

GROUP RESULTS

2007 Results

22 February 2008

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Sir Victor Blank
Chairman

Chairman's overview

- **Excellent operating and financial performance**
- **Lower risk, low volatility business model**
- **Confident outlook for the business**
- **Dividend increased 5% to 35.9p per share**

Significant growth potential

GROUP RESULTS

2007 Results

22 February 2008

Helen Weir
Group Finance Director

Continuing to deliver a strong performance*

	2006	2007	% Change
Profit before tax	£3,710m	£3,919m	6
Earnings per share	46.9p	50.8p	8
Economic profit	£1,690m	£1,842m	9
Post-tax return on equity	25.1%	25.2%	
Dividend per share	34.2p	35.9p	5

* Excluding volatility, profit on sale of businesses, settlement of overdraft claims and pension schemes related credit

Good overall performance*

£m	2006	2007	% Change
Total income, after claims	10,679	11,161	5
Operating expenses	(5,437)	(5,472)	(1)
Trading surplus	5,242	5,689	9
Impairment	(1,555)	(1,796)	(15)
Insurance grossing	23	26	
Profit before tax	3,710	3,919	6

* Excluding volatility, profit on sale of businesses, settlement of overdraft claims and pension schemes related credit

Underlying performance even stronger*

£m	2006	2007	% Change	Market dislocation	2007	% Change
Total income, after claims	10,679	11,161	5	(188)	11,349	6
Operating expenses	(5,437)	(5,472)	(1)	–	(5,472)	(1)
Trading surplus	5,242	5,689	9	(188)	5,877	12
Impairment	(1,555)	(1,796)	(15)	(92)	(1,704)	(10)
Insurance grossing	23	26			26	
Profit before tax	3,710	3,919	6	(280)	4,199	13

* Excluding volatility, profit on sale of businesses, settlement of overdraft claims and pension schemes related credit

Key performance drivers

Income

- Strong liability growth: continued asset momentum
- Margin outlook improving

Cost

- Continued strong cost disciplines
- Productivity programme ahead of expectations

Impairment

- Asset quality remains satisfactory
- Retail impairments lower than 2006

Capital

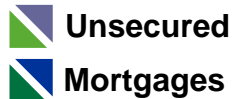
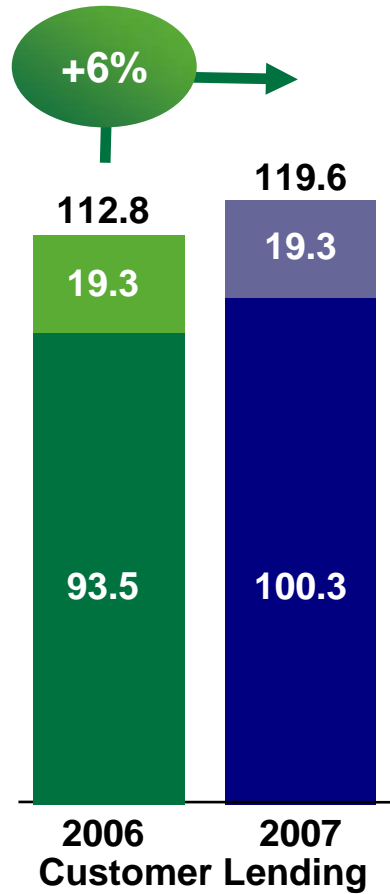
- Capital efficiency continues to improve
- Capital ratios robust under Basel II

Funding

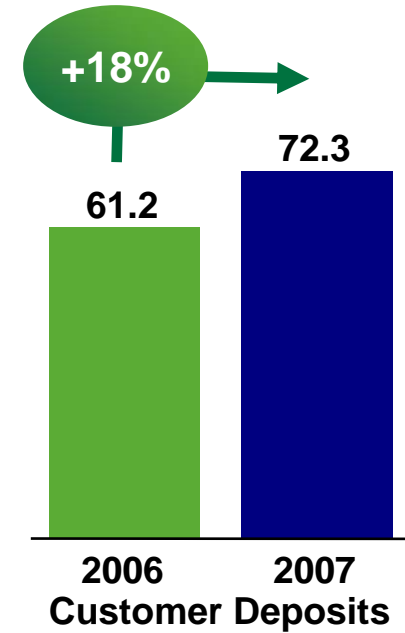
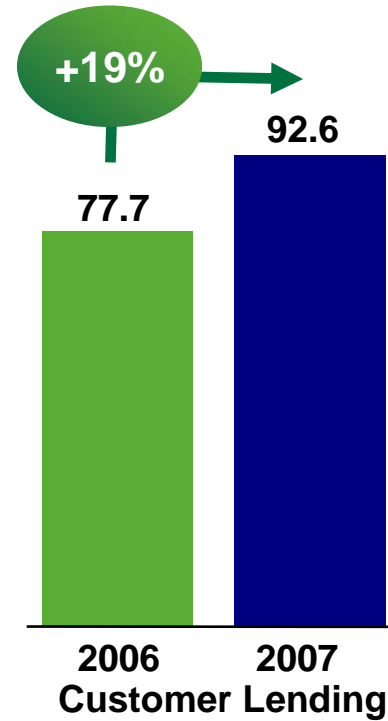
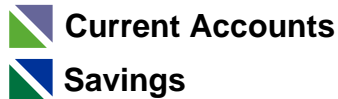
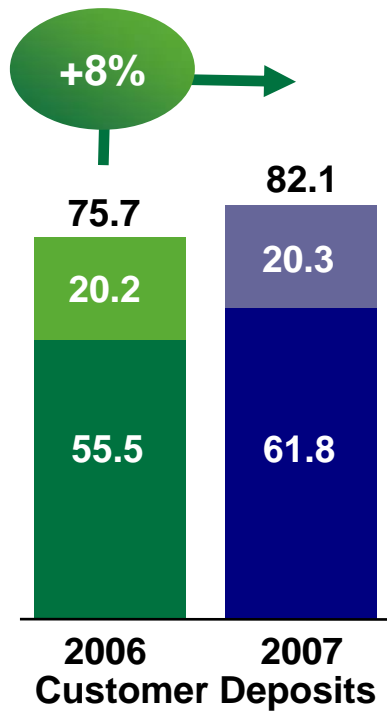
- Strong customer deposit base
- Continue to fund very successfully

Good customer lending and deposit growth

UK Retail Banking (£bn)

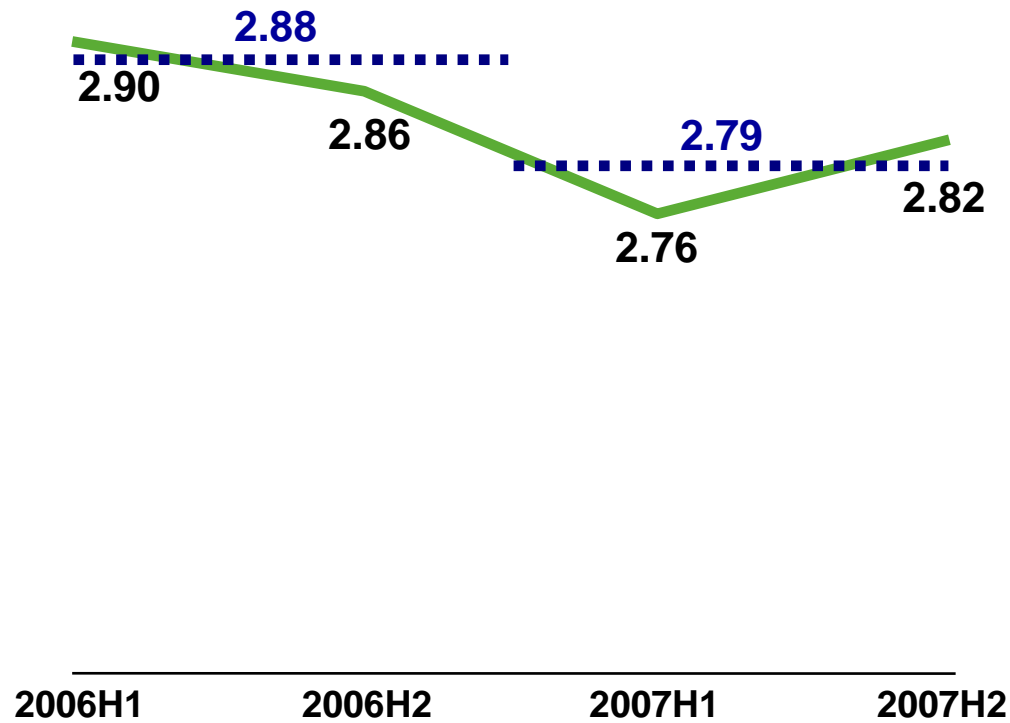


Wholesale & International Banking (£bn)



