



Agenda

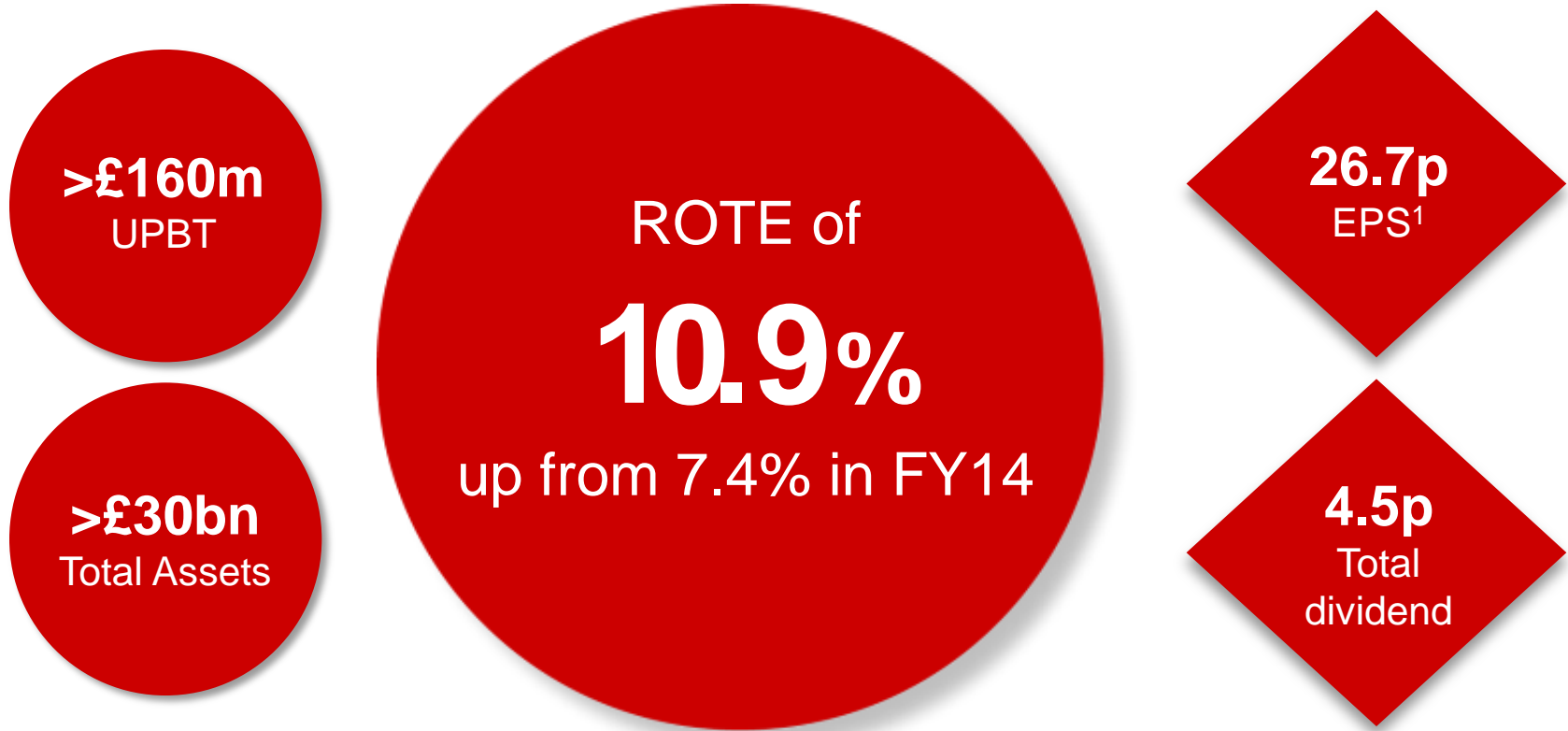
FY15 Progress
Jayne-Anne Gadhia, Chief Executive

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



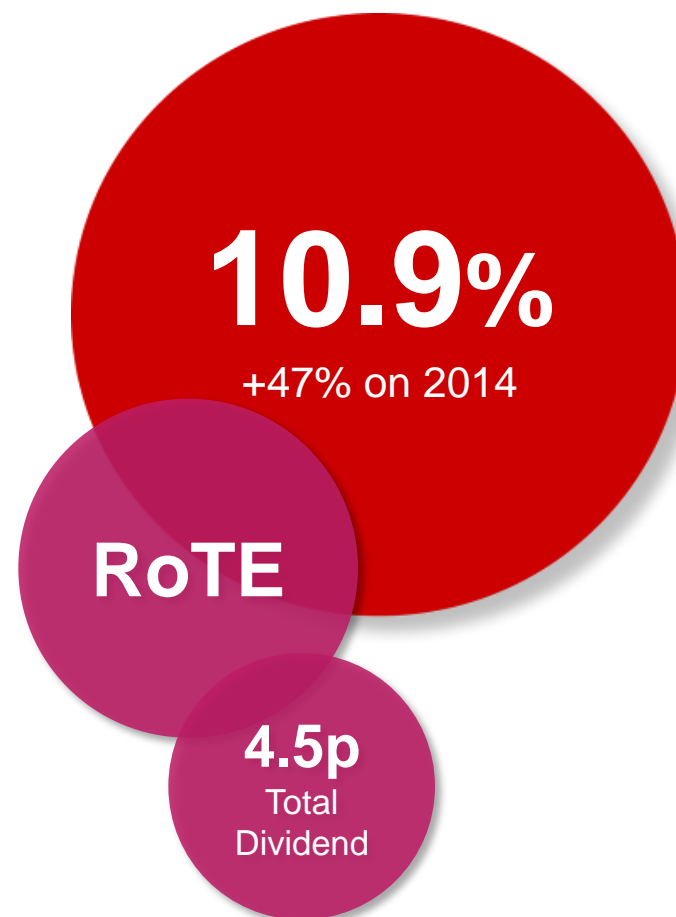
Source: Company information or all data

Note: (1) Underlying EPS

Continued delivery on our investment case


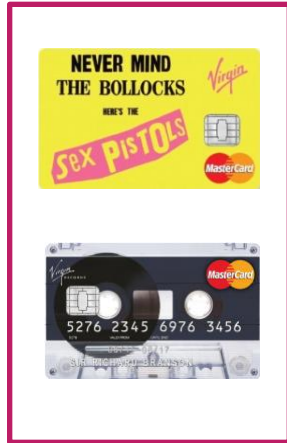
On track to deliver mid teens RoTE in 2017

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

Considerable progress across all business lines

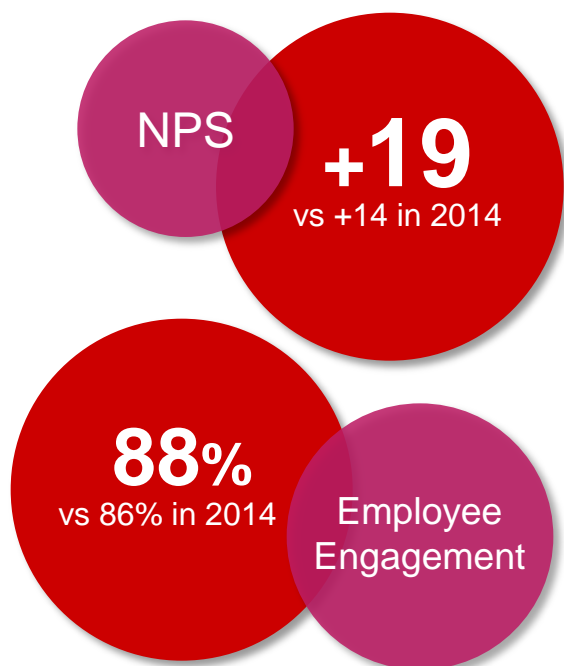
Savings and Current Accounts, Insurance & Investments

