



## Customers continue to recommend TSB, with an NPS score of +25 points in 2017.

### Highlights

- Increase in the share of bank accounts, capturing more than 6% of the gross flow in 5 years.
- Increase of more than 40% in lending in the 5 years since flotation.

### Business overview

The TSB franchise (TSB Banking Group PLC) conducts a high-street banking business in the UK which includes current and savings accounts, personal loans and credit/debit cards.

TSB has a multi-channel distribution model nationwide, comprising 551 branches in England, Wales and Scotland. At the end of the year, it had 5.1 million customers and 8,287 employees. Its business was previously divided in three segments:

- The Franchise, comprising the multichannel banking business.
- Mortgage enhancement, comprising a set of mortgages assigned to TSB in 2014 in the context of the restructuring of Lloyds Banking Group.
- The *Whistletree* portfolio, a set of loans, primarily mortgages, acquired from *Cerberus* in 2015.

Following the early call of the mortgage enhancement portfolio from Lloyds Banking Group in June 2017, TSB has operated as a single business segment within the franchise segment, including the *Whistletree* loan portfolio.

# Management priorities at TSB in 2017

## TSB launches its new banking platform.

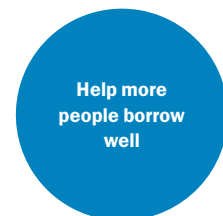
Priorities in the year were developing its digital capacity, promoting the TSB brand and offering a stand-out service to customers. In 2017, TSB continued to fulfil its mission of boosting competition in the UK banking business following its relaunch four years ago. It continues to grow and its technological transformation made strides in 2017. For the fourth year running, it exceeded its goal of attracting 6% of all customers seeking to change their bank account or open a new account in the UK. Lending has more than doubled since TSB's relaunch, and now exceeds £30,000 million; TSB is still the country's top rated high-street bank. Figure 2 shows TSB's three strategic pillars.

In 2017, TSB continued to invest to become a nimbler digital business through a process of technological transformation. In April, the new mobile app was launched, following development in direct response to customer feedback. TSB's customers were the first in Europe to benefit from iris-scanning security to access the mobile app, and the first in the world to use Apple's new facial recognition technology, unlocking their accounts with just a glance at their mobile handset. The final phase in the migration programme and customer platform roll-out will be executed in 2018.

The franchise was ranked among the top 10 companies to work for in the UK — it was the only bank on the list — and has been acknowledged as a great place to work. More than ever, customers recommend TSB to their friends and family, and it remains the top ranking high-street bank, with a solid NPS (net promoter score) of 25 points, compared with 23 in 2016.

In 2017 it attracted 6.2% of all customers changing their bank account or opening a new account in the UK, equivalent to 1,000 customers per day, exceeding its target of 6.0% for the fourth year running.

### G2 TSB strategic pillars



## Key business data

Net profit in December 2017 amounted to €90.3 million, down 49.8% year-on-year due mainly to the envisaged increase in outsourcing expenses paid to Lloyds Banking Group, and the recognition in 2016 of non-recurring revenues from the sale of the shareholding in Visa Europe after its acquisition by Visa Inc as well as adjustments as a result of the purchase price allocation (T5).

Nevertheless, the expected decline in profit was largely mitigated by the 6.5% increase in core revenues at constant exchange rates, not counting mortgage enhancement (constant consolidation scope) and reflecting mainly growth in the average balances of mortgage loans. Average interest rates on loans in the franchise and in the *Whistletree* portfolio in 2017 fell to 3.22% (3.56% in 2016), due to the increased weighting of secured loans compared with more lucrative unsecured loans, and the impact of competition policy. Customer deposit costs shrank notably to 0.40% in 2017 (0.66% in 2016). Interest expenses on bank accounts were down to 0.24% (0.53% in 2016), evidencing the changes in the Classic Plus account effective from January 2017.

