

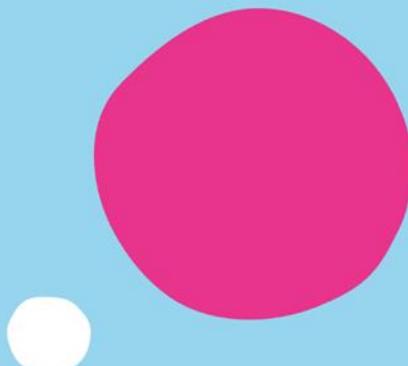


Annual Report and Accounts 2025

TSB Banking Group plc

“2025 was an extraordinary year for TSB. Our record financial performance was underpinned by the committed, collective effort of my colleagues: stepping up to ensure we stay truly competitive, deliver money confidence for our customers, act responsibly and run the bank more efficiently.”

Marc Armengol
Chief Executive, TSB



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Strategic report

Summary results

Summary consolidated balance sheet

	2025 £ million	2024 £ million	Change ⁽⁹⁾ %
Loans and advances to customers	36,268.4	36,330.9	(0.2)
Other assets	9,017.6	9,770.0	(7.7)
Total assets	45,286.0	46,100.9	(1.8)
Customer deposits	35,209.0	35,051.2	0.5
Other liabilities	7,723.4	8,621.6	(10.4)
Total equity	2,353.6	2,428.1	(3.1)
Total equity and liabilities	45,286.0	46,100.9	(1.8)

Summary consolidated statutory income statement

	2025 £ million	2024 £ million	Change ⁽⁹⁾ %
Net interest income	1,055.6	984.4	7.2
Other income	127.8	158.0	(19.1)
Total income	1,183.4	1,142.4	3.6
Operating expenses	(786.0)	(821.9)	4.4
Impairment	(47.0)	(30.1)	(56.1)
Statutory profit before taxation	350.4	290.4	20.7
Taxation	(91.1)	(82.5)	(10.4)
Statutory profit for the year	259.3	207.9	24.7

Key performance indicators

	2025	2024	Change ⁽⁹⁾
<i>Delivering for our customers:</i>			
Customer advocacy – Net Promoter Score (NPS) ⁽¹⁾	17%	7%	10pp
<i>Delivering sustainably:</i>			
Scope 1 and 2 emissions (location-based) ⁽²⁾	2,799	3,517	20.4%
<i>Delivering for our shareholder:</i>			
Statutory profit after tax (£ million)	259.3	207.9	24.7%
Cost:income ratio (Statutory basis) ⁽³⁾	66.4%	71.9%	5.5pp
Cost:income ratio (Excluding notable items and banking volatility) ⁽⁴⁾	67.1%	72.3%	5.2pp
Post-tax return on tangible equity ⁽⁵⁾	12.6%	10.6%	2.0%
Post-tax return on assets	0.53%	0.45%	8bps
<i>Other financial metrics:</i>			
Loan to deposit ratio ⁽⁶⁾	103%	104%	(1)pp
Common Equity Tier 1 Capital ratio (fully loaded)	16.7%	15.4%	1.3pp
Leverage ratio (fully loaded)	5.5%	5.0%	0.5pp
Net interest margin ⁽⁷⁾	2.89%	2.68%	21bps
Asset quality ratio ⁽⁸⁾	0.13%	0.08%	5bps

(1) NPS is based on the question “On a scale of 0-10, where 0 is not at all likely and 10 is extremely likely, how likely is it that you would recommend TSB to a friend or colleague?” NPS is the percentage of TSB customers who give a score of 9 or 10 after subtracting the percentage who give a score 0 to 6. Calculated as a 3-month rolling average.

(2) As further explained in the Do What Matters Plan section on page 36.

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

(4) Notable items and banking volatility included in income and costs are summarised on page 11 and page 12, respectively. Further analysis of notable items included in costs is provided in note 14 on page 98.

(5) Profit after tax divided by the monthly average of total equity (excluding other equity instruments) less intangible assets.

(6) Loans and advances to customers divided by customer deposits. Amounts as presented on the consolidated balance sheet on page 74.

(7) Net interest income divided by average loans and advances to customers, gross of impairment allowance.

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

(9) Favourable changes are shown as positive.



Chair's overview

2025 has been a milestone year for TSB. Thanks to the commitment of colleagues across the business, the bank has not only continued to exceed the expectations it set out at the start of the year, but is also set up for ongoing future success.

Financially, despite an uncertain economic environment, we have delivered our highest profits since TSB returned to the High Street in 2013. And strategically, we have demonstrated the underlying value of TSB and our potential for further growth through the proposed sale of the business from Sabadell Group to Santander Group, which is expected to complete during 2026.

When TSB set out again as a standalone bank in 2013, the purpose was to bring a different, more customer-focused, approach to banking. As TSB has achieved profitable growth over the past four years, we have stayed true to this goal – first by leading the fight against fraud with TSB's ground-breaking Fraud Refund Guarantee, and more recently through our Emergency Flee Fund to support victims of domestic abuse.

I would like to extend my sincere thanks to Marc Armengol, TSB Chief Executive, and his leadership team for ensuring that TSB has been able to make a positive contribution for customers, colleagues and wider society over the past year. Of course, this was not the year that Marc expected when he took on the role in March, yet his calm and strategic leadership has been pivotal for the continued success of the business during this period. With a wealth of experience in business change, Marc has helped guide TSB to take all the right steps in preparation for its next chapter with Santander Group. We wish him well when he returns to Sabadell as their new Chief Executive later this year.

I would also like to thank my fellow TSB Board members for steering the business towards such success. I am grateful for the breadth and depth of expertise we have been able to secure around this table to support TSB's progress through 2025.

Reflecting on the past four years, I have been incredibly proud to Chair this business as it continues to make a significant contribution to the UK banking sector, and I would like to extend my gratitude to every TSB colleague who played their part. Looking ahead to when TSB becomes part of Santander, pending regulatory approval, I am confident that the agreed sale will create value for customers, colleagues and communities for many years to come.

Nick Prettejohn
Chair
5 February 2026



Chief Executive's statement

Introduction

When I became Chief Executive at the start of 2025, I could never have predicted a year of such significance for TSB.

I already knew that TSB was full of great talent – passionate people, with a genuine focus on customers and the communities we serve. But what makes me so proud today as CEO is the way my colleagues have excelled in delivering for those customers, inspired by our purpose: Money Confidence. For everyone. Every day.

This purpose has remained at the heart of the bank during the past year – becoming ever more relevant in light of the wider economic uncertainty impacting customers across the UK. It has enabled another chapter of success for TSB: delivering against our growth strategy while exceeding the expectations that we set out and establishing a continued trend of record annual performance.

An extended customer offer, improved service and profitable growth have helped enhance TSB's valuation, and the business was subject to a successful bid from Santander Group to buy the bank from Sabadell Group.

Financial strength

Despite challenging market conditions, we have delivered another sustained strong financial performance over the past year – as the full-year results show.

The bank reported a statutory profit before tax of £350.4 million in 2025, up 20.7% on the £290.4 million earned in 2024. This is driven by higher income, up 3.6% in 2025 compared with 2024, reflecting higher structural hedge income, and lower operating costs, which were down 4.4% in 2025 compared with 2024, as a result of continued cost control.

Total customer lending and deposits remained broadly flat at £36.3 billion and £35.2 billion respectively at 2025 year-end compared to 2024 year-end. TSB's balance sheet remains resilient with a strong Common Equity Tier 1 ratio of 16.7% (2024: 15.4%) and Liquidity Coverage Ratio of 204.8% (2024: 199.8%). Additionally, TSB's return on tangible equity (ROTE) is 12.6% for 2025 (2024: 10.6%), which compares well with other UK retail banks.

2025 successes

Our record financial performance could not have been achieved without a relentless focus on delivering money confidence for TSB customers – offering them even better service and enhanced products that meet more of their financial needs, and in doing so, making us a more competitive bank.

This has been enabled by investments made throughout the year that improve our capability, including upgrading our technology infrastructure – with migration to more advanced datacentres; speeding up how we deliver change – through improved agile capability within our teams; and further enhancing our approach to risk management.

As a result, more customers chose to bank with us last year, with an additional 7% of mortgage customers choosing to keep their mortgage with TSB in 2025 compared with 2024, as well as total customer credit card transactions reaching a five-year record on 13 December in the run up to Christmas. We also rewarded more customers than ever before with regular offers and prize draws.

We made over 1,500 improvements across our digital channels in 2025, including making it easier for customers to organise their accounts in the TSB Mobile Banking app, manage their transactions and apply for new products. We also enhanced our fraud detection to prevent even more customers from becoming victims of fraud. We continued to provide personal support for customers at over 220 locations across the UK, including at branches, TSB Pods, and pop-ups – and our branches served even more customers this year, contributing 31% of total sales in 2025.

Chief Executive's statement (continued)

2025 successes (continued)

Our highly-skilled colleagues also continued to build on their expertise with further training, including an agile approach to delivering change, enhanced data and digital skills and extending the support we offer vulnerable customers in areas such as domestic abuse and gambling.

We have continued to build a more diverse and inclusive business and have either met or exceeded each of the three year representation goals we set out for the business in 2022 – including 43% of our senior roles being held by women (against a 2025 target of 40%).

Wider contribution

I have been fortunate to play a part in TSB's leadership through recent times, both on the Board and now the Executive Committee, and I am incredibly proud to see the sustained positive impact on customers, colleagues and wider society the business is able to deliver.

Our award-winning Emergency Flee Fund has helped more than 880 customers and colleagues to escape from an abusive situation since it launched in December 2022 – an industry-leading initiative in supporting victim survivors of domestic abuse, potentially saving lives. And our enhanced Carer's Policy goes above and beyond legislation to provide TSB colleagues with up to 70 hours of paid leave to care for loved ones, driving inclusivity and greater positivity.

The next chapter for TSB

Over the years, TSB has operated under many ownership models, but our customers have remained loyal to the brand regardless of who owns us or how we operate behind the scenes. The proposed acquisition by Santander sees TSB entering a new chapter under their ownership.

Since the acquisition was announced in July 2025, we have been preparing the business to deliver a smooth transition for our customers and colleagues. I know from my own personal experience of leading change that this work is crucial to support a successful change in ownership.

While change often brings uncertainty, I believe that we should embrace this with optimism. Our record-breaking performance and strong positive trajectory in recent years have put TSB in a strong position to deliver great value as part of the Santander Group.

It is already evident that both TSB and Santander are aligned in their desire to create the best bank for UK customers and I am confident that this will result in better banking experiences for even more customers.

In an extraordinary year for this business, we have kept our focus on delivering for customers and TSB's achievements are a credit to everyone across the business who has helped us to become more confident, competitive and collaborative in 2025. I would like to thank Nick Prettejohn, Chair of the TSB Board, as well as my colleagues on the Executive Committee, alongside each and every TSB colleague for their collective effort to set TSB up so well for the year to come.



Marc Armengol
Chief Executive
5 February 2026

Our purpose and business model

Our purpose – Money Confidence. For everyone. Every day.

TSB offers a range of retail banking services and products to individuals and small business banking customers in the UK. TSB has a multi-channel model, including full digital (internet and mobile), telephone and national branch banking service, in addition to a range of new approaches such as video banking, Mobile Money Confidence Experts and in store pop-ups.

We believe that TSB's multi-channel proposition creates an opportunity to offer superior service to more of our customers more of the time. They want a bank that offers effortless digital tools to service their banking needs and rapid access to skilled people when they need support.

TSB continues to invest in developing digital-led products and servicing capabilities that help identify and meet more of our customers' needs now and into the future. This, in turn, improves their confidence in managing their money and ensures we live up to our purpose of Money Confidence. For everyone. Every day.

Our business model is simple

TSB's business model reflects a simple retail business and is outlined below:

Component	Description	2025 performance	Audited Financial statements
Customer confidence	We seek to deliver a proactive, personalised and effortless banking experience for which customers come to, and remain with, TSB. This will increasingly set TSB apart from other banks and providers of financial services. Central to this is our purpose 'Money Confidence. For everyone. Every day.' which focuses investment in our channels and product proposition so customers are rewarded, protected and always in control.	n/a	n/a
Sources of funding and capital	Money deposited by customers into their current accounts and savings accounts provides the majority of the funds we use to support lending to customers. We also raise funds from other sources, including wholesale markets and central banks, that diversify our funding profile. Our shareholder provides funding in the form of debt and equity capital.	Page 8	Page 78
Loans and liquid assets	Funds deposited with TSB are used to support lending to customers who wish to borrow. A portion of funds are held in reserve, in the form of a liquidity portfolio, to meet any unexpected funding requirements.	Page 10	Page 83
Income	We earn income in the form of interest that we receive on the loans we make to customers and from our liquidity portfolio. We pay interest to savings and bank account customers on the money they deposit with us. We also earn other income in the form of fees and charges for the provision of other banking services and commissions from the sale of certain products such as general insurance.	Page 11	Page 94
Charges	The costs of running the Bank include paying our TSB employees, running our branches, investing in our business (such as developing digital opportunities) and paying for marketing. Occasionally, our customers are unable to repay the money they borrow from us; this is also a cost to the Bank in the form of an impairment charge. Finally, TSB complies with its tax obligations to His Majesty's Revenue and Customs (HMRC).	Page 12	Page 96

Risk management (2025 performance from page 14; financial statements from page 101)

Effective risk management underpins TSB's business model. The Board sets an appetite for risk and monitors the risks arising from delivery of TSB's strategy through its business model to ensure the Bank remains liquid, solvent, operationally stable, trusted and compliant. The Board, in turn, will determine whether to return any profits made by the Bank to the shareholder by way of dividend, in line with its dividend policy (as disclosed in note 23 on page 123) or to reinvest the profit to support the future growth of the Bank.

Financial performance in 2025

TSB's performance is presented on a statutory basis and structured in a manner consistent with the key elements of the business model as explained on page 6.

Profitability (statutory basis)

	Analysis	2025 £ million	2024 £ million	Change ⁽¹⁾ %
Net interest income		1,055.6	984.4	7.2
Other income		127.8	158.0	(19.1)
Total income (statutory)	Page 11	1,183.4	1,142.4	3.6
Income before notable items and banking volatility		1,135.4	1,075.6	5.6
Notable income ⁽²⁾		30.2	33.9	(10.9)
Banking volatility ⁽³⁾		17.8	32.9	(45.9)
Operating expenses (statutory)	Page 12	(786.0)	(821.9)	4.4
Operating expenses before notable items and banking volatility		(762.3)	(777.3)	1.9
Notable expenses ⁽⁴⁾		(16.2)	(41.1)	60.6
Banking volatility ⁽³⁾		(7.5)	(3.5)	(114.3)
Impairment (statutory)	Page 13	(47.0)	(30.1)	(56.1)
Statutory profit before taxation		350.4	290.4	20.7
Taxation	Page 13	(91.1)	(82.5)	(10.4)
Statutory profit after taxation		259.3	207.9	24.7

(1) Favourable changes are shown as positive.

(2) Notable income is further explained on page 11.

(3) Banking volatility in total income comprises of the following line items on the income statement: Gains on derivative financial instruments at fair value through profit or loss and losses from hedge accounting. Banking volatility in operating expenses reflects volatility associated with share schemes.

(4) Notable expenses are further explained in note 14 on page 98.

TSB's statutory profit before tax for 2025 increased by 20.7% to £350.4 million (2024: £290.4 million). The key factors driving the year-on-year improvement were:

- Income*: an increase in total income of 3.6% to £1,183.4 million (2024: £1,142.4 million), primarily reflecting growth in structural hedge income resulting in higher net interest margin, partly offset by lower Banking volatility;
- Operating expenses*: a decrease of 4.4% to £786.0 million (2024: £821.9 million). A continued focus on cost management and lower one-off costs helped to mitigate the impact of inflation, with 2024 also including the recognition of a regulatory fine; and
- Impairment*: an increase in credit impairment charges at £47.0 million (2024: £30.1 million), with 2024 benefitting from one-off cost of living crisis releases, mainly within the unsecured and Business Banking portfolios.

Further information on the drivers of TSB's Income Statement performance is set out on pages 11 to 13.

Summary consolidated balance sheet

	2025 £ million	2024 £ million	Change %
Loans and advances to customers	36,268.4	36,330.9	(0.2)
Other assets	9,017.6	9,770.0	(7.7)
Total assets	45,286.0	46,100.9	(1.8)
Customer deposits	35,209.0	35,051.2	0.5
Other liabilities	7,723.4	8,621.6	(10.4)
Total liabilities	42,932.4	43,672.8	(1.7)
Total equity	2,353.6	2,428.1	(3.1)
Total equity and liabilities	45,286.0	46,100.9	(1.8)

The key balance sheet movements were as follows:

- Assets*: Loans and advances to customers remained stable, while other assets reduced by (£0.8) billion or 7.7% following the repayment of the Bank of England's Term Funding Scheme with additional incentives for SMEs (TFSME) borrowings with cash from the Liquid Asset Buffer;
- Liabilities*: a decrease of 1.7% mainly due to lower interest rates and derivative liabilities, partially offset by a small increase in customer deposits; and
- Total equity*: a decrease of 3.1%, or £74.5 million, primarily reflecting the dividend payment to TSB's shareholder, Sabadell, of £300.0 million, paid in February 2025, partially offset by 2025 profit after tax.

Following the announcement of the proposed sale of TSB to Santander, the Board has approved the cessation of dividends being paid to Sabadell.

Financial performance in 2025 (continued)

Sources of funding and capital

Money deposited by customers into their bank and savings accounts provides the majority of the funds we use to support lending to customers. We also raise funds from other sources, including wholesale funding markets and equity invested by the shareholder.

	Further Information	2025 £ million	2024 £ million	Change %
Customer deposits	Note 1 on page 78	35,209.0	35,051.2	0.5
Non-customer funding:				
Borrowings from the Bank of England	Note 2 (ii) on page 80	598.9	1,406.9	(57.4)
Debt securities in issue	Note 2 (i) on page 78	4,869.3	4,583.2	6.2
Subordinated liabilities	Note 3 on page 81	297.8	285.9	4.2
Total non-customer funding		5,766.0	6,276.0	(8.1)
Funding resources		40,975.0	41,327.2	(0.9)
Total equity	Note 22 on page 122	2,353.6	2,428.1	(3.1)
Total sources of funding		43,328.6	43,755.3	(1.0)

Sources of funding

Customer deposits

Customer deposits were broadly flat, +0.5%, at £35.2 billion, driven by an increase in retail deposits. Business banking deposits decreased by £0.2 billion to £2.2 billion. Retail balance growth was driven by retail savings balances (which increased by 2.3%) driven by increased fixed rate savings balances, as customers moved their balances towards higher interest earning savings accounts. This was offset by slightly lower current account balances which decreased by 1.0% driven by higher spend.

Non-customer funding

Non-customer funding decreased by £0.5 billion to £5.8 billion. During 2025, £0.7 billion of borrowings from the Bank of England were repaid, primarily under TFSME and a smaller unsecured issuance maturity of (£0.3) billion. These reductions were partially offset by the issuance of £0.5 billion of debt securities in issue, comprising the net issuance of covered bonds.

Capital resources

TSB's capital position has remained above regulatory minimum requirements and internal risk appetite thresholds, with a CET1 capital ratio of 16.7% (2024: 15.4%) and a leverage ratio of 5.5% (2024: 5.0%) on a CRD IV fully loaded basis.

	At 31 Dec 2025 £ million	At 31 Dec 2024 £ million
Total equity per balance sheet	2,353.6	2,428.1
Other equity instruments	(249.7)	(249.7)
Other regulatory adjustments and deductions:		
Proposed dividend	—	(300.0)
Excess expected loss	(29.4)	(8.1)
Cash flow reserve regulatory adjustment	(8.0)	(26.0)
Prudential valuation adjustment	(1.3)	(2.5)
Intangible assets (net of deferred tax)	(115.9)	(103.7)
Common Equity Tier 1 capital (fully loaded)	1,949.3	1,738.1
Additional Tier 1 Capital	249.7	249.7
Total Tier 1 capital (fully loaded)	2,199.0	1,987.8
Tier 2 capital (fully loaded)	300.0	300.0
Total capital resources (fully loaded)	2,499.0	2,287.8
Risk-weighted assets (RWA) (unaudited)	11,646.3	11,250.8
Common Equity Tier 1 ratio (fully loaded)	16.7%	15.4%
Total Tier 1 capital ratio (fully loaded)	18.9%	17.7%
Total Capital ratio (fully loaded)	21.5%	20.3%

Financial performance in 2025 (continued)

Sources of funding and capital (continued)

The movements in regulatory capital in the year, as measured on a fully loaded basis, are shown below:

	CET1 £ million	AT1 £ million	Tier 2 £ million	Total capital resources £ million
At 31 December 2024	1,738.1	249.7	300.0	2,287.8
Profit attributable to the shareholder	259.3	—	—	259.3
Distributions on other equity instruments	(17.6)	—	—	(17.6)
Movement in other comprehensive income	(16.2)	—	—	(16.2)
Change in intangible assets	(12.2)	—	—	(12.2)
Cash flow hedging reserve regulatory adjustment movement	18.0	—	—	18.0
Change in prudential valuation adjustment	1.2	—	—	1.2
Change in excess provision over expected loss	(21.3)	—	—	(21.3)
At 31 December 2025	1,949.3	249.7	300.0	2,499.0

Risk-weighted assets (CRD IV) (unaudited)

Risk-weighted assets (RWAs) at 31 December 2025 increased by £395.5 million (3.5%). The increase was primarily driven by higher Retail mortgages credit risk RWAs, reflecting new regulatory requirements in relation to default and time to repossession.

	At 31 Dec 2025 £ million	At 31 Dec 2024 £ million
Risk type analysis of risk-weighted assets:		
Standardised approach	947.9	1,053.7
Internal Ratings Based approach	8,938.5	8,442.2
Total credit risk	9,886.4	9,495.9
Operational risk	1,725.3	1,710.9
Counterparty risk	34.6	44.0
Total risk-weighted assets	11,646.3	11,250.8

Leverage ratio

The leverage ratio measure is defined as the ratio of Tier 1 capital to total exposure. This measure is intended to complement the risk-based capital requirements with a simple, non-risk based 'backstop' measure. TSB calculates its leverage ratio based on the exposure measure and definition of Tier 1 capital as defined in the PRA Rulebook.

	At 31 Dec 2025 £ million	At 31 Dec 2024 £ million
Total Tier 1 Capital for leverage ratio (fully loaded)	2,199.0	1,987.8
Exposures for leverage ratio		
Total statutory balance sheet assets	45,286.0	46,100.9
Less accounting value for derivatives and securities financing transactions	(1,584.1)	(1,773.5)
Exposure value for derivatives and securities financing transactions	251.5	42.9
Less qualifying central bank's claims	(4,291.2)	(4,990.8)
Lending commitments	703.1	828.8
Regulatory adjustments to Tier 1	(154.6)	(140.3)
Other regulatory adjustments	9.7	58.1
Total exposures	40,220.4	40,126.1
Leverage ratio	5.5%	5.0%

The PRA leverage ratio of 5.5% (2024: 5.0%) exceeds the PRA minimum expectation of 3.25%.

Further disclosures relating to own funds, capital requirement and leverage will be disclosed within TSB's Pillar III Large Subsidiary Disclosures.

Financial performance in 2025 (continued)

Loans and liquid assets

Funds deposited with TSB are used to support lending to customers who wish to borrow. A portion of funds are held in reserve, in the form of a liquidity portfolio, to meet any unexpected funding requirements.

	2025 £ million	2024 £ million	Change %
Retail - mortgages ⁽¹⁾	34,058.9	34,055.5	0.0
Retail – credit cards	562.4	528.5	6.4
Retail – other unsecured	1,442.5	1,470.1	(1.9)
Business banking	312.4	407.0	(23.2)
	36,376.2	36,461.1	(0.2)
Allowance for credit impairment losses	(171.2)	(180.1)	4.9
Net customer lending balances	36,205.0	36,281.0	(0.2)
Accounting adjustments ⁽²⁾	63.4	49.9	27.1
Loans and advances to customers	36,268.4	36,330.9	(0.2)
Balances at central banks ⁽³⁾	4,119.1	4,738.5	(13.1)
Debt securities ⁽⁴⁾	2,426.6	2,311.1	5.0
Total liquid asset portfolio	6,545.7	7,049.6	(7.1)

(1) Includes Whistletree secured loans of £509.5 million (2024: £608.0 million).

(2) Comprises accrued interest of £20.6 million (2024: £20.8 million) and effective interest rate adjustments of £42.8 million (2024: £29.1 million).

(3) Balances at central banks is included on the consolidated balance sheet in cash, cash balances at central banks and other demand deposits. Analysis is shown in note 32 on page 128.

(4) Of which £440.2 million (2024: £328.6 million) is accounted for at fair value through other comprehensive income and £1,986.4 million (2024: £1,982.5 million) is accounted for at amortised cost.

Loans and advances to customers

Loans and advances to customers were broadly flat at £36.3 billion, reflecting the balance of risk, returns and new business in a competitive UK mortgage lending market. With maturing customers facing into a higher rate environment and strong competition in the market, customers are shopping around for the best deal to mitigate the impact of rising mortgage costs.

Liquid asset portfolio

TSB's liquidity portfolio comprises highly liquid assets, primarily balances deposited at the Bank of England, UK gilts, development bank bonds, and covered bonds, which are available and accessible to meet potential cash outflows. At 31 December 2025, the liquidity portfolio was £6.5 billion, 7.1% lower than 31 December 2024.

A key regulatory measure of liquidity is the Liquidity Coverage Ratio (LCR). This is designed to measure the short-term resilience of TSB's liquidity and is regularly monitored and forecast alongside other cash flow and liquidity ratios. At 31 December 2025, the LCR was stable at 204.8% (2024: 199.8%) against a PRA requirement of 100%.

Encumbered assets

At 31 December 2025, £6,685.2 million (2024: £6,047.6 million) of assets were encumbered with counterparties other than central banks, primarily as collateral to support covered bond and securitisation programmes (note 2 on pages 78 to 80). A further £12,912.0 million (2024: £15,081.5 million) of assets were positioned at central banks as collateral in support of drawings under the TFSME and for normal liquidity management purposes, including held as balances with the Bank of England.

	Assets encumbered with counterparties other than central banks £ million	Assets positioned at central banks		Assets not positioned at central banks			Total assets £ million
		(pre-positioned plus encumbered) £ million	Readily available for encumbrance £ million	Capable of being encumbered £ million	Unencumbered - cannot be used £ million		
Cash, cash balances at central banks and other demand deposits	—	4,119.1	—	—	—	83.0	4,202.1
Financial assets at fair value through other comp. income	—	—	440.2	—	—	—	440.2
Financial assets at amortised cost:							
Debt securities	(1) 225.9	—	1,729.6	—	30.9	1,986.4	
Loans to central banks and credit institutions	(2) 305.2	—	—	—	—	—	305.2
Loans and advances to customers	(3) 6,046.6	8,792.9	—	21,428.9	—	—	36,268.4
Reverse repurchase agreement	—	—	—	—	62.0	62.0	
Other advances	(1) 43.4	—	—	—	23.5	66.9	
Remainder of assets	—	—	—	—	1,954.8	1,954.8	
Total – December 2025	6,621.1	12,912.0	2,169.8	21,428.9	2,154.2	45,286.0	
Total – December 2024	6,047.6	15,081.5	1,970.3	20,617.4	2,384.1	46,100.9	

(1) Collateral placed with counterparties in respect of derivative financial liabilities.

(2) Cash held on deposit by the covered bond and securitisation entities.

(3) Mortgage loans encumbered in support of covered bond issuance and securitisation issuance.

Financial performance in 2025 (continued)

Income

We earn income in the form of interest that we receive on the loans we make to customers and from our liquidity portfolio and we pay interest to savings and some bank account customers on money that they deposit with us and to providers of other forms of funding. We also earn other income in the form of fees and charges for the provision of banking services and commissions from the referral of certain products such as general insurance, offset by fees and rewards paid to certain bank account customers.

Total income

	2025 £ million	2024 £ million	Change %
Net interest income	1,055.6	984.4	7.2
Net fee and commission income	76.7	90.7	(15.4)
Losses on derecognition of financial liabilities measured at amortised cost	2.8	-	100.0
Other income ⁽¹⁾	0.3	0.5	(40.0)
Total income before notable items and banking volatility	1,135.4	1,075.6	5.6
Notable items:			
Amounts recovered under indemnity or insurance arrangements ⁽²⁾	29.7	36.2	(18.0)
Restructuring items ⁽³⁾	0.5	(2.3)	121.7
Banking volatility ⁽⁴⁾	17.8	32.9	(45.9)
Total income (statutory)	1,183.4	1,142.4	3.6

Net interest margin (statutory basis) 2.89% 2.68% 21bps

(1) Excludes £30.2 million (2024: £33.9 million) of notable items (note 2 and 3 below) and £17.8 million (2024: £32.9 million) of banking volatility.

(2) Included in other operating income (as shown in note 13 on page 95).

(3) Comprises of net gains / (losses) from the disposals of properties and intangible asset write offs, of which £0.5 million (2024: £(2.3) million) is included in gains / (losses) on derecognition of non-financial assets in the income statement on page 75.

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

Total income increased by 3.6% to £1,183.4 million. This primarily reflected an increase in net interest income, partially offset by lower banking volatility and debit card income, due to increased card provider fees. Net interest income increased by 7.2% to £1,055.6 million primarily reflecting increases in structural hedge income.

Interest rates earned on loans

The average rate earned on TSB's loans and advances to customers increased to 4.40% (2024: 4.08%). This largely reflects older lower rate mortgages refixing at a higher rate upon maturity.

The average rate earned on mortgages increased to 3.95% (2024: 3.63%) while unsecured lending yields increased to 11.95% (2024: 11.72%).

Cost of funding resources

The average cost of customer deposits was broadly the same as prior year at 1.49% (2024: 1.51%), with a reduction in interest rates during 2025. The average cost of customer deposits comprised of savings deposit costs of 2.44% (2024: 2.52%), with lower interest rates, broadly offsetting customers locking in higher rates by fixing. Current account interest costs remain largely unchanged from 2024 at 0.01%. Business banking interest costs are slightly higher at 0.50% (2024: 0.46%).

Structural hedge income

TSB has a pool of stable, non and low interest-bearing liabilities, principally comprising current accounts and savings, in addition to its shareholder's equity. A proportion of these balances are included in a structural hedge that is executed via a portfolio of receive fixed and pay variable interest rate swaps. These have an amortising structure so that a small portion matures and is reinvested each month at prevailing market rates.

The purpose of the structural hedge is to smooth net interest income over time. The pay floating leg of the swap will reprice immediately, whereas the receive fixed rate yield on the swap portfolio will reprice gradually, as a portion of the structural hedge swaps mature each month and are re-invested into new swaps at current market rates.

At 31 December 2025, the notional balance of the structural hedge was £20.5 billion (31 December 2024: £19.9 billion). Structural hedge income, as represented by the fixed leg of the swaps, increased by £123.2 million to £467.7 million (2024: £344.5 million) reflecting the effects of recent reinvestment at higher fixed rates. Structural hedge income represents the net interest income earned on the fixed leg of the swaps, as the net interest expense on the floating leg offsets the variable earnings from the funding provided by the pool of non and low interest-bearing liabilities. The mark-to-market volatility is managed using the risk management policies described on page 117.

Financial performance in 2025 (continued)

Charges

Charges we incur include the costs of paying TSB employees, managing our IT infrastructure, running our branches, investing in our business, and paying for advertising and marketing. Occasionally, our customers are unable to repay the money they borrow from us; this is also a cost to the Bank in the form of our impairment charge. Finally, TSB complies with its tax obligations to His Majesty's Revenue and Customs (HMRC).

Operating expenses

	2025 £ million	2024 (re-presented) ⁽¹⁾ £ million	Change %
TSB employee related costs	289.1	312.0	(7.3)
IT servicing and licence costs	172.8	158.9	8.7
Property costs	63.3	68.5	(7.6)
Operational contracts	32.8	32.4	1.2
Marketing costs	13.8	20.6	(33.0)
Regulatory and professional costs	34.8	34.3	1.5
Investment costs	118.7	109.6	8.3
Other expenses	37.0	41.0	(9.8)
Operating expenses before notable items and banking volatility	762.3	777.3	(1.9)
Notable items ⁽²⁾ :	16.2	41.1	(60.6)
Strategic restructuring costs	6.9	19.7	(65.0)
Regulatory fine	-	11.4	(100.0)
IT servicing and licence costs	8.0	4.6	73.9
Conduct charges	0.4	3.6	(88.9)
Other notable costs	0.9	1.8	(50.0)
Banking volatility ⁽³⁾	7.5	3.5	114.3
Operating expenses	786.0	821.9	(4.4)

(1) 2024 comparatives have been re-presented to reflect a change in classification in 2025. This resulted in £66.8m of 2024 costs being reclassified from IT servicing and licence costs to investment costs, with no impact on total operating expenses.

(2) Notable operating expenses are further explained in note 14 on page 98.

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

Operating expenses decreased by 4.4% to £786.0 million (2024: £821.9 million). Despite a period of inflation, operating expenses before notable items decreased by 1.9% to £762.3 million (2024: £777.3 million). This was driven by employee related costs, reflecting lower headcount through the year and lower marketing and property costs. This was partially offset by higher IT servicing and licence costs, due to a data centre upgrade and growth in payment processing costs.

Notable items decreased by 60.6% to £16.2 million (2024: £41.1 million). The key drivers for the decrease were lower Strategic restructuring costs which decreased by £12.8 million. 2024 also included recognition of a regulatory fine of £11.4 million (including legal costs).

Financial performance in 2025 (continued)

Charges (continued)

Impairment charge

	2025 £ million	2024 £ million	Change %
Retail – mortgages	(10.1)	(8.9)	13.5
Retail – credit cards	14.6	13.5	8.1
Retail – unsecured	42.6	28.5	49.5
Business banking	(0.1)	(3.0)	(96.7)
Total impairment charge	47.0	30.1	56.1
Asset quality ratio	0.13%	0.08%	5bps

The impairment charge increased in 2025 by £16.9 million with 2024 benefitting from one-off releases in the risk associated with the cost-of-living crisis, in particular for the unsecured and Business Banking portfolios. There has been a provision release in relation to Retail mortgages, resulting from house price growth and an improved outlook for house prices, along with a reduction in post-model adjustments.

A summary of the economic scenarios used for assessing expected credit losses and related scenario weightings is provided in note 8 on page 87.

Taxation

The tax charge of £91.1 million (2024: £82.5 million) reflects an effective tax rate of 26.0% (2024: 28.4%). The difference between this and the applied UK corporation tax rate for the year of 28% (2024: 28%) was primarily due to the tax deductibility of the Additional Tier 1 (AT1) coupons paid during the year but accounted for as other equity instruments.

The applied rate in 2025 comprises the main rate of corporation tax of 25% and the bank surcharge of 3%, which is applicable to a bank's taxable profits in excess of £100 million.

Risk management in TSB

Approach to risk

Effective risk management is critical to realising our strategic priorities and underpins our day-to-day operational activities. The processes to identify, measure and control the risks inherent in our business model are embedded in TSB's Risk Management Framework.

Risk Management Framework

The TSB Risk Management Framework complies with all relevant laws and regulations to demonstrate safe control of all risks faced by TSB. This leads to the promotion of a risk aware, customer focused culture to support the provision of products and services which provide good customer outcomes. The Risk Management Framework provides guidance on:

- **Identification** of the risks to which TSB is exposed.
- **Assessment** or measurement of the identified risks using suitable risk management tools.
- **Management** of risk exposures, applying and operating appropriate controls to mitigate the risks to acceptable levels.
- **Monitoring and reporting** of these risks to ensure they remain within risk appetite.

The core components of the Risk Management Framework are shown below and explained further on the following page.



Risk culture and compliance

The TSB Risk Management Framework supports the behaviours and activity expected of all colleagues in the identification and management of risk. TSB's culture is reinforced by the approach to performance management and remuneration for all employees. Our aim is for both our employees and our customers to experience the benefits of a high performing culture, supported by a clear customer focus where employees feel confident that good customer outcomes are achieved.

TSB's culture is monitored by the Executive Committee and Board to promote the right behaviours to support TSB's purpose - Money Confidence. For everyone. Every day.

TSB is committed to being compliant with all legal, regulatory and mandatory obligations. To support this, TSB has in place a compliance framework structured around the compliance lifecycle requiring that any compliance gaps identified are proactively managed in a transparent manner, with an intention to return to compliance as soon as practical.

Three lines of defence

Risk management is embedded at TSB through clear accountabilities across three independent lines of defence. This enables a clear understanding and separation between functions that own and manage risks faced by the business (first line), provides oversight and challenge (second line), and provides independent audit and assurance (third line).

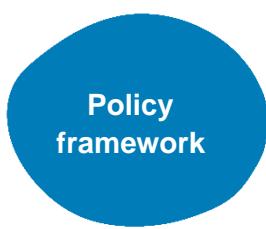
	First Line <i>Risk and control ownership</i>	Second Line <i>Oversight, support, and challenge</i>	Third Line <i>Assurance</i>
Responsibilities	<ul style="list-style-type: none">• Responsible for the implementation and execution of the Risk Management Framework to meet all applicable legal, regulatory and mandatory requirements, through the identification, assessment and management of risks, controls, events and policy.	<ul style="list-style-type: none">• Responsible for the design, maintenance and monitoring of the Risk Management Framework including risk appetite and the alignment to regulations.• Provide independent validation and challenge on first line's identification, assessment and management of risks and controls, to support adherence to policy and legal and regulatory requirements.	<ul style="list-style-type: none">• Responsible for providing independent assurance on the effectiveness of risk management, controls and governance in the first and second lines.
Risk Governance	<ul style="list-style-type: none">• Executive Committee.• Business unit risk forums.	<ul style="list-style-type: none">• Board Risk Committee.• Executive Risk Committee.• Executive-level risk committees (Model Governance Committee, Credit Risk Committee, Asset & Liability Committee and Non-Financial Risk Committee).	<ul style="list-style-type: none">• Board Audit Committee.

Risk management in TSB (continued)

Core components of the Risk Management Framework



The environment in which we operate, and the nature of the risks that we face, are continually changing to reflect market, economic, legislative, regulatory environment and TSB's strategic direction. We categorise the business risks that we face into seven principal risks, defined in our Risk Management Framework and align evolving and emerging risks to these principal risks. This ensures that we identify, assess and manage these risks carefully and consistently.



To support our colleagues in managing our key risks and operating within our risk appetite, a suite of policies and procedures is in place. These detail our approach to managing each of our key risk exposures and define the minimum control requirements that must be observed to achieve compliance. TSB Policies are renewed annually with a dedicated section on compliance requirements.

As a subsidiary of Sabadell, we are also required to comply with the requirements detailed in the Sabadell policy framework.



We define risk appetite as 'the level of risk that we are willing to take to meet our strategic objectives'. In doing so, we consider the potential impact of any remaining residual risk exposure against the cost of implementing additional controls on the delivery of our strategic objectives.

Our risk appetite framework extends to the setting, management, measurement, monitoring and control of our risk appetite, and the over-arching governance whilst our risk appetite statement defines the amount and type of risks we are willing to take in pursuit of our strategy.



We identify the risks we are exposed to and classify and manage them in line with our risk categorisation model. Throughout the year the risks and controls are assessed, monitored and reported.

Remedial action is taken to address effectiveness of the control environment and drive improvements in line with risk appetite.



An event is an unforeseen or unexpected occurrence that will impact the successful running of our business including customers, compliance with regulations, brand and reputation, resilience of operations, or financial impact.

The event management process provides the tools and techniques to identify all impacts, understand root cause, and assess and manage events through to closure.



Risk ownership and accountability is supported by governance and reporting via TSB's risk committees. Each committee is responsible for monitoring TSB's risk profile and challenging risk exposures across the relevant risk category in line with the risk appetite set by the Board.

This structure enables efficient decision making, providing clear escalation and reporting of risk to Executive Risk Committee and Board Risk Committee, and to the Board which is responsible for providing oversight of the effectiveness of the Risk Management Framework.

Risk management in TSB (continued)

Principal risks

TSB's principal risks are aligned to the seven Level 1 risk categories documented in the Risk Management Framework, encompassing all of the different types of risk which are relevant to our business model and achievement of our strategic objectives. Further information on these risks is set out below.

Strategic risk <i>The risk arising from an inadequate strategy, unsuccessful execution of the strategy or not responding to changes in the socio or macro-economic environment.</i>		
Attitude to risk <ul style="list-style-type: none">At TSB our purpose is to deliver Money Confidence. For Everyone. Every day. This whilst ensuring we Do What Matters for people and our planet.We develop and deliver a strategy that considers a number of internal and external factors, such as the macro and socio-economic environment performance, both current and assumed future Bank performance, market developments and associated threats and opportunities along with stakeholder priorities and objectives.Our medium-term plan considers both financial and non-financial factors to set investment priorities to support the delivery of our strategic objectives.		
Exposure Failure to deliver TSB's strategy or financial plan including the achievement of our primary corporate objectives and financial targets. Strategic risks can be driven by both internal unforeseen events and external factors such as the socio or macroeconomic environment, customer confidence, regulatory developments and competitor behaviour.	Mitigating actions The Board and Executive regularly review progress against the medium-term plan, primary corporate objectives and a suite of bank wide risk appetite measures. We closely monitor economic and market developments and perform horizon scanning to identify legal or regulatory changes that may pose a risk, threat or opportunity for TSB.	Management focus areas Execution of TSB's strategy whilst remaining within risk appetite. Identifying and adapting to external developments and threats.

Risk management in TSB (continued)

Principal risks (continued)

Financial risk <i>The risk of having inadequate earnings, cash flow or capital to meet current or future requirements and expectations as they fall due.</i>		
Attitude to risk		
<ul style="list-style-type: none">• We will use our capital to fuel TSB's growth, ensuring that we remain solvent at all times, including under severe but plausible scenarios.• We will maintain an underlying risk-adjusted margin sufficient to cover our operating costs and a prudent liquidity profile sufficient to operate under severe but plausible liquidity stressed conditions.• We manage market risk to prevent a significant decrease in short-term earnings or in long-term economic value.• We limit our counterparty credit exposure to those counterparties of high credit quality in developed financial markets with strong regulatory regimes and actively manage exposure to avoid concentration risk.• We have no appetite to damage our relationship with our regulators.		
Exposure Failure to generate profits required to maintain sufficient capital resources and meet regulatory capital requirements, or generation of excessively volatile profits. Inability to fund the balance sheet, maintain sufficient liquidity and meet our regulatory liquidity requirements. Inability to respond in an effective and timely way to profit resilience threats and capital/liquidity stress events. Reputational damage, loss of investor confidence or financial loss arising from the adoption of inappropriate accounting policies, ineffective controls over financial reporting or prudential regulatory reporting, or financial reporting fraud.	Mitigating actions Asset & Liability Committee monitors the Bank's financial risk profile in line with Risk Appetite and maintains a forward-looking view, considering market conditions, economic environment, future regulation and legislation, bank strategy and change activity. Our capital, funding and liquidity requirements continue to be proactively monitored and subject to severe but plausible scenario stress testing to ensure TSB meets its commitments and make funding adjustments where required. Monitoring and managing regulatory reporting risk through strong governance and control frameworks to provide accurate and timely submissions in line with applicable regulatory and statutory requirements.	Management focus areas Monitoring and managing key financial risks including the impact of economic uncertainties, geopolitical risks and regulatory change. Market rate volatility and inflation risk continues to be an area of focus due to its potential impact on TSB's profitability. Focus remains on maintaining effective governance and oversight of regulatory reporting processes, with continued emphasis on accuracy, timeliness, and data integrity. Monitoring regulatory developments is an ongoing requirement to ensure compliance with evolving requirements.

Risk management in TSB (continued)

Principal risks (continued)

Credit risk <i>The risk that a borrower or counterparty fails to pay the interest or to repay the principal on a loan or other financial instrument as it falls due.</i>		
Attitude to risk <ul style="list-style-type: none">• We are a responsible lender, focused on making credit decisions that act to deliver good outcomes for our customers, and will not lend more than we or our customers can afford.• We design our lending to be sustainable and profitable under stress.• We will maintain a well-balanced portfolio, focused on UK customers and assets, and prime lending criteria.• We have an appetite to grow in lending markets, to make efficient use of our platforms and distribution.• We will not allow excessive concentrations to develop that might threaten our financial stability or allow TSB to become an outlier compared to peers.		
Exposure TSB's exposure to credit risk is focused on retail mortgages, consumer lending and business banking lending. The failure of customers to repay on a facility to a level that is above the Bank's agreed risk appetite will impact TSB's profitability and the delivery of our Group's Medium Term Plan.	Mitigating actions Appropriate decision-making processes, systems and controls are in place to provide and assess affordable borrowing. Credit risk appetite is set for responsible and controlled growth and has measures and limits in place that are reviewed periodically. These measures include loan-to-value thresholds and loan-to-income ratios. If circumstances change, which impact our customers' ability to repay, we have specialist teams, along with treatment strategies to support rehabilitation. Ongoing oversight and management information (MI) of credit risk management is established through our forums and committees.	Management focus areas While pressures from interest rates have eased, we continue to monitor the economic environment and its implications for customer affordability. We also remain attentive to areas of regulatory focus across both UK and EU jurisdictions.

Model Risk <i>The risk that models used to manage the business are inadequate, are used inappropriately, or perform ineffectively.</i>		
Attitude to risk <ul style="list-style-type: none">• We will use models to support the effective and efficient delivery of TSB's strategy and operational processes including business decision making, risk management, and reporting.• We will operate sound model governance and effective model risk management practices to demonstrate a clear understanding of the reliance placed on models in the control of current risks and the assessment of future risks. We will minimise the adverse consequences resulting from inadequate or flawed design, poor implementation, or inappropriate use of models.• At TSB we will manage model risk to safely meet regulatory requirements while understanding and managing the key drivers associated with the model use.		
Exposure Misinformed decision making leading to customer harm, regulatory censure and financial loss.	Mitigating actions An inventory of all models is maintained, and the Model Risk Management Framework promotes a consistent risk-based approach across TSB, incorporating requirements for model development, implementation and use. Ongoing performance monitoring is used to ensure that modelling data, assumptions, and outcomes remain appropriate, or allow the identification and introduction of suitable mitigants.	Management focus areas Model risk remains a focus in a number of areas, with attention continuing to focus on areas of interest to the UK and EU Regulators. Work continues to centre on strengthening governance and accountability under SS1/23 Model Risk Management Principles for Banks, and the development, implementation and maintenance of the most material model suites. The approaches to the assessment of AI models continues to evolve.

Risk management in TSB (continued)

Principal risks (continued)

Conduct Risk <i>The risk that TSB does not act to deliver good outcomes for its customers.</i>		
Attitude to risk		
Exposure	Mitigating actions	Management focus areas
<p>TSB is committed to delivering products and services that meet customer needs and regulatory expectations. Conduct risk arises where we do not deliver good customer outcomes, which could result in customer harm, financial redress, regulatory action or reputational damage. Key drivers include the effective design and execution of customer journeys across products and services, evolving customer expectations and regulatory change, and the need for strong oversight of outcomes across the product lifecycle.</p>	<p>We manage conduct risk through our Risk Management Framework, including the TSB Compliance Framework, and controls designed to secure good outcomes for all customers:</p> <ul style="list-style-type: none">Governance and oversight: Ongoing monitoring and escalation of customer outcomes across products and services, using MI and dashboards to identify emerging risks early.Compliance by design: Embedding regulatory requirements and good-outcome principles into proposition design and change delivery from the outset, supported by annual policy reviews and gap analyses to keep standards current.Customer outcomes testing: Regular testing of outcomes to identify and address potential harm promptly.Journey, digital and accessibility improvements: Continuous enhancements to customer journeys (digital and non-digital) to improve accessibility, understanding and support for different needs.Rectification (“putting things right”): When we identify poor outcomes, we remediate customers, fix root causes and strengthen controls in line with our Rectifications standards.Training and culture: Mandatory training and leadership focus on Consumer Duty and conduct, reinforcing a culture that prioritises good outcomes.	<ul style="list-style-type: none">Consumer Duty: Continuing to embed and evidence Consumer Duty across TSB - strengthening MI, governance and documentation of outcomes, harms, controls and thresholds.Customer journey mapping: Expanding compliance/Consumer Duty journey mapping and deep-dives to the highest-risk end-to-end journeys, with clear ownership of actions and measures.Culture and capability: Reinforcing colleague capability, clarity of accountability and challenge so good outcomes are considered in day-to-day decisions and change.Change delivery: Further embedding conduct/compliance controls within the change delivery framework to identify and manage conduct risks early in the lifecycle.Suppliers and partners: Applying proportionate oversight so third-party services support and evidence good outcomes consistently with TSB standards.