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

Low risk, customer focused, model and culture

Continued high quality and prudent risk appetite

Customer focused culture

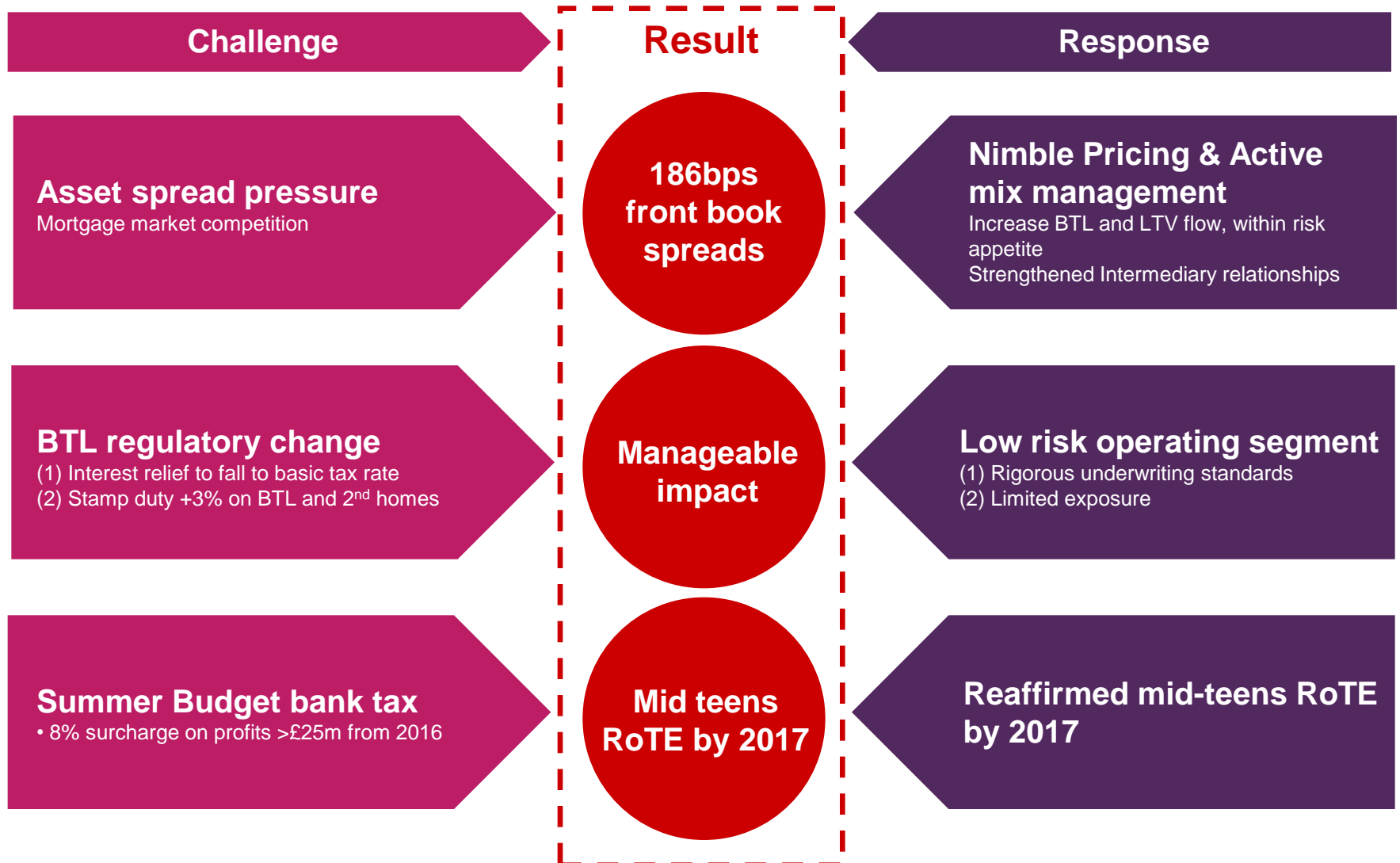


Financial Strength

	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



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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)%
Total Underlying Income	523.1	438.2	19%
Costs ¹	(332.5)	(317.6)	5%
Impairment Losses	(30.3)	(15.8)	92%
Underlying PBT¹	160.3	104.8	53%
Net Interest Margin	1.65%	1.50%	15bps
Cost:Income Ratio ¹	63.6%	72.5%	(8.9)pts
Cost of Risk ²	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

