# TSB Banking Group plc

# Results for the 3 months to 31 March 2015

## Key highlights

**Recommended offer from Banco de Sabadell (Sabadell)**

— TSB received a 340p per share cash offer for the entire business, which has been recommended by the Board to the Group's shareholders.

**Financial**

| | 3 months to 31 March 2015 £ million | 3 months to 31 Dec 2014 £ million | Change |
|---|---|---|---|
| Franchise profit/(loss) before tax | **16.8** | (5.7) | |
| Mortgage Enhancement profit before tax | **17.4** | 19.2 | |
| Management profit before tax higher given skewed investment and marketing spend in Q4-14 | **34.2** | 13.5 | 153.3% |
| Statutory profit before tax increased primarily as a result of higher management profit | **34.3** | 8.6 | 298.8% |
| | | | |
| Franchise banking net interest margin(1) in line with previous guidance | **3.71%** | 3.65% | 6bps |
| Group asset quality ratio(2) reflects underlying economic improvement and effect of one-offs | **0.35%** | 0.43% | 8bps |
| Franchise customer lending declined at the slowest rate in over a year | **18,708.6** | 18,839.3 | (0.7)% |
| Franchise loan to deposit ratio continues to reduce, creating headroom for growth | **75.6%** | 76.5% | (0.9)pp |
| Pro forma CET 1 ratio(3)(7) remains strong | **19.8%** | 19.7% | 0.1pp |

**Strategic delivery**

— 7.9% share of all new and switching bank accounts in the last quarter(4) marks the 5th consecutive quarter where the Group has delivered above its target of 6% share.

— Received over £700 million of gross mortgage applications through the newly launched TSB mortgage broker service to the end of the first quarter. TSB named mortgage lender of the quarter by Mortgage Strategy Magazine(5).

— Improving customer satisfaction was sustained as TSB's net promoter score(6) increased by 5 points to 14 in the quarter, the 5th consecutive quarter of improvement.

— Continued to invest in digital and branch proposition including the launch of a new mobile banking app, enlarging the digital team and launching of the first new look TSB branch in Enfield.

*"TSB is starting to fire on all cylinders as we take on the big banks in our mission to bring more competition to UK banking.*

*Over 7.9% of people opening or switching a bank account in the last quarter chose TSB – meaning we've now had five quarters in a row where we've beaten our 6% target; our mortgage broker service has continued its flying start, having received over £700 million of applications by the end of March, and more customers than ever before are recommending TSB to friends and family.*

*Whilst we still have a long way to go in bringing better banking to UK consumers, we're making real progress. This is reinforced by Banco de Sabadell's recommended offer to acquire TSB, which is a real vote of confidence in everything we've achieved so far and in our potential to succeed further in the future".*

Paul Pester
*Chief Executive Officer*

(1) - (7) See explanatory notes on page 3.

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## Basis of presentation

This statement presents the consolidated results of TSB Banking Group plc and its subsidiaries (the Group) for the three months to 31 March 2015.

**Management basis**

In order to present a more useful view of business performance, the Group's results are presented on a management basis which for the three months to 31 March 2015 excludes volatility arising from derivatives and costs arising from the Sabadell offer to acquire the shares of the Group.

**Reporting segments**

TSB is a provider of retail banking services in Britain and is organised, managed and reported across two business segments:

— Franchise, the Group's multi-channel retail banking business; and

— Mortgage Enhancement, a mortgage loan portfolio that was assigned to the Group by Lloyds Banking Group (LBG) with effect from 28 February 2014 in response to a review by the Office of Fair Trading of the effect on competition of the divestment of TSB. This is designed to enhance the Group's profitability by over £230 million.

## Forward looking statements

This announcement contains forward looking statements with respect to the business, strategy and plans of the TSB Banking Group, its current goals and expectations relating 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, any acquisition of TSB Banking Group resulting from the recommended offer by Sabadell; 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 announcement are made as at the date of this announcement and the Group undertakes no obligation to update any of its forward looking statements.

