

2014 Results Investor Presentation



Agenda

2014 Progress

Jayne-Anne Gadhia, Chief Executive

Financial Results

Lee Rochford, Chief Financial Officer

Looking Forward

Jayne-Anne Gadhia, Chief Executive

Our 2014 results are ahead of our key targets

2014

Underlying PBT



Mortgage growth



Cards progress



Deposit price and volume



NIM



Capital ratios



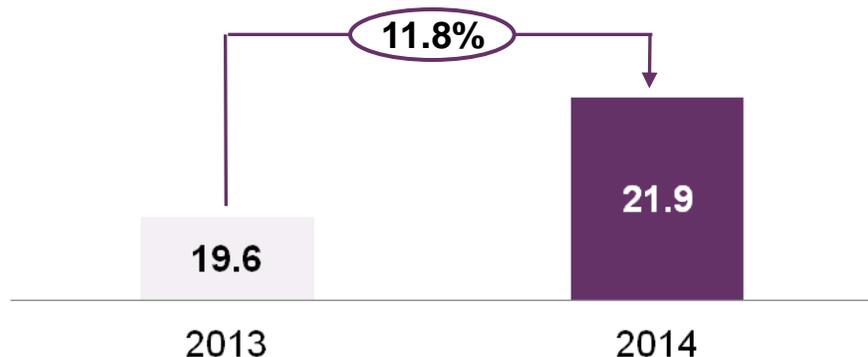
Resulting in an
underlying ROTE¹ of

7.4%

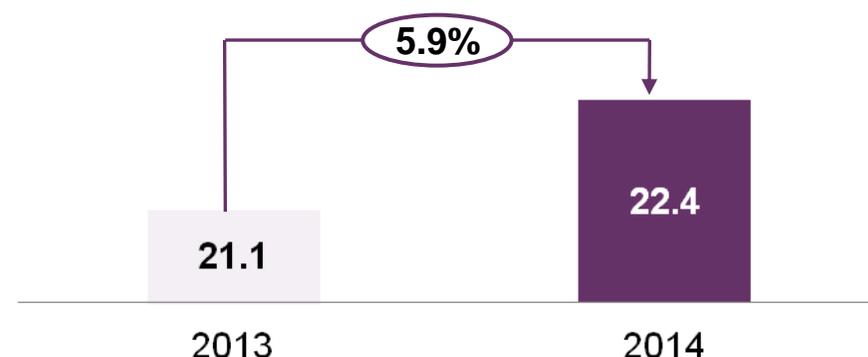
up from 2.3% in 2013
despite £150 million
new CET1

Growth

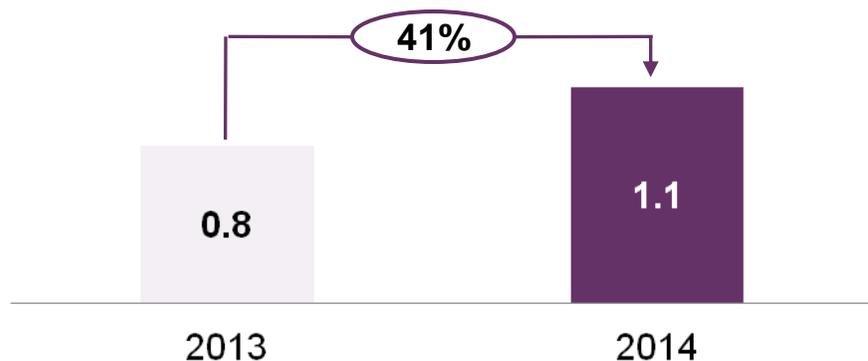
Mortgages (£bn)



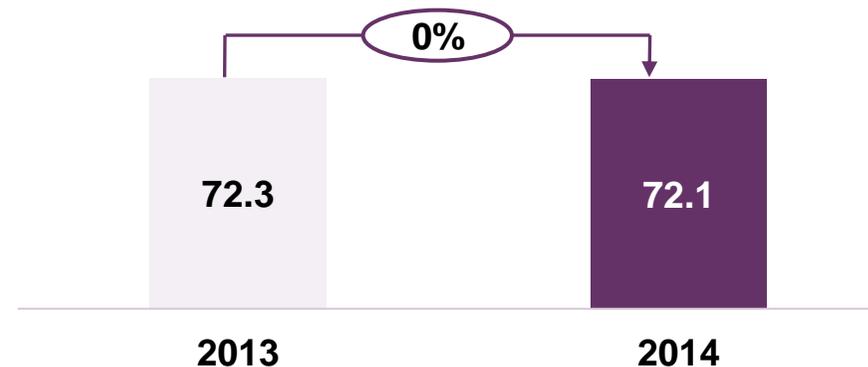
Deposits (£bn)



Cards (£bn)



Non-Interest Income (£m)



- 10.2% share of mortgages net lending in the year
- 3.15% of mortgage gross market share in H2 2014 and 2nd largest net lender

