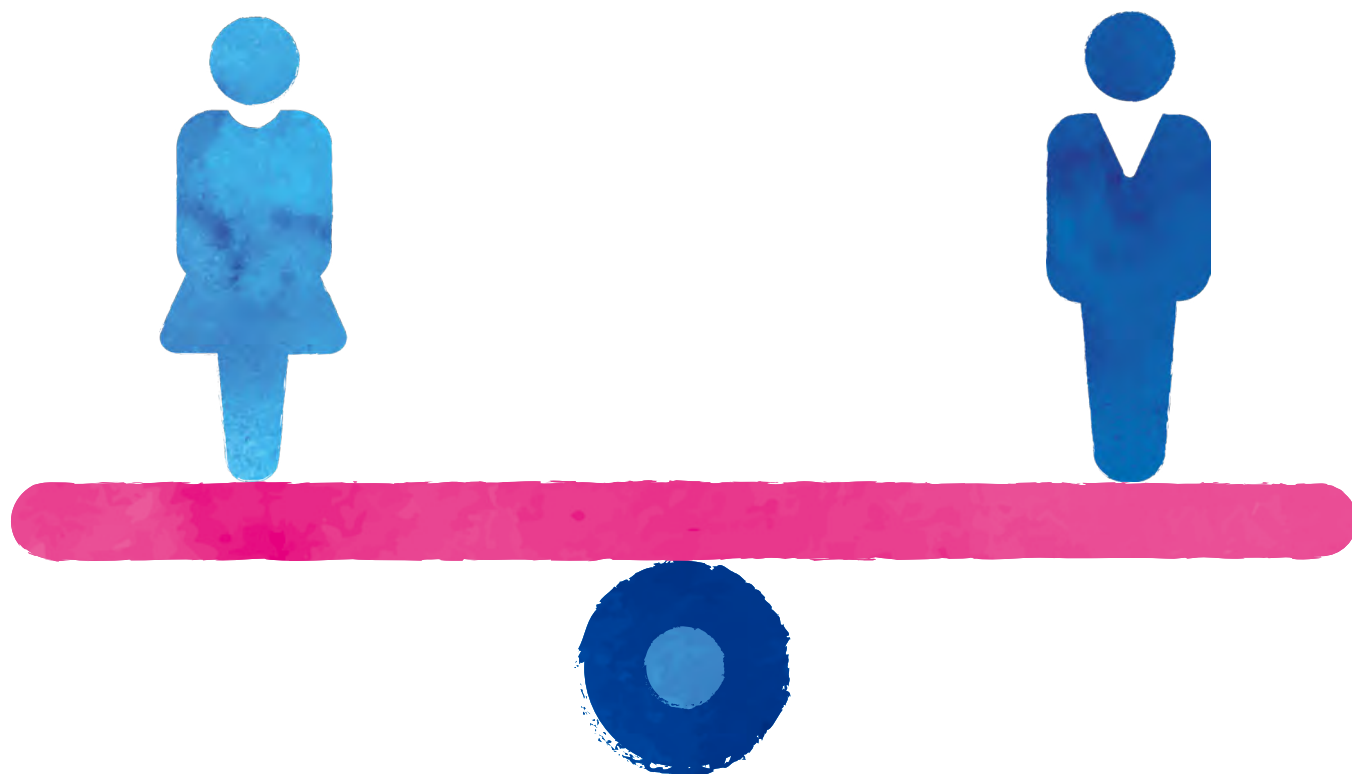


Truth and Banking
Gender

Gender balance matters.



Local banking
for Britain



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Foreword.



At TSB, we believe that businesses need to reflect the communities they serve. Only then, will they build the right business models, with the right culture, that truly delivers for customers.

This year, for the first time, the UK Government is requiring companies to report on their gender pay gap – the difference between the average amount that women and men are paid across the total workforce.

This is an incredibly important step forward because if companies are transparent about pay, and analyse this data to identify the root causes of any pay gap, they can find the solutions they need to build businesses that work for their employees and reflect the communities they serve.

But if companies only look at the top-line figure, a golden opportunity to create a more diverse and inclusive workforce could be missed.

That is why TSB is tackling gender imbalance head-on and is calling for all UK businesses to adopt three relatively straightforward principles, which we believe will go a long way to building a sustainable gender balanced workplace that lasts for the long-term.

