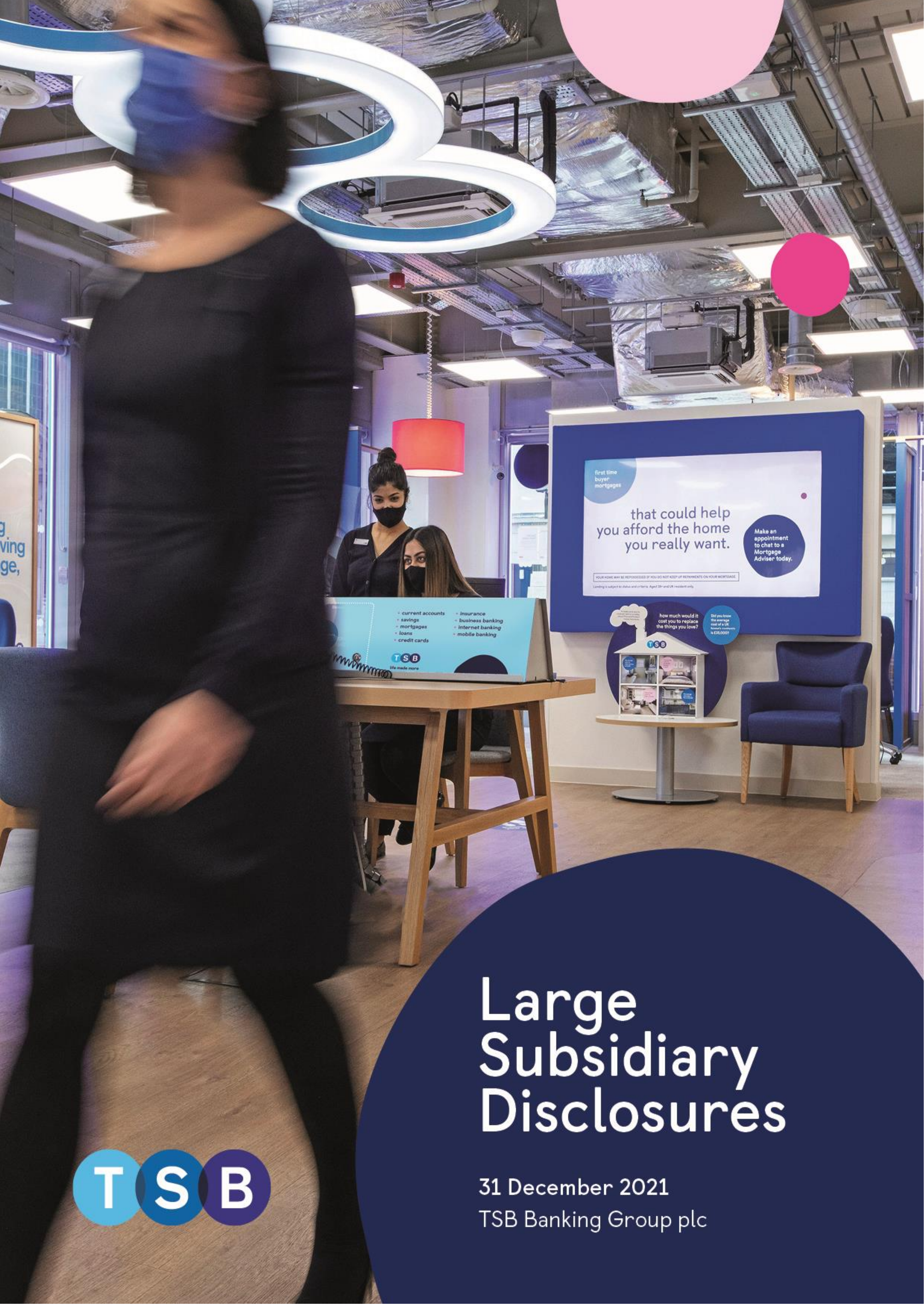

Large Subsidiary Disclosures

31 December 2021

TSB Banking Group plc

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1. Introduction

This document presents the Pillar III Large Subsidiary Disclosures as at 31 December 2021 relating to TSB Banking Group plc (TSB), a subsidiary undertaking of Banco de Sabadell Group (Sabadell). The disclosures presented in this document are included in Sabadell's consolidated Pillar III disclosures and follow the required European Union (EU) format.

The purpose of Pillar III is to make certain capital and risk management disclosures available to the market. An analysis of compliance with Capital Requirements Regulation (CRR) in respect of large subsidiary disclosure requirements is set out in Appendix I. As TSB is making disclosures as a subsidiary of Sabadell, this analysis satisfies the CRR2 disclosure requirements applicable in the EU as at 31 December 2021. However, as updates to the regulatory calculations introduced by CRR2 are not applicable in the UK until 1st January 2022 all reported Risk Weighted Amounts (RWA) are based on CRR rules applicable in the UK as at 31 December 2021. For liquidity, Net Stable Funding Ratio (NSFR) disclosures are made on an EU basis as there is no equivalent ratio in the UK at 31 December 2021. From 1 January 2018, TSB has adopted the International Financial Reporting Standard 9 (IFRS 9) transitional arrangements in CRR.

This document should be considered in conjunction with the TSB's 2021 Annual Report and Accounts (ARA), where a number of supporting disclosures are presented. A detailed overview of the governance arrangements within TSB is provided in the Risk Management section within pages 13 to 20 and the Corporate Governance section within pages 32 to 40 of TSB's ARA and are not repeated in this document.

TSB operates in the United Kingdom (UK) and is authorised and regulated by the Prudential Regulation Authority (PRA). TSB also complies with relevant Sabadell policies and its regulatory requirements, where appropriate.

2. Executive summary

This has been a transformational year for TSB. We have delivered strong growth and progress.

While 2020 was defined by TSB's response to the pandemic, 2021 was about getting back to growth. TSB has delivered an impressive improvement in financial performance and a management profit in every quarter of the year. Both lending and deposits have increased, costs have reduced, and capital and liquidity are strong and stable.

TSB has reported a statutory profit before tax of £157.5 million, compared to a loss before tax of £204.6 million in 2020. The turnaround is underpinned by the improved economic outlook, execution of TSB's strategy and the response to COVID-19.

A highlight of these results is TSB's continued balance sheet strength with a record £9.2 billion (2020: £6.1 billion) of gross mortgage lending, driven by buoyant mortgage demand, resulting in a £4.1 billion or 12.2% increase in total lending balances. Customer lending portfolios have remained resilient, and the economic outlook has continued to improve, leading to a reduction in credit impairment charges to £0.1 million (2020: £164.0 million) that will not be repeated in 2022. Deposit balances have also grown, with an increase of 4.6% to £36.0 billion.

TSB's capital position has remained above regulatory minimum requirements and internal risk appetite thresholds, with a Common Equity Tier 1 (CET1) capital ratio of 15.9% (2020: 15.3%) (2021: 15.8% IFRS 9 fully loaded). In 2021, the CET1 capital ratio increased by 0.6 percentage points reflecting the statutory profit for the year, offset partly by lending growth and the reduced benefit of IFRS9 transitional relief.

TSB's leverage ratio of 3.6% (2020: 3.8%) (2021: 3.6% IFRS 9 fully loaded) continues to comfortably exceed the CRR minimum of 3%. Under the Bank of England's (BoE) UK leverage ratio framework (which excludes qualifying central bank reserves and COVID-19 lending covered by government guarantee from the exposure measure and applies to banks with customer deposits in excess of £50bn) TSB's modified leverage ratio is 4.1%, in excess of the PRA minimum of 3.25%. TSB is not currently subject to this framework.

Table 1: Key metrics (KM1 / IFRS 9-FL)

The table below presents key metrics and additional information on capital metrics on an IFRS 9 transactional basis:

31 December	2021 £000	2020 £000
Available capital (amounts)		
Common Equity Tier 1 (CET1)	**1,724,002**	1,630,434
Common Equity Tier 1 (CET1) as if IFRS9 or analogous ECLs transitional arrangements had not been applied	**1,712,550**	1,581,426
Tier 1 capital	**1,724,002**	1,630,434
Tier 1 capital as if IFRS9 or analogous ECLs transitional arrangements had not been applied	**1,712,550**	1,581,426
Total capital	**2,024,002**	2,015,339
Total capital as if IFRS9 or analogous ECLs transitional arrangements had not been applied	**2,018,430**	2,014,227
Risk-weighted exposure amounts		
Total risk-weighted exposure amount	**10,851,867**	10,644,263
Total risk-weighted exposure amount as if IFRS9 or analogous ECLs transitional arrangements had not been applied	**10,855,618**	10,685,144
Capital ratios (as a percentage of risk-weighted exposure amount)		
Common Equity Tier 1 ratio (%)	**15.9%**	15.3%
Common Equity Tier 1 ratio (%) as if IFRS9 or analogous ECLs transitional arrangements had not been applied	**15.8%**	14.8%
Tier 1 ratio (%)	**15.9%**	15.3%
Tier 1 ratio (%)as if IFRS9 or analogous ECLs transitional arrangements had not been applied	**15.8%**	14.8%
Total capital ratio (%)	**18.7%**	18.9%
Total capital ratio (%)as if IFRS9 or analogous ECLs transitional arrangements had not been applied	**18.6%**	18.9%
Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)		
Additional own funds requirements to address risks other than the risk of excessive leverage (%)	**1.8%**	
Of which: to be made up of CET1 capital (%)	**1.0%**	
Of which: to be made up of Tier 1 capital (%)	**1.4%**	
Total SREP own funds requirements (%)	**9.8%**	
Combined buffer requirement (as a percentage of risk-weighted exposure amount)		
Capital conservation buffer (%)	**2.5%**	2.5%
Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member state (%)	**0.0%**	0.0%
Institutional specific countercyclical capital buffer (%)	**n/a**	n/a
Systemic buffer (%)	**n/a**	
Global Systemically important institution buffer (%)	**n/a**	
Other systemically important institution buffer	**n/a**	
Combined buffer requirement (%)	**2.5%**	2.5%
Overall capital requirements (%)	**12.3%**	
CET1 available after meeting the total SREP own funds requirements (%)	**8.5%**	
Leverage Ratio		
Leverage ratio total exposure measure	**47,412,008**	42,933,969
Leverage ratio	**3.6%**	3.8%
Leverage ratio as if IFRS9 or analogous ECLs transitional arrangements had not been applied	**3.6%**	3.7%
Additional own funds requirements to address risks of excessive leverage (as a percentage of leverage ratio total exposure amount)		
Additional own funds requirements to address the risk of the excessive leverage (%)	**0.0%**	
Of which: they will be composed of Common Equity Tier 1 capital (%)	**0.0%**	
Total SREP leverage ratio requirements (%)	**0.0%**	
Leverage ratio buffer and overall leverage ratio requirement (as a percentage of the total exposure amount)		
Leverage ratio buffer requirement (%)	**0.0%**	
Overall leverage ratio requirement (%)	**0.0%**	