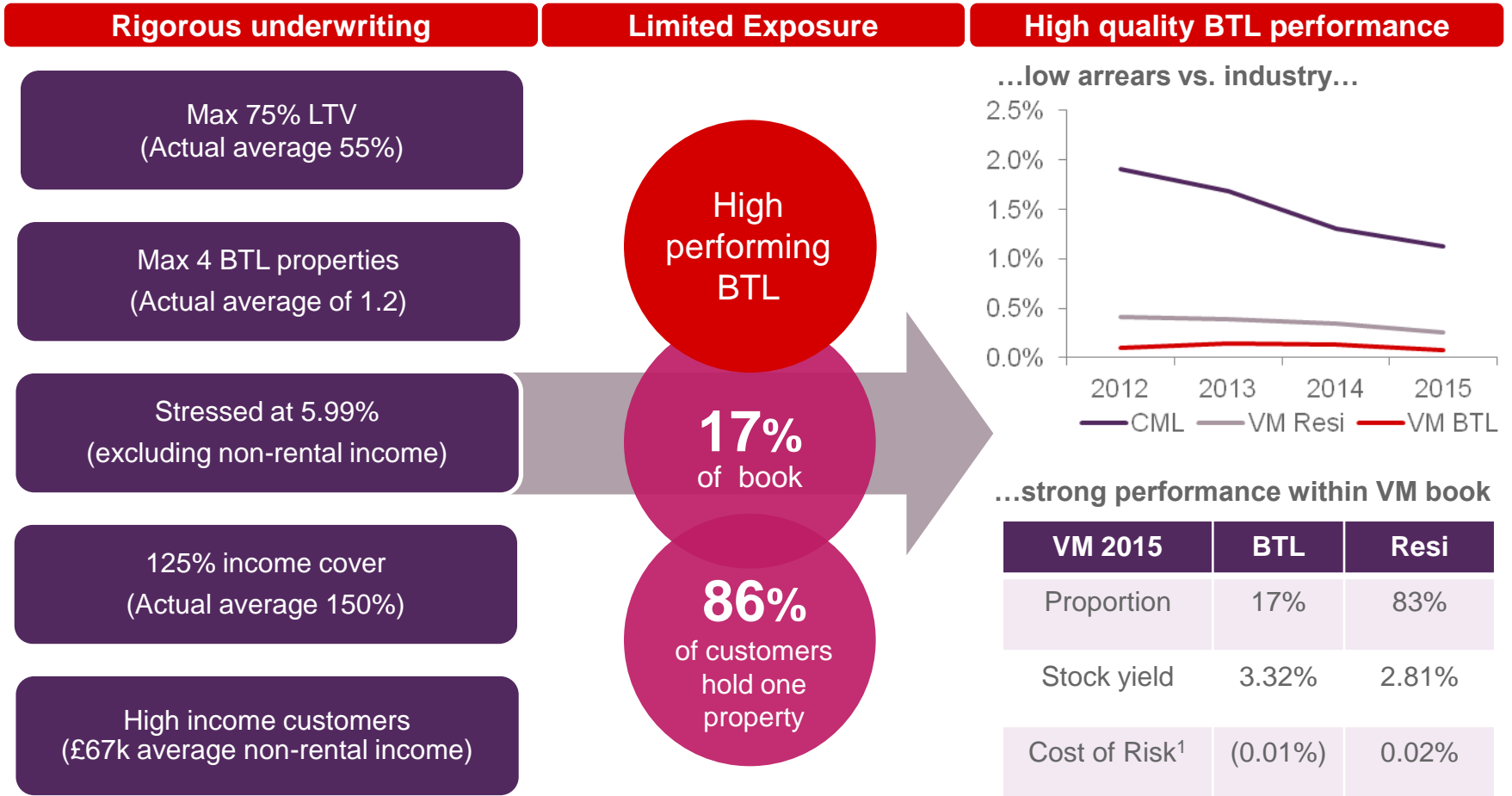
Statutory Profit & Tax

Significant reduction in exceptional line items

(£m)	2015	2014	Change	
Underlying Profit	160.3	104.8	53%	▶ 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
Statutory PBT	138.0	34.0	306%	
Taxation	(26.8)	(25.3)	6%	▶ Effective tax rate was 19.4%.
Statutory PAT	111.2	8.7	1178%	

Buy to Let

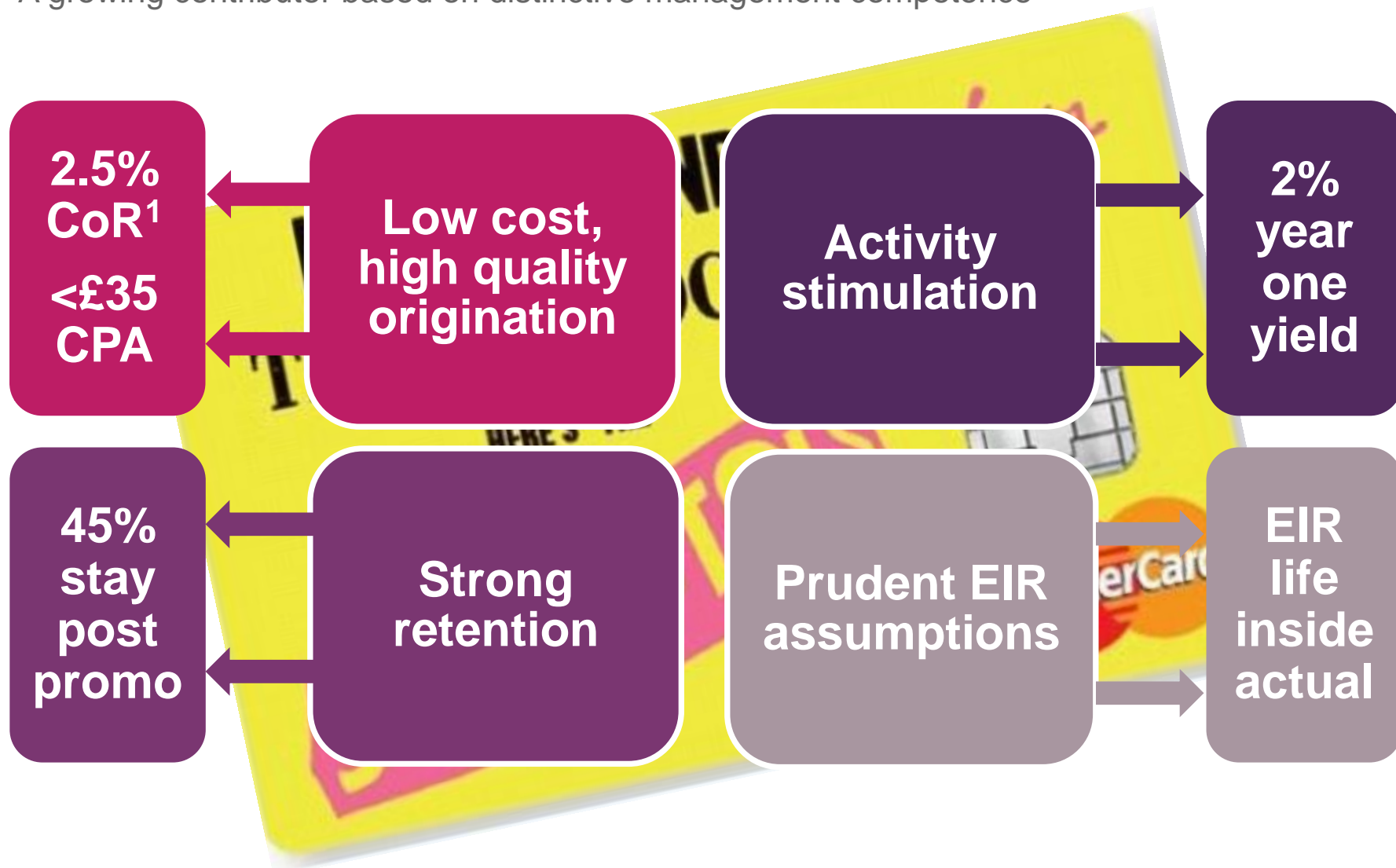
BTL lending remains high quality and a manageable proportion of the book



