Building the UK Mortgage Services Growth Engine

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Executive summary

Building the UK Mortgage Services growth engine

UKAR contract performing well

- UKAR contract remains on track to deliver £600m of revenue and £100m of PBT
- Key risks identified as part of the UKAR appointment have decreased in intensity
- Circa 55% of the UKAR book has now been sold and all servicing has been retained

Integration ahead of plan

- Integration of HML and UKAR has progressed faster than initially expected
- Process to consolidate all mortgages onto a single scalable platform is now underway and will complete by mid 2019

Success with challenger banks

- Contracts signed with Sainsbury's Bank, Vida Homeloans and a leading high street retailer Heads of terms signed with a leading Investment Bank
- These new contracts are expected to deliver £20bn of UPB by FY22
- By around FY20/21 we would expect the growth of these new clients to exceed book run-off

Opportunity with retail banks

- UK Retail Banks remain under cost pressure with average RoE still well below pre-crisis levels
- Our scale and deep content knowledge leave us well placed to exploit the emerging structural outsourcing opportunities that we believe will emerge

Computershare

Our Mortgage Servicing journey

Through the combination of HML and UKAR, Computershare now services £66bn of mortgages in the UK

1988
Homeloan Management Limited (HML) founded in the UK as part of the Skipton Building Society

2009
HML acquires Scarborough Mortgage Services (SMS) as part of the merger of the Skipton and Scarborough Building Societies

2014
Computershare acquires HML

2015
Acquisition of Topaz Finance Limited from RBS – extension of our capability to include master servicing

2016
UKAR appointment secured

Contracts secured with Cerberus and TSB as UKAR sells circa £13bn of assets

2017
Contracts secured with Blackstone and Prudential as UKAR sells further £11.8bn of assets

Our UK Mortgage Servicing business

Computershare is the largest third party mortgage servicer in the UK with over 60% market share