Table 1: Key metrics (KM1 / IFRS 9-FL) (continued)

31 December	2021 £000	2020 £000
Liquidity Coverage Ratio		
Total high-quality liquid assets (HQLA) (Weighted value – average)	**7,513,828**	
Cash outflows – Total weighted value	**4,077,424**	
Cash inflows – Total weighted value	**213,669**	
Total net cash outflows (adjusted value)	**3,863,755**	
Liquidity coverage ratio (%)	**194%**	
Net Stable Funding Ratio		
Total available stable funding	**42,912,975**	
Total required stable funding	**28,710,989**	
NSFR ratio (%)	**149%**	

Location of risk disclosures

The diagram below summarises the structure of this report and notes the location of the required disclosures on own funds, capital requirements and TSB's main Pillar 3 disclosures as appropriate for a Large Subsidiary Disclosures document.

**Own Funds:
Pages 7-10**

**Pillar 1 Capital Requirements:
Pages 11-12**

**Pillar 2 Capital Requirements:
Pages 13-14**

**Pillar 3
Credit Risk: Pages 15-33
Leverage Ratio: Pages 34-36
Liquidity: Pages 37-40
Remuneration: Pages 41-44**

3. Own funds

3.1 Capital adequacy risk

Definition
TSB defines capital adequacy risk as the risk associated with the failure to retain sufficient reserves or quality of capital to cover the firm's regulatory requirements and operational losses and to support business strategy.

Risk appetite
TSB's risk appetite methodology is set out on page 14 of the ARA. TSB's approach to Capital Adequacy Risk is to use its capital effectively and efficiently to support TSB's growth plans and meet current and future regulatory requirements under both base and stress conditions. The Board approves TSB's risk appetite annually.

Exposure
A capital adequacy exposure arises where TSB has insufficient capital to support its strategic objectives and plans, or to meet external stakeholder requirements and expectations. TSB's capital management approach is focused on maintaining sufficient capital whilst optimising value for the shareholder.

Measurement
Capital adequacy is measured in accordance with regulatory requirements and TSB's Internal Capital Adequacy Assessment Process (ICAAP). Further detail on TSB's Pillar 2 capital requirements is available in section 4.3 on page 13.

Mitigation
Compliance with capital adequacy risk appetite is actively managed and monitored through TSB's planning, forecasting and stress testing processes. Five-year forecasts of TSB's capital position are produced at least annually to inform capital adequacy strategy and form part of the Board approved operating plan. In addition, regular refreshes of plans are produced and reviewed taking into consideration business and economic conditions at that time. Business plans are tested for capital adequacy using a range of macroeconomic stress scenarios covering adverse economic conditions as well as other potential adverse developments. TSB also maintains a Recovery Plan which sets out a range of potential mitigating actions that could be taken in response to stress. The Recovery Plan is reviewed annually and is approved by the Board.

TSB can accumulate additional capital through profit retention and, if required, issue eligible capital instruments.

Monitoring
Capital adequacy policies and procedures are subject to independent oversight by the Risk function and Internal Audit. Regular reporting of actual and projected capital ratios against risk appetite is provided to appropriate committees within TSB's governance and risk management framework as outlined in pages 13 to 20 of the ARA. These include TSB Executive Committee, the Asset and Liability Committee (ALCO), Board Risk Committee (BRC) and the Board.

The regulatory framework within which TSB operates continues to be subject to global banking reforms. TSB monitors these developments and analyses the potential impacts to ensure that regulatory requirements continue to be met and it operates within risk appetite.

3.2 Own funds

TSB's own funds as at 31 December 2021 and 31 December 2020 are presented in the table below. This table follows the CRR disclosure format, however only items applicable to TSB are detailed.

Table 2: Composition of regulatory own funds (CC1)[1]

		2021 £000	*2020 £000*	**Reference (Table CC2)**
CET1 capital: instruments and reserves				
1	Capital instruments and the related share premium accounts	970,050	970,050	(*) 32, 33
	of which: Common share	5,000	5,000	32
2	Retained earnings	1,029,937	1,189,658	36
3	Accumulated other comprehensive income (and other reserves)	(280,426)	(293,373)	(*) 38, 42
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	130,248	-	40
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**1,849,807**	**1,866,335**	
Common Equity Tier 1 capital: regulatory adjustments				
7	Additional value adjustments (negative amount)	(1,394)	(2,345)	
8	Intangible assets (net of related tax liability) (negative amount)	(44,110)	(38,589)	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	(99,560)	(102,701)	
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	7.806	18,447	
12	Negative amounts resulting from the calculation of expected loss amounts	(490)	(5,024)	
25a	Losses for the current financial year (negative amount)	-	(159,721)	
27a	Other regulatory adjustments (including IFRS 9 transitional adjustments when relevant)	11,943	54,032	
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(125,805)**	(235,901)	
29	**Common Equity Tier 1 (CET1) capital**	**1,724,002**	1,630,434	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**1,724,002**	1,630,434	
Tier 2 Capital: Instruments and Provisions				
46	Capital instruments and the related share premium accounts	300,000	384,905	
50	Credit risk adjustments	5,880	47,896	
51	**Tier 2 (T2) capital before regulatory adjustments**	**305,880**	432,801	
Tier 2 Capital: Regulatory Adjustments				
56b	Other regulatory adjustments to T2 capital	(5,880)	(47,896)	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**(5,880)**	(47,896)	
58	**Tier 2 (T2) capital**	**300,000**	384,905	
59	**Total capital (TC = T1 + T2)**	**2,024,002**	2,015,339	
60	**Total risk exposure amount**	**10,851,867**	10,644,263	
Capital ratios and buffers				
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	15.9%	15.3%	
62	Tier 1 (as a percentage of total risk exposure amount)	15.9%	15.3%	
63	Total capital (as a percentage of total risk exposure amount)	18.7%	18.9%	
64	Institution CET1 overall capital requirement (CET1 requirement in accordance with Article 92 (1) CRR, plus additional CET1 requirement which the institution is required to hold in accordance with point (a) of Article 104(1) CRD, plus combined buffer requirement in accordance with Article 128(6) CRD) expressed as a percentage of risk exposure amount)	8.0%	9.5%	
65	of which: capital conservation buffer requirement	2.5%	2.5%	
66	of which: countercyclical buffer requirement	0.0%	0.0%	
67	of which: systemic risk buffer requirement	0.0%	0.0%	
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0.0%	0.0%	
67b	of which: additional own funds requirements to address risks other than the risk of excessive leverage.	1.0%	2.5%	
68	Common Equity Tier 1 available to meet buffer (as a percentage of risk exposure amount)	8.5%	6.0%	
Capital ratios and buffers				
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% thresholds and net of eligible short positions)	4,313	3,349	
75	Deferred tax assets arising from temporary differences (amount below 17.65% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	23,696	42,535	
Limits applicable to the inclusion of provisions in Tier 2 capital				
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	15,783	15,762	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	5,880	56,222	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	49,130	47,896	

Footnote

(1) (*) in reference to Table CC2 column indicates sum of, or using elements of the row referenced from Table CC2.

TSB does not hold additional Tier 1 capital, hence the CET1 capital and Tier 1 capital have equal values Movements in capital and related regulatory deductions are described in section 3.3.

3.3 Movements in capital

The movements in CET1 / Tier 1 Capital, Tier 2 Capital and Total Capital in the year are shown below:

Table 3: Movements in capital (OFD3)[1]

	CET1 Capital £000	Tier 2 Capital £000	Total £000
At 31 December 2020	**1,630,434**	**384,905**	**2,015,339**
Profit (Loss) attributable to the ordinary shareholder	130,248	-	130,248
Movement in other comprehensive income (including available for sale)	12,944	-	12,944
Cash flow hedging reserve regulatory adjustment	(10,641)	-	(10,641)
Change in excess of expected losses over impairment allowances	4,534	-	4,534
Change in subordinated liabilities	-	(84,905)	(84,905)
Change in excess of default provision over default expected loss	-	(42,016)	(42,016)
Change in intangible fixed assets	(5,521)	-	(5,521)
Movement in prudent valuation adjustment	951	-	951
IFRS 9 transitional adjustments	(42,089)	42,016	(73)
Movement in deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	3,142	-	3,142
At 31 December 2021	**1,724,002**	**300,000**	**2,024,002**

	CET1 Capital £000	Tier 2 Capital £000	Total £000
At 31 December 2019	**1,837,943**	**384,626**	**2,222,569**
Profit (loss) attributable to the ordinary shareholder	(159,720)	-	(159,720)
Movement in other comprehensive income (including available for sale)	(19,612)	-	(19,612)
Cash flow hedging reserve regulatory adjustment	13,910	-	13,910
Change in excess of expected losses over impairment allowances	-	-	-
Change in subordinated liabilities	-	279	279
Change in excess of default provision over default expected loss	-	39,035	39,035
Change in intangible fixed assets	(18,306)	-	(18,306)
Movement in prudent valuation adjustment	(1,598)	-	(1,598)
IFRS 9 transitional adjustments	34,515	(39,035)	(4,520)
Movement in deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	(56,698)	-	(56,698)
At 31 December 2020	**1,630,434**	**384,905**	**2,015,339**

Footnote

(1) Capital positions are presented on a CRD IV IFRS9 transitional basis.

