TSB BANKING GROUP PLC
RESULTS FOR THE SIX MONTHS TO 30 JUNE 2014

KEY PERFORMANCE INDICATORS

	6 months to 30 June 2014 £ million	6 months to 31 Dec 2013[1] £ million	***Change***
Profit before tax (management basis)	**78.6**	94.6	***(16.9)%***
Profit before tax (statutory basis)	**128.5**	48.7	***163.9 %***
Franchise banking net interest margin[2][7]	**3.62%**	3.49%	***13bps***
Group impairment charge as a % of average advances[3][7]	**0.47%**	0.57%	***10bps***
Franchise loan to deposit ratio	**81.8%**	87.0%	***(5.2)pp***
Pro forma Common Equity Tier 1 Capital ratio (fully loaded)[4]	**18.2%**		
	Quarter to 30 June 2014	Quarter to 31 Mar 2014	
Share of new personal current account openings[5]	**9.2%**	6.7%	**2.5pp**
Customer advocacy – net promoter score (NPS)[6]	**(5)**	(13)	**8**

(1)-(7) - see notes on page 3.

OPERATIONAL AND FINANCIAL SUMMARY

- Premium listing on the London Stock Exchange achieved on 25 June 2014, with a larger than expected free-float of 38.5% reflecting investor demand.
- In line with expectations, TSB generated a management profit before tax of £78.6m (Franchise: £47.0m; Mortgage Enhancement: £31.6m) and £128.5m on a statutory basis including significant one off items.
- Franchise banking net interest margin increased slightly, in line with expectations, to 3.62% resulting from lower funding costs. The Group's loan loss ratio of 47 basis points reflects the continuing improvement in the economic environment and the quality of the loan book.
- TSB attracted a 9.2% share of current account gross flow in the quarter[5]; well above the long term target of consistently attracting more than 6%. This was supported by the initial launch of TSB's popular Classic Plus current account.
- TSB remains strongly capitalised with a pro forma fully loaded Common Equity Tier 1 capital ratio of 18.2%.
- The build of TSB's mortgage intermediary capability remains on track for delivery in Q1 2015.

"The first half of 2014 has been a strong six months for TSB Banking Group. The business completed its successful IPO, delivered financial performance consistent with expectations and made good initial progress in delivery of its growth strategy.

I have been particularly pleased with the way in which consumers across Britain have reacted to TSB's "local banking" model. This is reflected in our market share of current account switching and new current account openings of 9.2% for the quarter – well ahead of our target to achieve consistently above 6%.

Looking ahead, we continue on our mission of bringing TSB's local banking model to more customers across Britain and continuing to grow our business as a result."

Paul Pester, *Chief Executive Officer*

BASIS OF PRESENTATION

This report covers the consolidated results of TSB Banking Group plc and its subsidiaries (the Group) for the six months to 30 June 2014.

Statutory basis

Statutory results are set out on pages 24 to 47. A number of factors have had a significant effect on the comparability of the Group's financial position and results. As a result, comparison on a statutory basis of the results for the six months to 30 June 2014 with the six months to 30 June 2013 is of limited benefit. Therefore, unless otherwise stated, income statement commentaries throughout this document compare the six months to 30 June 2014 to the six months to 31 December 2013 and the balance sheet analysis compares the balance sheet as at 30 June 2014 to the balance sheet as at 31 December 2013.

Management basis

In order to present a more meaningful view of business performance, the Group's results are presented on a management basis which excludes volatility arising from derivatives and a non-recurring settlement gain arising from the Group's withdrawal from defined benefit pension schemes, details of which can be found on page 18.

Reporting Segments

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

- Franchise, the Group's multi-channel retail banking business; and
- Mortgage Enhancement, a mortgage loan portfolio that was assigned to the Group by Lloyds Banking Group with effect from 28 February 2014 in response to a review by the Office of Fair Trading of the effect on competition of the divestment of TSB which is designed to enhance the Group's profitability by over £230 million, in aggregate, over the first 4 years.

FORWARD LOOKING STATEMENTS

This announcement contains forward looking statements with respect to the business, strategy and plans of the TSB Banking Group, its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about the Group or the Group's management's beliefs and expectations are forward looking statements. By their nature, forward looking statements involve risk and uncertainty because they relate to future events and circumstances that will or may occur. The Group's actual future business, strategy, plans and/or results may differ materially from those expressed or implied in these forward looking statements as a result of a variety of factors, including, but not limited to, UK domestic and global economic and business conditions; the ability to access sufficient funding to meet the Group's liquidity needs; risks concerning borrower or counterparty credit quality; instability in the global financial markets, including Eurozone instability and the impact of any sovereign credit rating downgrade or other sovereign financial issues; market-related risks including changes in interest rates and exchange rates; changing demographics and market-related trends; changes in customer preferences; changes to laws, regulation, accounting standards or taxation, including changes to regulatory capital or liquidity requirements; the policies and actions of governmental or regulatory authorities in the UK or the European Union or other jurisdictions in which the Group operates; the implementation of the Recovery and Resolution Directive and banking reform following the recommendations made by the Independent Commission on Banking; the ability to attract and retain senior management and other employees; the extent of any future impairment charges or write-downs caused by depressed asset valuations, market disruptions and illiquid markets; the effects of competition and the actions of competitors, including non-bank financial services and lending companies; exposure to regulatory scrutiny, legal proceedings, regulatory investigations or complaints and other factors. The forward looking statements contained in this announcement are made as at the date of this announcement and the Group undertakes no obligation to update any of its forward looking statements.

SUMMARY RESULTS

CONSOLIDATED INCOME STATEMENT

	6 months to 30 June 2014 £ million	6 months to 31 Dec 2013[1] £ million	***Change %***	6 months to 30 June 2013[1] £ million
Net interest income	**390.6**	345.0	***13.2***	128.8
Other income	**72.6**	76.9	***(5.6)***	36.5
Total income	**463.2**	421.9	***9.8***	165.3
Operating expenses	**(333.5)**	(271.1)	***(23.0)***	(105.1)
Impairment	**(51.1)**	(56.2)	***9.1***	(24.1)
Profit before tax (management basis)	**78.6**	94.6	***(16.9)***	36.1
Gain/(loss) on derivatives and hedge accounting	**0.2**	(39.3)		-
Derivative fair value unwind	**(14.0)**	(6.6)		-
Defined benefit pension scheme settlement gain	**63.7**	-		-
Statutory profit before tax	**128.5**	48.7	***163.9***	36.1
Taxation	**(26.7)**	(5.2)		105.4
Statutory profit for the period	**101.8**	43.5	***134.0***	141.5

Group banking net interest margin[2][7]	**3.58%**	3.49%	***9bps***	3.88%
Franchise banking net interest margin[2][7]	**3.62%**	3.49%	***13bps***	3.88%
Group management basis cost:income ratio	**72.0%**	64.3%	***7.7pp***	63.6%
Group impairment charge as a % of average advances[3][7]	**0.47%**	0.57%	***10bps***	0.72%

BALANCE SHEET METRICS AND KEY RATIOS

	At 30 June 2014 £ million	At 31 Dec 2013[1] £ million	***Change %***
Loans and advances to customers:	**22,493.4**	20,099.1	***11.9***
Franchise	**19,381.8**	20,099.1	***(3.6)***
Mortgage Enhancement	**3,111.6**	-	-
Customer deposits	**23,700.4**	23,100.4	***2.6***

Group loan to deposit ratio	**94.9%**	87.0%	***7.9pp***
Franchise loan to deposit ratio	**81.8%**	87.0%	***(5.2)pp***
Mortgage gross lending (£ million)	**671.8**	556.7	***20.7***
Net asset book value per share (pence)	**322p**	261p	***23.4***
Common Equity Tier 1 Capital ratio (fully loaded)	**28.1%**	19.0%	***9.1pp***
Pro forma Common Equity Tier 1 Capital ratio (fully loaded)[4]	**18.2%**		
Leverage ratio (fully loaded)	**5.9%**	4.6%	***1.3pp***

OTHER KEY PERFORMANCE INDICATORS

	Quarter to 30 June 2014	Quarter to 31 Mar 2014	***Change***
Share of new personal current account openings[5]	**9.2%**	6.7%	***2.5pp***
Customer advocacy – net promoter score (NPS)[6]	**(5)**	(13)	***8***

(1) Restated– see note 20 on page 41.
(2) Management net interest income divided by average loans and advances to customers, gross of impairment provisions.
(3) Impairment charge on loans and advances to customers divided by average loans and advances to customers, gross of impairment allowance.
(4) Pro forma is calculated on a full IRB basis – see page 14.
(5) Source: CACI Current and Savings Account Market Database (CSDB) which includes current, packaged, youth student and basic bank accounts, and new account openings excluding account upgrades. Membership of CSDB changed in January 2014. Presented on a two month lag.
(6) NPS is based on the question "On a scale of 0-10, where 0 is not at all likely and 10 is extremely likely, how likely is it that you would recommend TSB to a friend or colleague?" NPS is the percentage of TSB customers who score 9-10 after subtracting the percentage who score 0-6.
(7) Annualised.

CHIEF EXECUTIVE OFFICER'S STATEMENT

Following its premium listing on the London Stock Exchange on 25 June this year it gives me great pleasure to provide this first Chief Executive Officer's interim statement for TSB Banking Group plc which will cover our financial and strategic performance in the period and the outlook for the rest of 2014.

Financially, TSB performed in line with our expectations in the first half, generating a profit before tax on a management basis of £78.6 million. This is £16.0 million lower than the second half of 2013, primarily as costs were £62.4 million higher now that TSB is operating on a standalone basis and no longer benefits from the operating economies of scale of a larger group. This increase in costs was partly offset by the profit generated by a portfolio of mortgages acquired in the period and referred to as the "Mortgage Enhancement". This portfolio was designed to strengthen TSB's profitability over the medium term, facilitating investment into the growth of the TSB Franchise.

The credit performance of TSB's lending portfolios also contributed to reduce the impact from higher costs as the favourable economic environment and strong credit risk management reduced the impairment charge by over 9 per cent. On a statutory basis, TSB also benefited from a one-off gain on withdrawal from LBG's defined benefit pension schemes of £63.7 million to deliver profit before tax of £128.5 million.

With a low loan to deposit ratio of 94.9 per cent and a strong pro-forma Tier 1 capital ratio of 18.2 per cent, TSB is well positioned to grow.

Growth Strategy

TSB's strategy is one of growth. The strategy is aimed at efficiently growing our key market shares by utilising the substantial scale of our distribution capability and infrastructure. Successful delivery of this strategy in a rising base rate environment is expected to enable TSB to reach a double digit return on equity in about 5 years, increasing further into the longer term.

The key components of TSB's strategy are to:

- grow TSB's share of the current account market;
- lend more to people and small businesses right across Britain; and
- continue to enhance and differentiate the TSB proposition, including deploying our considerable digital banking capability.

We will also focus on controlling costs as we complete the build of the business, begin to increase investment in the TSB Franchise, and seek to grow the customer base and balance sheet.

Grow current accounts

TSB currently holds 4.2 per cent share of the current account market. Over the next five years, we aim to increase TSB's share of current accounts by consistently opening more than 6 per cent of all new and switching personal current accounts.

In the three months from February to April, TSB opened 9.2 per cent of all new and switching current accounts opened across the market, as measured by CACI (see footnote 5 on page 3). This strong performance relative to our 6 per cent target was primarily a result of the popularity of our new "Classic Plus" current account which was launched on 31 March 2014 offering a competitive 5 per cent interest on balances up to £2,000, and the launch of a significant marketing campaign to accompany the product. The success of the product and campaign was a key driver in customer deposits increasing by £600 million to £23.7 billion in the period.

Grow customer lending

Over the same five year period, we also aim to grow TSB's Franchise lending by 40 to 50 per cent, primarily through re-entry into the intermediary mortgage market. This growth will be undertaken within TSB's risk appetite, and with funding provided primarily by customer deposits.

CHIEF EXECUTIVE OFFICER'S STATEMENT (continued)

As expected in the absence of a mortgage intermediary distribution channel, net lending to TSB Franchise customers continued to decline in the first half of 2014, decreasing by £717.3 million over the six months. The building of TSB's mortgage intermediary channel capability remains on track for delivery in Q1 2015.

Enhance and differentiate the TSB proposition

The TSB proposition, including TSB's brand, channels and customer experience, is being developed to differentiate the TSB customer experience and support the growth strategy by attracting, retaining and serving the needs of our customers efficiently and effectively.

The TSB brand and the values that underpin that brand are central to differentiating TSB from other banks in the UK retail banking market. The TSB proposition was enhanced and differentiated through the delivery of several key initiatives undertaken during the first half of 2014. These included:

- Making every colleague a "partner" in the business through awarding them "TSB Partnership Shares", giving every TSB Partner an incentive to deliver shareholder value through a differentiated customer experience.
- Announcing our new remuneration policy for the Group's executive with a further roll out to all TSB Partners by early 2015.
- Introducing "0345" telephone numbers in place of more costly "0845" telephone numbers, making it cheaper for customers to call our telephony centres.
- Launching the TSB "Truth and Banking" initiative in which we clearly and simply explain how TSB operates and makes money, reinforcing the values of our brand.

