



# Agenda

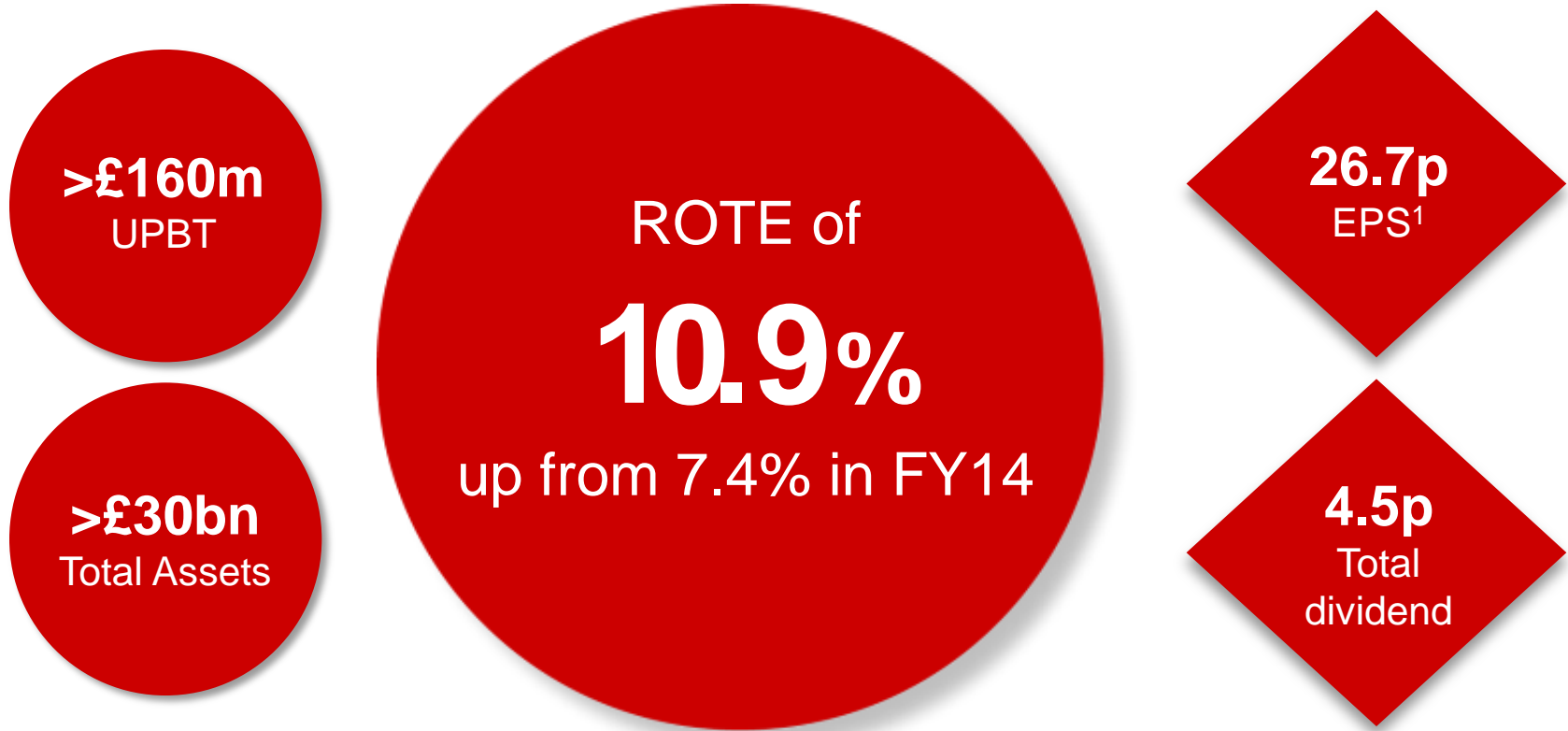
FY15 Progress  
Jayne-Anne Gadhia, Chief Executive

Financial Results  
Dave Dyer, Chief Financial Officer

Looking Forward  
Jayne-Anne Gadhia, Chief Executive

# A low risk, mainstream, retail focused bank

Demonstrating progress towards mid-teens returns



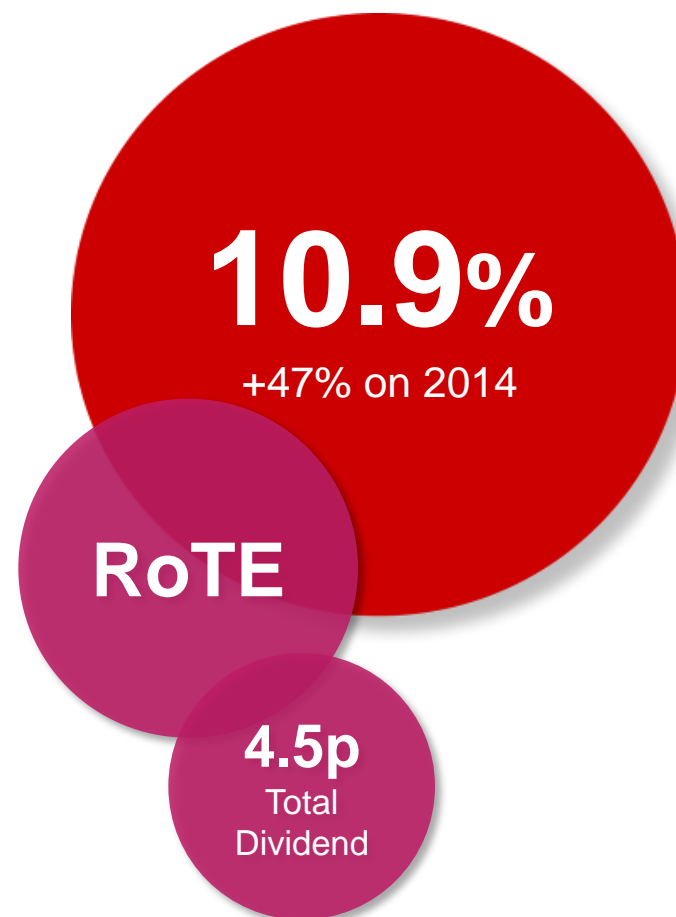
Source: Company information or all data

Note: (1) Underlying EPS

# Continued delivery on our investment case


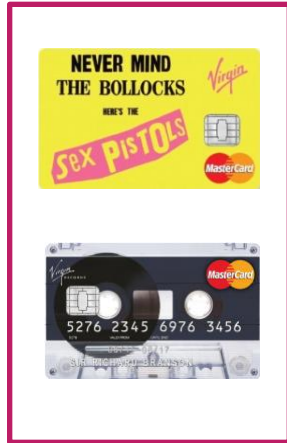
On track to deliver mid teens RoTE in 2017

	FY15	
Gross Mortgage Lending	£7.5bn	+29.0%
<i>Share of Gross Lending</i>	3.4%	+0.6pp
<i>Share of Net Lending</i>	10.6%	+0.8pp
Cards Balances	£1.6bn	+44%
<i>Share of card market</i>	2.5%	+0.7pp
Retail Deposit Balances	£25.1bn	+12.0%
NIM	165bps	+15bps
Cost of Risk	12bps	+5bps
CET1 Ratio	17.5%	(1.5)p
Cost: Income Ratio	63.6%	(8.9)pp
Underlying PBT	£160.3m	+53.0%







# Considerable progress across all business lines

## Mortgages & Cards

	FY15	2016	
<p><b>Mortgages</b></p> <p><b>Strong growth with effective spread management</b></p>	<ul style="list-style-type: none"> <li>• FY15 front book spreads of 186bps</li> <li>• Average front book LTV of 68%</li> <li>• Gross lending share of 3.43%</li> <li>• Growth in balances of 16%</li> <li>• Net lending share of 10.6%</li> <li>• Net lending of £3.65bn</li> <li>• BTL share of stock of 17%</li> </ul>	<ul style="list-style-type: none"> <li>• Jan market highest since 2008</li> <li>• Application volumes strong</li> <li>• CML expects market of £237bn</li> </ul>	
<p><b>Cards</b></p> <p><b>First concurrent card platform build and migration</b></p>	<ul style="list-style-type: none"> <li>• Balances of £1.6bn</li> <li>• New business EIR of 7%</li> <li>• Market share of 2.5%</li> <li>• &gt;185k new customers in 2015</li> </ul>	<ul style="list-style-type: none"> <li>• Strong start to year</li> <li>• &gt;500k applications since launch</li> </ul> <p><b>Target update</b> £3bn cards book by end <b>2017</b></p>	