# Summary results

## Summary balance sheet

| | At 31 March 2015 £ million | At 31 Dec 2014 £ million | Change % |
|---|---|---|---|
| Loans and advances to customers | **21,386.2** | 21,641.4 | (1.2) |
| Other assets | **6,016.7** | 5,530.0 | 8.8 |
| **Total assets** | **27,402.9** | 27,171.4 | 0.9 |
| | | | |
| Customer deposits | **24,733.6** | 24,624.9 | 0.4 |
| Other liabilities | **1,006.6** | 912.1 | 10.4 |
| Shareholders' equity | **1,662.7** | 1,634.4 | 1.7 |
| **Total equity and liabilities** | **27,402.9** | 27,171.4 | 0.9 |
| | | | |
| Franchise loan to deposit ratio | **75.6%** | 76.5% | (0.9)pp |
| Net asset book value per share (pence) | **333p** | 327p | 6p |
| Common Equity Tier 1 Capital ratio(7) | **23.0%** | 23.0% | – |
| Risk-weighted assets | **£6,941.9m** | £6,930.2m | 0.2% |
| Pro forma Common Equity Tier 1 Capital ratio(3)(7) | **19.8%** | 19.7% | 0.1pp |
| Leverage ratio(7) | **5.7%** | 5.8% | (0.1)pp |

## Summary income statement

| | 3 months to 31 March 2015 £ million | 3 months to 31 Dec 2014 £ million | Change % | 3 months to 31 March 2014 £ million |
|---|---|---|---|---|
| Net interest income | **192.3** | 197.2 | **(2.5)** | 189.0 |
| Other income | **30.5** | 34.5 | **(11.6)** | 38.1 |
| **Total income** | **222.8** | 231.7 | **(3.8)** | 227.1 |
| Operating expenses | **(169.8)** | (194.7) | **12.8** | (152.8) |
| Impairment | **(18.8)** | (23.5) | **20.0** | (27.3) |
| **Profit before taxation (management basis)** | **34.2** | 13.5 | **153.3** | 47.0 |
| Gain/(loss) on derivatives and hedge accounting | **4.4** | (0.4) | | (0.6) |
| Derivative fair value unwind | **(3.0)** | (4.5) | | (7.3) |
| Sabadell transaction costs | **(1.3)** | – | | – |
| Defined benefit pension scheme settlement gain | **–** | – | | 63.7 |
| **Statutory profit before taxation** | **34.3** | 8.6 | **298.8** | 102.8 |
| Taxation | **(7.4)** | (1.8) | | (21.1) |
| **Statutory profit for the period** | **26.9** | 6.8 | **295.6** | 81.7 |
| Group banking net interest margin(1) | **3.61%** | 3.57% | **4bps** | 3.62% |
| Franchise banking net interest margin (1) | **3.71%** | 3.65% | **6bps** | 3.64% |
| Group management basis cost:income ratio | **76.2%** | 84.0% | **7.8pp** | 67.3% |
| Group asset quality ratio (AQR)(2) | **0.35%** | 0.43% | **8bps** | 0.52% |

## Other key performance indicators

| | Quarter to 31 March 2015 | Quarter to 31 Dec 2014 | Change | Quarter to 31 March 2014 |
|---|---|---|---|---|
| Mortgage gross new lending (£ million) | **479.0** | 404.5 | 18.4% | 316.0 |
| Share of new personal bank account openings(4) | **7.9%** | 8.0% | (0.1)pp | 6.7% |
| Customer advocacy – net promoter score (NPS)(6) | **14** | 9 | 5 | (13) |