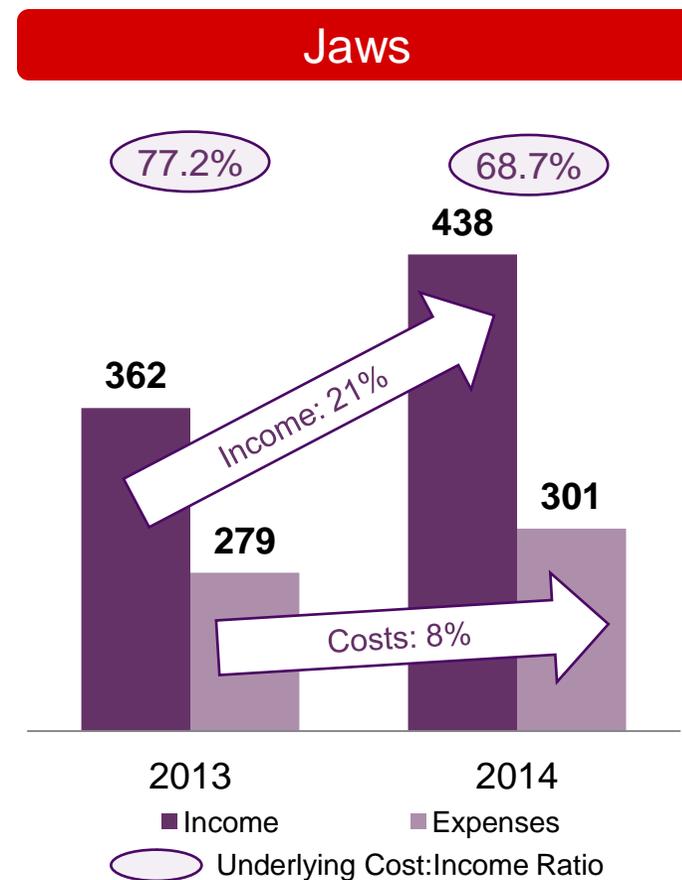
Quality

	2014	2013	Change
Cost of Risk (before debt sale)	11bps	15bps	(27%)
Cost of Risk	7bps	15bps	(53%)
Net Promoter Score	+16	+11	+5 pts
Leverage Ratio	4.1%	3.8%	30bps
CET1 Ratio	19.0%	15.5%	3.5ppts
Loan to Deposit Ratio	102.8%	96.4%	6.4ppts

- Improved customer advocacy with market leading NPS score
- Capitalised to support further growth

Returns

	2014	2013	Change
Statutory PBT	£34.0m	£185.4m	(82%)
Underlying PBT	£121.2m	£53.4m	127%
Underlying NIM	1.50%	1.26%	24bps
Underlying RoTE	7.4%	2.3%	510bps



- Successfully grew NIM
- More than doubled underlying PBT
- Strong growth in RoTE

Progress – Mortgages & Savings

Mortgages and Savings

Mortgages

3.15% market share, H2 2014

Increased intermediary distribution

5-star service award

Average spread above 200bps



Savings

5.9% growth in balances

7.6% market share of new ISA business

Front book variable pricing reduced from around 140bps to around 120bps

Deposit repricing executed with over 95% customer retention

Best Cash ISA provider 2014, 2013



Progress – Credit Cards

Credit Cards

Build

Public launch on own platform,
26 February 2015

Path to migration on time, on budget

Significant cost advantage in move to TSYS

Platform primed for growth

Financials

Second tranche of balances of £359m
transferred from MBNA

£1.1bn closing balances

Cards NIM grew to 9.6%

Successful card debt sale

Excellent impairment performance with
cost of risk at 2.43%¹



Progress – Current Accounts, Insurance & Investments

Current Accounts, Insurance and Investments

Current Accounts

Essential Current Account being rolled out across the UK

Organic growth ahead of plan

Digital programme underway

Competition review likely to be positive

Insurance

Life Insurance deal signed with Friends Life

General Insurance agreement signed with Ageas

Travel insurance volumes reached 398,000 sales p.a.