1.

Businesses must come clean on the reasons for their gender pay gap

Businesses shouldn't just report on the figures, they need to identify the root cause. At TSB this means analysing the data to identify the impact pay differences and the composition of our workforce has on our gender pay gap.

2.

Businesses must act to address the causes of their pay gaps

We believe that all businesses should share three signature actions to address the key reasons for their pay gap. At TSB, this means taking steps to ensure gender balance in senior roles.

3.

Businesses must be held to account on the progress they are making

Businesses should report annually on those signature actions and include within their report, over time, a rolling five year trend which shows the progress they are making. TSB is committed to doing this.

TSB has a long-term commitment to diversity, inclusion and gender balance at every level and in every part of the business, but this is not about promoting one group of people above another. At TSB we want everybody to have the opportunity to thrive.

At TSB we have a mean gender pay gap of 31%. Whilst we know that our gender pay gap is better than the indicative financial services industry average, it is still much higher than the national average.¹

That is why we wanted to analyse this figure to work out what is driving it and what we need to do about it.

And we are confident that at TSB our gender pay gap isn't a pay issue, with just one percentage point due to the difference in pay between men and women within the same grade. The rest of the pay gap is instead driven by the shape of our workforce because we have significantly more women (69%) than men (31%) in non-senior management roles, whilst at the same time, we have a higher number of men (59%) than women (41%) in our senior management roles.

From day one, TSB has been committed to building a gender balanced bank, and we are proud of the progress we are making:

- Not only have we hit the Government's target for 33% of boards to be made up of women, we've exceeded it with a board that is 40% female.
- Despite not being a FTSE 100 company, we have already met the Hampton-Alexander target for executives and their direct reports to be 33% female. Only 19 FTSE 100 companies have met this target to date and so far TSB is the only bank to achieve this².
- As part of our commitment to the HM Treasury's Women in Finance Charter, we have made a commitment to have between 45-55% of all senior roles at TSB held by women. We've already grown the proportion of female partners in senior roles from 37% to 41%.

But there is still more that we can do to improve gender diversity at TSB, which is why we are launching a range of new programmes to ensure that we have balance at every level of the business.

And if all businesses follow suit and go beyond the simple publishing of the numbers, this will help lead to a workplace environment where the gender pay gap becomes a thing of the past. If companies are transparent about gender pay and the root causes behind any gap, they can find the solutions they need to build businesses that work for their employees and reflect the communities they serve.



Helen Rose
Chief Operating Officer

Why gender balance matters in the workplace.



Business and society as whole still suffers from an unconscious bias that sees women, on average, in less senior roles and earning less than their male counterparts. It's changing, but the pace of change is too slow.

Despite making up just over 52% of the workforce³ in 2017, women held only 23% of board seats and 17% of the executive roles in UK listed companies. What is worse is that these figures haven't shifted in two years. Amongst the financial services industry the figures are even starker, with just 14% of women in executive roles. The industry also suffers from the largest gender pay gap of any industry in the UK⁴.

Part of the problem is that many talented women leave financial services due to the culture. Despite efforts by companies, studies have found that women are still affected by unconscious bias, expectations, and practices which have been created by predominantly male executives over many decades.⁵ These create barriers for women reaching senior management and subsequently force many to leave the industry.

At TSB, we recognise that businesses with the right models, with workforces that reflect society, will instil a long term culture that truly delivers for customers. As the Governor of the Bank of England, Mark Carney notes, "sustained emphasis on diversity in hiring and development programmes promotes improved values throughout an institution and acts as a catalyst to sustained behavioural change"⁶.

But building an inclusive culture isn't just the right thing to do; it's fundamentally good business sense.

Companies with gender balanced boards have been proven to deliver higher returns than those with boards dominated by men⁷. But what is more is that companies with a truly inclusive culture at every level of the business have been found to break group think and better understand customer need, resulting in higher customer share⁸.

Given this, it's clear that businesses, particularly in financial services, need to do more to achieve gender balance. Only when companies reflect society will they be able to build a long-term sustainable culture that helps them achieve their business objectives while truly delivering for customers.

Gender balance matters at TSB.

TSB was created to bring more competition to UK banking and ultimately make banking better for all UK consumers.