Deploying TSB's digital capability is a key part of TSB's growth strategy and proposition. In the second quarter of 2014, and driven by TSB's Classic Plus campaign, we saw 84 per cent of new current account customers registering for digital banking. Preparations for the launch of our new "TSB.co.uk" website are also now in their final stages.

Overall, these initiatives have contributed to an increase in the proportion of British people who would consider banking with TSB, from 12 per cent in Q4 2013 to 18 per cent in Q2 2014, while our Bank net promoter score (NPS), which measures customers' likelihood to recommend TSB to friends or colleagues, increased by 8 percentage points.

Outlook

The economic environment is expected to continue to remain favourable throughout the rest of 2014, to the benefit of asset quality. However, we expect that Net Franchise lending will continue to fall, consistent with TSB's mortgage intermediary capability becoming operational in early 2015. We expect the Franchise banking margin to remain broadly unchanged from its current level for the rest of the year while the Group's cost base will continue to increase up to around £700 million for 2014 as we further develop the business on a standalone basis.

Paul Pester
Chief Executive Officer

BUSINESS REVIEW

INTRODUCTION

The Group's financial performance in the first six months of 2014 is consistent with expectations. In the six months to 30 June 2014 Group customer loans and advances increased by 11.9 per cent following the £3.4 billion Mortgage Enhancement transaction. TSB Franchise lending continued to reduce, as expected, given TSB's temporary inability to access the mortgage intermediary market. Group customer deposits grew by 2.6%, aided by the successful launch of the Group's new "Classic Plus" current account which further strengthens TSB's already robust Franchise funding profile.

The Group's capital ratios have strengthened in the period, primarily reflecting the issue of Tier 1 and Tier 2 capital subscribed for by Lloyds Banking Group (LBG) and a reduction in risk weighted assets.

Group profit before tax on a management basis increased by £42.5 million to £78.6 million compared to the equivalent six month period to 30 June 2013. Given the transformation of the Group during 2013, and in particular various product transfers into TSB during this period, it is more representative to compare performance for the six months to 30 June 2014 with the six month period to 31 December 2013. On this basis, Group profit before tax, on a management basis, decreased by £16.0 million. Higher income, driven by four months of earnings on the Mortgage Enhancement portfolio and an increase in Franchise banking net interest margin, and lower impairments were more than offset by the planned increase in operating costs as the Group established its standalone operating model.

SIGNIFICANT DEVELOPMENTS

During the first six months of 2014 the Group completed the following significant transactions to prepare the Group for its admission to the London Stock Exchange, to improve its medium term profitability and to formalise arrangements over the provision of IT and certain operational services with LBG.

- *Transitional Services Agreement* – From 1 January 2014, the Group transitioned from operating within the LBG shared service model. On 9 June 2014 TSB and LBG formally entered into the Transitional Services Agreement and Long Term Services Agreement for the provision of IT services and certain operational activities.

- *Mortgage Enhancement* - With effect from 28 February 2014, in response to a review by the Office of Fair Trading of the effect on competition of the divestment of TSB from LBG, the economic benefit of a £3.4 billion portfolio of mortgage loans was assigned to the Group by LBG. It is designed to enhance the Group's profit before tax by £230 million over the first four years following transfer. During the first half of 2014, the Mortgage Enhancement increased the Group's profit before tax by £31.6 million. This portfolio is subject to a call option exercisable by LBG after the £230 million profit target has been achieved.

- *Transfer of colleagues to the Group* – On 31 March 2014, TSB employees (now known as TSB Partners) were transferred to the Group from LBG under the terms of the Transfer of Undertakings (Protection of Employment) Regulations 2006. At this point, those that were members of LBG defined benefit pension schemes became deferred members of those schemes and the Group's defined benefit pension scheme deficit was transferred to Lloyds Bank plc. No settlement payment was required and consequently the Group recorded a gain of £63.7 million reflecting the transfer of the defined benefit pension scheme deficit to Lloyds Bank plc.

- *Establishment of a group holding company* - On 25 April 2014, TSB Banking Group plc became the holding company of the TSB Group following a share for share exchange in which it acquired 100 per cent of the issued share capital of TSB Bank plc from Lloyds Bank plc.

- *Capitalisation of the Group* – On 1 May 2014, TSB Banking Group plc issued £385.0 million of Tier 2 dated subordinated debt notes and, on 19 May 2014, issued 445 million of ordinary shares for proceeds of £200.0 million. Both issues of capital were wholly subscribed for by Lloyds Bank plc.

- *Separation Agreement* – On 9 June 2014, the Group and LBG entered into the Separation Agreement. This governs (amongst other things) the allocation of certain pre-IPO liabilities, including liability for breach of law and regulation and of customer terms and conditions and also governs certain aspects of the relationship between the Group and LBG following IPO.

BUSINESS REVIEW (continued)

- *Relationship Agreement and Tax Separation Deed* – On 9 June 2014, the Group and LBG entered into the Relationship Agreement and Tax Separation Deed. The principal purpose of the Relationship Agreement is to ensure that the Group is capable at all times of carrying on its business independently of LBG and its associates. The Tax Separation Deed regulates certain aspects of the separation of the Group from any LBG tax groups.

- *General Insurance Distribution Agreement* – On 9 June 2014, the Group and Lloyds Bank Insurance Services Limited (LBIS) entered into the General Insurance Distribution Agreement. Pursuant to the General Insurance Distribution Agreement, the Group agreed to promote and sell to TSB Bank customers certain home insurance products that are underwritten by LBIS.

- *Mortgage Intermediary Platform Build Agreement* – On 9 June 2014 the Group and LBG entered into the Mortgage Intermediary Platform Build Agreement under which LBG has agreed to complete the build of a mortgage intermediary platform for TSB. The build of this channel is on track to allow trading to commence in the first quarter of 2015 and is subject to appropriate governance processes and systems.

REVIEW OF FINANCIAL PERFORMANCE

Total income (management basis)	**6 months to 30 June 2014 £ million**	6 months to 31 Dec 2013 £ million	***Change %***	6 months to 30 June 2013 £ million
Net interest income				
Franchise	**356.5**	345.0	***3.3***	128.8
Mortgage Enhancement	**34.1**	-		-
	390.6	345.0	***13.2***	128.8
Other income	**72.6**	76.9	***(5.6)***	36.5
Total income (management basis)	**463.2**	421.9	***9.8***	165.3
Group banking net interest margin	**3.58%**	3.49%	***9bps***	3.88%
Franchise banking net interest margin	**3.62%**	3.49%	***13bps***	3.88%
Mortgage Enhancement banking net interest margin	**3.16%**	-		-

Net interest income increased by 13.2 per cent to £390.6 million, primarily due to £34.1 million of net interest income earned on the Mortgage Enhancement portfolio in the four months since its transfer to the Group on 28 February 2014. Franchise banking net interest margin increased to 3.62 per cent for the six months to 30 June 2014 from 3.49 per cent for the six months to 31 December 2013 driven by improved deposit margins reflecting the full impact of deposit repricing during 2013. This is consistent with the margin performance reported for the three months ended 31 March 2014 in the Group's Prospectus. The Group banking net interest margin increased to 3.58 per cent from 3.49 per cent taking into account the effect of the Mortgage Enhancement portfolio.

Other income decreased by 5.6 per cent to £72.6 million. This was primarily due to a reduction in income from Added Value Accounts which are currently not being made available for sale through branches and servicing fees payable in respect of the Mortgage Enhancement portfolio.

Operating expenses (management basis)

	6 months to 30 June 2014 £ million	6 months to 31 Dec 2013(1) £ million	***Change %***	6 months to 30 June 2013(1) £ million
Direct costs	**280.4**	142.7	***(96.5)***	73.9
Transitional Services Agreement (TSA) costs	**53.1**	-		-
Recharges from other Lloyds Banking Group companies	-	128.4		31.2
Total operating expenses (management basis)	**333.5**	271.1	***(23.0)***	105.1
Cost:income ratio (management basis)	**72.0%**	64.3%	***(7.7)pp***	63.6%

(1) Restated– see note 20.

BUSINESS REVIEW (continued)

Operating expenses increased by 23.0 per cent to £333.5 million and reflect the transition on 1 January 2014 from operating within the LBG shared service model to a standalone business cost structure. Consequently recharges from LBG, which in the prior period totalled £128.4 million, ceased. From 1 January 2014 these were replaced with charges under the Transitional Services Agreement for IT services and certain operational activities of £53.1 million and increased direct costs. Increased direct costs primarily reflects higher employment costs up £69.5 million, reflecting the establishment of the Group's support functions, higher marketing spend, up £25.9 million, and the full cost of the annual FSCS levy of £17.3 million recognised in April 2014.

Impairment

The impairment charge for the first six months of 2014 is £51.1 million, 9.1 per cent lower than the prior period and largely reflects a 10.0 per cent reduction in impaired loans following a sustained improvement in UK economic conditions. The Franchise mortgages loan portfolio generated a net recovery in the first half of 2014 primarily as a result of continuing house price increases and lower impaired loans. Within the unsecured portfolio, the positive effects of a stronger macroeconomic environment have helped to lower impaired loans, however this improvement is offset by increased provision rates whilst TSB embeds its own recoveries function which results in a slightly higher charge in the first half. The reduced business banking charge is largely attributed to expected portfolio repatriation (see customer loans and advances below) and the related provision release.

Impairment charge by product

	6 months to 30 June 2014 £ million	6 months to 31 Dec 2013 £ million	***Change %***	6 months to 30 June 2013 £ million
Mortgages	**(0.6)**	4.3		(1.4)
Personal unsecured	**48.2**	47.5		25.2
Business banking	**2.9**	4.4		0.3
Total Franchise	**50.5**	56.2	***10.1***	24.1
Mortgage Enhancement	**0.6**	-		-
Total impairment charge	**51.1**	56.2	***9.1***	24.1

Impairment charge as an annualised % of average loans and advances to customers	**%**	%		%
Mortgages	**(0.01)**	0.05		(0.05)
Personal unsecured	**4.50**	4.32		5.36
Business banking	**1.88**	2.53		0.29
Total Franchise	**0.51**	0.57		0.72
Mortgage Enhancement	**0.05**	-		-
Total	**0.47**	0.57		0.72

Taxation

The tax charge of £26.7 million (six months to 31 December 2013: £5.2 million) represents an effective tax rate of 20.8 per cent and is broadly consistent with the average UK corporation tax rate of 21.5 per cent.

REVIEW OF THE BALANCE SHEET

Customer loans and advances

Loans and advances to customers increased by 11.9 per cent compared to December 2013, primarily reflecting the Mortgage Enhancement portfolio. Excluding this, Franchise loan balances net of impairment provision, decreased by £717.3 million or 3.6 per cent. This reflects a continuation of the trend in 2013 where repayments on the mortgage portfolio, which was originated through both direct and intermediary channels, continued to exceed new loan origination which is currently limited to sales from direct channels only. Unsecured loan balances net of impairment provision decreased by 1.6 per cent reflecting some seasonality and increased competition within this product segment. Business banking loan balances net of impairment provision decreased by 15.7 per cent primarily due to the planned transfer to LBG of certain customers that have banking requirements that are not currently met by TSB's business banking proposition.

BUSINESS REVIEW (continued)

Impairments on loans and advances

Impaired loans as a percentage of loans and advances to customers reduced to 1.0 per cent (31 December 2013: 1.2 per cent) and predominantly reflects the mix effects of the transfer of the Mortgage Enhancement portfolio in February 2014. Excluding Mortgage Enhancement, impaired loans as a percentage of loans and advances reduced more modestly to 1.1 per cent reflecting a slight improvement in Franchise mortgages.

Impairment provisions as a percentage of impaired loans has grown slightly to 41.6 per cent (31 December 2013: 40.1 per cent) driven by personal unsecured which increased to 81.8 per cent (31 December 2013: 77.2 per cent) due to the increased provision rates whilst TSB embeds its own recoveries function.

At 30 June 2014	**Loans and advances to customers £ million**	**Impaired loans £ million**	**Impaired loans as a % of closing advances %**	**Impairment provisions(1) £ million**	**Impairment provisions as a % of impaired loans %**
Mortgages:					
Franchise	**17,090.8**	**124.1**	**0.7**	**20.9**	**16.8**
Enhancement	**3,112.2**	**-**	**-**	**0.6**	**-**
	20,203.0	**124.1**	**0.6**	**21.5**	**17.3**
Personal unsecured	**2,107.0**	**78.1**	**3.7**	**63.9**	**81.8**
Business banking	**273.7**	**15.0**	**5.5**	**4.9**	**32.7**
Total gross lending	**22,583.7**	**217.2**	**1.0**	**90.3**	**41.6**
Impairment provisions	**(90.3)**				
Total	**22,493.4**				

At 31 December 2013	Loans and advances to customers £ million	Impaired loans £ million	Impaired loans as a % of closing advances %	Impairment provisions(1) £ million	Impairment provisions as a % of impaired loans %
Mortgages:					
Franchise	17,728.7	138.7	0.8	24.0	17.3
Enhancement	-	-	-	-	-
	17,728.7	138.7	0.8	24.0	17.3
Personal unsecured	2,143.3	87.7	4.1	67.7	77.2
Business banking(2)	323.9	14.9	4.6	5.1	34.2
Total gross lending	20,195.9	241.3	1.2	96.8	40.1
Impairment provisions	(96.8)				
Total	20,099.1				

(1) Impairment provisions include collective unimpaired provisions.

