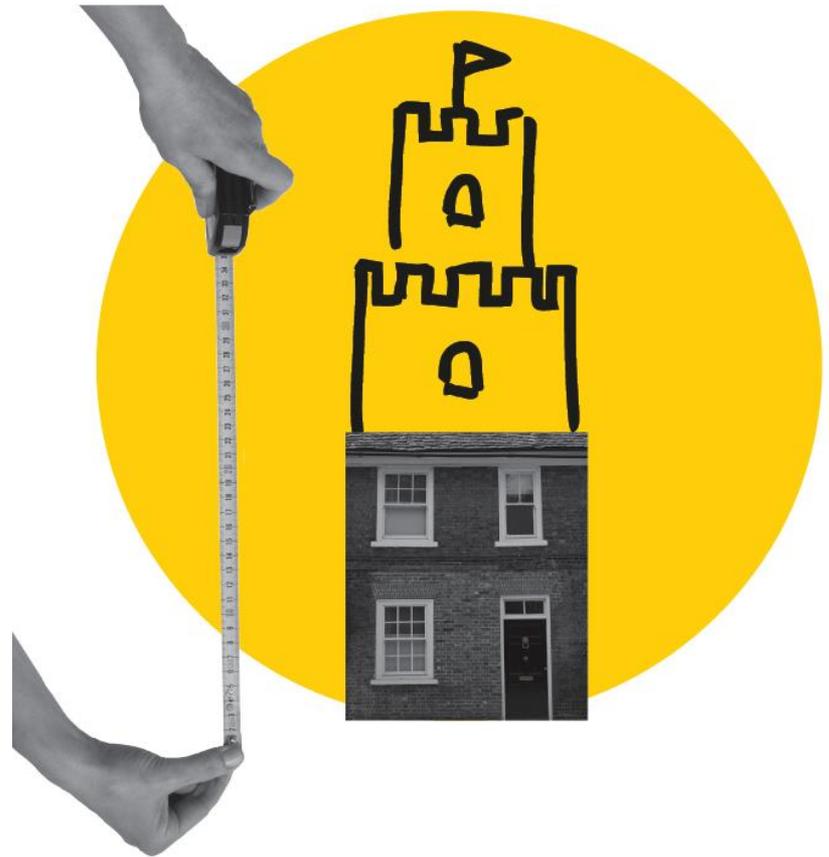


# Introduction to Aldermore

June 2018



**Aldermore**

Strictly Private & Confidential

# A Bank with a clear purpose

**Why do we exist?**

**Our vision:**  
**Banking as it should be**  
Helping people to seek and seize opportunities in their professional and personal lives

