annual report and accounts 2024

TSB Banking Group plc

Throughout 2024, TSB has continued to support customers and successfully execute the strategy, guided as ever by our purpose – Money Confidence. For everyone. Every day.

Robin Bulloch
Chief Executive, TSB

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	2024 £ million	2023 £ million	Change %
Loans and advances to customers	**36,330.9**	36,245.9	0.2
Other assets	**9,770.0**	11,406.8	(14.3)
Total assets	**46,100.9**	47,652.7	(3.3)
Customer deposits	**35,051.2**	34,764.3	0.8
Other liabilities	**8,621.6**	10,810.2	(20.2)
Total equity	**2,428.1**	2,078.2	16.8
Total equity and liabilities	**46,100.9**	47,652.7	(3.3)

Summary consolidated statutory income statement

	2024 £ million	2023 £ million	Change %
Net interest income	**984.4**	1,022.0	(3.7)
Other income	**158.0**	136.4	15.8
Total income	**1,142.4**	1,158.4	(1.4)
Operating expenses	**(821.9)**	(852.9)	(3.6)
Impairment	**(30.1)**	(68.3)	(55.9)
Statutory profit before taxation	**290.4**	237.2	22.4
Taxation	**(82.5)**	(62.4)	32.2
Statutory profit for the year	**207.9**	174.8	18.9

Key performance indicators

	2024	2023	Change
Delivering for our customers:			
Customer advocacy – Net Promoter Score (NPS)(1)	**7%**	16%	(9)pp
Delivering sustainably:			
Scope 1 and 2 emissions (location-based)(2)	**3,517**	4,138	(15.0)%
Delivering for our shareholder:			
Statutory profit after tax (£ million)	**207.9**	174.8	18.9%
Cost:income ratio (Statutory basis)(3)	**71.9%**	73.6%	(1.7)pp
Cost:income ratio (Excluding notable items and banking volatility)(4)	**72.3%**	70.5%	1.8pp
Post-tax return on tangible equity(5)	**10.6%**	8.9%	1.7pp
Post-tax return on assets	**0.45%**	0.36%	9bps
Other financial metrics:			
Loan to deposit ratio(6)	**104%**	104%	–
Common Equity Tier 1 Capital ratio (fully loaded)	**15.4%**	16.7%	(1.3)pp
Leverage ratio (fully loaded)	**5.0%**	4.6%	0.4pp
Net interest margin(7)	**2.68%**	2.75%	(7)bps
Asset quality ratio(8)	**0.08%**	0.18%	(10)bps

(1) 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 give a score of 9 or 10 after subtracting the percentage who give a score 0 to 6. Calculated as a 3-month rolling average.

(2) As further explained in the Do What Matters Plan section on page 35.

(3) Statutory operating expenses divided by statutory total income.

(4) Notable items and banking volatility included in income and costs are summarised on page 11 and page 12, respectively. Further analysis of notable items included in costs is provided in note 14 on page 91.

(5) Profit after tax divided by the monthly average of total equity (excluding other equity instruments) less intangible assets.

(6) Loans and advances to customers divided by customer deposits. Amounts as presented on the consolidated balance sheet on page 67.

(7) Net interest income divided by average loans and advances to customers, gross of impairment allowance.

(8) Impairment charge on loans and advances to customers divided by average loans and advances to customers, gross of impairment allowance.

Chair’s overview

TSB continues to build on its position as an important retail bank that’s delivering on its purpose - Money Confidence. For everyone. Every day.

The consolidation we have seen in the UK banking sector offers a further opportunity for TSB to stand out as Britain’s leading challenger bank, in the widest sense, building on an established and respected brand, and a loyal and growing customer base.

The new fraud reimbursement rules introduced in October 2024 highlight the positive influence a customer-focused bank like TSB can wield, by doing the right thing and by campaigning consistently on an issue that is of great significance to its customers and to wider society. TSB’s determination in offering our Fraud Refund Guarantee to customers for more than five years has, in my view, been instrumental in driving regulatory action to improve reimbursement rules across the board and better protecting UK consumers.

The Bank’s further strong financial performance in 2024, building on earlier growth, leaves TSB well-placed to deliver for customers and its shareholder.

TSB continues to make a significant and growing contribution to the Sabadell Group and its shareholders, and the Group has repeatedly made clear that its commitment to TSB is for the long-term.

The best course of action for TSB is to continue executing the highly successful strategy pursued in recent years, leaving questions over the ownership of our parent group to one side. The results achieved in 2024 once again offer powerful evidence that this is the right approach, for the Bank, our colleagues, and for our customers.

I should like to thank my fellow Board members for their advice and counsel over the course of 2024. We welcomed Judith Eden to the Board and as Chair of the Audit Committee in January 2024, and Morten Friis as Senior Non-executive Director in March, replacing Lynne Peacock, who stepped down after four hugely productive years. Both Judith and Morten are already making an invaluable contribution to the Board’s work.

Towards the end of the year, we also bade farewell to Leopoldo Alvear and Andy Simmonds and, as with Lynne, we offer our sincere thanks for their contribution to TSB and wish them all the very best for the future. I was delighted to welcome Sergio Palavecino to the Board, and I am greatly looking forward to working with him as TSB continues its progress.

At the end of November, TSB’s Chief Executive, Robin Bulloch, announced his intention to retire after a career in retail banking that has spanned 45 years, the last five of which have been at TSB, first as Chief Customer Officer and then from December 2021 as Chief Executive Officer. Robin’s contribution to the transformation of TSB has been immense, and he leaves with the Board’s very best wishes, and an enormous debt of thanks.

Following an orderly transition, the next phase in TSB’s development will be taken forward by Marc Armengol, who previously served as the Bank’s Corporate Strategy Director, and who has been a valued member of the Board for nearly three years. He has also held senior executive roles with Sabadell for many years, and has an excellent understanding of the relationship between TSB and its parent group. Marc will take charge of a dynamic and highly capable Executive Committee that is well-equipped to ensure TSB fulfils its potential in the years to come.

Nick Prettejohn
Chair
6 February 2025

Chief Executive's statement

Introduction

Throughout 2024, TSB has continued to support customers and successfully execute the strategy, guided as ever by our purpose – Money Confidence. For everyone. Every day.

After a period of sustained headwinds affecting the UK banking sector, our focus on cost discipline has ensured TSB's financial position remains robust. We have delivered a strong set of results demonstrating the underlying resilience of our business model with record profits for the third consecutive year.

Financial summary

TSB has reported a statutory profit before tax of £290.4 million in 2024, up 22.4% on the £237.2 million earned in 2023. This reflects ongoing cost control, with operating expenses decreasing by 3.6% and lower impairment losses, which decreased by 55.9% reflecting an improving economic outlook. These were partially offset by lower income, reflecting the impact of lower mortgage margins in a highly competitive market.

Customer lending and deposit balances both increased year on year, by 0.2% and 0.8% respectively. TSB remains well capitalised, with a Common Equity Tier 1 (CET1) ratio of 15.4% (2023: 16.7%) and maintains a healthy liquidity buffer with a Liquidity Coverage Ratio (LCR) of 199.8% (2023: 203.0%). Post tax return on equity increased to 10.6% (2023: 8.9%), reflecting TSB's increased profitability. In December, the Bank's capital structure was optimised through the issuance of £250.0 million of Additional Tier 1 capital, offset by an incremental £200.0 million to be included in the proposed final dividend for 2024, which was the primary driver of the lower CET1 ratio.

In light of the Bank's capital strength, strong financial performance in 2024 and robust prospects, the Board has recommended a 2024 final dividend of £300.0 million (including the £200.0 million in respect of the capital optimisation).

Strategy – a relentless focus on our customers

Our strategy has four key elements, and we have made strong progress in each of them this year.

Customer focus

We have succeeded in growing our customer base in 2024, with 244,000 new personal current accounts opened with TSB, and in diversifying the Bank's sources of income, in particular through controlled growth in unsecured lending.

We continue to add to the features and the functionality of the app, while investing in further improving the stability of our platform. This is ensuring that our customers are increasingly able to manage their finances at a time and place that suits them, with most transactions now carried out digitally and 91% of all TSB products opened digitally by customers.

The mortgage market remains very competitive, with squeezed margins impacting providers. However, we saw stronger mortgage performance in the second half of the year, and through 2024 we have helped 7,600 first time buyers take their first step on the property ladder.

We welcomed the introduction of the Payment Services Regulator's fraud reimbursement scheme in October. This is a testament to TSB's leading position for over five years, through our Fraud Refund Guarantee, which set the agenda that others have now been required to follow. We are committed to continuing to support customers on this important issue and reimbursing them where they are clearly innocent victims of fraud.

We continue to identify more opportunities to help customers with their financial needs and are increasingly leveraging technology to offer a more personalised service.

Chief Executive’s statement (continued)

Strategy – a relentless focus on our customers (continued)

Service excellence
We operate Britain’s 7th largest branch network, even as the role of our branches and customer-facing teams evolves to meet the changing needs and wishes of our customers.

TSB is committed to innovation to ensure we continue to deliver an excellent service, and we are in the forefront of developing new ways of serving our customers – for example, through the expansion of our video banking offer and the opening of more TSB Pods, in locations that are convenient for customers.

We are also a participant in Cash Access UK, providing shared banking hubs at locations across the country where there is an unmet need.

Do What Matters
We have a leading position on supporting victims of domestic abuse and a ground-breaking approach to supporting colleagues who are carers. We are also contributing to wider public debate on these issues, aiming to have a similar positive impact as on fraud.

We are also proud of our commitment to volunteering – every colleague has the right to a day’s paid leave to support projects in their local community and through this, we have delivered more than 200 workshops via our Money Confident Communities programme.

We remain ahead of 2025 targets on diversity & inclusion and carbon reduction, and our focus is increasingly turning to our financed emissions and helping our customers to make their homes more sustainable.

Simplification and efficiency
We have continued to focus on cost control, and this has enabled TSB to successfully mitigate the impact of ongoing inflationary pressures.

To this end, we have carried out a restructuring of the business to a leaner, simpler operating model. At the heart of this has been the gradual adoption of an Agile approach, enabling us to deliver change more efficiently and effectively.

Forward look
TSB’s Money Confidence purpose remains highly relevant and its robust capital and liquidity position means the Bank is well-placed to continue its future growth ambitions and a positive profit trajectory.

On behalf of the Board and the Executive Committee, I want to thank the 4,900 TSB colleagues who have contributed to another record year for TSB. We are hugely grateful to them for the hard work and professionalism they have shown in continuing to deliver for our customers throughout a year of significant internal and external change.

As I now hand over to Marc Armengol, TSB’s focus in 2025 will remain on supporting more customers, meeting more of their financial needs, and continuing to deliver our Money Confidence purpose.

Robin Bulloch
Chief Executive Officer
6 February 2025

Our purpose and business model

Our purpose – Money Confidence. For everyone. Every day.
TSB offers a range of retail banking services and products to individuals and small business banking customers in the UK. TSB has a multi-channel model, including full digital (internet and mobile), telephone and national branch banking service, in addition to a range of new approaches such as video banking, Mobile Money Confidence Experts and in store pop-ups.

We believe that TSB's multi-channel proposition creates an opportunity to offer superior service to more of our customers more of the time. They want a bank that offers effortless digital tools to service their banking needs and rapid access to skilled people when they need support.

TSB continues to invest in developing digital-led products and servicing capabilities that help identify and meet more of our customers' needs now and into the future. This, in turn, improves their confidence in managing their money and ensures we live up to our purpose of Money Confidence. For everyone. Every day.

Our business model is simple
TSB's business model reflects a simple retail business and is outlined below:

Component	Description	2024 performance	Audited Financial statements
Customer confidence	We seek to deliver a proactive, personalised and effortless banking experience for which customers come to, and remain with, TSB. This will increasingly set TSB apart from other banks and providers of financial services. Central to this is our purpose 'Money Confidence. For everyone. Every day.' which focuses investment in our channels and product proposition so customers are rewarded, protected and always in control.	n/a	n/a
Sources of funding and capital	Money deposited by customers into their personal current accounts and savings accounts provides the majority of the funds we use to support lending to customers. We also raise funds from other sources, including wholesale markets and central banks, that diversify our funding profile. Our shareholder provides funding in the form of debt and equity capital.	Page 8	Page 71
Loans and liquid assets	Funds deposited with TSB are used to support lending to customers who wish to borrow. A portion of funds are held in reserve, in the form of a liquidity portfolio, to meet any unexpected funding requirements.	Page 10	Page 76
Income	We earn income in the form of interest that we receive on the loans we make to customers and from our liquidity portfolio. We pay interest to savings and bank account customers on the money they deposit with us. We also earn other income in the form of fees and charges for the provision of other banking services and commissions from the sale of certain products such as general insurance.	Page 11	Page 87
Charges	The costs of running the Bank include paying our TSB employees, running our branches, investing in our business (such as developing digital opportunities) and paying for marketing. Occasionally, our customers are unable to repay the money they borrow from us; this is also a cost to the Bank in the form of an impairment charge. Finally, TSB complies with its tax obligations to His Majesty's Revenue and Customs (HMRC).	Page 12	Page 89

Risk management (2024 performance from page 14; financial statements from page 94)
Effective risk management underpins TSB's business model. The Board sets an appetite for risk and monitors the risks arising from delivery of TSB's strategy through its business model to ensure the Bank remains liquid, solvent, operationally stable, trusted and compliant. The Board, in turn, will determine whether to return any profits made by the Bank to the shareholder by way of dividend, in line with its dividend policy (as disclosed in note 23 on page 116) or to reinvest the profit to support the future growth of the Bank.

Financial performance in 2024

TSB's performance is presented on a statutory basis and structured in a manner consistent with the key elements of the business model as explained on page 6.

Profitability (statutory basis)

	Analysis	2024 £ million	2023 £ million	Change %
Net interest income		**984.4**	1,022.0	(3.7)
Other income		**158.0**	136.4	15.8
Total income (statutory)	Page 11	**1,142.4**	1,158.4	(1.4)
Income before notable items		**1,075.6**	1,133.7	(5.1)
Notable income (1)		**33.9**	14.0	142.1
Banking volatility (2)		**32.9**	10.7	207.5
Operating expenses (statutory)	Page 12	**(821.9)**	(852.9)	(3.6)
Operating expenses before notable items		**(777.3)**	(798.7)	(2.7)
Notable expenses (3)		**(41.1)**	(52.9)	(22.3)
Banking volatility (2)		**(3.5)**	(1.3)	169.2
Impairment (statutory)	Page 13	**(30.1)**	(68.3)	(55.9)
Statutory profit before taxation		**290.4**	237.2	22.4
Taxation	Page 13	**(82.5)**	(62.4)	32.2
Statutory profit after taxation		**207.9**	174.8	18.9

(1) Notable income is further explained on page 11.
(2) Banking volatility in total income comprises of the following line items on the income statement: Gains on derivative financial instruments at fair value through profit or loss and losses from hedge accounting. Banking volatility in operating expenses reflects volatility associated with share schemes.
(3) Notable expenses are further explained in note 14 on page 91.

TSB's statutory profit before tax for 2024 increased by 22.4% to £290.4 million (2023: £237.2 million). The key factors driving the year-on-year improvement were:

- *Income*: a decrease in total income of 1.4% to £1,142.4 million (2023: £1,158.4 million), primarily reflecting the impact of lower mortgage margins in a highly competitive market, partially offset by insurance recoveries of £36.2 million, net of associated costs of recovery; and
- *Operating expenses*: a decrease of 3.6% to £821.9 million (2023: £852.9 million). A continued focus on cost management and lower restructuring costs helped to mitigate the impact of higher inflation, the recognition of a regulatory fine and the new Bank of England Bank Levy; and
- *Impairment*: a decrease in credit impairment charges to £30.1 million (2023: £68.3 million), with an improving economic outlook and a reduction in the risk associated with the cost-of-living crisis, in particular for the unsecured portfolio.

Further information on the drivers of TSB's Income Statement performance is set out on pages 11 to 13.

Summary consolidated balance sheet

	2024 £ million	2023 £ million	Change %
Loans and advances to customers	**36,330.9**	36,245.9	0.2
Other assets	**9,770.0**	11,406.8	(14.3)
Total assets	**46,100.9**	47,652.7	(3.3)
Customer deposits	**35,051.2**	34,764.3	0.8
Other liabilities	**8,621.6**	10,810.2	(20.2)
Total liabilities	**43,672.8**	45,574.5	(4.2)
Total equity	**2,428.1**	2,078.2	16.8
Total equity and liabilities	**46,100.9**	47,652.7	(3.3)

The key balance sheet movements were as follows:

- *Assets*: a decrease of 3.3% driven by a 14.3% reduction in other assets, mainly due to lower cash held with the Bank of England following repayment of £2.6 billion of borrowings under the Term Funding Scheme with additional incentives for SMEs (TFSME) in 2024.
- *Liabilities:* a decrease of 4.2% driven by the repayment of TFSME funding above, partially offset by a £0.3 billion increase in customer deposits, and
- *Total equity*: an increase of 16.8%, or £349.9 million, primarily reflecting the issuance of £250.0 million of AT1 capital to Sabadell and 2024 retained profits of £87.9 million. Retained profits reflected profit after tax of £207.9 million less the dividend payment to TSB's shareholder, Sabadell, of £120.0 million, paid in February 2024. The Board has recommended a 2024 dividend of £300.0 million to be paid in the first quarter of 2025, pending approval at the Annual General Meeting and non-objection from the PRA. This dividend is not reflected in the 2024 consolidated financial statements.

Financial performance in 2024 (continued)

Sources of funding and capital

Money deposited by customers into their bank and savings accounts provides the majority of the funds we use to support lending to customers. We also raise funds from other sources, including wholesale funding markets and equity invested by the shareholder.

	Further Information	2024 £ million	2023 £ million	Change %
Customer deposits	Note 1 on page 71	**35,051.2**	34,764.3	0.8
Non-customer funding:				
Borrowings from the Bank of England	Note 2 (ii) on page 73	**1,406.9**	4,057.9	(65.3)
Debt securities in issue	Note 2 (i) on page 71	**4,583.2**	3,664.1	25.1
Subordinated liabilities	Note 3 on page 74	**285.9**	277.7	3.0
Total non-customer funding		**6,276.0**	7,999.7	(21.5)
Funding resources		**41,327.2**	42,764.0	(3.4)
Total equity	Note 22 on page 115	**2,428.1**	2,078.2	16.8
Total sources of funding		**43,755.3**	44,842.2	(2.4)

Sources of funding

Customer deposits
Customer deposits increased by £0.3 billion, or 0.8%, to £35.1 billion, driven by an increase in retail deposits of £0.4 billion to £32.7 billion. Business banking deposits decreased by £0.1 billion to £2.4 billion. Retail balance growth was driven by retail savings balances (which increased by 3.2%) driven by increased fixed rate savings balances, reflecting competitive pricing as customers moved their balances towards higher interest earning savings accounts. Transfers to savings balances from current accounts also slowed in 2024 as the interest rate environment stabilised.

Non-customer funding
Non-customer funding decreased by £1.7 billion to £6.3 billion. During 2024, £2.7 billion of borrowings from the Bank of England were repaid, primarily under the Bank of England's Term Funding Scheme with additional incentives for SMEs (TFSME). These reductions were partially offset by the issuance of £0.9 billion of debt securities in issue, comprising of the net issuance of £0.4 billion of covered bonds, including an inaugural euro denominated issue of €500.0 million, and £495.0 million of net issuance of securitisation notes.

Capital resources
TSB's capital position has remained above regulatory minimum requirements and internal risk appetite thresholds, with a CET1 capital ratio of 15.4% (2023: 16.7%) and a leverage ratio of 5.0% (2023: 4.6%) on a CRD IV fully loaded basis.

	At 31 Dec 2024 £ million	At 31 Dec 2023 £ million
Total equity per balance sheet	**2,428.1**	2,078.2
Other equity instruments	**(249.7)**	–
Other regulatory adjustments and deductions:		
Proposed dividend	**(300.0)**	(120.0)
Excess expected loss	**(8.1)**	–
Deferred tax assets(1)	–	(20.0)
Cash flow reserve regulatory adjustment	**(26.0)**	(12.2)
Prudential valuation adjustment	**(2.5)**	(3.0)
Intangible assets	**(103.7)**	(80.9)
Common Equity Tier 1/ capital (fully loaded)	**1,738.1**	1,842.1
Additional Tier 1 Capital	**249.7**	–
Total Tier 1 capital (fully loaded)	**1,987.8**	1,842.1
Tier 2 capital (fully loaded)	**300.0**	325.2
Total capital resources (fully loaded)	**2,287.8**	2,167.3
Risk-weighted assets (RWA) (unaudited)	**11,250.8**	11,055.1
Common Equity Tier 1 ratio (fully loaded)	**15.4%**	16.7%
Total Tier 1 capital ratio (fully loaded)	**17.7%**	16.7%
Total Capital ratio (fully loaded)	**20.3%**	19.6%

(1) Reflects the deferred tax arising on carried forward tax losses, cash flow hedging reserve, and in respect of revaluations of financial assets at fair value through other comprehensive income.

Financial performance in 2024 (continued)

Sources of funding and capital (continued)

The movements in regulatory capital in the year, as measured on a fully loaded basis, are shown below:

	CET1 £ million	AT1 £ million	Tier 2 £ million	Total capital resources £ million
At 31 December 2023	**1,842.1**	**–**	**325.2**	**2,167.3**
Profit attributable to the shareholder	**207.9**	**–**	**–**	**207.9**
Proposed dividend	**(300.0)**	**–**	**–**	**(300.0)**
Issuance	**–**	**249.7**	**–**	**249.7**
Movement in other comprehensive income	**12.3**	**–**	**–**	**12.3**
Change in intangible assets	**(22.8)**	**–**	**–**	**(22.8)**
Movement in deferred tax assets on carried forward tax losses	**20.0**	**–**	**–**	**20.0**
Cash flow hedging reserve regulatory adjustment movement	**(13.8)**	**–**	**–**	**(13.8)**
Change in prudential valuation adjustment	**0.5**	**–**	**–**	**0.5**
Change in excess provision over expected loss	**(8.1)**	**–**	**(25.2)**	**(33.3)**
At 31 December 2024	**1,738.1**	**249.7**	**300.0**	**2,287.8**

Risk-weighted assets (CRD IV) (unaudited)

Risk-weighted assets (RWAs) at 31 December 2024 increased by £195.7 million (1.8%). The increase was primarily driven by higher credit risk RWAs, reflecting an increase in lending balances and higher operational risk RWA from the growth in TSB's income.

	At 31 Dec 2024 £ million	At 31 Dec 2023 £ million
Risk type analysis of risk-weighted assets:		
Standardised approach	**1,053.7**	1,117.1
Internal Ratings Based approach	**8,442.2**	8,257.8
Total credit risk	**9,495.9**	9,374.9
Operational risk	**1,710.9**	1,633.1
Counterparty risk	**44.0**	47.1
Total risk-weighted assets	**11,250.8**	11,055.1

Leverage ratio

The leverage ratio measure is defined as the ratio of Tier 1 capital to total exposure. This measure is intended to complement the risk-based capital requirements with a simple, non-risk based 'backstop' measure. TSB calculates its leverage ratio based on the exposure measure and definition of Tier 1 capital as defined in the PRA Rulebook introduced with effect from January 2022.

	At 31 Dec 2024 £ million	At 31 Dec 2023 £ million
Total Tier 1 Capital for leverage ratio (fully loaded)	**1,987.8**	1,842.1
Exposures for leverage ratio		
Total statutory balance sheet assets	**46,100.9**	47,652.7
Less accounting value for derivatives	**(1,773.5)**	(2,015.6)
Exposure value for derivatives and securities financing transactions	**42.9**	53.5
Less qualifying central bank's claims	**(4,990.8)**	(6,156.1)
Lending commitments	**828.8**	879.6
Regulatory adjustments to Tier 1	**(140.3)**	(116.2)
Other regulatory adjustments	**58.1**	41.1
Total exposures	**40,126.1**	40,339.0
Leverage ratio	**5.0%**	4.6%

The PRA leverage ratio of 5.0% (2023: 4.6%) exceeds the PRA minimum expectation of 3.25%.

Following the introduction of IFRS 9, TSB and other UK banks are supervised under transitional rules which are due to expire after December 2024. Based on these, TSB's CET1 ratio was 15.4% (2023: 16.7%), total capital ratio was 20.3% (2023: 19.6%) and leverage ratio was 5.0% (2023: 4.6%). The effect of the transitional adjustment to own funds, capital requirement and leverage will be disclosed within the 'Key Metrics' table in TSB's Pillar III Large Subsidiary Disclosures.

Financial performance in 2024 (continued)

Loans and liquid assets

Funds deposited with TSB are used to support lending to customers who wish to borrow. A portion of funds are held in reserve, in the form of a liquidity portfolio, to meet any unexpected funding requirements.

	2024 £ million	2023 £ million	Change %
Retail - mortgages(1)	**34,055.5**	34,047.5	–
Retail – credit cards	**528.5**	530.6	(0.4)
Retail – other unsecured	**1,470.1**	1,350.1	8.9
Business banking	**407.0**	475.6	(14.4)
	36,461.1	36,403.8	0.2
Allowance for credit impairment losses	**(180.1)**	(211.8)	(15.0)
Net customer lending balances	**36,281.0**	36,192.0	0.2
Accounting adjustments	**49.9**	53.9	(7.4)
Loans and advances to customers	**36,330.9**	36,245.9	0.2
Balances at central banks(2)	**4,738.5**	5,802.2	(18.3)
Debt securities(3)	**2,311.1**	2,480.8	(6.8)
Total liquid asset portfolio	**7,049.6**	8,283.0	(14.9)

(1) Includes Whistletree secured loans of £608.0 million (2023: £710.8 million).
(2) Balances at central banks is included on the consolidated balance sheet in cash, cash balances at central banks and other demand deposits. Analysis is shown in note 32 on page 121.
(3) Of which £328.6 million (2023: £356.6 million) is accounted for at fair value through other comprehensive income and £1,982.5 million (2023: £2,124.2 million) is accounted for at amortised cost.

Loans and advances to customers

Loans and advances to customers increased by £0.1 billion, or 0.2%, to £36.3 billion, reflecting the competitive UK mortgage lending market and the management decision to protect margins. With higher interest rates and strong competition in the market, customers are shopping around for the best deal to mitigate the impact of rising mortgage costs.

Liquid asset portfolio

TSB's liquidity portfolio comprises highly liquid assets, primarily balances deposited at the Bank of England, UK gilts, development bank bonds, and covered bonds, which are available and accessible to meet potential cash outflows. During 2024, the liquidity portfolio decreased by £1.3 billion to £7.0 billion, reflecting a decrease in balances on deposit with the Bank of England as funds were used to repay borrowings under the TFSME.

A key regulatory measure of liquidity is the LCR. This is designed to measure the short-term resilience of TSB's liquidity and is regularly monitored and forecast alongside other cash flow and liquidity ratios. At 31 December 2024, the LCR was stable at 199.8% (2023: 203.0%) against a PRA requirement of 100%.

Encumbered assets

At 31 December 2024, £6,047.6 million (2023: £5,014.2 million) of assets were encumbered with counterparties other than central banks, primarily as collateral to support covered bond and securitisation programmes (note 2 on pages 71 to 73). A further £15,081.5 million (2023: £16,784.6 million) of assets were positioned at central banks as collateral in support of drawings under the TFSME and for normal liquidity management purposes, including held as balances with the Bank of England.

		Assets positioned at	Assets not positioned at central banks			
	Assets encumbered with counterparties other than central banks £ million	central banks (pre-positioned plus encumbered) £ million	Readily available for encumbrance £ million	Capable of being encumbered £ million	Unencumbered - cannot be used £ million	Total assets £ million
Cash, cash balances at central banks and other demand deposits	**–**	**4,738.5**	**–**	**–**	**85.3**	**4,823.8**
Financial assets at fair value through other comp. income	**–**	**–**	**328.6**	**–**	**–**	**328.6**
Financial assets at amortised cost:						
Debt securities	(1)**298.0**	**–**	**1,641.7**	**–**	**42.8**	**1,982.5**
Loans to central banks and credit institutions	(2)**277.8**	**–**	**–**	**–**	**–**	**277.8**
Loans and advances to customers	(3)**5,370.5**	**10,343.0**	**–**	**20,617.4**	**–**	**36,330.9**
Other advances	(1)**101.3**	**–**	**–**	**–**	**28.9**	**130.2**
Remainder of assets	**–**	**–**	**–**	**–**	**2,227.1**	**2,227.1**
Total – December 2024	**6,047.6**	**15,081.5**	**1,970.3**	**20,617.4**	**2,384.1**	**46,100.9**
Total – December 2023	5,014.2	16,784.6	2,060.2	21,171.7	2,622.0	47,652.7

(1) Collateral placed with counterparties in respect of derivative financial liabilities.
(2) Cash held on deposit by the covered bond and securitisation entities.
(3) Mortgage loans encumbered in support of covered bond issuance and securitisation issuance.

Financial performance in 2024 (continued)

Income

We earn income in the form of interest that we receive on the loans we make to customers and from our liquidity portfolio and we pay interest to savings and some bank account customers on money that they deposit with us and to providers of other forms of funding. We also earn other income in the form of fees and charges for the provision of banking services and commissions from the referral of certain products such as general insurance, offset by fees and rewards paid to certain bank account customers.

Total income

	2024 £ million	2023 £ million	Change %
Net interest income	**984.4**	1,022.0	(3.7)
Fee and commission income, net	**90.7**	108.0	(16.0)
Gains on derecognition of financial instruments at FVOCI	**–**	4.3	(100.0)
Losses on derecognition of financial liabilities measured at amortised cost	**–**	(1.0)	100.0
Other income[1]	**0.5**	0.4	25.0
Total income before notable items and banking volatility	**1,075.6**	1,133.7	(5.1)
Notable items:	**33.9**	14.0	142.1
Migration related insurance recovery income[2]	**36.2**	14.1	156.7
Restructuring items[3]	**(2.3)**	(0.1)	n/a
Banking volatility[4]	**32.9**	10.7	207.5
Total income (statutory)	**1,142.4**	1,158.4	(1.4)
Net interest margin (statutory basis)	**2.68%**	2.75%	(7)bps

(1) Excludes £33.9 million (2023: £14.0 million) of notable items (note 2 and 3 below) and £32.9 million (2023: £10.7 million) of banking volatility.

(2) Included in other operating income (as shown in note 13 on page 88).

(3) Comprises of net losses from the disposals of properties and intangible asset write offs, of which £(2.3) million (2023: £(0.1) million) is included in losses on derecognition of non-financial assets in the income statement on page 68.

(4) Banking volatility comprises of the following line items on the income statement: Gains on derivative financial instruments at fair value through profit or loss and losses from hedge accounting.

Total income decreased by 1.4% to £1,142.4 million. This primarily reflected a decrease in net interest income, partially offset by higher banking volatility and higher migration related income arising from the recognition of £36.2 million of insurance recoveries in 2024. Net interest income decreased by 3.7% to £984.4 million reflecting lower mortgage margins in a highly competitive market.

Interest rates earned on loans

The average rate earned on TSB's loans and advances to customers increased to 4.08% (2023: 3.41%). This largely reflects the increase in the cost of funding, partially offset by continued competitive dynamics in the mortgage market.

The average rate earned on mortgages during 2024 increased to 3.63% (2023: 2.98%) while unsecured lending yields increased to 11.72% (2023: 11.03%).

Cost of funding resources

The average cost of customer deposits increased to 1.51% in 2024 (2023: 0.98%) following the significant increase in interest rates during the second half of 2023. The average cost of customer deposits comprised of savings deposit costs of 2.52% (2023: 1.70%), with more customers locking in higher rates by fixing, bank account interest costs unchanged from 2023 at 0.01%, and Business banking interest costs of 0.46% (2023: 0.28%).

Structural hedge income

TSB has a pool of stable, non and low interest-bearing liabilities, principally comprising current accounts and savings, in addition to its shareholder's equity. A proportion of these balances are included in a structural hedge that is executed via a portfolio of receive fixed and pay variable interest rate swaps. These have an amortising structure so that a small portion matures and is reinvested each month at prevailing market rates.

The purpose of the structural hedge is to smooth net interest income over time. The pay floating leg of the swap will re-price immediately, whereas the receive fixed rate yield on the swap portfolio will reprice gradually, as a portion of the structural hedge swaps mature each month and are re-invested into new swaps at current market rates.

At 31 December 2024, the notional balance of the structural hedge was £19.9 billion (31 December 2023: £22.6 billion). Structural hedge income, as represented by the fixed leg of the swaps, increased by £25.5 million to £344.5 million (2023: £319.0 million) reflecting the effects of recent reinvestment at higher fixed rates. Structural hedge income represents the net interest income earned on the fixed leg of the swaps, as the net interest expense on the floating leg offsets the variable earnings from the funding provided by the pool of non and low interest-bearing liabilities. The mark-to-market volatility is managed using the risk management policies described on page 110.

Financial performance in 2024 (continued)

Charges

Charges we incur include the costs of paying TSB employees, managing our IT infrastructure, running our branches, investing in our business, and paying for advertising and marketing. Occasionally, our customers are unable to repay the money they borrow from us; this is also a cost to the Bank in the form of our impairment charge. Finally, TSB complies with its tax obligations to His Majesty's Revenue and Customs (HMRC).

Operating expenses

	2024 £ million	2023 £ million	Change %
TSB employee related costs	**312.0**	322.0	(3.1)
IT servicing and licence costs	**225.7**	225.4	0.1
Property costs	**68.5**	68.7	(0.3)
Operational contracts	**32.4**	38.2	(15.2)
Marketing costs	**20.6**	27.7	(25.6)
Regulatory and professional costs	**34.3**	30.4	12.8
Investment costs	**42.8**	49.5	(13.5)
Other expenses	**41.0**	36.8	11.4
Operating expenses before notable items and banking volatility	**777.3**	798.7	(2.7)
Notable items[(1)]:	**41.1**	52.9	(22.3)
Strategic restructuring costs	**19.7**	28.7	(31.4)
Regulatory fine	**11.4**	–	n/a
IT servicing and licence costs	**4.6**	23.8	(80.7)
Conduct charges	**3.6**	(1.0)	n/a
Migration related items	**–**	(2.7)	(100.0)
Other notable costs	**1.8**	4.1	(56.1)
Banking volatility[(2)]	**3.5**	1.3	169.2
Operating expenses	**821.9**	852.9	(3.6)

(1) Notable operating expenses are further explained in note 14 on page 91.

(2) Banking volatility reflects volatility associated with share schemes.

Operating expenses decreased by 3.6% to £821.9 million (2023: £852.9 million).

Despite a period of high inflation, operating expenses before notable items decreased by 2.7% to £777.3 million (2023: £798.7 million). This was driven by employee related costs decreasing by 3.1%, reflecting lower headcount at the end of the year, lower investment and marketing costs, and a one-off credit of £10.0 million in respect of TSB's card servicing arrangements. This was partially offset by recognition, in 2024, of the Bank of England's Bank Levy of £6.2 million in regulatory and professional costs, which replaced the Cash Ratio Deposit scheme in March 2024.

Notable items decreased by 22.3% to £41.1 million (2023: £52.9 million). The key driver for the decrease was 2023 also included £23.8 million of accelerated charges from a related party IT supplier, where investment by TSB in internal processes to serve customers and improve efficiency led to obsolescence in the supplier's IT equipment, the cost of which was borne by TSB. This was partially offset by recognition of a regulatory fine of £11.4 million (including legal costs).

Financial performance in 2024 (continued)

Charges (continued)

Impairment charge

	2024 £ million	2023 £ million	Change %
Retail – mortgages	**(8.9)**	4.0	(322.5)
Retail – credit cards	**13.5**	13.3	1.5
Retail – unsecured	**28.5**	49.4	(42.3)
Business banking	**(3.0)**	1.6	(287.5)
Total impairment charge	**30.1**	68.3	(55.9)
Asset quality ratio	**0.08%**	0.18%	(10)bps

The impairment charge decreased in 2024 by £38.2 million to £30.1 million, with an improving economic outlook and a reduction in the risk associated with the cost-of-living crisis, in particular for the unsecured portfolio. Secured impairment charges also benefitted from house price growth and an improved outlook for house prices.

A summary of the economic scenarios used for assessing expected credit losses and related scenario weightings is provided in note 8 on page 81.

Taxation

The tax charge of £82.5 million (2023: £62.4 million) reflects an effective tax rate of 28.4% (2023: 26.3%), broadly consistent with the applied UK corporation tax rate in 2024 of 28% (2023: 27.75%).

The applied rate in 2024 comprised of the main rate of corporation tax and the bank surcharge. The main rate of corporation tax was 25%. The bank surcharge was 3%, applicable to taxable profits of banks in excess of £100 million.

Risk management in TSB

Approach to risk

Effective risk management is critical to realising our strategic priorities and underpins our day-to-day operational activities. The processes to identify, measure and control the risks inherent in our business model are embedded in TSB's risk management framework.

Risk management framework

The TSB risk management framework consists of a set of principles and practices designed to comply with all relevant laws and regulations to demonstrate safe control of all risks. This leads to the promotion of a risk aware, customer focused culture to support the provision of products and services which provide good customer outcomes. The risk management framework provides guidance on:

- **Identification** of the risks to which TSB is exposed.
- **Assessment** or measurement of the identified risks using suitable risk management tools.
- **Management** of risk exposures, applying and operating appropriate controls to mitigate the risks to acceptable levels.
- **Monitoring** and **reporting** of these risks to ensure they remain within risk appetite.

The core components of the risk management framework are shown below and explained further on the following page.

Risk culture and compliance

The TSB risk management framework supports the behaviours and activity expected of all colleagues in the identification and management of risk. TSB's culture is reinforced by the approach to performance management and remuneration for all employees. Our aim is for both our employees and our customers to experience the benefits of a high performing culture, supported by a clear customer focus where employees feel confident that good customer outcomes are achieved.

TSB's culture is monitored by the Executive Committee and Board to promote the right behaviours to support TSB's purpose - Money Confidence. For everyone. Every day.

Three lines of defence

Risk management is embedded at TSB through clear accountabilities across three independent lines of defence. This enables a clear understanding and separation between functions that own and manage risks faced by the business (first line), provides oversight and challenge (second line), and provides independent audit and assurance (third line).

	First Line *Risk and control ownership*	**Second Line** *Oversight, support, and challenge*	**Third Line** *Assurance*
Responsibilities	• Responsible for the implementation and execution of the risk management framework to meet all applicable legal, regulatory and mandatory requirements, through the identification, assessment and management of risks, controls, events and policy.	• Responsible for the design, maintenance and monitoring of the risk management framework including risk appetite and the alignment to regulations. • Provide independent validation and challenge on first line's identification, assessment and management of risks and controls, to support adherence to policy and legal and regulatory requirements.	• Responsible for providing independent assurance on the effectiveness of risk management, controls and governance in the first and second lines.
Risk Governance	• Executive Committee. • Business unit risk forums.	• Board Risk Committee. • Executive Risk Committee. • Executive-level risk committees (Model Governance Committee, Credit Risk Committee, Asset & Liability Committee and Non Financial Risk Committee).	• Board Audit Committee.

Risk management in TSB (continued)

Core components of the risk management framework

Risk categorisation	The environment in which we operate, and the nature of the risks that we face, are continually changing to reflect market, economic, legislative, regulatory environment and TSB's strategic direction. We categorise the business risks that we face into seven principal risks, defined in our risk management framework and align evolving and emerging risks to these principal risks. This ensures that we identify, assess and manage these risks carefully and consistently.
Policy framework	To support our colleagues in managing our key risks and operating within our risk appetite, a suite of policies and procedures is in place. These detail our approach to managing each of our key risk exposures and define the minimum control requirements that must be observed to achieve compliance. As a subsidiary of Sabadell, we are also required to comply with the requirements detailed in the Sabadell policy framework.
Risk appetite	We define risk appetite as 'the level of risk that we are willing to take to meet our strategic objectives, either because the residual risk exposure doesn't have a material impact or the cost of control outweighs the benefits'. Our risk appetite framework extends to the setting, management, measurement, monitoring and control of our risk appetite, and the over-arching governance whilst our risk appetite statement defines the amount and type of risks we are willing to take in pursuit of our strategy.
Risks and controls	We identify the risks we are exposed to and classify and manage them in line with our risk categorisation model. Throughout the year the risks and controls are assessed, monitored and reported. Remedial action is taken to address effectiveness of the control environment and drive improvements.
Risk events	An event is an unforeseen or unexpected occurrence that will impact the successful running of our business including customers, compliance with regulations, brand and reputation, resilience of operations, or financial impact. The event management process provides the tools and techniques to identify all impacts, understand root cause, assess and manage events through to closure.
Risk Governance, Oversight and Reporting	Risk ownership and accountability sits with individuals, supported by governance and reporting via TSB's risk committees. Each committee is responsible for monitoring TSB's risk profile and challenging risk exposures across the relevant risk category in line with the risk appetite set by the Board. This structure enables efficient decision making, providing clear escalation and reporting of risk to Executive Risk Committee and Board Risk Committee, and to the Board which is responsible for providing oversight of the effectiveness of the risk management framework.

Risk management in TSB (continued)

Principal risks
Following a review of the significant risks impacting the delivery of TSB's strategy, the Board approved a recommendation to align TSB's principal risks to the level 1 risk categories. This approach aligns to industry standards of reporting principal risks.

The risk management framework sets out seven principal risks, encompassing all of the different types of risk which are relevant to our business model and achievement of our strategic objectives. Further information on these risks is set out below.

Strategic risk
The risk arising from an inadequate strategy, unsuccessful execution of the strategy or not responding to changes in the socio or macro-economic environment.

Attitude to risk
- TSB's purpose is to deliver Money Confidence. For Everyone. Every day. This whilst ensuring we Do What Matters for people and our planet.
- To support this we develop and deliver a strategy that considers a number of internal and external factors, such as the macro and socio-economic environment performance, both current and assumed future Bank performance, the strengths and weaknesses, market developments and associated threats and opportunities along with stakeholder priorities and objectives.
- The development and execution of the medium-term plan assesses the financial and non-financial outlook for the Bank to set investment priorities to support delivery of strategic objectives.

Exposure	Mitigating actions	Management focus areas
Failure to deliver TSB's strategy or financial plan including the achievement of our primary corporate objectives, financial targets and regulatory requirements. Strategic risks can be driven by both internal unforeseen events and external factors such as the socio or macroeconomic environment, customer confidence, regulatory developments and competitor behaviour.	The Board and Executive regularly review progress against the medium-term plan, primary corporate objectives and a suite of bank wide risk appetite measures. We closely monitor economic and market developments and perform horizon scanning to identify legal or regulatory changes that may pose a risk, threat or opportunity for TSB. Regular workshops are held across the Executive and Board to assess strategy performance and identify opportunities to amend or realign objectives and/or priorities.	Execution of TSB's strategy and growth initiatives whilst remaining within risk appetite profile. Identifying and adapting to external developments and threats.

Risk management in TSB (continued)

Principal risks (continued)

Financial risk
The risk of having inadequate earnings, cash flow or capital to meet current or future requirements and expectations as they fall due.

Attitude to risk
- We will use our capital to fuel TSB's growth, ensuring that we remain solvent at all times, including severe but plausible scenarios.
- We will maintain an underlying risk-adjusted margin sufficient to cover our operating costs and a prudent liquidity profile sufficient to operate under severe but plausible liquidity stressed conditions.
- We manage market risk to prevent a significant decrease in short-term earnings or in long-term economic value.
- We limit our counterparty credit exposure to those counterparties of high credit quality in developed financial markets with strong regulatory regimes.
- We have no appetite to damage our relationship with our regulators.

Exposure	Mitigating actions	Management focus areas
Failure to generate profits required to maintain sufficient capital resources and meet regulatory capital requirements, or generation of excessively volatile profits. Inability to fund the balance sheet, maintain sufficient liquidity and meet our regulatory liquidity requirements. Inability to respond in an effective and timely way to profit resilience threats and capital/liquidity stress events.	Asset & Liability Committee monitors the Bank's financial risk profile in line with Risk Appetite and maintains a forward-looking view, considering market conditions, economic environment, future regulation and legislation, bank strategy and change activity. Our capital, funding and liquidity requirements continue to be proactively monitored and subject to severe but plausible scenario stress testing to ensure TSB meets its commitments and make funding adjustments where required.	Monitoring and managing key financial risks including the impact of economic uncertainties, geopolitical risks and regulatory change. Market rate volatility and inflation risk continues to be an area of focus due to its potential impact on TSB's profitability.

Credit risk
The risk that a borrower or counterparty fails to pay the interest or to repay the principal on a loan or other financial instrument as it falls due.

Attitude to risk
- We are a responsible lender, focused on making credit decisions that act to deliver good outcomes for our customers, and will not lend more than we or our customers can afford.
- We design our lending to be sustainable and profitable under stress.
- We will maintain a well-balanced portfolio, focused on UK customers and assets, and prime lending criteria.
- We have an appetite to grow in lending markets, to make efficient use of our platforms and distribution.
- We will not allow excessive concentrations to develop that might threaten our financial stability or allow TSB to become an outlier compared to peers.

Exposure	Mitigating actions	Management focus areas
TSB's exposure to credit risk is focused on retail mortgages, consumer lending and business banking lending. The failure of customers to repay on a facility to a level that is above the Bank's agreed risk appetite will impact TSB's profitability and the delivery of our MTP.	Appropriate decision-making processes, systems and controls are in place to provide and assess affordable borrowing. Credit risk appetite is set for responsible and controlled growth and has measures and limits in place that are reviewed periodically. These measures include loan-to-value thresholds and loan-to-income ratios. If circumstances change, which impact our customers' ability to repay, we have specialist teams, along with treatment strategies to support rehabilitation. Ongoing oversight and MI of Credit Risk Management is established through our forums and committees.	The oversight and management of arrears has been a key area of focus as customers responded to a higher cost of living and the sustained higher interest rate environment. We continue to monitor the interest rate environment and its impact on customer affordability.

Risk management in TSB (continued)

Principal risks (continued)

Model Risk
The risk that models used to manage the business are inadequate, are used inappropriately, or perform ineffectively.

Attitude to risk

- At TSB we manage model risk to meet regulatory requirements and the business's strategic credit risk and financial risk objectives

Exposure	Mitigating actions	Management focus areas
Misinformed decision making leading to customer harm, regulatory censure and financial loss	An inventory of all models is maintained, and the Model Risk Management Framework promotes a consistent risk-based approach across TSB, incorporating requirements for model development, implementation and use. Ongoing performance monitoring is used to ensure that modelling data, assumptions, and outcomes remain appropriate, or allow the identification and introduction of suitable mitigants.	Model Risk remains a focus in a number of areas, with attention concentrating on areas of interest to the UK and EU Regulators. Work is underway looking at the redevelopment of a number of the Bank's most material model suites to align to latest regulatory expectations including the PRA's new regulations on Model Risk Management across the business.

Conduct risk
The risk that TSB does not act to deliver good outcomes for its customers.

Attitude to risk

- Our product and service design, sales practices, communications and servicing seek to ensure that products and services are straightforward, transparent, meet the needs of customers within our target market including vulnerable customers, supporting them to make informed decisions and so that we deliver fair value.
- We aim to deliver good customer outcomes by acting in good faith; seeking to avoid foreseeable harm; and enabling customers to pursue their financial objectives.

Exposure	Mitigating actions	Management focus areas
A failure to design and deliver customer products and services aligned to our customers' needs and TSB's strategy may lead to customer harm resulting in redress costs, regulatory intervention and / or reputational damage.	Risk Governance using MI dashboards to monitor whether we are acting to deliver good customer outcomes. Where risks and issues are identified, potential impacts are recorded, appropriate actions implemented and tracked. Ongoing risk management and compliance training supports cultural embedding. Effective governance and controls over the development and delivery of customer propositions, including second line opinions and testing of customer outcomes. Enhancements to digital services including accessibility. Customer Experience is reviewed and monitored monthly by key leadership	Effective embedding of compliance framework through an assessment of the design and operational effectiveness of our policies, with specific focus on customer journeys. Compliance by design as Agile change delivery is implemented in TSB. Continued development of relevant compliance data to assess control effectiveness and identify potential foreseeable harm.

Risk management in TSB (continued)

Principal risks (continued)

Financial crime risk

The risk that systems and controls are not adequate to manage financial crime within TSB's risk appetite and regulatory framework.

Attitude to risk

- We aim to promote an environment that is hostile to the exploitation of our systems and customers for economic crime activity. To achieve this, we adopt proportionate controls that aim to protect our customers and the Bank whilst supporting business growth strategies and innovation.
- We have zero-tolerance for breaches of financial crime regulation. We have a proactive relationship with Law Enforcement, reporting suspicions in line with requirements and working collaboratively to develop intelligence on financial crime threats.
- We have control frameworks in place to mitigate the risk of bribery and corruption and the facilitation of tax evasion. Potential cases are investigated and reported to law enforcement where confirmed.
- TSB applies a customer centric approach to the management of fraud risk, balancing the risk of fraud losses with customer impact and operational efficiency. TSB has a zero tolerance approach to insider fraud.

