Jerrold Holdings

# Q3 2014/15 Results
# Investor Presentation
# 20 May 2015

# Management Team Participants

## Gary Beckett - Group CFO

- Gary joined Jerrold in 1994 and has responsibility for financial reporting, tax, treasury and investor relations
- Gary also contributes to the strategic development of the Group and supports the regulatory function
- Gary is a qualified chartered accountant

## Matt Blake – Head of Treasury

- Matt joined Jerrold in 2003 and has managed a number of roles within the Finance function
- More recently, Matt has played a lead role in obtaining both the AA ratings and £240m upsizing of the private securitisation programme in October and November 2014 respectively and the additional £100m Senior Notes Issuance
- Matt is a Chartered Management Accountant
- Contact details: matt.blake@jerroldholdings.co.uk +44 161 956 3223



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# Agenda





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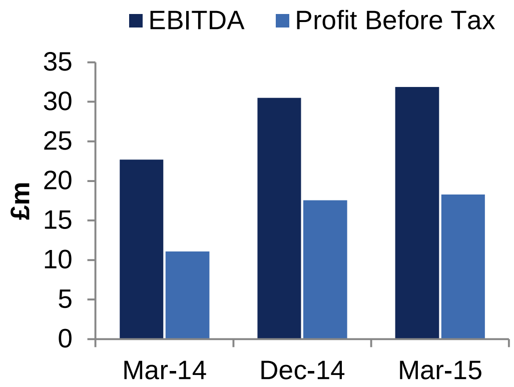
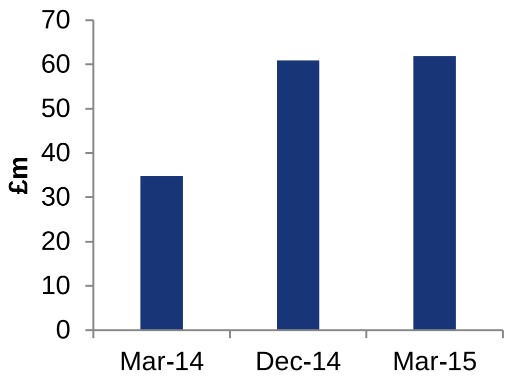
# Consistently Stronger Quarterly Performance

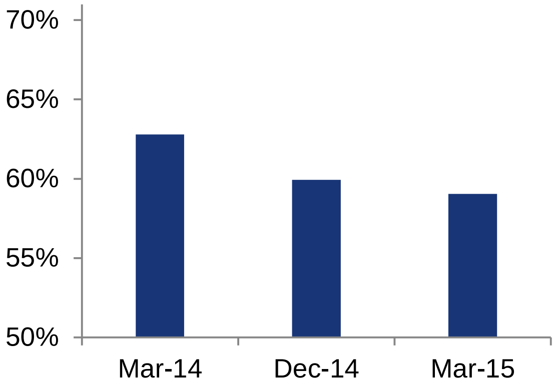
**Strong Underlying Profits**




**Strong Lending Volumes**




**Low Indexed Loan To Value**




- Maintaining very strong profit growth with profit before tax at £18.3m (prior quarter £17.6m)
- Benefiting from continued stability in the UK housing market and continued dislocation caused by the changes in mortgage regulation
- Maintaining strong lending volumes (despite January being a seasonally quiet month) whilst maintaining credit quality, setting the basis for significant step up in future profitability
- Loan book grew by £102.2m during the quarter (£81.6m in prior quarter) and now stands at £1.33bn
- Fitch upgraded Jerrold Holdings to BB- (following S+ P upgrade to BB- in Q4 2014)
- Issued an additional £100 million in Senior Secured Notes in April 2015



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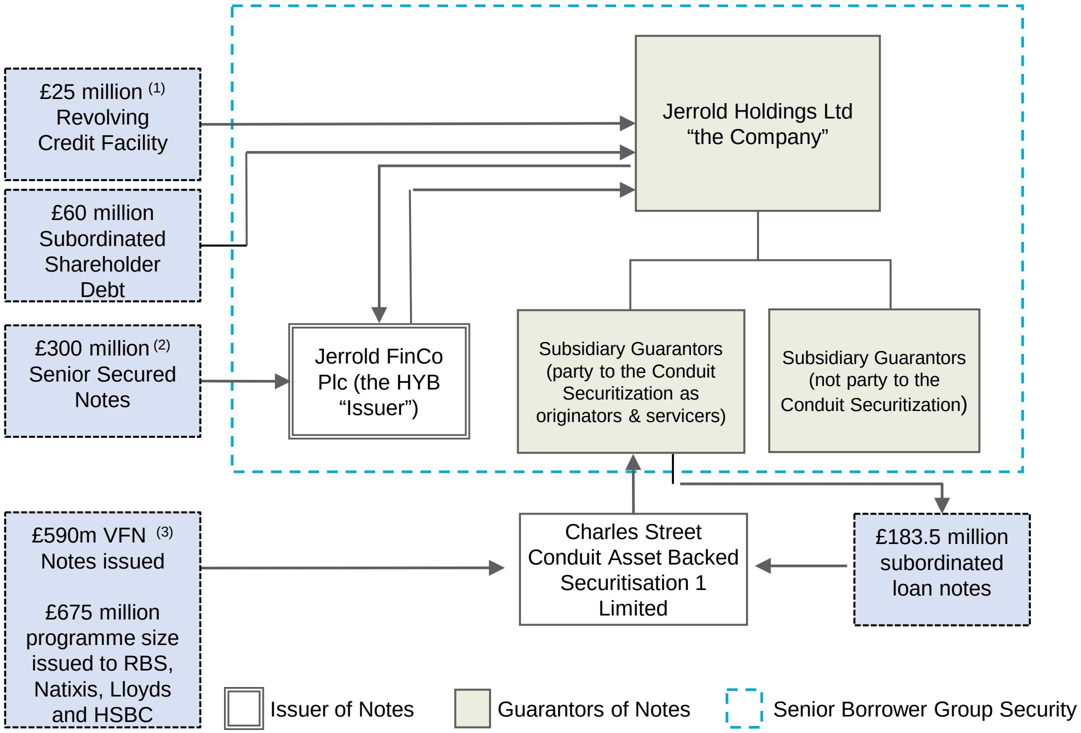
# Funding Structure