# Considerable progress across all business lines

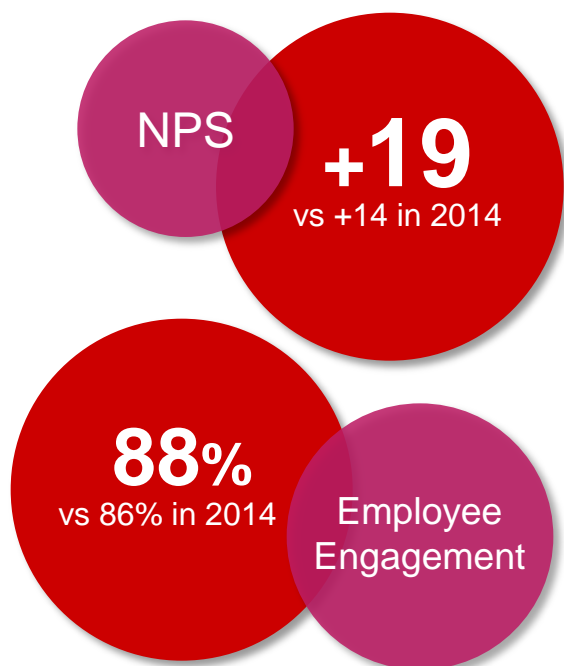
Savings and Current Accounts, Insurance & Investments

	FY15	2016	
<p><b>Savings</b></p> <p>Continued success gathering balances at scale</p>	<ul style="list-style-type: none"> <li>• Number of successful re-prices: 2</li> <li>• Cash ISA net inflow share of 20.1%</li> <li>• Record balances of £25.1bn</li> <li>• Retail deposit balances up 12%</li> <li>• Customer retention:85%</li> </ul>	<ul style="list-style-type: none"> <li>• Strong deposit gathering start</li> <li>• Further re-price imminent</li> </ul>	 <p>Best Cash ISA provider</p>  <p>Best Cash ISA</p>
	FY15	2016	
<p><b>CII</b></p> <p>Foundations for future growth largely in place</p>	<ul style="list-style-type: none"> <li>• Attracted &gt;370k insurance policies</li> <li>• 3 new investment funds</li> <li>• New insurance partnerships</li> <li>• ECA roll out complete</li> <li>• Current Account exceeded plan</li> <li>• Total Income +12%</li> </ul>	<ul style="list-style-type: none"> <li>• Current account momentum</li> <li>• Public launch of Smartr Account</li> </ul>	 

# Low risk, customer focused, model and culture

Continued high quality and prudent risk appetite

## Customer focused culture

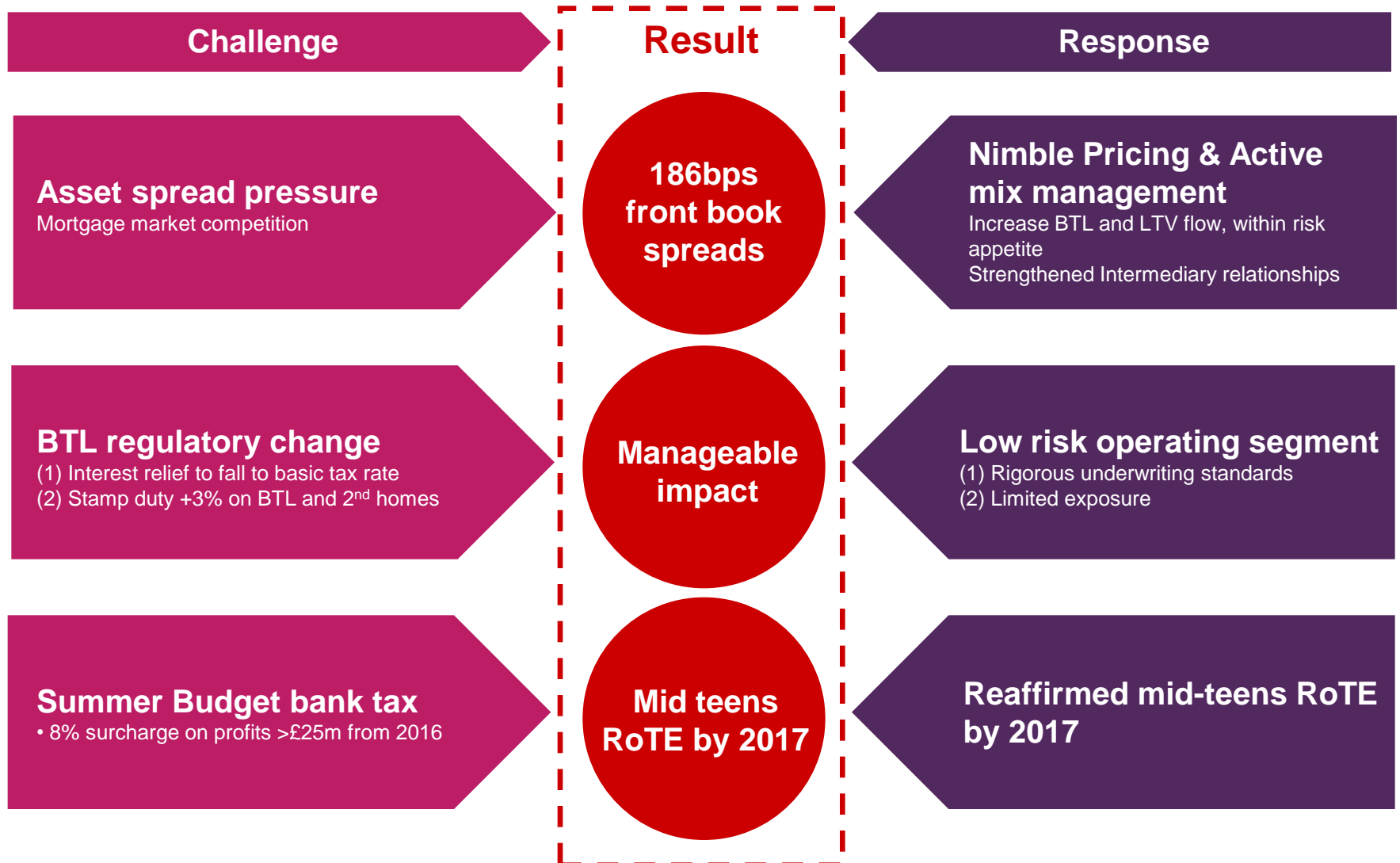


## Financial Strength

	FY15	
Average LTV	55.0%	(0.7)pp
Cost of risk	12bps	+5bps
CET1 Ratio	17.5%	(1.5)pp
Leverage	4.0%	(0.1)pp

# The year held some challenges

Macro economic and regulatory headwinds





# Agenda

FY15 Progress  
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# Group Summary – Balance Sheet

Continued strong growth

£bn	2015	2014	Change
Mortgages	25.5	21.9	16%
Cards	1.6	1.1	44%
Deposits	25.1	22.4	12%
Wholesale	3.3	2.4	37%
Loan:Deposit Ratio	107.5%	102.8%	+4.7pp
CET1 ratio	17.5%	19.0%	(1.5)pp
Leverage ratio	4.0%	4.1%	(0.1)pp
TNAV per share (£)	2.54	2.36	8%

▶ **£7.5bn gross lending** (3.4% market share)

▶ **Nearly £0.5bn growth** in just over 6 months

▶ **Growth above market** (12% vs 7%)

▶ **Cost efficient development of funding**

▶ **Increased maximum to 115% over time**

▶ **Supportive of further growth**

# Group Summary – Profit & Loss

UPBT and returns improving towards mid term targets

£m	2015	2014	Change
Net Interest Income	456.1	366.1	25%
Other Income	67.0	72.1	(7)%
<b>Total Underlying Income</b>	<b>523.1</b>	<b>438.2</b>	<b>19%</b>
Costs <sup>1</sup>	(332.5)	(317.6)	5%
Impairment Losses	(30.3)	(15.8)	92%
<b>Underlying PBT<sup>1</sup></b>	<b>160.3</b>	<b>104.8</b>	<b>53%</b>
Net Interest Margin	1.65%	1.50%	15bps
Cost:Income Ratio <sup>1</sup>	63.6%	72.5%	(8.9)pts
Cost of Risk <sup>2</sup>	0.12%	0.07%	5bps
RoTE	10.9%	7.4%	3.5ppts

► Achieved through **improved NIM and balance growth**

► **Positive JAWS** generated by income growth and strong cost control

► Impairments increasing as expected with cards growth

► **Cards balance growth and cost of funds improvement** broadly offsetting mortgage spread compression

► **Strong RoTE progression** through income growth and operational leverage

Source: Company for all data

Notes: (1) Costs and UPBT now include FSCS as underlying, whereas in previous statements it was treated as exceptional. C:I ratio excluding FSCS would be 61.2% (68.7% 2014) (2) Net of debt sale recoveries

