TSB Banking Group plc
Results for the 6 months to 30 June 2015

Strategic delivery

- TSB delivered positive net Franchise lending in the first half of 2015. The TSB mortgage broker service, launched in January 2015, has received £1.9 billion of gross mortgage applications to the end of the first half of 2015, with gross lending through this channel totalling £665 million.
- TSB delivered 6.7% share of all new and switching bank accounts in the last quarter(3) which marks the 6th consecutive quarter where TSB has delivered above its target of 6% share.
- The Bank NPS declined marginally by 1 point in Q2 2015 reflecting initial takeover uncertainty before returning to its recent positive trajectory.
- TSB continued to invest in its digital and branch propositions including the launch of TSB's new mobile banking app and extended Saturday opening hours.
- In July 2015, Moody's announced investment grade long-term debt ratings for TSB Bank plc (Baa2, positive outlook) and TSB Banking Group plc (Baa3), representing an independent assessment of TSB's strategic progress and robust balance sheet.

Financial Results

	6 months to 30 June 2015 £ million	6 months to 31 Dec 2014 £ million	Change %
Franchise profit before tax	**10.3**	15.0	(31.3)
Mortgage Enhancement profit before tax	**33.7**	40.1	(16.0)
Management profit before tax	**44.0**	55.1	(20.1)
Statutory profit before tax	**23.2**	41.7	(44.4)
Franchise banking net interest margin(1)	**3.69%**	3.63%	6bps
TSB asset quality ratio(2)	**0.37%**	0.42%	5bps
Franchise customer lending	**19,105.6**	18,839.3	1.4%
Franchise loan to deposit ratio	**76.6%**	76.5%	0.1pp
Common Equity Tier 1 capital ratio	**19.5%**	23.0%	(3.5)pp

- In line with our previous guidance, management profit before tax decreased compared to H2 2014 primarily due to lower average loan balances and the recognition of the full year Financial Services Compensation Scheme levy charge of £14.8 million in H1 2015. Statutory profit before tax was further reduced by Sabadell transaction related costs.

Acquisition by Banco de Sabadell (Sabadell) and Board changes

- The offer to acquire the entire business of TSB by Sabadell for 340p per share in cash, which was previously recommended by the Board to TSB's shareholders, completed on 30 June 2015. On 30 June 2015, Sabadell submitted an application to delist TSB's shares from the Official List of the London Stock Exchange. This is expected to be effective from 28 July 2015. On 9 July 2015, Sabadell issued notices to various TSB shareholders that have not yet accepted the offer to compulsorily acquire the remaining TSB shares that it does not already own.
- On 30 June 2015, Miguel Montes and Tomás Varela were appointed to the Board as Non-executive Directors. Mr Montes is General Manager and Chief Operations and Corporate Development Officer of Sabadell. Mr Varela is General Manager and Chief Financial Officer of Sabadell. On the same date, Philip Augar, Norval Bryson and Mark Fisher resigned from the Board.

"TSB continues to go from strength to strength. Customers are really starting to see TSB as a destination for their mortgages, making us one of the fastest growing mortgage providers in the UK. On top of this, customers continue to vote with their feet and, for the sixth successive quarter, we exceeded our target of winning more than 6% of all customers opening or switching bank accounts in the UK.

The completion of the Sabadell Group's acquisition of TSB at a premium of over 30% to our IPO share price is recognition of the excellent progress and great potential of the Bank. We remain unwavering in our mission of bringing more competition to UK banking and, with the extra firepower of Sabadell behind us, we look forward to accelerating our growth plans and continuing to take on the big banks that have had a stranglehold on the UK market for far too long."

Paul Pester
Chief Executive Officer

(1) - (3) See explanatory notes on page 3.

Contents

Basis of presentation

This interim results announcement presents the consolidated results of TSB Banking Group plc and its subsidiaries (TSB) for the six months to 30 June 2015.

Management basis

In order to present a more useful view of business performance, TSB's results are presented on a management basis which for the six months to 30 June 2015 excludes:

- Volatility arising from derivatives, hedge accounting and share scheme liabilities;
- Costs arising from the Sabadell offer to acquire the shares of TSB, and
- A tax related payment arising in respect of the transfer of the Mortgage Enhancement portfolio to TSB.

Reporting segments

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

- Franchise, TSB's multi-channel retail banking business; and
- Mortgage Enhancement, a mortgage loan portfolio that was assigned to TSB by Lloyds Banking Group (LBG) 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. This is designed to enhance TSB's profitability by over £230 million.