## Group Legal & Finance Structure (post Senior Notes Tap)

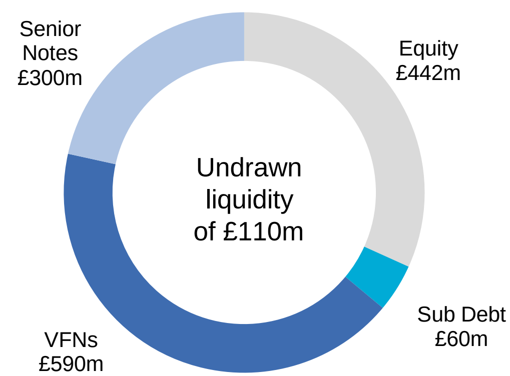



(1) 31 March 2015 drawn balance was £80m, with drawn balance reduced to zero and commitments reduced from £100m to £25m on 24 April 2015
(2) 31 March 2015 balance was £200m with an additional £100m of Senior Secured Notes issued at 108.5 on 24 April 2015
(3) 31 March 2015 VFN balance was £575m with an additional £15m drawn since end of the quarter

## Liquidity and Funding

- Pricing of £100m of Senior Notes on 17 April, raising £108.5m
- Proceeds used to repay RCF drawn balance of £80m, with undrawn commitments reduced to £25m
- Further issues of variable funding notes via Securitisation Programme
- As at the end of March 2015, £575m of Securitisation Variable Funding Notes been issued subsequently increasing to £590m
- Fitch upgraded Corporate Rating to BB-
- As at 20 May the Group has access to £110m of committed funding plus unrestricted cash of £20m that will be used to fund new lending

## Diversified Funding Base




As at 30 April 2015



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# Agenda





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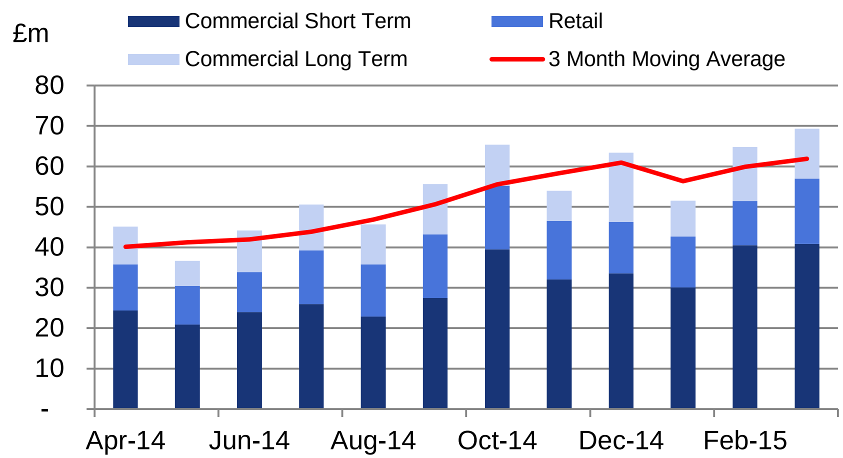
# Growth in Profits and Lending Volumes

| | Mar-14 | Dec-14 | Mar-15 |
|---|---|---|---|
| Interest & Fee Income £m | 31.7 | 40.2 | 43.7 |
| Movement in Provisions £m | 1.2 | (0.6) | 0.4 |
| EBITDA £m | 22.7 | 30.5 | 31.9 |
| Interest Costs £m | 11.9 | 12.7 | 13.4 |
| Profit Before Tax £m | 11.1 | 17.6 | 18.3 |
| Net Interest Margin | 6.2% | 7.1% | 7.2% |
| | Mar-14 | Dec-14 | Mar-15 |
| Cash Receipts £m | 100.1 | 141.6 | 126.9 |
| New advances £m | 104.5 | 182.4 | 186.0 |
| Origination LTV | 55.8% | 56.4% | 56.2% |
| Nominal Interest | 13.8% | 11.9% | 11.6% |
| Nominal Interest (constant mix) | 13.1% | 11.5% | 11.1% |

