



# TSB Banking Group plc

## 2014 Full Year Results

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Wednesday 25<sup>th</sup> February 2015

# Local banking for Britain



- Strong financial and strategic progress in 2014
- Known headwinds to profitability exist in 2015
- Growth remains our priority

## 2014 Financial performance at a glance

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### Balance sheet as expected...



### Profit as expected...



### And we have headroom for growth...



# Provide great banking to more people

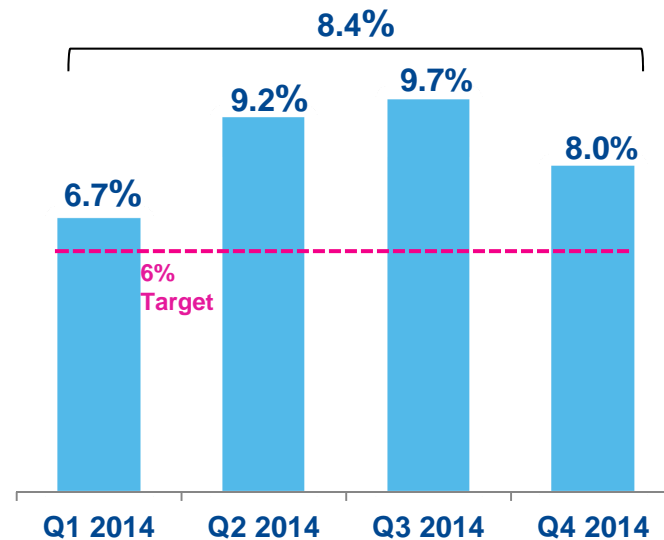
Provide great banking to more people

- Almost half a million current accounts opening and switching to TSB in 2014
- Strong deposit growth and lower cost of deposits

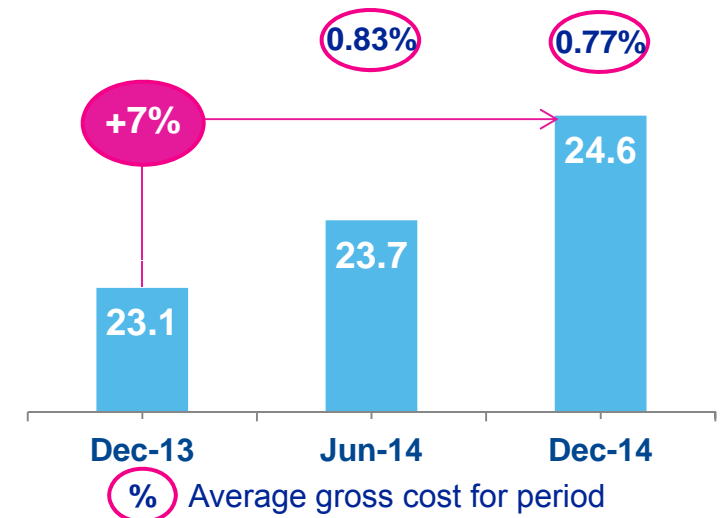
Help more people borrow well

Provide the kind of banking people want and deserve

Current accounts - share of gross flow (%)<sup>1</sup>



Customer Deposits (£bn, period end)



<sup>1</sup> Current Account and Savings Market Database (CSDB) which includes current, packaged, youth, student and basic bank accounts, and new account openings excluding account upgrades. Data Presented on a two month lag.

## Help more people borrow well

Provide great banking to more people

Help more people borrow well

Provide the kind of banking people want and deserve

- Franchise lending stock reduced by 6%<sup>1</sup>
- Mortgages through direct channels grew from 1.6% to 2.2% share of flow<sup>2</sup>
- TSB mortgage brand consideration up from 4% to 11%<sup>3</sup>
- Pricing pressures among UK lenders
- Successfully entered mortgage broker channel in January 2015



1. Over 2014. 2. Q1 2014 – Q4 2014 CML mortgage completions, re-calculated on quarterly basis. 3. Over 12 month period © GfK NOP Ltd, Financial Research Survey (FRS) 6 months ending December 2013 and December 2014. 440 adults considering a mortgage in the next 12 months were interviewed for each 6 month period. Results show percentage who would consider TSB.