Risk management in TSB (continued)

Principal risks (continued)

Financial Crime Risk <i>The risk that systems and controls are not adequate to manage financial crime within TSB's risk appetite and regulatory framework.</i>		
Attitude to risk		
<ul style="list-style-type: none">• We aim to promote an environment that is hostile to the exploitation of our systems and customers for economic crime activity. To achieve this, we adopt proportionate controls that aim to protect our customers and the Bank whilst supporting business growth strategies and innovation.• We have zero-tolerance for breaches of financial crime regulation. We have a proactive relationship with law enforcement, reporting suspicions in line with requirements and working collaboratively to develop intelligence on financial crime threats.• We have control frameworks in place to mitigate the risk of bribery and corruption and the facilitation of tax evasion. Potential cases are investigated and reported to law enforcement where confirmed.• TSB applies a customer centric approach to the management of fraud risk, balancing the risk of fraud losses with customer impact and operational efficiency. TSB has a zero-tolerance approach to insider fraud.		
Exposure The impact of not implementing proportionate and customer centric strategies and controls can lead to financial loss, regulatory censure, reputational damage and customer harm.	Mitigating actions TSB complies with relevant regulations across Anti Money Laundering, Sanctions, Anti Bribery and Corruption and Fraud. TSB has horizon scanning controls in place to support timely and proportionate responses to the evolving regulatory landscape. Membership of industry groups is used to provide access to intelligence to understand the impact of emerging trends on TSB. TSB has an oversight framework in place including monitoring of key risk indicators across key customer journeys, quality assurance testing to support early interventions to mitigate risks and use of governance to assess holistic risks across TSB and agree priorities.	Management focus areas There is ongoing focus on activity to support updating customer data used in screening and monitoring controls. In 2025, a programme of work was completed to enhance fraud controls. In 2026, TSB will focus on embedding and further optimising controls to prevent customers becoming victims of fraud, while continuing to enhance its controls, respond to regulatory change, and work across the industry to address external threats.

Risk management in TSB (continued)

Principal risks (continued)

Operational Risk & Resilience <i>The risk of loss, damage or disruption to TSB's resilience and both 'Important' and 'Other' Business Services we provide to our customers, arising from inadequate or failed internal processes, people or systems.</i>		
Attitude to risk		
<ul style="list-style-type: none">Our goal is to provide secure, reliable banking services that safeguard the trust of our customers and satisfy our regulatory obligations.We have no appetite to breach important business service impact tolerance. When issues arise, we will act promptly to support customers and restore services, minimising potential or actual harm. This includes taking steps to prevent recurrence and addressing underlying risk.We have limited appetite for cyber security risks associated with our supply chain, recognising that no organisation is immune from risks of cyber-attacks or service disruption. We actively identify and remediate cyber security risks and select and manage suppliers in line with our own internal policy requirements and contract on regulatory compliant terms for third parties and our supply chain.We aim to deliver change safely and avoid unintended customer impacts. We achieve this by maintaining a skilled workforce who perform within an environment where leaders seek to create a positive culture and act to deliver good customer outcomes.We will utilise our data lawfully to meet our customer's needs. We will make decisions from data that is trusted and assured.		
Exposure		
Loss, theft or corruption of critical data, including customer and colleague data.	Mitigating actions Ongoing cyber security activity and ongoing scenario testing ensures continuous improvement of the organisation's defensive capabilities and ability to respond to severe but plausible scenarios. Maintaining currency of our infrastructure and application estate alongside our disaster recovery capability continues to increase the Bank's resilience and improved service continuity for customers.	Management focus areas Cyber investment will continue, to meet the ever-changing threat landscape and ensure customer sensitive data and services are protected today and in the future.
Disruption to business services across TSB and the banking industry.	A maturing data management with a focus on data quality and lineage has delivered improved compliance and customer servicing capabilities.	Maintaining application and infrastructure currency, to enable ongoing support and resilience of critical services.
Customer harm, losses through rectifications, remediation costs, regulatory censure or reputational damage.	The supplier management framework has focussed on the Bank's reliance on a robust supply chain to safely deliver services to its customers.	

Risk management in TSB (continued)

Evolving and emerging risks

The most significant evolving and emerging risks that have the potential to materially impact the execution of TSB's strategy are reviewed regularly. Evolving risks are known threats that are changing over time while emerging risks are new risks where the impacts or likelihood may not be fully understood. These risks are identified through a variety of horizon scanning methods including legal, and regulatory horizon scanning, insight from the senior risk leadership team based on industry knowledge and experience together with inputs on wider economic factors from TSB's Chief Economist. Outputs are presented to both the Executive Risk Committee and Board Risk Committee for consideration in our business planning process.

Evolving risks	Principal risks	Risk and mitigating actions
Economic and market conditions impact on TSB's strategy execution	<ul style="list-style-type: none"> • Credit Risk • Financial Risk • Strategic Risk 	<p>Weak or unstable economic conditions can create a challenging operating environment for TSB, manifested through developments such as reduced economic activity, increased unemployment and cost-of-living pressures. These conditions can reduce borrowers' ability to repay loans and raise realised losses on defaulting loans by decreasing property prices. Market conditions can also impact on TSB's strategy execution. For example, interest rate volatility can affect funding costs and the profitability of the structural hedge.</p> <p>Recognising the importance of this risk on delivery of TSB's medium-term plan and other principal risks, the Board and Executive regularly review progress against the medium-term plan and a suite of Risk Appetite measures. Regular outlooks and emerging financial impacts are also reviewed at Board and Executive Committee with remedial action taken as required. Scenario analysis and stress tests are used to understand and mitigate risks.</p>
Climate change	<ul style="list-style-type: none"> • Conduct Risk • Credit Risk • Financial Risk • Operational Risk 	<p>Risks for TSB relating to climate change include physical threats, transitional risks and greenwashing.</p> <p>With TSB's lending portfolio predominantly comprised of mortgage assets, the main physical risks for TSB are the flooding, subsidence, precipitation and coastal erosion (medium and long-term) risks associated with the security that underpins this loan portfolio.</p> <p>Transition risks arise from the financial and operational challenges that may be faced given the materiality of the secured mortgage lending and the risks associated with the cost for adapting properties to cope with the changing climate (flooding, extreme heat), improving property energy ratings and transitioning to electrified heat (short, medium and long-term).</p> <p>Physical and transition risks also apply to TSB's own estate and operations. Greenwashing risk arises through misleading statements relating to Energy Efficient Homes products and partnerships, and through lack of transparency or misleading statements in carbon emissions disclosures.</p> <p>The Do What Matters Plan sets out how TSB understands and responds to the risks and opportunities associated with climate change (See Managing the risks associated with climate change on page 32).</p>
Transitional risk	<ul style="list-style-type: none"> • All risk categories 	<p>The sale of TSB and integration into a new banking group may give rise to new risks, which will need to be monitored and managed carefully through the transition period. These risks could include a deterioration in performance due to competing priorities, people stretch, downturn in colleague engagement, increased legal or regulatory requirements, risks associated with information sharing, and an increase in cyber risks and fraudulent activity, potentially targeting vulnerable customers.</p> <p>Risks associated with the sale will be considered as part of transition planning and closely overseen by TSB's Executive Committee and Board.</p>

Risk management in TSB (continued)

Evolving and emerging risks (continued)

Evolving risks	Principal risks	Risk and mitigating actions
Divergence in UK & EU regulation	<ul style="list-style-type: none"> • Financial Risk • Conduct Risk • Credit Risk • Financial Risk • Model Risk • Operational Risk • Strategic Risk 	<p>Following Brexit, UK and EU regulation and financial supervisory frameworks have started to diverge in response to changing technology, customer, economic and market forces. There is a risk that the UK and EU authorities move in differing directions resulting in additional complexity and/or cost where dual processes are required or the risk of non-compliance.</p> <p>The compliance framework continues to embed, and horizon scanning has been strengthened to identify upcoming regulatory changes and assess the appropriate response.</p>
UK Politics	<ul style="list-style-type: none"> • Financial Risk • Conduct Risk • Credit Risk • Strategic Risk 	<p>Political decisions and fiscal policy changes in the UK — such as reforms to ISA allowances, tax thresholds, government borrowing or to stimulate UK growth — can have significant and sometimes unpredictable impacts on banks and the wider financial sector. There is a risk that such changes could lead to volatility in funding costs, deposit levels, and mortgage pricing, alongside broader market impacts. These shifts can affect customer affordability, product competitiveness, and balance sheet dynamics, contributing to financial, credit, and strategic risks.</p> <p>By maintaining robust horizon scanning, scenario planning, and stakeholder engagement, TSB can better anticipate and mitigate these risks, ensuring resilience in a rapidly changing environment and better navigate the complexities of the financial landscape.</p>

Risk management in TSB (continued)

Evolving and emerging risks (continued)

Emerging risks	Principal risks	Risk and mitigating actions
Artificial intelligence (AI)	<ul style="list-style-type: none"> • Financial Crime Risk • Model Risk • Operational Risk 	<p>While AI provides commercial and operational opportunities, it also creates risk around cyber-attacks, or more complex and sophisticated fraud techniques requiring the need for additional vigilance and the exploration of new ways of responding.</p> <p>This may lead to heightened threat of disruption to banking processes leading to fraud and operational losses. TSB has started to investigate opportunities to safely utilise AI to complement our existing services.</p> <p>Appropriate guardrails and governance have been implemented at this stage to manage the safe exploration of AI.</p>
Third Party Risk Management	<ul style="list-style-type: none"> • Financial Crime Risk • Operational Risk 	<p>The increasing reliance on a limited number of critical suppliers, including but not limited to cloud computing service providers, has become a key feature in the delivery of financial technology and third-party solutions. While these relationships offer advantages such as scalability, speed, and efficiency, they create concentration risk — where dependence on a small group of suppliers, especially those operating on a global scale, can result in systemic exposure across the industry and multiple essential business functions.</p> <p>TSB recognises that this supplier concentration risk extends beyond cloud platforms and encompasses a range of third-party service providers whose strategies and operational resilience are largely outside the Bank's direct influence. The failure or disruption of any such critical supplier — particularly major cloud providers — could have significant implications for the Bank's operational resilience and its ability to serve customers effectively.</p> <p>TSB continues to assess, monitor and manage the risks associated with our third party suppliers, ensuring appropriate contingency planning and governance arrangements are in place to mitigate potential impacts.</p>
Geopolitical uncertainty	<ul style="list-style-type: none"> • Credit Risk • Financial Risk • Financial Crime Risk • Strategic Risk 	<p>Continued and escalating conflict drives increases in commodity prices, such as oil and gas. Additionally, changes in global trade tariffs and changes to compliance may lead to further cost-of-living and inflationary pressures, while adding to macro-economic uncertainty.</p> <p>The complexity and inter-dependencies that exist within the global supply chain may lead to failure or disruption to TSB or within the UK economy caused by geopolitical uncertainty.</p>

TSB's Do What Matters Plan

TSB's Do What Matters Plan, launched five years ago, is an integral part of our business strategy. It brings together our social and environmental commitments to deliver long-lasting and meaningful impact for our customers, colleagues, suppliers and communities.

The plan is simple, yet focused, with three key themes: **business essentials**, **people**, and **planet**. Our eight goals sit across the people and planet themes, covering social and financial inclusion, fair business practices, and supporting a just transition to a greener economy. These goals guide the impact we aim to achieve and are aligned to our purpose of: Money Confidence. For everyone. Every day.

Our Essentials underpin the delivery of the plan, setting out how we govern, manage and embed it across TSB to make sure progress is monitored and outcomes are delivered in a responsible and sustainable way.



Essentials

Governing the plan

The TSB Board provides strategic direction on the Bank's approach to the Do What Matters Plan, including how we manage the risks and opportunities of climate change. They receive an annual update on the Do What Matters Plan and periodic updates are also provided to the Risk Committee on climate risk.

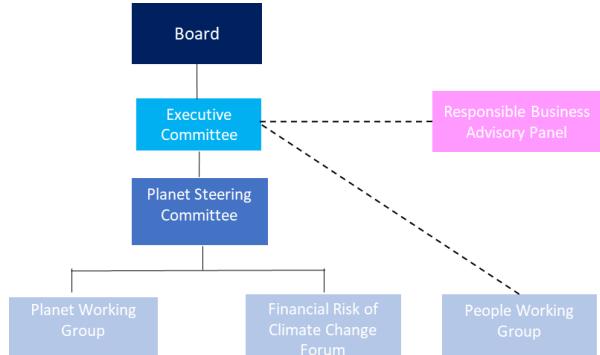
The Executive Committee discusses progress of the Do What Matters Plan on a six-monthly basis. This incorporates recommendations and progress reported by the Planet Steering Committee and the People Working Group, as well as advice and insight from the Responsible Business Advisory Panel.

The Responsible Business Advisory Panel, established at the start of 2024, is made up of three members with relevant expertise on sustainability and financial inclusion together with some members of the Executive Committee. The expert members of the Responsible Business Advisory Panel are Marlene Shiels, financial inclusion expert and CEO of Capital Credit Union; Professor David Grayson, environmental, social and governance (ESG) expert and Emeritus Professor of Corporate Responsibility at Cranfield University and Benet Northcote, ESG practitioner and former Director of Corporate Responsibility at the John Lewis Partnership. During 2025 they met four times to discuss how TSB could move forward its focus areas of doing what's right for people and the planet.

The Chief Risk Officer and Chief Financial Officer have a shared responsibility for identifying and managing the financial risks from climate change. This includes embedding climate change risk within the Risk Management Framework, developing scenario analysis, and managing the financial risks and opportunities from climate change.

There is an ESG risk category in TSB's Risk Management Framework. It focuses on the risks from environmental, social and governance issues, making them more visible within TSB's Risk Management Framework.

Do What Matters plan - governance structure



TSB's Do What Matters Plan (continued)

Aligning to independent standards and commitments

We are a signatory to the UN Global Compact corporate responsibility initiative, aligning the way we operate with ten universally accepted principles in the areas of human rights, labour, environment, and anticorruption, and to take action in support of UN Sustainable Development Goals.

We are also accredited by the Good Business Charter, a UK scheme that recognises businesses that behave responsibly across ten areas including paying the living wage and not offering zero hours contracts, paying suppliers promptly, promoting diversity and inclusion, ensuring the employee voice is heard in the boardroom and setting firm plans to reach net-zero.

Meeting regulatory and voluntary codes of practice

We have policies and processes in place to make sure we meet regulatory obligations and voluntary codes of practice. Collectively they set out the high standards we operate to protect our customers, colleagues and communities from the impacts of criminal activity, and continue to meet the changing needs of our customers.

Non-financial and sustainability information statement

As a public interest entity, TSB complies with the non-financial and sustainability reporting requirements of sections 414CA and 414CB of the Companies Act 2006 as summarised in the table below.

Policy	Description	References and policies
Community and social matters	We're focused on delivering social good which means supporting financial and social inclusion and encouraging fair business practices.	Our approach to communities and social matters on pages 27 and 28. <ul style="list-style-type: none">• Fraud policy• Vulnerable customers policy
Colleagues	We believe everyone has a right to work in a safe and supportive environment, where all colleagues act responsibly. We continue to build a workforce representative of our customer base and the communities we operate in.	Our approach to colleagues on pages 28 to 30. <ul style="list-style-type: none">• Employment policy• Inclusion policy• Code of conduct• Health, safety and fire policy• Remuneration policy
Respect for human rights	We're committed to preventing modern slavery and human trafficking in our corporate activities. Our Modern Slavery statement outlines the steps we're taking to understand associated risks related to our business and our supply chains.	Our approach to respect for human rights on page 31. <ul style="list-style-type: none">• Modern slavery statement• Responsible supplier charter
Financial crime, anti-bribery and corruption	We have a moral, legal and regulatory duty to prevent, detect and deter economic crime. We care about our customers and colleagues, and the communities we serve, and strive to protect them from those who would try to use TSB to commit economic crimes.	Our approach to tackling financial crime, anti-bribery and corruption on page 31. <ul style="list-style-type: none">• Anti-bribery and corruption policy• Anti-money laundering and counter terrorist financing policy• Sanctions policy• Whistleblowing policy
Planet	Doing what matters for the planet is an important consideration for our customers, colleagues and other stakeholders we work with, including regulators.	Our approach to the planet on pages 32 to 41. <ul style="list-style-type: none">• Doing What Matters for the Planet policy

A description of our strategy is set out on pages 4 to 5 and our business model on page 6.

A description of our principal risks and impact of our business activity is set out in the Risk management in TSB section starting on page 14.

A description of our policies' due diligence and compliance is set out on pages 14 and 15.

TSB's Do What Matters Plan (continued)

People

Community and social matters

Vulnerable customers

Our commitment to delivering social good is closely aligned to our purpose, focusing on those people within our communities who are least likely to feel confident about managing their money and are at risk of financial exclusion.

At TSB, the identification, management, and support of vulnerable customers is embedded as a core component of all business activities. This integrated approach ensures the needs of vulnerable customers are considered consistently across all customer interactions, services, and decision-making processes. In alignment with the FCA's FG21/1 Guidance for firms on the fair treatment of vulnerable customers, our Vulnerable Customer Policy reinforces the importance of business-wide accountability and ownership. It sets out clear expectations for how all areas of the business must contribute to the identification and support of vulnerable customers, to enable TSB to act to deliver good outcomes on a consistent basis.

Fraud prevention

In 2025, we prevented 67% of fraud cases. TSB continues to invest in technology and deploy new strategies to stop fraud at the source. We will continue to support victims of fraud under Payment Services Regulator rules and in line with our Fraud Policy.

Supporting victims of domestic abuse

We offer safe spaces across all our branches and online, and in 2025, we helped 410 (2024: 282) customers to escape an abusive relationship through our award-winning Emergency Flee Fund. The Fund, available in branch, over the phone or through video banking, offers victims up to £500 to help them flee potentially dangerous situations. Since launching in 2022, we've helped 885 customers, 48% of whom fled with children and paid out an average of £382 per customer with 37% receiving the maximum amount of £500.

In April, we added to the support we offer victim-survivors by providing those who are escaping an abuser with Hollie Guard Extra – a personal safety application. The application helps keep individuals safe from abuse and threatening situations by transforming their smart phone into a personal safety device. With a tap or shake of the device, users can send alerts to chosen emergency contacts, including a 24/7 police-approved monitoring and response service.

We continue to collaborate with our charity partners – Hestia, Women's Aid and Surviving Economic Abuse – in shaping our response to TSB customers and colleagues experiencing domestic or financial abuse. In April 2025, TSB appointed Sam Beckinsale, domestic abuse survivor, as its first Economic Abuse advisor.

Supporting small businesses

Paying suppliers promptly is another area of focus for TSB, particularly in today's challenging economic climate. In May 2025 we were given a Gold Fair Payment Code Award - the highest recognition under the Fair Payment Code, a voluntary payment code with the aim of driving best practice and improving payment performance for UK businesses. In 2025, we paid 99% of all suppliers within 30 days (2024: 98%). For our small and medium-sized suppliers, payments were made in an average of 3.8 days against our target of 10 days.

Investing in communities

In 2025, TSB launched a one-off TSB Community Fund – a colleague-led grants programme designed to help local charities make a difference where it matters most. More than 340 colleagues nominated over 220 charities to apply for funding, reflecting the strength of connection between our people and the communities we serve. We received 143 applications and awarded grants to 69 charities across the UK. A total of £250,000 was awarded through a tiered structure of grants ranging from £1,000 to £50,000, supporting organisations driving impact in areas such as financial inclusion, social inclusion, education and money confidence, and a just transition to net zero.

Volunteering is an integral part of our corporate giving strategy with every colleague offered 8 hours of paid TSB time per year to volunteer. In 2025, 23% of colleagues volunteered, compared to an industry average of 13%, investing almost 7,500 hours to help those who need it the most. Since the launch of our partnership with Neighbourly, a volunteering platform, in 2023, 1,052 TSB colleagues have delivered over 242 volunteering events.

As part of the volunteering programme, colleagues deliver financial education in under-resourced secondary schools. In 2025, through our Money Confident Communities Programme, colleagues delivered more than 100 financial education workshops benefiting almost 5,000 students.

TSB's Do What Matters Plan (continued)

People (continued)

Delivering social good through partnerships

To help customers through the cost-of-living crisis, TSB has partnered with Lightning Reach, a charity that aims to connect people in financial hardship to the support they need, empowering them to get on the road to financial recovery. Since launching the partnership in 2023, customers have been awarded over £205,000 with more than £57,000 granted in 2025, benefiting more than 8,000 TSB customers.

Our key community and social matters policies

Policy	Summary
Fraud policy	This policy provides a framework to manage the risk of fraud and to protect TSB and its customers. The policy sets out the minimum requirements to adhere to, ensuring that there are controls in place to manage fraud risk effectively within approved risk appetite.
Vulnerable customers policy	This policy sets out the minimum requirements for our colleagues, business areas and relevant third parties to identify and treat our vulnerable customers appropriately. A regular review of customer journeys and outcome testing is undertaken, and colleagues must undertake periodic core learning to ensure that the policy requirements are embedded throughout the Bank.

Colleagues

TSB's overarching Employment Policy covering HR policies and legislation, culture and behaviour, resourcing, learning, colleague consultation and people data ensures that TSB:

- Complies with relevant employment legislation and regulatory requirements and minimises the risk of employment litigation or reputational damage.
- Promotes TSB strategy, builds a TSB culture which acts as a key driver of our performance and defines ways of working and behavioural standards that all colleagues must operate within.
- Attracts, retains and engages a diversity of talented people.
- Manages people associated risk and HR data management through effective controls.

In 2025, TSB strengthened its approach to preventing harassment and promoting a safe, respectful workplace. Following the introduction of new legislation, including the Worker Protection Act 2024, we enhanced our Anti-Harassment and Bullying Policy and updated our Resolution Policy to ensure all colleagues feel supported and empowered to speak up.

Mandatory training on preventing harassment in the workplace was completed by 95% of colleagues, while updated risk assessments and enhanced reporting channels showed consistently low levels of risk across the business. These actions reflect our continued commitment to fostering a positive and inclusive culture where every colleague feels safe, heard and valued.

Building a diverse and inclusive culture

We believe that representing our customers and communities strengthens our ability to support them in the moments that matter most. Our Inclusion Policy and Inclusive Hiring Principles guide our efforts to create a culture of diversity and inclusion.

Our Inclusion strategy outlines a series of intersectional representation goals that we have delivered and, in some cases, exceeded. Our key diversity metrics at the end of 2025 are as follows:

- 45% of our Executive Committee roles are held by women;
- 44% (2024: 44%) of senior leaders (defined as Executive Committee and their direct reports) are women, putting us in a leading position within the sector;
- 43% (2024: 41%) of grade F+ leaders (leaders who are at least senior manager level) are women, above the UK banking industry average of 39%;
- 4% (2024: 4%) of colleagues identify as lesbian, gay or bi-sexual⁽¹⁾ compared to 3% of the UK workforce;
- 21% (2024: 20%) of colleagues disclose a disability⁽¹⁾ compared to 19% of the UK workforce;
- 20% (2024: 18%) of colleagues and 12% (2024: 11%) of our senior leaders are Black, Asian and minority ethnic; and
- 3.3% (2024: 2.8%) of colleagues and 2.6% (2024: 2.0%) of senior leaders are Black.

(1) Percentages reflect the proportion of colleagues who volunteered relevant diversity data. Year on year comparison reflects increased colleague data.

TSB's Do What Matters Plan (continued)

People (continued)

Colleagues (continued)

TSB aims to build a representative workforce where people from all backgrounds can contribute. We've successfully maintained representation in some areas (lesbian, gay, bi-sexual and disability) while improving representation elsewhere (female leadership and ethnicity) allowing us to meet, and in some cases exceed, our goals set out in 2021. We also publish annual Gender and Ethnicity pay gaps and will for the first time publish Disability pay gap data for 2025.

TSB's approach to inclusivity also focuses on supporting working families with a spotlight specifically on carers and parents. In 2025, TSB retained its Ambassador rating in Carers UK Carer Confident Scheme and was awarded Transformational Employer of the Year by Carers UK. Self-recognition and disclosure of colleague's carer status increased to 13% during 2025.

Our colleagues regularly report that they believe TSB is an inclusive workplace and TSB enables people to succeed here, regardless of background, scoring 92% in the 2025 Colleague Experience Survey.

We track colleague sentiment, attrition and hiring by disclosed characteristic to ensure we are truly inclusive and driving action. In 2025, in response to feedback that minority ethnic colleagues felt less confident about their ability to succeed, we relaunched our Ignite Programme. This targeted development initiative supports colleagues from Black and Black mixed-heritage backgrounds and their managers. The programme focuses on building connections, unlocking potential, and equipping managers with the skills to lead inclusive teams and drive performance. By the end of 2025, around 20% of TSB line managers had completed the Ignite Manager course, strengthening their capability and confidence to lead diverse teams effectively.

We continue to support intersectional inclusion with Executive Committee sponsorship for each of our TSB Ability, Ethnicity, Gender Inclusion, LGBTQ+ and Social Mobility networks. These groups actively educate and challenge our workforce and management while contributing to diversity and inclusion plans.

Engaging and involving employees

Our Colleague Experience Survey provides employees with the opportunity to share their views on their experience at TSB and in 2025 87% of colleagues shared their views, signalling their ongoing confidence that their feedback is impactful and considered. Feedback from the survey shapes our plans and colleagues are involved in developing team action plans to improve their experience of working at TSB.

In November 2025, our Colleague Experience Survey showed that:

- 92% of colleagues agreed that TSB promotes an inclusive work environment that accepts everyone's individual differences (maintained 92% from April 2025); and
- 89% of colleagues believe that colleagues from diverse backgrounds can succeed at TSB (down from 90% in April 2025).

We collaborate closely with our recognised unions, Accord and Unite, to discuss policies related to wellbeing, pay, inclusivity and organisational change. TSB's employee forum, The Link, also connects colleagues directly with senior leadership and the Board, meeting seven times in 2025 to discuss key issues and provide feedback. Our five inclusion networks all have executive sponsors and senior leaders who coach and support them. This connects underrepresented colleagues with HR and leadership directly, allowing them to share themes and issues directly as well as inputting into decisions and activities that may impact colleagues. Further information on how the Board engages with colleagues can be found in the Section 172 statement on pages 43 and 44.

Through our Sharematch Scheme, colleagues can invest up to £1,800 annually in Sabadell shares, offering an attractive savings alternative alongside a generous pension contribution.

TSB's Do What Matters Plan (continued)

People (continued)

Colleagues (continued)

Our key colleague policies

Policy	Summary
Employment policy	This policy outlines our approach to performance, ways of working and attracting, retaining and engaging a diversity of talented people. This policy also focuses on people risk and people data management and controls. It ensures we comply with relevant employment legislation and regulatory requirements to minimise employment litigation and reputational damage and the behavioural standards which colleagues must act within.
Inclusion policy	This policy outlines our commitment to fostering an inclusive culture which embraces difference, where everyone feels included and welcome and treated with dignity and respect, regardless of their identity, background, or other circumstances.
Code of conduct	Our code of conduct underpins our purpose and guides how we work with colleagues and customers. It supports our behaviours: saying it straight, feeling what customers feel, looking for better and doing what matters.
Health, safety and fire policy	This policy outlines our high-level approach to health and safety to protect our colleagues and visitors to our offices and customers across our branch network. Under this policy, all new joiners and colleagues every year thereafter complete mandatory learning. The learning covers emergency procedures, accident reporting, first aid, fire evacuations and lone working safety.
Remuneration policy	This policy sets out our approach to remuneration with the aim of making sure TSB can attract, motivate and retain the people needed to deliver our strategy. The policy is governed and reviewed annually by the Remuneration & People Committee and is further described on page 66.

These policies are part of the Risk Management Framework, except for the Inclusion policy which sits within the Employment Policy.

TSB's Do What Matters Plan (continued)

People (continued)

Respect for human rights

TSB's modern slavery statement sets out the policies we apply and actions we take to ensure that our colleagues and customers are treated with dignity and respect.

Financial crime, anti-bribery and corruption

Our financial crime framework aims to protect our customers, employees and communities from financial crime, and we continue to invest in further system control enhancements.

Our financial crime, anti-bribery and corruption policies

Policies	Summary
Anti-bribery and corruption policy	This policy and supporting technical standards provide the framework to support TSB, its colleagues and all other 'associated persons' in complying with relevant legislation and in particular, the Bribery Act 2010 and the Criminal Finances Act 2017.
Anti-money laundering and counter terrorist financing policy	This policy enshrines TSB's commitment to the fight against money laundering and terrorist financing, operating in an open and co-operative manner with regulators and seeking to ensure strict adherence to applicable legislation and regulations.
Sanctions policy	This policy and supporting technical standards are designed to ensure compliance with our obligations under the United Nations and UK sanctions regimes. TSB takes a prohibitive stance towards transactions and customer relationships involved in countries subject to comprehensive international sanctions or which are owned or controlled by persons located in such countries.
Whistleblowing policy	This policy provides the framework to support TSB and its colleagues in compliance with the Public Interest Disclosure Act 1998 (PIDA) and Financial Conduct Authority's SYSC Chapter 18 rules on Whistleblowing.

Financial crime is a principal risk as further described on page 20 and the above policies are embedded in TSB via the Risk Management Framework.

TSB's Do What Matters Plan (continued)

Planet

In line with the 2015 UN Paris Agreement, TSB is committed to achieving net-zero by 2050.

We have set operational and financed emissions targets, with details of our interim targets and the progress we are making towards our 2050 net-zero trajectory in the Targets and Metrics section of this report on page 34.

We have also considered the risks and opportunities that climate change presents. We have used our established Risk Management Framework to identify, measure and manage climate-related risks so they are embedded in our strategy, risk appetite, financial planning, and capital management processes as they become more material over time.

Our planet strategy focuses on reducing our impact on the environment, following the latest climate science and supporting a just transition to a net-zero economy by helping our customers, colleagues and those we work with to make sustainable decisions.

Reducing our financed emissions

Our financed (mortgage) emissions target cannot be met without strong government policy and societal demand (as we set out when we first [published](#) our target); and to support this our focus is on building colleague confidence, customer awareness and developing products and propositions that support warm, resilient, low carbon homes.

In 2025, we continued to build awareness by upskilling customer-facing colleagues and mortgage intermediaries, enabling them to signpost customers to [Snugg](#), a tool to help customers see the value of a warm, low-carbon home, and government grant eligibility to help with installation costs.

We have continued to enhance our partnership with Snugg, with customers able to access it through the Mortgage Hub in our mobile app, as well as through TSB Marketplace and Energy Efficient Homes webpages. More than 5,000 customers have now registered with Snugg and created their free personalised plan. Snugg continue to iterate and evolve their tool through smart meter connectivity, together with a broader range of installation partners and offers.

Our mortgage platform now captures property Energy Performance Certificates (EPC), including an embedded link to the Government EPC register, with this feature enabling the launch of tailored offers to customers. In September, we launched a cashback incentive to customers purchasing an energy efficient home (EPC A/B).

Collaborating to drive change

We are committed to being part of the collaboration needed between all sectors, governments and regulators and have actively engaged through UK Finance in responding to the consultations on minimum energy efficiency standards for the private rented sector, EPC reform, climate risk, transition plans and sustainability reporting standards.

At the start of the year, we were part of a coalition of businesses, alongside B&Q, Barratt Homes, Unilever, Starbucks and Virgin Media, supporting Hubbub's 'Home Advantage' research project, creating a blueprint of how to support UK households live more sustainably and save money.

In November, building on the connections formed during the 'Home Advantage' research project, the learnings from our own thermal imaging pilot with colleagues, and our sustainable test and learn branch in Bradford, we launched a community project to explore the impact of thermal cameras and advice in a community setting. We are working with Business in The Community, Hubbub and B&Q with the aim of reaching 100 people and will use the findings of this project to inform future scalable options.

We also support the Green Finance Institute's Green Home Finance Roadmap, demonstrating our commitment to shaping the future of the green home finance market. In November, we hosted an industry roundtable discussing the opportunity and challenges for mortgage advisors and brokers to include signposting to advice on warm, resilient, low carbon homes in every conversation.

TSB's Do What Matters Plan (continued)

Planet (continued)

Reducing our operational emissions

Our primary focus is on reducing our operational greenhouse gas (GHG) emissions year-on-year, without reliance on carbon offsets. We look at this in three areas:

1. Direct and indirect emissions from heating and cooling our estate (Scopes 1 and 2);
2. Reducing our use of paper; and
3. Business travel, colleague commuting and homeworking.

In 2025, we have made progress against all these areas:

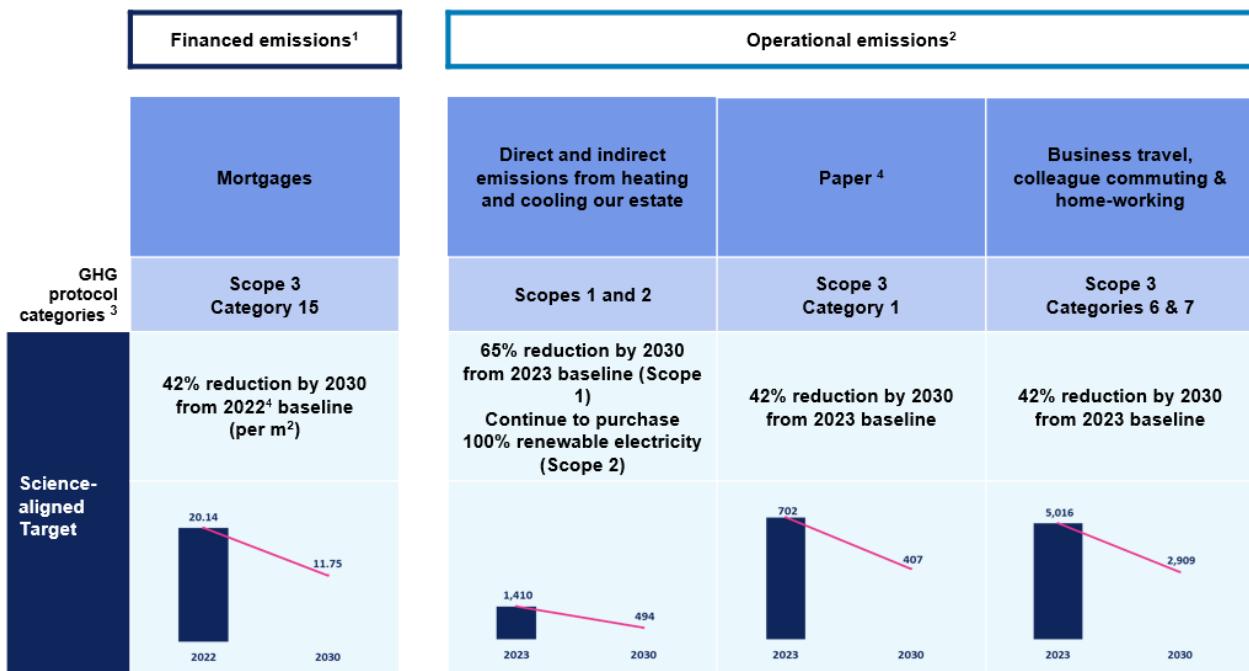
- Scope 1 and 2 market-based emissions reduced by 20% compared to 2024 to 898 tonnes of carbon dioxide equivalent (tCO₂e). Our emissions for the Scope 3 categories we measure (paper, business travel, commuting and homeworking, waste and water) reduced by 18% compared to 2024.
- TSB completed the third phase of its energy optimisation programme, which has contributed to a reduction in location-based energy consumption from gas, oil and electricity by 2.1 million kWh when compared with 2024.
- We set, and achieved, a primary corporate objective to reduce our energy emissions in line with our science-aligned target. We achieved a 20% reduction in location-based energy emissions when compared with 2024.
- We continue to buy 100% renewable electricity, after starting to do this in October 2019, and we are committed to continue to do so through to 2030.
- We have reduced our paper consumption by helping customers switch to paperless statements and correspondence combined with sending more documents into the digital inbox, saving an additional 8 million sheets of paper in 2025. We continue to seek opportunities to further reduce our paper consumption, in our own operations and through our customer communications, whilst being mindful of customer needs, preferences and additional customer letters required in relation to the proposed sale of TSB.
- Our branch in Bradford tests sustainable initiatives. Since opening in 2024, the branch has successfully demonstrated reduced energy and water consumption compared to branches of similar size and significantly reduced the amount of paper used within the branch. We have shared the learnings across other branches which has contributed to our overall reduction of paper use.
- In September, we carried out our third annual colleague Homeworking and Commuting survey, allowing us to monitor progress against our science-aligned target for this category of emissions, as well as colleague interest in knowing more about making their homes and commute more sustainable.
- Our Green Team, which remains one of our largest and most active colleague engagement networks, with more than 500 members, has delivered events across the year, on-line and in-person, providing interactive and practical tips for creating a warm, low carbon home, and travelling sustainably.
- Following on from the findings of the Hubbub 'Home Advantage' research project, we developed a four-week version of the programme for colleagues. We ran three cohorts in 2025 (May, September and November) with 95% of responses to the survey completed at the end of the cohorts feeling more knowledgeable on the actions that they can take every day to reduce environmental impact.

TSB's Do What Matters Plan (continued)

Planet (continued)

Emissions: targets and metrics overview

To make sure we are on track to achieve net-zero by 2050, we have interim 2030 science-aligned targets for our Scope 1 and 2, paper, travel and homeworking emissions (set in 2024). These are in addition to the interim 2030 science-aligned target for our financed emissions (set in 2023). Our targets were set using the Science Based Target initiative's (SBTi) science-based target setting tools.



1. Target was set in 2023 using a 2022 baseline
2. Emissions from our waste (Scope 3, Category 5) and water usage are tracked but due to materiality have been excluded from target setting. Operational targets were set in 2024 using our 2023 re-baselined emissions. Please refer to the [Summary of Streamlined Energy and Carbon Reporting methodology paper](#) for full details of our re-baselining policy and methodology.
3. GHG Protocol Categories 3, 13 and 14 are not applicable to TSB.
4. The paper target has been re-baselined due to re-statements of historic paper emissions which resulted in a >5% change to the 2023 base year emissions.

Financed emissions: targets and metrics

In the absence of enhanced government policy and societal demand, we have seen only marginal year-on-year reductions in our mortgage emissions intensity since our 2022 base year intensity of 20.14 kgCO₂ per metre²: as at year-end 2023 the intensity was 19.62 kgCO₂ per metre² and as at year-end 2024 the intensity was 19.31 kgCO₂ per metre².

Scope 3 financed residential mortgage emissions	At 31 Dec 2024 ⁽¹⁾	At 31 Dec 2023 ⁽¹⁾
Absolute carbon emissions (tonnes of CO ₂)	453,519*	473,062*
Physical emissions intensity (kg of CO ₂ per total property square metre)	19.31*	19.62*

⁽¹⁾ Due to the complexity in compiling this data, it is shown on a one-year lag.

In line with industry practice, our mortgage emissions are calculated a year in lag. Further, even with real-time data, the impact of actions to reduce our mortgage emissions will not be felt in the short term, given the period over which customers have fixed rate mortgages, and the time needed for homeowners to research, select, fund and carry out upgrades. Ongoing EPC reform, and the development of more accurate data sources (such as smart meter data) will also lead to refinement of our mortgage emissions calculation, which will continue to align with the requirements of the 2015 UN Paris Agreement, in the coming years.

Our immediate focus is therefore on building colleague confidence, customer awareness and product development; these are the initial actions where we can play our part in decarbonising the UK's housing stock, with that being reflected, once demand has built and works are carried out, in the revised emissions and targets we calculate, using more accurate EPC and/or smart meter data, in 2028 and beyond.

TSB's Do What Matters Plan (continued)

Planet (continued)

Financed emissions: targets and metrics (continued)

See 'Managing the opportunities associated with climate change' on pages 38 and 39, and 'Reducing our financed emissions' on page 32 for further details on our approach.

Methodology

The carbon emissions of our mortgage portfolio have been estimated using the [Partnership for Carbon Accounting Financials \(PCAF\) methodology](#). Where available, CO₂ emissions and floor area for each property secured by a TSB mortgage have been obtained from the building's EPC. Emissions from expired EPCs that are more than ten years old and EPCs issued after 31 December 2024 have also been included as we believe this more accurately reflects individual property emissions than using modelled or average data. Where EPCs were unavailable, estimations have been made using modelled data.

Under the PCAF methodology, the estimated CO₂ emissions attributable to TSB financing is calculated as the proportion of the mortgage loan balance compared to the indexed property value. Attribution has been calculated at property level by dividing the outstanding amount at 31 December 2024 by the indexed valuation at 31 December 2021. For properties onboarded since 31 December 2021, we have used the earliest available indexed valuation from 31 December 2022, 31 December 2023 or 31 December 2024. Note, December valuations are indexed on Q3 House Price Index due to timing of data availability.

The PCAF methodology is also used to calculate a data quality score for our financed emission calculations. Under this methodology, a data quality score is calculated between 1 and 5, where 1 is the highest data quality and 5 is the lowest. This score is intended to highlight the use of estimations used in the calculations and allows TSB to check progress on improving data quality and coverage in the future. Our 2024 residential mortgage emissions data quality score was 3.26 (2023: 3.30). Further information on TSB's methodology and data can be found [here](#).

Assurance

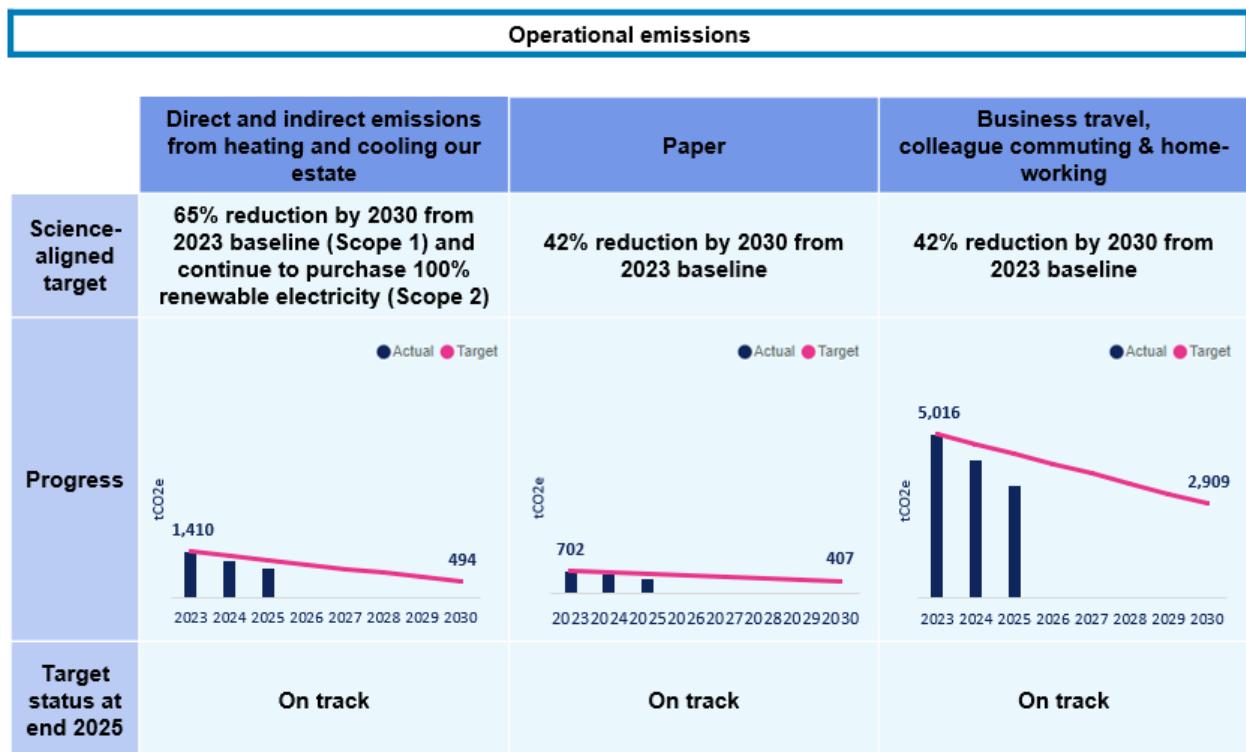
TSB appointed EY to provide limited independent assurance over our scope 3 financed (residential mortgage) emissions for the year to 31 December 2024 (indicated in the Scope 3 Financed Residential Mortgage Emissions Table on page 34 by *). The engagement was planned and performed in accordance with the International Standard for Assurance Engagements (ISAE) (UK) 3000 (July 2020), Assurance Engagements Other than Audits or Reviews of Historical Financial Information. A limited assurance report was issued and is available [here](#). This report contains details of the scope, respective responsibilities, work performed, limitations and conclusion.

TSB's Do What Matters Plan (continued)

Planet (continued)

Operational emissions: targets and metrics

The table below sets out our continued progress in 2025 towards the interim 2030 science-aligned targets we set in 2024, covering the most material categories of operational greenhouse gas emissions as reported in our Streamlined Energy and Carbon Reporting (SECR) table: Scope 1 and 2 and the Scope 3 categories of paper, travel and homeworking emissions. The table below sets out our interim 2030 targets and our progress in 2025.



Streamlined Energy and Carbon Reporting

Alongside our science-aligned targets and progress, TSB continue to report greenhouse gas emissions in line with the UK SECR regulations.

		2025	2024
Location-based⁽¹⁾ emissions in gross tonnes of carbon dioxide equivalent (tCO2e) ⁽²⁾			
Scope 1 emissions from the combustion of fuel and operation of facilities ⁽³⁾		880*	1,100
Scope 2 emissions from the purchase of electricity ⁽⁴⁾		1,919*	2,417
Total scope 1 and 2 location-based emissions		2,799*	3,517
Scope 3 emissions from colleague travel & homeworking (excluding hotels)		3,435*	4,217
Scope 3 emissions from hotel stays ⁽¹⁴⁾		91*	129
Scope 3 emissions from paper		466*	578
Scope 3 emissions from waste and water		14*	15
Total Scope 3 location-based emissions		4,006*	4,939
Total Scope 1, 2 and 3 location-based emissions		6,806*	8,456
Intensity ratio (location-based tCO2e per Full Time Employee (FTE))⁽⁵⁾		1.4*	1.6
Energy consumption kWh (million)⁽⁶⁾		15.885*	18.123

Footnotes are set out under Table 2 on the following page.

TSB's total energy consumption, as measured on a location⁽¹⁾ basis, was 12% lower in 2025 compared to 2024. This reduction was due to energy optimisation measures, site closures and positive colleague action on energy efficiency. For further details, please refer to 'Reducing our operational emissions' on page 33.

TSB's Do What Matters Plan (continued)

Planet (continued)

Operational emissions: targets and metrics (continued)

In line with TSB re-calculation policy, some emissions have been re-stated to account for changes to our business, data quality or methodology, which allows for comparison year on year. See [Summary of Streamlined Energy and Carbon Reporting methodology paper](#) for a full description of how the re-calculation was applied.

Market-based emissions

TSB have also created a view of market-based emissions (Table 2 below), which consider the purchase of 100% Renewable Energy Guarantees of Origin (REGO) certified electricity and verified carbon removal credits.