## Monthly Loan Advances




Small amount of development loan advances included in Commercial totals

- Interest income increased in the period reflecting higher levels of lending and lower levels of non performing loans
- Maintaining very strong profit growth with profit before tax at £18.3m (prior quarter £17.6m)
- Steady upward trend in lending activity with average origination LTV staying in the 55% area
- 30 bps decline in nominal rates in line with expectations and higher volumes. APRs above 16%



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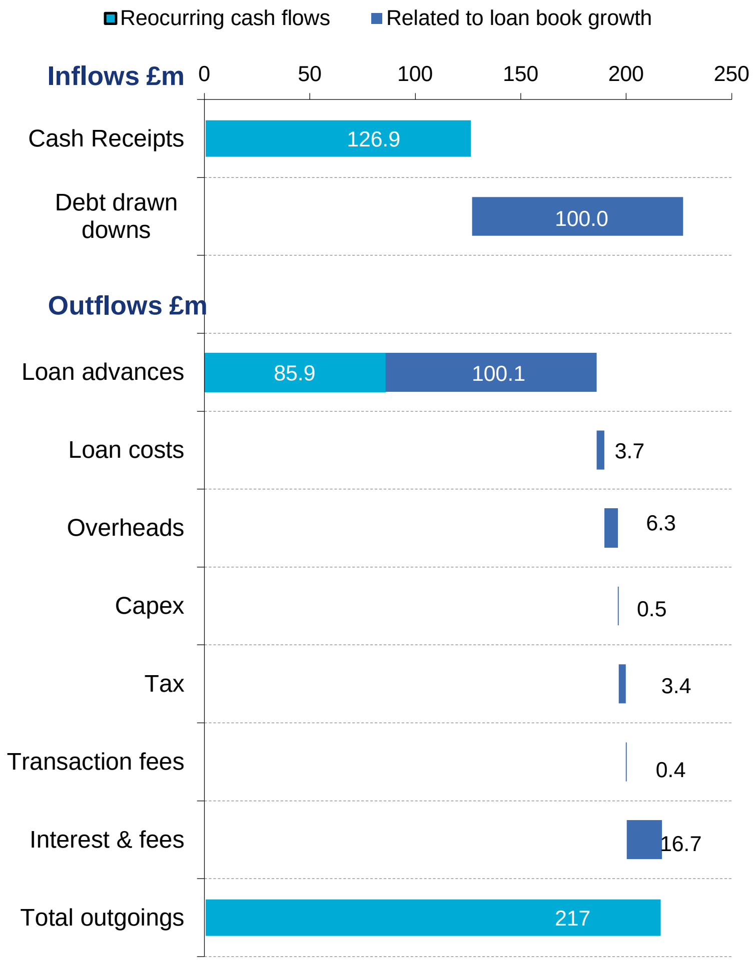
# Highly Cash Generative

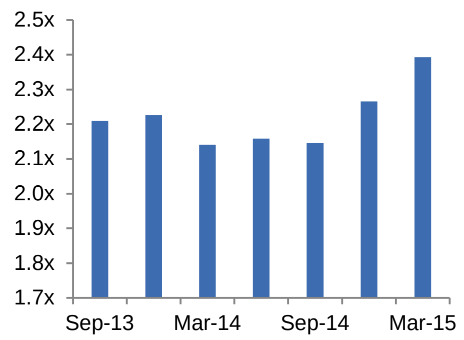
## Quarterly Cash-flow



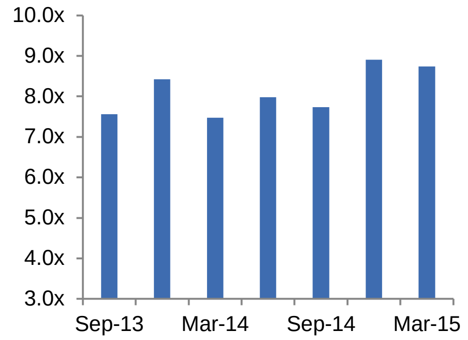

## High Levels of Cash Generation

- Quarterly consolidated group cash receipts of £126.9m
- Increase in Securitisation VFN and RCF draw down (prior to bond tap) to fund growth
- £186.0m of new advances with £3.7m of related funding costs
- Expenses including overheads, capex and tax totalled £10.2m
- Cash Interest was £16.7m including 6 monthly bond coupon of £9.75m that is payable in March
- Interest cover above 2x and significantly higher on a cash basis
- The ratio of net debt to free cash flow remains at 2x

## EBITDA / Interest Cover




## High Levels of Cash Generation




Calculated on a 12 month basis using cash available for debt service (prior to new advances) and excluding upfront fees