# Provide the kind of banking that people want and deserve

Provide great banking to more people

Help more people borrow well

Provide the kind of banking people want and deserve

## Enhancing the TSB Brand...

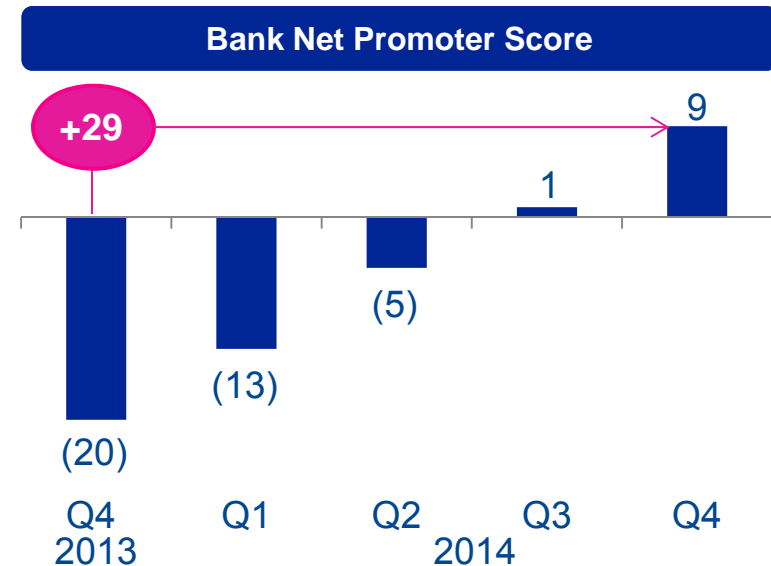
- ✓ A culture of 'Partnership'
- ✓ Innovative remuneration structure
- ✓ Launched 'Truth & Banking'

## Investing into the TSB proposition...

- ✓ New website
- ✓ Improving over 300 branches
- ✓ Less costly '0345' numbers

## ...our early progress is being recognised...

- ✓ Top quartile and top high street bank for customer service – Which? magazine<sup>1</sup>
- ✓ More customers than ever would now recommend TSB to friends and colleagues<sup>2</sup>



1. 'Which?' Magazine Oct 2014: 'Best and worst Brands for customer service' survey article – TSB ranked joint 22nd with a customer service score of 76%. 2. NPS is based on the question "On a scale of 0-10, where 0 is not at all likely and 10 is extremely likely, how likely is it that you would recommend TSB to a friend or colleague?" NPS is the percentage of TSB customers who score 9-10 after subtracting the percentage who score 0-6.

## We remain committed to our growth strategy in 2015; while continuing to seek greater operational efficiency

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Provide great banking to more people

- Consistently attract more than 6% of all new and switching current accounts each quarter

Help more people borrow well

- Franchise net lending growing by c£1.5bn in the year

Provide the kind of banking people want and deserve

- Continuing to invest while controlling costs to no more than £720m

## Strategy delivering deposit growth whilst Franchise lending balances continue to reduce as expected



£bn	Dec-13	Jun-14	Dec-14	H1 Mvmt %	H2 Mvmt %
Mortgages	17.7	17.1	16.5	(3)	(4)
Unsecured & Business Banking	2.4	2.3	2.3	(4)	-
<b>Net Franchise Lending</b>	<b>20.1</b>	<b>19.4</b>	<b>18.8</b>	<b>(4)</b>	<b>(3)</b>
Mortgage Enhancement	-	3.1	2.8	-	(10)
<b>Net Customer Lending</b>	<b>20.1</b>	<b>22.5</b>	<b>21.6</b>	<b>12</b>	<b>(4)</b>
Current accounts	6.5	7.1	7.6	9	7
Savings	16.6	16.6	17.0	-	2
<b>Customer Deposits</b>	<b>23.1</b>	<b>23.7</b>	<b>24.6</b>	<b>3</b>	<b>4</b>
<b>Group LDR</b>	<b>87.0%</b>	<b>94.9%</b>	<b>87.8%</b>	<b>7.9pp</b>	<b>(7.1)pp</b>
<b>Franchise LDR</b>	<b>87.0%</b>	<b>81.8%</b>	<b>76.4%</b>	<b>(5.2)pp</b>	<b>(5.4)pp</b>