Exposure	Mitigating actions	Management focus areas
The impact of not implementing proportionate and customer centric strategies and controls can lead to financial loss, regulatory censure, reputational damage and customer harm.	TSB complies with the Payment Systems Regulator (PSR) mandatory reimbursement scheme introduced on 7 October 2024. TSB's strategy includes enhanced prevention and detection controls alongside customer education and awareness. Continued industry wide engagement and the evolving regulatory landscape to support timely and proportionate responses to intelligence and impact of emerging geopolitical risks. Monitoring of key risk indicators across key customer journeys and quality assurance testing outcomes to support early interventions to mitigate risks. Use of governance to assess holistic risks across TSB and agree priorities.	There is ongoing focus on sanctions screening, country and customer risk assessments and business risk appetite to manage TSB's exposure to the higher risk jurisdictions. A programme of work is underway to enhance fraud controls and embed customer centric processes and outcomes to mitigate the risk of customer harm. 2025 is expected to bring a volume of regulatory change impacting economic crime controls. TSB is proactively engaged across industry to respond in a timely manner.

Risk management in TSB (continued)

Principal risks (continued)

Operational risk & resilience

The risk of loss, damage or disruption to TSB's resilience and both 'Important' and 'Other' Business Services we provide to our customers, arising from inadequate or failed internal processes, people or systems.

Attitude to risk

- Our goal is to provide secure, reliable banking services that safeguard the trust of our customers and satisfy our regulatory obligations.
- We have no appetite to breach important business service impact tolerance. When things go wrong, we will act quickly to support customers and put things right minimising any potential or actual harm. We understand that the integrity of our systems and data depend on the security of the entire supply chain, and that no organisation is immune from risks of cyber-attacks or service disruption. We actively identify and remediate cyber security risks and select and manage suppliers in line with our own internal policy requirements and contract on regulatory compliant terms for third parties and our supply chain.
- We aim to deliver change safely and avoid unintended customer impacts. We achieve this by maintaining a skilled workforce who perform within an environment where leaders seek to create a positive culture and act to deliver good customer outcomes.
- We will utilise our data lawfully to meet our customer's needs. We will make decisions from data that is trusted and assured.

Exposure	Mitigating actions	Management focus areas
Disruption to business activities across TSB, and the banking industry, remains a material inherent risk and an area of high importance to our customers and regulators. Loss, theft or corruption of critical data, including customer and colleague data continues to be an industry challenge and area of focus. Customer detriment, losses through rectifications, remediation costs, regulatory censure or reputational damage.	The operational resilience framework continues to embed with ongoing assessment of important business services to ensure their continued relevance and are subject to regular scenario tests to identify opportunities for improving processes and systems, including the upgrade of core infrastructure to improve performance. TSB has adopted an agile delivery model to improve its responsiveness to business and customer needs. New controls across the CIO function, including cyber risk, supplier management, and technology management have been developed and embedding during the year. The supplier management framework continues the focus on the Bank's reliance on a robust supply chain to safely deliver services to its customers.	Continued embedding of the operational resilience framework that enables the identification and remediation of vulnerabilities. This includes dependencies on 3rd parties and the IT applications and infrastructure used to support each service. The cyber strategy continues to focus on enhancing prevention, detection and response capabilities. Alongside this, the Data Strategy continues to improve the controls for managing critical data. Revised IT controls will continue to mature and embed.

Risk management in TSB (continued)

Evolving and emerging risks

The most significant Evolving and Emerging Risks that have the potential to materially impact execution of TSB's strategy are reviewed regularly through our senior committees and are considered during our business planning processes.

Evolving risks	Principal risks	Risk and mitigating actions
Economic and market conditions impact on TSB's strategy execution	• Financial risk • Strategic risk	Risk that continually changing and challenging global conditions continue to sustain volatile interest rates, affecting TSB funding costs. Additionally, risk that a competitive market continues to put pressure on pricing and margins which impacts the Bank's ability to deliver its growth plans and strategy. Recognising the importance of this risk on delivery of TSB's medium term plan and other principal risks, the Board and Executive regularly review progress against the medium term plan and a suite of Risk Appetite measures. Regular outlooks and emerging financial impacts are also reviewed at Board and Executive Committee with remedial action taken as required.
Climate change	• Financial risk • Credit risk • Operational risk	Risks for TSB relating to climate change include physical threats, transitional risks and greenwashing. With TSB's lending portfolio predominantly comprised of mortgage assets, the main physical risks for TSB are the flooding, subsidence, and coastal erosion (medium and long-term) risks associated with security that underpins this loan portfolio. Transition risks arise from the financial and operational challenges that may be faced given the materiality of the secured mortgage lending and the risks associated with the cost for improving property energy ratings (short, medium and long-term). The Do What Matters Plan sets out how TSB understands and responds to the risks and opportunities associated with climate change. Refer to page 30 for more detail.
Embedding new ways of working	• Operational risk	The Bank is transitioning to an agile delivery approach, which impacts how change is identified, prioritised, designed, built and deployed. These new ways of working, while expected to deliver improvements and efficiencies in the mid-term, may introduce increased risks during the transition period. The move to new ways of working is closely managed and overseen as part of the multi-year CIO Transformation strategic programme to support technology stability and capability improvements that will provide a stronger base to deliver iterative, high-quality change.
New: Divergence in UK & EU regulation	• Financial risk • Credit risk • Model risk • Strategic risk • Operational risk • Financial crime risk • Conduct risk	Following Brexit, UK and EU regulation and financial supervisory frameworks have started to diverge in response to changing technology, customer, economic and market forces. There is a risk that the UK and EU authorities move in differing directions resulting in additional complexity and/or cost where dual processes are required or the risk of non-compliance. Differences have emerged in credit risk and model risk and are likely to emerge in operational risk as the EU's Digital Operational Resilience Act comes into effect in 2025. The compliance framework continues to embed, and horizon scanning has been strengthened to identify upcoming regulatory changes and assess the appropriate response.

Risk management in TSB (continued)

Evolving and emerging risks (continued)

Emerging risks	Principal risks	Risk and mitigating actions
Artificial intelligence/ Robotisation	• Operational risk • Financial crime risk • Model risk	While AI provides commercial and operational opportunities, it also creates risk around cyber-attacks, or more complex and sophisticated fraud techniques requiring the need for additional vigilance and the exploration of new ways of responding. This may lead to heightened threat of disruption to banking processes leading to fraud and operational losses. TSB has started to investigate opportunities to safely utilise AI to complement our existing services. Appropriate guardrails and governance have been implemented at this stage to manage the safe exploration of AI.
Cloud concentration	• Operational risk	Cloud computing services are increasingly becoming the default solution for meeting financial services' technology needs and the provision of third-party services. While Cloud offers benefits of scalability and rapid deployment, there is an increased risk of concentration on individual cloud providers at both an industry and for multiple business capabilities. TSB recognises this dependency on global scale suppliers, whose strategy cannot be readily influenced and whose failure would impact the Bank's resilience and our customers.
Societal polarisation	• Operational risk • Financial crime risk • Credit risk • Strategic risk	Cost of living and other financial or social pressures may cause increased income inequality, leading to civil unrest, anti-capitalist activism and malicious actors seeking to exploit vulnerable customers. There may be an increase in fraudulent activity, targeting customers who may be more susceptible due to financial pressures. Furthermore, there may be a requirement for increased credit provisions and associated operational impacts from managing customers in financial difficulty.
New: Geopolitical uncertainty	• Financial risk • Credit risk • Financial crime risk • Strategic risk	Continued and escalating conflict drives increases in commodity prices, such as oil and gas. Additionally, changes in global trade tariffs and changes to compliance may lead to further cost-of-living and inflationary pressures, while adding to macro-economic uncertainty.

TSB’s Do What Matters Plan

TSB’s Do What Matters plan, launched in 2020, is an integral part of our business strategy. It brings together our social and environmental commitments to deliver long-lasting and meaningful impact for our customers, colleagues, suppliers and communities.

The plan is simple and focused in three key areas: **essentials, people,** and **planet,** which are aligned to our business purpose – Money Confidence. For everyone. Every day.

We continue to make progress against the eight long-term goals within the plan covering the themes of social and financial inclusion, fair business practices, and supporting a just transition to a greener planet.

Let’s do what’s right for people

Customers
Nurture financial resilience and support for tough times

Colleagues
Continue building a representative workforce where colleagues can thrive

Communities
Work to improve money confidence in local communities

Suppliers
Promote fair business and shared values

Let’s do what’s right for the planet

Customers
Help customers play their part in tackling climate change

Colleagues
Empower workforce to improve sustainability

Communities
Support local activity to drive sustainability

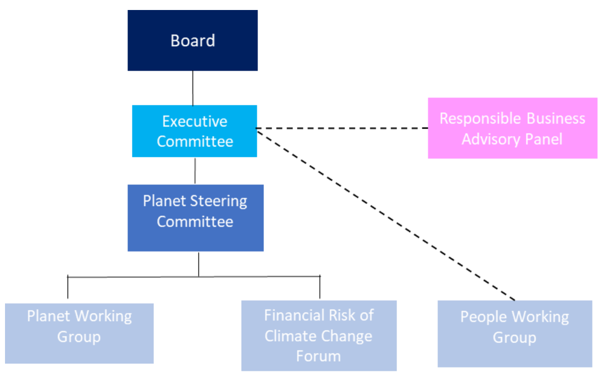
Suppliers
Partner to drive sustainability through the supply chain

Essentials

Governing the plan
The TSB Board provides strategic direction on the Bank’s approach to the Do What Matters Plan, including how we manage the financial risks and opportunities of climate change. They receive an annual update on the Do What Matters Plan and periodic updates are also provided to the Risk Committee on climate risk.

The Executive Committee discusses progress of the Do What Matters Plan on a six-monthly basis. This incorporates recommendations and progress reported by the Planet Steering Committee and the People Working Group, as well as advice and insight from the Responsible Business Advisory Panel.

Do What Matters plan - governance structure



The Responsible Business Advisory Panel, set up in January 2024, is made up of three experts on sustainability and financial inclusion together with some members of the Executive Committee. The expert members of the Responsible Business Advisory Panel are Marlene Shiels, financial inclusion expert and CEO of Capital Credit Union; Professor David Grayson, ESG expert and Emeritus Professor of Corporate Responsibility at Cranfield University and Benet Northcote, ESG practitioner and former Director of Corporate Responsibility at the John Lewis Partnership.

The Chief Risk Officer and Chief Financial Officer have a shared responsibility for identifying and managing the financial risks from climate change. This includes embedding climate change risk within the risk management framework, developing scenario analysis, and managing the financial risks and opportunities from climate change.

There is an environmental, social and governance (ESG) risk category in TSB’s risk management framework. It focuses on the risks from environmental, social and governance issues, making them more visible within TSB’s risk management framework.

TSB's Do What Matters Plan (continued)

Focusing on what really matters

In January 2024, we completed a double materiality impact assessment. This considers the sustainability issues impacting a company financially and how the company impacts society and the environment.

After conducting a review of TSB's strategy and analysis of industry and competitors, 13 areas of materiality were identified. These areas were ranked on their relative importance by internal and external stakeholders using focus groups, questionnaires, and interviews.

The most material topics include good customer outcomes (includes treatment of vulnerable customers), digital transformation, data security and financial access/literacy.

This insight enables assessment of the right opportunities and risks, ensuring resources are appropriately prioritised within the Do What Matters Plan.

Aligning to independent standards and commitments

We are a signatory to the UN Global Compact corporate responsibility initiative, aligning the way we operate with ten universally accepted principles in the areas of human rights, labour, environment, and anticorruption, and to take action in support of UN Sustainable Development Goals.

We are also accredited by the Good Business Charter, a UK scheme that recognises businesses that behave responsibly across ten areas including paying the living wage and not offering zero hours contracts, paying suppliers promptly, promoting diversity and inclusion, ensuring the employee voice is heard in the boardroom and setting firm plans to reach net-zero.

Meeting regulatory and voluntary codes of practice

We have policies and processes in place to make sure we meet regulatory obligations and voluntary codes of practice. Collectively they set out the high standards we operate to protect our customers, colleagues and communities from the impacts of criminal activity, and continue to meet the changing needs of our customers.

TSB’s Do What Matters Plan (continued)

Non-financial and sustainability information statement

As a public interest entity, TSB complies with the non-financial and sustainability reporting requirements of sections 414CA and 414CB of the Companies Act 2006 as summarised in the table below.

Policy	Description	References and policies
Community and social matters	We’re focused on delivering social good which means supporting financial and social inclusion and encouraging fair business practices.	Our approach to communities and social matters on pages 26 and 27. • Fraud policy • Vulnerable customers policy
Colleagues	We believe everyone has a right to work in a safe and supportive environment, where all colleagues act responsibly. We continue to build a workforce that is representative of our customers and the communities we operate in.	Our approach to colleagues on pages 27 and 28. • Employment policy • Inclusion policy • Code of conduct • Health, safety and fire policy • Remuneration policy
Respect for human rights	We’re committed to preventing modern slavery and human trafficking in our corporate activities. Our Modern Slavery statement outlines the steps we’re taking to understand associated risks related to our business and our supply chains.	Our approach to respect for human rights on page 29. • Modern slavery statement • Responsible supplier charter
Financial crime, anti-bribery and corruption	We have a moral, legal and regulatory duty to prevent, detect and deter economic crime. We care about our customers and colleagues, and the communities we serve, and strive to protect them from those who would try to use TSB to commit economic crimes.	Our approach to tackling financial crime, anti-bribery and corruption on page 29. • Anti-bribery and corruption policy • Anti-money laundering and counter terrorist financing policy • Sanctions policy • Speak up and be heard - whistleblowing policy
Planet	Doing what matters for the planet is an important consideration for our customers, colleagues and other stakeholders we work with, including regulators.	Our approach to the planet on pages 30 to 37. • Doing What Matters for the Planet policy

A description of our strategy is set out on pages 4 to 5 and our business model on page 6.

A description of our principal risks and impact of our business activity is set out in the Risk management in TSB section starting on page 14.

TSB's Do What Matters Plan (continued)

People

Community and social matters

Vulnerable customers
Our commitment to delivering social good is closely aligned to our purpose, focusing on those people within our communities who are least likely to feel confident about managing their money and are at risk of financial exclusion. It is our responsibility to protect vulnerable customers and offer tailored support that meets their individual needs. Our Vulnerable customers policy guides our teams in identifying vulnerability and responding in the right way.

Fraud prevention
TSB was the first UK retail bank to refund all innocent victims of fraud through its unique Fraud Refund Guarantee which earned recognition from campaigners across the UK. This led to the Payments Systems Regulator (PSR) mandating other banks to follow TSB's lead. The new PSR rules took effect in October 2024 and apply to all payment service providers. TSB refunded 95% of fraud cases (2023: 97%) and will continue to support victims of fraud under the PSR rules.

Supporting victims of domestic abuse
TSB has taken a leading role in supporting victims of domestic abuse. We offer safe spaces across all our branches and online, and in 2024, we helped 282 customers to escape an abusive relationship through our award-winning Emergency Flee Fund. The Emergency Flee Fund, available in branch, over the phone or over video banking, offers victims up to £500 to help them take the next step to freedom. Since launching our Emergency Flee Fund in December 2022, we've helped 476 customers, 223 of whom fled with children and paid out an average of £362 per customer with 31% receiving the maximum amount of £500.

We continue to collaborate with our charity partners – Hestia, Women's Aid and Surviving Economic Abuse – in shaping our response to TSB customers and colleagues experiencing domestic or financial abuse. In 2024, TSB gave evidence to the Women and Equality Select Committee to help government and other businesses shape their policies and responses to this pressing issue.

Supporting small businesses
Supporting small businesses is another area of focus for TSB, particularly in today's challenging economic climate. As a signatory of the Prompt Payment Code, we paid 98% of all suppliers within 30 days (2023: 99%). For our small and medium-sized suppliers, payments were made in an average of 6 days against our target of 10 days. This commitment is part of our Responsible supplier charter, that sets out how we work in partnership with our suppliers to help to deliver the goals of TSB's Do What Matters Plan.

Volunteering and fundraising
Volunteering is an integral part of our corporate giving strategy with every colleague being able to use up to 8 hours of paid TSB time per year to volunteer. In 2024, 19.9% of colleagues supported the communities we serve, compared to an industry average of 13%, investing almost 8,000 hours to help those who need it the most. Since the launch of our partnership with Neighbourly, a volunteering platform, in 2023, 551 TSB colleagues have supported 152 good causes delivering a financial benefit of £59k.

Our colleagues have also been busy delivering financial education in under-resourced secondary schools across Britain. In 2024, through our Money Confident Communities Programme, colleagues delivered more than 270 financial education workshops benefiting almost 9,000 students.

Delivering social good through partnerships
To help customers through the cost-of-living crisis, TSB has partnered with Lightning Reach, a charity that aims to connect people in financial hardship to the support they need, empowering them to get on the road to financial recovery. Since launching the partnership in 2023, customers have been awarded over £92k with more than £47k granted in 2024, benefiting more than 170 TSB customers.

TSB has partnered with TSB Innovation Lab winner, Doshi App, to deliver free digital financial education to secondary school children that have taken part in a school or community workshop. The app is also available for TSB colleagues' children.

TSB's Do What Matters Plan (continued)

People (continued)

Our key community and social matters policies

Policy	Summary
Fraud policy	This policy provides a framework to manage the risk of fraud and to protect TSB and its customers. The policy sets out the minimum requirements to adhere to, ensuring that there are controls in place to manage fraud risk effectively within approved risk appetite.
Vulnerable customers policy	This policy sets out the minimum requirements for our colleagues, business areas and relevant third parties to identify and treat our vulnerable customers appropriately. A regular review of customer journeys and outcome testing is undertaken, and colleagues must undertake periodic core learning to ensure that the policy requirements are embedded throughout the Bank.

Colleagues

Building a diverse and inclusive culture
TSB is committed to fostering a diverse and inclusive culture. We believe that representing our customers and communities strengthens our ability to support them in the moments that matter most. Our Inclusion policy and Inclusive Hiring Principles guide our efforts to create a culture of diversity and inclusion.

Our Inclusion strategy outlines a series of intersectional representation goals to be delivered by the end of 2025. In 2024, we took significant strides forward, increasing the number of colleagues who feel comfortable answering all diversity questions from 15% to 78%. Our key diversity metrics at the end of 2024 are as follows:

- 44% (2023:43%) of senior leaders (defined as Executive Committee and their direct reports) are women, putting us in a leading position within the sector;
- 41% (2023: 42%) of grade F+ leaders (leaders who are at least senior manager level) are women, above the UK banking industry average of 39%;
- 4% (2023: 5%) of colleagues identify as lesbian, gay or bi-sexual(1) compared to 3% of the UK workforce;
- 20% (2023: 18%) of colleagues disclose a disability(1) compared to 19% of the UK workforce;
- 18% (2023: 16%) of colleagues and 11% (2023: 12%) of our senior leaders are Black, Asian and minority ethnic; and
- 2.8% (2023: 2.5%) of colleagues and 2% (2023: 2.2%) of senior leaders are Black.

(1) Percentages reflect the proportion of colleagues who volunteered relevant diversity data. Year on year comparison reflects increased colleague data.

TSB has a strong focus on disability inclusion, and is a Disability Confident Leader, re-certified in 2024. We are committed to ensuring that colleagues with disabilities are treated fairly and can advance in their careers. We offer guaranteed interviews for disabled candidates who meet job criteria and have improved digital accessibility for all colleagues.

TSB's approach to culture and behaviour, as stated in our Employment policy, focuses on supporting working families with a spotlight specifically on working carers and parents.

- Our leading Carer leave policy offers up to 70 hours of paid leave per year. Since 2020, 16% of colleagues have disclosed caring responsibilities, with 8,000 hours of paid carers' leave taken. The policy supports diverse workforces, with 89% of carers' leave taken by women, and 60% by colleagues aged 40+. We continue to campaign alongside Carers UK for other employers to offer paid carers leave through media publications and events as well as lobbying government for broader carer recognition and support.

- Our Equal parental leave policy challenges parental gender perceptions and female career barriers. Since its launch in 2022, more than 620 colleagues have benefited from up to one year's parental leave with the first 20 weeks paid. A third of parental leave is taken by men.

Recognitions:
- Big Company of the Year at the HR Awards for our work on Race Equity through the Ignite Programme, aimed at levelling the playing field for Black and Black mixed heritage colleagues.
- Stonewall Top 100 and Silver Award for LGBTQ+ inclusivity.
- Top quartile in the Progress Together financial services survey.
- Best large employer for carers awarded by Carers Positive Scotland.

TSB's Do What Matters Plan (continued)

People (continued)

Colleagues (continued)
We continue to support intersectional inclusion networks with sponsorship from our Executive Committee for TSB Ability, Ethnicity, Gender Inclusion, LGBTQ+ and Social Mobility. These networks actively educate and challenges our workforce and management while contributing to diversity and inclusion plans.

Employee engagement and involvement
TSB actively encourages a culture of collaboration and feedback, with open lines of communication between all levels of the business. Our annual Colleague Experience Survey provides employees with the opportunity to share their views on their experience at TSB. In 2024, 77% of colleagues agreed that constructive challenge is valued in the workplace. The survey results help shape our plans and ensure we are listening to and acting on colleague feedback.

In October 2024, our Colleague Experience Survey also showed that:

- 92% of colleagues agreed that TSB promotes an inclusive work environment that accepts everyone's individual differences (up from 91% in April 2024); and
- 90% of colleagues believe that colleagues from diverse backgrounds can succeed at TSB (up from 89% in April 2024).

TSB's employee forum, The Link, connects colleagues directly with senior leadership and the Board, meeting five times in 2024 to discuss key issues and provide feedback. We also host monthly calls open to all colleagues led by the CEO and other members of the Executive Committee, senior leader events, and national roadshows, to ensure all colleagues stay informed and can engage with senior management. It is also an opportunity for senior management to hear colleague voices and answer their questions and/ or concerns.

We collaborate closely with our unions, Accord and Unite, to discuss policies related to wellbeing, pay, inclusivity, and organisational change.

Through our Sharematch Scheme colleagues can invest up to £1,800 annually in Sabadell shares, offering an attractive savings alternative alongside a generous pension contribution.

Our key colleague policies

Policy	Summary
Employment policy	This policy outlines our approach to performance, ways of working, and attracting, retaining and engaging a diversity of talented people. This policy also focuses on people risk and people data management and controls. It ensures we comply with relevant employment legislation and regulatory requirements to minimise employment litigation and reputational damage and the behavioural standards which colleagues must act within.
Inclusion policy	This policy outlines our commitment to fostering an inclusive culture which embraces difference, where everyone feels included and welcome and treated with dignity and respect, regardless of their identity, background, or other circumstances.
Code of conduct	Our code of conduct underpins our purpose and guides how we work with colleagues and customers. It supports our behaviours: saying it straight, feeling what customers feel, looking for better and doing what matters.
Health, safety and fire policy	Our high-level approach to health and safety to protect our colleagues and visitors to our offices and customers across our branch network.
Remuneration policy	This policy sets out our approach to remuneration with the aim of making sure TSB can attract, motivate and retain the people needed to deliver our strategy. The policy is governed and reviewed annually by the Remuneration & People Committee as more fully described on page 60.

These policies are part of the risk management framework, except for the Inclusion policy which sits within the Employment policy. Under the Health, safety and fire policy, all new joiners and colleagues every year thereafter complete mandatory learning. The learning covers emergency procedures, accident reporting, first aid, fire evacuations and lone working safety. We have trained first aiders and fire marshals working in our offices.

TSB’s Do What Matters Plan (continued)

People (continued)

Respect for human rights
TSB’s Modern slavery statement sets out the policies we apply and actions we take to ensure that our colleagues and customers are treated with dignity and respect.

Financial crime, anti-bribery and corruption
Our financial crime framework aims to protect our customers, employees and communities from financial crime, and we continue to invest in further system control enhancements.

Our key financial crime, anti-bribery and corruption policies

Policies	Summary
Anti-bribery and corruption policy	This policy and supporting technical standards provide the framework to support TSB, its colleagues and all other ‘associated persons’ in complying with relevant legislation and in particular, the Bribery Act 2010 and the Criminal Finances Act 2017.
Anti-money laundering and counter terrorist financing policy	This policy enshrines TSB’s commitment to the fight against money laundering and terrorist financing, operating in an open and co-operative manner with regulators and seeking to ensure strict adherence to applicable legislation and regulations.
Sanctions policy	This policy and supporting technical standards are designed to ensure compliance with our obligations under the United Nations and UK sanctions regimes. TSB takes a prohibitive stance towards transactions and customer relationships involved in countries subject to comprehensive international sanctions or which are owned or controlled by persons located in such countries.
Speak up and be heard - whistleblowing policy	This policy provides the framework to support TSB and its colleagues in compliance with the Public Interest Disclosure Act 1998 (PIDA) and Financial Conduct Authority’s SYSC Chapter 18 rules on Whistleblowing.

Financial crime is a principal risk as further described on page 19 and the above policies are embedded in TSB via the risk management framework.

TSB's Do What Matters Plan (continued)

Planet

Our strategy focuses on reducing our impact on the environment, following the latest climate science, and supporting a just transition to a net-zero economy by helping our customers, colleagues, and those we work with to make sustainable decisions.

In line with the 2015 UN Paris Agreement, TSB is committed to achieving net-zero by 2050. Following the Science Based Targets initiative (SBTi) guidance, we've aligned our definition of net-zero as being a reduction of 90% or more in emissions, with only the residual 10% or less of emissions offset. Through our deep dive analysis carried out in 2024 as we set our first round of interim 2030 science-aligned targets, we identified that by 2030, we can achieve a 65% reduction in our Scope 1 emissions, putting us on a pathway ahead of the Paris Agreement, but not to net-zero by 2030 as previously stated. The operational emissions targets we have set are ambitious yet credible, with the critical focus being on reducing our greenhouse gas (GHG) emissions year-on-year, without reliance on carbon offsets. We have set out, starting on page 35 in the Operational emissions: Targets, metrics, and implementation and engagement section, our interim targets to keep us on our 2050 net-zero trajectory.

Adhering to the Transition Plan Taskforce framework, we have a completed draft of our first Transition Plan, bringing together our net-zero ambition, our science-aligned targets and our action plans to achieve them; we will continue to mature our Transition Plan through 2025, working with our Responsible Business Advisory Panel and other trusted partners as needed, ahead of publication in early 2026.

Managing the opportunities and risks associated with climate change

We continue to consider the risks and opportunities associated with climate change and these are incorporated in TSB's medium-term plan. The opportunities and risks are assessed by reference to the following time horizon:

	Short	Medium	Long
Time horizon	Within the next 12 months	1 – 5 years	5+ years
Rationale	Aligns with the going concern time horizon analysis (page 65)	Aligns with current medium term planning horizon	Extends beyond current planning horizon

Managing the opportunities associated with climate change

The table below provides a description for each of the principal climate-related opportunities arising in connection with our business, a description of the impact of that opportunity on our business model and strategy, together with the time horizon those opportunities have been assessed against.

	Opportunity	Impact	Horizon
FINANCED EMISSIONS	At TSB, we have a clear purpose to provide Money Confidence. For everyone. Every day. Our aim is to support customers with money confidence in ways that enable them to prepare for a net-zero future, including understanding how and why to create a warm home, and plan the move to clean heat.	Engaging with customers and homeowners, utilising data (where data regulations allow), will help us build deeper customer relationships, delivering value through tailored support and offers, and rewarding customers for meeting more of their needs through TSB.	Long
	Once customers have confidence in their plan to create a warm home, and move to clean heat, we can help customers play their part in tackling climate change by providing them with the financial products they need to take action and encouraging take up.	Benefits of more energy-efficient, low carbon properties on our mortgage portfolio include reduced energy bills for our customers (building their resilience and money confidence), improved value and saleability of properties, and contributes to the reduction in TSB's financed emissions.	Long
OPERATIONAL EMISSIONS	Decarbonise our property estate, removing reliance on fossil fuels.	TSB has a 5-year decarbonisation plan to reduce the reliance on fossil fuels in its operational estate.	Medium
	As we work to deliver a best-in-class digital proposition, we have a co-opportunity to reduce our paper consumption and supply chain emissions.	As well as reducing our impact on the environment, reducing emissions from paper consumption will contribute to making TSB simpler and more efficient for customers and colleagues, reducing costs.	Short - Medium
	Empowering colleagues to improve sustainability by adopting sustainable travel, commuting and homeworking habits.	Strengthening our operational resilience and colleague engagement and wellbeing through our ways of working approach and Do What Matters Plan.	Short - Medium
VALUE CHAIN EMISSIONS	Partner with suppliers to drive sustainability through the supply chain.	Using enhanced data and supplier profiling information, identify suppliers and, through better engagement, collaboratively work to reduce environmental impacts, in line with TSB targets. Work with suppliers to create long-term partnerships and mutual growth, cost savings, more resilient operations and business continuity. Support smaller suppliers to reduce environmental impact.	Short - Medium

TSB's Do What Matters Plan (continued)

Planet (continued)

Managing the opportunities associated with climate change (continued)
In addition to the above, there are opportunities that are considered cross cutting or entity wide opportunities:

	Opportunity	Impact	Horizon
CROSS CUTTING	Colleague engagement, empowering colleagues to improve sustainability by adopting sustainable habits.	Better colleague engagement, leading to colleague retention & attraction.	Short
	Opportunity to strengthen our reputation as the bank that Does What Matters.	Taking meaningful decarbonisation action enhances TSB's reputation and supports in developing deeper colleague, customer and stakeholder relationships and advocacy.	Short

Managing the risks associated with climate change
We have used our established risk management framework to assess the significance of the climate-related risks facing TSB, for example:

- The level 1 strategic risk category includes an ESG risk category. This focuses on the risks arising from environmental, social and governance issues, making climate change risk more visible within TSB's risk management framework;
- We have considered climate change within our annual risk appetite review; and
- We have assessed and documented how climate change may influence each of the policies within the TSB policy framework as part of the policy effectiveness statement.

The table below provides a description for each of the principal climate-related risks arising in connection with our business, a description of the impact of that risk on our business model and strategy, together with the time horizon those risks have been assessed against.

	Potential risk	Potential impact	Horizon
PHYSICAL RISK	Severe weather events could impact business continuity.	Impact to customers where TSB front-line colleagues (branches or telephony centres) are affected can be managed through geographic coverage of staffing levels and through our multi-channel approach (digital services in particular) as well as localised business continuity plans. We note that TSB does not directly operate any data centres, which are managed by a third party, and we look at the resilience of our data centres through supplier due diligence. In general, our hybrid working set-up means in the short-term office-based colleagues are able to work from home. For any prolonged denial to premises, TSB can procure short-term office space from 3rd parties.	Short
	The main physical risks for TSB relate to flooding, precipitation, subsidence, and coastal erosion impacting the potential realisable value of property related collateral.	Of these, flooding and precipitation pose the primary physical risk to TSB. We have measured subsidence and coastal erosion risks and, due to low exposure rates, concluded these are not a principal concern.	Medium - Long
	The crystallisation of physical climate risks could impact UK government spending and revenues, UK bank profitability and supranational financing requirements.	The Bank invests a portion of its liquid asset buffer in UK government, UK bank and supranational debt. A physical event could affect the value of these debt holdings.	Medium - Long

TSB's Do What Matters Plan (continued)

Planet (continued)

Managing the risks associated with climate change (continued)

	Potential risk	Potential impact	Horizon
TRANSITION RISKS	The main transition risks arise from the poor energy efficiency and fossil fuel heating of residential properties against which TSB's mortgage lending is secured and the cost of improving property energy ratings and moving to clean heat. There is an emerging risk associated with both changing consumer and investor demand for more energy efficient, low carbon properties, resulting in the potential reduced marketability of properties that are energy inefficient and heated by fossil fuels.	Cost of mortgage borrowing and rising energy bills continue to place pressure on household affordability. In addition, future potential changes in the Minimum Energy Efficiency Standard (MEES) regulations could accelerate the need to transition to low carbon solutions, creating significant cost for TSB customers to upgrade their homes. Depending on how other lenders react to any future changes in regulation, this could create restricted options for mortgage customers with poor energy efficiency / exemptions, all scenarios that TSB would need to continue to monitor and react to.	Short-Long
	The main transition risk to the Bank's operational estate arises from the impact of MEES, and the costs to meet these standards. There is an emerging risk associated with supply chain availability as companies transition to decarbonise their operational estates.	Any future changes to MEES regulations could impact the ability to dispose of vacant or surplus operational property. Additional funding may be required to upgrade the existing operational estate. The impact on the supply chain to procure renewable energy, or the assets required to decarbonise the estate as companies race to remove carbon from their operational estates cannot be fully anticipated; this could therefore impact planned budgets.	Medium
	There is a potential reputational risk should stakeholders feel insufficient action is being taken to transition and deliver emissions reductions, or that TSB is 'greenwashing' in its claims of action.	Impact could be negative stakeholder reaction and publicity, leading to lower colleague and customer engagement and satisfaction, or to further public and regulatory scrutiny of TSB's activity related to this issue.	Medium
	The crystallisation of transitional climate risks could impact UK government spending and revenues, UK bank profitability and supranational financing requirements.	The Bank invests a portion of its liquid asset buffer in UK government, UK bank and supranational debt. A transitional event could affect the value of these debt holdings.	Medium - Long

Scenario analysis

We use scenario analysis to help identify and measure climate-related risks, and to make sure their management and mitigation are embedded in our strategy, risk appetite, financial planning, and capital management processes as they become more material over time.

Analysis of the residential mortgage portfolio covered below, provides a comprehensive view of potential risks and impacts across a range of potential climate pathways. We adopt an industry recognised approach using Representative Concentration Pathways (RCP) established by the UN Intergovernmental Panel on Climate Change (IPCC). The methodology uses a number of potential RCP climate change scenarios based on how the global economy transitions to net zero emissions, alongside UK climate projections (UKCP18). All analysis is based on a 'worst case' global outcome (RCP 8.5), reflecting both benign and stressed economic environments.

Our scenario analysis considers property values as they are today as well as loan balances, potential property value impact after a climate event, and probability of repossession to help determination of likely 'realised' loss to TSB.

In 2024, our updated analysis indicated the climate risk profile has not materially changed and remains low for both physical and transitional climate impacts. The results showed that TSB is at the lower end of industry estimates for forecast credit losses and concluded that climate risks do not materially affect its capital position in the current planning horizon.

While TSB is not materially affected by climate risk in the short-term and financial exposure is low, we are impact assessing physical risks for new mortgage lending. This enables us to identify exposures in the context of our defined risk appetite. For portfolio reviews, we acknowledge that the UK is experiencing wetter weather all-year round and this is causing an increase in flood events which will grow in frequency and severity over time. Therefore, whilst risk and loss remain low, we consider flooding and precipitation to be the most impactful physical risk of concern.

The financial impact of subsidence risk has also been considered and whilst subsidence events are anticipated to occur in reasonable volumes, the costs to repair such issues are immaterial versus property values and therefore not considered to be a significant material risk.

TSB's Do What Matters Plan (continued)

Planet (continued)

Scenario analysis (continued)

From a transition perspective, the main risks arise from the poor energy performance of the properties on which mortgage lending is secured and the risks associated with the cost for improving the property rating and moving to clean heat. Whilst neither energy efficiency nor clean heat has historically been a significant priority either within the house buying and selling process, or as part of the valuation exercise prior to 2019, we recognise that market sentiments are changing, and a correlation between speed of property sale and energy performance certificate (EPC) rating is emerging. We also monitor evolving policy and regulations around climate change and recognise that these may be updated in the short to medium term under the new government.

We continue to see improvements in the average EPC Standard Assessment Procedure (SAP) score of our current portfolio, as shown in the table below. SAP is the methodology used by the UK government to assess and compare energy and environmental performance of residential properties.

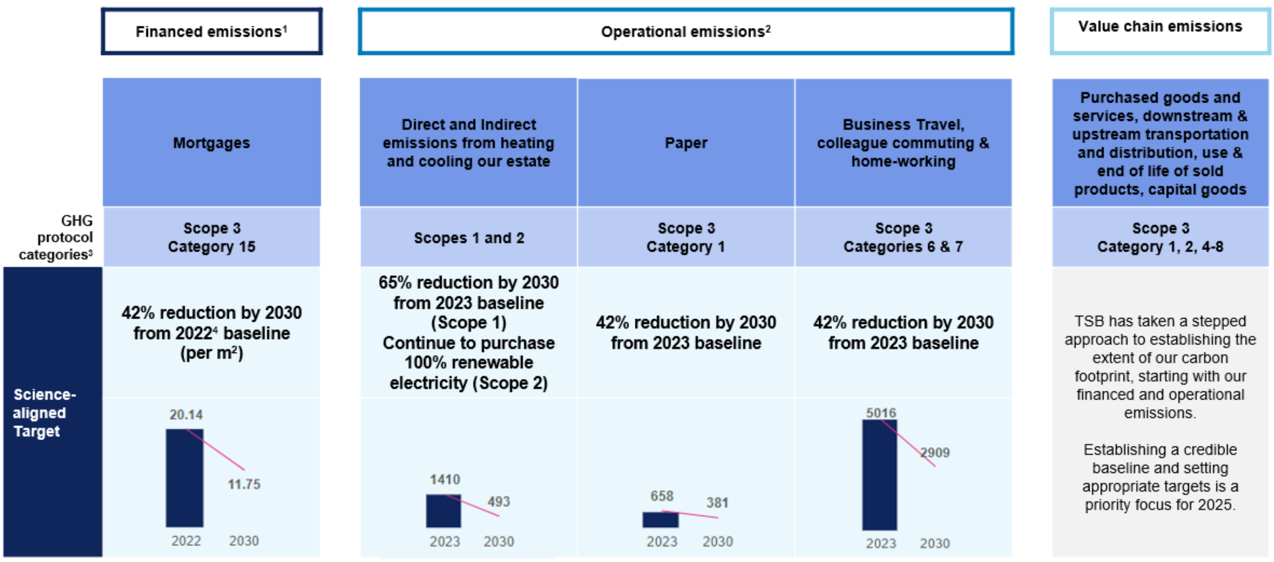
Year	Average EPC score	Average SAP score	SAP movement YoY
2021	D	63.8	+1.2
2022	D	64.9	+1.1
2023	D	65.6	+0.7

Whilst we use EPC rating and SAP score to benchmark our performance year on year, we recognise and support the industry and government effort to overhaul the underlying methodologies of these processes to enable greater accuracy and reliability.

We will continue to analyse the risk to the mortgage portfolio on an annual basis, and in 2025, we intend to enhance our scenario analysis with added customisation based on our own economic outlook and our opinion on how climate risks are likely to progress and evolve over time. This expansion will be proportionate, reflecting the relatively low portfolio risks outlined above, and the low risk witnessed at mortgage origination.

Targets, metrics, and implementation and engagement - overview

To ensure we remain on track to achieve net-zero by 2050, during 2024 we set interim 2030 science-aligned targets for our Scope 1 and 2, paper, travel and homeworking emissions. These are in addition to the interim 2030 science-aligned target for our financed emissions (set in 2023). Our targets have been set using the SBTi's science based target setting tools, but we have chosen not to seek validation of our targets from the SBTi at this time as the SBTi's methodologies and requirements for submission are considered disproportionate to our business model. The table below sets out our interim 2030 targets.



1. Following the Net Zero Banking Alliance Guidelines for Climate Target Setting for Banks (Version 2 April 2024), no further targets will be set for our financed emissions, as lending to business is not financially significant to our portfolio, being only 1.31% (FY2023) of total lending.
2. Emissions from our waste (Scope 3, Category 5) and water usage are tracked but due to materiality have been excluded from target setting. Operational targets were set in 2024 using our 2023 re-baselined emissions. Please refer to the Summary of Streamlined Energy and Carbon Reporting methodology paper for full details of our re-baselining policy and methodology.
3. GHG Protocol Categories 3, 13 and 14 are not applicable to TSB.
4. Target was set in 2023 using a 2022 baseline.

TSB’s Do What Matters Plan (continued)

Planet (continued)

Financed emissions: Targets, metrics, and implementation and engagement

Target and metrics

As part of the Net Zero Banking Alliance (NZBA), our ambition is to reach net-zero in our financed emissions by 2050. In August 2023, we set an intermediate physical emissions intensity target for our residential mortgage emissions of 11.75 $kgCO_2/m^2$ by 31 December 2030, a reduction of 42% from our base year (2022). As at 31 December 2023, our residential mortgage emissions were 19.62 $kgCO_2/m^2$:

Scope 3 financed residential mortgage emissions	At 31 Dec 2023[(1)]	At 31 Dec 2022[(1)]
Absolute carbon emissions (tonnes of CO_2)	473,062*	510,109
Physical emissions intensity (kg of CO_2 per total property square metre)	19.62*	20.14

[(1)] Due to the complexity in compiling this data, it is shown on a one-year lag. TSB commenced analysing scope 3 financed residential mortgage emissions during 2023 and therefore data for earlier periods has not been collated and no comparative is presented.

We set out in our NZBA report the government led policy actions and the wider societal shifts, particularly by homeowners, we believe are necessary, highlighting where TSB can support and influence those changes. See ‘Managing the opportunities associated with climate change’, and ‘Implementation and engagement’ for further details on our approach.

Methodology

The carbon emissions of our mortgage portfolio have been estimated using the Partnership for Carbon Accounting Financials (PCAF) methodology. Where available, CO_2 emissions and floor area for each property secured by a TSB mortgage have been obtained from the building’s EPC. Emissions from expired EPCs that are more than ten years old and EPCs issued after 31 December 2023 have also been included as we believe this more accurately reflects individual property emissions than using modelled or average data. Where EPCs were unavailable, estimations have been made using either postcode averages or modelled data.

Under the PCAF methodology, the estimated CO_2 emissions attributable to TSB financing is calculated as the proportion of the mortgage loan balance compared to the indexed property value. At December 2023, attribution has been calculated at property level by dividing the outstanding amount at 31 December 2022 by the indexed valuation at 31 December 2021. For properties onboarded since 31 December 2022, we have used the earliest available indexed valuation from 31 December 2022 or 31 December 2023.

The PCAF methodology is also used to calculate a data quality score for our financed emission calculations. Under this methodology, a data quality score is calculated between 1 and 5, where 1 is the highest data quality and 5 is the lowest. This score is intended to highlight the use of estimations used in the calculations and allows TSB to check progress on improving data quality and coverage in the future. Our 2023 residential mortgage emissions data quality score was 3.30 (2022: 3.33). Further information on TSB’s methodology and data can be found here.

Assurance

TSB appointed EY to provide limited independent assurance over our scope 3 financed (residential mortgage) emissions for the year to 31 December 2023 (indicated in the Scope 3 Financed Residential Mortgage Emissions Table above by *). The engagement was planned and performed in accordance with the International Standard for Assurance Engagements (ISAE) (UK) 3000 (July 2020), Assurance Engagements Other than Audits or Reviews of Historical Financial Information. A limited assurance report was issued and is available here. This report contains details of the scope, respective responsibilities, work performed, limitations and conclusion.

Implementation and engagement

In 2024, we continued to focus on building awareness around creating warm homes and planning the move to clean heat by upskilling customer-facing colleagues and mortgage intermediaries, enabling them to have conversations about home energy efficiency and low carbon heating options. We achieved this by signposting customers to Snugg, a tool to help customers see the value of a warm, low-carbon home, and government grant eligibility to help with installation costs. We have continued to enhance our partnership with Snugg, with customers able to access it through the Mortgage Hub in our mobile app, as well as through TSB Marketplace and Greener Homes webpages. An in-app pop-up message highlighting our Snugg partnership was successfully delivered to over 750,000 customers. Snugg continue to iterate and evolve their tool, with smart meter connectivity now available, together with a broader range of installation partners.

We were part of a coalition of businesses, alongside B&Q, Barratt Homes, Unilever, Starbucks, and Virgin Media, supporting Hubbub’s ‘Home Advantage’ research project, creating a blueprint for how to support UK households live more sustainably and save money, and await the publication of the final report in February 2025.

We are committed to being part of the collaboration needed between all sectors, governments and regulators, and have taken part in industry roundtables hosted by UK Finance and the Green Finance Institute, and involving government officials, discussing topics including Transition Plans, retrofit lending, property linked finance and EPC reform.

TSB's Do What Matters Plan (continued)

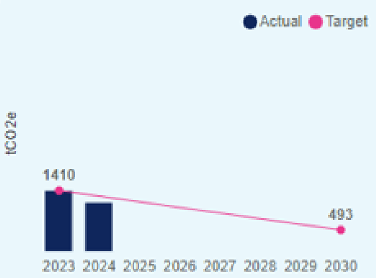
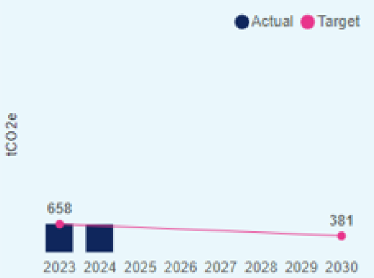
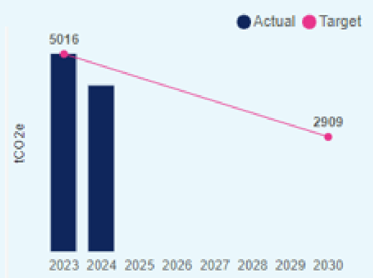
Planet (continued)

Operational emissions: Targets, metrics, and implementation and engagement

Targets and metrics

As noted above, this year we set interim 2030 science-aligned targets for the most material categories of operational greenhouse gas emissions as reported in our Streamlined Energy and Carbon Reporting (SECR) table below. These targets cover Scope 1 and 2, paper, travel and homeworking emissions and have been set using our 2023 re-baselined emissions (providing the most reflective starting point). The table below shows both our 2023 position and our progress towards these targets in 2024:

Operational emissions

	Direct and indirect emissions from heating and cooling our estate	Paper	Business travel, colleague commuting & home-working
Science-aligned target	65% reduction by 2030 from 2023 baseline (Scope 1) and continue to purchase 100% renewable electricity (Scope 2)	42% reduction by 2030 from 2023 baseline	42% reduction by 2030 from 2023 baseline
Progress			
Target status at end 2024	On track	4.9% over target*	On track

* Predicted position based on best available data, which includes estimates. See Summary of Streamlined Energy and Carbon Reporting methodology paper for a full description of the estimates that have been applied.

Streamlined Energy and Carbon Reporting

Alongside our science-aligned targets and progress, TSB continue to report greenhouse gas emissions in line with the UK Streamlined Energy and Carbon Reporting (SECR) regulations.

Table 1: Re-baselined Summary of Streamlined Energy and Carbon Reporting	**2024**	**Re-baselined 2023**
Location-based [1] emissions in gross tonnes of carbon dioxide equivalent (tCO2e) [2]		
Scope 1 emissions from the combustion of fuel and operation of facilities [3]	**1,100***	1,410*
Scope 2 emissions from the purchase of electricity [4]	**2,417***	2,728
Total scope 1 and 2 location-based emissions	**3,517***	4,138
Scope 3 emissions from colleague travel & home working (excluding hotels)	**4,217***	5,016
Scope 3 emissions from hotel stays [14]	**129***	54
Scope 3 emissions from paper	**647***	658
Scope 3 emissions from waste and water	**15***	27
Total Scope 3 location-based emissions	**5,008***	5,755
Total Scope 1, 2 and 3 location-based emissions	**8,525***	9,893
Intensity ratio (location-based tCO2e per FTE)[5]	**1.6***	1.7
Energy consumption kWh (million) [6]	**18.123***	20.855

Footnotes are set out under the table on the following page.

TSB’s Do What Matters Plan (continued)

Planet (continued)

Operational emissions: Targets, metrics, and implementation and engagement (continued)

Streamlined Energy and Carbon Reporting (continued)

TSB’s total energy consumption, as measured on a location[1] basis, was 13% lower in 2024 compared to 2023. This reduction was due to energy optimisation measures, site closures and positive colleague action on energy efficiency. For 2024, our emissions data includes colleague commuting and home working emissions for the first time, which has been calculated for the calendar years 2023 and 2024.

In line with TSB re-baselining policy, we re-baselined our 2023 location-based emissions data (Table 1), which provides an adjusted view to account for changes to data quality and methodology during this period. As the re-baselined emissions provide the most reflective position, our science-aligned targets were set using the re-baselined emissions. See Summary of Streamlined Energy and Carbon Reporting methodology paper for a full description of how the re-baselining was applied.

Market-based emissions

TSB have also created a view of market-based emissions (Table 2), which consider the purchase of 100% REGO certified electricity and verified carbon removal credits.