	Re-stated	
	2025	2024
Table 2: Summary of Streamlined Energy and Carbon Reporting		
Scope 1 market-based ⁽⁷⁾ emissions in gross tonnes of carbon dioxide equivalent (tCO ₂ e) ⁽⁸⁾	880	1,100
Scope 2 market-based ⁽⁷⁾ emissions in gross tonnes of carbon dioxide equivalent (tCO ₂ e) ⁽⁸⁾	18	25
Verified carbon removals (offsets) ⁽⁹⁾	(898)	(1,125)
Net scope 1 and 2 market-based emissions⁽¹⁰⁾	-	-
Total scope 1, 2 and 3 market-based emissions	4,006	4,939

Resource consumption data

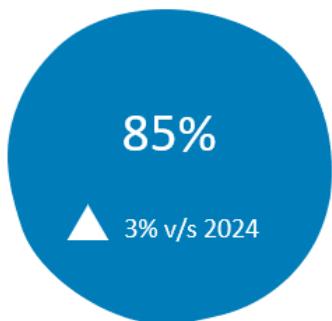
Paper (tonnage) ⁽¹¹⁾	347	432
Water (m ³)	26,206	33,032
Waste (tonnage) ⁽¹²⁾	654	594
Waste diverted from landfill	99.7%	99.6%
Waste intensity (waste tonnage per FTE) ⁽¹³⁾	0.13	0.11

Notes to Tables 1 and 2

- (1) Location-based emissions are those measured using the UK national grid electricity conversion factors, updated annually.
- (2) tCO₂e – tonnes of carbon dioxide equivalent.
- (3) Scope 1: natural gas, heating oil, fugitive gas and company cars.
- (4) Scope 2: direct commercial electricity supplies plus landlord data where available.
- (5) Calculated as the sum of Scope 1, 2 and 3 location-based emissions divided by the average annual headcount.
- (6) Scope 1, 3, and energy consumption totals include both mandatory and voluntary elements of SECR reporting.
- (7) Market-based emissions are those associated with the purchase of REGO certified renewable energy which carry zero-rated emissions. TSB began purchasing REGOs in October 2019.
- (8) Scope 1 and 2 emissions: natural gas, heating oil, fugitive gas, company cars, electricity (100% REGO certified).
- (9) Plan Vivo carbon removal certificates registered on the Market Environmental Registry.
- (10) Net Scope 1 and 2 emissions are total market-based emissions minus verified carbon removals.
- (11) Paper: Total tonnage arising from office and branch paper purchases, print and mail and marketing activities.
- (12) Waste: Total tonnage arising from office and branch waste, destruction of archived documents, recycling of IT equipment and project waste including activity from branch closures and office relocations.
- (13) Calculated as the tonnes of waste generated divided by the average annual headcount.
- (14) Carbon emissions from hotel stays have been excluded from our business travel target as this is not a category of emissions measured by our parent company, Banco Sabadell. CO₂e emissions from hotel stays are therefore reported separately in this table

Additional metrics

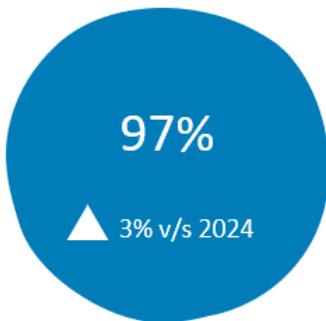
Waste recycling rate



Location-based energy emissions



Electric vehicles in company car fleet



TSB's Do What Matters Plan (continued)

Planet (continued)

Methodology

Our operational emissions are calculated in accordance with the Greenhouse Gas Protocol, the global standard for measurement of carbon emissions. To calculate our homeworking emissions, we follow the Eco Act methodology and use UK Government conversion factors. Further information on TSB's methodology and full Summary of Streamlined Energy and Carbon Reporting since 2019 can be found [here](#).

Assurance

TSB appointed EY to provide independent limited assurance over metrics indicated in Table 1 on page 36 by (*). The assurance engagement was planned and performed in accordance with the International Standard for Assurance Engagement (ISAE) (UK) 3000 (July 2020) Assurance Engagements Other than Audits or Reviews of Historical Financial Information.

A limited assurance report was issued and is available [here](#). This report contains details of the scope, respective responsibilities, work performed, limitations and conclusion.

Managing the opportunities and risks associated with climate change

We continue to consider the risks and opportunities associated with climate change and these are incorporated in TSB's medium-term plan. The opportunities and risks are assessed by reference to the following time horizon:

	Short	Medium	Long
Time horizon	Within the next 12 months	1 – 5 years	5+ years
Rationale	Aligns with the going concern time horizon analysis (page 39)	Aligns with current medium term planning horizon	Extends beyond current planning horizon

Managing the opportunities associated with climate change

The table below provides a description for each of the principal climate-related opportunities arising in connection with our business, a description of the impact of that opportunity on our business model and strategy, and with the time horizon those opportunities have been assessed against.

	Opportunity	Impact	Horizon
FINANCED EMISSIONS	At TSB, we have a clear purpose to provide Money Confidence. For everyone. Every day. Our aim is to support customers with money confidence in ways that enable them to prepare for a net-zero future, including understanding how and why to create a warm, resilient home, and plan the move to clean heat.	Engaging with customers and homeowners, utilising data (where data regulations allow), will help us build deeper customer relationships, delivering value through tailored support and offers and rewarding customers for meeting more of their needs through TSB.	Long
	Once customers have confidence in their plan to create a warm, resilient, low carbon home, we can help customers play their part in tackling climate change by providing them with the financial products and propositions they need to take action and encouraging take up.	Benefits of more energy-efficient, low carbon properties on our mortgage portfolio include reduced energy bills for our customers (building their resilience and money confidence), improved value and saleability of properties and contributes to the reduction in TSB's financed emissions.	Long
OPERATIONAL EMISSIONS	Decarbonise our property estate, removing reliance on fossil fuels.	TSB has a 5-year decarbonisation plan to reduce the reliance on fossil fuels in its operational estate.	Medium
	As we work to deliver a best-in-class digital proposition, we have a co-opportunity to reduce our paper consumption and supply chain emissions.	As well as reducing our impact on the environment, reducing emissions from paper consumption will contribute to making TSB simpler and more efficient for customers and colleagues, reducing costs.	Short - Medium
VALUE CHAIN EMISSIONS	Empowering colleagues to improve sustainability by adopting sustainable travel, commuting and homeworking habits.	Strengthening our operational resilience and colleague engagement and wellbeing through our ways of working approach and Do What Matters Plan.	Short - Medium
	Partner with suppliers to drive sustainability through the supply chain.	Using enhanced data and supplier profiling information, identify suppliers and, through better engagement, collaboratively work to reduce environmental impacts, in line with TSB targets. Work with suppliers to create long-term partnerships and mutual growth, cost savings, more resilient operations and business continuity. Support smaller suppliers to reduce environmental impact.	Short - Medium

TSB's Do What Matters Plan (continued)

Planet (continued)

Managing the opportunities associated with climate change (continued)

In addition to the above, there are opportunities that are considered cross cutting or entity wide opportunities:

	Opportunity	Impact	Horizon
CROSS CUTTING	Colleague engagement, empowering colleagues to improve sustainability by adopting sustainable habits.	Better colleague engagement, leading to colleague retention & attraction.	Short
	Opportunity to strengthen our reputation as the bank that Does What Matters.	Taking meaningful decarbonisation action enhances TSB's reputation and supports in developing deeper colleague, customer and stakeholder relationships and advocacy.	Short

Managing the risks associated with climate change

We are assessing the new regulatory expectations set out by the PRA in Supervisory Statement 5/25 (*Enhancing banks' and insurers' approaches to managing climate-related risks*) and will complete our internal review and gap analysis by 3 June 2026.

We have used our established Risk Management Framework (as detailed on pages 14 and 15) to assess the significance of the climate-related risks facing TSB, for example:

- The level 1 strategic risk category includes an ESG Level 2 risk category. This focuses on the risks arising from environmental, social and governance issues, making climate change risk more visible within TSB's Risk Management Framework;
- We have considered climate change within our annual risk appetite review; and
- We have assessed and documented how climate change may influence each of the policies within the TSB policy framework as part of the policy effectiveness statement.

The table below provides a description for each of the principal climate-related risks arising in connection with our business, a description of the impact of that risk on our business model and strategy, together with the time horizon those risks have been assessed against.

	Potential risk	Potential impact	Horizon
PHYSICAL RISK	The main physical risks for TSB relate to flooding, precipitation, subsidence, and coastal erosion impacting the potential realisable value of property related collateral.	Of these, flooding and precipitation pose the primary physical risk to TSB. We have measured subsidence and coastal erosion risks at this time and, due to low exposure rates, concluded these are not a principal concern.	Medium - Long
	Severe weather events could impact business continuity.	Impact to customers where TSB front-line colleagues (branches or telephony centres) are affected can be managed through geographic coverage of staffing levels and through our multi-channel approach (digital services in particular) as well as localised Business Continuity Plans.	Short
		We note that TSB does not directly operate any data centres, which are managed by a third party, and we look at the resilience of our data centres through supplier due diligence. Increased maintenance costs cannot be fully anticipated, and may impact planned budgets.	
	The crystallisation of physical climate risks could impact UK government spending and revenues, UK bank profitability and Sovereign, Supranational and Agency (SSA) and supranational financing requirements.	The Bank invests a portion of its Liquid Asset Buffer in UK government, UK bank Canadian Bank and SSA debt. A physical event could affect the value of these debt holdings.	Medium - Long

TSB's Do What Matters Plan (continued)

Planet (continued)

Managing the risks associated with climate change (continued)

	Potential risk	Potential impact	Horizon
TRANSITION RISKS	Transition risk for our mortgage portfolio will arise from: <ul style="list-style-type: none"> Transitional legislation mandating minimum energy efficiency standards for properties; Transitional legislation mandating installation of low carbon heating; A shift in consumer sentiment towards properties that have better energy efficiency, resilience, low-carbon heating and/or electricity micro-generation and storage (for example through solar panels and batteries); The sale of retrofit and energy efficient products and propositions. 	Potential impacts of transition risks for TSB's mortgage lending include: <ul style="list-style-type: none"> The impact on customers (with potential for "mortgage prisoners") and property value if the property can't be retrofitted (for either energy efficiency or electrification), or the cost of retrofitting is unaffordable; Increased impairments and arrears for Buy-To-Let mortgages where properties can no longer be let (due to failure to meet minimum energy efficiency standards, and/or fines); Increased competition for more efficient properties (currently EPC rating A/B); Liability and conduct risk from retrofit or energy efficient products miss-sold, incorrectly provided or assumed advice, and/or risk of underperformance of financed retrofitting activity. 	Short-Long
	The main transition risk to the Bank's operational estate arises from the impact of Minimum Energy Efficiency Standard (MEES), and the costs to meet these standards.	Any future changes to MEES regulations could impact the ability to dispose of vacant or surplus operational property. Additional funding may be required to upgrade the existing operational estate.	Medium
	There is an emerging risk associated with supply chain availability as companies transition to decarbonise their operational estates.	The impact on the supply chain to procure renewable energy, or the assets required to decarbonise the estate as companies race to remove carbon from their operational estates cannot be fully anticipated; this could therefore impact planned budgets.	Medium
	There is a potential reputational risk should stakeholders feel insufficient action is being taken to transition and deliver emissions reductions, or that TSB is 'greenwashing' in its claims of action and contagion risk from third-party suppliers due to the supplier's carbon footprint.	Impact could be negative stakeholder reaction and publicity, leading to lower colleague and customer engagement and satisfaction, or to further public and regulatory scrutiny of TSB's activity related to this issue.	Medium
	The crystallisation of transitional climate risks could impact UK government spending and revenues, UK bank profitability and Sovereign, Supranational and Agency (SSA) and Supranational financing requirements.	The Bank invests a portion of its Liquid Asset Buffer in UK Government, UK Bank, Canadian Bank and SSA debt. A transitional event could affect the value of these debt holdings.	Medium - Long

Scenario analysis

We use scenario analysis to help identify and measure climate-related risks and to make sure their management and mitigation are embedded in our strategy, risk appetite, financial planning and capital management processes as they become more material over time.

Analysis of the residential mortgage portfolio on page 41, provides a comprehensive view of potential risks and impacts across a range of potential climate pathways. We adopt an industry recognised approach using Representative Concentration Pathways (RCP) established by the UN Intergovernmental Panel on Climate Change. The methodology uses a number of potential RCP climate change scenarios based on how the global economy transitions to net zero emissions, alongside UK climate projections (UKCP18). All analysis is based on a 'worst case' global outcome (RCP 8.5), reflecting both benign and stressed economic environments.

Our scenario analysis considers property values as they are today as well as loan balances, potential property value impact after a climate event, and probability of repossession to help determination of likely 'realised' loss to TSB.

In 2025, our updated analysis indicated the climate risk profile has not materially changed and remains low for both physical and transitional climate impacts.

TSB's Do What Matters Plan (continued)

Planet (continued)

Scenario analysis (continued)

While TSB is not materially affected by climate risk in the short-term and financial exposure is low, we are impact assessing physical risks for new mortgage lending. This enables us to identify exposures in the context of our defined risk appetite. For portfolio reviews, we acknowledge that the UK is experiencing wetter weather all-year round and this is causing an increase in flood events which will grow in frequency and severity over time. Therefore, whilst risk and loss remain low, we consider flooding and precipitation to be the most impactful physical risk of concern.

The financial impact of subsidence risk has also been considered and whilst subsidence events are anticipated to occur in reasonable volumes, the costs to repair such issues are currently immaterial versus property values and therefore not considered to be a significant material risk.

From a transition perspective, the main risks arise from the poor energy performance of the properties on which mortgage lending is secured and the risks associated with the cost for improving the property rating and moving to low-carbon heat. We also monitor evolving policy and regulations around climate change and recognise that these may be updated in the short to medium term.

We continue to see improvements in the average EPC Standard Assessment Procedure (SAP) score of our current portfolio, as shown in the table below. SAP is the methodology used by the UK government to assess and compare energy and environmental performance of residential properties.

Year	Average EPC score	Average SAP score	SAP movement YoY
2021	D	63.8	+1.2
2022	D	64.9	+1.1
2023	D	65.6	+0.7
2024	D	66.1	+0.5

Whilst we use EPC rating and SAP score to benchmark our performance year on year, we recognise and support the industry and government effort to overhaul the underlying methodologies of these processes to enable greater accuracy, relevance and reliability.

We will continue to analyse the risk to the mortgage portfolio on an annual basis, and in 2026, will review our scenario analysis (in line with Supervisory Statement 5/25) with added customisation based on our own economic outlook and our opinion on how climate risks are likely to progress and evolve over time. This expansion will be proportionate, reflecting the relatively low portfolio risks outlined above, and the low risk witnessed at mortgage origination.

Section 172 statement

In overseeing delivery of TSB's purpose and strategy, TSB's Directors are always mindful of their duties under the Companies Act 2006, including as set out in section 172. The Board recognises that TSB's ongoing success is only possible through engagement with, and having regard to, the interests of key stakeholders.

TSB's governance framework seeks to ensure that the Board appropriately considers stakeholders in decision making. The Board monitors and challenges progress in the performance of the business through its review of metrics which measure the level of achievement of TSB's Primary Corporate Objectives, which includes delivery of the Do What Matters Plan, monitoring performance against risk appetite and reviewing customer management information that measures the execution of customer conduct strategies.

These metrics, together with a wider dashboard of management information, are reviewed and discussed. Data on customer outcomes continued to be an area of Board focus as described further in the 'Customers' section below. In addition, the Remuneration & People Committee regularly reviews achievement against the Primary Corporate Objectives to support its decision making on variable remuneration outcomes. In this way, variable remuneration outcomes are directly linked to metrics that support the delivery of TSB's strategic objectives.

Each year the Board considers a refresh of the Bank's medium-term plan which requires the Executive to consider the impact on various stakeholders and provides the Board with an opportunity to challenge the Executive in ensuring that appropriate consideration is given to the interests of all stakeholders. In 2025, the plan was comprehensively discussed across two Board meetings in October and November, with the interests of the Bank's respective stakeholders forming a key part of these deliberations.

Customers

The Board takes account of customer experience through regular reviews of key measures such as Net Promoter Score and customer conduct metrics.

One of the Board's annual responsibilities, following the inaugural report in July 2024, is consideration and approval of the Bank's assessment of its monitoring of and actions to deliver good outcomes for customers, in accordance with the FCA's Consumer Duty. The 2025 report was approved by the Board in October following initial review in September. Following the identification of a number of issues impacting customer outcomes during the course of 2025, management stood-up a strategic review into the level of cultural embedment of the Consumer Duty in the Bank. The Board played an active role in shaping the scope of, and intended outcomes from, the review and requested regular touchpoints on the review as it progressed.

As has been the case since 2021, the Board also held two deep dive sessions on complaints in 2025 to provide ongoing support and challenge to management's efforts to improve the customer experience through root cause analysis of the main complaint types and to implement action plans to address the underlying causes identified.

The Board also initiated and participated in a deep dive session on customers, which addressed a number of customer-related topics including: the Bank's customer cohorts, characteristics and behaviours; and the strategies being deployed by the Bank for customer acquisition and engagement.

Finally, following the announcement of the proposed acquisition of TSB by Santander, management implemented additional tracking of customer sentiment, through surveys and other mechanisms, which data was considered by the Board at each meeting following the announcement.

Section 172 statement (continued)

Colleagues

The Board is proud of the commitment of our employees and the collaborative culture in TSB. The Board operates a framework that takes account of the interests of our employees, including:

- Promoting the role of recognised trade unions in independently representing the interests of employees, with the Chief Executive also maintaining direct communication with senior representatives from each of the Bank's recognised trade unions;
- The appointment of a Board level whistleblowing champion, as more comprehensively referred to on page 52 in the Corporate governance statement;
- Providing challenge, through the auspices of the Remuneration & People Committee, to ensure that remuneration policy is appropriate for all employees, as well as executives, and provides for competitive remuneration strongly aligned to the delivery of TSB's strategic goals;
- Undertaking, at least annually, a review of talent and succession, particularly in respect of leadership roles; and
- Considering and interrogating the output from the annual Colleague Experience Survey and additional pulse surveys issued from time to time. The latter included check-in surveys on colleague sentiment following the announcement of the proposed acquisition of TSB by Santander, with the results of these, together with other colleague metrics, reported to the Board.

In addition, the Chief Executive, as a member of the Executive Committee, takes part in a variety of colleague engagement activity across TSB locations, including: stand-ups, town hall meetings, TSB Talks sessions, branch visits and informal coffee catch-ups. At all of these, colleagues are encouraged to raise issues on their minds. Following the announcement of the proposed acquisition of TSB by Santander, the TSB Talks sessions in particular have been used as an opportunity to gauge colleague sentiment about the transaction and provide colleagues with the opportunity to pose related questions to Executive Committee members.

The Board also receives an annual presentation from The Link to facilitate direct engagement between the Board and employees. The Link is a forum for employees across all levels and all parts of TSB. It gathers and builds on employee feedback and enables meaningful dialogue between employees, the Executive leadership and the Board on a wide range of topics.

In 2025, The Link met seven times and presented at the Executive Committee on three occasions, covering a broad range of topics.

The Board discussion with The Link took place in November 2025 and focused on colleague recognition, Santander-TSB integration, learning & skills, inclusion and IT Service Excellence Roadshows. The Board were supportive of the recommendations put forward by The Link and offered suggestions for how these might best be delivered and built on. Preceding the formal Board presentation in November, the first annual breakfast session took place in July 2025, attended by representatives of the Board and The Link. The purpose of this session, which covered: Santander-TSB integration; Colleague Excellence Awards; cyber security; and learning & skills, was to provide another opportunity to discuss matters of interest to employees in an informal setting.

Throughout 2025, different members of the Board accompanied the Chair in attending a series of breakfast meetings with senior leaders to discuss matters of interest to them in an informal setting. During the summer this concept was extended to include lunch meetings providing wider opportunity for senior leaders not based in London to attend such sessions.

Section 172 statement (continued)

Colleagues (continued)

As explained in the Nomination Committee report on page 55, the Board plays an active role in promoting and challenging progress in establishing a truly diverse and inclusive culture at TSB and the Remuneration & People Committee carries out succession planning reviews to ensure continuity of skilled employees. To enable the Board to spend more time considering executive succession, responsibility for executive succession plans (excluding for Executive Directors) was moved from the Nomination Committee to the Remuneration & People Committee in November 2024. In support of this responsibility, two Executive Committee members each attended one meeting of the Remuneration & People Committee in 2025 to discuss colleague-related developments within their respective functions. Additional information on how the bank engages with colleagues can be found in the Do What Matters Plan section on page 29.

Suppliers

TSB considers that a robust supplier management framework, including clear roles, responsibilities and accountability, is required to assure resilient customer services. The Board approves annually TSB's Supplier Policy (which includes the outsourcing strategy). The Supplier Policy includes, amongst other matters:

- alignment to regulatory requirements;
- appetite for use of suppliers where internal capability does not exist or scale and/or value is generated through use of a supplier;
- confirmation where TSB has no appetite for outsourcing of key activities, for example, there is no appetite to outsource ownership of primary customer banking relationships;
- for critical or material outsourcing, TSB will look to use market leading, financially, and operationally secure suppliers;
- considerations in supplier selection based on risk assessment, experience and track record of the supplier; and
- a preference to select suppliers that support TSB's expectations in areas such as the environment, human rights and labour standards.

Page 27 sets out TSB's approach to the prompt payment of suppliers.

Communities

The Board fully recognises its obligations to consider the interests of the wider communities in which TSB operates and this is demonstrated in its support of the Do What Matters Plan, TSB's responsible business plan, described in further detail starting on page 25. This outlines how, through delivery of TSB's purpose and strategy, TSB seeks to contribute to a better society. The Board receives regular updates on progress of the Do What Matters Plan through the Chief Executive's Report, together with a more comprehensive annual update at which the ambition of, and progress against, management's plans are challenged.

Other key stakeholders

The Board also has regard for the interests of the Bank's shareholder and regulators as outlined below.

- *TSB's shareholder, Banco de Sabadell, S.A. (Sabadell)*. Given Sabadell's 100% ownership of TSB, it is natural that the promotion of the long-term success of TSB, through the development of a clear purpose and strategy, is aligned with the interests of Sabadell, without undermining the legal obligation of TSB's Directors to act independently.

Sabadell's interests are represented at Board by two shareholder appointed Non-executive Directors. Any circumstances where shareholder and TSB interests are not aligned are managed through the disclosure and management of any such potential conflict.

Sabadell's interests are further represented through the UK Steering Committee as outlined on page 47. Open communication channels are also maintained between key Sabadell and TSB executives, such as the Chief Executive and Chief Financial Officer and between functional counterparts, for example in Legal, Human Resources and the Second and Third Lines of Defence.

- *Regulators*. Open and honest engagement with regulators is a cornerstone principle of the UK regulatory environment. The Chief Risk Officer reports regularly to the Risk Committee and the Board on material matters of regulatory liaison and TSB's assessment of the quality of the relationship with each regulator. Certain Board members maintain a direct relationship with the FCA and PRA through the framework of 'proactive engagement and continuous assessment' meetings and report on key themes discussed through committee and Board meetings, as appropriate.

Section 172 statement (continued)

Other key stakeholders (continued)

Following the announcement of the proposed acquisition of TSB by Santander, the Board has received regular updates on the progress of the transaction and related preparatory activity. The Board has also remained mindful, in the period since the announcement, of Santander's interests as a likely new owner, whilst continuing to act independently and giving appropriate weight to the interests of all stakeholders in its deliberations. As part of this process, the Board has received external legal advice on the obligations of Directors in the period up to a possible change in control and instructed TSB's legal team to adapt the guidance for the benefit of senior colleagues across the business.

Consideration of environmental and climate change matters

TSB's Do What Matters Plan formalises the Bank's commitment to reducing its impact on the environment while helping customers and employees do the same. As part of this plan, we have committed to reduce our environmental impact and deliver against our goals as outlined starting on page 32. In addition, the Board, through discussion of the topic at the Risk Committee, continued to engage with the climate change agenda in 2025, inputting into management's plans to recognise and mitigate the risks to the business arising from climate change.

Strategic report on pages 2 to 45 approved, by order of the Board.



Keith Hawkins,
Company Secretary
5 February 2026

Corporate governance statement

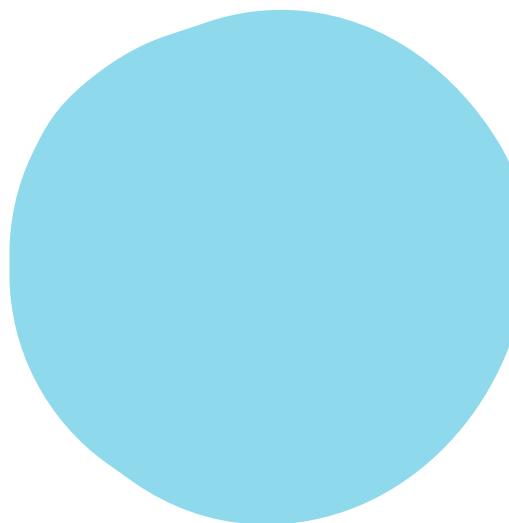
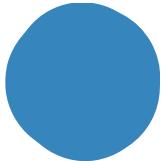
[47](#) How the business is managed

[55](#) Nomination Committee report

[56](#) Audit Committee report

[62](#) Directors' report

[66](#) Remuneration review



How the business is managed

Corporate governance framework and compliance with the UK Corporate Governance Code

The design and operation of an effective corporate governance framework appropriate for a bank of TSB's scale and ambition is critical to meeting the needs of all our stakeholders. TSB's corporate governance framework encompasses TSB Banking Group plc (the Company), TSB Bank plc (the Bank) and other subsidiaries of the Company (together TSB). Each Director of the Company also serves as a Director of the Bank. Nick Prettejohn is the Chair of the Boards of both the Company and the Bank. The Board of the Company (the Board), as a whole, is collectively responsible to the shareholder for promoting the long-term success of the Company by directing the Company's affairs. The corporate governance framework is designed to assist the Board, the Board of the Bank and the Chief Executive in discharging their duties by ensuring an appropriate scheme of delegation. This is achieved through:

- Board authorities being delegated from the Boards of the Company and the Bank (together the TSB Boards) to Board committees and to the Chief Executive; and
- Delegated executive authorities through which aspects of the Chief Executive's authority are delegated to other senior executives and which set out the support provided by the executive committees.

TSB's corporate governance structure is supported by the internal control and governance framework as outlined on page 53. An important principle, applied throughout the corporate governance framework, is that the delegation of executive authority is to the individual office holders (who may in turn delegate aspects of their authority to others). Executive committees may be established to support the individuals in exercising their delegated authorities, but the committees do not separately hold any delegated authority in their own right. This approach to individual accountability is aligned to the principles of the Senior Managers & Certification Regime.

As part of a wider group, comprising Sabadell and its subsidiaries (together the Sabadell Group), the Bank is required by the Sabadell Group to adhere, to the extent compatible with TSB's obligations under the UK regulatory framework, to relevant Sabadell Group policies which reflect relevant obligations imposed on Sabadell Group by its consolidated supervisors, the Bank of Spain and the European Central Bank.

To assist with this, Sabadell operates an information sharing and co-ordination committee, the UK Steering Committee (UKSC) which seeks to provide Sabadell with a regular overview of the performance of TSB and to ensure that TSB policies and processes are aligned to those of the Sabadell Group where it is appropriate to do so. Certain members of the Bank's Executive Committee are appointed as members of the UKSC.

The Bank also operates policies and procedures as a ring-fenced UK bank. Reforms to the ring-fencing regime took effect from February 2025, which included the introduction of a secondary threshold that exempted retail focussed banks, like TSB, from the requirements of the regime where their investment banking activities account for less than 10% of Tier 1 capital. However, following the announcement of the proposed acquisition of TSB by Santander (which is itself subject to the ring-fencing regime), a decision was taken by management to continue the operation of ring-fencing policies and procedures pending confirmation of the continuing applicability of these to TSB as part of the Santander Group should the proposed acquisition complete.

Although the Company does not have shares with a premium listing on the London Stock Exchange and does not need to comply with the UK Corporate Governance Code (2024 edition) (Code), the Board has chosen to voluntarily adopt those principles of the Code that are considered appropriate for TSB as a wholly owned subsidiary of Sabadell and to report against the Code in the Annual Report. 2025 is the first year in which the Company has reported against the 2024 update to the Code and the Company has incorporated into its corporate governance arrangements the, predominantly minor, changes reflected in this update. The most material changes in the 2024 Code update relate to the reporting of risk management and internal control arrangements, which are effective for reporting periods beginning on or after 1 January 2026 and for which preparations are being overseen by a Corporate Reform workstream. A copy of the Code is available at www.frc.org.uk.

The following aspects of the Code are not considered appropriate for TSB:

- All Directors should be subject to annual re-election by shareholders (Provision 18). It is not considered necessary for Directors to seek annual re-election or for the Directors appointed at the nomination of Sabadell to be appointed for a specified term, as Sabadell is empowered through the Articles of Association to remove or appoint directors by submitting notice of same to the Company;
- Provisions relating to the proportion of Independent Non-executive Directors who are members of the Audit and Remuneration & People Committees (Provisions 24 and 32), given the inclusion of Sabadell nominated Directors in the membership of each of these committees; and
- Provisions relating to dialogue with shareholders (Provisions 3 and 4), given that TSB has a single shareholder and there are several mechanisms for ongoing engagement between the TSB Executive/Board and Sabadell.

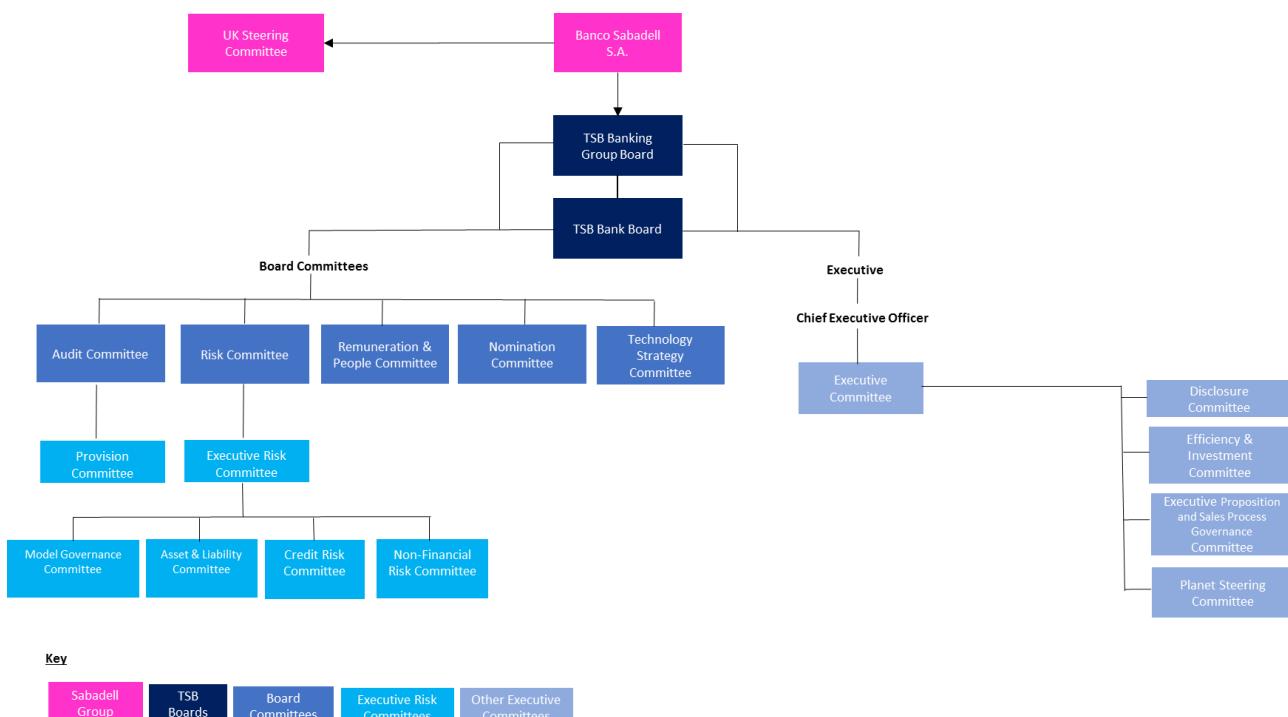
How the business is managed (continued)

Corporate governance framework and compliance with the UK Corporate Governance Code (continued)

In addition, TSB has deviated from the following recommendations of the Code in 2025:

- In prior years, in line with the requirements of the Code (Provision 21), a performance review of the Board and its committees has been undertaken, with an externally facilitated review every three years (the 2024 review being facilitated by BoardClic). In light of the announcement of the proposed acquisition of TSB by Santander, however, which is currently scheduled to complete in 2026, a decision was taken, with the support of the Board Chair, not to undertake a Board performance review in 2025. The rationale for this decision was the likely changes to the composition of the Board on completion of the acquisition by Santander, together with cognisance of the expected pressure on business-as-usual capacity arising from preparations for completion and the commencement of integration workstreams;
- The Remuneration & People Committee has not created a policy for post-employment shareholding requirements (Provision 36). TSB Executive Directors are already subject to deferral periods for Sabadell shares awarded as part of TSB variable remuneration. Therefore, the current view is that no specific post-cessation shareholding requirement be introduced for TSB Executive Directors at the present time. The Remuneration & People Committee continues to keep this under review as part of a regular Committee agenda item to consider market developments; and
- Provision 17 of the Code states that 'The board should establish a nomination committee to lead the process for appointments, ensure plans are in place for orderly succession to both the board and senior management positions, and oversee the development of a diverse pipeline for succession'. Whilst the Nomination Committee will continue to lead the process for appointments to, and succession planning for, the TSB Boards, including Executive Directors, the responsibility for consideration of executive succession planning (excluding Executive Directors) was transferred to the Remuneration & People Committee in November 2024. The primary rationale for this change was the synergy with the Remuneration & People Committee's existing focus on talent management and executive reward outcomes, but also recognised that the Remuneration & People Committee met more frequently than the Nomination Committee, enabling more regular discussion on executive succession.

The corporate governance framework is reviewed annually by the Board to confirm that governance arrangements remain effective. The diagram below sets out the framework of Board and executive committees.



How the business is managed (continued)

The role and responsibilities of the Board

The Board's full responsibilities are set out in the matters reserved for the Board. The main items are summarised below.

(i) Strategy

- Approving, and monitoring the implementation by management of, TSB's strategy and long-term objectives and ensuring that rigorous processes are in place to monitor organisational compliance with risk appetite and all applicable laws and regulations;
- Determining Board structure, size and composition, and determining the roles and responsibilities of the Chair, Senior Independent Director, Non-executive Directors, Chief Executive and Executive Directors;
- Approving the high-level framework of Board delegations;
- Approving material TSB contracts and material acquisition or disposal of assets or equity investments by the Company or any subsidiary of the Company; and
- Approving material changes to TSB corporate and organisational structure, including changes to the Company's listing status or its status as a plc.

(ii) Risk and Regulatory Requirements

- Reviewing the effectiveness of the Company's and Bank's risk management and internal control systems;
- Approval of the Bank's Risk Appetite, Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP), Reverse Stress Test, and Recovery Plan;
- Approval, and monitoring the ongoing resilience, of TSB's Important Business Services; and
- Approval of the Customer Outcomes Report presented annually by management in accordance with the Consumer Duty.

(iii) Shareholder communications

- Approving the Annual Report and Accounts;
- Approving TSB's dividend policy; and
- Approving the resolutions and associated documentation for the shareholder at a general meeting.

In accordance with the Company's articles of association, Sabadell is empowered to determine that certain matters reserved to the TSB Boards also require approval by Sabadell.

Role of Directors

There is a clear division of responsibility between the Chair and Chief Executive. This has been approved by the Board and is available to view at www.tsb.co.uk/investors/people/.

The role of the Non-executive Directors includes the following key elements:

- Providing constructive challenge to management and helping to develop strategy;
- Scrutinising the performance of management in meeting agreed goals and objectives and monitoring the reporting of business performance;
- Satisfying themselves on the integrity of financial information and that financial controls and risk management systems are sound and defensible; and
- Determining appropriate levels of remuneration for the Chief Executive and other senior management and having a prime role in appointing and, where necessary, removing the Chief Executive and in Board and Executive Committee succession planning.

The Senior Independent Director's role is defined as follows:

- Acting as a sounding board for the Chair and to serve as an intermediary for the other Directors when necessary;
- Being available to the shareholder if it has concerns which cannot otherwise be resolved;
- Chairing meetings in the absence of the Chair; and
- Reviewing the Chair's performance.

How the business is managed (continued)

Board membership and composition

As at the date of this report the Board has ten members and is comprised as follows:

Chair:	Nick Prettejohn (independent on appointment)
Executive Director:	
Chief Executive	Marc Armengol
Independent Non-executive Directors:	Zahra Bahrololoumi
	Adam Banks
	Elizabeth Chambers
	Judith Eden
	Ahmed Essam
	Morten Friis (Senior Independent Director)
Non-executive Directors:	Sergio Palavecino
	Carlos Paz

Biographical details of the Directors, including their skills and experience, can be found at www.tsb.co.uk/investors/people/.

A record of the Directors who have served during the year is shown in the Directors' report on page 62. The letters of appointment for Non-executive Directors are available at the Company's registered office and at the Annual General Meeting.

Board Committees

Certain responsibilities of the TSB Boards are delegated to committees of the Board to assist the TSB Boards in carrying out their functions.

- The Risk Committee (chaired by Morten Friis) oversees the management of the risks that TSB faces;
- The Audit Committee (chaired by Judith Eden) oversees financial reporting and the Internal Audit function;
- The Nomination Committee (chaired by Nick Prettejohn) leads the process for appointments to, and succession planning for, the TSB Boards (including Executive Directors);
- The Remuneration & People Committee (chaired by Elizabeth Chambers) formulates TSB remuneration policy and leads succession planning for the Executive Committee (excluding Executive Directors); and
- The Technology Strategy Committee (chaired by Adam Banks) provides guidance, challenge and advice to the Board on TSB's vision and strategy for technology.

The Board also, from time to time, establishes additional sub-committees in relation to particular matters or initiatives under its management or oversight, which are then disbanded when the matter or initiative has been concluded.

The Audit and Nomination Committees have each prepared a report which includes a description of their role and composition. Each of the Board Committees' terms of reference are available at www.tsb.co.uk/investors/people/.

How the business is managed (continued)

Meeting attendance

The table below sets out attendance of Directors at Board meetings and the attendance of Committee members at the relevant Committee meetings held during the year.

Name of Director ^(iv)	Board meetings attended	Audit Committee meetings attended	Risk Committee meetings attended	Nomination Committee meetings attended	Remuneration & People Committee meetings attended	Technology Strategy Committee meetings attended
Nick Prettejohn	8 out of 8	–	–	2 out of 2	–	–
Robin Bulloch (i)	1 out of 2	–	–	–	–	–
Declan Hourican (ii)	5 out of 5	–	–	–	–	–
Marc Armengol (iii)	6 out of 6	–	–	–	–	–
Zahra Bahrololoumi	8 out of 8	–	–	–	–	3 out of 4
Adam Banks	8 out of 8	–	4 out of 6	–	7 out of 7	4 out of 4
Elizabeth Chambers	8 out of 8	4 out of 5	–	2 out of 2	7 out of 7	4 out of 4
Ahmed Essam	7 out of 8	–	–	–	–	4 out of 4
Judith Eden	8 out of 8	5 out of 5	6 out of 6	–	6 out of 7	–
Morten Friis	8 out of 8	5 out of 5	6 out of 6	2 out of 2	7 out of 7	–
Sergio Palavecino	6 out of 8	4 out of 5	–	–	–	–
Carlos Paz	8 out of 8	–	6 out of 6	2 out of 2	5 out of 5	–

(i) Resigned from the Board on 20 March 2025.

(ii) Resigned from the Board on 31 August 2025.

(iii) Appointed to the Board on 20 March 2025.

(iv) Directors not able to attend meetings due to longstanding prior commitments, illness or unavoidable circumstances, provided comments to the chair concerned on matters to be discussed at the relevant meeting.

Board changes and development

Marc Armengol, who had served as a Non-executive Director (SMF7, Group Entity Director) on the Board until 31 December 2024, took up the role of Chief Executive on 20 March 2025 upon receiving regulatory approval for that role and re-joined the Board as an Executive Director on the same date. During H1 2025, he completed an appropriately tailored induction programme, reflecting his previous experience both as a Non-executive Director and a former Strategy Director of TSB.

Directors are given the opportunity to undertake further training in order that they are fully comfortable with their role within the Board and to enable them to contribute to the operation of the Board and the long-term success of the Company in the fullest manner possible.

Deep dive sessions are regularly held at Board meetings to allow Non-executive Directors to explore key strategic and risk issues. In 2025, sessions were held on the Fraud Improvement Plan, TSB's Customer Acquisition & Engagement strategy and Cyber Resiliency, whilst the Board also took part in an externally hosted Artificial Intelligence immersion session. An initial discussion was also held on the 2026-2028 strategy before work on this was paused following the announcement of Santander's proposed acquisition of TSB. As in the prior year, discussions also continued on TSB's IT strategy in the context of the wider technological landscape in financial services, which were primarily held through Board Technology Strategy Committee meetings. In addition, during the year, the Remuneration & People Committee received regular updates from TSB's external remuneration advisers, PwC, detailing current areas of regulatory focus and remuneration trends in the banking industry.

Other Board changes to note in 2025 were: i) Robin Bulloch retired as Chief Executive from TSB, stepping down as an Executive Director on 20 March 2025, following receipt by the Bank of regulatory approval of Marc Armengol as Chief Executive; and ii) Declan Hourican resigned as an Executive Director on 31 August 2025. Alison Straszewski succeeded Declan as Chief Financial Officer of TSB, although she did not join the Board as an Executive Director.

Board performance

As reported on page 48, in relation to items of non-compliance with the Code, a decision was taken not to proceed with a Board performance evaluation in 2025. With regard to the actions arising from the externally facilitated Board performance evaluation in 2024, which were agreed with the Board at its meeting held on 26 November 2024, all were tracked to conclusion through the course of 2025 by the Company Secretary in consultation with the Board Chair.

How the business is managed (continued)

Independence

The Board has considered whether there are any relationships or circumstances which could appear to affect the Independent Non-executive Directors' judgement. No Independent Non-executive Director, or member of their immediate family, has ever had a material relationship with TSB nor receives additional remuneration apart from Director fees. The Independent Non-executive Directors do not participate in TSB's pension or share schemes nor do they serve as Directors of any companies or affiliates in which any other Director is also a Director.

Sergio Palavecino (General Manager, from 15 January 2025, and Chief Financial Officer of Sabadell) and Carlos Paz (Chief Credit Risk Officer of Sabadell and former Chief Audit Officer and, latterly, Chief Risk Officer of TSB), as executives of Sabadell, are not considered to be independent.

Management of conflicts of interest

Each Director has a duty under the Companies Act 2006 to avoid a situation in which they have, or may have, a direct or indirect interest that conflicts, or might conflict, with the interests of the Company. This duty is in addition to the existing duty that Directors owe to the Company to disclose to the Board any interest in a transaction or arrangement under consideration by the Company. If Directors become aware of any situation which may give rise to a conflict of interest, they must inform the rest of the Board immediately and the Board is then permitted under the articles of association to authorise such conflict if appropriate. This information is recorded in the Company's register of conflicts together with the date on which authorisation was given. Directors are asked to certify, on a bi-annual basis, that the information contained in the register is correct.

Save as described as follows in relation to Sergio Palavecino and Carlos Paz, there were no conflicts of interest between any duties owed by the Directors to the Company and their private interests or other duties. As Executives of Sabadell, Sergio Palavecino and Carlos Paz have a conflict of interest in circumstances where the interests of TSB and the wider Sabadell Group are not, or may not be, aligned. This conflict was authorised by the Board.

Whistleblowing arrangements

TSB has a whistleblowing process in place (known as Speak Up and Be Heard (SUBH) in TSB and referred to generically as whistleblowing in this section and elsewhere in this Annual Report) which is available to current and former colleagues, contractors and third parties, to raise concerns anonymously via TSB's SUBH hotline, together with a range of other confidential communication channels (dedicated email address, online referral form and post). The Board oversees the adequacy of TSB's whistleblowing arrangements, ensuring that they are proportionate and enable employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters.

In the role of TSB's SUBH Champion, Judith Eden (Chair of the Audit Committee) receives regular reports from management which provide details of whistleblowing matters. The Board receives an annual report from management providing an overview of whistleblowing procedures and outcomes, and challenges management on TSB's plans to ensure whistleblowing policies and processes are aligned with external best practice. As part of its annual review of whistleblowing matters, the Board was satisfied that there were no material concerns raised relating to TSB's whistleblowing processes or outcomes in 2025.

Reappointment of Directors

The Board considers that all Directors continue to be effective, committed to their roles and have sufficient time available to perform their duties. All Non-executive Directors, with the exception of those appointed at the nomination of Sabadell, have been appointed for an initial three year term and their continued appointment thereafter is considered by the Board at the end of the initial period of office. As the Company is a wholly owned subsidiary of Sabadell it is not considered necessary for Directors to seek annual re-election or for the Directors appointed at the nomination of Sabadell to be appointed for a specified term.

In accordance with Provision 15 of the Code, Directors are required to seek prior approval from the Board before taking up additional external appointments. During the year, the following appointments were approved by the Board: Adam Banks as a member of the Board of Finastra, and Judith Eden as a member of the Board of Merrill Lynch International. In both cases, the Board had concluded that the additional appointments did not represent any conflicts of interest or otherwise impact on their duties or time commitment to TSB.

Company Secretary and independent professional advice

Keith Hawkins has served as the Company Secretary throughout the year ended 31 December 2025. The Company Secretary is responsible to the Board for ensuring compliance with corporate governance requirements. The Board has access to the Company Secretary individually and collectively. As well as the support of the Company Secretary, any Director may take independent professional advice at the Company's expense in the furtherance of their duties, where considered necessary.

How the business is managed (continued)

Evaluation of internal controls procedures

The Board has carried out an assessment of the effectiveness of the Company's risk management and internal control systems. The Audit Committee report explains the process in more detail on page 59.

External auditor

KPMG LLP have expressed their willingness to continue as the Company Auditors pending the outcome of the proposed acquisition of TSB by Santander. Accordingly, as outlined in the Audit Committee report on page 61, resolutions proposing the re-appointment of KPMG LLP for the 2026 audit, and to authorise the Directors to determine their remuneration, will be proposed at the 2026 Annual General Meeting, as recommended by the Audit Committee and approved by the Board. KPMG will serve until completion of the anticipated acquisition of TSB by Santander.

Principal accountant fees and services

An analysis of fees for professional services provided by KPMG LLP, the Company's external auditor for the year ended 31 December 2025, is set out in note 14 to TSB's consolidated financial statements on page 98.

Internal control and governance framework

An explanation of TSB's Executive Committee and its sub-committees is set out below.

(i) Executive Committee

Chaired by the Chief Executive, TSB's Executive Committee is TSB's principal executive committee and collectively supports the Chief Executive in developing and implementing TSB's strategy, monitoring business performance, and agreeing any actions that are required to manage issues that affect TSB. Consideration is given to the interests of all stakeholders.

All members of the Executive Committee report to the Chief Executive. In addition, the Chief Risk Officer has a secondary reporting line to the Chair of the Risk Committee. To protect the independence of Internal Audit, the Chief Audit Officer's primary reporting line is to the Chair of the Audit Committee with a secondary reporting line to the Chief Executive. The Chief Audit Officer also has a reporting line to the Sabadell Group Chief Audit Officer.

(ii) Executive Risk Committees

The role of the Executive Risk Committee, which is chaired by the Chief Risk Officer, is to ensure an enterprise wide perspective of TSB's risks and determine strategic actions to address them. In February 2025, the reporting line of the Executive Risk Committee was moved from the Executive Committee to the Board Risk Committee (into which the Executive Risk Committee already had a dotted reporting line). This change in reporting line, made partly in response to regulatory feedback, was to better support the independence of the Executive Risk Committee.

The four further committees in the executive layer of risk governance, which each report into the Executive Risk Committee (and indirectly to the Board Risk Committee), monitor and challenge risk exposures against approved risk appetite and are structured to align with the Risk Management Framework described on pages 14 and 15. These comprise the Asset & Liability Committee, Credit Risk Committee, Model Governance Committee, and Non-Financial Risk Committee. Each of these committees is responsible for ensuring an appropriate risk and control environment is maintained within its area of authority. This enables day-to-day decisions to be made, with clear reporting lines established through the Executive Risk Committee, Board Risk Committee, and ultimately to the Board.

(iii) Other Executive Committee Sub-committees

The following other standing executive sub-committees report into the Executive Committee:

- The Disclosure Committee, which is responsible for identifying inside information and determining how and when TSB should disclose that information in accordance with its obligations to Sabadell and holders of TSB's listed debt;
- The Efficiency & Investment Committee, which is responsible for managing cost in the business and monitoring delivery of operating expenses in the medium term plan, for ensuring investment is aligned to strategic priorities, and to approve business cases for funding and track the progress of the investment portfolio;
- The Planet Steering Committee, which provides governance and oversight of Planet related activity, including monitoring progress against planet related targets and overseeing the management of the risks of climate change, to drive positive business outcomes against internal and external commitments and requirements; and
- Executive Proposition & Sales Process Governance Committee, which provides strategic and senior oversight over the Proposition Design and Governance Policy to ensure risks are identified and mitigated and that controls are in place to monitor, measure and reduce risks associated with product, servicing and sales journey design.