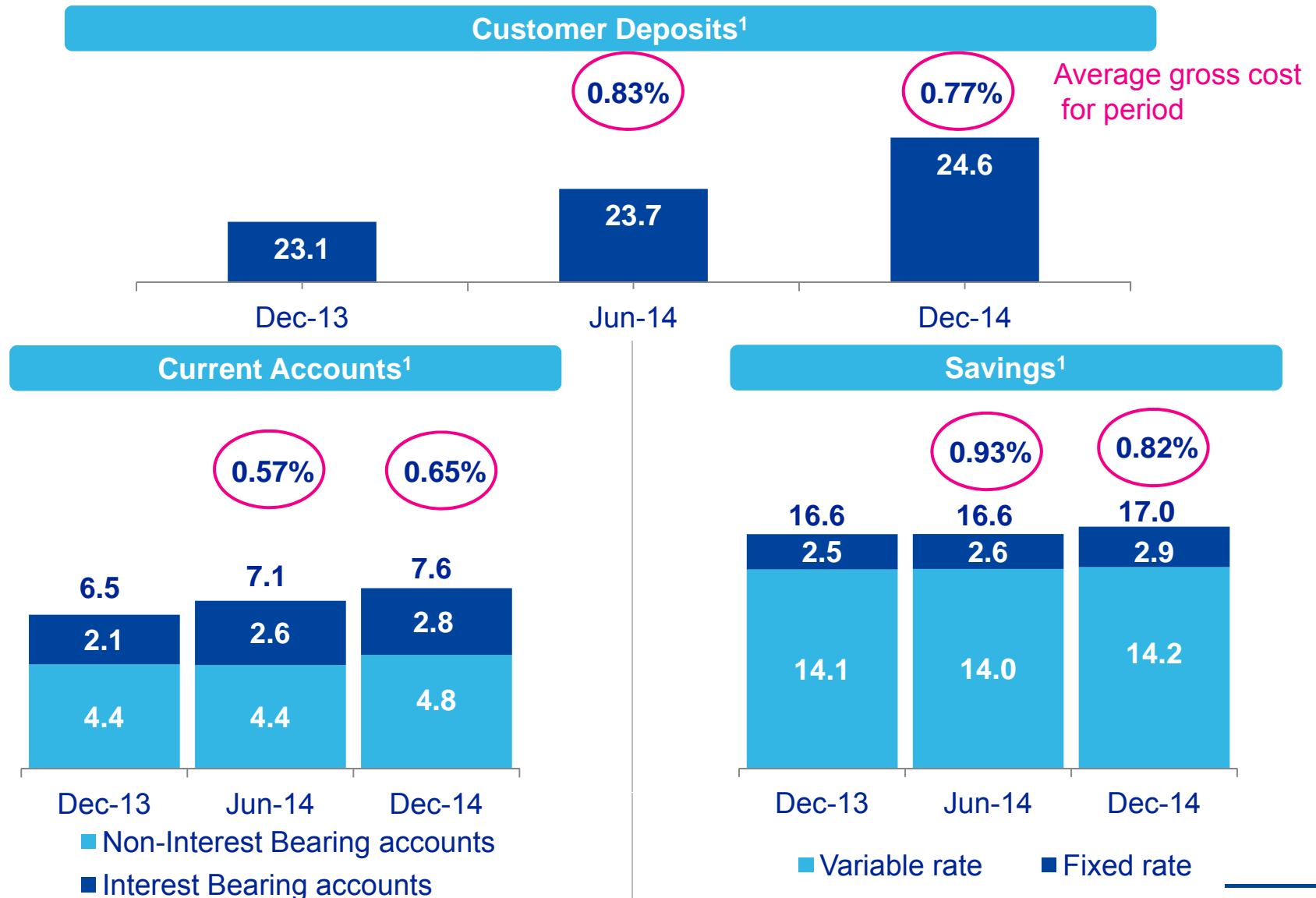


## Lower profitability in H2 reflects development of TSB's cost base and reduced level of lending



£m	2014			<i>H2 v H1 Mvmt %</i>
	H1	H2	FY	
Total income	431	424	855	(2)
Operating expenses	(333)	(363)	(696)	(9)
Impairment	(51)	(46)	(97)	8
<b>Franchise management profit</b>	<b>47</b>	<b>15</b>	<b>62</b>	<b>(68)</b>
Mortgage enhancement	32	40	72	27
<b>Group management profit</b>	<b>79</b>	<b>55</b>	<b>134</b>	<b>(30)</b>
Group AQR (bps)	47	42	44	5bps
Franchise NIM (bps)	362	363	362	1bps