The UK's **largest Mortgage Servicer**

£66 Billion UPB

WE LOOK AFTER

600k MORTGAGES

35k accounts in arrears

58 Clients

The highest Mortgage Servicer ratings globally

FitchRatings KNOW YOUR RISK

STANDARD &POOR'S

★★★★★

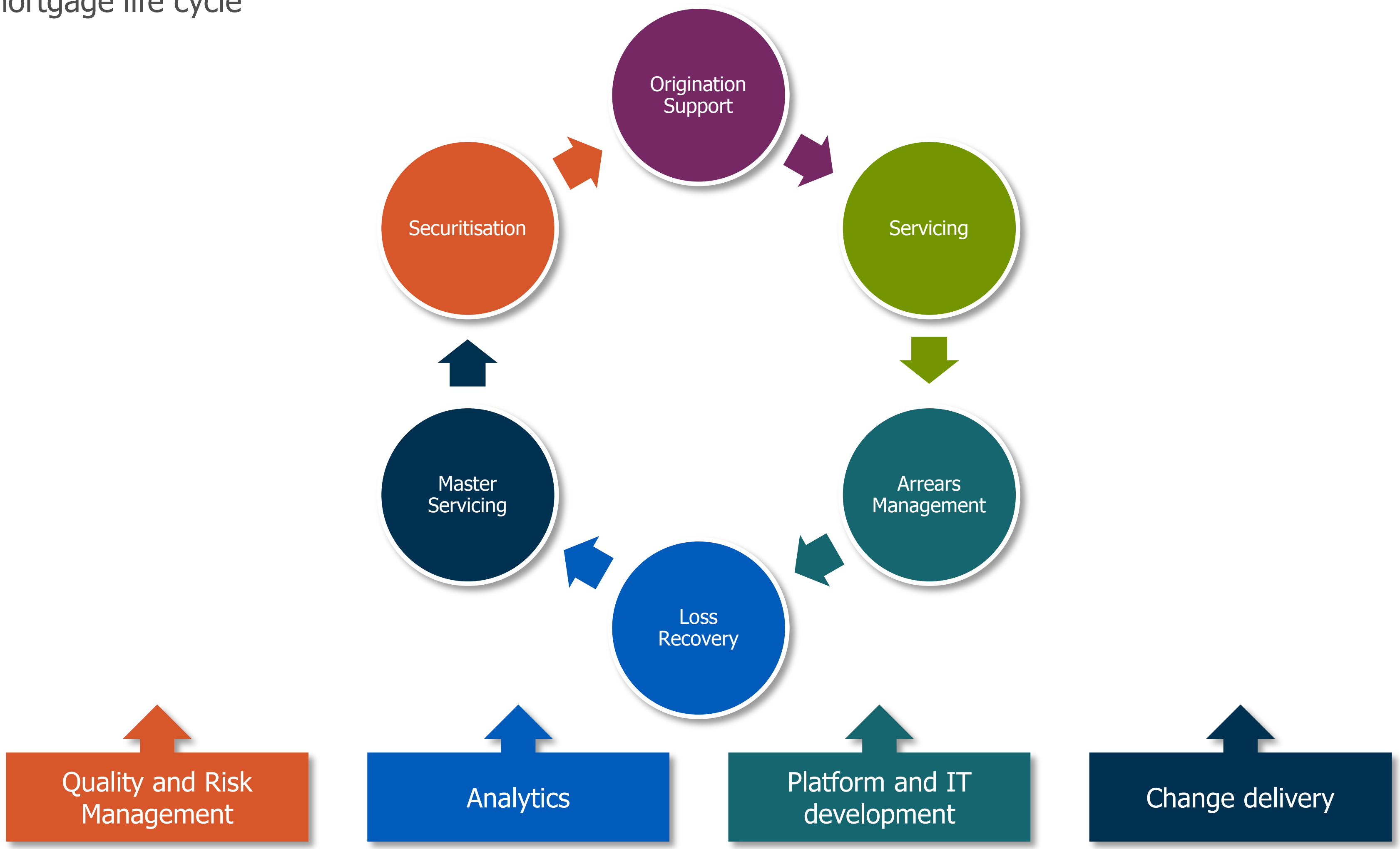
RECEIVE OVER **102,000** INBOUND CALLS

MAKE OVER **170,000** OUTBOUND CALLS

Regulated by and compliant with Financial Conduct Authority **(FCA)**

Our services

The combination of the HML and UKAR platforms leaves us well placed to service the end-to-end mortgage life cycle



What we don't do: We never take a financial stake in the portfolios that we manage nor do we facilitate securitisations. We work with third parties to perform field visits, complete valuations and sell / manage repossessed property rather than doing this work ourselves.

Computershare

UKAR contract performing well

The UKAR contract continues to perform well with the key risks that we identified as part of the transaction decreasing in intensity since June 2016

Key risks		Change Since June 2016
Financial returns	› We remain on track to deliver £600m of revenue and £100m of PBT over the term of the contract	=
Contract extension	› Option still exists for UKAR appointment to be extended beyond 7 years	=
Performance based pricing	› Revenues from performance based pricing have been in line with expectations. This model ensures that CPU's objectives are aligned with the UK government's objective of increasing the value of assets being serviced	=
Redemption rate	› The opening balance in June 2016 was slightly lower than expected and CPU was compensated for this. The rate of asset run-off is currently lower than we modelled in our investment case.	✓
Future asset sales	› Circa 55% of the UKAR portfolio has now been sold through Neptune (£13bn) and Ripon (£11.8bn) › CPU has retained servicing as part of these transactions › Mortgages have been acquired by Cerberus, Blackstone, TSB and Prudential who are all now CPU clients › UKAR will continue to sell mortgages and CPU will work to retain servicing of divested portfolios › CPU is well placed to retain servicing given incumbency, scale and complexity of portfolios	=
Integration	› Consent has now been received from UKAR to migrate all servicing onto the HML iConnect platform. Delivery of integration benefits remain on track and costs of integration are in line with expectations	✓
Service credits	› In excess of 99% of service levels are being met with no material service credits paid	✓

Integrating HML and UKAR

Integration of HML and UKAR has progressed faster than expected and work has now commenced to consolidate all of the mortgages that we manage onto a single platform

- Significant progress has been made since completion of the UKAR transaction in June 2016:
  - More than 300 roles have been removed in FY17 (pre new business)
  - Single management team has been formed
  - HML Glasgow office will close in June 2017
  - Sainsbury's Bank and Vida Homeloans now live
  - Single set of Head Office systems deployed across whole business
- The next phase of the Integration Programme is focused on migrating all mortgages onto the HML iConnect platform
- Programme teams have been fully mobilised and a clear delivery plan is in place
- Scope of the migration work will include migration of circa £40bn of mortgages, transfer of IT Services from UKAR's existing data centre and re-platforming of a number of supporting applications
- Migrations will take place on a phased basis during FY18 and FY19
- All integration work is expected to be completed by mid 2019

CULTURE
A common culture of working together underpinned by a shared set of values and behaviours.