**How do we do it?**

We have three strategic pillars



**Customer driven**



**Simply delivered**



**Securely managed**

Our DNA underpins everything we do

**Reliable**  
**Expert**



**Dynamic**  
**Straightforward**

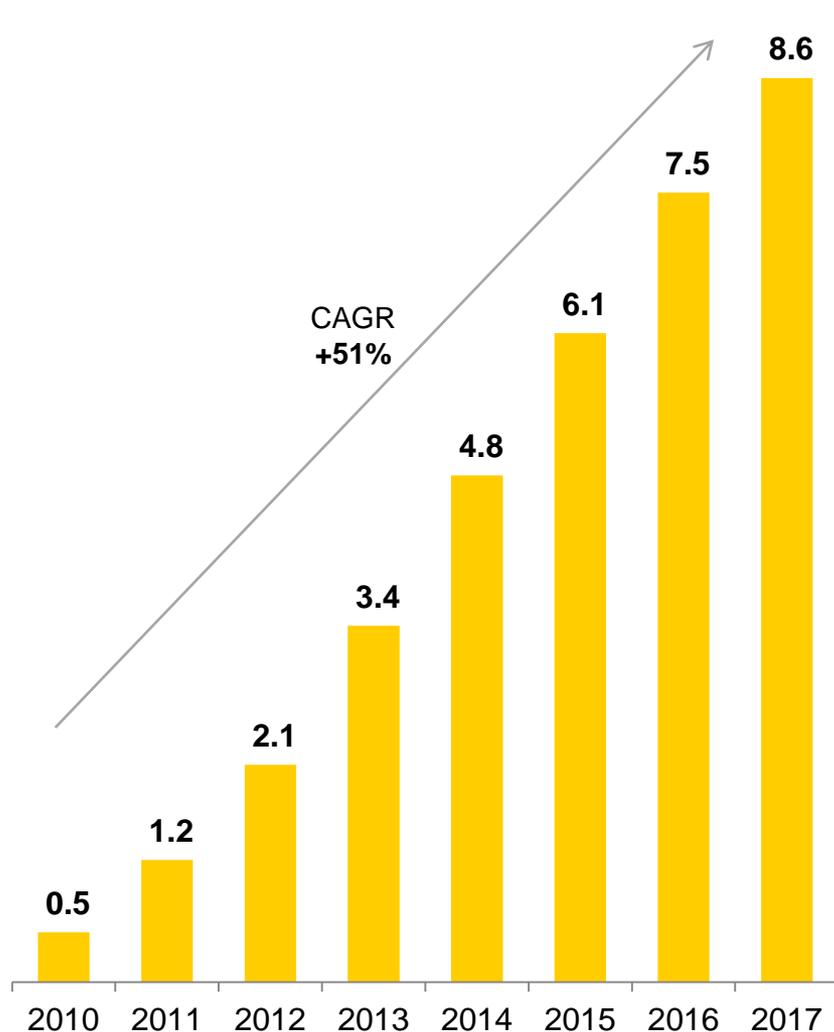
**What do we do?**

## Our story

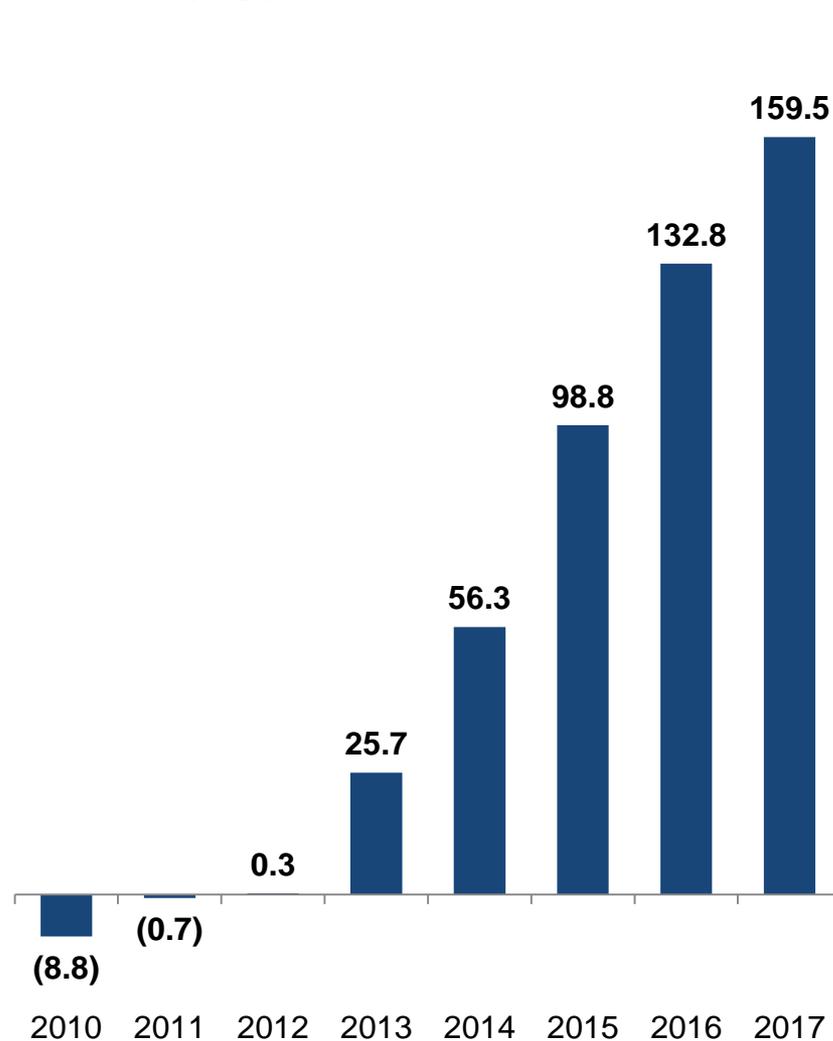


# Which has consistently delivered results

Loans and advances to customers £bn



Underlying profit before tax<sup>1</sup>, £m



<sup>1</sup> Underlying profit before tax (IFRS). 2010 figure on UK GAAP basis.

