annual report and accounts 2023

TSB Banking Group plc

In 2023 – the first full year of TSB's 2025 strategy – we delivered further progress, continuing to adapt and improve our services to meet the needs of our customers.

Robin Bulloch
Chief Executive, TSB

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Summary consolidated balance sheet

	2023 £ million	2022 £ million	Change %
Loans and advances to customers	**36,245.9**	38,050.0	(4.7)
Other assets	**11,406.8**	11,399.7	0.1
Total assets	**47,652.7**	49,449.7	(3.6)
Customer deposits	**34,764.3**	36,338.2	(4.3)
Other liabilities	**10,810.2**	11,129.5	(2.9)
Shareholder's equity	**2,078.2**	1,982.0	4.9
Total equity and liabilities	**47,652.7**	49,449.7	(3.6)

Summary consolidated statutory income statement

	2023 £ million	2022 £ million	Change %
Net interest income	**1,022.0**	981.7	4.1
Other income	**136.4**	126.2	8.1
Total income	**1,158.4**	1,107.9	4.6
Operating expenses	**(852.9)**	(869.5)	(1.9)
Impairment	**(68.3)**	(54.9)	24.4
Statutory profit before taxation	**237.2**	183.5	29.3
Taxation	**(62.4)**	(81.2)	(23.2)
Statutory profit for the year	**174.8**	102.3	70.9

Key performance indicators

	2023	2022	Change
Delivering for our customers:			
Customer advocacy – Net Promoter Score (NPS)(1)	**16%**	5%	11pp
Delivering sustainably:			
Scope 1 and 2 emissions (location-based)(2)	**4,111**	4,627	(11.2)%
Delivering for our shareholder:			
Statutory profit after tax (£ million)	**174.8**	102.3	72.5
Cost:income ratio (Statutory basis)(3)	**73.6%**	78.5%	(4.9)pp
Cost:income ratio (Excluding notable items and banking volatility)(4)	**70.5%**	70.4%	0.1pp
Post-tax return on tangible equity(5)	**8.9%**	5.5%	3.4pp
Other financial metrics:			
Loan to deposit ratio(6)	**104%**	105%	(1)pp
Common Equity Tier 1 Capital ratio (fully loaded)	**16.7%**	17.1%	(0.4)pp
Leverage ratio (fully loaded)	**4.6%**	4.2%	0.4pp
Net interest margin(7)	**2.75%**	2.57%	18bps
Asset quality ratio(8)	**0.18%**	0.14%	4bps

(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 26.

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

(4) Notable items and banking volatility included in income and costs are summarised on page 12 and page 13, respectively. Further analysis of notable items included in costs is provided in note 14 on page 81.

(5) Profit after tax divided by the monthly average of shareholder's equity less intangible assets.

(6) Loans and advances to customers divided by customer deposits. Amounts as presented on the consolidated balance sheet on page 58.

(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

Ten years after separating from Lloyds Banking Group and returning to the high street as a standalone bank, TSB has firmly established itself as a leading challenger bank.

The Bank’s tenth anniversary in September was an occasion not only for reflecting on just how far TSB has come, but also to look forward to what TSB can achieve in the future.

As the country faces into continued economic uncertainty, the need has never been more compelling for a strong, well capitalised bank, with a network across Britain, and a brand people trust, to drive competition and challenge the larger incumbent players.

TSB’s focus in 2023 has been on supporting and better serving its customers, while building resilience, both financially and in its operations.

The Board has championed the progress of the Bank’s Do What Matters Plan, which brings together our social and environmental commitments. The Flee Fund introduced to support TSB customers and colleagues escaping from domestic abuse is a shining example of the Bank’s commitment to creating social, as well as economic, value. In this, as with the TSB Fraud Refund Guarantee and the Bank’s record on the prompt payment of suppliers, TSB continues to lead the way and set an example for others to follow. The Bank has also continued to strengthen its diversity and inclusion against its 2025 objectives, with increased numbers of colleagues from minority ethnic backgrounds, an area of progress in the past 12 months.

The full-year results published today provide further evidence that the Bank’s management team – under Robin Bulloch’s capable and inspiring leadership – is steering TSB in the right direction. The Bank’s financial performance in recent years has seen it make a significant and growing contribution to the results of the Sabadell group.

The TSB Board was itself further strengthened in 2023 with the appointments of Zahra Bahrololoumi, CEO of Salesforce UK & Ireland, and Ahmed Assam, CEO of Vodafone UK, as Non-executive Directors. Their wide-ranging experience and expertise have already added significant value to the Board’s discussions, and I look forward to working further with them, and with all my fellow Board members, as TSB continues its progress. At the start of 2024, the Board also welcomed Judith Eden as a Non-executive Director and as the Chair of the Audit Committee, subject to regulatory approval.

Looking to the future, TSB remains well positioned to ride out the challenges that lie ahead and continue on its path of sustainable growth, by appealing to a wider customer base, meeting ever more of their financial needs and being an organisation that proudly punches above its weight in its contribution to wider society.

It remains a huge privilege to chair a business that is such a fixture of the UK banking sector. I should like to thank everyone at TSB for their hard work and for the ongoing dedication to serving the Bank’s customers.

Nick Prettejohn
Chair
31 January 2024

Chief Executive’s statement

Introduction

In 2023, the first full year of TSB’s 2025 strategy, we delivered further profit growth by continuing to adapt and improve our services to meet the needs of our customers.

As the cost of living pressures continued, many households and businesses found themselves under mounting strain. Against this backdrop, it has been more important than ever that TSB has remained laser-focused on our purpose – Money Confidence. For everyone. Every day.

I am especially proud of the support TSB has provided to customers in need, contacting those that we consider to be at heightened risk of falling into financial difficulties. We have also helped customers access grants and other sources of funding to which they may be entitled through a ground-breaking partnership with Lightning Reach. For mortgage customers, we moved quickly to put in place the government’s Mortgage Charter and led the way in extending similar support to our Buy-to-Let customers.

In spite of the challenging economic conditions, TSB has continued to compete well and perform strongly with profit before tax increasing 29% to £237.2 million. This demonstrates the underlying strength of TSB’s business and our sustained increase in profitability in recent years serves as a strong indicator that we have the right strategy and are executing it well.

In 2023, we have seen a steady improvement in how TSB customers perceive our service, with more customers saying that they would recommend TSB to their friends and families, and that we are helping them have greater Money Confidence – clear evidence of the progress we are making in delivering our purpose.

It is clear, too, that colleagues are fully behind our strategy and believe strongly in TSB’s purpose. In the most recent survey, we saw an improvement in colleagues’ responses to questions in these areas, to levels we have not seen since returning as a standalone bank. I believe that colleague engagement has played a vital role in the progress TSB has made, and maintaining this level will be central to the Bank’s continued success.

Despite inflationary pressures we have kept a firm control on costs through the year. This has helped ensure that the Bank’s overall financial performance remained strong. At the same time, we continued to invest in strengthening TSB’s technology capability and resilience to provide banking systems on which customers and colleagues can continue to rely.

With more solid foundations in place, we can add further features and services to our digital proposition, while also providing our customers with more opportunities to speak to us in person – in our branches, TSB Pods and pop-up services across the country, on the phone, and increasingly by video banking, where we already offer a broader range of services than most other high street banks. Our work to drive further simplification and efficiency continues. Whilst reducing our costs, by investing where it matters most, we can provide a seamless, high-quality banking experience for our customers, so they can meet all their financial needs through the channel of their choice, at a time and place that’s most convenient for them.

Chief Executive's statement (continued)

A relentless focus on customers

Our 2025 strategy has four key elements, and we've made strong progress in each of them this year.

Customer *Focus*

- Customers have continued to take advantage of our increased savings rates and current account features, with 289,000 (2022: 205,000) new savings accounts opened this year and £2.5 million (2022: £1.3 million) in cashback payments to current account customers. We were awarded 'Best Everyday Savings Account Provider' and 'Best Junior Cash ISA Provider' by Your Money.
- Our award-winning mortgage intermediary and operations team helped more than 7,800 first-time buyers get onto the property ladder.
- We have proactively contacted over 190,000 customers that we consider at heightened risk of falling into financial difficulty to offer assistance and support. We also moved quickly to put in place the government's Mortgage Charter and led the way in extending similar support to Buy-to-Let customers.
- Our partnership with Lightning Reach (launched in April) is helping customers in financial hardship to identify eligible grants and funds in addition to benefits. So far, more than 3,700 customers have registered for the service.

Service Excellence

- We have expanded our video banking capability to provide additional opening hours over the weekend.
- We've held over 21,000 mortgage video appointments with all TSB mortgage advisers trained to use video. We also held over 23,000 general banking appointments over video, with almost a third out of hours.
- New features have been added to the TSB Mobile Banking app, including mobile cheque deposit, contactless controls, gambling blocks and a new Mortgage Servicing Hub.
- At the end of the year, our Net Promoter Score (NPS, a measure of how likely customers would be to recommend TSB), was the highest it has been for the past two years at +16% (2022: +5%), while in November the contact centre NPS was the highest it has been over the same period at +52%.

Simplification and Efficiency

- TSB's cost-to-income ratio (statutory basis) improved by 4.9 percentage points to 73.6% (2022: 78.5%).
- We've continued to invest in our physical banking services, closing nine of our quieter branches and opening three new shopping-centre Pods in Wood Green, Wigan and Luton, all of which offer cash withdrawals and deposits.
- We serve customers based on their requirements, using a multi-channel model that includes digital and telephone banking and a national branch network and continue to tailor these offerings to customer demand. We currently retain the 7th largest network with 211 high-street branches, complemented by over 40 pop-up branches and three Pods, serving communities across Great Britain. We're also one of the member banks providing funding for Cash Access UK, enabling solutions such as Banking Hubs and Enhanced Post Offices in key areas across the UK.

Do What Matters

- Our Fraud Refund Guarantee continues to lead the industry in protecting customers, refunding 97% (2022: 97%) of all fraud cases compared to the industry average of 64% (2022: 56%). TSB's leading position has also helped bring about a step-change for consumers, as government and Payment Systems Regulator (PSR) rules come into force this year mandating all banks to reimburse fraud victims.
- We're continuing to make strong progress on our goals for Black, Asian and minority ethnic representation, which increased in 2023 to 16% across all grades (against a goal of 14%) and 12% at our senior grades (goal: 10%). Further, in July, 36 colleagues graduated from our Ignite programme, aimed at supporting Black and Black mixed-heritage colleagues to advance their careers at TSB, with a quarter of these being promoted or moving roles during the programme.
- We've continued to support victims of domestic abuse. In addition to all branches being part of Hestia's Safe Spaces initiative, we launched Online Safe Spaces to support victims of domestic abuse and around 200 customers accessed our Emergency Flee Fund. We have also extended our Flee Fund support to colleagues.
- We continue to be the only high-street bank accredited with the Good Business Charter, and TSB's commitment to the prompt payment of suppliers was recognised with the Good Business Pays 'Fast Payer Award' for the third year in a row.
- TSB is a signatory to the United Nation's Net Zero Banking Alliance, committed to aligning its lending and investment portfolios with net-zero emissions by 2050 or sooner.

Chief Executive's statement (continued)

Financial summary

TSB has reported a statutory profit before tax of £237.2 million in 2023, a 29.3% increase on the £183.5 million earned in 2022. This reflects solid income growth in an increasing interest rate environment, robust cost management and lower notable costs (summarised on page 13), partially offset by an increase in expected credit loss charges that reflect the more challenging economic outlook.

Customer lending and deposit balances both reduced year on year, by 4.7% and 4.3% respectively, reflecting a selective approach in a challenging UK mortgage lending market, competition in the deposit market, and cost of living pressures. TSB remains well capitalised, with a CET1 ratio of 16.7% (2022: 17.1%) and maintains a healthy liquidity buffer with a Liquidity Coverage Ratio of 203.0% (2022: 195.8%). In light of the Bank's capital strength, strong financial performance in 2023 and robust prospects, following the payment of an inaugural dividend to our shareholder, Sabadell, of £50.0 million in February 2023, the Board has recommended a 2023 dividend of £120.0 million to be paid in the first quarter of 2024.

Outlook and strategy

In the face of continued economic uncertainty and the prospect of a prolonged period of low economic growth, TSB will remain committed to executing its strategy, simplifying the business to reduce costs, and supporting customers, providing them with solutions that genuinely meet their needs and deliver good outcomes. TSB's focus is firmly on continuing to embed the FCA's Consumer Duty regulations in everything we do for customers. These efforts are squarely aligned with delivering on our purpose – Money Confidence. For everyone. Every day.

Robin Bulloch
Chief Executive Officer
31 January 2024

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	2023 performance	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 9	Page 62
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 11	Page 66
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 12	Page 77
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 13	Page 79

Risk management (2023 performance from page 15; financial statements from page 84)
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. When appropriate, the Board, in turn, will determine whether to return any profits made by the Bank to the shareholder by way of dividend or to reinvest the profit to support the future growth of the Bank.

Financial performance in 2023

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 7.

Profitability (statutory basis)

	Analysis	2023 £ million	2022 £ million	Change %
Net interest income		**1,022.0**	981.7	4.1
Other income		**136.4**	126.2	8.1
Total income (statutory)	Page 12	**1,158.4**	1,107.9	4.6
Income before notable items		**1,133.7**	1,102.8	2.8
Notable income (1)		**14.0**	6.6	112.1
Banking volatility (2)		**10.7**	(1.5)	n/a
Operating expenses (statutory)	Page 13	**(852.9)**	(869.5)	(1.9)
Operating expenses before notable items		**(798.7)**	(776.3)	2.9
Notable expenses (3)		**(52.9)**	(91.2)	(42.0)
Banking volatility (2)		**(1.3)**	(2.0)	(35.0)
Impairment (statutory)	Page 14	**(68.3)**	(54.9)	24.4
Statutory profit before taxation		**237.2**	183.5	29.3
Taxation	Page 14	**(62.4)**	(81.2)	(23.2)
Statutory profit after taxation		**174.8**	102.3	70.9

(1) Notable income is further explained on page 12.
(2) Banking volatility in total income comprises of the following line items on the income statement: Gains/(losses) on derivative financial instruments at fair value through profit or loss, (losses)/gains from hedge accounting, and losses on equity instruments at fair value through profit or loss. Banking volatility in operating expenses reflects volatility associated with share schemes.
(3) Notable expenses are further explained in note 14 on page 81.

TSB's statutory profit before tax for 2023 increased by 29.3% to £237.2 million (2022: £183.5 million). The key factors driving the year-on-year improvement were:

- *Income*: an increase in total income of 4.6% to £1,158.4 million (2022: £1,107.9 million), primarily reflecting the impact of the higher rate environment, partially offset by lower mortgage margins in a highly competitive market;
- *Operating expenses*: a decrease of 1.9% to £852.9 million (2022: £869.5 million). A continued focus on costs and lower conduct provisions helped to mitigate the impact of higher inflation; and
- *Impairment*: an increase in credit impairment charges to £68.3 million (2022: £54.9 million). While the impacts of inflationary pressures were recognised in 2022, there were offsets arising from the full release of COVID-19 related provisions throughout the year. Inflationary pressures and a corresponding fall in house prices continue to be recognised in 2023, without any equivalent offset.

Further information on the drivers of TSB's Income Statement performance is set out on pages 12 to 14.

Summary consolidated balance sheet

	2023 £ million	2022 £ million	Change %
Loans and advances to customers	**36,245.9**	38,050.0	(4.7)
Other assets	**11,406.8**	11,399.7	0.1
Total assets	**47,652.7**	49,449.7	(3.6)
Customer deposits	**34,764.3**	36,338.2	(4.3)
Other liabilities	**10,810.2**	11,129.5	(2.9)
Total liabilities	**45,574.5**	47,467.7	(4.0)
Shareholder's equity	**2,078.2**	1,982.0	4.9
Total equity and liabilities	**47,652.7**	49,449.7	(3.6)

The key balance sheet movements were as follows:

- *Assets*: a decrease of 3.6% driven by a £1.8 billion reduction in loans and advances to customers reflecting the challenging UK mortgage lending market.
- *Liabilities*: a decrease of 4.0% driven by a £1.6 billion reduction in customer deposits, with customers moving their deposits to higher earning accounts across the market and increased customer spend due to cost of living pressures.
- *Shareholder's equity*: an increase of 4.9%, or £96.2 million, primarily reflecting 2023 retained profits of £124.8 million, partially offset by lower cash flow hedge reserves. Retained profits reflected profit after tax of £174.8 million less the inaugural dividend payment to TSB's shareholder, Sabadell, of £50.0 million, paid in February 2023. The Board has recommended a 2023 dividend of £120.0 million to be paid in the first quarter of 2024, pending approval at the AGM. This dividend is not reflected in the 2023 consolidated financial statements.

Financial performance in 2023 (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	2023 £ million	2022 £ million	Change %
Customer deposits	Note 1 on page 62	**34,764.3**	36,338.2	(4.3)
Non-customer funding:				
Borrowings from the Bank of England	Note 2 (ii) on page 64	**4,057.9**	5,538.3	(26.7)
Debt securities in issue	Note 2 (i) on page 62	**3,664.1**	1,955.5	87.4
Repurchase agreements	Note 2 (iii) on page 64	**–**	360.0	n/a
Subordinated liabilities	Note 3 on page 64	**277.7**	265.4	4.6
Total non-customer funding		**7,999.7**	8,119.2	(1.5)
Funding resources		**42,764.0**	44,457.4	(3.8)
Shareholder's equity	Note 22 on page 103	**2,078.2**	1,982.0	4.9
Total sources of funding		**44,842.2**	46,439.4	(3.4)

Sources of funding

Customer deposits
Customer deposits decreased by £1.6 billion, or 4.3%, to £34.8 billion, driven by a reduction in retail deposits of £1.3 billion to £32.3 billion. Business banking deposits decreased by £0.3 billion to £2.5 billion. These reductions reflected current account customers moving their deposits to higher interest-earning savings accounts across the market, and higher levels of spend due to cost of living pressures.

Non-customer funding
Non-customer funding decreased by £0.1 billion to £8.0 billion. During 2023, £1.5 billion of borrowings from the Bank of England were repaid, primarily under the Term Funding Scheme with additional incentives for SMEs (TFSME), and balances borrowed under repurchase agreements declined by £0.4 billion. These reductions were largely offset by the issuance of £1.7 billion of debt securities in issue, comprising of the net issuance of £1.5 billion of covered bonds and the issuance of £0.2 billion of unsecured floating rate notes to TSB's parent company, Sabadell, to satisfy MREL requirements.

Capital resources

TSB's capital position has remained above regulatory minimum requirements and internal risk appetite thresholds, with a Common Equity Tier 1 (CET1) capital ratio of 16.7% (2022: 17.1%) and a leverage ratio of 4.6% (2022: 4.2%) on a CRD IV fully loaded basis.

	At 31 Dec 2023 £ million	At 31 Dec 2022 £ million
Shareholder's equity per balance sheet	**2,078.2**	1,982.0
Proposed dividend	**(120.0)**	(50.0)
Deferred tax assets(1)	**(20.0)**	(41.6)
Cash flow reserve regulatory adjustment	**(12.2)**	(33.2)
Prudent valuation prudential filter adjustment	**(3.0)**	(4.4)
Intangible assets	**(80.9)**	(70.6)
Common Equity Tier 1/Total Tier 1 capital (fully loaded)	**1,842.1**	1,782.2
Tier 2 capital (fully loaded)	**325.2**	326.0
Total capital resources (fully loaded)	**2,167.3**	2,108.2
Risk-weighted assets (RWA) (unaudited)	**11,055.1**	10,447.0
Common Equity Tier 1/Total Tier 1 capital ratio (fully loaded)	**16.7%**	17.1%
Total Capital ratio (fully loaded)	**19.6%**	20.2%

(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 2023 (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/ Total Tier 1 £ million	Tier 2 £ million	Total capital resources £ million
At 31 December 2022	**1,782.2**	**326.0**	**2,108.2**
Profit attributable to the shareholder	**174.8**	**–**	**174.8**
Proposed dividend	**(120.0)**	**–**	**(120.0)**
Movement in other comprehensive income	**(28.6)**	**–**	**(28.6)**
Change in intangible assets	**(10.2)**	**–**	**(10.2)**
Movement in deferred tax assets on carried forward tax losses	**21.5**	**–**	**21.5**
Cash flow hedging reserve regulatory adjustment movement	**21.0**	**–**	**21.0**
Prudent valuation prudential filter adjustment change	**1.4**	**–**	**1.4**
Change in excess provision over expected loss	**–**	**(0.8)**	**(0.8)**
At 31 December 2023	**1,842.1**	**325.2**	**2,167.3**

Risk-weighted assets (CRD IV) (unaudited)

Risk-weighted assets (RWAs) at 31 December 2023 increased by £608.1 million (5.8%). The increase was primarily driven by higher credit risk RWAs, as the challenging economic conditions led to an increase in Internal Ratings Based modelled amounts, and higher operational risk RWA reflecting growth in TSB's income.

	At 31 Dec 2023 £ million	At 31 Dec 2022 £ million
Risk type analysis of risk-weighted assets:		
Standardised approach	**1,117.1**	1,112.2
Internal Ratings Based approach	**8,257.8**	7,752.6
Total credit risk	**9,374.9**	8,864.8
Operational risk	**1,633.1**	1,475.2
Counterparty risk	**47.1**	107.0
Total risk-weighted assets	**11,055.1**	10,447.0

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 2023 £ million	At 31 Dec 2022 £ million
Total Tier 1 Capital for leverage ratio (fully loaded)	**1,842.1**	1,782.2
Exposures for leverage ratio		
Total statutory balance sheet assets	**47,652.7**	49,449.7
Less accounting value for derivatives	**(2,015.6)**	(2,183.1)
Exposure value for derivatives and securities financing transactions	**53.5**	178.1
Less qualifying central bank's claims	**(6,156.1)**	(5,605.0)
Lending commitments	**879.6**	832.5
Regulatory adjustments to Tier 1	**(116.2)**	(149.8)
Other regulatory adjustments	**41.1**	12.6
Total exposures	**40,339.0**	42,535.0
Leverage ratio	**4.6%**	4.2%

The PRA leverage ratio of 4.6% (2022: 4.2%) 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 16.7% (2022: 17.2%), total capital ratio was 19.6% (2022: 20.2%) and leverage ratio was 4.6% (2022: 4.2%). 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 2023 (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.

	2023 £ million	2022 £ million	Change %
Retail - mortgages(1)	**34,047.5**	35,655.0	(4.5)
Retail - unsecured	**1,880.7**	1,958.4	(4.0)
Business banking	**475.6**	571.9	(16.8)
	36,403.8	38,185.3	(4.7)
Allowance for credit impairment losses	**(211.8)**	(198.0)	7.0
Net customer lending balances	**36,192.0**	37,987.3	(4.7)
Valuation adjustments	**53.9**	62.7	(14.0)
Loans and advances to customers	**36,245.9**	38,050.0	(4.7)
Balances at central banks(2)	**5,802.2**	5,141.2	12.9
Debt securities(3)	**2,480.8**	2,461.1	0.8
Total liquid asset portfolio	**8,283.0**	7,602.3	9.0

(1) Includes Whistletree secured loans of £710.8 million (2022: £839.9 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 109 .
(3) Of which £356.6 million (2022: £509.5 million) is accounted for at fair value through other comprehensive income and £2,124.2 million (2022: £1,951.6 million) is accounted for at amortised cost.

Loans and advances to customers

Loans and advances to customers decreased by £1.8 billion, or 4.7%, to £36.2 billion reflecting the challenging UK mortgage lending market, where gross lending was approximately 30% lower than in 2022. Higher interest rates are constraining overall housing transactions and, with 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 2023, the liquidity portfolio increased by £0.7 billion to £8.3 billion, reflecting an increase in balances on deposit with the Bank of England.

A key regulatory measure of liquidity is the Liquidity Coverage Ratio (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 2023, the LCR was stable at 203.0% (2022: 195.8%) against a PRA minimum regulatory requirement of 100%.