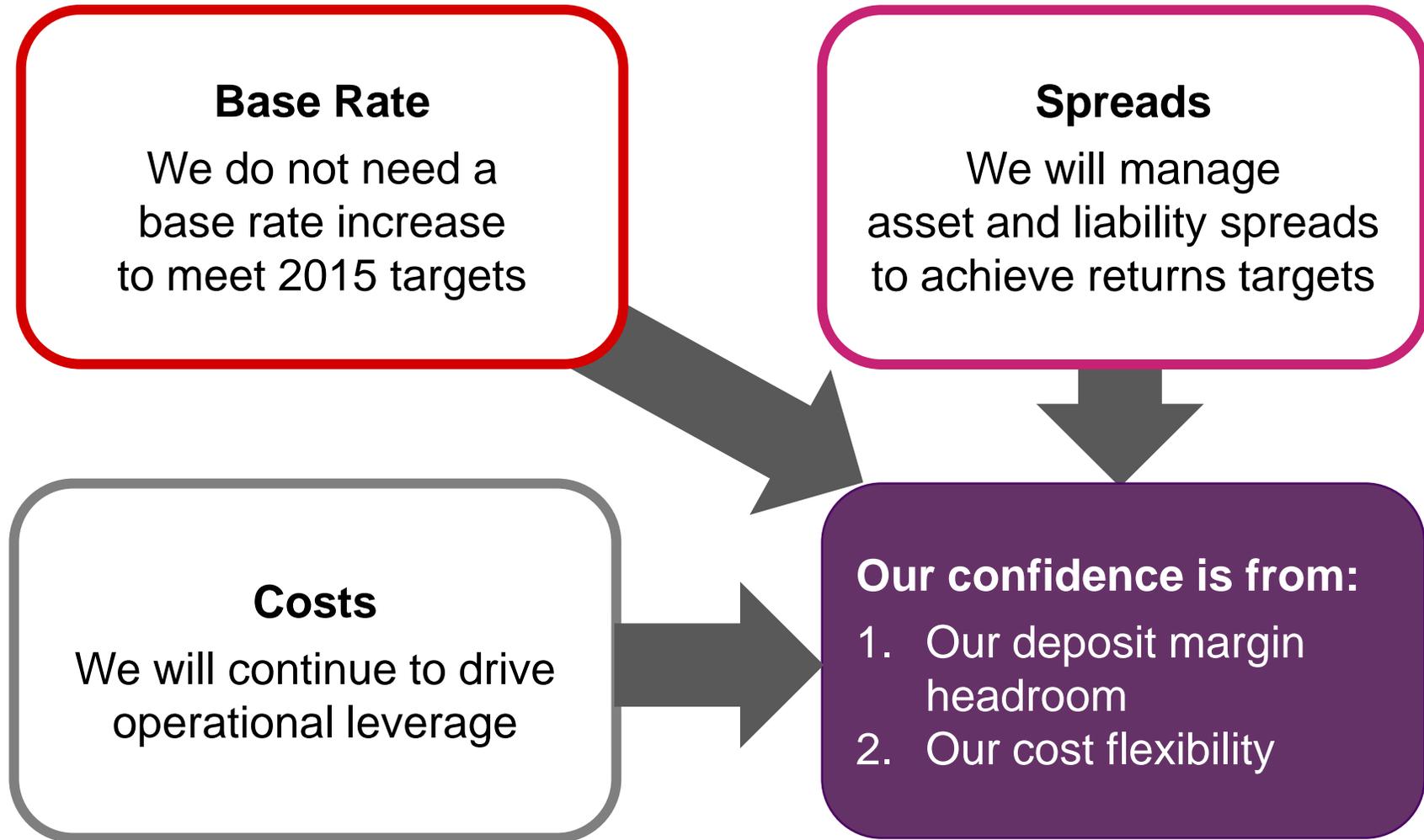
Investments

Stable customer base

Three new funds launched

Strong future opportunities

A Flexible Plan



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Group Summary – Profit & Loss

(£m)	2014	2013	Change
Net Interest Income	366.1	289.2	27%
Other Income	72.1	72.3	(0)
Total Underlying Income	438.2	361.5	21%
Total Underlying Operating Costs	(301.2)	(279.2)	8%
Impairment Losses	(15.8)	(28.9)	(45%)
Underlying PBT	121.2	53.4	127%
Net Interest Margin	1.50%	1.26%	24bps
Cost:Income Ratio	68.7%	77.2%	(8.5ppts)
Cost of Risk ¹	(7bps)	(15bps)	8bps
Return on Tangible Equity	7.4%	2.3%	5.1ppts

▶ Increase in NII and Total Income driven primarily by **improved net interest margin** and **growth in mortgage balances**

▶ **Positive jaws** provided by strong cost control

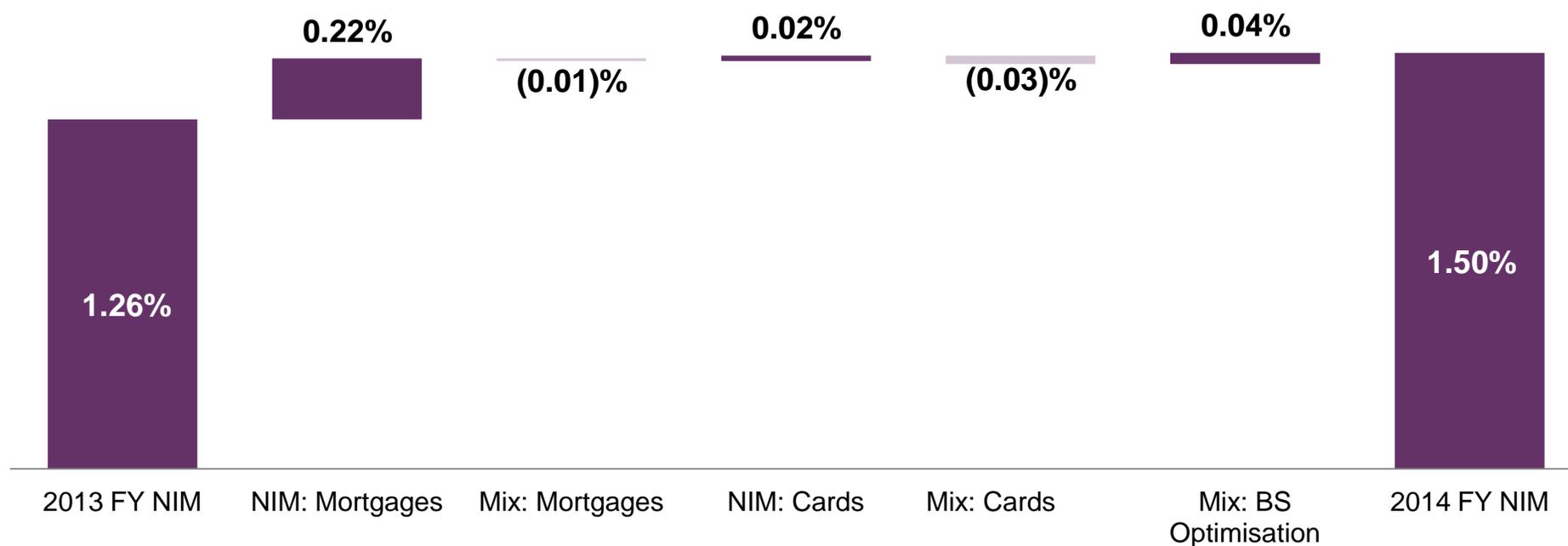
▶ Impairment performance reflective of **high quality assets**, with an absolute year on year **decrease driven by debt sale in Credit Card book**

▶ Net Interest Margin growth achieved through **cost of funds improvement** more than offsetting mortgage spreads

