

## **Half Year Results: UKAR Ltd incorporating Bradford & Bingley plc and Northern Rock (Asset Management) plc**

29 Jul 2011

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### **UKAR RETURNS ANOTHER £1 BILLION TO TAXPAYERS**

- **£1.0bn of government loan paid back, taking total to £2.1bn repaid in 18 months**
- **Underlying profit growth in the first half of 2011**
- **Integration of B&B and NRAM progressing well and costs reduced significantly**
- **B&B arrears continue to fall, NRAM rate of increase slowed**

UK Asset Resolution (“UKAR”) today issued the Half Year results of both Bradford & Bingley plc (“B&B”) and Northern Rock (Asset Management) plc (“NRAM”) for the six months ended 30 June 2011.

This announcement is available to view in the Company Information sections of their respective websites: [www.bbg.co.uk](http://www.bbg.co.uk) and [www.nram.co.uk](http://www.nram.co.uk).

### **KEY HIGHLIGHTS**

#### **Bradford & Bingley plc**

- Underlying profit before tax for the first half of 2011 was £152.0m, up from £83.6m profit in H1 2010 (FY 2010: £200.1m)
- Statutory profit before tax for the first half of 2011 was £139.3m, compared with a £896.0m profit at 30 June 2010 (FY 2010: £1,081.5m)
- Ongoing costs fell 10% to £52.6m, down from £58.6m in H1 2010 (FY 2010: £112.3m)
- The number of mortgage accounts three months or more in arrears, including possessions, at 30 June 2011 fell by 16% (from December 2010) to 10,956 (H1 2010: 15,653, FY 2010: 13,096)

- Loan impairment charge reduced by £117.4m to £44.1m (H1 2010: £161.5m, FY 2010: £276.6m)
- No additional funding drawn from the Government Working Capital Facility (WCF)

### **Northern Rock (Asset Management) plc**

- Repaid £1.0bn of Government loan during the first half of the year (FY 2010: £1.1bn)
- Underlying profit before tax for the first half of 2011 was £344.1m, up from £181.8m profit at H1 2010 (FY 2010: £277.4m)
- Statutory profit before tax for the first half of 2011 was £291.5m, compared with a £349.7m profit at 30 June 2010 (FY 2010: £400.5m)
- Ongoing costs fell by 28% to £53.7m, down from £75.0m in H1 2010 (FY 2010: £165.2m)
- The number of mortgage accounts three months or more in arrears including possessions at H1 2011 increased by 6% from the year end to 27,010 (H1 2010: 24,683, FY 2010: 25,419)
- Loan impairment charge reduced by £105.7m to £171.9m (H1 2010: £277.6m, FY 2010: £812.8m)

*Richard Banks, UKAR Chief Executive, commented:*

"Our aim is to maximise value for the taxpayer and we have accelerated the repayment of Government debt with a further £1bn repaid in the first half of 2011. Arrears at NRAM are beginning to stabilise whilst arrears at B&B continue to reduce. However, we remain cautious about the future as there is continuing pressure on household finances."

### **SUMMARY FINANCIAL INFORMATION**

Underlying profit before tax for B&B in H1 2011 was £152.0m, compared to an underlying profit in H1 2010 of £83.6m. This improvement is mainly due to reduced residential impairment provisions. Statutory profit before tax for B&B in H1 2011 was £139.3m, compared to £896.0m in H1 2010, which included a £712.3m benefit from the repurchase of subordinated liabilities.

Underlying profit before tax for NRAM in H1 2011 was £344.1m, an increase from a profit in H1 2010 of £181.8m. The underlying year-on-year improvement is primarily due to reduced loan impairment as the rate of increase in arrears has slowed. Statutory profit before tax for NRAM in H1 2011 was £291.5m, compared to £349.7m in H1 2010, with fair value movements on financial instruments more than offsetting the increase in underlying profits.