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

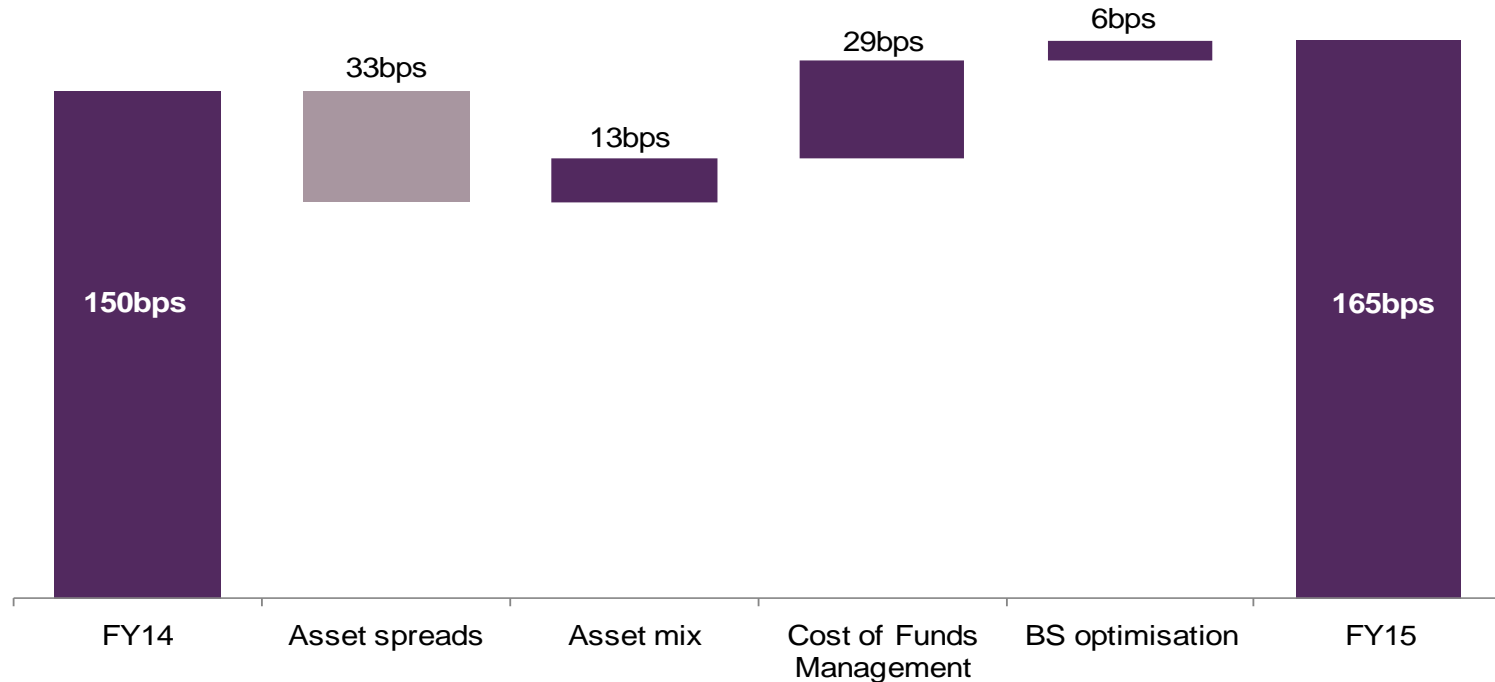
Credit cards profitability

A growing contributor based on distinctive management competence



Net Interest Margin evolution

Ahead of expectations, despite the impact of asset spread pressure

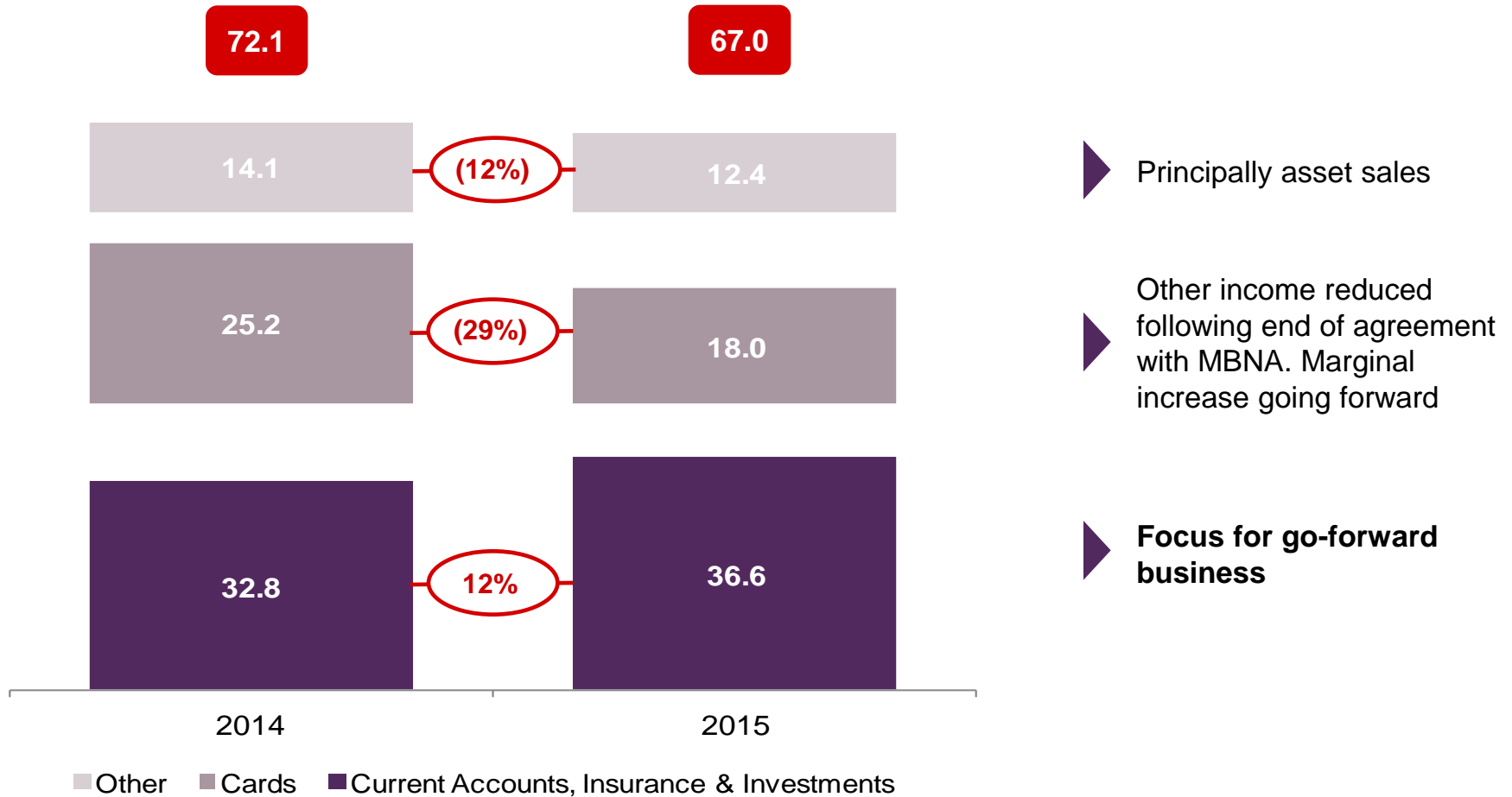


- ▶ Mortgage pricing pressure but stabilisation toward the end of the year
- ▶ Cards growth exceeding expectations
- ▶ Deposit re-pricing and better than expected retention
- ▶ Tightening of liquidity and wholesale management
- ▶ Future plans assume no base rate rises in 2016 and 2017

Other Operating Income

Foundations in place to support future growth

Total Other Operating Income (£m)