Tier 1 Capital increased by £93.6 million during 2021. This was primarily due to the profit of £130.2 million for the year partially offset by the decrease in the regulatory IFRS 9 transitional adjustment of £42.1 million.

3.4 Other capital disclosures

Table 4: Reconciliation of regulatory own funds to balance sheet in the audited financial statements (CC2)[1]

	Assets – Breakdown by asset classes according to the balance sheet in the published financial accounts	Balance sheet as per published financial statements	Under regulatory scope of consolidation	Reference (table CC1)
		As at period end	As at period end	
		£000	£000	
1	Cash, cash balances at central banks and other demand deposits	4,851,166	4,851,166	
2	Financial assets held for trading	169,341	169,341	
3	Non-trading financial assets held at fair value through profit or loss	115	115	
4	Financial assets designated at fair value through profit or loss	-	-	
5	Financial assets at fair value with changes in other comprehensive income	1,068,979	1,068,979	
6	Financial assets at amortised cost	39,830,886	39,830,886	
7	Derivatives - hedge accounting	244,490	244,490	
8	Changes in the fair value of hedged items in a portfolio hedged risk	(109,334)	(109,334)	
9	Investments in joint ventures and associates		-	
10	Assets covered by insurance or reinsurance contracts	-	-	
11	Tangible assets	300,345	300,345	
12	Intangible assets	72,087	72,087	
13	Tax assets	123,255	123,255	
14	Memorandum items: Deferred tax assets	123,255	123,255	
15	Other assets	137,433	137,433	
16	Non-current assets and disposable groups of items classified as held for sale	-	-	
17	**TOTAL ASSETS**	**46,688,763**	**46,688,763**	
	Liabilities – Breakdown by liability classes according to the balance sheet in the published financial statements			
18	Financial liabilities held for trading	156,544	156,544	
19	Financial liabilities designated at fair value through profit or loss	-	-	
20	Financial liabilities at amortised cost	44,302,200	44,302,200	
21	Derivatives - hedge accounting	136,816	136,816	
22	Changes in the fair value of hedged items in a portfolio hedged risk	(63,581)	(63,581)	
23	Liabilities covered by insurance or reinsurance contracts	-	-	
24	Provisions	110,239	110,239	
25	Tax liabilities	1,362	1,362	
26	Memorandum: Deferred tax liabilities	-	-	
27	Reimbursable share capital at sight	-	-	
28	Other liabilities	195,376	195,376	
29	Liabilities included in disposable groups of items classified as held for sale			
30	**TOTAL LIABILITIES**	**44,838,956**	**44,838,956**	
	Equity			
31	Own Funds	1,845,235	1,845,235	(*)1,2,3,5
32	Capital	5,000	5,000	1
33	Issue premium	965,050	965,050	(*)1
34	Equity instruments issued other than capital	-	-	
35	Other equity items	-	-	
36	Accumulated profits	1,029,937	1,029,937	2
37	Revaluation reserves	-	-	
38	Other reserves	(285,000)	(285,000)	(*)3
39	Own actions	-	-	
40	Result attributed to the owners of the parent company	130,248	130,248	(*)5a
41	Interim dividends	-	-	
42	Accumulated other comprehensive income	4,572	4,572	(*)3
43	Minority interest (non-dominant holdings)	-	-	
44	**Shareholders' equity**	**1,849,807**	**1,849,807**	6

Footnote
(1) (*) in reference to Table CC1 column indicates sum of, or using elements of the row referenced from Table CC1.

The principal features of TSB's capital instruments are outlined in Appendix II.

4. Capital requirements

4.1 Risk weighted assets and Pillar 1 capital requirements

The risk weighted assets and Pillar 1 capital requirements of TSB as at 31 December 2021 are presented in the following table:

Table 5: Overview of risk-weighted assets (OV1)

	RWAs 2021 £000	RWAs 2020 £000	**Total own funds requirements(1) 2021 £000**
Credit risk (excluding CCR)	**9,375,601**	9,161,702	**750,048**
Of which the standardised approach(2)	1,187,214	1,178,974	94,977
Of which the foundation IRB (FIRB) approach	-	-	-
Of which: slotting approach	-	-	-
Of which: equities under the simple risk weighted approach	-	-	-
Of which the advanced IRB (AIRB) approach	8,188,387	7,982,728	655,071
Counterparty credit risk (CCR)(3)	**17,276**	17,452	**1,382**
Of which the standardised approach	408	5,710	33
Of which internal model method (IMM)	-	-	-
Of which exposures to a CCP	16,713	11,697	1,337
Of which credit valuation adjustment - CVA	155	45	12
Of which other CCR	-	-	-
Settlement risk	**-**	-	-
Securitisation exposures in the non-trading book (after cap)	**-**	-	-
Of which SEC-IRBA approach	-	-	-
Of which SEC-IRBA (including IAA)	-	-	-
Of which SEC-SA approach	-	-	-
Of which 1250% deduction	-	-	-
Position, foreign exchange and commodities risks (Market risk)	**-**	-	-
Of which standardised approach	-	-	-
Of which IMA	-	-	-
Large exposures	-	-	-
Operational risk	**1,400,010**	1,400,392	**112,001**
Of which Basic Indicator Approach	-	-	-
Of which Standardised Approach	1,400,010	1,400,392	112,001
Of which Advanced Measurement Approach	-	-	-
Amounts below the thresholds for deduction (subject to 250% risk weight)	**58,980**	64,717	**4,718**
Other risk exposure amounts(4)	**-**	-	-
Total	**10,851,867**	10,644,263	**868,149**

Footnote

(1) Under Pillar 1, firms are required to maintain minimum regulatory capital levels at 8% of RWAs.
(2) In table 6, the standardised credit risk amounts include CCR valued on a mark to market basis and amounts subject to 250% risk weight which are reported in different section of table 5.
(3) Based in CRR rules which are applicable in UK as at 21 December 2021. CRR2 are not applicable until 1 January 2022.
(4) In the TSB 2020 SSD report, £1,591.6million of RWAs relating to a new secured rating system applied to IRB mortgage lending and associated IFRS 9 transitional adjustment were reported in 'Other risk exposure amounts'. These RWAs are now presented within credit risk IRB and Standardised approaches consistent with regulatory reporting.

RWAs increased during 2021 by £207.6 million, largely reflecting a £205.7 million increase in RWAs measured under the internal rating based (IRB) approach, of which £129.1 million related to secured mortgage lending. The increase in mortgage RWAs largely reflected the growth in lending partly offset by the effect of increases in house prices on loss given default.

The expected reduction in RWAs measured under the standardised approach relating to the exposures in the closed Whistletree portfolio was offset by increases other asset exposures.

Table 6: Total amount of risk weighted assets and minimum own funds requirements

Exposure classes and risk types	2021 RWA £000	2021 Minimum Capital Requirements £000	2020 RWA £000	2020 Minimum Capital Requirements £000
Credit risk (standardised approach)[1]	**1,262,679**	**101,014**	1,260,920	100,874
Central governments and central banks	48,196	3,856	42,219	3,377
Institutions	53,512	4,281	47,137	3,771
Corporates	24,393	1,951	21,991	1,759
Retail	90,329	7,226	97,242	7,779
Exposures collateralised with residential or commercial property	382,277	30,582	438,738	35,099
Exposures in default status	72,313	5,785	92,384	7,391
Covered bonds	21,339	1,707	21,153	1,692
Equity exposures	10,784	863	8,373	670
Other exposures	559,536	44,763	491,683	39,336
Credit risk (internal ratings-based approach)	**8,188,387**	**655,071**	7,982,728	638,618
Retail	8,188,387	655,071	7,982,728	638,618
i) Mortgages for residential or commercial property[1]	5,370,574	429,646	5,241,502	419,320
ii) Eligible revolving exposures	1,260,843	100,868	1,230,518	98,441
iii) Other retail	1,556,970	124,558	1,510,708	120,857
Contribution to default guarantee fund of a CCP	**636**	**51**	178	14
Operational risk	**1,400,010**	**112,001**	1,400,392	112,031
Operational risk (standardised approach)	1,400,010	112,001	1,400,392	112,031
Credit valuation adjustment risk	**155**	**12**	45	4
Other risk exposure amounts[1]	**-**	**-**	-	-
Total minimum own funds requirement	**10,851,867**	**868,149**	10,644,263	851,541

Footnote

(1) In the TSB 2020 SSD report, £1,591.6 million of RWAs relating to new secured rating system applied to IRB mortgage lending and associated IFRS 9 transitional adjustments were reported in 'Other risk exposure amounts'. These RWAs are now presented within credit risk IRB and Standardised approaches consistent with regulatory reporting.

4.2 Risk weighted assets movements by key driver

Analysis of movements in IRB credit risk weighted exposure amounts (RWEAs) from 31 December 2020 to 31 December 2021 is presented in table 7.