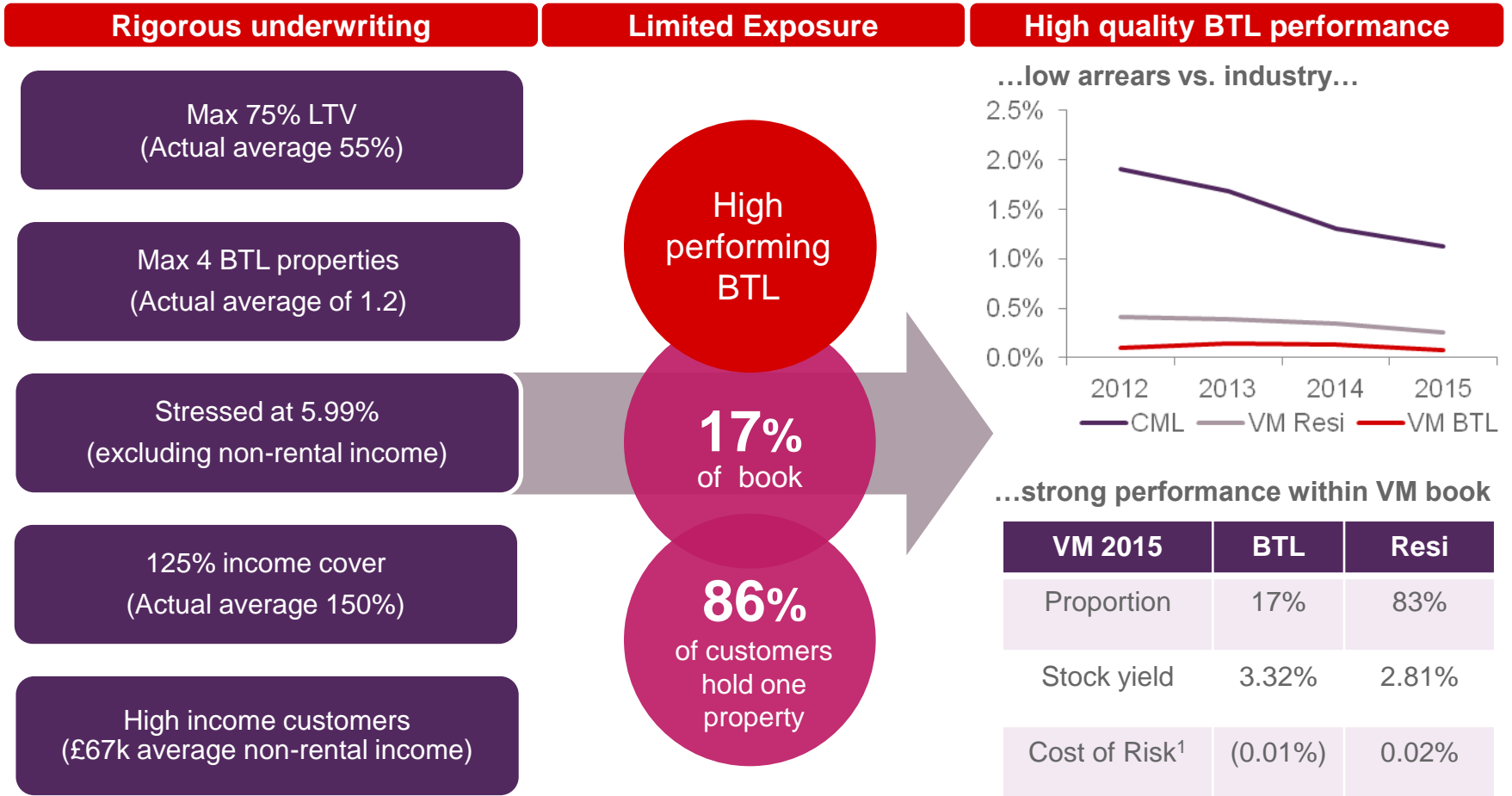
# Statutory Profit & Tax

Significant reduction in exceptional line items

(£m)	2015	2014	Change	
<b>Underlying Profit</b>	<b>160.3</b>	<b>104.8</b>	<b>53%</b>	▶ Substantial UPBT growth
Additional Northern Rock Consideration	-	(36.0)	(100)%	
Costs associated with IPO	(10.5)	(28.4)	(63)%	▶ Share Based Payments
Strategic items and compensation for senior leavers	(11.8)	(6.4)	84%	▶ Primarily cards and digital investments
<b>Statutory PBT</b>	<b>138.0</b>	<b>34.0</b>	<b>306%</b>	
Taxation	(26.8)	(25.3)	6%	▶ Effective tax rate was 19.4%.
<b>Statutory PAT</b>	<b>111.2</b>	<b>8.7</b>	<b>1178%</b>	

# Buy to Let

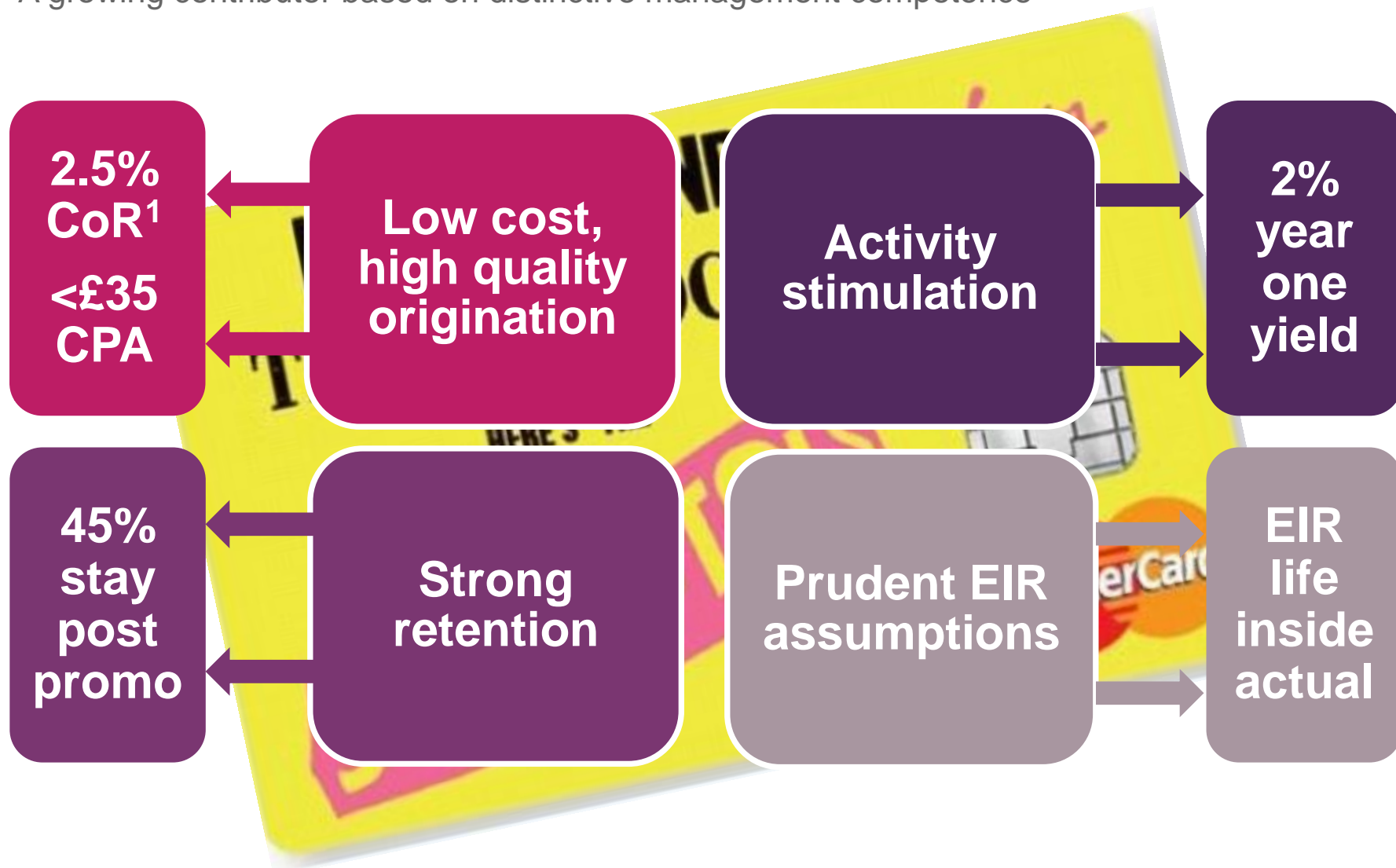
BTL lending remains high quality and a manageable proportion of the book



Source: Company information for all internal data, CML represents arrears data for market  
 Note: (1) Writeback of £0.2m in 2015 results in negative CoR