Net interest margin stabilising

%



Year-on-year margin movement

Mix (9)bp

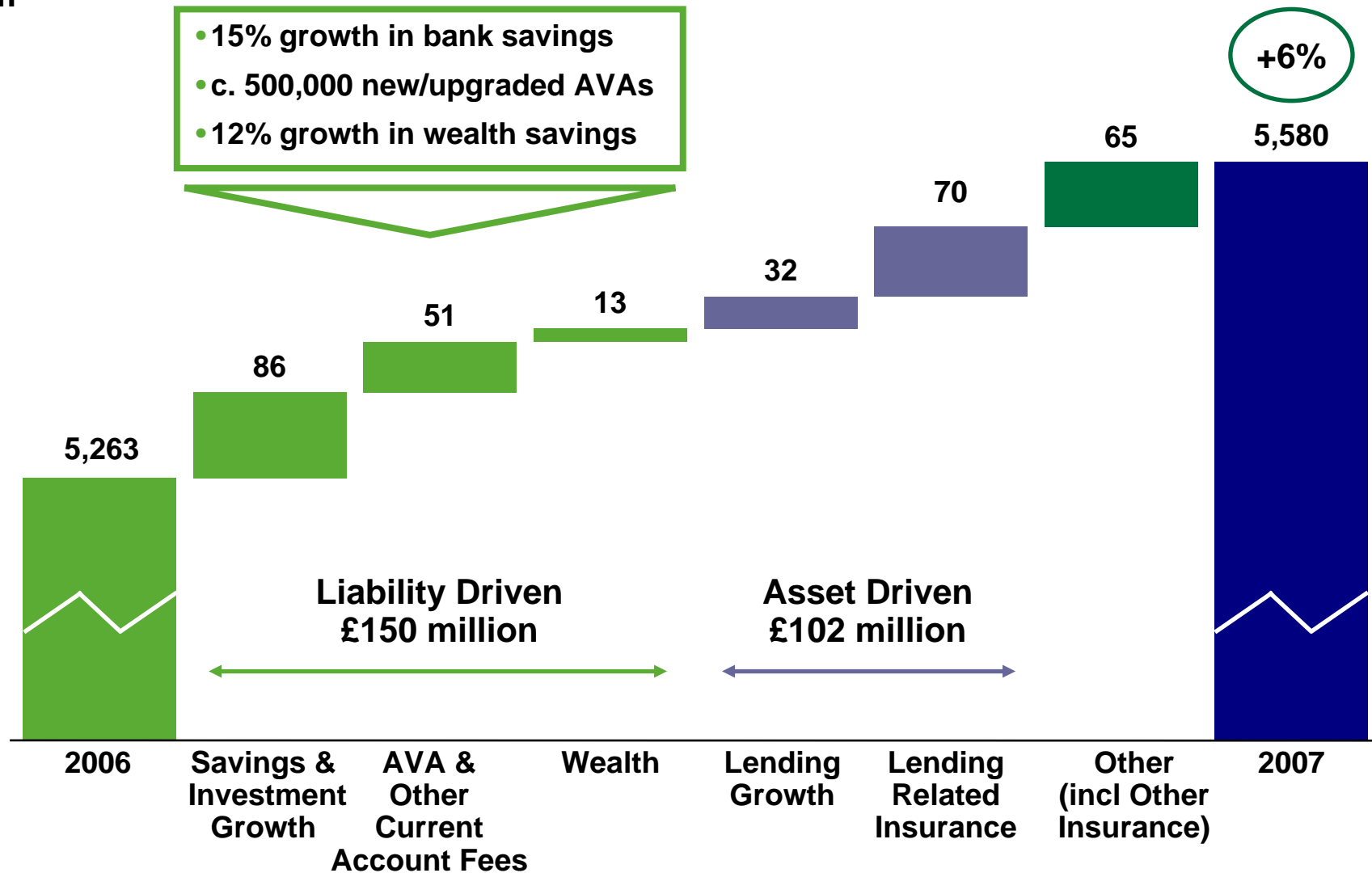
Product (2)bp

Funding 2bp

(9)bp

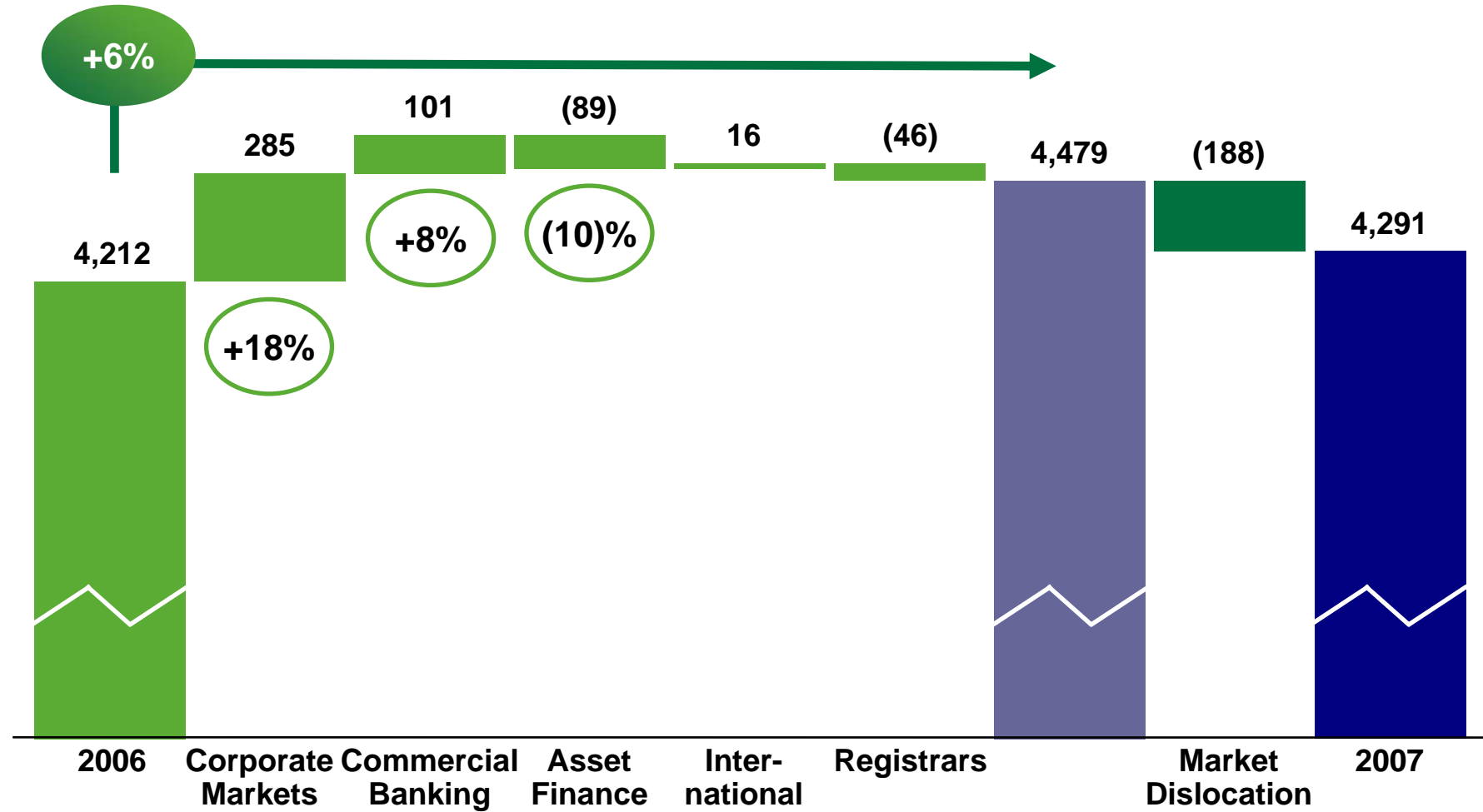
UKRB: balanced income growth

£m



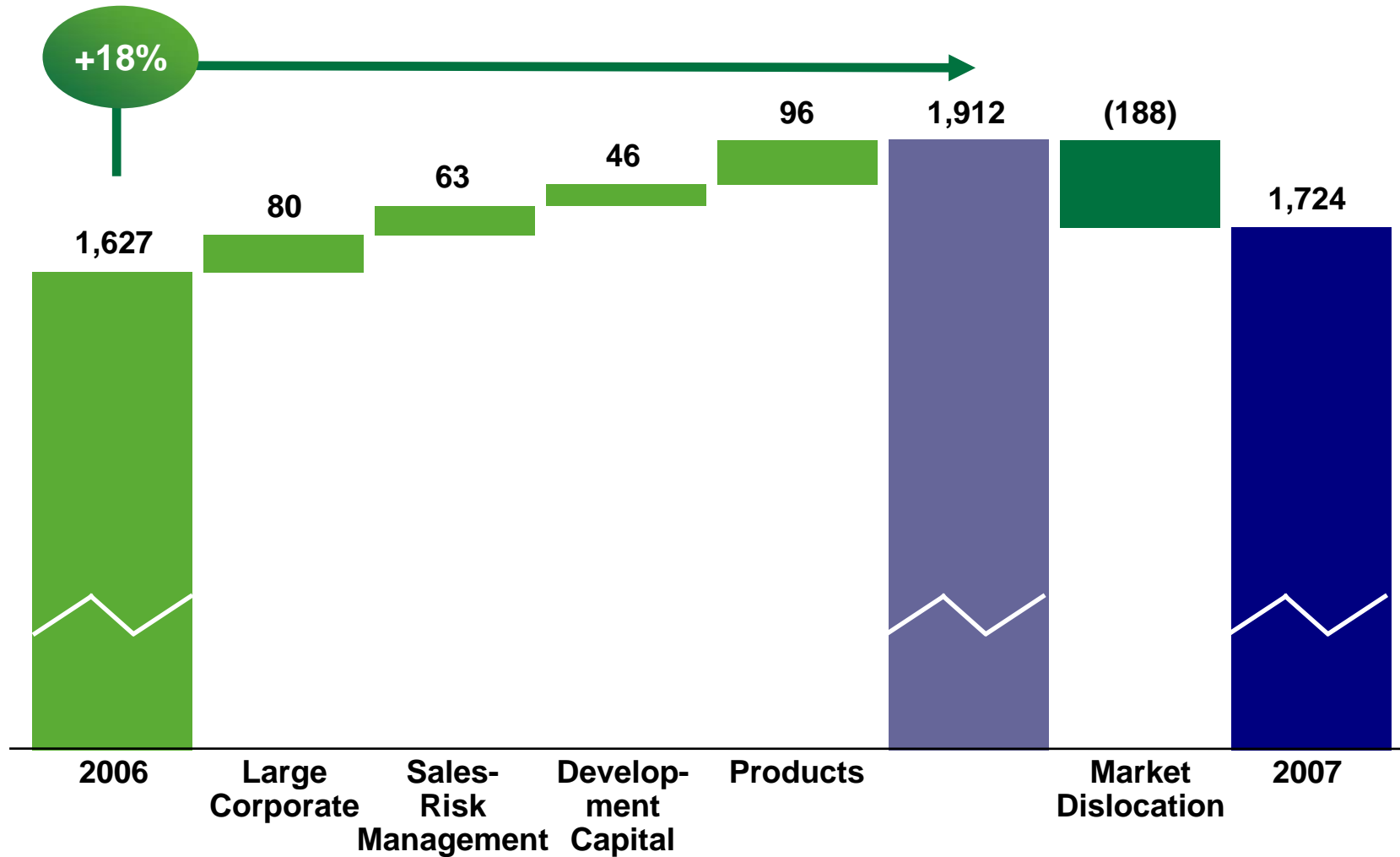
W&IB: components of income growth

£m



Continued momentum in Corporate Markets

£m



Limited exposure to market dislocation

£m	Income statement write-down	Net residual exposure 31 Dec 2007	Gross exposure 31 Dec 2007
US sub-prime ABS – direct	nil	nil	nil
ABS CDOs			
– unhedged	89	130	130
– monoline hedged	25	–	470
– major bank cash collateralised	–	–	1,861
SIV			
– capital notes	22	78	78
– liquidity back up	–	370	370
	136		

Limited exposure to market dislocation

£m	Income statement write-down	Net residual exposure 31 Dec 2007	Gross exposure 31 Dec 2007
Trading portfolio			
– ABS trading book	92	474	474
– secondary loan trading	20	665	863
– other assets*	32	3,895	3,895
	<hr/> 144 <hr/>		

* Primarily high quality senior bank and corporate assets; also includes £181 million of indirect super senior exposure to US sub-prime mortgages and ABS CDOs, protected by note subordination

Limited exposure to market dislocation

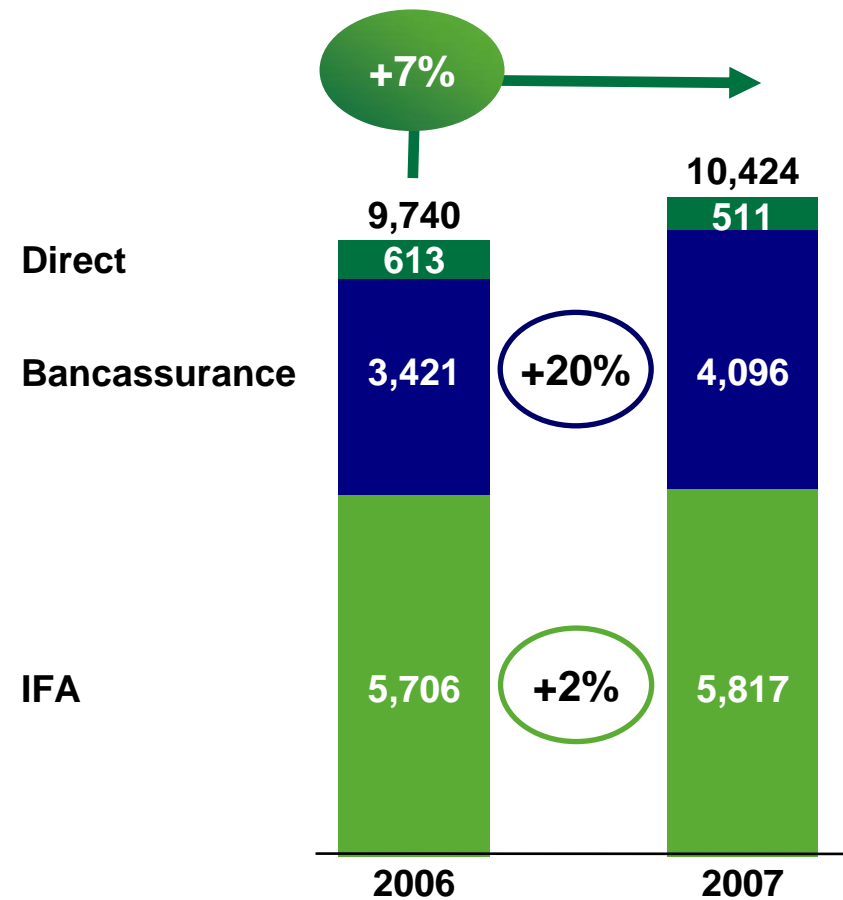
Available-for-sale assets	AFS reserves adjustment (£m)	Balance outstanding 31 Dec 2007 (£bn)
Cancara*	(237)	8.3
– <i>US sub-prime – nil</i>		
– <i>Alt-A – £619 million</i>		
– <i>CMBS – £1,355 million (100% AAA/Aaa)</i>		
Student Loan ABS	(101)	3.2
– <i>US Government guaranteed</i>		
Treasury assets	–	4.6
– <i>Government bonds and short-dated bank CP</i>		
Other assets	(75)	4.1
– <i>major bank senior paper and high quality ABS</i>		
	(413)	20.2

* In addition, Cancara includes a client receivables portfolio totalling £3.7 billion, including £115 million US sub-prime mortgage assets and £42 million Alt-A mortgage assets

I&I: components of growth*

£m	2006	2007	% Change
New business profit	346	326	(6)
Existing business	339	370	9
Expected return	131	207	58
	816	903	11
Impact of capital repatriation	36	—	
	852	903	6
New business margin	3.6%	3.1%	

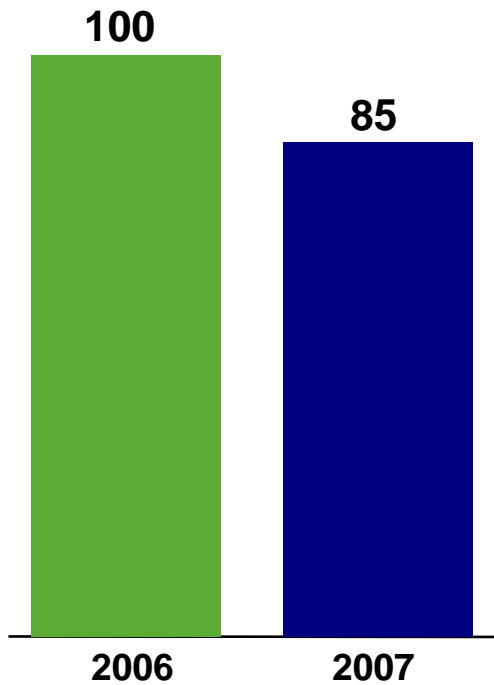
New business sales – PVNBP (£m)