(2) Business banking impaired loans have been restated for December 2013 due to definition changes. All Accounts receiving treatment from the Customer Support team are now classified as impaired.

BUSINESS REVIEW (continued)

Mortgage loan to value analysis

The average indexed loan to value (LTV) on the mortgage portfolio at 30 June 2014 has decreased to 45.2 per cent (31 December 2013: 46.3 per cent) as shown in the table below:

At 30 June 2014	**Franchise Total %**	**Mortgage Enhancement %**	**Total %**
Less than 70%	**67.8**	**90.8**	**71.3**
70% to 80%	**16.8**	**9.2**	**15.6**
80% to 90%	**8.8**	**-**	**7.6**
90% to 100%	**3.9**	**-**	**3.3**
Greater than 100%	**2.7**	**-**	**2.2**
Total	**100.0**	**100.0**	**100.0**
Average loan to value:(1)			
Stock	**45.3**	**44.3**	**45.2**
New mortgages	**54.9**	**-**	**54.9**
Impaired mortgages(2)	**57.3**	**-**	**57.3**

At 31 December 2013	Franchise Total %	Mortgage Enhancement %	Total %
Less than 70%	65.9	-	65.9
70% to 80%	17.5	-	17.5
80% to 90%	9.7	-	9.7
90% to 100%	4.2	-	4.2
Greater than 100%	2.7	-	2.7
Total	100.0	-	100.0
Average loan to value:(1)			
Stock	46.3	-	46.3
New mortgages	55.3	-	55.3
Impaired mortgages(2)	56.6	-	56.6

(1) Average loan to value is calculated as total loans and advances as a percentage of the total collateral of these loans and advances.
(2) Impaired mortgages are defined as more than six months in arrears including mortgages in possession.

Mortgages greater than three months in arrears (excluding repossessions)

	Number of cases		**Total mortgage accounts %**		**Value of debt**(1)		**Total mortgage balances %**	
	At 30 June 2014 Cases	At 31 Dec 2013 Cases	**At 30 June 2014 %**	At 31 Dec 2013 %	**At 30 June 2014 £ million**	At 31 Dec 2013 £ million	**At 30 June 2014 %**	At 31 Dec 2013 %
Franchise	**2,226**	2,338	**1.3**	1.3	**219.1**	225.3	**1.3**	1.3

(1) Value of debt represents total book value of mortgages in arrears.

The percentage of Franchise mortgage customers greater than three months in arrears is stable at 1.3 per cent, reflecting the credit quality of the portfolio.

BUSINESS REVIEW (continued)

Forbearance

The Group operates a number of schemes to assist borrowers who are experiencing financial difficulties. The Group classifies the treatments offered to retail customers who have experienced financial difficulty as reduced contractual monthly payments, temporarily reduced payment arrangements, term extensions and repair of a customer's position.

Mortgages

Analysis of the forborne mortgages loan balances is set out below:

	Total loans and advances which are currently or recently forborne		**Total current and recent forborne loans and advances which are impaired**		**Impairment provisions as % of loans and advances which are currently or recently forborne**	
	At 30 June 2014 £ million	At 31 Dec 2013 £ million	**At 30 June 2014 £ million**	At 31 Dec 2013 £ million	**At 30 June 2014 %**	At 31 Dec 2013 %
Temporary forbearance arrangements						
Reduced contractual monthly payment[1]	**9.2**	33.7	**1.8**	5.0	**1.0**	2.7
Reduced payment arrangement[2]	**40.3**	36.0	**4.3**	3.4	**2.0**	2.1
	49.5	69.7	**6.1**	8.4		
Permanent treatments						
Repair and term extensions[3]	**126.9**	142.0	**8.4**	9.6	**1.4**	1.8
Total	**176.4**	211.7	**14.5**	18.0	**1.5**	2.0

Personal unsecured

Analysis of the forborne personal unsecured loan balances is set out below:

	Total loans and advances which are currently or recently forborne		**Total current and recent forborne loans and advances which are impaired**		**Impairment provisions as % of loans and advances which are currently or recently forborne**	
	At 30 June 2014 £ million	At 31 Dec 2013 £ million	**At 30 June 2014 £ million**	At 31 Dec 2013 £ million	**At 30 June 2014 %**	At 31 Dec 2013 %
Temporary forbearance arrangements						
Reduced contractual monthly payment [4]	**16.7**	17.9	**16.7**	17.9	**46.4**	37.2
Reduced payment arrangements[5]	**8.3**	9.1	**8.3**	9.1	**52.8**	53.1
	25.0	27.0	**25.0**	27.0		
Permanent treatments						
Repair and term extensions[3]	**7.6**	9.8	**4.0**	5.5	**13.3**	13.7
Total	**32.6**	36.8	**29.0**	32.5	**40.3**	34.8

(1) Includes temporary interest only arrangements and short-term payment holidays granted in collections and where the concession has ended within the previous six months (temporary interest only) and previous 12 months (short-term payment holidays).

(2) Includes customers who had an arrangement to pay less than the contractual amount at 30 June or where an arrangement ended within the previous three months.

(3) Includes capitalisation of arrears and term extensions which commenced during the previous 24 months and remaining as customers at 30 June 2014.

(4) Includes repayment plans and short-term payment holidays granted in collections and where the concession has ended within the last six months.

(5) Includes customers who had an arrangement to pay less than the contractual amount at 30 June or where an arrangement ended within the last six months.

BUSINESS REVIEW (continued)

Liquidity and funding management

The Group's liquidity is actively monitored and managed through a series of Board approved limits and triggers. These short and long-term liquidity measures are reported on a regular basis both internally and externally to the regulators.

The Group's funding and liquidity position is underpinned by a significant customer deposit base. A substantial proportion of the deposit base is made up of customer current accounts and savings accounts which, although repayable on demand, have historically, in aggregate, provided a stable source of funding and help to reduce the amount of liquidity that the Group is required to hold to comply with its regulatory obligations. The Group therefore currently has a minimal requirement for wholesale funding and holds surplus liquidity.

Group funding position

	At 30 June 2014 £ million	At 31 Dec 2013 £ million	***Change %***
Funding requirement			
Loans and advances to customers	**22,493.4**	20,099.1	***11.9***
Loans and advances to banks	**150.7**	4,124.7	
Cash balances	**168.8**	200.2	***(15.7)***
Funded assets	**22,812.9**	24,424.0	***(6.6)***
Other assets(1)	**784.3**	530.4	***47.9***
	23,597.2	24,954.4	***(5.4)***
Primary liquidity assets			
Balances at central banks	**2,872.4**	-	
Total assets	**26,469.6**	24,954.4	***6.1***
Less: Other liabilities(2)	**(526.0)**	(547.3)	***3.9***
Funding requirement	**25,943.6**	24,407.1	***6.3***
Funded by			
Customer deposits	**23,700.4**	23,100.4	***2.6***
Wholesale funding:			
Securitisations	**250.2**	-	
Subordinated liabilities	**385.4**	-	
	635.6	-	
	24,336.0	23,100.4	***5.3***
Total shareholders' equity	**1,607.6**	1,306.7	***23.0***
Total funding	**25,943.6**	24,407.1	***6.3***
Group loan to deposit ratio	**94.9%**	87.0%	***7.9pp***
Franchise loan to deposit ratio	**81.8%**	87.0%	***(5.2pp)***

(1) Other assets comprise derivative assets, items in course of collection, property, plant and equipment, deferred tax assets and other assets.

(2) Other liabilities comprise derivative liabilities, items in the course of transmission to other banks, deposits from banks, current tax liabilities and other liabilities.

During the first half of 2014, the structure of the Group's balance sheet continued to develop to reflect the Group operating on a standalone basis. In May 2014, the Group exited the LBG UK Defined Liquidity Group and established a standalone liquid asset portfolio which at 30 June 2014 was held on deposit with the Bank of England, reflecting both the Group's regulatory requirements and surplus liquidity. Prior to this, all liquidity was held on deposit with LBG and is included within loans and advances to banks.

BUSINESS REVIEW (continued)

The Group's funding requirement increased by £1,536.5 million or 6.3 per cent to £25,943.6 million at 30 June 2014. This was primarily due to the £3.4 billion net increase in loans and advances to customers following the Mortgage Enhancement transaction which was partially funded by existing surplus liquid assets. Customer deposits, which increased by £600.0 million, or 2.6 per cent, provided a substantial part of the Group's increased funding requirement, demonstrating the value of the Group's established deposit gathering capability. The balance of the increased funding was raised by the Group's first secured funding transaction of £250 million and recapitalisation of the Group, comprising £200.0 million of equity capital and net proceeds of £383.0 million from Tier 2 capital issuance, all undertaken with LBG.

Analysis of 30 June 2014 total wholesale funding by residual maturity

	Less than one year £ million	**One to two years £ million**	**Two to five years £ million**	**More than five years £ million**	**Total 30 June 2014 £ million**	Total 31 Dec 2013 £ million
Securitisations	**-**	**-**	-	**250.2**	**250.2**	-
Subordinated liabilities	**-**	**-**	-	**385.4**	**385.4**	-
Total wholesale funding(1)	**-**	**-**	-	**635.6**	**635.6**	-

(1) All wholesale funding is denominated in sterling.

Encumbered assets

The Board monitors and manages total balance sheet encumbrance under a Board approved risk appetite measure. In March 2014, the Group established a securitisation funding structure (Cape Funding) which resulted in the encumbrance of certain loans and advances to customers in support of the transaction. The level of the Group's asset encumbrance reflects only funding drawn on this structured facility as shown below.

Securitisations	**Assets Encumbered £ million**	**Notes in Issue £ million**
Cape Funding No 1 plc	**292.5**	**250.2**
As at 30 June 2014	**292.5**	**250.2**
As at 31 December 2013	-	-

Liquidity portfolio

The Group's liquidity portfolio comprises highly liquid unencumbered assets available and immediately accessible to meet potential cash outflows. Following the introduction of the PRA individual liquidity guidance under the Individual Liquidity Adequacy Standards (ILAS), the Group now manages its liquidity position as a coverage ratio (proportion of stressed outflows covered by primary liquid assets). This liquidity is managed as a single pool by the Group's Treasury function. The buffer is available for deployment at immediate notice, subject to complying with regulatory requirements, and is a key component of the Group's liquidity management process.

Primary liquidity	**At 30 June 2014 £ million**	At 31 Dec 2013 £ million
Central bank cash deposits	**2,872.4**	-
Total	**2,872.4**	-

BUSINESS REVIEW (continued)

Capital management

The capital strength of the Group improved during the six months to 30 June 2014 with the fully loaded Common Equity Tier 1 (CET1) ratio improving to 28.1 per cent (December 2013: 19.0 per cent) and the Total Capital ratio improving to 34.9 per cent (December 2013: 19.0 per cent).

The improvement in the CET1 ratio was primarily due to the issue of 445 million ordinary shares to Lloyds Bank plc for £200.0 million in May 2014 which also led to a significant improvement in the leverage ratio to 5.9 per cent at 30 June 2014 (31 December 2013: 4.6 per cent). In addition to this capital injection, the Total Capital ratio also benefitted from the issuance of subordinated debt to Lloyds Bank plc in May 2014.

At 31 December 2013 the Group's risk weighted assets were calculated under LBG's IRB approach. While TSB achieved an IRB waiver as a standalone business it has currently only moved its Franchise mortgages onto this waiver while unsecured assets have remained on a standardised basis, reducing risk weighted assets (RWAs). At 30 June 2014, this reduction in RWAs was partially offset by the inclusion of the Mortgage Enhancement portfolio from March 2014.

TSB plans to migrate, subject to PRA approval, all remaining Franchise personal unsecured customer asset portfolios to an IRB basis by June 2015. For illustrative purposes a pro forma CET1 ratio, on a full IRB basis, has been calculated which reflects an increase in RWAs, excess expected loss and operational risk calculated on a steady state income base (rather than on historic three year position). This pro-forma ratio of 18.2% is still a strong level of capitalisation.

From 1 January 2014 capital adequacy is measured in accordance with CRD IV. Prior to this, capital adequacy was measured under the Basel II framework. Therefore, in order to aid comparison, comparatives for December 2013 have also been presented on a pro forma CRD IV basis.

Capital resources	**At 30 June 2014 CRD IV £ million**	**At 31 Dec 2013 CRD IV £ million**	**At 31 Dec 2013 Basel II[1] £ million**
Shareholders' equity per balance sheet	**1,607.6**	1,306.7	1,306.7
Excess of expected losses over impairment provisions	**(14.7)**	(110.6)	(110.6)
Deferred tax assets	**-**	(14.1)	-
Common Equity Tier 1/Total Tier 1 capital	**1,592.9**	1,182.0	1,196.1
Tier 2 capital	**383.5**	-	-
Total Capital Resources	**1,976.4**	1,182.0	1,196.1
CRD IV Basis:			
Risk-weighted assets	**5,668.2**	6,214.5	
Common Equity Tier 1/Total Tier 1 Capital ratio (fully loaded)	**28.1%**	19.0%	
Pro forma Common Equity Tier 1/Total Tier 1 Capital ratio (fully loaded)	**18.2%**		
Total Capital ratio (fully loaded)	**34.9%**	19.0%	
Basel II Basis:			
Risk-weighted assets			6,123.5
Tier 1/Tier 1 Capital ratio			19.5%
Total Capital ratio			19.5%

(1) Shareholders' equity per the balance sheet has been restated– see note 20.