REWARD AND RECOGNITION
A standard approach for colleague recognition, reward and development.

SYSTEMS
Common systems for all colleagues and clients across all CLS locations.

PROCESSES
Consistent processes and ways of working for all client facing and internal activity.

Growth opportunities

Positive progress has been made in the last 12 months in both the Challenger Bank and Asset Trader segments of the mortgage outsourcing market. Our focus is now moving to the Retail Banking sector.

	Challenger Banks	Asset Traders	Retail Bank Outsourcing
Market dynamics	› Non high street lenders expected to return to pre-crisis market share – 10-15% › Undersupplied demand even after public policy changes › High cost of entry	› "Wall of cash" › Non core bank assets yet to be sold › Government disposals › Significant trading still expected – circa £50-100bn › Partly defensive play	› RoE challenge (10.6% post-crisis versus 16.9% pre-crisis) › Volume of regulatory change means closed books on legacy platforms are expensive to maintain › Focus on digital banking
Key wins	› Sainsbury's Bank › Vida Homeloans › High Street Retailer › Investment Bank (Heads of Terms)	› Cerberus › BAWAG › Blackstone	› TSB › Prudential
Key strengths	› Digital offering › Transactional cost model › Track record of successful launches › Recognised for deep content knowledge	› Existing relationships with most major asset acquirers › Proven migration and securitisation experience › Lower cost to serve driven by scale	› Lower cost to serve driven by scale and single platform › Digital offering › Proven migration experience › Robust approach to risk and compliance
Competitor wins	› None › Capita contract under review	› Acenden – GE assets via Blackstone (c. £7bn) › Target acquisition of Commercial First	› None › Capita assets ownership under review

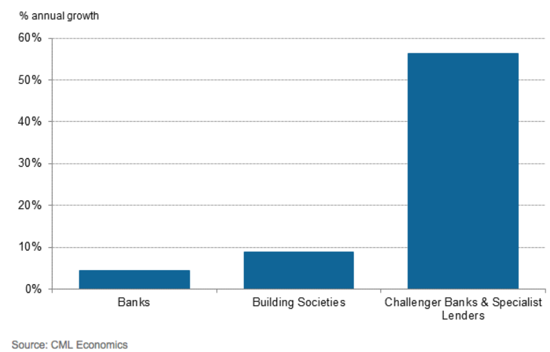
Challenger Banks

We expect our new Challenger Bank contracts to deliver £20bn of UPB by FY22

Challenger Bank net lending

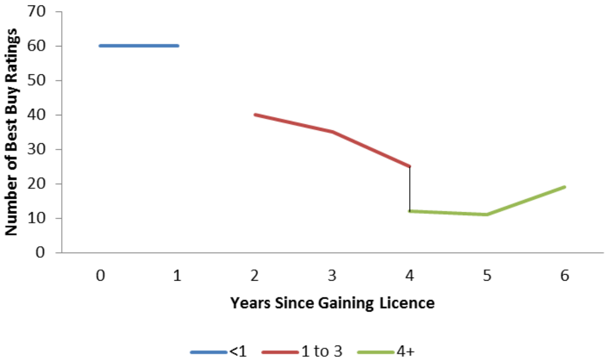
Source: Council of Mortgage Lenders

Challenger Bank growth profile 2014 -15



Source: CML Economics

Challenger Bank best buy positioning



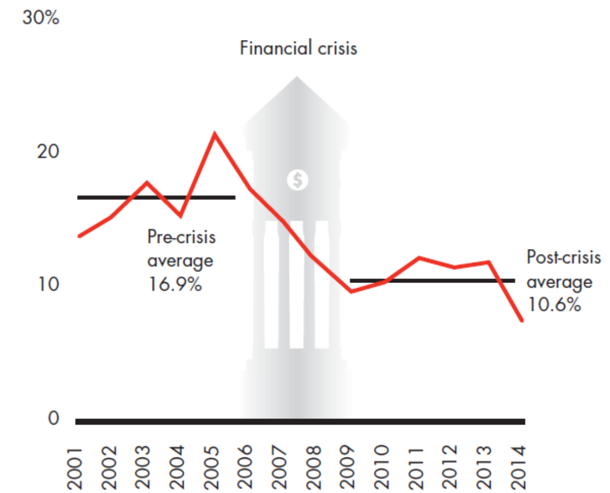
Source: KPMG Challenger Bank Annual Results 2016