Forward looking statements

This announcement contains forward looking statements with respect to the business, strategy and plans of the TSB Banking Group and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about TSB or TSB'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. TSB'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, the acquisition of TSB Banking Group by Sabadell; UK domestic and global economic and business conditions; the ability to access sufficient funding to meet TSB'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 in relation to 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 TSB 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 TSB undertakes no obligation to update any of its forward looking statements.

Copies of this Interim Results Announcement can be found on TSB's website – www.tsb.co.uk.

Registered office: TSB Banking Group plc, 20 Gresham Street, London, EC2V 7JE. Registered in England and Wales No. 8871766.

Summary results

Summary balance sheet

	At 30 June 2015 £ million	At 31 Dec 2014 £ million	Change %
Loans and advances to customers – Franchise	**19,105.6**	18,839.3	1.4
Loans and advances to customers – Mortgage Enhancement	**2,554.2**	2,802.1	(8.8)
Other assets	**6,395.7**	5,530.0	15.7
Total assets	**28,055.5**	27,171.4	3.3
Customer deposits	**24,937.5**	24,624.9	1.3
Other liabilities	**1,465.1**	912.1	60.6
Shareholders' equity	**1,652.9**	1,634.4	1.1
Total equity and liabilities	**28,055.5**	27,171.4	3.3
Franchise loan to deposit ratio	**76.6%**	76.5%	0.1pp
Net asset book value per share	**331p**	327p	4p
Common Equity Tier 1 Capital ratio	**19.5%**	23.0%	(3.5)pp
Risk-weighted assets	**£8,024.5m**	£6,930.2m	15.8%
Leverage ratio	**5.3%**	5.8%	(0.5)pp

Summary income statement

	6 months to 30 June 2015 £ million	6 months to 31 Dec 2014 £ million	Change %	6 months to 30 June 2014 £ million
Net interest income	**385.2**	396.5	(2.8)	390.6
Other income	**60.8**	67.7	(10.2)	72.6
Total income	**446.0**	464.2	(3.9)	463.2
Operating expenses	**(362.5)**	(362.6)	-	(333.5)
Impairment	**(39.5)**	(46.5)	15.1	(51.1)
Profit before taxation (management basis) (page 18)	**44.0**	55.1	(20.1)	78.6
Volatility from derivatives, hedge accounting and share scheme liabilities	**4.6**	(3.3)		0.2
Derivative fair value unwind	**(4.6)**	(10.1)		(14.0)
Sabadell transaction related costs	**(14.0)**	–		–
Mortgage Enhancement tax related payment (page 18)	**(6.8)**	–		–
Defined benefit pension scheme settlement gain	–	–		63.7
Statutory profit before taxation	**23.2**	41.7	(44.4)	128.5
Taxation	**(3.5)**	(9.0)	61.1	(26.7)
Statutory profit for the period	**19.7**	32.7	(39.8)	101.8
TSB banking net interest margin[(1)]	**3.60%**	3.55%	5bps	3.58%
Franchise banking net interest margin [(1)]	**3.69%**	3.63%	6bps	3.62%
Management basis cost:income ratio	**81.3%**	78.1%	(3.2)pp	72.0%
Asset quality ratio (AQR)[(2)]	**0.37%**	0.42%	5bps	0.47%

Other key performance indicators

	Quarter to 30 June 2015	Quarter to 31 March 2015	Change
Mortgage gross new lending (£ million)	**1,006.0**	479.0	110.0%
Share of new personal bank account openings[(3)]	**6.7%**	7.9%	(1.2)pp
Customer advocacy – net promoter score (NPS)[(4)]	**13**	14	(1)

(1) Management net interest income divided by average loans and advances to customers, gross of impairment provisions.

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

(3) 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 each quarter.

(4) 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.

Strategic update

TSB has continued to deliver financial results in line with our expectations while our balance sheet reflects a Bank that is well prepared for, and has begun to deliver, lending growth. We have also seen the completion of Sabadell's acquisition of TSB at a 30.8% premium to our IPO share price, further recognition of the excellent progress and great potential of our Bank.

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.

- In the most recent quarter, and in an increasingly competitive environment, TSB delivered a 6.7% share of flow of all new and switching bank accounts, the 6th consecutive quarter where we exceeded our 6% target.