▶ Cost of risk continues to remain low reflecting high quality assets

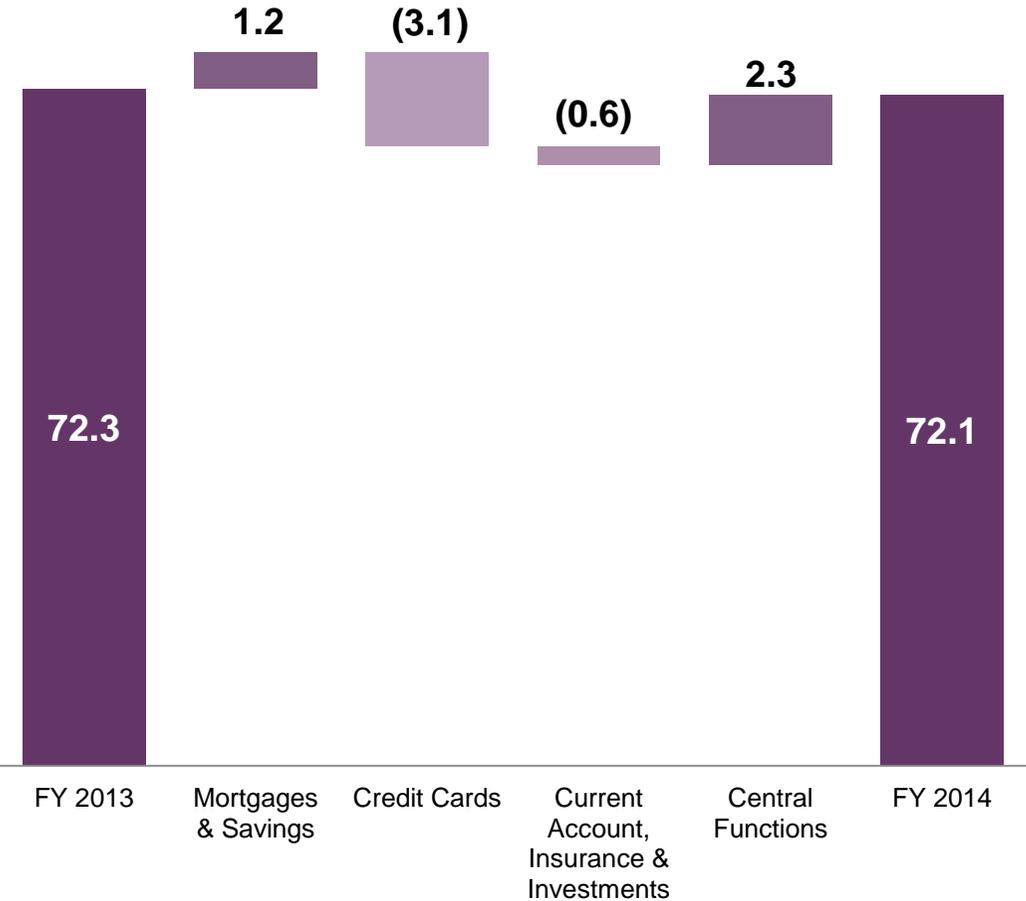
Net Interest Margin

- Group NIM improvement of 24bps driven by mortgages & credit cards together with balance sheet optimisation and successful cost of funds management
- Following successful deposit re-pricing, our pay rates still remain top quartile



Other Operating Income

Total Other Operating Income (£m)



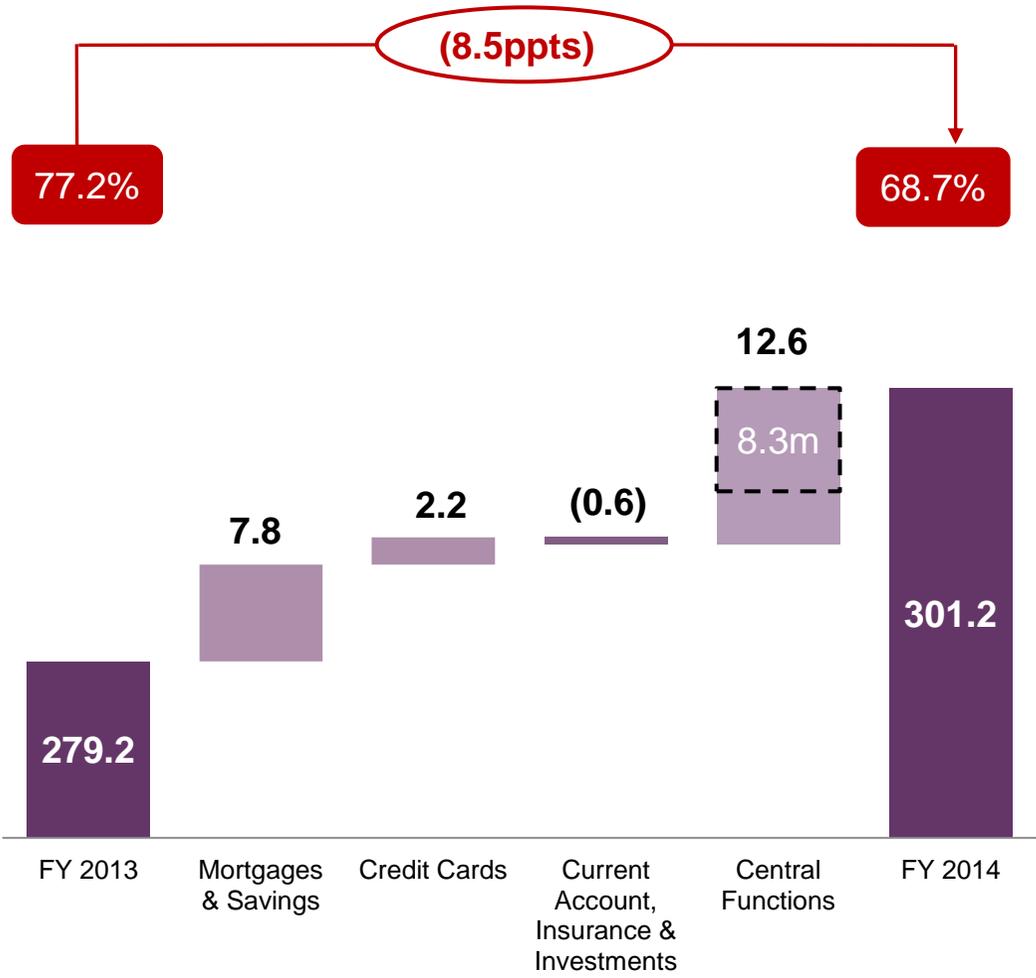
Other income includes:

- Mortgages fees
- Transactional credit card fees
- Central Functions including Treasury activities, primarily asset sales

Current Account, Investments & Insurance expected to be the primary drivers of Other Operating Income going forward

Costs – 2014 vs. 2013 walkthrough

Underlying Cost:Income Ratio



Underlying Cost:Income Ratio showing significant improvement of 8.5 percentage points, as income growth of 21% exceeded cost growth of 8%

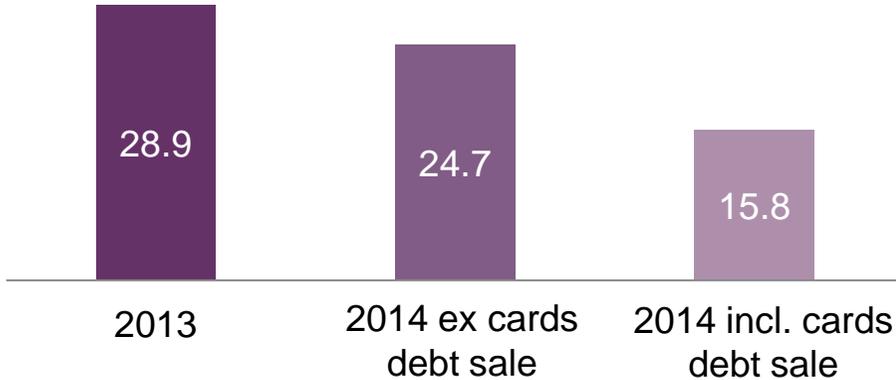
Cards cost growth limited to £2.2m as efficiency savings offset build out of platform

Mortgages & Savings growth of £7.8m is volume related

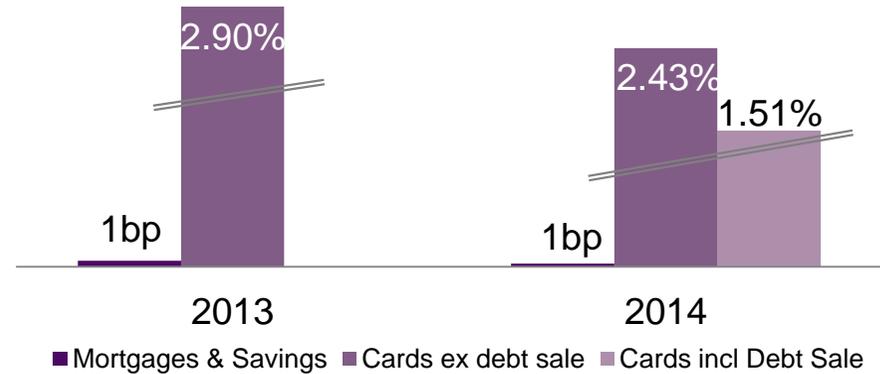
Central Functions increase mainly driven by £8.3m of higher bonuses due to material out-performance in 2014.

Asset Quality – Financial Performance

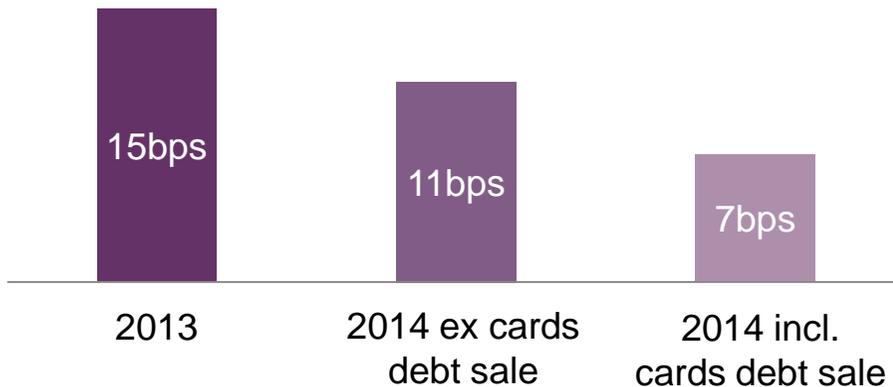
Impairment Charge (£m)