Encumbered assets

At 31 December 2023, £5,014.2 million (2022: £3,671.6 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 62 to 64). A further £16,784.6 million (2022: £16,238.2 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	**–**	**5,802.2**	**–**	**–**	**95.1**	**5,897.3**
Financial assets at fair value through other comp. income	**–**	**–**	**356.6**	**–**	**–**	**356.6**
Financial assets at amortised cost:						
Debt securities	**420.6(1)**	**–**	**1,703.6**	**–**	**–**	**2,124.2**
Loans to central banks and credit institutions	**192.0(2)**	**136.0**	**–**	**–**	**–**	**328.0**
Loans and advances to customers	**4,227.8(3)**	**10,846.4**	**–**	**21,171.7**	**–**	**36,245.9**
Other advances	**173.8(1)**	**–**	**–**	**–**	**35.8**	**209.6**
Remainder of assets	**–**	**–**	**–**	**–**	**2,491.1**	**2,491.1**
Total – December 2023	**5,014.2**	**16,784.6**	**2,060.2**	**21,171.7**	**2,622.0**	**47,652.7**
Total – December 2022	3,671.6	16,238.2	2,247.5	24,454.2	2,838.2	49,449.7

(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 retained securitisation issuance.

Financial performance in 2023 (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

	2023 £ million	2022 £ million	Change %
Net interest income	**1,022.0**	981.7	4.1
Fee and commission income, net	**108.0**	114.2	(5.4)
Gains on derecognition of financial instruments at FVOCI	**4.3**	6.3	(31.7)
Losses on derecognition of financial liabilities measured at amortised cost	**(1.0)**	–	n/a
Other income(1)	**0.4**	0.6	(33.3)
Total income before notable items and banking volatility	**1,133.7**	1,102.8	2.8
Notable items:	**14.0**	6.6	112.1
Migration related income(2)	**14.1**	5.9	139.0
Restructuring items(3)	**(0.1)**	0.7	(114.3)
Banking volatility(4)	**10.7**	(1.5)	n/a
Total income (statutory)	**1,158.4**	1,107.9	4.6
Net interest margin (statutory basis)	**2.75%**	2.57%	18bps

(1) Excludes £14.0 million (2022: £6.6 million) of notable items as described in notes 2 and 3 below and £10.7 million (2022: £(1.5) million) of banking volatility.

(2) Reflects insurance recoveries of £14.1 million (2022: £3.0 million). 2022 also included a further migration related VAT recovery of £2.9 million, which was not repeated in 2023. These items are included in other operating income (as shown in note 13 on page 78).

(3) Comprises of net gains from the disposals of properties and intangible asset write offs, of which £(0.1) million (2022: £0.6 million) is included in (Losses)/gains on derecognition of non-financial assets in the income statement on page 59 and £nil (2022: £0.1 million) in other operating income.

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

Total income increased by 4.6% to £1,158.4 million. This primarily reflected an increase in net interest income, higher banking volatility and higher migration related income due to additional insurance recoveries in 2023.

Net interest income increased by 4.1% to £1,022.0 million reflecting the effects of the higher interest rate environment and higher deposit net interest margins, partially offset by lower mortgage margins in a highly competitive market.

Interest rates earned on loans

In 2023, the average rate earned on TSB's loans and advances to customers increased to 3.41% (2022: 2.67%). This largely reflects the increase in the cost of funding during the second half of the year, partially offset by continued competitive dynamics in the mortgage market. Accordingly, average rates were 3.59% in the second half of the year, compared to 3.23% in the first half.

The average rate earned on mortgages during 2023 increased to 2.98% (2022: 2.25%) while unsecured lending yields increased to 11.03% (2022: 10.02%).

Cost of funding resources

The average cost of customer deposits increased to 0.98% in 2023 (2022: 0.18%) following the significant increase in interest rates during the year. Customer deposit rates in the first quarter of 2023 were 0.62% and increased significantly to 1.41% in the fourth quarter. The full year cost of customer deposits of 0.98% (2022: 0.18%) comprised of savings deposit costs of 1.70% (2022: 0.32%), bank account interest costs unchanged from 2022 at 0.01%, and Business banking interest costs of 0.28% (2022: 0.13%).

Financial performance in 2023 (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

	2023 £ million	2022 £ million	Change %
TSB employee related costs	**322.0**	301.8	6.7
IT servicing and licence costs	**225.4**	209.8	7.4
Property costs	**68.7**	69.5	(1.2)
Operational contracts	**38.2**	39.8	(4.0)
Marketing costs	**27.7**	26.2	5.7
Regulatory and professional costs	**30.4**	32.1	(5.3)
Investment costs	**49.5**	42.2	17.3
Other expenses	**36.8**	54.9	(33.0)
Operating expenses before notable items and banking volatility	**798.7**	776.3	2.9
Notable items(1):	**52.9**	91.2	(42.0)
Strategic restructuring costs	**28.7**	–	n/a
IT servicing and licence costs	**23.8**	–	n/a
Migration related items	**(2.7)**	51.1	(105.3)
Conduct charges	**(1.0)**	28.6	(103.5)
Other notable costs	**4.1**	11.5	(64.3)
Banking volatility(2)	**1.3**	2.0	(35.0)
Operating expenses	**852.9**	869.5	(1.9)

(1) Notable operating expenses are further explained in note 14 on page 81.

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

Operating expenses decreased by 1.9% to £852.9 million (2022: £869.5 million).

Despite a period of high inflation, operating expenses before notable items increased only marginally by 2.9% to £798.7 million (2022: £776.3 million). This was driven by employee related costs increasing by 6.7%, reflecting higher annual pay awards. Headcount at the end of the year was however 1.4% lower than at the start of the year. IT servicing and licence costs increased by 7.4% reflecting recent and ongoing investment in IT functionality, improving customer journeys, and fraud protection. These increases were partially offset by lower other expenses reflecting primarily lower conduct costs.

Offsetting the above increase, notable items decreased by 42.0% to £52.9 million (2022: £91.2 million). The key driver for the decrease was the recognition in the prior year of regulatory fines of £48.7 million and conduct charges of £28.6 million. Partially offsetting these items, notable items in 2023 reflected £28.7 million of costs in respect of restructuring activity designed to support the delivery of TSB's strategy and deliver future cost reductions. Notable items in 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.

Financial performance in 2023 (continued)

Charges (continued)

Impairment charge

	2023 £ million	2022 £ million	Change %
Retail - mortgages	**4.0**	15.6	(74.4)
Retail - unsecured	**62.7**	40.5	54.8
Business banking	**1.6**	(1.2)	n/a
Total impairment charge	**68.3**	54.9	24.4
Asset quality ratio	**0.18%**	0.14%	4bps

The impairment charge increased in 2023 by £13.4 million to £68.3 million. While the impacts of inflationary pressures were recognised in 2022, there were offsets arising from the full release of COVID-19 related provisions throughout the year. Inflationary pressures and a corresponding fall in house prices continue to be recognised in 2023, without any equivalent offset.

A summary of the economic scenarios used for assessing expected credit losses and related scenario weightings is provided in note 8 on page 71.

Taxation

The tax charge of £62.4 million (2022: £81.2 million) reflects an effective tax rate of 26.3% (2022: 44.3%), broadly consistent with the applied UK corporation tax rate in 2023 of 27.75%.

The applied rate comprises of the main rate of corporation tax and the bank surcharge. The main rate of corporation tax was 19% until April 2023 when it was increased to 25%. The bank surcharge was 8% 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.

The difference between the effective and applied tax rates in 2022 was primarily due to conduct charges and regulatory fines that were not deductible for tax purposes, and a £12.3 million reduction in the value of deferred tax assets arising from the substantive enactment in February 2022 of a decrease in the bank surcharge from 8% to 3% that took effect in April 2023.

Risk management in TSB

Approach to risk

TSB seeks to remain liquid, solvent, operationally stable, trusted, and compliant at all times. The objective of TSB risk management is to support and enable these outcomes. The processes to identify, measure and control the risks inherent in its business model are embedded in TSB's risk management framework. TSB's approach to managing these risks is described below. TSB's principal risks and uncertainties are described starting on page 17.

Risk management framework

The risk management framework is designed to promote an effective risk culture, by providing clear processes and approaches that help TSB manage its risks in an effective and consistent way. The framework is designed around a simple model for categorising risk so that all components of our risk management such as risk appetite, governance, policies, reporting, assurance and organisational design are aligned to the same hierarchy of risks. The seven level 1 risk categories which may impact on day-to-day activities across TSB are shown in the table 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.
Model risk	The risk that models used to manage the business are inadequate, are used inappropriately, or perform ineffectively.
Financial risk	The risk of TSB having inadequate earnings, cash flow or capital to meet current or future requirements and expectations as they fall due.
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.
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.
Conduct risk	The risk that TSB fails to act to deliver good outcomes for its customers, or the risk to market integrity.
Financial crime risk	The risk that systems and controls are not adequate to manage financial crime within TSB's risk appetite and regulatory framework.

Accountability

Risk management is embedded at TSB through clear accountabilities across three independent lines of defence. TSB's risk management framework sets out the essential principles and practices that everyone must follow. 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 of defence	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.
Second line of defence	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.
Third line of defence	Responsible for providing independent assurance on the effectiveness of risk management, controls and governance in the first and second lines.

Risk culture

TSB's culture is monitored by the Executive Committee and Board to promote the right behaviours to support Money Confidence, For everyone, Every day, in line with our strategy.

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 lends to the promotion of a risk aware, customer focused culture to support the provision of products and services which provide good customer outcomes.

The key behaviours underpinning TSB's risk culture include integrity, individual responsibility, an open attitude to questions and providing challenge, and effective communication ensuring common understanding and instilling confidence. 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 at all times.

Risk management in TSB (continued)

Risk appetite

TSB defines risk appetite as the amount and type of risk that it is willing to take in the pursuit of its objectives. Risk appetite is approved by the Board which, through regular meetings and reporting, monitors performance against appetite and ensures appropriate remedial action is taken to address any appetite breaches.

TSB has a clearly defined and proportionate risk appetite that supports its strategy and seeks to provide confidence to its customers, regulators and shareholder.

TSB's appetite for risk is expressed through Attitude to Risk Statements. These are a series of qualitative statements providing the context for our underlying quantitative risk appetite measures and are aligned to our strategic and business objectives. TSB's Risk Appetite Statement articulates desirable and acceptable levels of risk taking in the business, and ultimately influences decision making at all levels.

Risk governance

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 committee structure enables efficient decision making, providing clear escalation and reporting of risk to Executive and Board Risk Committees, and to the Board which is responsible for providing oversight of the effectiveness of the risk management framework. TSB's risk committee structure covers each of the Level 1 risk categories, with the exception of strategic risk, which is discussed at Executive and Board Risk Committees, to provide a dedicated focus on managing those risks. Progress is assessed monthly through the Chief Executive's report to the Board.

A significant change in the committee structure in September 2023 has been the introduction of a Non-Financial Risk Committee chaired by the Chief Risk Officer. This Committee replaces the Operational Risk and Resilience Committee, Conduct Risk Committee and Financial Crime Risk Committee. It provides the opportunity to focus on material aggregated issues, themes and matters escalated by first line business units with input from oversight teams and specialists accountable to the risk.

Asset & Liability Committee (financial risk)
Chaired by the Chief Financial Officer, the committee is responsible for the strategic management of TSB's balance sheet, the profit and loss implications of balance sheet management actions and the risk management framework for market risk, liquidity risk, capital risk, economic value and financial and prudential regulatory reporting risk.
Credit Risk Committee (credit risk)
Chaired by the Credit Risk Director, the committee is responsible for the coordination and aggregation of all credit risk management activity, management of TSB's credit risk profile, including credit risk appetite metrics and credit strategies, and TSB's compliance with all relevant credit regulation and legislation.
Non-Financial Risk Committee (conduct risk, operational risk and resilience and financial crime risk)
Chaired by the Chief Risk Officer, the committee is responsible for the identification, assessment, management and reporting of non-financial risks (conduct, operational risk and resilience, and financial crime) across TSB**.**
Model Governance Committee (model risk)
The Model Governance Committee, chaired by the Chief Risk Officer, is responsible for the development, implementation and effectiveness of the model governance framework (covering policies, methodologies, systems, processes, procedures and people). This includes articulating the extent and type of model risk to which TSB is exposed and acting as the Designated Committee as required by the Capital Requirements Regulation.

The TSB policy framework is a key component of the overarching risk management framework. It comprises all formal bank policies with the exception of those owned by Human Resources, and the supporting procedures/guidelines used to manage and govern these policies.

The policy framework supports the management and oversight of TSB's risks. All policies are subject to annual review and approval through an agreed governance route. The policy owner is accountable for defining the controls required to mitigate the relevant risks, compliance and approving waivers or breaches. Management information on the operation and application of the policy framework is reported through the Bank's risk governance as part of the overarching risk management framework and is therefore subject to the accountabilities outlined in the lines of defence model on page 15.

Risk management in TSB (continued)

Principal risks and uncertainties faced by TSB

The Board closely monitors risks that have the potential to materially impact execution of TSB's strategy. Over the course of 2023 there has been a continued focus on the impact on macro-economic conditions contributing to rates of inflation remaining above Bank of England targets throughout 2023. It is expected that high inflation and interest rates will continue to contribute to pressures on costs of living for our customers during 2024.

The Bank closely monitors customer activity across all portfolios through a host of key performance metrics, using both internal and externally sourced data. Despite the ongoing challenging economic environment and the impact on customers from cost of living pressures, all portfolios continue to perform well, with minimal signs of stress being evidenced. Whilst increases in levels of arrears have been noted, this is from a low base and remains below industry average. We continue to provide support to our customers through our mission to deliver Money Confidence. For everyone. Every day. Additionally, our Consumer Duty programme has delivered a series of enhancements to our customer propositions and servicing.

Update to principal risks from 2022

Over the course of 2023 our principal risks and uncertainties have evolved from those reported in the 2022 Annual Report. This has resulted in an increased focus on the risk of supplier failure in view of wider economic conditions. Likewise, it is recognised that in today's society data management plays an increasingly important role to ensure our customers continue to receive products and a level of service they can reasonably expect.

New principal risks in 2023

Description	Mitigation
Global macro-economic impact on strategy execution	
The continued global geopolitical and macroeconomic uncertainty could impact on the delivery of TSB's strategy and financial stability. There is a risk this may lead to further macro-economic pressures, increased levels of sanction activity or threat of cyber-attack by nation sates leading to further challenges to customer confidence or a negative impact on TSB's strategy, profitability, capital funding or liquidity requirements.	The Board and Executive regularly review progress against the medium term plan and a suite of risk appetite measures across our risk categories. We perform horizon scanning to monitor for new threats and issues that require TSB to respond or adjust its risk appetite. We have reviewed and set our credit risk appetite and policies to respond to the challenges faced by our customers. 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.
Execution of technology strategy	
The successful execution of the technology strategy fails to provide the appropriate levels of technology resilience or availability, or effective implementation of change to support the delivery of TSB's overall strategy.	The delivery of the technology strategy is being coordinated by a Transformation Management Office and is subject to rigorous programme governance, measurement and reporting. The second line provides oversight with assurance provided by the third line.

Risks reported in 2022 which continue to be relevant

Description	Mitigation
Data management	
Data critical to servicing customer needs, managing risk and meeting regulatory reporting expectations is not sufficiently understood or protected, or of appropriate quality, leading to loss of data, customer harm or regulatory censure.	A data strategy has been developed which identifies the foundational data management components that need to be improved. The Data Governance Executive Council has been established and provides first line oversight of the material data risks.
Supplier failure	
Economic conditions increase the risk of critical supplier failure or severe degradation of service delivery, leading to customer service impacts, customer harm, financial loss and regulatory censure.	A supplier management framework is in place, with increased scrutiny of critical suppliers. Through the Operational Resilience programme, suppliers critical to important business services are mapped and understood. Plans to exit arrangements with key suppliers, and where necessary utilise alternative suppliers, are documented and reviewed.

Risk management in TSB (continued)

Principal risks and uncertainties faced by TSB (continued)

Risks reported in 2022 which continue to be relevant (continued)

Description	Mitigation
Cost of living	
The outlook for the UK economy remains uncertain, impacting on customer affordability. This has led to a cost of living challenge across the UK, with implications for affordability and customer confidence to take on additional borrowing. A sustained challenge could lead to further threats to TSB's strategy and have a negative impact on profitability, capital, funding and liquidity requirements.	TSB has strengthened its support for customers in financial difficulty by mobilising a multi-disciplinary team to support our Money Confidence purpose. This team is responsible for TSB's response to the cost of living challenge faced by customers; monitoring credit affordability to support sustainable lending, and continued improvement in the management of pre-arrears and the provision of customer support measures. TSB has signed up to the UK government's Mortgage Charter for residential mortgage lending to provide support to customers and extended similar support to buy-to-let customers. All lending portfolios continue to be monitored against agreed risk appetite metrics. Risk appetite in 2024 has been set to reflect the continued uncertain economic outlook in the UK. Our capital, funding and liquidity requirements will continue to be proactively managed to ensure TSB is able to meet its requirements.
Customer harm	
Delivering good customer outcomes and preventing foreseeable customer harm is a key focus. This risk continues to evolve to reflect economic conditions, an ever-changing digital landscape, increased complexity of supplier relationships, and increasing societal and regulatory expectations. For example: • The current economic conditions are likely to lead to changes in customer behaviour and have implications for lending affordability. This will require continued focus on the provision of effective processes and use of data and technology to prevent customer harm. • TSB's implementation of the Consumer Duty regulation seeks to address and prevent foreseeable harm and requires that products and services are fit for purpose and relevant information can be accessed effectively by consumers.	The risk management framework has continued to be refined over the course of 2023 and reflects Consumer Duty requirements. The Executive Committee receives a range of data on customer outcomes. This includes a monthly conduct dashboard which is provided to the Board. Following the implementation of Consumer Duty, management information has been further enhanced to provide deeper insight on customer outcomes and to support identification of customer harm. Where this is identified, action plans are put in place to rectify the situation or improve the customer journey, as appropriate. Colleague training continues to develop to reflect regulatory and cultural change and support our purpose of Money Confidence.
Maintaining technical and operational resilience	
The ability to maintain digital services is key to our customers and regulators and presents a range of risks including disruption to business activities from cyber-attack, inadequate infrastructure, poor supplier service, and ineffective technology resilience and operational processing.	In 2023 we continued to embed our operational resilience framework. This supports the identification, mapping, and assessment of important business services, enabling identification and remediation of areas where the risk of adverse operational resilience is heightened. Managing cyber risk requires constant focus for TSB. A new cyber security strategy was defined in the second half of 2023 and will be embedded in 2024 to further enhance the strong cyber controls.

Risk management in TSB (continued)

Principal risks and uncertainties faced by TSB (continued)

Risks reported in 2022 which continue to be relevant (continued)

<table>
<tr><th>Description</th><th>Mitigation</th></tr>
<tr><td colspan="2">Economic crime (previously fraud risk)</td></tr>
<tr><td>There are two key risks which are actively under management:

1. The risk that TSB fails to protect its customers from becoming victims of fraudulent activity caused by internal or external parties, leading to financial loss, regulatory censure, reputational damage or customer harm.
2. The risk that TSB fails to identify and prevent financial crime through inadequate compliance or interpretation of relevant laws and regulations.</td><td>In 2023 the economic crime risk framework was strengthened. 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.

Readiness work has commenced ahead of new rules from the Payment Systems Regulator due in 2024 around authorised push payment fraud.</td></tr>
<tr><td colspan="2">Climate change</td></tr>
<tr><td>Risks relating to climate change include physical threats, transitional risks, failure to meet our reduction targets, and the potential for poor customer outcomes.

As TSB's lending portfolio is predominantly comprised of mortgage assets, the main physical risks are flooding, subsidence and coastal erosion risks associated with the property related collateral that underpins this portfolio.

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 costs of improving property energy ratings.</td><td>The Planet Steering Committee, established as part of TSB's Do What Matters Plan, oversees the ongoing management of the financial risks from climate change, provides direction on regulatory expectations and considers industry best practice.

The steps taken to address the risks and opportunities presented by climate change are more fully documented on page 25.

Mitigants to the risks associated with TSB's mortgage portfolio are monitored through climate related risk appetite measures, insurance assessments, and scenario analysis.</td></tr>
<tr><td colspan="2">Attract and retain talent in a competitive market</td></tr>
<tr><td>A highly competitive employment market, particularly in a number of specialist fields, continues to provide challenges in recruiting and retaining talent.</td><td>TSB encourages a diverse and welcoming workplace to reflect the customers and communities it serves across the UK. As outlined in our Do What Matters Plan, TSB seeks to be a trusted employer and to drive performance in a sustainable manner.

TSB continues to assess and prioritise any skills gaps, creating an engaging and rewarding experience for our colleagues, while providing opportunities to develop new relevant skills to support our strategic direction.</td></tr>
</table>

Risk management in TSB (continued)

Emerging risks

TSB regularly considers emerging risks including both the likelihood and the potential impact on our business strategy, customers, employees and shareholder. These risks are considered as part of the business planning cycle.

Emerging risks reported in 2022 that continue to be relevant

Title	Description	Mitigation
Greater divergence in regulations and/or supervisory approach	In addition to UK regulation, TSB is subject to EU regulations and supervisory approaches through its parent, Sabadell. Conflicting requirements may lead to operational challenges or increased costs.	TSB actively seeks to manage cross-border compliance risks through effective co-ordination with Sabadell, regular regulatory horizon scanning, appropriate prioritisation of legal, regulatory and mandatory change, and a transparent and pro-active relationship with regulators.

New emerging risks

Title	Description	Mitigation
Artificial intelligence (AI)	There are opportunities to improve banking services for our customers in innovative and cost-efficient ways. Conversely, in the wrong hands, AI has the capability to negatively impact customer confidence in the banking system and increase fraud or operational losses caused by disruption through intrusive cyber-attacks by organised crime or nation states.	The development of secure AI systems through additional governance and vigorous testing, and specific techniques to ensure transparency of the build and deployment of AI tools.
Societal polarisation	Continued inflation may exacerbate income inequality, heightening cost of living and affordability concerns, resulting in credit losses and increasingly complex customer financial needs. Additionally, there may be a perception of injustice which could lead to increased fraud, financial crime or cyber attacks.	TSB continues to monitor the level of credit provisions and operational costs related to providing support to our customers. Additionally, TSB's fraud strategy will be reviewed and further mitigation undertaken following cyber risk threat assessments.
Expansion of use of cloud services	TSB utilises cloud services, however, as the extent of this expands it is recognised that it may lead to an over dependence on a small group of global suppliers capable of providing the scale of service required.	The Chief Information Office monitors the delivery of the IT strategy, including the target operating model for the provision of cloud services.

TSB’s Do What Matters Plan

The Do What Matters 2025 plan 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 on three key areas: **essentials, people,** and **planet,** which are connected clearly to our purpose – Money Confidence. For everyone. Every day.

The plan has eight long term goals centred around 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 Board provides strategic direction on the Bank’s approach to the Do What Matters Plan, including how we manage the financial risks 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 quarterly basis. This incorporates recommendations and progress reported by the Planet Steering Committee and the People Working Group.

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 of climate change risk within the risk management framework, developing scenario analysis, and managing the financial risks from climate change.

Aligning to independent standards and commitments
We continue to be 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.

Section	Area	Description	References and policies
People	**Community and social matters (page 22)**	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 22 and 23. • Fraud policy • Vulnerable customers policy
	Colleagues (page 23)	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 23 and 24. • Code of conduct • Employment policy • Health, safety and fire policy • Inclusion policy • Remuneration policy
	Respect for human rights (page 24)	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 24. • Modern slavery statement • Responsible supplier charter
	Financial crime, anti-bribery and corruption (page 24)	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 24. • Anti-bribery and corruption policy • Anti-money laundering and counter terrorist financing policy • Sanctions policy • Whistleblowing policy
Planet	**Planet (page 25)**	Doing what matters for the planet is an increasingly important consideration for our customers, colleagues and other stakeholders we work with, including regulators.	Our approach to the planet on pages 25 to 29. • Doing What Matters for the Planet policy

People

Community and social matters

We deliver social good connected to our purpose by focusing on those people in our communities who are least likely to have confidence with their money and are most at risk of being financially excluded.

It is our duty to protect our customers who are vulnerable and provide them with support tailored to their specific needs. Our vulnerable customer policy guides us on how to identify vulnerability and respond to it in the right way.