# Residential Mortgages overview (1/2)

Best Buy-to-Let Mortgage Lender



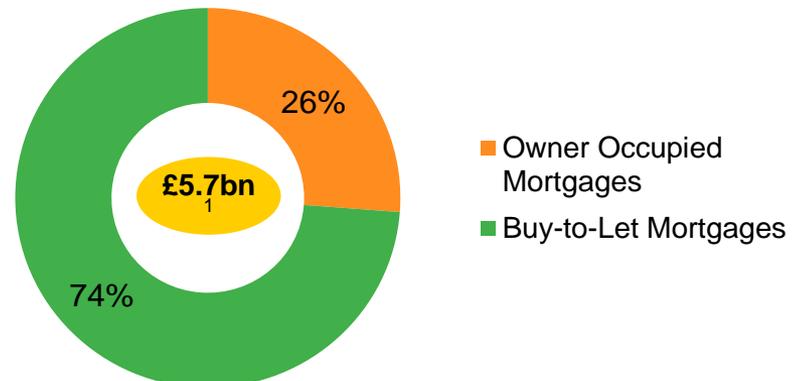
- Mortgages for customers who fall outside high street lenders' narrow lending criteria
- Supporting first time buyers, self-employed and homemovers – Britain's go getters

Best service provider from Buy-to-Let mortgage provider



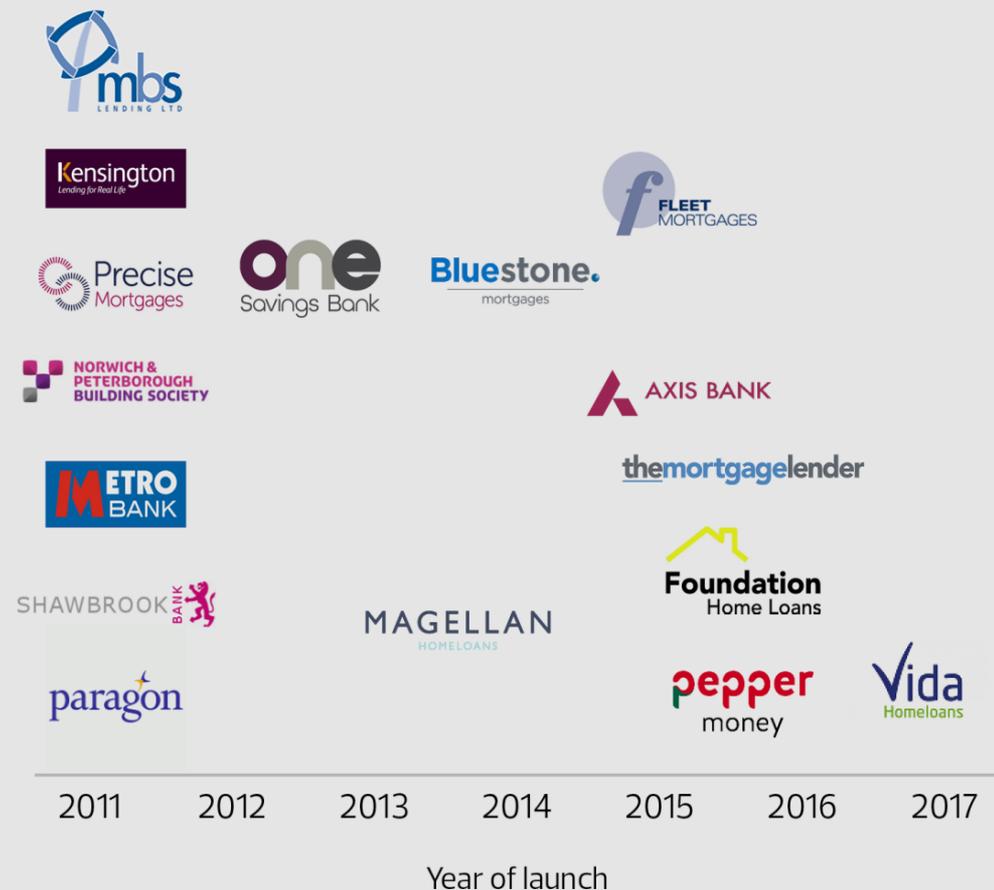
- Comprehensive buy-to-let mortgages with broad offering from first-time landlords to portfolio investors
- Chronic shortfall in new builds and changes in UK demography support private rented sector