2. Help more people borrow well

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

- As expected, and driven by the launch of the new intermediary channel in January 2015, Franchise lending balances grew by £266.3 million in the first half.
- This strong early progress has seen £1,853 million of mortgage loans applications received by the intermediary channel in the first half. TSB was named mortgage lender of the quarter by Mortgage Strategy Magazine in both the first and second quarters of 2015. We launched a range of products through this channel to include house purchase, remortgaging and buy-to-let mortgages, all provided through 7,114 brokers.
- During the first half of 2015 we continued to launch innovative products that meet the needs of our customers. 'Fix and Flex' allows customers to fix their interest rate for 10 years with added flexibility to switch to a new product after five years. This product won the 'Innovation in Personal Finance' award at the Moneyfacts 2015. We also launched 'Breathing Space', which allows customers to make lower payments in the first year of their mortgage.
- Unsecured lending remained relatively flat in a congested and competitive environment in a period which saw TSB introduce a highly competitive 3.9% rate on personal loans.

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.

- We have continued to invest in our digital proposition through the first half of 2015, launching our new mobile banking app which makes it simpler for our customers to bank with us wherever they may be.
- We extended the opening hours for almost 600 of our branches in the first half of 2015 including extending Saturday opening hours in over 150 locations. We also reviewed 15 locations across the UK where we have two or more branches within approximately 500 metres of each other and made arrangements to absorb 17 lesser used branches into the 15 more convenient branches.
- We are currently rolling out training to all 6,400 customer-facing TSB Partners to further improve their skills and techniques to deliver an even more exceptional customer experience. Separately, we have removed sales targets from TSB's branches, releasing our branch-based Partners to focus solely on meeting the needs of our customers, and providing them with an even greater banking experience.
- Evidence of our progress is reflected in our Bank net promoter score, which improved for five consecutive quarters to Q1 2015. While Q2 2015 saw a 1 point reduction, this reflected an initial decline after the announced offer for TSB, partially offset by an increase from June.

Business review

Review of the balance sheet

Customer loans and advances

Loans and advances remained broadly stable, increasing by £18.4 million in the first half of 2015 to £21,659.8 million. This reflects an increase in Franchise loans balances, which increased by 1.4%, or £266.3 million, partially offset by the ongoing, and expected, repayment of the Mortgage Enhancement portfolio. Franchise loans balances decreased by £130.7 million in Q1; however this was more than offset by a £397.0 million increase during Q2. This reflected the success of the new intermediary channel since its launch in January 2015 enabling TSB to deliver positive quarterly lending growth for the first time since its launch on the high street in September 2013.

Impairment on loans and advances

Impaired loans as a % of loans and advances to customers decreased to 0.8% (31 December 2014: 0.9%). The absolute value of impaired loans decreased by 12.3% driven by continued favourable economic conditions and improvements in a small number of high value mortgage cases. Provisions as a percentage of impaired loans remained at 42.0%.

Funding and liquidity

TSB continued to attract new customers and retain existing deposit balances which led to an increase in deposit balances of 1.3%, or £312.6 million, during the first half to £24,937.5 million. The Franchise loan to deposit ratio at 30 June 2015 was 76.6% (31 December 2014: 76.5%). Subsequent to the half year, Moody’s announced investment grade long term debt ratings for TSB, further recognition of TSB’s financial strength.

Capital management

The capital position of TSB remains strong with a Common Equity Tier 1 (CET1) Capital ratio of 19.5% (December 2014: 23.0%) and a leverage ratio of 5.3% (31 December 2014: 5.8%) providing the support to deliver our lending growth targets. The decrease in CET1 was wholly expected as a consequence of the migration of the overdraft and card portfolios to an internal ratings based method. The reduction in the leverage ratio was due to the expected growth in exposures which includes the increase in the mortgage pipeline exposures.

Review of financial performance

Profit before tax on a management basis for the six months to 30 June 2015 decreased by 20.1% to £44.0 million compared to H2 2014. This decrease was expected and primarily reflected lower income, partially offset by a continuing improvement in impairment losses.

Income decreased by 3.9%, or £18.2 million, to £446.0 million compared to H2 2014 with reductions in both net interest income and other income. Net interest income of £385.2 million fell by 2.8% primarily due to lower average lending balances. Consistent with earlier guidance, the Franchise banking net interest margin increased by 6bps, primarily due to lower deposit funding costs. Other income decreased by 10.2% to £60.8 million, reflecting the previously guided effect of market reforms to interchange fee income and lower income from Added Value current accounts which remain available only through the digital channel.

Operating expenses remained stable at £362.5 million compared to H2 2014. Excluding the £14.8 million full year FSCS levy charge recognised in Q2 2015, operating expenses decreased by 4.1% compared to H2 2014. This decrease was mainly due to the high level of marketing and investment spend in Q4 2014 together with the ongoing focus on managing costs in the current low interest rate environment.

The impairment charge decreased by 15.1% compared to H2 2014, reflecting the benefit from a provision release in the first quarter, a higher provision charge in the second half of last year from an extension to the loss emergence period and the continued effect of the favourable UK economic environment.