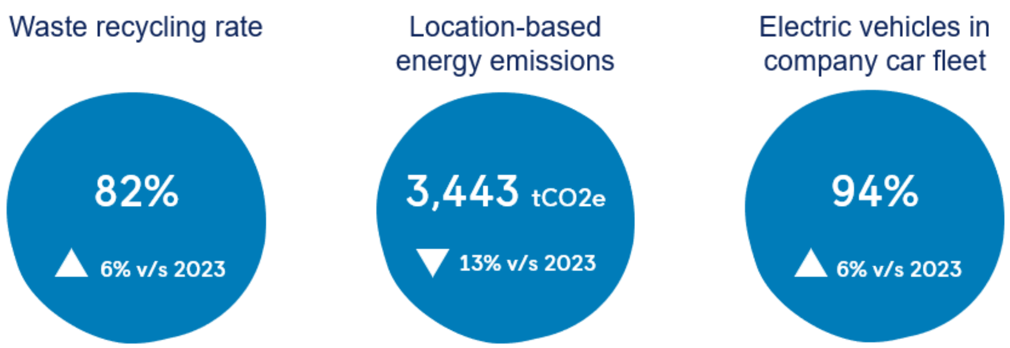
Table 2: Summary of Streamlined Energy and Carbon Reporting	**2024**	**Re-baselined 2023**
Scope 1 market-based[7] emissions in gross tonnes of carbon dioxide equivalent (tCO_2e)[8]	**1,100**	1,410
Scope 2 market-based[7] emissions in gross tonnes of carbon dioxide equivalent (tCO_2e)[8]	**25**	27
Verified carbon removals (offsets)[9]	**(1,125)**	(1,410)
Net scope 1 and 2 market-based emissions[10]	**–**	27
Total scope 1, 2 and 3 market-based emissions	**5,008**	5,782

Resource consumption data		
Paper (tonnage)[11]	**483**	491
Water (m^3)	**33,023**	37,760
Waste (tonnage)[12]	**594**	557
Waste diverted from landfill	**99.6%**	99.3%
Waste intensity (waste tonnage per FTE)[13]	**0.11**	0.10

Notes to Tables 1and 2

(1) Location-based emissions are those measured using the UK national grid electricity conversion factors, updated annually.
(2) tCO2e – tonnes of carbon dioxide equivalent.
(3) Scope 1: natural gas, heating oil, fugitive gas and company cars.
(4) Scope 2: direct commercial electricity supplies plus landlord data where available.
(5) Calculated as the sum of Scope 1, 2 and 3 location-based emissions divided by the average annual headcount.
(6) Scope 1, 3, and energy consumption totals include both mandatory and voluntary elements of SECR reporting.
(7) Market-based emissions are those associated with the purchase of REGO certified renewable energy which carry zero-rated emissions. TSB began purchasing REGOs in October 2019.
(8) Scope 1 and 2 emissions: natural gas, heating oil, fugitive gas, company cars, electricity (100% REGO certified).
(9) Plan Vivo carbon removal certificates registered on the Markit Environmental Registry.
(10) Net Scope 1 and 2 emissions are total market-based emissions minus verified carbon removals.
(11) Paper: Total tonnage arising from office and branch paper purchases, print and mail and marketing activities.
(12) Waste: Total tonnage arising from office and branch waste, destruction of archived documents, recycling of IT equipment and project waste including activity from branch closures and office relocations.
(13) Calculated as the tonnes of waste generated divided by the average annual headcount.
(14) Carbon emissions from hotel stays have been excluded from our business travel target as this is not a category of emissions measured by our parent company, Banco Sabadell. CO_2e emissions from hotel stays are therefore reported separately in this table.

Additional metrics



TSB's Do What Matters Plan (continued)

Planet (continued)

Operational emissions: Targets, metrics, and implementation and engagement (continued)

Methodology
Our operational emissions are calculated in accordance with the Greenhouse Gas Protocol, the global standard for measurement of carbon emissions. We follow the EcoAct methodology and use UK government conversion factors to calculate our home working emissions. Further information on TSB's methodology and full Summary of Streamlined Energy and Carbon Reporting since 2019 can be found here.

Assurance
TSB appointed EY to provide independent limited assurance over metrics indicated in Table 1 on page 35 by (*). The assurance engagement was planned and performed in accordance with the International Standard for Assurance Engagement (ISAE) (UK) 3000 (July 2020) Assurance Engagements Other than Audits or Reviews of Historical Financial Information.

A limited assurance report was issued and is available here. This report contains details of the scope, respective responsibilities, work performed, limitations and conclusion.

Implementation and engagement

- *Direct and indirect emissions from heating and cooling our estate (Scopes 1 and 2)*
  In 2024, Scope 1 and 2 market-based emissions reduced by 22% compared to 2023 to 1,125 tonnes of carbon dioxide equivalent (tCO_2e).

  TSB completed the third phase of its energy optimisation programme, which has contributed to a reduction in location-based energy consumption from gas, oil and electricity by 2.6 million kWh when compared with 2023.

  In 2024, we set a primary corporate objective to reduce our energy emissions by 2% when compared with 2023 levels. We achieved a 13% reduction in location-based energy emissions when compared with 2023.

  TSB began to buy 100% renewable electricity in October 2019 and is committed to continue to do so in the future.

- *Paper*
  In 2024, we have reduced our paper consumption through helping customers switch to paperless statements, which is forecast to save 14.5 million sheets of paper annually. We continue to seek opportunities to further reduce our paper consumption, in our own operations and through our customer communications, whilst being mindful of customer needs and preferences.

- *Business travel, colleague commuting and home working*
  In 2024, we carried out our second annual colleague home-working and commuting survey, allowing us to monitor progress against our science-aligned target for this category of emissions, as well as colleague interest in knowing more about making their homes and commute more sustainable. Our Green Team, which remains one of our most active colleague engagement networks, with over 500 members, curated a week-long Cosy Homes Festival of on-line and in-person events, providing interactive and practical tips for creating a warm home, and understanding what clean heat options might involve.

  In February 2024, we opened our sustainable test and learn branch in Bradford, providing us with a sandbox in which to test sustainable initiatives. Since opening, the branch has successfully demonstrated reduced energy and water consumption compared to branches of similar size and FTE, and significantly reduced the paper used within the branch. Our focus as we move into 2025 is to test initiatives that support our customers in playing their part in tackling climate change and scaling up successful initiatives.

Section 172 statement

In overseeing delivery of TSB's purpose and strategy, TSB's Directors are always mindful of their duties under the Companies Act 2006, including as set out in section 172. The Board recognises that TSB's long-term success is only possible through engagement with, and having regard to, the interests of key stakeholders.

TSB's governance framework seeks to ensure that the Board appropriately considers stakeholders in decision making. The Board monitors and challenges progress in the performance of the business through its review of metrics which measure the level of achievement of TSB's Primary Corporate Objectives, which includes delivery of the Do What Matters Plan, monitoring performance against risk appetite and reviewing customer management information that measures the execution of customer conduct strategies.

These metrics, together with a wider dashboard of management information, are reviewed and discussed. Data on customer outcomes has been enhanced through the implementation of a new dashboard under the FCA's Consumer Duty regulations as described further in the 'Customers' section below. In addition, the Remuneration & People Committee regularly reviews achievement against the Primary Corporate Objectives to support its decision making on variable remuneration outcomes. In this way, variable remuneration outcomes are directly linked to metrics that support the delivery of TSB's strategic objectives.

Each year the Board considers a refresh of the Bank's medium term plan which requires the Executive to consider the impact on various stakeholders and provides the Board with an opportunity to challenge the Executive in ensuring that appropriate consideration is given to the interests of all stakeholders. In 2024, the plan was comprehensively discussed across two Board meetings in October and November, with the interests of the Bank's respective stakeholders forming a key part of these deliberations.

Customers

The Board takes account of customer experience through regular reviews of key measures such as Net Promoter Score and customer conduct metrics.

A continuing focus for the Board in 2024, building on work undertaken in 2022 and 2023, was the implementation of the FCA's Consumer Duty, including the impact on TSB and the programme of activity to enhance how TSB acts to deliver good outcomes for customers. These discussions took place across three Board meetings leading up to approval of TSB's first annual assessment of its monitoring of and actions to deliver good outcomes for customers in July 2024. Board input across these meetings focussed on reviewing the draft Customer Outcomes Report, which detailed the proposed customer metrics to be tracked, enabling the Board to interrogate metrics that had triggered or exceeded limit in relation to potential or actual customer harm. The Board emphasised the need to identify the key customer outcome metrics to focus on in Board reporting and the longer term aspiration for these. The Customer Outcomes Report presented to the Board in July 2024 included qualitative and quantitative information on the key customer themes being tracked, reflecting the Board's request for focussed commentary.

The Board also challenged on how Consumer Duty was being embedded into TSB's culture and how the Board would be kept informed on progress against key customer outcome metrics between the annual reports on this to the Board. Following this discussion, it was agreed that reporting against the key outcomes metrics would be included in the Chief Executive's monthly report to the Board. This would enable the Board to continue to engage on the metrics being reported to it throughout the year in addition to when reviewing the Annual Customer Outcomes Report.

As has been the case since 2021, the Board also held two 'deep dive' sessions on complaints in 2024 to provide ongoing support and challenge to management's efforts to improve the customer experience through root cause analysis of the main complaint types and to implement action plans to address the underlying causes identified.

Section 172 statement (continued)

Colleagues
The Board is proud of the commitment of our employees and the collaborative culture in TSB. The Board operates a framework that takes account of the interests of our employees, including:

- Promoting the role of recognised trade unions in independently representing the interests of employees, with the Chief Executive also maintaining a relationship with senior representatives from each of the bank's recognised trade unions;
- The appointment of a Board level whistleblowing champion, as more comprehensively referred to on page 48 in the Corporate governance statement;
- Providing challenge, through the auspices of the Remuneration & People Committee, to ensure that remuneration policy is appropriate for all employees, as well as executives, and provides for competitive remuneration strongly aligned to the delivery of TSB's strategic goals;
- Undertaking, at least annually, a review of talent and succession, particularly in respect of leadership roles; and
- Considering and interrogating the output from the annual Colleague Experience Survey and additional pulse surveys issued from time to time.

In addition, the Executive Directors, as members of the Executive Committee, take part in a variety of colleague engagement activity across TSB locations, including: stand-ups, town hall meetings, roadshows, branch visits and informal coffee catch-ups. At all of these, colleagues are encouraged to raise issues on their minds.

The Board also receives an annual presentation from The Link to facilitate direct engagement between the Board and employees. The Link is a forum for employees across all levels and all parts of TSB. It gathers and builds on employee feedback and enables meaningful dialogue between employees, the Executive leadership and the Board on a wide range of topics.

In 2024, The Link met five times and presented at the Executive Committee on three occasions, covering the following topics:

- Business strategy;
- Inclusion & accessibility in the workplace e-Learning;
- Performance;
- Customer reward portal;
- IT service;
- Cyber security;
- Future skills;
- Do What Matters – Planet; and
- The Colleague Experience Survey.

The Board discussion with The Link focused on business change, performance management at TSB, inclusion, and homeworking and travel carbon emissions reduction, with the Board supportive of the recommendations put forward by The Link and offering suggestions for how these might best be delivered. In 2024, the decision was taken to introduce an annual breakfast session with the Link to sit alongside the annual formal presentation to the Board. The first session is expected to take place in the first half of 2025, would be attended by representatives of the Board and The Link, and would enable Board attendees to discuss matters of interest to employees in an informal setting.

As explained in the Nomination Committee report on pages 50 to 51, the Board plays an active role in promoting and challenging progress in establishing a truly diverse and inclusive culture at TSB and carries out succession planning reviews to ensure continuity of skilled employees. One theme from the 2024 Board performance review was a desire expressed by the Board to spend more time considering executive succession plans. As a result, a decision was taken to move responsibility for executive succession planning (excluding for Executive Directors) from the Nomination Committee to the Remuneration Committee (which was subsequently renamed as the Remuneration & People Committee to reflect its expanded scope). Further explanation of this change can be found on page 43 and detail on the process for, and output from, the 2024 Board performance review can be found on pages 46 to 47 within the Corporate governance statement.

Suppliers
TSB believes that establishing a close relationship with suppliers (including a clear accountability framework) is a pre-requisite for resilient customer services. The Board approves the outsourcing strategy annually, together with any changes to the boundaries of outsourced critical services. Service excellence is a key part of TSB's strategy and, as part of this, TSB will continue to work closely with certain key suppliers. Page 26 sets out TSB's approach to the prompt payment of suppliers.

Section 172 statement (continued)

Communities
The Board fully recognises its obligations to consider the interests of the wider communities in which TSB operates and this is demonstrated in its support of the Do What Matters Plan, TSB's responsible business plan, described in further detail starting on page 23. This outlines how, through delivery of TSB's purpose and strategy, TSB seeks to contribute to a better society. The Board receives regular updates on progress of the Do What Matters Plan through the Chief Executive's Report, together with a more comprehensive annual update at which the ambition of, and progress against, management's plans are challenged.

Other key stakeholders
The Board also has regard for the interests of the Bank's shareholder and regulators as outlined below.

- *TSB's shareholder, Banco de Sabadell, S.A. (Sabadell).* Given Sabadell's 100% ownership of TSB, it is natural that the promotion of the long-term success of TSB, through the development of a clear purpose and strategy, is aligned with the interests of Sabadell, without undermining the legal obligation of TSB's Directors to act independently.

  Sabadell's interests are represented at Board by two shareholder appointed Non-executive Directors. Any circumstances where shareholder and TSB interests are not aligned are managed through the disclosure and management of any such potential conflict.

  Sabadell's interests are further represented through the UK Steering Committee as outlined on page 42. Open communication channels are also maintained between key Sabadell and TSB executives, such as the Chief Executive and Chief Financial Officer and between functional counterparts, for example in Legal, Human Resources and the Second and Third Lines of Defence.

  A key decision taken by the Board in 2024 was to support management's proposal to undertake a capital optimisation exercise. This consisted of an intra-group issuance to Sabadell of £250 million of Additional Tier 1 securities effected on 5 December 2024 and the inclusion of an additional £200 million in the recommended final dividend to Sabadell for the year ended 31 December 2024, to be paid in the first quarter of 2025 subject to approval at the 2025 Annual General Meeting and non-objection from the PRA. The rationale for this transaction is to right-size TSB's capital structure to reduce TSB's weighted average cost of capital and improve its return on tangible equity to its shareholder. Further information on this transaction and the proposed final dividend for 2024 can be found in notes 22 and 23 to the financial statements on page 116.

- *Regulators.* Open and honest engagement with regulators is a cornerstone principle of the UK regulatory environment. The Chief Risk Officer reports regularly to the Risk Committee and the Board on material matters of regulatory liaison and TSB's assessment of the quality of the relationship with each regulator. Certain Board members maintain a direct relationship with the FCA and PRA through the framework of 'proactive engagement and continuous assessment' meetings and report on key themes discussed through committee and Board meetings, as appropriate.

Consideration of environmental and climate change matters
TSB's Do What Matters Plan formalises the Bank's commitment to reducing its impact on the environment while helping customers and employees do the same. As part of this plan, we have committed to reduce our environmental impact and deliver against our goals as outlined starting on page 30. In addition, the Board, through discussion of the topic at the Risk Committee, continued to engage with the climate change agenda in 2024, inputting into management's plans to recognise and mitigate the financial risks to the business arising from climate change.

Strategic report on pages 2 to 40 approved, by order of the Board.

K. H

Keith Hawkins,
Company Secretary
6 February 2025

Corporate governance statement

How the business is managed

Corporate governance framework and compliance with the UK Corporate Governance Code

The design and operation of an effective corporate governance framework appropriate for a bank of TSB's scale and ambition is critical to meeting the needs of all our stakeholders. TSB's corporate governance framework encompasses TSB Banking Group plc (the Company), TSB Bank plc (the Bank) and other subsidiaries of the Company (together TSB). Each Director of the Company also serves as a Director of the Bank. Nick Prettejohn is the Chair of the Boards of both the Company and the Bank. The Board of the Company (the Board), as a whole, is collectively responsible to the shareholder for promoting the long-term success of the Company by directing the Company's affairs. The corporate governance framework is designed to assist the Board, the Board of the Bank and the Chief Executive in discharging their duties by ensuring an appropriate scheme of delegation. This is achieved through:

- Board authorities being delegated from the Boards of the Company and the Bank (together the TSB Boards) to Board committees and to the Chief Executive; and
- Delegated executive authorities through which aspects of the Chief Executive's authority are delegated to other senior executives and which set out the support provided by the executive committees.

TSB's corporate governance structure is supported by the internal control and governance framework as outlined on page 49. An important principle, applied throughout the corporate governance framework, is that the delegation of executive authority is to the individual office holders (who may in turn delegate aspects of their authority to others). Executive committees may be established to support the individuals in exercising their delegated authorities, but the committees do not separately hold any delegated authority in their own right. This approach to individual accountability is aligned to the principles of the Senior Managers & Certification Regime.

Whilst the Bank operates as a ring-fenced UK bank, it is also part of a wider group, comprising Sabadell and its subsidiaries (together the Sabadell Group), and is required by the Sabadell Group to adhere, to the extent compatible with TSB's obligations under the UK regulatory framework, to relevant Sabadell Group policies which reflect relevant obligations imposed on Sabadell Group by its consolidated supervisors, the Bank of Spain and the European Central Bank.

To assist with this, Sabadell operates an information sharing and co-ordination committee, the UK Steering Committee (UKSC) which seeks to provide Sabadell with a regular overview of the performance of TSB and to ensure that TSB policies and processes are aligned to those of the Sabadell Group where it is appropriate to do so. Certain members of the Bank's Executive Committee are appointed as members of the UKSC.

Although the Company does not have shares with a premium listing on the London Stock Exchange, and does not need to comply with the UK Corporate Governance Code (2018 edition[1]) (Code), the Board has chosen to voluntarily adopt those principles of the Code that are considered appropriate for TSB as a wholly owned subsidiary of Sabadell and to report against the Code in the Annual Report. A copy of the Code is available at www.frc.org.uk. The following aspects of the Code are not considered appropriate for TSB:

- All Directors should be subject to annual re-election by shareholders (Provision 18);
- Provisions relating to the proportion of Independent Non-executive Directors who are members of the Audit and Remuneration Committees (Provisions 24 and 32); and
- Provisions relating to dialogue with shareholders (Provisions 3 and 4).

Whilst TSB supports the statement in Provision 24 of the Code that the chair of the Board should not be a member of the Audit Committee, Nick Prettejohn chaired the Audit Committee on an interim basis from 1 September 2023 until 16 April 2024, pending the appointment of a permanent role holder. This followed the resignation of the previous Audit Committee chair. Nick Prettejohn was considered the most appropriate individual to Chair the Audit Committee on an interim basis given previous relevant experience, together with his capacity for the role and knowledge of current Audit Committee considerations as a standing attendee of Committee meetings. Judith Eden was appointed to the TSB Boards on 1 January 2024 and, following regulatory approval, assumed the role of Audit Committee Chair on 17 April 2024.

In addition, the Remuneration & People Committee has not created a policy for post-employment shareholding requirements (Provision 36). TSB Executive Directors are already subject to long deferral periods (seven years with a further one year holding period) for Sabadell shares awarded as part of TSB variable remuneration. Therefore, the continuing view is that no specific post-cessation shareholding requirement be introduced for TSB Executive Directors at the present time. The Remuneration & People Committee continues to keep this under review as part of a regular Committee agenda item to consider market developments.

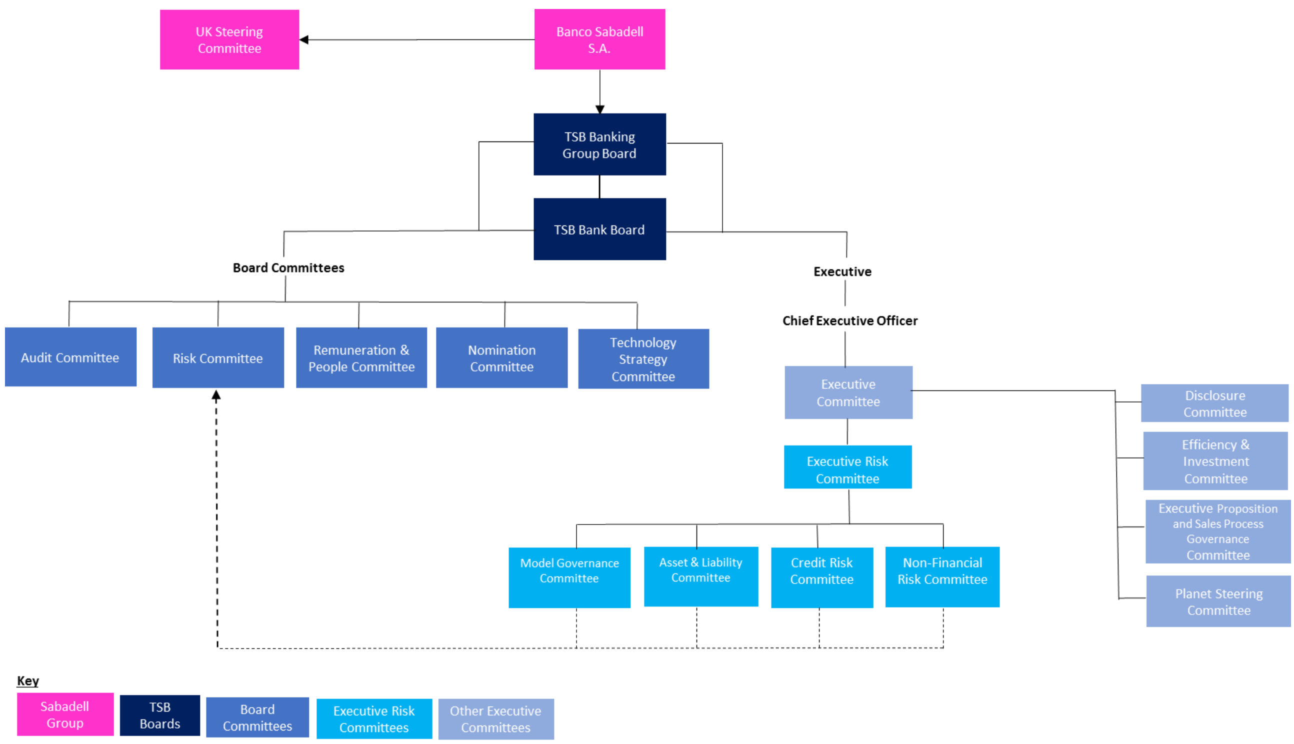
[1]*Reporting in this Annual Report is against the 2018 edition of the Code, being that applicable for the year ending 31 December 2024. The revised 2024 edition of the Code is applicable for reporting periods beginning on or after 1 January 2025.*

How the business is managed (continued)

Corporate governance framework and compliance with the UK Corporate Governance Code (continued)

Finally, Provision 17 of the Code states that 'The board should establish a nomination committee to lead the process for appointments, ensure plans are in place for orderly succession to both the board and senior management positions, and oversee the development of a diverse pipeline for succession'. Whilst the Nomination Committee will continue to lead the process for appointments to, and succession planning for, the TSB Boards, including Executive Directors, a decision was taken by the Board in November 2024 to transfer responsibility for consideration of executive succession planning (excluding Executive Directors) to the Remuneration & People Committee. The primary rationale for this change was the synergy with the Remuneration & People Committee's existing focus on talent management and executive reward outcomes, but also recognised that the Remuneration & People Committee met more frequently than the Nomination Committee, enabling more regular discussion on executive succession.

The corporate governance framework is reviewed annually by the Board to confirm that governance arrangements remain effective. The diagram below sets out the framework of Board and executive committees.



The role and responsibilities of the Board

The Board's full responsibilities are set out in the matters reserved for the Board. The main items are summarised below.

(i) Strategy

- Approving, and monitoring the implementation by management of, TSB's strategy and long-term objectives and ensuring that rigorous processes are in place to monitor organisational compliance with risk appetite and all applicable laws and regulations;
- Determining Board structure, size and composition, and determining the roles and responsibilities of the Chair, Senior Independent Director, Non-executive Directors, Chief Executive and Executive Directors;
- Approving the high-level framework of Board delegations;
- Approving material TSB contracts and material acquisition or disposal of assets or equity investments by the Company or any subsidiary of the Company; and
- Approving material changes to TSB corporate and organisational structure, including changes to the Company's listing status or its status as a plc.

How the business is managed (continued)

The role and responsibilities of the Board (continued)

(ii) Risk

- Reviewing the effectiveness of the Company's and Bank's risk management and internal control systems;
- Approval of the Bank's Risk Appetite, Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP), Reverse Stress Test, and Recovery Plan; and
- Approval, and monitoring the ongoing resilience, of TSB's Important Business Services in accordance with relevant regulatory requirements.

(iii) Shareholder communications

- Approving the Annual Report and Accounts;
- Approving TSB's dividend policy; and
- Approving the resolutions and associated documentation for the shareholder at a general meeting.

In accordance with the Company's articles of association, Sabadell is empowered to determine that certain matters reserved to the TSB Boards also require approval by Sabadell.

Role of Directors

There is a clear division of responsibility between the Chair and Chief Executive. This has been approved by the Board and is available to view at www.tsb.co.uk/investors/people/.

The role of the Non-executive Directors includes the following key elements:

- Providing constructive challenge to management and helping to develop strategy;
- Scrutinising the performance of management in meeting agreed goals and objectives and monitoring the reporting of business performance;
- Satisfying themselves on the integrity of financial information and that financial controls and risk management systems are sound and defensible; and
- Determining appropriate levels of remuneration for Executive Directors and other senior management and having a prime role in appointing and, where necessary, removing Executive Directors and in Board and Executive Committee succession planning.

The Senior Independent Director's role is defined as follows:

- Acting as a sounding board for the Chair and to serve as an intermediary for the other Directors when necessary;
- Being available to the shareholder if it has concerns which cannot otherwise be resolved;
- Chairing meetings in the absence of the Chair; and
- Reviewing the Chair's performance.

Board membership and composition

As at the date of this report the Board has eleven members and is comprised as follows:

Chair:	Nick Prettejohn (independent on appointment)
Executive Directors:	
Chief Executive	Robin Bulloch
Chief Financial Officer	Declan Hourican
Independent Non-executive Directors:	Zahra Bahrololoumi
	Adam Banks
	Elizabeth Chambers
	Judith Eden
	Ahmed Essam
	Morten Friis (Senior Independent Director)
Non-executive Directors:	Sergio Palavecino
	Carlos Paz

Biographical details of the Directors, including their skills and experience, can be found at www.tsb.co.uk/investors/people/.

A record of the Directors who have served during the year is shown in the Directors' report on page 56. The letters of appointment for Non-executive Directors are available at the Company's registered office and at the Annual General Meeting.

How the business is managed (continued)

Board Committees

Certain responsibilities of the TSB Boards are delegated to committees of the Board to assist the TSB Boards in carrying out their functions.

- The Risk Committee (chaired by Andy Simmonds until 10 December 2024 and Morten Friis from 11 December 2024) oversees the management of the risks that TSB faces;
- The Audit Committee (chaired by Nick Prettejohn on an interim basis until 16 April 2024 and Judith Eden from 17 April 2024) oversees financial reporting;
- The Nomination Committee (chaired by Nick Prettejohn) leads the process for appointments to, and succession planning for, the TSB Boards (including Executive Directors);
- The Remuneration & People Committee (chaired by Elizabeth Chambers) formulates TSB remuneration policy and leads succession planning for the Executive Committee (excluding Executive Directors); and
- The Technology Strategy Committee (chaired by Adam Banks) provides guidance, challenge and advice to the Board on TSB's vision and strategy for technology.

The Board also, from time to time, establishes additional sub-committees in relation to particular matters or initiatives under its management or oversight, which are then disbanded when the matter or initiative has been concluded.

The Audit and Nomination Committees have each prepared a report which includes a description of their role and composition. Each of the Board Committees' terms of reference are available at www.tsb.co.uk/investors/people/.

Meeting attendance

The table below sets out attendance of Directors at Board meetings and the attendance of Committee members at the relevant Committee meetings held during the year.

Name of Director (viii)	Board meetings attended	Audit Committee meetings attended	Risk Committee meetings attended	Nomination Committee meetings attended	Remuneration Committee meetings attended	Technology Strategy Committee meetings attended
Nick Prettejohn	7 out of 8	1 out of 1	–	3 out of 3	–	–
Robin Bulloch	7 out of 8	–	–	–	–	–
Declan Hourican	8 out of 8	–	–	–	–	–
Leopoldo Alvear (iv)	5 out of 7	4 out of 4	–	–	–	–
Marc Armengol (vii)	8 out of 8	–	–	2 out of 3	6 out of 6	6 out of 7
Zahra Bahrololoumi	5 out of 8	–	–	–	–	6 out of 7
Adam Banks	8 out of 8	–	5 out of 6	–	4 out of 6	6 out of 7
Elizabeth Chambers	8 out of 8	5 out of 5	–	3 out of 3	6 out of 6	7 out of 7
Ahmed Essam	7 out of 8	–	–	–	–	7 out of 7
Judith Eden (i)	8 out of 8	5 out of 5	6 out of 6	–	2 out of 3	–
Morten Friis (ii)	6 out of 6	4 out of 4	4 out of 4	3 out of 3	3 out of 3	–
Sergio Palavecino (v)	-	–	–	–	–	–
Carlos Paz	7 out of 8	–	6 out of 6	–	–	–
Lynne Peacock (iii)	3 out of 3	–	2 out of 3	–	2 out of 2	–
Andy Simmonds (vi)	8 out of 8	5 out of 5	6 out of 6	3 out of 3	–	–

(i) Appointed to the Board on 1 January 2024.
(ii) Appointed to the Board on 1 April 2024
(iii) Resigned from the Board on 31 May 2024.
(iv) Resigned from the Board on 18 November 2024.
(v) Appointed to the Board on 20 December 2024.
(vi) Resigned from the Board on 31 December 2024.
(vii) Resigned from the Board on 31 December 2024 pending his regulatory approval as TSB's Chief Executive.
(viii) Directors not able to attend meetings due to longstanding prior commitments, illness or unavoidable circumstances, provided comments to the chair concerned on matters to be discussed at the relevant meeting.

How the business is managed (continued)

Board changes and development

Judith Eden and Morten Friis were appointed as Independent Non-executive Directors on 1 January 2024 and 1 April 2024 respectively. In December 2024, Sergio Palavecino replaced Leopoldo Alvear (who resigned on 18 November 2024) as a Director appointed at the nomination of Sabadell. Following their appointments, Judith Eden and Morten Friis completed a comprehensive induction programme, with the programme for Sergio Palavecino to proceed through Q1 2025.

Directors are given the opportunity to undertake further training in order that they are fully comfortable with their role within the Board and to enable them to contribute to the operation of the Board and the long-term success of the Company in the fullest manner possible.

Deep dive sessions are regularly held at Board meetings to allow Non-executive Directors to explore key strategic and risk issues. In 2024, sessions were held on the FCA's Consumer Duty, continuing the discussions commenced in 2022 and which continued in 2023, together with discussions on the agile approach to IT Change management and on customer behaviour, data and segmentation. As part of the lead into the 2025 strategy refresh, discussions were held on Distribution and Business banking strategy, together with ongoing discussions on TSB's IT strategy in the context of the wider technological landscape in financial services, which were primarily held through Board Technology Strategy Committee meetings. Separately, a special Board education session on model risk management was held during 2024, which included the role of the Board in this regard. In addition, during the year, the Remuneration & People Committee received regular updates from TSB's external remuneration advisers, PwC, detailing current areas of regulatory focus and remuneration trends in the banking industry.

Other Board changes to note in 2024 were: i) Lynne Peacock and Andy Simmonds left TSB on 31 May 2024 (after four years of service) and 31 December 2024 (after six years of service), respectively, with Morten Friis succeeding Lynne as Senior Independent Director and Andy as Chair of the Risk Committee, respectively, following regulatory approval; and ii) Marc Armengol stepped down from the Board on 31 December 2024 following his appointment, subject to regulatory approval, as TSB's Chief Executive, succeeding Robin Bulloch, who is retiring. Further information on the process followed in the Chief Executive succession can be found in the Nomination Committee report on page 50. Marc Armengol had served on the TSB Board as a Sabadell nominated director since March 2022, acting as one of the SMF7 (Group Entity Directors) on the TSB Board, but it was not considered appropriate for him to continue in the SMF7 role as TSB's Chief Executive elect. Marc will be re-instated to the TSB Board effective from, and subject to, his regulatory approval as Chief Executive.

Board performance

The 2024 performance review, covering the Board and all five of its committees, was externally facilitated, in line with the recommendation of the Code that relevant companies undertake an externally facilitated review once every three years (TSB's last externally facilitated review having taken place in 2021).

A tender process was undertaken, facilitated by the Company Secretary and overseen by the Senior Independent Director, resulting in submissions from five potential external reviewers, including the firm who had carried out the 2021 review.

Following careful consideration and in accordance with the Principles of Good Practice, published by the Chartered Governance Institute UK & Ireland (CGI) in September 2023, the appointment of BoardClic was approved by the Board in May 2024. BoardClic was selected on the basis of the firm's strong data-driven and analytical approach, with their platform providing useful data insights, benchmarking and reporting, together with their solid experience of undertaking performance reviews for financial services firms. It is noted that BoardClic has no other commercial relationship with TSB or its Board members, was undertaking its first Board performance review for TSB, and satisfies the principles of the CGI's Code of Practice for Board Reviewers.

In accordance with the Principles of Good Practice, the objectives, scope and process of the review were agreed by the Board Chair, the Senior Independent Director and BoardClic, and set out in an engagement letter. The process (for which support, as required, was provided to BoardClic by the Company Secretariat) consisted of a digital survey as well as one-to-one interviews of 18 participants, including all Board members in office during the period of review (July to September 2024), key members of the Executive Committee who regularly attend Board and Board committee meetings, and the Company Secretary. In addition, a review of Board papers was undertaken by the Bank's existing board portal supplier, Board Intelligence, and their findings were incorporated into the wider performance review.

The scope provided for a comprehensive review of a wide range of themes typically covered in a Board performance review as set out in the review brief, with particular focus on a number of key areas proposed by the Bank. Individual performance of key Board positions (such as the Board Chair, Senior Independent Director and Board committee chairs) was also considered as part of the review, together with individual feedback on all other Directors, which was provided separately to the Board Chair. For Non-executive Directors, this feedback would be used in the Chair's ongoing consideration of their continuing contribution to the Board.

How the business is managed (continued)

Board performance (continued)

The final report produced by BoardClic was provided to the Board and the key findings presented and discussed at the Board meeting held on 23 October 2024. This included high level findings on each of the Board committees, with further discussion on this taking place across respective committee meetings in November and December 2024. The exercise revealed a high-functioning and effective board, with an appropriate mix of skills, knowledge and experience, aligned with the main challenges being faced by TSB, and acknowledging the additional expertise added to the Board in 2023 and 2024 in the areas of technology and risk management.

Regarding areas for improvement, key matters in this regard related to:

- a continuing desire for the Board to ensure that the Bank's strategy was sufficiently ambitious, within the parameters set by its parent company, and to regularly assess performance against this;
- a continuing desire to refine the content and presentation of information being provided to the Board, with separate recommendations in this regard being provided by Board Intelligence; and
- a desire for the Board to spend more time together outside of formal meetings, including enhanced engagement with the Bank's customer facing staff and talent pool.

The suite of recommendations made by BoardClic and Board Intelligence were further considered by the Chief Executive, Board Chair and Company Secretary and converted into a list of actions that were agreed with the Board at its meeting held on 26 November 2024. These actions address each of the themes highlighted above and progress against them will be tracked through 2025.

Regarding the 2023 (internally facilitated) review of the effectiveness of the Board, the main theme of feedback had related to the need to continue to promote discipline and consistency in the preparation of Board papers, with a range of suggestions made in this regard. The 2024 review recognised the significant improvement seen in Board papers, which benchmarked well against those of other financial services companies, but with the further improvements sought reflecting the challenge of maintaining enduring consistency and quality going forward.

The review of the Board committees found each of these to be operating effectively, with the digital survey scores closely aligned with BoardClic benchmarking data for each of the committees (with the exception of the Technology Strategy Committee, for which such benchmarking data was not available). The key finding to enhance committee effectiveness was to identify and remove areas of overlap between respective committee discussions, with a particular focus on topics discussed at the Audit and Risk Committees. In this regard, the Company Secretary has taken an action to discuss agenda planning and committee cross-over with relevant committee chairs, with the expectation that appropriate changes to committee terms of reference and forward planners would be made through the course of 2025.

The above sections have been reviewed and agreed with BoardClic.

Independence

The Board has considered whether there are any relationships or circumstances which could appear to affect the Independent Non-executive Directors' judgement. No Independent Non-executive Director, or member of their immediate family, has ever had a material relationship with TSB nor receives additional remuneration apart from Director fees. The Independent Non-executive Directors do not participate in TSB's pension or share schemes. With the exception of Judith Eden and Andy Simmonds, no Independent Non-executive Directors served as Directors of any companies or affiliates in which any other Director is also a Director.

Judith Eden and Andy Simmonds were both, until 8 October 2024, non-executive directors of another company outside of the TSB group which has no other connections to TSB. As disclosed in the 2023 Annual Report, the Board had carefully considered these circumstances, the fact that Andy had demonstrated independence and constructive challenge during his tenure and that Judith was appointed following an externally facilitated selection process, and had assessed them both as independent for the purposes of the Code notwithstanding the cross-directorship.

However, under the PRA's ring-fencing rules such cross-directorships result in non-independence of the director and, unlike the Code, those rules do not allow discretion to the Board to conclude otherwise based on available facts. As a result, whilst the Board was of the view that Judith Eden and Andy Simmonds were independent, under the ring-fencing rules they were technically not, albeit the position was temporary. TSB engaged with the PRA on this matter and received a waiver from this strict criterion for director independence, effective from 5 April to 31 December 2024. The cross-directorship ceased on 8 October 2024, with Andy Simmonds stepping down from the Board of the company concerned.

Leopoldo Alvear (General Manager and Chief Financial Officer of Sabadell, until 18 November 2024), Sergio Palavecino (General Manager, from 15 January 2025, and Chief Financial Officer of Sabadell, from 18 November 2024), Marc Armengol (Chief Operating and Technology Officer of Sabadell until 31 December 2024 and former Strategy Director of TSB) and Carlos Paz (Chief Credit Risk Officer of Sabadell and former Chief Audit Officer and, latterly, Chief Risk Officer of TSB), as executives of Sabadell, were/are not considered to be independent.

How the business is managed (continued)

Management of conflicts of interest
Each Director has a duty under the Companies Act 2006 to avoid a situation in which they have, or may have, a direct or indirect interest that conflicts, or might conflict, with the interests of the Company. This duty is in addition to the existing duty that Directors owe to the Company to disclose to the Board any interest in a transaction or arrangement under consideration by the Company. If Directors become aware of any situation which may give rise to a conflict of interest, they must inform the rest of the Board immediately and the Board is then permitted under the articles of association to authorise such conflict if appropriate. This information is recorded in the Company's register of conflicts together with the date on which authorisation was given. Directors are asked to certify, on a bi-annual basis, that the information contained in the register is correct.

Save as described as follows in relation to Leopoldo Alvear, Sergio Palavecino, Marc Armengol and Carlos Paz, there were no conflicts of interest between any duties owed by the Directors to the Company and their private interests or other duties. As Executives of Sabadell, Leopoldo Alvear (until 18 November 2024), Sergio Palavecino (from 20 December 2024, the date on which he joined the TSB Board), Marc Armengol (until 31 December 2024) and Carlos Paz had/will have a conflict of interest in circumstances where the interests of TSB and the wider Sabadell Group are not, or may not be, aligned. This conflict was authorised by the Board.

Whistleblowing arrangements
TSB has a whistleblowing process in place (known as Speak Up and Be Heard (SUBH) in TSB and referred to generically as whistleblowing in this section and elsewhere in this Annual Report) which is available to current and former colleagues, contractors and third parties, to raise concerns anonymously via TSB's SUBH hotline, together with a range of other confidential communication channels (dedicated email address, online referral form and post). The Board oversees the adequacy of TSB's whistleblowing arrangements, ensuring that they are proportionate and enable employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters.

In the role of TSB's SUBH Champion, Judith Eden (Chair of the Audit Committee) from 17 April 2024, receives regular reports from management which provide details of whistleblowing matters. The SUBH Champion role was previously carried out by Lynne Peacock, who acted in the role on an interim basis from 1 September 2023 until 16 April 2024. The Board receives an annual report from management providing an overview of whistleblowing procedures and outcomes, and challenges management on TSB's plans to ensure whistleblowing policies and processes are aligned with external best practice. As part of its annual review of whistleblowing matters, the Board was satisfied that there were no material concerns raised relating to TSB's whistleblowing processes or outcomes in 2024.

Reappointment of Directors
The Board considers that all Directors continue to be effective, committed to their roles and have sufficient time available to perform their duties. All Non-executive Directors, with the exception of those appointed at the nomination of Sabadell, have been appointed for an initial three year term and their continued appointment thereafter is considered by the Board at the end of the initial period of office. As the Company is a wholly owned subsidiary of Sabadell it is not considered necessary for Directors to seek annual re-election or for the Directors appointed at the nomination of Sabadell to be appointed for a specified term.

In accordance with Provision 15 of the Code, Directors are required to seek prior approval from the Board before taking up additional external appointments. During the year, the following appointments were approved by the Board: Zahra Bahrololoumi as a board member of Business in the Community, Morten Friis as a Non-executive Director of Peoples Group (comprising Peoples Bank and Peoples Trust Company), Adam Banks as an advisor to, and subsequently member of, the Thames Water Board, and Elizabeth Chambers as a board member of 7IM and, subsequently, Kape Technologies.

Company Secretary and independent professional advice
Keith Hawkins has served as the Company Secretary throughout the year ended 31 December 2024. The Company Secretary is responsible to the Board for ensuring compliance with corporate governance requirements. The Board has access to the Company Secretary individually and collectively. As well as the support of the Company Secretary, any Director may take independent professional advice at the Company's expense in the furtherance of their duties, where considered necessary.

Evaluation of internal controls procedures
The Board has carried out an assessment of the effectiveness of the Company's risk management and internal control systems. The Audit Committee report explains the process in more detail on page 54.

External auditor
KPMG LLP have expressed their willingness to continue as the Company Auditors. As outlined in the Audit Committee report on page 55, resolutions proposing the re-appointment of KPMG LLP for the 2025 audit, and to authorise the Directors to determine their remuneration, will be proposed at the 2025 Annual General Meeting, as recommended by the Audit Committee and approved by the Board.

How the business is managed (continued)

Principal accountant fees and services
An analysis of fees for professional services provided by KPMG LLP, the Company's external auditor for the year ended 31 December 2024, is set out in note 14 to TSB's consolidated financial statements on page 91.

Internal control and governance framework
An explanation of TSB's Executive Committee and its sub-committees is set out below.

(i) Executive Committee
Chaired by the Chief Executive, TSB's Executive Committee is TSB's principal executive committee and collectively supports the Chief Executive in developing and implementing TSB's strategy, monitoring business performance, and agreeing any actions that are required to manage issues that affect TSB. Consideration is given to the interests of all stakeholders.

All members of the Executive Committee report to the Chief Executive. In addition, the Chief Risk Officer has a secondary reporting line to the Chair of the Risk Committee. To protect the independence of Internal Audit, the Chief Audit Officer's primary reporting line is to the Chair of the Audit Committee with a secondary reporting line to the Chief Executive. The Chief Audit Officer also has a reporting line to the Sabadell Group Chief Audit Officer.

(ii) Executive Risk Committees
The role of the Executive Risk Committee, which is chaired by the Chief Risk Officer, is to ensure an enterprise wide perspective of TSB's risks and determine strategic actions to address them.

The four further committees in the executive layer of risk governance, which each report into the Executive Risk Committee (and indirectly to the Board Risk Committee), monitor and challenge risk exposures against approved risk appetite and are structured to align with the risk management framework described on page 14. These comprise the Asset & Liability Committee, Credit Risk Committee, Model Governance Committee, and Non-Financial Risk Committee. Each of these committees is responsible for ensuring an appropriate risk and control environment is maintained within its area of authority. This enables day-to-day decisions to be made, with clear reporting lines established through the Executive Risk Committee, Executive Committee and Board Risk Committee, and ultimately to the Board.

(iii) Other Executive Committee Sub-committees
The following other standing executive sub-committees report into the Executive Committee:

- The Disclosure Committee, which is responsible for identifying inside information and determining how and when TSB should disclose that information in accordance with its obligations to Sabadell and holders of TSB's listed debt;
- The Efficiency & Investment Committee, which is responsible for managing cost in the business and monitoring delivery of operating expenses in the medium term plan, for ensuring investment is aligned to strategic priorities, and to approve business cases for funding and track the progress of the investment portfolio;
- The Planet Steering Committee, which provides governance and oversight of Planet related activity, including monitoring progress against planet related targets and overseeing the management of the financial risks of climate change, to drive positive business outcomes against internal and external commitments and requirements; and
- Executive Proposition & Sales Process Governance Committee, which provides strategic and senior oversight over the Proposition Design and Governance Policy to ensure risks are identified and mitigated and that controls are in place to monitor, measure and reduce risks associated with product, servicing and sales journey design.

The Executive Committee also, from time to time, establishes additional sub-committees in relation to particular matters or initiatives under its management or oversight, which are then disbanded when the matter or initiative has been concluded.

By order of the Board

K. Hl

Keith Hawkins
Company Secretary
6 February 2025

Nomination Committee report

Chair's introduction
I am pleased to present my report on the activity of the Nomination Committee for the year ended 31 December 2024.

The Committee is authorised by the Board to keep the structure, size and composition of the TSB Boards under review and to make recommendations to the Board with regard to any changes required. It leads the process for appointments to the TSB Boards, Board committees and the chairing of those committees and also considers succession planning for the TSB Boards, taking into account the skills, knowledge, experience, diversity and leadership needs of TSB. The Committee also, until a change to its terms of reference in November 2024, considered succession planning for the Executive. Responsibility for this was moved to the Remuneration & People Committee in November 2024, as further explained in the Corporate governance statement on page 43.

As at the date of this report, the members of the Nomination Committee are Nick Prettejohn (Chair), Elizabeth Chambers and, effective from 1 April 2024, Morten Friis. Andy Simmonds and Marc Armengol also served as members of the Committee until their resignations from the Board on 31 December 2024.

Appointment / re-appointment of Directors and Board succession planning
The Committee met three times during 2024 in July, October and November. The key matters discussed and agreed at these meetings were:

- The July meeting of the Committee discussed and recommended to the Board the appointment of Morten Friis as the Chair of the Risk committee (subject to regulatory approval). Morten was considered to be ideally suited for this position, with extensive banking experience gained from an executive and non-executive career in financial services spanning over 40 years, which included serving as a Non-executive Director of RBS/NatWest, where he chaired the Risk Committee for the last three years of his tenure. The July meeting of the Committee also: i) discussed the appointment of both Morten Friis and Judith Eden as members of the Remuneration & People Committee, providing fresh perspectives to this committee and enhanced linkage with other Board committees; and ii) approved the extension of Andy Simmonds' term of office as a Board member until 31 December 2024, to enable a smooth transition in the role of Risk Committee Chair to take place. Each of these recommendations was subsequently approved by the Board.

- The October meeting of the Committee was an additional meeting convened to provide an update on Chief Executive succession, with Robin Bulloch having indicated his wish to retire and Marc Armengol having been identified as the preferred successor. This followed an external benchmarking exercise conducted by Russell Reynolds Associates (who have no other connection with TSB or its Directors), combined with a comprehensive assessment of Marc, based on the job specification, skills, and experiences required for the appointment. The results of this exercise were discussed with me and I consulted with Committee members and other TSB Directors throughout the process. The conclusion of this exercise and consultation was that Marc Armengol was considered to be a strong performer relative to the peer group and a well-qualified candidate with the necessary skills and experience across core competencies for the role. The appointment of Marc Armengol as TSB's Chief Executive was subsequently recommended by the Committee to the Board by written resolution passed on 7 November 2024 and approved by the Board, subject to regulatory approval, at its meeting on 26 November 2024.

- The November meeting of the Committee recommended to the Board the renewal of my term of office as Board and Committee Chair for a further three years, which recommendation was subsequently approved by the Board. The Committee also considered Board and committee composition, taking into account upcoming Board changes and the impact of this on independence and diversity metrics. It was agreed that no changes were currently needed to Board or committee composition.

In addition to the matters outlined above, the Committee also recommended to the Board, by written resolutions passed on the dates shown, the following matters that were subsequently approved by the Board:

- 14 March 2024 – the appointment of Morten Friis as an Independent Non-executive Director and Senior Independent Director (subject to regulatory approval) on the TSB Boards as well as his appointment to the Risk, Audit and Nomination committees, following a search undertaken by Russell Reynolds Associates. In addition to the qualities outlined above, Morten was also considered to bring experience in capital markets, transformation and risk management, augmenting the skills of the Board, whilst his deep industry knowledge, experience, stature and interpersonal skills made him well suited to the role of Senior Independent Director. The Committee also recommended the extension of Lynne Peacock's term of office, to allow for a suitable transition of the Senior Independent Director role; and

- 3 January 2025 – the appointment of Sergio Palavecino as a member of TSB's Audit Committee, following Sergio's appointment to the Board on 20 December 2024 as a Sabadell nominated Director.

Nomination Committee report (continued)

Executive succession planning
At its meetings held in July and November 2024, the Committee considered the Executive succession plan presented by TSB's Chief People Officer, which covered the Executive Committee, together with the layer of senior management reporting into Executive Committee members. The Committee's discussions across both meetings focused on succession plans for key roles within the Executive Committee and suggestions for accelerating the development and retention of potential successors, with a particular focus at the November meeting on the gaps in Executive Committee succession plans created by recent and upcoming changes in senior leadership and efforts to mitigate this. The July and November discussions also covered senior talent retention risks and mitigating actions, efforts to build future skills across TSB's workforce and progress made in meeting the bank's diversity & inclusion targets at both senior and all-colleague levels.

Diversity and inclusion
TSB is committed to fair and consistent treatment of all employees regardless of their personal characteristics, which include gender, ethnicity, religion, sexual orientation, transgender status, disability, nationality or age. The Board has adopted this approach to diversity and had regard to it during the appointment processes discussed above.