How the business is managed (continued)

(iii) Other Executive Committee Sub-committees (continued)

The Executive Committee also, from time to time, establishes additional sub-committees in relation to particular matters or initiatives under its management or oversight, which are then disbanded when the matter or initiative has been concluded.

(iv) Provision Committee

The Provision Committee provides approval of the monthly impairment charge (including the overall provision level), non-model related Expert Credit Judgements or any model related Expert Credit Judgement that has not been approved by Model Governance Committee at the point of booking. The Provision Committee was established on 30 June 2025 and reports into the Audit Committee, to which the Board has delegated authority for the oversight of provision adequacy.

By order of the Board



Keith Hawkins
Company Secretary
5 February 2026

Nomination Committee report

Chair's introduction

I am pleased to present my report on the activity of the Nomination Committee for the year ended 31 December 2025.

The Committee is authorised by the Board to keep the structure, size and composition of the TSB Boards under review and to make recommendations to the Board with regard to any changes required. It leads the process for appointments to the TSB Boards, Board committees and the chairing of those committees and also considers succession planning for the TSB Boards, taking into account the skills, knowledge, experience, diversity and leadership needs of TSB.

As at the date of this report, the members of the Nomination Committee are Nick Prettejohn (Chair), Elizabeth Chambers, Morten Friis and, effective from 21 May 2025, Carlos Paz.

Appointment / re-appointment of Directors and Board succession planning

The Committee met twice during 2025 in July and November. The key matters discussed and agreed at these meetings were:

- The July meeting of the Committee considered Board and committee composition, taking into account Board changes that had taken place since the previous meeting of the Committee in November 2024 and the impact of this on independence and diversity metrics. The Committee also considered the remaining tenure of Independent Non-executive Directors (INEDs) and the interaction of this with the likely timing of change of control should the proposed acquisition of TSB by Santander complete. It was agreed that no changes were currently needed to Board or committee composition or tenure, but the Committee noted the extension of the notice period INEDs were required to give to TSB from one month to three months to support operational and governance continuity in light of the proposed sale of TSB to Santander. The Committee were also advised that Alison Straszewski would become the Chief Financial Officer following Declan Hourican's impending departure from the role.
- The November meeting of the Committee considered and recommended to Board the extension of the initial term of office of Zahra Bahrololoumi and Ahmed Essam as INEDs, currently ending on 16 March 2026, to the date of completion of the proposed acquisition of TSB by Santander. This would ensure the retention of the current Board composition and facilitate equality of treatment of all INEDs up to the point of completion of the Santander transaction. Such recommendation was subsequently approved by the Board.

In addition to the matters outlined above, the Committee also recommended to the Board, by written resolution passed on 6 May 2025, the appointment of Carlos Paz as a member of TSB's Remuneration & People and Nomination Committees. This aligned with the practice of having Sabadell nominated Director representation on TSB Board committees following the termination of Marc Armengol's membership of these committees on temporarily leaving the TSB Board on 31 December 2024, pending his regulatory approval to act as TSB's Chief Executive. The appointment of Carlos Paz as a member of TSB's Remuneration & People and Nomination Committees was subsequently approved by the Board.

Diversity and inclusion

TSB is committed to fair and consistent treatment of all employees regardless of their personal characteristics, which include gender, ethnicity, religion, sexual orientation, transgender status, disability, nationality or age. The Board has adopted this approach to diversity and had regard to it during the appointment processes discussed above.

The Do What Matters Plan section, on pages 28 and 29, provides further detail on TSB's approach to diversity and inclusion, which includes a framework to support TSB's existing ambition to create a truly inclusive workplace. The Board promotes and affirms TSB's aspiration to meet and exceed a target of 33% of Board positions being held by women. At 31 December 2025, 30% of the Board were women, whilst 50% of INEDs were women. The percentage of senior roles held by women is recorded on page 28.

The Chair's other significant commitments

My other significant commitments, in addition to the role of TSB Chair, are as Chair at the media group, Reach plc, and the human rights charity, Prisoners Abroad.

Details of my other external appointments are available at www.tsb.co.uk/investors/people/.



Nick Prettejohn

Chair

Nomination Committee

5 February 2026

Audit Committee report

Chair's introduction

Our voluntary practice of including a report on the Audit Committee's activities in the Annual Report remains a reflection of our commitment to transparency and accountability. I and the Committee will continue to uphold this practice, ensuring that the Committee's activities are clearly documented and made accessible.

I have been a member of the committee throughout 2025 and received full support from my fellow Non-executive Directors, Elizabeth Chambers, Morten Friis, and Sergio Palavecino, who have also continued their dedicated service on the Committee throughout the year.

The collective expertise and industry experience of the Committee members are substantial, as detailed in their biographies available at www.tsb.co.uk/investors/people/. All Non-executive Directors, including the Chair, of TSB hold a standing invitation to participate in the Committee's meetings, ensuring robust and inclusive oversight.

The focus for the Committee in 2025 was targeted at:

- Continued oversight of the completeness and embedding of the Bank's internal control framework, particularly in relation to IT controls;
- Evaluating management's judgements concerning the adequacy of the allowance for credit impairment losses taking into account macroeconomic conditions, regulatory expectations and updates to the Bank's credit models and the adequacy of provisions;
- Reviewing estimates and judgements arising from effective interest rate methodology, including key behavioural assumptions and customer repayment profiles; and
- Continuing to monitor management's readiness for the new Corporate Governance Code requirements in 2026.

The Committee maintained robust oversight of the Bank's IT control environment, monitoring plans and progress to embed improvements to ensure timely and sustainable improvements. Continued meaningful progress has been made, and the Committee will continue to ensure enhancements are fully embedded and maintained.

In 2026, the Committee will focus on ensuring there is adequate preparation for an orderly process to enact the anticipated change in control from Sabadell to Santander, while maintaining high standards of governance, an effective control framework and understanding action taken to mitigate the additional risks arising from the transaction. The Committee will also look to oversee the continued refinement of the approach and judgements regarding expected credit losses, as well as monitoring the embedding of the IT control framework.



Judith Eden
Chair
Audit Committee
5 February 2026

Audit Committee report (continued)

Membership and operation of the Committee

The Committee is Chaired by Judith Eden, who was appointed to the Committee, as a member, on 1 January 2024 and assumed the role of Chair with effect from 17 April 2024. The Committee currently comprises two further Independent Non-executive Directors (Elizabeth Chambers and Morten Friis, who have served on the Committee since 1 October 2020 and 1 April 2024 respectively) and one Non-executive Director (Sergio Palavecino), who joined the committee on 7 January 2025. The TSB Chairman (Nick Prettejohn) continues as a standing attendee of Committee meetings. Morten is also a member and Chair of the Risk Committee, and Judith is also a member of the Risk Committee.

Committee meetings are attended by members of the Executive Committee including the Chief Executive, Chief Financial Officer, Chief Risk Officer and Chief Audit Officer. The external auditor, KPMG LLP, attends each meeting of the Committee which typically includes a private session with the Non-executive Directors without the presence of executives. A private session with the Chief Audit Officer is also held at least once a year.

The Chair reports to the Board after each Committee meeting on the main matters discussed so that all Directors are informed on the activity of the Committee. The Chair is available to all Directors for discussion of any matters in more detail and maintains regular dialogue outside Committee meetings with members of the Executive Committee, in particular, the Chief Executive, Chief Financial Officer, Chief Risk Officer and Chief Audit Officer, as well as the lead partner of the external auditor.

The Committee met five times during 2025.

Audit Committee responsibilities and activity in 2025

The Committee is responsible for, amongst other things, the monitoring of the integrity of the financial statements of TSB and the involvement of the external auditor in that process as well as championing a straightforward and transparent culture to ensure that TSB operates within the Board approved risk appetite in respect of financial reporting and internal control. Specifically, the Audit Committee is responsible for reviewing and reporting to the Board on:

- Financial statements and related financial reporting;
- Internal controls and risk management systems and culture;
- Performance and effectiveness of the Internal Audit function; and
- Effectiveness of the relationship with, and work of, the external auditor.

Financial statements and related financial reporting

The Committee is responsible for the review and challenge of TSB's half year and annual financial information, including the significant financial reporting estimates and judgements which they contain. During 2025, the Committee has considered the following matters:

(i) The consistency and appropriateness of, and any changes to, significant accounting policies

The Committee has considered and accepted management's review of TSB's accounting policies. There have been no material changes in 2025. An explanation of the application of the TSB's accounting policies is provided in the Notes to the consolidated financial statements on pages 70 to 128.

(ii) Viability and going concern assessments in uncertain macroeconomic circumstances

The Committee has considered management's approach to, and the conclusions of, the assessment of TSB's ability to remain a going concern, taking into account the Bank's capital and liquidity position. The Committee considered and, after taking the Bank's strategy and external market developments into account, supported management's conclusion that it remained appropriate to adopt the going concern basis in preparing the consolidated financial statements. The impact of the proposed sale of TSB to Santander was taken into account as part of the assessment and is not expected to have a material impact.

The Committee also considered management's approach to, and the conclusions of, the assessment of TSB's viability. This was assessed based on the current TSB Board approved strategy and considering TSB on a standalone basis.

The Committee accepted management's viability assessment period, noting it was over the three years to December 2028. It is expected that, if the sale to Santander completes as anticipated, TSB would be integrated into the Santander group legal entity and governance structure within that period. Although the Directors cannot be certain about the actions of the new owner should a deal complete, they do not anticipate any threat to solvency or liquidity.

After consideration, the Committee supported the approach adopted by management as described on pages 64 and 71.

Audit Committee report (continued)

Financial statements and related financial reporting (continued)

(iii) Review of the Annual Report – fair, balanced and understandable

The Committee considered management's approach to, and governance arrangements over, the preparation of this Annual Report and recommended to the Board that, taken as a whole, it was considered to be fair, balanced and understandable. The approach and results of the assessment are set out in the Directors' report on page 65.

(iv) Whether TSB has made appropriate accounting estimates and judgements

The Committee has assessed the basis for, and appropriateness of, estimates and judgements proposed by management in the financial statements as presented below. After appropriate challenge, the Committee supported management's proposals.

Allowance for credit impairment losses

At December 2025, expected credit losses were reflected in an allowance for credit impairment losses of £171.2 million (2024: £180.1 million) and a provision for off balance sheet commitments of £4.4 million (2024: £8.6 million).

During 2025, the Committee reviewed regular reports from management assessing the adequacy of the allowance for credit impairment losses, the appropriateness of the judgements applied and the sensitivity of the allowance for credit impairment losses, as further detailed in note 8 on pages 87 to 92. These reports assessed the adequacy of historic provisions against subsequent recoveries, reviewed management's governance arrangements over provisioning adequacy and in particular the governance over impairment models and post model adjustments, and benchmarked TSB's metrics against other banks.

In addition, the Committee provided oversight for the progress of the plans to redevelop and implement the new secured IFRS 9 model. The Committee will continue to review the assurance framework around the secured model in 2026.

The Committee concluded that a robust governance framework existed to monitor provisioning adequacy and that the assumptions and judgements applied by management were appropriate. The Committee was satisfied that the allowance and related disclosures in the financial statements were appropriate.

The Committee was satisfied that the key management judgements set out in note 8 on pages 87 to 92 were appropriate.

Adequacy of provisions

At 31 December 2025, provisions of £22.2 million (2024: £39.8 million) were carried, primarily in respect of conduct matters and restructuring activity that supports delivery of TSB's strategy. Each of these was substantially utilised by the end of 2025. The Committee received regular reports setting out management's approach to ensure the adequacy of provisions and the drivers of any changes in exposure. The Committee noted the continued progress in the customer redress remediation programmes, which are now largely complete. The Committee was satisfied that the provision remained adequate.

Effective interest rate

TSB offers a range of products on which interest income is recognised using the effective interest rate (EIR) method over the anticipated behavioural life of the product. In addition, certain fees and costs that are directly attributable to these products are deferred and released to the income statement over the expected life.

During 2025, the Committee received regular reports from management assessing the appropriateness of the estimates of the customer behavioural lives that underpin management estimate of the repayment profile of mortgages, loans and savings products. Particular attention was given to the repayment profiles and behaviours.

The Committee reviewed and challenged the estimates and the impact of any changes, ensuring assumptions are data driven and subject to robust governance. The Committee emphasised the importance of ongoing monitoring of customer behaviour, particularly in light of changing market conditions but was satisfied that estimates remain reasonable.

In addition, the Committee reviewed the appropriateness of all material estimates and judgements in light of the proposed acquisition of TSB by Santander, and no changes to estimates or judgements were deemed necessary.

Audit Committee report (continued)

Risk management and internal control systems

The Committee is responsible for reviewing the adequacy and effectiveness of TSB's risk management and internal control systems and reporting on that review. In respect of 2025, the Committee took account of the following inputs into its review:

- Reports and updates from management on the status of the risk and control environment through both standard management information from the first and second lines of defence and updates on areas of focus;
- Management's continued reporting of progress in strengthening and embedding the control environment over IT operations and risks;
- Reports from management which concluded on the assurance over TSB's internal financial control framework; and
- Regular management information on the activities of Internal Audit, its report on internal controls and audit delivery plan.

The Committee has continued to oversee progress in enhancing TSB's risk and control environment. Throughout 2025, it received regular reporting on the implementation of new controls and the results of independent testing over their design and operating effectiveness. Encouraging progress was noted, suggesting that lessons learned were being effectively applied.

A key area of focus had been ensuring the completion of testing for General IT Controls. The Committee supported management's recommendation to pause investment in controls automation ahead of integration into Santander.

The focus in 2026 will be on readiness for providing a declaration in the annual report of the effectiveness of material controls as at the balance sheet date, and a description of any material controls which have not operated effectively as at the balance sheet date, the action taken, or proposed, to improve them and any action taken to address previously reported issues.

Performance and effectiveness of the Internal Audit function

The Committee is responsible for monitoring the performance and effectiveness of Internal Audit. During 2025, the Committee carried out this responsibility by:

- Approving the Internal Audit plan, considering the Chartered Institute of Internal Auditors 'Internal Audit Financial Services Code of Practice';
- Monitoring the execution and continuing appropriateness of the 2025 Internal Audit plan as it reflects strategic developments, emerging risks and corresponding impacts on core business processes and key controls;
- Approving the Internal Audit budget and confirming it is satisfied that Internal Audit has the appropriate resources, including use of subject matter experts where appropriate, to deliver the Audit Plan.
- Receiving regular reports from the Chief Audit Officer on Internal Audit activities undertaken in 2025 and monitoring improvement activities resulting from Internal Audit reports;
- Reviewing the Internal Audit annual effectiveness self-assessment against industry standards;
- Monitoring the function's progress against its strategy and continuous improvement plan; and
- Reviewing the interaction and alignment between Internal Audit and the Risk function and between Internal Audit and the external auditor and confirming that Internal Audit maintains its independence.

Audit Committee report (continued)

Relationship with the external auditor

The Committee is responsible for the effectiveness of TSB's relationship with its external auditor and for assessing their independence and objectivity.

Auditor independence

The Committee is responsible for the development and monitoring of TSB's policy on the use of the external auditor for non-audit services, in accordance with professional and regulatory requirements. The policy on the use of the external auditor to provide non-audit services is in accordance with applicable laws and takes into account the Financial Reporting Council (FRC)'s Revised Ethical Standard for Auditors. Any non-audit work to be undertaken by the auditor requires authorisation by the Committee, delegated to the Chief Financial Officer below a certain threshold, prior to its commencement. The Committee also ensures that fees incurred, or to be incurred, for non-audit services, both individually and in aggregate, do not exceed any limits in applicable law and take into account the relevant ethical guidance for auditors.

The Committee has formally reviewed the independence of the external auditor. KPMG LLP has reported to the Committee confirming that it believes it remained independent throughout the year, within the meaning of the regulations on this matter and in accordance with its professional standards.

To fulfil its responsibility to ensure the independence of the external auditor, the Audit Committee reviewed:

- a report from KPMG LLP describing arrangements to identify, report and manage any conflicts of interest, and policies and procedures for maintaining independence and monitoring compliance with relevant requirements; and
- the extent of non-audit services provided by KPMG LLP.

The total fees paid to KPMG LLP for the year ended 31 December 2025 were £5.6m, of which £1.0m related to non-audit work. Further details are provided in note 14 to the financial statements on page 98.

Auditor effectiveness

To assess the effectiveness of the external auditor, the Committee reviewed:

- the external auditor's fulfilment of the agreed audit plan and variations from it (including changes in perceived audit risks and the work undertaken by the external auditors to address those risks);
- the external auditor's audit strategy and consideration of significant risks and other areas of audit focus to ensure TSB's circumstances are appropriately reflected;
- reports highlighting the issues that arose during the course of the audit;
- feedback from the key people involved in the audit via questionnaires evaluating the conduct and performance of the assigned audit team (including in respect of their planning, challenge and interaction with the business); and
- a report on KPMG LLP, as a firm, from the Audit Quality Review Team (AQRT) of the FRC and the discussions with KPMG LLP on the contents of its most recent report.

There is regular open communication between the Chair of the Audit Committee and KPMG's audit engagement personnel, as well as between KPMG LLP and TSB's senior management. The Audit Committee holds private meetings with the external auditor after each Committee meeting to review key issues within their sphere of interest and responsibility and to satisfy itself that the audit is of a sufficiently high standard.

To fulfil its responsibility for oversight of the external audit process, the Audit Committee reviewed:

- the terms, areas of responsibility, associated duties and scope of the audit as set out in the engagement letter;
- the overall work plan and fee proposal;
- the major issues that arose during the course of the audit and their resolution;
- key accounting and audit judgements;
- the level of errors identified during the audit; and
- the content of communications with the Committee, to assess whether they are based on a good understanding of TSB's business and establish whether recommendations to management have been acted upon and, if not, the reasons why they have not been acted upon.

Audit Committee report (continued)

The audit of the 2025 financial statements is the sixth to have been undertaken by KPMG LLP following a competitive tender undertaken in 2018 for the audit of the 2020 financial statements. Alex Snook was the senior statutory auditor for the audit of the 2025 financial statements. This marks his first audit of TSB's financial statements as the senior statutory auditor, following successful transition during 2024.

KPMG's audit for the financial year ended 31 December 2024 was selected for inspection by the AQRT of the FRC. The inspection assessed the external auditor's work on: expected credit losses; IT access, change management and operations; and settlement, clearing and payment processes.

The Committee reviewed the AQRT report which highlighted good practices in respect of KPMG's audit. The Committee was satisfied with the outcome of the inspection, with no findings to be considered.

A resolution to re-appoint KPMG LLP for the audit of the financial statements for the year ending 31 December 2026 will be proposed at the 2026 Annual General Meeting, and they will serve until completion of the anticipated acquisition of TSB by Santander.

There are currently no plans to retender the audit.

Directors' report

Introduction

The Directors of TSB Banking Group plc (the Company) present their report and audited consolidated financial statements for the year ended 31 December 2025, in accordance with section 415 of the Companies Act 2006.

The following information has been included in the Strategic report and is incorporated into this Directors' report:

- *Equal opportunities policies*: The Colleague section of the Do What Matters Plan section (pages 28 to 30), and the Diversity and inclusion section of the Nomination Committee report (page 55);
- *Engagement with customers, colleagues, suppliers, and other key stakeholders*: The Section 172 statement (pages 42 to 45), and the Colleague section of the Do What Matters Plan section (pages 28 to 30); and
- *Summary of Streamlined Energy and Carbon Reporting (SECR)*: The Operational emissions: targets and metrics section of the Do What Matters Plan section (pages 36 to 38).

Results and dividends

The consolidated balance sheet can be found on page 74 and the consolidated statement of comprehensive income is on page 75. The Directors do not currently propose to pay a dividend for the year ended 31 December 2025 (2024: £300.0 million).

Directors

The Directors of the Company who were in office at any time during the year and up to the date of signing the financial statements were:

Nick Prettejohn	
Robin Bulloch	(resigned 20 March 2025)
Declan Hourican	(resigned 31 August 2025)
Marc Armengol	(appointed 20 March 2025)
Zahra Bahroloumi	
Adam Banks	
Elizabeth Chambers	
Judith Eden	
Ahmed Essam	
Morten Friis	
Sergio Palavecino	
Carlos Paz	

The biographies of TSB's Directors are available at www.tsb.co.uk/investors/people/. The Company's articles of association give the Directors power to appoint and replace Directors. Directors can also be appointed or removed from office by written notice provided to the Company by Sabadell as the sole shareholder.

Power of Directors

The Directors are responsible for managing the business of the Company and may exercise all the powers of the Company so long as the articles of association or applicable legislation and regulation do not stipulate that any such powers must be exercised by the shareholder.

Directors' indemnities

Each of the Directors has the benefit of a deed of indemnity which constitutes a 'qualifying third party indemnity provision'. This indemnification for Directors provided by the Company has been arranged in accordance with the articles of association and the Companies Act 2006.

The indemnities for all Directors were in place throughout 2025. This includes Marc Armengol, whose indemnity as a Non-executive Director remained in place during the period in which he had temporarily stepped down from the Board (between 31 December 2024 and 20 March 2025). Each of the indemnities remain in force at the date of signing these financial statements and are available for inspection at the Company's registered office.

Directors' report (continued)

Directors' emoluments waiver

Carlos Paz and Sergio Palavecino do not receive any fees from TSB for acting as TSB Non-executive Directors. None of the other Directors have waived their emoluments during the period under review, nor have they agreed to waive future emoluments.

Governance arrangements

The Board has chosen to voluntarily adopt those principles of the UK Corporate Governance Code (2024 edition) (Code) that are considered appropriate for TSB as a wholly owned subsidiary of Sabadell. Details of the aspects of the Code not considered appropriate for TSB, together with areas where TSB has deviated from the recommendations of the Code and the rationale for this, are set out on pages 47 and 48.

Share capital

At 5 February 2026, the total issued share capital with voting rights consisted of 500,000,000 ordinary shares of £0.01 each. The total issued share capital is held by Banco de Sabadell, S.A.

Future developments

The development of TSB is set out in the Chief Executive's statement on pages 4 and 5.

Political donations and expenditure

No amounts were given for political purposes during the year (2024: £nil).

Financial risk management and hedging policies

Details of the use of financial instruments, together with risk management disclosures can be found in the Managing financial risk section of the financial statements starting on page 101 and the Risk management in TSB section in the Strategic report starting on page 14.

Post balance sheet events

There are no significant events affecting TSB that have arisen between 31 December 2025 and the date of this report that require disclosure.

Research and development activities

TSB is dedicated to designing inclusive, outcomes-led customer propositions and journeys that meet the needs of all our customers, including those in vulnerable circumstances. In 2025, we improved priority journeys for Personal Current Accounts, Loans and Cards in our mobile app and prepared enhancements to our Savings proposition. We also supported the Rezide shared-equity pilot to help move first-time buyers onto the property ladder. We continue to safeguard access to cash across UK communities, with Mobile Money Confidence Experts embedded in our Banking Hubs nationwide to provide face-to-face support and build financial confidence. For customers who prefer to speak to us face-to-face but cannot reach a branch, we also offer video banking to give secure, convenient access to specialists. We continuously innovate how we communicate with customers through personalised, always-on prompts delivered across an omni-channel framework. Using event-triggered journeys and an embedded communications governance and comprehension-testing framework, we send timely, relevant information in the channels customers choose – in-app, online or by email. Our propositions and communications are informed by ongoing customer research and testing, including comprehension testing of customer communications and independent market research (e.g. Ipsos research on current account features). We also use Voice of the Customer feedback and outcome monitoring to iterate product designs.

Overseas branches

TSB does not have any branches outside of the United Kingdom.

Corporate headquarters and registered office

The corporate headquarters and registered office address for TSB Banking Group plc is 19th Floor, 8 Bishopsgate, London, EC2N 4BQ. Website: www.tsb.co.uk.

Disclosure of information to external auditor

In accordance with the provisions of the Companies Act 2006, the Directors serving at the date of approval of this report confirm that, so far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware and each Director has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Directors' report (continued)

Going concern

The Directors recognise their responsibility to make an assessment of TSB's ability to continue as a going concern, for a period of 12 months from the date the financial statements are approved. The Directors' assessment of going concern is integrated with the review of the medium term plan. The Directors, having taken into account the matters noted in the 'Basis of Preparation' on page 71, including the proposed acquisition of TSB by Santander, are satisfied that adequate funding and liquidity resources will be in place to allow the financial statements to continue being prepared on a going concern basis.

Viability statement

As more fully explained in the Corporate governance statement on page 47, TSB has committed to voluntarily adopt provisions of the Code appropriate for a wholly owned subsidiary. This includes the provisions that require the Directors to confirm that TSB will be able to continue in operation and to meet its financial liabilities as they fall due over a specified period determined by the Directors taking account of the current position and principal risks of TSB.

The Directors have assessed viability over three years to December 2028. This is a shorter period than the five year period over which TSB's medium term strategic and financial plan is prepared, key capital and leverage ratios are forecast, and regulatory and internal stress testing of the profit, capital and funding forecasts are carried out. This shorter period takes into account the increasing uncertainty of forecasts in the outer years of the medium term plan arising from developments in the economic environment and from competition and regulatory developments.

The Directors confirm that they have carried out a robust assessment of the emerging and principal risks facing TSB, the procedures in place to identify emerging risks, and how such risks are being managed or mitigated, and, in light of TSB's capital and funding resources, they have a reasonable expectation that TSB will be able to continue in operation and meet its liabilities as they fall due in the period to December 2028.

In making this assessment, the Directors have considered a wide range of information. Central to this assessment is the medium term plan, based on the current TSB Board approved strategy. This includes assessment of future projections of profitability, capital requirements, capability, resources and funding. Consistent with the assessment of going concern on page 71, as part of the assessment, the Directors assessed the modelling of the impact of the stressed downside scenario used in the Bank's ICAAP process on forecast capital levels. In addition, the Directors assessed the key strategic and horizon risks that could threaten TSB's prospects and business model more broadly and the monitoring and mitigation activities around them.

The Board has also assessed the impact of Santander's proposed acquisition of TSB, which remains subject to regulatory approval. In the event that the deal does not complete, the Directors consider that TSB would remain resilient on the basis of the assessment described above.

As a result, the Board has a reasonable expectation that TSB as a standalone business will be able to continue in operation and to meet its financial liabilities as they fall due throughout the period to 31 December 2028.

It is expected that, if the sale to Santander completes as anticipated, TSB would be integrated into the Santander group legal entity and governance structure. Although the Directors cannot be certain about the actions of the new owner should a deal complete, they do not anticipate any threat to solvency or liquidity.

Statement of Directors' responsibilities in respect of the Annual Report and the financial statements

The Directors are responsible for preparing the Annual Report and the consolidated and Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare consolidated and Company financial statements for each financial year. Under that law they are required to prepare the consolidated financial statements in accordance with UK adopted international accounting standards and applicable law and have elected to prepare the Company financial statements on the same basis.

Directors' report (continued)

Statement of Directors' responsibilities in respect of the Annual Report and the financial statements (continued)

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the consolidated group and of the Company and of the consolidated group's profit or loss for that period. In preparing each of the consolidated group and Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with UK adopted international accounting standards;
- assess the consolidated group and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the consolidated group or the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the consolidated group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic report and a Directors' report that complies with that law and those regulations.

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

Fair, balanced and understandable

The Board has ultimate responsibility for reviewing and approving the Annual Report. In voluntarily adopting the principles of the Code that are considered appropriate for TSB as a wholly owned subsidiary of Sabadell, the Directors confirm that they consider that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for the shareholder to assess the Company's position, performance, business model and strategy. When arriving at this conclusion the Board was assisted by a number of processes including:

- The Annual Report is drafted and comprehensively reviewed by appropriate senior management with overall co-ordination by the Financial Controller;
- A verification process is undertaken to ensure factual accuracy and compliance with applicable legislation and voluntary codes; and
- The Annual Report is reviewed by TSB employees from a range of functions, TSB's Executive Committee and the Audit Committee prior to approval by the Board. Additionally, the Risk management disclosures and Remuneration review are reviewed by the Risk and Remuneration & People Committees, respectively.



By order of the Board

Keith Hawkins

Company Secretary

5 February 2026

Registered in England and Wales

Company Number 08871766

Remuneration review

The remuneration approach at TSB is designed to be simple and fair. This underlying principle remains integral to our reward philosophy.

Overview of TSB's remuneration policy for 2025

The aim of TSB's remuneration policy is to provide competitive remuneration aligned to the delivery of the Bank's strategic goals and culture. It is designed to attract and retain talented individuals and to generate sustainable business performance, while taking into account effective risk management and appropriate conduct. In addition, TSB aims to align the remuneration approach with that of its parent, Sabadell.

The key elements of the reward framework are as follows:

- **Salary** – which provides core remuneration taking into account relevant market benchmarks, complexity of the role and the individual's experience and performance.
- **Variable pay** – which comprises the annual **Variable Pay Award (VPA)** and **Restricted Stock Unit awards (RSUs)**.

Following a diagnostic in 2024 and significant consultation with internal stakeholders and external counterparties, a new approach to performance management in 2025 was implemented. This is designed to motivate high performance by: strengthening the quality of objectives; providing structured feedback to individual leaders and differentiating their individual impact on the Bank's performance; fairly rewarding and recognising individual impact; and continuing to strengthen manager capability and confidence to manage performance at all levels. Individuals' performance has a more material impact on variable pay for senior leaders, as well as bringing grade F colleagues into scope for individual performance related pay. We have refocused recognition spend to strengthen the recognition of exceptional behaviours at more junior grades (B to E).

The Variable Pay Award

The overall VPA pool is determined by the Remuneration & People Committee: 90% is based on in-year performance measured against the Primary Corporate Objectives (PCOs), being five key priorities that clearly link to TSB's purpose and strategy. 10% of the award is based on Sabadell Group metrics. The VPA is granted to all employees subject to affordability, risk and conduct reviews.

For senior leaders, their individual performance is assessed against business and behavioural objectives agreed at the beginning of the year. Each set of objectives is assessed as Exceptional Impact, Successful and More Impact Needed. At the end of the year, the year-end assessment outcome is modelled across the senior leader population and used along with limited manager discretion to determine each individual's VPA.

Restricted Stock Unit awards

RSUs replaced the Long Term Incentive Plan (LTIP) for the 2025 performance year on a comparable economic basis, as a temporary instrument while we transition to align with the remuneration structure of Santander Group. Annual awards are made to a small number of senior management initially in Sabadell shares (which will be converted to Santander shares at the point of acquisition of TSB by Santander) and vest over a three-year period. RSUs are subject to TSB specific financial and individual underpins.

Market appropriate benefits

These include, principally, pension contributions to a defined contribution scheme or where appropriate, an equivalent cash payment (Executive Directors' pension contributions are aligned with the all employee pension contribution rate), TSB's flexible benefits offering of 9% of salary (grades B to D) and 4% of salary (more senior grades), and an employer provided car or alternative cash allowance at certain grades. All colleagues receive the private medical benefit as part of their core package.

Remuneration review (continued)

Consideration for all TSB employees

The Executive Committee has agreed a salary budget of 2.75% based on the medium-term plan, reflecting external economic indicators and market positioning (salary changes will be effective from 1 April 2026). The new entry level salary will become £24,700 for our non-London roles (10% above the new Real Living Wage minimums) and £27,800 for our London roles (12% above the new Real Living Wage minimums). Senior leaders as well as the Executive Committee members, will receive salary increases on an exceptional basis only.

TSB was an early champion of the Real Living Wage becoming an accredited Real Living Wage employer in August 2016. Our commitment to paying a decent wage based on living costs continues.

The Remuneration & People Committee is provided with regular reports on the broader workforce, ensuring its members are familiar with employee trends (including attrition, absence, benefits data, market positioning and equal pay reporting) when considering executive pay.

Diversity and inclusion

TSB's Do What Matters Plan includes a framework to support TSB's existing ambition to create a truly inclusive workplace. Pages 28 and 29 provides further detail on TSB's approach to diversity and inclusion.

Engagement and retention

Wellbeing, TSB's purpose, opportunities to learn and grow, reward and belief in leaders' ability to make the Santander integration successful are the key drivers of engagement. Actions to address key engagement drivers are in plan, centring TSB's purpose and customer focus in communications in order to provide ongoing identity for colleagues and to encourage continued focus to deliver customer and business priorities. Further activity is planned to support managers' focus on colleague wellbeing, motivation and performance, in addition to providing colleagues with ongoing access to development opportunities. Given the uncertainty created by the proposed sale to Santander, transparent and timely communication is key to maintaining confidence in the integration. An enhanced listening strategy is in place to identify and respond to shifts in colleague sentiment and engagement throughout the sale and integration programme.

Environmental, social and governance

The PCOs against which 90% of the in-year performance for the VPA is measured include environmental, social and governance metrics which make up 27.5% of all of the metrics. These relate to TSB's colleagues as part of the Do What Matters Plan which focuses on culture, diversity and the environment, as well as customer experience in its broadest sense, as measured through mobile distribution channel and PCA main banker growth.

Outlining TSB's obligations

TSB's remuneration policy continues to comply with the PRA and FCA Remuneration Codes and the European Banking Authority Guidelines on remuneration and is aligned with the Sabadell remuneration policy.

In respect of variable pay plans (including both the VPA and RSUs) and in line with the final changes to the PRA's and FCA's rules and guidance on the remuneration requirements announced on 15 October 2025, approved by the Remuneration & People Committee for implementation for 2025, 40% of grants for Senior Managers and Material Risk Takers (MRTs) will be deferred over four years. 50% of variable pay will be delivered in Sabadell shares. For any amount over £660,000, 60% will be deferred over four years. For Senior Managers and MRTs who are also Group Sabadell MRTs, shares issued will be subject to a 12-month retention period after the point of release. For Senior Managers and MRTs who are not Group Sabadell MRTs, deferred shares will be issued without being subject to a retention period. TSB's approach to deferral of total variable remuneration for senior employees ensures that awards are delivered as required by regulations.

With regard to the requirements of the UK Corporate Governance Code (2024 edition) (Code), as outlined on page 47, the Board has committed to voluntarily adopt those principles of the Code that are considered appropriate for TSB as a wholly owned subsidiary, operating in the UK market.

The Remuneration & People Committee has not created a policy for post-employment shareholding requirements (Provision 36). TSB Executive Directors are already subject to deferral periods for Sabadell shares awarded as part of TSB variable remuneration. Therefore, the current view is that no specific post-cessation shareholding requirement be introduced for TSB Executive Directors at the present time. The Remuneration & People Committee continues to keep this under review to consider market developments.

Reward outcomes in 2025

As summarised in the Chief Executive's statement on pages 4 and 5, TSB delivered a solid underlying business performance in 2025. Statutory profit before tax was £350.4 million, a 20.7% increase on the £290.4 million earned in 2024.

Remuneration review (continued)

Reward outcomes in 2025 (continued)

Variable Pay Award - The Remuneration & People Committee has reviewed the business performance in 2025 and taken into account risk events in conjunction with the Board Risk Committee and the affordability of variable pay. The Committee has determined that no adjustment to the pool is made as a result of any risk events and that all affordability thresholds have been met. The final pool approved to distribute is £24.8 million. This means that TSB colleagues in grades B to D and grade E who are not deemed to be 'needs improvement' will receive 5.53% and 11.05%, respectively, of their salary. Senior leaders will receive a figure based on TSB and Sabadell performance and their personal objectives and leadership expectations.

Following the end of the three-year performance period applicable to the 2023-25 LTIP, the Sabadell Remuneration Committee assessed outcomes against the financial and non-financial performance targets set. Taking these outcomes into account, the Committee approved a final 2023-25 LTIP of 100%.

In respect of 2025 performance, TSB will not exceed an annual cap on total variable remuneration of two times fixed pay.

Consideration of conduct and risk

TSB takes risk and conduct issues very seriously. Risk profile and behaviours are a key gateway that must be satisfied for any incentive awards to pay out (both the VPA and LTIPs). A risk adjustment is made as a result of several factors:

1. A balance of measures included in individual objectives and the PCOs acts as a framework for adjusting the bonus pool for both performance and risk inherent in TSB's activities;
2. The use of a framework to quantify the risk adjustment of the variable remuneration pool in 2025; and
3. The appropriate governance to make informed and robust decisions, including the Remuneration Governance Group (which makes recommendations to the Remuneration & People Committee on matters as required to ensure that the appropriate standards of risk management and corporate governance are applied), Remuneration & People Committee oversight, and independent access to the Chief Risk Officer and Chief Financial Officer.

Incentive pools and awards may be adjusted, including to zero, in the event of material breaches.

All elements of variable remuneration for MRTs are subject to individual performance adjustment, including the application of malus and clawback in line with regulatory requirements.

Performance adjustments may include, but are not limited to:

- reducing an award for the current year;
- reducing the amount of any unvested deferred variable remuneration;
- requiring an award which has not yet been paid to be forfeited; and
- requiring repayment on demand (on a net basis) of any cash and share awards received at any time for a period of up to ten years following the date of award.

The Remuneration & People Committee has full discretion to prevent vesting of all or part of an amount of deferred remuneration and/or to freeze an award during an ongoing investigation in a number of circumstances, including:

- employee misbehaviour, misconduct or material error;
- material downturn in the performance of TSB; and
- TSB suffering a material failure of risk management.

Malus and clawback can be applied to variable pay for up to ten years following the grant of an award.

Malus was applied to the variable pay of 15 colleagues in 2025.

Remuneration review (continued)

Highest paid director – 2025 remuneration disclosure*

The table below sets out the total remuneration paid to Marc Armengol, TSB's highest paid Director. This covers his remuneration for qualifying services as a Director in the period from 20 March to 31 December 2025. Marc replaced Robin Bulloch who retired in 2025.

	2025 ⁽²⁾	2024 ⁽¹⁾
Remuneration in respect of qualifying services ⁽³⁾	£1,652,825	£2,059,285
Amounts vesting under LTIPs ⁽⁴⁾	-	£494,760
Total Remuneration (audited)	£1,652,825	£2,554,045

Notes

- (1) 2024 figures represent the total remuneration paid to Robin Bulloch who stepped down on 20 March 2025.
- (2) 2025 figures represent the total remuneration paid to Marc Armengol who became CEO on 20 March 2025.
- (3) 2025 figures for Marc Armengol include base salary, cash paid in lieu of contribution to pension schemes, the taxable value of all benefits received, which included a car allowance, a flexible benefits allowance set at 4% of salary, relocation assistance and the 2025 Variable Pay Award.
- (4) For 2024: Includes the value of Robin Bulloch's 2022-24 LTIP, calculated using an average share price of the last 20 trading days leading up to 31 December 2024.

* The aggregate remuneration for all Directors is set out in note 15 to the financial statements on page 99.

Consideration by the Directors of matters relating to Directors' remuneration

The Remuneration & People Committee is authorised by the Board to consider and recommend the remuneration policy to the Board. The policy is considered regularly by the Remuneration & People Committee, taking account of changes in regulation and the wider market. In formulating and reviewing policy, independent advice is sought and considered. In particular, the sustainability of the policy and its risk impact are carefully reviewed. The remuneration policy is formally reviewed at least annually and once endorsed by the Remuneration & People Committee, is reviewed and approved by the Board. The Remuneration & People Committee's terms of reference are kept under regular review and can be found at <http://www.tsb.co.uk/investors/people/>.

The Remuneration & People Committee is chaired by Elizabeth Chambers. The other Committee members in 2025 were Adam Banks, Judith Eden, Morten Friis and Carlos Paz (with effect from 21 May 2025).

To ensure alignment between the work of the Remuneration & People Committee and the Risk Committee, risk-adjustment recommendations presented to the former are usually discussed beforehand by the Risk Committee (either in meeting or offline with the Risk Committee Chair), with relevant inputs conveyed as appropriate to the Remuneration & People Committee, including through members common to both committees. The Remuneration & People Committee Chair plays an active role in reviewing and challenging the inputs provided by the Chief Risk Officer.

Remuneration & People Committee meetings are also attended by the Board Chair together with the Chief Executive, Chief People Officer and Director of Reward and Performance, independent Remuneration & People Committee advisors and, from time to time, the Chief Financial Officer and the Chief Risk Officer attend to provide input on their specialist areas. No one is present at the Remuneration & People Committee when their own remuneration is discussed.

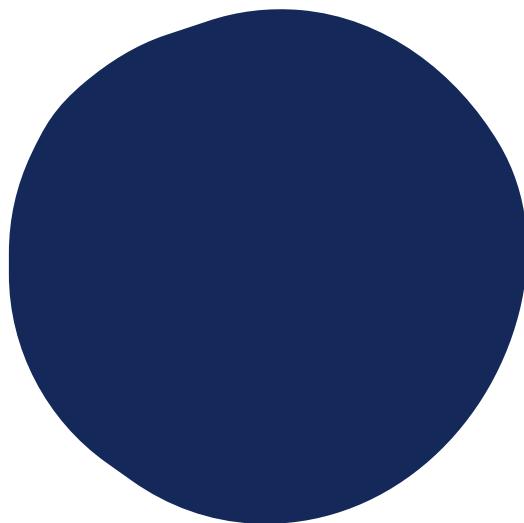
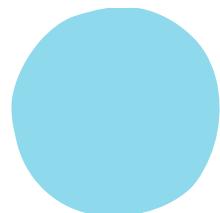
The Company Secretary, or an appropriate delegate, acts as the secretary to the Remuneration & People Committee. None of these additional attendees participates in the discussion of issues directly affecting their own remuneration. PwC provided independent advice to the Remuneration & People Committee from April 2021 to December 2025.

PwC is a member of the Remuneration Consultants Group and, as such, voluntarily operates under the Remuneration Consultants' Group code of conduct in relation to executive remuneration consulting in the UK. PwC has provided independent advice on matters under consideration by the Remuneration & People Committee including compliance with regulations, advice on market trends and data, remuneration policy and implementation of remuneration arrangements, including support in remuneration arrangements for departing Executives. The Remuneration & People Committee is satisfied that the advice it has received has been objective and independent.

PwC also provided advice on share plans, wider remuneration matters, taxation and financial matters and other miscellaneous consulting and assurance services. In addition, management received external advice, including market data and legal counsel, from a number of other providers which is not considered to be material in assisting the Remuneration & People Committee to consider Directors' remuneration.

Financial statements

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Alignment with TSB's business model

The presentation of TSB's consolidated financial statements aligns with the execution of its strategy, its business model and the management of the financial risk to which it is exposed. As such, the consolidated financial statements are structured around the key elements of TSB's business model as explained on page 6.

Basis of preparation

These consolidated financial statements of TSB Banking Group plc (TSB) comprise the results of TSB Banking Group plc (the Company) consolidated with those of its subsidiaries, including TSB Bank plc. Details of subsidiary undertakings are provided in note 4(ii) to the Company financial statements on page 131. These consolidated financial statements have been prepared in accordance with UK adopted international accounting standards.

The consolidated financial statements have been prepared under the historical cost convention as modified by the recognition of certain financial instruments, including derivative contracts, at fair value through profit or loss, and financial assets at fair value through other comprehensive income.

Going concern

The going concern basis is dependent on maintaining sufficient capital and funding. The Directors considered a number of factors including an assessment of principal risks and projections of capital, funding and liquidity. TSB's business activities and objectives, together with the factors likely to affect its future development, performance and position are set out in the Strategic report. In 2025, TSB reported a profit before tax for the year of £350.4 million (2024: £290.4 million) and continues to be in compliance with, and exceeds, its regulatory capital and liquidity requirements.

As part of those forecasts, the Directors have modelled the impact of a severe but plausible downside stress in line with the severe downside scenario described in note 8 on page 88 which is very similar to the scenario used in the Bank's ICAAP process and is broadly consistent with the Bank of England's stress scenario. Based on the forecasts and the stress performed, the Directors are satisfied that TSB will have sufficient regulatory capital and liquidity for a period of 12 months from the date of approval of these financial statements (the 'going concern assessment period').

On 1 July 2025, the Board of Sabadell accepted Santander's offer to purchase TSB, with the acquisition remaining subject to regulatory approval. The Directors going concern assessment has focused on the current TSB Board approved strategy, with consideration of transition related risks and the monitoring and mitigation activities around them, and on a standalone basis the Directors have a reasonable expectation that TSB will be able to continue in operation and meet its liabilities as they fall due in the going concern assessment period.

The Directors are aware that should the acquisition complete successfully, Santander plan to streamline TSB's legal entity structure through simplification of the holding company, TSB Banking Group plc, although Santander have provided assurances that they do not intend to liquidate the entity within the first 12 months post change in control. This simplification plan is not certain as it will be subject to various court and regulatory approvals. The Directors expect that, as part of the court and regulatory approvals which would be required, Santander would be required to set out how they would manage any consequential changes to capital and funding in a controlled manner and ensure no adverse impacts to stakeholders.

Accordingly, the Directors do not consider the uncertainty around the successful completion of Santander's aims with regard to TSB Banking Group plc to represent a material uncertainty that may cast doubt on the ability of TSB to continue as a going concern in the going concern assessment period. They are not aware of any other such material uncertainties, and they continue to adopt the going concern basis in preparing the financial statements of both the Group and Company.

Accounting policies

The significant accounting policies used in the preparation of the consolidated financial statements are materially consistent with those applied in 2024. The accounting policies are presented in a manner consistent with TSB's business model and are included in the relevant sections of the consolidated financial statements.

New and future accounting developments

The following amendment was effective for TSB from 1 January 2025 and its adoption has not had any material effect on the financial statements: Lack of exchangeability (Amendments to IAS 21).

The IASB issued Amendments to the Classification and Measurement of Financial Instruments which amended IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures, effective from 1 January 2026. The IASB also issued IFRS 19 Subsidiaries without Public Accountability: Disclosures which is effective from 1 January 2027. Neither of these are expected to have a significant impact on TSB.

The IASB has also issued IFRS 18 Presentation and Disclosure in Financial Statements which is effective from 1 January 2027. An assessment of the impact on TSB's income statement presentation will be completed ahead of the standard's implementation. These future accounting developments are currently yet to be endorsed for use in the UK.

Basis of preparation (continued)

Significant accounting estimates and judgements

The preparation of financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions in applying the accounting policies that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates. Estimates, judgements and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The significant judgements made by management in applying accounting policies and the key sources of estimation uncertainty in these consolidated financial statements, which together are deemed critical to the results and financial position, are presented within the relevant note disclosures.

Index to the consolidated financial statements

TSB's primary consolidated financial statements are presented on pages 74 to 128. The notes to these consolidated financial statements are structured to follow TSB's business model as set out on page 6 and are listed below.