# TSB continues to attract deposits, despite the average cost falling given lower savings rates

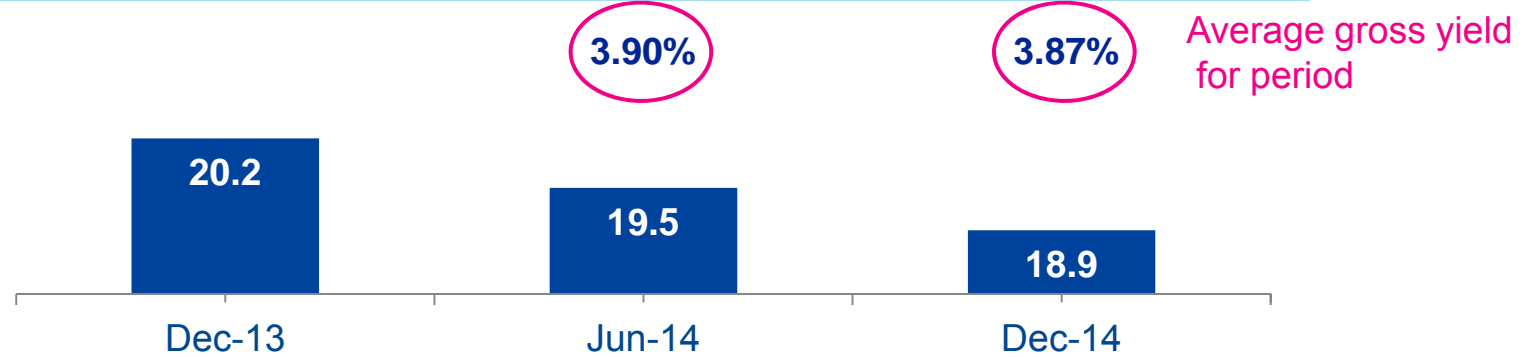


<sup>1</sup> £bn, period end

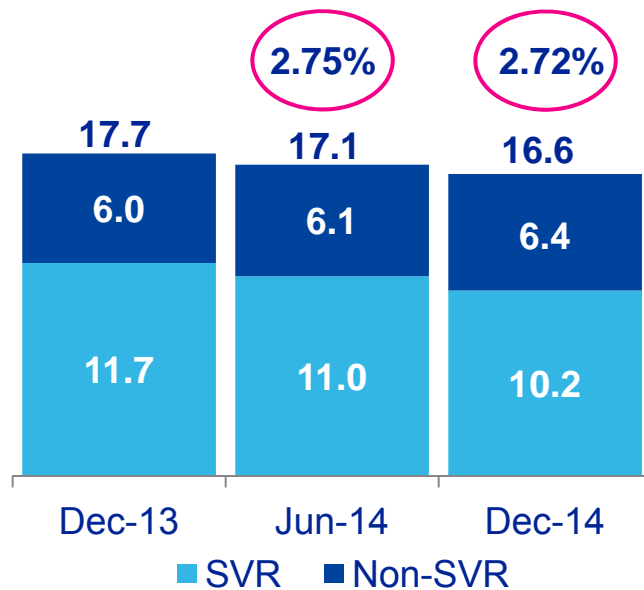
# Lending continues to reduce as rates continue to be affected by intensifying competition



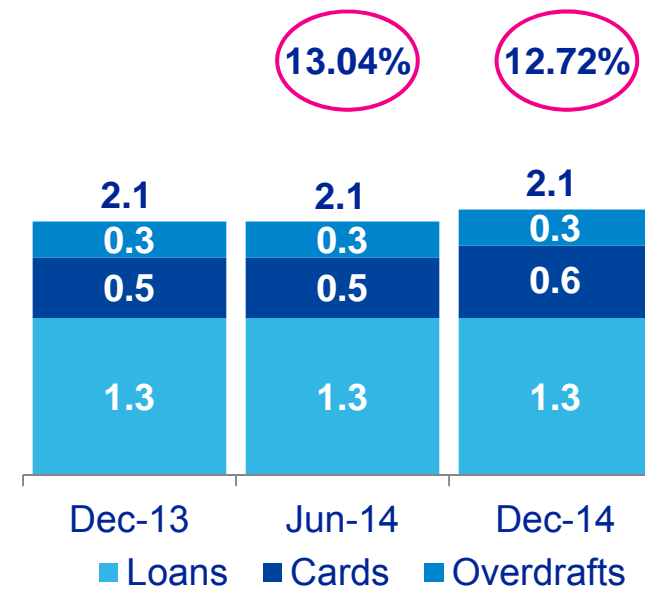
## Franchise Customer Lending<sup>1</sup>