The Do What Matters Plan section, on page 27, provides further detail on TSB's approach to diversity and inclusion, which includes a framework to support TSB's existing ambition to create a truly inclusive workplace. The Board promotes and affirms TSB's aspiration to meet and exceed the target of 33% of Board positions being held by women. At 31 December 2024 (following the resignation of Andy Simmonds and Marc Armengol from the Board), 27% of the Board were women. The percentage of senior roles held by women is recorded on page 27.

The Chair's other significant commitments
My other significant commitments, in addition to the role of TSB Chair, are as Chair at the media group, Reach plc, and the human rights charity, Prisoners Abroad, and as the Senior Independent Non-executive Director of YouGov.

Details of my other external appointments are available at www.tsb.co.uk/investors/people/.

Nick Prettejohn
Chair
Nomination Committee
6 February 2025

Audit Committee report

Chair's introduction

Our voluntary practice of including a report on the Audit Committee's activities in the Annual Report remains a reflection of our commitment to transparency and accountability. I and the Committee will continue to uphold this practice, ensuring that the Committee's activities are clearly documented and made accessible.

I am a qualified Chartered Accountant and have served on audit committees in banking for over a decade. I am pleased to present my first report as Chair of the Audit Committee.

I have been a member of the committee throughout 2024 and assumed the role of Chair in April 2024, following a comprehensive handover from my predecessor, Nick Prettejohn, who served as Interim Chair of the Committee. I have received full support from my fellow Non-executive Directors, Elizabeth Chambers, Andy Simmonds, Morten Friis, and Leopold Alvear, who have continued their dedicated service on the Committee throughout the year.

I would like to thank Nick for his significant contributions during his interim tenure and Andy Simmonds and Leopoldo Alvear for their valuable input to the Committee up to the point that they stood down in November and December 2024, respectively.

The collective expertise and industry experience of the Committee members are substantial, as detailed in their biographies available at www.tsb.co.uk/investors/people/. All Non-executive Directors of TSB hold a standing invitation to participate in the Committee's meetings, ensuring robust and inclusive oversight.

In 2024, the Committee's focus was on several critical areas including: assessing management's actions to enhance the overall IT control environment; evaluating management's judgements concerning the adequacy of the allowance for credit impairment losses and the adequacy of provisions; reviewing and challenging management on the adequacy of the financial reporting control framework; and conducting a thorough assessment of changes to the Corporate Governance Code and their impact on our practices.

These priorities reflect our dedication to maintaining high standards of governance and oversight. Our oversight of the adequacy of provisions for customer redress involved detailed reviews of relevant cases, ensuring that customer concerns were addressed appropriately and justly. We also assessed the accounting treatment and disclosure requirements associated with a significant regulatory fine, providing critical feedback to management to ensure transparency and compliance.

Furthermore, the Committee played a vital role in reviewing and challenging the financial reporting control framework, offering recommendations to strengthen internal controls and improve financial accuracy. The assessment of the changes to the Corporate Governance Code was also a key focus, ensuring that our governance practices remain aligned with best practices and regulatory expectations.

I look forward to continuing this important work with the support of the Committee and the wider Board.

In 2025, the Committee will continue to focus on the approach and judgements over expected credit losses, as economic conditions continue to evolve and updates are made to the Bank's credit models. In addition, the Committee will continue to oversee the completeness and embedding of the Bank's internal control framework, in particular in relation to IT controls. The Committee will also oversee management's readiness for the new Corporate Governance Code requirements effective in 2026.

Judith Eden
Chair
Audit Committee
6 February 2025

Audit Committee report (continued)

Membership and operation of the Committee
The Committee is Chaired by Judith Eden, who was appointed to the Committee, as a member, on 1 January 2024 and assumed the role of Chair with effect from 17 April 2024. The Committee currently comprises two further Independent Non-executive Directors (Elizabeth Chambers and Morten Friis, who were appointed to the Committee from 1 April 2024) and one Non-executive Director (Sergio Palavecino), who joined the committee on 7 January 2025. The TSB Chairman (Nick Prettejohn) acted as Interim Audit Committee Chair until 16 April 2024 and continues as a standing attendee of Committee meetings. Morten is also a member and Chair of the Risk Committee, succeeding Andy Simmonds in this role on 11 December 2024.

Committee meetings are attended by members of the Executive Committee including the Chief Executive, Chief Financial Officer, Chief Risk Officer and Chief Audit Officer. The external auditor, KPMG LLP, attends each meeting of the Committee which typically includes a private session with the Non-executive Directors without the presence of executives. A private session with the Chief Audit Officer is also held at least once a year.

The Chair reports to the Board after each Committee meeting on the main matters discussed so that all Directors are informed on the activity of the Committee. The Chair is available to all Directors for discussion of any matters in more detail and maintains regular dialogue outside Committee meetings with members of the Executive Committee, particularly the Chief Executive, Chief Financial Officer, Chief Risk Officer and Chief Audit Officer, and also with the lead partner of the external auditor.

The Committee met five times during 2024.

Audit Committee responsibilities and activity in 2024
The Committee is responsible for, amongst other things, the monitoring of the integrity of the financial statements of TSB and the involvement of the external auditor in that process as well as championing a straightforward and transparent culture to ensure that TSB operates within the Board approved risk appetite in respect of financial reporting and internal control. Specifically, the Audit Committee is responsible for reviewing and reporting to the Board on:

- Financial statements and related financial reporting;
- Internal controls and risk management systems and culture;
- Performance and effectiveness of the Internal Audit function; and
- Effectiveness of the relationship with, and work of, the external auditor.

Financial statements and related financial reporting
The Committee is responsible for the review and challenge of TSB's half year and annual financial information, including the significant financial reporting estimates and judgements which they contain. During 2024, the Committee has considered the following matters:

(i) The consistency and appropriateness of, and any changes to, significant accounting policies
The Committee has considered and accepted management's review of TSB's accounting policies. There have been no material changes in 2024.

(ii) Viability and going concern assessments in uncertain macroeconomic circumstances
The Committee has considered management's approach to, and the conclusions of, the assessment of TSB's ability to remain a going concern, taking into account the Bank's capital and liquidity position. The Committee considered and, after taking the Bank's strategy and external market developments into account, supported management's conclusion that it remained appropriate to adopt the going concern basis in preparing the consolidated financial statements.

The Committee also considered management's approach to, and the conclusions of, the assessment of TSB's viability. The Committee accepted management's viability assessment period, noting it was over the three years to December 2027.

After consideration, the Committee supported the approach adopted by management as described on pages 58 and 65.

(iii) Review of the Annual Report – fair, balanced and understandable
The Committee considered management's approach to, and governance arrangements over, the preparation of this Annual Report and recommended to the Board that, taken as a whole, it was considered to be fair, balanced and understandable. The approach and results of the assessment are set out in the Directors' report on page 59.

Audit Committee report (continued)

Financial statements and related financial reporting (continued)

(iv) Whether TSB has made appropriate accounting estimates and judgements
The Committee has assessed the basis for, and appropriateness of, estimates and judgements proposed by management in the financial statements as presented below. After appropriate challenge, the Committee supported management's proposals.

Allowance for credit impairment losses
At December 2024, expected credit losses were reflected in an allowance for credit impairment losses of £180.1 million (2023: £211.8 million) and a provision for off balance sheet commitments of £8.6 million (2023: £10.4 million).

During 2024, the Committee reviewed regular reports from management assessing the adequacy of the allowance for credit impairment losses. These reports assessed the adequacy of historic provisions against subsequent recoveries, reviewed management's governance arrangements over provisioning adequacy and in particular the governance over impairment models and post model adjustments, and benchmarked TSB's metrics against other banks.

The Committee received regular reports from management that assessed the appropriateness of the judgements applied and the sensitivity of the allowance for credit impairment losses, as further detailed in note 8 on pages 83 to 84.

The Committee concluded that a robust governance framework existed to monitor provisioning adequacy and that the assumptions and judgements applied by management were appropriate. The Committee was satisfied that the allowance and related disclosures in the financial statements were appropriate.

The Committee was satisfied that the key management judgements set out in note 8 on pages 80 to 85 were appropriate.

Adequacy of provisions
At 31 December 2024, provisions of £39.8 million (2023: £75.2 million) were carried, primarily in respect of conduct matters and restructuring activity that supports delivery of TSB's strategy. Each of these are expected to be substantially utilised by the end of 2025. The Committee received regular reports setting out management's approach to ensure the adequacy of provisions and the drivers of changes in the balance. The Committee noted the progress made during 2024 in progressing customer redress remediation programmes and in delivering the strategic restructuring, as employees exited the business. The Committee was satisfied that the provision remained adequate.

Risk management and internal control systems
The Committee is responsible for reviewing the adequacy and effectiveness of TSB's risk management and internal control systems and reporting on that review. In respect of 2024, the Committee took account of the following inputs into its review:

- Regular reports from management on the status of the risk and control environment through both standard management information from the first and second lines of defence and updates on particular areas of focus;
- Management's continued reporting of progress in strengthening and embedding the control environment over IT operations and risks;
- Quarterly reports from management which concluded that assurance over TSB's internal financial control framework has adequate coverage and confirms that controls are generally operating effectively; and
- Regular management information on the activities of Internal Audit and its report on internal controls.

The Committee has continued to challenge and track progress of improvements in TSB's risk and control environment. The Committee is satisfied that progress continues to be made to enhance the risk management framework and assure compliance with regulation. The Committee has remained informed of the FRC reforms to restore trust in audit and corporate governance and is supportive of management's activities to enhance testing and reporting to enable attestation over financial, compliance and operational controls in 2026. The Committee notes that challenges remain in managing risks considering the macro-economic pressures that increase risk in the competitive environment and supply chain and so despite improvements across all key areas the main risk exposures remain consistent year on year.

Last year, the Committee concluded that progress in relation to the IT control environment hadn't moved at the pace expected. Throughout 2024 the Committee continued to challenge management and supported investment in a multi-year programme of CIO transformation work to remediate the control environment. Whilst work to complete testing and embedding of the new controls continues into 2025, the Committee is pleased with the notable progress during the year. The Committee is satisfied that the wider control environment, supported by the risk management framework, is adequate for TSB's current needs. To gain further assurance the Committee has received reports from TSB's statutory auditor on the work it performed over management's remediation of general IT controls.

Audit Committee report (continued)

Performance and effectiveness of the Internal Audit function

The Committee is responsible for monitoring the performance and effectiveness of Internal Audit. During 2024, the Committee carried out this responsibility by:

- Approving the Internal Audit plan, considering the Chartered Institute of Internal Auditors 'Internal Audit Financial Services Code of Practice';
- Monitoring the execution and continuing appropriateness of the 2024 Internal Audit plan as it reflects strategic developments, emerging risks and corresponding impacts on core business processes and key controls;
- Approving the Internal Audit budget and confirming it is satisfied that Internal Audit has the appropriate resources, including use of subject matter experts where appropriate, to deliver the Audit Plan. This included assessing the transition to the new Chief Audit Officer early in 2025.
- Receiving regular reports from the Chief Audit Officer on Internal Audit activities undertaken in 2024 and monitoring improvement activities resulting from Internal Audit reports;
- Reviewing the Internal Audit annual effectiveness self-assessment against industry standards, including readiness for the new Chartered Institute of Internal Auditor's standards;
- Monitoring the function's progress against its strategy and continuous improvement plan; and
- Reviewing the interaction and alignment between Internal Audit and the Risk function and between Internal Audit and the external auditor and confirming that Internal Audit maintains its independence.

Effectiveness of the relationship with the external auditor

The Committee is responsible for the effectiveness of TSB's relationship with its external auditor and for assessing their independence and objectivity. During 2024 the Committee discharged this responsibility by:

- Agreeing the terms of the audit engagement letter and reviewing and approving the audit fee proposal. Fees paid to the external auditor are set out in note 14 to the consolidated financial statements on page 91;
- Reviewing and challenging, throughout the year, the external auditor's audit strategy and consideration of significant risks and other areas of audit focus to ensure TSB's circumstances are appropriately reflected;
- Receiving reports from the external auditor covering management's estimates and judgements;
- Ongoing review of the audit service through regular discussions between the Chair of the Audit Committee and KPMG's audit engagement personnel. In addition, a review of the effectiveness and quality of the external audit service is undertaken and referred to the Committee each year;
- Ensuring compliance with policy governing the use of the external auditor for non-audit services to safeguard their objectivity and independence (see note 14 on page 91 for fees paid to the external auditor); and
- Reviewing and challenging reports from the external auditor on maintaining their independence including evidencing the consideration of compliance with UK regulations and ethical standards, KPMG LLP firm wide processes and controls, and the potential for threats to independence at a firm and personal level arising from a range of sources, for example, dependence on non-audit services, other business or personal relationships and familiarity or undue influence by TSB management.

The audit of the 2024 financial statements is the fifth to have been undertaken by KPMG LLP following a competitive tender undertaken in 2018 for the audit of the 2020 financial statements. Pamela McIntyre was the senior statutory auditor for the audit of the 2024 financial statements. This marks her fifth and final audit of TSB's financial statements. During the 2024 audit, and following a selection process, transition planning took place to ensure a controlled hand over to Alex Snook who will assume the role of senior statutory auditor for the audit of the 2025 financial statements.

A resolution to re-appoint KPMG LLP for the audit of the financial statements for the year ending 31 December 2025 will be proposed at the 2025 Annual General Meeting.

Directors' report

Introduction
The Directors of TSB Banking Group plc (the Company) present their report and audited consolidated financial statements for the year ended 31 December 2024, in accordance with section 415 of the Companies Act 2006.

The following information has been included in the Strategic report and is incorporated into this Directors' report:

- *Equal opportunities policies*: The Colleague section of the Do What Matters Plan section (pages 27 and 28), and the Diversity and inclusion section of the Nomination Committee report (page 51);
- *Engagement with customers, colleagues, suppliers, and other key stakeholders*: The Section 172 statement (pages 38 to 40), and the Colleague section of the Do What Matters Plan section (pages 27 and 28); and
- *Summary of Streamlined Energy and Carbon Reporting (SECR)*: The Operational emissions: Targets, metrics and implementation and engagement section of the Do What Matters Plan section (pages 35 to 37).

Results and dividends
The consolidated balance sheet can be found on page 67 and the consolidated statement of comprehensive income is on page 68. The Directors have recommended that a final dividend of £300.0 million be declared for the year ended 31 December 2024 (2023: £120.0 million), to be paid in the first quarter of 2025 to the sole shareholder of the Company. This proposal will be put to the sole shareholder at the 2025 Annual General Meeting of the Company, and is subject to non-objection from the PRA.

Directors
The Directors of the Company who were in office at any time during the year and up to the date of signing the financial statements were:

Nick Prettejohn	
Robin Bulloch	
Declan Hourican	
Leopoldo Alvear	(resigned 18 November 2024)
Marc Armengol	(resigned 31 December 2024)
Zahra Bahrololoumi	
Adam Banks	
Elizabeth Chambers	
Judith Eden	(appointed 1 January 2024)
Ahmed Essam	
Morten Friis	(appointed 1 April 2024)
Sergio Palavecino	(appointed 20 December 2024)
Carlos Paz	
Lynne Peacock	(resigned 31 May 2024)
Andy Simmonds	(resigned 31 December 2024)

The biographies of TSB's Directors are available at www.tsb.co.uk/investors/people/. The Company's articles of association give the Directors power to appoint and replace Directors. Directors can also be appointed or removed from office by written notice provided to the Company by Sabadell as the sole shareholder.

Power of Directors
The Directors are responsible for managing the business of the Company and may exercise all the powers of the Company so long as the articles of association or applicable legislation and regulation do not stipulate that any such powers must be exercised by the shareholder.

Directors' indemnities
Each of the Directors has the benefit of a deed of indemnity which constitutes a 'qualifying third party indemnity provision'. This indemnification for Directors provided by the Company has been arranged in accordance with the articles of association and the Companies Act 2006.

With the exception of the Directors appointed during 2024, the indemnities were in place throughout 2024. The indemnities for Judith Eden, Morten Friis and Sergio Palavecino were executed on 2 January 2024, 5 April 2024 and 6 January 2025 respectively. Each of the indemnities remain in force at the date of signing these financial statements and are available for inspection at the Company's registered office.

Directors' report (continued)

Directors' emoluments waiver
Leopoldo Alvear (until 18 November 2024), Marc Armengol (until 31 December 2024), Carlos Paz and Sergio Palavecino (from 20 December 2024) do not receive any fees from TSB for acting as TSB Non-executive Directors. None of the other Directors have waived their emoluments during the period under review, nor have they agreed to waive future emoluments.

Governance arrangements
The Board has chosen to voluntarily adopt those principles of the UK Corporate Governance Code (2018 edition) (Code) that are considered appropriate for TSB as a wholly owned subsidiary of Sabadell. Details of the aspects of the Code not considered appropriate for TSB, together with areas where TSB has deviated from the recommendations of the Code and the rationale for this, are set out on pages 42 and 43.

Share capital
At 6 February 2025, the total issued share capital with voting rights consisted of 500,000,000 ordinary shares of £0.01 each. The total issued share capital is held by Banco de Sabadell, S.A.

Future developments
The development of TSB is set out in the Chief Executive's statement on pages 4 to 5.

Political donations and expenditure
No amounts were given for political purposes during the year (2023: £nil).

Financial risk management and hedging policies
Details of the use of financial instruments, together with risk management disclosures can be found in the Managing financial risk section of the financial statements starting on page 94 and the Risk management in TSB section in the Strategic report starting on page 14.

Post balance sheet events
There are no significant events affecting TSB that have arisen between 31 December 2024 and the date of this report that require disclosure.

Research and development activities
TSB is dedicated to innovation through the continuous development of new products and services. Our efforts include the enhancement of our distribution and servicing channels and the introduction of new financial offerings such as fixed rate bonds for business customers, which was launched in February 2024. Also in 2024, we launched a customer panel to support ongoing customer feedback. We also gather customer feedback through surveys, user testing, and pilot programmes to ensure our offerings meet market needs and expectations.

Overseas branches
TSB does not have any branches outside of the United Kingdom.

Corporate headquarters and registered office
The corporate headquarters and registered office address for TSB Banking Group plc is 19th Floor, 8 Bishopsgate, London, EC2N 4BQ. Website: www.tsb.co.uk.

Disclosure of information to external auditor
In accordance with the provisions of the Companies Act 2006, the Directors serving at the date of approval of this report confirm that, so far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware and each Director has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Going concern
The Directors recognise their responsibility to make an assessment of TSB's ability to continue as a going concern, for a period of at least 12 months from the date the financial statements are approved. The Directors' assessment of going concern is integrated with that of the assessment of the viability of TSB. The Directors, having taken into account the matters noted in the 'Basis of preparation' on page 65, are satisfied that adequate funding and liquidity resources will be in place to allow the financial statements to continue being prepared on a going concern basis and are not aware of any material uncertainties that may cast significant doubt upon TSB's ability to continue as a going concern.

Directors’ report (continued)

Viability statement

As more fully explained in the Corporate governance statement on page 42, TSB has committed to voluntarily adopt provisions of the Code appropriate for a wholly owned subsidiary. This includes the provisions that require the Directors to confirm that TSB will be able to continue in operation and to meet its financial liabilities as they fall due over a specified period determined by the Directors taking account of the current position and principal risks of TSB.

The Directors have assessed viability over three years to December 2027. This is a shorter period than the five year period over which TSB’s medium term strategic and financial plan is prepared, key capital and leverage ratios are forecast, and regulatory and internal stress testing of the profit, capital and funding forecasts are carried out. This shorter period takes into account the increasing uncertainty of forecasts in the outer years of the medium term plan arising from developments in the economic environment and from competition and regulatory developments.

The Directors confirm that they have carried out a robust assessment of the emerging and principal risks facing TSB, the procedures in place to identify emerging risks, and how such risks are being managed or mitigated, and, in light of TSB’s capital and funding resources, they have a reasonable expectation that TSB will be able to continue in operation and meet its liabilities as they fall due in the period to December 2027.

In making this assessment, the Directors have considered a wide range of information. Central to this assessment is the medium term plan. This includes assessment of future projections of profitability, capital requirements, capability, resources and funding. Consistent with the assessment of going concern on page 65, as part of the assessment, the Directors assessed the modelling of the impact of the stressed downside scenario used in the Bank’s ICAAP process on forecast capital levels. In addition, the Directors assessed the key strategic and horizon risks that could threaten TSB’s prospects and business model more broadly and the monitoring and mitigation activities around them.

Statement of Directors’ responsibilities in respect of the Annual Report and the financial statements

The Directors are responsible for preparing the Annual Report and the consolidated and Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare consolidated and Company financial statements for each financial year. Under that law they are required to prepare the consolidated financial statements in accordance with UK adopted international accounting standards and applicable law and have elected to prepare the Company financial statements on the same basis.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the consolidated group and of the Company and of the consolidated group’s profit or loss for that period. In preparing each of the consolidated group and Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with UK adopted international accounting standards;
- assess the consolidated group and Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the consolidated group or the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company’s transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the consolidated group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic report and a Directors’ report that complies with that law and those regulations.

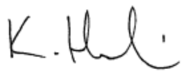
The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company’s website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors’ report (continued)

Fair, balanced and understandable

The Board has ultimate responsibility for reviewing and approving the Annual Report. In voluntarily adopting the principles of the Code that are considered appropriate for TSB as a wholly owned subsidiary of Sabadell, the Directors confirm that they consider that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for the shareholder to assess the Company’s position, performance, business model and strategy. When arriving at this conclusion the Board was assisted by a number of processes including:

- The Annual Report is drafted and comprehensively reviewed by appropriate senior management with overall co-ordination by the Financial Controller;
- A verification process is undertaken to ensure factual accuracy and compliance with applicable legislation and voluntary codes; and
- The Annual Report is reviewed by TSB employees from a range of functions, TSB’s Executive Committee and the Audit Committee prior to approval by the Board. Additionally, the Risk management disclosures and Remuneration review are reviewed by the Risk and Remuneration & People Committees, respectively.



By order of the Board
Keith Hawkins
Company Secretary
6 February 2025
Registered in England and Wales
Company Number 08871766

Remuneration review

The remuneration approach at TSB is designed to be simple and fair. This underlying principle remains integral to our reward philosophy.

Overview of TSB's remuneration policy for 2024
The aim of TSB's remuneration policy is to provide competitive remuneration aligned to the delivery of the Bank's strategic goals and culture. It is designed to attract and retain talented individuals and to generate sustainable business performance, while taking into account effective risk management and appropriate conduct. In addition, TSB aims to align the remuneration approach with that of its parent, Sabadell.

The key elements of the reward framework are as follows:

- **Salary** – which provides core remuneration taking into account relevant market benchmarks, complexity of the role and the individual's experience and performance.

- **Variable pay** – which comprises the annual **Variable Pay Award** (VPA) and the **Long Term Incentive Plan** (LTIP).

TSB does not currently use individual performance ratings and, instead the focus is on improving performance rather than measuring it and encouraging coaching and development through frequent feedback and regular conversations between employees and line managers. Employees who achieve their personal objectives, demonstrate the core behaviours, and regularly meet or go beyond the expectations of their role will be eligible for a Variable Pay Award.

The Variable Pay Award
For senior leaders (excluding the Executive Committee), performance incorporates an assessment against the Primary Corporate Objectives (PCO) (60%), individual contribution (personal objectives and leadership expectations) (30%), and Sabadell performance metrics (10%). The financial and non-financial metrics in the individual scorecards are taken from the wider set of TSB's PCOs as well as Sabadell Group metrics.

Executive Committee performance incorporates an assessment against the Primary Corporate Objectives (PCO) (70%), individual contribution (personal objectives and leadership expectations) (20%), and Sabadell performance metrics (10%).

For grades B to F colleagues, 90% is based on in-year performance measured against the PCOs, being five key priorities that clearly link to TSB's purpose and strategy. 10% of the award is based on Sabadell performance. The Variable Pay Award will be granted to all employees subject to affordability, risk and conduct reviews.

The LTIP
The LTIP aligns TSB to the Sabadell Group remuneration structure and is more closely aligned with UK market practice. Awards are made annually to a small number of senior management in Sabadell shares and vest over a three-year performance period. The LTIP is subject to a combination of TSB specific and Sabadell performance metrics.

Market appropriate benefits
These include, principally, pension contributions to a defined contribution scheme or where appropriate, an equivalent cash payment (Executive Directors' pension contributions are aligned with the all employee pension contribution rate), TSB's flexible benefits offering of 9% of salary (grades B to D) and 4% of salary (more senior grades), and an employer provided car or alternative cash allowance at certain grades. All colleagues receive the private medical benefit as part of their core package.

Changes to TSB's Remuneration Policy for 2025
Following a diagnostic in 2024 and significant consultation with internal stakeholders and external counterparties, a new approach to performance management in 2025 was approved. This was designed to motivate high performance by: strengthening the quality of objectives; providing structured feedback to individual leaders and differentiating their individual impact on the Bank's performance; fairly rewarding and recognising individual impact; and continuing to strengthen manager capability and confidence to manage performance at all levels. Individuals' performance will have a more material impact on variable pay for senior leaders, as well as bringing grade F colleagues into scope for individual performance related pay. We will refocus recognition spend to strengthen the recognition of exceptional behaviours at more junior grades (B to E).

The TSB Remuneration & People Committee has approved a key change to variable pay for our Material Risk Takers for 2025, linking more of what we pay to performance against longer-term stretching measures. This will reduce the on target VPA and increase the on target LTIP in equal measure whilst providing a performance upside for both elements of 150% of target.

Remuneration review (continued)

Consideration for all TSB employees
The Executive Committee has agreed a salary budget of 3.3% based on the medium term plan, reflecting external economic indicators and market positioning (salary changes will be effective from 1 April 2025). The new entry level salary will become £24,000 for our non-London roles (7.1% above the new Real Living Wage minimums) and £27,000 for our London roles (4.7% above the new Real Living Wage minimums). Senior leaders as well as the Executive Committee members, will receive salary increases on an exceptional basis only.

TSB was an early champion of the Real Living Wage becoming an accredited Real Living Wage employer in August 2016. Our commitment to paying a decent wage based on living costs continues.

The Remuneration & People Committee is provided with regular reports on the broader workforce, ensuring its members are familiar with employee trends (including attrition, absence, benefits data, market positioning and equal pay reporting) when considering executive pay.

Diversity and inclusion
TSB's Do What Matters Plan includes a framework to support TSB's existing ambition to create a truly inclusive workplace. Page 27 provides further detail on TSB's approach to diversity and inclusion.

Environmental, social and governance
The PCOs against which 90% of the in-year performance for the Variable Pay Award is measured include environmental, social and governance metrics which make up 37.5% of all of the metrics. These relate to TSB's colleagues as part of the Do What Matters Plan which focuses on culture, diversity and the environment, as well as customer experience in its broadest sense, as measured through mobile distribution channel and PCA main banker growth.

Outlining TSB's obligations
TSB's remuneration policy continues to comply with the PRA and FCA Remuneration Codes and the European Banking Authority Guidelines on remuneration and is aligned with the Sabadell remuneration policy.

In respect of variable pay plans (including both the Variable Pay Award and the LTIP), 60% of grants for the most Senior Managers will be deferred over seven years with pro-rata release between the third and seventh year. Any shares issued will be subject to a 12-month retention period after the point of release. For a small number of Senior Managers and for Material Risk Takers (MRTs), 40% of grants will be deferred over four or five years, depending on the regulatory status of the employee, with a retention period on the shares of 12 months after the point of release. TSB's approach to deferral of total variable remuneration for senior employees ensures that awards are delivered as required by regulations.

With regard to the requirements of the UK Corporate Governance Code (2018 edition) (Code), as outlined on page 42, the Board has committed to voluntarily adopt those principles of the Code that are considered appropriate for TSB as a wholly owned subsidiary, operating in the UK market.

The Remuneration & People Committee has not created a policy for post-employment shareholding requirements (Provision 36). TSB Executive Directors are already subject to long deferral periods (seven years with a further one year holding period) for Sabadell shares awarded as part of TSB variable remuneration. Therefore, the current view is that no specific post-cessation shareholding requirement be introduced for TSB Executive Directors at the present time. The Remuneration & People Committee continues to keep this under review to consider market developments.

Reward outcomes in 2024
As summarised in the Chief Executive's statement on pages 4 and 5, TSB delivered a solid underlying business performance in 2024. Statutory profit before tax was £290.4 million, a 22.4% increase on the £237.2 million earned in 2023.

Variable Pay Award - The Remuneration & People Committee has reviewed the business performance in 2024 and taken into account risk events in conjunction with the Board Risk Committee and the affordability of variable pay. The Committee has determined that no adjustment to the pool is made as a result of any risk events and that all affordability thresholds have been met. The final pool approved to distribute is £25.5 million. This means that TSB colleagues in grades B to D and grades E to F who are not deemed to be 'needs improvement' will receive 5.9% and 11.7%, respectively, of their salary. Senior leaders will receive a figure based on TSB and Sabadell performance and their personal objectives and leadership expectations.

Remuneration review (continued)

Reward outcomes in 2024 (continued)

Following the end of the three-year performance period applicable to the 2022-24 Long Term Incentive Plan (LTIP), the Sabadell Remuneration Committee assessed outcomes against the financial and non-financial performance targets set. Taking these outcomes into account, the Committee approved a final 2022-24 LTIP of 100%. The vesting of this LTIP is included in a footnote to the highest paid director table for the Chief Executive Officer for the year, with awards being released in three instalments up to 2029. The net number of shares received are subject to a regulatory retention period as required.

In respect of 2024 performance, TSB will not exceed an annual cap on total variable remuneration of two times fixed pay.

Consideration of conduct and risk

TSB takes risk and conduct issues very seriously. Risk profile and behaviours are a key gateway that must be satisfied for any incentive awards to pay out (both the Variable Pay Awards and LTIPs). A risk adjustment is made as a result of several factors:

1. A balance of measures included in individual objectives and the PCOs acts as a framework for adjusting the bonus pool for both performance and risk inherent in TSB's activities;

2. The use of a framework to quantify the risk adjustment of the variable remuneration pool in 2024; and

3. The appropriate governance to make informed and robust decisions, including the Remuneration Governance Group (which makes recommendations to the Remuneration & People Committee on matters as required to ensure that the appropriate standards of risk management and corporate governance are applied), Remuneration & People Committee oversight, and independent access to the Chief Risk Officer and Chief Financial Officer.

Incentive pools and awards may be adjusted, including to zero, in the event of material breaches. All elements of variable remuneration for MRTs are subject to malus and clawback provisions in line with regulatory requirements.

Highest paid director – 2024 remuneration disclosure*

The table below sets out the total remuneration paid to Robin Bulloch, TSB's highest paid Director. This covers his remuneration for qualifying services as a Director in the period from 1 January to 31 December 2024.

	2024	2023
Remuneration in respect of qualifying services(1)	**£2,059,285**	£1,860,047
Amounts vesting under LTIPs(2)	**£494,760**	–
Total Remuneration (audited)	**£2,554,045**	£1,860,047

Notes

(1) Includes base salary, cash paid in lieu of contribution to pension schemes, the taxable value of all benefits received, which included a car allowance and a flexible benefits allowance set at 4% of salary, and the 2024 Variable Pay Award (2023: 2023 Variable Pay Award).

(2) Includes the value of the 2022-24 LTIP, calculated using an average share price of the last 20 trading days leading up to 31 December 2024.

* The aggregate remuneration for all Directors is set out in note 15 to the financial statements on page 92.

Chief Executive Officer changes

Robin Bulloch has announced his decision to retire and step down as Chief Executive Officer in Q1 2025. Marc Armengol was appointed Chief Executive Officer, subject to regulatory approval. Mark Armengol's remuneration is based on TSB's current (2024) remuneration policy.

Robin will continue to be available to support Marc and the Board as required until the end of March 2025 and, as a result, has retained his VPA eligibility for the first three months of 2025. He will be treated as an eligible leaver for unvested performance awards.

Remuneration review (continued)

Consideration by the Directors of matters relating to Directors' remuneration
The Remuneration & People Committee is authorised by the Board to consider and recommend the remuneration policy to the Board. The policy is considered regularly by the Remuneration & People Committee, taking account of changes in regulation and the wider market. In formulating and reviewing policy, independent advice is sought and considered. In particular, the sustainability of the policy and its risk impact are carefully reviewed. The remuneration policy is formally reviewed at least annually and once endorsed by the Remuneration & People Committee, is reviewed and approved by the Board. The Remuneration & People Committee's terms of reference are kept under regular review and can be found at http://www.tsb.co.uk/investors/people/.

The Remuneration & People Committee is chaired by Elizabeth Chambers. The other Committee members in 2024 were Adam Banks, Marc Armengol (until 31 December 2024), Judith Eden (with effect from 17 July 2024), Morten Friis (with effect from 17 July 2024), and Lynne Peacock (until 31 May 2024).

To ensure alignment between the work of the Remuneration & People Committee and the Risk Committee, risk-adjustment recommendations presented to the former are usually discussed beforehand by the Risk Committee (either in meeting or offline with the Risk Committee Chair), with relevant inputs conveyed as appropriate to the Remuneration & People Committee, including through members common to both committees (Judith Eden and Morten Friis from 17 July 2024). Prior to Morten Friis assuming the role of Chair of the Risk Committee in December 2024, his predecessor Andrew Simmonds had a standing invitation to join Remuneration & People Committee meetings.

Remuneration & People Committee meetings are also attended by the Board Chair together with the Chief Executive, Chief People Officer and Director of Reward and Performance, independent Remuneration & People Committee advisors and, from time to time, the Chief Financial Officer and the Chief Risk Officer attend to provide input on their specialist areas. No one is present at the Remuneration & People Committee when their own remuneration is discussed.

The Company Secretary, or an appropriate delegate, acts as the secretary to the Remuneration & People Committee. None of these additional attendees participates in the discussion of issues directly affecting their own remuneration. PwC have provided independent advice to the Remuneration & People Committee since 1 April 2021.

PwC is a member of the Remuneration Consultants Group and, as such, voluntarily operates under the Remuneration Consultants' Group code of conduct in relation to executive remuneration consulting in the UK. PwC has provided independent advice on matters under consideration by the Remuneration & People Committee including compliance with regulations, advice on market trends and data, remuneration policy and implementation of remuneration arrangements, including support in remuneration arrangements for departing Executives. The Remuneration & People Committee is satisfied that the advice it has received has been objective and independent.

PwC also provided advice on share plans, wider remuneration matters, taxation and financial matters and other miscellaneous consulting and assurance services. In addition, management received external advice, including market data and legal counsel, from a number of other providers which is not considered to be material in assisting the Remuneration & People Committee to consider Directors' remuneration.

Financial statements

Alignment with TSB's business model

The presentation of TSB's consolidated financial statements aligns with the execution of its strategy, its business model and the management of the financial risk to which it is exposed. As such, the consolidated financial statements are structured around the key elements of TSB's business model as explained on page 6.

Basis of preparation

These consolidated financial statements of TSB Banking Group plc (TSB) comprise the results of TSB Banking Group plc (the Company) consolidated with those of its subsidiaries, including TSB Bank plc. Details of subsidiary undertakings are provided in note 4(ii) to the Company financial statements on page 124. These consolidated financial statements have been prepared in accordance with UK adopted international accounting standards.

The consolidated financial statements have been prepared under the historical cost convention as modified by the recognition of certain financial instruments, including derivative contracts, at fair value through profit or loss, and financial assets at fair value through other comprehensive income.

Going concern

The going concern basis is dependent on maintaining sufficient capital and funding. The Directors considered a number of factors including an assessment of principal risks and projections of capital, funding and liquidity. TSB's business activities and objectives, together with the factors likely to affect its future development, performance and position are set out in the Strategic report. In 2024, TSB reported a profit before tax for the year of £290.4 million (2023: £237.2 million) and continues to be in compliance with, and exceeds, its regulatory capital and liquidity requirements.

As part of those forecasts, the Directors have modelled the impact of a severe but plausible downside stress in line with the severe downside scenario described in note 8 on page 81 which is a scenario used in the Bank's ICAAP process and is broadly consistent with the Bank of England's stress scenario. Based on the forecasts and the stress performed, the Directors are satisfied that TSB will have sufficient regulatory capital and liquidity for a period of at least 12 months from the date of approval of these financial statements. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Accounting policies

The significant accounting policies used in the preparation of the consolidated financial statements are consistent with those applied in 2023. The accounting policies are presented in a manner consistent with TSB's business model and are included in the relevant sections of the consolidated financial statements.

New and future accounting developments

The following amendments were effective for TSB from 1 January 2024 and their adoption has not had any material effect on the financial statements:

- Lease Liability in a Sale and Leaseback (Amendments to IFRS16);
- Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants (Amendments to IAS 1 Presentation of Financial Statements); and
- Supplier Finance Arrangements (Amendments to IAS7 and IFRS 7).

The IASB issued Amendments to the Classification and Measurement of Financial Instruments which amended IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures, which is effective from 1 January 2026. The IASB also issued IFRS 19 Subsidiaries without Public Accountability: Disclosures which is effective from 1 January 2027. Neither of these are expected to have a significant impact on TSB. The IASB has also issued IFRS 18 Presentation and Disclosure in Financial Statements which is effective from 1 January 2027. An assessment of the impact on TSB's income statement presentation will be completed ahead of the standard's implementation. These future accounting developments are currently yet to be endorsed for use in the UK.

Significant accounting estimates and judgements

The preparation of financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions in applying the accounting policies that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates. Estimates, judgements and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The significant judgements made by management in applying accounting policies and the key sources of estimation uncertainty in these consolidated financial statements, which together are deemed critical to the results and financial position, are presented within the relevant note disclosures.

Index to the consolidated financial statements

TSB's primary consolidated financial statements are presented on pages 67 to 70. The notes to these consolidated financial statements are structured to follow TSB's business model as set out on page 6 and are listed below.

Consolidated balance sheet

as at 31 December 2024

	Note	2024 £ million	2023 £ million	Reference to business model
Assets				
Financial assets at amortised cost				*Loans and liquid assets (page 76)*
Cash, cash balances at central banks and other demand deposits	32	**4,823.8**	5,897.3	
Debt securities	6	**1,982.5**	2,124.2	
Loans and advances to customers	8	**36,330.9**	36,245.9	
Loans and advances to central banks and credit institutions	7,32	**277.8**	328.0	
Other advances	9	**130.2**	209.6	
Financial assets at fair value through other comprehensive income				
Debt securities	6	**328.6**	356.6	
Financial assets at fair value through profit or loss				
Derivative financial assets not in hedge accounting relationships	21	**670.2**	823.5	*Managing risk (page 94)*
Hedging derivative financial assets	21	**1,274.3**	1,346.9	
Fair value adjustments for portfolio hedged risk	21	**(170.9)**	(154.9)	
Property and equipment	26	**233.9**	253.5	*Other important disclosures (page 114)*
Intangible assets	28	**109.9**	86.1	
Deferred tax assets	17	**8.1**	43.2	*Charges (page 89)*
Other assets	29	**101.6**	92.8	
Total assets		**46,100.9**	47,652.7	
Liabilities				
Financial liabilities at amortised cost				*Sources of funding (page 71)*
Customer deposits	1	**35,051.2**	34,764.3	
Borrowings from central banks	2	**1,406.9**	4,057.9	
Debt securities in issue	2	**4,583.2**	3,664.1	
Subordinated liabilities	3	**285.9**	277.7	
Lease liabilities	27	**120.7**	125.0	
Other financial liabilities	4	**1,187.0**	1,223.3	
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities not in hedge accounting relationships	21	**824.2**	982.1	*Managing risk (page 94)*
Hedging derivative financial liabilities	21	**143.6**	318.7	
Fair value adjustments for portfolio hedged risk	21	**(134.7)**	(85.5)	
Provisions	30	**39.8**	75.2	*Other important disclosures (page 114)*
Other liabilities	31	**165.0**	171.7	
Total liabilities		**43,672.8**	45,574.5	
Equity				
Share capital	22	**5.0**	5.0	
Share premium	22	**965.1**	965.1	
Other equity instruments	22	**249.7**	–	
Other reserves	22	**(285.1)**	(285.1)	
Retained profits	22	**1,475.4**	1,387.5	
Fair value reserve	22	**(8.0)**	(6.5)	
Cash flow hedging reserve	22	**26.0**	12.2	
Total equity		**2,428.1**	2,078.2	
Total equity and liabilities		**46,100.9**	47,652.7	

The accompanying notes are an integral part of the consolidated financial statements. The consolidated financial statements on pages 67 to 121 were approved by the Board of Directors on 6 February 2025 and signed on its behalf by:

Robin Bulloch
Chief Executive

Declan Hourican
Chief Financial Officer

Consolidated statement of comprehensive income

for the year ended 31 December 2024

Income statement (continuing operations):	**Note**	**2024 £ million**	**2023 £ million**
Interest and similar income:			
Interest income calculated using the effective interest method	11	**1,804.0**	1,573.5
Other interest income	11	**273.5**	368.6
Total interest and similar income		**2,077.5**	1,942.1
Interest and similar expense	11	**(1,093.1)**	(920.1)
Net interest income	11	**984.4**	1,022.0
Fee and commission income	12	**124.7**	129.2
Fee and commission expense	12	**(34.0)**	(21.2)
Net fee and commission income	12	**90.7**	108.0
Net gains/(losses) on financial assets and liabilities:			
Gains on derecognition of financial assets measured at fair value through other comprehensive income		**–**	4.3
Losses on derecognition of financial liabilities measured at amortised cost		**–**	(1.0)
Gains on derivative financial instruments at fair value through profit or loss		**63.0**	12.9
Losses from hedge accounting	21	**(30.1)**	(2.2)
Losses on derecognition of non-financial assets		**(2.3)**	(0.1)
Other operating income	13	**36.7**	14.5
Other income		**158.0**	136.4
Total income		**1,142.4**	1,158.4
Total operating expenses	14	**(821.9)**	(852.9)
Operating profit before impairment losses and taxation		**320.5**	305.5
Impairment losses on financial assets at amortised cost	18	**(31.9)**	(71.8)
Impairment credit on loan commitments	30	**1.8**	3.5
Total impairment losses	18	**(30.1)**	(68.3)
Profit before taxation		**290.4**	237.2
Taxation	16	**(82.5)**	(62.4)
Profit for the year	22	**207.9**	174.8
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss:			
Change in fair value reserve:			
Change in fair value	21	**(2.1)**	3.7
Transfers to the income statement	21	**–**	(4.4)
Taxation thereon	17	**0.6**	0.3
	22	**(1.5)**	(0.4)
Change in cash flow hedging reserve:			
Change in the fair value of derivatives in cash flow hedges	21	**17.6**	(34.7)
Transfers to the income statement	21	**(1.0)**	(4.4)
Taxation thereon	17	**(2.8)**	10.9
	22	**13.8**	(28.2)
Other comprehensive income/(losses) for the year, net of taxation		**12.3**	(28.6)
Total comprehensive income for the year		**220.2**	146.2

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2024

	Share capital £ million	Share premium £ million	Other equity instruments £ million	Other reserves: Merger reserve £ million	Other reserves: Capital reorg-anisation reserve £ million	Other reserves: Capital reserve £ million	Other reserves: Fair value reserve £ million	Other reserves: Cash flow hedging reserve £ million	Retained profit £ million	Total equity £ million
Balance at 1 January 2023	5.0	965.1	–	616.5	(1,311.6)	410.0	(6.1)	40.4	1,262.7	1,982.0
Comprehensive profit:										
Profit for the year	–	–	–	–	–	–	–	–	174.8	174.8
Other comprehensive losses	–	–	–	–	–	–	(0.4)	(28.2)	–	(28.6)
Total comprehensive income	–	–	–	–	–	–	(0.4)	(28.2)	174.8	146.2
Transactions with owner:										
Dividends paid	–	–	–	–	–	–	–	–	(50.0)	(50.0)
Total transactions with owner	–	–	–	–	–	–	–	–	(50.0)	(50.0)
Balance at 31 December 2023	**5.0**	**965.1**	**–**	**616.5**	**(1,311.6)**	**410.0**	**(6.5)**	**12.2**	**1,387.5**	**2,078.2**
Comprehensive profit:										
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**207.9**	**207.9**
Other comprehensive (losses)/income	**–**	**–**	**–**	**–**	**–**	**–**	**(1.5)**	**13.8**	**–**	**12.3**
Total comprehensive (losses)/income	**–**	**–**	**–**	**–**	**–**	**–**	**(1.5)**	**13.8**	**207.9**	**220.2**
Transactions with owner:										
Issue of Additional Tier 1 securities	**–**	**–**	**249.7**	**–**	**–**	**–**	**–**	**–**	**–**	**249.7**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(120.0)**	**(120.0)**
Total transactions with owner	**–**	**–**	**249.7**	**–**	**–**	**–**	**–**	**–**	**(120.0)**	**129.7**
Balance at 31 December 2024	**5.0**	**965.1**	**249.7**	**616.5**	**(1,311.6)**	**410.0**	**(8.0)**	**26.0**	**1,475.4**	**2,428.1**

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated cash flow statement

for the year ended 31 December 2024

	Note	2024 £ million	2023 £ million
Cash flows from operating activities			
Profit before taxation		**290.4**	237.2
Adjustments for:			
Change in operating assets and liabilities	32	**243.0**	332.2
Non-cash and other items	32	**522.0**	665.3
Taxation paid		**(58.5)**	(34.0)
Net cash provided by operating activities		**996.9**	1,200.7
Cash flows from investing activities			
Purchase of property and equipment		**(22.2)**	(20.2)
Purchase and development of intangible assets		**(41.8)**	(28.0)
Purchase of debt securities(1)		**(124.7)**	(219.8)
Sale of debt securities(1)		**–**	252.6
Proceeds from maturing investments(1)		**141.7**	39.3
Interest received on debt securities		**68.1**	64.6
Net cash provided by investing activities		**21.1**	88.5
Cash flows from financing activities			
Additional borrowings from central banks		**–**	5.0
Repayment of borrowing from central banks		**(2,620.0)**	(1,500.0)
Interest paid on borrowings from central banks		**(177.1)**	(191.7)
Issue of covered bonds		**926.1**	1,750.0
Repayment of covered bonds		**(500.0)**	–
Buyback of covered bonds		**–**	(251.0)
Interest paid on covered bonds		**(144.4)**	(120.1)
Issue of securitisation notes		**498.3**	–
Repayment of securitisation notes		**(5.0)**	–
Interest paid on securitisation notes		**(11.8)**	–
Issue of Additional Tier 1 securities		**249.7**	–
Issue of senior unsecured debt securities		**–**	200.0
Interest paid on senior unsecured debt securities		**(72.4)**	(51.1)
Interest paid on subordinated liabilities		**(10.3)**	(10.3)
Repayment of repurchase agreements		**–**	(359.9)
Interest paid on repurchase agreements		**–**	(1.0)
Lease payments		**(18.8)**	(17.8)
Dividends paid		**(120.0)**	(50.0)
Net cash used in financing activities		**(2,005.7)**	(597.9)
Change in cash and cash equivalents		**(987.7)**	691.3
Cash and cash equivalents at 1 January	32	**6,089.3**	5,398.0
Cash and cash equivalents at 31 December	32	**5,101.6**	6,089.3

(1) Debt securities are held for the purposes of liquidity management in two portfolios, a hold to collect and sell portfolio and a hold to collect portfolio. Cash flows arising from debt securities are categorised as investing activities as the debt securities generate investment returns in the form of interest and, when relevant, realised gains on disposal.

The accompanying notes are an integral part of the consolidated financial statements.

Notes to the consolidated financial statements

Sources of funding

Money deposited by customers into their bank and savings accounts provides the majority of the funds we use to support lending to customers. We also raise funds from other sources, including wholesale markets and central banks, that diversify our funding profile. Our shareholder provides funding in the form of debt and equity capital.

Accounting policies relevant to sources of funding

(a) Financial liabilities

Financial liabilities include customer deposits, deposits from credit institutions, borrowings from central banks, debt securities in issue, subordinated liabilities, other financial liabilities and derivative financial liabilities (see accounting policy (j) under Managing financial risk).

Financial liabilities which are not derivatives are measured at amortised cost. Issues of financial liabilities measured at amortised cost are recognised on the date that TSB becomes a party to the contractual provisions of the instrument. A financial liability is derecognised from the balance sheet when TSB has discharged its obligations, the contract is cancelled or the contract expires, or where the terms of the debt instrument have been significantly modified.

Borrowings (which include deposits from credit institutions, customer deposits, debt securities in issue and subordinated liabilities) are recognised initially at fair value, being their issue proceeds net of transaction costs incurred. These instruments are subsequently stated at amortised cost using the effective interest rate (EIR) method.

1. Customer deposits

	2024 £ million	2023 £ million
Bank accounts	**12,157.2**	12,406.2
Instant access saving deposits	**15,117.9**	14,919.3
Deposits with agreed maturity	**5,398.6**	4,963.6
Business banking deposits	**2,377.5**	2,475.2
Total customer deposits	**35,051.2**	34,764.3

2. Wholesale funding

(i) Debt securities in issue

2024	Balance at 1 Jan 2024 £ million	Issues/ (Repayments) £ million	Accounting adjustments[1] £ million	Balance at 31 Dec 2024 £ million
Covered bonds	**2,759.9**	**426.1**	**(5.6)**	**3,180.4**
Securitisation notes	**–**	**493.3**	**5.3**	**498.6**
Senior unsecured debt securities	**904.2**	**–**	**–**	**904.2**
Total debt securities in issue	**3,664.1**	**919.4**	**(0.3)**	**4,583.2**

2023	Balance at 1 Jan 2023 £ million	Issues/ (Repayments) £ million	Accounting adjustments[1] £ million	Balance at 31 Dec 2023 £ million
Covered bonds	1,253.1	1,500.0	6.8	2,759.9
Senior unsecured debt securities	702.4	200.0	1.8	904.2
Total debt securities in issue	1,955.5	1,700.0	8.6	3,664.1

(1) Accounting adjustments comprise of accrued interest, unamortised issuance discount and, in 2024, foreign exchange translation amounts in respect of covered bonds, which amounted to £14.5 million (2023: £nil).