"A Mortgage with your name on it" campaign



# Residential Mortgages overview (2/2)

## New entrants competing with Aldermore within Buy-to-Let and Owner Occupied mortgages



## Owner Occupied Mortgages

- Plenty of new 'me too' competitors in the market
- Aldermore known for its specialist underwriting and service. Over 10,800 customers<sup>1</sup>
- First to take advantage of Government's Help to Buy Scheme
- Later life lending is an attractive growth market which we will be targeting this year

## Buy-to-Let Mortgages

- Over 23,000 customers<sup>1</sup>
- Aldermore offers breadth of products across different customer segments
- Number of regulatory and policy changes affecting customer behaviour
- But chronic shortfall in new build and demographic changes drives demand for private rented sector

1. As measured by number of accounts

# Residential Affordability Model

## Robust affordability assessment

- Affordability calculation used to assess a maximum supportable loan given the income and expenditure of the customer(s).
  - Monthly net income calculated by deducting tax and NI (according to HMRC criteria) from customer's verified gross income.
  - Customer's monthly committed expenditure, basic expenditure and basic quality of living costs are then deducted from the monthly net income to calculate disposable income from which a maximum supportable loan can be calculated.
- Affordability for all loans are calculated on a capital & interest repayment basis.
- Future changes that might adversely affect the applicant's ability to maintain monthly repayments, are considered and reflected within the affordability assessment.

## "Stressed" interest rates applied to affordability calculations

- Aldermore factors in an increase of 3% in Bank Rate (BBR) when calculating the affordability stress rate, in accordance with the recommendation made by the Financial Policy Committee (FPC) of the Bank of England in June 2017.

Product type	Stressed interest rate
Term variable rate	Pay rate plus 3.0%
Fixed rate	Higher of (i) pay rate or (ii) reversion rate plus 3.0%

- The triggers for reviewing stress rate are:
  - a) A change in the Aldermore Managed Rate (AMR); or
  - b) Movements in 5 year LIBOR rate ; or
  - c) Change to FPC recommendation.

**Affordability test is robust and central to our lending assessment**

# Retail Underwriting Operational Model <=£1m

## Broker Support

### Pre-Application

### Underwriting

### Processing and Offer



Case Ownership



- Technical Queries
- Contingency / Telephone KFI
- Answer Case Scenario Queries

- Communicate decision on non-standard applications
- Assess referred DIPs and communicate decision
- Risk-based profiling of applications
- Support wider processing tasks and case admin

- Assess full application
- Verify applicant
- Instruct valuation
- Make lending decision/refer to higher mandate holder
- Acknowledge case with broker/customer
- Approve/decline app
- Request supporting information

- Assess valuation
- Assess other requested documents and refer
- Chase outstanding information
- Answer telephone referrals
- Intro call to Applicant, confirm details
- Prepare case for offer

- Prepare offer
- Approve offer
- Refer to higher mandate holder if required
- Issue offer

- Assess post offer documents
- Manage changes to post-offer case
- Receive Certificate of Title
- Run Wizard
- Chase information
- Solicitors management (performance and queries)

- Release funds
- Pay proc fee



# Arrears Management, Collections & Recoveries

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## Forbearance Policy and Vulnerable Customer Guidelines

- Cases are assessed according to individual customer circumstances,.
- The forbearance policy was most recently reviewed in December 2017.
- Rehabilitation is the main aim inline with the customers individual financial needs, this could be a reduction in their monthly contractual payments, switch to interest only, concession to allow sale, arrangement to clear arrears over an agreed period.
- Litigation is still considered if all other strategies have failed and have been exhausted.
- Prime objective continues to be the recovery of the full arrears and minimisation of loss, arrears volumes across OO, BTL and CM remain low.
- New Vulnerable Customer flags have been developed and implemented during 2018 to help flag and identify VC customers when the teams are dealing with these cases.