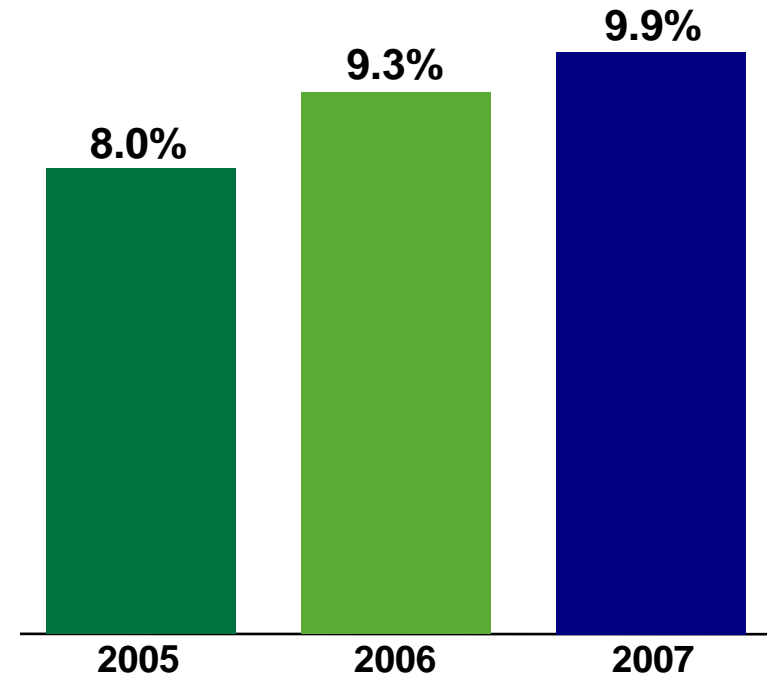
* EEV basis, excluding volatility

I&I: focusing on more capital efficient growth

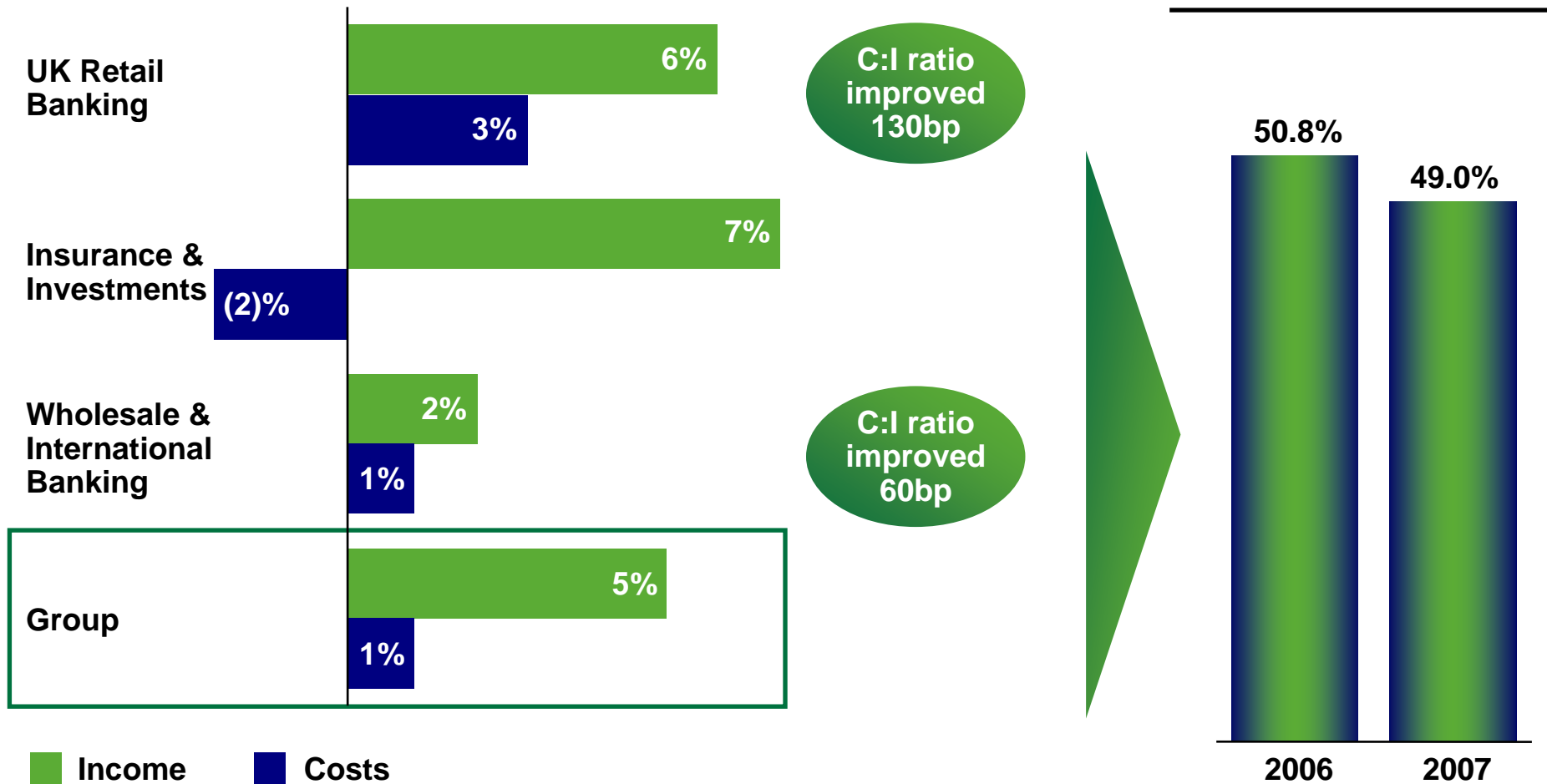
Capital intensity of new product sales (indexed)



Return on Embedded Value



Income growth ahead of costs in all divisions*



* Excluding volatility, insurance grossing adjustments, settlement of overdraft claims and the impact of surplus capital repatriation

Asset quality ratio has remained stable

Impairment	2006	2007	Variance	% of Average Lending	
	£m	£m	%	2006	2007
UK Retail Banking	1,238	1,224	1	1.18	1.10
– <i>Personal loans/overdrafts</i>	740	679	8	5.85	5.32
– <i>Credit cards</i>	490	527	(8)	6.99	7.96
– <i>Mortgages</i>	8	18	(125)	0.01	0.02
Wholesale & International Banking	308	452	(47)	0.39	0.51
Central group items	9	–			
	1,555	1,676	(8)	0.83	0.82
Market dislocation	–	92			
2007 Finance Act	–	28			
Total	1,555	1,796	(15)		

Asset quality ratio has remained stable

Impairment	2006	2007	Variance	% of Average Lending	
	£m	£m		2006	2007
UK Retail Banking	1,238	1,224	1	1.18	1.10
Wholesale & International Banking	308	452	(47)	0.39	0.51
– <i>Corporate Markets</i>	(18)	120		(0.03)	0.19
– <i>Commercial Banking</i>	93	99	(6)	0.67	0.60
– <i>Asset Finance</i>	239	228	5	2.60	2.54
– <i>Other</i>	(6)	5		(0.22)	0.20
Central group items	9	–			
	1,555	1,676	(8)	0.83	0.82
Market dislocation	–	92			
2007 Finance Act	–	28			
Total	1,555	1,796	(15)		

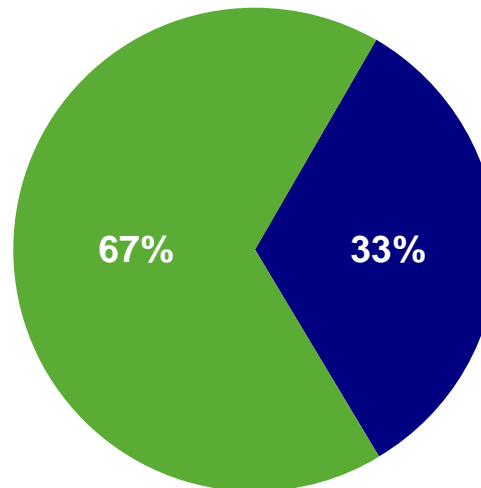
A good quality property lending portfolio

Commercial lending

- Through the cycle policy, supporting existing customer franchise
- Well spread nationwide portfolio
- Indexed LTV – c 62%
- Over 90% investment
- 9% development
 - 60% of gross development value
 - min 100% interest cover from pre-let
- Underweight 'retail and office'

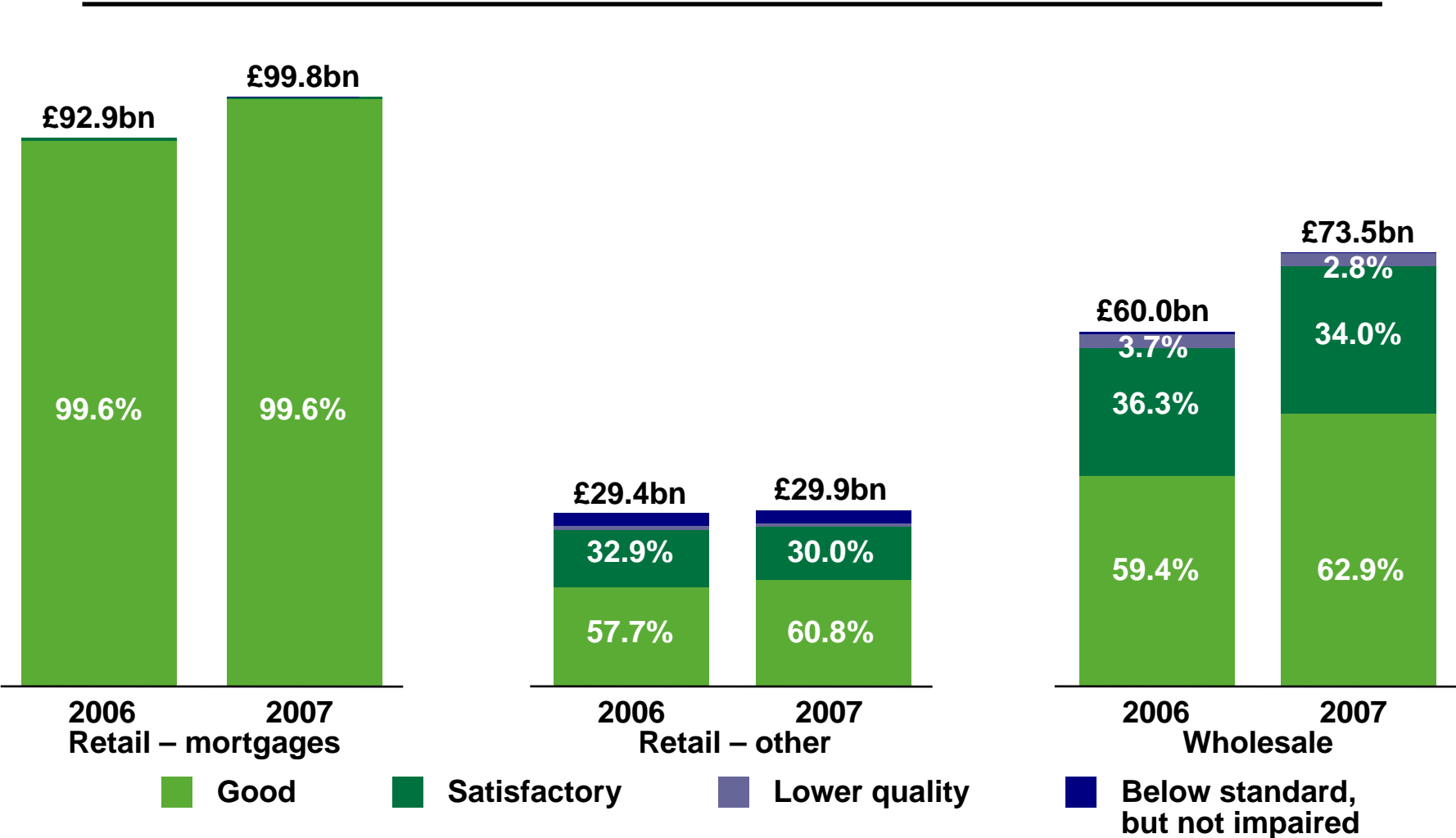
Residential lending

- 56% Housing Associations
 - local authority cash flows
- Larger residential property companies