Table 7: RWEA flow statements of credit risk exposures under the IRB approach (CR8)

	Risk weighted exposure amount £000
Risk weighted exposure amount as at the end of the previous reporting period	**7,982,728**
Asset size (+/-)	1,072,987
Asset quality (+/-)	(723,070)
Model updates (+/-)	(144,258)
Methodology and policy (+/-)	-
Acquisitions and disposals (+/-)	-
Foreign exchange movements (+/-)	-
Other (+/-)	-
Risk weighted exposure amount as at the end of the reporting period	**8,188,387**

During 2021, IRB credit risk RWEAs increased, primarily, due to:

- increased asset size which reflects the net effect of the origination of new business with higher risk weights offset by repayments of mature loans with lower risk weights. The £1,073.0 million increase in RWEAs relates to an increase in the mortgage portfolio of £1,166.7 million partly offset by a £93.7 million reduction in unsecured RWAs; and
- asset quality improvements which led to a reduction in REWAs of £723.1 million. This included a £935.2 million reduction relating to the mortgage portfolio, of which £872.3 million related to increases in house prices.

4.3 Pillar 2 capital requirement

In order to address the requirements of Pillar 2 of the Basel III framework, the PRA has set additional requirements through the Pillar 2a and PRA buffer (Pillar 2b).

Pillar 2a
TSB's internal assessment of its capital adequacy process (ICAAP), is a key input to the PRA's Supervisory Review and Evaluation Process (SREP) and determination of Pillar 2a.

TSB's Pillar 2a, calculated through the ICAAP process, supplements the Pillar 1 capital requirements for credit risk, counterparty credit risk and operational risk through the assessment of material risks not covered or not fully captured under Pillar 1. ICAAP is updated at least annually and is subject to review by ALCO, BRC and the Board. The PRA undertakes a regular review of TSB's capital adequacy and its approach to capital management. As part of this review, the PRA determines the amount of supplementary capital required under Pillar 2a.

TSB's capital requirements therefore include Pillar 2a which may be specified by the PRA as a percentage of RWAs and / or as an absolute value and are based on a point in time assessment.

As at 31 December 2021, TSB's total Pillar 1 plus Pillar 2a capital requirement was 9.8% of RWAs (8% Pillar 1 plus 1.8% Pillar 2a). At least 56.25% of this requirement is required to be met in the form of CET1, equating to 5.50% of RWAs.

TSB is also required to comply with capital conservation buffer requirements (as part of Pillar 2b requirements), countercyclical capital buffer (CCyB) requirements and the PRA buffer (where the regulator considers other buffers to be insufficient).

PRA buffer
As part of the capital planning process, forecast capital positions are subjected to a range of macroeconomic stresses to determine whether TSB's own funds are adequate to meet minimum requirements at all times. The PRA uses the output from these stresses to set a PRA buffer for TSB.

Capital conservation buffer
The capital conservation buffer is designed to ensure that institutions build up capital buffers that can be drawn upon during times of stress. The fully transitioned buffer of 2.5% of RWAs was effective from 1 January 2019.

Other Systemically Important Institutions buffer (O-SII buffer)
TSB has assets of less than £175 billion and, therefore, a buffer of 0% applies.

Countercyclical capital buffer (CCyB)
The Financial Policy Committee (FPC) of the BoE is responsible for setting the UK CCyB. The UK CCyB applies to all TSB exposures as non-UK relevant credit exposure RWAs are less than 2% of total RWAs. On the 13th December 2021, the FPC announced an increase in the CCyB from 0.0% to 1.0% which takes effect from December 2022.

Table 8: Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer (CCyB1)

	General credit exposures		Relevant credit exposures – Market Risk		Securitisation exposures	Total exposure value	Own funds requirements						
31 December 2021	Exposure value under the standardised approach	Exposure value under the IRB approach	Sum of long and short position of trading book exposures for SA	Value of trading book exposure for internal models	Exposures value for non-trading book		Relevant credit risk exposures – Credit Risk	Relevant credit exposures – Market Risk	Relevant credit exposures - Securitisation exposures	Total	Risk-weighted exposure amounts	Own funds requirement weights	Counter-cyclical capital buffer rate
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**%**	**%**
Breakdown by country													
Country: United Kingdom	2,263,629	42,100,696	-	-	-	44,364,325	747,949	-	-	747,949	9,349,358	100.0%	0.0%
Total	**2,263,629**	**42,100,696**	**-**	**-**	**-**	**44,364,325**	**747,949**	**-**	**-**	**747,949**	**9,349,358**	**100.0%**	**0.0%**

Table 9: Amount of institution-specific countercyclical capital buffer (CCyB2)

31 December 2021	**£000**
Total risk exposure amount	10,851,867
Institution specific countercyclical buffer rate %	0.0%
Institution specific countercyclical buffer requirement	-

4.4 Minimum requirement for own funds and eligible liabilities (MREL)

In December 2021, the Bank of England published an updated Statement of Policy following a review of its approach to setting MREL which becomes effective from 1 January 2022. The BoE's statement of policy sets out its approach to the distribution of MREL within groups. As a UK subsidiary of Banco Sabadell, internal MREL requirements apply to TSB. MREL is subject to phased implementation and will be fully implemented from 1 January 2023. During the transitional period, from 1 January 2020 until 31 December 2022, TSB is subject to interim internal MREL, excluding regulatory stress buffers, of 16.2% of RWAs. TSB's MREL ratio of 22.8% exceeds its interim MREL requirements.

5. Credit risk

5.1 Overview

Definition
TSB defines credit risk as 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 they fall due.

TSB adopts decision making processes and systems geared to provide affordable lending. The assessment of a customer's creditworthiness is based on individual needs and circumstances at the time of application. This approach helps customers borrow well and limits the risks associated with non-repayment.

Credit risk appetite is set for responsible and controlled growth and has measures and limits in place to act as a mechanism to prevent TSB and its customers from overreaching their ability to manage their borrowing. These measures include loan-to-value thresholds, loan-to-income ratios and credit concentration limits.

TSB understands customers' circumstances can change, which can impact their ability to repay borrowings and works with its customers to improve their position by offering various treatment strategies and support.

Risk appetite
TSB defines risk appetite as the amount and type of risk that it is willing to take in pursuit of strategy. Within each planning cycle, the Board approves TSB's risk appetite and strategy. Through clear and consistent communication and monitoring, the Board ensures that senior management stays within risk appetite through risk policies that either limit or, where appropriate, prohibit activities, relationships and situations that could be detrimental to the risk profile of TSB. For credit risk, TSB maintains a portfolio, focused on UK customers and assets, and prime lending criteria.

Exposures
A range of approaches are available to measure credit risk and to determine the minimum level of capital required.

TSB's credit risk exposures are classified into broad categories, as defined under:
- **The retail IRB approach:** Use of internal models to calculate Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD); and
- **The standardised approach:** Portfolios whose associated internal models have yet to roll out or where no model roll out is planned.

The principal source of credit risk within TSB arises from loans and advances to retail and business banking customers. TSB's retail credit risk exposures include:
- retail exposures secured by real estate collateral - residential mortgages;
- qualifying revolving retail exposures - overdrafts and credit cards;
- other retail exposures - unsecured personal lending; and
- retail SME - lending to sole traders, small employers and small limited companies.

Credit risk arises principally from TSB's lending activities through adverse changes in the credit quality of customers and macro-economic disruptions to credit markets. TSB also manages credit risk by seeking to avoid geographical concentrations of its credit portfolio in the UK.

Additional sources of credit risk are managed in TSB's Treasury function. These include:
- placing surplus funds with financial institutions and sovereign counterparties e.g. the BoE;
- holding securities, e.g. UK gilts, supranational and covered bonds for liquidity management; and
- hedging its interest rate & currency risk. Almost all TSB's swaps are cleared through a central counterparty, while the remainder are transacted with high quality financial institutions.

5.2 Consolidated balance sheet under the regulatory scope of consolidation

The following table shows that the scope of consolidation of the TSB Group's consolidated balance sheet on an accounting basis (as presented on page 63 of TSB Group's ARA) and the consolidated balance sheet on a regulatory basis are the same. The table also provides a mapping of financial statement categories to regulatory risk categories.

Table 10: Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories (LI1)

			Carrying value of items:				
31 December 2021 £000	**Carrying values as reported in published financial statements**	**Carrying values under scope of regulatory consolidation**	**Subject to the credit risk framework**	**Subject to the CCR framework**	**Subject to the securitisation framework**	**Subject to the market risk framework**	**Not subject to capital requirements or subject to deduction from capital**
Assets							
Cash, cash balances at central banks and other demand deposits	4,851,166	4,851,166	4,851,166	-	-	-	-
Financial assets held for trading:							
Derivative financial assets	169,341	169,341	-	169,341	-	-	-
Financial assets designated at fair value through profit or loss:							
Equity instruments	115	115	115	-	-	-	-
Financial assets at fair value through other comprehensive income	1,068,979	1,068,979	1,068,979	-	-	-	-
Financial assets designated at amortised cost							
Debt securities	2,166,749	2,166,749	2,166,749	-	-	-	-
Loans to central banks	143,588	143,588	143,588	-	-	-	-
Loans to credit institutions	56,057	56,057	56,057		-	-	-
Loans and advances to customers	37,383,830	37,383,830	37,383,830	-	-	-	-
Reverse repos	-.	-		-	-	-	-
Other advances	80,663	80,663	59,239	21,424	-	-	-
Hedging derivative assets	244,490	244,490	-	244,490	-	-	-
Fair value adjustments for portfolio hedged risk	(109,334)	(109,334)	-	-	-	-	(109,334)
Property, plant and equipment	300,345	300,345	300,345	-	-	-	-
Intangible Assets	72,087	72,087	27,977	-	-	-	44,110
Current tax assets	-	-	-	-	-	-	-
Deferred tax assets	123,255	123,255	23,695	-	-	-	99,560
Other assets	137,432	137,432	137,432	-	-	-	-
Total Assets	**46,688,763**	**46,688,763**	**46,219,172**	**435,255**	-	-	**34,336**
Liabilities							
Financial liabilities held for trading:							
Derivative financial liabilities	156,544	156,544	-	156,544	-	-	-
Financial liabilities at amortised cost:							
Borrowings from central banks	5,501,591	5,501,591	-	-	-	-	5,501,591
Deposits from public administrations	7,497	7,497	-	-	-	-	7,497
Deposits from credit institutions	2,100	2,100	-	-	-	-	2,100
Customer deposits	35,944,403	35,944,403	-	-	-	-	35,944,403
Repurchase agreements	-	-	-	-	-	-	-
Debt securities in issue	2,199,084	2,199,084	-	-	-	-	2,199,084
Subordinated liabilities	291,775	291,775	-	-	-	-	291,775
Other financial liabilities	355,750	355,750	-	-	-	-	355,750
Hedging derivative liabilities	136,816	136,816	-	136,816	-	-	-
Fair value adjustments for portfolio hedged risk	(63,581)	(63,581)	-	-	-	-	(63,581)
Provisions	110,239	110,239	-	-	-	-	110,239
Current tax liabilities	1,362	1,362	-	-	-	-	1,362
Other liabilities	195,376	195,376	-	-	-	-	195,376
Total Liabilities	**44,838,956**	**44,838,956**	-	**293,360**	-	-	**44,545,596**
Shareholder's equity	**1,849,807**	**1,849,807**	-	-	-	-	**1,849,807**
Total equity and liabilities	**46,688,763**	**46,688,763**	-	**293,360**	-	-	**46,395,403**