The taxation charge in H1 2015 of £3.5 million represented an effective tax rate of 15.1% (H2 2014: 21.6%, H1 2014: 20.8%). This is lower than the average UK corporation tax rate of 20.25% primarily due to the recognition of a deferred tax credit of £6.8 million relating to temporary differences arising from the transfer of the Mortgage Enhancement portfolio (see page 18) partially offset by certain non deductible costs.

Summary and outlook

TSB’s performance in the first half of the year is consistent with previously guided expectations. We continue to expect that the effects of sustained low interest rates, high levels of competition and mortgage growth will offset the margin expansion experienced in the first half and result in the Franchise margin being broadly flat in 2015 compared to 2014. The 2015 exit rate for margin is expected to be notably lower than the average for the year.

We continue to expect other income to come under modest pressure given the early implementation of reduced interchange fees and lower Added Value fees contributing to a circa £15 million reduction in Franchise other income in 2015 compared to 2014. During 2015, cost management will partially mitigate the effects of these headwinds. We continue to target expenditure of no more than £720 million in 2015 whilst continuing to deliver our growth strategy including increasing Franchise lending from 2014 levels by over £1.5 billion in 2015, and consistently taking more than a 6% share of all new and switching bank accounts each quarter.

Summary of principal risks and uncertainties

TSB monitors a number of risks to its business and takes action to mitigate their impact on TSB's strategic and financial performance. The principal risks and uncertainties faced by TSB are consistent with those detailed in the Risk report on pages 85-98 of TSB's 2014 Annual Report and Accounts and are summarised in the table below.

In addition to those risks and uncertainties, TSB faces headwinds in the form of increased competition among lenders and the increased expectation of a longer low base rate environment which pose challenges to TSB's profit growth. Further challenges faced by TSB include the potential uncertainty arising from political and regulatory uncertainties, both in the UK and globally.

	Principal risk	Mitigating actions
Conduct risk	The risk that TSB fails to deliver fair customer outcomes and achieve a positive experience for its customers.	• Ensuring customers' best interests are at the heart of everything TSB does. • Enhancing how customer propositions are reviewed and assessed. • Refining how customer outcomes are understood. • Developing clear customer accountabilities for Partners including rewards with customer-centric metrics. • Identifying and understanding the root cause of where TSB falls short and putting it right.
Funding and liquidity risk	Funding risk is the risk that TSB does not have sufficiently stable and diverse sources of funding or its funding structure is not efficient. Liquidity risk is the risk that TSB has insufficient financial resources to meet commitments as they fall due, or can only secure them at an excessive cost.	• Maintaining a prudent liquid asset buffer of high quality unencumbered assets in excess of regulatory requirements. • Demonstrating an ability to meet prudent funding and liquidity risk appetite metrics throughout TSB's planning horizon. • Stress testing of TSB's funding plan and liquidity positions, conducted against a range of scenarios, to meet all UK liquidity regulatory requirements. • Maintaining a contingency funding plan to address possible liquidity shortfalls in emergency situations.
Credit risk	The risk that borrowers with TSB fail to repay their loans or any other lending product on time.	• TSB's credit policy incorporates lending criteria aligned with Board approved risk appetite. • Clearly defined levels of authority to ensure TSB lends appropriately and responsibly with a separation of origination and sanctioning activities. • Robust credit processes and controls, including well-established committees and independent credit risk assurance, to ensure distressed and impaired loans are identified, considered and controlled.
Capital risk	The risk of TSB having insufficient capital, by quantity or quality, to meet current or future requirements.	• Monitoring of capital ratios to ensure they meet current and future regulatory capital requirements and Board approved risk appetite. • Stress tests undertaken as part of the business planning cycle with the aim of ensuring TSB is able to operate within its risk appetite, throughout the period of the plan.
Market risk	The risk of a reduction in earnings, value or reserves caused by changes in the prices of financial instruments.	• Board approved risk appetite and governance framework. • Regular reporting of market risk exposure to TSB's Asset and Liabilities Committee and Risk Committee.
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including fraud and financial crime.	• TSB employs a framework for managing its operational risk which includes preventative, detective and mitigating controls. • Under a detailed arm's length Transitional Services Agreement, LBG continues to supply information technology and associated banking services to TSB and its customers.