Notes to the consolidated financial statements

Sources of funding (continued)

2. Wholesale funding (continued)

	Date of issue	31 Dec 2024 £ million	31 Dec 2023 £ million	Interest rate at 31 Dec 2024	Maturity date	Issue currency
Covered bonds:						
Series 2019-1	02/2019	**–**	503.9	n/a	02/2024	GBP
Series 2021-1	06/2021	**500.0**	500.0	5.072%	06/2028	GBP
Series 2023-1	02/2023	**1,005.9**	1,005.9	5.314%	02/2027	GBP
Series 2023-2	09/2023	**750.2**	750.1	5.354%	09/2028	GBP
Series 2024-1	03/2024	**423.9**	–	5.535%	03/2029	EUR
Series 2024-2	09/2024	**500.4**	–	5.236%	09/2029	GBP
Securitisation notes:						
Duncan Funding 2024-1 plc	05/2024	**498.6**	–	5.353%	10/2029	GBP
Senior unsecured debt securities:						
Series 2022-1	06/2022	**451.7**	451.8	7.16%	06/2027	GBP
Series 2022-3	12/2022	**251.3**	251.2	8.11%	12/2026	GBP
Series 2023-1	12/2023	**201.2**	201.2	7.99%	12/2028	GBP
Total debt securities in issue		**4,583.2**	3,664.1			

Covered bonds

Loans and advances to customers of £5,832.7 million (2023: £4,945.3 million) have been assigned to a limited liability partnership to provide security for the issuance of covered bonds, which at 31 December 2024 totalled £3,180.4 million (2023: £2,759.9 million). TSB retains the risks and rewards associated with these loans and the loans continue to be recognised on TSB's balance sheet. The related covered bonds in issue are included within debt securities in issue.

Deposits of £149.9 million (2023: £138.6 million) held by TSB are available for the repayment of the term advances related to covered bonds and other legal obligations.

At 31 December 2024, TSB had over-collateralised the covered bond programmes in order to meet the programme terms, secure the external credit rating of the covered bonds, and to provide operational flexibility. The obligations of TSB to provide collateral may increase due to the formal requirements of the programmes. TSB may also voluntarily contribute collateral to support the ratings of the covered bonds but did not do so during 2024 or 2023. During 2024 and 2023, there were no defaults on any principal or interest or any other breaches with respect to borrowings under the covered bond programmes.

In February 2024 the residual outstanding notional balance of the Series 2019-1 issue of £500.0 million matured. During 2024, two tranches of covered bonds were issued, comprising €500.0 million in March 2024 and £500.0 million in September 2024.

During 2023, three tranches of covered bonds were issued, comprising £1,000.0 million in February 2023, £750.0 million in September 2023, and £500.0 million in November 2023. The November 2023 issuance was fully retained and has been used as collateral for a repurchase agreement transaction (see note 21 on page 113, under the heading Offsetting financial assets and financial liabilities). In September 2023, covered bonds with a notional amount of £250.0 million were repurchased at a premium which, together with transaction costs, resulted in the recognition of a loss on extinguishment of £1.0 million. This was recognised in 'Losses on financial instruments carried at amortised cost' in the income statement.

Notes to the consolidated financial statements

Sources of funding (continued)

2. Wholesale funding (continued)

Securitisation notes

Loans and advances to customers include loans securitised under TSB's securitisation programmes which have been sold to bankruptcy remote structured entities. As the structured entities are funded by the issue of debt on terms whereby the majority of the risks and rewards of the portfolio are retained by TSB, the structured entities are consolidated fully and all of these loans are retained on TSB's balance sheet, with the related notes in issue included within debt securities in issue. TSB's securitisation programmes, together with the balances of the advances subject to these arrangements and the carrying value of the notes in issue at 31 December, are listed below.

	31 December 2024		31 December 2023	
	Loans and advances securitised [(1)] £ million	Liability £ million	Loans and advances securitised [(1)] £ million	Liability £ million
Securitisation programmes:				
Duncan Funding 2022-1 plc	**1,249.4**	**1,347.9**	1,299.4	1,349.1
Duncan Funding 2024-1 plc	**543.5**	**560.5**	–	–
	1,792.9	**1,908.4**	1,299.4	1,349.1
Less retained notes held by TSB		**(1,409.8)**		(1,349.1)
Total securitisation notes		**498.6**		–

(1) Due to the nature of the securitisation programmes, cash arising from mortgage repayments will be retained for periods of time before being invested in replacement mortgage assets or being distributed to note holders.

Cash deposits of £127.9 million (2023: £53.4 million) held by TSB are restricted in use to repayment of the debt securities issued by the structured entities and other legal obligations. TSB recognises the full liabilities associated with its securitisation programmes within debt securities in issue, although the obligations of TSB are limited to the cash flows generated from the underlying assets.

The programmes feature revolving structures where principal receipts received from the mortgages are used to replenish the portfolio of mortgages held by the structured entities, subject to certain eligibility criteria. The revolving period continues until July 2027 and October 2029 for the Duncan Funding 2002-1 plc and the Duncan Funding 2024-1 plc notes. The programmes include certain triggers that could result in the notes being repayable on demand, including a default by the issuer in the payment of any amounts due in respect of the issued notes. During 2024 and 2023, there were no breaches and the notes are expected to be called at the end of the respective revolving periods in July 2027 and October 2029. The legal maturity date of the notes issued is July 2069 and July 2071, respectively.

Senior unsecured debt securities in issue

In December 2023, the Company issued £200.0 million floating rate notes, due to mature in December 2028, to its parent company, Sabadell, to satisfy MREL requirements. These were issued at a price of 100% of the principal amount. The notes pay interest at SONIA plus 3.28% payable quarterly in arrears. The Company has the option to redeem these notes in December 2025 and quarterly thereafter.

(ii) Borrowings from central banks

At 31 December 2024, borrowings from central banks represented borrowings under the Bank of England's Term Funding Scheme with additional incentives for SMEs (TFSME). Such borrowings are secured on certain pre-positioned mortgages at the Bank of England. The TFSME borrowings outstanding at 31 December 2024 are due to mature at various dates, with £797.0 million due to mature during 2025 and the remaining £588.0 million during 2027.

	2024 £ million	2023 £ million
Term Funding Scheme with additional incentives for SMEs	**1,385.0**	4,000.0
Indexed Long Term Repo operations	**–**	5.0
Accrued interest	**21.9**	52.9
Total borrowings from central banks	**1,406.9**	4,057.9

Notes to the consolidated financial statements

Sources of funding (continued)

3. Subordinated liabilities

	2024 £ million	2023 £ million
Fixed-to-floating rate callable subordinated Tier 2 capital notes, due March 2031	**300.0**	300.0
Accrued interest	**0.1**	0.1
Fair value hedge accounting adjustment (note 21)	**(14.2)**	(22.4)
Total subordinated liabilities	**285.9**	277.7

In March 2021, TSB Banking Group plc issued £300.0 million fixed-to-floating rate callable subordinated Tier 2 capital notes, due to mature in March 2031, to its parent company, Banco de Sabadell, S.A. These were issued at a price of 100% of the principal amount. The notes pay interest at a fixed rate of 3.449% per annum payable quarterly in arrears until March 2026 at which time the interest rate becomes SONIA plus 3.05% per annum payable quarterly in arrears. The Company has the option to redeem these notes in March 2026, subject to approval of the PRA.

4. Other financial liabilities

	2024 £ million	2023 £ million
Items in the course of transmission to credit institutions	**66.1**	118.2
Items in the course of transmission to non-credit institutions	**65.2**	178.1
Collateral placed by central clearing houses	**1,028.2**	925.7
Collateral placed by credit institutions	**26.9**	0.8
Deposits from credit institutions	**0.6**	0.5
Total other financial liabilities	**1,187.0**	1,223.3

Collateral placed by central clearing houses and by credit institutions represents cash collateral in respect of interest rate derivatives.

5. Fair value of financial liabilities

The following table summarises the carrying values, fair values, and valuation hierarchy, of financial liabilities. The fair values presented in the table are at a specific date and may be significantly different from the amount which will actually be paid on the maturity or settlement date.

	Level 1 £ million	Level 2 £ million	Level 3 £ million	Total fair value £ million	Total carrying value £ million
At 31 December 2024					
Customer deposits	**–**	**35,050.3**	**–**	**35,050.3**	**35,051.2**
Debt securities in issue	**3,699.7**	**913.8**	**–**	**4,613.5**	**4,583.2**
Subordinated liabilities	**–**	**279.3**	**–**	**279.3**	**285.9**
Derivative liabilities at fair value through profit or loss	**–**	**824.2**	**–**	**824.2**	**824.2**
Hedging derivative liabilities	**–**	**143.6**	**–**	**143.6**	**143.6**
At 31 December 2023					
Customer deposits	–	34,787.9	–	34,787.9	34,764.3
Debt securities in issue	2,761.2	914.4	–	3,675.6	3,664.1
Subordinated liabilities	–	271.1	–	271.1	277.7
Derivative liabilities at fair value through profit or loss	–	982.1	–	982.1	982.1
Hedging derivative liabilities	–	318.7	–	318.7	318.7

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When available, TSB measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. If a market for a financial instrument is not active, TSB establishes fair value using a valuation technique. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same for which market observable prices exist, net present value and discounted cash flow analysis.

Notes to the consolidated financial statements

Sources of funding (continued)

5. Fair value of financial liabilities (continued)

The fair value of customer deposits repayable on demand is considered to be equal to their carrying value given they are short-term in nature. The fair value for all other customer deposits is estimated using discounted cash flows applying either market rates, where applicable, or current rates for deposits of similar remaining maturities. TSB's subordinated liabilities and derivative financial liabilities are primarily valued using discounted cash flows where the most significant input is interest yield curves developed from publicly quoted rates and by reference to instruments with risk characteristics similar to those held by TSB. Derivative financial instruments are the only financial liabilities that are carried at fair value.

The carrying amount of borrowings from central banks, repurchase agreements, and other financial liabilities is a reasonable approximation of fair value as these balances are either on demand or variable rate. These amounts are considered as Level 2.

Valuation hierarchy of financial instruments
Financial instruments carried at fair value, or for which fair values are disclosed, have been classified into three levels according to the quality and reliability of information used to determine the fair values. There were no transfers between levels in 2024 or 2023.

Level 1 - Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 - Level 2 valuations are those where quoted market prices are not available, for example, where the instrument is traded in a market that is not considered to be active or valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3 - Level 3 portfolios are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data.

Notes to the consolidated financial statements

Loans and liquid assets

Funds deposited with TSB are primarily used to support lending to customers. TSB lends money to customers using different products, including mortgages, credit cards, unsecured personal loans and overdrafts. A portion of the funds are held in reserve – we call that our liquidity portfolio, which enables TSB to meet unexpected future funding requirements.

Accounting policies relevant to loans and liquid assets

(b) Classification and measurement of financial assets

Financial assets is the term used to describe TSB's loans to customers and other institutions. It includes cash and balances with central banks and other demand deposits, reverse repurchase agreements, debt securities, loans and advances to customers, loans and advances to central banks and credit institutions, other advances, and derivative financial assets (see accounting policy (j) under Managing financial risk). A financial asset is recognised on the balance sheet when the cash is advanced to the borrower, or in the case of purchases of debt securities, on the settlement date.

Classification and measurement

On initial recognition, financial assets are classified into one of three measurement categories, amortised cost, fair value through other comprehensive income, or fair value through profit or loss depending on TSB's business model for managing the financial assets and whether the cash flows represent solely payments of principal and interest.

TSB assesses its business models at a portfolio level based on its objectives for the relevant portfolio, how performance of the portfolio is measured and reported, how management are compensated, and the frequency and the reasons for asset sales from the portfolio. TSB reclassifies financial assets only when its business model for managing the portfolio of assets changes.

Financial assets that are debt instruments measured at amortised cost

Financial assets in portfolios where the business model is to hold the assets to collect the contractual cash flows and where those cash flows represent solely payments of principal and interest are measured at amortised cost. Cash flows are considered to represent solely payments of principal and interest where they are consistent with a basic lending arrangement. This includes all TSB's loans and advances to customers. Where the contractual cash flows introduce exposures to risk or volatility unrelated to a basic lending arrangement, such as from changes in equity prices, the cash flows are not considered to be solely payments of principal and interest. TSB has no such financial instruments.

Financial assets measured at amortised cost are initially recognised when the cash is advanced to the borrower at fair value including transaction costs. Subsequent measurement is at amortised cost, using the effective interest rate method. Amortised cost is the amount at which a financial asset is initially recognised, minus principal repayments, plus or minus the unamortised amount of any difference between the initial amount recognised and the maturity amount, calculated using the effective interest rate method. The carrying amount of these assets is adjusted by an expected credit loss allowance.

Financial assets that are debt instruments measured at fair value through other comprehensive income (FVOCI)

Financial assets in portfolios where the business model is to hold the assets to collect the contractual cash flows and to generate cash flows from selling assets are measured at fair value including transaction costs. Where the cash flows represent solely payments of principal and interest, gains and losses arising from changes in fair value are recognised directly in other comprehensive income. When the financial asset is either sold or matures, the cumulative gain or loss previously recognised in other comprehensive income is recognised in the income statement. Interest income is calculated using the effective interest method and is recognised in the income statement in net interest income. Foreign exchange gains and losses on financial assets denominated in foreign currencies are recognised in the income statement in exchange gains or losses. Impairment losses are recognised in the income statement.

Financial assets measured at fair value through profit or loss (FVPL)

Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value on initial recognition and subsequently. Fair value gains and losses are recognised in the income statement within other income. Derivative financial assets are measured at FVPL (see accounting policy (j) under Managing financial risk). All equity instruments are measured at FVPL with dividends continuing to be recognised in other income in the income statement.

Notes to the consolidated financial statements

Loans and liquid assets (continued)

Accounting policies relevant to loans and liquid assets (continued)

(c) Impairment of financial assets

The impairment requirements of IFRS 9 apply to financial assets measured at amortised cost and debt instruments measured at FVOCI. At initial recognition, an impairment allowance is required for expected credit losses (ECL) resulting from default events expected within the next 12 months (12 month ECL). In the event of a significant increase in credit risk, allowance is required for ECL resulting from default events expected over the estimated life of the financial instrument (lifetime ECL). IFRS 9 requires the financial asset to be allocated to one of the following three 'stages':

- Stage 1 - Financial assets which have not experienced a significant increase in credit risk since they were originated. Recognition of a 12 month ECL is required. Interest income on stage 1 financial assets is calculated on the gross carrying amount of the financial asset;
- Stage 2 – Financial assets which have experienced a significant increase in credit risk since initial recognition. For financial assets in stage 2, recognition of a lifetime ECL impairment allowance is required. Interest income on stage 2 financial assets is calculated on the gross carrying amount of the financial asset; and
- Stage 3 - Financial assets which have experienced one or more events that have had a detrimental impact on the estimated future cash flows and are considered to be credit impaired. Like stage 2, recognition of a lifetime expected ECL impairment allowance is required. However, interest income on stage 3 loans is calculated on the financial asset balance net of the impairment allowance.

Financial assets that are credit impaired at the date of their purchase or origination will be reported in a separate 'purchased or originated as credit impaired' (POCI) category until the loan is derecognised. The cumulative change in lifetime expected credit loss since the purchase or origination of the financial asset is recognised as a loss allowance.

Grouping of financial assets for credit impairment losses measured on a collective basis

Expected credit losses are assessed and measured on a collective basis for homogenous groups where the financial assets within that group share similar credit risk characteristics. Given the predominantly retail nature of TSB's loans, groupings are determined using product type, such as secured (retail), unsecured, and business banking exposures. The appropriateness of the groupings is monitored and reviewed on a periodic basis. TSB does not currently assess any material exposures on an individual basis.

Significant increase in credit risk

Financial assets are considered to be in stage 2 when their credit risk has increased significantly since initial recognition.

- The main factor that is considered by TSB is an increase in the residual lifetime Probability of Default (PD) since initial recognition. A loan will be considered to have experienced a significant increase in credit risk, and be transferred from stage 1 to stage 2 if the residual lifetime PD has increased by both a relative threshold (being a multiplier of the origination PD) and an absolute increase in the PD amount as compared to the PD at the origination of the financial asset. The relative and absolute thresholds for each portfolio are set out on page 85. Interest only mortgages which are within 20 months of maturity are considered to be stage 2 given the risk associated with the capital repayment.
- As a secondary qualitative assessment criterion, financial assets that are in forbearance but not credit impaired are considered to have experienced significant increase in credit risk and will be in stage 2.
- As a backstop, TSB does not rebut the presumption in IFRS 9 that all financial assets that are more than 30 days past due have experienced a significant increase in credit risk. Consequently, in respect of loans and advances to customers, TSB does not use the practical expedient in IFRS 9 which permits low credit risk loans (i.e. those considered investment grade) to remain in stage 1 without an assessment of significant increase ('low credit risk exemption'). However, in respect of all other categories of financial assets at amortised cost and financial assets at fair value through other comprehensive income, TSB uses the low credit risk exemption and categorises these financial assets as stage 1.

Credit Impaired (stage 3)

Financial assets are considered to be credit impaired and included in stage 3 when there is objective evidence of credit impairment which is consistent with the definition of default for IFRS 9 as described below.

Definition of default for IFRS 9

Loans and advances that are more than 90 days past due, or considered by management as unlikely to pay their obligations, are considered, for IFRS 9 purposes, to be in default, non performing, and credit impaired (stage 3). Examples of loans considered unlikely to pay include customers in bankruptcy or subject to an individual voluntary arrangement, customers undergoing repossession, and customers who have received a forbearance treatment, generally within the previous two years, and have subsequently either moved back into early arrears or have received an additional forbearance measure. Customers who have cured but who were 90 days past due, or considered unlikely to pay, in the previous six months are also considered to remain in default and classified as credit impaired. TSB policy is not to rebut the presumption in IFRS 9 that loans which are more than 90 days past due are in default.

Notes to the consolidated financial statements

Loans and liquid assets (continued)

Accounting policies relevant to loans and liquid assets (continued)

(c) Impairment of financial assets (continued)

Purchased or originated credit impaired (POCI)
Financial assets that are credit impaired at the date of their purchase or origination will be reported in a separate POCI category. For such assets, lifetime ECL are incorporated into the calculation of the effective interest rate on initial recognition. Consequently, POCI assets do not carry an impairment allowance on initial recognition. The amount recognised as a loss subsequent to initial recognition is equal to the change in lifetime ECL since initial recognition of the asset. Subsequent to origination, POCI financial assets that no longer meet the stage 3 criteria will no longer be considered to be credit impaired but will continue to be reported as POCI.

Write offs
A loan or advance is normally written off, either partially or in full, against the related allowance when the proceeds from realising any available security have been received or there is no realistic prospect of recovery (as a result of the customer's insolvency, ceasing to trade or other reason) and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the statement of comprehensive income. Financial assets that are written off could still be subject to enforcement activities in order to comply with TSB's procedures for recovery of amounts due. In the event of significant improvements in expected recoveries on stage 3 assets, impairment reversals are recognised as a credit to impairment losses in the statement of comprehensive income.

Modified financial assets and derecognition
A financial asset that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement made on substantially different terms. Where the contractual cash flows of a financial asset have been modified and the financial asset was not derecognised, its gross carrying amount is recalculated as the present value of the modified contractual cash flows, discounted at the original effective interest rate with a gain or loss recognised in the income statement. The contractual terms of a loan may be modified for a number of reasons, primarily due to customers being granted a concession due to their financial difficulty and the loan being considered in forbearance.

Methodology for measuring expected credit losses
The allowance for ECLs is calculated using three main components: a probability of default (PD), a loss given default (LGD); and the exposure at default (EAD). For accounting purposes, the 12 month and lifetime PDs represent the probability of a default occurring over the next 12 months or the lifetime of the financial instruments, respectively, based on conditions existing at the balance sheet date and expected future economic conditions that affect credit risk.

The LGD represents losses expected on default, taking into account the mitigating effect of collateral, its expected value when realised and the time value of money and is discounted using the effective interest rate. The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdown of a committed facility.

ECL is calculated by multiplying the PD (12 month or lifetime depending on the staging of the loan), LGD and EAD. In respect of TSB's mortgages and unsecured personal loans, ECL is calculated from the initial recognition of the loan for the maximum period that TSB is exposed to credit risk which takes into account expected customer repayment behaviour. In respect of revolving loans, such as overdrafts and credit cards, TSB's exposure to credit risk is not limited to the contractual period and the expected life is calculated based on the estimated behavioural life of the loan and associated undrawn facility which is currently ten years. The measurement of ECL also takes into account all reasonable and supportable information, including forward looking economic scenarios to calculate a probability weighted forward looking estimate.

(d) Derecognition of financial assets
Financial assets are derecognised when the contractual right to receive cash flows from those assets has expired or when TSB has transferred its contractual right to receive the cash flows from the assets and either (i) substantially all of the risks and rewards of ownership have been transferred; or (ii) TSB has neither retained nor transferred substantially all of the risks and rewards but has transferred control.

Where TSB enters into securitisation transactions to finance certain loans and advances to customers using a structured entity funded by the issue of debt, these loans and advances continue to be recognised, as TSB has not transferred substantially all the risks and rewards. A corresponding liability for the funding is also recognised.

Financial instruments sold under a repurchase agreement, under which substantially all the risks and rewards of ownership are retained by TSB, continue to be recognised on the balance sheet and the sale proceeds are recognised as a financial liability. The difference between the sale and repurchase price is recognised over the life of the agreement as interest expense using the effective interest method.

Notes to the consolidated financial statements

Loans and liquid assets (continued)

6. Debt securities

Fair value through other comprehensive income (FVOCI)	2024 £ million	2023 £ million
UK Gilts	**328.6**	356.6
Total debt securities at FVOCI	**328.6**	356.6

Amortised cost	2024 £ million	2023 £ million
UK Gilts	**1,293.6**	1,415.2
Supranational and development bank bonds	**297.4**	296.2
Covered bonds	**391.5**	412.8
Total debt securities at amortised cost	**1,982.5**	2,124.2

Debt securities of £328.6 million (2023: £356.6 million) are held as part of the liquid asset portfolio, where the business model is to hold the assets to collect the contractual cash flows and to generate cash flows from selling the assets. These assets are carried at FVOCI.

Debt securities of £1,982.5 million (2023: £2,124.2 million) are held as part of a second, separate liquid asset portfolio, where the business model is solely to hold the assets to collect the contractual cash flows. These assets are carried at amortised cost.

At 31 December 2024, £298.0 million (2023: £420.6 million) of debt securities at amortised cost had been pledged as collateral.

7. Loans and advances to central banks and credit institutions

	2024 £ million	2023 £ million
Loans and advances to central banks	**–**	136.0
Loans and advances to credit institutions	**277.8**	192.0
Total	**277.8**	328.0

Loans and advances to central banks in 2023 represented mandatory deposits at the Bank of England under the Cash Ratio Deposit scheme. On 1 March 2024, the Bank of England Levy replaced the Cash Ratio Deposit scheme.

Loans and advances to credit institutions reflects deposit balances held by TSB’s covered bond and securitisation special purpose entities, as further described in note 2.

Notes to the consolidated financial statements

Loans and liquid assets (continued)

8. Loans and advances to customers and allowance for credit impairment losses

	2024 £ million	2023 £ million
Retail – mortgages	**34,055.5**	34,047.5
Retail – credit cards	**528.5**	530.6
Retail – other unsecured	**1,470.1**	1,350.1
Business banking	**407.0**	475.6
Gross customer lending balances	**36,461.1**	36,403.8
Allowance for credit impairment losses (note 18)	**(180.1)**	(211.8)
Net customer lending balances	**36,281.0**	36,192.0
Accounting adjustments(1)	**49.9**	53.9
Loans and advances to customers	**36,330.9**	36,245.9

(1) Comprises accrued interest of £20.8 million (2023: £20.3 million) and effective interest rate adjustments of £29.1 million (2023: £33.6 million).

In the normal course of business, TSB provides commitments to lend to its customers as presented below.

	2024 £ million	2023 £ million
Retail – mortgages	**1,825.4**	1,898.4
Retail – credit cards	**3,099.5**	3,092.7
Retail – other unsecured	**746.5**	754.9
Business banking	**25.4**	66.6
Total commitments	**5,696.8**	5,812.6

The credit impairment provision in respect of total loan commitments is shown in note 30 on page 119.

Significant estimates - measurement uncertainty and sensitivity of allowance for credit impairment losses
The measurement of the allowance for credit impairment losses is complex and involves the use of significant judgement and estimation uncertainty as follows:

- Estimation uncertainty from the use of multiple forward-looking economic scenarios and associated probability weightings;
- Judgements required to adjust modelled outcomes to reflect model estimation uncertainty or where models are not considered to fully capture expected credit losses (referred to as post model adjustments or PMAs); and
- Judgements required to assess when a financial asset has experienced a significant increase in credit risk.

Forward looking economic scenarios
TSB currently uses four economic scenarios (2023: four scenarios), representative of management's view of forecast economic conditions. Key scenario assumptions are set internally for GDP, house prices, unemployment, inflation and interest rates. The forecasts for these metrics are compared with external sources to ensure they are suitably benchmarked.

The alternative scenarios flow from an assessment of the risks to the base case. In 2024, the main downside scenario reverted to a scenario where forecast inflation and interest rates are lower than assumed in the base case reflecting the moderation of recent heightened inflation. In 2023, the main downside scenario emphasised the risk of higher than expected inflation and interest rates. Idiosyncratic risks are also considered and in 2024 consideration was given to the inclusion of a climate change scenario. This was not considered necessary as material macro risks from climate change are not currently expected to emerge until after the end of the TSB's forecast horizon.

The severe downside is an adapted version of the high-rate ICAAP scenario and is used to capture non-linearity in expected credit losses. This is where the relationship of credit losses to the relevant economic variables which influence credit losses (e.g. house prices or unemployment) is such that each unit of change in an economic variable does not lead to a uniform change in expected credit losses. For example, credit losses in secured portfolios may remain subdued in an environment where house prices exhibit only a small decrease. However, after a certain level of house price decline, credit losses would be forecast to increase more meaningfully as collateral values fall by a similar proportion below the level of customer loans.

Economic scenarios and associated weightings are reviewed quarterly by an internal forum and updated, as necessary, to enable significant developments to be taken into account in measuring the allowance for credit impairment losses. The scenarios and weightings are presented quarterly for review and approval for use by the Audit Committee.

Notes to the consolidated financial statements

Loans and liquid assets (continued)

8. Loans and advances to customers and allowance for credit impairment losses (continued)

Forward looking economic scenarios (continued)

2024 economic scenarios

The four scenarios, together with the weightings applied at December 2024, are described below.

Base case (60% weighting)
The *base case* assumes that the BoE continues to cut interest rates, despite a small flare-up in inflation in 2025 and 2026. This eases affordability pressures, which paves the way for a recovery in the mortgage market. Unemployment rises towards an assumed 'natural rate' of 4.5%.

Compared to 2023, the main difference relates to house prices. Last year, the base case had forecast that house prices would fall by 7.5% in 2024, while the base case for 2024 assumes an increase of 3.3%. Consequently, the level of houses prices in the current base case are higher than in the prior year base case, even though the growth rate for house prices in 2025 and beyond is not materially different.

Upside (10% weighting)
In the upside scenario, the UK economy enjoys faster growth and lower unemployment than in the base case. The Bank of England pauses its rate cutting cycle in 2025. This partly reflects a belief that the policy rate may not be as restrictive as previously thought, rather than fresh concerns about the inflationary outlook.

Downside scenario (20% weighting)
The downside scenario is driven by financial instability, triggered by monetary tightening and market concerns about public finances. This leads to a mild recession and an increase in unemployment, while house prices decline by approximately 16% from December 2024.

Severe downside (high interest rate) scenario (10% weighting)
The high-rate severe downside scenario assumes that inflation surges again in 2025, prompting an aggressive policy response from the Bank of England. Bank Rate rises to 7.25%, which leads to a deep recession. Unemployment rises to 8.5% and house prices fall by approximately 29% from December 2024.

2023 economic scenarios

Base case scenario (60% weighting)
The base case assumes that the UK narrowly avoids a recession. However, a sustained period of below-trend growth leads to higher unemployment (peaking at 4.75%) and a fall in house prices (down 13% from peak to trough). Bank Rate is assumed to have peaked at 5.25%. Inflation gradually returns to the 2% target.

Upside (10% weighting)
The upside scenario assumes that inflation pressures fade more quickly than in the base case. This leads to higher growth in real wages, which supports consumer spending and GDP. It also paves the way for earlier rate cuts. Unemployment starts to fall in 2024, returning to 3.5% by the end of the year. House prices are more resilient and recover more quickly.

Downside scenario (20% weighting)
Initially, the downside scenario emphasises the risks from greater inflationary persistence. This prompts the Bank of England to raise the policy rate further in 2024, to a peak of 6.5%. Additional monetary tightening would, on its own, lead to a weaker economic outlook. However, this effect is amplified by the assumption that it triggers a bout of financial instability. The economy falls into recession and there is a sharp rise in unemployment. House prices decline by 18%. The Bank of England eventually loosens monetary policy, ultimately cutting the policy rate further than in the base case.

Severe downside (high interest rate) scenario (10% weighting)
The severe downside scenario assumes that high and persistent inflation prompts an aggressive policy response by the Bank of England. Bank Rate rises to 7.5%, which leads to a deep recession, with GDP falling by 5.0% over the course of 2024. Unemployment rises to 8.5% and house prices fall by more than 30%.

Notes to the consolidated financial statements

Loans and liquid assets (continued)

8. Loans and advances to customers and allowance for credit impairment losses (continued)

Scenario weightings

	Base case	Upside	Downside	Severe downside
2024	**60%**	**10%**	**20%**	**10%**
2023	60%	10%	20%	10%

Scenario weightings have not changed from those applied in 2023. TSB retains a clear downside skew with the probability attached to the upside scenario (10%) being significantly lower than the combined weight of the downside scenarios (30%). This reflects concerns about inflationary persistence and the effects of rate hikes on economic growth and financial stability.

Annual average value of key inputs to the scenarios

At 31 December 2024 Scenario	Weighting	Input[1]	2025	2026	2027	2028	2029
Upside	**10%**	GDP	**2.3 %**	**2.2 %**	**1.6 %**	**1.6 %**	**1.6 %**
		Unemployment	**3.5 %**	**3.5 %**	**3.5 %**	**3.5 %**	**3.5 %**
		House prices	**4.7 %**	**5.0 %**	**5.0 %**	**5.0 %**	**5.0 %**
		Interest rates	**4.75 %**	**4.25 %**	**4.0 %**	**4.0 %**	**4.0 %**
Base	**60%**	GDP	**1.1 %**	**1.1 %**	**1.4 %**	**1.4 %**	**1.4 %**
		Unemployment	**4.5 %**	**4.5 %**	**4.5 %**	**4.5 %**	**4.5 %**
		House prices	**1.2 %**	**2.4 %**	**3.0 %**	**3.0 %**	**3.0 %**
		Interest rates	**4.0 %**	**3.75 %**	**3.5 %**	**3.5 %**	**3.5 %**
Downside	**20%**	GDP	**(0.6)%**	**(1.2)%**	**1.2 %**	**1.4 %**	**1.2 %**
		Unemployment	**6.1 %**	**6.5 %**	**6.0 %**	**5.4 %**	**4.8 %**
		House prices	**(7.5)%**	**(8.6)%**	**– %**	**– %**	**2.8 %**
		Interest rates	**1.75 %**	**1.75 %**	**2.25 %**	**3.0 %**	**3.0 %**
Severe downside (High rate)	**10%**	GDP	**(1.2)%**	**(3.0)%**	**(0.1)%**	**1.9 %**	**1.8 %**
		Unemployment	**6.4 %**	**8.5 %**	**8.0 %**	**7.3 %**	**6.7 %**
		House prices	**(7.5)%**	**(14.7)%**	**(8.0)%**	**6.9 %**	**6.3 %**
		Interest rates	**7.25 %**	**7.25 %**	**5.25 %**	**4.0 %**	**4.0 %**
Weighted average	**n/a**	GDP	**0.6 %**	**0.3 %**	**1.2 %**	**1.5 %**	**1.4 %**
		Unemployment	**4.9 %**	**5.2 %**	**5.0 %**	**4.9 %**	**4.7 %**
		House prices	**(1.0)%**	**(1.0)%**	**1.8 %**	**3.0 %**	**3.4 %**
		Interest rates	**4.0 %**	**3.8 %**	**3.5 %**	**3.5 %**	**3.5 %**

At 31 December 2023 Scenario	Weighting	Input[1]	2024	2025	2026	2027	2028
Upside	10%	GDP	1.2 %	2.7 %	1.7 %	1.6%	1.6%
		Unemployment	3.8 %	3.5 %	3.5 %	3.5%	3.5%
		House prices	(0.9)%	0.7 %	1.1 %	2.2%	3.7%
		Interest rates	4.25 %	4.25 %	4.25 %	4.25%	4.25%
Base	60%	GDP	0.3 %	0.9 %	1.3 %	1.4%	1.4%
		Unemployment	4.75 %	4.75 %	4.5 %	4.5%	4.5%
		House prices	(7.5)%	0.6 %	2.4 %	2.5%	2.5%
		Interest rates	5.0 %	4.25 %	4.0 %	4.0%	4.0%
Downside	20%	GDP	(1.0)%	(1.1)%	1.2 %	1.4%	1.2%
		Unemployment	6.1 %	6.5 %	6.0 %	5.4%	4.8%
		House prices	(10.8)%	(5.4)%	0.0 %	0.0%	2.8%
		Interest rates	6.25 %	3.5 %	3.5 %	3.5%	3.5%
Severe downside (High rate)	10%	GDP	(2.7)%	(1.6)%	1.2 %	1.2%	1.2%
		Unemployment	7.6 %	8.3 %	7.7 %	7.1%	6.5%
		House prices	(10.8)%	(15.2)%	(8.3)%	7.2%	6.6%
		Interest rates	7.5 %	7.0 %	6.0 %	5.0%	4.5%
Weighted average	n/a	GDP	(0.2)%	0.4 %	1.3 %	1.4%	1.4%
		Unemployment	5.2 %	5.3 %	5.0 %	4.8%	4.7%
		House prices	(7.9)%	(2.1)%	0.9 %	2.4%	3.0%
		Interest rates	5.4 %	4.4 %	4.1 %	4.0%	4.0%

Notes to the consolidated financial statements

Loans and liquid assets (continued)

8. Loans and advances to customers and allowance for credit impairment losses (continued)

Annual average value of key inputs to the scenarios (continued)
In the table above, GDP is the annual change in forecast GDP for each year. Unemployment is presented as the Q4 forecast for each year. House price changes are presented as the year-on-year change in Q4 forecast house prices in each year. Interest rates are Bank Rate in December each year.

Key variables in each of the scenarios are assumed to revert to a long-term constant rate over a period of up to two years after the end of the forecast period. The reversionary rates used are as follows: GDP 1.5% (2023: 1.5%), unemployment 4.5% (2023: 4.5%); interest rates 3.5% (2023: 3.5%); and house price growth of 3.75% (2023: 3.75%) per annum.

Cumulative expected growth and fall of key inputs to the forecast scenarios
The table below shows the cumulative forecast growth and fall of key inputs from the reporting date to the forecast peak and forecast trough during the forecast period.

At 31 December 2024(1)		Base case	Upside	Downside	Severe downside (High rate)
GDP	Peak to trough fall	**n/a**	**n/a**	**(2.4)%**	**(5.4)%**
Unemployment	Peak rate	**4.5%**	**4.3%**	**6.6 %**	**8.5 %**
House prices	Peak-to-trough fall	**n/a**	**n/a**	**(16.0)%**	**(29.0)%**
Interest rates	Most extreme rate	**3.5%**	**4.0%**	**1.75 %**	**7.25 %**
At 31 December 2023					
GDP	Peak to trough fall	n/a	n/a	(2.2)%	(5.0)%
Unemployment	Peak rate	4.8 %	n/a	6.6 %	8.5 %
House prices	Peak-to-trough fall	(7.0)%	n/a	(15.0)%	(32.0)%
Interest rates	Most extreme rate	5.25 %	4.25%	6.5 %	7.5 %

(1) GDP decline is relative to Q4 2024. Unemployment peak is from Q1 2025 onwards. House price decline is relative to December 2024. The most extreme interest rate is the interest rate furthest from the current rate, either positive or negative during the forecast period.

Sensitivity to alternative economic scenario weightings
The calculation of the allowance for credit impairment losses is sensitive to changes in the chosen weightings. The table below summarises the impact on the allowance for credit impairment losses (including PMAs) from the use of alternative scenario weightings.

At 31 December 2024	Weighted £ million	Upside £ million	Base case £ million	Downside £ million	Severe downside £ million
Gross customer lending balances:					
Stage 1	**33,151.6**	**33,297.8**	**33,204.4**	**33,021.5**	**31,778.1**
Stage 2	**2,697.2**	**2,551.0**	**2,644.4**	**2,827.3**	**4,070.7**
Stage 3	**528.2**	**528.2**	**528.2**	**528.2**	**528.2**
POCI	**84.1**	**84.1**	**84.1**	**84.1**	**84.1**
Total gross customer lending balances	**36,461.1**	**36,461.1**	**36,461.1**	**36,461.1**	**36,461.1**
Allowance for credit losses and credit impairment provisions:					
Stage 1	**50.2**	**47.9**	**49.1**	**62.3**	**69.8**
Stage 2	**57.7**	**42.1**	**49.9**	**71.1**	**97.1**
Stage 3	**80.0**	**70.9**	**73.0**	**82.9**	**94.3**
POCI	**0.8**	**0.6**	**0.6**	**0.8**	**0.9**
Total allowance for credit losses and credit impairment provisions(1)	**188.7**	**161.5**	**172.6**	**217.1**	**262.1**

(1) Weighted amount comprises of allowance for credit losses of £180.1 million and credit impairment provisions of £8.6 million (note 30).

Notes to the consolidated financial statements

Loans and liquid assets (continued)

8. Loans and advances to customers and allowance for credit impairment losses (continued)

Sensitivity to alternative economic scenario weightings (continued)

At 31 December 2023	Weighted £ million	Upside £ million	Base case £ million	Downside £ million	Severe downside £ million
Gross customer lending balances:					
Stage 1	32,115.9	32,773.5	32,381.8	31,873.7	29,055.7
Stage 2	3,684.9	3,027.3	3,419.0	3,927.1	6,745.1
Stage 3	508.1	508.1	508.1	508.1	508.1
POCI	94.9	94.9	94.9	94.9	94.9
Total gross customer lending balances	36,403.8	36,403.8	36,403.8	36,403.8	36,403.8
Allowance for credit losses and credit impairment provisions:					
Stage 1	60.5	55.9	57.2	61.6	64.7
Stage 2	80.9	54.5	69.1	97.5	179.7
Stage 3	79.8	73.4	77.2	84.0	89.0
POCI	1.0	0.7	0.9	1.2	1.6
Total allowance for credit losses and credit impairment provisions(1)	222.2	184.5	204.4	244.3	335.0

(1) Weighted amount comprises of allowance for credit losses of £211.8 million and credit impairment provisions of £10.4 million (note 30).

Included in the weighted ECL of £188.7 million (2023: £222.2 million) are post model adjustments of £36.2 million (2023: £52.6 million) which are included in the above macroeconomic sensitivity.

In undertaking the sensitivity of the ECL to alternative scenarios, balances in stage 3 at the balance sheet date remain constant in each scenario. Any change in stage 3 balances in each scenario is assumed to take place subsequent to the balance sheet date as cases move in to and out of arrears. The differences across the scenarios for stage 1 and stage 2 balances reflect the change to the modelled PD in each scenario, which is a key determinant in assessing when there has been a significant increase in credit risk.

The ECL for each scenario multiplied by the scenario probability will not reconcile to the overall provision. Whilst the stage allocation of loans varies in each individual scenario, each loan is allocated to a single stage in the overall provision calculation based on a weighted average PD, taking into account the economic scenarios. A probability weighted 12 month or lifetime ECL (which takes into account the economic scenarios) is then calculated based on the stage allocation.

Judgements required in assessing model estimation uncertainty and post model adjustments (PMAs)
The allowance for credit impairment losses included PMAs as shown below:

	Retail - Mortgages £ million	Retail - Cards £ million	Retail - Other £ million	Business banking £ million	2024 £ million	Retail - Mortgages £ million	Retail - Cards £ million	Retail - Other £ million	Business banking £ million	2023 £ million
ECL before judgemental adjustments	**2.7**	**44.9**	**91.2**	**3.7**	**142.5**	6.9	45.2	99.3	7.8	159.2
Post model judgemental adjustments:										
Impairment default triggers	**21.7**	**0.5**	**2.2**	**–**	**24.4**	22.5	2.6	3.3	0.8	29.2
Model performance	**19.3**	**(1.4)**	**(8.1)**	**(1.5)**	**8.3**	27.0	(3.9)	(1.1)	(1.6)	20.4
Operational matters	**3.7**	**–**	**–**	**0.7**	**4.4**	1.0	0.3	2.0	(1.1)	2.2
Bounce Back Loan Scheme	**–**	**–**	**–**	**0.5**	**0.5**	–	–	–	0.8	0.8
Total judgemental adjustments	**44.7**	**(0.9)**	**(5.9)**	**(0.3)**	**37.6**	50.5	(1.0)	4.2	(1.1)	52.6
Allowance for credit impairment losses	**47.4**	**44.0**	**85.3**	**3.4**	**180.1**	57.4	44.2	103.5	6.7	211.8

The suite of methodologies used to calculate PMAs are grounded in similar principles to those adopted for the core impairment models, with the inputs and PMA methodologies subject to regular oversight and PMA outputs reviewed in a consistent manner to the output from the core impairment models. The key categories of PMAs are as follows:

Impairment default triggers

- PMAs in this category capture the risk of default, where not fully captured in the model. A key contributor to the PMAs in this category captures the risk associated with interest only mortgage customers not making their final bullet payment at maturity. Defaults of this type are not included in the Probability of Default (PD) model, the impact of which is recorded as a PMA. In order to determine the value of the PMA, the default rate is determined by establishing the proportion of interest only accounts likely to exceed their mortgage term by 3 months without repaying their principal balance and the loss given default reflects house price projections as informed by the relevant economic scenarios.

Loans and liquid assets (continued)

8. Loans and advances to customers and allowance for credit impairment losses (continued)

Impairment default triggers (continued)

- During 2024, the value of PMAs required to recognise drivers of default not fully captured in the existing ECL models, reduced by £4.8 million to £24.4 million (2023: £29.2 million) reflecting an easing of inflationary pressures. All ECJs specifically associated with the cost-of-living crisis were released during the year. A PMA to capture the risk associated with customers' ability to afford their mortgage payments is retained and uses both external credit bureau data and customer data. Customers with negative affordability are considered to have experienced a significant increase in credit risk and subsequently leads to an increase in credit losses. A PMA has been included to recognise the uncertainty associated with the recent autumn budget

Model performance

- PMAs are required to mitigate risks associated with model performance. An example of this is the requirement to capture the impact of economic projections falling outside of the range of historical observations on which models were developed or where models are underpredicting recent performance ahead of model recalibration being undertaken. During 2024, this category of PMAs decreased by £12.1 million to £8.3 million (2023: £20.4 million) to reflect the latest model annual review findings and Probability of Default model recalibrations. While the total value of ECJs has reduced, the £8.3 million total includes both positive and negative ECJs to mitigate under and over estimation by the models.

Operational matters

- PMAs are used to address the risk of certain operational matters. This includes a low volume of customer accounts which require bespoke assessments of their underlying credit risk, for example, relating to mortgages on high value properties for which models have not been calibrated.

Bounce Back Loan Scheme

- A small PMA is retained to capture the risk associated with Bounce Back Loans where the government's guarantee might not be fully enforceable.

Judgements required in assessing significant increase in credit risk

TSB's policy for determining when a financial asset has experienced a significant increase in credit risk is explained on page 77. In applying this policy, the key judgement is the level of increase in the residual lifetime PD as compared to the equivalent position at the origination of the financial asset.

At 31 December 2024, loans and advances to customers were considered to have experienced a significant increase in credit risk (and classified in stage 2) if the residual lifetime PD had increased by both the relative threshold (being a multiplier of the origination PD) and the absolute increase in PD, both as compared to the PD at time of the loan's origination, as follows:

	2024 Relative Increase in PD	2024 Absolute Increase in PD	2023 Relative Increase in PD	2023 Absolute Increase in PD
Retail - mortgages				
Core mortgages	**2 times**	**410bps**	2 times	410bps
Whistletree	**2 times**	**10bps**	2 times	10bps
Retail - unsecured				
Credit cards	**1.5 times**	**500bps**	2 times	250bps
Personal loans	**1.5 times**	**950bps**	2 times	770bps
Overdrafts	**1.5 times**	**200bps**	1 times	400bps
Business banking	**2 times**	**50bps**	2 times	50bps

In assessing the appropriateness of this judgement, management applied a framework that considered a number of quantitative factors, including the accuracy of the thresholds and their predictive ability. As a result of this assessment during 2024, it was determined that some updates to the thresholds were required.

Further to this, PMAs were applied to the modelled staging outcomes to align with the PMAs applied in measuring the impairment allowance. This resulted in the net transfer of £1,354.1 million (2023: £1,690.0 million) of gross Retail - mortgages balances from stage 1 to stage 2. This was largely to capture the effects of the affordability PMA (recorded under impairment default triggers). Overlays associated with the Whistletree balances that transfer gross balances form stage 1 to stage 2 have reduced to £8.6 million (2023: £231.0 million) with calibration now included in the model. Partially offsetting these, was a transfer of £67.8 million (2023: £43.0 million) from stage 2 to stage 1 in Business banking to address known model performance matters.

Notes to the consolidated financial statements

Loans and liquid assets (continued)

9. Other advances

	2024 £ million	2023 £ million
Items in the course of collection from credit institutions	**20.7**	23.7
Items in the course of collection from non-credit institutions	**4.0**	4.1
Collateral placed at central clearing houses	**49.9**	77.5
Collateral placed with credit institutions	**51.4**	96.4
Amounts due from the British Business Bank	**4.2**	7.9
Total other advances	**130.2**	209.6

Amounts due from the British Business Bank are in respect of the Bounce Back Loan Scheme. These reflect recovery of loan balances previously charged off and customer interest which are recoverable under a guarantee from the British Business Bank.

10. Fair value of financial assets

The following table summarises the carrying values, fair values, and valuation hierarchy of financial assets presented on TSB's consolidated balance sheet. The fair values presented are at a specific date and may be significantly different from the amount which will actually be received on the maturity or settlement date.

	Level 1 £ million	Level 2 £ million	Level 3 £ million	Total fair value £ million	Total carrying value £ million
At 31 December 2024					
Debt securities at amortised cost	**1,922.0**	**–**	**–**	**1,922.0**	**1,982.5**
Loans and advances to customers	**–**	–	**35,989.4**	**35,989.4**	**36,330.9**
Financial assets at fair value through other comprehensive income	**328.6**	**–**	**–**	**328.6**	**328.6**
Derivative assets at fair value through profit or loss	**–**	**670.2**	**–**	**670.2**	**670.2**
Hedging derivative assets	**–**	**1,274.3**	**–**	**1,274.3**	**1,274.3**
At 31 December 2023					
Debt securities at amortised cost	2,070.0	–	–	2,070.0	2,124.2
Loans and advances to customers	–	–	35,226.5	35,226.5	36,245.9
Financial assets at fair value through other comprehensive income	356.6	–	–	356.6	356.6
Derivative assets at fair value through profit or loss	–	823.5	–	823.5	823.5
Hedging derivative assets	–	1,346.9	–	1,346.9	1,346.9

A description of the fair value levels is included in note 5. Debt securities at amortised cost and financial assets at fair value through other comprehensive income are generally valued using quoted market prices and are therefore classified as Level 1 assets. Derivative financial assets are primarily collateralised interest rate swaps and are valued using a discounted cash flow model where the most significant input is forward interest rate yield curves which are developed from publicly quoted SONIA rates. As such, derivative financial instruments are classified as Level 2 assets.

TSB provides loans at both fixed and variable rates. Fair value is principally estimated by discounting anticipated cash flows (including interest at contractual rates) at market rates for similar loans offered by TSB and other financial institutions. Certain loans secured on residential properties are made at a fixed rate for a limited period, typically two to five years, after which the loans revert to the relevant variable rate. The fair value of such loans is estimated by reference to the market rates for similar loans of maturity equal to the remaining fixed interest rate period.

Cash, cash balances at central banks and other demand deposits, loans and advances to central banks and credit institutions, and other advances are generally short-term in nature and to counterparties with a high credit quality and the carrying amount is a reasonable approximation of fair value. As such these amounts are considered as Level 2.