# Low Levels of Gearing and Strong Asset Backing

| Key Credit Metrics | Consolidated Group | | | Borrower Group | | |
|---|---|---|---|---|---|---|
| | Mar-14 | Dec-14 | Mar-15 | Mar-14 | Dec-14 | Mar-15 |
| EBITDA (1) (£m) | 22.7 | 30.5 | 31.9 | 18.5 | 25.7 | 26.8 |
| Loan Ledger after bad debts (£m) | 1,025.6 | 1,229.8 | 1,332.0 | 536.0 | 575.6 | 593.2 |
| Shareholder funds (£m) (2) | 447.5 | 487.4 | 501.6 | 312.5 | 325.9 | 321.1 |
| WA Indexed LTV | 62.8% | 59.9% | 59.0% | 73.2% | 71.5% | 70.4% |
| Gearing (3) | 55.9% | 59.8% | 62.0% | 41.4% | 43.3% | 45.9% |
| Underlying Asset Cover (4) | 35.1% | 35.8% | 36.6% | 30.3% | 30.9% | 32.3% |
| Cost / Income Ratio (5) | 23.9% | 26.4% | 26.5% | n/a | n/a | n/a |
| EBITDA margin | 71.6% | 75.8% | 73.0% | n/a | n/a | n/a |
| Net Debt : EBITDA (2) (6) | 6.3x | 6.7x | 6.9x | 3.0x | 2.7x | 2.7x |
| Gross debt : tangible equity (2) (6) | 1.48x | 1.67x | 1.82x | 0.74x | 0.77x | 0.87x |
| ROE % (2) (6) | 8.6% | 10.4% | 11.3% | 6.2% | 9.5% | 11.2% |
| Interest Cover | 2.14x | 2.27x | 2.38x | 2.91x | 2.98x | 3.18x |
| Net Interest Margin | 6.2% | 7.1% | 7.2% | n/a | n/a | n/a |

Notes

1 Quarterly EBITDA
2 Subordinated shareholder loans treated as equity
3 Ratio of net senior secured borrowings to the value of the loan ledger after bad debts
4 Ratio of net senior secured borrowings to the value of the Consolidated Group's and Borrower Group's claim on the respective underlying property
5 Operating expenses excluding: bad debts, financing costs, and tax
6 Calculated on 12 month basis

## Low Levels of Financial Gearing

- Over the last 12 months shareholder reserves increased by £54.1m and now stands at £501.6m
- Significant asset backing - low levels of financial gearing and high level of equity in underlying properties
- Low Gearing levels at 62.0% for the Group and 45.9% for the Borrower Group
- Prudent underlying asset cover at 36.6% for the Group and 32.3% for the Borrower Group
- Attractive profit margins, underlying EBITDA margin over 70% and low cost base
- Net senior secured leverage of 6.9x for the Group and 2.7x for the Borrower Group



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# Agenda





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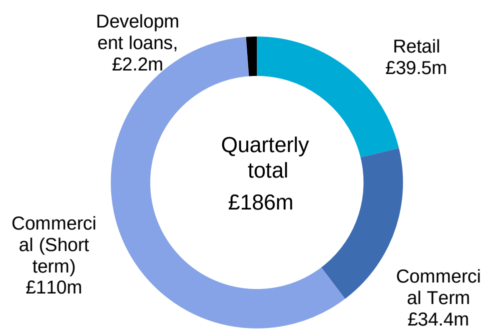
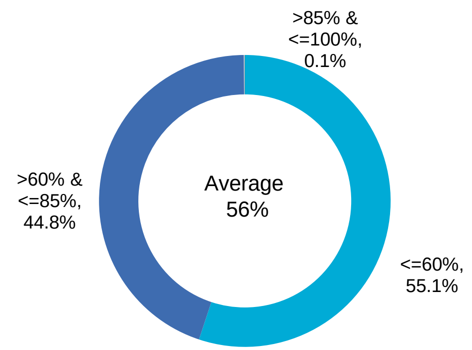
# High Quality Underwriting Focused on Low LTVs and Residential Security

## New Business Loan Purpose (Q3)




## Origination LTVs average (Q3)




## % Customers Not Credit Impaired

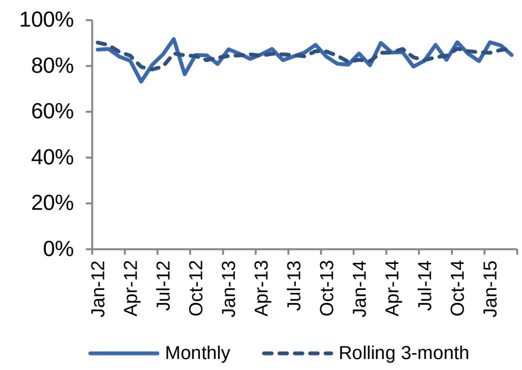
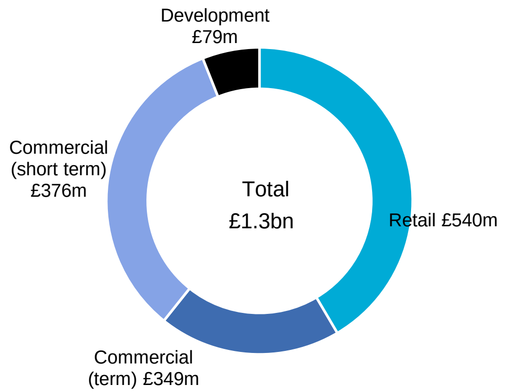
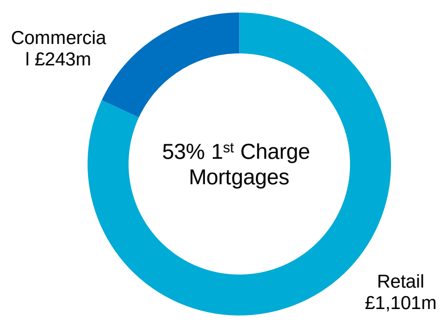