Cost of Risk - Segments



Cost of Risk - Group



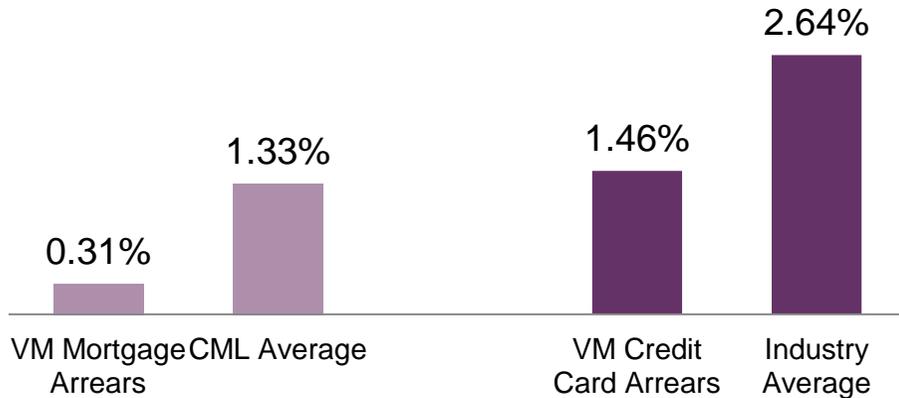
Outlook

Expect Cost of Risk to trend towards 15 to 20 basis points per annum

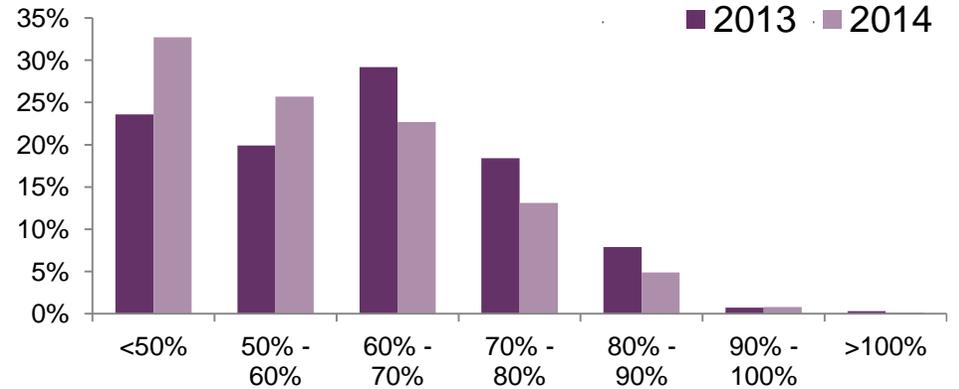
Asset Quality – Balance Sheet

Mortgage & Card arrears versus market¹

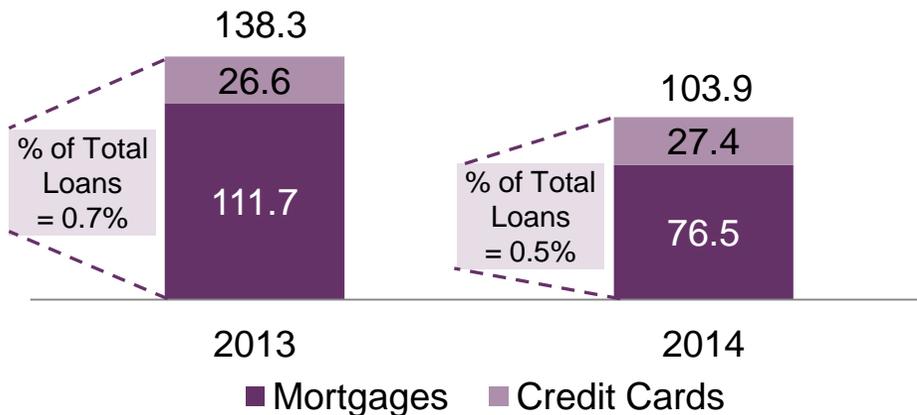
2014



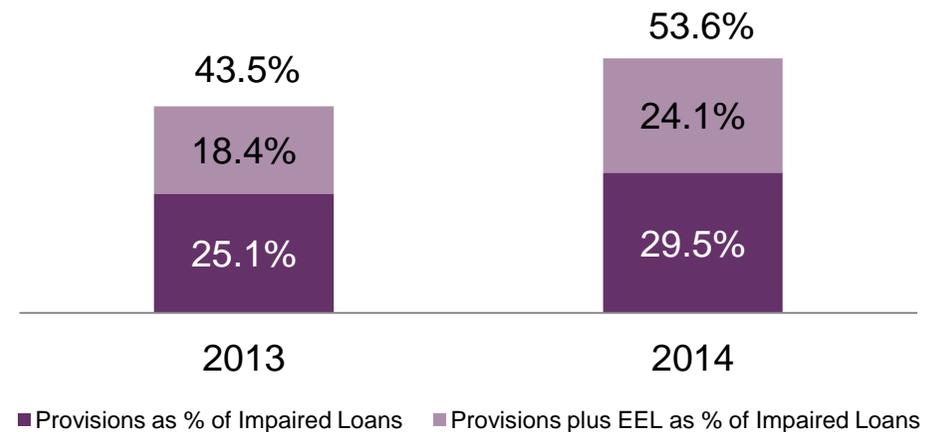
Mortgage Book LTV Distribution



Impaired Loans (£m)



Impaired Balance Coverage Ratio



Business Unit Underlying Financial Performance

(£m)	Mortgages & Savings		Credit Cards		CA, I&I		Central Functions		Group	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Net interest income	291.0	209.0	75.1	80.2	-	-	-	-	366.1	289.2
Other income	3.1	1.9	25.2	28.3	32.8	33.4	11.0	8.7	72.1	72.3
Total underlying income	294.1	210.9	100.3	108.5	32.8	33.4	11.0	8.7	438.2	361.5
Total costs	(87.3)	(79.5)	(40.8)	(38.6)	(11.6)	(12.2)	(161.5)	(148.9)	(301.2)	(279.2)
Impairment	(1.2)	(2.1)	(14.6)	(26.8)	-	-	-	-	(15.8)	(28.9)
Underlying profit/loss	205.6	129.3	44.9	43.1	21.2	21.2	(150.5)	(140.2)	121.2	53.4
Net Interest Margin	1.42%	1.15%	9.60%	9.14%	-	-	-	-	1.50%	1.26%

Statutory Profit & Tax

(£m)	2014	2013	Change
Underlying Profit	121.2	53.4	127%
Additional Northern Rock consideration	(36.0)	(9.0)	300%
IPO Costs	(23.9)	-	n/a
Premium on repurchase of NCT1 notes	(4.5)	-	n/a
Strategic transaction costs	(9.0)	(13.6)	(33.8%)
Impairment of intangible assets	-	(34.6)	(100%)
Gain on sale of subsidiary ¹	3.5	202.9	(98.3%)
Fair Value adjustments	(0.9)	(0.3)	200%
FSCS Levy	(16.4)	(13.4)	22.4%
Statutory profit before tax	34.0	185.4	(81.7%)
Taxation	(25.3)	(6.4)	295.3%
Statutory profit after tax	8.7	179.0	(95.1%)

IPO costs of £23.9m include: £12.6m of execution costs, fees and expenses; £10.7m for share based payments; and £0.6m of one-off payments to project staff on listing

Non-core Tier 1 notes were repaid to HM Treasury at a premium of £4.5 million in July 2014