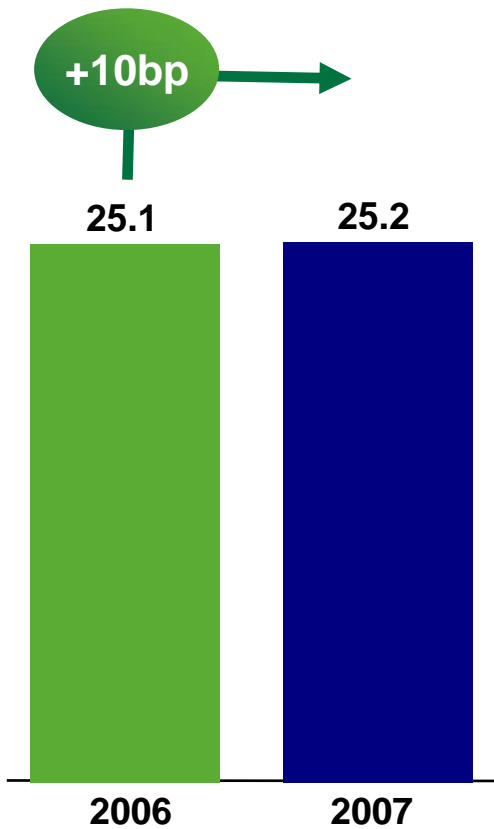
Lending quality strong and consistent

Customer lending, neither past due nor impaired

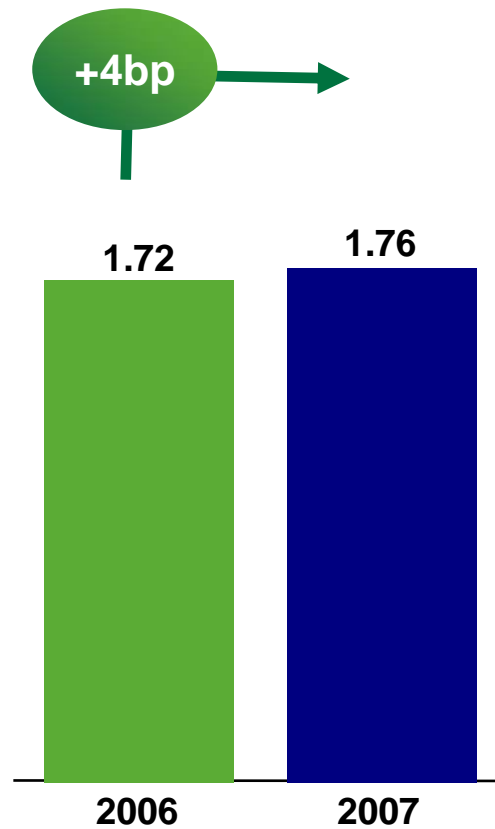


Improving our returns*

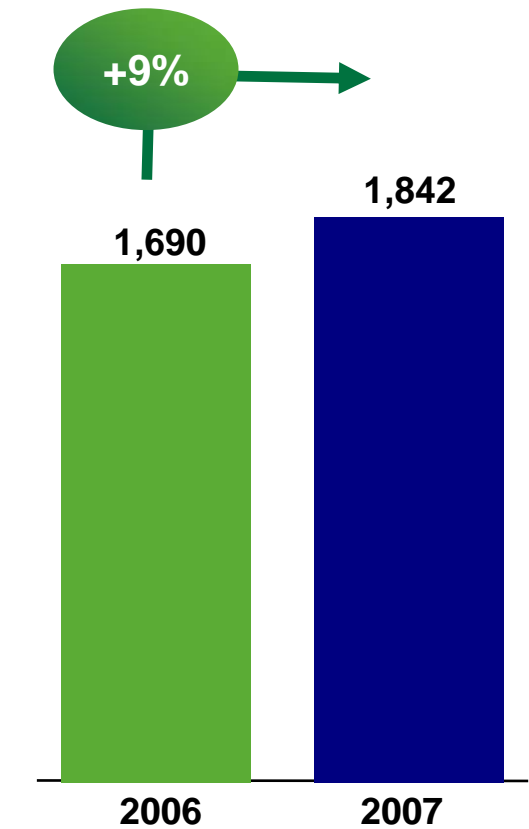
Post-tax return
on equity (%)



Post-tax return on
risk-weighted assets (%)

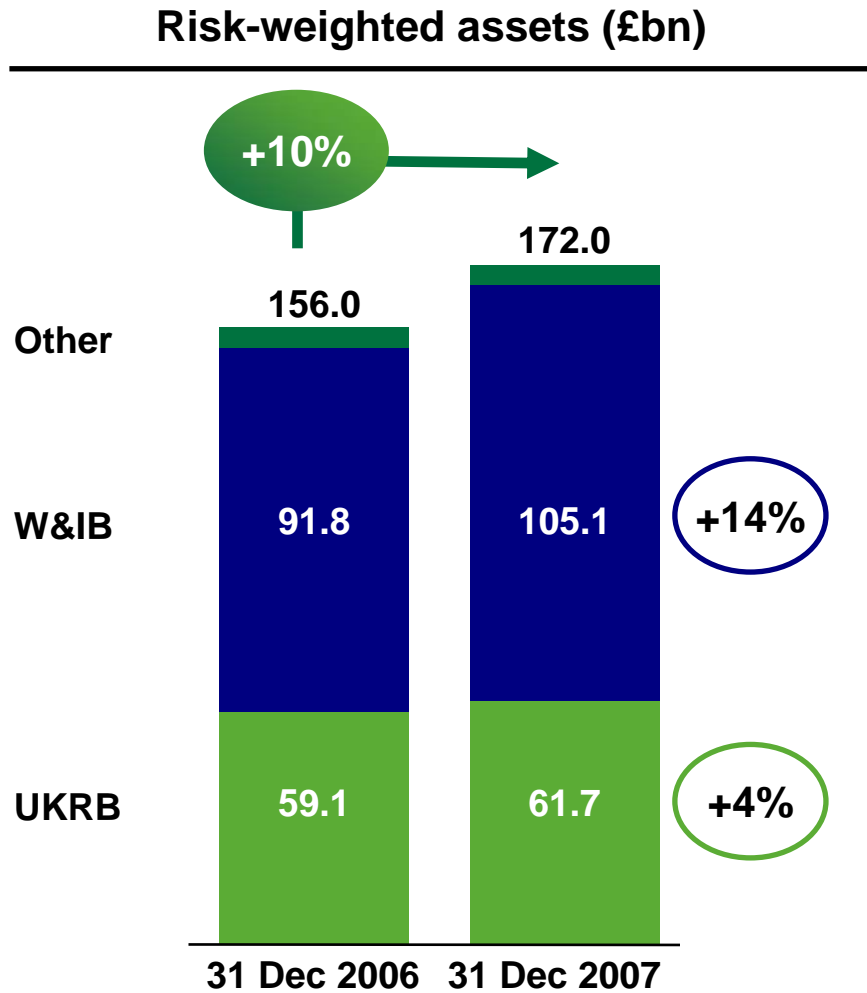


Economic
profit (£m)



* Excluding volatility, profit on sale of businesses, settlement of overdraft claims and the pension schemes related credit in 2006

Capital ratios remain robust on a Basel I basis

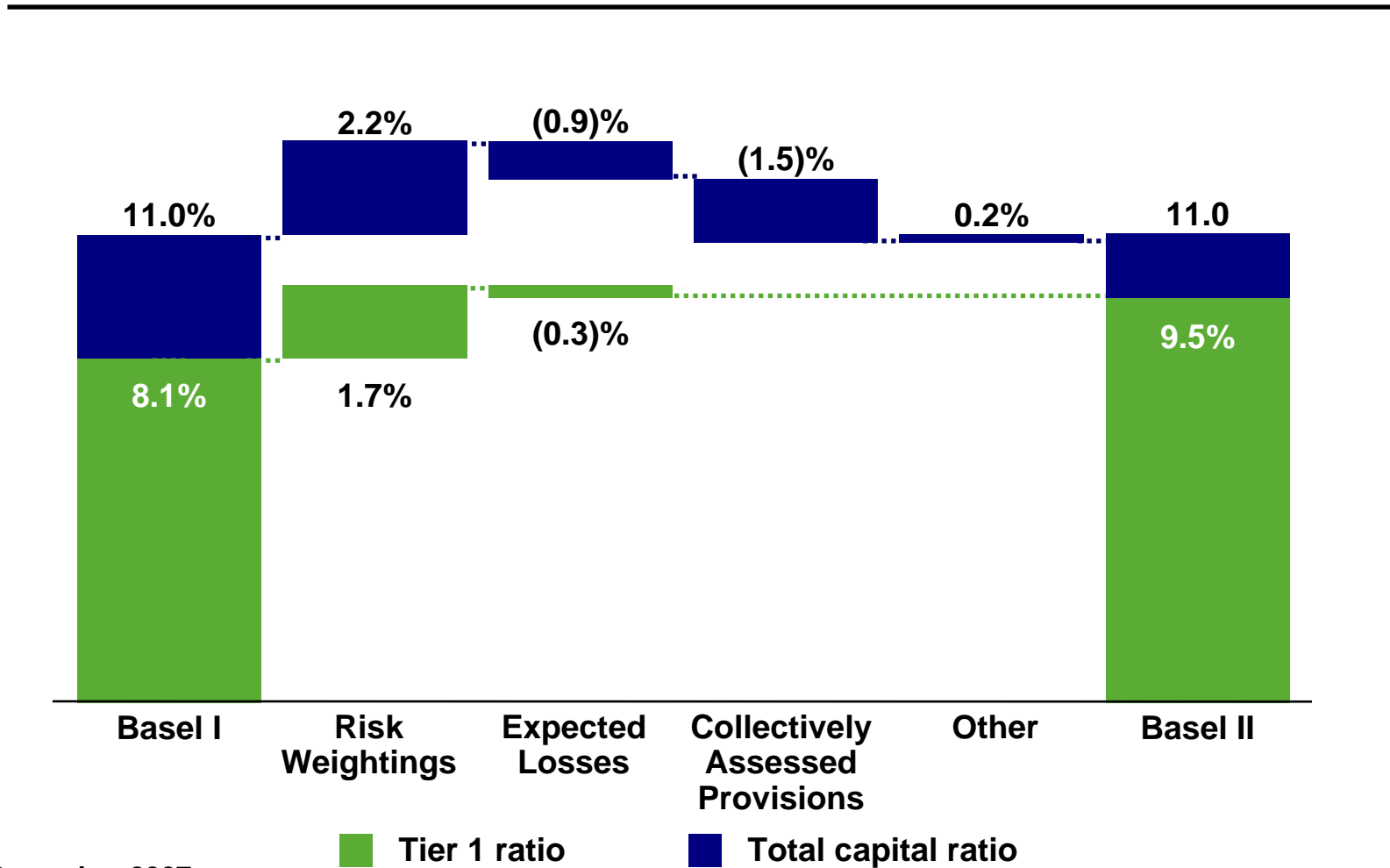


Capital ratios

	31 Dec 2006	31 Dec 2007
Total capital ratio	10.7%	11.0%
Tier 1 ratio	8.2%	8.1%

Improved capital position under Basel II


Tier 1 & Total capital ratio



At 31 December 2007

A strong funding profile

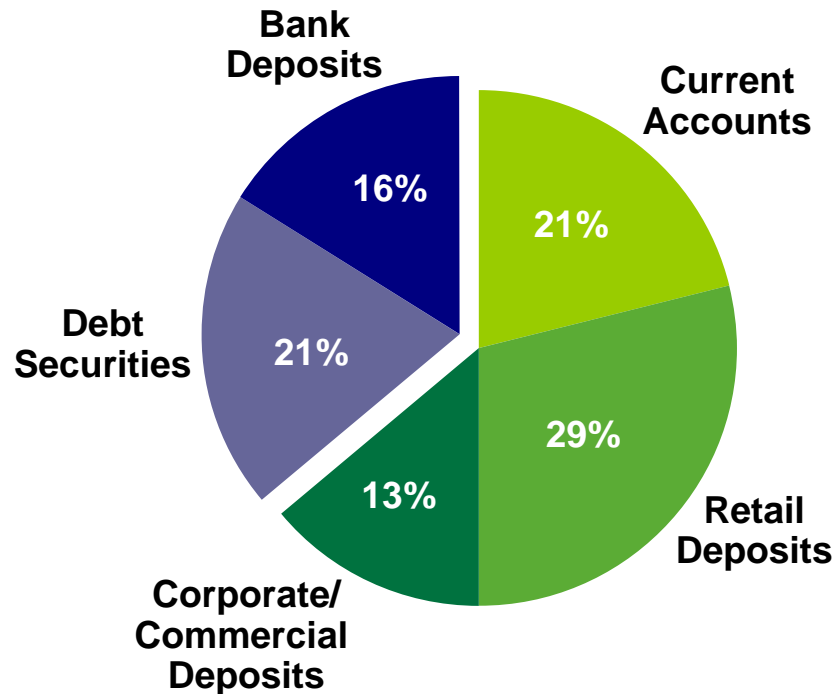
- **High, and growing, customer deposit base**
- **Conservative wholesale funding profile**
- **Strong credit ratings; Moody's Aaa reaffirmed January 2008**
- **Consistent market presence**
- **Significant headroom**



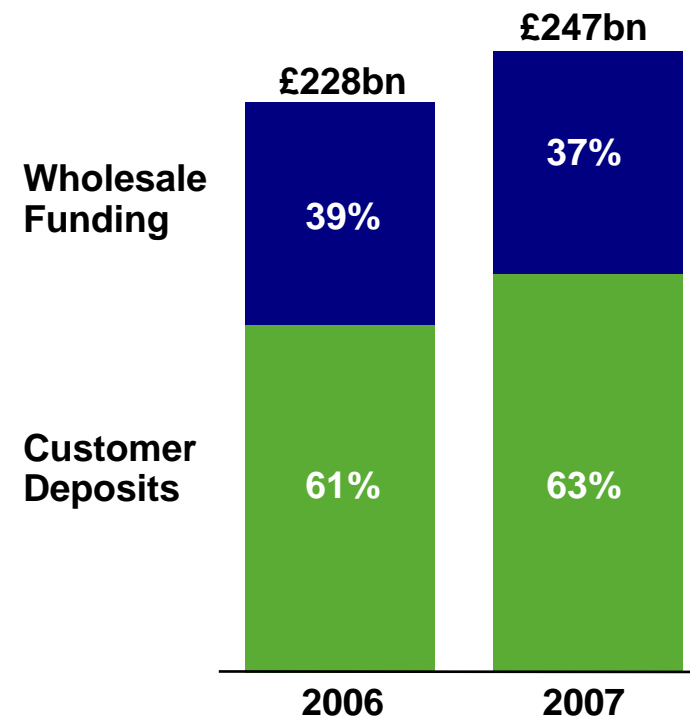
**Strong funding
and liquidity
profile**