Condensed consolidated interim financial statements (unaudited)

Consolidated balance sheet

	At 30 June 2015 £ million	At 31 December 2014 £ million
Assets		
Cash and balances at central banks	**3,856.8**	4,396.3
Loans and receivables:		
Loans and advances to customers	**21,659.8**	21,641.4
Loans and advances to banks	**666.4**	134.5
Available-for-sale financial assets	**1,008.8**	339.7
Items in course of collection from banks	**221.8**	135.7
Deferred tax assets	**105.9**	108.1
Property, plant and equipment	**150.6**	149.2
Other assets	**303.4**	143.4
Derivative financial assets	**82.0**	123.1
Total assets	**28,055.5**	27,171.4
Liabilities		
Customer deposits	**24,937.5**	24,624.9
Deposits from banks	**0.1**	32.5
Debt securities in issue	**10.0**	10.0
Subordinated liabilities	**399.2**	405.5
Items in course of transmission to banks	**200.4**	144.6
Other liabilities	**632.0**	202.8
Derivative financial liabilities	**223.4**	116.7
Total liabilities	**26,402.6**	25,537.0
Equity		
Share capital	**5.0**	5.0
Share premium	**965.1**	965.1
Merger reserve	**616.5**	616.5
Available-for-sale reserve	**0.7**	0.4
Cash flow hedging reserve	**(1.0)**	–
Capital reorganisation reserve	**(1,311.6)**	(1,311.6)
Capital reserve	**410.0**	410.0
Retained profits	**968.2**	949.0
Shareholders' equity	**1,652.9**	1,634.4
Total equity and liabilities	**28,055.5**	27,171.4

The notes on pages 11-14 are an integral part of the condensed consolidated interim financial statements.

Condensed consolidated interim financial statements (unaudited)

Consolidated statement of comprehensive income

	6 months to 30 June 2015 £ million	6 months to 30 June 2014 £ million	6 months to 31 Dec 2014 £ million
Income statement:			
Interest and similar income	**474.5**	485.0	494.1
Interest and similar expense	**(97.8)**	(110.4)	(110.5)
Net interest income	**376.7**	374.6	383.6
Fee and commission income	**96.9**	104.2	104.4
Fee and commission expense	**(36.7)**	(33.0)	(37.4)
Net fee and commission income	**60.2**	71.2	67.0
Other operating income	**8.9**	3.6	0.2
Other income	**69.1**	74.8	67.2
Total income	**445.8**	449.4	450.8
Operating expenses:			
Operating expenses	**(383.1)**	(333.5)	(362.6)
Defined benefit pension scheme settlement gain	**–**	63.7	–
Total operating expenses	**(383.1)**	(269.8)	(362.6)
Operating profit before impairment losses and taxation	**62.7**	179.6	88.2
Impairment losses on loans and advances to customers	**(39.5)**	(51.1)	(46.5)
Profit before taxation	**23.2**	128.5	41.7
Taxation	**(3.5)**	(26.7)	(9.0)
Profit for the period	**19.7**	101.8	32.7
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss:			
Movements in revaluation reserve in respect of available-for-sale financial assets	**0.3**	–	0.5
Cash flow hedges	**(1.2)**	–	–
Taxation	**0.2**	–	(0.1)
Other comprehensive (expense)/income for the period, net of taxation	**(0.7)**	–	0.4
Total comprehensive income for the period	**19.0**	101.8	33.1
Basic earnings per share	**4.0p**	63.3p	6.6p
Diluted earnings per share	**4.0p**	63.3p	6.5p

The notes on pages 11-14 are an integral part of the condensed consolidated interim financial statements.

Condensed consolidated interim financial statements (unaudited)