Chart shows non credit impaired customers as % of total new business written since Jan 2012 using FCA definition of credit impaired

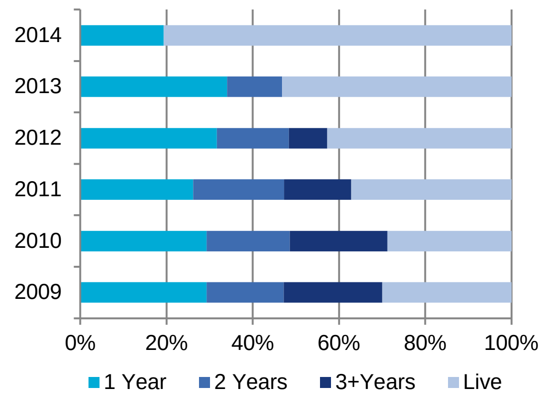
## Loan Book Breakdown by Loan Purpose




## Loan Book: 82% Residential Security



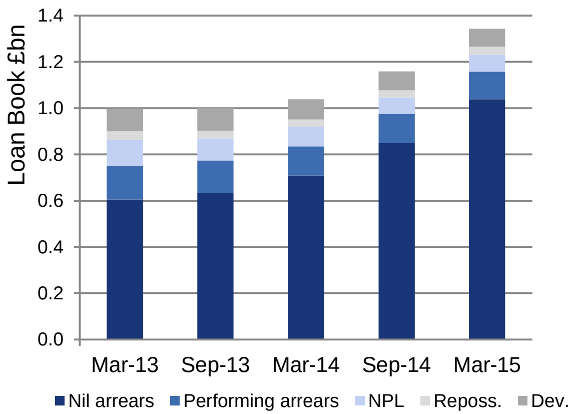

## Redemption Rates (by loan vintage)



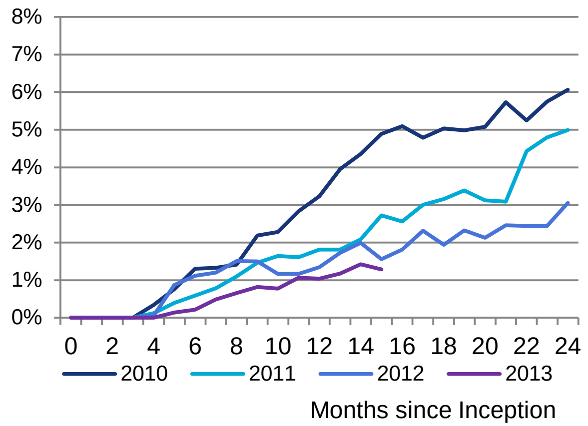

Redemption rates for loans written in 2014, show YTD redemptions as not all loans have been live for 12 months

# Continued Improvement in Loan Book Quality

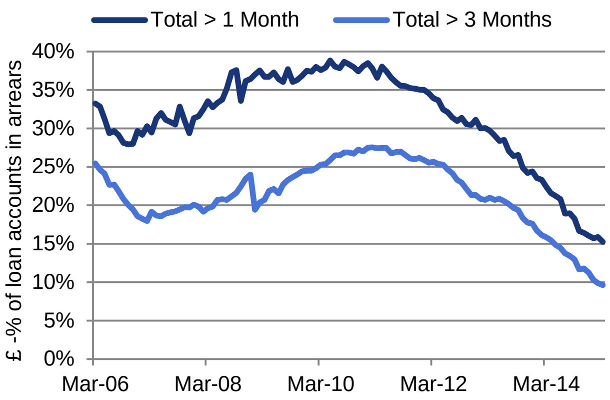
## Loan Book Segmentation




## >3m Arrears (by annual vintage)




## Accounts in Arrears (by value)




- Arrears peaked in Q1 2009 as consequence of recession and rising unemployment
- Tightening of credit policy and enhancements to collection process have reduced vintage delinquency
- Group proactively engages with customers in arrears agreeing appropriate payment plans
- Accounts in arrears are now fewer in number and value than at any point previously
- Percentage of performing loans for the Consolidated Group increased from 76.5% as per June 2013 to 86.1% per March 2015; with an even larger improvement for the Borrower Group from 53% to 69.2%
- Dedicated team established to actively reduce the old development portfolio by looking to dispose of properties while maximising value. Exposure to older development loans reduced from £97m in June 2013 to £66.9m at March 2015
- In addition, there are £11.7m of loans written since June 2013 remaining live at March 2015, giving a total balance of £78.6m