We have continued to meet our commitment to refund every TSB customer who is an innocent victim of fraud. In 2023, TSB refunded 97% (2022: 97%) of all fraud cases compared with an industry wide refund rate of only 64% (2022: 56%).

TSB has taken a leading position in supporting victim-survivors of domestic abuse. We provide a safe space in all our branches and online, and during 2023 we helped around 200 customers escape an abusive relationship with money from our award-winning Emergency Flee Fund. Insight from this activity has helped inform both the Scottish and Westminster governments to implement their own 'flee fund'. In September 2023, we received an 'Every One's Business Award' from the Employer's Initiative on Domestic Abuse recognising the support we offer colleagues who experience domestic abuse.

Small businesses face significant cashflow challenges in the current economic climate. As a signatory of the Prompt Payment Code, a government-backed voluntary code of practice, we paid 99% (2022: 98%) of all suppliers within 30 days. We also prioritise our small and medium sized suppliers and paid them in an average of 4 days (2022: 4 days). In recognition of our ability to pay suppliers promptly, TSB received the Good Business Pays 'Fast Payer Award' for our prompt payment of suppliers in 2021, 2022 and 2023.

We also help our small business customers to get paid quickly too. Our partnership with Revenu supports our business customers to receive quicker, more convenient payments from their customers.

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 customer 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 representative workforce where colleagues can thrive
We are building an inclusive culture, where everyone belongs and is valued for the differences they bring. We know that this diversity will help us to better support our customers at the moments that matter most to them.

Our Inclusion strategy sets out representation goals we’ll deliver by 2025, underpinned by our Inclusion policy. We continue to make good progress towards our representation goals and increasing the number of colleagues who feel comfortable sharing their diversity data with us. In our 2023 Colleague Engagement Survey, 93% of colleagues agreed that TSB promotes an inclusive work environment that accepts everyone’s individual differences. As of the end of 2023:

- 42% (2022: 42%) of our senior leaders are women, above the UK banking industry average of 39%;
- 5% (2022: 6%) of colleagues identify as lesbian, gay or bi-sexual(1) compared to 3% of the UK workforce;
- 18% (2022: 20%) of colleagues disclose a disability(1) compared to 19% of the UK workforce;
- 16% (2022: 12%) of colleagues and 12% (2022: 9.5%) of our senior leaders are Black, Asian and minority ethnic; and
- 2.5% (2022: 1.8%) of colleagues and 2.2% (2022: 1.2%) 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.

We have a strong focus on disability and seek to ensure that employees with disabilities are treated fairly and can compete on equal terms for career progression. TSB commits to offer an interview to disabled people who meet the minimum criteria for a job while new training in the features of TSB’s digital workplace is helping to reduce barriers to accessibility. In 2023 we completed an audit of our people services for disabled colleagues and have defined an action plan to continue to improve that experience.

We have embedded new inclusive policies to enable more of our colleagues to reach their potential. Examples include our equal parental leave policy which gives colleagues, regardless of their route to becoming a parent or their parental role, the same parental leave of up to 1 year with the first 20 weeks paid. Our carers leave policy, which provides up to 70 hours paid leave each year, supports colleagues with managing caring responsibilities together with work.

We continue to support an intersectional Inclusion network with sponsorship from members of the Executive Committee for TSB Ability, Ethnicity, Gender Inclusion, LGBTQ+ and Social Mobility. These networks actively educate and challenge us while contributing to diversity and inclusion plans.

Involvement of employees in business / consulting with employees
TSB encourages collaborative and honest dialogue at all levels as follows:

- TSB’s annual colleague experience survey provides employees with the opportunity to feedback on working at TSB, with a roadmap developed to address the key findings.
- 83% of colleagues in the 2023 engagement survey said that constructive challenge is valued where they work.
- TSB’s employee forum, The Link, set up in 2014, met 12 times in 2023, providing a direct connection between employees, the executive leadership, and the TSB Board.
- Two-way communications channels enable colleagues to stay connected to TSB’s strategy and purpose and to discuss performance against collective aims.

We also continue to work closely with our recognised unions, Accord and Unite, on key focus areas including financial support and wellbeing, total reward and pay, inclusive policies and organisational change and redeployment.

TSB's Do What Matters Plan (continued)

People (continued)

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, 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.
Renumeration 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 Renumeration Committee as more fully described on page 50.

These policies are part of the risk management framework. Under the health, safety and fire policy, all new joiners and 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.

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 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.
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.

Economic 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

We are focused on reducing our impact on the environment, meeting the highest international standards, and supporting those we serve and do business with to make sustainable decisions. We have set ambitious targets to reduce the amount of waste and emissions we produce. In 2021, we set our pathway to net-zero which committed TSB to being operationally net-zero by 2030 and net-zero in our financed emissions by 2050.

	Own operational emissions: Net-zero by 2030						Financed emissions: Net-zero by 2050		
	Scope 1	Scope 2	Scope 3				Scope 3 (Category 15)		
Greenhouse Gas Protocol Category	Emissions from heating and cooling our estate	Indirect emissions from heating and cooling our estate	Waste	Business travel	Water & paper	Employee commuting & home working	Mortgages	Corporate real estate loans	Business loans

Over the past year we’ve continued to reduce our own operational emissions, set targets for our financed emissions, and prioritised the right actions to deliver our climate commitments.

TSB’s Doing What Matters for the Planet policy sets out our approach to reducing our impact on the environment and guides our activities. The operation of this policy follows our risk management framework and includes oversight and assurance over controls.

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

- In 2023, we introduced a new Level 1 strategic risk category which 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 as outlined on page 15;
- 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.

Risks and opportunities
TSB’s assessment of the materiality of climate change includes the climate impact on TSB (financial materiality) and TSB’s impact on the climate (environmental and social materiality). The exercise also included a qualitative impact assessment of climate scenarios, considering potential risks, mitigants and opportunities across all high or medium impacted risk categories. This used the Climate Biennial Exploratory Scenarios, issued by the Bank of England, as a guideline.

This qualitative analysis is complementary to the quantitative analysis of the residential mortgage portfolio covered below, helping to provide a comprehensive view of potential risks and impacts across a range of potential climate pathways. With TSB’s lending portfolio predominantly comprised of mortgage assets, the risks from climate change arise in two main ways, physical risk and transition risk.

- *Physical risk*: The main physical risks for TSB in the medium and long term (mid to late 2030s and beyond) 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.

- *Transition risk*: The main transition risks arise from the poor energy efficiency of properties against which TSB’s mortgage lending is secured and the cost of improving property energy ratings. Such risks cover both short term (to 2030) and medium and long term horizons. There is an emerging risk associated with both changing consumer and investor demand for more energy efficient properties, and the potential loss in marketability and market value of poorer energy performing properties.

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. From a transition perspective, we continue to experience improvements in the average energy performance certificate (EPC) Standard Assessment Procedure (SAP) score of our existing mortgage loans, as shown in the table on the next page. SAP is the methodology used by the UK government to assess and compare energy and environmental performance of residential properties.

TSB's Do What Matters Plan (continued)

Planet (continued)

Risks and opportunities (continued)

Year*	Average EPC score	Average SAP score
2019	D	62.6
2021	D	63.5
2023	D	64.8

*The analysis was not performed in respect of 2020 and 2022.

We monitor and comply with evolving regulations around climate change and, in the meantime, we deliver awareness campaigns and tools that build our customers' understanding of the opportunities to improve the energy efficiency of their homes and the use of low-carbon heating technologies.

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.

TSB developed its scenario analysis capability during 2022 to assess the financial impacts of climate change risks on the residential mortgage portfolio. We delivered the approach in line with guidance in the Bank of England's Climate Biennial Exploratory Scenarios which reflected three climate scenarios – early policy action (where transition to a carbon-neutral economy starts early), late policy action (where transition to a carbon-neutral economy is delayed until 2030), and no additional action (where climate targets are missed and physical risks are more severe).

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.

Own operational emissions: Metrics

Methodology
Greenhouse gas emissions continue to be reported in line with the UK Streamlined Energy and Carbon Reporting (SECR) requirements. Data has been compiled following the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard.

Assurance
TSB appointed Ernst and Young LLP (EY) to provide independent limited assurance over the 2023 metrics, being those indicated in Tables 1 and 2 below 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 at https://www.tsb.co.uk/files/tsb_2023_assurance_report.pdf. This report contains details of the scope, respective responsibilities, work performed, limitations and conclusion. Further information on TSB's methodology and full Summary of Streamlined Energy and Carbon Reporting can be found at https://www.tsb.co.uk/files/tsb-secr-methodology-2023.pdf.

Location-based emissions
As shown in the table below, TSB's total energy consumption, as measured on a location(1) basis, was marginally lower in 2023 compared to 2022.

Table 1: Summary of Streamlined Energy and Carbon Reporting	2023	2022	2021	2020	2019
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)	**1,410***	1,669*	2,171	2,761	3,010
Scope 2 emissions from the purchase of electricity(4)	**2,701***	2,958*	4,267	5,561	7,139
Total scope 1 and 2 location-based emissions	**4,111***	4,627*	6,438	8,322	10,149
Scope 3 emissions from business travel, waste, water and paper	**1,383***	925*	745	1,509	3,330
Total Scope 1, 2 and 3 location-based emissions	**5,494***	5,552*	7,183	9,831	13,479
Intensity ratio (location-based tCO2e per FTE)(5)	**1.0***	1.0*	1.2	1.4	1.8
Energy consumption kWh (million)(6)	**20.749***	23.844*	31.378	39.310	43.720

Foot notes are shown under the tables on the following page.

TSB's Do What Matters Plan (continued)

Planet (continued)

Own operational emission: Metrics (continued)

Location-based emissions (continued)

In line with TSB re-baselining policy, we have also created a re-baselined view of 2019 to 2022 locations emissions data (Table 2), which provides an adjusted view to account for site closures and FTE reductions during this period. See Summary of Streamlined Energy and Carbon Reporting methodology paper at https://www.tsb.co.uk/files/tsb-secr-methodology-2023.pdf for a full description of how the re-baselining was applied.

Table 2: Re-baselined Summary of Streamlined Energy and Carbon Reporting	2023	Re-baselined 2022	2021	2020	2019
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]	**1,410***	1,542	1,679	1,763	1,799
Scope 2 emissions from the purchase of electricity [4]	**2,701***	2,509	3,366	3,507	4,554
Total scope 1 and 2 location-based emissions	**4,111***	4,051	5,045	5,270	6,353
Scope 3 emissions from business travel, waste, water and paper	**1,383***	1,089	932	1,435	3,014
Total Scope 1, 2 and 3 location-based emissions	**5,494***	5,140	5,977	6,705	9,367
Energy consumption kWh (million) [6]	**20.749***	21.591	25.326	24.516	27.398

Market-based emissions

Table 3: Summary of Streamlined Energy and Carbon Reporting	2023	2022	2021	2020	2019
Scopes 1 and 2 market-based[7] emissions in gross tonnes of carbon dioxide equivalent (tCO_2e)[8]	**1,410**	1,669	2,171	2,761	8,284
Verified carbon removals (offsets)[9]	**(1,410)**	(1,669)	(2,171)	(2,761)	–
Net scope 1 and 2 market-based emissions[10]	–	–	–	–	8,284
Total scope 1, 2 and 3 market-based emissions	**1,383**	925	745	1,509	11,614

Resource consumption data					
Paper (tonnage)[11]	**491**	445	583	984	1,439
Water (m^3)	**37,760**	39,289	47,238	67,409	86,469
Waste (tonnage)[12]	**557**	839	1,200	1,452	1,036
Waste diverted from landfill	**99.3%**	99.6%	99.7%	99.4%	97.1%
Waste intensity (waste tonnage per FTE)[13]	**0.10**	0.15	0.20	0.21	0.17

Notes to Tables 1, 2 and 3

(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: 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, fugitive gas, heating oil, 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.
(13) Calculated as the tonnes of waste generated divided by the average annual headcount.

In 2023, Scope 1 and 2 market based emissions reduced by 83% compared to 2019 to 1,410 tonnes of carbon dioxide equivalent (tCO2e). Scope 3 emissions reduced by 54% compared to 2019. These reductions were due to energy optimisation measures, site closures and positive colleague action on energy efficiency and waste.

TSB completed the second phase of its energy optimisation programme, which has contributed to a reduction in location-based energy consumption from gas, oil and electricity by 3.1 million kWh when compared with 2022.

In 2023, we set a primary corporate objective to keep our energy emissions below 2022 levels. We achieved a 11% reduction in location-based energy emissions when compared with 2022.

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

TSB's Do What Matters Plan (continued)

Planet (continued)

Own operational emissions: Targets

The table below sets out the own operational emission targets that have been set and which are designed to drive action to deliver our net-zero by 2030 target.

Operational emissions area	Scope	Target	2023 Progress
Emissions from heating and cooling our estate	Scope 1	Maintain at or below 2022 level(1)	11% below 2022 (Achieved)
Indirect emissions from heating and cooling our estate	Scope 2	To buy 100% renewable electricity	(Achieved)
Waste	Scope 3	Reduce non-recyclable waste by 10% compared with 2022(2)	21% below 2022 (Achieved)
		To achieve a 90% recycling rate across all waste streams	76% (Not achieved)
Business Travel	Scope 3	To keep below 50% of 2019 levels	57% (Not achieved)
Water & Paper	Scope 3	To reduce paper consumption to 65% compared to 2019	66% below 2019 (Achieved)
Homeworking & Commuting	Scope 3	Target under development	n/a

(1) Target to keep location-based emissions from electricity, gas and oil below 2022 levels (4,451 tCO_2e).
(2) Target to reduce TSB general waste stream by 10% compared with 2022 levels (169.7 tonnes).

Science-based targets

We have paused validation of the science-based targets submitted to the Science Based Targets initiative in 2022 and await the publication of the Science Based Targets Initiative's Net-Zero Standard for Financial Institutions (expected early 2024). We will review the targets developed last year against the new Standard and will supply a further update in 2024.

Looking ahead to 2024

Our focus remains on using fewer resources and choosing more sustainable options to run our operations. This means continuing to reduce overall energy consumption through phase 3 of our energy optimisation scheme. This scheme is exploring the removal of fossil fuels from our estate, reducing waste in our operations, piloting new water saving technology, finding ways to remove paper from our processes, and eliminating any non Forest Stewardship Council UK (FSC) and non Programme for the Endorsement of Forest Certification (PEFC) paper products that remain in our operations. Further, it is promoting sustainable business travel options by only offering electric vehicles on our company car scheme and using a new travel booking provider to make emissions data more readily available to colleagues and provide prompts to choose sustainable travel methods where practical.

Financed emissions: Metrics

As part of the Net Zero Banking Alliance (NZBA), we are committed to reaching net-zero in our financed emissions by 2050. During 2023, we prioritised the emissions from our mortgage portfolio, in terms of both measuring and target setting as this portfolio accounted for 88% of TSB's total lending and investment portfolio and 84% of the financed emissions (using data from 2022 to baseline this assessment). To meet our commitments to the NZBA, we will review the remaining eight carbon intensive sectors in 2024 and set targets as needed.

The carbon emissions of our mortgage portfolio have been estimated using the Partnership for Carbon Accounting Financials (PCAF) methodology (which can be found at carbonaccountingfinancials.com) as set out in the table below.

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

* 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.

TSB's Do What Matters Plan (continued)

Planet (continued)

Financed emissions: Metrics (continued)

Assurance

TSB appointed Ernst and Young LLP (EY) to provide independent limited assurance over the above scope 3 financed residential mortgage emissions for the year ending 31 December 2022. The assurance engagement was planned and performed in accordance with the International Standard for Assurance Engagements (ISAE) 3000, Assurance Engagements Other than Audits for Reviews of Historical Financial information. A limited assurance report was issued and is available at https://www.tsb.co.uk/files/tsb-fy-2022-assurance-report.pdf. This report contains details of the scope, respective responsibilities, work performed, limitations and conclusions.

Methodology

Where available, CO_2 emissions and floor area for each property secured by a TSB mortgage have been obtained from the energy performance certificate (EPC). Emissions from expired EPCs that are more than ten years old and a small number of EPCs issued after 31 December 2022 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 2022, this proportion was calculated using mortgage balances at December 2022 and indexed property values at December 2021 (or at December 2022 for properties without indexed valuation data at December 2021).

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 2022 residential mortgage emissions data quality score was 3.33.

Further information on TSB's methodology and data can be found at https://www.tsb.co.uk/nzba-methodology.pdf.

Financed emissions: Targets

We have 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 we set out in our NZBA report, our analysis shows that TSB action alone will not meet the target. Based on analysis and market conditions, TSB has found that it has an opportunity to achieve a reduction from its current emission level of 20.14 $kgCO_2/m^2$ to between 14.97 and 16.11 $kgCO_2/m^2$. This significantly advances TSB's position toward the 42% set target reduction under NZBA. However, to reach the required emissions level of 11.75 $kgCO_2/m^2$ will need significant engagement from government and others to create the environment for consumers to improve their properties.

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 best influence those changes.

We are building awareness around retrofit measures by upskilling customer-facing colleagues and our mortgage intermediaries, enabling them to have conversations about home energy efficiency and low carbon heating options by signposting customers to Snugg, a tool to help them to see the value of completing retrofit improvements on their homes. We continue to enhance our partnership with Snugg and our customers can now access it through our Mortgage Hub in our mobile app, as well as through TSB Marketplace and Greener Homes webpages.

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 is being enhanced through the development of new metrics under the FCA's Consumer Duty regulations as described further in the 'Customers' section below. In addition, the Remuneration 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 2023, the plan was comprehensively discussed across three Board meetings in October, November and December, with the interests of the Bank's respective stakeholders forming a key part of these deliberations. One particular area of focus of the discussions related to proposed restructuring activity designed to support delivery of TSB's strategy, with particular emphasis on the potential impacts on customers and colleagues and mitigating actions to be taken in this regard.

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 2023, following the instigation of preparations in 2022, 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 four Board meetings leading up to and following the regulatory implementation date in July 2023, which included consideration of internal and external assessments of readiness and Board challenge on progress against the previously approved implementation plan. The Board was also closely engaged throughout 2023 on the development by management of a number of journey dashboards to support TSB's monitoring of, and subsequent actions to deliver, good outcomes for customers. These Consumer Duty dashboards went live for management in August 2023, in line with the regulatory timetable, and will be reported on regularly to the Board to enable it to meet its obligations under the Duty. Alongside consideration of plans for Consumer Duty, and consistent with the approach taken in 2022, a spotlight discussion on vulnerable customers was also held, which continues to be an area of focus for the Board. As was the case in 2021 and 2022, the Board also held two 'deep dive' sessions on complaints in 2023 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.

In light of the continuing pressure on consumer finances resulting from various macroeconomic factors, there has been an ongoing focus by management on cost of living impacts on customer finances and behaviour. Visibility of this has been provided to the Board through the sharing of additional credit, savings and arrears data, introduced in 2022, which is also considered quarterly by the Risk Committee.

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;
- The appointment of a Board level whistleblowing champion, as more comprehensively referred to on page 38 in the Corporate governance statement;
- Providing challenge, through the auspices of the Remuneration 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, 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.

Section 172 statement (continued)

Colleagues (continued)
The Board also receives a presentation on an annual basis 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.

Throughout 2023, The Link focused on areas such as vulnerable customer and cost of living support, revisions to TSB's risk management framework, sustainability, and colleague related matters such as inclusion and social mobility, career development and training and mental health and wellbeing. The outputs from every meeting of The Link are presented to the Executive Committee to help inform TSB's decision making. The Board discussion with The Link focused on vulnerable customer support and colleague mental health and wellbeing, with the Board supportive of the recommendations put forward by The Link and offering suggestions for how these might best be achieved.

As explained in the Nomination Committee report on page 41, 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.

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 22 sets out TSB's approach to the prompt payment of suppliers.

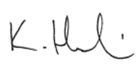
Communities
The Board also fully recognises its obligations to consider the interests of the wider communities in which TSB operates and this is demonstrated in its support of the Do What Matters Plan, TSB's responsible business plan, described in further detail starting on page 21. This outlines how, 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. Sabadell's interests are represented at Board by three 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 33.
- *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 25. In addition, the Board, through discussion of the topic at the Risk Committee, has engaged with the climate change agenda in 2023, inputting into management's plans to recognise and mitigate the risks to the business arising from climate change. Further commentary on climate change risk is included in the Risk management section on page 19.

Strategic report on pages 2 to 31 approved, by order of the Board.



Keith Hawkins,
Company Secretary
31 January 2024

Corporate governance statement

How the business is managed

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 39. 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 relevant Sabadell Group policies 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) (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:

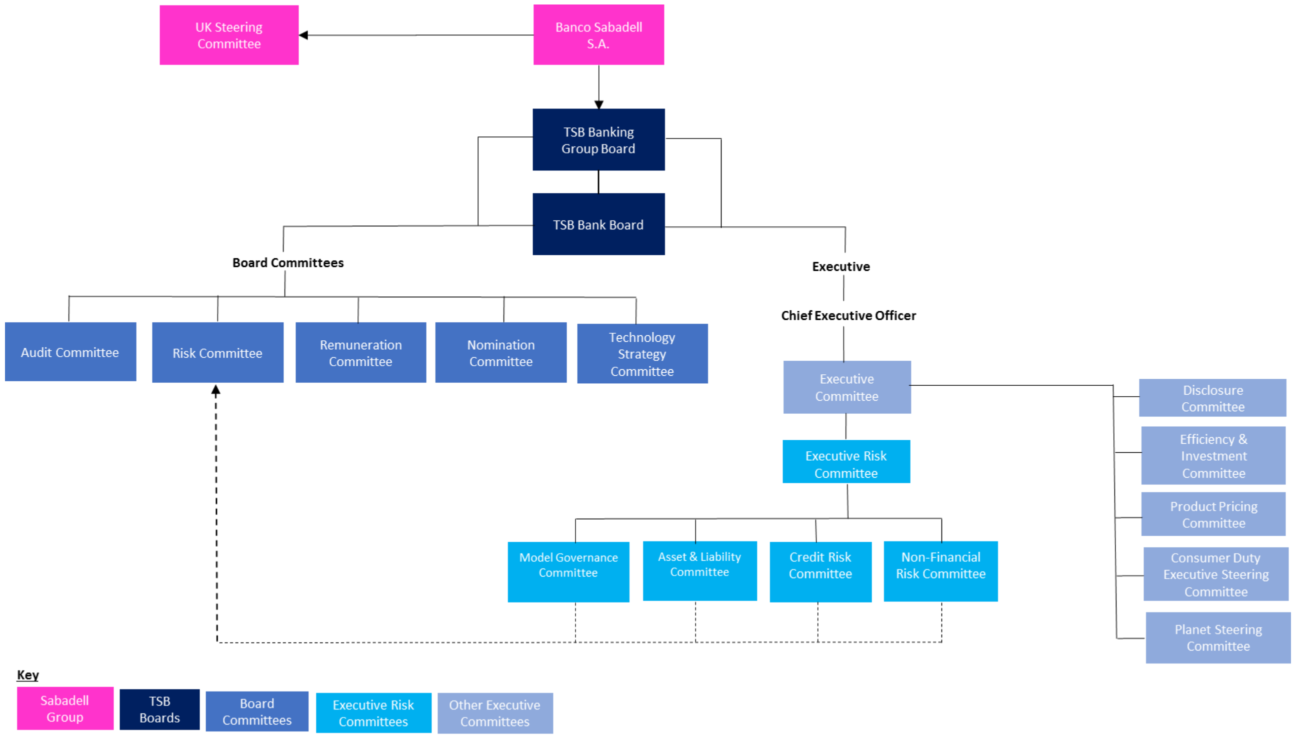
- All Directors should be subject to annual re-election by shareholders (Provision 18);
- Provisions relating to the proportion of Independent Non-executive Directors who are members of the Audit and Remuneration Committees (Provisions 24 and 32); and
- Provisions relating to dialogue with shareholders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

Whist 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 has performed this role on an interim basis since 1 September 2023, pending the appointment of a permanent role holder. This followed the resignation of the previous Audit Committee chair, Mark Rennison, on 31 August 2023. Nick Prettejohn was considered the most appropriate individual to undertake the role 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, with the intention that she assume the role of Audit Committee Chair, which remains subject to regulatory approval at the date of this Annual Report.

