

29 November 2018

## **UK ASSET RESOLUTION LIMITED RESULTS ANNOUNCEMENT**

### **UKAR RETURNS A FURTHER £6.3 BILLION TO THE TAXPAYER**

UK Asset Resolution Limited ('UKAR') which incorporates Bradford & Bingley plc ('B&B') and NRAM Limited ('NRAM') today issues its interim results for the six months ended 30 September 2018 ('H1 2018/19'). UKAR's mission is to maximise value for the taxpayer, whilst serving our customers well and treating all our stakeholders fairly.

#### Highlights

- Government loan repayments of £6.3bn, including the remaining £4.7bn of the Financial Services Compensation Scheme ('FSCS') debt, bringing total repayments to £44.7bn since UKAR was formed. 92% of the government loans have now been repaid.
- Balance Sheet reduced by a further £6.2bn to £13.6bn bringing the total reduction to £102.2bn (88%) since formation of UKAR in 2010.
- Completed the sale of £5.0bn B&B mortgage assets to an investor group led by Barclays Bank and agreed the sale of an £860m portfolio of equity release mortgages to Rothesay Life.
- Reflecting reducing mortgage balances, underlying profit before tax reduced by 22% to £186.4m. Statutory profit before tax in the period was £49.5m including a £295.2m profit on the sale of customer loans more than offset by the £392.1m impact of unwinding hedges relating to the equity release mortgages.
- Mortgage accounts three or more months in arrears, including possessions, reduced by 15% since March 2018 bringing the total reduction to 92% since formation.

*Ian Hares, Chief Executive, commented:*

"In the first half, we repaid the remaining FSCS debt and agreed the sale of a portfolio of equity release mortgages. These are major steps towards realising our objective of reducing the Balance Sheet while continuing to maximise value for the taxpayer. It is pleasing that we continue to see high levels of service delivered for our customers."

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## Strategic Developments

We have made great progress in reducing our balance sheet and are now working towards returning the remaining loan books to the private sector, if possible through a sale of the NRAM and B&B legal entities. This would leave UKAR in public ownership, responsible for meeting outstanding contractual obligations, sponsoring the legacy defined benefit pension schemes and administering other non-loan assets and liabilities.

As always, in taking these actions, we need to satisfy ourselves, UK Government Investments and HM Treasury that the options we choose represent value for money for the taxpayer and ensure the continued fair treatment of customers.

## Update on Performance

Since formation in October 2010, the Balance Sheet has reduced by £102.2bn, including £36.8bn of customer loan repayments and £33.0bn of loan sales, facilitating the repayment of £57.5bn of wholesale funding and £44.7bn of government funding. In the six months to 30 September 2018 the Balance Sheet reduced by £6.2bn (H1 2017/18: £13.2bn) and £6.3bn (H1 2017/18: £13.1bn) of government funding was repaid including the outstanding FSCS balance of £4.7bn. As at 30 September 2018 lending balances stood at £11.0bn (March 2018: £17.2bn).

Reflecting the progress in shrinking the Balance Sheet, underlying profit before tax for the six months is £186.4m, a decrease of £51.6m compared to £238.0m in H1 2017/18.

Administrative expenses for the six months were 18% lower than the equivalent period in 2017/18 at £65.2m (H1 2017/18: £79.3m). The reduction primarily reflects the lower cost of administering a smaller mortgage book.

Statutory profit decreased to £49.5m (H1 2017/18: £216.8m) including a £295.2m profit on two sales; £5.0bn of B&B mortgage assets to an investor group led by Barclays Bank in May 2018 and an £860m portfolio of equity release mortgages to Rothesay Life Plc. The premium arising from the sale of the equity release loans was more than offset by the £392.1m, impact of the unwind of fixed rate hedges held relating to the portfolio.

Overall, the net loss arising from the sale of the equity release mortgages incurred was £180.2m. A No Negative-Equity Guarantee ('NNEG') was provided on the equity release mortgages, as is standard for these products, and is a key factor in assessing the value of the portfolio. Given the performance of the housing market since the loans were originated, we estimate that the NNEG is likely to have adversely impacted the sale price by around £200m.

Reflecting heightened awareness of the August 2019 PPI deadline, payments during the period have been higher than previously assumed and the provision for PPI has therefore been increased by £44.1m. A net release of £2.4m on other customer redress provisions reduced the top up of the provisions to £41.7m.

The number of mortgage accounts three or more months in arrears, including those in possession, reduced by 15% from 3,582 at March 2018 to 3,036 at 30 September 2018. The total value of arrears owed by customers has fallen by £4.0m from March 2018 to £27.6m, a reduction of 12.7%. This reduction is a direct consequence of proactive arrears management coupled with the continued low interest rate environment.

The total number of customers continues to fall in line with our objective to reduce our Balance Sheet through 7,000 customers redeeming their loans and asset sales (40,000 customers). In total we have 84,000 customers (March 2018: 131,000), with 86,000 mortgage accounts (March 2018: 141,000) and 27,000 unsecured personal loan accounts (March 2018: 30,000). The majority of these loans continue to perform well with more than 91% of mortgage customers up to date with their monthly payments.

**ENDS**

**NOTE TO EDITORS**

On 29 September 2008, all of B&B's retail branches and its savings accounts were transferred to Banco Santander Group. To replace this funding, £18.4bn of statutory debt was introduced by the government at 0% interest. This included £15.7bn owed to the FSCS as, at the time of nationalisation, the FSCS covered the first £35,000 per depositor; HM Treasury covered the £2.7bn excess for amounts over £35,000.