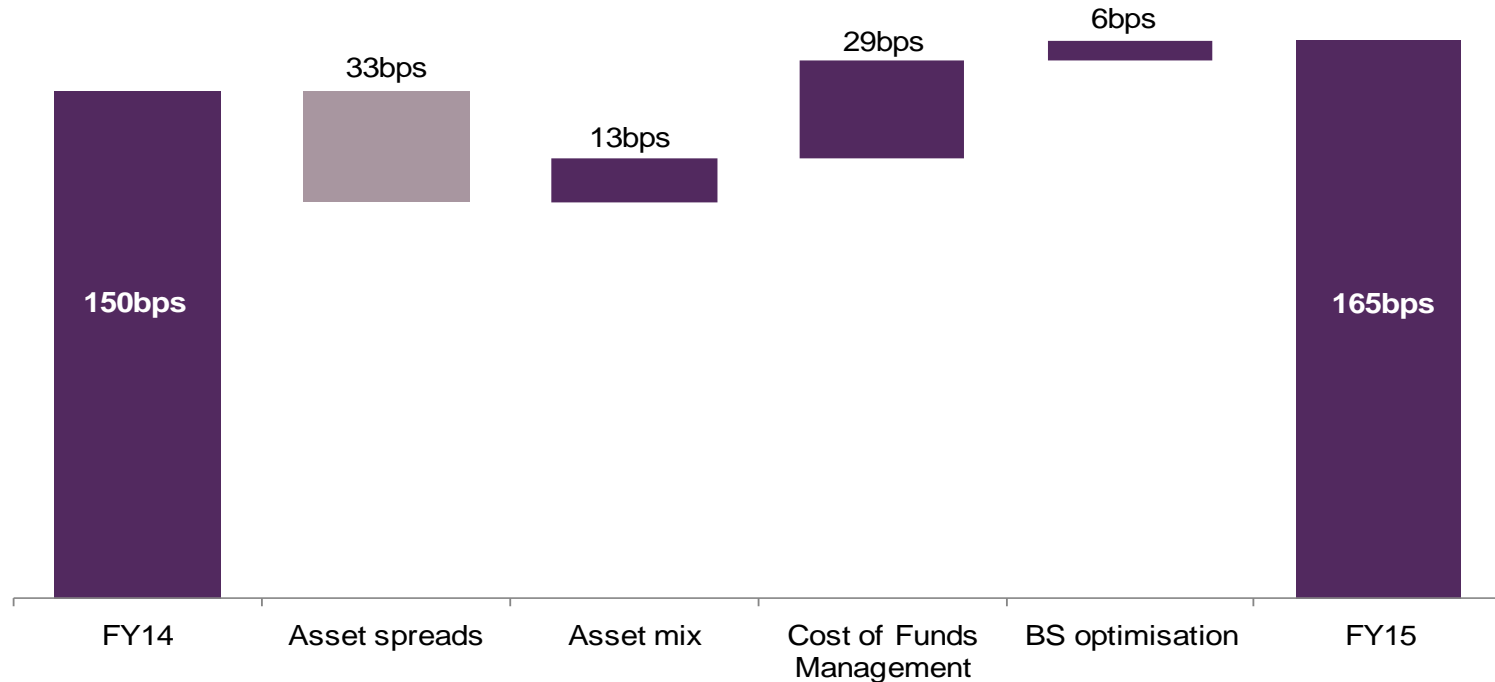
# Credit cards profitability

A growing contributor based on distinctive management competence



# Net Interest Margin evolution

Ahead of expectations, despite the impact of asset spread pressure

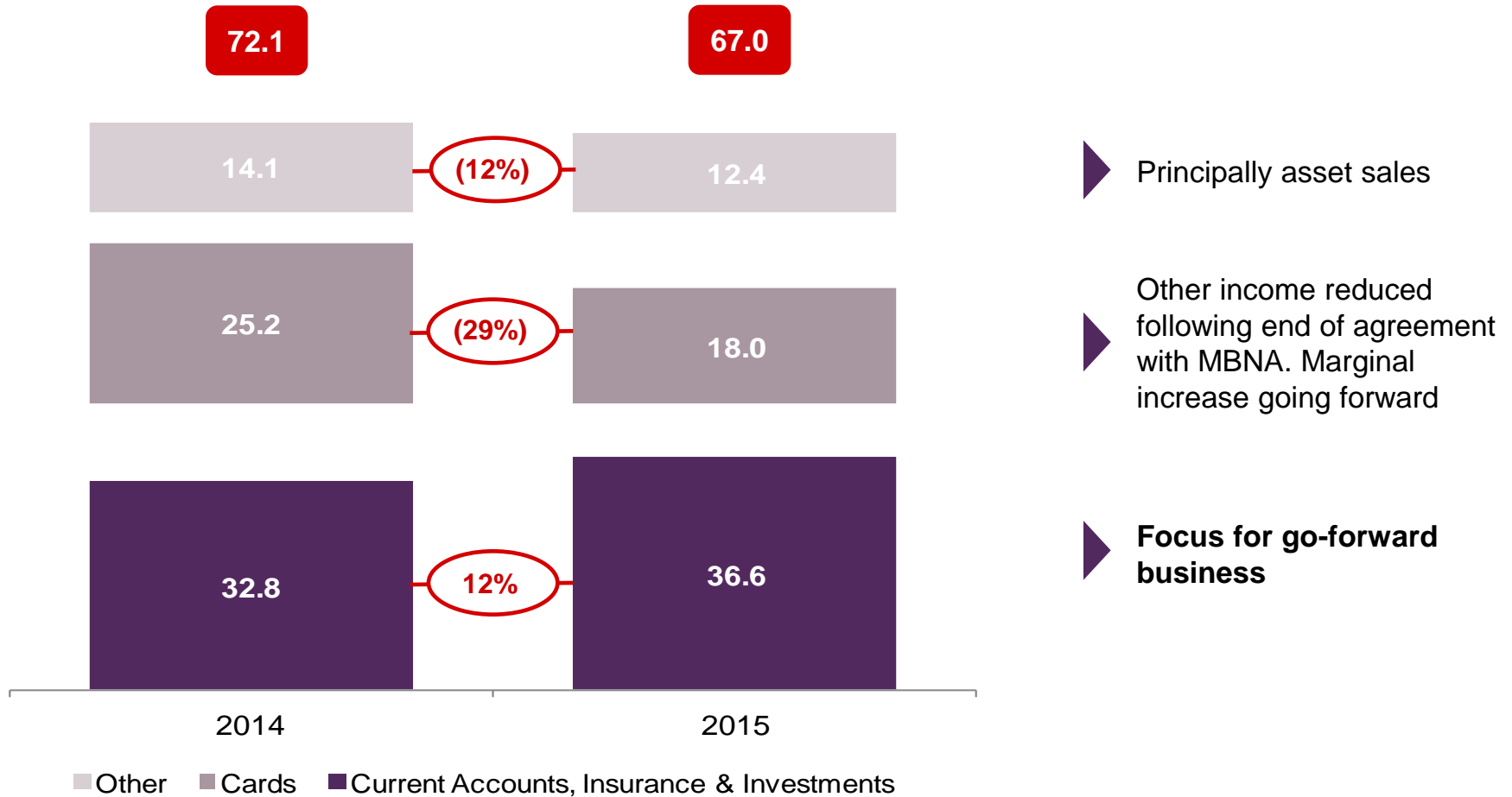


- ▶ Mortgage pricing pressure but stabilisation toward the end of the year
- ▶ Cards growth exceeding expectations
- ▶ Deposit re-pricing and better than expected retention
- ▶ Tightening of liquidity and wholesale management
- ▶ Future plans assume no base rate rises in 2016 and 2017

# Other Operating Income

Foundations in place to support future growth

Total Other Operating Income (£m)