BUSINESS REVIEW (continued)

The movements in Common Equity Tier 1, Tier 2 and Total Capital in the period are shown below:

	CET 1/ Total Tier 1	**Tier 2**	**Total Capital Resources**
	£ million	**£ million**	**£ million**
At 31 December 2013 (CRD IV basis)	1,182.0	-	1,182.0
Profit attributable to ordinary shareholders	101.8	-	101.8
Share issuance	200.0	-	200.0
Change in excess of expected losses over impairment provisions	95.9	-	95.9
Issuance of subordinated debt	-	383.0	383.0
Change in excess of default provision over default expected loss	-	0.5	0.5
Change in deferred tax asset deduction	14.1	-	14.1
Movement in treasury shares	(0.9)	-	(0.9)
At 30 June 2014	**1,592.9**	**383.5**	**1,976.4**

Risk-weighted assets	**At 30 June 2014 CRD IV**	At 31 Dec 2013 CRD IV
	£ million	£ million
Risk type analysis of Risk-weighted assets:		
Credit risk:		
Franchise standardised approach	**2,315.3**	547.4
Franchise IRB approach	**1,751.8**	5,233.5
Mortgage Enhancement standardised approach	**1,090.9**	-
Total credit risk	**5,158.0**	5,780.9
Operational risk	**501.8**	433.6
Market and counterparty risk	**8.4**	-
Total risk-weighted assets	**5,668.2**	6,214.5

Exposures assessed under the IRB approach have reduced and RWAs have fallen from £5,233.5 million to £1,751.8 million during the period following the migration of the Group’s Franchise unsecured assets to a standardised approach. Operational Risk RWAs are calculated using the standardised approach, using the average of the previous three years income.

Leverage ratio on a CRD IV basis

The Basel III reforms include the introduction of a capital leverage measure defined as the ratio of Tier 1 Capital to total exposure. This is intended to supplement the risk based capital requirements with a simple, non-risk based backstop measure. The Basel Committee have proposed that final adjustments to the definition and calibration of the leverage ratio be completed by 2017, with a view to migrating to a Pillar 1 treatment on 1 January 2018.

BUSINESS REVIEW (continued)

Leverage ratio	30 June 2014 £ million	31 Dec 2013 CRD IV £ million
Total Tier 1 Capital for leverage ratio		
Shareholders' equity per balance sheet	**1,607.6**	1,306.7
Less: regulatory adjustments	**(14.7)**	(124.7)
	1,592.9	1,182.0
Exposures for leverage ratio		
Total statutory balance sheet assets	**26,469.6**	24,954.4
Removal of accounting value for derivatives and securities financing transactions	**(66.2)**	(99.4)
Exposure value for derivatives and securities financing transactions	**26.7**	145.6
Off-balance sheet including unconditionally cancellable facilities	**681.9**	604.0
Other regulatory adjustments	**(14.7)**	(124.7)
Total exposures	**27,097.3**	25,479.9
Leverage ratio (CRD IV fully loaded)	**5.9%**	4.6%

The leverage ratio increased mainly due to the new capital issuance. TSB's leverage ratio exceeds the Basel Committee's proposed minimum of 3 per cent, applicable from 2018.

Darren Pope
Chief Financial Officer

MANAGEMENT BASIS SEGMENTAL ANALYSIS AND RECONCILIATION TO STATUTORY RESULTS

6 months to 30 June 2014	Franchise £ million	Mortgage Enhancement £ million	Total £ million
Net interest income	**356.5**	**34.1**	**390.6**
Other income	**74.5**	**(1.9)**	**72.6**
Total income	**431.0**	**32.2**	**463.2**
Total costs	**(333.5)**	**-**	**(333.5)**
Impairment	**(50.5)**	**(0.6)**	**(51.1)**
Profit before tax (management basis)	**47.0**	**31.6**	**78.6**
Key balance sheet items at 30 June 2014			
Loans and advances to customers	**19,381.8**	**3,111.6**	**22,493.4**
Customer deposits	**23,700.4**	-	**23,700.4**

6 months to 31 December 2013	£ million	£ million	£ million
Net interest income	345.0	-	345.0
Other income	76.9	-	76.9
Total income	421.9	-	421.9
Total costs	(271.1)	-	(271.1)
Impairment	(56.2)	-	(56.2)
Profit before tax (management basis)	94.6	-	94.6
Key balance sheet items at 31 December 2013			
Loans and advances to customers	20,099.1	-	20,099.1
Customer deposits	23,100.4	-	23,100.4

6 months to 30 June 2013	£ million	£ million	£ million
Net interest income	128.8	-	128.8
Other income	36.5	-	36.5
Total income	165.3	-	165.3
Total costs	(105.1)	-	(105.1)
Impairment	(24.1)	-	(24.1)
Profit before tax (management basis)	36.1	-	36.1
Key balance sheet items at 30 June 2013			
Loans and advances to customers	7,838.4	-	7,838.4
Customer deposits	22,971.4	-	22,971.4

MANAGEMENT BASIS SEGMENTAL ANALYSIS AND RECONCILIATION TO STATUTORY RESULTS (continued)

Reconciliation of management profit to statutory profit

	6 months to 30 June 2014 £ million	6 months to 31 Dec 2013(1) £ million	***Change %***	6 months to 30 June 2013(1) £ million
Management profit before tax	**78.6**	94.6	***(16.9)***	36.1
Gain/(Loss) on derivatives and hedge accounting	**0.2**	(39.3)		-
Derivative fair value unwind	**(14.0)**	(6.6)		-
Defined benefit pension scheme settlement gain	**63.7**	-		-
Profit before tax – statutory	**128.5**	48.7	***163.9***	36.1

(1) Restated– see note 20.

Gain/(Loss) on derivative and hedge accounting

From 1 January 2014, the Group has established qualifying hedge accounting relationships designed to minimise accounting volatility. These are available as the Group adopted the accounting policy treatment available in the EU endorsed version of IAS 39 *Financial Instruments: Recognition and Measurement* from this date, which is not available in the version issued by the IASB. The gain on derivative and hedge accounting of £0.2 million primarily reflects the volatility arising on a portfolio of basis risk interest rate swaps entered into with LBG in order to economically hedge the basis risk of the Mortgage Enhancement portfolio assigned to the Group by LBG with effect from 28 February 2014. These derivatives have not been designated in hedge relationships for accounting purposes. Prior to 1 January 2014, the Group did not designate any of its derivatives in hedge relationships for accounting purposes and therefore changes in their fair values of £39.3 million were reflected in the Group's income statement in the six months to 31 December 2013.

Derivative fair value unwind

As the interest rate swaps entered into with LBG on 1 November 2013 were designed to reflect the continuity of LBG's economic hedging approach within TSB Banking Group, the terms differed from market rates at that date. Consequently, the interest rate swaps had a net positive fair value of £53.0 million on the date they were established. This amount unwinds through the Group's income statement over the remaining life of the interest rate swaps. During the six months to 30 June 2014, £14.0 million (six months to 31 December 2013: £6.6 million) of the fair value movement in the Group's derivatives was attributable to this factor. For statutory reporting purposes this amount is part of the change in fair value of the derivative presented in other income but is excluded from management profit as it does not appropriately reflect the Group's economic hedging approach.

Defined benefit pension scheme settlement gain

On 31 March 2014, TSB Partners were transferred to the Group from LBG under the terms of the Transfer of Undertakings (Protection of Employment) Regulations 2006. At this point, those that were members of LBG defined benefit pension schemes became deferred members of those schemes and the Group's defined benefit pension scheme deficit was transferred to Lloyds Bank plc. No settlement payment was required and consequently the Group recorded a gain on settlement of £63.7 million reflecting the transfer of the defined benefit pension scheme deficit to Lloyds Bank plc. From 1 April 2014, the Group has no further liabilities in respect of defined benefit pension schemes.

MANAGEMENT BASIS SEGMENTAL ANALYSIS AND RECONCILIATION TO STATUTORY RESULTS (continued)

The tables below set out the reconciliation of the management basis profit before taxation to the statutory results:

6 months to 30 June 2014	**Management Basis £ million**	**Gain / (Loss) on Derivatives and Hedge Accounting £ million**	**Derivative Fair value Unwind £ million**	**Defined Benefit Pension Scheme Settlement Gain £ million**	**Statutory £ million**
Net interest income	**390.6**	**(16.0)**	**-**	**-**	**374.6**
Other income	**72.6**	**16.2**	**(14.0)**	**-**	**74.8**
Total income	**463.2**	**0.2**	**(14.0)**	**-**	**449.4**
Operating expenses	**(333.5)**	**-**	**-**	**63.7**	**(269.8)**
Impairment	**(51.1)**	**-**	**-**	**-**	**(51.1)**
Profit before taxation	**78.6**	**0.2**	**(14.0)**	**63.7**	**128.5**
6 months to 31 December 2013(1)	£ million	£ million	£ million	£ million	£ million
Net interest income	345.0	(10.0)	-	-	335.0
Other income	76.9	(29.3)	(6.6)	-	41.0
Total income	421.9	(39.3)	(6.6)	-	376.0
Operating expenses	(271.1)	-	-	-	(271.1)
Impairment	(56.2)	-	-	-	(56.2)
Profit before taxation	94.6	(39.3)	(6.6)	-	48.7
6 months to 30 June 2013(1)	£ million	£ million	£ million	£ million	£ million
Net interest income	128.8	-	-	-	128.8
Other income	36.5	-	-	-	36.5
Total income	165.3	-	-	-	165.3
Operating expenses	(105.1)	-	-	-	(105.1)
Impairment	(24.1)	-	-	-	(24.1)
Profit before taxation	36.1	-	-	-	36.1

(1) Restated– see note 20.

RISK OVERVIEW

RISK MANAGEMENT APPROACH

Effective risk management is a key component of TSB's strategy to deliver local banking for Britain. TSB maintains a simple business model which embodies a risk culture grounded in a prudent appetite for risk.

The Board ensures that risk is managed effectively by approving the Group's risk appetite and risk management framework and monitoring aggregate risk exposures. The Board also ensures that the executive management of the Group has established and maintains appropriate systems to plan and control operations and risks and complies with relevant legislation and regulations. The Board further ensures that the executive management provides regular and sufficient information to the Board to enable them to discharge their monitoring duties in relation to risk management.

The Group's risk management framework ensures a robust and consistent approach to risk management is applied across all business areas and all risk types in order to maintain the Group's risk profile in line with risk appetite. It articulates individual and collective accountabilities for risk management, risk oversight and risk assurance, and supports the discharge of responsibilities to customers, shareholders and regulators. The framework enables the Group to comply with regulatory requirements and aims to protect the Group from financial and reputational damage.

The Group's risk framework is underpinned by three key principles:

- **Simplicity:** A consistent risk management approach is applied across the Group's business, with simple reporting requirements and uniform data used to provide a holistic view of risk throughout its operations.

- **Transparency:** A transparent risk management function allows for clear comparability between risk exposures and risk categories across the Group's operations.

- **Accountability:** Clear ownership of each risk category empowers senior TSB Partners to manage risk exposures in line with expected values and behaviours.

The Group's risk appetite articulates the amount of risk that the Board is prepared to take in pursuit of the Group's business objectives, including in stressed situations. Risk appetite is set at a level that safeguards the interests of customers and other key stakeholders and key metrics are measured and reported to the appropriate committees and the Board. The risk appetite is embedded in the Group's policies and procedures and is defined in a number of qualitative and quantitative metrics which are regularly reviewed by the Board.

The Group continuously reviews the current and future risk landscape. Key performance indicators are used by the Group to monitor and control risk, which include, for example, loan-to-deposit ratios (LDR), asset quality ratios (AQR) and arrears performance.

PRINCIPAL RISKS AND UNCERTAINTIES

At present the most significant risks faced by the Group are detailed below. These risks could impact on the success of delivering against the Group's long-term strategic objectives**.**

Credit risk

As a provider of credit facilities to personal and small business customers any adverse changes in:

- the economic and market environment in which the Group operates; and
- the credit quality and/or behaviour of the Group's borrowers and counterparties

would reduce the value of the Group's assets and increase write-downs and allowances for impairment losses and adversely impact profitability.

Mitigating actions:

- Credit policy incorporating prudent lending criteria aligned with Board approved risk appetite to effectively manage credit risk.
- Clearly defined levels of authority to ensure the Group lends appropriately and responsibly with a separation of origination and sanctioning activities.
- Robust credit processes and controls including well established committees to ensure distressed and impaired loans are identified, considered and controlled within independent credit risk assurance.
- Stress tests are undertaken as part of the business planning cycle with the aim of ensuring the Group is able to operate within its risk appetite, including in stressed situations, throughout the period of the plan.