(1) Management net interest income divided by average loans and advances to customers, gross of impairment provisions.
(2) Impairment charge on loans and advances to customers divided by average loans and advances to customers, gross of impairment allowance.
(3) Pro forma is calculated to reflect the Franchise Unsecured customer lending portfolios calculated on an Internal Ratings Based (IRB) basis. Currently, these portfolios are calculated on the standardised basis approach. The Group plans to migrate, subject to PRA approval, these to an IRB basis by June 2015.
(4) Source: CACI Current and Savings Account 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 each quarter.
(5) Joint lender of the quarter for Q1 2015 - Mortgage Strategy Magazine (11/02/2015).
(6) 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.
(7) Excludes unaudited retained statutory profit for the 3 months to 31 March 2015 which would contribute 0.4% to CET1, 0.3% to Pro forma CET1 and 0.1% to Leverage ratio.

# Strategic update

## Recommended offer by Sabadell

As announced on 20 March 2015, the boards of TSB and Sabadell have reached an agreement on the terms for Sabadell to acquire TSB. We believe this offer represents a significant endorsement of the progress TSB has made. We believe it provides our shareholders with the opportunity to receive in cash today the value that may have otherwise been unlocked over time as TSB executes its strategy and realises its longer term growth prospects, while removing the risks inherent in the delivery of that growth plan.

Sabadell expects to support and accelerate TSB's retail growth strategy and the expansion of TSB's presence in the SME sector. Sabadell intends to continue to operate TSB as a robust competitor in the UK banking market, building on the TSB brand name.

The Sabadell transaction continues to progress. However we remain focused on achieving our strategy to grow the business and bring more competition to UK banking. In the first quarter of 2015 TSB continued to make good progress with a continuing focus on the three key components of our growth strategy as follows:

## 1. Provide great banking to more people

**Grow market share of bank accounts by consistently taking a greater than 6% share of gross flow over a five year period.**

- In the most recent quarter, TSB delivered a 7.9% share of flow of all new and switching bank accounts, the 5th consecutive quarter where we exceeded our 6% target.

- This continued strong performance reflects the strength of the TSB brand and our competitive bank account offering and also helped to increase customer deposits by a further £108.7 million in the quarter.

## 2. Help more people borrow well

**Grow Franchise customer lending by 40% to 50% over a five year period from IPO.**

- We have made strong early progress since launching our mortgage intermediary distribution channel in January 2015, with over £700 million of applications received to the end of the first quarter, approximately £100 million of completions in the first quarter and we were named mortgage lender of the quarter by Mortgage Strategy Magazine. We have also increased the products on offer through this channel and, having initially focused on house purchase mortgages, now offer re-mortgage products and have begun a pilot for buy-to-let mortgages.

- Our successful re-entry into the mortgage intermediary channel has helped to slow the trend of declining Franchise mortgage balances seen in 2014.

- Unsecured lending remained relatively flat in a congested and competitive environment.

## 3. Provide the kind of banking experience people want and deserve

**Deploy TSB's strong digital capability. Build greater consideration of the TSB brand. Deliver a differentiated customer experience through our Partners.**

- We have continued to invest in our digital proposition, launching our new mobile banking app which makes it simpler for our customers to bank with us wherever they may be. In addition, we are doubling the size of our digital banking team to support the further improvement of our digital proposition.

- Now that it is 18 months since we launched TSB back onto high streets across Britain, and almost a year since the end of our co-servicing agreement with Lloyds, we now have a much clearer picture of how our customers are using our branches. In response, we have extended the opening hours for almost 400 of our branches and 328 are now open on a Saturday. We have also reviewed 15 locations across the UK where we have two or more branches within approximately 500 metres of each other. As customers tend to use a particular branch in these locations, we have developed plans to invest in the preferred branch before closing the other branches nearby. As a result we will absorb 17 lesser used branches into the 15 more popular branches. Enfield is the first of our refurbished and re-launched branches and will be followed by the closure of our other Enfield branch only 170 metres away.

- Evidence of the progress is reflected in our Bank net promoter score, which improved by a further 5 points this quarter, the 5th consecutive quarter of improvement.

