

31 March 2011

**Annual Report & Accounts: Bradford & Bingley Plc and Northern Rock (Asset Management) Plc**

**UKAR making good progress to maximise value for the taxpayer**

UK Asset Resolution ("UKAR") is the holding company established on 1 October 2010 to bring together Bradford & Bingley plc ("B&B") and Northern Rock (Asset Management) plc ("NRAM"). Although managed under a single board and management structure, B&B and NRAM remain separate legal entities and continue to be operated as individual companies with their own individual brands and balance sheets, supporting almost 850,000 customers. UKAR is 100% owned by the UK Government.

This announcement presents the full year results of both B&B and NRAM for the year to 31 December 2010. Full sets of accounts for both companies are available in the Company Information section of their respective websites: [www.bbq.co.uk](http://www.bbq.co.uk) and [www.nram.co.uk](http://www.nram.co.uk).

**KEY HIGHLIGHTS**

**Bradford & Bingley plc**

- Underlying profit before tax of £200.1m, compared with a £166.5m loss in 2009
- Statutory profit before tax of £1,081.5m, compared with a £196.0m loss in 2009, principally reflecting gains on purchases of subordinated liabilities of £786.0m
- Total costs reduced by 8% to £126.4m, down from £137.1m in 2009
- The number of accounts more than three months in arrears including possessions at 31 December 2010 fell by 32% to 13,096 (FY 2009: 19,159)
- The number of properties in possession fell to 623 (962 at 31 December 2009)

**Northern Rock (Asset Management) plc**

- Underlying profit before tax of £277.4m, compared with £313.4m loss in 2009
- Statutory profit of £400.5m, compared with £257.5m loss in 2009
- Take-up of subordinated debt and reserve capital instruments tender offers yielded a net gain of £950.7m
- Total costs reduced by 10% to £303.6m, down from £335.5m in 2009
- The number of accounts more than three months in arrears including possessions at 31 December 2010 increased by 3% to 25,419 (FY 2009: 24,625)
- The number of properties in possession fell to 1,984 (2,061 at 31 December 2009)
- Repaid £1.1bn of Government loan during the year

*Richard Banks, UKAR Chief Executive, commented:*

"We achieved all our business objectives in 2010. B&B and NRAM moved from loss to profit and we continue to focus on managing customer arrears. We will continue to help customers alleviate short term issues and also work with customers with more fundamental problems to enable them to exit the housing market in an orderly way.

"The combined business is now better placed to move forward in 2011. However, the uncertain economic environment, increases in taxes, inflation and unemployment will, inevitably, impact our customers and our financial results."

*Richard Pym, UKAR Chairman, commented:*

"UKAR has a complex task as we run down our £110bn balance sheet. In 2010 our management team has made good progress delivering our plans and looking forward we have the right strategies in place to deliver maximum value for the taxpayer."

## **SUMMARY FINANCIAL INFORMATION**

Underlying profit before tax for B&B in 2010 was £200.1m, up from an underlying loss in 2009 of £166.5m. The underlying year-on-year improvement is mainly due to reduced residential impairment provisions. Non-recurring gains in 2010 related to the repurchase of subordinated liabilities at a discounted price, while non-recurring costs were largely associated with the integration of NRAM.

Underlying profit before tax for NRAM in 2010 was £277.4m, a substantial turnaround from the underlying loss in 2009 of £313.4m. The underlying year-on-year improvement is primarily due to reduced unsecured personal loan impairment, lower funding costs following the transfer of retail deposits to Northern Rock plc, and lower administrative expenses. Non-recurring costs in 2010 were largely related to the integration with B&B.

The equity capital in both businesses was improved as a result of the profits, in particular, the gain before tax of £1.7bn as a result of the successful tender offer for £2.4bn subordinated liabilities.

Both companies continued to benefit from the support of the Government in the form of lower interest rate loans. NRAM repaid £1.1bn of its loan to reduce the balance to £21.7bn during the year. B&B Government funding of £27.0bn has remained stable, and no further drawings were made in 2010.

## **PERFORMANCE ON UKAR STRATEGIC PRIORITIES**

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

The Balance sheet reduction in the past year has been largely driven by mortgage redemptions. B&B received £2.1bn (FY 2009: £2.5bn) in redemption payments and NRAM £4.3bn (FY 2009: £7.4bn).