Conduct risk

Whilst TSB benefits, under the Separation Agreement, from a broad and (save in limited respects) uncapped conduct indemnity from Lloyds Bank plc against losses arising out of historical conduct risk issues, TSB has identified a number of drivers of potential conduct risk in the financial services and products it currently provides. These include:

- selling products to customers which do not meet their needs;
- failing to deal with customers' complaints effectively;
- not meeting customer expectations; and
- exhibiting behaviours which do not meet market or regulatory standards.

Mitigating Actions:

- Customer focused conduct strategy implemented to ensure customers' best interests are at the heart of everything the Group does.
- Product approval and review processes and outcome testing supported by conduct management information.
- Clear customer accountabilities for colleagues including rewards with customer-centric metrics.
- Complaints outcome testing to ensure fair outcomes and root cause analysis supported by appropriate governance, including reporting to the Board, to ensure remedial actions are undertaken.

Operational risk

The Group faces a number of key operational risks including supplier management, fraud losses, financial reporting and failings in customer processes. The availability, resilience and security of the Group's core IT systems is the most significant including, specifically, the operational risks involved in the provision of IT systems by an outsourced service provider (i.e. LBG, which provides such systems to TSB on and subject to the terms of the Transitional Services Agreement).

Mitigating Actions:

- Under a detailed arm's length Transitional Services Agreement LBG continues to support the Group following its admission to the London Stock Exchange. This agreement is in place to support core IT systems continuity to the Group and its customers. Benefits include LBG continually updating and improving its IT system architecture and systems resilience.
- The Group employs a robust operational risk management framework of preventative, detective and mitigative controls.

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Liquidity and funding risk

The Group's liquidity and funding position is supported by a significant and stable retail deposit base and through a growing Personal Current Account base. The risk of increased funding requirements or that existing funding structures are not efficient may lead to a requirement to raise wholesale funding.

Mitigating Actions:

- Maintaining a prudent liquid asset buffer of high quality unencumbered assets in line with regulatory requirements.
- Strong liquidity position and demonstrating an ability to meet prudent liquidity risk appetite metrics throughout the Group's planning horizon.
- Stress testing of the Group's liquidity positions, conducted against a range of scenarios, to meet all UK liquidity regulatory requirements.
- The Group has a contingency funding plan in place which sets out the Group's strategies, processes and procedures to address possible liquidity shortfalls in emergency situations.

Capital risk

The Group's future capital position is potentially at risk from adverse financial performance and the introduction of buffers or higher capital requirements for specific risks or sectors.

Mitigating Actions:

- Internal stress testing results indicate sufficient levels of capital adequacy for the Group.
- Close monitoring of capital ratios to ensure they comply with current regulatory capital requirements and are well positioned to meet future requirements.
- The Group undertakes reverse stress testing to identify risks that could impact the Group's business model and capital adequacy position.

Model risk

TSB faces a risk of making poor business decisions resulting from the failure to identify risk or the misreporting of risk which may result in financial or reputational losses.

Mitigating Actions:

- Robust model governance framework.
- Regular performance monitoring of risk models and fuller validation on an annual basis.

Market risk

As a financial services provider, TSB faces a number of key market risks. The most significant market risk is interest rate risk including the margin between interbank and central bank rates and arises from mismatches in the repricing profile of its banking assets and liabilities. The Group's earnings may be impacted as a result of the Group's inability to reprice assets and liabilities simultaneously.

Further market risk arises from competitive pressures on product terms in existing loans and deposits, which sometimes restricts TSB's ability to change interest rates applying to customers in response to changes in interbank and central bank rates.

Mitigating Actions:

- TSB's Treasury function has responsibility for managing interest rate risk within a Board approved risk appetite and governance framework. High level market risk exposure is reported regularly to the Group's Asset and Liabilities Committee and Risk Committee.
- The Group seeks to maintain minimal interest rate re-pricing risk in its banking book. At any point in time, however, some small level of transitory risk will exist pending, for example, contrary offsetting flows and the efficient hedging of the net position with the external market.

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Legal and Regulatory risk

Due to the nature of the financial services industry, the Group is potentially at risk from non-compliance with a complex regulatory agenda.

Mitigating Actions:

- The implementation of an effective governance and oversight framework.
- The Group continues to benefit from the investment made by LBG to progress compliance with changing regulatory requirements delivered through the Transitional Services Agreement to meet regulatory obligations.
- The Group monitors forthcoming regulatory changes and will make continued investment in IT systems under the Transitional Services Agreement with LBG to meet regulatory commitments.

Fraud and Financial Crime

The Group faces potential Fraud and Financial Crime risk in each area of its operations through failures of internal controls or violation of applicable anti-money laundering and anti-bribery laws or regulations.

Mitigating Actions:

- New and ongoing customer due diligence designed to ensure high risk relationships are flagged for further investigation and review against risk appetite.
- Education and awareness to ensure TSB Partners understand the threats the Group faces, the relevant controls and regulatory obligations and routes for reporting suspicious activity.
- Transaction monitoring systems to monitor unusual customer activity to ensure such activities are reported to the appropriate authorities.
- Local money laundering officers in each business unit charged with establishing and embedding a culture attuned to money laundering risks and monitoring TSB Partner compliance with relevant policies and procedures.
- Business line reporting of key risk indicators to confirm the effectiveness of controls to identify, manage and mitigate bribery risks.

Scottish Independence Referendum risk

The Group faces potential risks associated with its business and customers in Scotland, which may be impacted by the outcome of the planned referendum on Scottish independence, to take place on 18 September 2014.

Mitigating Actions:

- The Group continues to monitor and assess the potential impacts on its business of a vote in favour of Scottish independence. Any impacts will be subject to negotiation between the UK and Scottish Governments (as well as subject to Parliamentary approval) which will only take place after the Referendum. The situation will therefore remain inherently uncertain.

People risk

As a significant employer we face a number of people risks including those related to:

- the ongoing pace of change; the developing and increasingly rigorous and intrusive regulatory environment that may challenge our people strategy, remuneration practices and retention of our TSB Partners; and
- Negative industrial relations, potentially resulting in high levels of employee absenteeism and/or turnover.

Mitigating Actions:

- Strengthening the risk and customer focused culture among TSB Partners by developing and delivering a number of initiatives that reinforce risk-based behaviours to generate the best possible long term outcomes for customers, shareholders and TSB Partners.
- Continuing to ensure strong management of the impact of organisational change and consolidation on TSB Partners
- Reviewing and developing incentives continually to ensure they promote TSB Partners' behaviours that meet customer needs and regulatory expectations and embed TSB's code of responsibility across the Group.
- A comprehensive TSB Partner relations strategy, centred on constructive union relations and a high level of TSB Partner engagement.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Income statement:	Note	**6 months to 30 June 2014 £ million**	6 months to 30 June 2013[1] £ million	6 months to 31 Dec 2013[1] £ million
Interest and similar income		**485.0**	208.4	488.6
Interest and similar expense		**(110.4)**	(79.6)	(153.6)
Net interest income		**374.6**	128.8	335.0
Fee and commission income		**104.2**	49.1	110.1
Fee and commission expense		**(33.0)**	(13.5)	(35.8)
Net fee and commission income		**71.2**	35.6	74.3
Other operating income		**3.6**	0.9	(33.3)
Other income	3	**74.8**	36.5	41.0
Total income		**449.4**	165.3	376.0
Operating expenses:				
Defined benefit pension scheme settlement gain	13	**63.7**	-	-
Other operating expenses		**(333.5)**	(105.1)	(271.1)
	4	**(269.8)**	(105.1)	(271.1)
Trading surplus		**179.6**	60.2	104.9
Impairment	9	**(51.1)**	(24.1)	(56.2)
Profit before taxation		**128.5**	36.1	48.7
Taxation	5	**(26.7)**	105.4	(5.2)
Profit for the period		**101.8**	141.5	43.5
Other comprehensive income:				
Items that will not be subsequently reclassified to profit or loss:				
Post retirement defined benefit scheme remeasurements before taxation		-	29.0	(27.9)
Taxation		-	(6.7)	4.8
Other comprehensive income for the period		-	22.3	(23.1)
Total comprehensive income for the period		**101.8**	163.8	20.4
Basic earnings per share	6	**63.3p**	257.3p	79.1p
Diluted earnings per share	6	**63.3p**	257.3p	79.1p

(1) Restated– see note 20.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) (continued)

CONSOLIDATED BALANCE SHEET

Assets	Note	At 30 June 2014 £ million	At 31 Dec 2013[(1)] £ million
Cash and balances at central banks		**3,041.2**	200.2
Items in course of collection from banks		**315.9**	116.2
Loans and receivables:			
Loans and advances to banks		**150.7**	4,124.7
Loans and advances to customers	8	**22,493.4**	20,099.1
		22,644.1	24,223.8
Derivative financial instruments	7	**66.2**	99.4
Property, plant and equipment		**120.1**	122.6
Deferred tax assets		**117.8**	138.0
Other assets		**164.3**	54.2
Total assets		**26,469.6**	24,954.4
Liabilities			
Deposits from banks		**17.9**	234.7
Customer deposits	11	**23,700.4**	23,100.4
Items in course of transmission to banks		**275.1**	63.6
Derivative financial instruments	7	**74.4**	85.6
Debt securities in issue	12	**250.2**	1.4
Other liabilities		**148.1**	94.1
Retirement benefit obligations	13	**-**	64.3
Current tax liabilities		**10.5**	3.6
Subordinated liabilities	14	**385.4**	-
Total liabilities		**24,862.0**	23,647.7
Equity			
Share capital	15	**5.0**	0.1
Share premium	15	**965.1**	-
Merger reserve	15	**616.5**	-
Capital reorganisation reserve	15	**(1,311.6)**	74.9
Capital reserve	15	**410.0**	410.0
Retained profits	15	**922.6**	821.7
Shareholders' equity		**1,607.6**	1,306.7
Total equity and liabilities		**26,469.6**	24,954.4

(1) Restated – see note 20.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) (continued)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital and premium(1) £ million	Merger reserve £ million	Capital reorg-anisation reserve(1) £ million	Capital reserve £ million	Retained profits(1) £ million	Total £ million
Balance at 1 January 2013	0.1	-	74.9	-	637.5	712.5
Comprehensive income						
Profit for the 6 months to 30 June	-	-	-	-	141.5	141.5
Other comprehensive income	-	-	-	-	22.3	22.3
Total comprehensive income	-	-	-	-	163.8	163.8
Transactions with owners						
Capital contribution	-	-	-	410.0	-	410.0
Balance at 30 June 2013	0.1	-	74.9	410.0	801.3	1,286.3
Balance at 1 July 2013	0.1	-	74.9	410.0	801.3	1,286.3
Comprehensive income						
Profit for the 6 months to 31 Dec	-	-	-	-	43.5	43.5
Other comprehensive income	-	-	-	-	(23.1)	(23.1)
Total comprehensive income	-	-	-	-	20.4	20.4
Balance at 31 December 2013	0.1	-	74.9	410.0	821.7	1,306.7
Balance at 1 January 2014	**0.1**	**-**	**74.9**	**410.0**	**821.7**	**1,306.7**
Comprehensive income						
Profit for the 6 months to 30 June	**-**	**-**	**-**	**-**	**101.8**	**101.8**
Transactions with owners						
Insertion of new parent	**770.0**	**616.5**	**(1,386.5)**	**-**	**-**	**-**
Issue of new shares	**200.0**	**-**	**-**	**-**	**-**	**200.0**
Movement in treasury shares	**-**	**-**	**-**	**-**	**(0.9)**	**(0.9)**
Total transactions with owners	**970.0**	**616.5**	**(1,386.5)**	**-**	**(0.9)**	**199.1**
Balance at 30 June 2014	**970.1**	**616.5**	**(1,311.6)**	**410.0**	**922.6**	**1,607.6**

(1) Restated– see note 20.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) (continued)

CONSOLIDATED CASH FLOW STATEMENT

	6 months to 30 June 2014 £ million	6 months to 30 June 2013[1] £ million	6 months to 31 Dec 2013[1] £ million
Profit before taxation	**128.5**	36.1	48.7
Adjustments for:			
Change in operating assets	**4,756.9**	(9,626.6)	14,035.2
Change in operating liabilities	**696.3**	(6,488.7)	(1,002.2)
Non-cash and other items	**(19.0)**	120.1	93.4
Tax received/(paid)	**0.4**	(5.8)	(62.9)
Net cash provided by / (used in) operating activities	**5,563.1**	(15,964.9)	13,112.2
Cash flows from investing activities			
Purchase of property, plant and equipment	**(53.1)**	(32.1)	(5.4)
Purchase of financial assets	**(3,359.4)**	(2,077.8)	(13,070.6)
Purchase of financial liabilities	**-**	17,383.8	-
Proceeds from disposal of financial assets and liabilities	**-**	370.3	4.4
Net cash (used in) / provided by investing activities	**(3,412.5)**	15,644.2	(13,071.6)
Cash flows from financing activities			
Net proceeds from debt securities issued/repurchased	**249.2**	-	-
Proceeds from issue of subordinated liabilities	**383.0**	-	-
Proceeds from issue of share capital	**200.0**	-	-
Capital contribution	**-**	410.0	-
Net cash provided by financing activities	**832.2**	410.0	-
Change in cash and cash equivalents	**2,982.8**	89.3	40.6
Cash and cash equivalents at beginning of period	**174.4**	44.5	133.8
Cash and cash equivalents at end of period	**3,157.2**	133.8	174.4

Cash and cash equivalents comprise cash and balances at central banks (excluding mandatory deposits) and amounts due from banks with a maturity of less than three months.