- Challenger banks that have launched in recent years have been able to originate £5bn-£6bn over a 4-5 year period in challenging market conditions and with relatively high funding costs
- We believe that the high street brands that stand behind two of the clients that we are working with will help to drive further volume as will the lower cost of funding that is available to these clients
- Challenger banks grew gross lending by 56% in 2015 versus banks that grew gross lending by 4% and building societies who grew by 9%
- The vast majority of the growth in net mortgage lending in recent years has been driven by the challenger banks. As a result of this growth we are seeing the share of lending taken by non high street lenders gradually return towards pre-crisis levels
- The growth of the challenger bank sector is driven by the willingness of these lenders to position themselves at the top of the best buy tables driven in part by their lower cost structures (average cost to income for challenger banks is 56.9% versus 80.6% for the Top 5) and also by their more flexible lending criteria (e.g. Aldermore have an age limit of 85 years versus a market norm of 70-75 years)

Retail banking opportunity

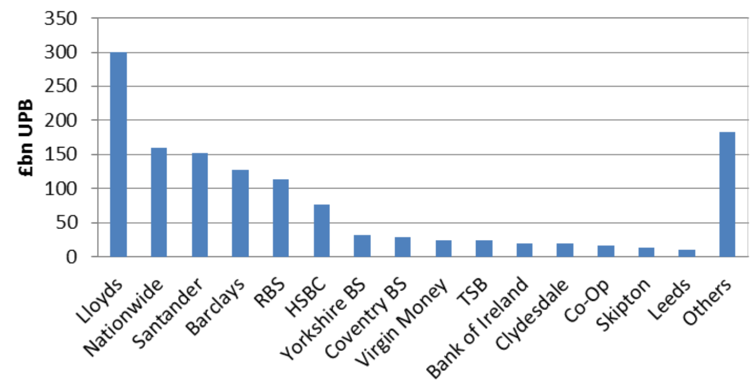
Opportunities exist with both the larger retail banks and also with mid tier players

Global banking industry average Return on Equity



Source: Bain & Company, "The return of corporate strategy in banking"

UK Retail Banks UPB



- The vast majority of the 91% of the UK mortgage market that is not outsourced is sat with the retail banks
- Most banks have already undertaken significant restructuring to stave off the decline in RoE and to meet capital adequacy requirements
- Yet RoE continues to decline as net margins have reduced, the cost of regulation has increased and fee income has come under pressure
- Challenger banks with lower cost digital infrastructure have also continued to take market share
- This is driving the retail banks to look at transformational outsourcing opportunities

Driver for larger lenders to outsource closed books on legacy platforms where cost of maintaining regulatory compliance is high and cost savings of over 30% can be achieved

Driver for mid tier players to outsource their entire mortgage portfolios in order to gain the benefits of scale and address the RoE challenge

Potential for smaller players to participate in a shared services type model addressing both cost and resourcing challenges

Computershare

Stable regulatory landscape

The volume and pace of regulatory change in the UK continues to increase and is a strong driver for retail banks to consider outsourcing as a route to reducing cost through platform consolidation

The way that customers in mortgage arrears are dealt with continues to be key area of focus for regulators

Regulatory environment in the UK is well established and the position of TPMAs is well understood

There continues to be a steady stream of regulatory initiatives that drive both project and operational initiatives

Whilst both the client and Computershare are typically regulated the responsibility for the way customers are treated sits with the client

Computershare provides a Master Servicing offering through TOPAZ where Computershare takes full regulatory responsibility for the way that customers are treated. Topaz is on track to be overseeing a back book of circa £13bn that is serviced by Computershare

Being Master Servicer offers the opportunity to earn an incremental premium and also to deliver a more standardised operating model

Conclusions

Building the UK Mortgage Services growth engine

1 UKAR contract performing well

The risks associated with the UKAR contract have reduced in intensity and the contract remains on track to deliver £600m of revenue and £100m of PBT. Circa 55% of the UKAR book has been sold and all servicing has been retained.

2 Integration ahead of plan

Synergies are being realised slightly faster than expected with over 300 roles removed in FY17 (pre new business) and our Glasgow office due to close in June 2017. The project to consolidate onto a single platform is now underway.

3 Success with challenger banks

The challenger bank clients that we have won will deliver £20bn of UPB by FY22. Over time the growth of these clients is expected to exceed the rate of book run-off.

4 Opportunity with retail banks

Our scale and deep content knowledge leave us well placed to exploit the emerging structural outsourcing opportunity with retail banks