At the heart of this has been a commitment to building a bank which values diversity and lives and breathes an inclusive culture that lasts for the long-term and reflects the communities we serve. Building a gender balanced bank has been central to this.

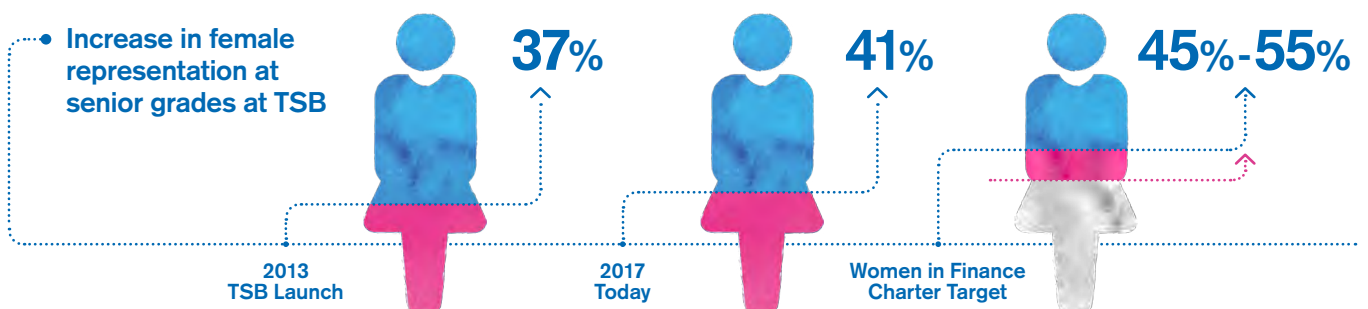
That is why, from day one, we have had a bank executive member responsible for delivering gender balance, supported by people policies that empower women and men to be able to balance their home life and work life more effectively.

TSB offers all partners, from branch to head office, the opportunity to work flexibly and share parental leave. We also offer practical support at key junctures of our Partners' working lives, including through our promotion ready programme, which was initially set up to increase the number of women in our talent pipeline, but after its success we began to offer it to men as well.

And so far our approach to gender balance seems to be working:

- Not only have we hit the Government's target for 33% of boards to be made up of women, we've exceeded it with a board that is 40% female.
- Despite not being a FTSE 100 company, we have already met the Hampton-Alexander target for executives and their direct reports to be 33% female. Only 19 FTSE 100 companies⁹ have met this target to date and so far TSB is the only bank to achieve this.
- And we are seeing an improvement in our talent pipeline; we've already grown the proportion of female partners in senior roles from 37% to 41% and we now aspire to have between 45-55% of all senior roles at TSB held by women.
- And we have a 91% maternity leave return rate.

But there is still more for us to do.



Our gender pay gap.

Gender pay reporting has made us look more closely at our pay gap at TSB. We are committed to shedding light on what is driving our pay gap and to finding the solutions that can help us build a balanced workforce that lasts for the long term.

We believe that gender pay reporting can play a significant role in ensuring that everyone, regardless of their gender has the opportunity to thrive.

At TSB we have a mean gender pay gap of 31%. Whilst we know that our gender pay gap is better than the indicative financial services industry average, it is still much higher than the UK average of 18%¹⁰.

But rather than just publish the raw numbers, we've chosen to analyse our gender pay gap to find out the reasons for it and what we can do to improve it.

1.

We are confident TSB's pay gap isn't a pay issue

Just one percentage point of TSB's 31% mean pay gap is due to differences in pay between men and women within the same grade.

TSB takes equal pay seriously and uses a recognised job evaluation approach to ensure that male and female partners are paid equally.

TSB is confident from the regular analysis and monitoring we do, that we meet our equal pay obligations and are in line with the guidance published by the Equality and Human Rights Commission, but we are not complacent and will continue to monitor our performance in this space by undertaking regular checks to ensure ourselves of equal treatment.