## 2018 Collections and Recoveries Initiatives

- Review team structure, delivering end to end collections process and benefits.
- Process re design, move to single core collection strategy:
  - Build workflow to maximise activity relevant to customers' requirements looking at longer more affordable payment plans, forbearance options via "life events" (e.g. vulnerability, unemployment, sickness, death) or arrears stage (e.g. litigation, suspended possession order, sale, repossession)
  - Increased automation, reduced manual processing
- Enhance MI suite

# Arrears Management, Collections & Recoveries

## Collections

### Responsibilities

- Commercial/Residential Mortgages & PRS
- Pre-Delinquency strategies
- Early Collections strategies
- DDi first failure
- Customers – first arrears contact (inbound/outbound)

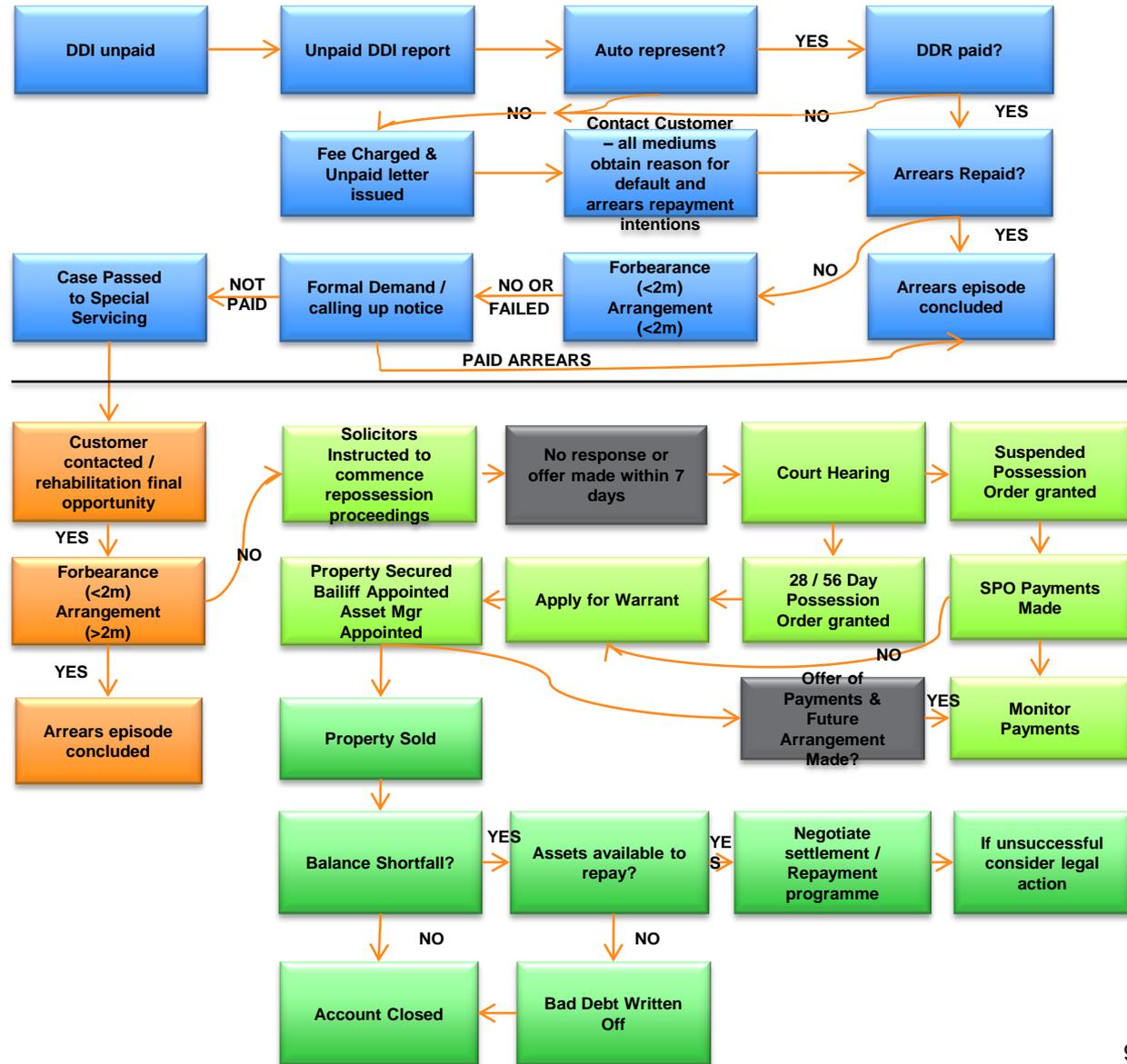
## Hand-Off

- If the threshold of 2MIA (CM/PRS) or 3MIA (RM owner occupier) is reached and rehabilitation is not possible then Formal Demand/Calling in Notices are issued
- Upon expiry of Demand and no proposals for clearance of the arrears received then the case is passed to Special Servicing

## Special Servicing

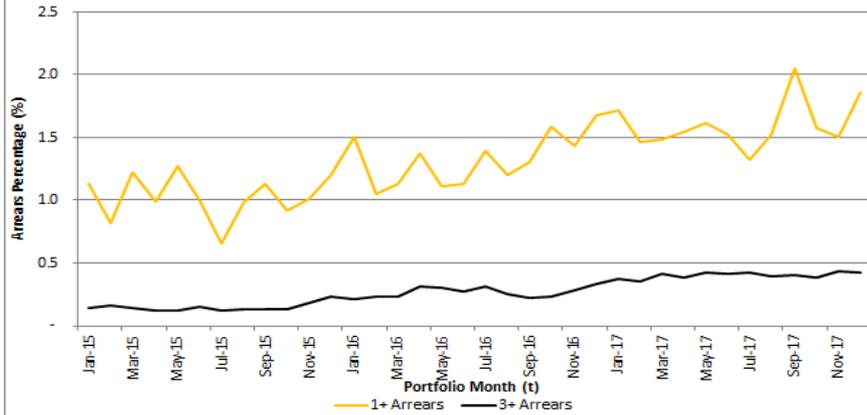
### Responsibilities

- Commercial/Residential Mortgages
- PRS
- Recoveries – Litigation/LPAR/Administration
- Acts of Insolvency
- Impairment/Bad Debt Write Off
- Planning Breaches/Security Variation (in conjunction with Portfolio Management team)