Gross income amounting to €1,223.3 was up 0.9% (up 7.3% in constant consolidation scope terms). Administration expenses and amortisation and depreciation charges increased by 9.0% to -€1,002.0 million on the back of planned extraordinary technology costs at TSB; excluding these, expenses were generally stable.

TSB's capitalisation remained positive, and its CET1 ratio was up 160bp to 20.0% in December 2017.

TSB adopted IFRS 9 "Financial Instruments", effective from 1 January 2018, which entails a planned increase in NPL provisions and a reduction in equity, although the impact on capital was not material since the effect of the increase in NPL provisions was amply offset by the lower expected losses and the transitory regulatory frameworks.

Loans to customers increased by 4.9% in 2017, and now exceed £30,000 million, having more than doubled since the launch. This increase was underpinned by mortgage lending, in which the franchise increased its balance by 15.1% to £26,000 million, due mainly to higher gross mortgage production, which amounted to £7,000 million in 2017 (£6,600 million in 2016). Unsecured personal loans at TSB were marketed in 2017 through its high-street branches and digital channels to customers who do not currently have a bank account at TSB. This pushed the balance of unsecured loans up by 11.3%.

The support and trust of TSB customers is reflected in balance sheet growth in 2017, with customer deposits on the rise. This contributed funds to support the third pillar of TSB's strategy, namely to help more people to borrow well, with an increase in the balance sheet balances of £1,400 million (+4.9%) to £30,900 million. This was driven by the £3,700 million increase in the balance of loans at the franchise, partly offset by the early call from Lloyds Banking Group of the mortgage enhancement portfolio in the amount of £1,900 million, and the estimated reduction in the *Whistletree* portfolio, acquired in 2015.

	2016	2017	% 17/16
<b>Net interest income</b>	<b>1,051</b>	<b>1,034</b>	<b>(1.6)</b>
Equity-accounted affiliates and dividends	—	—	—
Fees and commissions (net)	126	96	(24.0)
Net income from financial transactions and exchange differences	54	110	104.5
Other operating income/expense	(18)	(16)	(11.6)
<b>Gross income</b>	<b>1,213</b>	<b>1,223</b>	<b>0.9</b>
Administrative expenses and depreciation and amortisation	(919)	(1,002)	9.0
<b>Operating profit/(loss)</b>	<b>293</b>	<b>221</b>	<b>(24.6)</b>
Provisions and impairments	(28)	(89)	—
Gain/(loss) on derecognition of assets, etc.	(4)	7	—
<b>Profit/(loss) before tax</b>	<b>261</b>	<b>139</b>	<b>(46.7)</b>
Income tax	(81)	(49)	(39.9)
<b>Profit/(loss) after tax</b>	<b>180</b>	<b>90</b>	<b>(49.8)</b>
Minority interest	—	—	—
<b>Profit/(loss) attributable to the group</b>	<b>180</b>	<b>90</b>	<b>(49.8)</b>
<b>Ratios (%)</b>			
ROE (profit / average shareholders' equity)	8.0%	5.8%	—
Cost:income (general administrative expenses / gross income)	69.8%	79.5%	—
NPL ratio (%)	0.5%	0.4%	—
NPL coverage ratio (%)	52.7%	55.9%	—
<b>Assets</b>			
<b>Assets</b>	<b>43,720</b>	<b>48,145</b>	<b>10.1</b>
Loans and advances to customers (net), excluding repos	34,361	35,501	3.3
<b>Liabilities</b>			
<b>Liabilities</b>	<b>42,200</b>	<b>46,597</b>	<b>10.4</b>
On-balance sheet customer funds	34,334	34,410	0.2
Wholesale funding in the capital markets	3,882	1,920	(50.5)
<b>Assigned capital</b>	<b>1,521</b>	<b>1,548</b>	<b>—</b>
<b>Off-balance sheet customer funds</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Other indicators</b>			
Employees	8,060	8,287	2.8
Branches	587	551	(6.1)

The exchange rate applied for 2017 was GBP 0.887 for the balance sheet and GBP 0.875 (year average) for the income statement.

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