## Mortgages<sup>1</sup>



## Unsecured<sup>1,2</sup>

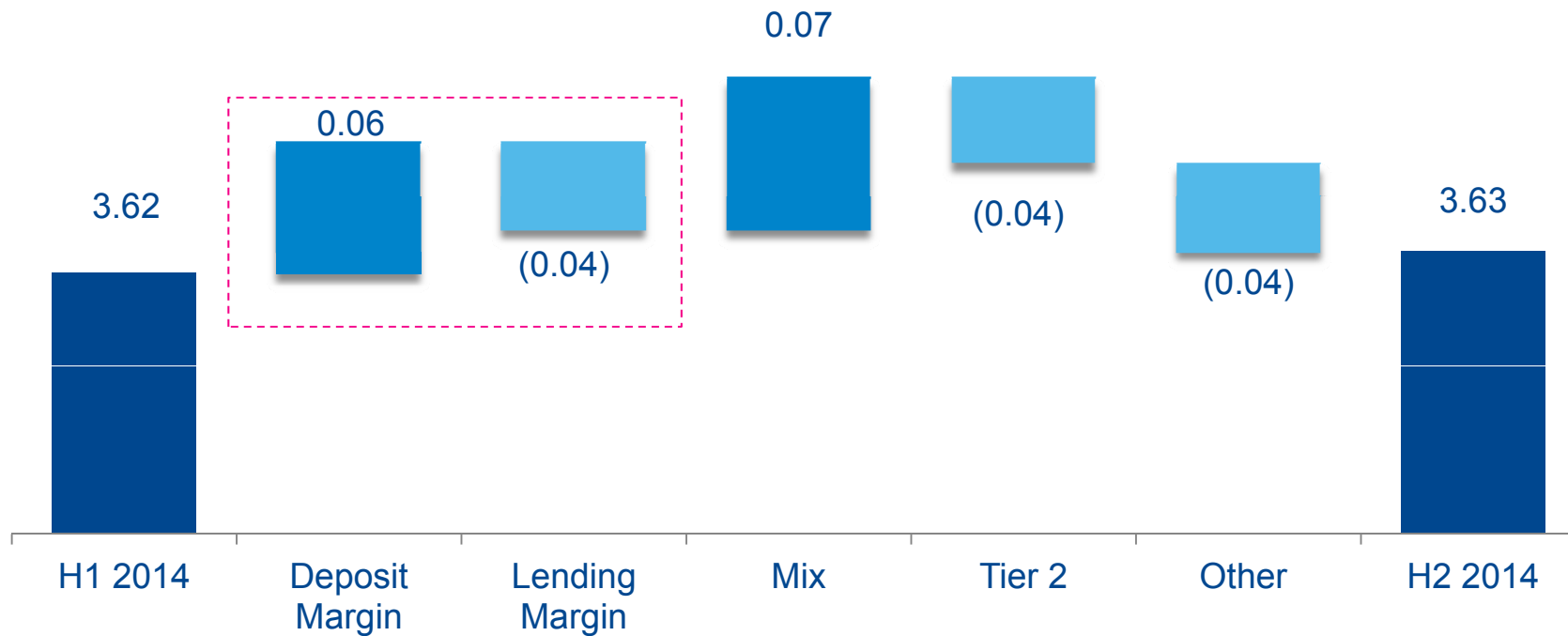


1. £bn, gross of impairments, period end. 2. Retail Unsecured only

# Net interest margin stable through 2014 with greater competition broadly offset by savings re-pricing



## Franchise Net Interest Margin (%)



# Market-wide pressure on lending rates appears likely to continue while the base rate outlook remains low



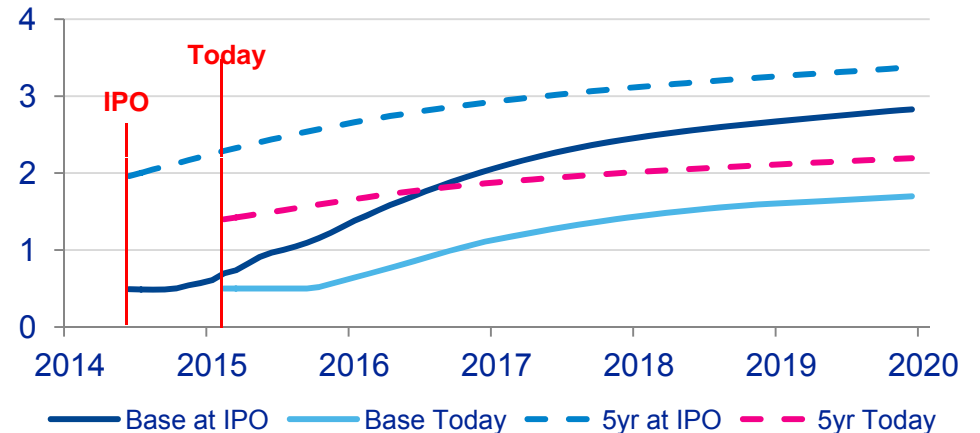
**We expect the Franchise net interest margin to be broadly flat in 2015, with a positive start offset by compression over the year from:**