In addition, the Remuneration 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 Committee continues to keep this under review as part of a regular Committee agenda item to consider market developments.

How the business is managed (continued)

The corporate governance framework is reviewed at least 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.

(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.

How the business is managed (continued)

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 thirteen 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
	Lynne Peacock (Senior Independent Director)
	Andy Simmonds
Non-executive Directors:	Leopoldo Alvear
	Marc Armengol
	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 46. 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) oversees the management of the risks that TSB faces;
- The Audit Committee (chaired by Nick Prettejohn on an interim basis) oversees financial reporting;
- The Nomination Committee (chaired by Nick Prettejohn) leads the process for appointments to the TSB Boards and succession planning for the TSB Boards and Executive Committee;
- The Remuneration Committee (chaired by Elizabeth Chambers) formulates TSB remuneration policy and supports the ongoing delivery of sustainable performance; 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 (iii)	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	8 out of 8	2 out of 2	–	2 out of 2	–	–
Robin Bulloch	8 out of 8	–	–	–	–	–
Declan Hourican	8 out of 8	–	–	–	–	–
Leopoldo Alvear	5 out of 8	4 out of 5	–	–	–	–
Marc Armengol	8 out of 8	–	–	2 out of 2	6 out of 6	4 out of 4
Zahra Bahrololoumi (i)	5 out of 7	–	–	–	–	0 out of 1
Adam Banks	8 out of 8	–	6 out of 6	–	6 out of 6	4 out of 4
Elizabeth Chambers	8 out of 8	5 out of 5	–	–	6 out of 6	4 out of 4
Ahmed Essam (i)	7 out of 7	–	–	–	–	1 out of 1
Carlos Paz	8 out of 8	–	6 out of 6	–	–	–
Lynne Peacock	8 out of 8	–	6 out of 6	2 out of 2	6 out of 6	–
Mark Rennison (ii)	4 out of 4	3 out of 3	3 out of 4	0 out of 1	–	2 out of 2
Andy Simmonds	8 out of 8	5 out of 5	6 out of 6	2 out of 2	–	–

(i) Appointed to the Board on 17 March 2023.
(ii) Resigned from the Board on 31 August 2023.
(iii) 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.

Board changes and development

In March 2023, Zahra Bahrololoumi and Ahmed Essam were appointed as Independent Non-executive Directors and, following their appointment, completed a comprehensive induction programme. Judith Eden was appointed as an Independent Non-executive Director on 1 January 2024 and will complete a comprehensive induction programme in the first quarter of 2024.

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 2023, sessions were held on operational resilience and the FCA's Consumer Duty, continuing the discussions commenced in 2022, together with a discussion on the structural hedging strategy, being a key component of income generation. A number of discussions were also held on TSB's strategic direction, leading to the finalisation of the medium term plan, as well as on the development of TSB's IT strategy in the context of the wider technological landscape in financial services. The discussions on IT strategy were primarily held through Board Technology Strategy Committee meetings and also a session held with one of TSB's key IT suppliers, IBM, during November 2023. Separately, a special Board education session on the Internal Ratings-Based approach to determining capital requirements was held during 2023, which included the role of the Board with respect to model risk. In addition, during the year, the Remuneration Committee received regular updates from TSB's external remuneration advisers, PwC, detailing current areas of regulatory focus and remuneration trends in the banking industry.

How the business is managed (continued)

Board effectiveness

Having completed an externally facilitated review in 2021, in line with the recommendation of the Code, the review of Board effectiveness for 2023, as was the case in 2022, was run internally by way of a self-assessment questionnaire. It was led by the Chair and managed by the Company Secretariat. The questionnaire was completed by each member of the Board, with the exception of the Chair (who preferred not to let his own reflections influence the tone of the broader feedback). The Company Secretary collated and analysed the anonymised responses and summarised these for consideration by the Chair and, ultimately, the Board.

The review revealed agreement that the Board continued to operate effectively, with consensus across a broad range of areas, including: i) the structure, frequency and timing of meetings; ii) the mix of skills and experience on, and composition of, the Board; and iii) that the Chair promotes effective and efficient meetings, encouraging the involvement of all Board members. The main theme of feedback in terms of improving the effectiveness of the Board related to the need to continue to promote discipline and consistency in the preparation of Board papers, with a range of constructive comments regarding ways to enhance content, together with suggestions for enhancing Board management information.

The Company Secretariat will take forward these suggestions in 2024, working alongside the Chair and Chief Executive. A number of suggestions were also put forward as areas of particular Board focus for 2024, which the Chair and Chief Executive will consider and embed into the 2024 Board calendar as appropriate.

The Board's Audit, Risk, Remuneration, Nomination and Technology Strategy Committees also conducted reviews of their own effectiveness during 2023, with each agreeing a questionnaire which was circulated to committee members and other members of the executive team who regularly attend committee meetings. The results of these effectiveness assessments were analysed by the chairs of the relevant Board committees, in consultation with the Company Secretariat, presented to the relevant Board committee, and actions agreed, and additional topics incorporated where appropriate into the forward planners for the coming year.

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 Andrew Simmonds, no Independent Non-executive Directors serve as Directors of any companies or affiliates in which any other Director is also a Director.

Judith Eden and Andrew Simmonds are both non-executive directors of another company outside of the TSB group which has no other connections to TSB. The Board has carefully considered these circumstances, the fact that Andrew has demonstrated independence and constructive challenge during his tenure and that Judith was appointed following an externally facilitated selection process, and has 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 is of the view that Judith Eden and Andrew Simmonds are independent, under the ring-fencing rules they are technically not, albeit this position is temporary, with the cross-directorship expected to cease during 2024. In the meantime, TSB is engaging with the PRA with a view to obtaining a waiver from this strict criterion for director independence.

Leopoldo Alvear (General Manager and Chief Financial Officer of Sabadell), Marc Armengol (Chief Operating Officer of Sabadell 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, are not considered to be independent.

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, 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, Marc Armengol and Carlos Paz 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.

How the business is managed (continued)

Whistleblowing arrangements

TSB has a whistleblowing process in place (now 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 all employees and contractors, to raise concerns anonymously via TSB's SUBH hotline or via the independent whistleblowing charity, Protect. 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, Mark Rennison (then Chair of the Audit Committee), until his resignation from the Board on 31 August 2023, and Lynne Peacock (who has agreed to act in the role on an interim basis) from 1 September 2023, receive regular reports from management which provide details of whistleblowing matters. 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 2023. The role of TSB's SUBH Champion is intended to transfer to Judith Eden subject to regulatory approval of her appointment as TSB's Audit Committee Chair.

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 appointment of Elizabeth Chambers as a member of the advisory board of Coadjute and as a Non-executive Director of Currensea Limited and Wise Plc was approved by the Board on the basis that she would still be able to devote sufficient time to her TSB commitments. Elizabeth Chambers subsequently stood down from her role at Coadjute in July 2023. The Board also approved Lynne Peacock's appointment as a Non-executive Director of Royal London as part of a planned rebalancing of her non-executive portfolio.

Company Secretary and independent professional advice

Keith Hawkins has served as the Company Secretary throughout the year ended 31 December 2023. 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 44.

External auditor

KPMG LLP have expressed their willingness to continue as the Company Auditors. As outlined in the Audit Committee report on page 45, resolutions proposing the re-appointment of KPMG LLP for the 2024 audit, and to authorise the Directors to determine their remuneration, will be proposed at the 2024 Annual General Meeting, as recommended by the Audit Committee and approved by the Board.

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 2023, is set out in note 14 to TSB's consolidated financial statements on page 81.

How the business is managed (continued)

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 15. These comprise the Asset & Liability Committee, Credit Risk Committee, and Model Governance Committee, together with the Non-Financial Risk Committee, which was established in September 2023 to oversee operational risk and resilience, financial crime risk and conduct risk (with the previous three separate committees overseeing these individual areas having been stood down in August 2023). Each risk committee within the governance structure 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. Further detail on the responsibilities of each of the executive risk committees is shown in the Risk governance section on page 16.

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

- The Product Pricing Committee, which is responsible for reviewing and approving pricing strategy and any decisions in relation to the pricing of TSB's products;
- 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 Consumer Duty Executive Steering Committee, which provides executive oversight, considers escalations and material impacts and, where appropriate, undertakes decisioning for the Bank's Consumer Duty programme; and
- The Planet Steering Committee, which provides governance and oversight of Planet related activity, including overseeing the ongoing management of the financial risks of climate change, to drive positive business outcomes against internal and external commitments and requirements.

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. Hal

Keith Hawkins
Company Secretary
31 January 2024

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 2023.

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 chairmanship of those committees and also considers succession planning for the TSB Boards and Executive, taking into account the skills, knowledge, experience, diversity and leadership needs of TSB.

As at the date of this report, the members of the Nomination Committee are Nick Prettejohn (Chair), Lynne Peacock, Andy Simmonds, Marc Armengol and Elizabeth Chambers. Mark Rennison also served as a member of the Committee until his resignation from the Board on 31 August 2023.

Appointment / re-appointment of directors and Board succession planning
The Committee met twice during 2023 in July and November. The key matters discussed and agreed at these meetings were:

- The July meeting of the Committee discussed and supported the commencement of a process with Russell Reynolds (who have no other connection with TSB or its directors) to draw up a shortlist of candidates to succeed Mark Rennison as the Chair of the Audit Committee. The July meeting of the Committee also recommended to the Board that I be appointed to serve as the Interim Audit Committee Chair, effective from 1 September 2023. This recommendation was subsequently approved by the Board.

- An update on the search for the Audit Committee Chair was provided to the November meeting of the Committee, with a preferred candidate for the role undertaking a final interview the following day and subsequently being recommended to the Board for approval by a written resolution of the Committee (see below). The November meeting of the Committee also recommended to the Board that the term of office of Adam Banks as an Independent Non-executive Director on the TSB Boards, whose initial term ends on 7 February 2024, be extended for a further three years and that Elizabeth Chambers be appointed as a member of the Nomination Committee following her regulatory approval as chair of the Remuneration Committee. Both matters were subsequently approved by the Board.

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:

- 17 January 2023 – the appointments of Zahra Bahrololoumi and Ahmed Essam as Independent Non-executive Directors on the TSB Boards, following a search instigated in 2022 and reported in TSB's 2022 Annual Report;

- 9 March 2023 – the appointment of Elizabeth Chambers as the chair of the Remuneration Committee, subject to regulatory approval and in line with a planned transition from the previous chair, Lynne Peacock. This appointment was made alongside the provision of a new three year term of office for Elizabeth Chambers running to 30 September 2026;

- 18 October 2023 – the appointments of Zahra Bahrololoumi and Ahmed Essam as members of the Technology Strategy Committee; and

- 11 December 2023 – the appointment of Judith Eden as an Independent Non-executive Director, with effect from 1 January 2024, and as the chair of the Audit Committee, subject to regulatory approval.

Executive succession planning
At its meetings held in July and November 2023, the Committee considered the Executive succession plan presented by TSB's Interim HR Director and Chief People Officer, respectively, 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. These updates also covered senior talent retention risks and mitigating actions and efforts to build future skills across TSB's workforce.

Nomination Committee report (continued)

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 23, 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 2023, 25% of the Board were women, rising to 31% at the date of the Annual Report. The percentage of senior roles held by women is recorded on page 23, within the Do What Matters Plan section.

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 a 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
31 January 2024

Audit Committee report

Chair's introduction
I am pleased to present my report as Interim Audit Committee Chair.

I assumed the role as Interim Chair on 1 September 2023, following a comprehensive handover from Mark Rennison, and am ably supported by my fellow Non-executive Directors, Elizabeth Chambers, Andy Simmonds and Leopold Alvear, who have served as members of the Committee throughout the year. I take this opportunity to thank Mark for his valuable contribution up to the point that he stood down from the Committee on 31 August 2023.

All members of the Committee bring strong and relevant industry experience as can be seen from their biographies which can be found at www.tsb.co.uk/investors/people/. All Non-executive Directors, including the Chair, of TSB have a standing invitation to attend meetings of the Committee.

Our voluntary practice of including a report on the Audit Committee's activities in the Annual Report is well established and reflects both the importance of the Committee and the transparent and straightforward manner in which it conducts its activities. I will ensure that I and the Committee continue to be held to account in this way and that its activities continue to be reported in this manner.

As expected, and as discussed in the Committee's report on 2022, the Committee's attention in 2023 was targeted at:

- continuing to challenge management's approach and judgements in the key areas of provisions for expected credit losses as economic conditions evolve and conduct related matters;
- challenging and encouraging management to improve the internal control framework, in particular improving IT controls;
- seeking to develop a deeper understanding of the Internal Ratings Based modelling framework, associated impacts on capital and related regulatory reporting governance framework; and
- continuing to monitor management's plans to comply with emerging reforms to corporate governance and audit.

During 2023, the Committee also continued to monitor progress and findings from the ongoing review of past treatment of customers in arrears and other conduct related matters to ensure that the amounts provided for customer redress remained appropriate and in line with management's proposed remediation strategies.

In addition, the Committee reviewed the Bank's ESG disclosures within the Do What Matters Plan section as well as the independent limited assurance received over key metrics and scope 3 emissions.

During 2023, the Committee received a report on the effectiveness of the 2022 external audit, based on a questionnaire to Committee members and management who interact with KPMG. The Committee focused on the execution of the audit, mindset and culture, quality control, skills, character and knowledge and judgement. In all areas, it showed that the external auditor performed its duties effectively.

PwC carried out an External Quality Assessment of the Internal Audit function and reported its findings to the Committee. This assessed the design and operation of Internal Audit against both Internal Auditors Standards and the Chartered Institute of Internal Auditors Code of Practice as well as considering the design and operation of the function against standard industry practice and the expectations of its stakeholders. The Committee concluded that the internal audit function is highly aligned to the current needs and expectations of its key stakeholders and is well regarded by the business.

In 2024, I expect the Committee to continue to challenge and monitor the steps being taken to improve the IT control environment, as well as continuing to focus on management's approach and judgements in the key area of provisions for expected credit losses in view of ongoing economic uncertainty. In addition, the Committee will increase its focus on ESG disclosures, and related risks and impacts. The Committee will review the changes to the UK Corporate Governance Code following its publication by the FRC in January 2024.

Finally, I am pleased to welcome Judith Eden as a member of the Audit Committee with effect from 1 January 2024. Judith brings a wealth of relevant experience in financial services. She will replace me as Chair of the Committee later in 2024, subject to regulatory approval, and will lead the Committee in delivering the above agenda in 2024.

Nick Prettejohn
Interim Chair
Audit Committee
31 January 2024

Audit Committee report (continued)

Membership and operation of the Committee
The Committee currently comprises two Independent Non-executive Directors (Elizabeth Chambers and Andy Simmonds), one Non-executive Director (Leopoldo Alvear) and our Chairman (Nick Prettejohn) acting as Interim Audit Committee Chair pending the appointment of a permanent successor to Mark Rennison. Each have recent, relevant experience in finance or banking. Andy is also a member and Chair of the Risk Committee.

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 2023.

Audit Committee responsibilities and activity in 2023
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 2023, 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 2023.

(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 2026.

After consideration, the Committee supported the approach adopted by management as described on pages 47 and 48.

(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 49.

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 challenge, the Committee supported management's proposals.

Allowance for credit impairment losses
At December 2023, expected credit losses were reflected in an allowance for credit impairment losses of £211.8 million (2022: £198.0 million) and a provision for off balance sheet commitments of £10.4 million (2022: £13.9 million).

During 2023, 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 70 to 75.

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 70 to 75 were appropriate.

Restructuring provisions
At 31 December 2023, a provision of £26.3 million (2022: £6.7 million) was carried in respect of restructuring activity designed to support delivery of TSB's strategy and is expected to be substantially utilised by the end of 2024. The provision charge in 2023 included £23.0 million of severance costs in respect of strategic restructuring activity in 2023.

A key judgement was assessing the point at which a provision should be recognised. The Committee received a report from management setting out the basis for the assessment of the recognition point and were satisfied that it was appropriate to recognise the severance costs in 2023.

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 2023, 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 on plans to strengthen and embed 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 annual 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 the wider control environment, supported by the risk management framework, is fit for TSB's current requirements but is supportive of management's plans to enhance the risk management framework to remain relevant to support the future strategy. The Committee notes the changes that the government has made to the proposed reforms to restore trust in audit and corporate governance and will oversee management's activities to enhance testing and reporting to enable attestation over material financial, operational, reporting and compliance controls in 2026.

However, the Committee concluded that progress in relation to the IT control environment hasn't moved at the pace expected, but this is now subject to further investment. In addition, the Committee has continued to challenge management on improving the third party risk and control environment, considering the macro-economic pressures that increase risk in the supply chain. The Committee also noted the importance of continued focus on maturing and automating risk and control frameworks more generally in line with the Bank's strategy of simplification and service excellence.

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 2023, 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 2023 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;
- Receiving regular reports from the Chief Audit Officer on Internal Audit activities undertaken in 2023 and monitoring improvement activities resulting from Internal Audit reports;
- Reviewing the PwC External Quality Assessment of the Internal Audit function, which included (1) a strategic assessment and (2) a conformance assessment against the Institute of Internal Auditors Standards ('IIA Standards') and the Chartered Institute of Internal Auditors 'Internal Audit Financial Services Code of Practice';
- Monitoring the function's progress against its strategy and continuous improvement plan;
- 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 2023 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 81;
- 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 Chief Financial Officer 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 81 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 2023 financial statements is the fourth 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 2023 financial statements, her fourth audit of TSB's financial statements.

A resolution to re-appoint KPMG LLP for the audit of the financial statements for the year ending 31 December 2024 will be proposed at the 2024 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 2023, 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 23 and 24), and the Diversity and inclusion section of the Nomination Committee report (page 41);
- *Engagement with employees, suppliers, customers and others*: The Section 172 statement (pages 30 and 31), and the Colleague section of the Do What Matters Plan section (pages 23 and 24); and
- *Summary of Streamlined Energy and Carbon Reporting (SECR)*: The Own operational emissions: Metrics section of the Do What Matters Plan section (pages 26 and 27).

Results and dividends
The consolidated balance sheet can be found on page 58 and the consolidated statement of comprehensive income is on page 59. The Directors have recommended that a final dividend of £120.0 million be declared for the year ended 31 December 2023 (2022: £50 million), to be paid in the first quarter of 2024 to the sole shareholder of the Company. This proposal will be put to the sole shareholder at the 2024 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	
Marc Armengol	
Zahra Bahrololoumi	(appointed 17 March 2023)
Adam Banks	
Elizabeth Chambers	
Judith Eden	(appointed 1 January 2024)
Ahmed Essam	(appointed 17 March 2023)
Carlos Paz	
Lynne Peacock	
Mark Rennison	(resigned 31 August 2023)
Andy Simmonds	

The biographies of TSB's Directors are available at www.tsb.co.uk/investors/people/. The Company's articles of association (the Articles) 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 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 and the Companies Act 2006.

With the exception of the Directors appointed during 2023, the indemnities were in place throughout 2023. The indemnities for Zahra Bahrololoumi and Ahmed Essam were executed on 21 March 2023. An indemnity for Judith Eden was executed on 2 January 2024. 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' emoluments waiver
Leopoldo Alvear, Marc Armengol and Carlos Paz 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.

Directors' report (continued)

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 page 33.

Share capital
At 31 January 2024, 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 6.

Political donations and expenditure
No amounts were given for political purposes during the year (2022: £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 on pages 84 to 101 and the Risk management in TSB section in the Strategic report on pages 15 to 20.

Post balance sheet events
There are no significant events affecting TSB that have arisen between 31 December 2023 and the date of this report that require disclosure.

Research and development activities
TSB develops new products and services during the ordinary course of business.

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 20 Gresham Street, London, EC2V 7JE. 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 twelve 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 56, 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 33, 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 to December 2026. The assessment has been made over this period as it is within the 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. In doing so, it took into account the increasing uncertainty of forecasts in the outer years of the planning period from developments in the economic environment, and 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 2026.

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 56, as part of the assessment, the Directors modelled 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.

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.

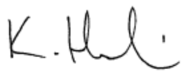
The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 Committees, respectively.



By order of the Board
Keith Hawkins
Company Secretary
31 January 2024
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 2023
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 and the Long Term Incentive Plan (LTIP).

  From the start of 2020, TSB no longer uses individual performance ratings and, instead, has developed and enhanced the performance management process. As well as making the transparency of the process clearer, 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 individual performance rating process for the most senior levels has been replaced with an assessment against the Primary Corporate Objectives (PCO) (70%), individual contribution (personal objectives and leadership expectations) (20%), 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.

  The Variable Pay Award – For grades B to F (i.e. up to and including our senior managers), 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 – In December 2021, the Remuneration Committee approved the introduction of a new LTIP. This has the benefit of further aligning TSB to the Sabadell Group remuneration structure and bringing TSB more in line with UK market practice. Awards will be made in Sabadell shares in April 2024 for a three year performance period (2024 to 2026) to a small number of senior management. The LTIP is subject to a combination of TSB specific and Sabadell performance metrics.

- Market appropriate benefits – which 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), 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. From January 2023, all colleagues now receive private medical benefit as part of their core package which was previously only provided to managers. The minimum holiday allowance has increased and we're supporting Money Confidence for colleagues with a revised pay mix which sees more of the total reward for some colleagues paid in their monthly salary.

- In respect of 2023 performance, TSB will not exceed an annual cap on total variable remuneration of one times fixed pay.

Consideration for all TSB employees
The Executive Committee has agreed a salary budget of 3.6% based on the medium term plan, reflecting external economic indicators and market positioning (salary changes will be effective from 1 April 2024). The new entry level salary will become £23,200 for our non-London roles (7.6% above the new Real Living Wage minimums) and £26,100 for our London roles (9.1% above the new Real Living Wage minimums). Senior colleagues in grades G and H, including Executive Committee members, will receive salary increases on an exceptional basis only.

Remuneration review (continued)

Consideration for all TSB employees (continued)
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 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 23 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, 60% of grants for the most Senior Managers will be deferred over seven years with pro-rata release between the third and seventh year based on release underpins. 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 33, 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 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 Committee continues to keep this under review as part of a regular Committee agenda item to consider market developments.

Reward outcomes in 2023
As summarised in the Chief Executive's statement on page 6, TSB delivered a solid underlying business performance in 2023. Statutory profit before tax was £237.2 million, a 29.3% increase on the £183.5 million earned in 2022.

The Remuneration Committee has reviewed the business performance in 2023 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 £25.2 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 5.6% and 11.2%, respectively, of their salary. More senior grades will receive a figure based on TSB and Sabadell performance and their personal objectives and leadership expectations.

Remuneration review (continued)

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. 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 2023; and

3. The appropriate governance to make informed and robust decisions, including the Remuneration Governance Group (which makes recommendations to the Remuneration Committee on matters as required to ensure that the appropriate standards of risk management and corporate governance are applied), Remuneration 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 – 2023 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 2023.

	2023	2022
Basic salary(1)	**£900,000**	£875,000
Benefits(2)	**£64,187**	£46,388
Pension(3)	**£102,812**	£111,607
Fixed pay	**£1,066,999**	£1,032,995
Variable remuneration	**£793,048**	£782,144
Total Remuneration (audited)	**£1,860,047**	£1,815,139

Notes

(1) Robin Bulloch's salary is currently £900,000, having remained unchanged since April 2022 after he was permanently appointed CEO. 2022's figure reflects a salary of £800,000 for the period from 1 January 2022 to 31 March 2022 and £900,000 for the period from 1 April 2022 to 31 December 2022.

(2) Benefits include the taxable value of all benefits received, which included a car allowance and a flexible benefits allowance set at 4% of salary.

(3) The value of the pension allowance provided which has been paid at a percentage of 11.4% (2022: 12.8%).

* The aggregate remuneration for all Directors is set out in note 15 to the financial statements on page 82.

Consideration by the Directors of matters relating to Directors' remuneration

The Remuneration Committee is authorised by the Board to consider and recommend to the Board the remuneration policy. The policy is considered regularly by the Remuneration 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 Committee, is reviewed and approved by the Board. The Remuneration Committee's terms of reference are kept under regular review and can be found at http://www.tsb.co.uk/investors/people/.