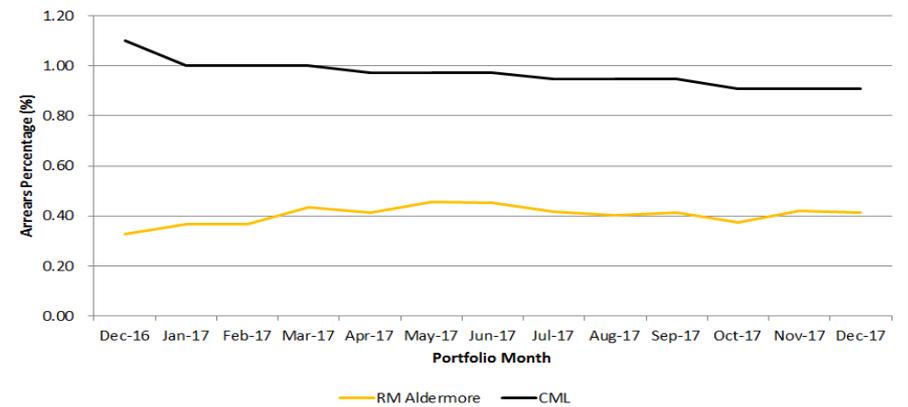


# Arrears Performance

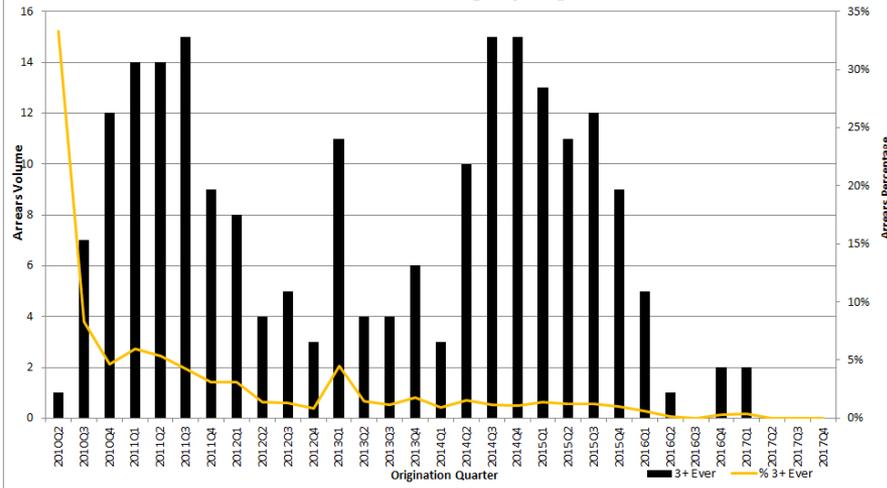
**Aldermore Residential Mortgages  
1+ & 3+ Months In Arrears (% of Balance)**



**Aldermore Residential Mortgages  
3+ Arrears vs CML (% of Volume)**



**Aldermore Residential Mortgages  
3+ Ever Volume and Percentage by Origination Quarter**



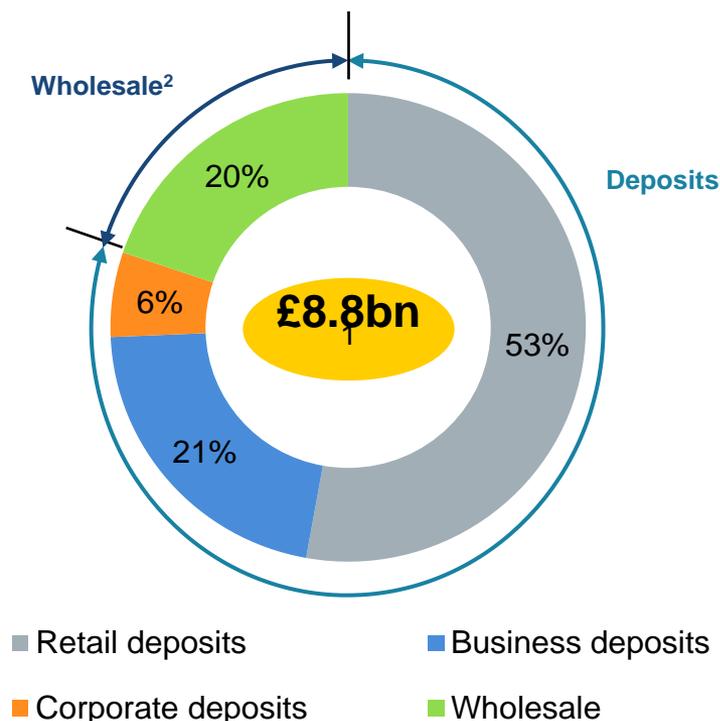
- At 31 Dec 2017 0.43% of Aldermore’s residential owner-occupier mortgages were 3 or more months in arrears.
- This comparative market figure reported by UK Finance is 0.90%.
- Aldermore experienced a steady rise in 3+ months arrears in the two year period from the start of 2015 as the portfolio matured but this has been stable for the last five quarters
- Actual number of loans which have reached 3+ status are low per origination quarter, and as a percentage of cohort are on average 1.1% from Q1 ‘12 to date, or 1.3% excluding loans <12 months old.

(Note: Although UK Finance produces monthly arrears data this is not segregated between residential owner-occupier and buy to let mortgages)