Both companies continued to benefit from the support of the Government in the form of low interest rate loans. NRAM repaid £1.0bn of its loan to reduce the balance to £20.7bn at the half year. No additional funding was drawn by B&B and the balance of Government funding has remained unchanged from December 2010 at £27.0bn.

### **Repricing of B&B Working Capital Facility**

A priority at the time of nationalisation was to stabilise the liquidity and capital position of B&B and the interest rate on the WCF at that time was set at a low level to facilitate this. However, HM Treasury has the option to vary the interest rates on these funding arrangements to reflect a commercial charge. The company's cash flow and capital position are now stronger and accordingly HM Treasury have given notice of an increase in the rate payable on the B&B WCF to take effect from 1 August 2011. The revised rate will increase interest payable from B&B to HM Treasury by £124m during the remainder of 2011, thereby reducing expected profits in the second half of the year by the same amount.

## **PERFORMANCE ON UKAR STRATEGIC PRIORITIES**

### **1. Optimise the balance sheet**

The balance sheet reduction in the past six months to 30 June 2011 has been largely driven by loan redemptions. B&B received £0.8bn (H1 2010: £1.0bn) in redemption payments and NRAM £2.5bn (H1 2010: £2.4bn).

Redemptions are in line with the previous year but are expected to slow due to the reduced book size in both organisations and the challenge faced by many customers to find suitable remortgage opportunities with other lenders due to the continuing difficult market conditions.

The reduction of B&B wholesale assets to £4.2bn (H1 2010: £5.8bn) reflects maturities and sales.

Wholesale asset balances for NRAM fell to £11.0bn (H1 2010: £11.4bn) mainly due to movements in collateral.

### **2. Minimise impairment and losses**

UKAR continues to work closely with those customers experiencing payment difficulties and arrears, while working to improve the performance of the collections and fraud management processes. We also maintain strong relationships with free-for-customers debt advisory agencies to provide help and advice to our customers in financial difficulty.

As at 30 June 2011 there were 10,956 cases of B&B mortgages in arrears for three or more months including possessions, a fall of 16% compared to December 2010. For NRAM, the equivalent figure was 27,010, a 6% increase.

The vast majority of customers are up to date with their payments (B&B: 93% and NRAM: 87%). B&B continues to make good progress in respect of customers with serious arrears, reflecting tight management of collection activity. Most buy-to-let customers continue to benefit from a borrowing rate that is less than the rental yield, the result being that the number of customers three months or more in arrears fell from 4.1% to 3.6%, which includes possessions.

The rise in the number of NRAM customers in arrears is due in part to revising the previous practice of capitalising any arrears once a customer was able to maintain their mortgage payments for a certain period of time. We made this change because we believe it is important to have individual conversations with customers to ensure we are providing the fairest solution to meet their circumstances. In addition, the rise reflects continuing pressures on household incomes set against the high amounts initially borrowed by some customers relative to their income.

### ***Support for customers experiencing payment difficulties***

Repossession proceedings for customers in arrears are viewed as a last resort. Before commencing possession processes every effort is made to assist customers in continuing with their mortgage and there were 46,000 mortgage arrangements and account modifications in place at the end of June.

In seeking to support customers through periods of financial difficulties we actively work with free-for-customers debt advisory services to help customers reorganise their finances and ensure, wherever possible, that they can continue as home-owners.

Where a buy-to-let landlord is in arrears we endeavour to protect tenants by honouring the terms of all valid Assured Shorthold Tenancy agreements and instructing a Law of Property Act receiver to collect rent directly from the tenant, thereby enabling the tenant to stay in their home for the duration of any agreement.

### **3. Reduce costs**

B&B ongoing costs fell 10% to £52.6m (H1 2010: £58.6m). The reduction primarily reflects benefits from investment in IT and telephony systems. NRAM ongoing costs fell 28% from £75.0m to £53.7m reflecting restructuring undertaken last year prior to the transfer of NRAM to UKAR.