(1) Restated– see note 20.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

1. Accounting policies, presentation and estimates

On 25 April 2014, TSB Banking Group plc became the new holding company for the TSB Group by way of a share for share exchange and was listed on the London Stock Exchange on 25 June 2014. The condensed consolidated interim financial statements of TSB Banking Group plc (the Group) for the six months ended 30 June 2014 comprise the results of TSB Banking Group plc consolidated with those of its subsidiaries, including TSB Bank plc. The comparative figures are those of TSB Bank plc except for the presentation of share capital, share premium and capital reorganisation reserve balances which have been restated as if TSB Banking Group plc had been the parent company during both periods presented (see note 20).

These condensed consolidated interim financial statements have been prepared in accordance with the Disclosure Rules and Transparency Rules of the Financial Conduct Authority (FCA) and with IAS 34 *Interim Financial Reporting* as adopted by the European Union. They do not include all of the information required for full annual financial statements.

The directors consider that it is appropriate to continue to adopt the going concern basis in preparing the condensed consolidated interim financial statements. In reaching this assessment, the directors have considered projections for the Group's capital and funding position.

The accounting policies are consistent with those applied by TSB Bank plc in its 2013 Annual Report and Accounts with the exception of the treatment of the UK Financial Services Compensation Scheme (FSCS) Levy. From 1 January 2014 the Group changed its accounting policy for recognising the costs of the UK's FSCS Levy to reflect guidance provided in IFRIC 21 *Levies*, an interpretation of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, which was endorsed by the European Union on 16 June 2014. IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay the FSCS levy is the activity that triggers the payment of the levy, which for the FSCS Levy, is being a deposit gathering financial institution at the start of the Levy year each April, and that an entity does not have a constructive obligation to pay a levy that will be triggered by operating in a future period. Prior to 1 January 2014, the Group's policy was to recognise a liability on the basis of a constructive obligation at 31 December in the previous year. The effect of this change in accounting policy, which has been applied retrospectively with comparative periods restated, is set out in note 20.

From 1 January 2014, the Group designated, for the first time, derivative financial instruments as hedges under IAS 39 *Financial Instruments: Recognition and Measurement* and has taken advantage of relaxations in hedge accounting requirements in the EU endorsed version of IAS 39 adopted by the EU which are not available in the version issued by the IASB. Hedge accounting allows one financial instrument, generally a derivative such as a 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 hedging strategy, the hedged item, 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 risk. 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. The Group's derivatives are designated as hedges of the fair value of recognised assets or liabilities (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 using a straight line method over the period to maturity.

1. Accounting policies, presentation and estimates (continued)

Critical accounting estimates and judgements

The preparation of the Group's condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that impact the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may include 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. There have been no significant changes in the basis upon which estimates have been determined, compared to that applied at 31 December 2013.

2. Segmental analysis

The Group provides a wide range of banking and financial services in the UK. The chief operating decision maker of the Group is the Executive Committee. Operating segments are reported in a manner which is consistent with internal reporting provided to the Executive Committee. This includes a consideration of each segment's net interest income and consequently the interest income and expense for all reportable segments is presented on a net basis.

The segmental results are presented on a management basis, the basis reviewed by the chief operating decision maker. The Group's reportable segments have been identified as "Franchise" and "Mortgage Enhancement", reflecting its organisational and management structures. Franchise comprises the retail banking business carried out in the UK under the TSB brand which offers a broad range of retail financial services including current accounts, savings, personal loans, credit cards and mortgages. Mortgage Enhancement is a separate portfolio of mortgage assets managed by LBG and not branded as TSB. This portfolio was assigned to the Group by LBG with effect from 28 February 2014.

6 months to 30 June 2014	**Franchise £ million**	**Mortgage Enhancement £ million**	**Total £ million**
Net interest income	**356.5**	**34.1**	**390.6**
Other income	**74.5**	**(1.9)**	**72.6**
Total income	**431.0**	**32.2**	**463.2**
Operating expenses	**(333.5)**	**-**	**(333.5)**
Impairment	**(50.5)**	**(0.6)**	**(51.1)**
Profit before taxation (management basis)	**47.0**	**31.6**	**78.6**
Gains on derivatives and hedge accounting			**0.2**
Derivative fair value unwind			**(14.0)**
Defined benefit pension scheme settlement gain			**63.7**
Statutory profit before taxation			**128.5**
As at 30 June 2014			
Segment loans and advances to customers	**19,381.8**	**3,111.6**	**22,493.4**
Segment customer deposits	**23,700.4**	**-**	**23,700.4**

2. Segmental analysis (continued)

6 months to 31 December 2013	Franchise £ million	Mortgage Enhancement £ million	Total £ million
Net interest income	345.0	-	345.0
Other income	76.9	-	76.9
Total income	421.9	-	421.9
Total costs	(271.1)	-	(271.1)
Impairment	(56.2)	-	(56.2)
Profit before taxation (management basis)	94.6	-	94.6
Derivative volatility			(39.3)
Derivative fair value unwind			(6.6)
Statutory profit before taxation			48.7
As at 31 December 2013			
Segment loans and advances to customers	20,099.1	-	20,099.1
Segment customer deposits	23,100.4	-	23,100.4

6 months to 30 June 2013	Franchise £ million	Mortgage Enhancement £ million	Total £ million
Net interest income	128.8	-	128.8
Other income	36.5	-	36.5
Total income	165.3	-	165.3
Total costs	(105.1)	-	(105.1)
Impairment	(24.1)	-	(24.1)
Management and statutory profit before taxation	36.1	-	36.1
As at 30 June 2013			
Segment loans and advances to customers	7,838.4	-	7,838.4
Segment customer deposits	22,971.4	-	22,971.4

3. Other income

	6 months to 30 June 2014 £ million	6 months to 30 June 2013 £ million	6 months to 31 Dec 2013 £ million
Fee and commission income:			
Current account fees	**50.6**	27.7	54.4
Credit and debit card fees	**31.8**	11.6	33.7
Other fees and commissions	**21.8**	9.8	22.0
	104.2	49.1	110.1
Fee and commission expense	**(33.0)**	(13.5)	(35.8)
Net fee and commission income	**71.2**	35.6	74.3
Other operating income:			
Net movement on instruments held at fair value through profit or loss	**2.2**	-	(35.9)
Other income	**1.4**	0.9	2.6
	3.6	0.9	(33.3)
Total other income	**74.8**	36.5	41.0

4. Operating expenses

	6 months to 30 June 2014 £ million	6 months to 30 June 2013[1] £ million	6 months to 31 Dec 2013[1] £ million
Administrative expenses			
Staff costs:			
Wages and salaries	**(114.2)**	(30.2)	(66.3)
Social security costs	**(12.4)**	(2.7)	(5.8)
Defined benefit pension scheme settlement gain (note 13)	**63.7**	-	-
Other pension costs	**(17.0)**	(9.4)	(15.7)
Other staff costs	**(19.4)**	(2.8)	(5.7)
	(99.3)	(45.1)	(93.5)
Premises and equipment:			
Rent	**(15.7)**	(6.3)	(12.6)
Rates	**(7.1)**	(2.9)	(7.1)
Other	**(13.9)**	(5.5)	(9.9)
	(36.7)	(14.7)	(29.6)
Other expenses:			
Recharges from other Lloyds Banking Group companies	**-**	(31.2)	(128.4)
Transitional Services Agreement (TSA) costs	**(53.1)**	-	-
Professional fees	**(9.0)**	(0.1)	(0.5)
Advertising and promotion	**(26.7)**	-	(0.8)
Financial Services Compensation Scheme Levy (note 16)	**(17.3)**	(4.0)	-
Other	**(19.6)**	(4.3)	(10.2)
	(125.7)	(39.6)	(139.9)
Depreciation and amortisation	**(8.1)**	(5.7)	(8.1)
Total operating expenses	**(269.8)**	(105.1)	(271.1)

(1) Restated – see note 20.

5. Taxation

An analysis of the tax (charge)/credit for the period is shown below:

	6 months to 30 June 2014 £ million	6 months to 30 June 2013 £ million	6 months to 31 Dec 2013 £ million
UK corporation tax**:**			
Current tax on profit for the period	**(6.4)**	(8.9)	(11.1)
Adjustments in respect of prior periods	-	2.4	(0.3)
Current tax charge	**(6.4)**	(6.5)	(11.4)
Deferred tax:			
Origination and reversal of temporary differences:			
Deferred tax on business transfers	**(8.2)**	113.8	27.6
Deferred tax on pension	**(13.8)**	0.9	(0.8)
Other	**0.2**	(0.5)	-
Reduction in UK corporation tax rate	**1.5**	-	(20.6)
Adjustment in respect of prior periods	**-**	(2.3)	-
Deferred tax (charge)/credit	**(20.3)**	111.9	6.2
Tax (charge)/credit	**(26.7)**	105.4	(5.2)

5. Taxation (continued)

A reconciliation of the tax (charge)/credit that would result from applying the standard UK corporation tax rate to the profit before tax, to the actual tax charge, is given below:

	6 months to 30 June 2014 £ million	6 months to 30 June 2013 £ million	6 months to 31 Dec 2013 £ million
Profit before tax	**128.5**	36.1	48.7
Tax charge thereon at UK corporation tax rate	**(27.6)**	(8.4)	(11.3)
Factors affecting tax (charge) credit:			
Deferred tax from business transfers	**-**	113.8	27.6
UK corporation tax rate change	**1.5**	-	(20.6)
Disallowed and non-taxable items	**(0.6)**	-	(0.7)
Adjustments in respect of previous years	-	-	(0.2)
Tax (charge)/credit	**(26.7)**	105.4	(5.2)

6. Earnings per share

	6 months to 30 June 2014	6 months to 30 June 2013	6 months to 31 Dec 2013
Basic and diluted			
Profit attributable to equity shareholders	**£101.8m**	£141.5m	£43.5m
Weighted average number of ordinary shares in issue	**160.7m**	55.0m	55.0m
Earnings per share	**63.3p**	257.3p	79.1p

On 25 April 2014, the Group issued 50 million ordinary shares in exchange for the acquisition of the entire share capital of TSB Bank plc. The weighted average number of ordinary shares in issue has been adjusted as if the share exchange had occurred at the beginning of the comparative period. The weighted average number of shares in issue also reflects the issue of a further 445 million shares in exchange for consideration of £200.0 million on 19 May 2014 which are included in the calculation from this date. Had these shares been in issue from the beginning of the comparative period, basic and diluted earnings per share would have been 20.4 pence (6 months to 30 June 2013: 28.3 pence; 6 months to 31 December 2013: 8.7 pence).

7. Derivative financial instruments

	30 June 2014			31 December 2013		
	Contract/ notional amount £ million	**Fair value of assets £ million**	**Fair value of liabilities £ million**	Contract/ notional amount £ million	Fair value of assets £ million	Fair value of liabilities £ million
Interest rate swaps	**11,750.2**	**50.2**	**(23.6)**	13,491.0	99.4	(85.6)
Designated as fair value hedges	**4,970.7**	**16.0**	**(50.8)**	**-**	**-**	**-**
Total	**16,720.9**	**66.2**	**(74.4)**	13,491.0	99.4	(85.6)

8. Loans and advances to customers

	At 30 June 2014 £ million	At 31 Dec 2013 £ million
Mortgages	**17,090.8**	17,728.7
Mortgage Enhancement	**3,112.2**	-
Unsecured and business banking	**2,380.7**	2,467.2
	22,583.7	20,195.9
Allowance for impairment losses on loans and advances (note 9)	**(90.3)**	(96.8)
Total loans and advances to customers	**22,493.4**	20,099.1

Loans and advances to customers include advances securitised under the Group's securitisation programme. Further details are given in note 10.

9. Allowance for impairment losses on loans and receivables

	6 months to 30 June 2014 £ million	6 months to 30 June 2013 £ million	6 months to 31 Dec 2013 £ million
Opening balance	**96.8**	35.9	83.0
Advances written off net of recoveries	**(57.6)**	(31.0)	(55.2)
Transfer of business	**-**	54.0	12.8
Charge to the income statement	**51.1**	24.1	56.2
Balance at end of period	**90.3**	83.0	96.8
In respect of:			
Loans and advances to banks	-	-	-
Loans and advances to customers (note 8)	**90.3**	83.0	96.8
Balance at end of period	**90.3**	83.0	96.8

10. Securitisations

The Group's securitisation programme, together with the balances of the loans subject to these arrangements and the carrying value of the notes in issue, are listed in the table below.

	30 June 2014		31 December 2013	
	Loans and advances securitised £ million	**Notes in Issue £ million**	Loans and advances securitised £ million	Notes in issue £ million
Cape Funding No 1 plc	**2,846.3**	**2,925.0**	-	-
Less held by the Group		**(2,675.0)**		-
Total securitisation programmes		**250.0**		-

Loans and advances to customers include loans securitised under the Group's securitisation programme, which have been sold by TSB Bank plc to a special purpose entity (Cape Funding No 1 plc). As Cape Funding No 1 plc is funded by the issue of debt on terms whereby the majority of the risks and rewards of the portfolio are retained, it is consolidated fully and all of these loans are retained on the Group's balance sheet, with the related notes in issue included within debt securities in issue.