Table 11: Main sources of differences between regulatory exposure amounts and carrying values in financial statements (LI2)

31 December 2021	Total	Items subject to: Credit risk framework	Securitisation framework	CCR framework	Market risk framework
	£000	£000	£000	£000	£000
Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)	**46,654,427**	**46,219,172**	-	**435,255**	-
Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	(293,360)	-	-	(293,360)	-
Total net amount under the regulatory scope of consolidation	46,361,067	46,219,172	-	141,895	-
Off-balance-sheet amounts	6,467,406	6,467,406	-	-	-
Removal of accounting values for CCR	(141,894)	-	-	(141,894)	-
Regulatory CCR Exposure	421,607	-	-	421,607	-
Differences due to consideration of provisions	176,138	176,138	-	-	-
Differences due to prudential filters	-	-	-	-	-
Difference in valuation methodologies / regulatory adjustments	895,362	895,362	-	-	-
Differences due to CCFs	(881,613)	(881,613)	-	-	-
Exposure amounts considered for regulatory purposes	**53,298,073**	**52,876,464**	-	**421,608**	-

5.3 Concentration of exposures: By industry

Gross exposures to non-financial corporations as at 31 December 2021, analysed by major industrial sector are provided in the table below:

Table 12: Credit quality of loans and advances to non-financial corporations by industry (CQ5)

Gross carrying amount	Gross carrying amount	Of which: defaulted	Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
	£000	£000	£000	£000
Agriculture, forestry, and fishing	3,501	86	(88)	-
Mining and quarrying	19	-	-	-
Manufacturing	13,057	624	(115)	-
Electricity, gas, steam, and air conditioning supply	288	-	(1)	-
Water supply	1,509	113	(21)	-
Construction	65,258	3.039	(531)	-
Wholesale and retail trade	73,425	3,067	(686)	-
Transport and storage	18,249	1,561	(155)	-
Accommodation and food service activities	44,732	2,077	(351)	-
Information and communication	16,375	494	(101)	-
Real estate activities	75,752	805	(3,461)	-
Professional, scientific, and technical activities	48,971	2,006	(393)	-
Administrative and support service activities	20,531	966	(187)	-
Public administration and defence, compulsory social security	613	13	(4)	-
Education	5,235	78	(49)	-
Human health services and social work	22,694	491	(546)	-
Arts, entertainment, and recreation	6,091	220	(41)	-
Financial and Insurance activities	-	-	-	-
Other services	12,786	573	(242)	-
Total	**429,086**	**16,213**	**(6,972)**	-

Over the course of the COVID-19 pandemic TSB grew lending to SME's five-fold, most notably through the Bounce Back Lending Scheme which benefits from a 100% guarantee from the UK Government. Lending to non-financial corporations relates to SME lending.

5.4 Credit risk exposure: Geographical breakdown of exposures

TSB's credit risk exposures arising outside of the UK are not deemed material in the context of TSB's balance sheet as they are below the EBA reporting thresholds (of 10% gross exposures or 2% qualifying RWAs) applied for regulatory reporting. These non-UK exposures relate to institutional exposures of £284.9 million as at 31 December 2021 compared to £615.0 million as at December 2020. This reduction is largely related to a reduction in exposures to Public Sector and Multilateral Development Banks, held as part of the Liquidity Asset Buffer.

TSB also has £127.7 million (£153.9 million December 2020) of retail secured exposures to customers currently resident overseas but secured on residential properties in the UK.

All credit risk exposures as at 31 December 2021 and as at 31 December 2020 are therefore categorised as being in the UK.

5.5 Credit risk exposure: Analysis by maturity

Net on balance sheet credit risk exposures as at 31 December 2021, analysed by residual contractual maturity, are provided in table 13 below:

Table 13: Maturity of exposures (CR1-A)

	Net exposure value					
31 December 2021	**On Demand £000**	**≤ 1 year £000**	**> 1 year ≤ 5 years £000**	**> 5 years £000**	**No stated maturity £000**	**Total £000**
Loans and advances	4,472,446	428,057	2,620,470	31,070,241	5,523,872	44,115,086
Debt Securities	-	67,135	354,887	2,813,706	-	3,235,728
Total	**4,472,446**	**495,192**	**2,975,357**	**33,883,947**	**5,523,872**	**47,350,814**

The maturity profile of 2021 is consistent with the previous year. On demand amounts largely relate to exposures with the Bank of England and unsecured lending. The greater than 5 years amounts largely relate to secured retail mortgage lending and gilts. Those with no stated maturity relate largely to off balance sheet limits for credit cards and current accounts.

5.6 Standardised approach: Credit risk exposure and Credit Risk Mitigation (CRM) effects

The following table provides a measure of the risk of each portfolio by analysing RWA density.

Table 14: Standardised approach - Credit risk exposure and CRM effects (CR4)

	Exposures before CCF and CRM		Exposures post CCF and CRM			
31 December 2021	**On-balance-sheet amount**	**Off-balance-sheet amount**	**On-balance-sheet amount**	**Off-balance-sheet amount**	**RWAs**	**RWA density**
	£000	**£000**	**£000**	**£000**	**£000**	**%**
Central governments or central banks	7,617,722	-	8,207,020	49	48,196	0.6%
Regional government or local authorities	-	-	-	-	-	-
Public sector entities	102,094	-	22,486	-	-	0.0%
Multilateral development banks	206,932	-	206,932	-	-	0.0%
International organisations	-	-	-	-	-	-
Institutions	75,654	-	75,654	-	37,026	48.9%
Corporates	28,099	15	28,099	3	24,393	86.8%
Retail	627,933	29,264	139,910	5,839	90,330	62.0%
Secured by mortgages on immovable property	954,758	286,240	951,845	142,886	382,277	34.9%
Exposures in default	90,673	405	71,919	193	72,313	100.3%
Exposures associated with particularly high risk	-	-	-	-	-	-
Covered bonds	213,393	-	213,393	-	21,339	10.0%
Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
Collective investment undertakings	-	-	-	-	-	-
Equity	115	4,198	115	4,198	10,784	250.0%
Other items	644,936	79,475	644,936	60,292	559,536	79.3%
Total	**10,562,309**	**399,597**	**10,562,309**	**213,460**	**1,246,194**	**11.6%**

TSB does not make use of credit derivatives for regulatory capital purposes. The main sources of CRM relate to Government guarantees on Bounce Back Loans (BBLs) as evident from the transfer of exposures before CRM from Retail to Central Governments on a post CRM basis.

5.7 Exposures subject to the Retail IRB approach

Table 15: Portfolios subject to the Retail IRB approach and subject to roll-out for calculating IRB parameters

Regulatory Exposure Portfolio	Internal Portfolio	Internal Estimates Used	Approach	Status
Retail	Residential Mortgages	Probability of default (PD) Loss given default (LGD) Credit conversion factor (CCF)	Retail IRB	Authorised in 06/2014
Retail	Consumer Loans	PD LGD CCF	Retail IRB	Authorised in 10/2014
Retail	Consumer Credit Cards	PD LGD CCF	Retail IRB	Authorised in 06/2015
Retail	Personal Current Accounts	PD LGD CCF	Retail IRB	Authorised in 06/2015
Retail	Retail SME	-	Standardised	Under roll-out plan to IRB

Internal rating scales

Probability of default internal rating scales are used within TSB in assessing the credit quality of the Retail IRB unsecured lending and mortgage portfolios. One scale exists within the business, Retail Master Scale, which covers all relevant retail portfolios. TSB uses a continuous PD Scale where customers are allocated to rating scales for the purposes of reporting of unsecured lending. Secured mortgage lending is allocated a PD based on segmentations for account type, credit score and repayment status on a stepped basis.

A detailed analysis, by portfolio type and by PD Grade, of credit risk exposures subject to the Retail IRB approach is provided in the sections that follow.

Disclosures provided in the tables below take into account PD floors and LGD floors specified by the regulators in respect of the calculation of regulatory capital requirements.

