

Three years in, and TSB continues to thrive

TSB continued to deliver on its mission to bring more competition to UK banking during Q3 2016, whilst also celebrating its third anniversary since relaunch. Highlights include:

- **Customers continue to choose TSB as a destination for their banking with 6.8% of all customers opening a bank account or switching banks in the year so far choosing TSB.**
- **Homeowners are increasingly choosing TSB for their mortgages, with franchise mortgage lending up 15.7% since December 2015 and record applications for remortgages received through the quarter.**
- **More customers than ever before are willing to recommend TSB to friends and family with TSB's Net Promoter Score (NPS) reaching +25.**

Today, TSB announces its financial results for the nine months to 30 September 2016. Highlights include:

- 6.8%¹ of all customers opening a new bank account or switching banks chose TSB in the year to date – exceeding our target of 6%.
- Customer deposits grew to £29.0 billion, up 11.9% from £25.9 billion at 31 December 2015, reflecting the trust that customers have in TSB.
- Total customer lending rose to £28.6 billion, up 8.5% from £26.4 billion at 31 December 2015, with TSB franchise customer lending up 14.0% at £24.1 billion.
- Customers more willing than ever to recommend TSB to friends and family, as evidenced by the increase in the bank's NPS to 25 points.
- TSB continues to offer customers more of the kind of banking they want and deserve with the launch of its innovative Pick and Protect insurance cover and highly competitive personal loan.
- Management profit before tax rose to £149.3 million in the nine months to 30 September 2016, an increase of 95.4% compared to £76.4 million reported for the same period in 2015 (Statutory profit up 229.1% to £161.6m).
- TSB's liquidity is robust while our capital position remains one of the strongest of the UK banks with a common equity tier one ratio of 17.0%.

Paul Pester, TSB Chief Executive Officer, commented: *“Three years ago we set out to bring a different sort of banking to the UK – the sort of banking we believe customers want and deserve. Three years in I'm delighted that customers continue to vote with their feet for TSB's “local banking” model and continue to choose TSB for their banking, savings and mortgages. I think this is a strong endorsement of TSB's approach where, for instance, we threw sales targets out of the window long ago, where we've introduced a partnership culture and where we reward our Partners with a flat award from branch to Boardroom.*

“Looking forward, these are, of course, uncertain times. And, whilst we saw customers pause for thought following the EU referendum, confidence quickly returned with customers continuing to choose TSB. This summer for instance, we saw a significant increase in the number of homeowners choosing TSB to remortgage their homes. In addition, TSB now offers customers its new and innovative ‘Pick and Protect’ home insurance, enabling customers to insure only what they want, when they want to insure it.

“Whilst we were really disappointed that the Competition and Markets Authority missed their golden opportunity to make the banking market work for all UK consumers, we won't rest in our mission to continue to bring more competition to UK banking and ultimately make banking better for all UK consumers. However, we can't do this alone. So, we will continue to work closely with the Government and regulators in an attempt to bring the full force of competition to bear on the UK banking market.”

Financial Results

	At 30 Sept 2016	At 31 Dec 2015	Change
Balance sheet and capital			
TSB franchise customer lending (£ million)	24,077.9	21,119.4	14.0%
Total customer lending (£ million)	28,629.8	26,398.1	8.5%
Total customer deposits (£ million)	28,955.9	25,874.2	11.9%
Group loan to deposit ratio	98.9%	102.0%	(3.1)pp
Common Equity Tier 1 capital ratio	17.0%	17.8%	(0.8)pp
Financial performance			
	9 months to 30 Sept 2016	9 months to 30 Sept 2015	Change
Franchise profit before tax (£ million)	62.3	27.3	128.2%
Mortgage Enhancement profit before tax (£ million)	36.1	49.1	(26.5)%
Acquired ex-Northern Rock Loans (£ million)	50.9	-	-
Management profit before tax ² (£ million)	149.3	76.4	95.4%
Statutory profit before tax (£ million)	161.6	49.1	229.1%
Group banking net interest margin ³	3.14%	3.57%	(43)bps
Franchise banking net interest margin ³	3.23%	3.66%	(43)bps
TSB asset quality ratio ⁴	0.30%	0.37%	7bps
Operating costs (management basis) (£ million)	518.0	535.1	3.2%

¹ Source: CACI Current and Savings Account Market Database (CSDB) which includes current, packaged, youth, student and basic bank accounts, and new account openings excluding account upgrades. Data presented on a two month lag.