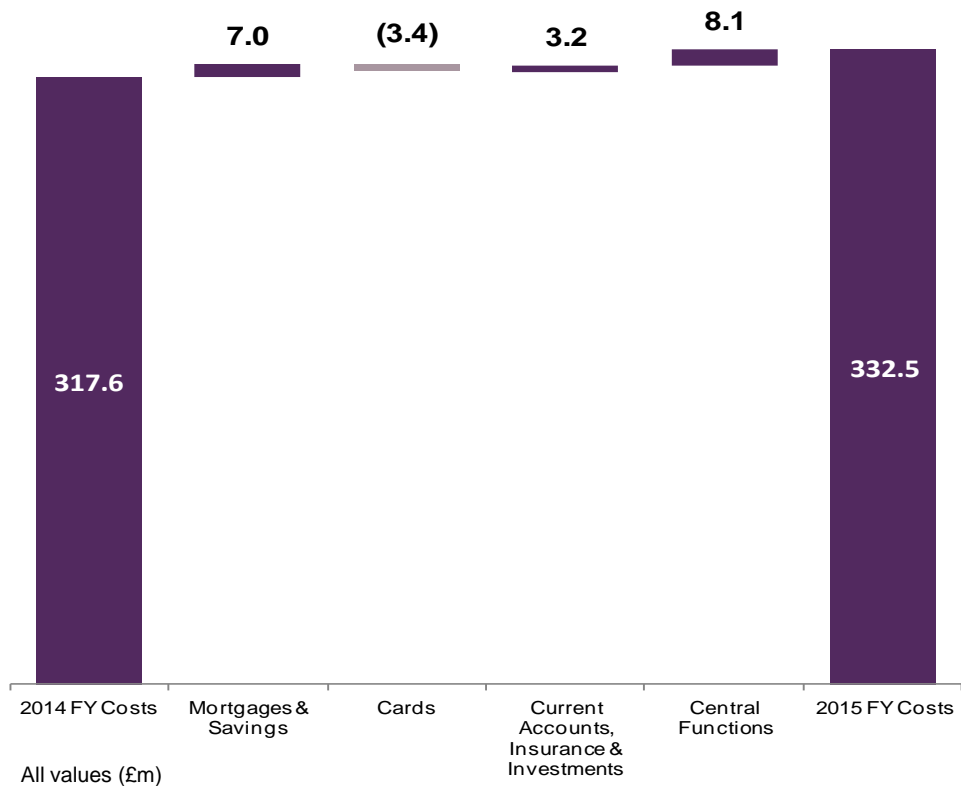
# Costs walkthrough

Continued progress towards C:I target of 50% by 2017, now including FSCS charge

## Cost:Income Ratio



▶ Delivered through **income growth** of 19% **exceeding cost growth** of 5%



▶ Mortgages & Savings growth a result of **volume increases** and **investments in improved processes**

▶ Cards costs now **c.30% lower** than under MBNA partnership

▶ **CII capability build out** and partner costs increased

▶ Central Functions growth as **investment programme continues**

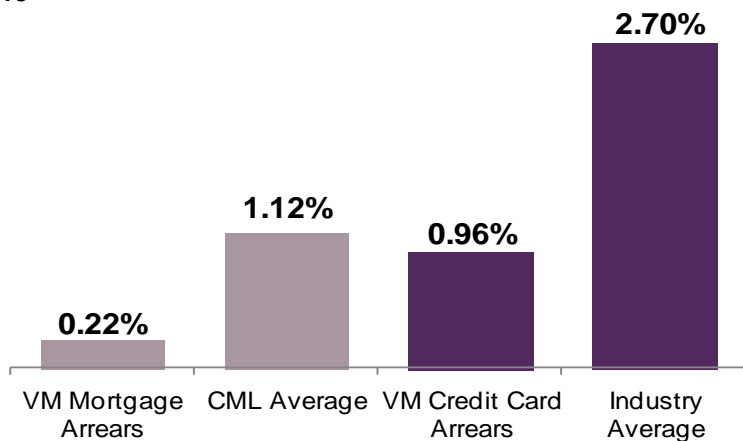
Source: Company information for all data  
 Notes: (1) 2014 costs restated to include FSCS, ensuring comparison to 2015 basis is like for like