Table 16: IRB approach – Credit risk exposures by exposure class and PD range (CR6)[1]

31 December 2021	PD scale	On-balance sheet exposure	Off-balance sheet exposures pre CCF	Exposure-weighted average conversion factor	Exposure after applying conversion factors and credit risk reduction[2]	Average PD Weighted by exposition (%)	Number of obligors	Exposure-weighted average LGD (%)	Risk-weighted exposure amount after applying the supporting factors	Density of the risk-weighted exposure amount	Amount of expected losses	Value adjustments and provisions
		£000	£000	%	£000	%		%	£000	%	£000	£000
Total Retail	0.00 to < 0.15	1,953,724	1,787,352	73.22%	3,298,115	0.11%	1,472,254	37.67%	128,751	3.90%	1,317	(3,455)
	0.00 to < 0.10	31,734	1,261,366	73.17%	944,095	0.06%	1,038,725	77.88%	37,231	3.94%	560	(1,839)
	0.10 to < 0.15	1,921,990	525,986	73.34%	2,354,020	0.13%	433,529	21.55%	91,520	3.89%	757	(1,616)
	0.15 to < 0.25	9,620,456	642,137	69.52%	10,321,738	0.23%	517,176	16.37%	666,309	6.46%	3,939	(6,153)
	0.25 to < 0.50	13,473,123	2,496,626	94.75%	16,255,973	0.38%	597,512	20.02%	2,037,697	12.54%	12,698	(12,614)
	0.50 to < 0.75	4,986,262	259,931	130.88%	5,455,798	0.68%	982,887	22.74%	1,046,222	19.18%	8,649	(10,576)
	0.75 to < 2.50	3,558,133	696,760	94.81%	4,303,102	1.37%	552,587	38.39%	2,027,024	47.11%	26,255	(36,485)
	0.75 to < 1.75	2,819,141	626,106	94.60%	3,482,772	1.21%	398,553	32.33%	1,318,822	37.87%	14,438	(18,737)
	1.75 to < 2.50	738,992	70,654	96.71%	820,330	2.05%	154,034	64.08%	708,202	86.33%	11,817	(17,748)
	2.50 to < 10.00	1,310,474	111,151	118.08%	1,475,062	4.65%	345,872	44.59%	1,221,294	82.80%	33,572	(51,093)
	2.50 to < 5.00	828,325	78,463	116.23%	938,949	3.50%	229,615	48.60%	767,609	81.75%	17,980	(26,985)
	5.00 to < 10.00	482,149	32,688	122.50%	536,113	6.68%	116,257	37.56%	453,685	84.62%	15,592	(24,108)
	10.00 to < 100.00	586,622	62,654	78.92%	655,674	28.82%	119,437	29.87%	744,087	113.48%	51,344	(39,467)
	10.00 to < 20.00	338,469	58,016	69.23%	388,544	16.56%	62,413	34.32%	508,667	130.92%	22,984	(21,383)
	20.00 to < 30.00	17,490	2,408	269.29%	26,446	24.15%	39,544	82.65%	70,633	267.08%	6,049	(6,043)
	30.00 to < 100.00	230,663	2,230	125.56%	240,684	49.13%	17,480	16.89%	164,787	68.47%	22,311	(12,041)
	100.00 (Default)	335,109	14,257	16.51%	335,233	100.00%	29,736	20.36%	317,004	94.56%	49,176	(32,986)
	Sub-total	**35,823,903**	**6,070,868**	**91.07%**	**42,100,695**	**1.88%**	**4,617,461**	**23.90%**	**8,188,388**	**19.45%**	**186,950**	**(192,829)**
Exposure Class: Retail mortgage	0.00 to < 0.15	1,892,379	-	100.00%	1,947,286	0.14%	16,141	9.84%	61,453	3.16%	263	(445)
	0.00 to < 0.10	-	-	-	-	-	-	-	-	-	-	-
	0.10 to < 0.15	1,892,379	-	100.00%	1,947,286	0.14%	16,141	9.84%	61,453	3.16%	263	(445)
	0.15 to < 0.25	9,554,236	-	100.00%	9,824,523	0.23%	70,690	13.26%	609,328	6.20%	2,961	(4,258)
	0.25 to < 0.50	13,322,922	1,960,320	100.00%	15,718,296	0.39%	102,142	17.98%	1,920,543	12.22%	10,773	(9,437)
	0.50 to < 0.75	4,813,830	-	100.00%	4,951,179	0.69%	39,207	16.77%	862,016	17.41%	5,768	(5,345)
	0.75 to < 2.50	2,638,336	353,804	100.00%	3,077,699	1.29%	24,222	19.56%	914,049	29.70%	7,450	(4,435)
	0.75 to < 1.75	2,391,220	353,804	100.00%	2,823,484	1.22%	22,342	20.18%	843,865	29.89%	6,746	(3,938)
	1.75 to < 2.50	247,116	-	100.00%	254,215	2.11%	1,880	12.71%	70,184	27.61%	704	(497)
	2.50 to < 10.00	846,410	-	100.00%	870,725	4.74%	8,657	14.58%	409,553	47.04%	5,683	(2,438)
	2.50 to < 5.00	503,656	-	100.00%	518,141	3.46%	5,126	16.59%	245,162	47.32%	2,960	(1,337)
	5.00 to < 10.00	342,754	-	100.00%	352,584	6.61%	3,531	11.62%	164,391	46.62%	2,723	(1,101)
	10.00 to < 100.00	494,261	812	100.00%	508,343	31.07%	4,292	13.90%	392,098	77.13%	19,955	(3,527)
	10.00 to < 20.00	280,179	-	100.00%	287,903	17.69%	2,249	16.75%	279,891	97.22%	8,676	(2,215)
	20.00 to < 30.00	813	-	100.00%	836	24.56%	6	7.65%	394	47.04%	16	(3)
	30.00 to < 100.00	213,269	812	100.00%	219,604	48.64%	2,037	10.19%	111,813	50.92%	11,263	(1,309)
	100.00 (Default)	298,141	-	100.00%	297,762	100.00%	3,182	11.88%	201,535	67.68%	27,446	(6,525)
	Sub-total	**33,860,515**	**2,314,936**	**100.00%**	**37,195,813**	**1.79%**	**268,533**	**16.09%**	**5,370,575**	**14.44%**	**80,299**	**(36,410)**

31 December 2021	PD scale	On-balance sheet exposure	Off-balance sheet exposures pre CCF	Exposure-weighted average conversion factor	Exposure after applying conversion factors and credit risk reduction[2]	Average PD Weighted by exposition (%)	Number of obligors	Exposure-weighted average LGD (%)	Risk-weighted exposure amount after applying the supporting factors	Density of the risk-weighted exposure amount	Amount of expected losses	Value adjustments and provisions
		£000	£000	%	£000	%		%	£000	%	£000	£000
Exposure Class: Qualifying Revolving Retail Exposures	0.00 to < 0.15	53,332	1,787,352	73.22%	1,342,667	0.08%	1,454,035	77.76%	65,369	4.87%	1,046	(2,966)
	0.00 to < 0.10	28,235	1,261,366	73.17%	940,535	0.06%	1,037,849	77.85%	36,555	3.89%	557	(1,821)
	0.10 to < 0.15	25,097	525,986	73.34%	402,132	0.12%	416,186	77.55%	28,814	7.17%	489	(1,145)
	0.15 to < 0.25	50,968	642,137	69.52%	481,673	0.20%	442,695	77.60%	51,298	10.65%	950	(1,786)
	0.25 to < 0.50	85,468	536,306	75.54%	471,795	0.36%	481,336	79.70%	82,952	17.58%	1,720	(2,632)
	0.50 to < 0.75	61,625	259,931	130.88%	392,083	0.59%	927,817	80.31%	98,491	25.12%	2,227	(3,612)
	0.75 to < 2.50	182,931	342,956	89.46%	474,517	1.40%	434,921	82.15%	242,917	51.19%	6,871	(14,923)
	0.75 to < 1.75	127,491	272,302	87.58%	353,083	1.16%	333,550	81.82%	157,700	44.66%	4,230	(9,104)
	1.75 to < 2.50	55,440	70,654	96.71%	121,434	2.10%	101,371	83.09%	85,217	70.18%	2,641	(5,819)
	2.50 to < 10.00	164,042	111,151	118.08%	297,061	4.79%	306,356	83.47%	363,783	122.46%	14,823	(27,188)
	2.50 to < 5.00	97,133	78,463	116.23%	188,059	3.55%	202,097	83.48%	190,938	101.53%	6,915	(12,886)
	5.00 to < 10.00	66,909	32,688	122.50%	109,002	6.93%	104,259	83.47%	172,845	158.57%	7,908	(14,302)
	10.00 to < 100.00	62,143	61,842	78.65%	116,201	18.87%	111,082	82.80%	288,965	248.68%	22,341	(26,288)
	10.00 to < 20.00	40,459	58,016	69.23%	82,234	13.28%	57,860	82.61%	193,420	235.21%	11,812	(15,554)
	20.00 to < 30.00	12,989	2,408	269.29%	21,786	24.14%	38,991	83.63%	60,912	279.59%	5,108	(5,026)
	30.00 to < 100.00	8,695	1,418	140.19%	12,181	47.24%	14,231	82.57%	34,633	284.32%	5,421	(5,708)
	100.00 (Default)	20,897	14,257	16.51%	21,400	100.00%	24,615	83.85%	67,068	313.41%	12,121	(17,279)
	Sub-total	**681,406**	**3,755,932**	**81.56%**	**3,597,397**	**1.94%**	**4,182,857**	**79.26%**	**1,260,843**	**35.05%**	**62,099**	**(96,674)**
Exposure Class: Retail Loans	0.00 to <0.15	8,013	-	-	8,162	0.11%	2,078	83.87%	1,929	23.64%	8	(44)
	0.00 to < 0.10	3,499	-	-	3,560	0.08%	876	84.94%	676	18.99%	3	(18)
	0.10 to < 0.15	4,514	-	-	4,602	0.13%	1,202	83.04%	1,253	27.23%	5	(26)
	0.15 to < 0.25	15,252	-	-	15,542	0.20%	3,791	81.57%	5,683	36.56%	28	(109)
	0.25 to < 0.50	64,733	-	-	65,882	0.36%	14,034	80.81%	34,202	51.91%	205	(545)
	0.50 to < 0.75	110,807	-	-	112,536	0.63%	15,863	85.08%	85,715	76.17%	654	(1,619)
	0.75 to < 2.50	736,866	-	-	750,886	1.68%	93,444	87.89%	870,058	115.87%	11,934	(17,127)
	0.75 to < 1.75	300,430	-	-	306,205	1.20%	42,661	87.37%	317,257	103.61%	3,462	(5,695)
	1.75 to < 2.50	436,436	-	-	444,681	2.00%	50,783	88.25%	552,801	124.31%	8,472	(11,432)
	2.50 to < 10.00	300,022	-	-	307,276	4.29%	30,859	92.06%	447,958	145.78%	13,066	(21,467)
	2.50 to < 5.00	227,536	-	-	232,749	3.53%	22,392	91.71%	331,509	142.43%	8,105	(12,762)
	5.00 to < 10.00	72,486	-	-	74,527	6.64%	8,467	93.15%	116,449	156.25%	4,961	(8,705)
	10.00 to < 100.00	30,218	-	-	31,130	29.17%	4,063	93.11%	63,024	202.45%	9,048	(9,652)
	10.00 to < 20.00	17,831	-	-	18,407	13.50%	2,304	93.35%	35,356	192.08%	2,496	(3,614)
	20.00 to < 30.00	3,688	-	-	3,824	24.11%	547	93.45%	9,327	243.93%	925	(1,014)
	30.00 to < 100.00	8,699	-	-	8,899	63.75%	1,212	92.47%	18,341	206.09%	5,627	(5,024)
	100.00 (Default)	16,071	-	-	16,071	100.00%	1,939	92.82%	48,401	301.17%	9,609	(9,182)
	Sub-total	**1,281,982**	-	-	**1,307,485**	**3.98%**	**166,071**	**88.35%**	**1,556,970**	**119.08%**	**44,552**	**(59,745)**
Total value (all portfolios)		**35,823,903**	**6,070,868**	**91.07%**	**42,100,695**	**1.88%**	**4,617,461**	**23.90%**	**8,188,388**	**19.45%**	**186,950**	**(192,829)**