The Remuneration Committee is chaired by Elizabeth Chambers (with effect from 10 November 2023). Prior to this date, Elizabeth was a member of the Committee. The other Committee members in 2023 were Lynne Peacock (who was chair until 9 November 2023 and remained a member of the Committee thereafter), Adam Banks and Marc Armengol.

Remuneration review (continued)

Consideration by the Directors of matters relating to Directors' remuneration (continued)

To ensure alignment between the work of the Remuneration Committee and the Risk Committee, Andy Simmonds, Chair of the Risk Committee, has a standing invitation to join Remuneration Committee meetings. Remuneration 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 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 Committee when their own remuneration is discussed.

The Company Secretary, or an appropriate delegate, acts as the secretary to the Remuneration 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 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 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 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 Committee to consider Directors' remuneration.

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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 7.

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 to the Company financial statements on page 112. 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 2023, TSB reported a profit before tax for the year of £237.2 million (2022: £183.5 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 71 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 2022. 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.

Adoption of new and revised IFRSs

The Group adopted the following International Accounting Standards Board (IASB) pronouncements in the current financial year, which have been endorsed for use in the UK by the UK Endorsement Board (UKEB), and are not considered to have a material impact for the Group:

- IFRS 17 'Insurance Contracts' establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. IFRS 17 was effective for accounting periods beginning on or after 1 January 2023.

- International tax reform – Pillar Two model rules: Amendments to IAS 12. This was issued in May 2023 and is applicable for accounting periods beginning on or after 1 January 2023. The amendments introduce a mandatory temporary exception to the accounting for deferred taxes arising from the implementation of the OECD Pillar Two model rules, together with targeted disclosure requirements for affected entities. The Pillar Two model rules are not expected to have any financial impact for TSB, and therefore the application of the temporary exemption on adoption has resulted in neither the recognition nor disclosure of information about deferred tax assets and liabilities related to Pillar Two income taxes.

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 58 to 61. The notes to these consolidated financial statements are structured to follow TSB's business model as set out on page 7 and are listed below.

Consolidated balance sheet

as at 31 December 2023

	Note	2023 £ million	2022 £ million	Reference to business model
Assets				
Financial assets at amortised cost				*Loans and liquid assets (page 66)*
Cash, cash balances at central banks and other demand deposits	32	**5,897.3**	5,238.8	
Debt securities	6	**2,124.2**	1,951.6	
Loans and advances to customers	8	**36,245.9**	38,050.0	
Loans and advances to central banks and credit institutions	7,32	**328.0**	303.5	
Other advances	9	**209.6**	703.2	
Financial assets at fair value through other comprehensive income				
Debt securities	6	**356.6**	509.5	
Financial assets at fair value through profit or loss				
Derivative financial assets not in hedge accounting relationships	21	**823.5**	1,160.0	*Managing risk (page 84)*
Hedging derivative financial assets	21	**1,346.9**	1,565.9	
Fair value adjustments for portfolio hedged risk	21	**(154.9)**	(542.8)	
Property and equipment	26	**253.5**	287.5	Other important disclosures (page 102)
Intangible assets	28	**86.1**	75.6	
Deferred tax assets	17	**43.2**	64.6	Charges (page 79)
Other assets	29	**92.8**	82.3	
Total assets		**47,652.7**	49,449.7	
Liabilities				
Financial liabilities at amortised cost				*Sources of funding (page 62)*
Customer deposits	1	**34,764.3**	36,338.2	
Borrowings from central banks	2	**4,057.9**	5,538.3	
Debt securities in issue	2	**3,664.1**	1,955.5	
Repurchase agreements	2	**–**	360.0	
Subordinated liabilities	3	**277.7**	265.4	
Lease liabilities	27	**125.0**	145.9	
Other financial liabilities	4	**1,223.3**	1,321.7	
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities not in hedge accounting relationships	21	**982.1**	1,252.4	*Managing risk (page 84)*
Hedging derivative financial liabilities	21	**318.7**	301.5	
Fair value adjustments for portfolio hedged risk	21	**(85.5)**	(321.3)	
Provisions	30	**75.2**	125.0	Other important disclosures (page 102)
Other liabilities	31	**171.7**	185.1	
Total liabilities		**45,574.5**	47,467.7	
Equity				
Share capital	22	**5.0**	5.0	
Share premium	22	**965.1**	965.1	
Other reserves	22	**(285.1)**	(285.1)	
Retained profits	22	**1,387.5**	1,262.7	
Fair value reserve	22	**(6.5)**	(6.1)	
Cash flow hedging reserve	22	**12.2**	40.4	
Shareholder's equity		**2,078.2**	1,982.0	
Total equity and liabilities		**47,652.7**	49,449.7	

The accompanying notes are an integral part of the consolidated financial statements. The consolidated financial statements on pages 58 to 109 were approved by the Board of Directors on 31 January 2024 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 2023

Income statement (continuing operations):	**Note**	**2023 £ million**	**2022 £ million**
Interest and similar income:			
Interest income calculated using the effective interest method	11	**1,573.5**	1,123.0
Other interest income	11	**368.6**	108.7
Total interest and similar income		**1,942.1**	1,231.7
Interest and similar expense	11	**(920.1)**	(250.0)
Net interest income	11	**1,022.0**	981.7
Fee and commission income	12	**129.2**	135.5
Fee and commission expense	12	**(21.2)**	(21.3)
Net fee and commission income	12	**108.0**	114.2
Net gains/(losses) on financial assets and liabilities:			
Gains on derecognition of financial assets measured at fair value through other comprehensive income		**4.3**	6.3
Losses on derecognition of financial liabilities measured at amortised cost		**(1.0)**	–
Losses on equity instruments at fair value through profit or loss		**–**	(0.1)
Gains/(losses) on derivative financial instruments at fair value through profit or loss		**12.9**	(5.6)
(Losses)/gains from hedge accounting	21	**(2.2)**	4.2
(Losses)/gains on derecognition of non-financial assets		**(0.1)**	0.6
Other operating income	13	**14.5**	6.6
Other income		**136.4**	126.2
Total income		**1,158.4**	1,107.9
Total operating expenses	14	**(852.9)**	(869.5)
Operating profit before impairment losses and taxation		**305.5**	238.4
Impairment losses on financial assets at amortised cost	18	**(71.8)**	(57.7)
Impairment credit on loan commitments	30	**3.5**	2.8
Total impairment losses	18	**(68.3)**	(54.9)
Profit before taxation		**237.2**	183.5
Taxation	16	**(62.4)**	(81.2)
Profit for the year	22	**174.8**	102.3
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss:			
Change in fair value reserve:			
Change in fair value	21	**3.7**	(17.3)
Transfers to the income statement	21	**(4.4)**	(6.3)
Taxation thereon	17	**0.3**	6.4
	22	**(0.4)**	(17.2)
Change in cash flow hedging reserve:			
Change in the fair value of derivatives in cash flow hedges	21	**(34.7)**	63.5
Transfers to the income statement	21	**(4.4)**	1.7
Taxation thereon	17	**10.9**	(18.2)
	22	**(28.2)**	47.0
Other comprehensive (losses)/income for the year, net of taxation		**(28.6)**	29.8
Total comprehensive income for the year		**146.2**	132.1

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

Consolidated statement of changes in equity

for the year ended 31 December 2023

			Other reserves						
	Share capital £ million	Share premium £ million	Merger reserve £ million	Capital reorg-anisation reserve £ million	Capital reserve £ million	Fair value reserve £ million	Cash flow hedging reserve £ million	Retained profit £ million	Share-holder's equity £ million
Balance at 1 January 2022	5.0	965.1	616.5	(1,311.6)	410.0	11.1	(6.6)	1,160.4	1,849.9
Comprehensive profit:									
Profit for the year	–	–	–	–	–	–	–	102.3	102.3
Other comprehensive (losses)/income	–	–	–	–	–	(17.2)	47.0	–	29.8
Total comprehensive (losses)/income	–	–	–	–	–	(17.2)	47.0	102.3	132.1
Balance at 31 December 2022	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**

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

Consolidated cash flow statement

for the year ended 31 December 2023

	Note	2023 £ million	2022[1] Restated £ million
Cash flows from operating activities			
Profit before taxation		**237.2**	183.5
Adjustments for:			
Change in operating assets and liabilities[1][2]	32	**332.2**	200.1
Non-cash and other items[2]	32	**665.3**	247.1
Taxation paid		**(34.0)**	(34.4)
Net cash provided by operating activities[1]		**1,200.7**	596.3
Cash flows from investing activities			
Purchase of property and equipment		**(20.2)**	(36.8)
Purchase and development of intangible assets		**(28.0)**	(17.5)
Purchase of debt securities		**(219.8)**	(580.1)
Sale of debt securities		**252.6**	442.6
Proceeds from maturing investments		**39.3**	67.0
Interest received on debt securities		**64.6**	44.5
Net cash received/(used) in investing activities		**88.5**	(80.3)
Cash flows from financing activities			
Additional borrowings from central banks		**5.0**	510.0
Repayment of borrowing from central banks		**(1,500.0)**	(510.0)
Interest paid on borrowings from central banks		**(191.7)**	(57.3)
Issue of covered bonds		**1,750.0**	–
Buyback of covered bonds		**(251.0)**	(500.0)
Interest paid on covered bonds		**(120.1)**	(29.5)
Issue of senior unsecured debt securities		**200.0**	700.0
Repayment of senior unsecured debt securities		**–**	(450.0)
Interest paid on senior unsecured debt securities		**(51.1)**	(15.8)
Interest paid on subordinated liabilities		**(10.3)**	(10.3)
(Repayment)/issue of repurchase agreements		**(359.9)**	359.9
Interest paid on repurchase agreements		**(1.0)**	(2.6)
Lease payments		**(17.8)**	(19.7)
Dividends paid		**(50.0)**	–
Net cash used in financing activities		**(597.9)**	(25.3)
Change in cash and cash equivalents[1]		**691.3**	490.7
Cash and cash equivalents at 1 January[1]	32	**5,398.0**	4,907.3
Cash and cash equivalents at 31 December	32	**6,089.3**	5,398.0

(1) Comparative amounts have been restated to include on demand loans and advances to credit institutions as cash and cash equivalents. This had the effect of increasing each of Change in operating assets and liabilities, Net cash provided by operating activities, and Change in cash and cash equivalents by £103.1 million. Cash and cash equivalents at 1 January 2023 was increased by £159.2 million and Cash and cash equivalents at 1 January 2022 was increased by £56.1 million. See note 32 for further information.

(2) In the prior year, net change in derivative financial instruments and fair value adjustments for portfolio hedged risk of £63.1 million was reclassified from Change in operating assets and liabilities to Non-cash and other items to align with the current year presentation. See note 32 for further information.

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

	2023 £ million	2022 £ million
Bank accounts	**12,406.2**	14,070.6
Instant access saving deposits	**14,919.3**	16,387.8
Deposits with agreed maturity	**4,963.6**	3,153.7
Business banking deposits	**2,475.2**	2,726.1
Total customer deposits	**34,764.3**	36,338.2

2. Wholesale funding

(i) Debt securities in issue

2023	Balance at 1 Jan 2023 £ million	Issues/ (Repayments) £ million	Accounting adjustments[1] £ million	Balance at 31 Dec 2023 £ million
Covered bond programme:				
Series 2019-1 covered bonds	**753.6**	**(250.0)**	**0.3**	**503.9**
Series 2021-1 covered bonds	**499.5**	**–**	**0.5**	**500.0**
Series 2023-1 covered bonds	**–**	**1,000.0**	**5.9**	**1,005.9**
Series 2023-2 covered bonds	**–**	**750.0**	**0.1**	**750.1**
	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**

2022	Balance at 1 Jan 2022 £ million	Issues/ (Repayments) £ million	Accounting adjustments[1] £ million	Balance at 31 Dec 2022 £ million
Covered bond programme:				
Series 2017-1 covered bonds	499.0	(500.0)	1.0	–
Series 2019-1 covered bonds	750.1	–	3.5	753.6
Series 2021-1 covered bonds	500.0	–	(0.5)	499.5
	1,749.1	(500.0)	4.0	1,253.1
Senior unsecured debt securities	450.0	250.0	2.4	702.4
Total debt securities in issue	2,199.1	(250.0)	6.4	1,955.5

(1) Accounting adjustments comprise of accrued interest and unamortised issuance discount.

Notes to the consolidated financial statements

Sources of funding (continued)

2. Wholesale funding (continued)

Issuing entity	Date of issue	31 Dec 2023 £ million	31 Dec 2022 £ million	Interest rate at 31 Dec 2023	Maturity date	Issue currency
TSB Bank plc – Series 2019-1 covered bonds	02/2019	**503.9**	753.6	6.07%	02/2024	GBP
TSB Bank plc – Series 2021-1 covered bonds	06/2021	**500.0**	499.5	5.56%	06/2028	GBP
TSB Bank plc – Series 2023-1 covered bonds	02/2023	**1,005.9**	–	5.80%	02/2027	GBP
TSB Bank plc – Series 2023-2 covered bonds	09/2023	**750.1**	–	5.84%	09/2028	GBP
TSB Bank plc – senior unsecured debt securities	06/2022	**451.8**	451.3	7.64%	06/2027	GBP
TSB Bank plc – senior unsecured debt securities	12/2022	**251.2**	251.1	8.59%	12/2026	GBP
TSB Bank plc – senior unsecured debt securities	12/2023	**201.2**	–	8.48%	12/2028	GBP
Total debt securities in issue		**3,664.1**	1,955.5			

Covered bond programmes

Loans and advances to customers of £4,945.3 million (2022: £3,319.3 million) have been assigned to a limited liability partnership to provide security for the issuance of covered bonds, which at 31 December 2023 totalled £2,759.9 million (2022: £1,253.1 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 £138.6 million (2022: £77.8 million) held by TSB are available for the repayment of the term advances related to covered bonds and other legal obligations. At 31 December 2023, 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 2023 or 2022. During 2023 and 2022, there were no defaults on any principal or interest or any other breaches with respect to borrowings under the covered bond programmes.

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 101, 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.

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, 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 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 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. These notes replaced the £450.0 million floating rate notes issued by the Company to its parent in December 2020 and which paid interest at SONIA plus 2.1%. The Company exercised its option to redeem these notes in June 2022.

Securitisation programmes

At 31 December 2023, loans and advances to customers include £1,299.4 million (2022: £1,274.2 million) of mortgages securitised under a securitisation programme, which have been sold to bankruptcy remote structured entities. As these entities are funded by the issue of debt on terms whereby the majority of the risks and rewards of the mortgages are retained by TSB, the structured entities are consolidated fully and all of these loans are retained on TSB's balance sheet. At 31 December 2023, all related notes in issue were retained by TSB and therefore no amounts were recognised in debt securities in issue. Deposits of £53.4 million (2022: £81.4 million) held by TSB structured entities are available for the repayment of the debt securities issued by the structured entity and other legal obligations.

Notes to the consolidated financial statements

Sources of funding (continued)

2. Wholesale funding (continued)

(ii) Borrowings from central banks

At 31 December 2023, 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 BOE. The TFSME borrowings outstanding at 31 December 2023 are due to mature at various dates, with £3,412.0 million due to mature during 2025 and the remaining £588.0 million during 2027. The Indexed Long Term Repo operations borrowings outstanding at 31 December 2023 mature during the first half of 2024.

	2023 £ million	2022 £ million
Term Funding Scheme with additional incentives for SMEs	**4,000.0**	5,000.0
Indexed Long Term Repo operations	**5.0**	500.0
Accrued interest	**52.9**	38.3
Total borrowings from central banks	**4,057.9**	5,538.3

(iii) Repurchase agreements

At 31 December 2023, TSB had entered into £nil (2022: £360.0 million) of repurchase agreements that transferred legal title of certain UK gilts in return for cash, together with an agreement to repurchase the assets at a later date and at a predetermined price.

The fair value of the transferred gilts was £nil (2022: £360.3 million), comprising £nil (2022: £165.4 million) of gilts recognised on TSB's balance sheet and £nil (2022: £194.9 million) received under reverse repurchase agreements. The on balance sheet gilts were not derecognised from the balance sheet, as substantially all of the rewards, including interest income, and risks, including credit and interest rate risks, are retained by TSB. In all cases, the transferee has the right to sell or repledge the gilts concerned, subject to delivering the securities at the repurchase date.

3. Subordinated liabilities

	2023 £ million	2022 £ 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)	**(22.4)**	(34.7)
Total subordinated liabilities	**277.7**	265.4

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

	2023 £ million	2022 £ million
Items in the course of transmission to credit institutions	**118.2**	59.0
Items in the course of transmission to non-credit institutions	**178.1**	4.7
Collateral placed by central clearing houses	**925.7**	1,245.5
Collateral placed by credit institutions	**0.8**	11.7
Deposits from credit institutions	**0.5**	0.8
Total other financial liabilities	**1,223.3**	1,321.7

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

Notes to the consolidated financial statements

Sources of funding (continued)

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 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**
At 31 December 2022					
Customer deposits	–	36,322.9	–	36,322.9	36,338.2
Debt securities in issue	1,249.7	722.6	–	1,972.3	1,955.5
Subordinated liabilities	–	276.2	–	276.2	265.4
Derivative liabilities at fair value through profit or loss	–	1,252.4	–	1,252.4	1,252.4
Hedging derivative liabilities	–	301.5	–	301.5	301.5

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.

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 2023 or 2022.

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.

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 75.
- 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 in to 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.

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)	2023 £ million	2022 £ million
UK Gilts	**356.6**	509.5
Total debt securities at FVOCI	**356.6**	509.5

Amortised cost	2023 £ million	2022 £ million
UK Gilts	**1,415.2**	1,352.2
Supranational and development bank bonds	**296.2**	289.3
Covered bonds	**412.8**	310.1
Total debt securities at amortised cost	**2,124.2**	1,951.6

Debt securities of £356.6 million (2022: £509.5 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 £2,124.2 million (2022: £1,951.6 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 2023, UK gilts at FVOCI with a carrying value of £nil (2022: £165.4 million) were subject to a repurchase agreement. This repurchase agreement was offset with a corresponding reverse repurchase agreement with the same counterparty when presented on the consolidated balance sheet (see note 21 on page 101 under the heading of Offsetting financial assets and financial liabilities. In addition, £420.6 million (2022: £48.2 million) of debt securities at amortised cost had been pledged as collateral.

7. Loans and advances to central banks and credit institutions

	2023 £ million	2022 £ million
Loans and advances to central banks	**136.0**	144.3
Loans and advances to credit institutions:	**192.0**	159.2
Total	**328.0**	303.5

Loans and advances to central banks represent mandatory deposits at the Bank of England.

Notes to the consolidated financial statements

Loans and liquid assets (continued)

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

	2023 £ million	2022 £ million
Retail – mortgages	**34,047.5**	35,655.0
Retail – unsecured	**1,880.7**	1,958.4
Business banking	**475.6**	571.9
	36,403.8	38,185.3
Allowance for credit impairment losses (note 18)	**(211.8)**	(198.0)
Net customer lending balances	**36,192.0**	37,987.3
Valuation adjustments[1]	**53.9**	62.7
Loans and advances to customers	**36,245.9**	38,050.0

(1) Comprises accrued interest of £20.3 million (2022: £18.8 million) and effective interest rate adjustments of £33.6 million (2022: £43.9 million).

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

	2023 £ million	2022 £ million
Retail – mortgages	**1,898.4**	1,712.0
Retail – unsecured	**3,847.6**	3,859.4
Business banking	**66.6**	46.0
Total commitments	**5,812.6**	5,617.4

The credit impairment provision in respect of total loan commitments is shown in note 30 on pages 107 and 108.

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 where they 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 (2022: 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 is compared with external sources to ensure they are suitably benchmarked.

The severe downside is aligned with 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.

The four scenarios, together with the weightings applied at December 2023, are described below.

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)

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.

The base case scenario is somewhat less pessimistic than the base scenario used in 2022. This is largely a reflection of the economy's observed resilience in 2023. The assumption of a slightly larger fall in house prices reflects the higher peak for the policy rate (5.25% rather than 4.5%).

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)
As in 2022, 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 >30%.

2022 economic scenarios

Base case scenario (60% weighting)
The base case assumed that the UK was already in recession, which continued in 2023. This downturn led to higher unemployment (peaking at 5.25%) and a fall in house prices (down 10% from peak to trough). The Bank of England base rate (Bank Rate) was forecast to peak at 4.5%.

The base case scenario was more pessimistic than the base scenario used in 2021 reflecting, in particular, the global effects of the war in Ukraine, the economic consequences of the COVID-19 pandemic, and recent periods of instability in financial markets. Materially higher interest rates relative to the previous base case scenario contributed to a larger decline in house prices (peak to trough fall of 10% as compared to 4% in the 2021 base case scenario). Unemployment was forecast to peak in the 2022 base case scenario at 5.25%, marginally below the 5.5% forecast in the 2021 base case. However, the 2022 base case scenario forecast a slower reduction thereafter, with unemployment forecast to remain elevated at 4.9% by the end of 2025, as compared to an improvement to 3.5% in the 2021 base case scenario.

Upside (10% weighting)
The upside scenario assumed that the current recession would be brief, with stagnation rather than contraction in 2023. Inflation was expected to fade more quickly while Bank Rate peaked at 3.5%. Unemployment was forecast to remain broadly flat at 3.75% and house prices to recover more quickly.

Downside scenario (20% weighting)
In the downside scenario, the risk of a deep global recession was more acute than the threat of persistent inflation. Unemployment was forecast to rise to a peak of 6.4% and house prices to decline by 18%. Interest rates were forecast to rise to a slightly lower peak than in the base case, with the BOE subsequently cutting the Bank Rate faster and further.

Severe downside (high interest rate) scenario (10% weighting)
The severe downside scenario assumed that high and persistent inflation prompted an aggressive policy response by the BOE. Bank Rate was forecast to rise to 7%, leading to a deep recession, with GDP falling by 5.0% over the course of 2023. Unemployment was forecast to rise to 8.5% and house prices to fall by 32%.

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
2023	**60%**	**10%**	**20%**	**10%**
2022	60%	10%	20%	10%

Scenario weightings have not changed from those applied in 2022. 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 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%**

At 31 December 2022 Scenario	Weighting	Input[1]	2023	2024	2025	2026	2027
Upside	10%	GDP	(0.4)%	0.8 %	1.3 %	1.3%	1.4%
		Unemployment	3.8 %	3.8 %	3.8 %	3.8%	3.8%
		House prices	(4.3)%	(0.4)%	1.3 %	3.9%	3.5%
		Interest rates	3.5 %	3.25 %	3.25 %	3.0%	2.75%
Base	60%	GDP	(1.3)%	(0.2)%	1.0 %	1.3%	1.4%
		Unemployment	4.8 %	5.3 %	4.9 %	4.5%	4.1%
		House prices	(8.9)%	(0.9)%	1.1 %	2.4%	2.5%
		Interest rates	4.5 %	4.25 %	3.75 %	3.5%	3.25%
Downside	20%	GDP	(2.5)%	(1.4)%	1.0 %	1.3%	1.4%
		Unemployment	6.2 %	6.2 %	5.4 %	4.8%	4.3%
		House prices	(9.1)%	(9.6)%	3.9 %	4.3%	4.3%
		Interest rates	4.25 %	3.5 %	3.25 %	3.0%	2.75%
Severe downside (High rate)	10%	GDP	(3.2)%	(1.6)%	1.2 %	1.2%	1.2%
		Unemployment	7.6 %	8.3 %	7.7 %	7.1%	6.5%
		House prices	(10.4)%	(15.2)%	(8.3)%	7.2%	6.6%
		Interest rates	7.0 %	6.5 %	5.5 %	4.75%	4.0%
Weighted average	n/a	GDP	(1.6)%	(0.5)%	1.1 %	1.3%	1.4%
		Unemployment	5.2 %	5.6 %	5.1 %	4.7%	4.3%
		House prices	(8.6)%	(4.0)%	0.9 %	3.3%	3.3%
		Interest rates	4.6 %	4.2 %	3.8 %	3.5%	3.2%

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% (2022: 1.5%), unemployment 4.5% (2022: 4.0%); interest rates 3.5% (2022: 1.5%); and house price growth of 3.75% (2022: 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 2023[1]		Base case	Upside	Downside	Severe downside (High rate)
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 %**
At 31 December 2022					
GDP	Peak to trough fall	(1.3)%	n/a	(3.7)%	(5.0)%
Unemployment	Peak rate	5.25 %	3.75%	6.4 %	8.5 %
House prices	Peak-to-trough fall	(10.0)%	(5.0)%	(18.0)%	(32.0)%
Interest rates	Most extreme rate	4.5 %	3.5 %	4.25 %	7.0 %

(1) GDP decline is relative to Q4 2023. Unemployment peak is from Q1 2024 onwards. House price decline is relative to December 2023. 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 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).