# Asset Quality

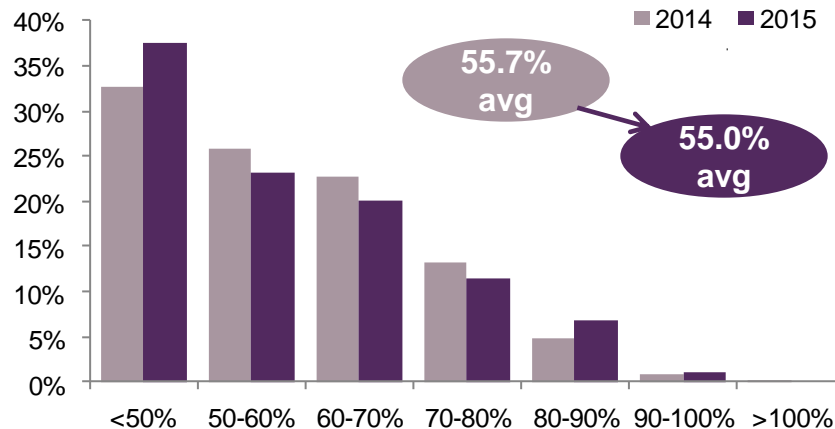
Superior risk management

## Mortgage & Card arrears versus market<sup>1</sup>

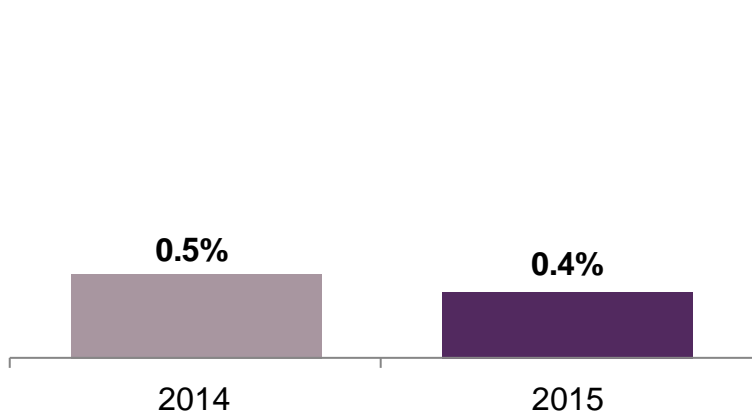
2015



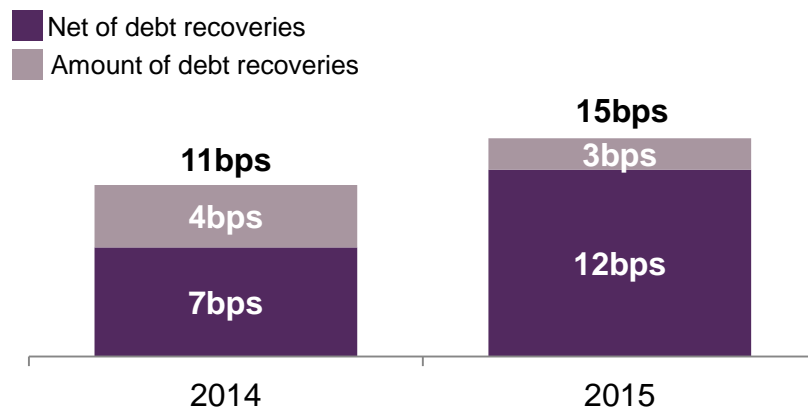
## Mortgage Book LTV Distribution



## Impaired Loans (% of Total)



## Cost of Risk - Group

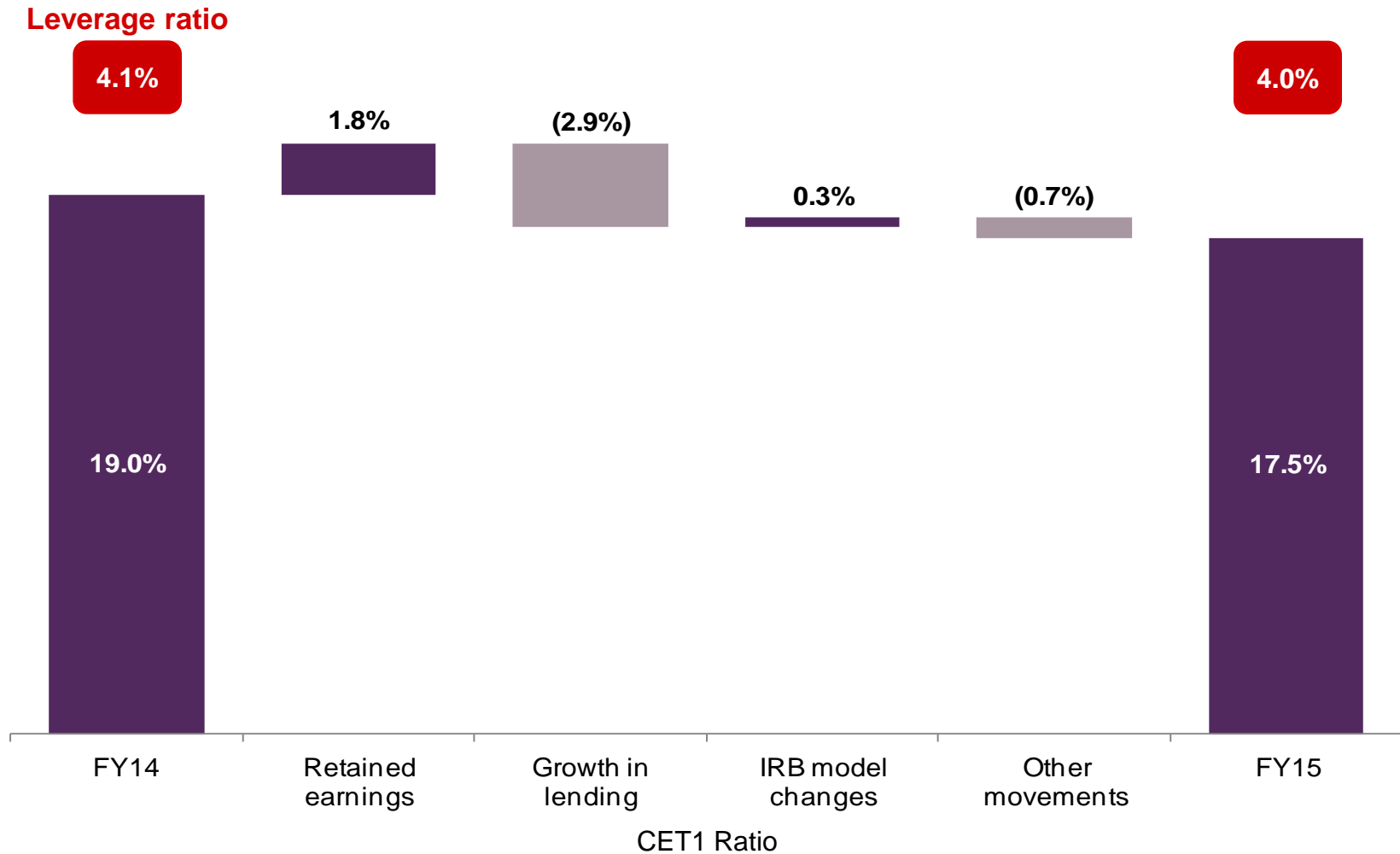


Source: Company information for all data. Council of Mortgage Lenders and Argus for market data

Notes: (1) VM Mortgage arrears and market comparator is 3 month plus in arrears, VM Credit Card arrears and market comparator is 2 plus cycles in arrears











# Balance Sheet Strength – Capital

Increased capital efficiency



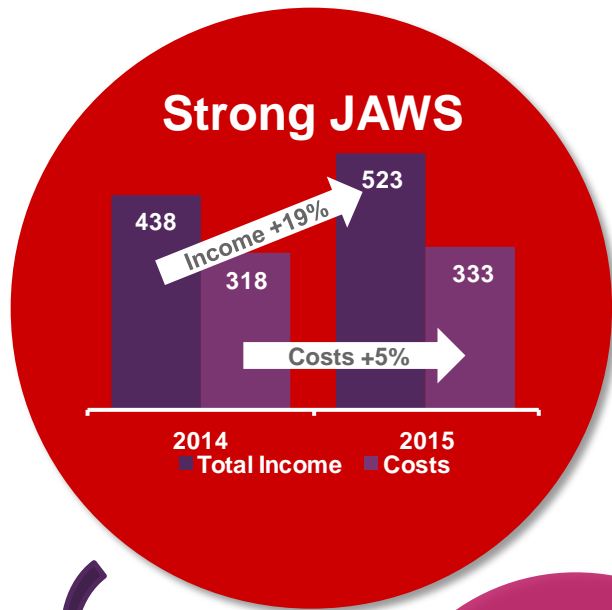
# Doing what we said we would do

Organic plan on path to meet medium term returns targets

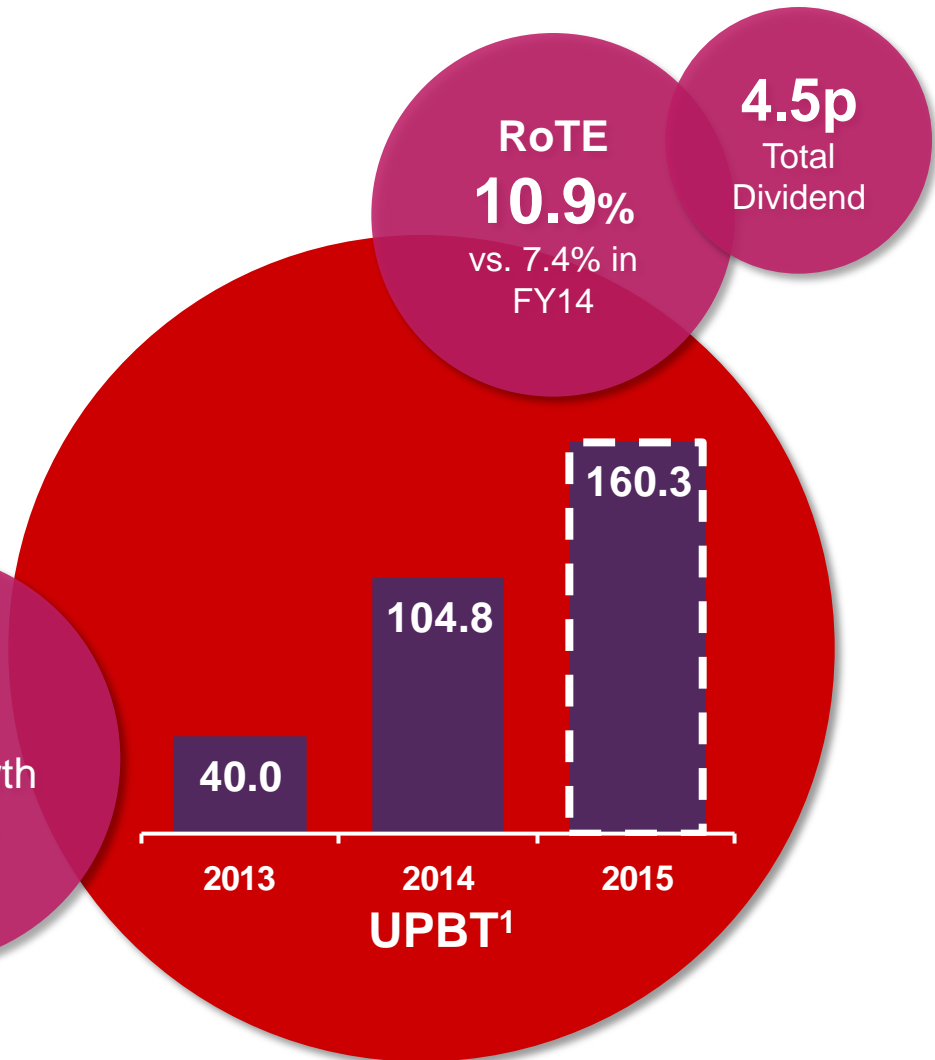
Measures	FY15 progress
Mortgages	3.4% share 
Credit Cards	c.£1.6bn in balances 
Deposits	12% growth 
L:D ratio	107.5% 
NIM	165bps 
C:I Ratio	61.2% (ex-FSCS) 63.6% (inc-FSCS) 
Cost of risk	12bps 
CET1 ratio	17.5% 
Leverage ratio	4.0% 
RoTE	10.9% 

