TSB Banking Group plc

2014 Q3 IMS

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Key Highlights

Local banking for Britain

- ✓ Q3 performance in line with expectations
- ✓ Strategic delivery on track
- ✓ Mortgage intermediary build on schedule for Jan 2015

Strategic delivery on track

Grow current accounts

- Share of current account gross flow 9.7%[1] in latest quarter
- Current account growth helped drive up customer deposits by £0.5bn

Grow customer lending

- Launched 'Borrow Well' and council tax mortgage product campaigns supporting increase in mortgage consideration from 4% to 9%[2]
- Creation of TSB's intermediary mortgage capability on track for launch in Q1 2015

Enhance TSB proposition

- Further improving digital offering; launching new tsb.co.uk public website with 'responsive web design', appointing Chief Digital Officer
- 135 branches refreshed in 2014
- 'Which?' survey put TSB in top quartile of UK brands for customer service in 2014[3]; Bank NPS turned positive after a 6 point increase[4]

(1)Source: CACI 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, i.e. covers the three months from May to July 2014 (2) © GfK NOP Ltd, Financial Research Survey (FRS) 6 months ending December 2013 and September 2014. 456 adults considering a mortgage in the next 12 months were interviewed for each 6 month period. Results show percentage who would consider TSB. (3) 'Which?' Magazine Oct 2014: 'Best and worst Brands for customer service' survey article – TSB ranked joint 22nd with a customer service score of 76%. (4) 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.

Strategy delivers further deposit growth while Franchise lending continues to reduce

£bn	Sept-14	June-14	change
Customer Deposits	24.16	23.70	*1.9%*
Franchise Lending	19.07	19.38	*(1.6)%*
Mortgage Enhancement	2.95	3.11	*(5.1)%*
Customer Lending	22.02	22.49	*(2.1)%*
Group LDR	91.1%	94.9%	*(3.8)pp*
Franchise LDR	78.9%	81.8%	*(2.9)pp*
CET1/ T1 Capital ratio	29.3%	28.1%	1.2pp
CET1/T1 Capital ratio (proforma)(1)	18.8%	18.2%	0.6pp
Leverage ratio	5.9%	5.9%	-

- **Customer deposit growth reflects strength of brand and current account proposition**
- **Net customer lending continued to fall as expected:**
  - Franchise secured lending declined given absence of intermediary mortgage channel while unsecured remained stable
  - Continuing Mortgage Enhancement attrition
- **LDR positions show capacity for Franchise lending growth**
- **Increase in capital position primarily reflects profits generated in Q3 and slight reduction in customer lending**

(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)

Franchise management profit higher primarily given FSCS charge in Q2

£m		Q3 2014	Q2 2014	change	YTD 2014
Franchise Business	Net interest income	175.6	176.7	(0.6)%	532.1
	Other income	36.0	36.0	-	110.5
	Total income	211.6	212.7	*(0.5)%*	642.6
	Operating expenses	(167.9)	(180.7)	*7.1%*	(501.4)
	Impairment	(23.0)	(23.7)	*3.0%*	(73.5)
	Management profit	**20.7**	**8.3**	***149.4%***	**67.7**
Mortgage Enhancement		20.9	23.3	*(10.3)%*	52.5
Group management profit		**41.6**	**31.6**	***31.6%***	**120.2**
Statutory profit before tax		**33.1**	**25.7**	***28.8%***	**161.6**
Franchise NIM		3.61%	3.60%	*1bps*	3.62%
Group NIM		3.54%	3.54%	-	3.56%
Group AQR		0.41%	0.42%	*1bps*	0.45%

- **Franchise management profit higher given FSCS charge in Q2:**
  - NII marginally lower given reduced customer lending
  - Excluding £17.3m FSCS levy in Q2, underlying operating expenses up 2.8% reflecting on-going establishment of support functions and investment spend
  - Impairment lower reflecting improving economy, partly offset by minor provision calculation adjustments in Q3
- **Mortgage Enhancement profit lower given attrition and re-financing onto lower new business rates**
- **Statutory PBT driven by higher Group management profit partly offset by increased derivatives & hedge accounting charge**

Summary

Local banking for Britain

- ✓ Q3 performance in line with expectations
- ✓ Strategic delivery on track
- ✓ Mortgage intermediary build on schedule for Jan 2015

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