SME/Bank response dated [redacted] (Cont'd)

Please find attached summary by way of appendix which shows;

1) Reconciliation to redress and compensation values as per the Bank's Redress letter dated [redacted]
2) Comparison between the redress methodology utilised by the Bank and an alternative method and the comparative difference between the two.

Explanation of summary table included at Appendix

Introduction
In the Customers appeal the Customers claimed that they have not been restored to the capital balance they would have been on, had the tracker issue not arisen. The attached workings show both the Bank's Methodology and an alternative methodology to calculating redress.

Reason why the Capital Balance did not reduce during the impacted period to the level it would have been at had the issue not arisen

The allocation of mortgage repayments between interest and capital varies on all mortgage accounts according to the interest rate charged, the maturity of the mortgage and the term of the loan. In the early years of a mortgage the majority of the mortgage repayments will be applied against interest rather than capital however as the mortgage starts to mature, the proportion of the repayments allocated against capital will increase. The higher the interest rate on the mortgage, the greater the proportion of each mortgage repayment that is applied to interest as against capital throughout the life of the mortgage v's the proportions that would be applied against interest on a lower interest rate. This is why the capital balance did not reduce during the impacted period to what it should have been had the issue not arisen.

Full Restatement of Mortgage Account (Alternative Methodology)
In the full restatement of the Customers mortgage account as if the issue had not arisen (**Alternative Methodology**), the Customers would have been refunded the difference between the total correct mortgage repayments and the incorrect actual mortgage repayments in addition to the correct capital balance being restored on the mortgage account. Fair Value Interest to reflect the time value of money (**FVI**) and compensation would also have been added to the refund but these would be lower than those under the Bank's Methodology as the capital balance would have been restored directly by the Bank.

Bank Methodology
Under the Bank's Methodology, the Customers were refunded the total interest overpayments[1] in addition to FVI and compensation but the capital balance was not restored directly by the Bank to the level it would have been at had the issue not arisen. However the Bank has addressed the capital balance issue as described below.

How the Bank addressed the Customer(s) Capital Balance shortfall
Under the Bank's Methodology the capital balance shortfall is compensated through the calculation of interest overpayments (which is higher than the difference between correct and incorrect mortgage repayments), higher FVI and higher compensation than that which would have been provided under the Alternative Methodology.

Customers Discretion
Under the Bank's Methodology, Customers have the choice to apply part of the redress and compensation to the capital balance to bring it down to the level it would have been at had the issue not arisen.

Interest reconciliations
The attached workings also explain and reconcile interest charged, accrued interest and interest charged which relates to period prior to the **impact** period, in respect of the redress offered and capital balances.

Summary
Under the Bank's Methodology, the Bank is satisfied that the Customers are better off than if the Alternative Methodology had been applied alternative [redacted], a difference of [redacted]

[1] The interest overpayments are calculated by taking the actual balance which existed on the Customers mortgage account each day throughout the impacted period and applying the daily interest rate differential (being the difference between the incorrect interest rate charged on each day and the interest rate that should have been charged on each impacted day) to the daily balance to determine the daily amount overcharged.