2014 gain relates to sale of CHT

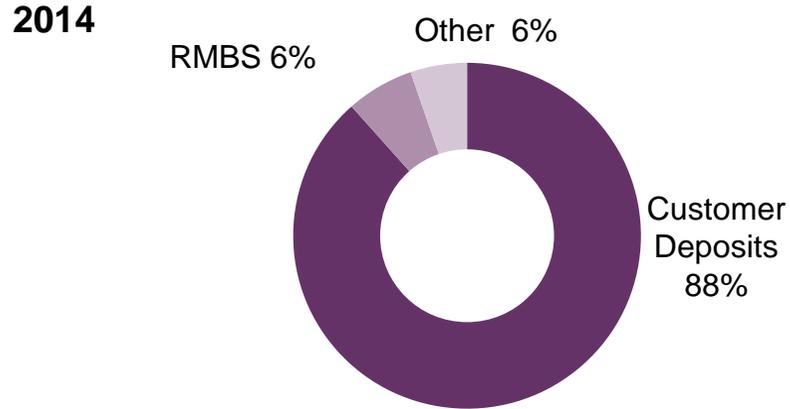
Tax charge increased as a result of non-deductible items during the year, and a prior year tax adjustment

Group Summary – Balance Sheet

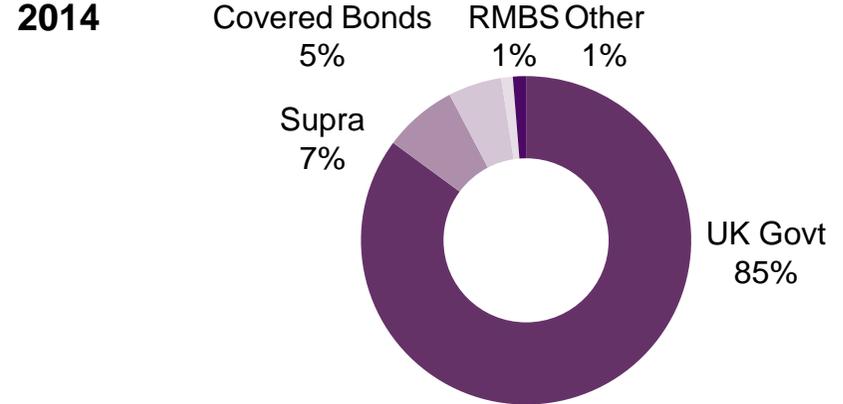
(£m)	2014	2013	Change	
Loans & Advances to Customers	23,093.1	20,342.5	14%	▶ 14% increase year on year, primarily driven by increased mortgage lending.
Treasury Assets ¹	2,399.5	3,112.1	(23%)	▶ Treasury assets have reduced, reflecting further optimisation while supporting a very strong liquidity position.
Customer Deposits	22,365.7	21,121.4	5.9%	▶ 5.9% increase, represents a 1.49% share of inflows across the market and a strong share of ISA business at 7.6%.
Debt Securities in Issue	1,594.1	1,469.8	8%	▶ 8% increase due to the issuance of £1bn Gosforth 2014-1 securitisation undertaken in September 2014.
Risk Weighted Assets	5,160.6	5,206.4	(0.9%)	▶ Risk weighted assets ended the year broadly flat whilst the balance sheet increased by 8%.
Loan:Deposit Ratio	102.8%	96.4%	6ppts	▶ Loan to deposit ratio increasing due to balance sheet optimisation, within risk appetite

Balance Sheet Strength – Funding & Liquidity

Total Liabilities (%)



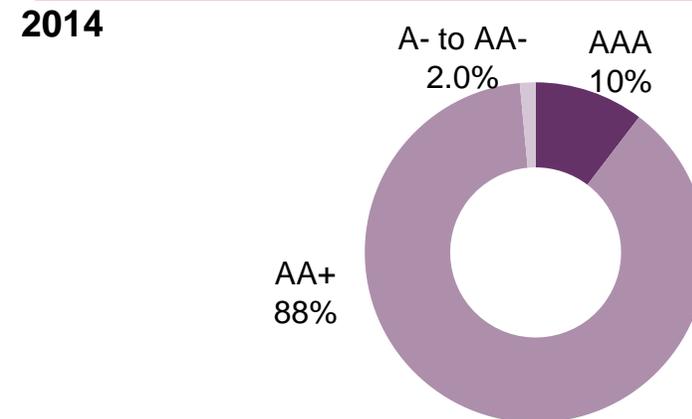
Liquidity Portfolio by Type (%)