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# Low LTV provides significant downside protection

### Overall LTVs

- The WA indexed LTV of the total loan portfolio is 59.0% and 70.4% for the Borrower Group
- Percentage of loans within the Borrower Group with an origination LTV of > 75% is 17.2% compared to 24% at June 2013 and covenant of 32%

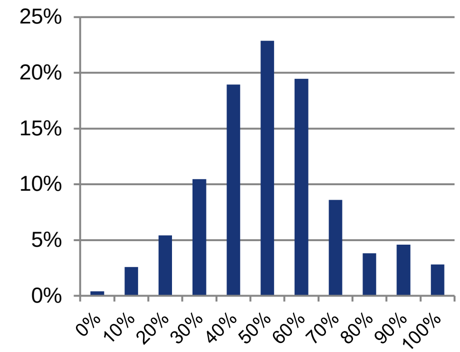
### Loans in Negative Equity

- 2.8% of Group loans (6.2% of Borrower Group loans) have an indexed LTV >100% with actual negative equity exposure of £15.6m (£15.5m for Borrower Group)
- The Group's provisioning policy requires that we make a full provision for our estimated potential exposure to negative equity for all non performing loans based on current indexed valuations

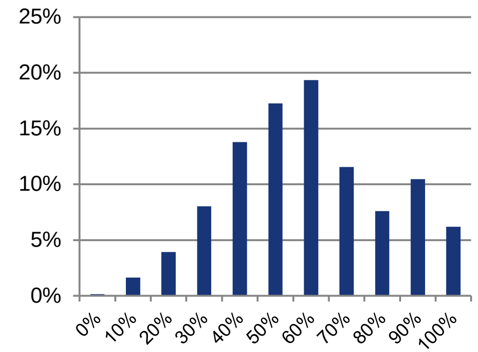
### Downside Scenario Analysis

- We estimate that for the Group 10% and 20% falls in property values would result in additional negative equity exposure of £5.2m and £23.6m respectively
- We estimate for the Borrower Group 10% and 20% falls in property values would result in additional negative equity exposure of £4.9m and £21.4m respectively

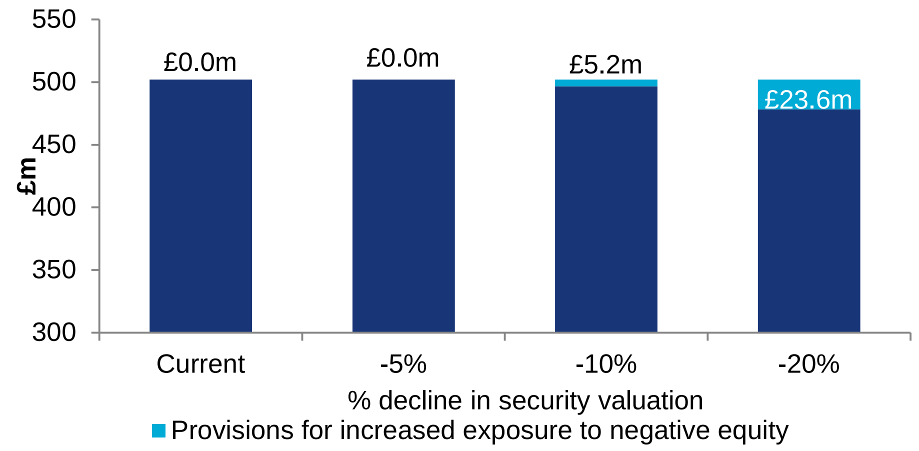
### Loan Book by Indexed LTV




### Borrower Group Indexed LTV




### Estimated Impact of Declining Security Valuations



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# Agenda

# Planning for the Future

## Significant investment in our people, operational infrastructure and regulatory framework to support our strategic growth objectives

- Continuing to strengthen middle management with appointments in compliance, risk and internal audit
- Significant investment continues in enhancing our core IT platforms to support our strategic growth plans, to deliver scalability, flexibility and efficiency gains across the business
- On-going focus on regulatory compliance - continuing to operate using a three lines of defence model with formal governance structures providing assurance over credit quality as the loan book grows
- Positive culture and conduct – established conduct excellence committee and introduced a continuous programme of training to support and embed our values
- Project team established to prepare for our full permission applications for (i) our second charge retail business which will become regulated mortgages under the EU Mortgage Credit Directive in March 2016, and (ii) our current CCA loan activities. In addition preparation has also commenced for the changes required on the FCA's adoption of the EU Mortgage Credit Directive
- Identified preferred option for streamlining our branding proposition with expected launch in Q4 2015
- Expect to launch a small pilot exercise in Q3 of a Hire Purchase Motor Finance product
- Group in the process of converting reporting to IFRS with only limited impact expected

# Agenda





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# Strategic Growth Objectives and Positive Outlook

## Strategic Objectives

Deliver value to key stakeholders. Enhancing our position as a respected specialist secured lender. Operating in niche market segments. Offering a balanced and diversified loan product portfolio and service tailored to meeting our customers' needs. Earning a commensurate return "fair value exchange", prudently managing risk within an efficient, compliant and inspiring environment.