Consolidated statement of changes in equity

	Share capital £ million	Share premium £ million	Merger reserve £ million	Capital reorg-anisation reserve £ million	Capital reserve £ million	Other reserves £ million	Retained profits £ million	Total £ million
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 2014	–	–	–	–	–	–	101.8	101.8
Transactions with owners:								
Insertion of new parent	0.5	769.5	616.5	(1,386.5)	–	–	–	–
Issue of new shares	4.4	195.6	–	–	–	–	–	200.0
Movement in shares held by trusts	–	–	–	–	–	–	(0.9)	(0.9)
Total transactions with owners	4.9	965.1	616.5	(1,386.5)	–	–	(0.9)	199.1
Balance at 30 June 2014	**5.0**	**965.1**	**616.5**	**(1,311.6)**	**410.0**	**–**	**922.6**	**1,607.6**
Comprehensive income:								
Profit for the 6 months to 31 December 2014	–	–	–	–	–	–	32.7	32.7
Other comprehensive income	–	–	–	–	–	0.4	–	0.4
Total comprehensive income	–	–	–	–	–	0.4	32.7	33.1
Transactions with owners:								
Movement in shares held by trusts	–	–	–	–	–	–	(8.2)	(8.2)
Value of Partner services	–	–	–	–	–	–	1.9	1.9
Total transactions with owners	–	–	–	–	–	–	(6.3)	(6.3)
Balance at 31 December 2014	**5.0**	**965.1**	**616.5**	**(1,311.6)**	**410.0**	**0.4**	**949.0**	**1,634.4**
Comprehensive income:								
Profit for the 6 months to 30 June 2015	**–**	**–**	**–**	**–**	**–**	**–**	**19.7**	**19.7**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**(0.7)**	**–**	**(0.7)**
Total comprehensive income	**–**	**–**	**–**	**–**	**–**	**(0.7)**	**19.7**	**19.0**
Transactions with owners:								
Movement in shares held by trusts	**–**	**–**	**–**	**–**	**–**	**–**	**(1.3)**	**(1.3)**
Value of Partner services	**–**	**–**	**–**	**–**	**–**	**–**	**3.9**	**3.9**
Reclassification of equity settled share schemes to cash settled	**–**	**–**	**–**	**–**	**–**	**–**	**(3.1)**	**(3.1)**
Total transactions with owners	**–**	**–**	**–**	**–**	**–**	**–**	**(0.5)**	**(0.5)**
Balance at 30 June 2015	**5.0**	**965.1**	**616.5**	**(1,311.6)**	**410.0**	**(0.3)**	**968.2**	**1,652.9**

The notes on pages 11-14 are an integral part of the condensed consolidated interim financial statements.

Condensed consolidated interim financial statements (unaudited)

Consolidated cash flow statement

	6 months to 30 June 2015 £ million	6 months to 30 June 2014 £ million	6 months to 31 Dec 2014 £ million
Profit before taxation	**23.2**	128.5	41.7
Adjustments for:			
Change in operating assets	**(342.3)**	4,756.9	940.7
Change in operating liabilities	**552.2**	696.3	872.2
Non-cash and other items	**81.3**	(19.0)	60.1
Taxation paid	**(7.0)**	0.4	(4.1)
Net cash provided by operating activities	**307.4**	5,563.1	1,910.6
Cash flows from investing activities			
Purchase of property, plant and equipment	**(17.3)**	(53.1)	(32.7)
Purchase of financial assets	**(689.5)**	(3,359.4)	(322.7)
Purchase of shares held by trusts	**(1.3)**	–	(9.1)
Net cash used in investing activities	**(708.1)**	(3,412.5)	(364.5)
Cash flows from financing activities			
Proceeds from debt securities issued	**–**	250.0	(240.0)
Interest paid on debt securities	**(0.1)**	–	(0.6)
Repurchase of debt securities	**–**	(0.8)	–
Proceeds from subordinated liabilities issued	**–**	383.0	–
Interest paid on subordinated liabilities	**(11.1)**	–	(11.4)
Proceeds from shares issued	**–**	200.0	–
Proceeds from repurchase agreements	**330.0**	–	32.5
Net cash provided by/(used in) financing activities	**318.8**	832.2	(219.5)
Change in cash and cash equivalents	**(81.9)**	2,982.8	1,326.6
Cash and cash equivalents at beginning of period	**4,483.8**	174.4	3,157.2
Cash and cash equivalents at end of period	**4,401.9**	3,157.2	4,483.8

The notes on pages 11-14 are an integral part of the condensed consolidated interim financial statements.

Notes to the condensed consolidated interim financial statements (unaudited)

1. Accounting policies, presentation and estimates

These condensed consolidated interim financial statements for the six months ended 30 June 2015 of TSB Banking Group plc (TSB) have been prepared in accordance with the Disclosure Rules and Transparency Rules of the Financial Conduct Authority 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 and should be read in conjunction with TSB's consolidated financial statements for the year ended 31 December 2014 which were prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

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 TSB's capital and funding position.

The accounting policies applied in the preparation of the condensed consolidated interim financial statements are consistent with those applied by TSB in its 2014 Annual Report and Accounts. From 1 January 2015, TSB designated, for the first time, certain derivative financial instruments as cash flow hedges under IAS 39 *Financial Instruments: Recognition and Measurement.* The effect during the six months to 30 June 2015 was the recognition of £1.0 million, after tax of net losses on the relevant designated interest rate swaps in the cash flow hedge reserve in shareholders' equity.

The preparation of 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 2014.