- New lending margins
- The structural hedge
- Asset mix

**5yr swap curve – negative effect on hedge (%)**



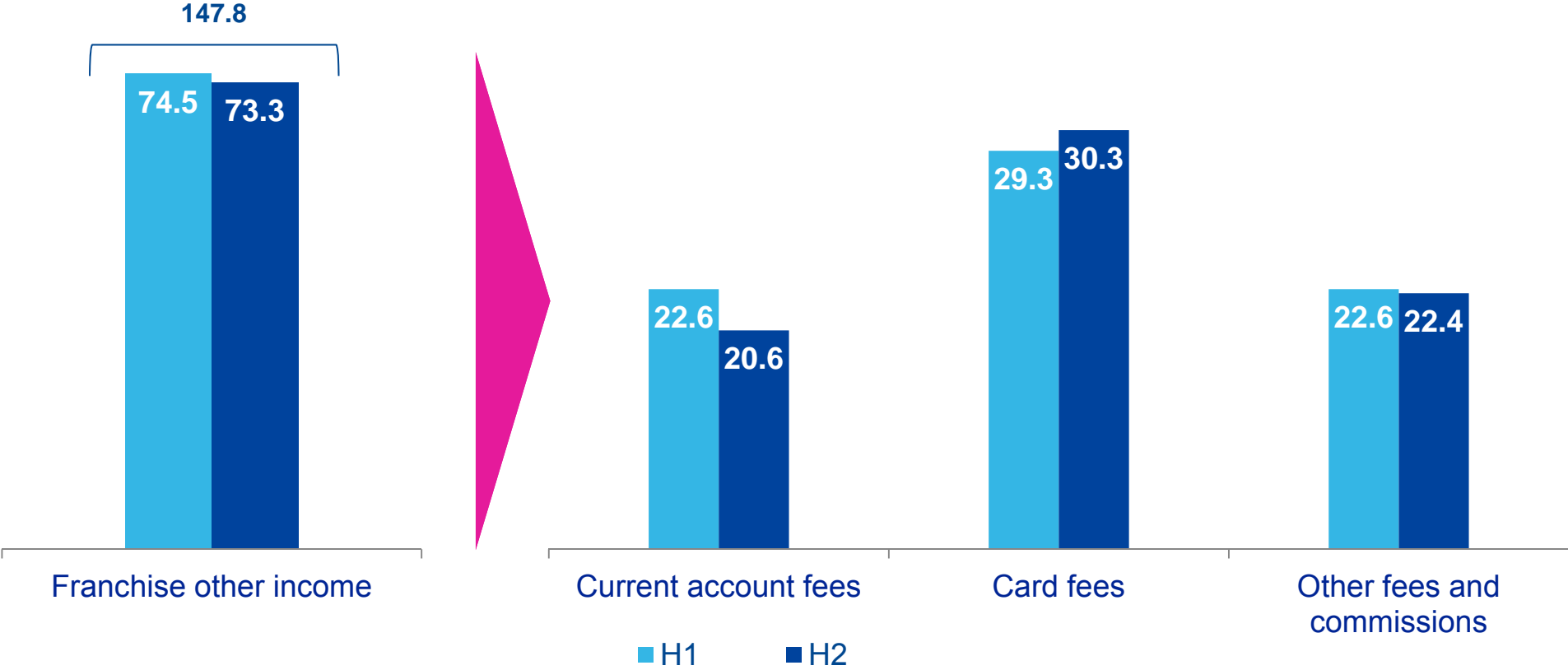
**Lower for longer outlook on rates (%)**



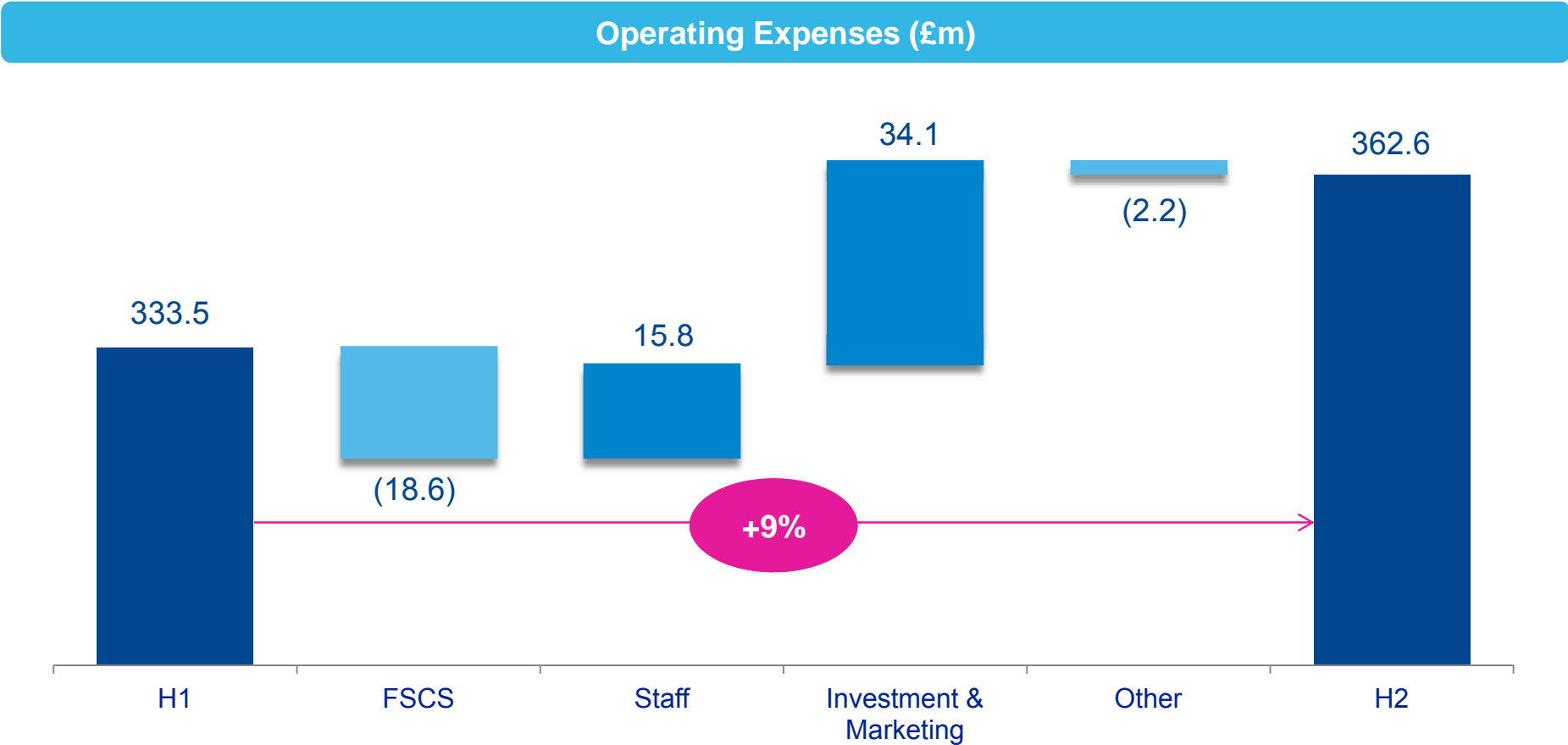
# Franchise other income remained broadly flat in 2014 but is expected to decline by £15m in 2015