## Key Considerations

- Focus – underserved segments of the secured mortgage market
- Diversification - loan book composition to remain broadly stable with potential to add new products and leverage existing service platform
- Investment – significant investment in people and technology
- Risk management - continued attention to affordability assessments and low LTV's
- Resource - retained earnings and extended debt facilities with potential to upsize provide financial capability to support growth plans
- Strong Platform - c£1.34bn loan book at 59.0% weighted average indexed LTV and 7.2% interest margin provide a high degree of visibility on future base case earnings and cash-flow
- Outlook – positive growth underpinned by stable property sector and falling unemployment
- Experience - 41 years of successful trading

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**Q2 2014/15 Results**
**Investor Presentation**
**20 May 2015**

**Questions and Answers Session**

# Agenda

# Conduit Securitisation overview

**Structure**

- RBS, Lloyds, Natixis and HSBC are the Note Purchasers
- The SPV is funded by up to £675m of Variable Funding Notes.
- Revolving period runs until January 2018 with full repayment due January 2019
- Rated Aa2 (sf) by Moody's  and AA (sf) by and DBRS

**Financing**

- £738.8m of loan assets and £21.1m of cash financed by £575m of Notes issued to Securitisation Lenders and £180.5m of subordinated loan notes / equity
- Advance rate and sub-debt position is calculated and adjusted on a weekly basis

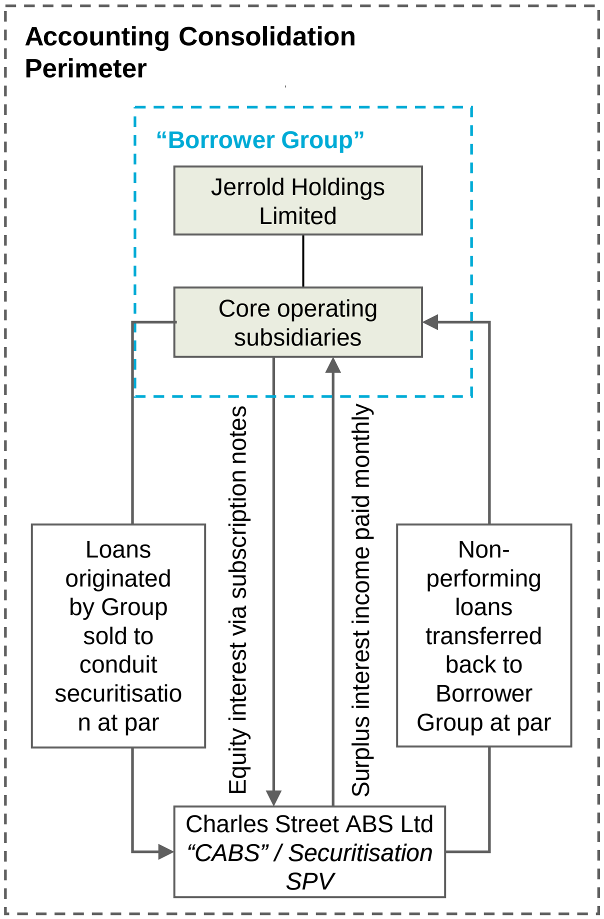
**Purchase & recycling of assets**

- Beneficial interest in qualifying loans transferred to Securitisation on a random basis in consideration for full principal balance
- The Borrower Group buys back assets that no longer meet the eligibility criteria. Primarily this is where a loan no longer meets the relevant arrears criteria (3–5 months)
- Delinquency rate (arrears > 1 month) currently 5.46%, having fallen steadily since 2010
- For the 12 months ending Mar 2015, £13.3m of loans were returned to the Borrower Group. These loans had a WA indexed LTV of 56.3%
- In the 2 years to March 2015, the Borrower Group's average annual capital losses on loans returned from the securitisation were less than £21k

**Simplified monthly income payment waterfall**

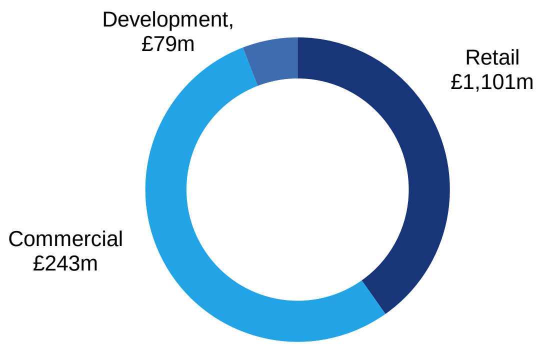
- Interest income on securitised assets less:
  - Payments due to third parties as a result of the Transaction including administrative payments and audit expenses (circa £4k per month)
  - Fees payable to the Security Trustee and Standby Servicer (circa £3k per month)
  - Interest and Fees due and payable to Note Holders (£1.5m per month)
  - **Any surplus interest income is paid back to the Borrower Group in its capacity as originators**
  - £5.5m per month = £66m in 12 months to March 2015