**Overall arrears levels are stable and remain below average industry levels.**

# Diversified funding platform

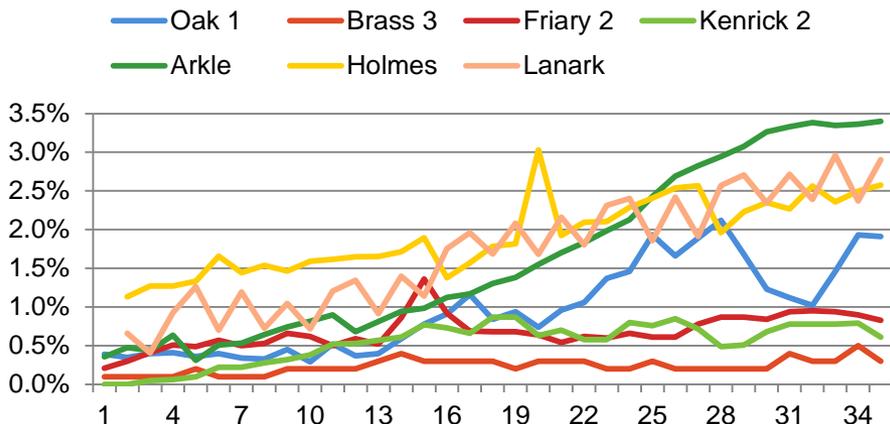
## Funding sources



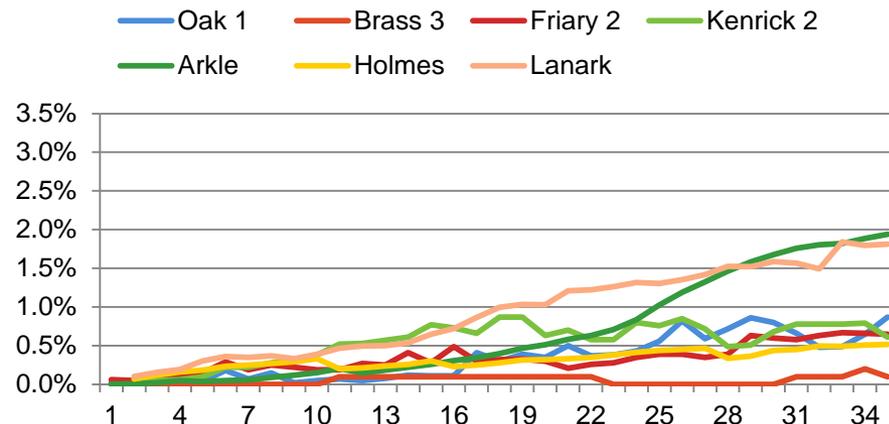
- Funding strategy predominantly deposit led, complemented by wholesale
- Award winning savings franchise
- Corporate Deposits grown to >£500m since Dec'14 launch
- Tactical use of Bank of England's Term Funding scheme
- Opportunity to add transaction banking capability

# Oak No. 1 historical performance vs. peers

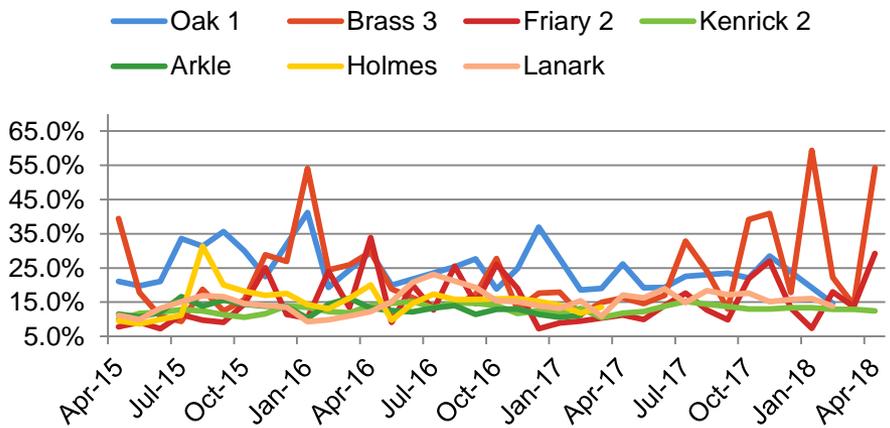
## +30 day delinquencies



## +90 day delinquencies



## CPR



- Aldermore's debut Oak 1 issuance has delivered a robust credit performance with lower delinquencies compared to some of its peers
- There has not been losses on the Oak 1 transaction, which gives further reassurance of the credit quality
- Prepayments have been relatively higher than some of its peers

Source: Moody's indices, Fitch, Bloomberg

# Aldermore Contact Details

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**Aldermore**