Footnote

(1) RMS Grades (PD Scale) is based on Regulatory PDs post-Margins of Conservatism (MoCs).

(2) IRB EAD includes the impact of additional fees and interest receivable in the event of customer default.

5.8 Model performance

This section provides analysis of TSB's IRB PD model performance as at 30 November 2021 for Residential Mortgages, Loans, Cards and PCA. At 31 December 2021 IRB models covered 75% of TSB's total RWAs, which is consistent with December 2020.

Table 17 compares the estimated (weighted and arithmetic average PDs) and actual (average historical annual default rate) PDs by exposure class, along with the number of default and non-default obligors at current and previous year ends. The values are taken from TSB's regulatory capital calculation models, including the application of regulatory floors. Both arithmetic and EAD weighted averages have been used throughout.

Several factors impact default rates, including changes in the risk profile of the portfolio, the macroeconomic environment or movement in individual model parameters. Models are refreshed through recalibration or replacement as required.

IRB ratings systems philosophies typically reside across two stylised extremes: a 'Through the Cycle' (TTC) approach to PD estimation reduces cyclicality in estimates, leading to capital requirements that are less influenced by changes in the economic environment and a Point in Time (PiT) approach for PD leads to capital requirements that are affected directly by changes in economic conditions, increasing during a downturn while decreasing as conditions improve.

Specifically, it is noted that:

- For mortgages, TSB is updating its rating framework to align with the hybrid PD required by the PRA. Under this approach PD estimates sit between a PIT and TTC PD
- Loans, Cards and PCA PD models use a PiT approach which means that the regulatory PD calculation is calibrated to reflect the cyclicality of defaults. A PD buffer is applied to compensate for any potential underestimation from increasing default rates between calibrations.
- All PDs are calculated using the IRB approach.

Table 17: IRB approach – Back testing of PD per exposure class (CR9)[(1)]

Exposure Class	PD range	Number of obligors at the end of the previous period	Of which number of obligors defaulted in year	Observed average default rate	Exposures weighted average PD	Average PD	Average historical annual default rate
30 November 2021		Number of Obligors		%	%	%	%
Retail - Loans	0.00 to <0.15	2,139	4	0.19%	0.11%	0.11%	0.19%
	0.00 to <0.10	899	-	-	0.08%	0.07%	-
	0.10 to <0.15	1,240	4	0.32%	0.13%	0.13%	0.31%
	0.15 to <0.25	3,855	14	0.36%	0.20%	0.20%	0.25%
	0.25 to <0.50	14,180	64	0.45%	0.36%	0.36%	0.47%
	0.50 to <0.75	15,077	83	0.55%	0.63%	0.60%	0.55%
	0.75 to <2.50	89,964	1,064	1.18%	1.68%	1.62%	1.18%
	0.75 to <1.75	50,307	502	1.00%	1.20%	1.18%	0.94%
	1.75 to <2.50	39,657	562	1.42%	2.00%	2.03%	1.58%
	2.50 to <10.00	39,239	1,588	4.05%	4.29%	4.39%	3.77%
	2.50 to <5.00	27,277	810	2.97%	3.53%	3.49%	2.78%
	5.00 to <10.00	11,962	778	6.50%	6.64%	6.66%	7.30%
	10.00 to <100.00	5,106	1,452	28.44%	29.17%	24.93%	30.77%
	10.00 to <20.00	2,955	382	12.93%	13.50%	13.74%	13.91%
	20.00 to <30.00	627	133	21.21%	24.11%	23.92%	23.82%
	30.00 to <100.00	1,524	937	61.48%	63.75%	54.94%	58.53%
	100.00 (Default)	1,974	n/a	n/a	100.00%	100.00%	n/a
	Subtotal	**171,534**	**4,269**	**2.49%**	**3.98%**	**2.71%**	**2.70%**
Retail - Cards	0.00 to <0.15	244,150	428	0.18%	0.08%	0.08%	0.10%
	0.00 to <0.10	167,167	275	0.16%	0.06%	0.06%	0.09%
	0.10 to <0.15	76,983	153	0.20%	0.12%	0.12%	0.12%
	0.15 to <0.25	112,768	298	0.26%	0.19%	0.19%	0.19%
	0.25 to <0.50	104,152	534	0.51%	0.36%	0.35%	0.34%
	0.50 to <0.75	46,495	391	0.84%	0.61%	0.61%	0.58%
	0.75 to <2.50	81,899	1,478	1.80%	1.38%	1.36%	1.38%
	0.75 to <1.75	64,328	981	1.52%	1.16%	1.15%	1.14%
	1.75 to <2.50	17,571	497	2.83%	2.10%	2.10%	2.09%
	2.50 to <10.00	44,847	2,605	5.81%	4.78%	4.81%	5.03%
	2.50 to <5.00	27,149	1,149	4.23%	3.50%	3.50%	3.57%
	5.00 to <10.00	17,698	1,456	8.23%	6.87%	6.89%	7.35%
	10.00 to <100.00	18,534	3,248	17.52%	15.91%	16.17%	18.01%
	10.00 to <20.00	13,996	1,444	10.32%	13.07%	12.50%	11.02%
	20.00 to <30.00	2,101	578	27.51%	24.02%	24.11%	24.33%
	30.00 to <100.00	2,437	1,226	50.31%	40.90%	41.85%	46.81%
	100.00 (Default)	7,972	n/a	n/a	100.00%	100.00%	n/a
	Subtotal	**660,817**	**8,982**	**1.36%**	**1.91%**	**1.12%**	**1.38%**
Retail - Personal Current Accounts (PCA)	0.00 to <0.15	1,209,838	934	0.08%	0.08%	0.08%	0.05%
	0.00 to <0.10	859,249	623	0.07%	0.06%	0.06%	0.04%
	0.10 to <0.15	350,589	311	0.09%	0.12%	0.12%	0.06%
	0.15 to <0.25	370,901	379	0.10%	0.20%	0.20%	0.10%
	0.25 to <0.50	412,444	917	0.22%	0.36%	0.36%	0.21%
	0.50 to <0.75	869,851	1,631	0.19%	0.58%	0.57%	0.42%
	0.75 to <2.50	377,823	3,861	1.02%	1.41%	1.38%	1.02%
	0.75 to <1.75	287,853	2,455	0.85%	1.16%	1.15%	0.86%
	1.75 to <2.50	89,970	1,406	1.56%	2.09%	2.09%	1.49%
	2.50 to <10.00	227,090	8,463	3.73%	4.79%	5.01%	3.79%
	2.50 to <5.00	132,801	3,639	2.74%	3.60%	3.56%	2.81%
	5.00 to <10.00	94,289	4,824	5.12%	6.99%	6.91%	5.16%
	10.00 to <100.00	63,504	9,452	14.88%	23.22%	22.71%	17.62%
	10.00 to <20.00	37,528	3,456	9.21%	13.77%	13.68%	10.15%
	20.00 to <30.00	15,884	1,490	9.38%	24.19%	26.01%	15.88%
	30.00 to <100.00	10,092	4,506	44.65%	50.95%	49.49%	42.29%
	100.00 (Default)	17,021	n/a	n/a	100.00%	100.00%	n/a
	Subtotal	**3,548,472**	**25,637**	**0.72%**	**2.01%**	**1.11%**	**1.00%**
Retail – Mortgages	0.00 to <0.15	15,404	4	0.03%	0.14%	0.13%	0.01%
	0.00 to <0.10	-	-	-	-	-	-
	0.10 to <0.15	15,404	4	0.03%	0.14%	0.13%	0.02%
	0.15 to <0.25	66,301	24	0.04%	0.23%	0.24%	0.02%
	0.25 to <0.50	92,915	55	0.06%	0.39%	0.39%	0.04%
	0.50 to <0.75	34,983	56	0.16%	0.69%	0.71%	0.09%
	0.75 to <2.50	23,849	63	0.26%	1.29%	1.36%	0.14%
	0.75 to <1.75	22,868	56	0.24%	1.22%	1.32%	0.13%
	1.75 to <2.50	981	7	0.71%	2.11%	2.34%	0.21%
	2.50 to <10.00	9,226	105	1.14%	4.74%	5.14%	0.59%
	2.50 to <5.00	5,253	45	0.86%	3.46%	3.62%	0.41%
	5.00 to <10.00	3,973	60	1.51%	6.61%	7.16%	0.98%
	10.00 to <100.00	4,828	718	14.87%	31.07%	33.98%	11.07%
	10.00 to <20.00	1,497	90	6.01%	17.69%	16.32%	2.84%
	20.00 to <30.00	1,117	43	3.85%	24.56%	21.18%	3.58%
	30.00 to <100.00	2,214	585	26.42%	48.64%	52.38%	18.41%
	100.00 (Default)	3,477	n/a	n/a	100.00%	100.00%	n/a
	Subtotal	**250,983**	**1,025**	**0.41%**	**1.79%**	**1.31%**	**1.25%**

Footnote

(1) Back testing is performed separately on retail credit cards and personal current accounts. These are aggregated in regulatory reporting in Qualifying Revolving Retail exposures.