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 2022	Weighted £ million	Upside £ million	Base case £ million	Downside £ million	Severe downside £ million
Gross customer lending balances:					
Stage 1	33,737.1	34,921.0	33,950.9	33,674.6	28,950.0
Stage 2	3,866.8	2,682.9	3,653.0	3,929.3	8,653.9
Stage 3	472.1	472.1	472.1	472.1	472.1
POCI	109.3	109.3	109.3	109.3	109.3
Total gross customer lending balances	38,185.3	38,185.3	38,185.3	38,185.3	38,185.3
Allowance for credit losses and credit impairment provisions:					
Stage 1	42.5	37.6	37.8	44.1	44.4
Stage 2	103.2	58.5	80.6	112.5	270.7
Stage 3	65.5	61.1	63.5	65.9	69.8
POCI	0.7	0.5	0.7	0.7	1.0
Total allowance for credit losses and credit impairment provisions(1)	211.9	157.7	182.6	223.2	385.9

(1) Weighted amount comprises of allowance for credit losses of £198.0 million and credit impairment provisions of £13.9 million (note 30).

Included in the weighted ECL of £222.2 million (2022: £211.9 million) are post model adjustments of £52.6 million (2022: £49.3 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 post model adjustments (PMAs)
The allowance for credit impairment losses included PMAs as shown below:

	Retail - Mortgages £ million	Retail - Unsecured £ million	Business banking £ million	2023 £ million	Retail - Mortgages £ million	Retail - unsecured £ million	Business banking £ million	2022 £ million
ECL before judgemental adjustments	**6.9**	**144.5**	**7.8**	**159.2**	4.5	139.3	4.9	148.7
Judgemental adjustments:								
Post model adjustments:								
Impairment default triggers	**22.5**	**5.9**	**0.8**	**29.2**	30.4	16.2	3.5	50.1
Model performance	**27.0**	**(5.0)**	**(1.6)**	**20.4**	18.3	(22.7)	(2.4)	(6.8)
Operational matters	**1.0**	**2.3**	**(1.1)**	**2.2**	0.9	2.6	1.2	4.7
Bounce Back Loan Scheme	**–**	**–**	**0.8**	**0.8**	–	–	1.3	1.3
Total judgemental adjustments	**50.5**	**3.2**	**(1.1)**	**52.6**	49.6	(3.9)	3.6	49.3
Allowance for credit impairment losses	**57.4**	**147.7**	**6.7**	**211.8**	54.1	135.4	8.5	198.0

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 2023, the value of PMAs required to recognise drivers of default not fully captured in the existing ECL models, reduced by £20.9 million to £29.2 million (2022: £50.1 million) reflecting an easing of inflationary pressures. The impact on customers' ability to afford their mortgage payments in the light of heightened inflation is captured through an affordability assessment that uses 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. The PMAs for the unsecured portfolio are determined by an affordability assessment using internal current account data, supplemented with external data where appropriate.

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 2023, this category of PMAs increased by £27.2 million to £20.4 million (2022: £(6.8) million) reflecting the effect of the revised outlook for house prices on the Retail – mortgages portfolio, and oversensitivity of the PD models to forecast unsecured customer debt to income levels.

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 67. 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 2023, 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:

	2023 Relative Increase in PD	2023 Absolute Increase in PD	2022 Relative Increase in PD	2022 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	**2 times**	**250bps**	2 times	250bps
Personal loans	**2 times**	**770bps**	2 times	770bps
Overdrafts	**1 times**	**400bps**	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, it was determined that thresholds have performed appropriately during the year, with no changes 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 £1,690.0 million (2022: £650.0 million) gross Retail - mortgages balances from stage 1 to stage 2, largely to capture the effects of the affordability PMA (recorded under impairment default triggers) and £231.0 million (2022: £nil) Whistletree balances from stage 1 to stage 2 to capture pending PD model recalibrations. Partially offsetting this, was a transfer of £43.0 million (2022: £42.5 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

	2023 £ million	2022 £ million
Items in the course of collection from credit institutions	**23.7**	21.7
Items in the course of collection from non-credit institutions	**4.1**	4.5
Collateral placed at central clearing houses	**77.5**	525.1
Collateral placed with credit institutions	**96.4**	130.6
Amounts due from the British Business Bank	**7.9**	21.3
Total other advances	**209.6**	703.2

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 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**
At 31 December 2022					
Debt securities at amortised cost	1,935.1	–	–	1,935.1	1,951.6
Loans and advances to customers	–	–	36,294.1	36,294.1	38,050.0
Financial assets at fair value through other comprehensive income	509.5	–	–	509.5	509.5
Derivative assets at fair value through profit or loss	–	1,160.0	–	1,160.0	1,160.0
Hedging derivative assets	–	1,565.9	–	1,565.9	1,565.9

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. During 2022, a significant increase in market interest rates had the effect of reducing the fair value of loans and advances to customers relative to their carrying amount. This discount reduced at December 2023 reflecting the reduction in market rates relative to December 2022.

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	2023 £ million	2022 £ million
Interest income calculated using the effective interest method:		
Cash, cash balances at central banks and other demand deposits	**231.9**	64.7
Financial assets at fair value through other comprehensive income	**6.5**	6.8
Debt securities at amortised cost	**53.5**	30.7
Loans to credit institutions	**10.2**	2.8
Loans and advances to customers	**1,271.4**	1,018.0
	1,573.5	1,123.0
Derivative financial instruments	**368.6**	108.7
Total interest and similar income	**1,942.1**	1,231.7
Interest and similar expense		
Interest expense calculated using the effective interest method:		
Borrowings from central banks	**(206.3)**	(94.1)
Customer deposits	**(344.5)**	(67.4)
Debt securities in issue	**(179.8)**	(51.7)
Subordinated liabilities	**(10.3)**	(10.3)
Lease liabilities	**(1.5)**	(1.3)
Other financial liabilities	**(58.7)**	(15.2)
	(801.1)	(240.0)
Derivative financial instruments	**(119.0)**	(10.0)
Total interest and similar expense	**(920.1)**	(250.0)
Net interest income	**1,022.0**	981.7

Included within interest and similar income is £23.8 million (2022: £14.0 million) in respect of impaired financial assets.

12. Net fee and commission income

	2023 £ million	2022 £ million
Fee and commission income		
Bank accounts	**43.3**	51.7
Credit and debit card fee income	**63.1**	60.4
Insurance commission income	**8.8**	8.6
Other	**14.0**	14.8
	129.2	135.5
Fee and commission expense	**(21.2)**	(21.3)
Net fee and commission income	**108.0**	114.2

13. Other operating income

	2023 £ million	2022 £ million
Migration related income	**14.1**	5.9
Rental income	**0.4**	0.6
Other income	**–**	0.1
Total other operating income	**14.5**	6.6

Migration related income comprises insurance recoveries of post migration losses of £14.1 million (2022: £3.0 million) and a migration related VAT recovery of £nil (2022: £2.9 million) following the finalisation of the matter during 2022.

Notes to the consolidated financial statements

Charges

Running a bank with five million customers comes with overheads. 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

	2023 £ million	2022[1][2] £ million
Staff costs:		
Wages and salaries	**245.4**	231.5
Social security costs	**26.7**	26.8
Other pension costs	**33.3**	30.4
Severance costs[3]	**24.5**	4.9
Other staff costs	**8.8**	10.4
Total staff costs	**338.7**	304.0
Total premises expenses	**34.6**	32.7
Other administrative expenses:		
IT servicing and licence costs[4]	**240.7**	206.5
Regulatory, legal and consultancy costs	**63.9**	[1]58.3
Marketing	**27.8**	26.4
Other expenses[5]	**48.5**	[2]54.0
Total administrative expenses	**754.2**	681.9
Fraud and operational losses	**29.5**	[2]33.6
Conduct costs	**0.4**	[2]37.2
Regulatory fine	**–**	[1]48.7
Other	**1.8**	[1]2.1
Total other operating expenses	**31.7**	121.6
Depreciation of property and equipment	**33.4**	34.7
Depreciation of right of use asset	**16.1**	17.3
Amortisation of intangible assets	**17.5**	14.0
Total depreciation and amortisation	**67.0**	66.0
Total operating expenses	**852.9**	869.5

(1) Regulatory, legal and consultancy costs for 2022 were previously reported as £109.1 million. In order to align with the current year presentation, £50.8 million has been reclassified to other operating expenses (comprising the regulatory fine of £48.7 million and £2.1 million of other).

(2) Other expenses for 2022 were previously reported as £124.8 million. Again, to align with the current year presentation, £70.8 million has been reclassified to other operating expenses (comprising conduct costs of £37.2 million and £33.6 million of fraud and operational losses).

(3) Includes strategic restructuring costs of £23.0 million.

(4) Includes 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 105 under the heading Operational IT costs).

(5) 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.

	2023 £ million	2022 £ million
Staff costs	**23.0**	–
Premises expenses	**1.2**	–
IT servicing and licence costs	**1.6**	–
Regulatory, legal and consultancy costs	**0.7**	–
Depreciation	**2.2**	–
Strategic restructuring costs[1]	**28.7**	–
IT servicing and license costs[2]	**23.8**	–
Migration related[3]	**(2.7)**	51.1
Conduct costs	**(1.0)**	28.6
Other notable costs[4]	**4.1**	11.5
Total notable expenses	**52.9**	91.2

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

(2) 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 cost of which was borne by TSB (see note 25 on page 105 under the heading of Operational IT costs).

(3) Amounts reported for 2023 largely comprise of the release of cost accruals following the completion of regulatory investigations in to the 2018 IT migration. Amounts reported for 2022 comprised of £48.7 million for the regulatory fine in relation to the 2018 IT migration and reported in other operating expenses, and £2.4 million of additional post migration costs reported in regulatory, legal and consultancy costs.

(4) Other notable items comprise of staff costs of £1.8 million (2022: £5.9 million), premises expenses of £1.3 million (2022: £(0.2) million, depreciation of £0.8 million (2022: £4.8 million) and other expenses of £0.2 million (2022: £1.0 million).

Average number of employees

The monthly average number of employees on a headcount basis during the year was 5,568 (2022: 5,592), 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 £1.9 million (2022: £3.3 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 2023, £7.5 million (2022: £8.3 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 106.

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:

	2023 £ million	2022 £ million
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**0.4**	0.3
Fees payable to the Company's auditor and its associates for other services:		
Audit of the accounts of subsidiaries[1]	**3.8**	3.7
Audit related assurance services[2]	**1.1**	1.3
Total fees payable to TSB's auditors	**5.3**	5.3

(1) Additional fees of £0.1 million were incurred in 2023 in respect of the 2022 audit (2022: £0.2 million incurred in 2022 in respect of the 2021 audit) and are not captured in the above table.

(2) 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:

	2023 £ 000	2022 £ 000
Remuneration paid to Directors in respect of qualifying services	**3,891**	3,714
Employer contributions to pension schemes (including cash paid in lieu)	**167**	174
Cash paid under long term incentive arrangements	**–**	319
Total	**4,058**	4,207

Details of the highest paid Director are set out on page 52 in the Remuneration review. The table below presents the number of Directors who:

	2023 Number	2022 Number
Exercised share options in the parent company, Sabadell	**–**	–
Received Sabadell shares under long term incentive schemes	**–**	–
Accrued pension benefits under defined contribution pension schemes	**–**	–

16. Taxation

The table below sets out the charge to UK corporation tax recognised in the income statement:

	2023 £ million	2022 £ million
UK corporation tax		
Current tax		
Current tax charge on profit for the year	**(29.6)**	(33.6)
Adjustment in respect of prior year	**(0.2)**	(0.7)
Current tax charge	**(29.8)**	(34.3)
Deferred tax (note 17)		
Utilisation of carried forward trading losses	**(33.3)**	(37.0)
Origination and reversal of temporary differences:		
Change in UK corporation tax rate	**–**	(12.3)
Accelerated capital allowances	**(1.0)**	0.6
Adjustments in respect of prior years	**4.1**	4.3
Other	**(2.4)**	(2.5)
Deferred tax charge	**(32.6)**	(46.9)
Taxation charge	**(62.4)**	(81.2)

Notes to the consolidated financial statements

Charges (continued)

16. Taxation (continued)

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:

	2023 £ million	2022 £ million
Profit before taxation	**237.2**	183.5
Taxation charge at applied UK corporation tax rate of 27.75% (2022: 27.0%)	**(65.8)**	(49.5)
Factors affecting charge:		
Disallowed costs	**(5.0)**	(26.4)
Adjustments in respect of prior years	**3.9**	3.6
Taxable profits not subject to the bank surcharge	**2.8**	2.0
Non-taxable items	**1.7**	1.4
Changes to UK corporation tax rates	**–**	(12.3)
Taxation charge	**(62.4)**	(81.2)

The applied UK corporation tax rate for 2023 was 27.75% (2022: 27%) 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).

The decrease in disallowed costs was due to 2022 primarily including the £48.7 million of regulatory fines in respect of the handling of the 2018 migration of data and IT systems and £33.6 million of conduct charges (see note 30 on page 107).

The effect of the change in UK corporation tax rates in 2022 reflected the substantive enactment in February 2022 of a reduction in the bank surcharge rate from 8% to 3%, effective from April 2023. This resulted in a £12.3 million reduction in the value of deferred tax assets, with a corresponding deferred tax charge recognised in the 2022 statement of comprehensive income.

17. Deferred tax assets

The movement in deferred tax assets is as follows:

	2023 £ million	2022 £ million
At 1 January	**64.6**	123.3
Income statement charge (note 16)	**(32.6)**	(46.9)
Amounts charged to shareholder's equity:		
Movements in fair value reserve	**0.3**	6.4
Movements in cash flow hedge reserve	**10.9**	(18.2)
At 31 December	**43.2**	64.6

Deferred tax assets are comprised as follows:

	2023 £ million	2022 £ million
Deferred tax arising on carried forward trading losses	**22.0**	55.0
Deferred tax in respect of the transition to IFRS 9	**10.8**	13.4
Deferred tax arising on cash flow hedge reserve	**(4.9)**	(15.8)
Revaluations of financial assets at fair value through other comprehensive income	**2.6**	2.3
Other temporary differences	**12.7**	9.7
Total deferred tax assets	**43.2**	64.6

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.

Notes to the consolidated financial statements

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:	**2023 Exposure £ million**	**2023 Credit Quality**	**2022 Exposure £ million**	**2022 Credit Quality**
Cash, cash balances at central banks and other demand deposits:	**5,897.3**		5,238.8	
Cash	***89.2***	***Not Rated***	*87.9*	*Not rated*
Balances with central banks	***5,802.2***	***AA-***	*5,141.2*	*AA-*
On demand deposits	***5.9***	***At least BBB-***	*9.7*	*At least BBB*
Debt securities[(1)]	**2,124.2**	**At least AA-**	1,951.6	At least AA-
Loans and advances to customers	**36,245.9**	**Note 18(ii)**	38,050.0	Note 18(ii)
Loans and advances to central banks and credit institutions	**328.0**		303.5	
Loans and advances to credit institutions	***192.0***	***A+***	*159.2*	*A+*
Loans and advances to central banks	***136.0***	***AA-***	*144.3*	*AA-*
Other advances	**209.6**		703.2	
Government institutions	***7.9***	***AA-***	*21.3*	*AA-*
Other advances	***201.7***	***Not rated***	*681.9*	*Not rated*
Financial assets at fair value through other comprehensive income	**356.6**	**AA-**	509.5	AA-
Financial assets subject to expected credit loss requirements	**45,161.6**		46,756.6	
Derivative financial assets[(2)]	**2,170.4**		2,725.9	
Total on-balance sheet financial assets	**47,332.0**		49,482.5	
Lending commitments	**5,812.6**	**Note 8**	5,617.4	Note 8
Maximum credit risk exposure	**53,144.6**		55,099.9	

(1) Includes £592.3 million (2022: £546.2 million) rated AAA.
(2) The net uncollateralised derivative balance was £20.4 million (2022: £409.3 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 2023	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	POCI[1] £ million	Total £ million
Loans and advances to customers					
Retail – mortgages	**30,281.1**	**3,267.9**	**404.6**	**93.9**	**34,047.5**
Retail – unsecured	**1,462.3**	**325.4**	**92.0**	**1.0**	**1,880.7**
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[2]					**53.9**
Net balance sheet carrying value					**36,245.9**
Allowance for credit impairment losses					
Retail – mortgages	**14.4**	**22.4**	**19.6**	**1.0**	**57.4**
Retail – unsecured[3]	**37.9**	**52.3**	**57.5**	**–**	**147.7**
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 – unsecured	**2.59%**	**16.07%**	**62.50%**	**–**	**7.85%**
Business banking	**0.97%**	**2.40%**	**7.83%**	**–**	**1.41%**
Total	**0.17%**	**2.09%**	**15.35%**	**1.05%**	**0.58%**

At 31 December 2022	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	POCI[)] £ million	Total £ million
Loans and advances to customers					
Retail – mortgages	31,812.9	3,366.8	366.8	108.5	35,655.0
Retail – unsecured	1,486.9	398.3	72.4	0.8	1,958.4
Business banking	437.3	101.7	32.9	–	571.9
Gross customer lending balances	33,737.1	3,866.8	472.1	109.3	38,185.3
ECL on drawn balances	(38.1)	(96.0)	(63.3)	(0.6)	(198.0)
Net customer lending balance	33,699.0	3,770.8	408.8	108.7	37,987.3
Valuation adjustments[2]					62.7
Net balance sheet carrying value					38,050.0
Allowance for credit impairment losses					
Retail – mortgages	14.0	26.2	13.3	0.6	54.1
Retail – unsecured[3]	17.9	68.3	49.2	–	135.4
Business banking	6.2	1.5	0.8	–	8.5
Total	38.1	96.0	63.3	0.6	198.0
Coverage (%)					
Retail – mortgages	0.04%	0.78%	3.63%	0.55%	0.15%
Retail – unsecured[2]	1.20%	17.15%	67.96%	–	6.91%
Business banking	1.42%	1.47%	2.43%	–	1.49%
Total	0.11%	2.48%	13.41%	0.55%	0.52%

(1) Purchased or originated as credit impaired.
(2) Comprises accrued interest of £20.3 million (2022: £18.8 million) and effective interest rate adjustments of £33.6 million (2022: £43.9 million).
(3) Excludes expected credit impairment provisions for off balance sheet exposures of £10.4 million (2022: £13.9 million). These comprise of stage 1 of £4.6 million (2022: £4.4 million), stage 2 of £4.0 million (2022: £7.2 million), stage 3 of £1.8 million (2022: £2.2 million), and POCI of £nil (2022: £0.1 million).

For all other classes of financial assets (as listed in note 18(i) on page 85), expected credit losses have been assessed as 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.

TSB drawn balances	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	**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(1)	**–**	**(5.3)**	**–**	**(15.3)**	**–**	**(40.5)**	**–**	**(1.4)**	**–**	**(62.5)**
Amounts written off	**–**	**–**	**–**	**–**	**(72.4)**	**52.4**	**–**	**–**	**(72.4)**	**52.4**
Transfers between stages(2) (3)	**(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)**
At 1 January 2022	34,280.5	(59.0)	2,583.9	(74.4)	502.4	(55.4)	124.8	(0.8)	37,491.6	(189.6)
Changes reflected in impairment losses:	1,266.4	9.1	(331.6)	(40.1)	(162.7)	(19.3)	(15.5)	0.2	756.6	(50.1)
Increases due to originations	8,671.7	(20.4)	183.3	(1.1)	32.4	(0.1)	8.2	–	8,895.6	(21.6)
Decreases due to repayments	(7,405.3)	3.4	(514.9)	4.9	(195.1)	4.8	(23.7)	(0.2)	(8,139.0)	12.9
Changes in credit risk(1)	–	26.1	–	(43.9)	–	(24.0)	–	0.4	–	(41.4)
Amounts written off	(0.3)	–	(0.7)	–	(61.9)	41.7	–	–	(62.9)	41.7
Transfers between stages(2) (3)	(1,809.5)	11.8	1,615.2	18.5	194.3	(30.3)	–	–	–	–
To stage 1	3,412.5	(16.9)	(3,367.6)	16.7	(44.9)	0.2	–	–	–	–
To stage 2	(5,149.5)	27.7	5,219.9	(30.9)	(70.4)	3.2	–	–	–	–
To stage 3	(72.5)	1.0	(237.1)	32.7	309.6	(33.7)	–	–	–	–
At 31 December 2022	33,737.1	(38.1)	3,866.8	(96.0)	472.1	(63.3)	109.3	(0.6)	38,185.3	(198.0)

Retail – mortgages

	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	**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	**–**	**3.9**	**–**	**(0.4)**	**–**	**(9.0)**	**–**	**(1.4)**	**–**	**(6.9)**
Amounts written off	**–**	**–**	**–**	**–**	**(0.8)**	**(0.3)**	**–**		**(0.8)**	**(0.3)**
Transfers between stages	**(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)**
At 1 January 2022	32,182.5	(10.4)	2,121.1	(18.9)	406.8	(8.4)	123.4	(0.8)	34,833.8	(38.5)
Changes reflected in impairment losses:	1,144.3	(4.5)	(210.9)	(6.1)	(97.3)	(5.2)	(14.9)	0.2	821.2	(15.6)
Increases due to originations	7,045.6	(7.3)	7.1	–	9.0	–	4.3	–	7,066.0	(7.3)
Decreases due to repayments	(5,901.3)	0.5	(218.0)	0.3	(106.3)	2.2	(19.2)	(0.2)	(6,244.8)	2.8
Changes in credit risk	–	2.3	–	(6.4)	–	(7.4)	–	0.4	–	(11.1)
Amounts written off	–	–	–	–	–	–	–	–	–	–
Transfers between stages	(1,513.9)	0.9	1,456.6	(1.2)	57.3	0.3	–	–	–	–
To stage 1	2,518.7	(3.0)	(2,479.1)	3.0	(39.6)	–	–	–	–	–
To stage 2	(3,984.7)	3.7	4,046.1	(5.3)	(61.4)	1.6	–	–	–	–
To stage 3	(47.9)	0.2	(110.4)	1.1	158.3	(1.3)	–	–	–	–
At 31 December 2022	31,812.9	(14.0)	3,366.8	(26.2)	366.8	(13.3)	108.5	(0.6)	35,655.0	(54.1)