## Franchise other income (£m)



# Cost growth from corporate core and mortgage broker capability but cost control is leading to savings



# Credit performance improving as UK macroeconomic trends remain supportive; trends expected to continue



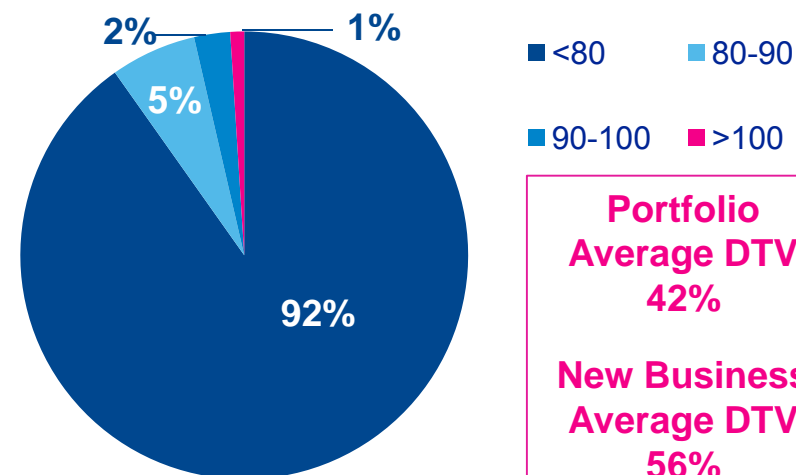
## An improving AQR performance (%)

	H1	H2	change (bps)
Unsecured & Business Banking	4.17	3.87	30
Mortgages	-0.01	0.00	(1)
<b>Total Franchise</b>	<b>0.51</b>	<b>0.48</b>	<b>3</b>

## A favourable environment for asset quality (%)<sup>1</sup>

	2013	2014	2015 <sup>e</sup>
House price inflation	7.6	7.9	5.0
Interest rates	0.5	0.5	0.5
Unemployment	7.2	5.8	5.5

