26 June 2018

UK ASSET RESOLUTION LIMITED
ANNUAL RESULTS ANNOUNCEMENT

CONTINUING 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 2018 ('2017/18'). UKAR's mission is to maximise value for the taxpayer, whilst serving our customers well and treating all our stakeholders fairly.

<u>Highlights</u>

- Balance Sheet reduced by a further £14.5bn bringing the total reduction to £96.0bn (83%) since formation of UKAR in 2010.
- Government loan repayments of £14.7bn, including £11.0bn of the Financial Services Compensation Scheme ('FSCS') debt, bringing total repayments to £38.4bn since UKAR was formed. 79% of the government loans have now been repaid.
- In April 2018, after the financial year end, we announced the sale of B&B mortgage assets to an investor group led by Barclays Bank. Financial settlement occurred in May 2018, enabling the repayment of the remaining FSCS loan and reducing the Balance Sheet by a further £5.0bn.
- Reflecting reducing mortgage balances, underlying profit before tax decreased by 17% to £583.9m. Statutory profit before tax in the period was £583.2m.
- Mortgage accounts three or more months in arrears, including possessions, have reduced by 22% bringing the total reduction to 91% since formation.

Ian Hares, Chief Executive, commented:

"I am pleased that we have continued to make good progress in achieving our objective, with high levels of service delivered for our customers and an 83% reduction in our balance sheet since formation in 2010. Following the financial year end, we agreed the sale of B&B assets which resulted in the repayment of the remaining FSCS loan to B&B and reduced our Balance Sheet by a further £5.0bn."

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Strategic Overview

Since formation in 2010, we have made significant progress towards achieving our overarching objective of developing and executing a strategy for the disposal of UKAR's underlying investments in NRAM and B&B in an orderly and active way.

The successful completion of the sale of B&B assets to Barclays since the year-end, means that the Balance Sheet has further reduced from the £115.8bn at formation and a further portion of the initial £48.7bn of government loans has now been repaid.

The transfer of mortgage servicing operations in Computershare in 2016 has been a key enabler of mortgage sales, providing stability of service to our existing mortgage customers and giving any future purchasers of our mortgage books an option to keep customer servicing where it is.

Private sector financing has almost completely been repaid or repurchased, releasing previously encumbered mortgages for potential disposal.

Post year end, we launched a sales process aimed at selling our £0.9bn portfolio of equity release mortgages, which are very different in nature to other loans on the book.

As a result of this excellent work and assuming completion of the sale of the equity release mortgage portfolio later this year, our customer balances will be less than £11bn. Therefore, over the past twelve months we have worked with advisors to consider the feasibility of various options that would enable us to complete our objective.

Whilst the main focus of this work has been the remaining customer loans, we also need to consider the inherent complexities that developed within NRAM and B&B over the course of their histories. These include non-loan business assets and liabilities, the ongoing obligations to participants in previous asset sale transactions, and our defined benefit pension schemes. As always, we will need to satisfy ourselves, UK Government Investments (UKGI[1]) and HM Treasury that whatever option we choose represents value for money for the taxpayer but, subject to the continuation of supportive market conditions, we believe that it is probable that the process can be completed by 2021.

1. Financial Information

Since formation in October 2010, the UKAR Balance Sheet has reduced by £96.0bn, including £41.9bn of customer loan repayments and £27.2bn of asset sales, which have facilitated the repayment of £57.5bn of wholesale funding and £38.4bn of government funding. In the year to 31 March 2018 the Balance Sheet reduced by £14.5bn (2016/17: £9.0bn) including the repayment of £14.7bn of government funding (2016/17: £3.3bn). As at 31 March 2018 lending balances stood at £17.2bn (2016/17: £19.5bn).

Reflecting the progress in shrinking the Balance Sheet, underlying profit before tax for the year is £583.9m, a decrease of £122.1m from March 2017 (2016/17: £706.0m).

Administrative expenses for the year were 8% lower than 2016/17 at £148.4m (2016/17: £161.8m). The reduction primarily reflects the lower cost of administering a smaller mortgage book.

Statutory profit was £583.2m (2016/17: £346.9m). The prior year included a £384.7m loss on the sale of the loans to Prudential and funds managed by Blackstone.

[1] UKAR is wholly owned by HM Treasury whose shareholding is managed by UKGI. In March 2018, UKGI completed the integration of UK Financial Investments Limited, which formerly managed HM Treasury's shareholding in UKAR.

2 . Customers and Conduct

Whilst we outsourced our mortgage servicing operations to Computershare in 2016 we retain the legal and regulatory responsibility for customer outcomes and we take this responsibility seriously. The same contact strategies and arrears management practices have continued under the servicing arrangement and we are pleased to see that excellent service levels have been maintained following the transfer.

We have always been conscious that the nature of our mortgage book would change over the years which is in line with our objective to reduce our Balance Sheet. This reduction has been achieved through asset sales and where customers find alternative mortgage providers. The total number of customers continues to fall and in total we have just over 131,000 customers (2016/17: 148,000), with 141,000 mortgage accounts (2016/17: 158,000) and 30,000 unsecured personal loan accounts (2016/17: 35,000). The majority of these loans continue to perform well with more than 91% of mortgage customers up to date with their monthly payments.

During the financial year, the number of mortgage accounts three or more months in arrears, including those in possession, reduced by 22% from 4,617 to 3,582. The total value of arrears owed by customers has fallen by £6.1m to £31.6m, a reduction of 16.2%. This reduction is a direct consequence of proactive arrears management coupled with the continued low interest rate environment. Whilst we will continue to work hard to help customers who fall into arrears, in the light of the progress made over the last few years and as interest rates rise, we expect the rate of decline in our arrears may slow in the year ahead.

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 continued to decrease and totalled 1,004 in the year (2016/17: 1,242).

3. Post Balance Sheet Events

After the balance sheet date the final stage of the sale of B&B portfolios to facilitate the full repayment of the £15.7bn debt from the FSCS[2] was completed. The successful completion of this transaction means our balance sheet has now reduced by 87% since establishment, with customer balances standing at £11.9bn.

The sale of our £0.9bn portfolio of equity release mortgages, was launched in April 2018.

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[2] 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.