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- 3 Subordinated liabilities
- 4 Other financial liabilities
- 5 Fair value of financial liabilities

Loans and liquid assets

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- 7 Loans and advances to credit institutions
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Consolidated balance sheet

as at 31 December 2025

	Note	2025 £ million	2024 £ million	Reference to business model
Assets				
<i>Financial assets at amortised cost</i>				
Cash, cash balances at central banks and other demand deposits	32	4,202.1	4,823.8	
Debt securities	6	1,986.4	1,982.5	
Loans and advances to customers	8	36,268.4	36,330.9	
Loans and advances to credit institutions	7,32	305.2	277.8	
Reverse repurchase agreements		62.0	—	
Other advances	9	66.9	130.2	
<i>Financial assets at fair value through other comprehensive income</i>				
Debt securities	6	440.2	328.6	
<i>Financial assets at fair value through profit or loss</i>				
Derivative financial assets not in hedge accounting relationships	21	368.4	670.2	
Hedging derivative financial assets	21	1,149.2	1,274.3	
Fair value adjustments for portfolio hedged risk	21	4.5	(170.9)	
Property and equipment	26	215.1	233.9	
Intangible assets	28	123.4	109.9	
Deferred tax assets	17	6.1	8.1	
Other assets	29	88.1	101.6	
Total assets		45,286.0	46,100.9	
Liabilities				
<i>Financial liabilities at amortised cost</i>				
Customer deposits	1	35,209.0	35,051.2	
Borrowings from central banks	2	598.9	1,406.9	
Debt securities in issue	2	4,869.3	4,583.2	
Subordinated liabilities	3	297.8	285.9	
Other financial liabilities	4	1,086.4	1,187.0	
<i>Financial liabilities at fair value through profit or loss</i>				
Derivative financial liabilities not in hedge accounting relationships	21	456.7	824.2	
Hedging derivative financial liabilities	21	99.4	143.6	
Fair value adjustments for portfolio hedged risk	21	12.3	(134.7)	
Provisions	30	22.2	39.8	
Lease liabilities	27	107.8	120.7	
Other liabilities	31	172.6	165.0	
Total liabilities		42,932.4	43,672.8	
Equity				
Share capital	22	5.0	5.0	
Share premium	22	965.1	965.1	
Other equity instruments	22	249.7	249.7	
Other reserves	22	(285.1)	(285.1)	
Retained profits	22	1,417.1	1,475.4	
Fair value reserve	22	(6.2)	(8.0)	
Cash flow hedging reserve	22	8.0	26.0	
Total equity		2,353.6	2,428.1	
Total equity and liabilities		45,286.0	46,100.9	

The accompanying notes are an integral part of the consolidated financial statements. The consolidated financial statements on pages 74 to 128 were approved by the Board of Directors on 5 February 2026 and signed on its behalf by:



Marc Armengol
Chief Executive

Consolidated statement of comprehensive income

for the year ended 31 December 2025

	Note	2025 £ million	2024 £ million
Income statement (continuing operations):			
Interest and similar income:			
Interest income calculated using the effective interest method	11	1,846.5	1,804.0
Other interest income	11	129.3	273.5
Total interest and similar income		1,975.8	2,077.5
Interest and similar expense	11	(920.2)	(1,093.1)
Net interest income	11	1,055.6	984.4
Fee and commission income	12	114.1	124.7
Fee and commission expense	12	(37.4)	(34.0)
Net fee and commission income	12	76.7	90.7
Net gains/(losses) on financial assets and liabilities:			
Gains on derecognition of financial assets measured at amortised cost		2.8	—
Gains on derivative financial instruments at fair value through profit or loss		52.0	63.0
Losses from hedge accounting	21	(34.2)	(30.1)
Gains/(losses) on derecognition of non-financial assets		0.5	(2.3)
Other operating income	13	30.0	36.7
Other income		127.8	158.0
Total income		1,183.4	1,142.4
Total operating expenses	14	(786.0)	(821.9)
Operating profit before impairment losses and taxation		397.4	320.5
Impairment losses on financial assets at amortised cost	18	(51.2)	(31.9)
Impairment credit on loan commitments	30	4.2	1.8
Total impairment losses	18	(47.0)	(30.1)
Profit before taxation		350.4	290.4
Taxation	16	(91.1)	(82.5)
Profit for the year	22	259.3	207.9
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss:			
Change in fair value reserve:			
Change in fair value	21	2.5	(2.1)
Taxation thereon	17	(0.7)	0.6
	22	1.8	(1.5)
Change in cash flow hedging reserve:			
Change in the fair value of derivatives in cash flow hedges	21	(19.9)	17.6
Transfers to the income statement	21	(2.6)	(1.0)
Taxation thereon	17	4.5	(2.8)
	22	(18.0)	13.8
Other comprehensive (losses)/income for the year, net of taxation		(16.2)	12.3
Total comprehensive income for the year		243.1	220.2

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

Consolidated statement of changes in equity

for the year ended 31 December 2025

	Share capital £ million	Share premium £ million	Other equity instruments £ million	Other reserves					Capital reserve £ million	Fair value reserve £ million	Cash flow hedging reserve £ million	Retained profit £ million	Total equity £ million					
				Merger reserve £ million	ganisation reserve £ million	Capital reor-												
						ganisation reserve £ million	Capital reor-											
Balance at 1 January 2024	5.0	965.1	–	616.5	(1,311.6)	410.0	(6.5)	12.2	1,387.5	2,078.2								
<i>Comprehensive profit:</i>																		
Profit for the year	–	–	–	–	–	–	–	–	–	207.9	207.9							
Other comprehensive (losses)/income	–	–	–	–	–	–	–	–	(1.5)	13.8	–	12.3						
Total comprehensive (losses)/income	–	–	–	–	–	–	–	–	(1.5)	13.8	207.9	220.2						
<i>Transactions with owner:</i>																		
Issue of Additional Tier 1 securities	–	–	249.7	–	–	–	–	–	–	–	–	249.7						
Dividends paid on ordinary shares	–	–	–	–	–	–	–	–	–	(120.0)	(120.0)							
Total transactions with owner	–	–	249.7	–	–	–	–	–	–	(120.0)	129.7							
Balance at 31 December 2024	5.0	965.1	249.7	616.5	(1,311.6)	410.0	(8.0)	26.0	1,475.4	2,428.1								
<i>Comprehensive profit:</i>																		
Profit for the year	–	–	–	–	–	–	–	–	–	259.3	259.3							
Other comprehensive (losses)/income	–	–	–	–	–	–	–	1.8	(18.0)	–	(16.2)							
Total comprehensive (losses)/income	–	–	–	–	–	–	–	1.8	(18.0)	259.3	243.1							
<i>Transactions with owner:</i>																		
Dividends paid on ordinary shares	–	–	–	–	–	–	–	–	–	(300.0)	(300.0)							
Distributions on other equity instruments	–	–	–	–	–	–	–	–	–	(17.6)	(17.6)							
Total transactions with owner	–	–	–	–	–	–	–	–	–	(317.6)	(317.6)							
Balance at 31 December 2025	5.0	965.1	249.7	616.5	(1,311.6)	410.0	(6.2)	8.0	1,417.1	2,353.6								

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

Consolidated cash flow statement

for the year ended 31 December 2025

	Note	2025 £ million	2024 £ million
Cash flows from operating activities			
Profit before taxation		350.4	290.4
Adjustments for:			
Change in operating assets and liabilities	32	35.8	243.0
Non-cash and other items	32	357.1	522.0
Taxation paid		(80.9)	(58.5)
Net cash provided by operating activities		662.4	996.9
Cash flows from investing activities			
Net purchase of property and equipment		(18.3)	(22.2)
Purchase and development of intangible assets		(38.4)	(41.8)
Purchase of debt securities ⁽¹⁾		(247.4)	(124.7)
Proceeds from maturing investments ⁽¹⁾		169.3	141.7
Interest received on debt securities		67.6	68.1
Net cash (used in)/provided by investing activities		(67.2)	21.1
Cash flows from financing activities			
Additional borrowings from central banks		5.0	—
Repayment of borrowing from central banks		(797.0)	(2,620.0)
Interest paid on borrowings from central banks		(46.2)	(177.1)
Issue of covered bonds	2	495.5	926.1
Repayment of covered bonds		—	(500.0)
Interest paid on covered bonds		(143.2)	(144.4)
Issue of securitisation notes		—	498.3
Repayment of securitisation notes	2	(20.0)	(5.0)
Interest paid on securitisation notes		(24.2)	(11.8)
Issue of Additional Tier 1 securities		—	249.7
Distributions on other equity instruments		(17.6)	—
Repayment of senior unsecured debt securities	2	(250.0)	—
Interest paid on senior unsecured debt securities		(65.3)	(72.4)
Interest paid on subordinated liabilities		(10.3)	(10.3)
Lease payments	27	(16.2)	(18.8)
Dividends paid on ordinary shares		(300.0)	(120.0)
Net cash used in financing activities		(1,189.5)	(2,005.7)
Change in cash and cash equivalents		(594.3)	(987.7)
Cash and cash equivalents at 1 January	32	5,101.6	6,089.3
Cash and cash equivalents at 31 December	32	4,507.3	5,101.6

(1) Debt securities are held for the purposes of liquidity management in two portfolios, a hold to collect and sell portfolio and a hold to collect portfolio. Cash flows arising from debt securities are categorised as investing activities as the debt securities generate investment returns in the form of interest and, when relevant, realised gains on disposal.

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

Notes to the consolidated financial statements

Sources of funding

Money deposited by customers into their bank and savings accounts provides the majority of the funds we use to support lending to customers. We also raise funds from other sources, including wholesale markets and central banks, that diversify our funding profile. Our shareholder provides funding in the form of debt and equity capital.

Accounting policies relevant to sources of funding

(a) Financial liabilities

Financial liabilities include customer deposits, deposits from credit institutions, borrowings from central banks, debt securities in issue, subordinated liabilities, other financial liabilities and derivative financial liabilities (see accounting policy (j) under Managing financial risk).

Financial liabilities which are not derivatives are measured at amortised cost. Issues of financial liabilities measured at amortised cost are recognised on the date that TSB becomes a party to the contractual provisions of the instrument. A financial liability is derecognised from the balance sheet when TSB has discharged its obligations, the contract is cancelled or the contract expires, or where the terms of the debt instrument have been significantly modified.

Borrowings (which include deposits from credit institutions, customer deposits, debt securities in issue and subordinated liabilities) are recognised initially at fair value, being their issue proceeds net of transaction costs incurred. These instruments are subsequently stated at amortised cost using the effective interest rate (EIR) method.

1. Customer deposits

	2025 £ million	2024 £ million
Bank accounts	12,034.7	12,157.2
Instant access saving deposits	15,422.2	15,117.9
Deposits with agreed maturity	5,574.4	5,398.6
Business banking deposits	2,177.7	2,377.5
Total customer deposits	35,209.0	35,051.2

2. Wholesale funding

(i) Debt securities in issue

2025	Balance at 1 Jan 2025 £ million	Issues/ (Repayments) £ million	Accounting adjustments ⁽¹⁾ £ million	Balance at 31 Dec 2025 £ million
	3,180.4	495.5	62.9	3,738.8
Covered bonds	498.6	(20.0)	(0.5)	478.1
Securitisation notes	904.2	(250.0)	(1.8)	652.4
Total debt securities in issue	4,583.2	225.5	60.6	4,869.3

2024	Balance at 1 Jan 2024 £ million	Issues/ (Repayments) £ million	Accounting adjustments ⁽¹⁾ £ million	Balance at 31 Dec 2024 £ million
	2,759.9	426.1	(5.6)	3,180.4
Covered bonds	—	493.3	5.3	498.6
Securitisation notes	904.2	—	—	904.2
Total debt securities in issue	3,664.1	919.4	(0.3)	4,583.2

(1) Accounting adjustments comprise of accrued interest, unamortised issuance discount and foreign exchange translation amounts in respect of covered bonds.

Notes to the consolidated financial statements

Sources of funding (continued)

2. Wholesale funding (continued)

	Date of issue	31 Dec 2025 £ million	31 Dec 2024 £ million	Interest rate at 31 Dec 2025	Maturity date	Issue currency
Covered bonds:						
Series 2021-1	06/2021	500.1	500.0	4.271%	06/2028	GBP
Series 2023-1	02/2023	1,005.4	1,005.9	4.566%	02/2027	GBP
Series 2023-2	09/2023	750.5	750.2	4.584%	09/2028	GBP
Series 2024-1	03/2024	447.5	423.9	4.778%	03/2029	EUR
Series 2024-2	09/2024	500.4	500.4	4.473%	09/2029	GBP
Series 2025-1	02/2025	534.9	—	4.603%	02/2030	EUR
Securitisation notes:						
Duncan Funding 2024-1 plc	05/2024	478.1	498.6	4.525%	10/2029	GBP
Senior unsecured debt securities:						
Series 2022-1	06/2022	451.3	451.7	5.71%	06/2027	GBP
Series 2022-3	12/2022	—	251.3	n/a	12/2026	GBP
Series 2023-1	12/2023	201.1	201.2	7.23%	12/2028	GBP
Total debt securities in issue		4,869.3	4,583.2			

Covered bonds

Loans and advances to customers of £6,535.4 million (2024: £5,832.7 million) have been assigned to a limited liability partnership to provide security for the issuance of covered bonds, which at 31 December 2025 totalled £3,738.8 million (2024: £3,180.4 million). TSB retains the risks and rewards associated with these loans and the loans continue to be recognised on TSB's balance sheet. The related covered bonds in issue are included within debt securities in issue.

Deposits of £163.2 million (2024: £149.9 million) held by TSB are available for the repayment of the term advances related to covered bonds and other legal obligations.

At 31 December 2025, TSB had over-collateralised the covered bond programmes in order to meet the programme terms, secure the external credit rating of the covered bonds, and to provide operational flexibility. The obligations of TSB to provide collateral may increase due to the formal requirements of the programmes. TSB may also voluntarily contribute collateral to support the ratings of the covered bonds but did not do so during 2025 or 2024. During 2025 and 2024, there were no defaults on any principal or interest or any other breaches with respect to borrowings under the covered bond programmes.

During 2025, one tranche of covered bonds was issued, comprising €600.0 million in February 2025.

During 2024, two tranches of covered bonds were issued, comprising €500.0 million in March 2024 and £500.0 million in September 2024.

During 2023, three tranches of covered bonds were issued, comprising £1,000.0 million in February 2023, £750.0 million in September 2023, and £500.0 million in November 2023. The November 2023 issuance was fully retained and has been used as collateral for a repurchase agreement transaction (see note 21 on page 120, under the heading Offsetting financial assets and financial liabilities).

Notes to the consolidated financial statements

Sources of funding (continued)

2. Wholesale funding (continued)

Securitisation notes

Loans and advances to customers include loans securitised under TSB's securitisation programmes which have been sold to bankruptcy remote structured entities. As the structured entities are funded by the issue of debt on terms whereby the majority of the risks and rewards of the portfolio are retained by TSB, the structured entities are consolidated fully and all of these loans are retained on TSB's balance sheet, with the related notes in issue included within debt securities in issue. TSB's securitisation programmes, together with the balances of the advances subject to these arrangements and the carrying value of the notes in issue at 31 December, are listed below.

	31 December 2025		31 December 2024	
	Loans and advances securitised ⁽¹⁾ £ million	Liability £ million	Loans and advances securitised ⁽¹⁾ £ million	Liability £ million
Securitisation programmes:				
Duncan Funding 2022-1 plc	1,241.6	1,345.6	1,249.4	1,347.9
Duncan Funding 2024-1 plc	518.4	539.9	543.5	560.5
	1,760.0	1,885.5	1,792.9	1,908.4
Less retained notes held by TSB		(1,407.4)		(1,409.8)
Total securitisation notes		478.1		498.6

(1) Due to the nature of the securitisation programmes, cash arising from mortgage repayments will be retained for periods of time before being invested in replacement mortgage assets or being distributed to note holders.

Cash deposits of £142.0 million (2024: £127.9 million) held by TSB are restricted in use to repayment of the debt securities issued by the structured entities and other legal obligations. TSB recognises the full liabilities associated with its securitisation programmes within debt securities in issue, although the obligations of TSB are limited to the cash flows generated from the underlying assets.

The programmes feature revolving structures where principal receipts received from the mortgages are used to replenish the portfolio of mortgages held by the structured entities, subject to certain eligibility criteria. The revolving period continues until July 2027 and October 2029 for the Duncan Funding 2022-1 plc and the Duncan Funding 2024-1 plc notes. The programmes include certain triggers that could result in the notes being repayable on demand, including a default by the issuer in the payment of any amounts due in respect of the issued notes. During 2025 and 2024, there were no breaches and the notes are expected to be called at the end of the respective revolving periods in July 2027 and October 2029. The legal maturity date of the notes issued is July 2069 and July 2071, respectively.

Senior unsecured debt securities in issue

As at 31 December 2025 the Company has floating rate notes in issue to its parent company, Sabadell, to satisfy MREL requirements. These were issued at a price of 100% of the principal amount and are detailed in the table on the previous page. The Company has the option to redeem these notes one year before the maturity dates specified in the table.

In December 2025, £250.0 million floating rate notes, issued in December 2022 to the Company's parent company, Sabadell, and due to mature in December 2026, were redeemed at 100% of the principal amount.

(ii) Borrowings from central banks

At 31 December 2025, borrowings from central banks mainly represented borrowings under the Bank of England's Term Funding Scheme with additional incentives for SMEs (TFSME). Such borrowings are secured on certain pre-positioned mortgages at the Bank of England. The TFSME borrowings outstanding at 31 December 2025 are due to mature at various dates, with £371.0 million due to mature during 2027 and the remaining £217.0 million during 2031.

In December 2025, £5.0 million was drawn under the Bank of England's Index Long-Term Repo (ILTR) facility that provides liquidity to banks for a fixed term in exchange for eligible collateral. The ILTR borrowings outstanding at 31 December 2025 are due to mature in June 2026.

	2025 £ million	2024 £ million
Term Funding Scheme with additional incentives for SMEs	588.0	1,385.0
Indexed Long-Term Repo facility	5.0	—
Accrued interest	5.9	21.9
Total borrowings from central banks	598.9	1,406.9

Notes to the consolidated financial statements

Sources of funding (continued)

3. Subordinated liabilities

	Note	2025 £ million	2024 £ million
Fixed-to-floating rate callable subordinated Tier 2 capital notes, due March 2031		300.0	300.0
Accrued interest		0.1	0.1
Fair value hedge accounting adjustment	21	(2.3)	(14.2)
Total subordinated liabilities		297.8	285.9

In March 2021, TSB Banking Group plc issued £300.0 million fixed-to-floating rate callable subordinated Tier 2 capital notes, due to mature in March 2031, to its parent company, Banco de Sabadell, S.A. These were issued at a price of 100% of the principal amount. The notes pay interest at a fixed rate of 3.449% per annum payable quarterly in arrears until March 2026 at which time the interest rate becomes SONIA plus 3.05% per annum payable quarterly in arrears. The Company has the option to redeem these notes in March 2026, subject to approval of the PRA.

4. Other financial liabilities

		2025 £ million	2024 £ million
Items in the course of transmission to credit institutions		62.7	66.1
Items in the course of transmission to non-credit institutions		69.6	65.2
Collateral placed by central clearing houses		921.8	1,028.2
Collateral placed by credit institutions		31.9	26.9
Deposits from credit institutions		0.4	0.6
Total other financial liabilities		1,086.4	1,187.0

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

5. Fair value of financial liabilities

The following table summarises the carrying values, fair values, and valuation hierarchy, of financial liabilities. The fair values presented in the table are at a specific date and may be significantly different from the amount which will actually be paid on the maturity or settlement date.

	Level 1 £ million	Level 2 £ million	Level 3 £ million	Total fair value £ million	Total carrying value £ million
At 31 December 2025					
Customer deposits	—	35,197.5	—	35,197.5	35,209.0
Debt securities in issue	4,234.6	666.5	—	4,901.1	4,869.3
Subordinated liabilities	—	298.0	—	298.0	297.8
Derivative liabilities at fair value through profit or loss	—	456.7	—	456.7	456.7
Hedging derivative liabilities	—	99.4	—	99.4	99.4
At 31 December 2024					
Customer deposits	—	35,050.3	—	35,050.3	35,051.2
Debt securities in issue	3,699.7	913.8	—	4,613.5	4,583.2
Subordinated liabilities	—	279.3	—	279.3	285.9
Derivative liabilities at fair value through profit or loss	—	824.2	—	824.2	824.2
Hedging derivative liabilities	—	143.6	—	143.6	143.6

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When available, TSB measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. If a market for a financial instrument is not active, TSB establishes fair value using a valuation technique. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same for which market observable prices exist, net present value and discounted cash flow analysis.

Notes to the consolidated financial statements

Sources of funding (continued)

5. Fair value of financial liabilities (continued)

The fair value of customer deposits repayable on demand is considered to be equal to their carrying value given they are short-term in nature. The fair value for all other customer deposits is estimated using discounted cash flows applying either market rates, where applicable, or current rates for deposits of similar remaining maturities. TSB's subordinated liabilities and derivative financial liabilities are primarily valued using discounted cash flows where the most significant input is interest yield curves developed from publicly quoted rates and by reference to instruments with risk characteristics similar to those held by TSB. Derivative financial instruments are the only financial liabilities that are carried at fair value.

The carrying amount of borrowings from central banks and other financial liabilities is a reasonable approximation of fair value as these balances are either on demand or variable rate. These amounts are considered as Level 2.

Valuation hierarchy of financial instruments

Financial instruments carried at fair value, or for which fair values are disclosed, have been classified into three levels according to the quality and reliability of information used to determine the fair values. There were no transfers between levels in 2025 or 2024.

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

Level 2 - Level 2 valuations are those where quoted market prices are not available, for example, where the instrument is traded in a market that is not considered to be active or valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3 - Level 3 portfolios are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data.

Notes to the consolidated financial statements

Loans and liquid assets

Funds deposited with TSB are primarily used to support lending to customers. TSB lends money to customers using different products, including mortgages, credit cards, unsecured personal loans and overdrafts. A portion of the funds are held in reserve – we call that our liquidity portfolio, which enables TSB to meet unexpected future funding requirements.

Accounting policies relevant to loans and liquid assets

(b) Classification and measurement of financial assets

Financial assets is the term used to describe TSB's loans to customers and other institutions. It includes cash and balances with central banks and other demand deposits, reverse repurchase agreements, debt securities, loans and advances to customers, loans and advances to central banks and credit institutions, other advances, and derivative financial assets (see accounting policy (j) under Managing financial risk). A financial asset is recognised on the balance sheet when the cash is advanced to the borrower, or in the case of purchases of debt securities, on the settlement date.

Classification and measurement

On initial recognition, financial assets are classified into one of three measurement categories, amortised cost, fair value through other comprehensive income, or fair value through profit or loss depending on TSB's business model for managing the financial assets and whether the cash flows represent solely payments of principal and interest.

TSB assesses its business models at a portfolio level based on its objectives for the relevant portfolio, how performance of the portfolio is measured and reported, how management are compensated, and the frequency and the reasons for asset sales from the portfolio. TSB reclassifies financial assets only when its business model for managing the portfolio of assets changes.

Financial assets that are debt instruments measured at amortised cost

Financial assets in portfolios where the business model is to hold the assets to collect the contractual cash flows and where those cash flows represent solely payments of principal and interest are measured at amortised cost. Cash flows are considered to represent solely payments of principal and interest where they are consistent with a basic lending arrangement. This includes all TSB's loans and advances to customers. Where the contractual cash flows introduce exposures to risk or volatility unrelated to a basic lending arrangement, such as from changes in equity prices, the cash flows are not considered to be solely payments of principal and interest. TSB has no such financial instruments.

Financial assets measured at amortised cost are initially recognised when the cash is advanced to the borrower at fair value including transaction costs. Subsequent measurement is at amortised cost, using the effective interest rate method. Amortised cost is the amount at which a financial asset is initially recognised, minus principal repayments, plus or minus the unamortised amount of any difference between the initial amount recognised and the maturity amount, calculated using the effective interest rate method. The carrying amount of these assets is adjusted by an expected credit loss allowance.

Financial assets that are debt instruments measured at fair value through other comprehensive income (FVOCI)

Financial assets in portfolios where the business model is to hold the assets to collect the contractual cash flows and to generate cash flows from selling assets are measured at fair value including transaction costs. Where the cash flows represent solely payments of principal and interest, gains and losses arising from changes in fair value are recognised directly in other comprehensive income. When the financial asset is either sold or matures, the cumulative gain or loss previously recognised in other comprehensive income is recognised in the income statement. Interest income is calculated using the effective interest method and is recognised in the income statement in net interest income. Foreign exchange gains and losses on financial assets denominated in foreign currencies are recognised in the income statement in exchange gains or losses. Impairment losses are recognised in the income statement.

Financial assets measured at fair value through profit or loss (FVPL)

Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value on initial recognition and subsequently. Fair value gains and losses are recognised in the income statement within other income. Derivative financial assets are measured at FVPL (see accounting policy (j) under Managing financial risk). All equity instruments are measured at FVPL with dividends continuing to be recognised in other income in the income statement.

Notes to the consolidated financial statements

Loans and liquid assets (continued)

Accounting policies relevant to loans and liquid assets (continued)

(c) Impairment of financial assets

The impairment requirements of IFRS 9 apply to financial assets measured at amortised cost and debt instruments measured at FVOCI. At initial recognition, an impairment allowance is required for expected credit losses (ECL) resulting from default events expected within the next 12 months (12 month ECL). In the event of a significant increase in credit risk, allowance is required for ECL resulting from default events expected over the estimated life of the financial instrument (lifetime ECL). IFRS 9 requires the financial asset to be allocated to one of the following three 'stages':

- Stage 1 - Financial assets which have not experienced a significant increase in credit risk since they were originated. Recognition of a 12 month ECL is required. Interest income on stage 1 financial assets is calculated on the gross carrying amount of the financial asset;
- Stage 2 – Financial assets which have experienced a significant increase in credit risk since initial recognition. For financial assets in stage 2, recognition of a lifetime ECL impairment allowance is required. Interest income on stage 2 financial assets is calculated on the gross carrying amount of the financial asset; and
- Stage 3 - Financial assets which have experienced one or more events that have had a detrimental impact on the estimated future cash flows and are considered to be credit impaired. Like stage 2, recognition of a lifetime expected ECL impairment allowance is required. However, interest income on stage 3 loans is calculated on the financial asset balance net of the impairment allowance.

Financial assets that are credit impaired at the date of their purchase or origination will be reported in a separate 'purchased or originated as credit impaired' (POCI) category until the loan is derecognised. The cumulative change in lifetime expected credit loss since the purchase or origination of the financial asset is recognised as a loss allowance.

Grouping of financial assets for credit impairment losses measured on a collective basis

Expected credit losses are assessed and measured on a collective basis for homogenous groups where the financial assets within that group share similar credit risk characteristics. Given the predominantly retail nature of TSB's loans, groupings are determined using product type, such as secured (retail), unsecured, and business banking exposures. The appropriateness of the groupings is monitored and reviewed on a periodic basis. TSB does not currently assess any material exposures on an individual basis.

Significant increase in credit risk

Financial assets are considered to be in stage 2 when their credit risk has increased significantly since initial recognition.

- The main factor that is considered by TSB is an increase in the residual lifetime Probability of Default (PD) since initial recognition. A loan will be considered to have experienced a significant increase in credit risk, and be transferred from stage 1 to stage 2 if the residual lifetime PD has increased by a relative threshold (being a multiplier of the origination PD) and for some products, an absolute increase in the PD amount as compared to the PD at the origination of the financial asset. For the core mortgage book, absolute thresholds vary depending on the characteristics of the account, and any account with a 12 month PD of greater than 20% will be considered to be stage 2. For staging purposes, PDs may be scaled to reflect any model changes that have occurred since origination. The relative and (where relevant) absolute thresholds for each portfolio are set out on page 92. Interest only mortgages which are within 30 months of maturity are considered to be stage 2 given the risk associated with the capital repayment. In addition to this, residential interest only mortgages within 2 to 5 years of maturity, with limited capacity to repay, are also considered to be stage 2.
- As a secondary qualitative assessment criterion, financial assets that are in forbearance but not credit impaired are considered to have experienced significant increase in credit risk and will be in stage 2.
- As a backstop, TSB does not rebut the presumption in IFRS 9 that all financial assets that are more than 30 days past due have experienced a significant increase in credit risk. Consequently, in respect of loans and advances to customers, TSB does not use the practical expedient in IFRS 9 which permits low credit risk loans (i.e. those considered investment grade) to remain in stage 1 without an assessment of significant increase ('low credit risk exemption'). However, in respect of all other categories of financial assets at amortised cost and financial assets at fair value through other comprehensive income, TSB uses the low credit risk exemption and categorises these financial assets as stage 1.

Notes to the consolidated financial statements

Loans and liquid assets (continued)

Accounting policies relevant to loans and liquid assets (continued)

(c) Impairment of financial assets (continued)

Credit Impaired (stage 3)

Financial assets are considered to be credit impaired and included in stage 3 when there is objective evidence of credit impairment which is consistent with the definition of default for IFRS 9 as described below.

Definition of default for IFRS 9

Loans and advances that are more than 90 days past due, or considered by management as unlikely to pay their obligations, are considered, for IFRS 9 purposes, to be in default, non performing, and credit impaired (stage 3). Examples of loans considered unlikely to pay include customers in bankruptcy or subject to an individual voluntary arrangement, customers undergoing litigation or repossession, customers who have received certain forbearance treatments or multiple forbearance treatments where certain conditions are met and interest only retail mortgages within 2 years of maturity with limited equity or lack of repayment vehicle. Customers who have cured but who were 90 days past due, or considered unlikely to pay, in the previous six months are also considered to remain in default and classified as credit impaired. TSB policy is not to rebut the presumption in IFRS 9 that loans which are more than 90 days past due are in default.

Purchased or originated credit impaired (POCI)

Financial assets that are credit impaired at the date of their purchase or origination will be reported in a separate POCI category. For such assets, lifetime ECL are incorporated into the calculation of the effective interest rate on initial recognition. Consequently, POCI assets do not carry an impairment allowance on initial recognition. The amount recognised as a loss subsequent to initial recognition is equal to the change in lifetime ECL since initial recognition of the asset. Subsequent to origination, POCI financial assets that no longer meet the stage 3 criteria will no longer be considered to be credit impaired but will continue to be reported as POCI.

Write offs

A loan or advance is normally written off, either partially or in full, against the related allowance when the proceeds from realising any available security have been received or there is no realistic prospect of recovery (as a result of the customer's insolvency, ceasing to trade or other reason) and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the statement of comprehensive income. Financial assets that are written off could still be subject to enforcement activities in order to comply with TSB's procedures for recovery of amounts due. In the event of significant improvements in expected recoveries on stage 3 assets, impairment reversals are recognised as a credit to impairment losses in the statement of comprehensive income.

Modified financial assets and derecognition

A financial asset that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement made on substantially different terms. Where the contractual cash flows of a financial asset have been modified and the financial asset was not derecognised, its gross carrying amount is recalculated as the present value of the modified contractual cash flows, discounted at the original effective interest rate with a gain or loss recognised in the income statement. The contractual terms of a loan may be modified for a number of reasons, primarily due to customers being granted a concession due to their financial difficulty and the loan being considered in forbearance.

Methodology for measuring expected credit losses

The allowance for ECLs is calculated using three main components: a probability of default (PD), a loss given default (LGD); and the exposure at default (EAD). For accounting purposes, the 12 month and lifetime PDs represent the probability of a default occurring over the next 12 months or the lifetime of the financial instruments, respectively, based on conditions existing at the balance sheet date and expected future economic conditions that affect credit risk.

The LGD represents losses expected on default, taking into account the mitigating effect of collateral, its expected value when realised and the time value of money and is discounted using the effective interest rate. The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdown of a committed facility.

ECL is calculated by multiplying the PD (12 month or lifetime depending on the staging of the loan), LGD and EAD. In respect of TSB's mortgages and unsecured personal loans, ECL is calculated from the initial recognition of the loan for the maximum period that TSB is exposed to credit risk which takes into account expected customer repayment behaviour. In respect of revolving loans, such as overdrafts and credit cards, TSB's exposure to credit risk is not limited to the contractual period and the expected life is calculated based on the estimated behavioural life of the loan and associated undrawn facility. The measurement of ECL also takes into account all reasonable and supportable information, including forward looking economic scenarios to calculate a probability weighted forward looking estimate.

Notes to the consolidated financial statements

Loans and liquid assets (continued)

Accounting policies relevant to loans and liquid assets (continued)

(d) Derecognition of financial assets

Financial assets are derecognised when the contractual right to receive cash flows from those assets has expired or when TSB has transferred its contractual right to receive the cash flows from the assets and either (i) substantially all of the risks and rewards of ownership have been transferred; or (ii) TSB has neither retained nor transferred substantially all of the risks and rewards but has transferred control.

Where TSB enters into securitisation transactions to finance certain loans and advances to customers using a structured entity funded by the issue of debt, these loans and advances continue to be recognised, as TSB has not transferred substantially all the risks and rewards. A corresponding liability for the funding is also recognised.

Financial instruments sold under a repurchase agreement, under which substantially all the risks and rewards of ownership are retained by TSB, continue to be recognised on the balance sheet and the sale proceeds are recognised as a financial liability. The difference between the sale and repurchase price is recognised over the life of the agreement as interest expense using the effective interest method.

6. Debt securities

	2025 £ million	2024 £ million
Fair value through other comprehensive income (FVOCI)		
UK Gilts	388.9	328.6
Supranational and development bank bonds	45.3	-
Covered bonds	6.0	-
Total debt securities at FVOCI	440.2	328.6
Amortised cost		
UK Gilts	1,312.6	1,293.6
Supranational and development bank bonds	332.5	297.4
Covered bonds	341.3	391.5
Total debt securities at amortised cost	1,986.4	1,982.5

Debt securities of £440.2 million (2024: £328.6 million) are held as part of the liquid asset portfolio, where the business model is to hold the assets to collect the contractual cash flows and to generate cash flows from selling the assets. These assets are carried at FVOCI.

Debt securities of £1,986.4 million (2024: £1,982.5 million) are held as part of a second, separate liquid asset portfolio, where the business model is solely to hold the assets to collect the contractual cash flows. These assets are carried at amortised cost.

At 31 December 2025, £225.9 million (2024: £298.0 million) of debt securities at amortised cost had been pledged as collateral.

7. Loans and advances to credit institutions

	2025 £ million	2024 £ million
Loans and advances to credit institutions	305.2	277.8

Loans and advances to credit institutions reflects deposit balances held by TSB's covered bond and securitisation special purpose entities, as further described in note 2.

Notes to the consolidated financial statements

Loans and liquid assets (continued)

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

	2025 £ million	2024 £ million
Retail – mortgages	34,058.9	34,055.5
Retail – credit cards	562.4	528.5
Retail – other unsecured	1,442.5	1,470.1
Business banking	312.4	407.0
Gross customer lending balances	36,376.2	36,461.1
Allowance for credit impairment losses (note 18)	(171.2)	(180.1)
Net customer lending balances	36,205.0	36,281.0
Accounting adjustments ⁽¹⁾	63.4	49.9
Loans and advances to customers	36,268.4	36,330.9

(1) Comprises accrued interest of £20.6 million (2024: £20.8 million) and effective interest rate adjustments of £42.8 million (2024: £29.1 million).

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

	2025 £ million	2024 £ million
Retail – mortgages	1,650.7	1,825.4
Retail – credit cards	2,586.2	3,099.5
Retail – other unsecured	744.9	746.5
Business banking	24.7	25.4
Total commitments	5,006.5	5,696.8

The credit impairment provision in respect of total loan commitments is shown in note 30 on page 126.

Significant estimates - measurement uncertainty and sensitivity of allowance for credit impairment losses

The measurement of the allowance for credit impairment losses is complex and involves the use of significant judgement and estimation uncertainty as follows:

- Estimation uncertainty from the use of multiple forward-looking economic scenarios and associated probability weightings;
- Judgements required to adjust modelled outcomes to reflect model estimation uncertainty or where models are not considered to fully capture expected credit losses (referred to as post model adjustments or PMAs); and
- Judgements required to assess when a financial asset has experienced a significant increase in credit risk.

Forward looking economic scenarios

TSB currently uses four economic scenarios (2024: four scenarios), representative of management's view of forecast economic conditions. Key scenario assumptions are set internally for GDP, house prices, unemployment, inflation and interest rates. The forecasts for these metrics are compared with external sources to ensure they are suitably benchmarked.

The alternative scenarios flow from an assessment of the risks to the base case. In 2025, the main downside scenario retained the stance that forecast inflation and interest rates are lower than assumed in the base case. However, the severe downside explored the risk of higher inflation and interest rates, partly reflecting renewed price pressures in the UK economy in 2025. Idiosyncratic risks are also considered and in 2025 consideration was given to the inclusion of a climate change scenario. This was not considered necessary. This is partly because the economic effects of climate-led scenarios tend to unfold more gradually than traditional downside scenarios.

The severe downside is an adapted version of the high-rate ICAAP scenario and is used to capture non-linearity in expected credit losses. This is where the relationship of credit losses to the relevant economic variables which influence credit losses (e.g. house prices or unemployment) is such that each unit of change in an economic variable does not lead to a uniform change in expected credit losses. For example, credit losses in secured portfolios may remain subdued in an environment where house prices exhibit only a small decrease. However, after a certain level of house price decline, credit losses would be forecast to increase more meaningfully as collateral values fall by a similar proportion below the level of customer loans.

Economic scenarios and associated weightings are reviewed twice-yearly by an internal forum and updated, as necessary, to enable significant developments to be taken into account in measuring the allowance for credit impairment losses. The scenarios and weightings are presented ahead of Half-Year Reporting and Full-Year Reporting for review and approval for use by the Audit Committee.

Notes to the consolidated financial statements

Loans and liquid assets (continued)

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

Forward looking economic scenarios (continued)

2025 economic scenarios

The four scenarios, together with the weightings applied at December 2025, are described below.

Base case (60% weighting)

UK GDP growth remains sluggish, which contributes to rise in unemployment rate (5.25%). Labour market loosening dampens wage growth, which brings inflation back towards target after flare-up in 2025. BoE cuts Bank Rate to 3.5% in H1 2026.

Compared to 2024, the main difference relates to unemployment. Last year, the base case had forecast that unemployment would rise to an assumed 'natural rate' of 4.5%. However, the unemployment rate had already risen to 5.0% as of Q3 2025.

Upside (10% weighting)

In the upside scenario, the UK economy enjoys faster growth and lower unemployment than in the base case. The Bank of England raises the UK policy rate to 4.50% by end-2026. This reflects a belief that the neutral policy rate is higher than previously thought, partly due to higher economic growth, rather than fresh concerns about the inflationary outlook.

Downside scenario (20% weighting)

The trade war escalates, with tariffs settling at a higher level than in the base case – both those imposed by the US and by other countries in retaliation. This leads to a moderate UK recession, with the effect of trade tensions amplified by increased uncertainty and financial instability. This leads to a moderate recession and an increase in unemployment (6.6% peak). House prices decline by 16% from December 2025 and remain subdued until 2030.

Severe downside (high interest rate) scenario (10% weighting)

A severe global supply shock leads to a deep global recession. An escalation of geopolitical tensions causes a sharp increase in commodity prices and inflation. UK GDP falls by 5% and unemployment rises to 8.5%. The BoE lifts policy rate to 6.5% in response to another inflation surge (8.5% peak). House prices fall by 29% but start to recover in 2029.

2024 economic scenarios

The four scenarios, together with the weightings applied at December 2024, are described below.

Base case (60% weighting)

The base case assumes that the BoE continues to cut interest rates, despite a small flare-up in inflation in 2025 and 2026. This eases affordability pressures, which paves the way for a recovery in the mortgage market. Unemployment rises towards an assumed 'natural rate' of 4.5%.

Compared to 2023, the main difference relates to house prices. Last year, the base case had forecast that house prices would fall by 7.5% in 2024, while the base case for 2024 assumes an increase of 3.3%. Consequently, the level of houses prices in the current base case are higher than in the prior year base case, even though the growth rate for house prices in 2025 and beyond is not materially different.

Upside (10% weighting)

In the upside scenario, the UK economy enjoys faster growth and lower unemployment than in the base case. The Bank of England pauses its rate cutting cycle in 2025. This partly reflects a belief that the policy rate may not be as restrictive as previously thought, rather than fresh concerns about the inflationary outlook.

Downside scenario (20% weighting)

The downside scenario is driven by financial instability, triggered by monetary tightening and market concerns about public finances. This leads to a mild recession and an increase in unemployment, while house prices decline by approximately 16% from December 2024.

Severe downside (high interest rate) scenario (10% weighting)

The high-rate severe downside scenario assumes that inflation surges again in 2025, prompting an aggressive policy response from the Bank of England. Bank Rate rises to 7.25%, which leads to a deep recession. Unemployment rises to 8.5% and house prices fall by approximately 29% from December 2024.

Notes to the consolidated financial statements

Loans and liquid assets (continued)

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

Scenario weightings

		Base case	Upside	Downside	Severe downside
2025		60%	10%	20%	10%
2024		60%	10%	20%	10%

Scenario weightings have not changed from those applied in 2024. TSB retains a clear downside skew with the probability attached to the upside scenario (10%) being significantly lower than the combined weight of the downside scenarios (30%). This reflects concerns about inflationary persistence and the effects of rate hikes on economic growth and financial stability.

Annual average value of key inputs to the scenarios

At 31 December 2025		Input ⁽¹⁾	2026	2027	2028	2029	2030
Scenario	Weighting		2026	2027	2028	2029	2030
Upside	10%	GDP	2.1 %	2.4 %	2.0 %	2.0 %	2.0 %
		Unemployment	4.3 %	3.5 %	3.5 %	3.9 %	4.0 %
		House prices	3.9 %	5.0 %	5.0 %	5.0 %	5.0 %
		Interest rates	4.5 %	4.5 %	4.5 %	4.5 %	4.5 %
Base	60%	GDP	0.9 %	1.3 %	1.4 %	1.4 %	1.4 %
		Unemployment	5.3 %	4.6 %	4.5 %	4.5 %	4.5 %
		House prices	1.7 %	2.9 %	3.0 %	3.0 %	3.0 %
		Interest rates	3.5 %	3.5 %	3.5 %	3.75 %	4.0 %
Downside	20%	GDP	(0.9)%	(0.6)%	1.5 %	1.4 %	1.2 %
		Unemployment	6.1 %	6.5 %	6.0 %	5.4 %	5.0 %
		House prices	(10.1)%	(6.1)%	0.0 %	0.0 %	3.0 %
		Interest rates	1.75 %	1.75 %	2.75 %	3.5 %	3.5 %
Severe downside (High rate)	10%	GDP	(2.2)%	(2.4)%	1.3 %	1.4 %	1.4 %
		Unemployment	6.3 %	8.2 %	8.1 %	7.3 %	6.5 %
		House prices	(10.1)%	(12.1)%	(9.5)%	7.4 %	6.9 %
		Interest rates	6.5 %	6.5 %	4.5 %	4.5 %	4.5 %
Weighted average	n/a	GDP	0.3 %	0.7 %	1.5 %	1.5 %	1.4 %
		Unemployment	5.4 %	5.2 %	5.1 %	4.9 %	4.8 %
		House prices	(1.6)%	0.1 %	1.7 %	3.0 %	3.5 %
		Interest rates	3.6 %	3.6 %	3.6 %	3.9 %	4.0 %

At 31 December 2024		Input ⁽¹⁾	2025	2026	2027	2028	2029
Scenario	Weighting		2025	2026	2027	2028	2029
Upside	10%	GDP	2.3 %	2.2 %	1.6 %	1.6 %	1.6 %
		Unemployment	3.5 %	3.5 %	3.5 %	3.5 %	3.5 %
		House prices	4.7 %	5.0 %	5.0 %	5.0 %	5.0 %
		Interest rates	4.75 %	4.25 %	4.0 %	4.0 %	4.0 %
Base	60%	GDP	1.1 %	1.1 %	1.4 %	1.4 %	1.4 %
		Unemployment	4.5 %	4.5 %	4.5 %	4.5 %	4.5 %
		House prices	1.2 %	2.4 %	3.0 %	3.0 %	3.0 %
		Interest rates	4.0 %	3.75 %	3.5 %	3.5 %	3.5 %
Downside	20%	GDP	(0.6)%	(1.2)%	1.2 %	1.4 %	1.2 %
		Unemployment	6.1 %	6.5 %	6.0 %	5.4 %	4.8 %
		House prices	(7.5)%	(8.6)%	– %	– %	2.8 %
		Interest rates	1.75 %	1.75 %	2.25 %	3.0 %	3.0 %
Severe downside (High rate)	10%	GDP	(1.2)%	(3.0)%	(0.1)%	1.9 %	1.8 %
		Unemployment	6.4 %	8.5 %	8.0 %	7.3 %	6.7 %
		House prices	(7.5)%	(14.7)%	(8.0)%	6.9 %	6.3 %
		Interest rates	7.25 %	7.25 %	5.25 %	4.0 %	4.0 %
Weighted average	n/a	GDP	0.6 %	0.3 %	1.2 %	1.5 %	1.4 %
		Unemployment	4.9 %	5.2 %	5.0 %	4.9 %	4.7 %
		House prices	(1.0)%	(1.0)%	1.8 %	3.0 %	3.4 %
		Interest rates	4.0 %	3.8 %	3.5 %	3.5 %	3.5 %

Notes to the consolidated financial statements

Loans and liquid assets (continued)

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

Annual average value of key inputs to the scenarios (continued)

In the table above, GDP is the annual change in forecast GDP for each year. Unemployment is presented as the Q4 forecast for each year. House price changes are presented as the year-on-year change in Q4 forecast house prices in each year. Interest rates are Bank Rate in December each year.

Key variables in each of the scenarios are assumed to revert to a long-term constant rate over a period of up to two years after the end of the forecast period. The reversionary rates used are as follows: GDP 1.5% (2024: 1.5%), unemployment 4.5% (2024: 4.5%); interest rates 3.5% (2024: 3.5%); and house price growth of 3.75% (2024: 3.75%) per annum.

Cumulative expected growth and fall of key inputs to the forecast scenarios

The table below shows the cumulative forecast growth and fall of key inputs from the reporting date to the forecast peak and forecast trough during the forecast period.

		Base case	Upside	Downside	Severe downside (High rate)
At 31 December 2025⁽¹⁾					
GDP	Peak to trough fall	n/a	n/a	(2.0)%	(5.0)%
Unemployment	Peak rate	5.3 %	5.0 %	6.6 %	8.5 %
House prices	Peak-to-trough fall	n/a	n/a	(15.7)%	(29.2)%
Interest rates	Most extreme rate	3.5 %	4.5 %	1.8 %	6.5 %
<hr/>					
At 31 December 2024					
GDP	Peak to trough fall	n/a	n/a	(2.4)%	(5.4)%
Unemployment	Peak rate	4.5 %	4.3 %	6.6 %	8.5 %
House prices	Peak-to-trough fall	n/a	n/a	(16.0)%	(29.0)%
Interest rates	Most extreme rate	3.5 %	4.0 %	1.75 %	7.25 %

(1) GDP decline is relative to Q4 2025. Unemployment peak is from Q1 2025 onwards. House price decline is relative to December 2025. The most extreme interest rate is the interest rate furthest from the current rate, either positive or negative during the forecast period.

Sensitivity to alternative economic scenario weightings

The calculation of the allowance for credit impairment losses is sensitive to changes in the chosen weightings. The table below summarises the impact on the allowance for credit impairment losses (including PMAs) from the use of alternative scenario weightings.

	Weighted £ million	Upside £ million	Base case £ million	Downside £ million	Severe downside £ million
At 31 December 2025					
Gross customer lending balances:					
Stage 1	33,038.7	33,181.7	33,087.1	33,005.5	32,242.7
Stage 2	2,738.6	2,595.6	2,690.2	2,771.8	3,534.6
Stage 3	525.7	525.7	525.7	525.7	525.7
POCI	73.2	73.2	73.2	73.2	73.2
Total gross customer lending balances	36,376.2	36,376.2	36,376.2	36,376.2	36,376.2
<hr/>					
Allowance for credit losses and credit impairment provisions:					
Stage 1	34.1	32.8	32.3	33.2	36.3
Stage 2	52.4	38.1	44.0	61.1	116.6
Stage 3	86.5	78.4	79.7	89.8	114.0
POCI	2.6	1.9	1.9	3.1	5.5
Total allowance for credit losses and credit impairment provisions ⁽¹⁾	175.6	151.2	157.9	187.2	272.4

(1) Weighted amount comprises of allowance for credit losses of £171.2 million and credit impairment provisions of £4.4 million (note 30).

Notes to the consolidated financial statements

Loans and liquid assets (continued)

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

Sensitivity to alternative economic scenario weightings (continued)

At 31 December 2024	Weighted £ million	Upside £ million	Base case £ million	Downside £ million	Severe downside £ million
Gross customer lending balances:					
Stage 1	33,151.6	33,297.8	33,204.4	33,021.5	31,778.1
Stage 2	2,697.2	2,551.0	2,644.4	2,827.3	4,070.7
Stage 3	528.2	528.2	528.2	528.2	528.2
POCI	84.1	84.1	84.1	84.1	84.1
Total gross customer lending balances	36,461.1	36,461.1	36,461.1	36,461.1	36,461.1
Allowance for credit losses and credit impairment provisions:					
Stage 1	50.2	47.9	49.1	62.3	69.8
Stage 2	57.7	42.1	49.9	71.1	97.1
Stage 3	80.0	70.9	73.0	82.9	94.3
POCI	0.8	0.6	0.6	0.8	0.9
Total allowance for credit losses and credit impairment provisions ⁽¹⁾	188.7	161.5	172.6	217.1	262.1

(1) Weighted amount comprises of allowance for credit losses of £180.1 million and credit impairment provisions of £8.6 million (note 30).