# Delivering increasing returns supporting the dividend

Through continued growth and disciplined cost management



**+53%**  
UPBT growth  
vs. FY14



# Agenda

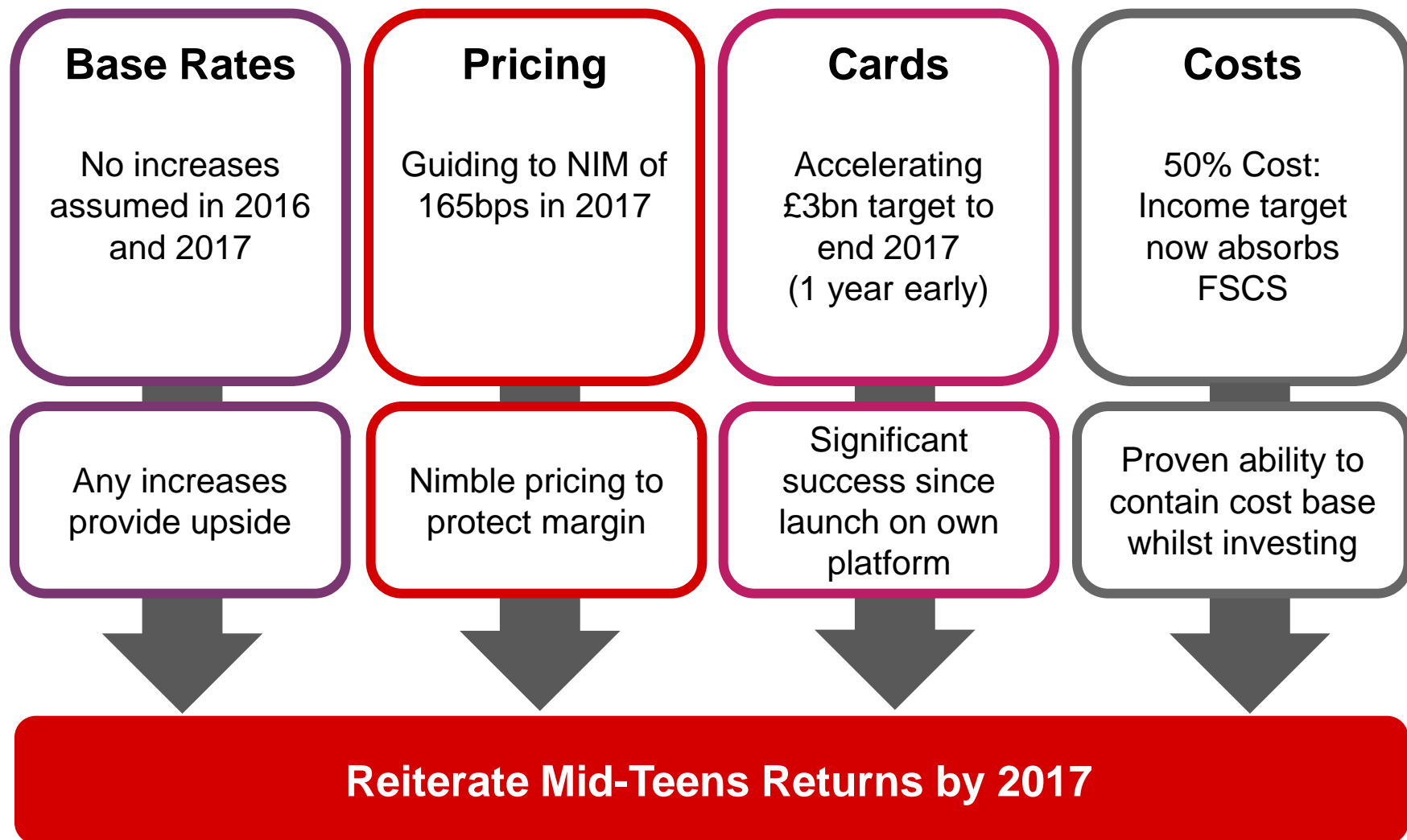
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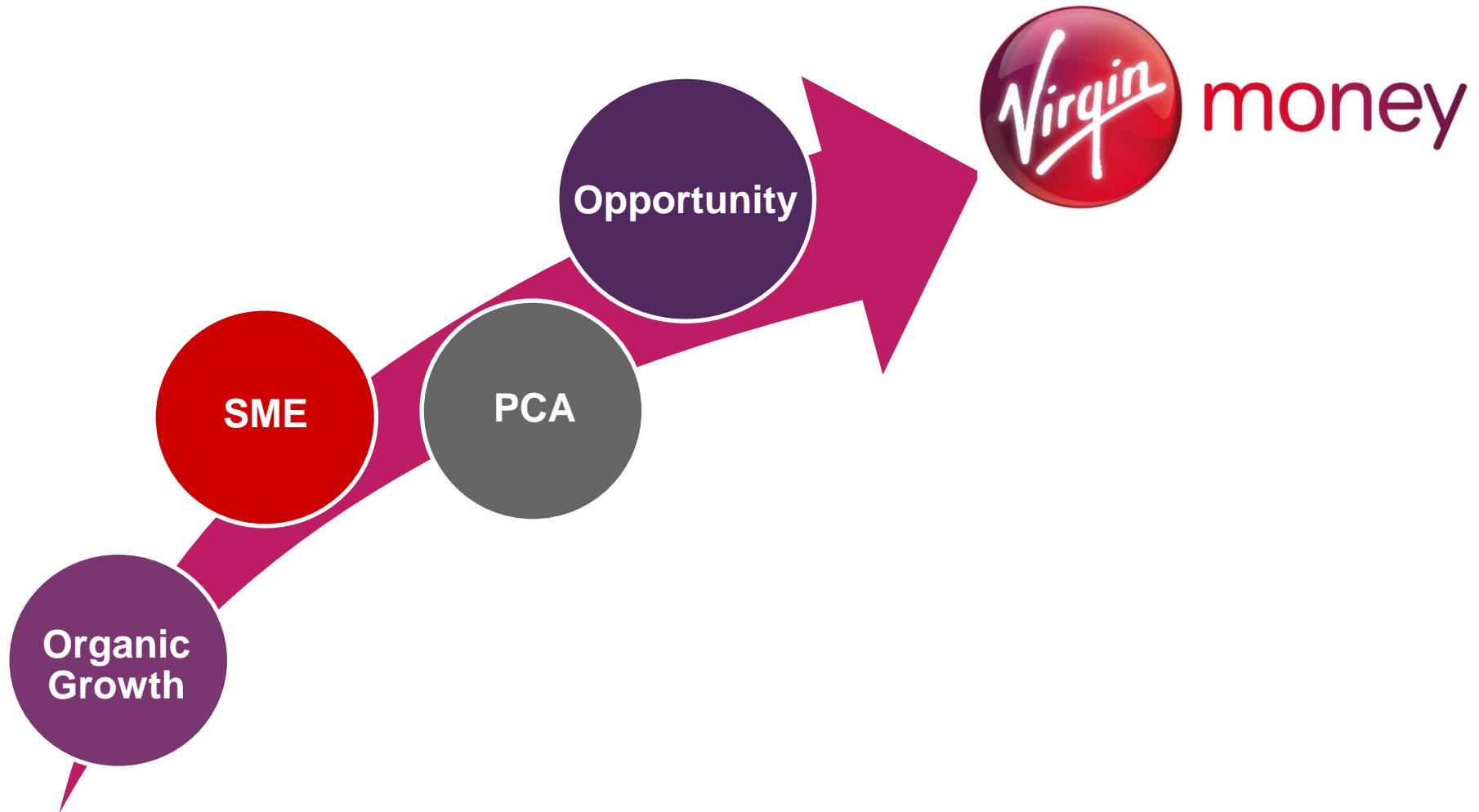
# Well positioned to deliver medium term targets

4 Pillars providing confidence over 2017 position



# Well placed to take advantage of future opportunities

A differentiated profile to specialist lenders and effective competition to incumbents





# Q&A



# Appendix

# Business Unit Underlying Financial Performance

	Mortgages & Savings		Credit Cards		Current Accounts, Investments & Insurance		Central Functions		Group	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Net Interest Income	358.5	291.0	97.6	75.1	-	-	-	-	456.1	366.1
Other Income	2.5	3.1	18.0	25.2	36.6	32.8	9.9	11.0	67.0	72.1
<b>Total Underlying Income</b>	<b>361.0</b>	<b>294.1</b>	<b>115.6</b>	<b>100.3</b>	<b>36.6</b>	<b>32.8</b>	<b>9.9</b>	<b>11.0</b>	<b>523.1</b>	<b>438.2</b>
Total Costs	(92.7)	(85.7)	(37.1)	(40.5)	(16.7)	(13.5)	(186.0)	(177.9)	(332.5)	(317.6)
Impairments	(3.0)	(1.2)	(27.3)	(14.6)	-	-	-	-	(30.3)	(15.8)
<b>Underlying profit/loss</b>	<b>265.3</b>	<b>207.2</b>	<b>51.2</b>	<b>45.2</b>	<b>19.9</b>	<b>19.3</b>	<b>(176.1)</b>	<b>(166.9)</b>	<b>160.3</b>	<b>104.8</b>
<b>NIM</b>	<b>1.52%</b>	<b>1.42%</b>	<b>8.22%</b>	<b>9.60%</b>	-	-	-	-	<b>1.65%</b>	<b>1.50%</b>

# Statutory P&L

(£m)	2015	2014	Change
Interest and similar income	839.3	771.6	9%
Interest and similar expense	(384.5)	(404.3)	(5%)
<b>Net interest income</b>	<b>454.8</b>	<b>367.3</b>	<b>24%</b>
Fee and commission income	27.4	35.1	(22%)
Fee and commission expense	(1.2)	(1.1)	9%
Net fee and commission income	26.2	34.0	(23%)
Fair value gains/(losses) on financial instruments	(0.4)	0.1	(500%)
Other operating income	41.3	36.9	12%
<b>Other income</b>	<b>67.1</b>	<b>71.0</b>	<b>(5%)</b>
<b>Total income</b>	<b>521.9</b>	<b>438.3</b>	<b>19%</b>
Other operating expenses	(353.6)	(338.9)	4%
Fees associated with listing	-	(12.6)	(100%)
<b>Total operating expenses</b>	<b>(353.6)</b>	<b>(351.5)</b>	<b>1%</b>
<b>Profit before tax from operating activities</b>	<b>168.3</b>	<b>86.8</b>	<b>94%</b>
Impairment	(30.3)	(15.8)	92%
Gain on sale of subsidiary	-	4.5	(100%)
Additional Northern Rock consideration	-	(36.0)	(100%)
Premium on repurchase of Non-core Tier 1 notes in issue	-	(4.5)	(100%)
Loss for the period of disposal group	-	(1.0)	(100%)
<b>Profit before tax</b>	<b>138.0</b>	<b>34.0</b>	<b>306%</b>
Taxation	(26.8)	(25.3)	6%
<b>Profit for the year</b>	<b>111.2</b>	<b>8.7</b>	<b>1178%</b>