11. Customer deposits

	At 30 June 2014 £ million	At 31 Dec 2013(1) £ million
Non-interest bearing current accounts	**4,446.7**	4,373.6
Interest bearing current accounts	**2,640.2**	2,122.8
Savings accounts	**16,613.5**	16,604.0
Total customer deposits	**23,700.4**	23,100.4

(1) Amounts have been reclassified to provide consistency with current period presentation.

12. Debt securities in issue

	At 30 June 2014 £ million	At 31 Dec 2013 £ million
Preference shares	**-**	1.4
Debt securities	**250.2**	-
Total debt securities in issue	**250.2**	1.4

On 21 January 2014, the Group repurchased all of the £1.4 million of issued preference share capital from its then immediate parent company, TSB Intermediate Company 2 Limited. The preference shares were immediately cancelled. The Group paid a consideration of £0.8 million, being the fair value of the preference shares at the date of repurchase, and recognised a gain on the extinguishment of this liability of £0.6 million.

The balance at 30 June 2014 represents the principal balance of debt securities issued by Cape Funding No 1 plc (see note 10) together with accrued interest.

13. Retirement benefit obligations

The Group's ultimate parent company, Lloyds Banking Group plc (LBG), has established a number of defined benefit pension schemes in the UK and overseas. Until 31 March 2014, certain TSB employees (now known as TSB Partners) were members of the defined benefit sections of the Lloyds Group Pension Schemes No's 1 and 2 (the Schemes). These are funded schemes providing retirement benefits calculated as a percentage of final salary depending upon the length of service.

On 31 March 2014, TSB Partners were transferred to the Group from LBG under the terms of the Transfer of Undertakings (Protection of Employment) Regulations 2006. At this point, those that were members of LBG defined benefit pension schemes became deferred members of those schemes and the Group's defined benefit pension scheme deficit was transferred to Lloyds Bank plc. No settlement payment was required and consequently the Group recorded a gain on settlement of £63.7 million reflecting the transfer of the defined benefit pension scheme deficit to Lloyds Bank plc.

The amounts shown below relate to the Group's share of obligations arising from membership by TSB Partners of the defined benefit schemes operated by the Group's ultimate parent company.

Amounts included in the balance sheet

	At 30 June 2014 £ million	At 31 Dec 2013 £ million
Share of present value of funded obligations	**-**	578.2
Share of fair value of scheme assets	**-**	(513.9)
Retirement benefit obligations liability	**-**	64.3

13. Retirement benefit obligations (continued)

The movements in the liability recognised in the balance sheet are as follows:

	At 30 June 2014 £ million
At 31 December 2013	**64.3**
Net credit to the income statement	**(58.2)**
Remeasurements	**-**
Contributions paid	**(6.1)**
At 30 June 2014	**-**

The expense recognised in operating expenses in the income statement is as follows:

	6 months to 30 June 2014 £ million	6 months to 30 June 2013 £ million	6 months to 31 Dec 2013 £ million
Current service cost	**4.6**	5.8	9.2
Settlement gain	**(63.7)**	-	-
Past service costs	**-**	-	0.6
Interest cost	**0.7**	1.4	1.5
Plan administration costs	**0.2**	0.4	0.6
Total expense	**(58.2)**	7.6	11.9

14. Subordinated liabilities

	At 30 June 2014 £ million	At 31 Dec 2013 £ million
Subordinated Tier 2 notes	**385.4**	-

On 1 May 2014, the Group issued £385.0 million of fixed/floating rate reset callable subordinated Tier 2 notes to Lloyds Bank plc for proceeds of £383.0 million. The balance at 30 June 2014 also reflects accrued interest and hedge accounting adjustments.

15. Share capital and reserves

	Share capital £ million	**Share premium £ million**	**Merger reserve £ million**	**Capital reorganisation reserve £ million**	**Capital reserve £ million**	**Retained profits £ million**
At 1 January 2014	75.0	-	-	-	410.0	810.2
Restatements:						
Insertion of new parent company	(74.9)	-	-	74.9	-	-
Change in accounting policy	-	-	-	-	-	11.5
At 1 January 2014 – Restated	0.1	-	-	74.9	410.0	821.7
Share for share exchange	**0.5**	**769.5**	**616.5**	**(1,386.5)**	**-**	**-**
Issue of new shares	**4.4**	**195.6**	**-**	**-**	**-**	**-**
Movement in treasury shares	**-**	**-**	**-**	**-**	**-**	**(0.9)**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**101.8**
At 30 June 2014	**5.0**	**965.1**	**616.5**	**(1,311.6)**	**410.0**	**922.6**

15. Share capital and reserves (continued)

Restatements

On 31 January 2014, LBG established a newly incorporated public limited company, TSB Banking Group plc, with 50,000 ordinary £1 shares, which increased to 5.0 million one pence ordinary shares following a 100 for 1 share split on 4 April 2014. TSB Banking Group plc became the new holding company for the TSB Group by way of a share for share exchange with Lloyds Bank plc on 25 April 2014. As a consequence of the insertion of the new holding company, share capital, share premium and the capital reorganisation reserve have been restated from those of TSB Bank plc, as if TSB Banking Group plc had been the holding company of the TSB Group during all periods presented. The effect of this and the change to the Group's accounting policies are set out in note 20.

Share for share exchange

On 25 April 2014, TSB Banking Group plc issued 50 million one pence ordinary shares in exchange for the acquisition of the entire share capital of TSB Bank plc, which following a 100 for 1 share split on 4 April 2014, comprised of 7,500,000,100 one pence ordinary shares.

The issuance of TSB Banking Group plc shares was recorded at the carrying amount of the net assets of TSB Bank plc at the date of acquisition of £1,386.5 million. The nominal value of the shares issued was £0.5 million and the minimum premium amount required by the Companies Act 2006 of £769.5 million was transferred to share premium. The balance of £616.5 million was transferred to the Merger Reserve.

Issue of new shares

On 19 May 2014, TSB Banking Group plc issued 445.0 million one pence ordinary shares at a premium of £0.4394 per share to its immediate parent company, Lloyds Bank plc, for cash proceeds of £200.0 million.

At 30 June 2014, TSB Banking Group plc had 500.0 million one pence ordinary shares allotted and fully paid up.

16. Contingent liabilities and commitments

The Financial Services Compensation Scheme (FSCS)

The Financial Services Compensation Scheme (FSCS) is the UK's independent statutory compensation fund of last resort for customers of authorised financial services firms and pays compensation if a firm is unable or likely to be unable to pay claims against it. The FSCS is funded by levies on the authorised financial services industry. Each deposit-taking institution contributes towards the FSCS levies in proportion to their share of total protected deposits on 31 December of the year preceding the scheme year, which runs from 1 April to 31 March.

Following the default of a number of deposit takers in 2008, the FSCS borrowed funds from HM Treasury to meet the compensation costs for customers of those firms. Although the substantial majority of this loan, which totalled approximately £17 billion at 31 December 2013, will be repaid from funds the FSCS receives from asset sales, surplus cash flow or other recoveries in relation to the assets of the firms that defaulted, any shortfall will be funded by deposit-taking participants of the FSCS. In January 2014, the FSCS confirmed that it expects to raise capital shortfall levies of approximately £1.2 billion on all deposit-taking participants to enable it to repay the balance of the HM Treasury loan. The Group has paid its share of the 2012 element of the levy and provided for its share of the 2013 element. The amount of future compensation costs levies payable by the Group depends on a number of factors including participation in the market at 31 December, the level of protected deposits and the population of deposit-taking participants.

16. Contingent liabilities and commitments (continued)

Legal and regulatory matters

During the ordinary course of business, the Group is subject to other threatened and actual legal proceedings (which may include class action lawsuits brought on behalf of customers and other third parties), regulatory investigations, regulatory challenges and enforcement actions. All such material matters are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of the Group incurring a liability. In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established to management's best estimate of the amount required to settle the obligation at the relevant balance sheet date. In some cases it will not be possible to form a view, either because the facts are unclear or because further time is needed to properly assess the merits of the case and no provisions are held against such matters. However the Group does not currently expect the final outcome of any such case to have a material adverse effect on its financial position, operations or cash flows.

17. Fair values of financial assets and liabilities

The table below summarises the carrying values of financial assets and liabilities presented on the Group's balance sheet. The fair values presented in the table are at a specific date and may be significantly different from the amounts which will actually be paid or received on the maturity or settlement date.

	30 June 2014		31 December 2013	
	Carrying value £ million	**Fair value £ million**	Carrying value £ million	Fair value £ million
Financial assets				
Derivative financial instruments	**66.2**	**66.2**	99.4	99.4
Loans and advances to customers	**22,493.4**	**22,556.4**	20,099.1	20,153.0
	22,559.6	**22,622.6**	20,198.5	20,252.4
Financial liabilities				
Customer deposits	**23,700.4**	**23,742.3**	23,100.4	23,142.1
Derivative financial instruments	**74.4**	**74.4**	85.6	85.6
Debt securities in issue	**250.2**	**250.2**	1.4	0.8
Subordinated liabilities	**385.4**	**385.4**	-	-
	24,410.4	**24,452.3**	23,187.4	23,228.5

The carrying amount of the following financial instruments is a reasonable approximation of fair value; cash and balances at central banks, items in the course of collection from banks, loans and advances to banks, deposits from banks, and items in the course of transmission to banks.

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. As quoted market prices are not available for the Group's financial instruments, fair values have been determined using valuation techniques which, to the extent possible, use market observable inputs, but in some cases use non-market observable inputs. Valuation techniques used include discounted cash flow analysis and pricing models and, where appropriate, comparison to instruments with characteristics similar to those of the instruments held by the Group.

Assets and liabilities carried at fair value have been classified into three levels according to the quality and reliability of information used to determine the fair values. Derivative financial instruments are the only assets and liabilities of the Group that are carried at fair value.

Level 1 portfolios

Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities. At 30 June 2014 and 31 December 2013 the Group held no financial assets or liabilities that were classified as level 1.

17. Fair values of financial assets and liabilities (continued)

Level 2 portfolios

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. The Group's derivative financial instruments are all interest rate swaps and are valued using a discounted cash flow model where the most significant input is interest yield curves which are developed from publicly quoted rates. These were classified as level 2 at 30 June 2014 and 31 December 2013.

Level 3 portfolios

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. At 30 June 2014 and 31 December 2013 the Group held no financial assets or liabilities classified as level 3.

18. Related party transactions

Transactions, arrangements and agreements involving related parties

The Group's related parties include its parent, fellow subsidiaries, and key management personnel. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, which for the Group is the Board and Executive Committee of TSB Banking Group plc. Transactions and arrangements in respect of key management personnel for the six months to 30 June 2014 are similar in nature to those for year ended 31 December 2013. Save as described below, there were no related party transactions entered into by the Group that have materially affected the financial position or performance of the Group in the six months to 30 June 2014.

Balances and transactions with Lloyds Banking Group companies

The Group enters into banking transactions with Lloyds Banking Group companies in the normal course of its business. These include loans, deposits and investment related transactions and were carried out on commercial terms and at market rates. These are included in the Group's consolidated balance sheet as follows:

	As at 30 June 2014 £ million	As at 31 Dec 2013 £ million
Assets, included within:		
Items in course of collection from banks	**14.8**	-
Loans and advances to banks	**150.7**	4,124.7
Derivative financial instruments	**-**	99.4
Other assets	**30.4**	3.7
	195.9	4,227.8
Liabilities, included within:		
Deposits from banks	**-**	234.7
Items in course of transmission to banks	**15.1**	-
Derivative financial instruments	**0.7**	85.6
Debt securities in issue	**250.2**	1.4
Other liabilities	**14.1**	0.5
Subordinated liabilities	**385.4**	-
	665.5	322.2

18. Related party transactions (continued)

Due to the size and volume of transactions passing through these accounts, it is neither practical nor meaningful to disclose information on gross inflows and outflows. In respect of transactions with LBG companies during six months to 30 June 2014, the Group earned net interest income of £0.6 million (six months to 30 June 2013: £32.3 million), net fee and commission income of £9.6 million (six months to 30 June 2013: £7.3 million), £9.0m in respect of derivative financial instruments and incurred expenses of £53.1 million under the Transitional Services Agreement. In the six months to 30 June 2013, the Group incurred net recharges of £31.2 million from LBG companies in respect of various services provided between the Group and LBG companies.

On 1 May 2014, the Group exited the LBG UK Defined Liquidity Group and established a standalone liquid asset portfolio which at 30 June 2014 was held on deposit with the Bank of England. Prior to this all liquidity was held on deposit with LBG and was represented in loans and advances to banks.

Debt securities in issue of £250.2 million reflect the draw down of funding from Lloyds Bank plc under the Group's Cape Funding No.1 plc securitisation programme together with accrued interest. The balance at 31 December 2013 of £1.4 million reflects preference shares which were repurchased on 21 January 2014 from TSB Bank's then immediate parent company.

The Group and Lloyds Bank plc entered into the Tier 2 Subscription Agreement relating to the subscription by Lloyds Bank plc of Tier 2 securities that were issued for net proceeds of £383.0 million on 1 May 2014.