² Management basis is the basis of reporting used by the Board to assess performance without the distortion of one-off and volatile items which are included on a statutory basis.

³ Management basis net interest income divided by average loans and advances to customers, gross of impairment allowance.

⁴ Impairment charge on loans and advances to customers divided by average loans and advances to customers, gross of impairment allowance.

Strategic update

TSB's three strategic pillars have remained the same since relaunching onto high streets across Britain in September 2013: to provide great banking to more people, to help more people to borrow well, and to provide the kind of banking people tell us they want and we believe they deserve.

1. Provide great banking to more people

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

- TSB continues to exceed its 6% share of flow target with 6.8% of all customers switching banks or opening a new account choosing TSB during the year to date.
- Customer deposits grew to £29.0 billion (an 11.9% increase on December 2015) reflecting customers' continued trust in TSB.

2. Help more people borrow well

Grow TSB franchise customer lending by 40% to 50% over a five-year period from IPO.

- Balance sheet growth remains strong, with lending growing to £28.6 billion – up 8.5% on December 2015.
- TSB continues to grow its mortgage offering with lending in the period driven by the success of TSB's mortgage broker service.
- Remortgage applications were up 18% in the three months to September 2016, and we received our highest ever number of remortgage applications during the month of August alone.

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

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

- Customers are more willing than ever before to recommend TSB to friends and family as the Bank's Net Promoter Score increased to 25 points over the quarter.
- TSB climbs 84 places in KPMG Nunwood's 2016 UK Customer Experience Excellence ranking – becoming the highest ranked high street bank in the UK.

Outlook

TSB continues to perform strongly and remains one of the best capitalised banks in the UK, and is well positioned to tackle current market conditions. Whilst we expect to continue to grow in a responsible and sustainable way, prevailing low interest rates and the contractual increase of more than £100 million in outsourcing fees we pay Lloyds Banking Group, due to take effect next year, will have a bearing on our financial performance going forward. As expected, we should also see a reduction in income received from the Mortgage Enhancement portfolio, inherited as part of the separation from Lloyds, as customers continue to repay their mortgages. We expect the portfolio to roll off during 2018.

Looking forward, TSB's ability to bring better banking to UK consumers will be accelerated by its new IT platform, currently being built with the help of Sabadell. The new platform, when fully deployed in late 2017/ early 2018, will reduce TSB's IT costs considerably and enable it to become more innovative and nimble than before. Customers will begin to experience the new platform from early 2017, with the launch of our new mobile banking app.

In the meantime, we are continuing to invest in both our digital offering and branch network, to make sure customers experience excellent levels of service however they choose to bank with us. We are looking forward to the launch of our first new, purpose-built, flagship branches in Birmingham and Aberdeen later this year.

We remain confident that we have the strategy in place to remain an attractive long-term home for customers – and one that is distinct from other banks on the high street.

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Notes to editors

In addition to Pick and Protect, TSB also offers Defaqto 5 Star Rated TSB Home Solutions which is available in branch.

TSB was built to bring more competition to British banking - to be a real challenger to the big banks and to deliver the kind of banking the people of Britain want. TSB only serves local customers and local businesses, to help fuel local economies, because communities thriving across Britain is a good thing for all of us.

We have a simple, straightforward and transparent banking model and make clear on our website how we operate and make money. We offer the products and services people tell us they want, with none of the funny stuff people normally associate with traditional banks.

Our 4.8 million customers, award winning mobile and digital banking, nationwide network of branches and 8,500 Partners mean we are big enough to make a difference, but small enough to be an agile challenger to the entire market.

For further information about TSB Bank plc, please visit our website www.tsb.co.uk.