## Summary and outlook

TSB has continued to build on the strong start made in 2014.

The Sabadell transaction continues to progress and we remain resolutely focused on delivering our growth strategy and bringing more competition to UK banking.

The first quarter of 2015 has been another period of strong progress in continuing to establish TSB's credentials as Britain's challenger bank. Our Q1 2015 financial performance was in line with our expectations and we are continuing to make solid progress with our strategic delivery, particularly with regards to the mortgage intermediary channel.

Certain challenges remain however, particularly the sustained low interest rate and competitive environment. Given this environment we continue to expect the Franchise margin to be broadly flat in 2015 compared to 2014, with margin expansion early in the year offset by negative factors in the second half. The 2015 exit rate for margin is expected to be notably lower than the average for the year. We also continue to expect other income to come under modest pressure given the early implementation of reduced interchange fees and lower Added Value fees contributing to a circa £15 million reduction in Franchise other income in 2015 compared to 2014.

During 2015, cost management will allow the effects of these headwinds to be mitigated and we continue to target expenditure of no more than £720 million in 2015 whilst continuing to deliver our growth strategy including increasing the balance of Franchise lending by over £1.5 billion in 2015 and consistently taking more than a 6% share of all new and switching bank accounts each quarter.

# Business review

## Review of the balance sheet

**Customer loans and advances**

Loans and advances decreased by 1.2% in the first quarter of 2015 to £21,386.2 million. This was primarily due to the ongoing expected repayment of the Mortgage Enhancement portfolio which decreased by 4.4%. Franchise loans and advances decreased by 0.7%, representing the smallest quarterly decrease since TSB's separation from LBG in 2013 and reflected the success of the new intermediary channel following its launch in January 2015.

**Impairment on loans and advances**

Impaired loans as a percentage of loans and advances to customers remained unchanged at 0.9% (31 December 2014: 0.9%). Impaired loans decreased by 9.2% driven by continued favourable economic conditions. Provisions as a percentage of impaired loans were marginally higher at 43.1% compared to 42.0% at 31 December 2014.

**Funding and liquidity**

The Group continued to attract new customers and retain existing deposit balances which led to a 0.4% increase in deposit balances during the quarter to £24,733.6 million. As a result the Franchise loan to deposit ratio at 31 March 2015 was 75.6% (31 December 2014: 76.5%).

**Capital management**

The capital position of the Group remains strong with a pro forma Common Equity Tier 1 (CET1) Capital ratio of 19.8% (31 December 2014: 19.7%) and a leverage ratio of 5.7% (31 December 2014: 5.8%).

## Review of financial performance

**Q1 2015 compared to Q4 2014**

Group profit before tax on a management basis for the three months to 31 March 2015 increased by 153.3% to £34.2 million compared to Q4 2014. This increase primarily reflected lower costs and a continued improvement in impairment partially offset by lower income.

Income fell by 3.8% reflecting the effects of lower lending balances and a decrease in other income. Other income was 11.6% lower and primarily reflects the previously guided effect of market reforms to interchange fee income and the fact that Added Value current accounts remain available only through the digital channel. These factors were partially offset as the Group banking net interest margin improved by 4bps to 3.61%, as expected, primarily driven by lower deposit costs.

Operating expenses decreased by 12.8% given the high marketing and investment spend in Q4 2014 but is also reflective of the continuing and successful business focus on managing costs in the current low interest rate environment.

The impairment charge decreased by 20.0% reflecting the continued effect of the favourable UK economic environment, one off charges in Q4, including an increase in the unsecured loss emergence period, and a £1m benefit from net releases in Q1.

**Q1 2015 compared to Q1 2014**

Group profit before tax on a management basis decreased by 27.2% compared to Q1 2014 primarily reflecting higher costs, partially offset by continued improvement in impairment losses.