A core funding base of customer deposits

Funding base composition
December 2007

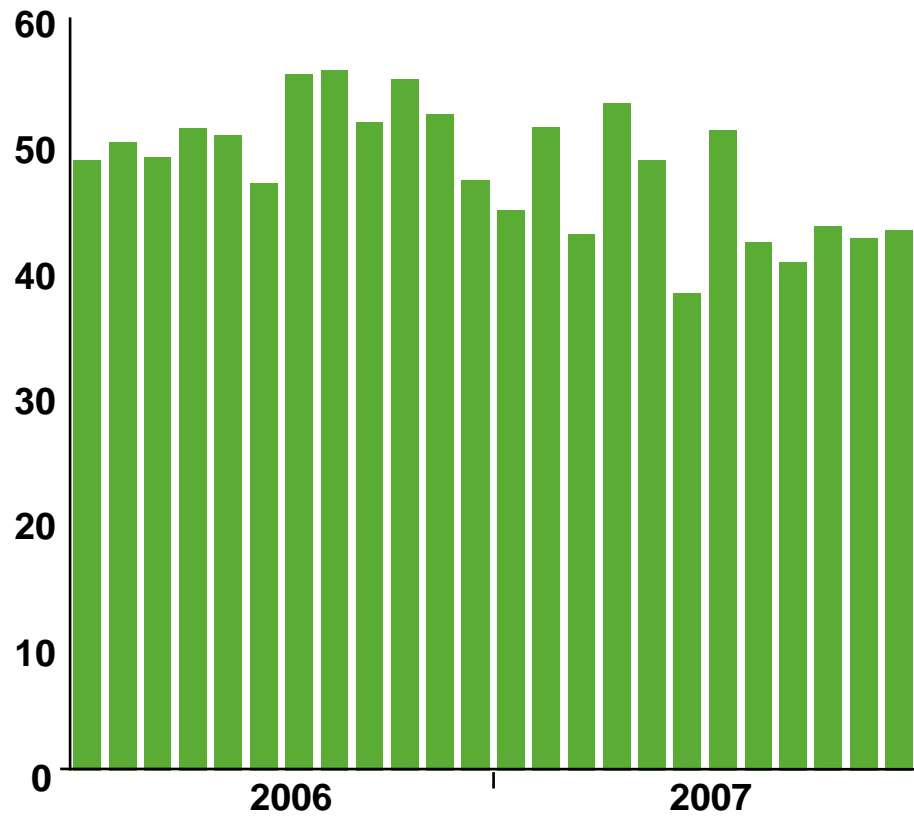


Increased percentage of customer
deposit funding

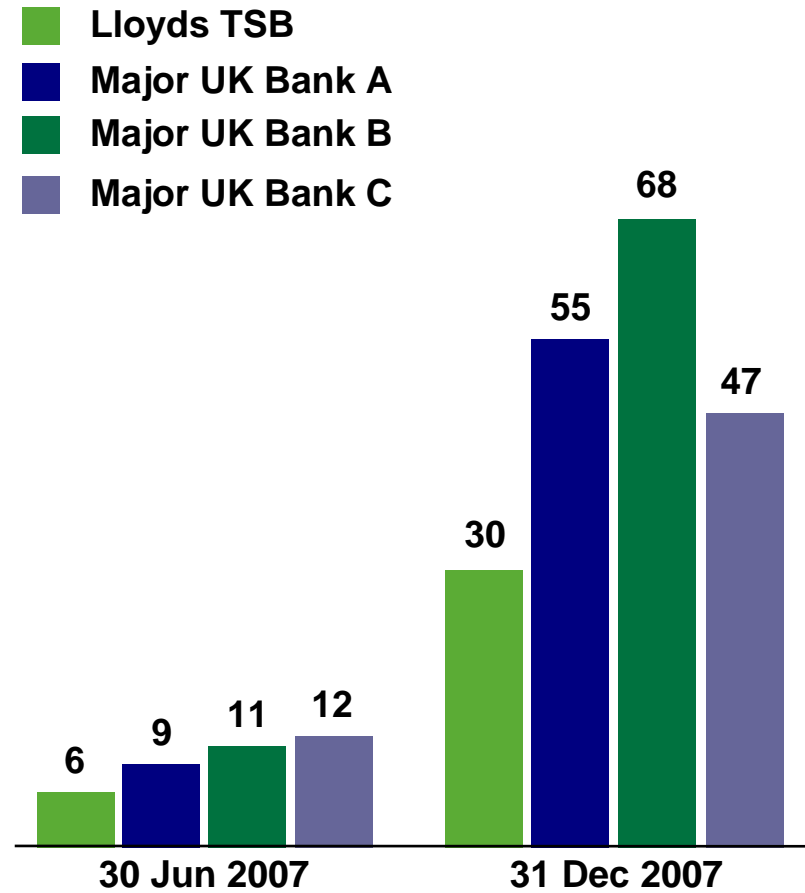


A consistent approach to funding

Short term money market funding (£bn)



UK bank 5 year senior CDS spreads



Strong core business momentum

Continuing to build earnings momentum

- Strong sales and revenue growth
- Substantially improved productivity
- Wide positive jaws
- Continued satisfactory asset quality

Sustaining high returns

- Improving cost:income ratio
- Improving return on risk-weighted assets
- ROE remains high, and improving
- Excellent economic profit growth

Maintaining a robust capital position and dividend

- Capital ratios robust
- Successful transition to Basel II
- Significant capital repatriation from Scottish Widows
- Dividend increased by 5%

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Helen Weir
Group Finance Director

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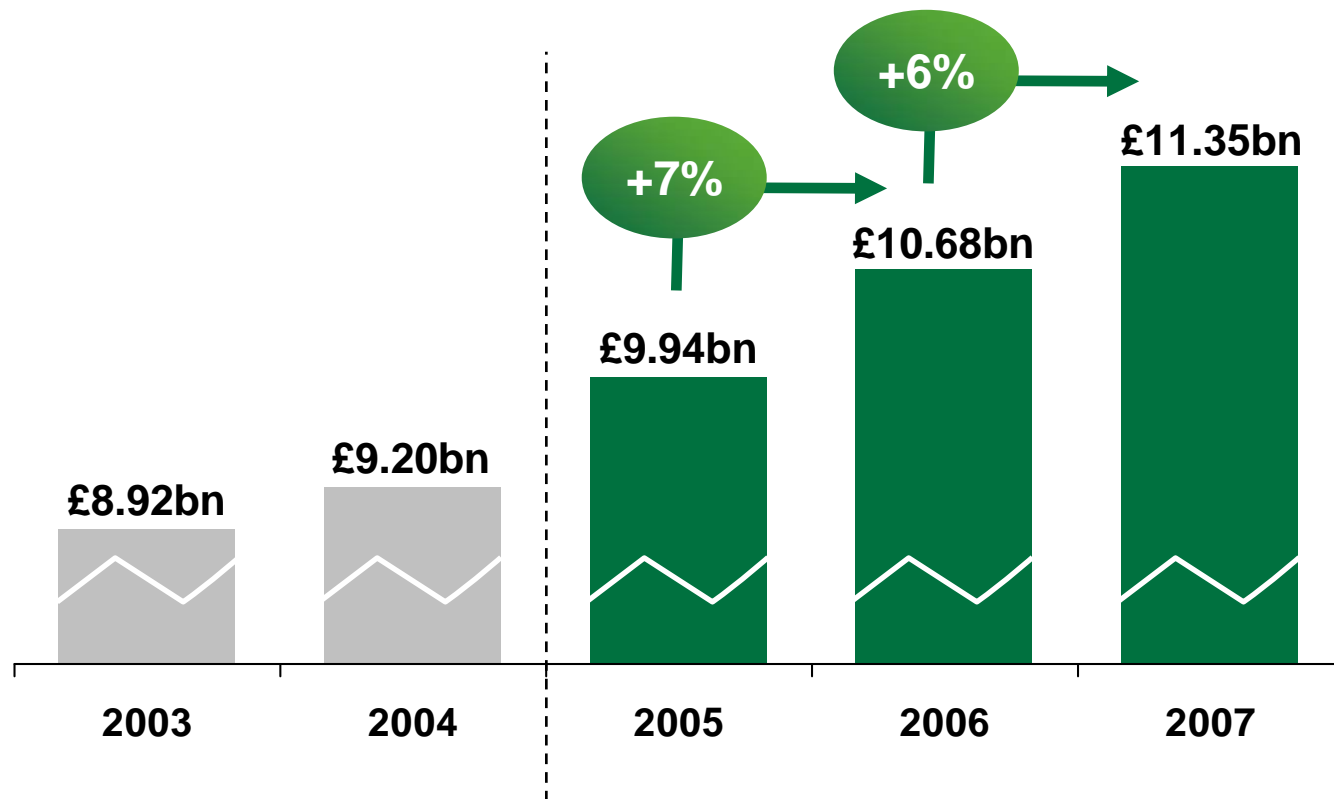
Eric Daniels
Group Chief Executive

2007 results in longer term context

- **Strong momentum**
- **Significant growth potential**
- **High quality sustainable earnings**

Strong momentum

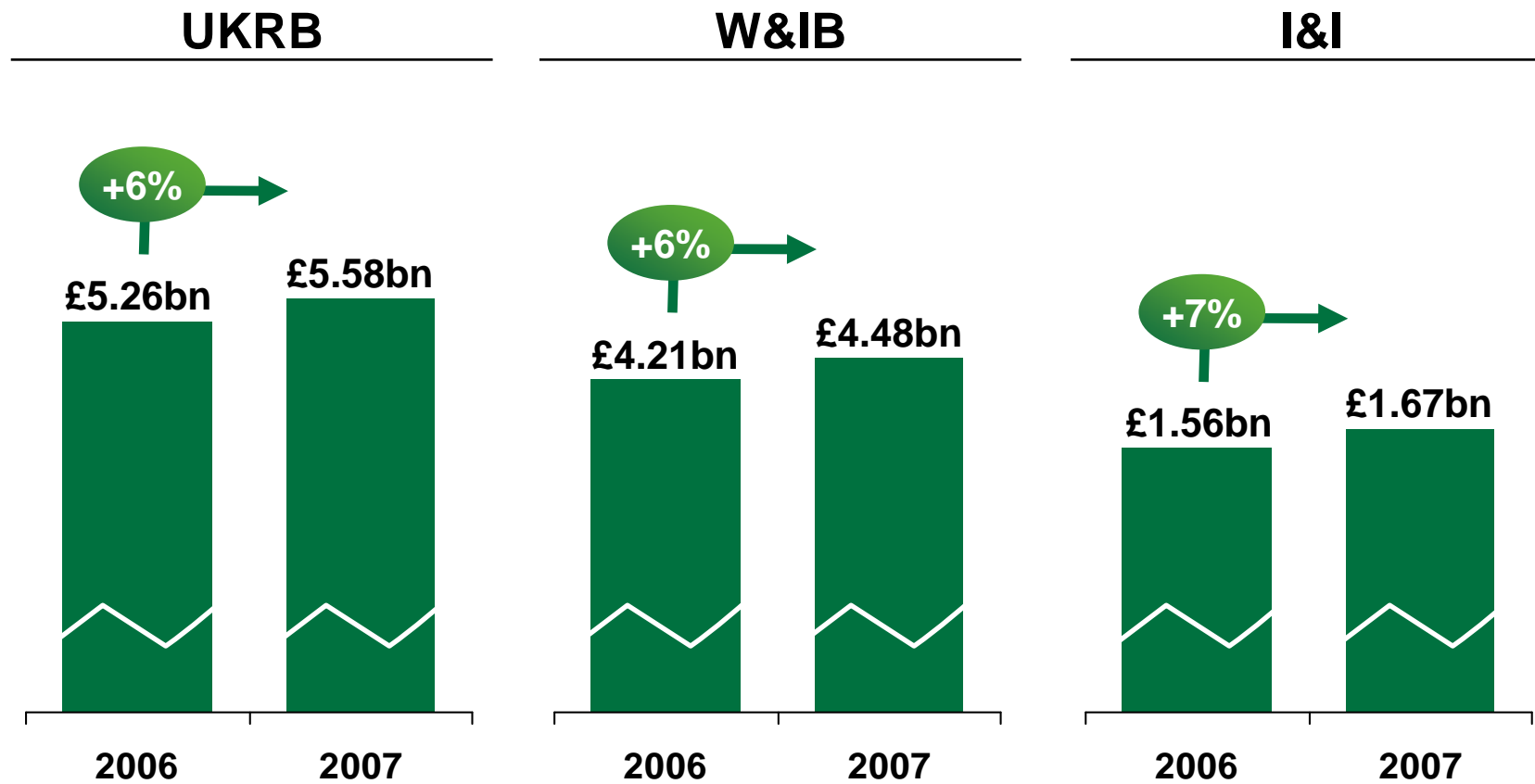
Sustained income growth¹



1. 2003-4 figures on a UK GAAP basis excluding discontinued operations. 2005-7 figures are on a full IFRS basis, excluding volatility, insurance grossing, one-off items and market dislocation impact