Notes to the consolidated financial statements

Income

We earn income in the form of interest that we receive on the loans we make to customers and from our liquidity portfolio and we pay interest to savings and some bank account customers on the money they deposit with us and to providers of other forms of funding. We also earn other income in the form of fees and charges from the provision of banking services and commissions from the referral of certain products, such as general insurance, offset by fees and rewards paid to certain bank account customers.

Accounting policies relevant to recognising income

(e) Interest income and expense

Financial instruments classified as amortised cost and fair value through other comprehensive income
Interest income and expense are recognised in the income statement for all interest-bearing financial instruments using the EIR method. The EIR method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense. The EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

The effective interest rate is calculated on initial recognition of the financial asset or liability, estimating the future cash flows after considering all the contractual terms of the instrument but not future credit losses. The calculation includes all amounts paid or received by TSB that are an integral part of the overall return, direct incremental transaction costs related to the acquisition, issue or disposal of a financial instrument and all other premiums or discounts. Reversionary interest is only included in the assessment of the effective interest rate on customer deposits, which includes certain savings products. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss (see accounting policy (c) on impairment of financial assets).

For financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial asset. There are two exceptions to this as follows:

(i) Interest income in respect of financial assets that have become credit impaired (stage 3) subsequent to their initial recognition is calculated by applying the effective interest rate to their amortised cost, net of expected loss provision; and

(ii) Interest income in respect of financial assets classified as POCI is calculated by applying the original credit adjusted effective interest rate to the amortised cost of the financial asset.

Derivative financial instruments
Interest income and expense on derivative financial instruments in qualifying hedge accounting relationships, where the hedged item is a financial asset, is recognised in interest income. Where the hedged item is a financial liability, the derivative interest income or expense is recognised in interest expense. Interest income and expense on derivatives classified as held for trading is recognised in interest income.

(f) Other operating income
Other operating income, including fees and commissions, which are not an integral part of the EIR are generally recognised over time as the service is provided and TSB satisfies its performance obligations.

Renewal commission income is recognised when TSB satisfies its performance obligations under the relevant contract and management concludes that there is a high probability that there will be no significant reversal of the estimated income.

Notes to the consolidated financial statements

Income (continued)

11. Net interest income

Interest and similar income	2024 £ million	2023 £ million
Interest income calculated using the effective interest method:		
Cash, cash balances at central banks and other demand deposits	**228.0**	231.9
Financial assets at fair value through other comprehensive income	**7.3**	6.5
Debt securities at amortised cost	**55.9**	53.5
Loans to credit institutions	**11.1**	10.2
Loans and advances to customers	**1,501.7**	1,271.4
	1,804.0	1,573.5
Derivative financial instruments	**273.5**	368.6
Total interest and similar income	**2,077.5**	1,942.1
Interest and similar expense		
Interest expense calculated using the effective interest method:		
Borrowings from central banks	**(146.1)**	(206.3)
Customer deposits	**(530.9)**	(344.5)
Debt securities in issue	**(242.5)**	(179.8)
Subordinated liabilities	**(10.3)**	(10.3)
Lease liabilities	**(3.0)**	(1.5)
Other financial liabilities	**(54.2)**	(58.7)
	(987.0)	(801.1)
Derivative financial instruments	**(106.1)**	(119.0)
Total interest and similar expense	**(1,093.1)**	(920.1)
Net interest income	**984.4**	1,022.0

Included within interest and similar income is £28.6 million (2023: £23.8 million) in respect of impaired financial assets.

12. Net fee and commission income

	2024 £ million	2023 £ million
Fee and commission income		
Bank accounts	**39.6**	43.3
Credit and debit card fee income	**62.1**	63.1
Insurance commission income	**9.4**	8.8
Other	**13.6**	14.0
	124.7	129.2
Fee and commission expense	**(34.0)**	(21.2)
Net fee and commission income	**90.7**	108.0

Fee and commission expense includes £9.9 million of customer transaction fee and commission payments. In the prior year, these items, totalling £7.0 million, were recognised in operating expenses.

13. Other operating income

	2024 £ million	2023 £ million
Other operating income, before notable items:		
Rental and other income	**0.5**	0.4
Notable income:		
Migration related income	**36.2**	14.1
Total other operating income	**36.7**	14.5

Migration related income is the recognition of insurance recoveries of post migration losses. The amounts recognised in 2024 reflect the finalisation of the matter.

Notes to the consolidated financial statements

Charges

Charges we incur include the costs of paying our employees, running our branches, investing in our business, paying for advertising and marketing. Occasionally, our customers' circumstances change and they are expected to be unable to repay the money they borrow from us causing us to incur impairment losses. Finally, TSB complies with its tax obligations to HMRC.

Accounting policies relevant to recognising charges

(g) Pensions and other post-retirement benefits
TSB operates defined contribution pension plans under which fixed contributions are paid. The costs of TSB's defined contribution plans are charged to the income statement, as an operating expense, in the period in which they fall due.

(h) Share based compensation
TSB operates a number of cash settled share based compensation plans, in respect of services received from certain of its employees. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. A corresponding credit is recognised as a liability. In addition, in some circumstances employees may provide services in advance of the grant date and therefore the liability is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

At the end of each reporting period, the fair value of the liability is measured with any changes in fair value recognised in operating expenses.

(i) Taxation
Current corporation tax which is payable or receivable on taxable profits or losses is recognised as tax expense or credit in the period in which the profits or losses arise.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax is determined using tax rates that have been enacted or substantively enacted by the balance sheet date that are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred and current tax assets and liabilities are offset when they arise in the same tax reporting group and where there is both a legal right of offset and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Notes to the consolidated financial statements

Charges (continued)

14. Operating expenses

	2024 £ million	2023 £ million
Staff costs:		
Wages and salaries	**245.5**	245.4
Social security costs	**27.3**	26.7
Other pension costs	**34.0**	33.3
Severance costs[1]	**4.9**	24.5
Other staff costs	**7.8**	8.8
Total staff costs	**319.5**	338.7
Total premises expenses	**28.3**	34.6
Other administrative expenses:		
IT servicing and licence costs[2]	**223.6**	240.7
Regulatory, legal and consultancy costs	**49.4**	63.9
Marketing	**20.8**	27.8
Other expenses[3]	**50.0**	48.5
Total administrative expenses	**691.6**	754.2
Fraud and operational losses	**34.1**	29.5
Regulatory fine	**11.4**	–
Conduct costs	**4.9**	0.4
Other	**7.4**	1.8
Total other operating expenses	**57.8**	31.7
Depreciation of property and equipment	**30.6**	33.4
Depreciation of right of use asset	**23.6**	16.1
Amortisation of intangible assets	**18.3**	17.5
Total depreciation and amortisation	**72.5**	67.0
Total operating expenses	**821.9**	852.9

(1) The prior year amount includes strategic restructuring costs £23.0 million, as shown in notable expenses on the following page.

(2) The prior year amount included an accelerated charge of £23.8 million from a related party IT supplier arising from IT obsolescence following investment by TSB in internal processes to serve customers and improve efficiency, partially offset by the receipt of investment tax credits in respect of IT development expenditure incurred in previous years (see note 25 on page 117 under the heading Operational IT costs).

(3) Primarily comprises the costs of operational contracts, and non-staff contractors.

Notes to the consolidated financial statements

Charges (continued)

14. Operating expenses (continued)

Notable expenses

Notable items are identified separately by management as they have an undue impact on the overall cost trend and their highlighting ensures the key drivers of cost trends can be better understood.

	2024 £ million	2023 £ million
Staff costs	**8.6**	23.0
Premises expenses	**8.4**	1.2
IT servicing and licence costs	**0.5**	1.6
Regulatory, legal and consultancy costs	**2.2**	0.7
Depreciation	**–**	2.2
Strategic restructuring costs[(1)]	**19.7**	28.7
Regulatory fine[(2)]	**11.4**	–
IT servicing and license costs[(3)]	**4.6**	23.8
Conduct costs	**3.6**	(1.0)
Migration related[(4)]	**–**	(2.7)
Other notable costs[(5)]	**1.8**	4.1
Total notable expenses	**41.1**	52.9

(1) Restructuring activity designed to support the delivery of TSB's strategy and deliver future cost reductions.

(2) Reflects a regulatory fine in respect of findings covering the treatment of customers in TSB's collections and recoveries function.

(3) Includes accelerated charges from a related party IT supplier. Investment by TSB in internal processes to serve customers and improve efficiency led to obsolescence in the supplier's IT equipment, the costs of which were borne by TSB (see note 25 on page 117 under the heading of Operational IT costs).

(4) Amounts reported for 2023 largely comprised of the release of cost accruals following the completion of regulatory investigations in to the 2018 IT migration.

(5) Other notable items comprise of staff costs of £0.4 million (2023: £1.8 million), premises expenses of £nil (2023: £1.3 million), depreciation of £nil (2023: £0.8 million) and other expenses of £1.4 million (2023: £0.2 million).

Average number of employees

The monthly average number of employees on a headcount basis during the year was 5,047 (2023: 5,568), all of whom were employed in the UK. Remuneration paid to key management personnel (note 25(i)) is included in staff costs.

Share based compensation

Staff costs include £4.0 million (2023: £1.9 million) in respect of share based compensation arrangements. Such arrangements are limited to the operation of a Share Incentive Plan (SIP) which provide employees with the opportunity to own shares in Sabadell and the granting, where relevant, of shares to certain senior employees as part of their recruitment arrangements.

All share based compensation arrangements involve an award of Sabadell shares where TSB retains the obligation to settle. These arrangements are accounted for as cash settled share based payment arrangements resulting in the recognition of a liability. This liability is remeasured monthly, with changes recognised in operating expenses, to reflect the latest Sabadell share price and the estimated number of shares expected to vest. At 31 December 2024, £11.2 million (2023: £7.5 million) was recognised in respect of share based payment liabilities. An explanation of the instruments transacted to economically hedge TSB's exposure to share based payment liabilities is set out in note 25(ii) on page 118.

Fees payable to the external auditor

Included in other expenses are fees payable to TSB's auditors, excluding VAT, as set out in the table below:

	2024 £ million	2023 £ million
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**0.4**	0.4
Fees payable to the Company's auditor and its associates for other services:		
Audit of the accounts of subsidiaries[(1)(2)]	**4.5**	3.8
Audit related assurance services[(3)]	**1.1**	1.1
Total fees payable to TSB's auditors	**6.0**	5.3

(1) The 2024 fees include £0.6 million associated with the auditor performing additional work associated with the TSB's IT transformation programme.
(2) Additional fees of £0.1 million were incurred in 2023 in respect of the 2022 audit and are not captured in the above table.
(3) Primarily fees payable to the Company's auditor for the audit of the half year financial statements, as required by TSB's parent, Sabadell.

Notes to the consolidated financial statements

Charges (continued)

15. Directors' emoluments

The aggregate remuneration of the Directors during the year was as follows:

	2024 £ 000	2023 £ 000
Remuneration paid to Directors in respect of qualifying services	**4,383**	3,891
Employer contributions to pension schemes (including cash paid in lieu)	**168**	167
Amounts payable under long-term incentive arrangements	**767**	–
Total	**5,318**	4,058

Details of the highest paid Director are set out on page 62 in the Remuneration review. The table below presents the number of Directors who:

	2024 Number	2023 Number
Exercised share options in the parent company, Sabadell	**–**	–
Received Sabadell shares under long-term incentive schemes	**2**	–
Accrued pension benefits under defined contribution pension schemes	**–**	–

16. Taxation

	2024 £ million	2023 £ million
UK corporation tax		
Current tax		
Current tax charge on profit for the year	**(53.2)**	(29.6)
Adjustment in respect of prior years	**3.6**	(0.2)
Current tax charge	**(49.6)**	(29.8)
Deferred tax (note 17)		
Utilisation of carried forward trading losses	**(25.6)**	(33.3)
Origination and reversal of temporary differences:		
Accelerated capital allowances	**(2.0)**	(1.0)
Adjustments in respect of prior years	**(1.5)**	4.1
Other	**(3.8)**	(2.4)
Deferred tax charge	**(32.9)**	(32.6)
Taxation charge	**(82.5)**	(62.4)

A reconciliation of the charge that would result from applying the UK corporation tax rate to profit before taxation to the actual taxation charge for the year is presented below:

	2024 £ million	2023 £ million
Profit before taxation	**290.4**	237.2
Taxation charge at applied UK corporation tax rate of 28.0% (2023: 27.75%)	**(81.3)**	(65.8)
Factors affecting charge:		
Disallowed costs	**(8.3)**	(5.0)
Taxable profits not subject to the bank surcharge	**3.0**	2.8
Adjustments in respect of prior years	**2.1**	3.9
Non-taxable and other items	**2.0**	1.7
Taxation charge	**(82.5)**	(62.4)

The increase in disallowed costs primarily reflects the regulatory fine in respect of conducted related matters in TSB's collections and recoveries function (see note 14 on page 90).

The applied UK corporation tax rate for 2024 was 28.0% (2023: 27.75%) and comprises of the main UK corporation tax rate and the bank surcharge. The main UK corporation tax rate was 19% until April 2023, when it was increased to 25%. The bank surcharge was 8% (and applicable to taxable profits of banks in excess of £25 million) until April 2023. Thereafter, it was reduced to 3% (and applicable to taxable profits in excess of £100 million).

Charges (continued)

17. Deferred tax assets

The movement in deferred tax assets is as follows:

	2024 £ million	2023 £ million
At 1 January	**43.2**	64.6
Income statement charge (note 16)	**(32.9)**	(32.6)
Amounts charged to shareholder's equity:		
Movements in fair value reserve	**0.6**	0.3
Movements in cash flow hedge reserve	**(2.8)**	10.9
At 31 December	**8.1**	43.2

Deferred tax assets are comprised as follows:

	2024 £ million	2023 £ million
Deferred tax in respect of the transition to IFRS 9	**8.1**	10.8
Revaluations of financial assets at fair value through other comprehensive income	**3.1**	2.6
Deferred tax arising on cash flow hedge reserve	**(7.5)**	(4.9)
Other temporary differences	**4.4**	12.7
Deferred tax arising on carried forward trading losses	**–**	22.0
Total deferred tax assets	**8.1**	43.2

As noted in the prior year financial statements, TSB adopted International Tax Reform – Pillar Two Model Rules: Amendments to IAS 12. This amendment introduced a mandatory temporary exception to the accounting for deferred taxes arising from the implementation of the OECD Pillar Two model rules. Following the implementation of the OECD rules, relevant analysis was completed in 2024 which concluded there was no impact on TSB's current or deferred tax arrangements.

Notes to the consolidated financial statements

Managing financial risk

Financial instruments are fundamental to TSB's activities and, as a consequence, the risks associated with financial instruments represent a significant component of the risks faced by TSB. The primary risks affecting TSB through its use of financial instruments are credit risk, liquidity risk and market risk. A summary of TSB's use of financial instruments and information about the management of these risks is presented below.

Accounting policies relevant to managing financial risk

(j) Derivative financial instruments and hedge accounting

All derivative financial instruments are recognised at their fair value. Fair values are determined using valuation techniques, including discounted cash flow as appropriate. Derivatives are carried on the balance sheet as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognised immediately in the income statement, with the exception of derivatives designated in a cash flow hedge. For derivatives in cash flow hedges, the effective portion of the change in fair value is recognised in other comprehensive income until the point at which the hedged item affects profit or loss while the ineffective portion is recognised in profit or loss.

Hedge accounting

TSB elected to continue to apply the hedge accounting requirements of IAS 39 on adoption of IFRS 9. Hedge accounting allows one financial instrument, generally a derivative such as an interest rate swap, to be designated as a hedge of another financial instrument such as a loan or deposit or a portfolio of such instruments. At the inception of the hedge relationship, formal documentation is drawn up specifying the hedged risk, the hedged item and the hedging instrument and the methodology that will be used to measure the effectiveness of the hedge relationship in offsetting changes in the fair value of the hedged item or changes in cash flows arising from the hedged risk.

In its application of the hedge accounting policy, TSB follows the requirements of the UK endorsed version of IAS 39 'Financial Instruments: Recognition and Measurement' which are not available in the version issued by the IASB, specifically relating to hedging core deposits, and the relaxation of effectiveness testing, such that a layer approach can be used in a macro fair value hedge. The effectiveness of the hedging relationship is tested both at inception and throughout its life and if at any point it is concluded that it is no longer highly effective in achieving its documented objective, hedge accounting is discontinued. TSB designates certain derivatives as either hedges of the fair value of recognised assets or liabilities (fair value hedges) or hedges of highly probable future cash flows attributable to recognised assets or liabilities (cash flow hedges).

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, changes in the fair value of the hedged item attributable to the hedged risk are no longer recognised in the income statement. The cumulative adjustment that has been made to the carrying amount of the hedged item is amortised to the income statement over the period to maturity. For micro fair value hedges, this is applied using a straight line method over the period to maturity, and for macro fair value hedges, the cumulative adjustment is amortised over the period to expiry of the relevant repricing period.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income in the cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are reclassified to the income statement in the periods in which the hedged item affects profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the income statement when the previously hedged cash flow is ultimately recognised in the income statement.

Managing financial risk (continued)

18. Credit risk

Credit risk management

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk appetite is set at Board level and is described and reported through a suite of metrics devised from credit portfolio performance measures, and includes the use of various credit risk rating systems to measure the credit risk of loans and advances to customers at a counterparty level using three components: (i) the probability of default by the counterparty on its contractual obligations; (ii) the exposure to the counterparty at default; and (iii) the likely loss ratio on the defaulted obligations, the loss given default. TSB uses a range of approaches to mitigate credit risk, including policies, obtaining collateral, using master netting agreements and other credit risk transfers, such as asset sales. TSB's credit risk exposure, which arises primarily in the United Kingdom, is set out below.

Governance and oversight of provisioning adequacy

All lending assets are assessed for expected credit losses (ECL) on a monthly basis. The process for assessing ECL considers information and events that have occurred in the context of current expectations of the future economic environment. Assets are reviewed to ensure that the stage allocation remains valid, that cash flow projections remain appropriate (including any potential net proceeds from the realisation of collateral) and that the projected macro-economic outcomes and associated probability weightings used to derive ECL amounts continue to remain appropriate. In the event that the future expected cash flow has changed from the previous assessment, an adjustment to the level of loss allowance is made as appropriate.

Where credit impaired assets are within a pool of similar assets and are assessed collectively, the relevance of the pool within which the asset has been placed and the assumptions regarding cash flow emanating from the pool are examined.

TSB reviews, at least annually, its provision forecast against actual loss experience to identify whether its policies have resulted in over or under provisioning across the economic cycle. Stress and scenario testing are widely used throughout TSB to assess the potential impact on impaired exposures and related provisions. A robust governance framework has been established to monitor impairment exposures, provisions and the impact of alternative economic scenarios and stress scenarios. Findings and recommendations are reported to regular Portfolio Quality Review meetings, Executive Risk Committees, Audit Committee and the Board.

(i) Maximum credit exposure

The maximum credit risk exposure in the event of other parties failing to perform their obligations is presented below. No account is taken of any collateral held and the maximum exposure to loss is considered to be the balance sheet carrying amount or, for non-derivative off-balance sheet transactions, their contractual nominal amounts. The maximum exposure to credit risk for financial assets is set out below:

Financial assets at amortised cost:	2024 Exposure £ million	2024 Credit Quality	2023 Exposure £ million	2023 Credit Quality
Cash, cash balances at central banks and other demand deposits:	**4,823.8**		5,897.3	
Cash	***77.3***	***Not Rated***	*89.2*	*Not Rated*
Balances with central banks	***4,738.5***	***AA-***	*5,802.2*	*AA-*
On demand deposits	***8.0***	***At least BBB***	*5.9*	*At least BBB-*
Debt securities[1]	**1,982.5**	***At least AA-***	2,124.2	*At least AA-*
Loans and advances to customers	**36,330.9**	***Note 18(ii)***	36,245.9	*Note 18(ii)*
Loans and advances to central banks and credit institutions	**277.8**		328.0	
Loans and advances to credit institutions	***277.8***	***At Least AA-***	*192.0*	*A+*
Loans and advances to central banks	**–**		*136.0*	*AA-*
Other advances	**130.2**		209.6	
Government institutions	***4.2***	***AA-***	*7.9*	*AA-*
Other advances	***126.0***	***Not rated***	*201.7*	*Not rated*
Financial assets at fair value through other comprehensive income	**328.6**	***AA-***	356.6	*AA-*
Financial assets subject to expected credit loss requirements	**43,873.8**		45,161.6	
Derivative financial assets[2]	**1,944.5**		2,170.4	
Total on-balance sheet financial assets	**45,818.3**		47,332.0	
Lending commitments	**5,697.2**	***Note 8***	5,812.6	*Note 8*
Maximum credit risk exposure	**51,515.5**		53,144.6	

(1) Includes £589.5 million (2023: £592.3 million) rated AAA.
(2) The net uncollateralised derivative balance was £0.3 million (2023: £20.4 million) as set out in note 21, with counterparties rated A+.

Notes to the consolidated financial statements

Managing financial risk (continued)

18. Credit risk (continued)

(ii) Staging analysis

At 31 December 2024	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	POCI £ million	Total £ million
Loans and advances to customers					
Retail – mortgages	**31,121.4**	**2,433.6**	**417.0**	**83.5**	**34,055.5**
Retail – credit cards	**379.3**	**115.6**	**33.6**	**–**	**528.5**
Retail – other unsecured	**1,280.0**	**128.4**	**61.1**	**0.6**	**1,470.1**
Business banking	**370.9**	**19.6**	**16.5**	**–**	**407.0**
Gross customer lending balances	**33,151.6**	**2,697.2**	**528.2**	**84.1**	**36,461.1**
ECL on drawn balances	**(46.2)**	**(55.1)**	**(78.0)**	**(0.8)**	**(180.1)**
Net customer lending balance	**33,105.4**	**2,642.1**	**450.2**	**83.3**	**36,281.0**
Valuation adjustments (note 8)					**49.9**
Net balance sheet carrying value					**36,330.9**
Allowance for credit impairment losses					
Retail – mortgages	**13.7**	**14.8**	**18.1**	**0.8**	**47.4**
Retail – credit cards(2)	**5.5**	**19.4**	**19.1**	**–**	**44.0**
Retail – other unsecured(3)	**25.3**	**20.1**	**39.9**	**–**	**85.3**
Business banking	**1.7**	**0.8**	**0.9**	**–**	**3.4**
Total	**46.2**	**55.1**	**78.0**	**0.8**	**180.1**
Coverage (%)					
Retail – mortgages	**0.04%**	**0.61%**	**4.34%**	**0.96%**	**0.14%**
Retail – credit cards	**1.45%**	**16.78%**	**56.85%**	**–**	**8.33%**
Retail – other unsecured	**1.98%**	**15.65%**	**65.30%**	**–**	**5.80%**
Business banking	**0.46%**	**4.08%**	**5.45%**	**–**	**0.84%**
Total	**0.14%**	**2.04%**	**14.77%**	**0.95%**	**0.49%**
At 31 December 2023(1)					
Loans and advances to customers					
Retail – mortgages	30,281.1	3,267.9	404.6	93.9	34,047.5
Retail – credit cards	364.7	135.6	30.3	–	530.6
Retail – other unsecured	1,097.6	189.8	61.7	1.0	1,350.1
Business banking	372.5	91.6	11.5	–	475.6
Gross customer lending balances	32,115.9	3,684.9	508.1	94.9	36,403.8
ECL on drawn balances	(55.9)	(76.9)	(78.0)	(1.0)	(211.8)
Net customer lending balance	32,060.0	3,608.0	430.1	93.9	36,192.0
Valuation adjustments (note 8)					53.9
Net balance sheet carrying value					36,245.9
Allowance for credit impairment losses(2)					
Retail – mortgages	14.4	22.4	19.6	1.0	57.4
Retail – credit cards	7.2	21.1	15.9	–	44.2
Retail – other unsecured	30.7	31.2	41.6	–	103.5
Business banking	3.6	2.2	0.9	–	6.7
Total	55.9	76.9	78.0	1.0	211.8
Coverage (%)					
Retail – mortgages	0.05%	0.69%	4.84%	1.06%	0.17%
Retail – credit cards	1.97%	15.56%	52.48%	–	8.33%
Retail – other unsecured	2.80%	16.44%	67.42%	–	7.67%
Business banking	0.97%	2.40%	7.83%	–	1.41%
Total	0.17%	2.09%	15.35%	1.05%	0.58%

(1) Prior year amounts have been reanalysed to present Retail – credit cards separately from Retail – other unsecured.
(2) Excludes expected credit impairment provisions for off balance sheet exposures of £8.6 million (2023: £10.4 million). These comprise of stage 1 of £4.0 million (2023: £4.6 million), stage 2 of £2.6 million (2023: £4.0 million), stage 3 of £2.0 million (2023: £1.8 million), and POCI of £nil (2023: £nil).

For all other classes of financial assets (as listed in note 18(i) on page 95), expected credit losses are immaterial.

Notes to the consolidated financial statements

Managing financial risk (continued)

18. Credit risk (continued)

(iii) Reconciliation of movements in gross customer balances and allowances for credit impairment losses

The tables below summarise the movements between stages for loans and advances to customers.

	Stage 1		Stage 2		Stage 3		POCI[1]		Total	
TSB drawn balances	Gross £ million	ECL £ million	Gross £ million	ECL £ million	Gross £ million	ECL £ million	Gross £ million	ECL £ million	Gross £ million	ECL £ million
At 1 January 2023	33,737.1	(38.1)	3,866.8	(96.0)	472.1	(63.3)	109.3	(0.6)	38,185.3	(198.0)
Changes reflected in impairment losses:	(1,065.4)	(19.1)	(493.2)	(12.3)	(136.1)	(34.4)	(14.4)	(0.4)	(1,709.1)	(66.2)
Increases due to originations	5,727.6	(18.8)	220.5	–	40.8	–	4.7	–	5,993.6	(18.8)
Decreases due to repayments	(6,793.0)	5.0	(713.7)	3.0	(176.9)	6.1	(19.1)	1.0	(7,702.7)	15.1
Changes in credit risk[2]	–	(5.3)	–	(15.3)	–	(40.5)	–	(1.4)	–	(62.5)
Amounts written off	–	–	–	–	(72.4)	52.4	–	–	(72.4)	52.4
Transfers between stages[3] [4]	(555.8)	1.3	311.3	31.4	244.5	(32.7)	–	–	–	–
To stage 1	4,786.9	(17.2)	(4,766.4)	16.9	(20.5)	0.3	–	–	–	–
To stage 2	(5,292.1)	17.5	5,361.6	(20.8)	(69.5)	3.3	–	–	–	–
To stage 3	(50.6)	1.0	(283.9)	35.3	334.5	(36.3)	–	–	–	–
At 31 December 2023	32,115.9	(55.9)	3,684.9	(76.9)	508.1	(78.0)	94.9	(1.0)	36,403.8	(211.8)
Changes reflected in impairment losses:	**517.0**	**5.6**	**(257.1)**	**(5.4)**	**(119.8)**	**(20.4)**	**(10.8)**	**0.2**	**129.3**	**(20.0)**
Increases due to originations	**6,874.9**	**(36.9)**	**162.9**	**–**	**42.2**	**–**	**5.1**	**–**	**7,085.1**	**(36.9)**
Decreases due to repayments	**(6,357.9)**	**7.5**	**(420.0)**	**3.0**	**(162.0)**	**7.0**	**(15.9)**	**0.5**	**(6,955.8)**	**18.0**
Changes in credit risk[2]	**–**	**35.0**	**–**	**(8.4)**	**–**	**(27.4)**	**–**	**(0.3)**	**–**	**(1.1)**
Amounts written off	**–**	**–**	**–**	**–**	**(72.0)**	**51.7**	**–**	**–**	**(72.0)**	**51.7**
Transfers between stages[3] [4]	**518.7**	**4.1**	**(730.6)**	**27.2**	**211.9**	**(31.3)**	**–**	**–**	**–**	**–**
To stage 1	**2,290.9**	**(21.7)**	**(2,267.6)**	**21.4**	**(23.3)**	**0.3**	**–**	**–**	**–**	**–**
To stage 2	**(1,724.4)**	**23.8**	**1,790.1**	**(27.1)**	**(65.7)**	**3.3**	**–**	**–**	**–**	**–**
To stage 3	**(47.8)**	**2.0**	**(253.1)**	**32.9**	**300.9**	**(34.9)**	**–**	**–**	**–**	**–**
At 31 December 2024	**33,151.6**	**(46.2)**	**2,697.2**	**(55.1)**	**528.2**	**(78.0)**	**84.1**	**(0.8)**	**36,461.1**	**(180.1)**

	Stage 1		Stage 2		Stage 3		POCI		Total	
Retail – mortgages	Gross £ million	ECL £ million	Gross £ million	ECL £ million	Gross £ million	ECL £ million	Gross £ million	ECL £ million	Gross £ million	ECL £ million
At 1 January 2023	31,812.9	(14.0)	3,366.8	(26.2)	366.8	(13.3)	108.5	(0.6)	35,655.0	(54.1)
Changes reflected in impairment losses:	(1,086.4)	1.5	(414.5)	0.9	(91.2)	(5.0)	(14.6)	(0.4)	(1,606.7)	(3.0)
Increases due to originations	4,258.7	(5.2)	10.1	–	10.6	–	1.9	–	4,281.3	(5.2)
Decreases due to repayments	(5,345.1)	2.8	(424.6)	1.3	(101.8)	4.0	(16.5)	1.0	(5,888.0)	9.1
Changes in credit risk[2]	–	3.9	–	(0.4)	–	(9.0)	–	(1.4)	–	(6.9)
Amounts written off	–	–	–	–	(0.8)	(0.3)	–		(0.8)	(0.3)
Transfers between stages[3] [4]	(445.4)	(1.9)	315.6	2.9	129.8	(1.0)	–	–	–	–
To stage 1	4,185.0	(7.5)	(4,171.8)	7.2	(13.2)	0.3	–	–	–	–
To stage 2	(4,608.5)	5.4	4,664.3	(7.0)	(55.8)	1.6	–	–	–	–
To stage 3	(21.9)	0.2	(176.9)	2.7	198.8	(2.9)	–	–	–	–
At 31 December 2023	30,281.1	(14.4)	3,267.9	(22.4)	404.6	(19.6)	93.9	(1.0)	34,047.5	(57.4)
Changes reflected in impairment losses:	**275.7**	**3.8**	**(169.0)**	**2.7**	**(88.0)**	**3.3**	**(10.4)**	**0.2**	**8.3**	**10.0**
Increases due to originations	**5,076.8**	**(4.1)**	**5.9**	**–**	**15.2**	**–**	**2.4**	**–**	**5,100.3**	**(4.1)**
Decreases due to repayments	**(4,801.1)**	**2.4**	**(174.9)**	**0.8**	**(103.2)**	**4.1**	**(12.8)**	**0.5**	**(5,092.0)**	**7.8**
Changes in credit risk[2]	**–**	**5.5**	**–**	**1.9**	**–**	**(0.8)**	**–**	**(0.3)**	**–**	**6.3**
Amounts written off	**–**	**–**	**–**	**–**	**(0.3)**	**–**	**–**	**–**	**(0.3)**	**–**
Transfers between stages[3] [4]	**564.6**	**(3.1)**	**(665.3)**	**4.9**	**100.7**	**(1.8)**	**–**	**–**	**–**	**–**
To stage 1	**1,694.7**	**(7.8)**	**(1,679.6)**	**7.7**	**(15.1)**	**0.1**	**–**	**–**	**–**	**–**
To stage 2	**(1,109.6)**	**4.2**	**1,162.5**	**(5.8)**	**(52.9)**	**1.6**	**–**	**–**	**–**	**–**
To stage 3	**(20.5)**	**0.5**	**(148.2)**	**3.0**	**168.7**	**(3.5)**	**–**	**–**	**–**	**–**
At 31 December 2024	**31,121.4**	**(13.7)**	**2,433.6**	**(14.8)**	**417.0**	**(18.1)**	**83.5**	**(0.8)**	**34,055.5**	**(47.4)**

Notes are shown under the table on page 99.

Notes to the consolidated financial statements

Managing financial risk (continued)

18. Credit risk (continued)

(iii) Reconciliation of movements in gross customer balances and allowances for credit impairment losses

Retail – credit cards[5]	Stage 1 Gross £ million	Stage 1 ECL £ million	Stage 2 Gross £ million	Stage 2 ECL £ million	Stage 3 Gross £ million	Stage 3 ECL £ million	POCI Gross £ million	POCI ECL £ million	Total Gross £ million	Total ECL £ million
At 1 January 2023	345.9	(3.1)	138.5	(25.6)	24.2	(13.7)	–	–	508.6	(42.4)
Changes reflected in impairment losses:	54.7	(4.4)	(13.6)	(1.5)	(2.7)	(8.3)	–	–	38.4	(14.2)
Increases due to originations	628.3	(0.1)	123.6	–	6.4	–	–	–	758.3	(0.1)
Decreases due to repayments	(573.6)	–	(137.2)	–	(9.1)	(1.0)	–	–	(719.9)	(1.0)
Changes in credit risk[2]	–	(4.3)	–	(1.5)	–	(7.3)	–	–	–	(13.1)
Amounts written off	–	–	–	–	(16.4)	12.4	–	–	(16.4)	12.4
Transfers between stages[3] [4]	(35.9)	0.3	10.7	6.0	25.2	(6.3)	–	–	–	–
To stage 1	163.9	(3.1)	(163.3)	3.1	(0.6)	–	–	–	–	–
To stage 2	(195.6)	3.3	198.7	(3.9)	(3.1)	0.6	–	–	–	–
To stage 3	(4.2)	0.1	(24.7)	6.8	28.9	(6.9)	–	–	–	–
At 31 December 2023	364.7	(7.2)	135.6	(21.1)	30.3	(15.9)	–	–	530.6	(44.2)
Changes reflected in impairment losses:	**35.1**	**0.4**	**(16.2)**	**(2.2)**	**(4.3)**	**(10.2)**	**–**	**–**	**14.6**	**(12.0)**
Increases due to originations	**650.0**	**(0.3)**	**95.3**	**–**	**5.4**	**–**	**–**	**–**	**750.7**	**(0.3)**
Decreases due to repayments	**(614.9)**	**–**	**(111.5)**	**0.1**	**(9.7)**	**0.1**	**–**	**–**	**(736.1)**	**0.2**
Changes in credit risk[2]	**–**	**0.7**	**–**	**(2.3)**	**–**	**(10.3)**	**–**	**–**	**–**	**(11.9)**
Amounts written off	**–**	**–**	**–**	**–**	**(16.7)**	**12.2**	**–**	**–**	**(16.7)**	**12.2**
Transfers between stages[3] [4]	**(20.5)**	**1.3**	**(3.8)**	**3.9**	**24.3**	**(5.2)**	**–**	**–**	**–**	**–**
To stage 1	**209.5**	**(4.3)**	**(209.1)**	**4.3**	**(0.4)**		**–**	**–**	**–**	**–**
To stage 2	**(226.6)**	**5.5**	**230.7**	**(6.2)**	**(4.1)**	**0.7**	**–**	**–**	**–**	**–**
To stage 3	**(3.4)**	**0.1**	**(25.4)**	**5.8**	**28.8**	**(5.9)**	**–**	**–**	**–**	**–**
At 31 December 2024	**379.3**	**(5.5)**	**115.6**	**(19.4)**	**33.6**	**(19.1)**	**–**	**–**	**528.5**	**(44.0)**

Retail – other unsecured[5]	Stage 1 Gross £ million	Stage 1 ECL £ million	Stage 2 Gross £ million	Stage 2 ECL £ million	Stage 3 Gross £ million	Stage 3 ECL £ million	POCI Gross £ million	POCI ECL £ million	Total Gross £ million	Total ECL £ million
At 1 January 2023	1,141.0	(14.8)	259.8	(42.7)	48.2	(35.5)	0.8	–	1,449.8	(93.0)
Changes reflected in impairment losses:	14.5	(18.2)	(56.5)	(10.9)	(3.6)	(21.1)	0.2	–	(45.4)	(50.2)
Increases due to originations	790.5	(13.0)	66.1	–	23.1	–	2.8	–	882.5	(13.0)
Decreases due to repayments	(776.0)	2.0	(122.6)	1.7	(26.7)	3.0	(2.6)	–	(927.9)	6.7
Changes in credit risk[2]	–	(7.2)	–	(12.6)	–	(24.1)	–	–	–	(43.9)
Amounts written off	–	–	–	–	(54.3)	39.7	–	–	(54.3)	39.7
Transfers between stages[3] [4]	(57.9)	2.3	(13.5)	22.4	71.4	(24.7)	–	–	–	–
To stage 1	299.0	(5.8)	(296.7)	5.8	(2.3)	–	–	–	–	–
To stage 2	(333.0)	7.4	337.3	(8.5)	(4.3)	1.1	–	–	–	–
To stage 3	(23.9)	0.7	(54.1)	25.1	78.0	(25.8)	–	–	–	–
At 31 December 2023	1,097.6	(30.7)	189.8	(31.2)	61.7	(41.6)	1.0	–	1,350.1	(103.5)
Changes reflected in impairment losses:	**240.1**	**–**	**(56.3)**	**(7.0)**	**(9.0)**	**(13.4)**	**(0.4)**	**–**	**174.4**	**(20.4)**
Increases due to originations	**1,093.0**	**(32.0)**	**52.4**	**–**	**21.4**	**–**	**2.7**	**–**	**1,169.5**	**(32.0)**
Decreases due to repayments	**(852.9)**	**4.8**	**(108.7)**	**1.9**	**(30.4)**	**2.6**	**(3.1)**	**–**	**(995.1)**	**9.3**
Changes in credit risk[2]	**–**	**27.2**	**–**	**(8.9)**	**–**	**(16.0)**	**–**	**–**		**2.3**
Amounts written off	**–**	**–**	**–**	**–**	**(54.4)**	**38.6**	**–**	**–**	**(54.4)**	**38.6**
Transfers between stages[3] [4]	**(57.7)**	**5.4**	**(5.1)**	**18.1**	**62.8**	**(23.5)**	**–**	**–**	**–**	**–**
To stage 1	**266.1**	**(8.8)**	**(263.5)**	**8.6**	**(2.6)**	**0.2**	**–**	**–**	**–**	**–**
To stage 2	**(300.3)**	**12.8**	**306.0**	**(13.8)**	**(5.7)**	**1.0**	**–**	**–**	**–**	**–**
To stage 3	**(23.5)**	**1.4**	**(47.6)**	**23.3**	**71.1**	**(24.7)**	**–**	**–**	**–**	**–**
At 31 December 2024	**1,280.0**	**(25.3)**	**128.4**	**(20.1)**	**61.1**	**(39.9)**	**0.6**	**–**	**1,470.1**	**(85.3)**

Notes are shown under the table on the following page.

Notes to the consolidated financial statements

Managing financial risk (continued)

18. Credit risk (continued)

(iii) Reconciliation of movements in gross customer balances and allowances for credit impairment losses

Business banking	Stage 1 Gross £ million	Stage 1 ECL £ million	Stage 2 Gross £ million	Stage 2 ECL £ million	Stage 3 Gross £ million	Stage 3 ECL £ million	POCI Gross £ million	POCI ECL £ million	Total Gross £ million	Total ECL £ million
At 1 January 2023	437.3	(6.2)	101.7	(1.5)	32.9	(0.8)	–	–	571.9	(8.5)
Changes reflected in impairment losses:	(48.2)	2.0	(8.6)	(0.8)	(38.6)	–	–	–	(95.4)	1.2
Increases due to originations	50.1	(0.5)	20.7	–	0.7	–	–	–	71.5	(0.5)
Decreases due to repayments	(98.3)	0.2	(29.3)	–	(39.3)	0.1	–	–	(166.9)	0.3
Changes in credit risk(2)	–	2.3	–	(0.8)	–	(0.1)	–	–	–	1.4
Amounts written off	–	–	–	–	(0.9)	0.6	–	–	(0.9)	0.6
Transfers between stages(3) (4)	(16.6)	0.6	(1.5)	0.1	18.1	(0.7)	–	–	–	–
To stage 1	139.0	(0.8)	(134.6)	0.8	(4.4)	–	–	–	–	–
To stage 2	(155.0)	1.4	161.3	(1.4)	(6.3)	–	–	–	–	–
To stage 3	(0.6)	–	(28.2)	0.7	28.8	(0.7)	–	–	–	–
At 31 December 2023	372.5	(3.6)	91.6	(2.2)	11.5	(0.9)	–	–	475.6	(6.7)
Changes reflected in impairment losses:	**(33.9)**	**1.4**	**(15.6)**	**1.1**	**(18.5)**	**(0.1)**	**–**	**–**	**(68.0)**	**2.4**
Increases due to originations	**55.1**	**(0.5)**	**9.3**	**–**	**0.2**	**–**	**–**	**–**	**64.6**	**(0.5)**
Decreases due to repayments	**(89.0)**	**0.3**	**(24.9)**	**0.2**	**(18.7)**	**0.2**	**–**	**–**	**(132.6)**	**0.7**
Changes in credit risk(2)	**–**	**1.6**	**–**	**0.9**	**–**	**(0.3)**	**–**	**–**	**–**	**2.2**
Amounts written off	**–**	**–**	**–**	**–**	**(0.6)**	**0.9**	**–**	**–**	**(0.6)**	**0.9**
Transfers between stages(3) (4)	**32.3**	**0.5**	**(56.4)**	**0.3**	**24.1**	**(0.8)**	**–**	**–**	**–**	**–**
To stage 1	**120.6**	**(0.8)**	**(115.4)**	**0.8**	**(5.2)**	**–**	**–**	**–**	**–**	**–**
To stage 2	**(87.9)**	**1.3**	**90.9**	**(1.3)**	**(3.0)**	**–**	**–**	**–**	**–**	**–**
To stage 3	**(0.4)**	**–**	**(31.9)**	**0.8**	**32.3**	**(0.8)**	**–**	**–**	**–**	**–**
At 31 December 2024	**370.9**	**(1.7)**	**19.6**	**(0.8)**	**16.5**	**(0.9)**	**–**	**–**	**407.0**	**(3.4)**

Footnotes to the tables in note 18(iii) on pages 97 to 99:

(1) POCI is purchased or originated as credit impaired.

(2) Includes changes to the allowance for credit impairment losses arising from stage transfers and other changes to risk parameters.

(3) Transfers between stages are an aggregation of monthly movements over the year and are based on balances and ECL at the start of each month.

(4) The net remeasurement of ECL on stage transfer is reported within the stage that the assets are transferred into. This represents the period to date ECL movement on net assets transferred into a particular stage. This is not a subtotal of the 'transfers from' and 'transfers to' rows that precede this row.

(5) Prior year amounts have been reanalysed to present Retail – credit cards separately from Retail – other unsecured. Previously these amounts were presented as Retail – unsecured.

The movement in expected credit loss provisions in respect of off balance sheet exposures is shown in note 30.

Notes to the consolidated financial statements

Managing financial risk (continued)

18. Credit risk (continued)

(iii) Reconciliation of movements in gross customer balances and allowances for credit impairment losses

Performance overview
Gross loans balances increased by £57.3 million to £36,461.1 million (2023: £36,403.8 million) reflecting the competitive UK mortgage lending market and the management decision to protect margins.

Stage 1 gross customer lending balances increased by £1,035.7 million to £33,151.6 million (2023: £32,115.9 million), reflecting net new originations and a net transfer from stage 2 reflecting the improving economic outlook.

Stage 2 gross customer lending balances decreased by £987.7 million to £2,697.2 million (2023: £3,684.9 million) driven by ongoing loan repayments by customers and the above net transfer to stage 1 from stage 2.

Stage 3 gross customer lending balances increased by £20.1 million to £528.2 million (2023: £508.1 million), primarily driven by increases in Retail – mortgages.

Gross loans written off during 2024 of £72.0 million (2023: £72.4 million) continue to be subject to the right to undertake enforcement activities, despite there being no realistic prospect of recovery.

Reconciliation to amounts recognised in the income statement

	2024 £ million	2023 £ million
Income statement (credit)/charge reported in the allowance for credit impairment losses:		
Increases due to originations[(1)]	**36.9**	18.8
Decreases due to repayments[(1)]	**(18.0)**	(15.1)
Charge/(credit) due to changes in credit risk[(1)]	**1.1**	62.5
Release to income statement of allowance associated with gross carrying amounts written off[(1)]	**(51.7)**	(52.4)
	(31.7)	13.8
Other amounts charged/(credited) to impairment losses in the income statement:		
Gross carrying amounts written off to income statement	**72.0**	72.4
Recoveries of amounts previously written off	**(10.6)**	(11.9)
Other amounts charged to the income statement	**2.2**	(2.5)
Impairment losses on financial assets at amortised cost	**31.9**	71.8
Impairment losses on financial assets at amortised cost	**31.9**	71.8
Impairment credit on credit impairment provisions in respect of loan commitments (note 30)	**(1.8)**	(3.5)
Impairment losses per income statement	**30.1**	68.3

(1) As reported in the reconciliation of movements in allowances for credit impairment losses in note 18(iii) on page 97.

Notes to the consolidated financial statements

Managing financial risk (continued)

18. Credit risk (continued)

(iv) Stage 2 balances

The following table shows the reason for stage 2 classification at the reporting date.

At 31 December 2024	PD Deterioration £ million	Performing Forborne £ million	>30DPD £ million	Total £ million
Gross customer lending balances				
Retail – mortgages	**2,256.6**	**55.3**	**121.7**	**2,433.6**
Retail – credit cards	**102.3**	**3.2**	**10.1**	**115.6**
Retail – other unsecured	**119.0**	**2.7**	**6.7**	**128.4**
Business banking	**12.9**	**0.4**	**6.3**	**19.6**
Total	**2,490.8**	**61.6**	**144.8**	**2,697.2**
Allowance for credit impairment losses				
Retail – mortgages	**12.7**	**0.2**	**1.9**	**14.8**
Retail – credit cards	**16.5**	**0.3**	**2.6**	**19.4**
Retail – other unsecured	**15.9**	**0.1**	**4.1**	**20.1**
Business banking	**0.7**	**–**	**0.1**	**0.8**
Total	**45.8**	**0.6**	**8.7**	**55.1**

At 31 December 2023	PD Deterioration £ million	Performing Forborne £ million	>30DPD £ million	Total £ million
Gross customer lending balances				
Retail – mortgages	3,074.4	55.8	137.7	3,267.9
Retail – credit cards	123.0	2.6	10.0	135.6
Retail – other unsecured	180.8	2.0	7.0	189.8
Business banking	74.5	0.2	16.9	91.6
Total	3,452.7	60.6	171.6	3,684.9
Allowance for credit impairment losses				
Retail – mortgages	19.9	0.4	2.1	22.4
Retail – credit cards	18.0	0.3	2.8	21.1
Retail – other unsecured	26.6	0.2	4.4	31.2
Business banking	2.0	–	0.2	2.2
Total	66.5	0.9	9.5	76.9

(v) Stage 3 balances

	2024		2023	
Stage 3	Gross loans £ million	ECL £ million	Gross loans £ million	ECL £ million
Credit impaired - not in a cure period	**320.9**	**(48.3)**	284.4	(45.6)
Credit impaired - in the cure period that precedes transfer to stage 2	**207.3**	**(29.7)**	223.7	(32.4)
Total stage 3	**528.2**	**(78.0)**	508.1	(78.0)

Balances that are credit impaired and not in a cure period comprise of loans and advances to customers that are more than 90 days past due, or considered by management as unlikely to pay their obligations, as described under the heading 'definition of default for IFRS 9' on page 77. Balances that were credit impaired but operating within the cure period required by TSB policy prior to a transfer to stage 2 comprise of customers who have cured but who were 90 days past due, or considered unlikely to pay, in the previous six months.

Notes to the consolidated financial statements

Managing financial risk (continued)

18. Credit risk (continued)

(vi) Credit quality of loans and advances to customers and lending commitments

In assessing the credit quality of loans and advances to customers and lending commitments, TSB uses an internal rating scale which assigns a grade based on a customer's 12 month expected probability of default (PD). For unsecured, the PDs used to assign a risk grade, as shown in the table below, are point in time PDs. For Secured (retail) and Business banking the PDs used are those used to assess IFRS 9 staging and expected credit loss measurement, which are adjusted to reflect the effect of forward looking economic scenarios.

	PD range Lower	PD range Upper	Internal Grading
Excellent quality	0%	1.200%	0-3
Good quality	1.201%	4.500%	4-5
Satisfactory quality	4.501%	14.000%	6-8
Lower quality	14.001%	20.000%	9
Below standard (including in default)	20.001%	100%	10-13

The table below sets out the credit quality, by stage, of gross loan and advances to customers.