Redemptions are lower compared to the previous year 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 £5.7bn (FY 2009: £6.3bn) reflects maturities and sales.

Wholesale asset balances for NRAM fell to £11.3bn (FY 2009: £14.3bn) mainly due to £1.3bn being transferred to Northern Rock plc as part of the restructuring and a £1.1bn reduction in collateral cash.

### **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.

The number of arrears at B&B has fallen in 2010. Arrears at NRAM have continued to increase but at a slower rate than in 2009. As at the end of 2010 there were 13,096 cases of

B&B mortgages in arrears for three or more months including possessions, a fall of 32% compared to the end of 2009. For NRAM, the equivalent figure was 25,419, up by 3%, a reduced rate of increase compared to the 18% year-on-year rise experienced in 2009.

The vast majority of customers are up to date with their payments (B&B: 91% and NRAM: 87%). During 2010 B&B made good progress in respect of customers with serious arrears, reflecting tight management of collection activity. Most buy-to-let customers also benefited from a borrowing rate that is less than the rental yield, the result being that the number of customers more than three months in arrears fell from 5.5% to 4.1%, which includes possessions.

NRAM arrears rose from 4.7% to 6.6% resulting from the transfer of £10.3bn mortgages to Northern Rock plc on 1 January 2010, the declining total book and the nature of the mortgages in the book which have high loan-to-value ratios and do not benefit from the lower interest rates applicable to the majority of B&B buy-to-let customers.

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

In dealing with customers in arrears, we seek to avoid repossession proceedings, which are viewed as a last resort. During 2010, B&B and NRAM made more than 44,000 mortgage arrangements and account modifications to assist customers with their repayments and continue their existing mortgage relationship.

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. Reduced costs**

B&B total costs fell 8% to £126.4m (FY 2009: £137.1m). NRAM costs fell 10% to £303.6m (FY 2009: £335.5m). Cost reductions reflect savings in a number of areas resulting from the combination of the two companies. Lower IT, property and staff costs and reduced expenditure on Board and senior management have all contributed to lower costs.

This improvement in efficiency is reflected in improved ongoing cost to asset ratios in both businesses with B&B reducing to 0.25% (FY 2009: 0.29%) and NRAM to 0.23% (FY 2009: 0.28%).

## **REMUNERATION**

The remuneration of the Directors in place at the end of the year was £1.2m in 2010. This compares to total Directors' remuneration of £4.8m disclosed in the 2009 accounts of B&B and NRAM. Remuneration information is available in our subsidiary company accounts, as follows:

### ***B&B***

To view the B&B 2010 Annual Results and Accounts visit the Company Information section (<http://corporate.bbg.co.uk/>). Directors' remuneration information is available on pages 36 to 42.

### ***NRAM***

To view the NRAM 2010 Annual Results and Accounts visit the Company Information section (<http://www.nram.co.uk/en/company-information.aspx>). Directors' remuneration information is available on pages 37 to 43.

## OUTLOOK

NRAM and B&B made good progress in 2010 on behalf of the taxpayer and we have experienced improvements in performance. Looking forward, there are some challenges.

The outlook for the UK economy remains uncertain. The current low level of the Bank of England base rate means that loan repayments remain affordable for most customers. However, increases in taxes, higher inflation and job losses will all put pressure on disposable incomes even before the cost of any future higher interest rates. Inevitably our customers will be affected by these changes and this may impact the performance of our business.

In such challenging circumstances we will continue to maintain strong relationships with the debt advisory agencies and remain focused on providing help and advice to our customers in financial difficulty.

This document and the respective 2010 Annual Report and Accounts are available in full 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. In addition, the Annual Report and Accounts have been submitted to the National Storage Mechanism and will shortly be available for inspection at [www.Hemscott.com/nsm.do](http://www.Hemscott.com/nsm.do).

## ENDS

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## **NOTES TO EDITORS**

### **UK Asset Resolution**

On 1 October 2010 it was announced that UK Asset Resolution ("UKAR") was established 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 250,000 existing mortgage borrowers. The management and control of B&B was integrated with NRAM under UKAR on 1 October 2010.

### **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 600,000 existing borrowers, with 400,000 mortgage customers and 200,000 unsecured loan customers. The management and control of NRAM was integrated with B&B under UKAR on 1 October 2010.