Total income decreased by 1.9% reflecting a decrease in interest income from lower Franchise lending balances and a decrease in other income reflecting lower Added Value fee income. These were partially offset by higher earnings from the Mortgage Enhancement portfolio where the comparative period did not recognise a full quarter of earnings as it was transferred to the Group with effect from 28 February 2014.

Operating expenses were 11.1% higher reflecting the establishment of the Group's stand alone cost base during 2014, in particular completion of the build of the corporate support functions during 2014 and increased investment spend.

Impairment charge decreased by 31.1% reflecting the favourable UK economic environment. Group AQR decreased to 0.35% from 0.52% in Q1 2014.

# Appendix 1:

## Statutory consolidated balance sheet (unaudited)

| | At 31 March 2015 £ million | At 31 Dec 2014 £ million |
|---|---|---|
| **Assets** | | |
| Cash and balances at central banks | **4,411.9** | 4,396.3 |
| Loans and receivables: | | |
| Loans and advances to customers | **21,386.2** | 21,641.4 |
| Loans and advances to banks | **143.2** | 134.5 |
| Available-for-sale financial assets | **654.4** | 339.7 |
| Items in course of collection from banks | **220.7** | 135.7 |
| Deferred tax assets | **103.6** | 108.1 |
| Property, plant and equipment | **148.6** | 149.2 |
| Other assets | **196.5** | 143.4 |
| Derivative financial assets | **137.8** | 123.1 |
| **Total assets** | **27,402.9** | 27,171.4 |
| | | |
| **Liabilities** | | |
| Customer deposits | **24,733.6** | 24,624.9 |
| Deposits from banks | **–** | 32.5 |
| Debt securities in issue | **10.0** | 10.0 |
| Subordinated liabilities | **413.4** | 405.5 |
| Items in course of transmission to banks | **197.5** | 144.6 |
| Other liabilities | **183.1** | 202.8 |
| Derivative financial liabilities | **202.6** | 116.7 |
| **Total liabilities** | **25,740.2** | 25,537.0 |
| | | |
| **Equity** | | |
| Share capital | **5.0** | 5.0 |
| Share premium | **965.1** | 965.1 |
| Merger reserve | **616.5** | 616.5 |
| Available-for-sale reserve | **1.0** | 0.4 |
| Cash flow hedging reserve | **0.8** | – |
| Capital reorganisation reserve | **(1,311.6)** | (1,311.6) |
| Capital reserve | **410.0** | 410.0 |
| Retained profits | **975.9** | 949.0 |
| **Shareholders' equity** | **1,662.7** | 1,634.4 |
| | | |
| **Total equity and liabilities** | **27,402.9** | 27,171.4 |

# Appendix 2:

## Statutory summary consolidated statement of comprehensive income (unaudited)

| | 3 months to 31 March 2015 £ million | 3 months to 31 March 2014 £ million |
|---|---|---|
| **Income statement:** | | |
| Interest and similar income | **236.7** | 233.4 |
| Interest and similar expense | **(49.4)** | (53.1) |
| **Net interest income** | **187.3** | 180.3 |
| Fee and commission income | **48.2** | 52.3 |
| Fee and commission expense | **(18.0)** | (15.2) |
| **Net fee and commission income** | **30.2** | 37.1 |
| Other operating income | **6.7** | 1.8 |
| **Other income** | **36.9** | 38.9 |
| **Total income** | **224.2** | 219.2 |
| | | |
| **Operating expenses:** | | |
| Other operating expenses | **(169.8)** | (152.8) |
| Sabadell transaction costs | **(1.3)** | – |
| Defined benefit pension scheme settlement gain | – | 63.7 |
| **Total operating expenses** | **(171.1)** | (89.1) |
| **Operating profit before impairment losses and taxation** | **53.1** | 130.1 |
| Impairment losses on loans and advances to customers | **(18.8)** | (27.3) |
| **Profit before taxation** | **34.3** | 102.8 |
| Taxation | **(7.4)** | (21.1) |
| **Profit for the year** | **26.9** | 81.7 |
| | | |
| **Other comprehensive income:** | | |
| Items that may be subsequently reclassified to profit or loss: | | |
| Movements in revaluation reserve in respect of available-for-sale financial assets | **0.7** | – |
| Cash flow hedges | **1.1** | – |
| Taxation | **(0.3)** | – |
| **Other comprehensive income for the year, net of taxation** | **1.5** | – |
| **Total comprehensive income for the year** | **28.4** | 81.7 |