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

	Stage 1		Stage 2		Stage 3		POCI		Total	
Retail – unsecured	Gross £ million	ECL £ million	Gross £ million	ECL £ million	Gross £ million	ECL £ million	Gross £ million	ECL £ million	Gross £ million	ECL £ million
At 1 January 2023	**1,486.9**	**(17.9)**	**398.3**	**(68.3)**	**72.4**	**(49.2)**	**0.8**	**–**	**1,958.4**	**(135.4)**
Changes reflected in impairment losses:	**69.2**	**(22.6)**	**(70.1)**	**(12.4)**	**(6.3)**	**(29.4)**	**0.2**	**–**	**(7.0)**	**(64.4)**
Increases due to originations	**1,418.8**	**(13.1)**	**189.7**	**–**	**29.5**	**–**	**2.8**	**–**	**1,640.8**	**(13.1)**
Decreases due to repayments	**(1,349.6)**	**2.0**	**(259.8)**	**1.7**	**(35.8)**	**2.0**	**(2.6)**	**–**	**(1,647.8)**	**5.7**
Changes in credit risk	**–**	**(11.5)**	**–**	**(14.1)**	**–**	**(31.4)**	**–**	**–**	**–**	**(57.0)**
Amounts written off	**–**	**–**	**–**	**–**	**(70.7)**	**52.1**	**–**	**–**	**(70.7)**	**52.1**
Transfers between stages:	**(93.8)**	**2.6**	**(2.8)**	**28.4**	**96.6**	**(31.0)**	**–**	**–**	**–**	**–**
To stage 1	**462.9**	**(8.9)**	**(460.0)**	**8.9**	**(2.9)**	**–**	**–**	**–**	**–**	**–**
To stage 2	**(528.6)**	**10.7**	**536.0**	**(12.4)**	**(7.4)**	**1.7**	**–**	**–**	**–**	**–**
To stage 3	**(28.1)**	**0.8**	**(78.8)**	**31.9**	**106.9**	**(32.7)**	**–**	**–**	**–**	**–**
At 31 December 2023	**1,462.3**	**(37.9)**	**325.4**	**(52.3)**	**92.0**	**(57.5)**	**1.0**	**–**	**1,880.7**	**(147.7)**
At 1 January 2022	1,622.8	(42.5)	300.9	(51.9)	65.5	(46.1)	1.4	–	1,990.6	(140.5)
Changes reflected in impairment losses:	166.7	14.3	(125.0)	(36.0)	(11.9)	(13.9)	(0.6)	–	29.2	(35.6)
Increases due to originations	1,591.6	(11.9)	162.9	(0.8)	22.0	(0.1)	3.9	–	1,780.4	(12.8)
Decreases due to repayments	(1,424.9)	2.5	(287.9)	4.0	(33.9)	2.3	(4.5)	–	(1,751.2)	8.8
Changes in credit risk	–	23.7	–	(39.2)	–	(16.1)	–	–	–	(31.6)
Amounts written off	(0.3)	–	(0.6)	–	(60.5)	40.7	–	–	(61.4)	40.7
Transfers between stages:	(302.3)	10.3	223.0	19.6	79.3	(29.9)	–	–	–	–
To stage 1	647.4	(11.7)	(644.3)	11.5	(3.1)	0.2	–	–	–	–
To stage 2	(926.8)	21.2	933.9	(22.8)	(7.1)	1.6	–	–	–	–
To stage 3	(22.9)	0.8	(66.6)	30.9	89.5	(31.7)	–	–	–	–
At 31 December 2022	1,486.9	(17.9)	398.3	(68.3)	72.4	(49.2)	0.8	–	1,958.4	(135.4)

	Stage 1		Stage 2		Stage 3		POCI		Total	
Business banking	Gross £ million	ECL £ million	Gross £ million	ECL £ million	Gross £ million	ECL £ million	Gross £ million	ECL £ million	Gross £ million	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	**–**	**2.3**	**–**	**(0.8)**	**–**	**(0.1)**	**–**	**–**	**–**	**1.4**
Amounts written off	**–**	**–**	**–**	**–**	**(0.9)**	**0.6**	**–**	**–**	**(0.9)**	**0.6**
Transfers between stages:	**(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)**
At 1 January 2022	475.2	(6.1)	161.9	(3.6)	30.1	(0.9)	–	–	667.2	(10.6)
Changes reflected in impairment losses:	(44.6)	(0.7)	4.3	2.0	(53.5)	(0.2)	–	–	(93.8)	1.1
Increases due to originations	34.5	(1.2)	13.3	(0.3)	1.4	–	–	–	49.2	(1.5)
Decreases due to repayments	(79.1)	0.4	(9.0)	0.6	(54.9)	0.3	–	–	(143.0)	1.3
Changes in credit risk	–	0.1	–	1.7	–	(0.5)	–	–	–	1.3
Amounts written off	–	–	(0.1)	–	(1.4)	1.0	–	–	(1.5)	1.0
Transfers between stages:	6.7	0.6	(64.4)	0.1	57.7	(0.7)	–	–	–	–
To stage 1	246.4	(2.2)	(244.2)	2.2	(2.2)	–	–	–	–	–
To stage 2	(238.0)	2.8	239.9	(2.8)	(1.9)	–	–	–	–	–
To stage 3	(1.7)	–	(60.1)	0.7	61.8	(0.7)	–	–	–	–
At 31 December 2022	437.3	(6.2)	101.7	(1.5)	32.9	(0.8)	–	–	571.9	(8.5)

(1) Includes changes to the allowance for credit impairment losses arising from stage transfers and other changes to risk parameters.
(2) 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.
(3) 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.

Managing financial risk (continued)

18. Credit risk (continued)

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

In addition, the movement in expected credit loss provisions in respect of off balance sheet exposures is shown in note 30.

Performance overview
Gross loans balances decreased by £1,781.5 million to £36,403.8 million (2022: £38,185.3 million), reflecting the challenging UK mortgage lending market, where gross lending was approximately 30% lower than in 2022.

Stage 1 gross customer lending balances decreased by £1,621.2 million to £32,115.9 million (2022: £33,737.1 million), consistent with the overall decrease including a net transfer to stage 2 of £505.2 million reflected the more challenging economic outlook. Included in net transfers to stage 2 are PMAs of £1,878.0 million, largely to capture the effects of the affordability PMA (see note 8 on page 75).

Stage 2 gross customer lending balances decreased by £181.9 million to £3,684.9 million (2022: £3,866.8 million) driven by ongoing loan repayments by customers, partially offset by the above net transfer in to stage 2 from stage 1.

Stage 3 gross customer lending balances increased by £36.0 million to £508.1 million (2022: £472.1 million), primarily driven by increases in Retail - mortgages and Retail - unsecured, partially offset by a reduction in Business banking reflecting a reduction in gross balances in this portfolio.

Gross loans written off during 2023 of £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

	2023 £ million	2022 £ million
Income statement charge reported in allowance for credit impairment losses:		
Increases due to originations[(1)]	**18.8**	21.6
Decreases due to repayments[(1)]	**(15.1)**	(12.9)
Charge/(credit) due to changes in credit risk[(1)]	**62.5**	41.4
Release to income statement of allowance associated with gross carrying amounts written off[(1)]	**(52.4)**	(41.7)
Other amounts charged to impairment losses in the income statement:		
Gross carrying amounts written off to income statement	**72.4**	62.9
Recoveries of amounts previously written off	**(11.9)**	(14.4)
Other amounts charged to the income statement	**(2.5)**	0.8
Impairment losses on financial assets at amortised cost	**71.8**	57.7
Impairment losses on financial assets at amortised cost	**71.8**	57.7
Impairment credit on credit impairment provisions in respect of loan commitments	**(3.5)**	(2.8)
Impairment losses per income statement	**68.3**	54.9

(1) As reported in the reconciliation of movements in allowances for credit impairment losses in note 18(iii) on page 87 and 88.

Notes to the consolidated financial statements

Managing financial risk (continued)

18. Credit risk (continued)

(iv) Stage 2 balances

There can be a number of reasons that require a financial asset to be subject to a stage 2 lifetime ECL calculation other than reaching the 30 days past due backstop. The following table shows the reason for stage 2 classification at the reporting date.

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 – unsecured	**303.8**	**4.6**	**17.0**	**325.4**
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 – unsecured	**44.6**	**0.5**	**7.2**	**52.3**
Business banking	**2.0**	**–**	**0.2**	**2.2**
Total	**66.5**	**0.9**	**9.5**	**76.9**

At 31 December 2022	PD Deterioration £ million	Performing Forborne £ million	>30DPD £ million	Total £ million
Gross customer lending balances				
Retail – mortgages	3,212.7	50.7	103.4	3,366.8
Retail – unsecured	377.2	3.8	17.3	398.3
Business banking	78.1	0.5	23.1	101.7
Total	3,668.0	55.0	143.8	3,866.8
Allowance for credit impairment losses				
Retail – mortgages	24.0	0.2	2.0	26.2
Retail – unsecured	60.1	0.5	7.7	68.3
Business banking	1.4	–	0.1	1.5
Total	85.5	0.7	9.8	96.0

(v) Stage 3 balances

	2023		2022	
Stage 3	Gross loans £ million	ECL £ million	Gross loans £ million	ECL £ million
Credit impaired - not in a cure period	**284.4**	**(45.6)**	220.5	(35.9)
Credit impaired - in the cure period that precedes transfer to stage 2	**223.7**	**(32.4)**	251.6	(27.4)
Total stage 3	**508.1**	**(78.0)**	472.1	(63.3)

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 67. 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				
2023	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 – unsecured										
Excellent quality	699.8	20.5	5.4	0.1	725.8	6.7	1.1	3.2	–	11.0
Good quality	603.2	151.1	11.0	0.1	765.4	18.1	13.6	6.4	–	38.1
Satisfactory quality	148.8	98.4	11.4	0.6	259.2	11.0	17.5	6.1	–	34.6
Lower quality	6.0	16.9	2.8	–	25.7	1.0	4.4	1.5	–	6.9
Below standard	4.5	38.5	61.4	0.2	104.6	1.1	15.7	40.3	–	57.1
	1,462.3	325.4	92.0	1.0	1,880.7	37.9	52.3	57.5	–	147.7
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
Off balance sheet commitments										
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

Managing financial risk (continued)

18. Credit risk (continued)

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

2022	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
Retail – mortgages										
Excellent quality	31,312.6	4.2	–	1.8	31,318.6	13.3	–	–	–	13.3
Good quality	406.6	148.1	–	55.8	610.5	0.5	1.4	–	–	1.9
Satisfactory quality	83.2	2,073.4	–	15.1	2,171.7	0.2	5.6	–	–	5.8
Lower quality	5.7	199.4	–	0.6	205.7	–	1.2	–	–	1.2
Below standard	4.8	941.7	366.8	35.2	1,348.5	–	18.0	13.3	0.6	31.9
	31,812.9	3,366.8	366.8	108.5	35,655.0	14.0	26.2	13.3	0.6	54.1
Retail – unsecured										
Excellent quality	756.9	35.1	3.4	–	795.4	4.5	3.0	2.4	–	9.9
Good quality	614.9	196.0	7.3	–	818.2	8.8	22.8	4.8	–	36.4
Satisfactory quality	103.4	110.0	7.8	0.5	221.7	3.5	21.5	4.7	–	29.7
Lower quality	7.2	18.2	2.5	–	27.9	0.5	4.9	1.4	–	6.8
Below standard	4.5	39.0	51.4	0.3	95.2	0.6	16.1	35.9	–	52.6
	1,486.9	398.3	72.4	0.8	1,958.4	17.9	68.3	49.2	–	135.4
Business banking										
Excellent quality	171.4	–	–	–	171.4	1.6	–	–	–	1.6
Good quality	255.5	1.2	–	–	256.7	4.4	–	–	–	4.4
Satisfactory quality	10.4	29.7	–	–	40.1	0.2	0.6	–	–	0.8
Lower quality	–	25.8	–	–	25.8	–	0.5	–	–	0.5
Below standard	–	45.0	32.9	–	77.9	–	0.4	0.8	–	1.2
	437.3	101.7	32.9	–	571.9	6.2	1.5	0.8	–	8.5
Total										
Excellent quality	32,240.9	39.3	3.4	1.8	32,285.4	19.4	3.0	2.4	–	24.8
Good quality	1,277.0	345.3	7.3	55.8	1,685.4	13.7	24.2	4.8	–	42.7
Satisfactory quality	197.0	2,213.1	7.8	15.6	2,433.5	3.9	27.7	4.7	–	36.3
Lower quality	12.9	243.4	2.5	0.6	259.4	0.5	6.6	1.4	–	8.5
Below standard	9.3	1,025.7	451.1	35.5	1,521.6	0.6	34.5	50.0	0.6	85.7
	33,737.1	3,866.8	472.1	109.3	38,185.3	38.1	96.0	63.3	0.6	198.0
Off balance sheet loan commitments										
Excellent quality	4,567.3	103.2	7.2	0.2	4,677.9	3.4	1.1	1.2	–	5.7
Good quality	403.6	332.5	3.9	13.3	753.3	0.7	3.4	0.4	–	4.5
Satisfactory quality	89.6	49.1	2.4	0.1	141.2	0.3	1.7	0.3	–	2.3
Lower quality	2.6	6.5	0.5	7.6	17.2	–	0.3	–	0.1	0.4
Below standard	1.4	12.8	13.6	–	27.8	–	0.7	0.3	–	1.0
Total	5,064.5	504.1	27.6	21.2	5,617.4	4.4	7.2	2.2	0.1	13.9

Notes to the consolidated financial statements

Managing financial risk (continued)

18. Credit risk (continued)

(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	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	POCI £ million	2023 Total £ million	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	POCI £ million	2022 Total £ million
Less than 70%	**21,661.1**	**3,091.3**	**341.9**	**87.2**	**25,181.5**	25,087.0	3,169.4	331.5	101.8	28,689.7
70% to 80%	**4,587.1**	**118.5**	**39.7**	**5.3**	**4,750.6**	4,404.1	151.7	25.9	5.0	4,586.7
80% to 90%	**3,244.4**	**44.5**	**15.4**	**0.9**	**3,305.2**	2,087.0	34.8	5.2	0.5	2,127.5
90% to 100%	**780.4**	**9.8**	**4.6**	**0.4**	**795.2**	227.9	3.9	2.1	0.3	234.2
Greater than 100%	**8.1**	**3.8**	**3.0**	**0.1**	**15.0**	6.9	7.0	2.1	0.9	16.9
Retail - mortgages	**30,281.1**	**3,267.9**	**404.6**	**93.9**	**34,047.5**	31,812.9	3,366.8	366.8	108.5	35,655.0

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 £266.3 million (2022: £378.8 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 76).

Financial assets at fair value through profit or loss (not subject to expected credit loss requirements)
Derivative financial assets of £2,170.4 million (2022: £2,725.9 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 101 under the heading Offsetting financial assets and financial liabilities.

(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 2023, forborne loans were £424.5 million (2022: £352.1 million), of which £282.2 million (2022: £238.1 million) were credit impaired. At 31 December 2023, the allowance for loan losses held in respect of forborne loans was £58.4 million (2022: £49.7 million).

During 2023 gross balances of £52.1 million (2022: £41.5 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 £2.3 million (2022: £2.0 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 62 to 65.

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 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

Managing financial risk (continued)

19. Liquidity risk (continued)

At 31 December 2022	On Demand[(1)] £ 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	33,180.4	48.8	149.3	1,555.9	1,403.8	–	–	36,338.2
Repurchase agreements	–	360.0	–			–	–	360.0
Borrowings from central banks	–	35.6	–	502.7	5,000.0	–	–	5,538.3
Debt securities in issue	–	–	6.6	–	1,449.0	499.9	–	1,955.5
Subordinated liabilities	–	–	0.1	–	265.3		–	265.4
Lease liabilities	–	–		0.1	24.6	121.2	–	145.9
Other financial liabilities	76.4	22.1	61.6	213.4	743.1	205.1	–	1,321.7
Derivative liabilities at fair value through profit or loss	–	–	4.5	58.5	867.2	322.2	–	1,252.4
Hedging derivative liabilities	–	1.3	0.5	8.9	285.5	5.3	–	301.5
Total financial liabilities	33,256.8	467.8	222.6	2,339.5	10,038.5	1,153.7	–	47,478.9
Financial assets at amortised cost:								
Cash, cash balances at central banks and demand deposits	5,238.8	–	–	–	–	–	–	5,238.8
Debt securities	–	8.4	41.8	2.2	432.3	1,466.9	–	1,951.6
Loans and advances to customers	602.7	258.8	331.8	1,426.6	6,389.3	29,040.8	–	38,050.0
Loans and advances to credit institutions	159.2	–	–	–	–	–	–	159.2
Loans and advances to central banks	–	–	–	–	–	–	144.3	144.3
Other advances	57.1	–	26.8	55.5	153.5	2.2	408.1	703.2
Financial assets at fair value through other comprehensive income	–	0.7	0.8	0.5	–	507.5	–	509.5
Derivative assets at fair value through profit or loss	–	1.3	2.4	83.4	805.0	267.9	–	1,160.0
Hedging derivative assets	–	16.0	23.7	69.0	442.3	1,014.9	–	1,565.9
Total financial assets	6,057.8	285.2	427.3	1,637.2	8,222.4	32,300.2	552.4	49,482.5

(1) Financial liabilities and financial assets have been further analysed between on demand and up to 1 month to align with the current year presentation.

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 2023	On demand[1] £ 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	**29,778.1**	**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**

At 31 December 2022	On demand[1] £ 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	33,178.0	72.1	171.7	1,585.0	1,468.0	–	–	36,474.8
Repurchase agreements	–	360.0	–	–	–	–	–	360.0
Borrowings from central banks	–	35.6	–	669.6	5,464.6	–	–	6,169.8
Debt securities in issue	–	–	23.2	74.6	1,646.2	509.5	–	2,253.5
Subordinated liabilities	–	–	2.6	7.8	323.2	–	–	333.6
Lease liabilities	–	0.4	4.9	15.6	61.1	72.6	–	154.6
Other financial liabilities	76.4	22.1	61.6	213.4	743.1	205.1	–	1,321.7
Loan commitments	3,905.4	88.0	149.0	1,190.2	56.0	228.8	–	5,617.4
Total non-derivative financial liabilities	37,159.8	578.2	413.0	3,756.2	9,762.2	1,016.0	–	52,685.4
Net settled derivatives	–	20.2	47.8	328.0	1,160.0	146.4	–	1,702.4
Total financial liabilities	37,159.8	598.4	460.8	4,084.2	10,922.2	1,162.4	–	54,387.8

(1) Financial liabilities and financial assets at December 2022 have been further analysed between on demand and up to 1 month to align with the current year presentation.

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 9 and 10 in the Financial performance in 2023 section of the Strategic report.

	2023 £ million	2022 £ million
Shareholder's equity	**2,078.2**	1,982.0
Proposed dividend	**(120.0)**	(50.0)
Other regulatory deductions	**(116.1)**	(149.8)
Common Equity Tier 1/Total Tier 1 capital	**1,842.1**	1,782.2
Tier 2 capital	**325.2**	326.0
Total capital resources	**2,167.3**	2,108.2

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 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 2023, 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 £32.7 million (2022: £50.4 million) from a 100bps increase in rates, and a decrease of £27.5 million (2022: £28.7 million) from a 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:

Derivative financial instruments not in hedge accounting relationships	2023 Contract/ notional amount £ million	2023 Assets fair value £ million	2023 Liabilities fair value £ million	2023 Gain/(loss) recognised in profit or loss £ million	2022 Contract/ notional amount £ million	2022 Assets fair value £ million	2022 Liabilities fair value £ million	2022 Gain(loss) recognised in profit or loss £ million
Interest rate swaps	**27,592.2**	**822.9**	**(982.1)**	**11.2**	31,652.6	1,158.7	(1,252.4)	(8.1)
Equity forwards	**6.8**	**0.6**	**–**	**1.7**	5.2	1.3	–	2.5
Total	**27,599.0**	**823.5**	**(982.1)**	**12.9**	31,657.8	1,160.0	(1,252.4)	(5.6)

Hedging derivative financial instruments	2023 Contract/ notional amount £ million	2023 Assets fair value £ million	2023 Liabilities fair value £ million	2023 Change in fair value used for calculating hedge ineffectiveness £ million	2022 Contract/ notional amount £ million	2022 Assets fair value £ million	2022 Liabilities fair value £ million	2022 Change in fair value used for calculating hedge ineffectiveness £ million
(Fair value hedges)								
Interest rate risk								
Interest rate swaps	**27,227.6**	**1,264.9**	**(315.1)**	**229.6**	22,118.0	1,429.5	(301.5)	971.4
(Cash flow hedges)								
Interest rate and credit risk								
Forward settlement contracts	**–**	**–**	**–**	**(5.9)**	210.0	10.2	–	(8.9)
Interest rate risk								
Interest rate swaps	**644.0**	**82.0**	**(3.6)**	**(28.8)**	884.0	126.2	–	(54.6)
Total	**27,871.6**	**1,346.9**	**(318.7)**	**194.9**	23,212.0	1,565.9	(301.5)	907.9

Notes to the consolidated financial statements

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 transacts derivatives largely to economically hedge interest rate risk. 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 £12.9 million (2022: £(5.6) million loss) should be considered in conjunction with the gain of £0.6 million (2022: £7.1 million gain) 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 – forward bond sales

In the prior year, TSB sought to minimise interest rate and credit risk arising on purchased hold to collect and sell debt securities, using forward settlement contracts. The sales proceeds represented a forecast transaction which was hedged by the forward contract. At 31 December 2022, forward settlement agreements with a notional amount of £210.0 million were expected to mature within one year at a price of 82% of the notional amount.

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 2023, £644.0 million (2022: £884.0 million) of floating rate debt securities in issue were designated in cash flow hedge relationships, of which cash flows in respect of £105.0 million (2022: £300.0 million) were expected to mature within five years, and cash flows in respect of £539.0 million (2022: £584.0 million) were expected to mature after ten years.

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:

2023	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	**(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)**	**–**
Debt securities in issue	Interest rate	**644.0**	**n/a**	**Debt securities in issue**	**(28.8)**	**17.0**
					(34.7)	**17.0**
2022						
Fair value hedges						
Portfolio hedged risk:						
Demand deposits	Interest rate	(6,751.0)	321.3	Customer deposits	276.1	n/a
Fixed rate mortgages	Interest rate	11,598.9	(542.8)	Loans & adv to customers	(461.1)	
Individual hedged risk:						
Subordinated liabilities	Interest rate	(265.4)	34.7	Subordinated liabilities	26.4	n/a
Debt securities	Interest rate	348.4	–	Financial assets at FVOCI	(184.8)	n/a
Debt securities	Interest rate	1,407.5	(688.2)	Financial assets at amortised cost	(631.7)	n/a
					(975.1)	
Cash flow hedges						
Debt securities	Interest rate/credit	161.2	n/a	Financial assets at FVOCI	8.9	10.2
Debt securities in issue	Interest rate	884.0	n/a	Debt securities in issue	54.6	46.1
					63.5	56.3

The amount of fair value hedge adjustments remaining on the balance sheet relating to hedges which have been de-designated is £122.0 million (2022: £119.6 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:

2023	Risk type	Hedge ineffectiveness recognised in P&L £ million	Gain/(loss) recognised in OCI £ million	P&L line item that includes hedge ineffectiveness	Amounts reclassified from reserves to P&L as: Hedged item affected P&L £ million	P&L line item that includes reclassified amount £ million
Fair value hedges	Interest rate	**0.4**	**–**	Gains from hedge accounting	**n/a**	**n/a**
Cash flow hedges	Interest rate / credit risk	**–**	**(5.9)**	n/a	**(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)**	
2022						
Fair value hedges	Interest rate	(3.7)	–	Gains from hedge accounting	n/a	n/a
Cash flow hedges	Interest rate / credit risk	–	8.9	n/a	(0.5)	Other income
Cash flow hedges	Interest rate	0.8	54.6	Gains from hedge accounting	2.2	Other income
		(2.9)	63.5		1.7	

Losses from hedge accounting in the income statement of £(2.2) million (2022: £4.2 million of gains) comprise hedge ineffectiveness losses of £(2.8) million (2022: £(2.9) million of losses) and £0.6 million of gains (2022: £7.1 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

	2023 Fair value reserve £ million	2023 Cash flow hedge reserve £ million	2022 Fair value reserve £ million	2022 Cash flow hedge reserve £ million
Balance as at 1 January	**(6.1)**	**40.4**	11.1	(6.6)
Amounts recognised in other comprehensive income:				
Fair value hedges of interest rate risk				
Changes in fair value of purchased debt securities	**21.8**	**n/a**	(202.1)	n/a
Accumulated fair value hedge adjustment	**(18.1)**	**n/a**	184.8	n/a
	3.7	**n/a**	(17.3)	n/a
Net amounts reclassified to profit or loss	**(4.4)**	**n/a**	(6.3)	n/a
Taxation	**0.3**	**n/a**	6.4	n/a
Cash flow hedges of interest rate and credit risk				
Effective portion of changes in fair value of forward contracts	**n/a**	**(5.9)**	n/a	8.9
Amounts reclassified from reserves to profit or loss	**n/a**	**(4.3)**	n/a	(0.5)
Taxation	**n/a**	**2.7**	n/a	(2.3)
Cash flow hedges of interest rate				
Effective portion of changes in fair value of interest rate swaps	**n/a**	**(28.8)**	n/a	54.6
Amounts reclassified from reserves to profit or loss	**n/a**	**(0.1)**	n/a	2.2
Taxation	**n/a**	**8.2**	n/a	(15.9)
Balance as at 31 December	**(6.5)**	**12.2**	(6.1)	40.4

Notes to the consolidated financial statements

Managing financial risk (continued)

21. Market risk (continued)

Offsetting financial assets and financial liabilities

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

				Related amounts where set off in the balance sheet is not permitted		
At 31 December 2023	**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	**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**
At 31 December 2022						
Derivative financial assets	2,725.9	–	2,725.9	(1,354.5)	(962.1)	409.3
Reverse repurchase agreements	750.0	(750.0)	–	–	–	–
	3,475.9	(750.0)	2,725.9	(1,354.5)	(962.1)	409.3
Derivative financial liabilities	1,553.9	–	1,553.9	(1,354.5)	(198.8)	0.6
Repurchase agreements	1,110.0	(750.0)	360.0	(360.0)	–	–
	2,663.9	(750.0)	1,913.9	(1,714.5)	(198.8)	0.6

(1) Collateral amounts (cash and non-cash financial collateral) 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 £76.9 million (2022: £111.1 million) and non-cash collateral pledged of £0.8 million (2022: £0.8 million).