Strong momentum

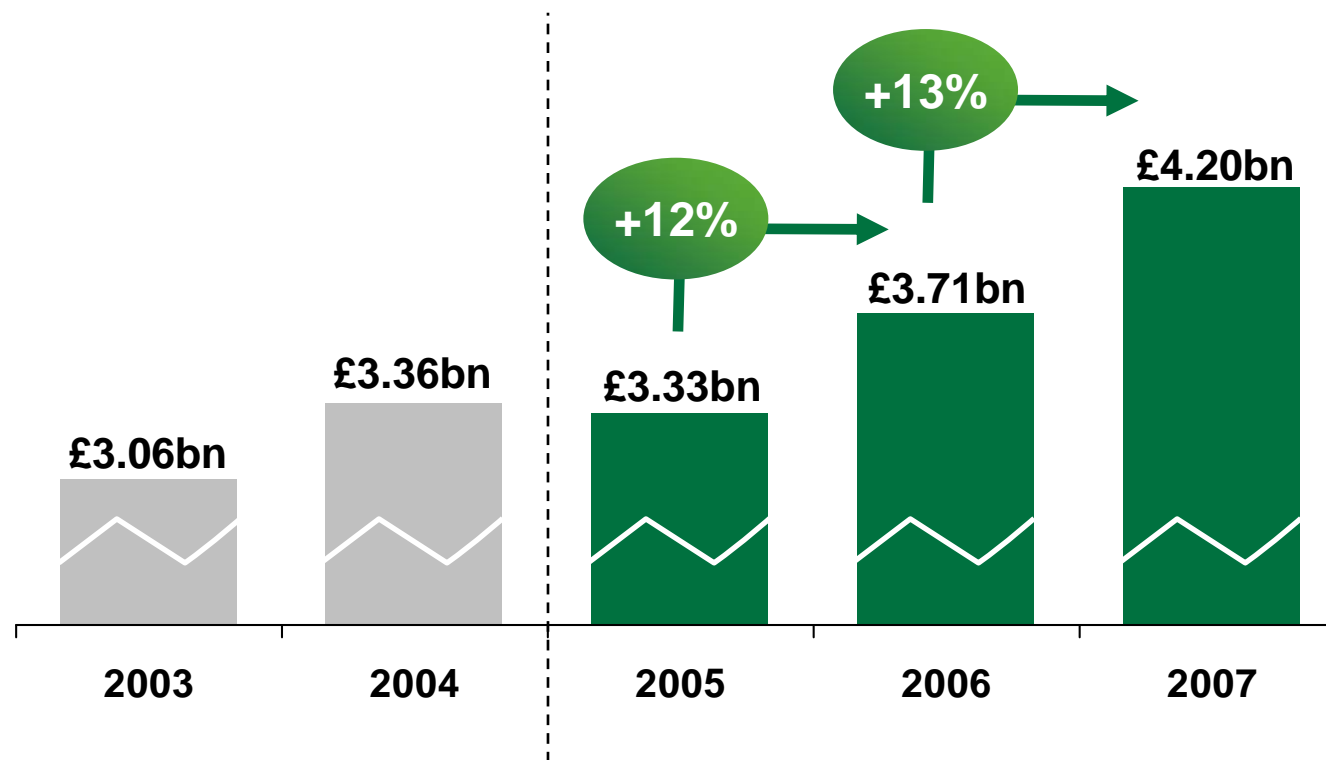
Strong income growth in all divisions¹



1. All figures exclude volatility, insurance grossing, the impact of surplus capital repatriation in I&I and market dislocation impact

Strong momentum

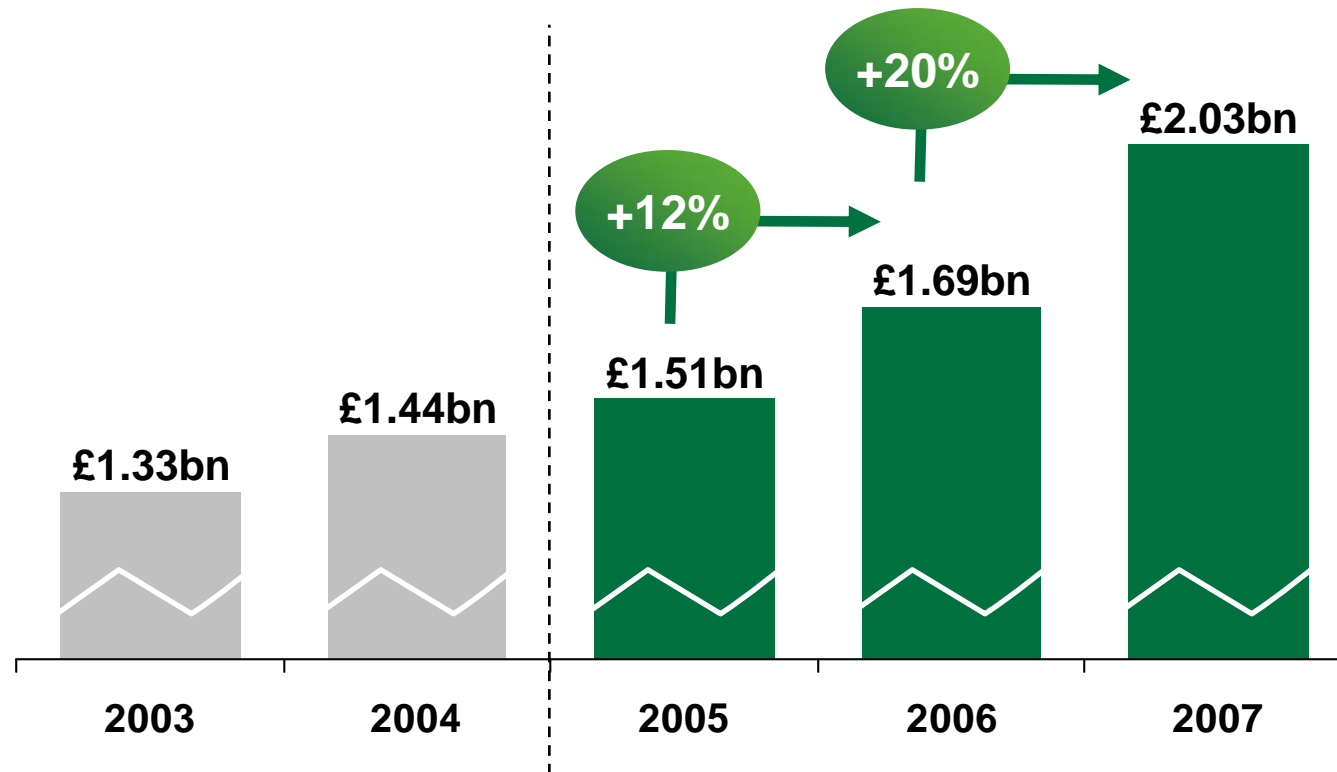
Accelerating PBT growth¹



1. 2003-4 figures on a UK GAAP basis excluding discontinued operations. 2005-7 figures are on a full IFRS basis, excluding volatility, insurance grossing, one-off items and market dislocation impact

Strong momentum

Accelerating economic profit growth¹



1. 2003-4 figures on a UK GAAP basis excluding discontinued operations. 2005-7 figures are on a full IFRS basis, excluding volatility, insurance grossing, one-off items and market dislocation impact

Significant growth potential

Drivers of future profit growth

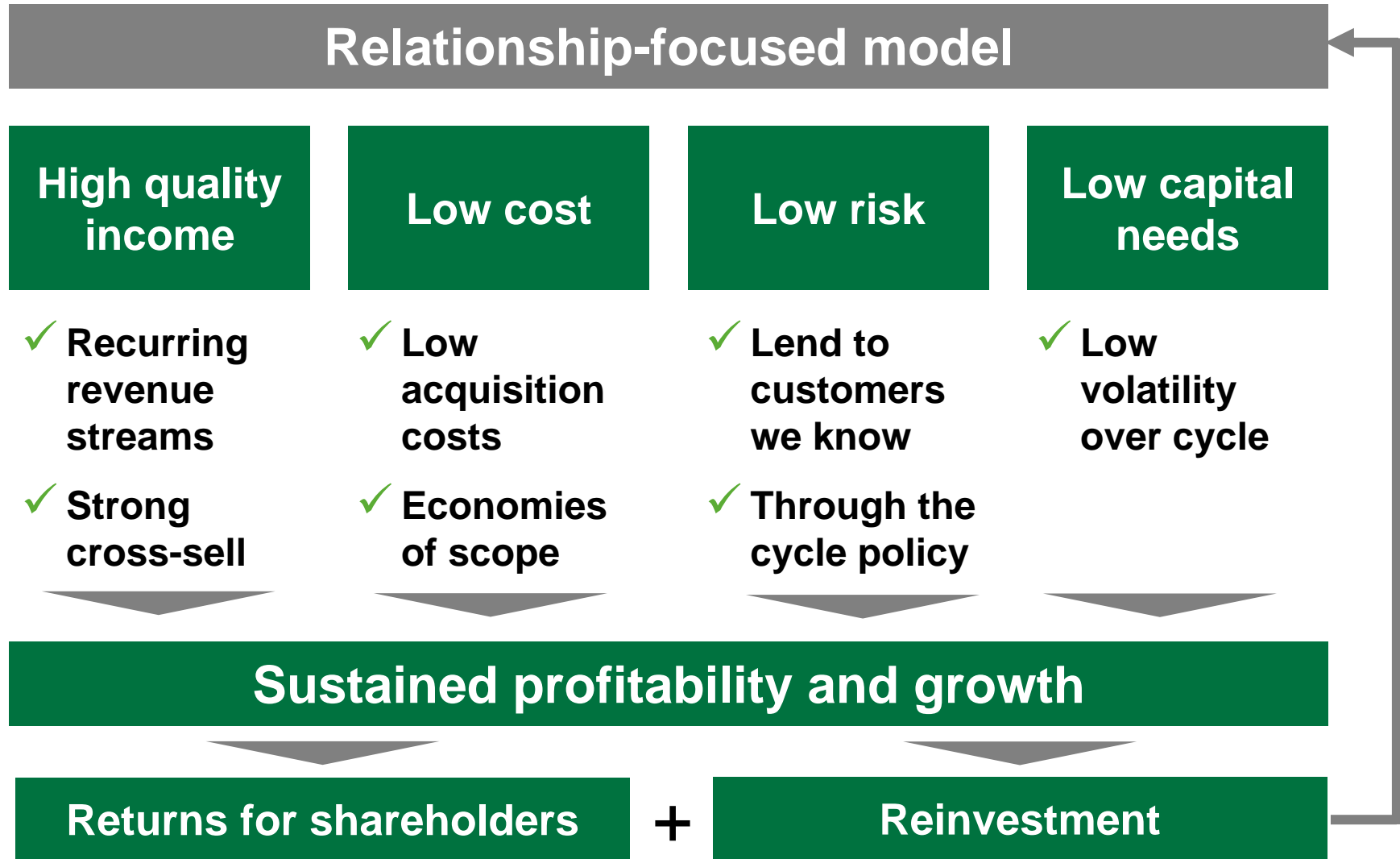
Market growth

- ✓ 2nd largest economic profit pool
- ✓ High levels of household financial wealth
- ✓ Lowest unemployment in G7
- ✓ Good medium term economic performance
- ✓ Strong long term savings growth

Market share growth

- ✓ We only have ~10% share of economic profit pool today
- ✓ Gaining share across target segments and products
- ✓ Relationship-focused model

Significant growth potential

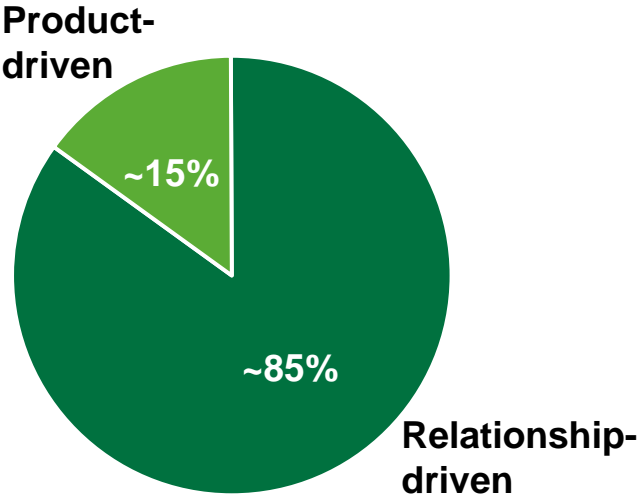


High quality sustainable earnings

UKRB: relationship-driven growth¹

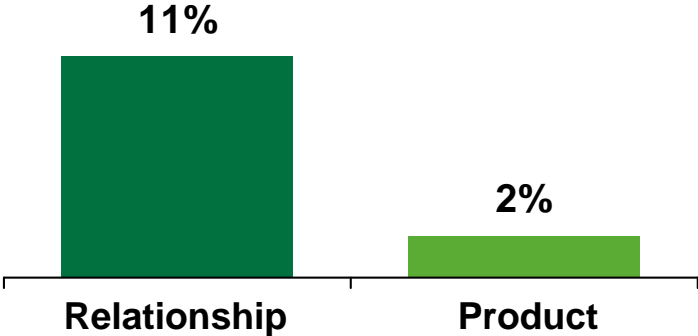
Where our profit comes from

% of 2007 PBT



Where our growth comes from


Income growth (2005 – 07)