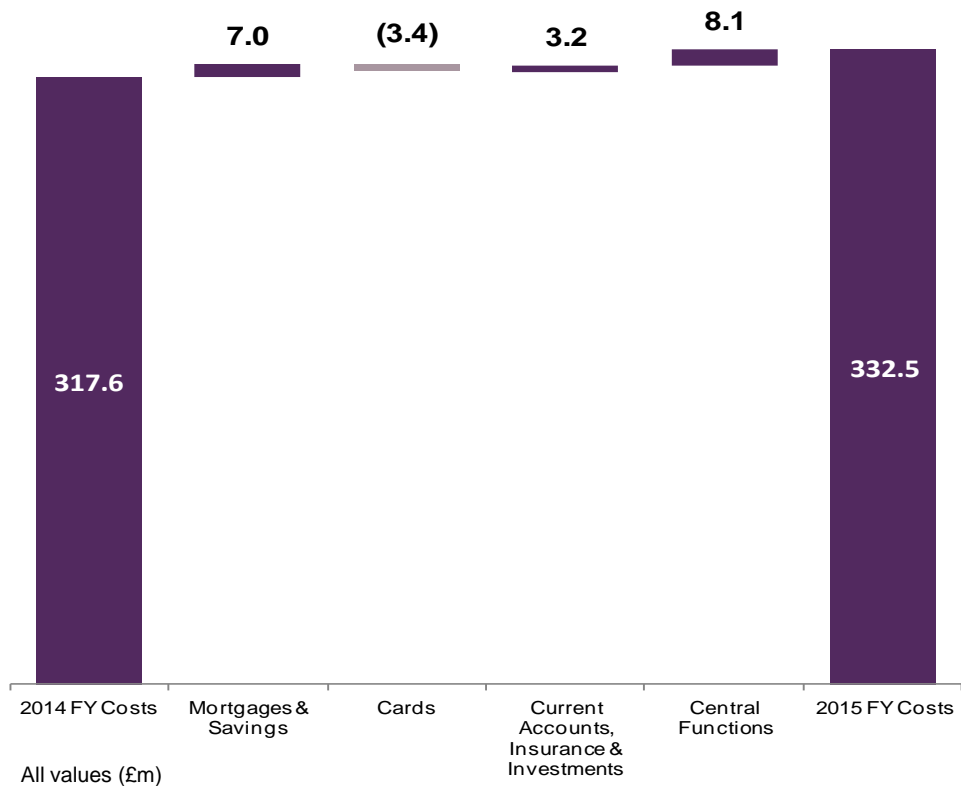
Costs walkthrough

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**

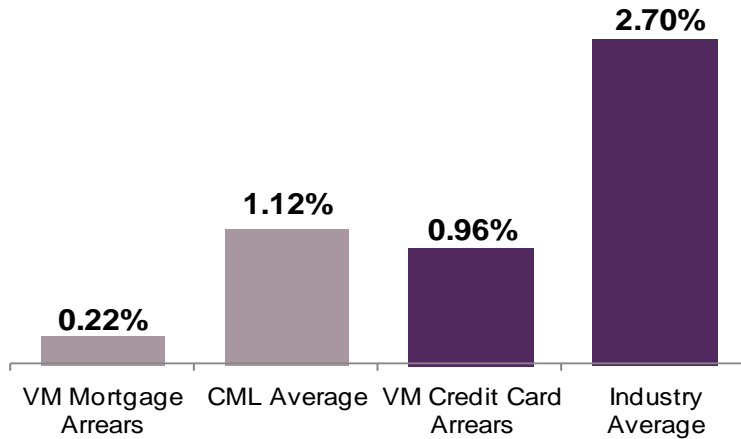
Source: Company information for all data
 Notes: (1) 2014 costs restated to include FSCS, ensuring comparison to 2015 basis is like for like

Asset Quality

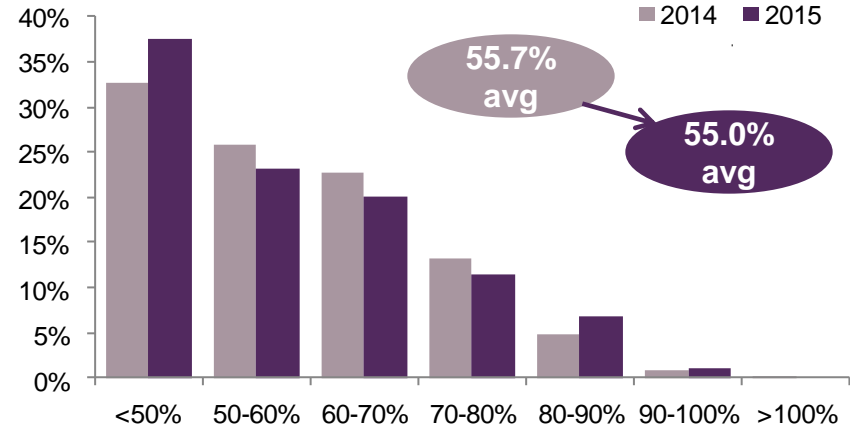
Superior risk management

Mortgage & Card arrears versus market¹

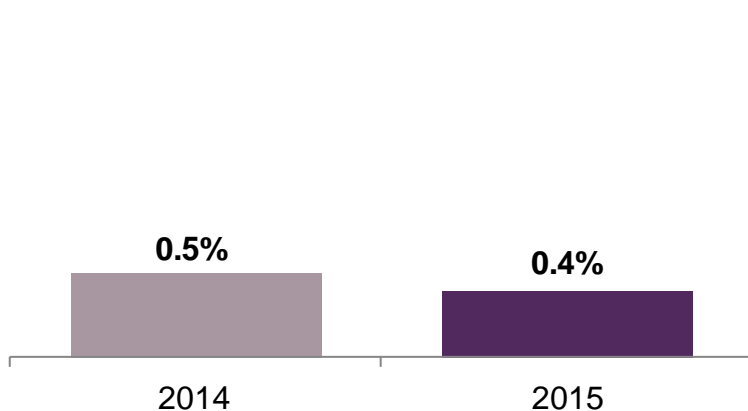
2015



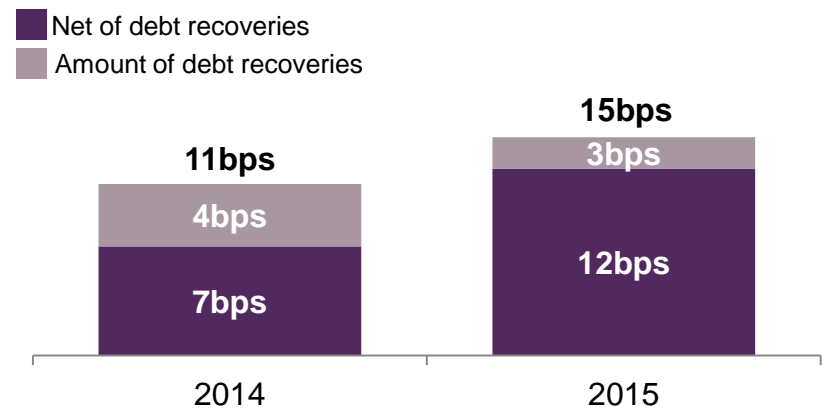
Mortgage Book LTV Distribution



Impaired Loans (% of Total)