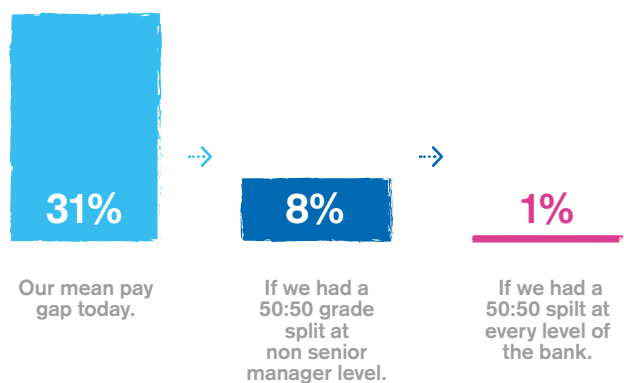
2.

Our pay gap is driven by the structure of our workforce

Rather than being driven by a pay issue, the rest of TSB's mean pay gap is a result of the structure of our workforce.

At TSB we have a significantly higher proportion of women (69%) than men (31%) in our non-senior management roles. If we had a 50:50 gender mix in these roles that would reduce our overall mean pay gap by 23 percentage points to 8%.

Analysis of our mean pay gap

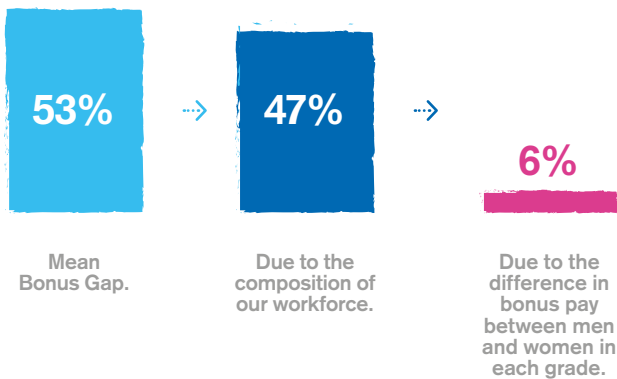


But as well as having more women than men in non-senior management roles, TSB also has a higher number of men (59%) than women (41%) in senior management roles. If TSB were to achieve a 50:50 split at this level then our mean pay gap would reduce by a further seven percentage points to one percent.

And the structure of our workforce is also influencing our mean bonus gap, which sits at 53%.

While we know that the TSB Award is gender neutral by design¹¹, the shape of our workforce that drives our gender pay gap, is also influencing our mean bonus gap. While six percentage points is a result of difference in bonus pay between men and women within each grade, the composition of our workforce drives 47 percentage points of our mean bonus gap.

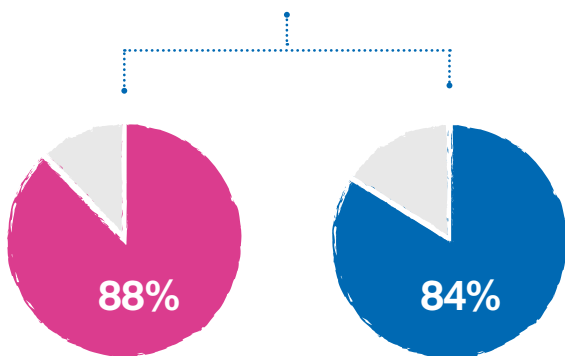
What sits behind our mean bonus gap



We also know that how our partners choose to work influences our mean bonus gap. At TSB we want to design our roles to fit society, not to try and change society, which is why we are proud to enable our partners to work reduced hours if it suits their lifestyle. 29% of our Partners, 95% of whom are women, choose to work in this way and we want to be able to support this. But this does impact our mean bonus gap. This is because reduced hours partners receive a pro-rated bonus to reflect the number of hours they work. If the bonus gap was calculated based on the bonus these partners received if they worked full time, our overall mean bonus gap would reduce to 47%.

We know that our TSB Award is gender neutral by design

The proportion of males and females receiving a bonus payment



of Female Partners

of Male Partners

Our bonus gap is also impacted by the higher percentage of men in more senior roles. Partners in senior roles are eligible for a Long Term Incentive Award, TSB's Sustainable Performance Award (SPA). Only 180 partners are eligible for the SPA, one third of whom are women.

3.

Our focus must be to create equal opportunity across TSB

At TSB we want to design our roles to fit society, not to try and change society.

TSB's focus will continue to be on ensuring that we always employ the best person for the role regardless of their gender.

Our gender pay gap reporting has reinforced our desire to ensure that both men and women feel that they can equally take the opportunity to progress to the most senior levels of the bank.