Included in the weighted ECL of £175.6 million (2024: £188.7 million) are post model adjustments of £16.8 million (2024: £37.6 million) which are included in the above macroeconomic sensitivity.

In undertaking the sensitivity of the ECL to alternative scenarios, balances in stage 3 at the balance sheet date remain constant in each scenario. Any change in stage 3 balances in each scenario is assumed to take place subsequent to the balance sheet date as cases move in to and out of arrears. The differences across the scenarios for stage 1 and stage 2 balances reflect the change to the modelled PD in each scenario, which is a key determinant in assessing when there has been a significant increase in credit risk.

The ECL for each scenario multiplied by the scenario probability will not reconcile to the overall provision. Whilst the stage allocation of loans varies in each individual scenario, each loan is allocated to a single stage in the overall provision calculation based on a weighted average PD, taking into account the economic scenarios. A probability weighted 12 month or lifetime ECL (which takes into account the economic scenarios) is then calculated based on the stage allocation.

Judgements required in assessing model estimation uncertainty and post model adjustments (PMAs)

The allowance for credit impairment losses included PMAs as shown below:

	Retail - Mortgages £ million	Retail - Cards £ million	Retail - Other £ million	Business banking £ million	2025	Retail - Mortgages £ million	Retail - Cards £ million	Retail - Other £ million	Business banking £ million	2024 £ million
ECL before judgemental adjustments	28.9	41.9	81.2	2.4	154.4	2.7	44.9	91.2	3.7	142.5
Post model judgemental adjustments:										
Impairment default triggers	3.1	—	—	—	3.1	21.7	0.5	2.2	—	24.4
Model performance	8.6	0.2	2.6	—	11.4	19.3	(1.4)	(8.1)	(1.5)	8.3
Operational matters	2.1	—	—	0.2	2.3	3.7	—	—	0.7	4.4
Bounce Back Loan Scheme	—	—	—	—	—	—	—	—	0.5	0.5
Total judgemental adjustments	13.8	0.2	2.6	0.2	16.8	44.7	(0.9)	(5.9)	(0.3)	37.6
Allowance for credit impairment losses	42.7	42.1	83.8	2.6	171.2	47.4	44.0	85.3	3.4	180.1

The suite of methodologies used to calculate PMAs are grounded in similar principles to those adopted for the core impairment models, with the inputs and PMA methodologies subject to regular oversight and PMA outputs reviewed in a consistent manner to the output from the core impairment models. The key categories of PMAs are as follows:

Impairment default triggers

- PMAs in this category capture the risk of default, where not fully captured in the model. An example of a PMA in this category captures the risk associated with customers who have experienced deterioration in their affordability since origination, not included Probability of Default (PD) model, the impact of which is recorded as a PMA. In order to establish, bureau information is used to determine the scale of the impact to the population and the provision uplifted to reflect the customers higher risk.

Notes to the consolidated financial statements

Loans and liquid assets (continued)

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

Impairment default triggers (continued)

- During 2025, the value of PMAs required to recognise drivers of default not fully captured in the existing ECL models, reduced by £21.3 million to £3.1 million (2024: £24.4 million) following redevelopment of the secured IFRS9 models and associated release of PMAs.

Model performance

- PMAs are required to mitigate risks associated with model performance. During 2025, this category of PMAs increased by £3.1 million to £11.4 million (2024: £8.3 million) to reflect Probability of Default model recalibrations, and recognising model limitations mainly related to projected collateral valuations. While the total value of ECJs has increased, the £11.4 million total includes both positive and negative ECJs to mitigate under and over estimation by the models

Operational matters

- PMAs are used to address the risk of certain operational matters. This includes a low volume of customer accounts which require bespoke assessments of their underlying credit risk, for example, relating to mortgages on high value properties for which models have not been calibrated.

Bounce Back Loan Scheme

- A small PMA previously held in relation to Bounce Back Loans (2024: £0.5m) is no longer required and has been fully released.

Judgements required in assessing significant increase in credit risk

TSB's policy for determining when a financial asset has experienced a significant increase in credit risk is explained on page 84. In applying this policy, the key judgement is the level of increase in the residual lifetime PD as compared to the equivalent position at the origination of the financial asset.

At 31 December 2025, loans and advances to customers were considered to have experienced a significant increase in credit risk (and classified in stage 2) if the residual lifetime PD had increased by both the relative threshold (being a multiplier of the origination PD) and the absolute increase in PD, both as compared to the PD at time of the loan's origination, as follows:

	2025 Relative Increase in PD	2025 Absolute Increase in PD	2024 Relative Increase in PD	2024 Absolute Increase in PD
Retail - mortgages				
Core mortgages	Range from 1.1 to 6 times		n/a	2 times
Whistletree	2 times	10bps	2 times	10bps
Retail - unsecured				
Credit cards	1.5 times	1050bps	1.5 times	500bps
Personal loans	1.5 times	950bps	1.5 times	950bps
Overdrafts	1.5 times	200bps	1.5 times	200bps
Business banking	2 times	50bps	2 times	50bps

In assessing the appropriateness of this judgement, management applied a framework that considered a number of quantitative factors, including the accuracy of the thresholds and their predictive ability, with updates applied where required.

Further to this, PMAs were applied to the modelled staging outcomes to align with the PMAs applied in measuring the impairment allowance. This resulted in the net transfer of £212.5 million (2025: £1,354.1 million) of gross Retail - mortgages balances from stage 1 to stage 2. This was to capture the effects of the affordability PMA (recorded under impairment default triggers). Overlays associated with the Whistletree balances are no longer required (2024: £8.6 million) as they are now included in the model. Similarly, such overlays for the Business Banking portfolio are not required this year (2024: £67.8 million from stage 2 to stage 1 to address known model performance matters). An overlay has been applied to the Loans portfolio transferring £27.4 million gross balance from stage 1 to stage 2 to reflect the effects of a model performance PMA. (2024: £nil).

Notes to the consolidated financial statements

Loans and liquid assets (continued)

9. Other advances

	2025 £ million	2024 £ million
Items in the course of collection from credit institutions	17.9	20.7
Items in the course of collection from non-credit institutions	4.1	4.0
Collateral placed at central clearing houses	22.6	49.9
Collateral placed with credit institutions	20.8	51.4
Amounts due from the British Business Bank	1.5	4.2
Total other advances	66.9	130.2

Amounts due from the British Business Bank are in respect of the Bounce Back Loan Scheme. These reflect recovery of loan balances previously charged off and customer interest which are recoverable under a guarantee from the British Business Bank.

10. Fair value of financial assets

The following table summarises the carrying values, fair values, and valuation hierarchy of financial assets presented on TSB's consolidated balance sheet. The fair values presented are at a specific date and may be significantly different from the amount which will actually be received on the maturity or settlement date.

	Level 1 £ million	Level 2 £ million	Level 3 £ million	Total fair value £ million	Total carrying value £ million
At 31 December 2025					
Debt securities at amortised cost	1,938.2	—	—	1,938.2	1,986.4
Loans and advances to customers	—	—	36,186.0	36,186.0	36,268.4
Financial assets at fair value through other comprehensive income	440.2	—	—	440.2	440.2
Derivative assets at fair value through profit or loss	—	368.4	—	368.4	368.4
Hedging derivative assets	—	1,149.2	—	1,149.2	1,149.2
At 31 December 2024					
Debt securities at amortised cost	1,922.0	—	—	1,922.0	1,982.5
Loans and advances to customers	—	—	35,989.4	35,989.4	36,330.9
Financial assets at fair value through other comprehensive income	328.6	—	—	328.6	328.6
Derivative assets at fair value through profit or loss	—	670.2	—	670.2	670.2
Hedging derivative assets	—	1,274.3	—	1,274.3	1,274.3

A description of the fair value levels is included in note 5. Debt securities at amortised cost and financial assets at fair value through other comprehensive income are generally valued using quoted market prices and are therefore classified as Level 1 assets. Derivative financial assets are primarily collateralised interest rate swaps and are valued using a discounted cash flow model where the most significant input is forward interest rate yield curves which are developed from publicly quoted SONIA rates. As such, derivative financial instruments are classified as Level 2 assets.

TSB provides loans at both fixed and variable rates. Fair value is principally estimated by discounting anticipated cash flows (including interest at contractual rates) at market rates for similar loans offered by TSB and other financial institutions. Certain loans secured on residential properties are made at a fixed rate for a limited period, typically two to five years, after which the loans revert to the relevant variable rate. The fair value of such loans is estimated by reference to the market rates for similar loans of maturity equal to the remaining fixed interest rate period.

Cash, cash balances at central banks and other demand deposits, loans and advances to credit institutions, reverse repurchase agreements and other advances are generally short-term in nature and to counterparties with a high credit quality and the carrying amount is a reasonable approximation of fair value. As such these amounts are considered as Level 2.

Notes to the consolidated financial statements

Income

We earn income in the form of interest that we receive on the loans we make to customers and from our liquidity portfolio and we pay interest to savings and some bank account customers on the money they deposit with us and to providers of other forms of funding. We also earn other income in the form of fees and charges from the provision of banking services and commissions from the referral of certain products, such as general insurance, offset by fees and rewards paid to certain bank account customers.

Accounting policies relevant to recognising income

(e) Interest income and expense

Financial instruments classified as amortised cost and fair value through other comprehensive income

Interest income and expense are recognised in the income statement for all interest-bearing financial instruments using the EIR method. The EIR method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense. The EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

The effective interest rate is calculated on initial recognition of the financial asset or liability, estimating the future cash flows after considering all the contractual terms of the instrument but not future credit losses. The calculation includes all amounts paid or received by TSB that are an integral part of the overall return, direct incremental transaction costs related to the acquisition, issue or disposal of a financial instrument and all other premiums or discounts. Reversionary interest is included in the assessment of the effective interest rate on both mortgages and customer deposits, which includes certain savings products. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss (see accounting policy (c) on impairment of financial assets).

For financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial asset. There are two exceptions to this as follows:

- (i) Interest income in respect of financial assets that have become credit impaired (stage 3) subsequent to their initial recognition is calculated by applying the effective interest rate to their amortised cost, net of expected loss provision; and
- (ii) Interest income in respect of financial assets classified as POCI is calculated by applying the original credit adjusted effective interest rate to the amortised cost of the financial asset.

Derivative financial instruments

Interest income and expense on derivative financial instruments in qualifying hedge accounting relationships, where the hedged item is a financial asset, is recognised in interest income. Where the hedged item is a financial liability, the derivative interest income or expense is recognised in interest expense. Interest income and expense on derivatives classified as held for trading is recognised in interest income.

(f) Other operating income

Other operating income, including fees and commissions, which are not an integral part of the EIR are generally recognised over time as the service is provided and TSB satisfies its performance obligations.

Renewal commission income is recognised when TSB satisfies its performance obligations under the relevant contract and management concludes that there is a high probability that there will be no significant reversal of the estimated income.

Notes to the consolidated financial statements

Income (continued)

11. Net interest income

	2025 £ million	2024 £ million
Interest and similar income		
Interest income calculated using the effective interest method:		
Cash, cash balances at central banks and other demand deposits	165.8	228.0
Financial assets at fair value through other comprehensive income	8.9	7.3
Debt securities at amortised cost	54.6	55.9
Loans to credit institutions	10.2	11.1
Loans and advances to customers	1,607.0	1,501.7
	1,846.5	1,804.0
Derivative financial instruments	128.6	273.5
Other interest income	0.7	–
Total interest and similar income	1,975.8	2,077.5

Interest and similar expense

Interest expense calculated using the effective interest method:

	2025 £ million	2024 £ million
Interest and similar expense		
Borrowings from central banks	(30.2)	(146.1)
Customer deposits	(527.9)	(530.9)
Debt securities in issue	(247.9)	(242.5)
Subordinated liabilities	(10.3)	(10.3)
Lease liabilities	(2.6)	(3.0)
Other financial liabilities	(44.9)	(54.2)
	(863.8)	(987.0)
Derivative financial instruments	(56.4)	(106.1)
Total interest and similar expense	(920.2)	(1,093.1)
Net interest income	1,055.6	984.4

Included within interest and similar income is £30.4 million (2024: £28.6 million) in respect of impaired financial assets.

12. Net fee and commission income

	2025 £ million	2024 £ million
Fee and commission income		
Bank accounts	38.7	39.6
Credit and debit card fee income	53.9	62.1
Insurance commission income	9.3	9.4
Other	12.2	13.6
	114.1	124.7
Fee and commission expense	(37.4)	(34.0)
Net fee and commission income	76.7	90.7

13. Other operating income

	2025 £ million	2024 £ million
Other operating income, before notable items:		
Rental and other income	0.3	0.5
Notable income:		
Third party recovery income	29.7	–
Migration related income	–	36.2
Total other operating income	30.0	36.7

Third party recovery income is the recognition of amounts recovered from a third party, under an indemnity arrangement, of certain remediation conduct costs arising from the treatment of customers in the collections and recoveries function.

Migration related income is the recognition of insurance recoveries of post migration losses. The amounts recognised in 2024 reflect the finalisation of the matter.

Notes to the consolidated financial statements

Charges

Charges we incur include the costs of paying our employees, running our branches, investing in our business, paying for advertising and marketing. Occasionally, our customers' circumstances change and they are expected to be unable to repay the money they borrow from us causing us to incur impairment losses. Finally, TSB complies with its tax obligations to HMRC.

Accounting policies relevant to recognising charges

(g) Pensions and other post-retirement benefits

TSB operates defined contribution pension plans under which fixed contributions are paid. The costs of TSB's defined contribution plans are charged to the income statement, as an operating expense, in the period in which they fall due.

(h) Share based compensation

TSB operates a number of cash settled share based compensation plans, in respect of services received from certain of its employees. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. A corresponding credit is recognised as a liability. In addition, in some circumstances employees may provide services in advance of the grant date and therefore the liability is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

At the end of each reporting period, the fair value of the liability is measured with any changes in fair value recognised in operating expenses.

(i) Taxation

Current corporation tax which is payable or receivable on taxable profits or losses is recognised as tax expense or credit in the period in which the profits or losses arise.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax is determined using tax rates that have been enacted or substantively enacted by the balance sheet date that are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred and current tax assets and liabilities are offset when they arise in the same tax reporting group and where there is both a legal right of offset and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Notes to the consolidated financial statements

Charges (continued)

14. Operating expenses

	2025 £ million	2024 £ million
Staff costs:		
Wages and salaries	236.1	245.5
Social security costs	31.4	27.3
Other pension costs	33.4	34.0
Severance costs	1.7	4.9
Other staff costs	15.9	7.8
Total staff costs	318.5	319.5
Total premises expenses	30.6	28.3
Other administrative expenses:		
IT servicing and licence costs	233.8	223.6
Regulatory, legal and consultancy costs	44.2	49.4
Marketing	14.0	20.8
Other expenses ⁽¹⁾	48.2	50.0
Total administrative expenses	689.3	691.6
Total other operating expenses	33.3	57.8
Depreciation of property and equipment	22.9	30.6
Depreciation of right of use asset	15.6	23.6
Amortisation of intangible assets	24.9	18.3
Total depreciation and amortisation	63.4	72.5
Total operating expenses	786.0	821.9

(1) Primarily comprises the costs of operational contracts, and non-staff contractors.

Notes to the consolidated financial statements

Charges (continued)

14. Operating expenses (continued)

Notable expenses

Notable items are identified separately by management as they have an undue impact on the overall cost trend and their highlighting ensures the key drivers of cost trends can be better understood.

	2025 £ million	2024 £ million
Staff costs	2.6	8.6
Premises expenses	1.1	8.4
IT servicing and licence costs	0.7	0.5
Regulatory, legal and consultancy costs	2.5	2.2
Strategic restructuring costs⁽¹⁾	6.9	19.7
Regulatory fine ⁽²⁾	—	11.4
IT servicing and license costs ⁽³⁾	8.0	4.6
Conduct costs	0.4	3.6
Other notable costs	0.9	1.8
Total notable expenses	16.2	41.1

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

(2) Reflects a regulatory fine in respect of findings covering the treatment of customers in TSB's collections and recoveries function.

(3) Includes accelerated charges from a related party IT supplier. Investment by TSB in internal processes to serve customers and improve efficiency led to obsolescence in the supplier's IT equipment, the costs of which were borne by TSB (see note 25 on page 124 under the heading of Operational IT costs).

Average number of employees

The monthly average number of employees on a headcount basis during the year was 4,733 (2024: 5,047), all of whom were employed in the UK. Remuneration paid to key management personnel (note 25(i)) is included in staff costs.

Share based compensation

Staff costs include £2.9 million (2024: £4.0 million) in respect of share based compensation arrangements. Such arrangements are limited to the operation of a Share Incentive Plan (SIP) which provide employees with the opportunity to own shares in Sabadell and the granting, where relevant, of shares to certain senior employees as part of their recruitment arrangements.

All share based compensation arrangements involve an award of Sabadell shares where TSB retains the obligation to settle. These arrangements are accounted for as cash settled share based payment arrangements resulting in the recognition of a liability. This liability is remeasured monthly, with changes recognised in operating expenses, to reflect the latest Sabadell share price and the estimated number of shares expected to vest. At 31 December 2025, £15.8 million (2024: £11.2 million) was recognised in respect of share based payment liabilities. An explanation of the instruments transacted to economically hedge TSB's exposure to share based payment liabilities is set out in note 25(ii) on page 124.

Fees payable to the external auditor

Included in other expenses are fees payable to TSB's auditors, excluding VAT, as set out in the table below:

	2025 £ million	2024 £ million
Fees payable to the Company's auditor for the audit of the Company's annual accounts	0.4	0.4
Fees payable to the Company's auditor and its associates for other services:		
Audit of the accounts of subsidiaries ⁽¹⁾	4.2	4.5
Audit related assurance services ⁽²⁾	1.0	1.1
Total fees payable to TSB's auditors	5.6	6.0

(1) The audit fees include £0.1 million (2024: £0.6 million) associated with the auditor performing additional work associated with the TSB's IT transformation programme.

(2) Primarily fees payable to the Company's auditor for the audit of the half year financial statements, as required by TSB's parent, Sabadell.

Notes to the consolidated financial statements

Charges (continued)

15. Directors' emoluments

The aggregate remuneration of the Directors during the year was as follows:

	2025 £ 000	2024 £ 000
Remuneration paid to Directors in respect of qualifying services	3,515	4,383
Employer contributions to pension schemes (including cash paid in lieu)	131	168
Amounts payable under long-term incentive arrangements	564	767
Total	4,210	5,318

Details of the highest paid Director are set out on page 69 in the Remuneration review. The table below presents the number of Directors who:

	2025 Number	2024 Number
Exercised share options in the parent company, Sabadell	–	–
Received Sabadell shares under long-term incentive schemes	2	2
Accrued pension benefits under defined contribution pension schemes	–	–

16. Taxation

	2025 £ million	2024 £ million
UK corporation tax		
Current tax		
Current tax charge on profit for the year	(87.1)	(53.2)
Adjustment in respect of prior years	1.8	3.6
Current tax charge	(85.3)	(49.6)
Deferred tax (note 17)		
Utilisation of carried forward trading losses	–	(25.6)
Origination and reversal of temporary differences:		
Accelerated capital allowances	(3.4)	(2.0)
Adjustments in respect of prior years	1.1	(1.5)
Other	(3.5)	(3.8)
Deferred tax charge	(5.8)	(32.9)
Taxation charge	(91.1)	(82.5)

A reconciliation of the charge that would result from applying the UK corporation tax rate to profit before taxation to the actual taxation charge for the year is presented below:

	2025 £ million	2024 £ million
Profit before taxation		
Taxation charge at applied UK corporation tax rate of 28.0% (2024: 28.0%)	(98.1)	(81.3)
Factors affecting charge:		
Disallowable costs	(4.8)	(8.3)
Taxable profits not subject to the bank surcharge	3.0	3.0
Adjustments in respect of prior years	2.9	2.1
Non-taxable and other items	5.9	2.0
Taxation charge	(91.1)	(82.5)

The increase in non-taxable and other items primarily reflects the tax deductibility of the Additional Tier 1 (AT1) coupons paid during the year, following the AT1 issuance in December 2024, but accounted for within Equity.

The applied UK corporation tax rate for 2025 was 28% (2024: 28%) and comprises of the main UK corporation tax rate of 25% and the bank surcharge of 3%. The bank surcharge is applicable to taxable profits of banks in excess of £100 million per annum.

Notes to the consolidated financial statements

Charges (continued)

17. Deferred tax assets

The movement in deferred tax assets is as follows:

	2025 £ million	2024 £ million
At 1 January	8.1	43.2
Income statement charge (note 16)	(5.8)	(32.9)
Amounts charged to shareholder's equity:		
Movements in fair value reserve	(0.7)	0.6
Movements in cash flow hedge reserve	4.5	(2.8)
At 31 December	6.1	8.1

Deferred tax assets are comprised as follows:

	2025 £ million	2024 £ million
Deferred tax in respect of the transition to IFRS 9	5.4	8.1
Revaluations of financial assets at fair value through other comprehensive income	2.4	3.1
Deferred tax arising on cash flow hedge reserve	(3.0)	(7.5)
Other temporary differences	1.3	4.4
Total deferred tax assets	6.1	8.1

As noted in the prior year financial statements, TSB adopted International Tax Reform – Pillar Two Model Rules: Amendments to IAS 12. This amendment introduced a mandatory temporary exception to the accounting for deferred taxes arising from the implementation of the OECD Pillar Two model rules. Following the implementation of the OECD rules, relevant analysis was completed in 2025 which concluded there was no impact on TSB's current or deferred tax arrangements.

Notes to the consolidated financial statements

Managing financial risk

Financial instruments are fundamental to TSB's activities and, as a consequence, the risks associated with financial instruments represent a significant component of the risks faced by TSB. The primary risks affecting TSB through its use of financial instruments are credit risk, liquidity risk and market risk. A summary of TSB's use of financial instruments and information about the management of these risks is presented below.

Accounting policies relevant to managing financial risk

(j) Derivative financial instruments and hedge accounting

All derivative financial instruments are recognised at their fair value. Fair values are determined using valuation techniques, including discounted cash flow as appropriate. Derivatives are carried on the balance sheet as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognised immediately in the income statement, with the exception of derivatives designated in a cash flow hedge. For derivatives in cash flow hedges, the effective portion of the change in fair value is recognised in other comprehensive income until the point at which the hedged item affects profit or loss while the ineffective portion is recognised in profit or loss.

Hedge accounting

TSB elected to continue to apply the hedge accounting requirements of IAS 39 on adoption of IFRS 9. Hedge accounting allows one financial instrument, generally a derivative such as an interest rate swap, to be designated as a hedge of another financial instrument such as a loan or deposit or a portfolio of such instruments. At the inception of the hedge relationship, formal documentation is drawn up specifying the hedged risk, the hedged item and the hedging instrument and the methodology that will be used to measure the effectiveness of the hedge relationship in offsetting changes in the fair value of the hedged item or changes in cash flows arising from the hedged risk.

In its application of the hedge accounting policy, TSB follows the requirements of the UK endorsed version of IAS 39 'Financial Instruments: Recognition and Measurement' which are not available in the version issued by the IASB, specifically relating to hedging core deposits, and the relaxation of effectiveness testing, such that a layer approach can be used in a macro fair value hedge. The effectiveness of the hedging relationship is tested both at inception and throughout its life and if at any point it is concluded that it is no longer highly effective in achieving its documented objective, hedge accounting is discontinued. TSB designates certain derivatives as either hedges of the fair value of recognised assets or liabilities (fair value hedges) or hedges of highly probable future cash flows attributable to recognised assets or liabilities (cash flow hedges).

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, changes in the fair value of the hedged item attributable to the hedged risk are no longer recognised in the income statement. The cumulative adjustment that has been made to the carrying amount of the hedged item is amortised to the income statement over the period to maturity. For micro fair value hedges, this is applied using a straight line method over the period to maturity, and for macro fair value hedges, the cumulative adjustment is amortised over the period to expiry of the relevant repricing period.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income in the cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are reclassified to the income statement in the periods in which the hedged item affects profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the income statement when the previously hedged cash flow is ultimately recognised in the income statement.

Notes to the consolidated financial statements

Managing financial risk (continued)

18. Credit risk

Credit risk management

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk appetite is set at Board level and is described and reported through a suite of metrics devised from credit portfolio performance measures, and includes the use of various credit risk rating systems to measure the credit risk of loans and advances to customers at a facility or counterparty level using three components: (i) the probability of default by the counterparty on its contractual obligations; (ii) the exposure to the counterparty at default; and (iii) the likely loss ratio on the defaulted obligations, the loss given default. TSB uses a range of approaches to mitigate credit risk, including policies, obtaining collateral, using master netting agreements and other credit risk transfers, such as asset sales. TSB's credit risk exposure, which arises primarily in the United Kingdom, is set out below.

Governance and oversight of provisioning adequacy

All lending assets are assessed for expected credit losses (ECL) on a monthly basis. The process for assessing ECL considers information and events that have occurred in the context of current expectations of the future economic environment. Assets are reviewed to ensure that the stage allocation remains valid, that cash flow projections remain appropriate (including any potential net proceeds from the realisation of collateral) and that the projected macro-economic outcomes and associated probability weightings used to derive ECL amounts continue to remain appropriate. In the event that the future expected cash flow has changed from the previous assessment, an adjustment to the level of loss allowance is made as appropriate.

Where credit impaired assets are within a pool of similar assets and are assessed collectively, the relevance of the pool within which the asset has been placed and the assumptions regarding cash flow emanating from the pool are examined.

TSB reviews, at least annually, its provision forecast against actual loss experience to identify whether its policies have resulted in over or under provisioning across the economic cycle. Stress and scenario testing are widely used throughout TSB to assess the potential impact on impaired exposures and related provisions. A robust governance framework has been established to monitor impairment exposures, provisions and the impact of alternative economic scenarios and stress scenarios. Findings and recommendations are reported to regular Portfolio Quality Review meetings, Executive Risk Committees, Audit Committee and the Board.

(i) Maximum credit exposure

The maximum credit risk exposure in the event of other parties failing to perform their obligations is presented below. No account is taken of any collateral held and the maximum exposure to loss is considered to be the balance sheet carrying amount or, for non-derivative off-balance sheet transactions, their contractual nominal amounts. The maximum exposure to credit risk for financial assets is set out below:

	2025 Exposure £ million	2025 Credit Quality	2024 Exposure £ million	2024 Credit Quality
<i>Financial assets at amortised cost:</i>				
Cash, cash balances at central banks and other demand deposits:	4,202.1		4,823.8	
Cash	71.2	Not Rated	77.3	Not Rated
Balances with central banks	4,119.1	AA-	4,738.5	AA-
On demand deposits	11.8	At least BBB+	8.0	At least BBB
Debt securities ⁽¹⁾	1,986.4	At least AA-	1,982.5	At least AA-
Loans and advances to customers	36,268.4	Note 18 (ii)	36,330.9	Note 18(ii)
Loans and advances to credit institutions	305.2	At least A+	277.8	At Least AA-
Other advances	128.9		130.2	
Reverse repurchase agreements	62.0	AA-	–	
Government institutions	1.5	AA-	4.2	AA-
Other advances	65.4	Not Rated	126.0	Not rated
Financial assets at fair value through other comprehensive income	440.2	At least AA-	328.6	AA-
<i>Financial assets subject to expected credit loss requirements</i>	43,331.2		43,873.8	
Derivative financial assets ⁽²⁾	1,517.6		1,944.5	
Total on-balance sheet financial assets	44,848.8		45,818.3	
Lending commitments	5,006.5	Note 8	5,697.2	Note 8
Maximum credit risk exposure	49,855.3		51,515.5	

(1) Includes £598.8 million (2024: £589.5 million) rated AAA.

(2) The net uncollateralised derivative balance was £0.1 million (2024: £0.3 million) as set out in note 21, with a counterparty rated BBB+.

Notes to the consolidated financial statements

Managing financial risk (continued)

18. Credit risk (continued)

(ii) Staging analysis

At 31 December 2025	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	POCI £ million	Total £ million
Loans and advances to customers					
Retail – mortgages	31,119.5	2,451.9	415.3	72.2	34,058.9
Retail – credit cards	426.5	101.3	34.6	–	562.4
Retail – other unsecured	1,206.4	170.7	64.4	1.0	1,442.5
Business banking	286.3	14.7	11.4	–	312.4
Gross customer lending balances	33,038.7	2,738.6	525.7	73.2	36,376.2
ECL on drawn balances	(31.6)	(50.6)	(86.4)	(2.6)	(171.2)
Net customer lending balance	33,007.1	2,688.0	439.3	70.6	36,205.0
Valuation adjustments (note 8)					63.4
Net balance sheet carrying value					36,268.4
Allowance for credit impairment losses⁽¹⁾					
Retail – mortgages	6.4	11.1	22.7	2.5	42.7
Retail – credit cards	6.4	15.8	19.9	–	42.1
Retail – other unsecured	17.7	23.0	43.0	0.1	83.8
Business banking	1.1	0.7	0.8	–	2.6
Total	31.6	50.6	86.4	2.6	171.2
Coverage (%)					
Retail – mortgages	0.02%	0.45%	5.47%	3.46%	0.13%
Retail – credit cards	1.50%	15.60%	57.51%	–	7.49%
Retail – other unsecured	1.47%	13.47%	66.77%	10.00%	5.81%
Business banking	0.38%	4.76%	7.02%	–	0.83%
Total	0.10%	1.85%	16.44%	3.55%	0.47%
At 31 December 2024					
Loans and advances to customers					
Retail – mortgages	31,121.4	2,433.6	417.0	83.5	34,055.5
Retail – credit cards	379.3	115.6	33.6	–	528.5
Retail – other unsecured	1,280.0	128.4	61.1	0.6	1,470.1
Business banking	370.9	19.6	16.5	–	407.0
Gross customer lending balances	33,151.6	2,697.2	528.2	84.1	36,461.1
ECL on drawn balances	(46.2)	(55.1)	(78.0)	(0.8)	(180.1)
Net customer lending balance	33,105.4	2,642.1	450.2	83.3	36,281.0
Valuation adjustments (note 8)					49.9
Net balance sheet carrying value					36,330.9
Allowance for credit impairment losses⁽¹⁾					
Retail – mortgages	13.7	14.8	18.1	0.8	47.4
Retail – credit cards	5.5	19.4	19.1	–	44.0
Retail – other unsecured	25.3	20.1	39.9	–	85.3
Business banking	1.7	0.8	0.9	–	3.4
Total	46.2	55.1	78.0	0.8	180.1
Coverage (%)					
Retail – mortgages	0.04%	0.61%	4.34%	0.96%	0.14%
Retail – credit cards	1.45%	16.78%	56.85%	–	8.33%
Retail – other unsecured	1.98%	15.65%	65.30%	–	5.80%
Business banking	0.46%	4.08%	5.45%	–	0.84%
Total	0.14%	2.04%	14.77%	0.95%	0.49%

(1) Excludes expected credit impairment provisions for off balance sheet exposures of £4.4 million (2024: £8.6 million). These comprise of stage 1 of £2.5 million (2024: £4.0 million), stage 2 of £1.8 million (2024: £2.6 million), stage 3 of £0.1 million (2024: £2.0 million), and POCI of £nil (2024: £nil).

For all other classes of financial assets (as listed in note 18(i) on page 102), expected credit losses are immaterial.

Notes to the consolidated financial statements

Managing financial risk (continued)

18. Credit risk (continued)

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

The tables below summarise the movements between stages for loans and advances to customers.

TSB drawn balances	Stage 1		Stage 2		Stage 3		POCI ⁽¹⁾		Total	
	Gross £ million	ECL £ million	Gross £ million	ECL £ million	Gross £ million	ECL £ million	Gross £ million	ECL £ million	Gross £ million	ECL £ million
At 1 January 2024	32,115.9	(55.9)	3,684.9	(76.9)	508.1	(78.0)	94.9	(1.0)	36,403.8	(211.8)
Changes reflected in impairment losses:	517.0	5.6	(257.1)	(5.4)	(119.8)	(20.4)	(10.8)	0.2	129.3	(20.0)
Increases due to originations	6,874.9	(36.9)	162.9	—	42.2	—	5.1	—	7,085.1	(36.9)
Decreases due to repayments	(6,357.9)	7.5	(420.0)	3.0	(162.0)	7.0	(15.9)	0.5	(6,955.8)	18.0
Changes in credit risk ⁽²⁾	—	35.0	—	(8.4)	—	(27.4)	—	(0.3)	—	(1.1)
Amounts written off	—	—	—	—	(72.0)	51.7	—	—	(72.0)	51.7
Transfers between stages ^{(3) (4)}	518.7	4.1	(730.6)	27.2	211.9	(31.3)	—	—	—	—
To stage 1	2,290.9	(21.7)	(2,267.6)	21.4	(23.3)	0.3	—	—	—	—
To stage 2	(1,724.4)	23.8	1,790.1	(27.1)	(65.7)	3.3	—	—	—	—
To stage 3	(47.8)	2.0	(253.1)	32.9	300.9	(34.9)	—	—	—	—
At 31 December 2024	33,151.6	(46.2)	2,697.2	(55.1)	528.2	(78.0)	84.1	(0.8)	36,461.1	(180.1)
Changes reflected in impairment losses:	426.8	7.7	(306.9)	(13.7)	(126.4)	(26.7)	(12.5)	(0.2)	(19.0)	(32.9)
Increases due to originations	7,271.6	(19.8)	133.3	—	39.0	—	—	—	7,443.9	(19.8)
Decreases due to repayments	(6,844.8)	5.4	(440.2)	2.8	(165.4)	10.6	(12.5)	0.6	(7,462.9)	19.4
Changes in credit risk ⁽²⁾	—	22.1	—	(16.5)	—	(37.3)	—	(0.8)	—	(32.5)
Amounts written off	—	—	—	—	(72.6)	48.5	—	—	(72.6)	48.5
Reclassification between gross and ECL ⁽⁵⁾	0.5	(0.5)	1.0	(1.0)	3.6	(3.6)	1.6	(1.6)	6.7	(6.7)
Transfers between stages ^{(3) (4)}	(540.2)	7.4	347.3	19.2	192.9	(26.6)	—	—	—	—
To stage 1	2,799.5	(14.8)	(2,773.7)	14.4	(25.8)	0.4	—	—	—	—
To stage 2	(3,280.1)	20.6	3,380.9	(24.4)	(100.8)	3.8	—	—	—	—
To stage 3	(59.6)	1.6	(259.9)	29.2	319.5	(30.8)	—	—	—	—
At 31 December 2025	33,038.7	(31.6)	2,738.6	(50.6)	525.7	(86.4)	73.2	(2.6)	36,376.2	(171.2)

Retail – mortgages	Stage 1		Stage 2		Stage 3		POCI		Total	
	Gross £ million	ECL £ million								
At 1 January 2024	30,281.1	(14.4)	3,267.9	(22.4)	404.6	(19.6)	93.9	(1.0)	34,047.5	(57.4)
Changes reflected in impairment losses:	275.7	3.8	(169.0)	2.7	(88.0)	3.3	(10.4)	0.2	8.3	10.0
Increases due to originations	5,076.8	(4.1)	5.9	—	15.2	—	2.4	—	5,100.3	(4.1)
Decreases due to repayments	(4,801.1)	2.4	(174.9)	0.8	(103.2)	4.1	(12.8)	0.5	(5,092.0)	7.8
Changes in credit risk ⁽²⁾	—	5.5	—	1.9	—	(0.8)	—	(0.3)	—	6.3
Amounts written off	—	—	—	—	(0.3)	—	—	—	(0.3)	—
Transfers between stages ^{(3) (4)}	564.6	(3.1)	(665.3)	4.9	100.7	(1.8)	—	—	—	—
To stage 1	1,694.7	(7.8)	(1,679.6)	7.7	(15.1)	0.1	—	—	—	—
To stage 2	(1,109.6)	4.2	1,162.5	(5.8)	(52.9)	1.6	—	—	—	—
To stage 3	(20.5)	0.5	(148.2)	3.0	168.7	(3.5)	—	—	—	—
At 31 December 2024	31,121.4	(13.7)	2,433.6	(14.8)	417.0	(18.1)	83.5	(0.8)	34,055.5	(47.4)
Changes reflected in impairment losses:	348.1	5.8	(234.5)	5.3	(100.2)	(1.2)	(12.3)	(0.7)	1.1	9.2
Increases due to originations	5,547.4	(2.8)	9.3	—	11.4	—	—	—	5,568.1	(2.8)
Decreases due to repayments	(5,199.3)	2.0	(243.8)	1.0	(111.6)	6.6	(12.3)	0.3	(5,567.0)	9.9
Changes in credit risk ⁽²⁾	—	6.6	—	4.3	—	(7.8)	—	(1.0)	—	2.1
Amounts written off	—	—	—	—	(2.2)	—	—	—	(2.2)	—
Reclassification between gross and ECL ⁽⁵⁾	0.4	(0.4)	0.9	(0.9)	2.2	(2.2)	1.0	(1.0)	4.5	(4.5)
Transfers between stages ^{(3) (4)}	(350.4)	1.9	251.9	(0.7)	98.5	(1.2)	—	—	—	—
To stage 1	2,369.3	(3.8)	(2,349.9)	3.5	(19.4)	0.3	—	—	—	—
To stage 2	(2,689.4)	5.3	2,776.1	(7.2)	(86.7)	1.9	—	—	—	—
To stage 3	(30.3)	0.4	(174.3)	3.0	204.6	(3.4)	—	—	—	—
At 31 December 2025	31,119.5	(6.4)	2,451.9	(11.1)	415.3	(22.7)	72.2	(2.5)	34,058.9	(42.7)

Notes are shown under the table on page 106.

Notes to the consolidated financial statements

Managing financial risk (continued)

18. Credit risk (continued)

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

Retail – credit cards	Stage 1		Stage 2		Stage 3		POCI		Total	
	Gross £ million	ECL £ million								
At 1 January 2024	364.7	(7.2)	135.6	(21.1)	30.3	(15.9)	–	–	530.6	(44.2)
Changes reflected in impairment losses:	35.1	0.4	(16.2)	(2.2)	(4.3)	(10.2)	–	–	14.6	(12.0)
Increases due to originations	650.0	(0.3)	95.3	–	5.4	–	–	–	750.7	(0.3)
Decreases due to repayments	(614.9)	–	(111.5)	0.1	(9.7)	0.1	–	–	(736.1)	0.2
Changes in credit risk ⁽²⁾	–	0.7	–	(2.3)	–	(10.3)	–	–	–	(11.9)
Amounts written off	–	–	–	–	(16.7)	12.2	–	–	(16.7)	12.2
Transfers between stages ^{(3) (4)}	(20.5)	1.3	(3.8)	3.9	24.3	(5.2)	–	–	–	–
To stage 1	209.5	(4.3)	(209.1)	4.3	(0.4)	–	–	–	–	–
To stage 2	(226.6)	5.5	230.7	(6.2)	(4.1)	0.7	–	–	–	–
To stage 3	(3.4)	0.1	(25.4)	5.8	28.8	(5.9)	–	–	–	–
At 31 December 2024	379.3	(5.5)	115.6	(19.4)	33.6	(19.1)	–	–	528.5	(44.0)
Changes reflected in impairment losses:	72.9	(1.4)	(16.2)	(1.0)	(4.9)	(9.5)	–	–	51.8	(11.9)
Increases due to originations	720.1	(0.5)	63.9	–	5.8	–	–	–	789.8	(0.5)
Decreases due to repayments	(647.2)	0.2	(80.1)	(0.1)	(10.7)	0.1	–	–	(738.0)	0.2
Changes in credit risk ⁽²⁾	–	(1.1)	–	(0.9)	–	(9.6)	–	–	–	(11.6)
Amounts written off	–	–	–	–	(17.9)	13.8	–	–	(17.9)	13.8
Transfers between stages ^{(3) (4)}	(25.7)	0.5	1.9	4.6	23.8	(5.1)	–	–	–	–
To stage 1	185.0	(3.9)	(184.6)	3.9	(0.4)	–	–	–	–	–
To stage 2	(206.9)	4.4	211.3	(5.1)	(4.4)	0.7	–	–	–	–
To stage 3	(3.8)	–	(24.8)	5.8	28.6	(5.8)	–	–	–	–
At 31 December 2025	426.5	(6.4)	101.3	(15.8)	34.6	(19.9)	–	–	562.4	(42.1)
Retail – other unsecured	Stage 1		Stage 2		Stage 3		POCI		Total	
	Gross £ million	ECL £ million								
At 1 January 2024	1,097.6	(30.7)	189.8	(31.2)	61.7	(41.6)	1.0	–	1,350.1	(103.5)
Changes reflected in impairment losses:	240.1	–	(56.3)	(7.0)	(9.0)	(13.4)	(0.4)	–	174.4	(20.4)
Increases due to originations	1,093.0	(32.0)	52.4	–	21.4	–	2.7	–	1,169.5	(32.0)
Decreases due to repayments	(852.9)	4.8	(108.7)	1.9	(30.4)	2.6	(3.1)	–	(995.1)	9.3
Changes in credit risk ⁽²⁾	–	27.2	–	(8.9)	–	(16.0)	–	–	–	2.3
Amounts written off	–	–	–	–	(54.4)	38.6	–	–	(54.4)	38.6
Transfers between stages ^{(3) (4)}	(57.7)	5.4	(5.1)	18.1	62.8	(23.5)	–	–	–	–
To stage 1	266.1	(8.8)	(263.5)	8.6	(2.6)	0.2	–	–	–	–
To stage 2	(300.3)	12.8	306.0	(13.8)	(5.7)	1.0	–	–	–	–
To stage 3	(23.5)	1.4	(47.6)	23.3	71.1	(24.7)	–	–	–	–
At 31 December 2024	1,280.0	(25.3)	128.4	(20.1)	61.1	(39.9)	0.6	–	1,470.1	(85.3)
Changes reflected in impairment losses:	73.5	2.5	(41.7)	(17.7)	(9.7)	(16.1)	(0.2)	0.5	21.9	(30.8)
Increases due to originations	975.5	(16.5)	59.1	–	21.6	–	–	–	1,056.2	(16.5)
Decreases due to repayments	(902.0)	3.2	(100.8)	1.8	(31.3)	3.6	(0.2)	0.3	(1,034.3)	8.9
Changes in credit risk ⁽²⁾	–	15.8	–	(19.5)	–	(19.7)	–	0.2	–	(23.2)
Amounts written off	–	–	–	–	(51.7)	34.5	–	–	(51.7)	34.5
Reclassification between gross and ECL ⁽⁵⁾	0.1	(0.1)	0.1	(0.1)	1.4	(1.4)	0.6	(0.6)	2.2	(2.2)
Transfers between stages ^{(3) (4)}	(147.2)	5.2	83.9	14.9	63.3	(20.1)	–	–	–	–
To stage 1	210.7	(6.7)	(208.0)	6.6	(2.7)	0.1	–	–	–	–
To stage 2	(332.9)	10.7	338.5	(11.7)	(5.6)	1.0	–	–	–	–
To stage 3	(25.0)	1.2	(46.6)	20.0	71.6	(21.2)	–	–	–	–
At 31 December 2025	1,206.4	(17.7)	170.7	(23.0)	64.4	(43.0)	1.0	(0.1)	1,442.5	(83.8)

Notes are shown under the table on the following page.

Notes to the consolidated financial statements

Managing financial risk (continued)

18. Credit risk (continued)

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

Business banking	Stage 1		Stage 2		Stage 3		POCI		Total	
	Gross £ million	ECL £ million								
At 1 January 2024	372.5	(3.6)	91.6	(2.2)	11.5	(0.9)	—	—	475.6	(6.7)
Changes reflected in impairment losses:	(33.9)	1.4	(15.6)	1.1	(18.5)	(0.1)	—	—	(68.0)	2.4
Increases due to originations	55.1	(0.5)	9.3	—	0.2	—	—	—	64.6	(0.5)
Decreases due to repayments	(89.0)	0.3	(24.9)	0.2	(18.7)	0.2	—	—	(132.6)	0.7
Changes in credit risk ⁽²⁾	—	1.6	—	0.9	—	(0.3)	—	—	—	2.2
Amounts written off	—	—	—	—	(0.6)	0.9	—	—	(0.6)	0.9
Transfers between stages ^{(3) (4)}	32.3	0.5	(56.4)	0.3	24.1	(0.8)	—	—	—	—
To stage 1	120.6	(0.8)	(115.4)	0.8	(5.2)	—	—	—	—	—
To stage 2	(87.9)	1.3	90.9	(1.3)	(3.0)	—	—	—	—	—
To stage 3	(0.4)	—	(31.9)	0.8	32.3	(0.8)	—	—	—	—
At 31 December 2024	370.9	(1.7)	19.6	(0.8)	16.5	(0.9)	—	—	407.0	(3.4)
Changes reflected in impairment losses:	(67.7)	0.8	(14.5)	(0.3)	(11.6)	0.1	—	—	(93.8)	0.6
Increases due to originations	28.6	—	1.0	—	0.2	—	—	—	29.8	—
Decreases due to repayments	(96.3)	—	(15.5)	0.1	(11.8)	0.3	—	—	(123.6)	0.4
Changes in credit risk ⁽²⁾	—	0.8	—	(0.4)	—	(0.2)	—	—	—	0.2
Amounts written off	—	—	—	—	(0.8)	0.2	—	—	(0.8)	0.2
Transfers between stages ^{(3) (4)}	(16.9)	(0.2)	9.6	0.4	7.3	(0.2)	—	—	—	—
To stage 1	34.5	(0.4)	(31.2)	0.4	(3.3)	—	—	—	—	—
To stage 2	(50.9)	0.2	55.0	(0.4)	(4.1)	0.2	—	—	—	—
To stage 3	(0.5)	—	(14.2)	0.4	14.7	(0.4)	—	—	—	—
At 31 December 2025	286.3	(1.1)	14.7	(0.7)	11.4	(0.8)	—	—	312.4	(2.6)

Footnotes to the tables in note 18(iii) on pages 104 to 106:

- (1) POCI is purchased or originated as credit impaired.
- (2) Includes changes to the allowance for credit impairment losses arising from stage transfers and other changes to risk parameters.
- (3) Transfers between stages are an aggregation of monthly movements over the year and are based on balances and ECL at the start of each month.
- (4) The net remeasurement of ECL on stage transfer is reported within the stage that the assets are transferred into. This represents the period to date ECL movement on net assets transferred into a particular stage. This is not a subtotal of the 'transfers from' and 'transfers to' rows that precede this row.
- (5) During 2025, a pre-acquisition impairment allowance, carried in respect of the Whistletree portfolio, was reclassified from an offset in gross customer carrying amounts to the allowance for credit impairment losses. This has the effect of increasing both gross customer carrying amount and allowance for credit impairment losses by £6.7 million.

The movement in expected credit loss provisions in respect of off balance sheet exposures is shown in note 30.

Notes to the consolidated financial statements

Managing financial risk (continued)

18. Credit risk (continued)

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

Performance overview

Gross loans balances decreased by £(84.9) million to £36,376.2 million (2024: £36,461.1 million) reflecting the competitive UK mortgage lending market and the management decision to protect margins.

Stage 1 gross customer lending balances decreased by £112.9 million to £33,038.7 million (2024: £33,151.6 million), reflecting a net transfer to stage 2.

Stage 2 gross customer lending balances increased by £41.4 million to £2,738.6 million (2024: £2,697.2 million) driven by ongoing loan repayments by customers and the above net transfer to stage 2 from stage 1.

Stage 3 gross customer lending balances decreased by £2.5 million to £525.7 million (2024: £528.2 million), primarily driven by decreases in Retail – mortgages.

Gross loans written off during 2025 of £72.6 million (2024: £72.0 million) continue to be subject to the right to undertake enforcement activities, despite there being no realistic prospect of recovery.

Reconciliation to amounts recognised in the income statement

	2025 £ million	2024 £ million
<i>Income statement (credit)/charge reported in the allowance for credit impairment losses:</i>		
Increases due to originations ⁽¹⁾	19.8	36.9
Decreases due to repayments ⁽¹⁾	(19.4)	(18.0)
Charge/(credit) due to changes in credit risk ⁽¹⁾	32.5	1.1
Release to income statement of allowance associated with gross carrying amounts written off ⁽¹⁾	(48.5)	(51.7)
	(15.6)	(31.7)
<i>Other amounts charged/(credited) to impairment losses in the income statement:</i>		
Gross carrying amounts written off to income statement ⁽²⁾	72.6	72.0
Recoveries of amounts previously written off	(9.4)	(10.6)
Other amounts charged to the income statement	3.6	2.2
Impairment losses on financial assets at amortised cost	51.2	31.9
Impairment losses on financial assets at amortised cost	51.2	31.9
Impairment credit on credit impairment provisions in respect of loan commitments (note 30)	(4.2)	(1.8)
Impairment losses per income statement	47.0	30.1

(1) As reported in the reconciliation of movements in allowances for credit impairment losses in note 18(iii) on page 104.