# Statutory Balance Sheet

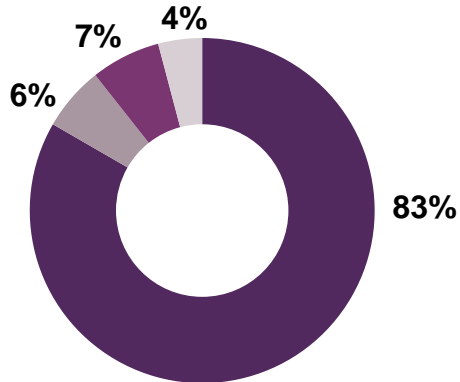
(£m)	2015	2014	Change
<b>Assets</b>			
Cash and balances at central banks	888.6	851.3	4%
Derivative financial instruments	82.3	101.2	(19%)
Loans and receivables:			
- Loans and advances to banks	614.5	720.5	(15%)
- Loans and advances to customers	27,109.0	23,093.1	17%
- Debt securities	1.1	8.6	(87%)
	27,724.6	23,822.2	16%
Available-for-sale financial assets	1,296.9	1,539.6	(16%)
Intangible assets	64.4	46.1	40%
Tangible fixed assets	74.6	72.9	2%
Deferred tax assets	38.0	50.2	(24%)
Other assets	59.6	53.3	12%
<b>Total assets</b>	<b>30,229.0</b>	<b>26,536.8</b>	<b>14%</b>
<b>Liabilities</b>			
Deposits from banks	1,298.7	846.7	53%
Customer deposits	25,144.9	22,365.7	12%
Derivative financial instruments	156.0	228.2	(32%)
Debt securities in issue	2,039.4	1,594.1	28%
Provisions	8.4	9.3	10%
Other liabilities	241.3	249.0	(3%)
<b>Total liabilities</b>	<b>28,888.7</b>	<b>25,293.0</b>	<b>14%</b>
<b>Equity</b>			
Share capital and share premium	654.6	654.6	-
Other equity instruments	156.5	156.5	-
Other reserves	(15.6)	(1.8)	767%
Retained earnings	544.8	434.5	25%
<b>Total equity</b>	<b>1,340.3</b>	<b>1,243.8</b>	<b>8%</b>
<b>Total liabilities and equity</b>	<b>30,229.0</b>	<b>26,536.8</b>	<b>14%</b>
<b>Loan: Deposit Ratio</b>	<b>107.5%</b>	<b>102.8%</b>	<b>4.7pp</b>

Source: Company information for all data

# Balance Sheet Strength

## Total Funding (%)

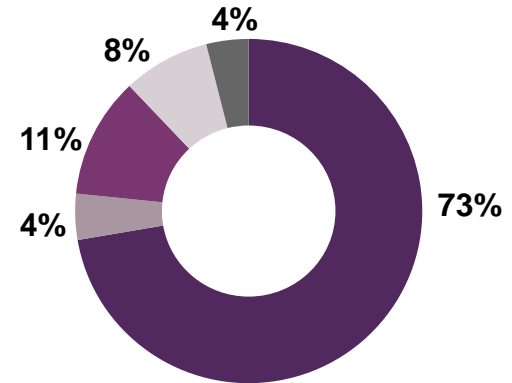
2015



- Customer Accounts
- Debt securities in issue
- Total Equity
- Term repo

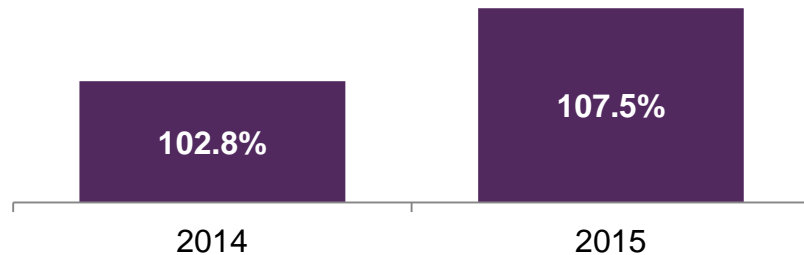
## Liquidity Portfolio by Type (%)

2015



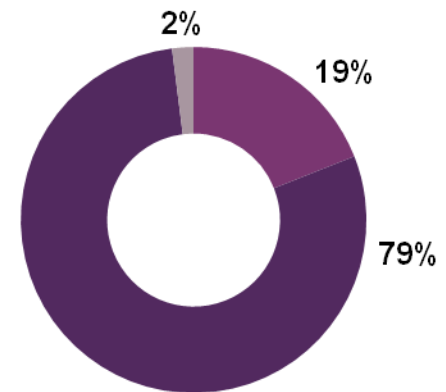
- UK Govt
- Supra
- Covered Bonds
- RMBS
- Other

## Loan to Deposit Ratio (%)



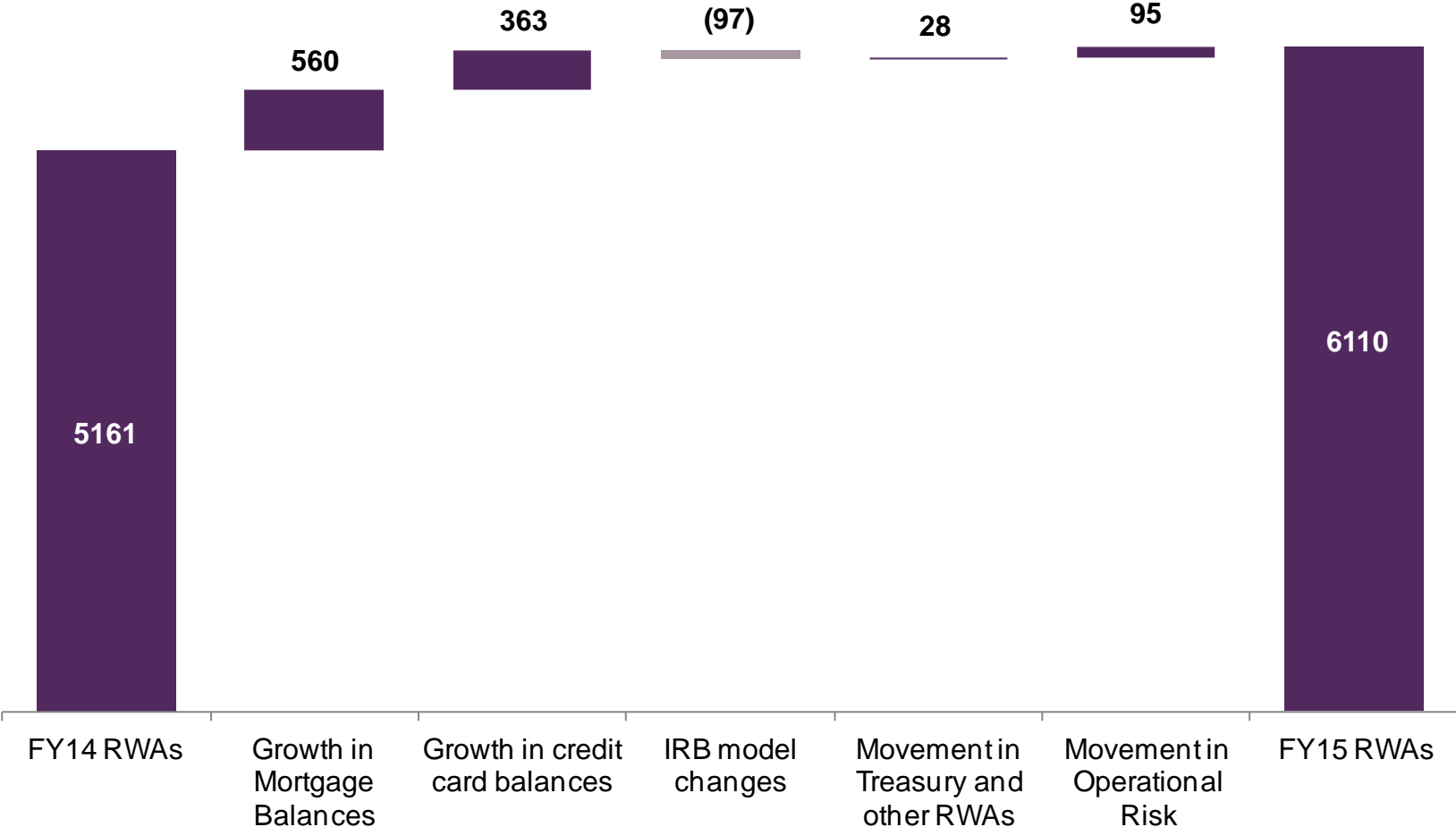
## Liquidity Portfolio by Rating (%)

2015



- AAA
- AA+
- A to AA-

# Balance Sheet Strength – Risk-Weighted Assets



Source: Company information for all data

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