2. Segmental analysis

TSB's segmental results are presented in a manner which is consistent with internal reporting provided to the Executive Committee which is considered to be TSB's chief operating decision maker. The segmental results are presented on a management basis, which excludes certain volatile and non-recurring items and is the basis used to prepare financial information reviewed by the Executive Committee. TSB's reportable segments have been identified as 'Franchise' and 'Mortgage Enhancement' reflecting its organisational and management structures. The Franchise segment comprises the retail banking business which offers a broad range of retail financial services including current accounts, savings products, personal loans, credit cards and mortgages. The Mortgage Enhancement segment comprises a separate portfolio of mortgage assets which was assigned to TSB by Lloyds Banking Group with effect from 28 February 2014.

6 months to 30 June 2015	Franchise £ million	Mortgage Enhancement £ million	Total £ million
Net interest income	346.2	39.0	385.2
Other income/(expenses)	66.1	(5.3)	60.8
Total income	412.3	33.7	446.0
Operating expenses	(362.5)	–	(362.5)
Impairment	(39.5)	–	(39.5)
Profit before taxation (management basis)	10.3	33.7	44.0
Volatility on derivatives, hedge accounting and share scheme liabilities			4.6
Derivative fair value unwind			(4.6)
Mortgage Enhancement tax related payment			(6.8)
Sabadell transaction related costs			(14.0)
Statutory profit before taxation			23.2

At 30 June 2015			
Segment loans and advances to customers	19,105.6	2,554.2	21,659.8
Segment customer deposits	24,937.5	–	24,937.5

Notes to the condensed consolidated interim financial statements (unaudited)

2. Segmental analysis (continued)

6 months to 31 December 2014	Franchise £ million	Mortgage Enhancement £ million	Total £ million
Net interest income	350.8	45.7	396.5
Other income/(expenses)	73.3	(5.6)	67.7
Total income	424.1	40.1	464.2
Operating expenses	(362.6)	–	(362.6)
Impairment	(46.5)	–	(46.5)
Profit before taxation (management basis)	15.0	40.1	55.1
Volatility on derivatives and hedge accounting			(3.3)
Derivative fair value unwind			(10.1)
Statutory profit before taxation			41.7
At 31 December 2014			
Segment loans and advances to customers	18,839.3	2,802.1	21,641.4
Segment customer deposits	24,624.9	–	24,624.9

6 months to 30 June 2014	Franchise £ million	Mortgage Enhancement £ million	Total £ million
Net interest income	356.5	34.1	390.6
Other income/(expenses)	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
Volatility 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
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

Notes to the condensed consolidated interim financial statements (unaudited)

3. Fair values of financial assets and liabilities

The analysis below summarises the carrying values of financial assets and liabilities presented on TSB'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 2015		31 December 2014	
	Carrying value £ million	Fair value £ million	Carrying value £ million	Fair value £ million
Financial assets				
Loans and advances to customers	**21,659.8**	**21,627.2**	21,641.4	21,451.6
Available-for-sale financial assets	**1,008.8**	**1,008.8**	339.7	339.7
Derivative financial assets	**82.0**	**82.0**	123.1	123.1
Financial liabilities				
Customer deposits	**24,937.5**	**24,955.1**	24,624.9	24,679.7
Debt securities in issue	**10.0**	**10.0**	10.0	10.0
Subordinated liabilities	**399.2**	**400.6**	405.5	404.9
Derivative financial liabilities	**223.4**	**223.4**	116.7	116.7

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. The carrying amount of repurchase agreements included in other liabilities, (£362.5 million at 30 June 2015) is a reasonable approximation of fair value.

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. Where quoted market prices are not available for certain of TSB'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 TSB.

Financial instruments carried at fair value

Derivative financial instruments and available-for-sale financial assets are carried at fair value. These instruments have been classified into three levels according to the quality and reliability of information used to determine the fair values.

30 June 2015	Level 1 £ million	Level 2 £ million	Level 3 £ million	Total £ million
Financial assets				
Available-for-sale financial assets	**1,008.8**	**–**	**–**	**1,008.8**
Derivative financial assets	**–**	**82.0**	**–**	**82.0**
Financial liabilities				
Derivative financial liabilities	**–**	**223.4**	**–**	**223.4**
31 December 2014				
Financial assets				
Available-for-sale financial assets	339.7	–	–	339.7
Derivative financial assets	–	123.1	–	123.1
Financial liabilities				
Derivative financial liabilities	–	116.7	–	116.7

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

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. TSB'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.

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.

Notes to the condensed consolidated interim financial statements (unaudited)

4. Related party transactions

Sabadell

On 30 June 2015, it was announced that the Prudential Regulatory Authority had approved Sabadell's application to acquire control of the Company in connection with its recommended takeover of the Company. Accordingly, from this date, Sabadell became the ultimate parent undertaking and controlling shareholder of TSB.