# Appendix 3:

## Quarterly results summary by segment (unaudited)

### Group

| | Q1 2015 £ million | Q4 2014 £ million | Q3 2014 £ million | Q2 2014 £ million | Q1 2014 £ million |
|---|---|---|---|---|---|
| Net interest income | **192.3** | 197.2 | 199.3 | 201.6 | 189.0 |
| Other income | **30.5** | 34.5 | 33.2 | 34.5 | 38.1 |
| **Total income** | **222.8** | 231.7 | 232.5 | 236.1 | 227.1 |
| Operating expenses | **(169.8)** | (194.7) | (167.9) | (180.7) | (152.8) |
| Impairment | **(18.8)** | (23.5) | (23.0) | (23.8) | (27.3) |
| **Profit before taxation (management basis)** | **34.2** | 13.5 | 41.6 | 31.6 | 47.0 |
| Gain/(loss) on derivatives and hedge accounting | **4.4** | (0.4) | (2.9) | 0.8 | (0.6) |
| Derivative fair value unwind | **(3.0)** | (4.5) | (5.6) | (6.7) | (7.3) |
| Sabadell transaction costs | **(1.3)** | – | – | – | – |
| Defined benefit pension scheme settlement gain | **–** | – | – | – | 63.7 |
| **Statutory profit before taxation** | **34.3** | 8.6 | 33.1 | 25.7 | 102.8 |

| | | | | | |
|---|---|---|---|---|---|
| Loans and advances to customers | **21,386.2** | 21,641.4 | 22,016.2 | 22,493.4 | 23,039.3 |
| Customer deposits | **24,733.6** | 24,624.9 | 24,157.6 | 23,700.4 | 23,259.7 |
| Group banking net interest margin(1) | **3.61%** | 3.57% | 3.54% | 3.54% | 3.62% |
| Management basis cost:income ratio | **76.2%** | 84.0% | 72.2% | 76.5% | 67.3% |
| Group asset quality ratio(2) | **0.35%** | 0.43% | 0.41% | 0.42% | 0.52% |

### Franchise

| | Q1 2015 £ million | Q4 2014 £ million | Q3 2014 £ million | Q2 2014 £ million | Q1 2014 £ million |
|---|---|---|---|---|---|
| Net interest income | **172.3** | 175.2 | 175.6 | 176.7 | 179.8 |
| Other income | **33.1** | 37.3 | 36.0 | 36.0 | 38.5 |
| **Total income** | **205.4** | 212.5 | 211.6 | 212.7 | 218.3 |
| Operating expenses | **(169.8)** | (194.7) | (167.9) | (180.7) | (152.8) |
| Impairment | **(18.8)** | (23.5) | (23.0) | (23.7) | (26.8) |
| **Profit/(loss) before taxation (management basis)** | **16.8** | (5.7) | 20.7 | 8.3 | 38.7 |

| | | | | | |
|---|---|---|---|---|---|
| Loans and advances to customers | **18,708.6** | 18,839.3 | 19,063.1 | 19,381.8 | 19,749.4 |
| Customer deposits | **24,733.6** | 24,624.9 | 24,157.6 | 23,700.4 | 23,259.7 |
| Franchise banking net interest margin(1) | **3.71%** | 3.65% | 3.61% | 3.60% | 3.64% |