Amounts offset on the balance sheet

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.

At 31 December 2022, TSB had entered into £750.0 million of repurchase agreements that transferred legal title of certain Duncan 2022 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 £750.0 million of reverse repurchase agreements with the same counterparties as the repurchase agreement. These reverse repurchase agreements 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. These reverse repurchase agreements matured during 2023.

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.

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 reporting 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 restatement and settlement of such transactions are recognised in other operating income in the income statement.

22. Shareholder's equity

	Share capital £ million	Share premium £ 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 2022	5.0	965.1	616.5	(1,311.6)	410.0	11.1	(6.6)	1,160.4
Net change in fair value reserve	–	–	–	–	–	(17.2)	–	–
Net change in cash flow hedging reserve	–	–	–	–	–	–	47.0	–
Profit for the year	–	–	–	–	–	–	–	102.3
At 31 December 2022	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 paid (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**

At 31 December 2023, TSB Banking Group plc had in issue 500.0 million (2022: 500.0 million) one pence ordinary shares authorised, allotted and fully paid up.

Notes to the consolidated financial statements

Other important disclosures (continued)

22. Shareholder's equity (continued)

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.

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 paid

In February 2023, following approval at the annual general meeting, the Company paid an inaugural final dividend of £50.0 million to its shareholder, Sabadell. This amount was reflected in the 2023 financial statements when paid.

During 2023, and following the payment of the inaugural dividend, the Board approved a dividend policy. This policy seeks the distribution, by way of dividend, of 50 per cent of each year's profit after tax, recommended to be paid as a final dividend and 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 emerging risks faced by the Bank (as described on pages 17 to 20).

The Board recommended a final dividend in respect of 2023 of £120.0 million (£0.24 per ordinary share) representing a 69% pay out ratio. This enhanced dividend reflects an assessment as to TSB's current and future capital requirements following the completion of the medium term plan. Based on this exercise, the Board expects to revert to a pay out ratio of around 50% of profit after tax in future years.

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 2024. These financial statements do not reflect this recommended dividend.

24. Contingent liabilities

Significant judgement

Conduct

Management and the FCA are investigating conduct related matters in TSB's collection and recoveries function for which a provision covering the estimated redress costs has been recognised (note 30). It is not, however, currently possible to conclude if any regulatory penalty will be levied, or the timing of any potential penalty, and therefore no costs for an estimated penalty have been recognised in these financial statements.

More broadly, 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.

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.

	2023 £ 000	2022* £ 000
Short term employee benefits	**7,612**	7,641
Post-employment benefits	**546**	676
Other long term awards	**648**	411
Share based payments	**878**	144
Payments for loss of office	**385**	–
Total	**10,069**	8,872

* The comparative amount has been re-presented on the same basis as the current year and excludes £2,139k of awards which vest over a number of years.

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	2023 £ 000	2022 £ 000
At 1 January	**1,387**	671
Advances (includes key management personnel appointed during the year)	**98**	838
Interest charged during the year	**18**	16
Repayments made during the year (including key management personnel resigned during the year)	**(90)**	(138)
At 31 December	**1,413**	1,387

Deposits		
At 1 January	**116**	247
Deposits made during the year (includes key management personnel appointed during the year)	**1,641**	649
Interest expense on deposits	**8**	–
Withdrawals made during the year (including key management personnel resigned during the year)	**(1,193)**	(780)
At 31 December	**572**	116

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

Dividends

As set out in note 23, following approval at the annual general meeting in February 2023, TSB Banking Group plc paid an inaugural dividend of £50.0 million to its parent, Sabadell in February 2023. The directors have recommended a final dividend in respect of 2023 in the amount of £120.0 million. This is subject to approval at the annual general meeting in February 2024 and has not been reflected in these financial statements.

Operational IT costs

Operating expenses of £70.8 million (2022: £53.9 million) were incurred in respect of services provided by Sabis, TSB's parent company's IT supplier, under the Outsourced Services Agreement for running and developing the banking platform. The 2023 expense included £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 2023, the aggregate liability to Sabis was £15.7 million (2022: £6.0 million).

Senior unsecured debt securities

In December 2023, TSB Banking Group plc issued £200.0 million of 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.

In December 2022, TSB Banking Group plc issued £250.0 million of floating rate notes with a maturity date of December 2026 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 3.4% 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.

Notes to the consolidated financial statements

Other important disclosures (continued)

25. Related party transactions (continued)

In June 2022, the Company issued £450.0 million floating rate notes, due to mature in June 2027, 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 2.45% payable quarterly in arrears.

Interest expense of £53.0 million (2022: £18.0 million) was recognised and £4.3 million was payable at 31 December 2023 (2022: £2.4 million).

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 (2022: £10.3 million) was recognised and £0.1 million was payable at 31 December 2023 (2022: £0.1 million).

Economic hedging of share based compensation liability
TSB holds forward purchase agreements with Sabadell to acquire 8.0 million (2022: 9.3 million) Sabadell shares to satisfy estimated requirements under various share based compensation arrangements. At 31 December 2023, this forward agreement had an asset fair value of £0.6 million (2022: asset fair value of £1.3 million) and TSB had received cash collateral from Sabadell of £0.8 million (2022: TSB had received cash collateral from Sabadell of £1.6 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 £5.5 million (2022: £9.4 million). Sabadell acts as guarantor to TSB's borrowings under the TFSME. Under this arrangement, guarantee fees of £8.5 million (2022: £11.1 million) were recognised and £2.0 million was payable at 31 December 2023 (2022: £2.9 million).

26. Property and equipment

	Property £ million	Equipment £ million	Property Right of use leasing asset £ million	Total £ million
Cost				
At 1 January 2022	172.5	92.3	230.5	495.3
Additions	20.7	29.1	3.7	53.5
Disposals	(34.4)	(24.7)	(10.9)	(70.0)
Lease term remeasurement (note 27)	–	–	(2.9)	(2.9)
At 31 December 2022	**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**
Accumulated depreciation				
At 1 January 2022	86.9	38.5	69.6	195.0
Depreciation charge for property and equipment (note 14)	19.0	15.7	–	34.7
Depreciation charge for right of use asset (note 14)	–	–	17.3	17.3
Disposals	(31.0)	(16.0)	(11.6)	(58.6)
At 31 December 2022	**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**
Carrying amount				
At 31 December 2022	83.9	58.5	145.1	287.5
At 31 December 2023	**93.6**	**34.6**	**125.3**	**253.5**

Property held for sale totalled £0.1 million (2022: £0.5 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 2023 £ million	Property 2022 £ million
Balance at 1 January	**145.9**	163.5
Additions	**1.3**	3.7
Lease term remeasurement	**(5.9)**	(2.9)
Interest expense for the year	**1.5**	1.3
Lease payments made in the year	**(17.8)**	(19.7)
Carrying amount at 31 December	**125.0**	145.9

28. Intangible assets

	2023 £ million	2022 £ million
Cost		
At 1 January	**110.7**	94.9
Additions	**28.0**	17.5
Disposals	**–**	(1.7)
At 31 December	**138.7**	110.7
Accumulated amortisation		
At 1 January	**35.1**	22.8
Amortisation charge for the year (note 14)	**17.5**	14.0
Disposals	**–**	(1.7)
At 31 December	**52.6**	35.1
Carrying amount	**86.1**	75.6

29. Other assets

	2023 £ million	2022 £ million
Prepayments	**41.3**	34.5
Accrued fee and commission income	**23.5**	21.8
Amounts recoverable under customer remediation indemnity	**6.9**	9.9
Other	**21.1**	16.1
Total other assets	**92.8**	82.3

30. Provisions

	Conduct provisions £ million	Restructuring provisions £ million	Credit impairment provisions £ million	Dilapidations provisions £ million	Total £ million
At 1 January 2022	59.5	14.4	16.7	19.6	110.2
Transfers(1)	2.7	–	–	–	2.7
Charge/(credit) to income statement	(2)33.6	5.6	(2.8)	–	36.4
Utilisation	(7.2)	(13.3)	–	(3.8)	(24.3)
At 31 December 2022	**88.6**	**6.7**	**13.9**	**15.8**	**125.0**
Reallocations	**–**	**0.4**	**–**	**(0.4)**	**–**
Charge/(credit) to income statement	**(4.2)**	(3)**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**

(1) Reflects the reclassification of £2.7 million of amounts reimbursable by third parties as other assets.
(2) Charge to the income statement in 2022 in respect of conduct provisions of £33.6 million relates to the £28.6 million reported as notable conduct charges in note 14 on page 81.
(3) Includes strategic restructuring costs of £23.0 million.

Notes to the consolidated financial statements

Other important disclosures (continued)

30. Provisions (continued)

Significant judgement

Restructuring provisions
At 31 December 2023, a provision of £26.3 million (2022: £6.7 million) was carried in respect of restructuring activity designed to support delivery of TSB's strategy. The charge in 2023 of £24.4 million includes estimated costs of employee severance and is expected to be substantially utilised by the end of 2024. A key judgement in recognising this provision charge was in concluding that TSB had a constructive obligation to complete the restructuring and compensate impacted employees.

Conduct provisions
During 2023, the provision for the treatment of customers in TSB's collections and recoveries function reduced to £8.0 million (2023: £69.4 million) reflecting substantial progress in delivering a customer remediation programme. 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 73 and 74.

Dilapidation provisions
Dilapidation provision 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

	2023 £ million	2022 £ million
Amounts payable to Sabadell Group companies (note 25)	**17.7**	6.0
Accruals and deferred income	**85.5**	106.2
Share based payment liability	**7.5**	8.3
Other creditors	**61.0**	64.6
Total other liabilities	**171.7**	185.1

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	Subordinated liabilities £ million	Repurchase agreements £ million	Non customer funding £ million
At 1 January 2022	5,501.6	2,199.1	291.8	–	7,992.5
Additional borrowings from central banks	510.0	–	–	–	510.0
Repayment of borrowings from central banks	(510.0)	–	–	–	(510.0)
Repayment of covered bonds	–	(500.0)	–	–	(500.0)
Issue of senior unsecured debt securities	–	700.0	–	–	700.0
Repayment of senior unsecured debt securities	–	(450.0)	–	–	(450.0)
Issuance of repurchase agreements	–	–	–	359.9	359.9
Non-cash movements	36.7	6.4	(26.4)	0.1	16.8
At 31 December 2022	**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**

(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:

		2023 £ million	2022[1] Restated £ million
Decrease/(increase) in loans to central banks		**8.3**	(0.7)
Decrease/(increase) in loans and advances to customers		**1,719.2**	(722.5)
Decrease/(increase) in other advances		**493.6**	(622.6)
(Increase)/decrease in other assets		**(6.5)**	55.3
(Decrease)/increase in customer deposits		**(1,666.5)**	357.0
(Decrease)/increase in other financial liabilities		**(157.1)**	1,127.4
(Decrease)/increase in provisions		**(46.5)**	17.6
Decrease in other liabilities		**(12.3)**	(11.4)
Change in operating assets and liabilities[1][3]		**332.2**	200.1
Interest expense on financing activities[2]		**398.8**	160.0
Interest income on investing activities[2]		**(60.0)**	(33.2)
Net change in derivative financial instruments and fair value adjustments for portfolio hedged risk[3]		**150.0**	63.1
Depreciation and amortisation		**67.0**	66.0
Impairment losses on loans and advances to customers		**13.8**	57.8
Other non-cash items[2]		**95.7**	(66.6)
Non-cash and other items		**665.3**	247.1
Analysis of cash and cash equivalents as shown in the balance sheet			
Cash		**89.2**	87.9
Balances with central banks		**5,802.2**	5,141.2
On demand deposits		**5.9**	9.7
Cash, cash balances at central banks and other demand deposits		**5,897.3**	5,238.8
Loans and advances to credit institutions	Note 7	**192.0**	159.2
Total cash and cash equivalents		**6,089.3**	5,398.0

(1) The comparative amount has been restated to include loans and advances to credit institutions as cash and cash equivalents. This had the effect of increasing Change in operating assets and liabilities and Total cash and cash equivalents by £103.1 million.
(2) In the prior year, interest expense on financing activities and interest income on investing activities were presented in other non-cash items and have been shown separately to align with the current year presentation.
(3) Net change in derivative financial instruments and fair value adjustments for portfolio hedged risk of £63.1 million have been reclassified from Change in operating assets and liabilities to Non-cash and other items to align with the current year presentation.

33. Approval of the consolidated financial statements

These consolidated financial statements were approved by the Board of Directors on 31 January 2024. 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 2023

Company Number: 08871766

	Note	2023 £ million	2022 £ million
Assets			
Non-current assets:			
Investments in subsidiaries	4(ii)	**1,589.4**	1,589.4
Loans to subsidiaries	4(iii)	**1,204.3**	1,002.5
		2,793.7	2,591.9
Current assets:			
Derivative financial assets	5	**0.6**	1.3
Amounts due from subsidiaries	4	**124.5**	53.9
Current tax asset		**0.4**	–
Total assets		**2,919.2**	2,647.1
Liabilities			
Non-current liabilities:			
Senior unsecured debt securities	4(iv)	**904.2**	702.4
Subordinated liabilities	2	**300.1**	300.1
Current liabilities:			
Current tax liability		**–**	0.2
Other financial liabilities		**0.8**	1.6
Total liabilities		**1,205.1**	1,004.3
Equity			
Share capital	3	**5.0**	5.0
Share premium	3	**965.1**	965.1
Merger reserve	3	**616.5**	616.5
Accumulated profits/(losses) brought forward		**56.2**	(12.5)
Profit for the year		**121.3**	68.7
Dividends paid		**(50.0)**	–
Shareholder's equity		**1,714.1**	1,642.8
Total equity and liabilities		**2,919.2**	2,647.1

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 110 to 115 were approved by the Board of Directors on 31 January 2024 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 2023

	Share capital £ million	Share premium £ million	Merger reserve £ million	Retained profits/ (losses) £ million	Shareholder's equity £ million
Balance at 1 January 2022	5.0	965.1	616.5	(12.5)	1,574.1
Comprehensive income:					
Total comprehensive income for the year	–	–	–	68.7	68.7
Balance at 31 December 2022	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**

Company cash flow statement

for the year ended 31 December 2023

	2023 £ million	2022 £ million
Cash flows from operating activities		
Profit before taxation	**121.6**	69.4
Adjustments for:		
Change in current liabilities	**(1.0)**	(16.5)
Change in current assets	**(120.6)**	(52.9)
Net cash provided by operating activities	–	–
Cash flows from investing activities		
Increase in loans to subsidiaries	**(200.0)**	(700.0)
Decrease in loans to subsidiaries	–	450.0
Net cash used in investing activities	**(200.0)**	(250.0)
Cash flows from financing activities		
Issue of senior unsecured debt securities	**200.0**	700.0
Repayment of senior unsecured debt securities	**–**	(450.0)
Net cash provided by financing activities	**200.0**	250.0
Change in cash and cash equivalents	–	–
Cash and cash equivalents at 1 January	–	–
Cash and cash equivalents at 31 December	–	–

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

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

	2023 £ million	2022 £ 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 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 £1,589.4 million (2022: £1,589.4 million).

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).

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

	2023 £ million	2022 £ million
Loans to subsidiaries	**1,200.0**	1,000.0
Accrued interest	**4.3**	2.5
Total loans to subsidiaries	**1,204.3**	1,002.5

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 (2022: immaterial).

(iv) Debt securities in issue – senior unsecured debt securities

	2023 £ million	2022 £ 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**	–
Accrued interest	**4.2**	2.4
Total subordinated liabilities	**904.2**	702.4

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

In December 2023, TSB Bank plc declared and paid an interim dividend of £120.0 million, which was recognised as income by the Company. As the Company does not operate a bank account, at 31 December 2023, 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 £127.1 million at 31 December 2023. The Board have recommended a final dividend of £120.0 million for the year ended 31 December 2023, to be paid to the sole shareholder of the Company once approved at the Annual General Meeting expected to take place in February 2024.

On 22 December 2022, TSB Bank plc declared and paid an interim dividend of £67.0 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 £55.3 million at 31 December 2022 from which a final dividend of £50.0 million was approved at the Annual General Meeting and paid to the Company's sole shareholder in February 2023.

At 31 December 2023, amounts due from subsidiary companies were £124.5 million (2022: £53.9 million), primarily reflecting amounts due from TSB Bank plc in respect of interim dividends.

The Company holds forward purchase agreements with Sabadell to acquire 8.0 million (2022: 9.3 million) Sabadell shares to satisfy estimated requirements under various share based compensation arrangements. This forward agreement had an asset fair value of £0.6 million (2022: asset fair value of £1.3 million) and TSB Banking Group plc had received cash collateral from Sabadell of £0.8 million (2022: received cash collateral of £1.6 million).

Notes to the Company financial statements

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 2023	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	**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)**
At 31 December 2022				
Financial assets				
Loans to subsidiaries	–	1,002.5	–	1,002.5
Derivative financial assets	1.3	–	–	1.3
Total financial assets	1.3	1,002.5	–	1,003.8
Financial liabilities				
Debt securities in issue	–	–	(702.4)	(702.4)
Subordinated liabilities	–	–	(300.1)	(300.1)
Total financial liabilities	–	–	(1,002.5)	(1,002.5)

(1) Comparative information has been reclassified to align with the current year presentation.

(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 2023	Level 1 £ million	Level 2 £ million	Level 3 £ million	Total fair value £ million	Total carrying value £ million
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)**
At 31 December 2022					
Financial assets					
Loans to subsidiaries	–	998.8	–	998.8	1,002.5
Derivative financial assets	–	1.3	–	1.3	1.3
Financial liabilities					
Debt securities in issue	–	(722.6)	–	(722.6)	(702.4)
Subordinated liabilities	–	(276.2)	–	(276.2)	(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 2023, the allowance for expected credit losses was immaterial (2022: 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 2023	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**	**312.9**	–	**323.3**
Total non-derivative financial liabilities	–	–	**21.2**	**58.6**	**1,318.5**	–	**1,398.3**
At 31 December 2022							
Debt securities in issue	–	–	11.1	38.4	812.8	–	862.3
Subordinated liabilities	–	–	2.6	7.8	323.2	–	333.6
Total non-derivative financial liabilities	–	–	13.7	41.2	1,136.0	–	1,195.9

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 2023 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 2023 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 shareholders on 5 May 2020. The period of total uninterrupted engagement is for the four financial years ended 31 December 2023. 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, 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 on loans and advances to customers **Risk vs 2022: ◄►** ***31 December 2023: £211.8 million*** ***(31 December 2022: £198.0 million)*** ***Refer to page 44 (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. A heightened risk of material misstatement of ECL continues to arise in the current year due to the increased judgement and estimation uncertainty as a result of the current macroeconomic environment. At the planning stage, 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 provision 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: **Test of details:** We recalculated the ECL measured for each of TSB's loan portfolios. We performed sample 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 evolving 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 charge and provision recognised and the related disclosures to be acceptable (2022: acceptable).

2 Key audit matters: our assessment of risks of material misstatement (continued)

	The risk	Our response
IT access, change management and operations **Risk vs 2022: ◄►** ***Refer to page 44 (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. During 2023 the Group has continued to implement the multi-year IT control remediation project that was established in 2022. 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 access and change management and batch processing, which ensure 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; based on the progress made we concluded to not test GITCs as part of the current year audit **Control testing:** We tested the design and implementation of relevant ACs relating to the posting of journals as required by the auditing standards. **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 (2022: same). With regard to automated controls, we did not identify any significant deficiencies or material errors in the relevant data elements that we tested (2022: same).
Recoverability of investment in subsidiary (parent Company only) **Risk vs 2022: ◄►** ***31 December 2023: £1,589 million*** ***31 December 2022: £1,589 million*** ***Refer to note 4(ii) on page 112 (accounting policy and financial disclosures).***	***Recoverability of investment*** The carrying amount (£1.589 billion) of the parent Company's investment in its subsidiary, TSB, is significant. The recoverability of the investment in subsidiary is not at a high risk of significant 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 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: We compared the carrying amount of the investment in subsidiary with the subsidiary's balance sheet to identify whether the net assets, being an approximation of their minimum recoverable amount, were in excess of the carrying amount and assessed whether the subsidiary is forecast to be profitable with reference to board approved forecasts. **Our results** We found the parent Company's conclusion that there is no impairment of its investment in subsidiary to be acceptable (2022: 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

Materiality for the Group financial statements as a whole was set at £11.0 million (2022: £10.0 million), determined with reference to a benchmark of Group profit before tax (2022: group total revenues), of which it represents 4.6% (2022: 0.89%). The benchmark in the previous period was total revenue. We selected profit before tax as the benchmark in the current period reflecting the continued and forecast profitability of TSB, with profit before tax being the presumed benchmark for banking audits.

Materiality for the parent Company financial statements as a whole was set at £11.0 million (2022: £10.0 million), determined with reference to a benchmark of Company total assets, of which it represents 0.84% (2022: 0.84%).

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% (2022: 65%) of materiality for the financial statements as a whole, which equates to £7.15 million (2022: £6.5 million). We applied this percentage in our determination of performance materiality based on General IT control deficiencies identified in the prior year audit 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 (2022: £0.5 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

We were able to rely on the Group’s internal control over financial reporting in some areas of our audit, where our controls testing supported this approach, which enabled us to reduce the scope of our substantive work; in the other areas the scope of the audit work performed was fully substantive.

The Group team performed the audit of the Group as if it was a single aggregated set of financial information. The audit was performed using the materiality and performance materiality levels set out above.

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 parent Company or to cease their operations, and as they have concluded that the Group’s and the parent 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 parent 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 parent 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.

We considered whether these risks could plausibly affect 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 in 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 56 (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.

Independent auditor’s report to the members of TSB Banking Group plc (continued)

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 and Internal Audit, and inspection of policy documentation as to the Group and parent Company’s high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group’s and parent Company’s channel for “whistleblowing”, as well as whether they have knowledge of any actual, suspected or alleged fraud;
- Reading Board, 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 the 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.

We discussed with the Audit Committee matters related to actual or suspected fraud, for which disclosure is not necessary, and considered any implications for our audit.

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 or parent Company’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 and parent Company’s activities and its 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 customer conduct matters discussed in note 30, we assessed the disclosures against our understanding, inquiries of internal counsel, external counsel, and inspection of correspondence with the regulator.

We discussed with the Audit Committee 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 48, 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
31 January 2024

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.

Glossary (continued)

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.
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.
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
CBES	Climate Biennial Exploratory Scenarios
CET1	Common Equity Tier 1
CRD IV	Capital Requirements Directive IV
ECL	Expected credit loss
EIR	Effective interest rate
FCA	Financial Conduct Authority
FVOCI	Fair value through other comprehensive income
GDPR	General Data Protection Regulation
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
MREL	Minimum Requirement for Eligible Liabilities
NPS	Net promoter score
NZBA	Net Zero Banking Alliance
PCA	Personal current account
SECR	Streamlined Energy and Carbon Reporting Regulations
POCI	Purchased or originated credit impaired
PRA	Prudential Regulatory Authority
SME	Small and medium sized businesses

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