(2) As reported in the reconciliation of movements in gross customer balances in note 18(iii) on page 104.

Notes to the consolidated financial statements

Managing financial risk (continued)

18. Credit risk (continued)

(iv) Stage 2 balances

The following table shows the reason for stage 2 classification at the reporting date.

At 31 December 2025	PD Deterioration £ million	Performing Forborne £ million	>30DPD £ million	Total £ million
Gross customer lending balances				
Retail – mortgages	2,352.9	4.2	94.8	2,451.9
Retail – credit cards	91.3	3.0	7.0	101.3
Retail – other unsecured	162.5	2.4	5.8	170.7
Business banking	8.2	2.9	3.6	14.7
Total	2,614.9	12.5	111.2	2,738.6
Allowance for credit impairment losses				
Retail – mortgages	9.7	–	1.4	11.1
Retail – credit cards	14.2	0.2	1.4	15.8
Retail – other unsecured	20.1	0.1	2.8	23.0
Business banking	–	0.2	0.5	0.7
Total	44.0	0.5	6.1	50.6
At 31 December 2024	PD Deterioration £ million	Performing Forborne £ million	>30DPD £ million	Total £ million
Gross customer lending balances				
Retail – mortgages	2,256.6	55.3	121.7	2,433.6
Retail – credit cards	102.3	3.2	10.1	115.6
Retail – other unsecured	119.0	2.7	6.7	128.4
Business banking	12.9	0.4	6.3	19.6
Total	2,490.8	61.6	144.8	2,697.2
Allowance for credit impairment losses				
Retail – mortgages	12.7	0.2	1.9	14.8
Retail – credit cards	16.5	0.3	2.6	19.4
Retail – other unsecured	15.9	0.1	4.1	20.1
Business banking	0.7	–	0.1	0.8
Total	45.8	0.6	8.7	55.1

(v) Stage 3 balances

At 31 December	2025		2024	
	Gross loans £ million	ECL £ million	Gross loans £ million	ECL £ million
Credit impaired - not in a cure period	346.7	(58.2)	320.9	(48.3)
Credit impaired - in the cure period that precedes transfer to stage 2	179.0	(28.2)	207.3	(29.7)
Total stage 3	525.7	(86.4)	528.2	(78.0)

Balances that are credit impaired and not in a cure period comprise of loans and advances to customers that are more than 90 days past due, or considered by management as unlikely to pay their obligations, as described under the heading 'definition of default for IFRS 9' on page 85. Balances that were credit impaired but operating within the cure period required by TSB policy prior to a transfer to stage 2 comprise of customers who have cured but who were 90 days past due, or considered unlikely to pay, in the previous six months.

Notes to the consolidated financial statements

Managing financial risk (continued)

18. Credit risk (continued)

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

In assessing the credit quality of loans and advances to customers and lending commitments, TSB uses an internal rating scale which assigns a grade based on a customer's 12 month expected probability of default (PD). For unsecured, the PDs used to assign a risk grade, as shown in the table below, are point in time PDs. For Retail - mortgages and Business banking the PDs used are those used to assess IFRS 9 staging and expected credit loss measurement, which are adjusted to reflect the effect of forward looking economic scenarios.

	PD range Lower	PD range Upper	Internal Grading
Excellent quality	0%	1.200%	0-3
Good quality	1.201%	4.500%	4-5
Satisfactory quality	4.501%	14.000%	6-8
Lower quality	14.001%	20.000%	9
Below standard (including in default)	20.001%	100%	10-13

The table below sets out the credit quality, by stage, of gross loan and advances to customers.

At 31 December 2025	Gross loans					Allowance for credit impairment losses				
	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	POCI £ million	Total £ million	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	POCI £ million	Total £ million
Retail – mortgages										
Excellent quality	30,783.0	5.4	–	1.3	30,789.7	6.2	–	–	–	6.2
Good quality	237.9	98.3	–	15.3	351.5	0.1	0.2	–	–	0.3
Satisfactory quality	97.9	1,391.9	–	30.2	1,520.0	0.1	4.0	–	0.1	4.2
Lower quality	0.7	206.7	–	0.6	208.0	–	0.8	–	–	0.8
Below standard	–	749.6	415.3	24.8	1,189.7	–	6.1	22.7	2.4	31.2
	31,119.5	2,451.9	415.3	72.2	34,058.9	6.4	11.1	22.7	2.5	42.7
Retail – credit cards										
Excellent quality	205.5	0.6	0.6	–	206.7	1.2	–	0.3	–	1.5
Good quality	179.5	26.5	2.5	–	208.5	3.1	2.5	1.1	–	6.7
Satisfactory quality	37.9	45.0	4.3	–	87.2	1.7	6.2	1.5	–	9.4
Lower quality	2.1	9.9	1.2	–	13.2	0.2	2.0	0.4	–	2.6
Below standard	1.5	19.3	26.0	–	46.8	0.2	5.1	16.6	–	21.9
	426.5	101.3	34.6	–	562.4	6.4	15.8	19.9	–	42.1
Retail – other unsecured										
Excellent quality	578.2	17.8	5.4	0.1	601.5	3.1	0.2	3.1	–	6.4
Good quality	548.9	60.1	9.0	0.1	618.1	9.6	3.6	5.5	–	18.7
Satisfactory quality	74.0	60.6	8.4	0.6	143.6	4.1	8.9	5.4	0.1	18.5
Lower quality	3.4	11.7	1.9	–	17.0	0.5	2.7	1.4	–	4.6
Below standard	1.9	20.5	39.7	0.2	62.3	0.4	7.6	27.6	–	35.6
	1,206.4	170.7	64.4	1.0	1,442.5	17.7	23.0	43.0	0.1	83.8
Business banking										
Excellent quality	190.1	0.3	–	–	190.4	0.6	–	–	–	0.6
Good quality	91.7	3.0	–	–	94.7	0.5	0.2	–	–	0.7
Satisfactory quality	4.5	3.8	–	–	8.3	–	–	–	–	–
Lower quality	–	0.4	–	–	0.4	–	–	–	–	–
Below standard	–	7.2	11.4	–	18.6	–	0.5	0.8	–	1.3
	286.3	14.7	11.4	–	312.4	1.1	0.7	0.8	–	2.6
Total										
Excellent quality	31,756.8	24.1	6.0	1.4	31,788.3	11.1	0.2	3.4	–	14.7
Good quality	1,058.0	187.9	11.5	15.4	1,272.8	13.3	6.5	6.6	–	26.4
Satisfactory quality	214.3	1,501.3	12.7	30.8	1,759.1	5.9	19.1	6.9	0.2	32.1
Lower quality	6.2	228.7	3.1	0.6	238.6	0.7	5.5	1.8	–	8.0
Below standard	3.4	796.6	492.4	25.0	1,317.4	0.6	19.3	67.7	2.4	90.0
	33,038.7	2,738.6	525.7	73.2	36,376.2	31.6	50.6	86.4	2.6	171.2

Notes to the consolidated financial statements

Managing financial risk (continued)

18. Credit risk (continued)

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

At 31 December 2024	Gross loans					Allowance for credit impairment losses				
	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	POCI £ million	Total £ million	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	POCI £ million	Total £ million
Retail – mortgages										
Excellent quality	30,704.0	68.3	–	2.3	30,774.6	12.3	–	–	–	12.3
Good quality	367.7	191.5	–	13.1	572.3	1.0	0.3	–	–	1.3
Satisfactory quality	41.9	1,016.5	–	33.1	1,091.5	0.3	3.3	–	–	3.6
Lower quality	3.9	309.5	–	5.6	319.0	0.1	1.2	–	–	1.3
Below standard	3.9	847.8	417.0	29.4	1,298.1	–	10.0	18.1	0.8	28.9
	31,121.4	2,433.6	417.0	83.5	34,055.5	13.7	14.8	18.1	0.8	47.4
Retail – credit cards										
Excellent quality	188.2	0.8	0.6	–	189.6	1.0	–	0.3	–	1.3
Good quality	156.9	35.7	2.5	–	195.1	2.7	3.3	1.0	–	7.0
Satisfactory quality	30.8	47.7	3.3	–	81.8	1.4	7.0	1.2	–	9.6
Lower quality	2.2	10.2	3.0	–	15.4	0.2	2.2	1.2	–	3.6
Below standard	1.2	21.2	24.2	–	46.6	0.2	6.9	15.4	–	22.5
	379.3	115.6	33.6	–	528.5	5.5	19.4	19.1	–	44.0
Retail – other unsecured										
Excellent quality	601.8	6.3	5.1	–	613.2	4.7	0.3	3.0	–	8.0
Good quality	555.1	34.0	8.5	0.1	597.7	12.6	2.3	5.3	–	20.2
Satisfactory quality	114.6	58.0	8.7	0.4	181.7	6.5	7.2	5.2	–	18.9
Lower quality	4.4	10.0	2.1	–	16.5	0.8	2.0	1.3	–	4.1
Below standard	4.1	20.1	36.7	0.1	61.0	0.7	8.3	25.1	–	34.1
	1,280.0	128.4	61.1	0.6	1,470.1	25.3	20.1	39.9	–	85.3
Business banking										
Excellent quality	208.3	0.2	0.1	–	208.6	0.6	–	–	–	0.6
Good quality	145.5	12.2	–	–	157.7	0.8	0.3	–	–	1.1
Satisfactory quality	16.9	3.9	–	–	20.8	0.3	0.1	–	–	0.4
Lower quality	–	0.2	–	–	0.2	–	–	–	–	–
Below standard	0.2	3.1	16.4	–	19.7	–	0.4	0.9	–	1.3
	370.9	19.6	16.5	–	407.0	1.7	0.8	0.9	–	3.4
Total										
Excellent quality	31,702.3	75.6	5.8	2.3	31,786.0	18.6	0.3	3.3	–	22.2
Good quality	1,225.2	273.4	11.0	13.2	1,522.8	17.1	6.2	6.3	–	29.6
Satisfactory quality	204.2	1,126.1	12.0	33.5	1,375.8	8.5	17.6	6.4	–	32.5
Lower quality	10.5	329.9	5.1	5.6	351.1	1.1	5.4	2.5	–	9.0
Below standard	9.4	892.2	494.3	29.5	1,425.4	0.9	25.6	59.5	0.8	86.8
	33,151.6	2,697.2	528.2	84.1	36,461.1	46.2	55.1	78.0	0.8	180.1

Notes to the consolidated financial statements

Managing financial risk (continued)

18. Credit risk (continued)

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

At 31 December 2025	Gross loans				Allowance for credit impairment losses				Total £ million
	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	POCI £ million	Total £ million	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	POCI £ million
Off balance sheet commitments									
Excellent quality	4,364.5	15.8	8.1	0.1	4,388.5	1.8	0.2	—	2.0
Good quality	402.9	102.4	4.2	1.4	510.9	0.6	0.7	—	1.3
Satisfactory quality	36.6	39.4	2.7	—	78.7	0.1	0.6	—	0.7
Lower quality	1.4	4.4	0.5	—	6.3	—	0.1	—	0.1
Below standard	0.5	10.1	11.5	—	22.1	—	0.2	0.1	—
Total	4,805.9	172.1	27.0	1.5	5,006.5	2.5	1.8	0.1	4.4
At 31 December 2024									
Excellent quality	4,829.1	22.6	10.5	0.6	4,862.8	3.2	0.5	1.2	4.9
Good quality	502.2	152.0	5.2	10.9	670.3	0.7	1.0	0.4	2.1
Satisfactory quality	61.8	42.7	3.1	0.5	108.1	0.1	0.7	0.2	1.0
Lower quality	3.5	5.0	0.7	18.4	27.6	—	0.1	—	0.1
Below standard	0.3	10.5	17.1	0.1	28.0	—	0.3	0.2	—
Total	5,396.9	232.8	36.6	30.5	5,696.8	4.0	2.6	2.0	8.6

(vii) Collateral held as security for financial assets

Financial assets subject to expected credit loss requirements

TSB holds collateral against loans and advances to customers in the form of retail mortgages over residential property. TSB also holds collateral against commercial secured products in the form of business assets, including commercial and residential property.

An analysis by loan-to-value (LTV) ratio of TSB's retail mortgage lending is presented below. The value of collateral used in determining the LTV ratios has been estimated based upon the last actual valuation, adjusted to take into account subsequent movements in house prices.

LTV of Retail - mortgages	2025						2024			
	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	POCI £ million	Total £ million	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	POCI £ million	Total £ million
Less than 70%	21,269.2	1,691.3	340.6	68.8	23,369.9	22,037.5	2,318.6	340.9	78.4	24,775.4
70% to 80%	5,267.9	381.7	40.7	2.5	5,692.8	4,909.7	81.0	46.0	4.0	5,040.7
80% to 90%	4,177.1	345.6	19.5	0.7	4,542.9	3,768.1	28.0	19.0	0.4	3,815.5
90% to 100%	402.4	32.3	8.9	0.2	443.8	401.9	4.1	6.6	0.6	413.2
Greater than 100%	2.9	1.0	5.6	—	9.5	4.3	1.9	4.5	0.1	10.8
Retail - mortgages	31,119.5	2,451.9	415.3	72.2	34,058.9	31,121.5	2,433.6	417.0	83.5	34,055.6

Climate risk, both physical and transitional, is considered when assessing property collateral valuations at origination. TSB concludes that this risk is currently low, and no material losses have been experienced from such risks.

TSB does not take physical possession of properties or other assets held as collateral and uses external agents to realise the value as soon as practicable to settle indebtedness. Any surplus funds are returned to the borrower or are otherwise dealt with in accordance with appropriate insolvency regulations. No collateral is held in respect of retail credit cards, overdrafts, or unsecured personal loans.

For business banking lending, collateral primarily consists of first charges over commercial and residential property. Where collateral is held, lending decisions are predominantly based on an obligor's ability to repay from normal business operations rather than reliance on any collateral provided. Collateral values are assessed at the time of loan origination and reassessed if there is observable evidence of distress of the borrower. In respect of the £101.0 million (2024: £176.1 million) of Bounce Back Loan Scheme loans, TSB benefits from a 100% guarantee from the British Business Bank under the terms of the scheme rules (amounts recoverable under this guarantee are shown in note 9 on page 93).

Financial assets at fair value through profit or loss (not subject to expected credit loss requirements)

Derivative financial assets of £1,517.6 million (2024: £1,944.5 million) are largely cash collateralised interest rate swaps transacted through central clearing houses. The effect of the collateralisation is shown in note 21 on page 120 under the heading Offsetting financial assets and financial liabilities.

Notes to the consolidated financial statements

Managing financial risk (continued)

18. Credit risk (continued)

(viii) Forbearance and loan modifications

TSB operates a number of schemes to assist borrowers who are experiencing financial difficulties. Forbearance solutions may offer relief in the form of reductions to contractual payments including freezes to interest payments, and for customers who have longer term financial difficulties, term extensions and capitalisation of arrears.

TSB applies the European Banking Authority definition of forbearance and at 31 December 2025, forborne loans were £408.5 million (2024: £431.6 million), of which £305.1 million (2024: £294.2 million) were credit impaired. At 31 December 2025, the allowance for loan losses held in respect of forborne loans was £66.3 million (2024: £60.4 million).

During 2025 gross balances of £46.2 million (2024: £45.1 million) in respect of unsecured loans were subject to modification of the original terms through the temporary freezing of customer interest obligations. At the time, the loans were categorised as either stage 2 or 3 and the allowance for expected credit losses was measured at lifetime expected credit loss. These resulted in modification losses of £2.1 million (2024: £2.0 million).

Notes to the consolidated financial statements

Managing financial risk (continued)

19. Liquidity risk

Definition and exposure

Liquidity risk is the risk that TSB is unable to meet its liabilities as they fall due, or is unable to maintain regulator, investor, customer or stakeholder confidence that this will be achieved. Liquidity risk is managed, monitored and measured from both an internal and regulatory perspective.

Sources of funding

TSB's funding position is underpinned by its significant customer deposit base. The deposit base is made up of customer current and savings accounts which, although mostly repayable on demand, have historically provided a stable source of funding. Further information regarding sources of funding is available on pages 78 to 82.

Risk appetite

The funding and liquidity risk appetite for TSB is set and approved annually by the Board. Risk is reported against this appetite through various metrics to enable TSB to manage the funding and liquidity position. The risk appetite is established under a liquidity risk management framework designed with the aim that TSB has sufficient financial resources of appropriate quality.

Measurement and monitoring

A series of measures are used across TSB to monitor both short-term and long-term liquidity risk. Liquidity risk is measured on a daily basis and reported internally. Daily liquidity reporting is supplemented by early warning indicators and a Liquidity Contingency Plan. Monthly reporting procedures are in place to update and inform senior management. All liquidity policies and procedures are subject to periodic independent internal oversight.

The table below presents the contractual residual maturities of the financial liabilities and assets on the balance sheet:

At 31 December 2025	On demand £ million	Up to 1 month £ million	1-3 months £ million	3-12 months £ million	1-5 years £ million	Over 5 years £ million	No contractual maturity £ million		Total Carrying Value £ million
Financial liabilities measured at amortised cost:									
Customer deposits	29,547.0	365.8	647.6	2,895.7	1,752.9	—	—	—	35,209.0
Borrowings from central banks	—	5.9	—	5.0	371.0	217.0	—	—	598.9
Debt securities in issue	—	9.1	35.9	488.7	4,335.6	—	—	—	4,869.3
Subordinated liabilities	—	—	297.8	—	—	—	—	—	297.8
Lease liabilities	—	0.1	3.8	11.4	47.9	44.6	—	—	107.8
Other financial liabilities	132.7	15.6	50.6	245.1	536.8	105.6	—	—	1,086.4
Derivative liabilities at fair value through profit or loss	—	0.4	4.9	79.2	177.0	195.2	—	—	456.7
Hedging derivative liabilities	—	13.3	3.2	13.8	64.8	4.3	—	—	99.4
Total financial liabilities	29,679.7	410.2	1,043.8	3,738.9	7,286.0	566.7	—	—	42,725.3
Financial assets at amortised cost:									
Cash, cash balances at central banks and demand deposits	4,202.1	—	—	—	—	—	—	—	4,202.1
Debt securities	—	7.2	49.1	56.9	473.7	1,399.5	—	—	1,986.4
Loans and advances to customers	704.8	200.8	286.3	1,199.2	5,555.0	28,322.3	—	—	36,268.4
Loans and advances to credit institutions	288.4	—	—	—	16.8	—	—	—	305.2
Other advances	21.9	4.6	1.5	3.0	33.7	0.2	2.0	—	66.9
Reverse repurchase agreements	—	62.0	—	—	—	—	—	—	62.0
Financial assets at fair value through other comprehensive income	—	—	1.4	1.1	51.0	386.7	—	—	440.2
Derivative assets at fair value through profit or loss	—	9.4	28.8	50.4	187.9	91.9	—	—	368.4
Hedging derivative assets	—	2.7	1.4	28.4	136.7	980.0	—	—	1,149.2
Total financial assets	5,217.2	286.7	368.5	1,339.0	6,454.8	31,180.6	2.0	44,848.8	

Notes to the consolidated financial statements

Managing financial risk (continued)

19. Liquidity risk (continued)

	On demand £ million	Up to 1 month £ million	1-3 months £ million	3-12 months £ million	1-5 years £ million	Over 5 years £ million	contractual maturity £ million	No Carrying Value £ million	Total Carrying Value £ million
At 31 December 2024									
Financial liabilities measured at amortised cost:									
Customer deposits	29,534.9	216.2	476.2	3,017.8	1,806.1	—	—	35,051.2	
Borrowings from central banks	—	21.9	—	797.0	588.0	—	—	1,406.9	
Debt securities in issue	—	10.1	26.1	14.7	4,102.1	430.2	—	4,583.2	
Subordinated liabilities	—	—	—	—	285.9	—	—	285.9	
Lease liabilities	—	0.1	—	0.2	17.9	102.5	—	120.7	
Other financial liabilities	131.9	14.6	31.6	200.7	700.4	107.8	—	1,187.0	
Derivative liabilities at fair value through profit or loss	—	7.4	14.3	82.0	467.8	252.7	—	824.2	
Hedging derivative liabilities	—	0.1	2.2	20.7	115.8	4.8	—	143.6	
Total financial liabilities	29,666.8	270.4	550.4	4,133.1	8,084.0	898.0	—	43,602.7	
Financial assets at amortised cost:									
Cash, cash balances at central banks and demand deposits	4,823.8	—	—	—	—	—	—	4,823.8	
Debt securities	—	9.2	2.4	3.2	538.5	1,429.2	—	1,982.5	
Loans and advances to customers	653.9	236.2	297.9	1,272.3	5,544.7	28,325.9	—	36,330.9	
Loans and advances to credit institutions	277.8	—	—	—	—	—	—	277.8	
Other advances	24.6	0.5	9.6	17.6	75.4	0.5	2.0	130.2	
Financial assets at fair value through other comprehensive income	—	0.6	0.4	0.5	—	327.1	—	328.6	
Derivative assets at fair value through profit or loss	—	10.0	23.5	50.3	410.7	175.7	—	670.2	
Hedging derivative assets	—	10.2	2.7	28.7	240.6	992.1	—	1,274.3	
Total financial assets	5,780.1	266.7	336.5	1,372.6	6,809.9	31,250.5	2.0	45,818.3	

Expected cash flows on customer deposits and loans and advances to customers vary significantly from the contractual cash flows shown in the table above. Customer deposits are largely repayable on demand but have proven to be a stable source of funding. Loans and advances to customers comprise of a large proportion of mortgages which mature earlier than the contractual maturity as customers take advantage of early redemption options.

Notes to the consolidated financial statements

Managing financial risk (continued)

19. Liquidity risk (continued)

Contractual maturities for financial liabilities form an important source of information for the management of liquidity risk. The table below analyses financial liabilities and commitments by relevant contractual maturity grouping on an undiscounted future cash flow basis, which includes estimated interest payments.

	On demand £ million	Up to 1 month £ million	1-3 months £ million	3-12 months £ million	1-5 years £ million	Over 5 years £ million	No contractual maturity £ million	Total £ million
At 31 December 2025								
Liabilities								
Financial liabilities measured at amortised cost:								
Customer deposits	29,540.7	341.6	734.5	3,041.9	1,721.3	—	—	35,380.0
Borrowings from central banks	—	5.9	—	15.9	408.7	221.3	—	651.8
Debt securities in issue	—	10.4	67.7	603.5	4,627.5	—	—	5,309.1
Subordinated liabilities	—	—	302.6	—	—	—	—	302.6
Lease liabilities	—	0.3	4.2	13.1	54.1	47.8	—	119.5
Other financial liabilities	132.7	15.6	50.6	245.1	536.8	105.6	—	1,086.4
Loan commitments	3,354.7	43.8	95.5	1,475.5	20.9	16.1	—	5,006.5
Total non-derivative financial liabilities	33,028.1	417.6	1,255.1	5,395.0	7,369.3	390.8	—	47,855.9
Net settled derivatives	—	23.0	71.0	184.4	267.2	42.3	—	587.9
Total financial liabilities	33,028.1	440.6	1,326.1	5,579.4	7,636.5	433.1	—	48,443.8
 At 31 December 2024								
Liabilities								
Financial liabilities measured at amortised cost:								
Customer deposits	29,536.2	235.5	500.1	3,185.3	1,799.7	—	—	35,256.8
Borrowings from central banks	—	21.9	—	846.1	623.6	—	—	1,491.6
Debt securities in issue	—	11.7	67.0	433.9	4,777.7	—	—	5,290.3
Subordinated liabilities	—	—	2.6	7.8	302.5	—	—	312.9
Lease liabilities	—	0.3	4.0	13.3	56.4	75.0	—	149.0
Other financial liabilities	131.9	14.6	31.6	200.7	700.4	107.8	—	1,187.0
Loan commitments	3,868.4	21.9	52.8	1,527.2	70.8	156.1	—	5,697.2
Total non-derivative financial liabilities	33,536.5	305.9	658.1	6,214.3	8,331.1	338.9	—	49,384.8
Net settled derivatives	—	39.6	108.8	334.4	469.4	79.2	—	1,031.4
Total financial liabilities	33,536.5	345.5	766.9	6,548.7	8,800.5	418.1	—	50,416.2

The amounts shown are the net amounts for those derivatives that are net settled, which comprises the majority of TSB's derivative financial instruments. Gross nominal inflows and outflows are presented for derivatives that have simultaneous gross settlement such as cross currency swaps.

20. Capital resources

TSB maintains capital resources which exceed regulatory requirements, and which seek to support TSB's strategy and ensure that TSB is able to absorb losses under stressed conditions. Capital risk is managed under a framework where risk appetite is set and approved annually by the Board. A series of metrics is used to monitor capital against early warning indicators with regular reporting in place to update and inform senior management. Further information on capital resources is shown on pages 8 and 9 in the Financial performance in 2025 section of the Strategic report.

	2025 £ million	2024 £ million
Total equity	2,353.6	2,428.1
Less proposed dividend	—	(300.0)
Less Additional Tier 1 securities included in total equity	(249.7)	(249.7)
Less other regulatory deductions	(154.6)	(140.3)
Common Equity Tier 1	1,949.3	1,738.1
Additional Tier 1 capital	249.7	249.7
Total Tier 1 capital	2,199.0	1,987.8
Tier 2 capital	300.0	300.0
Total capital resources	2,499.0	2,287.8

Notes to the consolidated financial statements

Managing financial risk (continued)

21. Market risk

Definition and exposure

Market risk is the risk of a reduction in earnings, value or reserves caused by changes in the prices of financial instruments. TSB's market risk consists primarily of exposure to changes in interest rates. Interest rate risk is the risk that the net value of, or net income arising from, the firm's assets and liabilities is impacted as a result of changes to interest rates. Interest rate risk can also arise as a result of changes in customer behaviour, which may affect the maturity profiles of TSB's assets and liabilities. TSB's exposure to changes in interest rates includes the margin between customer and market rates. This includes the potential impact on earnings and value that could occur when, if rates fall, liabilities cannot be re-priced as quickly or by as much as assets. Any potential management actions that may be taken as a result of immediate, significant, rate shocks are not considered and these actions may impact sensitivities.

Management and measurement

Risk exposure across TSB is monitored monthly using, primarily, net interest income and earnings sensitivity. This methodology considers all re-pricing mismatches in the current balance sheet and calculates the change in net interest income that would result from a set of defined interest rate shocks. A limit structure exists to ensure that risks stemming from residual positions or from changes in assumptions about customer behaviour remain within risk appetite.

Board risk appetite is set against a 12 month view of the sensitivity of net interest income to a 250 basis point, instantaneous, parallel shock to interest rates, for all currencies and maturities. The balance sheet and net interest income is simulated using actual point in time positions and held flat under a Constant Balance Sheet scenario.

At 31 December 2025, the projected change in 12 month net interest income in response to an immediate parallel shift in all relevant interest rates, market and administered, would be an increase of £130.9 million (2024: £116.8 million) from a 250bps increase in rates (2024: 250bps increase in rates), and a decrease of £61.0 million (2024: £69.4 million) from a 250bps decrease (2024: 250bps decrease). The measure assumes all interest rates, for all currencies and maturities, move at the same time and by the same amount.

Derivative financial instruments

TSB holds derivative financial instruments in the normal course of its banking business largely for interest rate risk management and margin stabilisation purposes. The fair values and notional amounts of derivative instruments are presented in the following table:

Derivative financial instruments not in hedge accounting relationships	2025				2024			
	Contract/notional amount £ million	Assets fair value £ million	Liabilities fair value £ million	Gain/(loss) recognised in profit or loss £ million	Contract/notional amount £ million	Assets fair value £ million	Liabilities fair value £ million	Gain/(loss) recognised in profit or loss £ million
Interest rate swaps	35,310.0	362.4	(456.7)	40.7	33,382.2	667.6	(824.2)	57.6
Foreign exchange forwards	3.6	-	-	(0.2)	-	-	-	-
Equity forwards	12.6	6.0	-	11.5	10.3	2.6	-	5.4
Total	35,326.2	368.4	(456.7)	52.0	33,392.5	670.2	(824.2)	63.0
Hedging derivative financial instruments	2025				2024			
	Contract/notional amount £ million	Assets fair value £ million	Liabilities fair value £ million	Change in fair value used for calculating hedge ineffectiveness £ million	Contract/notional amount £ million	Assets fair value £ million	Liabilities fair value £ million	Change in fair value used for calculating hedge ineffectiveness £ million
(Fair value hedges)								
Interest rate risk								
Interest rate swaps	27,293.5	1,045.1	(91.1)	89.1	31,349.2	1,245.7	(143.6)	(90.8)
(Cash flow hedges)								
Interest rate risk								
Interest rate swaps	1,537.4	51.4	(8.3)	(16.1)	133.0	26.7	-	10.7
Foreign exchange risk								
Cross currency rate swaps	928.9	52.7	-	(6.7)	428.0	1.9	-	6.9
Total	29,759.8	1,149.2	(99.4)	66.3	31,910.2	1,274.3	(143.6)	(73.2)

Notes to the consolidated financial statements

Managing financial risk (continued)

21. Market risk (continued)

Risk management

Where all relevant criteria are met, hedge accounting is applied to remove the accounting mismatch between the hedging instrument and the hedged item. Such derivatives are presented on the balance sheet as hedging derivative financial instruments. Where derivatives do not meet the hedge accounting criteria they are presented on the balance sheet as derivative financial instruments not included in hedge accounting relationships.

TSB uses derivatives largely to economically hedge interest rate risk and to stabilise income and reduce its sensitivity to interest rate changes. TSB hedges SONIA benchmark interest rate risk using both fair value hedges and cash flow hedges. As a result of TSB's dynamic hedging strategies described below, the gain on derivatives at fair value through profit or loss in respect of interest rate and equity risk of £52.0 million (2024: £63.0 million gain) should be considered in conjunction with the losses of £(33.1) million (2024: £(32.5) million of losses) from the amortisation of accumulated adjustments on the hedged items for which hedge accounting no longer applies.

Hedge accounting overview

The profile of interest risk being managed is dynamic, changing in response to business activity and is economically hedged with derivatives. Where natural offsets occur, these derivatives are not designated in hedge accounting relationships. The remaining derivatives may be designated in a hedge accounting relationship to minimise profit volatility. Hedge relationships are considered effective where changes in the hedged item offset changes in the hedging instrument to within an 80% to 125% ratio. Effectiveness tests are performed at inception and on a monthly basis using either dollar offset, linear regression or critical terms match, depending on the nature of the hedged items. Ineffectiveness arising on hedge relationships can arise due to a number of factors which include basis mismatch, maturity mismatch, credit valuation adjustments and cash flow timing mismatch between the hedged item and hedging instrument.

Macro fair value hedge accounting – fixed rate mortgages and demand deposits

Pay fixed, receive floating interest rate swaps are typically designated as a portfolio fair value hedge of fixed rate mortgage assets and receive fixed, pay floating derivatives are typically designated as a portfolio fair value hedge of fixed rate customer deposits. As interest rate risk management is dynamic, TSB's approach is to review the swaps hedging these portfolios on a monthly basis and designate new relationships or de-designate existing relationships as required to ensure minimal residual risk. The provisions of the UK-adopted version of IAS 39 mean that ineffectiveness arising due to unexpected prepayments need not be recognised through profit or loss, so long as hedge designations are made in such a way as to minimise their impact.

Micro fair value hedge accounting – subordinated debt and debt securities

TSB has issued fixed rate subordinated debt and purchased hold-to-collect and hold-to-collect and sell fixed rate debt securities as part of its Treasury management strategy. These are hedged with interest rate swaps and designated in a fair value hedge.

Cash flow hedge accounting – floating rate debt securities in issue

Interest rate risk on issued floating rate debt securities in issue is hedged using interest rate swaps that exchange floating rate cash flows for fixed rate cash flows. At 31 December 2025, £1,537.4 million (2024: £133.0 million) of floating rate debt securities in issue were designated in cash flow hedge relationships, of which cash flows in respect of £958.4 million (2024: £ nil) were expected to mature within five years, and cash flows in respect of £579.0 million (2024: £133.0 million) were expected to mature within between five and ten years.

Cash flow hedge accounting - foreign exchange on foreign currency debt

During 2024 and 2025, euro denominated fixed rate covered bonds were issued. This leads to an exposure to foreign currency risk as TSB's functional and presentational currency is pound sterling. TSB hedges the foreign currency exposure via cross currency interest rate swaps that exchange fixed rate euro cash flows and principal for floating rate sterling cash flows and principal. The swaps are structured such that the euro component matches the critical terms of the hedged covered bond issuance.

Hedge effectiveness is determined at inception of the hedge relationships by demonstrating that the critical terms of the hedged item match exactly the critical terms of the hedging instrument. To validate the effectiveness of the ongoing hedge relationship, TSB uses the hypothetical derivative method. Hedge ineffectiveness may occur due to credit valuation adjustments on the swaps which are not matched on the secured issuance.

At 31 December 2025, cross currency swaps with a notional amount of £928.9 million (2024: £428.0 million) were expected to mature within 5 years. The exchange rate applicable to this cross currency swap was £1/€1.14615.

Notes to the consolidated financial statements

Managing financial risk (continued)

21. Market risk (continued)

Exposures covered by hedging accounting strategies

The following table contains details of the hedged exposures covered by TSB's hedging strategy:

2025	Risk type	Carrying amount of hedged item assets/(liability) £ million	Accumulated fair value hedge adj. on hedged item £ million	Balance sheet line item that includes the hedged item	Change in fair value for calculating hedge ineffectiveness £ million	Cash flow hedge reserve continuing hedges £ million
Fair value hedges						
Portfolio hedged risk:						
Demand deposits	Interest rate	(7,897.0)	(12.3)	Customer deposits	111.5	n/a
Fixed rate mortgages	Interest rate	16,322.0	4.5	Loans & adv to customers	(175.5)	n/a
Individual hedged risk:						
Subordinated liabilities	Interest rate	(297.8)	2.3	Subordinated liabilities	11.9	n/a
Debt securities	Interest rate	431.7	—	Financial assets at FVOCI	(7.9)	n/a
Debt securities	Interest rate	1,645.0	(702.7)	Financial assets at amortised cost	(31.0)	n/a
					(91.0)	n/a
Cash flow hedges						
Covered bonds – sterling	Interest rate	1,537.4	n/a	Debt securities in issue	(13.0)	10.9
Covered bonds – euro	Foreign exchange/Interest rate	928.9	n/a	Debt securities in issue	(6.7)	0.1
					(19.7)	11.0
2024						
Fair value hedges						
Portfolio hedged risk:						
Demand deposits	Interest rate	(10,478.1)	134.7	Customer deposits	(91.0)	n/a
Fixed rate mortgages	Interest rate	17,612.5	(170.9)	Loans & adv to customers	25.8	n/a
Individual hedged risk:						
Subordinated liabilities	Interest rate	(285.9)	14.1	Subordinated liabilities	8.2	n/a
Debt securities	Interest rate	328.6	—	Financial assets at FVOCI	25.8	n/a
Debt securities	Interest rate	1,567.8	(733.7)	Financial assets at amortised cost	120.0	n/a
					88.8	
Cash flow hedges						
Covered bonds – sterling	Interest rate	133.0	n/a	Debt securities in issue	10.7	26.6
Covered bonds – euro	Foreign exchange/Interest rate	428.0	n/a	Debt securities in issue	6.9	6.9
					17.6	33.5

The amount of fair value hedge adjustments remaining on the balance sheet relating to hedges which have been de-designated is £53.3 million (2024: £90.0 million).

Notes to the consolidated financial statements

Managing financial risk (continued)

21. Market risk (continued)

Hedge accounting ineffectiveness

The following table contains information regarding the effectiveness of the hedging relationships designated by TSB, as well as the impacts on profit or loss and other comprehensive income:

2025	Risk type	Hedge ineffectiveness recognised in P&L £ million	Gain/(loss) recognised in OCI £ million	P&L line item that includes hedge ineffectiveness	Amounts reclassified from reserves to P&L as:	
					Hedged item affected P&L £ million	P&L line item that includes reclassified amount £ million
Fair value hedges	Interest rate	2.0	–	Gains from hedge accounting	n/a	n/a
Cash flow hedges	Interest rate	(3.1)	(13.2)	Gains from hedge accounting	(2.6)	Other income
Cash flow hedges	Foreign exchange/ interest rate	–	(6.7)	Gains from hedge accounting	–	Other income
		(1.1)	(19.9)			(2.6)
<hr/>						
2024						
Fair value hedges	Interest rate	2.1	n/a	Gains from hedge accounting	n/a	n/a
Cash flow hedges	Interest rate	0.3	10.7	Gains from hedge accounting	(1.0)	Other income
Cash flow hedges	Foreign exchange/ interest rate	–	6.9	Gains from hedge accounting	–	Other income
		2.4	17.6			(1.0)

Losses from hedge accounting in the income statement of £(34.2) million (2024: £(30.1) million of losses) comprise hedge ineffectiveness losses of £(1.1) million (2024: £2.4 million of gains) and £(33.1) million of losses (2024: £(32.5) million of losses) from amortisation of de-designated cash flow hedges and macro fair value hedge adjustments on hedged items for which hedge accounting had previously been discontinued.

Reconciliation of reserves in respect of hedge accounting

	2025	2025	2024	2024
	Fair value reserve £ million	Cash flow hedge reserve £ million	Fair value reserve £ million	Cash flow hedge reserve £ million
Balance as at 1 January	(8.0)	26.0	(6.5)	12.2
<hr/>				
<i>Fair value hedges of interest rate risk</i>				
Changes in fair value of debt securities	10.4	n/a	(27.9)	n/a
Accumulated fair value hedge adjustment	(7.9)	n/a	25.8	n/a
	2.5	n/a	(2.1)	n/a
Taxation	(0.7)	n/a	0.6	n/a
<hr/>				
<i>Cash flow hedges of interest rate</i>				
Effective portion of changes in fair value of interest rate swaps	n/a	(13.2)	n/a	10.7
Amounts reclassified from reserves to profit or loss	n/a	(2.6)	n/a	(1.0)
Taxation	n/a	4.5	n/a	(2.8)
<hr/>				
<i>Cash flow hedges of foreign exchange and interest rate risk</i>				
Effective portion of changes in fair value of cross currency swaps	n/a	(6.7)	n/a	6.9
Balance as at 31 December	(6.2)	8.0	(8.0)	26.0

Notes to the consolidated financial statements

Managing financial risk (continued)

21. Market risk (continued)

Offsetting financial assets and financial liabilities

TSB reports financial assets and financial liabilities on a net basis on the balance sheet only if there is a legally enforceable right to set-off the recognised amounts and there is intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

	Related amounts where set off in the balance sheet is not permitted					
	Gross amounts £ million	Amounts offset £ million	Net amounts reported on the balance sheet £ million	Related financial instrument amounts not offset £ million	Collateral (received)/pledged ⁽¹⁾ £ million	Net amount £ million
At 31 December 2025						
Derivative financial assets	1,517.6	–	1,517.6	(519.1)	(998.4)	0.1
Reverse repurchase agreements	312.0	(250.0)	62.0	–	(62.0)	–
	1,829.6	(250.0)	1,579.6	(519.1)	(1,060.4)	0.1
 Derivative financial liabilities						
	556.1	–	556.1	(519.1)	(37.0)	–
Repurchase agreements	250.0	(250.0)	–	–	–	–
	806.1	(250.0)	556.1	(519.1)	(37.0)	–
 At 31 December 2024						
Derivative financial assets	1,944.5	–	1,944.5	(869.0)	(1,075.2)	0.3
Reverse repurchase agreements	250.0	(250.0)	–	–	–	–
	2,194.5	(250.0)	1,944.5	(869.0)	(1,075.2)	0.3
 Derivative financial liabilities						
	967.8	–	967.8	(869.0)	(98.8)	–
Repurchase agreements	250.0	(250.0)	–	–	–	–
	1,217.8	(250.0)	967.8	(869.0)	(98.8)	–

(1) Collateral amounts (cash and non-cash financial collateral) are generally undertaken under International Swaps and Derivative Association agreements. Collateral amounts are reflected at their fair value and this amount is limited to the net balance sheet exposure, by counterparty, in order to exclude any over collateralisation. The collateral amount presented includes non-cash collateral received of £73.0 million (2024: £52.6 million) and non-cash collateral pledged of £0.3 million (2024: £ nil).

Amounts offset

TSB has a £250.0 million repurchase agreement that transferred legal title of certain covered bond retained notes in return for cash, together with an agreement to repurchase the assets at a later date and at a predetermined price. Concurrently, TSB entered into a £250.0 million reverse repurchase agreement with the same counterparty as the repurchase agreement. The reverse repurchase agreement transferred legal title of certain UK gilts to TSB, in return for the payment of cash, together with an agreement for TSB to sell the UK gilts at a later date and at a predetermined price. The repurchase agreement and reverse repurchase agreement mature in 2027.

Notes to the consolidated financial statements

Other important disclosures

Accounting policies relevant to this section

(k) Share capital

Shares are classified as equity instruments when there is no contractual obligation to deliver cash or other assets to another entity and the shares present a residual interest in the net assets of the issuer. Ordinary shares are classified as equity.

(l) Provisions and contingent liabilities and assets

Provisions are recognised in respect of present obligations arising from past events where it is probable that outflows of resources will be required to settle the obligations and they can be reliably estimated.

Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or those present obligations where the outflows of resources are uncertain or cannot be measured reliably. Contingent liabilities are not recognised in the financial statements but are disclosed unless they are remote.

Contingent assets are possible assets that arise from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within TSB's control. These are recognised only when it is virtually certain that an inflow of economic benefits will arise.

(m) Premises and equipment

Property, plant and equipment are recognised at cost less accumulated depreciation. Cost includes the original purchase price of the assets and the costs attributable to bringing the asset into working condition for its intended use. Subsequent expenditure is capitalised only if it is probable that future economic benefits associated with the expenditure will flow to TSB. The value of land (included in premises) is not depreciated. Depreciation on other premises and equipment is calculated using the straight-line method to allocate the difference between the cost and the residual value over their estimated useful lives, as follows:

- Freehold premises and leasehold right of use assets: shorter of 50 years or the remaining period of the lease.
- Leasehold improvements: shorter of 10 years and, if lease renewal is not likely, the remaining period of the lease.
- Fixtures and furnishings: 0-10 years.
- Other equipment and motor vehicles: 2-8 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In the event that an asset's carrying amount is determined to be greater than its recoverable amount it is written down immediately. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

(n) Leases

At inception of a contract TSB assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, TSB assesses whether: (a) the contract involves the use of an identified asset; (b) TSB has the right to substantially all of the economic benefits from use of the asset throughout the period of use; and (c) TSB has the right to direct the use of the asset.

At inception or on reassessment of a contract that contains a lease component, TSB allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

TSB recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on a similar basis as those of property and equipment but also include consideration of the lease term. The right-of-use asset is written down by any impairment losses, for example where a leased property will be closed before the end of the lease term, and is adjusted for certain remeasurements of the lease liability. No lease liability or related right of use asset is recognised in respect of short-term leases, of less than one year, or leases of low value assets. As permitted by accounting standards, the cost of such leases are expensed as incurred.

Notes to the consolidated financial statements

Other important disclosures (continued)

Accounting policies relevant to this section (continued)

(n) Leases (continued)

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using TSB's incremental borrowing rate. The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recognised in the consolidated income statement if the carrying amount of the right-of-use asset has been reduced to zero.

(o) Intangible assets

Intangible assets held by TSB consist of internally developed computer software which is held at cost less accumulated amortisation and impairment. Software development costs are capitalised if it is probable that the asset created will generate future economic benefits. Costs incurred to establish technological feasibility or to maintain existing levels of performance are recognised as an expense.

Computer software intangible assets are amortised using the straight line method over their estimated useful lives of between 3 and 5 years. Amortisation commences when the assets are ready for their intended use. Estimated useful lives are reviewed annually and adjusted, if appropriate, in the light of technological developments, usage and other relevant factors. Computer software is reviewed for indicators of impairment at each reporting date and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where the carrying amount is not recoverable the asset is written down immediately to the estimated recoverable amount.

In addition, the following accounting policies relate to the consolidated financial statements as a whole.

(p) Consolidation

Subsidiaries are all entities (including special purpose entities) over which TSB has control. TSB controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to TSB and are deconsolidated from the date that control ceases. Inter-company transactions, balances and unrealised gains and losses on transactions between group entities are eliminated.

(q) Foreign currency translation

TSB's functional and presentation currency is Sterling. Foreign currency transactions are translated using the exchange rates prevailing at the date of the transaction. Monetary items denominated in foreign currencies are translated at the rate prevailing at the balance sheet date. Foreign exchange gains and losses resulting from the translation of such transactions are recognised in other operating income in the income statement.

22. Total equity

	Share capital £ million	Share premium £ million	Other equity Instruments £ million	Merger reserve £ million	Capital reorganis- ation reserve £ million	Capital reserve £ million	Fair value reserve £ million	Cash flow hedging reserve £ million	Retained profits £ million	Total equity £ million
Balance at 1 January 2024	5.0	965.1	–	616.5	(1,311.6)	410.0	(6.5)	12.2	1,387.5	2,078.2
Issue of Additional Tier 1 securities	–	–	249.7	–	–	–	–	–	–	249.7
Net change in fair value reserve	–	–	–	–	–	–	(1.5)	–	–	(1.5)
Net change in cash flow hedging reserve	–	–	–	–	–	–	–	13.8	–	13.8
Profit for the year	–	–	–	–	–	–	–	–	207.9	207.9
Dividends on ordinary shares (note 23)	–	–	–	–	–	–	–	–	(120.0)	(120.0)
At 31 December 2024	5.0	965.1	249.7	616.5	(1,311.6)	410.0	(8.0)	26.0	1,475.4	2,428.1
Net change in fair value reserve	–	–	–	–	–	–	1.8	–	–	1.8
Net change in cash flow hedging reserve	–	–	–	–	–	–	–	(18.0)	–	(18.0)
Profit for the year	–	–	–	–	–	–	–	–	259.3	259.3
Dividends on ordinary shares (note 23)	–	–	–	–	–	–	–	–	(300.0)	(300.0)
Distributions on other equity instruments	–	–	–	–	–	–	–	–	(17.6)	(17.6)
At 31 December 2025	5.0	965.1	249.7	616.5	(1,311.6)	410.0	(6.2)	8.0	1,417.1	2,353.6

At 31 December 2025, TSB Banking Group plc had in issue 500.0 million (2024: 500.0 million) one pence ordinary shares authorised, allotted and fully paid up.

Notes to the consolidated financial statements

Other important disclosures (continued)

22. Total equity (continued)

Other equity instruments – Additional Tier 1 securities

In December 2024, TSB Banking Group plc issued £250.0 million of Fixed Rate Reset Additional Tier 1 Perpetual Non-Cumulative Contingent Convertible Securities to its parent company, Banco de Sabadell, S.A. These pay interest at a fixed rate of 8.75% per annum payable semi-annually in arrears.

Merger reserve and capital reorganisation reserve

The merger reserve and capital reorganisation reserves were established in 2014 upon TSB Banking Group plc issuing new shares in exchange for the acquisition of the entire share capital of TSB Bank plc. The issuance was recorded at the carrying amount of the net assets of TSB Bank plc at the date of acquisition and resulted in a transfer to the share premium reserve of a minimum amount required by the Companies Act 2006. The difference between the amount transferred to share capital and share premium and the carrying amount of the net assets of TSB Bank plc was transferred to the merger reserve. The capital reorganisation reserve was established at this time to reflect the effect of TSB Banking Group plc becoming the new holding company of TSB Bank plc by means of this share for share exchange.

Capital reserve

The capital reserve represents a capital contribution received in 2013 from a, then, parent company. The fair value reserve represents the unrealised change in the value of financial assets at fair value through other comprehensive income since the instrument's initial recognition. The cash flow hedging reserve represents the cumulative gains and losses on effective cash flow hedging instruments that will be recycled to the income statement when the hedged transactions affect profit or loss.