## A low risk mortgage book by Debt-to-value (%)

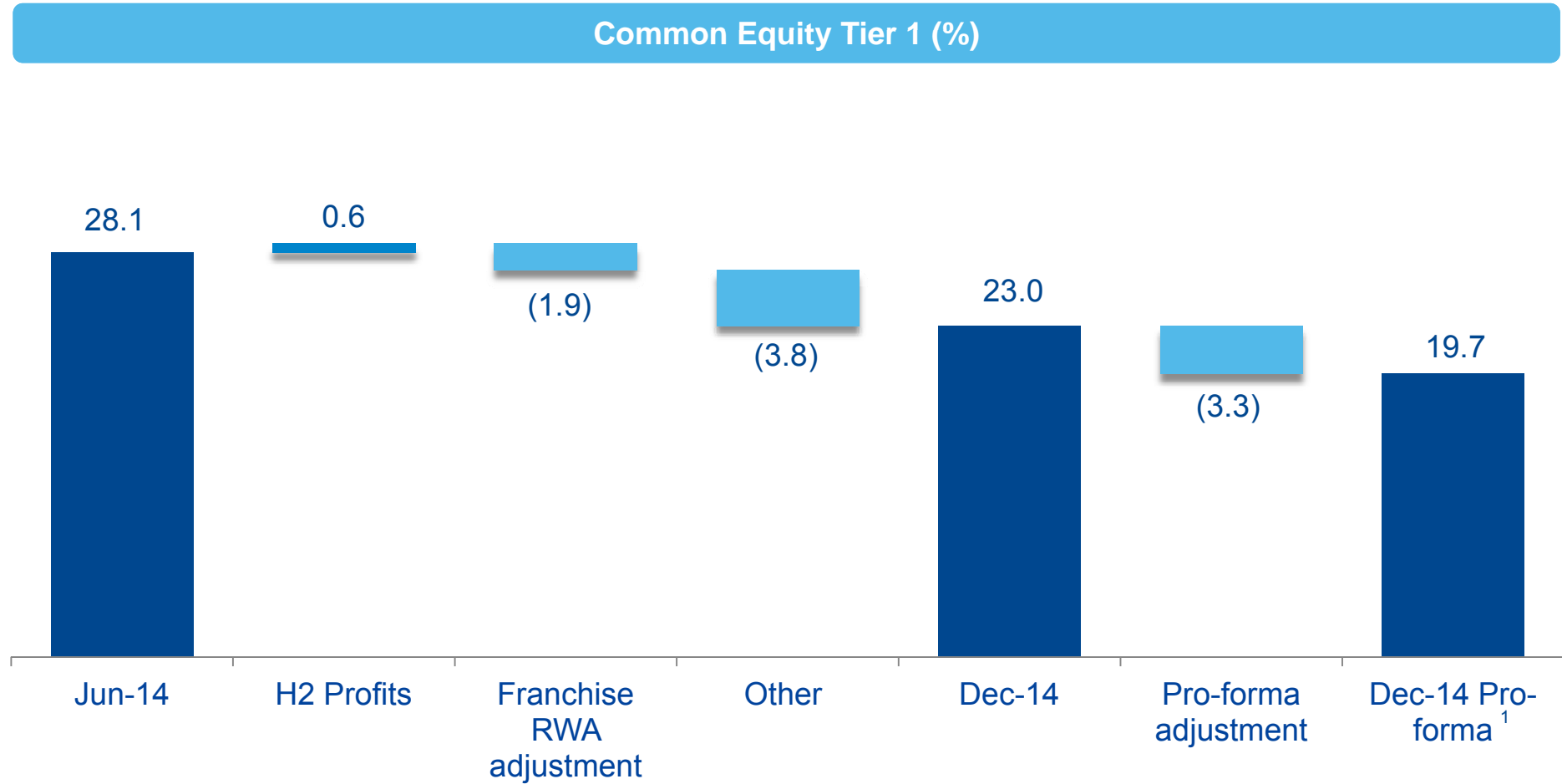


<sup>1</sup> Source: Halifax, HM Treasury consensus survey, ONS BoE and market forward rates





# Strongly capitalised as we prepare for lending growth in 2015



1. Pro forma is calculated on a full IRB basis for Franchise credit exposures and operational RWA calculated on a steady state income basis (rather than on an historic 3 year position).

## Summary of expectations for 2015

	2014	2015
Franchise margin	3.62%	expect the franchise net interest margin to be broadly flat in 2015
Franchise lending	£18.8bn	around £1.5bn of Franchise lending growth, fuelled by strong entry to intermediary market
Deposits	£24.6bn	more than 6% of the gross flow of current accounts
Franchise other income	£148m	to reduce c.£15m
Costs	£696m	costs of no more than £720m, £30m less than guidance at IPO

# Local banking for Britain



- Strong financial and strategic progress in 2014
- Known headwinds to profitability exist in 2015
- Growth remains our priority

## Forward Looking Statements

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This presentation contains forward looking statements with respect to the business, strategy and plans of the TSB Banking Group, as well as prevailing goals and expectations at the time of this presentation being made in relation to its future financial condition and performance. Statements that are not historical facts, including statements about the Group or the Group's management's beliefs and expectations are forward looking statements. By their nature, forward looking statements involve risk and uncertainty because they relate to future events and circumstances that will or may occur. The Group's actual future business, strategy, plans and/or results may differ materially from those expressed or implied in these forward looking statements as a result of a variety of factors, including, but not limited to, UK domestic and global economic and business conditions; the ability to access sufficient funding to meet the Group's liquidity needs; risks concerning borrower or counterparty credit quality; instability in the global financial markets, including Eurozone instability and the impact of any sovereign credit rating downgrade or other sovereign financial issues; market-related risks including in relation to interest rates and exchange rates; changing demographics and market-related trends; changes in customer preferences; changes to laws, regulation, accounting standards or taxation, including changes to regulatory capital or liquidity requirements; the policies and actions of governmental or regulatory authorities in the UK or the European Union or other jurisdictions in which the Group operates; the implementation of the Recovery and Resolution Directive and banking reform following the recommendations made by the Independent Commission on Banking; the ability to attract and retain senior management and other employees; the extent of any future impairment charges or write-downs caused by depressed asset valuations, market disruptions and illiquid markets; the effects of competition and the actions of competitors, including non-bank financial services and lending companies; exposure to regulatory scrutiny, legal proceedings, regulatory investigations or complaints and other factors. The forward looking statements contained in this presentation are made as at the date of this presentation and the Group undertakes no obligation to update any of its forward looking statements.