That is why, as part of our HMT Women in Finance Charter commitments, we have already set ourselves a target of ensuring that 45-55% of all senior roles at TSB are held by women.

Our focus now is on supplementing our existing programmes to support men and women's progression through TSB with some new initiatives.

“We are proud to enable our partners to work reduced hours if it suits their lifestyle. 29% of our Partners, 95% of whom are women, choose to work in this way.”

TSB's signature actions to address our gender pay gap.

TSB already has a number of successful programmes designed to support Partner progression. Using what we have learnt from our gender pay gap data we've decided to supplement these activities with three signature actions to promote gender balance.

1.



We are taking steps to get more women into financial services and, more specifically TSB

The Returning Women Campaign:

We are launching a targeted recruitment campaign to identify women who are returning to work after an extended period of absence. Many talented women leave financial services due to cultural challenges. TSB wants to find these women and show them that TSB is not like other banks and has a long-term sustainable culture that supports women in the workplace. This is why we are launching a recruitment campaign targeted at women who have left financial services or who have been on a career break and are looking to return back to work.

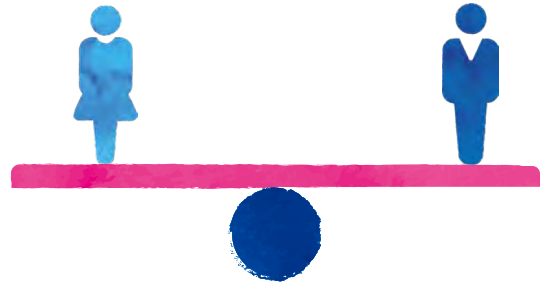
Research carried out by PwC and the 30% Club shows that supporting women return to the workplace following a career break will help businesses build stronger pipelines of potential female leaders and improve diversity of businesses at senior levels. This research also suggested encouraging these women back to work could increase economic output by £1.7 billion annually.¹²

Gender balanced shortlists:

We have been using gender balanced shortlists for external recruitment at senior levels for almost two years which has helped us increase the number of women in senior management roles.

This is why we are extending this to external recruitment at all levels in TSB.

2.



We will do more to support gender balanced progression at TSB

Partners for Partners: Research shows that women often report that the transition back to work is difficult and many feel disconnected and disengaged upon their return. Programmes which support people during key moments in life help prevent talented people leaving the business. That is why we have established a support programme for our Partners which pairs up people with a 'buddy' who has been through the same or similar experience. While Partners for Partners will predominately be focused on men and women who are going on parental leave, in the future we would like to extend this to include career breaks and caring responsibilities.

Talent Championing: Research from Bain & Company found that to make meaningful progress on gender parity and to encourage the next generation, companies must set expectations that all leaders are responsible for encouraging and developing female talent and by providing the necessary training or policies to make those expectations a reality.¹³

This is why in addition to our traditional mentoring programmes for Partners, regardless of gender, we are asking each Bank Executive Committee member to champion additional female partners from our rising stars. We also use this approach as part of our wider initiatives to drive better internal succession planning for women to reach executive roles.

3.



We will talk about gender balance in a transparent way

Data alone does not drive change. This is why we will go beyond the regulatory requirements to publish the data and give a full analysis of the core drivers for the gender pay gap in TSB and what we are doing to tackle them.

Three simple changes

will help the UK build a gender balanced workplace that lasts for the long-term.

But TSB's transparency alone will not drive change across the whole of financial services. All businesses particularly in financial services, have a responsibility to ensure that everyone, regardless of their gender, has the opportunity to thrive.

And we believe that gender pay reporting can play a significant role in this. Only when businesses properly analyse their gender base will they be able to understand what more they can do to support and nurture diversity in the long-term.

That is why we are calling on others to take three simple steps, so that they can identify the root cause of their gender pay gap, create policies to promote a more balanced workforce and be held to account on their progress.

1.

Businesses must come clean on the reasons for their gender pay gap – they shouldn't just report on the figures, they need to identify the root cause. At TSB this means analysing the data to identify the impact pay differences and the composition of our workforce has on our gender pay gap.

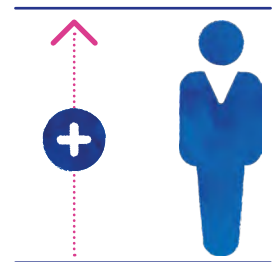
2.

