly competitive process and the price achieved reflects the strong fundamentals of the assets and was at the upper end of expectations. However, due to the low margin on these loans the sale resulted in an accounting loss of £384.7m.

[1] The NAO report on 'The £13 billion sale of former Northern Rock assets' can be located at: https://www.nao.org.uk/report/the-13-billion-sale-of-former-northern-rock-assets/

A key consideration for this sale was the continued fair treatment of borrowers and there will be no changes to the terms and conditions of the buy to let loans involved in this transaction. Borrowers do not need to take any action at this time and all those impacted will be contacted in due course to explain the change in ownership.

This was the first of a programme of sales designed to raise sufficient proceeds for B&B to repay the £15.7bn debt from the FSCS and for the FSCS to repay its corresponding loan from Her Majesty's Treasury by March 2018.

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