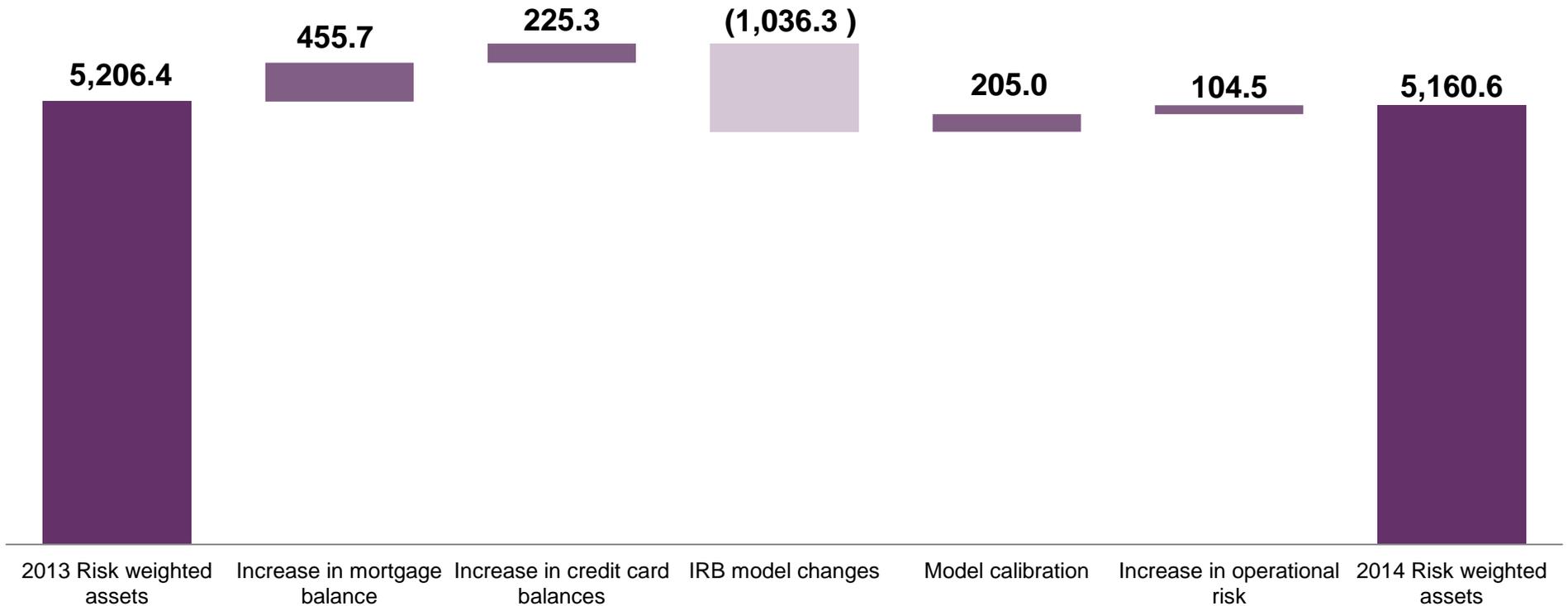
Loan to Deposit Ratio (%)



Liquidity Portfolio by Rating (%)

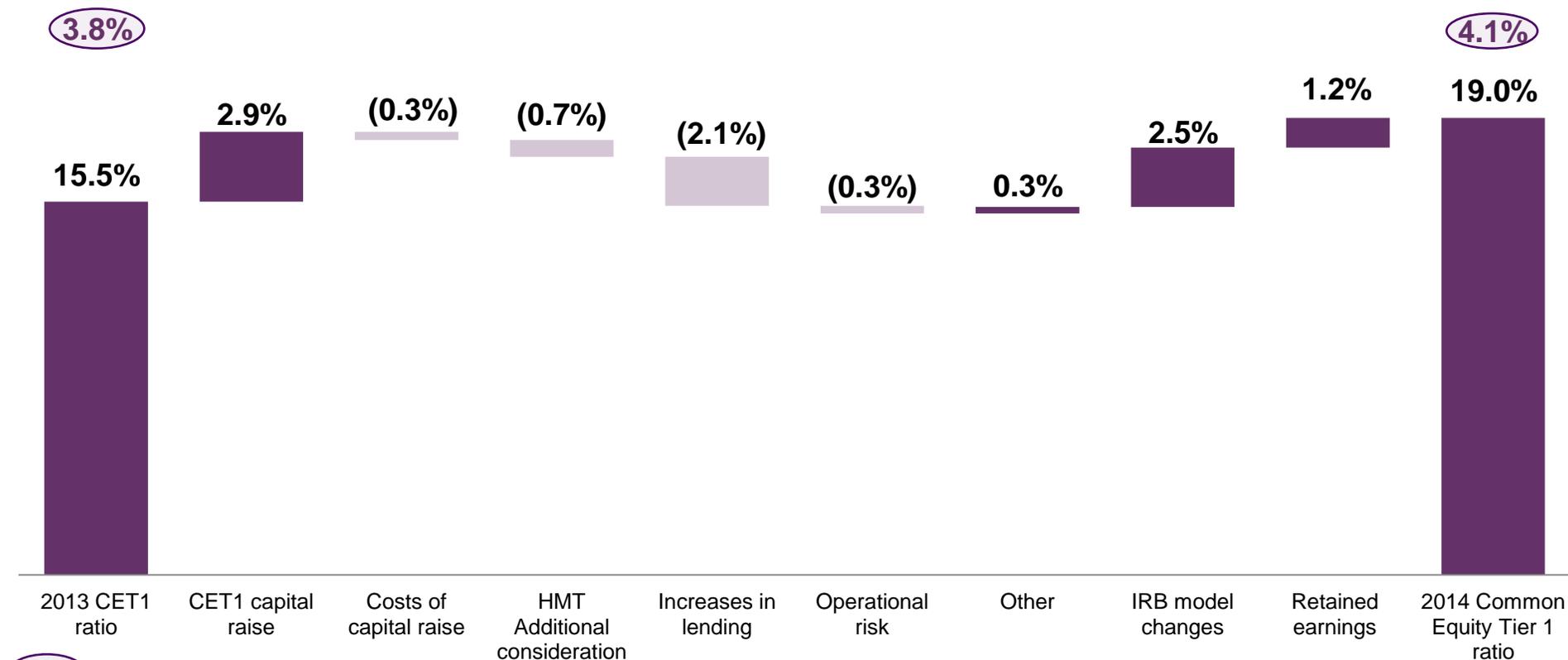


Balance Sheet Strength – Fully Loaded Risk-Weighted Assets



- Model calibration and other improvements to IRB modelling reduced RWAs ; note the IRB modelling remains conservative and produces high RWA's relative to our impairment and delinquency experience
- Increasing income directly translates into higher operational risk RWA

Balance Sheet Strength – Capital



- Strong capital ratios providing good positioning against regulatory requirements with capacity for growth
- £150m primary raise as part of IPO in November 2014

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Guidance

Mortgage Growth

3–3.5% market share

Cards Growth

£3bn by end 2018

NIM

170bps by end 2017

Cost:Income Ratio

Around 50% by end 2017

Underlying RoTE

Mid-teens by end 2016

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