23. Dividends on ordinary shares

In July 2025, following the announcement of the proposed sale of TSB to Santander, the Board approved an update to the dividend policy which has resulted in the cessation of dividends being paid to Sabadell. Accordingly the Directors have not recommended payment of a dividend in respect of 2025.

In February 2025, following approval at the Annual General Meeting, the Company paid a final dividend of £300 million which was reflected in the 2025 financial statements, when paid. In February 2024, following approval at the Annual General Meeting, the Company paid a final dividend of £120 million which was reflected in the 2024 financial statements, when paid.

24. Contingent liabilities

Significant judgement

Conduct

During the ordinary course of business, TSB may be subject to other complaints and threatened or actual legal proceedings brought by customers that may result in legal and regulatory reviews, challenges, investigations and enforcement actions. For example, TSB is currently managing certain customer complaints and court claims in relation to the portfolio of ex-Northern Rock residential mortgages (and linked unsecured loans) acquired from Cerberus Capital Management group (the Whistletree portfolio). TSB intends to defend the claims rigorously.

Any such material cases are periodically reassessed with the assistance of external professional advisers, where appropriate, to determine the likelihood of incurring a liability. TSB does not expect the ultimate resolution of any current complaints, threatened or actual legal proceedings, regulatory or other matters to have a material adverse impact on its financial position in relation to any additional issues not explicitly disclosed above.

In certain circumstances, TSB will explore opportunities, where relevant, to seek recovery from third parties of losses arising from, or related to, such matters. For example, in 2025 TSB agreed compensation from a third party service provider of certain remediation costs arising from an issue with the service provided.

Notes to the consolidated financial statements

Other important disclosures (continued)

25. Related party transactions

TSB's related parties include key management personnel, Sabadell and other Sabadell Group companies.

(i) Key management personnel

Key management personnel are those persons having responsibility for planning, directing and controlling the activities of TSB which is the Board and Executive Committee. Key management personnel compensation is shown in the table below.

	2025 £ 000	2024 £ 000
Short-term employee benefits	8,880	8,248
Post-employment benefits	527	551
Other long-term awards	422	497
Share based payments	810	805
Payments for loss of office	153	—
Total	10,792	10,101

The tables below detail, on an aggregated basis, related party transactions, balances outstanding at the year end and related income and expense in respect of key management personnel. The loans attracted interest at customer rates and were made in the ordinary course of business. Expected credit losses are assessed to be immaterial.

Loans	2025 £ 000	2024 £ 000
At 1 January	1,348	1,413
Advances (includes key management personnel appointed during the year)	46	59
Interest charged during the year	36	69
Repayments made during the year (including key management personnel resigned during the year)	(1,427)	(193)
At 31 December	3	1,348

Deposits	2025 £ 000	2024 £ 000
At 1 January	346	572
Deposits made during the year (includes key management personnel appointed during the year)	3,168	1,675
Interest expense on deposits	2	10
Withdrawals made during the year (including key management personnel resigned during the year)	(2,883)	(1,911)
At 31 December	633	346

Deposits placed by key management personnel are at customer rates and were made in the ordinary course of business.

(ii) Transactions and balances with Sabadell Group companies

Other equity instruments – Additional Tier 1 securities

In December 2024, TSB Banking Group plc issued £250.0 million of Fixed Rate Reset Additional Tier 1 Perpetual Non-Cumulative Contingent Convertible Securities to its parent company, Banco de Sabadell, S.A. These pay interest at a fixed rate of 8.75% per annum payable semi-annually in arrears.

Dividends

As set out in note 23, following approval at the Annual General Meeting in February 2025, TSB Banking Group plc paid a dividend of £300.0 million to its parent, Sabadell in February 2025. Following a change to the Board approved dividend policy in July 2025, the Directors have not recommended payment of a dividend in respect of 2025.

Operational IT costs

Operating expenses of £60 million (2024: £56.0 million) were incurred in respect of services provided by Sabadell Digital S.A.U. (formerly Sabadell Information Systems S.A.U.) and Sabadell Information Systems Limited (together Sabis), TSB's parent company's IT suppliers, under the Outsourced Services Agreement for running and developing the banking platform.

The expense included £8.0 million (2024: £2.4 million) of accelerated charges, where investment by TSB in internal processes to serve customers and improve efficiency led to obsolescence in Sabis's IT equipment, the cost of which was borne by TSB.

At 31 December 2025, the aggregate liability to Sabis was £10.1 million (2024: £5.2 million).

Senior unsecured debt securities

At 31 December 2025, TSB Banking Group plc had senior unsecured debt securities in issue to its parent of £652.4 million (2024: £904.2 million). Interest expense of £63.3 million (2024: £72.1 million) was recognised and £2.4 million was payable at 31 December 2025 (2024: £4.3 million).

Notes to the consolidated financial statements

Other important disclosures (continued)

25. Related party transactions (continued)

Subordinated liabilities

In March 2021, TSB Banking Group plc issued £300.0 million fixed-to-floating rate callable subordinated Tier 2 capital notes, due to mature in March 2031, to its parent company, Sabadell. These were issued at a price of 100% of the principal amount. The notes pay interest at a fixed rate of 3.449% per annum payable quarterly in arrears. TSB has the option to redeem these notes in March 2026, subject to approval of the PRA. Interest expense of £10.3 million (2024: £10.3 million) was recognised and £0.1 million was payable at 31 December 2025 (2024: £0.1 million).

Economic hedging of share based compensation liability

TSB holds forward purchase agreements with Sabadell to acquire 6.3 million (2024: 8.2 million) Sabadell shares to satisfy estimated requirements under various share based compensation arrangements. At 31 December 2025, this forward agreement had an asset fair value of £6.0 million (2024: asset fair value of £2.6 million) and TSB had received cash collateral from Sabadell of £5.9 million (2024: TSB had received cash collateral from Sabadell of £2.4 million).

Other transactions and balances

Sabadell acts as an intermediary for TSB in respect of international payments. TSB has nostro accounts as a result of this arrangement which had a net balance due from Sabadell of £11.2 million (2024: £7.7 million). Sabadell acts as guarantor to TSB's borrowings under the TFSME. Under this arrangement, guarantee fees of £1.3 million (2024: £5.5 million) were recognised and £0.3 million was payable at 31 December 2025 (2024: £0.9 million).

26. Property and equipment

	Property £ million	Equipment £ million	Right of use leasing asset £ million	Property
				Right of use leasing asset £ million
Cost				
At 1 January 2024	184.9	87.3	210.8	483.0
Additions	12.7	10.9	19.0	42.6
Disposals	(21.0)	(9.2)	(19.0)	(49.2)
Lease term remeasurement (note 27)	–	–	(2.7)	(2.7)
At 31 December 2024	176.6	89.0	208.1	473.7
Additions	9.7	12.4	0.7	22.8
Disposals	(1.5)	(2.7)	(0.7)	(4.9)
Lease term remeasurement (note 27)	–	–	0.1	0.1
At 31 December 2025	184.8	98.7	208.2	491.7
Accumulated depreciation				
At 1 January 2024	91.3	52.7	85.5	229.5
Depreciation charge for property and equipment (note 14)	18.3	12.3	–	30.6
Depreciation charge for right of use asset (note 14)	–	–	23.6	23.6
Disposals	(19.6)	(5.3)	(19.0)	(43.9)
At 31 December 2024	90.0	59.7	90.1	239.8
Depreciation charge for property and equipment (note 14)	14.5	8.4	–	22.9
Depreciation charge for right of use asset (note 14)	–	–	15.6	15.6
Disposals	(0.8)	(0.2)	(0.7)	(1.7)
At 31 December 2025	103.7	67.9	105.0	276.6
Carrying amount				
At 31 December 2024	86.6	29.3	118.0	233.9
At 31 December 2025	81.1	30.8	103.2	215.1

Property held for sale totalled £nil (2024: £0.4 million). The net book value represented the recoverable amount and no impairment was required.

Notes to the consolidated financial statements

Other important disclosures (continued)

27. Lease liabilities

TSB's leasing activity primarily reflects leases of various offices and bank branch properties. These lease arrangements will often contain renewal options and rent escalation clauses, although the effect of these is not material. The tables below set out details of the amounts recognised in the financial statements in respect of leases:

	Property 2025 £ million	Property 2024 £ million
Balance at 1 January	120.7	125.0
Additions	0.8	14.2
Lease term remeasurement	(0.1)	(2.7)
Interest expense for the year	2.6	3.0
Lease payments made in the year	(16.2)	(18.8)
Carrying amount at 31 December	107.8	120.7

28. Intangible assets

	2025 £ million	2024 £ million
Cost		
At 1 January	180.4	138.7
Additions	38.4	45.2
Disposals	–	(3.5)
At 31 December	218.8	180.4
Accumulated amortisation		
At 1 January	70.5	52.6
Amortisation charge for the year (note 14)	24.9	18.3
Disposals	–	(0.4)
At 31 December	95.4	70.5
Carrying amount	123.4	109.9

29. Other assets

	2025 £ million	2024 £ million
Prepayments	43.7	43.8
Accrued fee and commission income	13.9	21.9
Current tax asset	12.8	14.7
Amounts recoverable under customer remediation indemnity	0.8	7.9
Other	16.9	13.3
Total other assets	88.1	101.6

30. Provisions

	Conduct provisions £ million	Restructuring provisions £ million	Credit impairment provisions £ million	Dilapidations provisions £ million	Total £ million
At 1 January 2024	23.8	26.3	10.4	14.7	75.2
Charge/(credit) to income statement	2.1	8.4	(1.8)	(0.3)	8.4
Utilisation	(13.7)	(27.8)	–	(2.3)	(43.8)
At 31 December 2024	12.2	6.9	8.6	12.1	39.8
Charge/(credit) to income statement	0.7	2.8	(4.2)	(0.3)	(1.0)
Utilisation	(6.8)	(8.0)	–	(1.8)	(16.6)
At 31 December 2025	6.1	1.7	4.4	10.0	22.2

Notes to the consolidated financial statements

Other important disclosures (continued)

30. Provisions (continued)

Restructuring provisions

At 31 December 2025, a provision of £1.7 million (2024: £6.9 million) was carried in respect of restructuring activity designed to support delivery of TSB's strategy. The charge in 2025 of £2.8 million (and in 2024 of £8.4 million) includes the estimated costs of employee severance. The provision was substantially utilised during 2025 and the residual provision is expected to be utilised during 2026.

Conduct provisions

In the course of its business, TSB is engaged in discussions with regulators on a range of matters and also receives complaints in connection with its past conduct and claims brought by or on behalf of customers. Where significant, provisions are held against the costs expected to be incurred in relation to these matters.

Credit impairment provisions

Credit impairment provisions are in respect of off balance sheet lending commitments and primarily relates to provisions in respect of undrawn credit card limits and current account overdrafts. This provision is measured and managed as part of the overall assessment of expected credit losses. Sensitivity of total expected credit losses to alternative economic scenarios is set out in note 8 on pages 90 and 91.

Dilapidation provisions

Dilapidation provisions are in respect of estimated payments required to be made at the termination of property leases discounted at interest rates consistent with the various lease term end dates.

31. Other liabilities

	2025 £ million	2024 £ million
Amounts payable to Sabadell Group companies (note 25)	11.2	6.1
Accruals and deferred income	77.3	78.7
Share based payment liability	15.8	11.2
Current tax liability	0.4	-
Other creditors	67.9	69.0
Total other liabilities	172.6	165.0

32. Notes to the consolidated cash flow statement

The table below presents the change in liabilities arising from financing activities.

	Borrowings from central banks £ million	Debt securities in issue £ million	Additional Tier 1 securities £ million	Subordinated liabilities £ million	Non customer funding £ million
At 1 January 2024	4,057.9	3,664.1	—	277.7	7,999.7
Repayment of borrowings from central banks	(2,620.0)	—	—	—	(2,620.0)
Issue of covered bonds	—	926.1	—	—	926.1
Repayment of covered bonds	—	(500.0)	—	—	(500.0)
Issue of Additional Tier 1 securities	—	—	249.7	—	249.7
Issue of securitisation	—	498.3	—	—	498.3
Repayment of securitisation	—	(5.0)	—	—	(5.0)
Non-cash movements ⁽¹⁾	(31.0)	(0.3)	—	8.2	(23.1)
At 31 December 2024	1,406.9	4,583.2	249.7	285.9	6,525.7
Additional borrowings from central banks	5.0	—	—	—	5.0
Repayment of borrowings from central banks	(797.0)	—	—	—	(797.0)
Issue of covered bonds	—	495.5	—	—	495.5
Repayment of covered bonds	—	—	—	—	—
Issue of securitisation	—	—	—	—	—
Repayment of securitisation	—	(20.0)	—	—	(20.0)
Repayment of senior unsecured debt securities	—	(250.0)	—	—	(250.0)
Non-cash movements ⁽¹⁾	(16.0)	60.6	—	11.9	56.5
At 31 December 2025	598.9	4,869.3	249.7	297.8	6,015.7

(1) Non-cash movements reflect changes in accrued interest, unamortised premiums and discounts and, in respect of subordinated liabilities, micro fair value hedge accounting adjustments.

Notes to the consolidated financial statements

Other important disclosures (continued)

32. Notes to the consolidated cash flow statement (continued)

The following table presents further analysis of balances in the consolidated cash flow statement:

	Note	2025 £ million	2024 £ million
Decrease in loans to central banks		–	136.0
Increase in loans and advances to customers		(1.4)	(124.6)
Increase in reverse repurchase agreements		(62.0)	–
Decrease in other advances		63.3	79.3
Decrease in other assets		11.6	2.1
Increase in customer deposits		176.0	280.8
Decrease in other financial liabilities		(145.5)	(90.4)
Decrease in provisions		(13.4)	(33.5)
Increase/(decrease) in other liabilities		7.2	(6.7)
Change in operating assets and liabilities		35.8	243.0
Interest expense on financing activities		291.1	402.3
Interest income on investing activities		(63.4)	(63.2)
Net change in derivative financial instruments and fair value adjustments for portfolio hedged risk		135.2	263.0
Depreciation and amortisation		26,28	63.4
Net movement in allowance for credit impairment losses		18(iii)	(8.9)
Other non-cash items ⁽¹⁾		(60.3)	(120.9)
Non-cash and other items		357.1	522.0
Analysis of cash and cash equivalents as shown in the balance sheet			
Cash		71.2	77.3
Balances with central banks		4,119.1	4,738.5
On demand deposits		11.8	8.0
Cash, cash balances at central banks and other demand deposits		4,202.1	4,823.8
Loans and advances to credit institutions	7	305.2	277.8
Total cash and cash equivalents		4,507.3	5,101.6

(1) Other non-cash items includes foreign exchange increases on debt securities in issue of £45.3 million (2024: £14.5 million decrease) and lending written off of £72.6 million (2024: £72.0 million).

33. Approval of the consolidated financial statements

These consolidated financial statements were approved by the Board of Directors on 5 February 2026. The Company's ultimate parent company and ultimate controlling party is Banco de Sabadell, S.A. (incorporated in Spain), which is also the parent undertaking of the largest group of undertakings for which consolidated financial statements are drawn up and of which the Company is a member. Banco de Sabadell S.A. is the parent undertaking of the smallest such group of undertakings for which consolidated financial statements are drawn up and of which the Company is a member. Copies of the consolidated annual report and accounts of Banco de Sabadell, S.A. are expected to be available in due course from www.grupbancsabadell.com/en/.

Company balance sheet

As at 31 December 2025

Company Number: 08871766

		2025 Note	£ million	2024 £ million
Assets				
Non-current assets:				
Investments in subsidiaries	4(ii)	1,839.4		1,839.4
Loans to subsidiaries	4(iii)	952.5		1,204.3
				3,043.7
Current assets:				
Derivative financial assets	5	6.0		2.6
Amounts due from subsidiaries	4	17.3		308.0
Current tax asset		—		0.3
Total assets		2,815.2		3,354.6
Liabilities				
Non-current liabilities:				
Senior unsecured debt securities	4(iv)	652.4		904.2
Subordinated liabilities	2	300.1		300.1
Current liabilities:				
Other financial liabilities		5.8		2.4
Current tax liability		0.4		—
Total liabilities		958.7		1,206.7
Equity				
Share capital	3	5.0		5.0
Share premium	3	965.1		965.1
Other equity instruments	3	249.7		249.7
Merger reserve	3	616.5		616.5
Accumulated profits brought forward		311.6		127.5
Profit for the year		26.2		304.1
Distribution on other equity instruments		(17.6)		—
Dividends paid on ordinary shares		(300.0)		(120.0)
Total equity		1,856.5		2,147.9
Total equity and liabilities		2,815.2		3,354.6

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

No statement of comprehensive income has been shown for the Company, as permitted by section 408 of the Companies Act 2006.

The Company financial statements on pages 129 to 134 were approved by the Board of Directors on 5 February 2026 and signed on its behalf by:



Marc Armengol
Chief Executive

Company statement of changes in equity

for the year ended 31 December 2025

	Share capital £ million	Share premium £ million	Other equity instruments £ million	Merger reserve £ million	Retained profits/ £ million	Total equity £ million
Balance at 1 January 2024	5.0	965.1	–	616.5	127.5	1,714.1
Comprehensive income:						
Total comprehensive income for the year	–	–	–	–	304.1	304.1
Transactions with owners:						
Issue of Additional Tier 1 securities	–	–	249.7	–	–	249.7
Dividends paid on ordinary shares	–	–	–	–	(120.0)	(120.0)
Balance at 31 December 2024	5.0	965.1	249.7	616.5	311.6	2,147.9
Comprehensive income:						
Total comprehensive income for the year	–	–	–	–	26.2	26.2
Transactions with owners:						
Dividends paid on ordinary shares	–	–	–	–	(300.0)	(300.0)
Distributions on other equity instruments	–	–	–	–	(17.6)	(17.6)
Balance at 31 December 2025	5.0	965.1	249.7	616.5	20.2	1,856.5

Company cash flow statement

for the year ended 31 December 2025

The Company had no transactions that were required to go through the cash flow statement in the current and comparative period. Instead, the Company's main subsidiary, TSB Bank plc, makes and collects payments on behalf of the Company.

Notes to the Company financial statements

1. Basis of preparation

The financial statements of TSB Banking Group plc (the Company), a public limited company, limited by shares, with registered office 19th Floor, 8 Bishopsgate, London, EC2N 4BQ, have been prepared in accordance with UK adopted international accounting standards. The Company financial statements have been prepared under the historical cost convention as modified by the recognition of derivative financial instruments at fair value through profit or loss.

The accounting policies that are applicable to the Company are included in TSB's accounting policies and the following policy is also applicable.

Investments in subsidiaries

Investments in subsidiaries are initially recognised at cost and subsequently held at cost less any impairment charge. An impairment charge is recognised when the carrying amount of the investment exceeds its recoverable amount.

2. Subordinated liabilities

	2025 £ million	2024 £ million
Fixed-to-floating rate callable subordinated Tier 2 capital notes, due March 2031	300.0	300.0
Accrued interest	0.1	0.1
Total subordinated liabilities	300.1	300.1

In March 2021, the Company issued £300.0 million fixed-to-floating rate callable subordinated Tier 2 capital notes, due to mature in March 2031, to its parent company, Sabadell. These were issued at a price of 100% of the principal amount. The notes pay interest at a fixed rate of 3.449% per annum payable quarterly in arrears until March 2026, at which time the interest rate becomes SONIA plus 3.05% per annum payable quarterly in arrears. The Company has the option to redeem these notes in March 2026, subject to approval by the PRA.

3. Share capital, share premium and merger reserve

Details of the Company's share capital, share premium, other equity instruments and merger reserve are set out in note 22 to the consolidated financial statements.

4. Related party transactions

The Company enters into transactions with related parties in the normal course of its business. The sections below detail, on an aggregated basis, related party transactions, balances outstanding at the year end and related income.

(i) Key management personnel

The key management personnel of the Company are the same as those of the consolidated TSB group. The relevant disclosures are set out in note 25 to the consolidated financial statements.

(ii) Investment in subsidiaries

The Company's only legal subsidiary undertaking is TSB Bank plc, a banking business incorporated and registered in Scotland whose registered office is Henry Duncan House, 120 George Street, Edinburgh, EH2 4LH. The Company holds 100% of the ordinary share capital and voting rights of TSB Bank plc and carried this investment at its cost of £1,839.4 million (2024: £1,839.4 million).

The following entities are accounted for as subsidiary companies of TSB Bank plc as it exercises control of each entity under IFRS 10 *Consolidated Financial Statements*:

Registered office: 1 Bartholomew Lane, London, United Kingdom, EC2N 2AX

- TSB Covered Bonds LLP;
- TSB Covered Bonds (LM) Limited; and
- TSB Covered Bonds (Holdings) Limited.

Registered office: 10th Floor, 5 Churchill Place, London, United Kingdom, E14 5HU

- Duncan Holdings 2022-1 Limited (and its subsidiary Duncan Funding 2022-1 plc).
- Duncan Holdings 2024-1 Limited (and its subsidiary Duncan Funding 2024-1 plc).

TSB Banking Group plc Employee Share Trust is accounted for as a subsidiary of the Company and the registered office of this entity is 26 New Street, St Helier, Jersey, JE 3RA.

Notes to the Company financial statements

4. Related party transactions (continued)

(iii) Loans to subsidiaries

	2025 £ million	2024 £ million
Loans to subsidiaries	950.0	1,200.0
Accrued interest	2.5	4.3
Total loans to subsidiaries	952.5	1,204.3

In December 2023, the Company subscribed for £200.0 million of floating rate notes due December 2028 issued by its principal subsidiary TSB Bank plc. In December 2022, the Company subscribed for £250.0 million of floating rate notes issued by TSB Bank plc, which were called in December 2025 in line with first call date as per terms and conditions. In June 2022, the Company subscribed for £450.0 million of floating rate notes due June 2027 issued by TSB Bank plc.

The allowance for credit impairment losses on these IFRS 9 stage 1 loans was immaterial (2024: immaterial).

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

	2025 £ million	2024 £ million
Senior unsecured floating rate notes, due June 2027	450.0	450.0
Senior unsecured floating rate notes, due December 2026	–	250.0
Senior unsecured floating rate notes, due December 2028	200.0	200.0
Accrued interest	2.4	4.2
Total subordinated liabilities	652.4	904.2

In December 2025, £250.0 million floating rate notes, issued in December 2022 to the Company's parent company, Sabadell, and due to mature in December 2026, were redeemed at 100% of the principal amount.

In December 2022, the Company issued £250.0 million floating rate notes, due to mature in December 2026, to Sabadell, to satisfy MREL requirements. These were issued at a price of 100% of the principal amount. The notes pay interest at SONIA plus 3.4% payable quarterly in arrears. The Company has the option to redeem these notes in December 2025, subject to approval of the PRA.

In June 2022, the Company issued £450.0 million floating rate notes, due to mature in June 2027, to Sabadell, to satisfy MREL requirements. These were issued at a price of 100% of the principal amount. The notes pay interest at SONIA plus 2.45% payable quarterly in arrears. The Company has the option to redeem these notes in June 2026, subject to approval of the PRA.

(v) Other related party transactions

Other equity instruments – Additional Tier 1 securities

In December 2024, TSB Banking Group plc issued £250.0 million of Fixed Rate Reset Additional Tier 1 Perpetual Non-Cumulative Contingent Convertible Securities to its parent company, Banco de Sabadell, S.A. These pay interest at a fixed rate of 8.75% per annum payable semi-annually in arrears.

Dividends paid on ordinary shares

Following a change to the Board approved dividend policy in July 2025, no dividends have been declared by TSB Bank plc in respect of 2025, and the Board have not recommended any dividends to be paid by the Company to its sole shareholder.

In December 2024, TSB Bank plc declared a dividend of £300.0 million, which was recognised as income by the Company. This amount was recognised as an amount due from subsidiary on the balance sheet. This resulted in the Company having distributable reserves of £309.7 million at 31 December 2024 from which a final dividend of £300.0 million was approved at the Annual General Meeting and paid to the Company's sole shareholder in February 2025.

Notes to the Company financial statements

4. Related party transactions (continued)

(v) Other related party transactions (continued)

At 31 December 2025, amounts due from subsidiary companies were £17.3 million (2024: £308.0 million). In 2024, this primarily reflected amounts due from TSB Bank plc in respect of interim dividends, and as noted on page 132, following a change to the Board approved dividend policy, no dividends have been declared by TSB Bank plc in respect of 2025.

The Company holds forward purchase agreements with Sabadell to acquire 6.3 million (2024: 8.2 million) Sabadell shares to satisfy estimated requirements under various share based compensation arrangements. This forward agreement had an asset fair value of £6.0 million (2024: asset fair value of £2.6 million) and TSB Banking Group plc had received cash collateral from Sabadell of £5.9 million (2024: received cash collateral of £2.4 million).

5. Financial instruments

(i) Measurement basis of financial instruments

The following table analyses the carrying amounts of the Company's financial instruments:

	At fair value through profit or loss £ million	Financial assets at amortised cost £ million	Held at amortised cost £ million	Total £ million
At 31 December 2025				
Financial assets				
Loans to subsidiaries	–	952.5	–	952.5
Derivative financial assets	6.0	–	–	6.0
Total financial assets	6.0	952.5	–	958.5
Financial liabilities				
Debt securities in issue	–	–	(652.4)	(652.4)
Subordinated liabilities	–	–	(300.1)	(300.1)
Total financial liabilities	–	–	(952.5)	(952.5)
At 31 December 2024				
Financial assets				
Loans to subsidiaries	–	1,204.3	–	1,204.3
Derivative financial assets	2.6	–	–	2.6
Total financial assets	2.6	1,204.3	–	1,206.9
Financial liabilities				
Debt securities in issue	–	–	(904.2)	(904.2)
Subordinated liabilities	–	–	(300.1)	(300.1)
Total financial liabilities	–	–	(1,204.3)	(1,204.3)

(ii) Fair value of financial instruments

The table below analyses the fair values, and valuation hierarchy, of the financial assets and liabilities of the Company. The valuation techniques for the Company's financial assets and liabilities are set out in notes 5 and 10 to the consolidated financial statements.

	Level 1 £ million	Level 2 £ million	Level 3 £ million	Total fair value £ million	Total carrying value £ million
At 31 December 2025					
Financial assets					
Loans to subsidiaries	–	966.8	–	966.8	952.5
Derivative financial assets	–	6.0	–	6.0	6.0
Financial liabilities					
Debt securities in issue	–	(666.5)	–	(666.5)	(652.4)
Subordinated liabilities	–	(300.2)	–	(300.2)	(300.1)
At 31 December 2024					
Financial assets					
Loans to subsidiaries	–	1,193.1	–	1,193.1	1,204.3
Derivative financial assets	–	2.6	–	2.6	2.6
Financial liabilities					
Debt securities in issue	–	(913.8)	–	(913.8)	(904.2)
Subordinated liabilities	–	(279.3)	–	(279.3)	(300.1)

Notes to the Company financial statements

5. Financial instruments (continued)

(iii) Credit risk

Credit risk arises from amounts due from its wholly owned subsidiary, TSB Bank plc. At 31 December 2025, the allowance for expected credit losses was immaterial (2024: immaterial).

(iv) Liquidity risk

The table below analyses the financial liabilities of the Company by relevant contractual maturity grouping on an undiscounted future cash flow basis based on the remaining period at the balance sheet date.

	No contractual maturity £ million	Up to 1 month £ million	1-3 months £ million	3-12 months £ million	1-5 years £ million	Over 5 years £ million	Total £ million
At 31 December 2025							
Debt securities in issue	–	–	10.2	467.3	227.0	–	704.5
Subordinated liabilities	–	–	302.6	–	–	–	302.6
Total non-derivative financial liabilities	–	–	312.8	467.3	227.0	–	1,007.1
At 31 December 2024							
Debt securities in issue	–	–	18.6	50.8	1,005.6	–	1,075.0
Subordinated liabilities	–	–	2.6	7.8	302.5	–	312.9
Total non-derivative financial liabilities	–	–	21.2	58.6	1,308.1	–	1,387.9

Independent auditor's report to the members of TSB Banking Group plc

1 Our opinion is unmodified

We have audited the Group and parent Company financial statements of TSB Banking Group plc ('the Company' or 'the parent Company') for the year ended 31 December 2025 which comprise the Consolidated balance sheet, Consolidated statement of comprehensive income, Consolidated statement of changes in equity, Consolidated cash flow statement, Company balance sheet, Company statement of changes in equity, Company cash flow statement, and the related notes, including the accounting policies.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2025 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent Company financial statements have been properly prepared in accordance with UK-adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

We were first appointed as auditor by the shareholder on 5 May 2020. The period of total uninterrupted engagement is for the six financial years ended 31 December 2025. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters (unchanged from 2024), in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

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

The risk	Our response	
<p>Expected credit losses ('ECL') on loans and advances to customers</p> <p>Risk vs 2024: </p> <p>31 December 2025: £175.6 million</p> <p>(31 December 2024: £188.7 million)</p> <p>Refer to page 58 (Audit Committee report); and note 8 (accounting policy and financial disclosures) and note 30 (provisions)</p>	<p>Subjective estimate The measurement of ECL on loans and advances to customers involves significant judgements and estimates. During the year a new secured ECL model was implemented which introduced new methodology, calibration and implementation risks. The new secured ECL model also means there is reduced dependency on qualitative adjustments in 2025. In the current year, we therefore marginally increased our assessed risk versus 2024.</p> <p>The key areas where we identified greater levels of judgement and therefore increased levels of audit focus in the Group's estimation of ECL were:</p> <p>Economic scenarios: IFRS 9 requires the Group to measure ECL on a forward-looking basis reflecting a range of future economic conditions. Significant management judgement is applied to determine the economic scenarios used, particularly in the context of the current macroeconomic uncertainties, and the probability weightings assigned to each economic scenario.</p> <p>Qualitative adjustments: adjustments to the model-driven ECL results are raised by management to address issues relating to model limitations, model responsiveness or emerging trends including current macroeconomic uncertainties. The level of qualitative adjustments has reduced due to the implementation of the new secured ECL model during the year, however, significant judgement and uncertainty is involved in assessing the completeness and appropriateness of the qualitative adjustments.</p> <p>Significant Increase in Credit Risk ('SICR'): the criteria selected to identify a significant increase in credit risk is a key area of judgement within the Group's ECL calculation as these criteria determine whether a 12 month or lifetime loss is recorded.</p> <p>Model estimations: inherently judgemental modelling is used to estimate ECLs which involves determining Probabilities of Default ('PD'), Loss Given Default ('LGD') and Exposures at Default ('EAD'). The LGD model used in the secured portfolio and the PD models used in the unsecured portfolios are the key drivers of the Group's ECL results and are therefore the most significant judgemental aspects of the Group's ECL modelling approach.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the ECL on loans and advances to customers has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.</p> <p>In addition, the disclosures regarding the Group's application of IFRS 9 are key to explaining the key judgements and material inputs to the IFRS 9 results.</p> <p>As a consequence of the inherent estimation uncertainty arising from the economic scenarios and qualitative adjustments elements of the above risk, we have identified both these areas to have a specific fraud risk.</p>	<p>We performed the following audit procedures rather than seeking to rely on the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.</p> <p>Our procedures included:</p> <p>Test of details: We recalculated the ECL measured for each of TSB's loan portfolios. We performed testing over key inputs, data and assumptions to assess the reasonableness of key aspects of the ECL calculations.</p> <p>Our economic scenario expertise: We involved our own economic specialists to assist us in assessing the appropriateness of the Group's methodology for determining the economic scenarios used and the probability weightings applied to them. We assessed the overall reasonableness of the economic scenarios in the context of the current macroeconomic environment by comparing the Group's scenarios to our own modelled scenarios.</p> <p>Qualitative adjustments: For each of the significant adjustments to the model-driven ECL results, we assessed the reasonableness of the adjustments by evaluating the key assumptions, inspecting the calculation methodology, tracing a sample of data used back to source data, and recalculating the qualitative adjustments. We also assessed the completeness of qualitative adjustments recognised including in response to model limitations, data limitations and the current macroeconomic outlook.</p> <p>SICR: We assessed the ongoing effectiveness of the SICR criteria and independently calculated the loans' stage for the Group's loans and advances.</p> <p>Our financial risk modelling expertise: We involved our own financial risk modelling specialists in evaluating the Group's IFRS 9 models, including model development testing over the new secured ECL model. We used our knowledge of the Group and our experience of the industry that the Group operates in to independently challenge the appropriateness of the Group's IFRS 9 models.</p> <p>Assessing transparency: We evaluated whether the disclosures appropriately reflect and address the uncertainty which exists when determining the Group's overall ECL including in the context of the current macroeconomic environment. As part of this, we assessed the sensitivity analysis that is disclosed. In addition, we challenged whether the disclosure of the key judgements and assumptions made was sufficiently clear.</p> <p>Our results The results of our testing were satisfactory, and we considered the ECL provision recognised and the related disclosures to be acceptable (2024: acceptable).</p>

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

<p>IT access, change management and operations</p> <p>Risk vs 2024: </p> <p>Refer to page 59 (Audit Committee report)</p>	<p>Control performance, data capture and integrity</p> <p>The Group has historical issues with the design and implementation of controls within the Group's general IT control ('GITC') environment, specifically in relation to user access and change management.</p> <p>The Group has continued to implement the multi-year IT control remediation project that was established in 2022. Management has started to operate certain IT controls over user access and change management with a number of new controls being implemented part way through the year.</p> <p>The risk is therefore reducing in comparison to the prior year due to the progress made by management on the Group's remediation project, although some significant GITCs are still being remediated within IT access, change management and operations.</p> <p>The Group's accounting and reporting processes are dependent on automated controls ("ACs"), such as, data feeds or automated calculations, enabled by IT systems. These are then supported by GITCs, covering areas such as user access, change management and batch processing, which support the integrity of the Group's IT systems.</p> <p>There is a risk that, if the GITCs are not effective, inappropriate access could be gained to IT applications and subsequent unauthorised changes made to the application or the related ACs.</p> <p>In addition, GITCs that are not effective could also affect the integrity of data stored on the IT systems and the effectiveness of automated and manual controls that use this data.</p>	<p>Our procedures included:</p> <p>Risk assessment: We performed a risk assessment of the GITC environment and the progress being made by the Group on its multi-year IT control remediation project. We assessed the results of management's own control testing and their identified deficiencies, noting more controls were found to be effective compared to the prior year. We also tested the design of a sub-population of GITCs to determine the impact on our audit plan. We concluded we would not place reliance on GITCs in 2025. This was due to a number of controls within IT access and change management only being implemented part way through the year and some significant GITCs still undergoing remediation</p> <p>Control testing: We tested the design and implementation of relevant ACs relating to the posting of journals.</p> <p>Extended scope: As a result of the decision made to not test GITCs, we assessed what additional testing procedures were necessary to mitigate any residual risk, including:</p> <ul style="list-style-type: none"> Whilst we were not able to rely on the associated GITCs, we decided to continue to place reliance on certain ACs by increasing the frequency with which we manually tested the operation of these ACs subject to audit from once to multiple times throughout the period. We performed incremental substantive procedures to address the same process risk as the relevant ACs. <p>Our results</p> <p>We identified certain ACs were effective and so we placed reliance on them in our audit as a result of the additional testing performed as detailed above (which is consistent with prior periods).</p> <p>For the remainder, we were not able to rely on the ACs, however, through the performance of the incremental procedures set out above, we have been able to reduce the audit risk relating to IT access, change management and operations to an acceptable level. (2024: same outcome).</p> <p>With regard to automated controls, we did not identify any significant deficiencies or material errors in the relevant data elements that we tested (2024: same outcome).</p>
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Independent auditor's report to the members of TSB Banking Group plc (continued)

Recoverability of investment in subsidiary (parent Company only)	Recoverability of investment	We performed the following procedures rather than seeking to rely on the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.
Risk vs 2024: 	The carrying amount (£1,839.4 million) of the parent Company's investment in its subsidiary, TSB Bank plc, is significant.	Our procedures included:
31 December 2025: £1,839.4 million	During the year, a proposed transaction to sell the parent Company to Santander was agreed, subject to certain conditions, including multiple regulatory approvals. The consideration for the proposed transaction is £2,650 million plus the increase in tangible net assets of the Group between 1 April 2025 and the transaction closing date (which is not yet certain) – this is greater than the carrying amount.	Benchmarking assumptions: We compared the parent Company's assumptions for key inputs to the impairment assessment such as discount rates to externally derived data.
31 December 2024: £1,839.4 million	The risk associated with the recoverability of the investment in subsidiary is therefore reducing and is not at a significant inherent risk of misstatement or subject to significant judgement. However, due to its materiality in the context of the parent Company financial statements, this area has the greatest effect on our overall parent Company audit. .	Our business understanding: We used our business understanding to evaluate the reasonableness of certain key assumptions and considerations made when developing the Group's Medium-Term Plan ('MTP') estimated future cash flows. We considered the impact of the Group's stress scenarios and its impact on the estimated future cash flows and the recoverability of the investment. Historical comparisons: We assessed the reasonableness of the MTP by considering the historical accuracy of the previous estimated future cash flows. Comparing valuations: We compared the carrying amount of the parent company's investment in its subsidiary, with the expected net proceeds from the proposed transaction. Our results We found the parent Company's conclusion that there is no impairment of its investment in subsidiary to be acceptable (2024: acceptable).

3 Our application of materiality and an overview of the scope of our audit

Our application of materiality

Materiality for the Group financial statements as a whole was set at £12.4 million (2024: £11.0 million), determined with reference to a benchmark of Group profit before tax, normalised in 2025 to exclude an indemnity recovery of £29.7m as disclosed in note 13, of which it represents 3.9% (2024: 4.1%) of normalised Group profit before tax. We adjusted for this item in 2025 because it does not represent the normal, continuing operations of the Group.

Materiality for the parent Company financial statements as a whole was set at £12.4 million (2024: £11.0 million), determined with reference to a benchmark of Company total assets, of which it represents 0.44% (2024: 0.33%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 65% (2024: 65%) of materiality for the financial statements as a whole, which equates to £8.06 million (2024: £7.15 million) for the Group and £8.06 million (2024: £7.15 million) for the parent Company. We applied this percentage in our determination of performance materiality based on the known General IT control deficiencies and the Group's ongoing remediation of the IT control environment.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.62 million (2024: £0.55 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

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

3 Our application of materiality and an overview of the scope of our audit (continued)

Overview of the scope of our audit

We identified the group as a whole to be a single component, having considered our evaluation of the Group's operational structure, the Group's legal structure, the existence of common information systems, and our ability to perform audit procedures centrally.

Accordingly, we performed audit procedures on the single component, using the Group materiality levels set out above.

Impact of controls on our audit

The scope of the audit work performed was predominately substantive as we placed limited reliance upon the Group's internal control over financial reporting.

4 Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for a period of 12 months from the date of approval of the financial statements ("the going concern assessment period").

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern assessment period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were:

- the availability of funding and liquidity in the event of a market wide stress scenario; and
- the impact on regulatory capital in the event of an economic slowdown or recession.

We considered whether these risks could plausibly affect the regulatory capital and liquidity in the going concern assessment period by comparing severe, but plausible downside scenarios that could arise from these risks individually and collectively against the level of available financial resources indicated by the Group's financial forecasts. We considered whether the going concern disclosure on page 71 of the financial statements gives a full and accurate description of the directors' assessment of going concern.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern assessment period; and
- we found the going concern disclosure on page 71 (Basis of Preparation) to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Company will continue in operation.

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

5 Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, Internal Audit and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud;
- Reading Board, Audit Committee, and Risk Committee minutes;
- Considering remuneration incentive schemes and performance targets for management and directors;
- Using analytical procedures to identify any unusual or unexpected relationships; and
- Discussion with our own forensic professionals regarding the identified fraud risks and the design of audit procedures planned in response to these.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that Group management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as expected credit losses on loans and advances to customers. On this audit we do not believe there is a fraud risk related to revenue recognition because there is limited complexity in the calculation and recognition of revenue.

We also identified a fraud risk related to estimation of expected credit losses, specifically relating to economic scenarios and qualitative adjustments in response to significant estimation that involves subjective judgements or are inherently uncertain.

Further detail in respect of expected credit losses is set out in the key audit matter disclosures in section 2 of this report.

We also performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by individuals with privileged access and entries posted to unusual ledger codes; and
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

Identifying and responding to risks of material misstatement related to compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

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

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's license to operate. We identified the following areas as those most likely to have such an effect: specific areas of regulatory capital and liquidity, conduct, money laundering and financial crime, and certain aspects of company legislation recognising the financial and regulated nature of the Group's activities and their legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

For the conduct matter discussed in note 24 we assessed the disclosures against our understanding from inquiries of internal counsel and external counsel opinion.

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

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6 We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

7 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

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

8 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on pages 64-65, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

9 The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

**Alexander Snook (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor**
Chartered Accountants
15 Canada Square
London
E14 5GL
5 February 2026

Glossary

Allowance for credit impairment losses	Provisions held on the balance sheet as a result of raising a charge against profit for expected credit losses in the loan book. The allowance may be either individual or collective.
Arrears	A customer is in arrears when they are behind in fulfilling their obligations with the result that an outstanding loan is unpaid or overdue. Such a customer is also said to be in a state of delinquency and the entire outstanding balance is delinquent.
Basel III	The capital reforms and introduction of a global liquidity standard proposed by the Basel Committee on Banking Supervision in 2010 and due to be phased in, through CRD IV, from 1 January 2015 onward. This was further enhanced in December 2017 to refine the capital framework and introduce new elements including the output capital floor. These revisions will come into force in the UK between 1 January 2025 and 1 January 2030.
Basis point (bps)	One hundredth of a per cent (0.01 per cent). 100 basis points is 1 per cent. Used in quoting movements in interest rates.
Common Equity Tier 1 (CET1) capital	The highest quality form of regulatory capital under CRD IV that comprises common shares issued and related share premium, retained earnings and other reserves less specified regulatory adjustments.
Common Equity Tier 1 capital ratio	Common Equity Tier 1 capital as a percentage of risk-weighted assets.
Contractual maturities	Contractual maturity refers to the final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal will be repaid and interest is due to be paid.
Coverage ratio	Impairment allowance as a percentage of impaired loans.
Customer deposits	Money deposited by account holders. Such funds are recorded as liabilities of TSB.
Encumbrance	The use of assets to secure liabilities, such as by way of a lien or charge.
Exposure at default	Exposure at default (EAD) represents the estimated exposure to a customer in the event of default. In determining EAD amounts, consideration is made of the extent to which undrawn commitments may be drawn down at the point of default and the application of credit risk mitigation (i.e. eligible financial collateral).
Forbearance	Forbearance takes place when a concession is made on the contractual terms of a loan in response to an obligor's financial difficulties.
Internal Capital Adequacy Assessment Process (ICAAP)	TSB's own assessment of the amount and type of capital it considers adequate to cover the level and nature of the risks to which it is or might be exposed.
Internal Liquidity Adequacy Assessment Process (ILAAP)	TSB's own assessment of the adequacy of its liquidity and funding resources to cover the level and nature of risks to which it is or might be exposed.
Internal Ratings-Based approach (IRB)	A methodology of estimating the credit risk within a portfolio by utilising internal risk parameters to calculate credit risk regulatory capital requirements. There are two approaches to IRB: Foundation IRB and Advanced IRB.
Leverage ratio	Tier 1 capital divided by the exposure measure. Basel III reforms introduced a leverage ratio framework designed to reinforce risk based capital requirements with a simple, transparent, non-risk based 'backstop' measure.
Liquidity Coverage Ratio (LCR)	Measures the percentage of high quality liquid assets relative to expected net cash outflows over a 30 day stress period. High quality liquid assets should be unencumbered, liquid in markets during a time of stress and, ideally, be central bank eligible.
Loan to deposit ratio	The ratio of loans and advances to customers net of allowance for impairment losses divided by customer deposits.
Loan-to-value ratio (LTV)	The LTV ratio is a mathematical calculation which expresses the amount of a mortgage balance outstanding as a percentage of the total appraised value of the property. A high LTV indicates that there is less value to protect the lender against house price falls or increases in the loan if repayments are not made and interest is added to the outstanding balance of the loan.

Glossary (continued)

Loss given default	Loss given default (LGD) represents the estimated proportion of an EAD amount that will be lost in the event of default. It is calculated after taking account of credit risk mitigation and includes the cost of recovery.
Master netting agreement	An agreement between two counterparties that have multiple derivative contracts with each other that provides for the net settlement of all contracts through a single payment, in a single currency, in the event of default on, or termination of, any one contract.
Migration	In April 2018, TSB completed its phased migration onto a new IT platform built by Sabis, a subsidiary of TSB's parent company, Sabadell. The new IT platform covers all customer systems and channels as well as all back office systems.
Net interest income	The difference between revenues earned by interest-earning assets and the cost of interest-bearing liabilities.
Net interest margin	Net interest margin is net interest income as a percentage of average interest-earning assets.
Net Promoter Score (NPS)	NPS is based on the question "On a scale of 0-10, where 0 is not at all likely and 10 is extremely likely, how likely is it that you would recommend TSB to a friend or colleague?" NPS is the percentage of TSB customers who score 9-10 after subtracting the percentage who score 0-6.
Pillar 3	The third pillar of the Basel III framework aims to encourage market discipline by setting out disclosure requirements for banks on their capital, risk exposures and risk assessment processes. These disclosures are aimed at improving the information made available to the market.
Probability of default	Probability of default (PD) represents an estimate of the likelihood that a customer will default on their obligation within a 12 month time horizon.
Repurchase agreements	Short-term funding agreements which allow a borrower to sell a financial asset as collateral for cash. As part of the agreement the borrower agrees to repurchase the security at some later date, usually less than 30 days, repaying the proceeds of the loan.
Risk-weighted assets	A measure of a bank's assets adjusted for their associated risks. Risk weightings are established in accordance with the Basel Capital Accord as implemented by the PRA.
Sabadell	Banco de Sabadell, S.A. This is TSB Banking Group plc's parent company.
Scope 1	Direct emissions from owned or controlled sources. This includes emissions from company facilities and vehicles.
Scope 2	Indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed by the reporting company.
Scope 3	All other indirect emissions (classified into 15 categories) that occur in the reporting company's value chain. This includes both upstream and downstream emission, such as those from purchased goods and services, business travel, waste disposal and the use of sold products.
Securitisation	Securitisation is a process by which a group of assets, usually loans, are aggregated into a pool, which is used to back the issuance of new securities.
Standardised approach	The Standardised approach to calculating credit risk capital requirements requires the use of a standard set of risk weights prescribed by the regulator. Use may be made of external credit ratings supplied by external credit assessment institutions to assign risk weights to exposures. Standardised approaches, following prescribed methodologies, also exist for calculating market risk and operational risk capital requirements.
Subordinated liabilities	Liabilities which, in the event of insolvency or liquidation of the issuer, are subordinated to the claims of depositors and other creditors of the issuer.
Tier 1 capital	A measure of a bank's financial strength defined by CRD IV. It captures Common Equity Tier 1 capital plus other Tier 1 securities in issue, subject to deductions.
Tier 1 capital ratio	Tier 1 capital as a percentage of risk-weighted assets.
Tier 2 capital	A component of regulatory capital defined by CRD IV, mainly comprising qualifying subordinated debt capital and eligible collective impairment allowances, subject to deductions.
Whistletree	A separate portfolio of former Northern Rock mortgages and unsecured loans which was acquired by TSB in 2015.

Abbreviations

BPS	Basis points
CET1	Common Equity Tier 1
CRD IV	Capital Requirements Directive IV
ECL	Expected credit losses
EIR	Effective interest rate
FCA	Financial Conduct Authority
FVOCI	Fair value through other comprehensive income
HMRC	His Majesty's Revenue and Customs
IAS	International Accounting Standards
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
IRB	Internal ratings based approach
LCR	Liquidity coverage ratio
LTIP	Long Term Incentive Plan
LTV	Loan to value
MEES	Minimum Energy Efficiency Standard
MREL	Minimum Requirement for Eligible Liabilities
NPS	Net promoter score
NZBA	Net Zero Banking Alliance
PCA	Personal current account
POCI	Purchased or originated credit impaired
PRA	Prudential Regulation Authority
SECR	Streamlined Energy and Carbon Reporting Regulations
SME	Small and medium sized businesses
TFSME	Term Funding Scheme with additional incentives for SMEs
VPA	Variable Pay Award

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