These improvements are reflected in improved ongoing costs to asset ratios in both businesses with B&B at 0.25% (H1 2010: 0.26%) and NRAM falling to 0.19% (H1 2010: 0.23%).

B&B non-recurring costs were also lower at £1.6m (H1 2010: £5.8m). 2010 expenditure included £3.3m on the B&B independent share valuation. The 2011 charge relates to the integration of B&B and NRAM systems within the UKAR Transformation project. NRAM non-recurring costs of £1.5m reflect UKAR Transformation project costs. In H1 2010, non-recurring costs of £23.6m largely reflected costs relating to the restructure of and separation from Northern Rock plc.

#### **4. Early Redemption Charges**

We have now decided to waive all Early Redemption Charges that may be applicable for NRAM customers to bring the policy into line with B&B. We recognise that we are not able to make further advances to customers, and our aim is to ensure that customers have no obstacle to remortgaging. Encouraging redemptions will also allow us to repay more of the Government debt.

#### **5. Payment Protection Insurance (PPI)**

Like many other banks Northern Rock previously offered Payment Protection Insurance (PPI) to customers. We have now completed a thorough review into the historic sales practices for those customers who are now with NRAM. This covered the period from when the new Insurance Code of Business rules came into force on 14 January 2005 through to April 2008 when Northern Rock stopped selling PPI.

NRAM decided not to join in the Judicial Review initiated by the British Bankers' Association (BBA) earlier this year and did not stop dealing with customer complaints of mis-selling whilst the Review took place. We continue to address all customer PPI complaints as and when they are received.

Recently we also began a programme of proactive customer contact, in which we invite customers who think they may have been mis-sold to have their case reviewed and to seek reimbursement. We expect this programme to take a number of months and we believe adequate provision for redress was made in our accounts last year.

## **OUTLOOK**

The outlook for the UK economy remains uncertain and household incomes will continue to be impacted by increases in taxes, higher inflation and job losses, and inevitably, higher interest rates at some point. We expect more customers to get into difficulties in the remainder of 2011 and this may result in more arrears and repossessions. In these challenging circumstances we are increasing our investment in developing more pro-active contact with customers in financial difficulty.

This document and the respective 2011 Interim Results for both Companies are available on the websites at [www.bbg.co.uk](http://www.bbg.co.uk) and [www.nram.co.uk](http://www.nram.co.uk) within the Company Information sections.

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## **NOTES TO EDITORS**

### **UK Asset Resolution Limited**

UKAR was established on 1 October 2010 to facilitate the orderly management of the closed mortgage books of both B&B and NRAM to maximise value for taxpayers. The Executive team of UKAR manages both organisations focusing on this common objective, while ensuring that both companies continue to treat customers fairly, deliver consistently high levels of service and support those customers facing financial difficulty.

**Websites:**

[www.ukar.co.uk](http://www.ukar.co.uk)

[www.bbg.co.uk](http://www.bbg.co.uk)

[www.nram.co.uk](http://www.nram.co.uk)

**Bradford & Bingley plc**

On 29 September 2008, all of B&B's retail branches and its savings accounts were transferred to Abbey. These were rebranded Santander in January 2010. The remainder of the business, including the mortgage books of B&B and specialist lending arm Mortgage Express, were nationalised and taken into public ownership by the Government. B&B is permanently closed to new lending, but continues to provide services to some 231,000 existing mortgage borrowers.

**Northern Rock (Asset Management) plc**

Northern Rock was nationalised and taken into Government ownership in February 2008 and was then restructured into two legal entities with effect from 1 January 2010 – Northern Rock plc and Northern Rock (Asset Management) plc.

NRAM retained the majority of the pre-existing mortgage book and all pre-existing unsecured loan accounts. NRAM is permanently closed to new lending, but continues to provide services to some 540,000 existing borrowers, with 365,000 mortgage customers and 175,000 unsecured loan customers.

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