	Gross loans					Allowance for credit impairment losses				
2024	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	POCI £ million	Total £ million	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	POCI £ million	Total £ million
Retail – mortgages										
Excellent quality	**30,704.0**	**68.3**	**–**	**2.3**	**30,774.6**	**12.3**	**–**	**–**	**–**	**12.3**
Good quality	**367.7**	**191.5**	**–**	**13.1**	**572.3**	**1.0**	**0.3**	**–**	**–**	**1.3**
Satisfactory quality	**41.9**	**1,016.5**	**–**	**33.1**	**1,091.5**	**0.3**	**3.3**	**–**	**–**	**3.6**
Lower quality	**3.9**	**309.5**	**–**	**5.6**	**319.0**	**0.1**	**1.2**	**–**	**–**	**1.3**
Below standard	**3.9**	**847.8**	**417.0**	**29.4**	**1,298.1**	**–**	**10.0**	**18.1**	**0.8**	**28.9**
	31,121.4	**2,433.6**	**417.0**	**83.5**	**34,055.5**	**13.7**	**14.8**	**18.1**	**0.8**	**47.4**
Retail – credit cards										
Excellent quality	**188.2**	**0.8**	**0.6**	**–**	**189.6**	**1.0**	**–**	**0.3**	**–**	**1.3**
Good quality	**156.9**	**35.7**	**2.5**	**–**	**195.1**	**2.7**	**3.3**	**1.0**	**–**	**7.0**
Satisfactory quality	**30.8**	**47.7**	**3.3**	**–**	**81.8**	**1.4**	**7.0**	**1.2**	**–**	**9.6**
Lower quality	**2.2**	**10.2**	**3.0**	**–**	**15.4**	**0.2**	**2.2**	**1.2**	**–**	**3.6**
Below standard	**1.2**	**21.2**	**24.2**	**–**	**46.6**	**0.2**	**6.9**	**15.4**	**–**	**22.5**
	379.3	**115.6**	**33.6**	**–**	**528.5**	**5.5**	**19.4**	**19.1**	**–**	**44.0**
Retail – other unsecured										
Excellent quality	**601.8**	**6.3**	**5.1**	**–**	**613.2**	**4.7**	**0.3**	**3.0**	**–**	**8.0**
Good quality	**555.1**	**34.0**	**8.5**	**0.1**	**597.7**	**12.6**	**2.3**	**5.3**	**–**	**20.2**
Satisfactory quality	**114.6**	**58.0**	**8.7**	**0.4**	**181.7**	**6.5**	**7.2**	**5.2**	**–**	**18.9**
Lower quality	**4.4**	**10.0**	**2.1**	**–**	**16.5**	**0.8**	**2.0**	**1.3**	**–**	**4.1**
Below standard	**4.1**	**20.1**	**36.7**	**0.1**	**61.0**	**0.7**	**8.3**	**25.1**	**–**	**34.1**
	1,280.0	**128.4**	**61.1**	**0.6**	**1,470.1**	**25.3**	**20.1**	**39.9**	**–**	**85.3**
Business banking										
Excellent quality	**208.3**	**0.2**	**0.1**	**–**	**208.6**	**0.6**	**–**	**–**	**–**	**0.6**
Good quality	**145.5**	**12.2**	**–**	**–**	**157.7**	**0.8**	**0.3**	**–**	**–**	**1.1**
Satisfactory quality	**16.9**	**3.9**	**–**	**–**	**20.8**	**0.3**	**0.1**	**–**	**–**	**0.4**
Lower quality	**–**	**0.2**	**–**	**–**	**0.2**	**–**	**–**	**–**	**–**	**–**
Below standard	**0.2**	**3.1**	**16.4**	**–**	**19.7**	**–**	**0.4**	**0.9**	**–**	**1.3**
	370.9	**19.6**	**16.5**	**–**	**407.0**	**1.7**	**0.8**	**0.9**	**–**	**3.4**
Total										
Excellent quality	**31,702.3**	**75.6**	**5.8**	**2.3**	**31,786.0**	**18.6**	**0.3**	**3.3**	**–**	**22.2**
Good quality	**1,225.2**	**273.4**	**11.0**	**13.2**	**1,522.8**	**17.1**	**6.2**	**6.3**	**–**	**29.6**
Satisfactory quality	**204.2**	**1,126.1**	**12.0**	**33.5**	**1,375.8**	**8.5**	**17.6**	**6.4**	**–**	**32.5**
Lower quality	**10.5**	**329.9**	**5.1**	**5.6**	**351.1**	**1.1**	**5.4**	**2.5**	**–**	**9.0**
Below standard	**9.4**	**892.2**	**494.3**	**29.5**	**1,425.4**	**0.9**	**25.6**	**59.5**	**0.8**	**86.8**
	33,151.6	**2,697.2**	**528.2**	**84.1**	**36,461.1**	**46.2**	**55.1**	**78.0**	**0.8**	**180.1**

Notes to the consolidated financial statements

Managing financial risk (continued)

18. Credit risk (continued)

(vi) Credit quality of loans and advances to customers and lending commitments (continued)

2023	Gross loans					Allowance for credit impairment losses				
	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	POCI £ million	Total £ million	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	POCI £ million	Total £ million
Retail – mortgages										
Excellent quality	29,760.3	16.5	–	2.3	29,779.1	13.1	–	–	–	13.1
Good quality	477.3	287.1	–	47.6	812.0	1.1	1.0	–	–	2.1
Satisfactory quality	34.3	990.5	–	14.3	1,039.1	0.2	2.4	–	–	2.6
Lower quality	4.6	532.4	–	–	537.0	–	2.7	–	–	2.7
Below standard	4.6	1,441.4	404.6	29.7	1,880.3	–	16.3	19.6	1.0	36.9
	30,281.1	3,267.9	404.6	93.9	34,047.5	14.4	22.4	19.6	1.0	57.4
Retail – credit cards										
Excellent quality	179.6	7.8	0.5	–	187.9	1.1	0.6	0.2	–	1.9
Good quality	139.5	58.7	2.1	–	200.3	3.1	5.6	0.8	–	9.5
Satisfactory quality	40.7	41.4	3.3	–	85.4	2.3	6.6	1.0	–	9.9
Lower quality	2.9	7.8	0.9	–	11.6	0.3	1.7	0.3	–	2.3
Below standard	2.0	19.9	23.5	–	45.4	0.4	6.6	13.6	–	20.6
	364.7	135.6	30.3	–	530.6	7.2	21.1	15.9	–	44.2
Retail – other unsecured										
Excellent quality	520.2	12.7	4.9	0.1	537.9	5.6	0.5	3.0	–	9.1
Good quality	463.7	92.4	8.9	0.1	565.1	15.1	8.0	5.6	–	28.7
Satisfactory quality	108.1	57	8.1	0.6	173.8	8.7	10.9	5.1	–	24.7
Lower quality	3.1	9.1	1.9	–	14.1	0.6	2.7	1.2	–	4.5
Below standard	2.5	18.6	37.9	0.2	59.2	0.7	9.1	26.7	–	36.5
	1,097.6	189.8	61.7	1.0	1,350.1	30.7	31.2	41.6	–	103.5
Business banking										
Excellent quality	130.7	–	–	–	130.7	0.7	–	–	–	0.7
Good quality	228.7	0.5	–	–	229.2	2.5	–	–	–	2.5
Satisfactory quality	10.5	59.3	–	–	69.8	0.4	1.4	–	–	1.8
Lower quality	–	2.3	–	–	2.3	–	0.1	–	–	0.1
Below standard	2.6	29.5	11.5	–	43.6	–	0.7	0.9	–	1.6
	372.5	91.6	11.5	–	475.6	3.6	2.2	0.9	–	6.7
Total										
Excellent quality	30,590.8	37.0	5.4	2.4	30,635.6	20.5	1.1	3.2	–	24.8
Good quality	1,309.2	438.7	11.0	47.7	1,806.6	21.7	14.6	6.4	–	42.7
Satisfactory quality	193.6	1,148.2	11.4	14.9	1,368.1	11.6	21.3	6.1	–	39.0
Lower quality	10.6	551.6	2.8	–	565.0	1.0	7.2	1.5	–	9.7
Below standard	11.7	1,509.4	477.5	29.9	2,028.5	1.1	32.7	60.8	1.0	95.6
	32,115.9	3,684.9	508.1	94.9	36,403.8	55.9	76.9	78.0	1.0	211.8

Managing financial risk (continued)

18. Credit risk (continued)

(vi) Credit quality of loans and advances to customers and lending commitments (continued)

2024	Gross loans Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	POCI £ million	Total £ million	Allowance for credit impairment losses Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	POCI £ million	Total £ million
Off balance sheet commitments										
Excellent quality	**4,829.1**	**22.6**	**10.5**	**0.6**	**4,862.8**	**3.2**	**0.5**	**1.2**	**–**	**4.9**
Good quality	**502.2**	**152.0**	**5.2**	**10.9**	**670.3**	**0.7**	**1.0**	**0.4**	**–**	**2.1**
Satisfactory quality	**61.8**	**42.7**	**3.1**	**0.5**	**108.1**	**0.1**	**0.7**	**0.2**	**–**	**1.0**
Lower quality	**3.5**	**5.0**	**0.7**	**18.4**	**27.6**	**–**	**0.1**	**–**	**–**	**0.1**
Below standard	**0.3**	**10.5**	**17.1**	**0.1**	**28.0**	**–**	**0.3**	**0.2**	**–**	**0.5**
Total	**5,396.9**	**232.8**	**36.6**	**30.5**	**5,696.8**	**4.0**	**2.6**	**2.0**	**–**	**8.6**
2023										
Excellent quality	4,803.1	56.9	8.0	0.5	4,868.5	3.7	0.5	1.0	–	5.2
Good quality	424.0	307.8	4.4	13.3	749.5	0.7	1.9	0.4	–	3.0
Satisfactory quality	99.7	48.2	2.9	0.2	151.0	0.2	1.1	0.2	–	1.5
Lower quality	2.8	5.0	0.4	7.4	15.6	–	0.1	–	–	0.1
Below standard	0.5	13.4	14.1	–	28.0	–	0.4	0.2	–	0.6
Total	5,330.1	431.3	29.8	21.4	5,812.6	4.6	4.0	1.8	–	10.4

(vii) Collateral held as security for financial assets

Financial assets subject to expected credit loss requirements
TSB holds collateral against loans and advances to customers in the form of retail mortgages over residential property. TSB also holds collateral against commercial secured products in the form of business assets, including commercial and residential property.

An analysis by loan-to-value (LTV) ratio of TSB's retail mortgage lending is presented below. The value of collateral used in determining the LTV ratios has been estimated based upon the last actual valuation, adjusted to take into account subsequent movements in house prices.

LTV of Retail - mortgages	2024 Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	POCI £ million	Total £ million	2023 Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	POCI £ million	Total £ million
Less than 70%	**22,037.5**	**2,318.6**	**340.9**	**78.4**	**24,775.4**	21,661.1	3,091.3	341.9	87.2	25,181.5
70% to 80%	**4,909.7**	**81.0**	**46.0**	**4.0**	**5,040.7**	4,587.1	118.5	39.7	5.3	4,750.6
80% to 90%	**3,768.1**	**28.0**	**19.0**	**0.4**	**3,815.5**	3,244.4	44.5	15.4	0.9	3,305.2
90% to 100%	**401.9**	**4.1**	**6.6**	**0.6**	**413.2**	780.4	9.8	4.6	0.4	795.2
Greater than 100%	**4.3**	**1.9**	**4.5**	**0.1**	**10.8**	8.1	3.8	3.0	0.1	15.0
Retail - mortgages	**31,121.5**	**2,433.6**	**417.0**	**83.5**	**34,055.6**	30,281.1	3,267.9	404.6	93.9	34,047.5

Climate risk, both physical and transitional, is considered when assessing property collateral valuations at origination. TSB concludes that this risk is currently low, and no material losses have been experienced from such risks.

TSB does not take physical possession of properties or other assets held as collateral and uses external agents to realise the value as soon as practicable to settle indebtedness. Any surplus funds are returned to the borrower or are otherwise dealt with in accordance with appropriate insolvency regulations. No collateral is held in respect of retail credit cards, overdrafts, or unsecured personal loans.

For business banking lending, collateral primarily consists of first charges over commercial and residential property. Where collateral is held, lending decisions are predominantly based on an obligor's ability to repay from normal business operations rather than reliance on any collateral provided. Collateral values are assessed at the time of loan origination and reassessed if there is observable evidence of distress of the borrower. In respect of the £176.1 million (2023: £266.3 million) of Bounce Back Loan Scheme loans, TSB benefits from a 100% guarantee from the British Business Bank under the terms of the scheme rules (amounts recoverable under this guarantee are shown in note 9 on page 86).

Financial assets at fair value through profit or loss (not subject to expected credit loss requirements)
Derivative financial assets of £1,944.5 million (2023: £2,170.4 million) are largely cash collateralised interest rate swaps transacted through central clearing houses. The effect of the collateralisation is shown in note 21 on page 113 under the heading Offsetting financial assets and financial liabilities.

Notes to the consolidated financial statements

Managing financial risk (continued)

18. Credit risk (continued)

(viii) Forbearance and loan modifications

TSB operates a number of schemes to assist borrowers who are experiencing financial difficulties. Forbearance solutions may offer relief in the form of reductions to contractual payments including freezes to interest payments, and for customers who have longer term financial difficulties, term extensions and capitalisation of arrears.

TSB applies the European Banking Authority definition of forbearance and at 31 December 2024, forborne loans were £431.6 million (2023: £424.5 million), of which £294.2 million (2023: £282.2 million) were credit impaired. At 31 December 2024, the allowance for loan losses held in respect of forborne loans was £60.4 million (2023: £58.4 million).

During 2024 gross balances of £45.1 million (2023: £52.1 million) in respect of unsecured loans were subject to modification of the original terms through the temporary freezing of customer interest obligations. At the time, the loans were categorised as either stage 2 or 3 and the allowance for expected credit losses was measured at lifetime expected credit loss. These resulted in modification losses of £2.0 million (2023: £2.3 million).

Notes to the consolidated financial statements

Managing financial risk (continued)

19. Liquidity risk

Definition and exposure
Liquidity risk is the risk that TSB is unable to meet its liabilities as they fall due, or is unable to maintain regulator, investor, customer or stakeholder confidence that this will be achieved. Liquidity risk is managed, monitored and measured from both an internal and regulatory perspective.

Sources of funding
TSB's funding position is underpinned by its significant customer deposit base. The deposit base is made up of customer current and savings accounts which, although mostly repayable on demand, have historically provided a stable source of funding. Further information regarding sources of funding is available on pages 71 to 75.

Risk appetite
The funding and liquidity risk appetite for TSB is set and approved annually by the Board. Risk is reported against this appetite through various metrics to enable TSB to manage the funding and liquidity position. The risk appetite is established under a liquidity risk management framework designed with the aim that TSB has sufficient financial resources of appropriate quality.

Measurement and monitoring
A series of measures are used across TSB to monitor both short-term and long-term liquidity risk. Liquidity risk is measured on a daily basis and reported internally. Daily liquidity reporting is supplemented by early warning indicators and a Liquidity Contingency Plan. Monthly reporting procedures are in place to update and inform senior management. All liquidity policies and procedures are subject to periodic independent internal oversight.

The table below presents the contractual residual maturities of the financial liabilities and assets on the balance sheet:

At 31 December 2024	On demand £ million	Up to 1 month £ million	1-3 months £ million	3-12 months £ million	1-5 years £ million	Over 5 years £ million	No contractual maturity £ million	Total Carrying Value £ million
Financial liabilities measured at amortised cost:								
Customer deposits	**29,534.9**	**216.2**	**476.2**	**3,017.8**	**1,806.1**	**–**	**–**	**35,051.2**
Borrowings from central banks	**–**	**21.9**	**–**	**797.0**	**588.0**	**–**	**–**	**1,406.9**
Debt securities in issue	**–**	**10.1**	**26.1**	**14.7**	**4,102.1**	**430.2**	**–**	**4,583.2**
Subordinated liabilities	**–**	**–**	**–**	**–**	**285.9**	**–**	**–**	**285.9**
Lease liabilities	**–**	**0.1**	**–**	**0.2**	**17.9**	**102.5**	**–**	**120.7**
Other financial liabilities	**131.9**	**14.6**	**31.6**	**200.7**	**700.4**	**107.8**	**–**	**1,187.0**
Derivative liabilities at fair value through profit or loss	**–**	**7.4**	**14.3**	**82.0**	**467.8**	**252.7**	**–**	**824.2**
Hedging derivative liabilities	**–**	**0.1**	**2.2**	**20.7**	**115.8**	**4.8**	**–**	**143.6**
Total financial liabilities	**29,666.8**	**270.4**	**550.4**	**4,133.1**	**8,084.0**	**898.0**	**–**	**43,602.7**
Financial assets at amortised cost:								
Cash, cash balances at central banks and demand deposits	**4,823.8**	**–**	**–**	**–**	**–**	**–**	**–**	**4,823.8**
Debt securities	**–**	**9.2**	**2.4**	**3.2**	**538.5**	**1,429.2**		**1,982.5**
Loans and advances to customers	**653.9**	**236.2**	**297.9**	**1,272.3**	**5,544.7**	**28,325.9**		**36,330.9**
Loans and advances to credit institutions	**277.8**	**–**	**–**	**–**	**–**	**–**	**–**	**277.8**
Other advances	**24.6**	**0.5**	**9.6**	**17.6**	**75.4**	**0.5**	**2.0**	**130.2**
Financial assets at fair value through other comprehensive income	**–**	**0.6**	**0.4**	**0.5**	**–**	**327.1**	**–**	**328.6**
Derivative assets at fair value through profit or loss	**–**	**10.0**	**23.5**	**50.3**	**410.7**	**175.7**	**–**	**670.2**
Hedging derivative assets	**–**	**10.2**	**2.7**	**28.7**	**240.6**	**992.1**	**–**	**1,274.3**
Total financial assets	**5,780.1**	**266.7**	**336.5**	**1,372.6**	**6,809.9**	**31,250.5**	**2.0**	**45,818.3**

Notes to the consolidated financial statements

Managing financial risk (continued)

19. Liquidity risk (continued)

At 31 December 2023	On demand £ million	Up to 1 month £ million	1-3 months £ million	3-12 months £ million	1-5 years £ million	Over 5 years £ million	No contractual maturity £ million	Total Carrying Value £ million
Financial liabilities measured at amortised cost:								
Customer deposits	29,779.7	99.0	185.2	2,336.3	2,364.1	–	–	34,764.3
Repurchase agreements	–	–	–	–	–	–		–
Borrowings from central banks	–	52.9	–	5.0	4,000.0	–	–	4,057.9
Debt securities in issue	–	–	518.4		900.0	2,245.7	–	3,664.1
Subordinated liabilities	–	–	–	–	277.7	–	–	277.7
Lease liabilities	–	–	–	1.5	14.5	109.0	–	125.0
Other financial liabilities	298.5	14.8	31.3	137.4	612.2	129.1	–	1,223.3
Derivative liabilities at fair value through profit or loss	–	4.8	12.3	50.7	659.0	255.3	–	982.1
Hedging derivative liabilities	–	4.2	0.4	17.6	275.7	20.8	–	318.7
Total financial liabilities	30,078.2	175.7	747.6	2,548.5	9,103.2	2,759.9	–	45,413.1
Financial assets at amortised cost:								
Cash, cash balances at central banks and demand deposits	5,897.3	–	–	–	–	–	–	5,897.3
Debt securities	–	9.4	3.3	2.2	604.3	1,505.0	–	2,124.2
Loans and advances to customers	637.6	258.4	304.3	1,295.3	5,604.3	28,146.0	–	36,245.9
Loans and advances to credit institutions	192.0	–	–	–	–	–	–	192.0
Loans and advances to central banks	–	–	–	–	–	–	136.0	136.0
Other advances	27.7	0.9	16.5	19.8	141.4	1.3	2.0	209.6
Financial assets at fair value through other comprehensive income	–	0.6	0.4	0.5	–	355.1	–	356.6
Derivative assets at fair value through profit or loss	–	18.9	24.5	58.8	586.0	135.3	–	823.5
Hedging derivative assets	–	15.8	20.2	71.0	346.2	893.7	–	1,346.9
Total financial assets	6,754.6	304.0	369.2	1,447.6	7,282.2	31,036.4	138.0	47,332.0

Expected cash flows on customer deposits and loans and advances to customers vary significantly from the contractual cash flows shown in the table above. Customer deposits are largely repayable on demand but have proven to be a stable source of funding. Loans and advances to customers comprise of a large proportion of mortgages which mature earlier than the contractual maturity as customers take advantage of early redemption options.

Notes to the consolidated financial statements

Managing financial risk (continued)

19. Liquidity risk (continued)

Contractual maturities for financial liabilities form an important source of information for the management of liquidity risk. The table below analyses financial liabilities and commitments by relevant contractual maturity grouping on an undiscounted future cash flow basis, which includes estimated interest payments.

At 31 December 2024	On demand £ million	Up to 1 month £ million	1-3 months £ million	3-12 months £ million	1-5 years £ million	Over 5 years £ million	No contractual maturity £ million	Total £ million
Liabilities								
Financial liabilities measured at amortised cost:								
Customer deposits	**29,536.2**	**235.5**	**500.1**	**3,185.3**	**1,799.7**	**–**	**–**	**35,256.8**
Repurchase agreements	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Borrowings from central banks	**–**	**21.9**	**–**	**846.1**	**623.6**	**–**	**–**	**1,491.6**
Debt securities in issue	**–**	**11.7**	**67.0**	**433.9**	**4,777.7**	**–**	**–**	**5,290.3**
Subordinated liabilities	**–**	**–**	**2.6**	**7.8**	**302.5**	**–**	**–**	**312.9**
Lease liabilities	**–**	**0.3**	**4.0**	**13.3**	**56.4**	**75.0**	**–**	**149.0**
Other financial liabilities	**131.9**	**14.6**	**31.6**	**200.7**	**700.4**	**107.8**	**–**	**1,187.0**
Loan commitments	**3,868.4**	**21.9**	**52.8**	**1,527.2**	**70.8**	**156.1**	**–**	**5,697.2**
Total non-derivative financial liabilities	**33,536.5**	**305.9**	**658.1**	**6,214.3**	**8,331.1**	**338.9**	**–**	**49,384.8**
Net settled derivatives	**–**	**39.6**	**108.8**	**334.4**	**469.4**	**79.2**	**–**	**1,031.4**
Total financial liabilities	**33,536.5**	**345.5**	**766.9**	**6,548.7**	**8,800.5**	**418.1**	**–**	**50,416.2**
At 31 December 2023								
Liabilities								
Financial liabilities measured at amortised cost:								
Customer deposits	29,778.1	175.6	219.3	2,409.5	2,502.8	–	–	35,085.3
Repurchase agreements	–	–	–	–	–	–	–	–
Borrowings from central banks	–	52.9	–	155.3	4,171.0	–	–	4,379.2
Debt securities in issue	–	–	560.0	138.9	3,501.8	–	–	4,200.7
Subordinated liabilities	–	–	2.6	7.8	312.9	–	–	323.3
Lease liabilities	–	0.3	4.6	13.3	54.0	81.7	–	153.9
Other financial liabilities	298.5	14.8	31.3	137.4	612.2	129.1	–	1,223.3
Loan commitments	3,913.9	36.3	144.2	1,431.8	62.2	224.2	–	5,812.6
Total non-derivative financial liabilities	33,990.5	279.9	962.0	4,294.0	11,216.9	435.0	–	51,178.3
Net settled derivatives	–	47.8	115.4	397.9	669.7	94.8	–	1,325.6
Total financial liabilities	33,990.5	327.7	1,077.4	4,691.9	11,886.6	529.8	–	52,503.9

The amounts shown are the net amounts for those derivatives that are net settled, which comprises the majority of TSB's derivative financial instruments. Gross nominal inflows and outflows are presented for derivatives that have simultaneous gross settlement such as cross currency swaps.

20. Capital resources

TSB maintains capital resources which exceed regulatory requirements, and which seek to support TSB's strategy and ensure that TSB is able to absorb losses under stressed conditions. Capital risk is managed under a framework where risk appetite is set and approved annually by the Board. A series of metrics is used to monitor capital against early warning indicators with regular reporting in place to update and inform senior management. Further information on capital resources is shown on pages 8 and 9 in the Financial performance in 2024 section of the Strategic report.

	2024 £ million	2023 £ million
Total equity	**2,428.1**	2,078.2
Less proposed dividend	**(300.0)**	(120.0)
Less Additional Tier 1 securities included in total equity	**(249.7)**	–
Less other regulatory deductions	**(140.3)**	(116.1)
Common Equity Tier 1	**1,738.1**	1,842.1
Additional Tier 1 capital	**249.7**	–
Total Tier 1 capital	**1,987.8**	1,842.1
Tier 2 capital	**300.0**	325.2
Total capital resources	**2,287.8**	2,167.3

Notes to the consolidated financial statements

Managing financial risk (continued)

21. Market risk

Definition and exposure
Market risk is the risk of a reduction in earnings, value or reserves caused by changes in the prices of financial instruments. TSB's market risk consists primarily of exposure to changes in interest rates. Interest rate risk is the risk that the net value of, or net income arising from, the firm's assets and liabilities is impacted as a result of changes to interest rates. Interest rate risk can also arise as a result of changes in customer behaviour, which may affect the maturity profiles of TSB's assets and liabilities. TSB's exposure to changes in interest rates includes the margin between customer and market rates. This includes the potential impact on earnings and value that could occur when, if rates fall, liabilities cannot be re-priced as quickly or by as much as assets. Any potential management actions that may be taken as a result of immediate, significant, rate shocks are not considered and these actions may impact sensitivities.

Management and measurement
Risk exposure across TSB is monitored monthly using, primarily, net interest income and earnings sensitivity. This methodology considers all re-pricing mismatches in the current balance sheet and calculates the change in net interest income that would result from a set of defined interest rate shocks. A limit structure exists to ensure that risks stemming from residual positions or from changes in assumptions about customer behaviour remain within risk appetite.

Board risk appetite is set against a 12 month view of the sensitivity of net interest income to a 250 basis point (2023: 100 basis point), instantaneous, parallel shock to interest rates, for all currencies and maturities. The balance sheet and net interest income is simulated using actual point in time positions combined with the latest forecast assumptions for balances and margins.

At 31 December 2024, the projected change in 12 month net interest income in response to an immediate parallel shift in all relevant interest rates, market and administered, would be an increase of £116.8 million (2023: £32.7 million) from a 250bps increase in rates (2023: 100bps increase in rates), and a decrease of £69.4 million (2023: £27.5 million) from a 250bps decrease (2023: 100bps decrease). The measure assumes all interest rates, for all currencies and maturities, move at the same time and by the same amount.

Derivative financial instruments
TSB holds derivative financial instruments in the normal course of its banking business largely for interest rate risk management and margin stabilisation purposes. The fair values and notional amounts of derivative instruments are presented in the following table:

				2024				2023
Derivative financial instruments not in hedge accounting relationships	Contract/ notional amount £ million	Assets fair value £ million	Liabilities fair value £ million	Gain/(loss) recognised in profit or loss £ million	Contract/ notional amount £ million	Assets fair value £ million	Liabilities fair value £ million	Gain(loss) recognised in profit or loss £ million
Interest rate swaps	**33,382.2**	**667.6**	**(824.2)**	**57.6**	27,592.2	822.9	(982.1)	11.2
Equity forwards	**10.3**	**2.6**	**–**	**5.4**	6.8	0.6	–	1.7
Total	**33,392.5**	**670.2**	**(824.2)**	**63.0**	27,599.0	823.5	(982.1)	12.9

				2024				2023
Hedging derivative financial instruments	Contract/ notional amount £ million	Assets fair value £ million	Liabilities fair value £ million	Change in fair value used for calculating hedge ineffectiveness £ million	Contract/ notional amount £ million	Assets fair value £ million	Liabilities fair value £ million	Change in fair value used for calculating hedge ineffectiveness £ million
(Fair value hedges)								
Interest rate risk								
Interest rate swaps	**31,349.2**	**1,245.7**	**(143.6)**	**(90.8)**	27,227.6	1,264.9	(315.1)	229.6
(Cash flow hedges)								
Interest rate and credit risk								
Forward settlement contracts	**–**	**–**	**–**	**–**	–	–	–	(5.9)
(Cash flow hedges)								
Interest rate risk								
Interest rate swaps	**133.0**	**26.7**	**–**	**10.7**	644.0	82.0	(3.6)	(28.8)
Foreign exchange risk								
Cross currency rate swaps	**428.0**	**1.9**	**–**	**6.9**	–	–	–	–
Total	**31,910.2**	**1,274.3**	**(143.6)**	**(73.2)**	27,871.6	1,346.9	(318.7)	194.9

Managing financial risk (continued)

21. Market risk (continued)

Risk management
Where all relevant criteria are met, hedge accounting is applied to remove the accounting mismatch between the hedging instrument and the hedged item. Such derivatives are presented on the balance sheet as hedging derivative financial instruments. Where derivatives do not meet the hedge accounting criteria they are presented on the balance sheet as derivative financial instruments not included in hedge accounting relationships.

TSB uses derivatives largely to economically hedge interest rate risk and to stabilise income and reduce its sensitivity to interest rate changes. TSB hedges SONIA benchmark interest rate risk using both fair value hedges and cash flow hedges. As a result of TSB's dynamic hedging strategies described below, the gain on derivatives at fair value through profit or loss in respect of interest rate risk of £63.0 million (2023: £12.9 million gain) should be considered in conjunction with the losses of £(32.5) million (2023: £0.6 million of gains) from the amortisation of accumulated adjustments on the hedged items for which hedge accounting no longer applies.

Hedge accounting overview
The profile of interest risk being managed is dynamic, changing in response to business activity and is economically hedged with derivatives. Where natural offsets occur, these derivatives are not designated in hedge accounting relationships. The remaining derivatives may be designated in a hedge accounting relationship to minimise profit volatility. Hedge relationships are considered effective where changes in the hedged item offset changes in the hedging instrument to within an 80% to 125% ratio. Effectiveness tests are performed at inception and on a monthly basis using either dollar offset, linear regression or critical terms match, depending on the nature of the hedged items. Ineffectiveness arising on hedge relationships can arise due to a number of factors which include basis mismatch, maturity mismatch, credit valuation adjustments and cash flow timing mismatch between the hedged item and hedging instrument.

Macro fair value hedge accounting – fixed rate mortgages and demand deposits
Pay fixed, receive floating interest rate swaps are typically designated as a portfolio fair value hedge of fixed rate mortgage assets and receive fixed, pay floating derivatives are typically designated as a portfolio fair value hedge of fixed rate customer deposits. As interest rate risk management is dynamic, TSB's approach is to de-designate these hedge relationships and re-designate new relationships on a monthly basis. The provisions of the UK-adopted version of IAS 39 mean that ineffectiveness arising due to unexpected prepayments need not be recognised though profit or loss, so long as hedge designations are made in such a way as to minimise their impact.

Micro fair value hedge accounting – subordinated debt and debt securities
TSB has issued fixed rate subordinated debt and purchased hold-to-collect and hold-to-collect and sell fixed rate debt securities as part of its Treasury management strategy. These are hedged with interest rate swaps and designated in a fair value hedge.

Cash flow hedge accounting – floating rate debt securities in issue
Interest rate risk on issued floating rate debt securities in issue is hedged using interest rate swaps that exchange floating rate cash flows for fixed rate cash flows. At 31 December 2024, £133.0 million (2023: £644.0 million) of floating rate debt securities in issue were designated in cash flow hedge relationships, of which cash flows in respect of £nil (2023: £105.0 million) were expected to mature within five years, and cash flows in respect of £133.0 million (2023: £539.0 million) were expected to mature within between five and ten years.

Cash flow hedge accounting - foreign exchange on foreign currency debt
During 2024, euro denominated fixed rate covered bonds were issued. This leads to an exposure to foreign currency risk as TSB's functional and presentational currency is pound sterling. TSB hedges the foreign currency exposure via cross currency interest rate swaps that exchange fixed rate euro cash flows and principal for floating rate sterling cash flows and principal. The swaps are structured such that the euro component matches the critical terms of the hedged covered bond issuance.

Hedge effectiveness is determined at inception of the hedge relationships by demonstrating that the critical terms of the hedged item match exactly the critical terms of the hedging instrument. To validate the effectiveness of the ongoing hedge relationship, TSB uses the hypothetical derivative method. Hedge ineffectiveness may occur due to credit valuation adjustments on the swaps which are not matched on the secured issuance.

At 31 December 2024, cross currency swaps with a notional amount of £427.9 million (2023: £nil) were expected to mature within 5 years. The exchange rate applicable to this cross currency swap was £1/€1.168361.

Notes to the consolidated financial statements

Managing financial risk (continued)

21. Market risk (continued)

Exposures covered by hedging accounting strategies
The following table contains details of the hedged exposures covered by TSB's hedging strategy:

2024	Risk type	Carrying amount of hedged item assets/(liability) £ million	Accumulated fair value hedge adj. on hedged item £ million	Balance sheet line item that includes the hedged item	Change in fair value for calculating hedge ineffectiveness £ million	Cash flow hedge reserve continuing hedges £ million
Fair value hedges						
Portfolio hedged risk:						
Demand deposits	Interest rate	**(10,478.1)**	**134.7**	**Customer deposits**	**(91.0)**	**n/a**
Fixed rate mortgages	Interest rate	**17,612.5**	**(170.9)**	**Loans & adv to customers**	**25.8**	**n/a**
Individual hedged risk:						
Subordinated liabilities	Interest rate	**(285.9)**	**14.1**	**Subordinated liabilities**	**8.2**	**n/a**
Debt securities	Interest rate	**328.6**	**–**	**Financial assets at FVOCI**	**25.8**	**n/a**
Debt securities	Interest rate	**1,567.8**	**(733.7)**	**Financial assets at amortised cost**	**120.0**	**n/a**
					88.8	
Cash flow hedges						
Covered bonds – sterling	Interest rate	**133.0**	**n/a**	**Debt securities in issue**	**10.7**	**26.6**
Covered bonds – euro	Foreign exchange/ Interest rate	**428.0**	**n/a**	**Debt securities in issue**	**6.9**	**6.9**
					17.6	**33.5**
2023						
Fair value hedges						
Portfolio hedged risk:						
Demand deposits	Interest rate	(9,616.9)	85.5	Customer deposits	221.1	n/a
Fixed rate mortgages	Interest rate	14,486.4	(154.9)	Loans & adv to customers	(370.8)	n/a
Individual hedged risk:						
Subordinated liabilities	Interest rate	(277.7)	22.4	Subordinated liabilities	12.3	n/a
Debt securities	Interest rate	356.6	–	Financial assets at FVOCI	(18.1)	n/a
Debt securities	Interest rate	1,622.8	(613.7)	Financial assets at amortised cost	(74.5)	n/a
					(230.0)	
Cash flow hedges						
Debt securities	Interest rate/credit	–	n/a	Financial assets at FVOCI	(5.9)	–
Covered bonds – sterling	Interest rate	644.0	n/a	Debt securities in issue	(28.8)	17.0
					(34.7)	17.0

The amount of fair value hedge adjustments remaining on the balance sheet relating to hedges which have been de-designated is £90.0 million (2023: £122.0 million).

Notes to the consolidated financial statements

Managing financial risk (continued)

21. Market risk (continued)

Hedge accounting ineffectiveness

The following table contains information regarding the effectiveness of the hedging relationships designated by TSB, as well as the impacts on profit or loss and other comprehensive income:

					Amounts reclassified from reserves to P&L as:	
2024	**Risk type**	**Hedge ineffectiveness recognised in P&L £ million**	**Gain/(loss) recognised in OCI £ million**	**P&L line item that includes hedge ineffectiveness**	**Hedged item affected P&L £ million**	**P&L line item that includes reclassified amount £ million**
Fair value hedges	Interest rate	**2.1**	**n/a**	Gains from hedge accounting	**n/a**	n/a
Cash flow hedges	Interest rate	**0.3**	**10.7**	Gains from hedge accounting	**(1.0)**	Other income
Cash flow hedges	Foreign exchange/ interest rate	**–**	**6.9**	Gains from hedge accounting	**–**	Other income
		2.4	**17.6**		**(1.0)**	
2023						
Fair value hedges	Interest rate	0.4	n/a	Gains from hedge accounting	n/a	n/a
Cash flow hedges	Interest rate / credit risk	–	(5.9)	Gains from hedge accounting	(4.3)	Other income
Cash flow hedges	Interest rate	(3.2)	(28.8)	Gains from hedge accounting	(0.1)	Other income
		(2.8)	(34.7)		(4.4)	

Losses from hedge accounting in the income statement of £(30.1) million (2023: £(2.2) million of losses) comprise hedge ineffectiveness gains of £2.4 million (2023: £(2.8) million of losses) and £(32.5) million of losses (2023: £0.6 million of gains) from amortisation of de-designated cash flow hedges and macro fair value hedge adjustments on hedged items for which hedge accounting had previously been discontinued.

Reconciliation of reserves in respect of hedge accounting

	2024 Fair value reserve £ million	**2024 Cash flow hedge reserve £ million**	**2023 Fair value reserve £ million**	**2023 Cash flow hedge reserve £ million**
Balance as at 1 January	**(6.5)**	**12.2**	(6.1)	40.4
Fair value hedges of interest rate risk				
Changes in fair value of debt securities	**(27.9)**	**n/a**	21.8	n/a
Accumulated fair value hedge adjustment	**25.8**	**n/a**	(18.1)	n/a
	(2.1)	**n/a**	3.7	n/a
Net amounts reclassified to profit or loss	**–**	**n/a**	(4.4)	n/a
Taxation	**0.6**	**n/a**	0.3	n/a
Cash flow hedges of interest rate and credit risk				
Effective portion of changes in fair value of forward contracts	**n/a**	**–**	n/a	(5.9)
Amounts reclassified from reserves to profit or loss	**n/a**	**–**	n/a	(4.3)
Taxation	**n/a**	**–**	n/a	2.7
Cash flow hedges of interest rate				
Effective portion of changes in fair value of interest rate swaps	**n/a**	**10.7**	n/a	(28.8)
Amounts reclassified from reserves to profit or loss	**n/a**	**(1.0)**	n/a	(0.1)
Taxation	**n/a**	**(2.8)**	n/a	8.2
Cash flow hedges of foreign exchange and interest rate risk				
Effective portion of changes in fair value of cross currency swaps	**n/a**	**6.9**	n/a	–
Amounts reclassified from reserves to profit or loss	**n/a**	**–**	n/a	–
Balance as at 31 December	**(8.0)**	**26.0**	(6.5)	12.2

Notes to the consolidated financial statements

Managing financial risk (continued)

21. Market risk (continued)

Offsetting financial assets and financial liabilities
TSB reports financial assets and financial liabilities on a net basis on the balance sheet only if there is a legally enforceable right to set-off the recognised amounts and there is intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The following information relates to financial assets and liabilities that have been set off in the balance sheet and those which have not been set off but for which TSB has enforceable master netting agreements or similar agreements in place with counterparties.

				Related amounts where set off in the balance sheet is not permitted		
At 31 December 2024	**Gross amounts £ million**	**Amounts offset £ million**	**Net amounts reported on the balance sheet £ million**	**Related financial instrument amounts not offset £ million**	**Collateral (received)/ pledged[1] £ million**	**Net amount £ million**
Derivative financial assets	**1,944.5**	**–**	**1,944.5**	**(869.0)**	**(1,075.2)**	**0.3**
Reverse repurchase agreements	**250.0**	**(250.0)**	**–**	**–**	**–**	**–**
	2,194.5	**(250.0)**	**1,944.5**	**(869.0)**	**(1,075.2)**	**0.3**
Derivative financial liabilities	**967.8**	**–**	**967.8**	**(869.0)**	**(98.8)**	**–**
Repurchase agreements	**250.0**	**(250.0)**	**–**	**–**	**–**	**–**
	1,217.8	**(250.0)**	**967.8**	**(869.0)**	**(98.8)**	**–**
At 31 December 2023						
Derivative financial assets	2,170.4	–	2,170.4	(1,146.8)	(1,003.2)	20.4
Reverse repurchase agreements	250.0	(250.0)	–	–	–	–
	2,420.4	(250.0)	2,170.4	(1,146.8)	(1,003.2)	20.4
Derivative financial liabilities	1,300.8	–	1,300.8	(1,146.8)	(153.6)	0.4
Repurchase agreements	250.0	(250.0)	–	–	–	–
	1,550.8	(250.0)	1,300.8	(1,146.8)	(153.6)	0.4

(1) Collateral amounts (cash and non-cash financial collateral) are generally undertaken under International Swaps and Derivative Association agreements. Collateral amounts are reflected at their fair value and this amount is limited to the net balance sheet exposure, by counterparty, in order to exclude any over collateralisation. The collateral amount presented includes non-cash collateral received of £52.6 million (2023: £76.9 million) and non-cash collateral pledged of £nil (2023: £0.8 million).

Amounts offset
In December 2023, TSB entered into a £250.0 million repurchase agreement that transferred legal title of certain covered bond retained notes in return for cash, together with an agreement to repurchase the assets at a later date and at a predetermined price. Concurrently, TSB entered into a £250.0 million reverse repurchase agreement with the same counterparty as the repurchase agreement. The reverse repurchase agreement transferred legal title of certain UK gilts to TSB, in return for the payment of cash, together with an agreement for TSB to sell the UK gilts at a later date and at a predetermined price. The repurchase agreement and reverse repurchase agreement mature in 2027.

Other important disclosures

Accounting policies relevant to this section

(k) Share capital
Shares are classified as equity instruments when there is no contractual obligation to deliver cash or other assets to another entity and the shares present a residual interest in the net assets of the issuer. Ordinary shares are classified as equity.

(l) Provisions and contingent liabilities and assets
Provisions are recognised in respect of present obligations arising from past events where it is probable that outflows of resources will be required to settle the obligations and they can be reliably estimated.

Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or those present obligations where the outflows of resources are uncertain or cannot be measured reliably. Contingent liabilities are not recognised in the financial statements but are disclosed unless they are remote.

Contingent assets are possible assets that arise from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within TSB's control. These are recognised only when it is virtually certain that an inflow of economic benefits will arise.

(m) Premises and equipment
Property, plant and equipment are recognised at cost less accumulated depreciation. Cost includes the original purchase price of the assets and the costs attributable to bringing the asset into working condition for its intended use. Subsequent expenditure is capitalised only if it is probable that future economic benefits associated with the expenditure will flow to TSB. The value of land (included in premises) is not depreciated. Depreciation on other premises and equipment is calculated using the straight-line method to allocate the difference between the cost and the residual value over their estimated useful lives, as follows:

- Freehold premises and leasehold right of use assets: shorter of 50 years or the remaining period of the lease.
- Leasehold improvements: shorter of 10 years and, if lease renewal is not likely, the remaining period of the lease.
- Fixtures and furnishings: 0-10 years.
- Other equipment and motor vehicles: 2-8 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In the event that an asset’s carrying amount is determined to be greater than its recoverable amount it is written down immediately. The recoverable amount is the higher of the asset’s fair value less costs to sell and its value in use.

(n) Leases
At inception of a contract TSB assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, TSB assesses whether: (a) the contract involves the use of an identified asset; (b) TSB has the right to substantially all of the economic benefits from use of the asset throughout the period of use; and (c) TSB has the right to direct the use of the asset.

At inception or on reassessment of a contract that contains a lease component, TSB allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

TSB recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on a similar basis as those of property and equipment but also include consideration of the lease term. The right-of-use asset is written down by any impairment losses, for example where a leased property will be closed before the end of the lease term, and is adjusted for certain remeasurements of the lease liability. No lease liability or related right of use asset is recognised in respect of short-term leases, of less than one year, or leases of low value assets. As permitted by accounting standards, the cost of such leases are expensed as incurred.

Notes to the consolidated financial statements

Other important disclosures (continued)

Accounting policies relevant to this section (continued)

(n) Leases (continued)
The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using TSB's incremental borrowing rate. The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recognised in the consolidated income statement if the carrying amount of the right-of-use asset has been reduced to zero.

(o) Intangible assets
Intangible assets held by TSB consist of internally developed computer software which is held at cost less accumulated amortisation and impairment. Software development costs are capitalised if it is probable that the asset created will generate future economic benefits. Costs incurred to establish technological feasibility or to maintain existing levels of performance are recognised as an expense.

Computer software intangible assets are amortised using the straight line method over their estimated useful lives of between 3 and 5 years. Amortisation commences when the assets are ready for their intended use. Estimated useful lives are reviewed annually and adjusted, if appropriate, in the light of technological developments, usage and other relevant factors. Computer software is reviewed for indicators of impairment at each reporting date and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where the carrying amount is not recoverable the asset is written down immediately to the estimated recoverable amount.

In addition, the following accounting policies relate to the consolidated financial statements as a whole.

(p) Consolidation
Subsidiaries are all entities (including special purpose entities) over which TSB has control. TSB controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to TSB and are deconsolidated from the date that control ceases. Inter-company transactions, balances and unrealised gains and losses on transactions between group entities are eliminated.

(q) Foreign currency translation
TSB's functional and presentation currency is Sterling. Foreign currency transactions are translated using the exchange rates prevailing at the date of the transaction. Monetary items denominated in foreign currencies are translated at the rate prevailing at the balance sheet date. Foreign exchange gains and losses resulting from the translation of such transactions are recognised in other operating income in the income statement.

22. Total equity

	Share capital £ million	Share premium £ million	Other equity Instruments £ million	Merger reserve £ million	Capital reorg-anisation reserve £ million	Capital reserve £ million	Fair value reserve £ million	Cash flow hedging reserve £ million	Retained profits £ million
Balance at 1 January 2023	5.0	965.1	–	616.5	(1,311.6)	410.0	(6.1)	40.4	1,262.7
Net change in fair value reserve	–	–	–	–	–	–	(0.4)	–	–
Net change in cash flow hedging reserve	–	–	–	–	–	–	–	(28.2)	–
Profit for the year	–	–	–	–	–	–	–	–	174.8
Dividends (note 23)	–	–	–	–	–	–	–	–	(50.0)
At 31 December 2023	5.0	965.1	–	616.5	(1,311.6)	410.0	(6.5)	12.2	1,387.5
Issue of Additional Tier 1 securities	**–**	**–**	**249.7**	**–**	**–**	**–**	**–**	**–**	**–**
Net change in fair value reserve	**–**	**–**	**–**	**–**	**–**	**–**	**(1.5)**	**13.8**	**–**
Net change in cash flow hedging reserve	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**207.9**
Dividends (note 23)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(120.0)**
At 31 December 2024	**5.0**	**965.1**	**249.7**	**616.5**	**(1,311.6)**	**410.0**	**(8.0)**	**26.0**	**1,475.4**

At 31 December 2024, TSB Banking Group plc had in issue 500.0 million (2023: 500.0 million) one pence ordinary shares authorised, allotted and fully paid up.

Notes to the consolidated financial statements

Other important disclosures (continued)

22. Total equity (continued)

Other equity instruments – Additional Tier 1 securities
In December 2024, TSB Banking Group plc issued £250.0 million of Fixed Rate Reset Additional Tier 1 Perpetual Non-Cumulative Contingent Convertible Securities to its parent company, Banco de Sabadell, S.A. These pay interest at a fixed rate of 8.75%% per annum payable semi-annually in arrears.

Merger reserve and capital reorganisation reserve
The merger reserve and capital reorganisation reserves were established in 2014 upon TSB Banking Group plc issuing new shares in exchange for the acquisition of the entire share capital of TSB Bank plc. The issuance was recorded at the carrying amount of the net assets of TSB Bank plc at the date of acquisition and resulted in a transfer to the share premium reserve of a minimum amount required by the Companies Act 2006. The difference between the amount transferred to share capital and share premium and the carrying amount of the net assets of TSB Bank plc was transferred to the merger reserve. The capital reorganisation reserve was established at this time to reflect the effect of TSB Banking Group plc becoming the new holding company of TSB Bank plc by means of this share for share exchange.

Capital reserve
The capital reserve represents a capital contribution received in 2013 from a, then, parent company. The fair value reserve represents the unrealised change in the value of financial assets at fair value through other comprehensive income since the instrument's initial recognition. The cash flow hedging reserve represents the cumulative gains and losses on effective cash flow hedging instruments that will be recycled to the income statement when the hedged transactions affect profit or loss.

23. Dividends

The Board approved dividend policy seeks the distribution, by way of dividend to its shareholder, Sabadell, of 50 per cent of each year's profit after tax. This is recommended to be paid as a final dividend and is subject to the approval of the shareholder at the Annual General Meeting early in the following year. In determining the actual pay out ratio, the policy requires the Board to seek an appropriate balance between returns to the shareholder and the capital required to support the strategy in the medium term plan, and takes in to account assessment of principal and evolving and emerging risks faced by the Bank (as described on pages 16 to 22).

The Board recommended a final dividend in respect of 2024 of £300 million (£0.60 per ordinary share). This includes an additional £200.0 million proposed as part of the capital optimisation following the issuance of £250.0 million of Additional Tier 1 securities. Excluding this amount, the final dividend represented a 48% pay out ratio, in line with the dividend policy. The final dividend is subject to approval by the Company's shareholder, Sabadell, at the Annual General Meeting, expected to take place in the first quarter of 2025. These financial statements do not reflect this recommended dividend.

In February 2024, following approval at the Annual General Meeting, the Company paid a final dividend of £120 million which was reflected in the 2024 financial statements, when paid. In February 2023, following approval at the Annual General Meeting, the Company paid an inaugural final dividend of £50.0 million which was reflected in the 2023 financial statements, when paid.

24. Contingent liabilities

Significant judgement

Conduct

During the ordinary course of business, TSB may be subject to other complaints and threatened or actual legal proceedings brought by customers that may result in legal and regulatory reviews, challenges, investigations and enforcement actions. For example, TSB is currently managing certain customer complaints and court claims in relation to the portfolio of ex-Northern Rock residential mortgages (and linked unsecured loans) acquired from Cerberus Capital Management group (the Whistletree portfolio). TSB intends to defend the claims rigorously.