Businesses must act to address the causes of their pay gaps – we believe that all businesses should share three signature actions to address the key reasons for their pay gap. At TSB, this means taking steps to ensure gender balance in senior roles.

3.

Businesses must be held to account on the progress they are making - they should report annually on those signature actions and include within their report, over time, a rolling five year trend which shows the progress they are making. TSB is committed to doing this.

We believe that if businesses are more transparent about the root causes of gender imbalance in their organisation, talk to their staff and share the steps they are taking to tackle gender balance, then the UK will build a sustainable gender balanced workplace at a faster rate.



Conclusion.

The Government estimates that closing the gender pay gap could contribute an additional £600 billion to the UK economy every year¹⁴.

Tackling the issue isn't just good business sense – it's fundamentally the right thing to do. Businesses with the right model and workforces that reflect society, will instil a long-term culture that truly delivers for customers.

While things are improving, the pace of change is too slow. All businesses must now work together to tackle the issue head on and commit to three relatively straightforward steps that will act as a catalyst to deliver a more balanced workforce.

That is why companies must come clean on gender pay and publish more than just their gender pay data to tackle gender imbalance head on. Companies need to become transparent about the drivers of their pay gap, what they can do to address it, and report annually on the progress they are making. By doing this, businesses will accelerate the pace of change and truly start to reflect society, delivering the right culture that delivers for customers.



Glossary of terms.

Mean Gender Pay Gap

The Gender Pay Gap is the difference between the hourly rate of pay of male full-pay relevant employees and that of female full-pay relevant employees, expressed as a percentage of the hourly rate of pay of male full-pay relevant employees.

The mean gender pay gap is calculated by adding together the hourly rate of pay for all male full-pay relevant employees and dividing this by the number of male full-pay employees and doing the same for all female full-pay relevant employees. This gives the mean hourly rate of pay for men and the mean hourly rate of pay for women. The difference between the hourly rates of pay is then expressed as a percentage to give the gender pay gap in hourly pay as a percentage of men's pay.

Mean Bonus Gap

The Gender Bonus Gap is the difference between the bonus pay paid to male relevant employees and that paid to female relevant employees over the relevant period, expressed as a percentage of the bonus pay paid to male relevant employees. The 'relevant period' means the period of 12 months ending with the snapshot date i.e. 5th April 2017.

The mean gender bonus gap is calculated by adding together the bonus payments made to all relevant employees in the 12 months to the snapshot date and dividing this number by the number of male relevant employees and doing

the same for all female relevant employees. This gives the mean amount of bonus pay for men and the mean amount of bonus pay for women. The difference between the amount of bonus pay is then expressed as a percentage of men's bonus pay.

Hampton-Alexander Target

The 2016 Government commissioned Hampton-Alexander Review set a target that all FTSE 100 companies should have 33% representation of women on the combined Executive Committee and Direct Reports to the Executive Committee by the end of 2020.

HM Treasury's Women in Finance Charter

In March 2016, the Treasury launched the Women in Finance Charter, which aims to increase the number of senior women in financial services. The Charter commits firms to implement four key industry actions.

These are:

- having one member of a firm's senior executive team who is responsible and accountable for gender diversity and inclusion;
- setting internal targets for gender diversity in senior management;
- publishing progress annually against these targets in reports on a company's website;
- having an intention to ensure the pay of the senior executive team is linked to delivery against these internal targets on gender diversity.

Promotion Ready Programme

A workshop TSB runs for high potential non-senior management Partners designed to give them practical tools and techniques to support them in successfully making their next career step.

Maternity Leave Returner Rate

This is the rate of women who return to roles in TSB following maternity leave.

Job Evaluation

Job evaluation is a systematic way of determining the value/worth of a job in relation to other jobs in an organisation.

Long-Term Incentive Award

An incentive award used to reward long-term employee performance. The award is linked to specific conditions e.g. company performance.

Sustainable Performance Award

TSB's Long Term Incentive Award.

Bank Executive Committee

The Bank Executive Committee is TSB's senior leadership team who are responsible for the day-to-day operation of TSB.

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10. PWC, PWC Women in Work Index, (Feb 2017), p.4.
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