1. Internal estimates

High quality sustainable earnings

UKRB: deep understanding of our customers

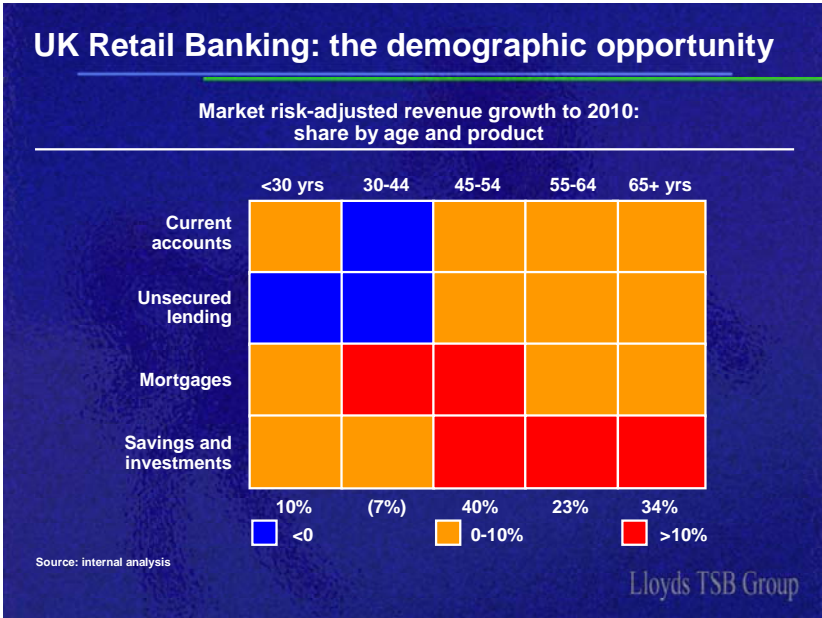
- **c.18 million customer records in UKRB**
 - **16 million transactions loaded per day**
 - **Average of 2,100 data points for each current account customer**
 - **9 terabytes of data**
 - **Global top quartile CRM¹**
- 
- **We sell to need**
 - **We price to risk**
 - **We have early warning indicators**
 - **about individual customers**
 - **about broader behavioural trends**

High quality sustainable earnings

UKRB: changing the mix

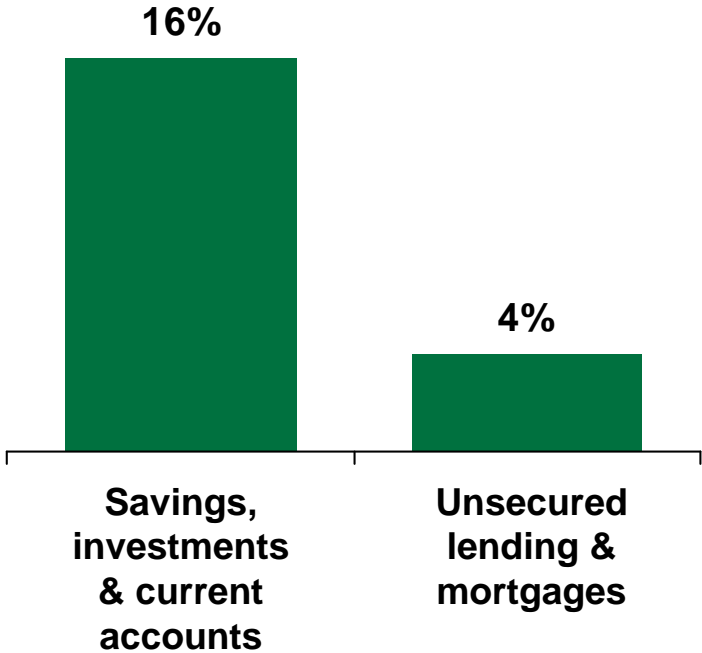
We identified a shift towards savings and investment...

...and are capturing it



Source: Results presentation, February 2006

Income growth (2005 – 07)

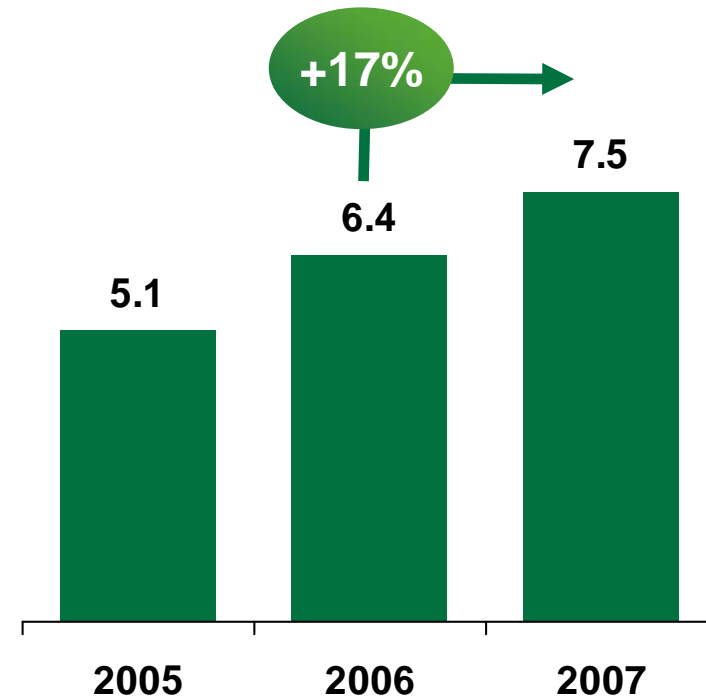


High quality sustainable earnings

UKRB: establishing market leading positions

- #1 new customer acquisition
- #1 new credit card issuer
- #1 in added value accounts
- #1 provider of home insurance
- #1 in personal loans

Total sales volumes (millions)

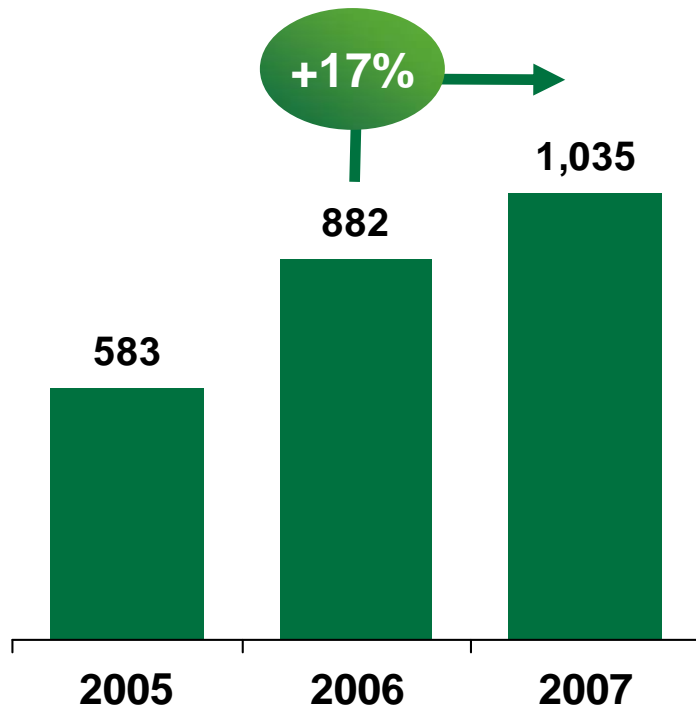


High quality sustainable earnings

UKRB: establishing market leading positions

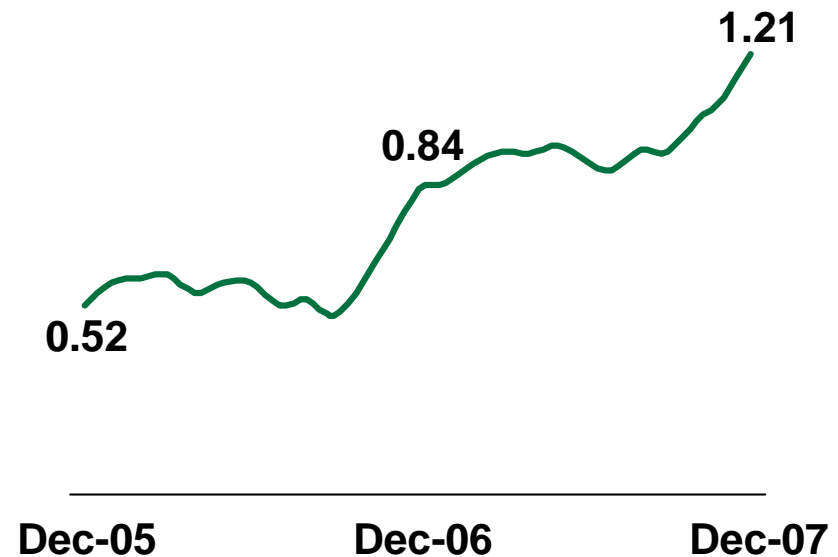
Growth in current accounts opened...

Number of current accounts opened, 000's



...and cross-sales at opening

Number of additional products purchased with current account¹



1. Additional products purchased by New to Bank customers buying Classic/AVA current accounts

High quality sustainable earnings

UKRB: low risk, relationship-focused lending

Mortgages

- #1 in branch-based lending
- Low book and new LTVs
- No self-certification

- 
- Over 3 month arrears fell 12% in 2007

Unsecured

- 99% of loans to franchise customers
- 89% of credit cards issued to franchise customers

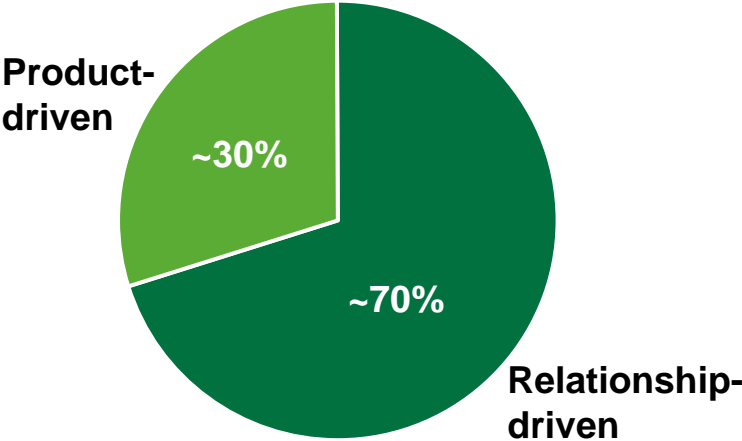
- 
- Impairments fell 2% in 2007

High quality sustainable earnings

W&IB: relationship-driven growth¹

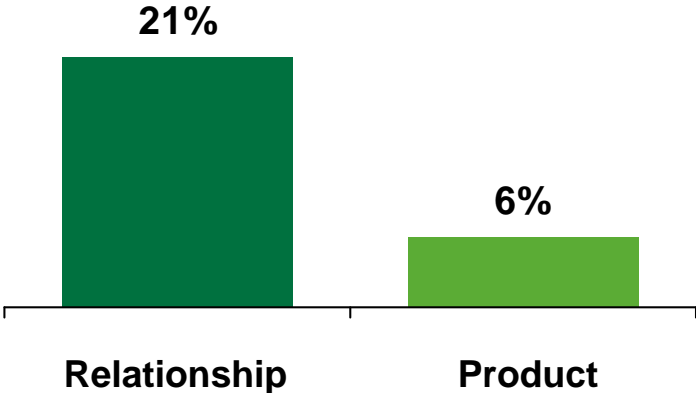
Where our profit comes from

% of 2007 PBT



Where our growth comes from

Income growth (2005 – 07)



1. Internal estimates; excluding market dislocation

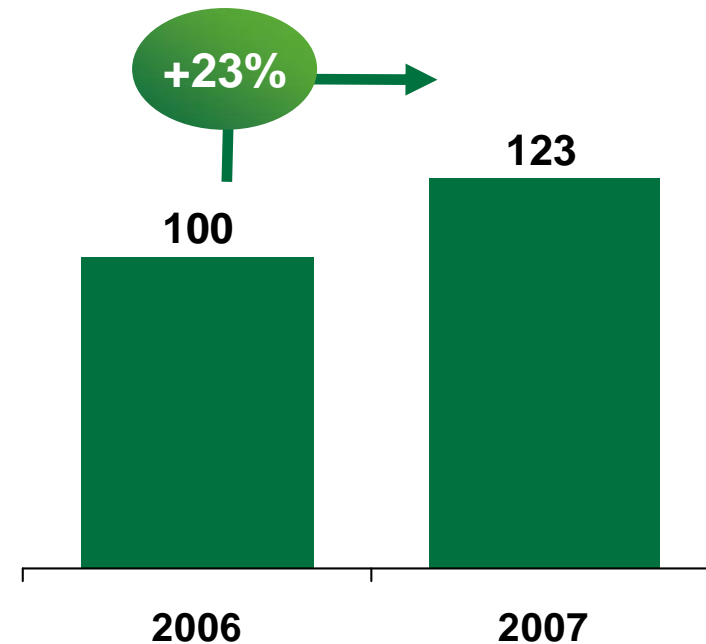
High quality sustainable earnings

W&IB: growing the Commercial Banking franchise

- Record customer satisfaction
- #1 in start-ups and net gainer of switchers
- Cross-sales of Scottish Widows products to commercial up 36%
- Invoice discounting & factoring up 15%