Cost of Risk - Group

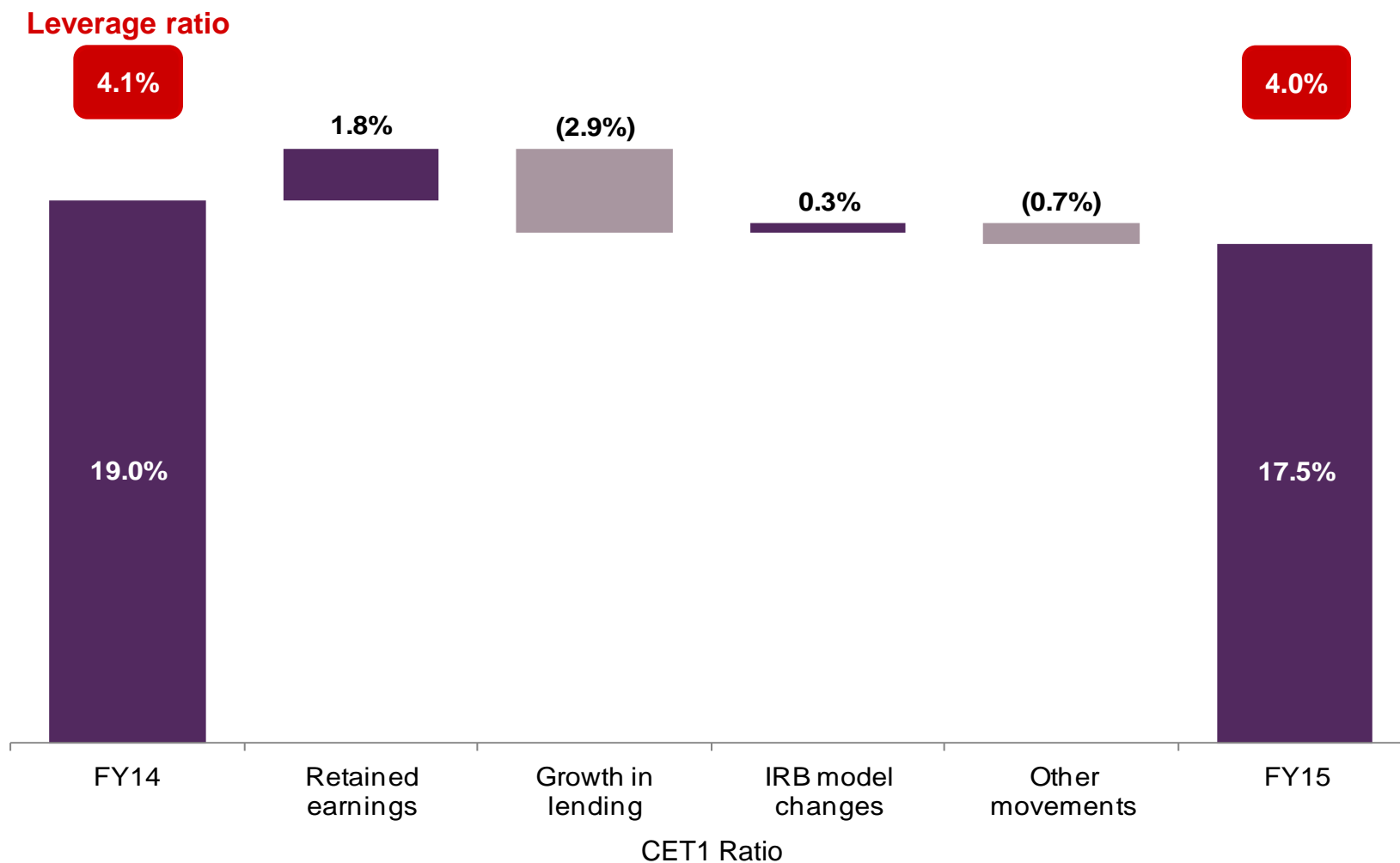


Source: Company information for all data. Council of Mortgage Lenders and Argus for market data

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



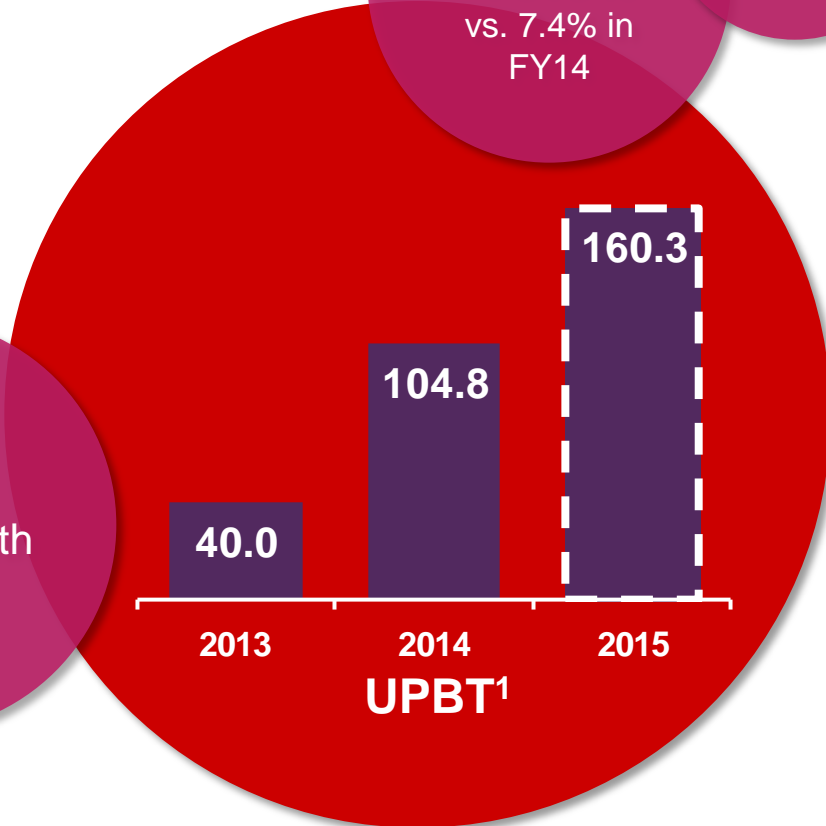
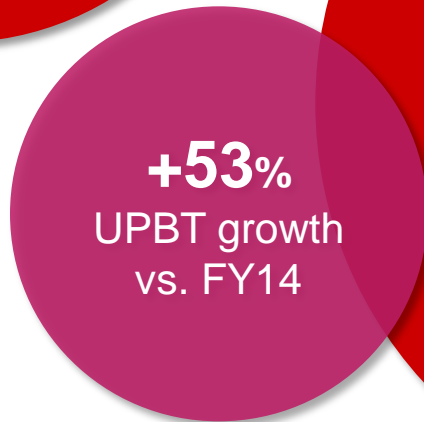
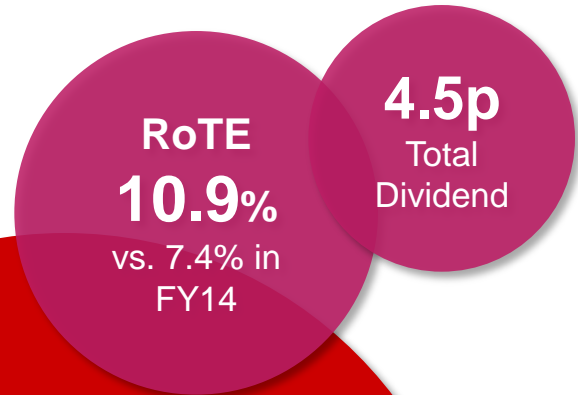
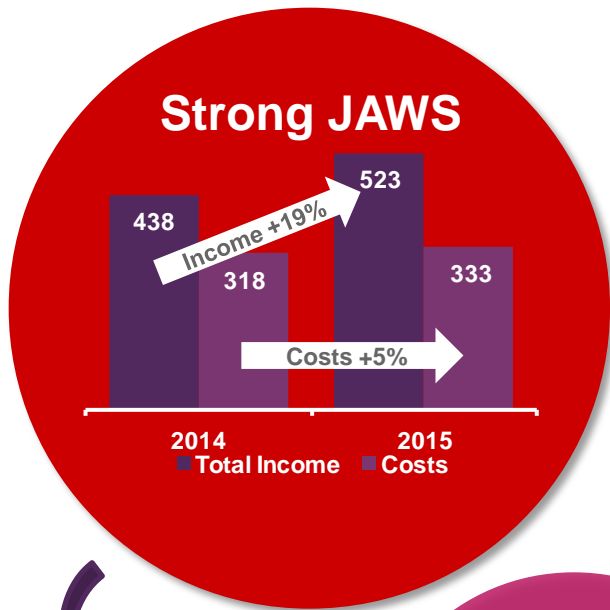
Doing what we said we would do