## Conduit Interaction with Jerrold Group

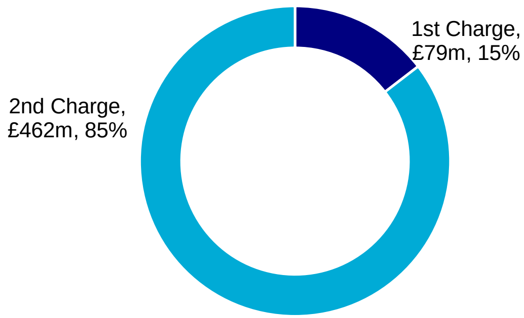


# Diversified loan book – consolidated group

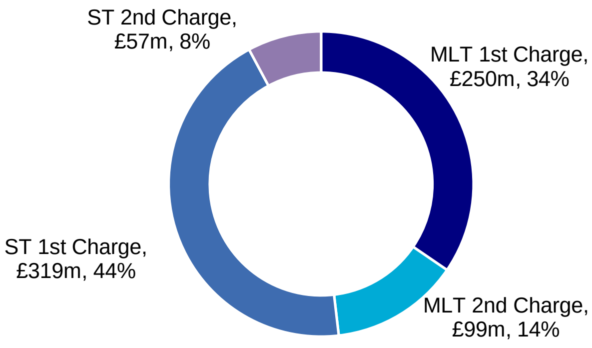
### Loan Book Breakdown by Loan Purpose




### Retail Loan Book Breakdown




### Commercial Loan Book Breakdown




### 82% secured on residential property

| Total Loan Book | Average loan size £k | WA Nominal Rate | WA Indexed LTV |
|---|---|---|---|
| Retail | 29.1 | 11.2% | 53.4% |
| Commercial | 116.4 | 12.7% | 56.7% |
| Development | 274.0 | 12.9% | 119.3% |
| **Total** | **52.0** | **12.1%** | **59.0%** |

### 100% secured on residential property

| Retail Loan Book | Average loan size £k | WA Nominal Rate | WA Indexed LTV |
|---|---|---|---|
| 1st Charge | 47.7 | 10.4% | 45.7% |
| 2nd Charge | 27.4 | 11.4% | 54.7% |

### 67% secured on residential property

| Commercial Loan Book | Average loan size £k | WA Nominal Rate | WA Indexed LTV |
|---|---|---|---|
| ST 1st Charge | 215.6 | 14.2% | 60.7% |
| ST 2nd Charge | 145.0 | 15.3% | 62.8% |
| MLT 1st Charge | 95.9 | 11.0% | 51.4% |
| MLT 2nd Charge | 55.5 | 10.8% | 53.9% |

Note:

ST = Short term.

MLT = Medium + Long term.



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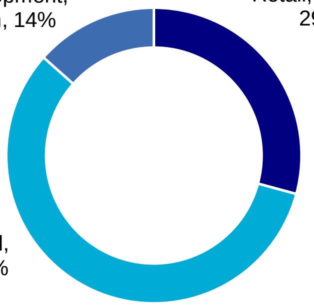
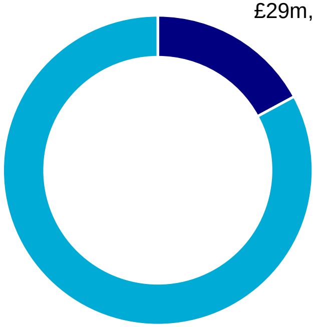
# Diversified Loan Book – Borrower Group

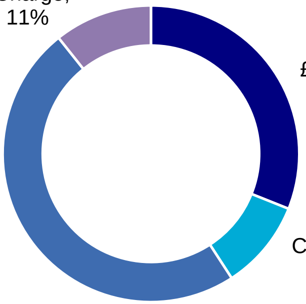
## Loan Book Breakdown by Loan Purpose




## Retail Loan Book Breakdown




## Commercial Loan Book Breakdown




## 80% secured on residential property

| Total Loan Book | Average loan size £k | WA Nominal Rate | WA Indexed LTV |
|---|---|---|---|
| Retail | 24.0 | 11.4% | 57.9% |
| Commercial | 159.2 | 12.5% | 65.3% |
| Development | 275.3 | 12.9% | 119.4% |
| **Total** | **60.2** | **12.2%** | **70.4%** |

## 100% secured on residential property

| Retail Loan Book | Average loan size £k | WA Nominal Rate | WA Indexed LTV |
|---|---|---|---|
| 1st Charge | 47.9 | 10.1% | 53.8% |
| 2nd Charge | 21.8 | 11.7% | 58.8% |

## 65% secured on residential property

| Commercial Loan Book | Average loan size £k | WA Nominal Rate | WA Indexed LTV |
|---|---|---|---|
| ST 1st Charge | 301.6 | 13.6% | 68.7% |
| ST 2nd Charge | 146.8 | 14.9% | 67.8% |
| MLT 1st Charge | 130.6 | 10.4% | 61.8% |
| MLT 2nd Charge | 58.8 | 10.8% | 57.0% |

Note:

ST = Short term.

MLT = Medium + Long term.