Any such material cases are periodically reassessed with the assistance of external professional advisers, where appropriate, to determine the likelihood of incurring a liability. TSB does not expect the ultimate resolution of any current complaints, threatened or actual legal proceedings, regulatory or other matters to have a material adverse impact on its financial position in relation to any additional issues not explicitly disclosed above.

In certain circumstances, TSB will explore opportunities, where relevant, to seek recovery from third parties of losses arising from, or related to, such matters. For example, TSB is currently seeking recovery from a third party, under an indemnity arrangement, of certain remediation conduct costs arising from the treatment of customers in the collections and recoveries function.

Notes to the consolidated financial statements

Other important disclosures (continued)

25. Related party transactions

TSB's related parties include key management personnel, Sabadell and other Sabadell Group companies.

(i) Key management personnel
Key management personnel are those persons having responsibility for planning, directing and controlling the activities of TSB which is the Board and Executive Committee. Key management personnel compensation is shown in the table below.

	2024 £ 000	2023 £ 000
Short-term employee benefits	**8,248**	7,612
Post-employment benefits	**551**	546
Other long-term awards	**497**	648
Share based payments	**805**	878
Payments for loss of office	**–**	385
Total	**10,101**	10,069

The tables below detail, on an aggregated basis, related party transactions, balances outstanding at the year end and related income and expense in respect of key management personnel. The loans attracted interest at customer rates and were made in the ordinary course of business. Expected credit losses are assessed to be immaterial.

Loans	2024 £ 000	2023 £ 000
At 1 January	**1,413**	1,387
Advances (includes key management personnel appointed during the year)	**59**	98
Interest charged during the year	**69**	18
Repayments made during the year (including key management personnel resigned during the year)	**(193)**	(90)
At 31 December	**1,348**	1,413

Deposits		
At 1 January	**572**	116
Deposits made during the year (includes key management personnel appointed during the year)	**1,675**	1,641
Interest expense on deposits	**10**	8
Withdrawals made during the year (including key management personnel resigned during the year)	**(1,911)**	(1,193)
At 31 December	**346**	572

Deposits placed by key management personnel are at customer rates and were made in the ordinary course of business.

(ii) Transactions and balances with Sabadell Group companies

Other equity instruments – Additional Tier 1 securities
In December 2024, TSB Banking Group plc issued £250.0 million of Fixed Rate Reset Additional Tier 1 Perpetual Non-Cumulative Contingent Convertible Securities to its parent company, Banco de Sabadell, S.A. These pay interest at a fixed rate of 8.75%% per annum payable semi-annually in arrears.

Dividends
As set out in note 23, following approval at the Annual General Meeting in February 2024, TSB Banking Group plc paid a dividend of £120.0 million to its parent, Sabadell in February 2024. The Directors have recommended a final dividend in respect of 2024 in the amount of £300.0 million. This is subject to approval at the Annual General Meeting in February 2025 and has not been reflected in these financial statements.

Operational IT costs
Operating expenses of £56.0 million (2023: £70.8 million) were incurred in respect of services provided by Sabadell Digital S.A.U. (formerly Sabadell Information Systems S.A.U.) and Sabadell Information Systems Limited (together Sabis), TSB's parent company's IT suppliers, under the Outsourced Services Agreement for running and developing the banking platform.

The expense included £2.4 million (2023: £23.8 million) of accelerated charges, where investment by TSB in internal processes to serve customers and improve efficiency led to obsolescence in Sabis's IT equipment, the cost of which was borne by TSB.

At 31 December 2024, the aggregate liability to Sabis was £5.2 million (2023: £15.7 million).

Senior unsecured debt securities
At 31 December 2024, TSB Banking Group plc had senior unsecured debt securities in issue to its parent of £904.2 million (2023: £904.2 million). Interest expense of £72.1 million (2023: £53.0 million) was recognised and £4.3 million was payable at 31 December 2024 (2023: £4.3 million).

Other important disclosures (continued)

25. Related party transactions (continued)

Subordinated liabilities
In March 2021, TSB Banking Group plc issued £300.0 million fixed-to-floating rate callable subordinated Tier 2 capital notes, due to mature in March 2031, to its parent company, Sabadell. These were issued at a price of 100% of the principal amount. The notes pay interest at a fixed rate of 3.449% per annum payable quarterly in arrears. TSB has the option to redeem these notes in March 2026, subject to approval of the PRA. Interest expense of £10.3 million (2023: £10.3 million) was recognised and £0.1 million was payable at 31 December 2024 (2023: £0.1 million).

Economic hedging of share based compensation liability
TSB holds forward purchase agreements with Sabadell to acquire 8.2 million (2023: 8.0 million) Sabadell shares to satisfy estimated requirements under various share based compensation arrangements. At 31 December 2024, this forward agreement had an asset fair value of £2.6 million (2023: asset fair value of £0.6 million) and TSB had received cash collateral from Sabadell of £2.4 million (2023: TSB had received cash collateral from Sabadell of £0.8 million).

Other transactions and balances
Sabadell acts as an intermediary for TSB in respect of international payments. TSB has nostro accounts as a result of this arrangement which had a net balance due from Sabadell of £7.7 million (2023: £5.5 million). Sabadell acts as guarantor to TSB's borrowings under the TFSME. Under this arrangement, guarantee fees of £5.5 million (2023: £8.5 million) were recognised and £0.9 million was payable at 31 December 2024 (2023: £2.0 million).

26. Property and equipment

	Property £ million	Equipment £ million	Property Right of use leasing asset £ million	Total £ million
Cost				
At 1 January 2023	158.8	96.7	220.4	475.9
Additions	29.6	5.8	1.3	36.7
Disposals	(3.5)	(15.2)	(5.0)	(23.7)
Lease term remeasurement (note 27)	–	–	(5.9)	(5.9)
At 31 December 2023	**184.9**	**87.3**	**210.8**	**483.0**
Additions	**12.7**	**10.9**	**19.0**	**42.6**
Disposals	**(21.0)**	**(9.2)**	**(19.0)**	**(49.2)**
Lease term remeasurement (note 27)	**–**	**–**	**(2.7)**	**(2.7)**
At 31 December 2024	**176.6**	**89.0**	**208.1**	**473.7**
Accumulated depreciation				
At 1 January 2023	74.9	38.2	75.3	188.4
Depreciation charge for property and equipment (note 14)	18.5	14.9	–	33.4
Depreciation charge for right of use asset (note 14)	–	–	16.1	16.1
Disposals	(2.1)	(0.4)	(5.9)	(8.4)
At 31 December 2023	**91.3**	**52.7**	**85.5**	**229.5**
Depreciation charge for property and equipment (note 14)	**18.3**	**12.3**	**–**	**30.6**
Depreciation charge for right of use asset (note 14)	**–**	**–**	**23.6**	**23.6**
Disposals	**(19.6)**	**(5.3)**	**(19.0)**	**(43.9)**
At 31 December 2024	**90.0**	**59.7**	**90.1**	**239.8**
Carrying amount				
At 31 December 2023	93.6	34.6	125.3	253.5
At 31 December 2024	**86.6**	**29.3**	**118.0**	**233.9**

Property held for sale totalled £0.4 million (2023: £0.1 million). The net book value represented the recoverable amount and no impairment was required.

Notes to the consolidated financial statements

Other important disclosures (continued)

27. Lease liabilities

TSB's leasing activity primarily reflects leases of various offices and bank branch properties. These lease arrangements will often contain renewal options and rent escalation clauses, although the effect of these is not material. The tables below set out details of the amounts recognised in the financial statements in respect of leases:

	Property 2024 £ million	Property 2023 £ million
Balance at 1 January	**125.0**	145.9
Additions	**14.2**	1.3
Lease term remeasurement	**(2.7)**	(5.9)
Interest expense for the year	**3.0**	1.5
Lease payments made in the year	**(18.8)**	(17.8)
Carrying amount at 31 December	**120.7**	125.0

28. Intangible assets

	2024 £ million	2023 £ million
Cost		
At 1 January	**138.7**	110.7
Additions	**45.2**	28.0
Disposals	**(3.5)**	–
At 31 December	**180.4**	138.7
Accumulated amortisation		
At 1 January	**52.6**	35.1
Amortisation charge for the year (note 14)	**18.3**	17.5
Disposals	**(0.4)**	–
At 31 December	**70.5**	52.6
Carrying amount	**109.9**	86.1

29. Other assets

	2024 £ million	2023 £ million
Prepayments	**43.8**	41.3
Accrued fee and commission income	**21.9**	23.5
Current tax asset	**14.7**	–
Amounts recoverable under customer remediation indemnity	**7.9**	6.9
Other	**13.3**	21.1
Total other assets	**101.6**	92.8

30. Provisions

	Conduct provisions £ million	Restructuring provisions £ million	Credit impairment provisions £ million	Dilapidations provisions £ million	Total £ million
At 1 January 2023	88.6	6.7	13.9	15.8	125.0
Reallocations	–	0.4	–	(0.4)	–
(Credit)/charge to income statement	(4.2)	[1]24.4	(3.5)	1.3	18.0
Utilisation	(60.6)	(5.2)	–	(2.0)	(67.8)
At 31 December 2023	**23.8**	**26.3**	**10.4**	**14.7**	**75.2**
Charge/(credit) to income statement	**2.1**	**8.4**	**(1.8)**	**(0.3)**	**8.4**
Utilisation	**(13.7)**	**(27.8)**	**–**	**(2.3)**	**(43.8)**
At 31 December 2024	**12.2**	**6.9**	**8.6**	**12.1**	**39.8**

(1) Includes strategic restructuring costs of £23.0 million.

Notes to the consolidated financial statements

Other important disclosures (continued)

30. Provisions (continued)

Restructuring provisions
At 31 December 2024, a provision of £6.9 million (2023: £26.3 million) was carried in respect of restructuring activity designed to support delivery of TSB's strategy. The charge in 2024 of £8.4 million (and in 2023 of £24.4 million) includes the estimated costs of employee severance. The provision was substantially utilised during 2024 and the residual provision is expected to utilised by during 2025.

Conduct provisions
In the course of its business, TSB is engaged in discussions with regulators on a range of matters and also receives complaints in connection with its past conduct and claims brought by or on behalf of customers. Where significant, provisions are held against the costs expected to be incurred in relation to these matters.

Credit impairment provisions
Credit impairment provisions are in respect of off balance sheet lending commitments and primarily relates to provisions in respect of undrawn credit card limits and current account overdrafts. This provision is measured and managed as part of the overall assessment of expected credit losses. Sensitivity of total expected credit losses to alternative economic scenarios is set out in note 8 on pages 83 and 84.

Dilapidation provisions
Dilapidation provisions are in respect of estimated payments required to made at the termination of property leases discounted at interest rates consistent with the various lease term end dates.

31. Other liabilities

	2024 £ million	2023 £ million
Amounts payable to Sabadell Group companies (note 25)	**6.1**	17.7
Accruals and deferred income	**78.7**	85.5
Share based payment liability	**11.2**	7.5
Other creditors	**69.0**	61.0
Total other liabilities	**165.0**	171.7

32. Notes to the consolidated cash flow statement

The table below presents the change in liabilities arising from financing activities.

	Borrowings from central banks £ million	Debt securities in issue £ million	Additional Tier 1 securities £ million	Subordinated liabilities £ million	Repurchase agreements £ million	Non customer funding £ million
At 1 January 2023	5,538.3	1,955.5	–	265.4	360.0	8,119.2
Additional borrowings from central banks	5.0	–	–	–	–	5.0
Repayment of borrowings from central banks	(1,500.0)	–	–	–	–	(1,500.0)
Issue of covered bonds	–	1,750.0	–	–	–	1,750.0
Repayment of covered bonds	–	(251.0)	–	–	–	(251.0)
Issue of senior unsecured debt securities	–	200.0	–	–	–	200.0
Repayment of repurchase agreements	–	–	–	–	(359.9)	(359.9)
Non-cash movements[1]	14.6	9.6	–	12.3	(0.1)	36.4
At 31 December 2023	**4,057.9**	**3,664.1**	**–**	**277.7**	**–**	**7,999.7**
Additional borrowings from central banks						
Repayment of borrowings from central banks	**(2,620.0)**	**–**	**–**	**–**	**–**	**(2,620.0)**
Issue of covered bonds	**–**	**926.1**	**–**	**–**	**–**	**926.1**
Repayment of covered bonds	**–**	**(500.0)**	**–**	**–**	**–**	**(500.0)**
Issue of Additional Tier 1 securities	**–**	**–**	**249.7**	**–**	**–**	**249.7**
Issue of securitisation	**–**	**498.3**	**–**	**–**	**–**	**498.3**
Repayment of securitisation	**–**	**(5.0)**	**–**	**–**	**–**	**(5.0)**
Repayment of repurchase agreements	**–**	**–**	**–**	**–**	**–**	**–**
Non-cash movements[1]	**(31.0)**	**(0.3)**	**–**	**8.2**	**–**	**(23.1)**
At 31 December 2024	**1,406.9**	**4,583.2**	**249.7**	**285.9**	**–**	**6,525.7**

(1) Non-cash movements reflect changes in accrued interest, unamortised premiums and discounts and, in respect of subordinated liabilities, micro fair value hedge accounting adjustments.

Notes to the consolidated financial statements

Other important disclosures (continued)

32. Notes to the consolidated cash flow statement (continued)

The following table presents further analysis of balances in the consolidated cash flow statement:

		2024 £ million	2023 £ million
Decrease in loans to central banks		**136.0**	8.3
(Increase)/decrease in loans and advances to customers		**(124.6)**	1,719.2
Decrease in other advances		**79.3**	493.6
Decrease/(increase) in other assets		**2.1**	(6.5)
Increase/(decrease) in customer deposits		**280.8**	(1,666.5)
Decrease in other financial liabilities		**(90.4)**	(157.1)
Decrease in provisions		**(33.5)**	(46.5)
Decrease in other liabilities		**(6.7)**	(12.3)
Change in operating assets and liabilities		**243.0**	332.2

Interest expense on financing activities		**402.3**	398.8
Interest income on investing activities		**(63.2)**	(60.0)
Net change in derivative financial instruments and fair value adjustments for portfolio hedged risk		**263.0**	150.0
Depreciation and amortisation		**72.5**	67.0
Income statement (credit)/charge reported in the allowance for credit impairment losses (note 18(iii))		**(31.7)**	13.8
Other non-cash items		**(120.9)**	95.7
Non-cash and other items		**522.0**	665.3

Analysis of cash and cash equivalents as shown in the balance sheet			
Cash		**77.3**	89.2
Balances with central banks		**4,738.5**	5,802.2
On demand deposits		**8.0**	5.9
Cash, cash balances at central banks and other demand deposits		**4,823.8**	5,897.3
Loans and advances to credit institutions	Note 7	**277.8**	192.0
Total cash and cash equivalents		**5,101.6**	6,089.3

33. Approval of the consolidated financial statements

These consolidated financial statements were approved by the Board of Directors on 6 February 2025. The Company's ultimate parent company and ultimate controlling party is Banco de Sabadell, S.A. (incorporated in Spain), which is also the parent undertaking of the largest group of undertakings for which consolidated financial statements are drawn up and of which the Company is a member. Banco de Sabadell S.A. is the parent undertaking of the smallest such group of undertakings for which consolidated financial statements are drawn up and of which the Company is a member. Copies of the consolidated annual report and accounts of Banco de Sabadell, S.A. are expected to be available in due course from www.grupbancsabadell.com/en/.

Company balance sheet

As at 31 December 2024

Company Number: 08871766

	Note	2024 £ million	2023 £ million
Assets			
Non-current assets:			
Investments in subsidiaries	4(ii)	**1,839.4**	1,589.4
Loans to subsidiaries	4(iii)	**1,204.3**	1,204.3
		3,043.7	2,793.7
Current assets:			
Derivative financial assets	5	**2.6**	0.6
Amounts due from subsidiaries	4	**308.0**	124.5
Current tax asset		**0.3**	0.4
Total assets		**3,354.6**	2,919.2
Liabilities			
Non-current liabilities:			
Senior unsecured debt securities	4(iv)	**904.2**	904.2
Subordinated liabilities	2	**300.1**	300.1
Current liabilities:			
Other financial liabilities		**2.4**	0.8
Total liabilities		**1,206.7**	1,205.1
Equity			
Share capital	3	**5.0**	5.0
Share premium	3	**965.1**	965.1
Other equity instruments	3	**249.7**	–
Merger reserve	3	**616.5**	616.5
Accumulated profits brought forward		**127.5**	56.2
Profit for the year		**304.1**	121.3
Dividends paid		**(120.0)**	(50.0)
Total equity		**2,147.9**	1,714.1
Total equity and liabilities		**3,354.6**	2,919.2

The accompanying notes are an integral part of the financial statements.

No statement of comprehensive income has been shown for the Company, as permitted by section 408 of the Companies Act 2006.

The Company financial statements on pages 122 to 127 were approved by the Board of Directors on 6 February 2025 and signed on its behalf by:

Robin Bulloch
Chief Executive

Declan Hourican
Chief Financial Officer

Company statement of changes in equity

for the year ended 31 December 2024

	Share capital £ million	Share premium £ million	Other equity instruments £ million	Merger reserve £ million	Retained profits/ (losses) £ million	Total equity £ million
Balance at 1 January 2023	5.0	965.1	–	616.5	56.2	1,642.8
Comprehensive income:						
Total comprehensive income for the year	–	–	–	–	121.3	121.3
Transactions with owners:						
Dividends paid	–	–	–	–	(50.0)	(50.0)
Balance at 31 December 2023	5.0	965.1	–	616.5	127.5	1,714.1
Comprehensive income:						
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**304.1**	**304.1**
Transactions with owners:						
Issue of Additional Tier 1 securities	**–**	**–**	**249.7**	**–**	**–**	**249.7**
Dividends paid	**–**	**–**	**–**	**–**	**(120.0)**	**(120.0)**
Balance at 31 December 2024	**5.0**	**965.1**	**249.7**	**616.5**	**311.6**	**2,147.9**

Company cash flow statement

for the year ended 31 December 2024

The Company had no transactions that were required to go through the cash flow statement in the current and comparative period. Instead, the Company's main subsidiary, TSB Bank plc, makes and collect payments on behalf of the Company. In the comparative period, a non-cash transaction of £200.0 million had been recognised in the cash flow statement gross.

Notes to the Company financial statements

1. Basis of preparation

The financial statements of TSB Banking Group plc (the Company), a public limited company, limited by shares, with registered office 20 Gresham Street, London, EC2V 7JE, have been prepared in accordance with UK adopted international accounting standards. The Company financial statements have been prepared under the historical cost convention as modified by the recognition of derivative financial instruments at fair value through profit or loss.

The accounting policies that are applicable to the Company are included in TSB's accounting policies and the following policy is also applicable.

Investments in subsidiaries
Investments in subsidiaries are initially recognised at cost and subsequently held at cost less any impairment charge. An impairment charge is recognised when the carrying amount of the investment exceeds its recoverable amount.

2. Subordinated liabilities

	2024 £ million	2023 £ million
Fixed-to-floating rate callable subordinated Tier 2 capital notes, due March 2031	**300.0**	300.0
Accrued interest	**0.1**	0.1
Total subordinated liabilities	**300.1**	300.1

In March 2021, the Company issued £300.0 million fixed-to-floating rate callable subordinated Tier 2 capital notes, due to mature in March 2031, to its parent company, Sabadell. These were issued at a price of 100% of the principal amount. The notes pay interest at a fixed rate of 3.449% per annum payable quarterly in arrears until March 2026, at which time the interest rate becomes SONIA plus 3.05% per annum payable quarterly in arrears. The Company has the option to redeem these notes in March 2026, subject to approval by the PRA.

3. Share capital, share premium and merger reserve

Details of the Company's share capital, share premium, other equity instruments and merger reserve are set out in note 22 to the consolidated financial statements.

4. Related party transactions

The Company enters into transactions with related parties in the normal course of its business. The sections below detail, on an aggregated basis, related party transactions, balances outstanding at the year end and related income.

(i) Key management personnel
The key management personnel of the Company are the same as those of the consolidated TSB group. The relevant disclosures are set out in note 25 to the consolidated financial statements.

(ii) Investment in subsidiaries
The Company's only legal subsidiary undertaking is TSB Bank plc, a banking business incorporated and registered in Scotland whose registered office is Henry Duncan House, 120 George Street, Edinburgh, EH2 4LH. The Company holds 100% of the ordinary share capital and voting rights of TSB Bank plc and carried this investment at its cost of £1,839.4 million (2023: £1,589.4 million). The increase reflects the investment in Additional Tier 1 securities issued by the Company's subsidiary, TSB Bank plc, in December 2024.

The following entities are accounted for as subsidiary companies of TSB Bank plc as it exercises control of each entity under IFRS 10 *Consolidated Financial Statements.:*

Registered office: 1 Bartholomew Lane, London, United Kingdom, EC2N 2AX
- TSB Covered Bonds LLP;
- TSB Covered Bonds (LM) Limited; and
- TSB Covered Bonds (Holdings) Limited.

Registered office: 10th Floor, 5 Churchill Place, London, United Kingdom, E14 5HU
- Duncan Holdings 2022-1 Limited (and its subsidiary Duncan Funding 2022-1 plc).
- Duncan Holdings 2024-1 Limited (and its subsidiary Duncan Funding 2024-1 plc).

TSB Banking Group plc Employee Share Trust is accounted for as a subsidiary of the Company and the registered office of this entity is 26 New Street, St Helier, Jersey, JE 3RA.

Notes to the Company financial statements

4. Related party transactions (continued)

(iii) Loans to subsidiaries

	2024 £ million	2023 £ million
Loans to subsidiaries	**1,200.0**	1,200.0
Accrued interest	**4.3**	4.3
Total loans to subsidiaries	**1,204.3**	1,204.3

In December 2023, the Company subscribed for £200.0 million of floating rate notes due December 2028 issued by its principal subsidiary TSB Bank plc. In December 2022, the Company subscribed for £250.0 million of floating rate notes due December 2026 issued by TSB Bank plc. In June 2022, the Company subscribed for £450.0 million of floating rate notes due June 2027 issued by TSB Bank plc.

The allowance for credit impairment losses on these IFRS 9 stage 1 loans was immaterial (2023: immaterial).

(iv) Debt securities in issue – senior unsecured debt securities

	2024 £ million	2023 £ million
Senior unsecured floating rate notes, due June 2027	**450.0**	450.0
Senior unsecured floating rate notes, due December 2026	**250.0**	250.0
Senior unsecured floating rate notes, due December 2028	**200.0**	200.0
Accrued interest	**4.2**	4.2
Total subordinated liabilities	**904.2**	904.2

In December 2023, the Company issued £200.0 million floating rate notes, due to mature in December 2028, to its parent company, Sabadell, to satisfy MREL requirements. These were issued at a price of 100% of the principal amount. The notes pay interest at SONIA plus 3.28% payable quarterly in arrears. The Company has the option to redeem these notes in December 2025 and quarterly thereafter, subject to approval of the PRA.

In December 2022, the Company issued £250.0 million floating rate notes, due to mature in December 2026, to Sabadell, to satisfy MREL requirements. These were issued at a price of 100% of the principal amount. The notes pay interest at SONIA plus 3.4% payable quarterly in arrears. The Company has the option to redeem these notes in December 2025 and quarterly thereafter, subject to approval of the PRA.

In June 2022, the Company issued £450.0 million floating rate notes, due to mature in June 2027, to Sabadell, to satisfy MREL requirements. These were issued at a price of 100% of the principal amount. The notes pay interest at SONIA plus 2.45% payable quarterly in arrears. The Company has the option to redeem these notes in June 2026 and quarterly thereafter, subject to approval of the PRA.

(v) Other related party transactions

Other equity instruments – Additional Tier 1 securities
In December 2024, TSB Banking Group plc issued £250.0 million of Fixed Rate Reset Additional Tier 1 Perpetual Non-Cumulative Contingent Convertible Securities to its parent company, Banco de Sabadell, S.A. These pay interest at a fixed rate of 8.75%% per annum payable semi-annually in arrears.

Dividends paid
In December 2024, TSB Bank plc declared a dividend of £300.0 million, which was recognised as income by the Company. At 31 December 2024, this amount is recognised as an amount due from subsidiary on the balance sheet. Recognition of this dividend resulted in the Company having distributable reserves of £309.7 million at 31 December 2024 (2023: £127.1 million). The Board have recommended a final dividend of £300.0 million for the year ended 31 December 2024, to be paid to the sole shareholder of the Company once approved at the Annual General Meeting expected to take place in February 2025.

In December 2023, TSB Bank plc declared a dividend of £120.0 million, which was recognised as income by the Company. This amount was recognised as an amount due from subsidiary on the balance sheet. This resulted in the Company having distributable reserves of £127.1 million at 31 December 2023 from which a final dividend of £120.0 million was approved at the Annual General Meeting and paid to the Company's sole shareholder in February 2024.

Notes to the Company financial statements

4. Related party transactions (continued)

(v) Other related party transactions (continued)

At 31 December 2024, amounts due from subsidiary companies were £307.9 million (2023: £124.5 million), primarily reflecting amounts due from TSB Bank plc in respect of interim dividends.

The Company holds forward purchase agreements with Sabadell to acquire 8.2 million (2023: 8.0 million) Sabadell shares to satisfy estimated requirements under various share based compensation arrangements. This forward agreement had an asset fair value of £2.6 million (2023: asset fair value of £0.6 million) and TSB Banking Group plc had received cash collateral from Sabadell of £2.4 million (2023: received cash collateral of £0.8 million).

5. Financial instruments

(i) Measurement basis of financial instruments

The following table analyses the carrying amounts of the Company's financial instruments:

At 31 December 2024	At fair value through profit or loss £ million	Financial assets at amortised cost £ million	Held at amortised cost £ million	Total £ million
Financial assets				
Loans to subsidiaries	**–**	**1,204.3**	**–**	**1,204.3**
Derivative financial assets	**2.6**	**–**	**–**	**2.6**
Total financial assets	**2.6**	**1,204.3**	**–**	**1,206.9**
Financial liabilities				
Debt securities in issue	**–**	**–**	**(904.2)**	**(904.2)**
Subordinated liabilities	**–**	**–**	**(300.1)**	**(300.1)**
Total financial liabilities	**–**	**–**	**(1,204.3)**	**(1,204.3)**
At 31 December 2023				
Financial assets				
Loans to subsidiaries	–	1,204.3	–	1,204.3
Derivative financial assets	0.6	–	–	0.6
Total financial assets	0.6	1,204.3	–	1,204.9
Financial liabilities				
Debt securities in issue	–	–	(904.2)	(904.2)
Subordinated liabilities	–	–	(300.1)	(300.1)
Total financial liabilities	–	–	(1,204.3)	(1,204.3)

(ii) Fair value of financial instruments

The table below analyses the fair values, and valuation hierarchy, of the financial assets and liabilities of the Company. The valuation techniques for the Company's financial assets and liabilities are set out in notes 5 and 10 to the consolidated financial statements.

At 31 December 2024	Level 1 £ million	Level 2 £ million	Level 3 £ million	Total fair value £ million	Total carrying value £ million
Financial assets					
Loans to subsidiaries	**–**	**1,193.1**	**–**	**1,193.1**	**1,204.3**
Derivative financial assets	**–**	**2.6**	**–**	**2.6**	**2.6**
Financial liabilities					
Debt securities in issue	**–**	**(913.8)**	**–**	**(913.8)**	**(904.2)**
Subordinated liabilities	**–**	**(279.3)**	**–**	**(279.3)**	**(300.1)**
At 31 December 2023					
Financial assets					
Loans to subsidiaries	–	1,185.5	–	1,185.5	1,204.3
Derivative financial assets	–	0.6	–	0.6	0.6
Financial liabilities					
Debt securities in issue	–	(914.4)	–	(914.4)	(904.2)
Subordinated liabilities	–	(271.1)	–	(271.1)	(300.1)

Notes to the Company financial statements

5. Financial instruments (continued)

(iii) Credit risk

Credit risk arises from amounts due from its wholly owned subsidiary, TSB Bank plc. At 31 December 2024, the allowance for expected credit losses was immaterial (2023: immaterial).

(iv) Liquidity risk

The table below analyses the financial liabilities of the Company by relevant contractual maturity grouping on an undiscounted future cash flow basis based on the remaining period at the balance sheet date.

At 31 December 2024	No contractual maturity £ million	Up to 1 month £ million	1-3 months £ million	3-12 months £ million	1-5 years £ million	Over 5 years £ million	Total £ million
Debt securities in issue	**–**	**–**	**18.6**	**50.8**	**1,005.6**	**–**	**1,075.0**
Subordinated liabilities	**–**	**–**	**2.6**	**7.8**	**302.5**	**–**	**312.9**
Total non-derivative financial liabilities	**–**	**–**	**21.2**	**58.6**	**1,308.1**	**–**	**1,387.9**
At 31 December 2023							
Debt securities in issue	–	–	18.6	50.8	1,005.6	–	1,075.0
Subordinated liabilities	–	–	2.6	7.8	312.9	–	323.3
Total non-derivative financial liabilities	–	–	21.2	58.6	1,318.5	–	1,398.3

Independent auditor’s report to the members of TSB Banking Group plc

1 Our opinion is unmodified

We have audited the Group and parent Company financial statements of TSB Banking Group plc (‘the Company’ or ‘the parent Company’) for the year ended 31 December 2024 which comprise the Consolidated balance sheet, Consolidated statement of comprehensive income, Consolidated statement of changes in equity, Consolidated cash flow statement, Company balance sheet, Company statement of changes in equity, Company cash flow statement, and the related notes, including the accounting policies.

In our opinion:
- the financial statements give a true and fair view of the state of the Group’s and of the parent Company’s affairs as at 31 December 2024 and of the Group’s profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent Company financial statements have been properly prepared in accordance with UK-adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (“ISAs (UK)”) and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

We were first appointed as auditor by the shareholder on 5 May 2020. The period of total uninterrupted engagement is for the five financial years ended 31 December 2024. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters (unchanged from 2023), in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Independent auditor's report to the members of TSB Banking Group plc (continued)

2 Key audit matters: our assessment of risks of material misstatement (continued)

	The risk	Our response
Expected credit losses ('ECL') on loans and advances to customers **Risk vs 2023: ▼** ***31 December 2024: £180.1 million*** ***(31 December 2023: £211.8 million)*** ***Refer to page 54 (Audit Committee report) and note 8 (accounting policy and financial disclosures)***	**Subjective estimate** The measurement of ECL on loans and advances to customers involves significant judgements and estimates. There remains a heightened risk of material misstatement of ECL in the current year due to the judgement and estimation uncertainty as a result of the current macroeconomic environment. The risk has decreased in comparison to the prior year due to easing affordability pressures and improved property prices. The key areas where we identified greater levels of judgement and therefore increased levels of audit focus in the Group's estimation of ECL were: • **Economic scenarios:** IFRS 9 requires the Group to measure ECL on a forward-looking basis reflecting a range of future economic conditions. Significant management judgement is applied to determine the economic scenarios used, particularly in the context of the current macroeconomic uncertainties, and the probability weightings assigned to each economic scenario. • **Qualitative adjustments:** adjustments to the model-driven ECL results are raised by management to address issues relating to model limitations, model responsiveness or emerging trends including current macroeconomic uncertainties. Certain adjustments are inherently uncertain and significant judgement is involved in estimating these amounts. • **Significant Increase in Credit Risk ('SICR'):** the criteria selected to identify a significant increase in credit risk is a key area of judgement within the Group's ECL calculation as these criteria determine whether a 12 month or lifetime loss is recorded. • **Model estimations**: inherently judgemental modelling is used to estimate ECLs which involves determining Probabilities of Default ('PD'), Loss Given Default ('LGD') and Exposures at Default ('EAD'). The LGD model used in the secured portfolio and the PD models used in the unsecured portfolios are the key drivers of the Group's ECL results and are therefore the most significant judgemental aspects of the Group's ECL modelling approach. The effect of these matters is that, as part of our risk assessment, we determined that the ECL on loans and advances to customers has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. In addition, the disclosures regarding the Group's application of IFRS 9 are key to explaining the key judgements and material inputs to the IFRS 9 results. As a consequence of the inherent estimation uncertainty arising from the economic scenarios and qualitative adjustments elements of the above risk, we have identified both these areas to have a specific fraud risk.	We performed the following audit procedures rather than seeking to rely on the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. Our procedures included: **Test of details:** We recalculated the ECL measured for each of TSB's loan portfolios. We performed testing over key inputs, data and assumptions to assess the reasonableness of key aspects of the ECL calculations. **Our economic scenario expertise:** We involved our own economic specialists to assist us in assessing the appropriateness of the Group's methodology for determining the economic scenarios used and the probability weightings applied to them. We assessed the overall reasonableness of the economic scenarios in the context of the current macroeconomic environment by comparing the Group's scenarios to our own modelled scenarios. **Qualitative adjustments:** For each of the significant adjustments to the model-driven ECL results, we assessed the reasonableness of the adjustments by evaluating the key assumptions, inspecting the calculation methodology, tracing a sample of data used back to source data, and recalculating the qualitative adjustments. We also assessed the completeness of qualitative adjustments recognised including in response to model limitations, data limitations and the current macroeconomic outlook. **SICR:** We assessed the ongoing effectiveness of the SICR criteria and independently calculated the loans' stage for the Group's loans and advances. **Our financial risk modelling expertise:** We involved our own financial risk modelling specialists in evaluating the Group's IFRS 9 models. We used our knowledge of the Group and our experience of the industry that the Group operates in to independently challenge the appropriateness of the Group's IFRS 9 models. **Assessing transparency:** We evaluated whether the disclosures appropriately reflect and address the uncertainty which exists when determining the Group's overall ECL including in the context of the current macroeconomic environment. As a part of this, we assessed the sensitivity analysis that is disclosed. In addition, we challenged whether the disclosure of the key judgements and assumptions made was sufficiently clear. **Our results** The results of our testing were satisfactory, and we considered the ECL provision recognised and the related disclosures to be acceptable (2023: acceptable).

Independent auditor's report to the members of TSB Banking Group plc (continued)

2 Key audit matters: our assessment of risks of material misstatement (continued)

	The risk	**Our response**
IT access, change management and operations **Risk vs 2023: ▼** ***Refer to page 54 (Audit Committee report)***	**Control performance, data capture and integrity** The Group has historical issues with the design and implementation of controls within the Group's general IT control ('GITC') environment, specifically in relation to user access and change management. The Group has continued to implement the multi-year IT control remediation project that was established in 2022. Management has started to operate certain IT controls over user access and change management although similar control deficiencies as those identified in prior periods have remained. The risk is reducing in comparison to the prior year due to the progress made by management on the Group's remediation project, although a number of GITCs are still being remediated. The Group's accounting and reporting processes are dependent on automated controls ("ACs", such as, data feeds or automated calculations) enabled by IT systems. These are then supported by GITCs, covering areas such as user access, change management and batch processing, which ensures the integrity of the Group's IT systems. There is a risk that, if the GITCs are not effective, inappropriate access could be gained to IT applications and subsequent unauthorised changes made to the application or the related ACs. In addition, GITCs that are not effective could also affect the integrity of data stored on the IT systems and the effectiveness of automated and manual controls that use this data.	Our procedures included: **Risk assessment:** We performed a risk assessment of the GITC environment and the progress being made by the Group on its multi-year IT control remediation project. We assessed the deficiencies to determine the impact on our audit plan, and concluded not to rely upon the GITCs. **Control testing:** We tested the design and implementation of relevant ACs relating to the posting of journals. **Extended scope:** As a result of the decision made to not test GITCs, we assessed what additional testing procedures were necessary to mitigate any residual risk, including: • Whilst we were not able to rely on the associated GITCs, we decided to continue to place reliance on certain ACs by increasing the frequency with which we manually tested the operation of these ACs subject to audit from once to multiple times throughout the period. • We performed incremental substantive procedures to address the same process risk as the relevant ACs. **Our results** We identified certain ACs that we could rely on in our audit as a result of the additional testing performed as detailed above. For the remainder, we were not able to rely on the ACs, however, through the performance of the incremental procedures set out above, we have been able to reduce the audit risk relating to IT access, change management and operations to an acceptable level. (2023: same). With regard to automated controls, we did not identify any significant deficiencies or material errors in the relevant data elements that we tested (2023: same).
Recoverability of investment in subsidiary (parent Company only) **Risk vs 2023: ◄►** ***31 December 2024: £1,839 million*** ***31 December 2023: £1,589 million*** ***Refer to note 4(ii) on page 124 (accounting policy and financial disclosures).***	***Recoverability of investment*** The carrying amount (£1,839 million) of the parent Company's investment in its subsidiary, TSB Bank plc, is significant. The recoverability of the investment in subsidiary is not at a significant inherent risk of misstatement or subject to significant judgement. However, due to its materiality in the context of the parent Company financial statements, this is the area that will have the greatest effect on our overall parent Company audit.	We performed the following procedures rather than seeking to rely on the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. Our procedures included: **Benchmarking assumptions:** We compared the parent Company's assumptions for key inputs to the impairment assessment such as discount rates to externally derived data. **Our business understanding:** We used our business understanding to evaluate the reasonableness of certain key assumptions and considerations made when developing the Group's Medium-Term Plan ('MTP') estimated future cash flows. We considered the impact of the Group's stress scenarios and its impact on the estimated future cash flows and the recoverability of the investment. **Historical comparisons**: We assessed the reasonableness of the MTP by considering the historical accuracy of the previous estimated future cash flows. **Our results** We found the parent Company's conclusion that there is no impairment of its investment in subsidiary to be acceptable (2023: acceptable).

Independent auditor's report to the members of TSB Banking Group plc (continued)

3 Our application of materiality and an overview of the scope of our audit

Our application of materiality

Materiality for the Group financial statements as a whole was set at £11.0 million (2023: £11.0 million), determined with reference to a benchmark of Group profit before tax, normalised in 2024 to exclude this year's regulatory fine of £11.4 million (including legal costs) and an insurance recovery of £36.2 million (net of associated costs of recovery) as disclosed in notes 14 and 13 respectively, of which it represents 4.1% (2023: 4.6% of Group profit before tax). We adjusted for these items in 2024 because they do not represent the normal, continuing operations of the Group.

Materiality for the parent Company financial statements as a whole was set at £11.0 million (2023: £11.0 million), determined with reference to a benchmark of Company total assets, of which it represents 0.33% (2023: 0.38%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 65% (2023: 65%) of materiality for the financial statements as a whole, which equates to £7.15 million (2023: £7.15 million) for the Group and £7.15 million (2023: £7.15 million) for the parent Company. We applied this percentage in our determination of performance materiality based on the known General IT control deficiencies and the Group's ongoing remediation of the IT control environment.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.55 million (2023: £0.55 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Overview of the scope of our audit

This year, we applied the revised group auditing standard in our audit of the consolidated financial statements. The revised standard changes how an auditor approaches the identification of components, and how the audit procedures are planned and executed across components.

In particular, the definition of a component has changed, shifting the focus from how the entity prepares financial information to how we, as the group auditor, plan to perform audit procedures to address group risks of material misstatement ('RMMs').

We identified the group as a whole to be a single component, having considered our evaluation of the Group's operational structure, the Group's legal structure, the existence of common information systems, and our ability to perform audit procedures centrally.

Accordingly, we performed audit procedures on the single component. We have audited the items excluded from the normalised Group profit before tax used as the benchmark for our materiality.

The audit was performed using the materiality and performance materiality levels set out above.

Impact of controls on our audit

The scope of the audit work performed was predominately substantive as we placed limited reliance upon the Group's internal control over financial reporting.

4 Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were:

- the availability of funding and liquidity in the event of a market wide stress scenario; and
- the impact on regulatory capital in the event of an economic slowdown or recession.

Independent auditor's report to the members of TSB Banking Group plc (continued)

4 Going concern (continued)

We considered whether these risks could plausibly affect the regulatory capital and liquidity in the going concern period by comparing severe, but plausible downside scenarios that could arise from these risks individually and collectively against the level of available financial resources indicated by the Group's financial forecasts.

We considered whether the going concern disclosure on page 65 the financial statements gives a full and accurate description of the directors' assessment of going concern.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure on page 65 (Basis of preparation) to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Company will continue in operation.

5 Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, Internal Audit and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud;
- Reading Board, Audit Committee, and Risk Committee minutes;
- Considering remuneration incentive schemes and performance targets for management and directors;
- Using analytical procedures to identify any unusual or unexpected relationships; and
- Discussion with our own forensic professionals regarding the identified fraud risks and the design of audit procedures planned in response to these.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that Group management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as expected credit losses on loans and advances to customers.

On this audit we do not believe there is a fraud risk related to revenue recognition because there is limited complexity in the calculation and recognition of revenue.

We also identified a fraud risk related to estimation of expected credit losses, specifically relating to economic scenarios and qualitative adjustments in response to significant estimation that involves subjective judgements or are inherently uncertain.

Further detail in respect of expected credit losses is set out in the key audit matter disclosures in section 2 of this report.

We also performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by individuals with privileged access and entries posted to unusual ledger codes; and
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

Independent auditor's report to the members of TSB Banking Group plc (continued)

5 Fraud and breaches of laws and regulations – ability to detect (continued)

Identifying and responding to risks of material misstatement related to compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's license to operate. We identified the following areas as those most likely to have such an effect: specific areas of regulatory capital and liquidity, conduct, money laundering and financial crime and certain aspects of company legislation recognising the financial and regulated nature of the Group's activities and their legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

For the conduct matters discussed in note 30, we assessed the disclosures against our understanding from inquiries of internal counsel, and inspection of correspondence with the regulator.

We discussed with the Audit Committee other matters related to actual or suspected breaches of laws or regulations, for which disclosure is not necessary, and considered any implications for our audit.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Independent auditor's report to the members of TSB Banking Group plc (continued)

6 We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:
- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

7 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:
- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

8 Respective responsibilities

Directors' responsibilities
As explained more fully in their statement set out on page 58, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Independent auditor’s report to the members of TSB Banking Group plc (continued)

9 The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company’s members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company’s members those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company’s members, as a body, for our audit work, for this report, or for the opinions we have formed.

Pamela McIntyre (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
6 February 2025

Glossary

Allowance for credit impairment losses	Provisions held on the balance sheet as a result of raising a charge against profit for expected credit losses in the loan book. The allowance may be either individual or collective.
Arrears	A customer is in arrears when they are behind in fulfilling their obligations with the result that an outstanding loan is unpaid or overdue. Such a customer is also said to be in a state of delinquency and the entire outstanding balance is delinquent.
Basel III	The capital reforms and introduction of a global liquidity standard proposed by the Basel Committee on Banking Supervision in 2010 and due to be phased in, through CRD IV, from 1 January 2015 onward. This was further enhanced in December 2017 to refine the capital framework and introduce new elements including the output capital floor. These revisions will come into force in the UK between 1 January 2025 and 1 January 2030.
Basis point (bps)	One hundredth of a per cent (0.01 per cent). 100 basis points is 1 per cent. Used in quoting movements in interest rates.
Common Equity Tier 1 (CET1) capital	The highest quality form of regulatory capital under CRD IV that comprises common shares issued and related share premium, retained earnings and other reserves less specified regulatory adjustments.
Common Equity Tier 1 capital ratio	Common Equity Tier 1 capital as a percentage of risk-weighted assets.
Contractual maturities	Contractual maturity refers to the final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal will be repaid and interest is due to be paid.
Coverage ratio	Impairment allowance as a percentage of impaired loans.
Customer deposits	Money deposited by account holders. Such funds are recorded as liabilities of TSB.
Encumbrance	The use of assets to secure liabilities, such as by way of a lien or charge.
Exposure at default	Exposure at default (EAD) represents the estimated exposure to a customer in the event of default. In determining EAD amounts, consideration is made of the extent to which undrawn commitments may be drawn down at the point of default and the application of credit risk mitigation (i.e. eligible financial collateral).
Forbearance	Forbearance takes place when a concession is made on the contractual terms of a loan in response to an obligor's financial difficulties.
Internal Capital Adequacy Assessment Process (ICAAP)	TSB's own assessment of the amount and type of capital it considers adequate to cover the level and nature of the risks to which it is or might be exposed.
Internal Liquidity Adequacy Assessment Process (ILAAP)	TSB's own assessment of the adequacy of its liquidity and funding resources to cover the level and nature of risks to which it is or might be exposed.
Internal Ratings-Based approach (IRB)	A methodology of estimating the credit risk within a portfolio by utilising internal risk parameters to calculate credit risk regulatory capital requirements. There are two approaches to IRB: Foundation IRB and Advanced IRB.
Leverage ratio	Tier 1 capital divided by the exposure measure. Basel III reforms introduced a leverage ratio framework designed to reinforce risk based capital requirements with a simple, transparent, non-risk based 'backstop' measure.
Liquidity Coverage Ratio (LCR)	Measures the percentage of high quality liquid assets relative to expected net cash outflows over a 30 day stress period. High quality liquid assets should be unencumbered, liquid in markets during a time of stress and, ideally, be central bank eligible.
Loan to deposit ratio	The ratio of loans and advances to customers net of allowance for impairment losses divided by customer deposits.
Loan-to-value ratio (LTV)	The LTV ratio is a mathematical calculation which expresses the amount of a mortgage balance outstanding as a percentage of the total appraised value of the property. A high LTV indicates that there is less value to protect the lender against house price falls or increases in the loan if repayments are not made and interest is added to the outstanding balance of the loan.

Glossary (continued)

Loss given default	Loss given default (LGD) represents the estimated proportion of an EAD amount that will be lost in the event of default. It is calculated after taking account of credit risk mitigation and includes the cost of recovery.
Master netting agreement	An agreement between two counterparties that have multiple derivative contracts with each other that provides for the net settlement of all contracts through a single payment, in a single currency, in the event of default on, or termination of, any one contract.
Migration	In April 2018, TSB completed its phased migration onto a new IT platform built by Sabis, a subsidiary of TSB's parent company, Sabadell. The new IT platform covers all customer systems and channels as well as all back office systems.
Net interest income	The difference between revenues earned by interest-earning assets and the cost of interest-bearing liabilities.
Net interest margin	Net interest margin is net interest income as a percentage of average interest-earning assets.
Net Promoter Score (NPS)	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.
Pillar 3	The third pillar of the Basel III framework aims to encourage market discipline by setting out disclosure requirements for banks on their capital, risk exposures and risk assessment processes. These disclosures are aimed at improving the information made available to the market.
Probability of default	Probability of default (PD) represents an estimate of the likelihood that a customer will default on their obligation within a 12 month time horizon.
Repurchase agreements	Short-term funding agreements which allow a borrower to sell a financial asset as collateral for cash. As part of the agreement the borrower agrees to repurchase the security at some later date, usually less than 30 days, repaying the proceeds of the loan.
Risk-weighted assets	A measure of a bank's assets adjusted for their associated risks. Risk weightings are established in accordance with the Basel Capital Accord as implemented by the PRA.
Sabadell	Banco de Sabadell, S.A. This is TSB Banking Group plc's parent company.
Scope 1	Direct emissions from owned or controlled sources. This includes emissions from company facilities and vehicles.
Scope 2	Indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed by the reporting company.
Scope 3	All other indirect emissions (classified into 15 categories) that occur in the reporting company's value chain. This includes both upstream and downstream emission, such as those from purchased goods and services, business travel, waste disposal and the use of sold products.
Securitisation	Securitisation is a process by which a group of assets, usually loans, are aggregated into a pool, which is used to back the issuance of new securities.
Standardised approach	The Standardised approach to calculating credit risk capital requirements requires the use of a standard set of risk weights prescribed by the regulator. Use may be made of external credit ratings supplied by external credit assessment institutions to assign risk weights to exposures. Standardised approaches, following prescribed methodologies, also exist for calculating market risk and operational risk capital requirements.
Subordinated liabilities	Liabilities which, in the event of insolvency or liquidation of the issuer, are subordinated to the claims of depositors and other creditors of the issuer.
Tier 1 capital	A measure of a bank's financial strength defined by CRD IV. It captures Common Equity Tier 1 capital plus other Tier 1 securities in issue, subject to deductions.
Tier 1 capital ratio	Tier 1 capital as a percentage of risk-weighted assets.
Tier 2 capital	A component of regulatory capital defined by CRD IV, mainly comprising qualifying subordinated debt capital and eligible collective impairment allowances, subject to deductions.
Whistletree	A separate portfolio of former Northern Rock mortgages and unsecured loans which was acquired by TSB in 2015.

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Abbreviations

BPS	Basis points
CET1	Common Equity Tier 1
CRD IV	Capital Requirements Directive IV
ECL	Expected credit losses
EIR	Effective interest rate
FCA	Financial Conduct Authority
FVOCI	Fair value through other comprehensive income
HMRC	His Majesty's Revenue and Customs
IAS	International Accounting Standards
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
IRB	Internal ratings based approach
LCR	Liquidity coverage ratio
LTIP	Long Term Incentive Plan
LTV	Loan to value
MEES	Minimum Energy Efficiency Standard
MREL	Minimum Requirement for Eligible Liabilities
NPS	Net promoter score
NZBA	Net Zero Banking Alliance
PCA	Personal current account
POCI	Purchased or originated credit impaired
PRA	Prudential Regulatory Authority
SECR	Streamlined Energy and Carbon Reporting Regulations
SME	Small and medium sized businesses
TFSME	Term Funding Scheme with additional incentives for SMEs
VPA	Variable Pay Award

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