On 19 May 2014, TSB Banking Group plc issued 445.0 million ordinary shares to Lloyds Bank plc for cash proceeds of £200.0 million.

A number of transactions were undertaken with Lloyds Banking Group companies to prepare the Group for its admission to the London Stock Exchange, to improve its medium term profitability and to formalise arrangements over the provision of IT and certain operational services which are explained under "Significant Developments" on pages 6 and 7.

UK Government

In January 2009, the UK Government through HM Treasury became a related party of LBG, the Group's ultimate parent company, following its subscription for ordinary shares issued under a placing and open offer. At 30 June 2014, HM Treasury held a 24.9 per cent (31 December 2013: 32.7 per cent) interest in LBG's ordinary share capital and consequently HM Treasury is a related party of the Group.

The Group regards the Bank of England and entities controlled by the UK Government, including The Royal Bank of Scotland Group plc, Northern Rock (Asset Management) plc and Bradford and Bingley plc, as related parties. There were no significant transactions between the Group and the UK Government or UK Government-controlled entities (including UK Government-controlled banks) in the six months to 30 June 2014 that were not made in the ordinary course of business or that were unusual in their nature or conditions. During the ordinary course of business, the Group may, from time to time, access market-wide facilities provided by central banks.

19. Consolidated cash flow statement

	6 months to 30 June 2014 £ million	6 months to 30 June 2013[(1)] £ million	6 months to 31 Dec 2013[(1)] £ million
Change in operating assets			
Change in loans and receivables:			
Change in loans and advances to banks	**3,916.1**	(9,764.1)	13,322.7
Change in loans and advances to customers	**917.7**	184.9	694.3
Change in derivative assets	**33.2**	-	-
Change in other operating assets	**(110.1)**	(47.4)	18.2
Change in operating assets	**4,756.9**	(9,626.6)	14,035.2
Change in operating liabilities			
Change in deposits from banks	**35.0**	(7,129.7)	(801.3)
Change in customer deposits	**616.6**	252.1	142.2
Change in derivative liabilities	**(11.2)**	-	-
Change in other operating liabilities	**55.9**	388.9	(343.1)
Change in operating liabilities	**696.3**	(6,488.7)	(1,002.2)
Non-cash and other items			
Depreciation and amortisation	**8.1**	5.7	8.1
Allowance for loans losses	**51.1**	24.1	56.2
Other non-cash items	**(78.2)**	90.3	29.1
Total non-cash and other items	**(19.0)**	120.1	93.4
Analysis of cash and cash equivalents as shown in the balance sheet			
Cash and balances with central banks	**3,041.2**	142.5	200.2
Less: mandatory reserve deposits	**(34.7)**	(8.7)	(25.8)
	3,006.5	133.8	174.4
Loans and advances to banks with maturity less than 3 months	**150.7**	-	-
Total cash and cash equivalents	**3,157.2**	133.8	174.4

(1) Restated– see note 20.

20. Restatement of prior period information

As explained in note 1, the comparative figures have been restated to reflect the insertion of the new parent company and to reflect a change to the Group's accounting policy for recognising the costs of the UK's Financial Services Compensation Levy. The following tables summarise the restatements.

Consolidated statement of comprehensive income – 6 months to 30 June 2013

	6 months to 30 June 2013 £ million	**Change to Accounting Policy £ million**	**Restated £ million**
Interest and similar income	208.4	-	208.4
Interest and similar expense	(79.6)	-	(79.6)
Net interest income	128.8	-	128.8
Fee and commission income	49.1	-	49.1
Fee and commission expense	(13.5)	-	(13.5)
Net fee and commission income	35.6	-	35.6
Other operating income	0.9	-	0.9
Other income	36.5	-	36.5
Total income	165.3	-	165.3
Operating expenses	(102.2)	(2.9)	(105.1)
Trading surplus	63.1	(2.9)	60.2
Impairment	(24.1)	-	(24.1)
Profit before taxation	39.0	(2.9)	36.1
Taxation	104.7	0.7	105.4
Profit for the period	143.7	(2.2)	141.5

Consolidated statement of comprehensive income – 6 months to 31 December 2013

	6 months to 31 Dec 2013 £ million	**Change to Accounting Policy £ million**	**Restated £ million**
Interest and similar income	488.6	-	488.6
Interest and similar expense	(153.6)	-	(153.6)
Net interest income	335.0	-	335.0
Fee and commission income	110.1	-	110.1
Fee and commission expense	(35.8)	-	(35.8)
Net fee and commission income	74.3	-	74.3
Other operating income	(33.3)	-	(33.3)
Other income	41.0	-	41.0
Total income	376.0	-	376.0
Operating expenses:			
Defined benefit pension scheme settlement gain	-	-	-
Other operating expenses	(284.3)	13.2	(271.1)
	(284.3)	13.2	(271.1)
Trading surplus	91.7	13.2	104.9
Impairment	(56.2)	-	(56.2)
Profit before taxation	35.5	13.2	48.7
Taxation	(2.1)	(3.1)	(5.2)
Profit for the period	33.4	10.1	43.5

20. Restatement of prior period information (continued)

Consolidated balance sheet at 31 December 2013 **Assets**	**At 31 Dec 2013 £ million**	**Change to Accounting Policy £ million**	**Insertion of New Parent £ million**	**Restated £ million**
Cash and balances at central banks	200.2	-	-	200.2
Items in course of collection from banks	116.2	-	-	116.2
Loans and receivables:				
Loans and advances to banks	4,124.7	-	-	4,124.7
Loans and advances to customers	20,099.1	-	-	20,099.1
	24,223.8	-	-	24,223.8
Derivative financial instruments	99.4	-	-	99.4
Property, plant and equipment	122.6	-	-	122.6
Deferred tax assets	138.0	-	-	138.0
Other assets	54.2	-	-	54.2
Total assets	24,954.4	-	-	24,954.4
Liabilities				
Deposits from banks	234.7	-	-	234.7
Customer deposits	23,100.4	-	-	23,100.4
Items in course of transmission to banks	63.6	-	-	63.6
Derivative financial instruments	85.6	-	-	85.6
Debt securities in issue	1.4	-	-	1.4
Other liabilities	109.2	(15.1)	-	94.1
Retirement benefit obligations	64.3	-	-	64.3
Current tax liabilities	-	3.6	-	3.6
Total liabilities	23,659.2	(11.5)	-	23,647.7
Equity				
Share capital	75.0	-	(74.9)	0.1
Capital reserve	410.0	-	-	410.0
Capital reorganisation reserve	-	-	74.9	74.9
Retained profits	810.2	11.5	-	821.7
Shareholders' equity	1,295.2	11.5	-	1,306.7
Total equity and liabilities	24,954.4	-	-	24,954.4

Consolidated balance sheet at 1 January 2013 **Assets**	**At 1 Jan 2013 £ million**	**Change to Accounting Policy £ million**	**Insertion of New Parent £ million**	**Restated £ million**
Cash and balances at central banks	50.6	-	-	50.6
Items in course of collection from banks	32.5	-	-	32.5
Loans and receivables:				
Loans and advances to banks	7,946.6	-	-	7,946.6
Loans and advances to customers	6,640.4	-	-	6,640.4
	14,587.0	-	-	14,587.0
Derivative financial instruments	-	-	-	-
Property, plant and equipment	58.6	-	-	58.6
Deferred tax assets	21.8	-	-	21.8
Other assets	25.1	-	-	25.1
Total assets	14,775.6	-	-	14,775.6

20. Restatement of prior period information (continued)

Consolidated balance sheet at 1 January 2013	At 1 Jan 2013 £ million	Change to Accounting Policy £ million	Insertion of New Parent £ million	Restated £ million
Liabilities				
Deposits from banks	8,191.4	-	-	8,191.4
Customer deposits	5,688.8	-	-	5,688.8
Items in course of transmission to banks	15.4	-	-	15.4
Derivative financial instruments	-	-	-	-
Debt securities in issue	1.4	-	-	1.4
Other liabilities	53.1	(4.8)	-	48.3
Retirement benefit obligations	63.3	-	-	63.3
Current tax liabilities	53.3	1.2	-	54.5
Total liabilities	14,066.7	(3.6)	-	14,063.1
Equity				
Share capital	75.0	-	(74.9)	0.1
Capital reserve	-	-	-	-
Capital reorganisation reserve	-	-	74.9	74.9
Retained profits	633.9	3.6	-	637.5
Shareholders' equity	708.9	3.6	-	712.5
Total equity and liabilities	14,775.6	-	-	14,775.6

21. Future accounting developments

The following pronouncements may impact the Group's financial statements but are not applicable for the six months ending 30 June 2014 and have not been applied in preparing these condensed consolidated interim financial statements. The full impact of these accounting changes is being assessed by the Group.

Pronouncement	Nature of Change	IASB effective date
IFRS 9: *Financial Instruments*[1]	Replaces IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 requires financial assets to be classified into three measurement categories: fair value; amortised cost; and fair value through other comprehensive income, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instruments and eliminates the available-for-sale financial asset and held-to-maturity investment categories in IAS 39. The requirements for derecognition are broadly unchanged from IAS 39. The standard also retains most of the IAS 39 requirements for financial liabilities except for those designated at fair value through profit or loss whereby that part of the fair value change attributable to an entity's own credit risk is recorded in other comprehensive income. Changes are also made to the impairment of financial assets measured at amortised cost, which will be based on expected rather than incurred credit losses. The hedge accounting requirements are more closely aligned with risk management practices and follow a more principle-based approach. The impact of IFRS 9 on the Group is still being assessed.	Annual periods beginning on or after 1 January 2018
IFRS 15 *Revenue from Contracts with Customers*[1]	Replaces IAS 18 *Revenue* and other existing revenue recognition interpretations and requires revenue to be recognised when goods or services are transferred to customers and at an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The standard does not apply to financial instruments or lease contracts. The impact of IFRS 15 is still being assessed.	Annual periods beginning on or after 1 January 2017

(1) As at 30 July 2014, this pronouncement is awaiting EU endorsement.

22. Ultimate parent undertaking

The Group's ultimate parent undertaking and controlling party is Lloyds Banking Group plc which is incorporated in Scotland. Lloyds Banking Group plc has published accounts for the year to 31 December 2013 and copies may be obtained from Investor Relations, Lloyds Banking Group, 25 Gresham Street, London, EC2V 7HN and are available for download from www.lloydsbankinggroup.com.

23. Other information

The financial information in these condensed consolidated interim financial statements does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2013 have been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified, did not include an emphasis of matter paragraph and did not include a statement under section 498 of the Companies Act 2006.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors listed below (being all the directors of TSB Banking Group plc) confirm that to the best of their knowledge these condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*, as adopted by the European Union and that the interim management report herein includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R, namely:

- an indication of important events that have occurred during the six months ended 30 June 2014 and their impact on the condensed consolidated interim financial statements and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related party transactions in the six months ended 30 June 2014 and any material changes in the related party transactions described in the last annual report of TSB Bank plc.

Signed on behalf of the board by

Paul Pester
Chief Executive Officer
30 July 2014

TSB Banking Group plc board of directors:

Executive directors:
Paul Pester (Chief Executive Officer)
Darren Pope (Chief Financial Officer)

Non-executive directors:
Will Samuel (Chairman) (appointed 13 February 2014)
Philip Augar (appointed 16 May 2014)
Norval Bryson
Dame Sandra Dawson (appointed 16 May 2014)
Mark Fisher (appointed 27 June 2014)
Sandy Kinney Pritchard (appointed 16 May 2014)
Godfrey Robson CB
Stuart Sinclair (appointed 16 May 2014)
Polly Williams (appointed 16 May 2014)

INDEPENDENT REVIEW REPORT TO TSB BANKING GROUP PLC

Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed the condensed consolidated interim financial statements, defined below, in the 2014 Half Year Results of TSB Banking Group plc for the six months ended 30 June 2014. Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

This conclusion is to be read in the context of what we say in the remainder of this report.

What we have reviewed

The condensed consolidated interim financial statements, which are prepared by TSB Banking Group plc comprise:

- the consolidated balance sheet as at 30 June 2014;
- the consolidated income statement for the period then ended;
- the consolidated statement of cash flows for the period then ended;
- the consolidated statement of changes in equity for the period then ended; and
- the notes to the condensed consolidated interim financial statements.

As disclosed in note 1, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The condensed consolidated interim financial statements included in the 2014 Half Year Results have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

What a review of condensed consolidated financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the 2014 Half Year Results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated interim financial statements.

Responsibilities for the condensed consolidated interim financial statements and the review

Our responsibilities and those of the directors

The 2014 Half Year Results, including the condensed consolidated interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the 2014 Half Year Results in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express to the Group a conclusion on the condensed consolidated interim financial statements in the 2014 Half Year Results based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure and Transparency Rules of the Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP
Chartered Accountants

30 July 2014
Edinburgh

Notes:

a) The maintenance and integrity of the TSB Banking Group plc website is the responsibility of the Group's directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

CONTACTS

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Copies of this news release may be obtained from Investor Relations, TSB Banking Group plc, 20 Gresham Street, London, EC2V 7JE. The full news release can also be found on the Group's website – www.tsb.co.uk.

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