Lloyds Banking Group (LBG)

In respect of transactions with LBG companies during the period, TSB recognised net interest income of £0.3 million (H1 2014: £0.6 million), net fee and commission income of £5.7 million (H1 2014: £9.6 million), and incurred expenses of £43.1 million under the TSA (H1 2014: £53.1 million) and interest expense on subordinated liabilities of £11.2 million (H1 2014: £nil).

UK Government

There were no significant transactions with UK Government-controlled entities (including UK Government controlled banks) during the period that were not made in the ordinary course of business or that were unusual in their nature or conditions.

5. 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 2014 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 2015 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 2015 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
22 July 2015

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)
Dame Sandra Dawson
Sandy Kinney Pritchard
Stuart Sinclair
Polly Williams
Miguel Montes (appointed 30 June 2015)
Tomás Varela (appointed 30 June 2015)

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 Interim Results 2015 of TSB Banking Group plc for the six months ended 30 June 2015. 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 2015;
- the consolidated statement of comprehensive income for the period then ended;
- the consolidated statement of changes in equity for the period then ended
- the consolidated cash flow statement for the period then ended; and
- the notes to the condensed consolidated interim financial statements.

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 Interim Results 2015 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 Interim Reults 2015 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 Interim Results 2015, 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 Interim Results 2015 in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Independent review report to TSB Banking Group plc (continued)

Our responsibility is to express to TSB Banking Group plc a conclusion on the condensed consolidated interim financial statements in the Interim Results 2015 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

22 July 2015
Edinburgh

Notes:

a) The maintenance and integrity of the TSB Banking Group plc website is the responsibility of TSB Banking 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.

Appendix

Reconciliation of management basis to statutory results (unaudited)

6 months to 30 June 2015	Management basis £ million	Volatility on derivatives, hedge accounting & share scheme liabilities £ million	Derivative fair value unwind £ million	Sabadell transaction related costs £ million	Mortgage Enhancement tax related payment £ million	Defined benefit pension scheme settlement gain £ million	Statutory results £ million
Net interest income	**385.2**	**(8.5)**	**–**	**–**	**–**	**–**	**376.7**
Other income/(expense)	**60.8**	**12.9**	**(4.6)**	**–**	**–**	**–**	**69.1**
Total income	**446.0**	**4.4**	**(4.6)**	**–**	**–**	**–**	**445.8**
Operating expenses	**(362.5)**	**0.2**	**–**	**(14.0)**	**(6.8)**	**–**	**(383.1)**
Impairment	**(39.5)**	**–**	**–**	**–**	**–**	**–**	**(39.5)**
Profit/(loss) before taxation	**44.0**	**4.6**	**(4.6)**	**(14.0)**	**(6.8)**	**–**	**23.2**
Taxation	**(10.6)**	**(0.9)**	**0.9**	**0.3**	**6.8**	**–**	**(3.5)**
Profit/(loss) after taxation	**33.4**	**3.7**	**(3.7)**	**(13.7)**	**–**	**–**	**19.7**
6 months to 31 December 2014							
Net interest income	396.5	(12.9)	–	–	–	–	383.6
Other income/(expense)	67.7	9.6	(10.1)	–	–	–	67.2
Total income	464.2	(3.3)	(10.1)	–	–	–	450.8
Operating expenses	(362.6)	–	–	–	–	–	(362.6)
Impairment	(46.5)	–	–	–	–	–	(46.5)
Profit/(loss) before taxation	55.1	(3.3)	(10.1)	–	–	–	41.7
Taxation	(11.9)	0.7	2.2	–	–	–	(9.0)
Profit/(loss) after taxation	43.2	(2.6)	(7.9)	–	–	–	32.7
6 months to 30 June 2014							
Net interest income	390.6	(16.0)	–	–	–	–	374.6
Other income/(expense)	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/(loss) before taxation	78.6	0.2	(14.0)	–	–	63.7	128.5
Taxation	(16.7)	–	3.0	–	–	(13.0)	(26.7)
Profit/(loss) after taxation	61.9	0.2	(11.0)	–	–	50.7	101.8

Mortgage Enhancement tax related payment

During the six months to 30 June 2015 TSB recognised a deferred tax asset of £6.8 million in relation to temporary differences that arose following HMRC's determination of the tax transfer value of the Mortgage Enhancement portfolio. Under the Tax Separation Deed between TSB and LBG, which exists to protect the parties against any unanticipated taxes arising after TSB's listing, this amount is payable to LBG and is recognised in operating expenses. As these amounts are not reflective of TSB's underlying business performance they have been excluded from the management basis of reporting.

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