Strong growth in cross-sales

Indexed to 100 in 2006



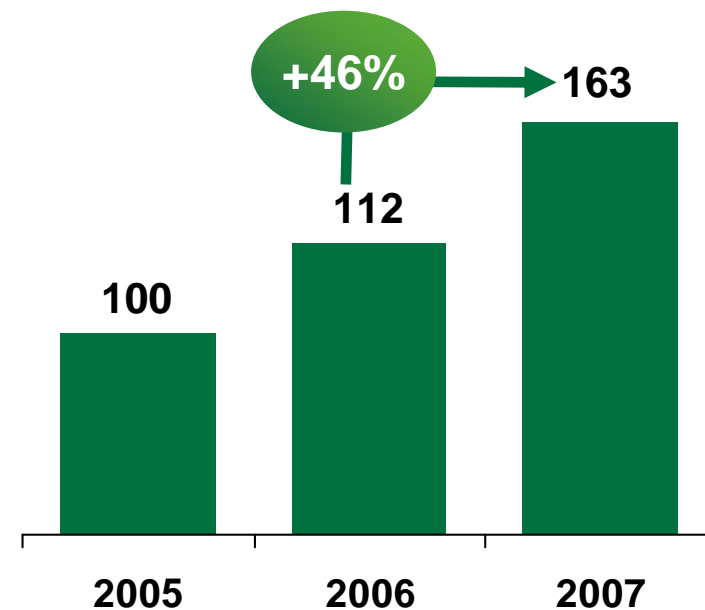
High quality sustainable earnings

W&IB: growing the Corporate Banking franchise

- Increase in mid-market share of 2 per cent¹
- Top rated relationship bank
- Increase in no. of relationship managers and specialist sales forces

Strong growth in cross-sales

Indexed to 100 in 2005

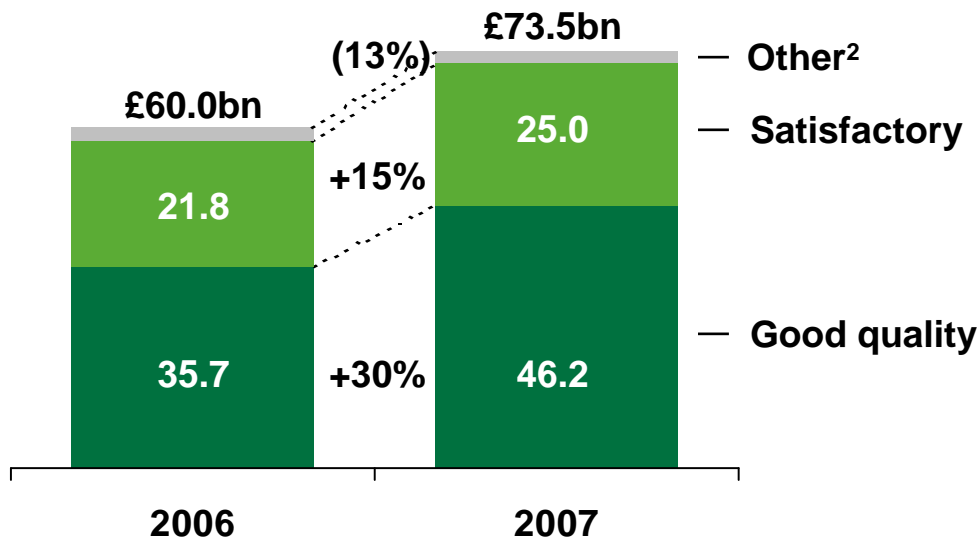


1. Source: TNS

High quality sustainable earnings

W&IB: low risk, relationship-focused lending

Risk profile for wholesale loans & advances to customers¹



- 22% growth in wholesale loans & advances
- 97% classified as good or satisfactory
- Focus on lending through the cycle

1. Neither past due nor impaired
2. Lower quality and below standard

High quality sustainable earnings

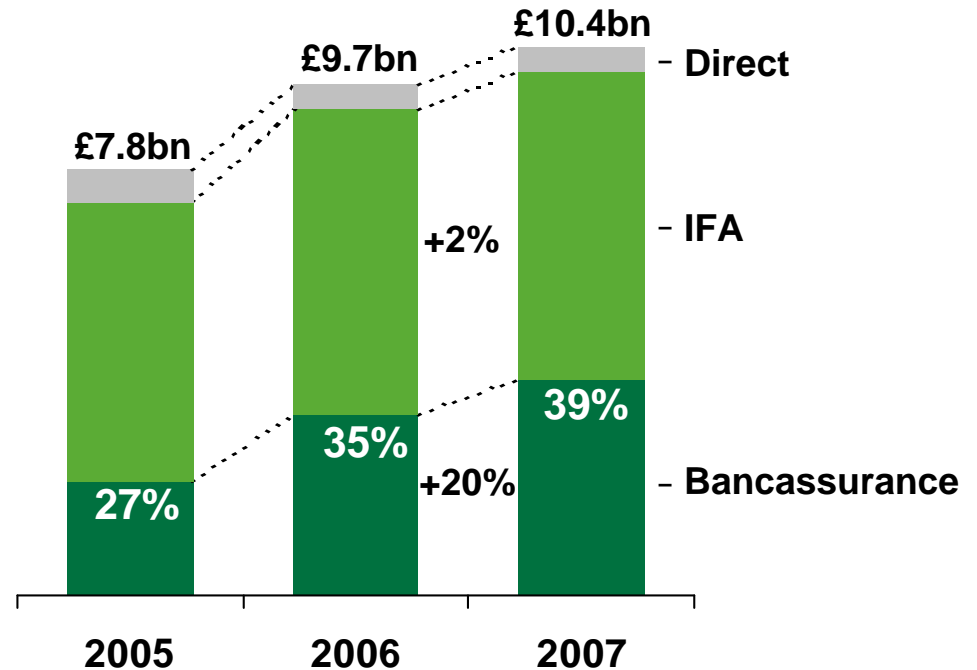
I&I: relationship-driven growth

I&I products central to Group's relationship businesses

- Retail Banking
- Private Banking
- Commercial Banking
- Corporate Banking

Example: Scottish Widows

PVNBP¹



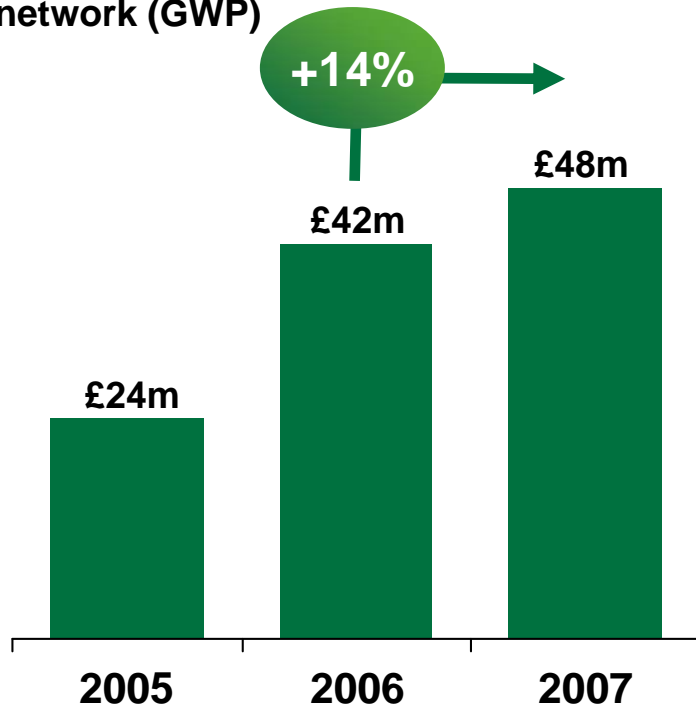
1. Present value of new business premiums

High quality sustainable earnings

I&I: relationship-driven growth

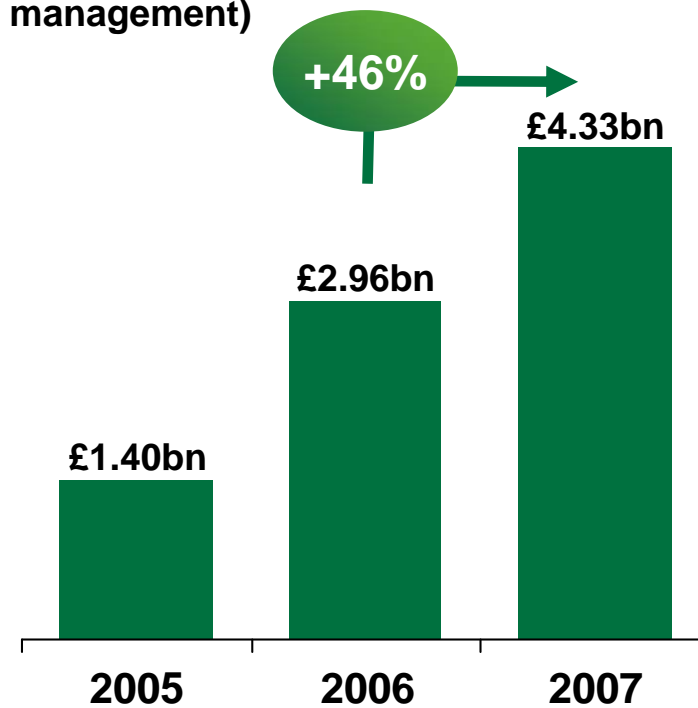
Example: General Insurance

Home insurance sold through branch network (GWP)



Example: SWIP

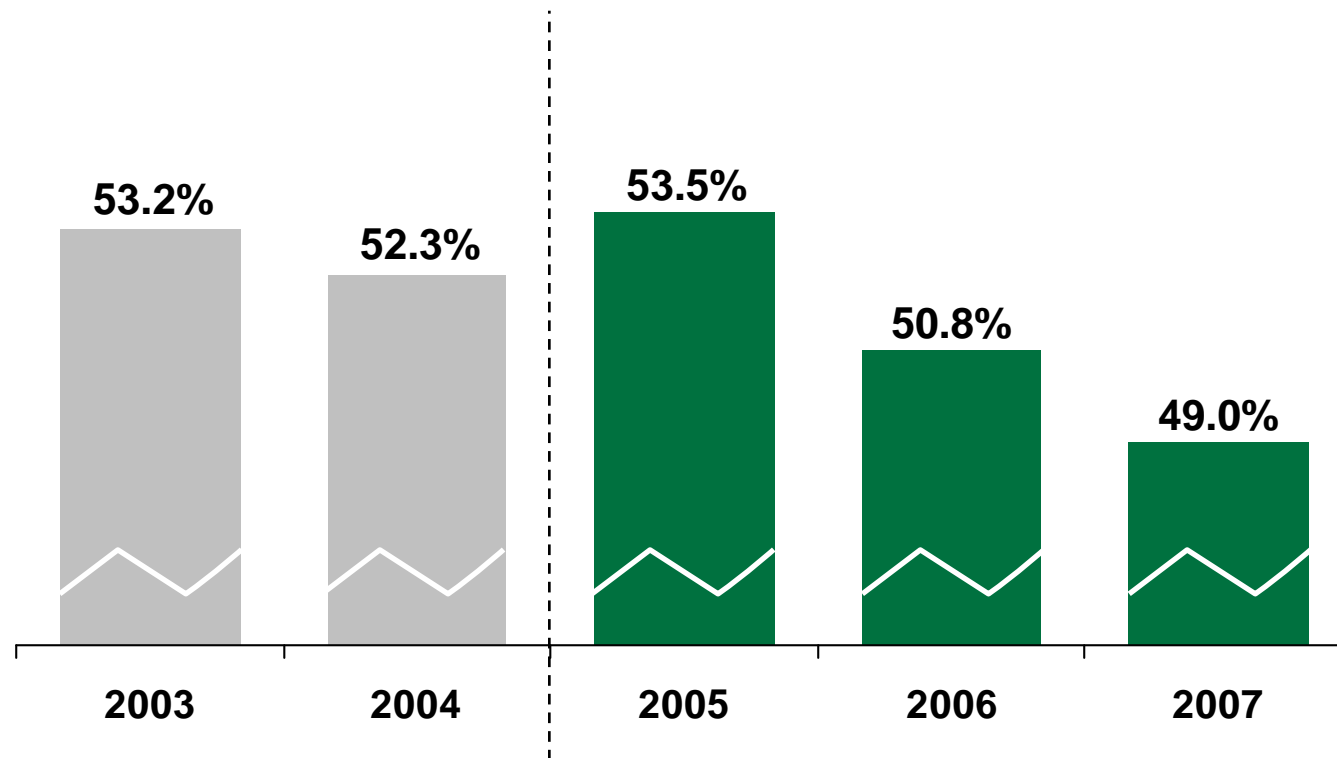
UKRB: new retail products (funds under management)



High quality sustainable earnings

Continuous productivity growth

Cost:income ratio¹



1. 2003-4 figures on a UK GAAP basis excluding discontinued operations. 2005-7 figures are on a full IFRS basis, excluding volatility, insurance grossing and one-off items

High quality sustainable earnings

Investing for future growth

Investment themes

- **Improving access for our customers**
- **Effectiveness in front of the customer**
- **Enhancing products & services**
- **Improving our efficiency**

Major projects

- **New internet platform**
- **'Your finances' sales capability**
- **Up-skilling frontline staff**
- **Commercial infrastructure**
- **Productivity programme**

We are well placed

- **Strong capital and funding position**
- **Relationship-driven business model**
- **Deep understanding of our customers**
- **Through the cycle lending**

2007 results in longer term context

- **Strong momentum**
- **Significant growth potential**
- **High quality sustainable earnings**