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



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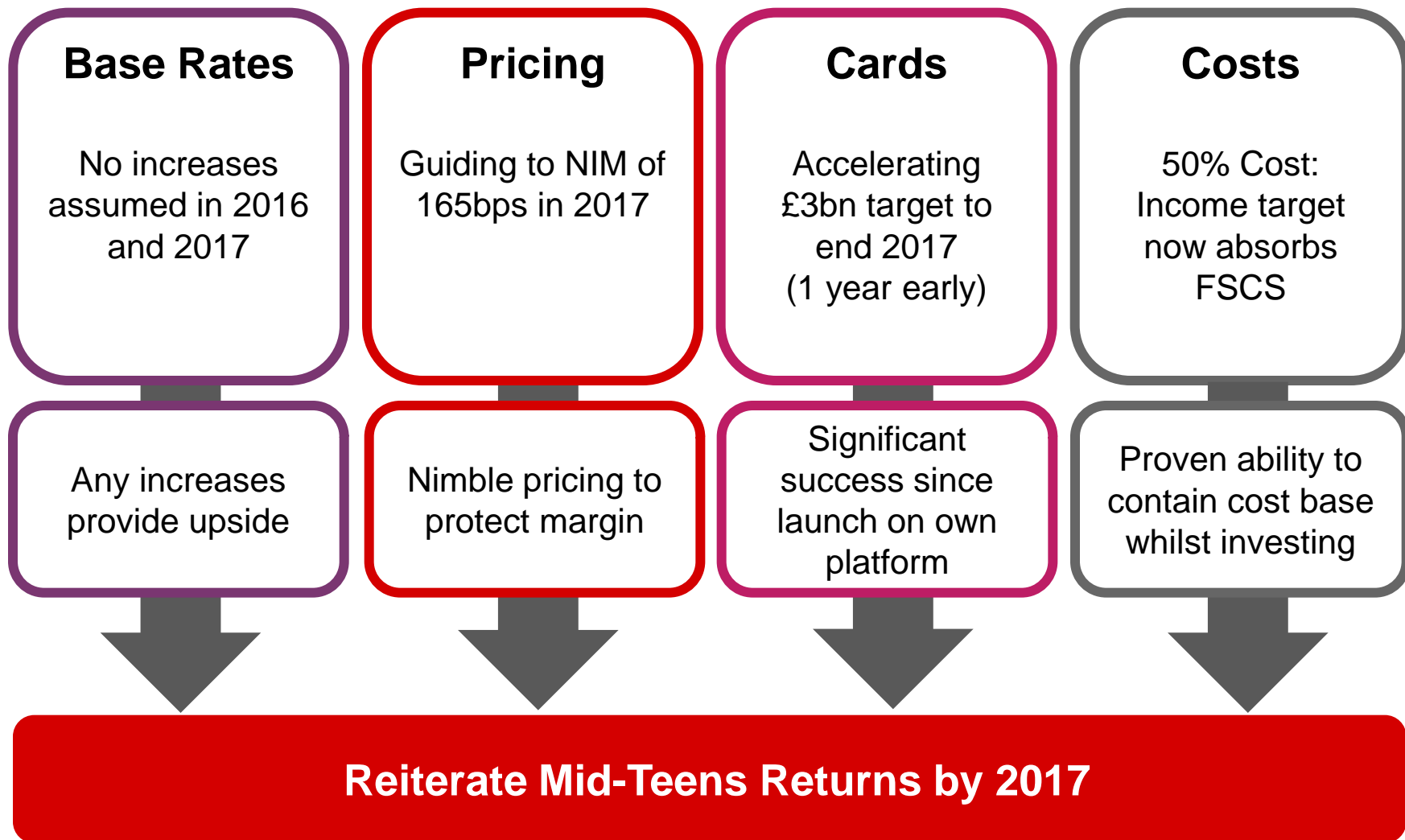
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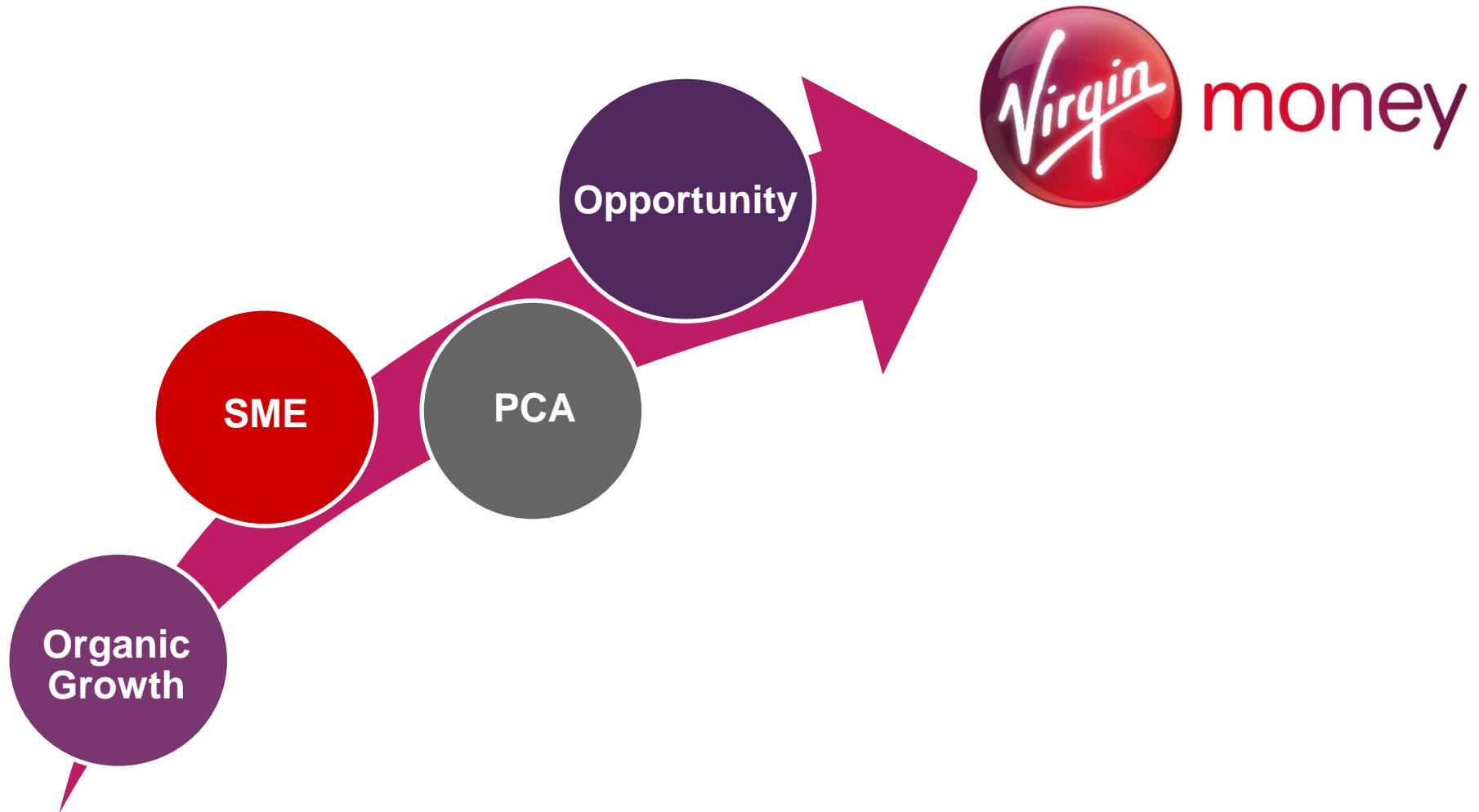
Well positioned to deliver medium term targets

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
Total Underlying Income	361.0	294.1	115.6	100.3	36.6	32.8	9.9	11.0	523.1	438.2
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)
Underlying profit/loss	265.3	207.2	51.2	45.2	19.9	19.3	(176.1)	(166.9)	160.3	104.8
NIM	1.52%	1.42%	8.22%	9.60%	-	-	-	-	1.65%	1.50%