### Mortgage Enhancement

| | Q1 2015 £ million | Q4 2014 £ million | Q3 2014 £ million | Q2 2014 £ million | Q1 2014 £ million |
|---|---|---|---|---|---|
| Net interest income | **20.0** | 22.0 | 23.7 | 24.9 | 9.2 |
| Other income | **(2.6)** | (2.8) | (2.8) | (1.5) | (0.4) |
| **Total income** | **17.4** | 19.2 | 20.9 | 23.4 | 8.8 |
| Operating expenses | **–** | – | – | – | – |
| Impairment | **–** | – | – | (0.1) | (0.5) |
| **Profit before taxation (management basis)** | **17.4** | 19.2 | 20.9 | 23.3 | 8.3 |

| | | | | | |
|---|---|---|---|---|---|
| Loans and advances to customers | **2,677.6** | 2,802.1 | 2,953.1 | 3,111.6 | 3,289.9 |
| Mortgage Enhancement banking net interest margin(1) | **2.96%** | 3.03% | 3.10% | 3.13% | 3.25% |

(1) and (2) See notes on page 3.

# Appendix 4:

## Reconciliation of management basis to statutory results (unaudited)

| 3 months to 31 March 2015 | Management basis £ million | Gain/(loss) on derivatives and hedge accounting £ million | Derivative fair value unwind £ million | Sabadell transaction costs £ million | Defined benefit pension scheme settlement gain £ million | Statutory results £ million |
|---|---|---|---|---|---|---|
| Net interest income | **192.3** | **(5.0)** | **–** | **–** | **–** | **187.3** |
| Other income/(expense) | **30.5** | **9.4** | **(3.0)** | **–** | **–** | **36.9** |
| **Total income** | **222.8** | **4.4** | **(3.0)** | **–** | **–** | **224.2** |
| Operating expenses | **(169.8)** | **–** | **–** | **(1.3)** | **–** | **(171.1)** |
| Impairment | **(18.8)** | **–** | **–** | **–** | **–** | **(18.8)** |
| **Profit/(loss) before taxation** | **34.2** | **4.4** | **(3.0)** | **(1.3)** | **–** | **34.3** |
| Taxation | **(7.1)** | **(0.9)** | **0.6** | **–** | **–** | **(7.4)** |
| **Profit/(loss) after taxation** | **27.1** | **3.5** | **(2.4)** | **(1.3)** | **–** | **26.9** |
| **3 months to 31 December 2014** | | | | | | |
| Net interest income | 197.2 | (6.2) | – | – | – | 191.0 |
| Other income/(expense) | 34.5 | 5.8 | (4.5) | – | – | 35.8 |
| **Total income** | 231.7 | (0.4) | (4.5) | – | – | 226.8 |
| Operating expenses | (194.7) | – | – | – | – | (194.7) |
| Impairment | (23.5) | – | – | – | – | (23.5) |
| **Profit/(loss) before taxation** | 13.5 | (0.4) | (4.5) | – | – | 8.6 |
| Taxation | (2.9) | 0.1 | 1.0 | – | – | (1.8) |
| **Profit/(loss) after taxation** | 10.6 | (0.3) | (3.5) | – | – | 6.8 |
| **3 months to 31 March 2014** | | | | | | |
| Net interest income | 189.0 | (8.7) | – | – | – | 180.3 |
| Other income/(expense) | 38.1 | 8.1 | (7.3) | – | – | 38.9 |
| **Total income** | 227.1 | (0.6) | (7.3) | – | – | 219.2 |
| Operating expenses | (152.8) | – | – | – | 63.7 | (89.1) |
| Impairment | (27.3) | – | – | – | – | (27.3) |
| **Profit/(loss) before taxation** | 47.0 | (0.6) | (7.3) | – | 63.7 | 102.8 |
| Taxation | (9.8) | 0.1 | 1.6 | – | (13.0) | (21.1) |
| **Profit/(loss) after taxation** | 37.2 | (0.5) | (5.7) | – | 50.7 | 81.7 |

# Contacts

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