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%)
Net interest income	454.8	367.3	24%
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%
Other income	67.1	71.0	(5%)
Total income	521.9	438.3	19%
Other operating expenses	(353.6)	(338.9)	4%
Fees associated with listing	-	(12.6)	(100%)
Total operating expenses	(353.6)	(351.5)	1%
Profit before tax from operating activities	168.3	86.8	94%
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%)
Profit before tax	138.0	34.0	306%
Taxation	(26.8)	(25.3)	6%
Profit for the year	111.2	8.7	1178%

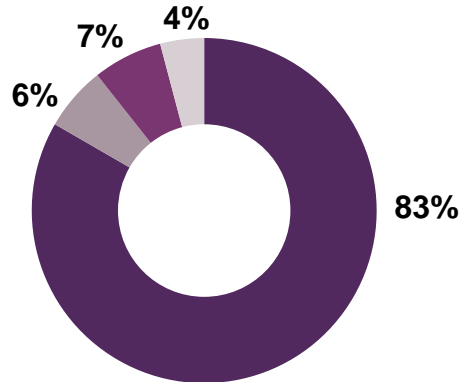
Statutory Balance Sheet

(£m)	2015	2014	Change
Assets			
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%
Total assets	30,229.0	26,536.8	14%
Liabilities			
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%)
Total liabilities	28,888.7	25,293.0	14%
Equity			
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%
Total equity	1,340.3	1,243.8	8%
Total liabilities and equity	30,229.0	26,536.8	14%
Loan: Deposit Ratio	107.5%	102.8%	4.7pp

Balance Sheet Strength

Total Funding (%)

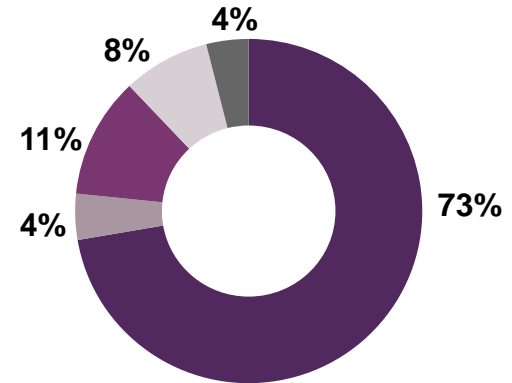
2015



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

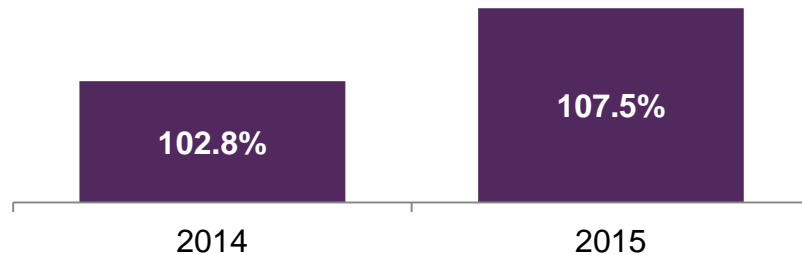
Liquidity Portfolio by Type (%)

2015



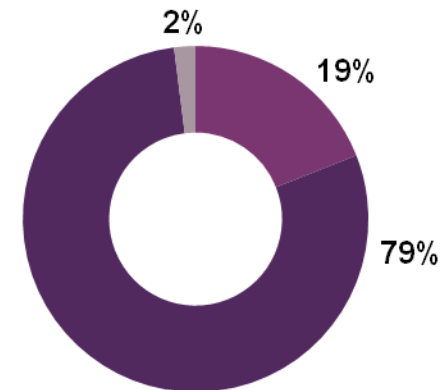
- UK Govt
- Supra
- Covered Bonds
- RMBS
- Other

Loan to Deposit Ratio (%)



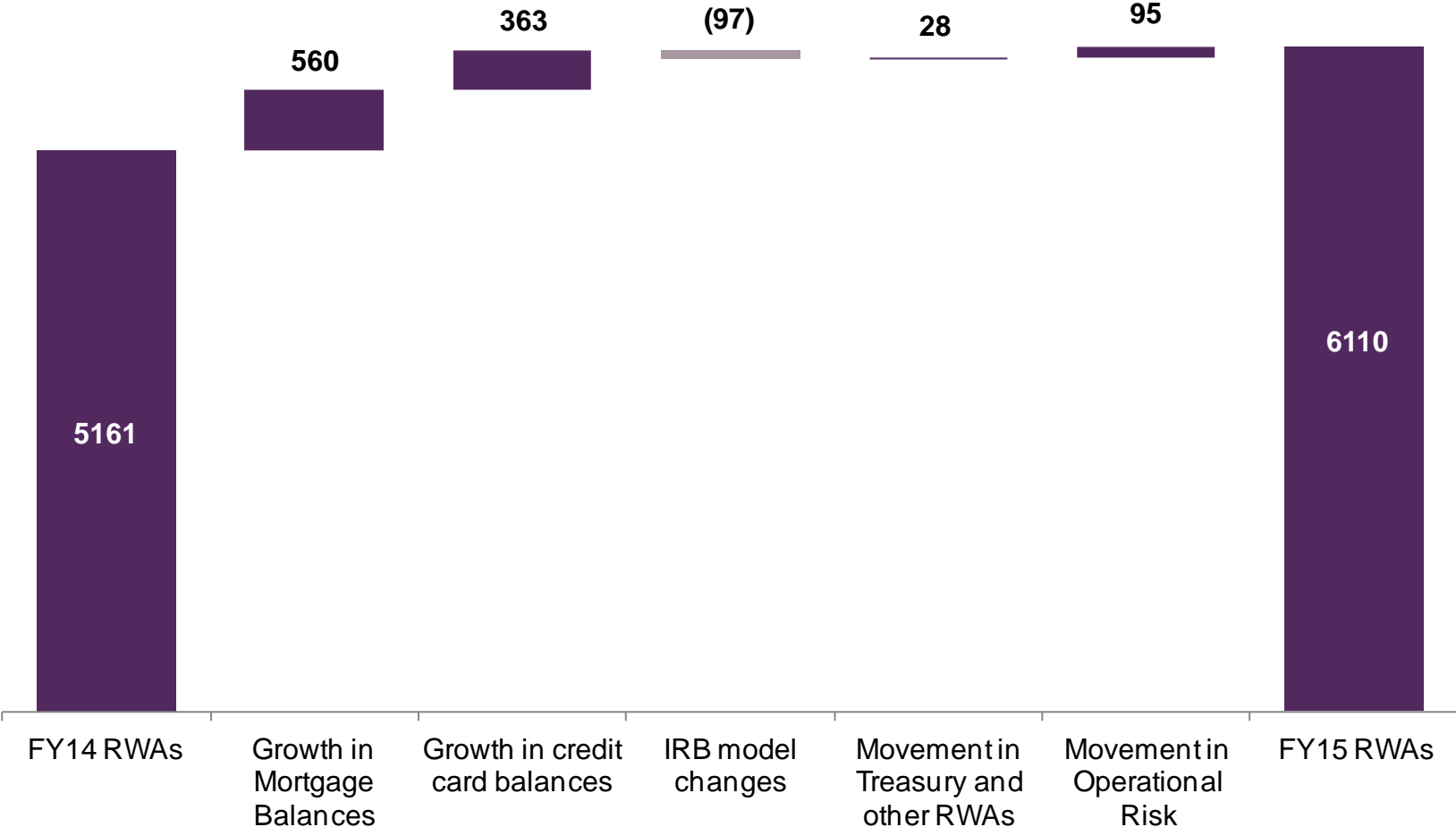
Liquidity Portfolio by Rating (%)

2015



- AAA
- AA+
- A to AA-

Balance Sheet Strength – Risk-Weighted Assets



Source: Company information for all data

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