5.9 Impaired lending and provisions

TSB's accounting policy in respect of impairment of financial assets is detailed in the notes to the financial statements in TSB's ARA on pages 71 to 72.

The following definitions are employed:

- **Impairment of financial assets**
  The impairment requirements of IFRS 9 apply to financial assets measured at amortised cost and debt instruments measured at Fair Value through Other Comprehensive Income (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. 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 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.

- **Purchased or originated credit impairment (POCI):** Financial assets that are credit impaired at the date of their purchase or origination will be reported in a separate POCI category and will recognise the cumulative change in lifetime expected credit loss since origination as a loss allowance.

- **Past due exposures**: An exposure is past due when a counterparty has failed to make a payment when contractually due.

- **Credit impaired exposures**: 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 repossession, and customers who have received a forbearance treatment, generally within the previous two years, and have subsequently either moved back into early arrears or have received an additional forbearance measure. 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.

Impairment provisions are required to be categorised as either general or specific credit risk adjustments as part of the capital requirements calculation process. All TSB impairment provisions (whether individually or collectively assessed) are considered to be specific credit risk adjustments as they are recognised in accordance with IFRS 9.

5.10 Managing impaired exposures and impairment provisions

Provisioning policy

Under IFRS 9, TSB's policies and standards in respect of the management of Impairment Provisions consider forward looking ECL for all exposures. These are set out in TSB's IFRS 9 provisioning policies. These policies are reviewed and approved on an annual basis.

Adequacy and reporting

Lending assets are assessed for 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. IFRS 9 requires that financial assets be allocated to one of three 'stages' as described on page 25.

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 recorded in TSB's books and records 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.

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.

5.11 Management of customers experiencing financial difficulties

Forbearance

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.

For reporting purposes, TSB's definition of a restructured exposure is where terms of lending agreements have been renegotiated by either capitalisation of arrears, interest rate adjustment, payment holidays, interest capitalisation, temporary interest only, lending that would otherwise be past due or impaired but whose terms have been renegotiated. Further details on forbearance are provided on page 96 of the TSB's ARA.

In response to the COVID-19 pandemic, during 2020, TSB introduced, for an interim temporary period, repayment holidays to enable customers to take a temporary break from making loan repayments where they were experiencing, or were reasonably expected to experience, payment difficulties caused by COVID-19. During the period of the repayment holiday, no further arrears were reported on customers' records although interest on the deferred payments continued to accrue. Customers were able to apply for these COVID-19 arrangements until March 2021.

As at 31 December 2021, no loans and advances to customers were being operated under these arrangements.

An analysis of non-performing and forborne exposures is presented in the tables below. The defaulted and impaired exposures reported in the tables 18, 19 and 20 are reported in accordance with Financial Reporting Standards (FINREP) definitions. The FINREP definition includes the following:

- balances in probation;
- forborne balances;
- non-performing indicators; and
- past due definition of default of 90 days for secured and unsecured.

At 31 December 2020 TSB introduced a new secured risk rating model to meet requirements of the Single Supervisory Mechanism (SSM) which included the regulatory change to 90 days past due from 180 days past due definition of default on the mortgage portfolio. This will be required for all UK banks by 2022. This aligns the delinquency requirement to the accounting policy under IFRS 9 for the definition of default.

The following table provides information on the credit quality of forborne exposures.

Table 18: Credit quality of forborne exposures (CQ1)

31 December 2021 £000	Gross carrying amount / Nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Non-performing forborne						
	Performing forborne	Total	Of which defaulted	Of which impaired	On performing forborne exposures	On non-performing forborne exposures	Total	Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
Cash balances at central banks and other demand deposits	-	-	-	-	-	-	-	-
Loans and advances	**96,156**	**222,639**	**169,276**	**222,639**	**1,397**	**40,556**	**265,397**	**173,981**
Central banks	-	-	-	-	-	-	-	-
General governments	-	-	-	-	-	-	-	-
Credit institutions	-	-	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-
Non-financial corporations	2,679	-	-	-	266	-	2,384	-
Households	96,477	222,639	169,276	222,639	1,131	40,556	263,013	173,981
Debt securities	-	-	-	-	-	-	-	-
Loan commitments given	**3,450**	**22,153**	**8,738**	**22,153**	**112**	**1,890**	-	**3,450**
Total	**99,606**	**244,792**	**178,014**	**244,792**	**1,509**	**42,446**	**265,397**	**173,981**

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.

As at 31 December 2021, total forborne exposures were £344.4 million including £318.8 million of loans and advances and £25.6 million of loan commitments, of which £99.6 million were performing and £244.8 million were non-performing. Total collateral, which is largely residential property, of £265.4 million is held against these forborne exposures and £44.0 million impairment provision has been provided.

Further information on forborne exposures is reported within the notes to the consolidated financial statements on pages 93 and 96 of TSB's ARA.

5.12 Analysis of past due and impaired loans and advances to customers regardless of impairment status

As at 31 December 2021, past due exposures in respect of loans and advances to customers, regardless of impairment status, amounted to £619.3 million, of which £572.0 million relates to non-performing exposures.

Analysis by geography
All past due but not impaired loans and advances to customers and impaired loans and advances to customers as at 31 December 2021 are categorised as being in the United Kingdom, based on the materiality criteria, outlined on page 18 relating to retail exposures.

The following table provides information on the credit quality of performing and non-performing exposures.

Table 19: Credit quality of performing and non-performing exposures by past due days[1] (CQ3)

31 December 2021 £000	Gross carrying amount / nominal amount											
	Performing exposures			Non-performing exposures								
	Total	Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days	Total	Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
Cash balances at central banks and other demand deposits	**4,750,460**	**4,750,460**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Loans and advances	**37,312,641**	**37,265,370**	**47,271**	**541,046**	**292,635**	**119,150**	**51,413**	**38,335**	**26,672**	**4,664**	**8,177**	**422,371**
Central banks	143,588	143,588	-	-	-	-	-	-	-	-	-	-
General governments	28,566	28,566	-	-	-	-	-	-	-	-	-	-
Credit institutions	73,626	73,626	-	-	-	-	-	-	-	-	-	-
Other financial corporations	37,203	37,179	24	40	-	40		-	-	-	-	10
Non-financial corporations	409,720	397,641	12,078	19,367	2,743	14,038	2,191	189	206			16,213
Of which SMEs	409,720	397,641	12,078	19,367	2,743	14,038	2,191	189	206			16,213
Households	36,619,938	36,584,769	35,169	521,639	289,892	105,072	49,222	38,146	26,466	4,664	8,177	406,148
Debt securities	**3,235,727**	**3,235,727**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Central banks	-	-	-	-	-	-	-	-	-	-	-	-
General governments	2,683,290	2,683,290	-	-	-	-	-	-	-	-	-	-
Credit institutions	489,856	489,856	-	-	-	-	-	-	-	-	-	-
Other financial corporations	62,581	62,581	-	-	-	-	-	-	-	-	-	-
Non-financial corporations	-	-	-	-	-	-	-	-	-	-	-	-
Off-balance-sheet exposures	**6,436,623**			**30,955**								**10,923**
Central banks	-			-								-
General governments	-			-								-
Credit institutions	173			-								-
Other financial corporations	100			-								-
Non-financial corporations	13,160			43								24
Households	6,423,190			30,912								10,899
Total	**51,735,451**	**45,251,556**	**47,271**	**572,001**	**292,635**	**119,150**	**51,413**	**38,335**	**26,672**	**4,664**	**8,177**	**433,294**

Footnote

(1) Table reported in accordance with FINREP definitions.

As at 31 December 2021, TSB's non-performing loans (NPL) ratio was 1.1%.

Total loans and advances grew by £3.8 billion, 11.4%, from £33.5 billion in 2020 to £37.3 billion as at 31 December 2021. The growth of £3.8 billion was largely due to growth in secured household lending.

Effective from 1 January 2021, TSB changed the regulatory definition of default for secured portfolios to include loans that are more than 90 days past due (previously the regulatory capital definition was 180 days). While there was no change to the IFRS 9 definition of default, nor to the measurement of ECL, this better aligned the default definition for regulatory capital with that of IFRS 9. Since 31 December 2020 non-performing exposures have grown from £480.0 million to £572.0 million as at 31 December 2021, of which default has grown to £433.3 million from £247.4 million.

5.13 Analysis of impairment provisions in respect of loans and advances to customers

The analysis of performing and non-performing exposures and related provisions as at 31 December 2021, in respect of loans and advances to customers is provided in table 20.

During 2021, accumulated impairment reduced from £258.1 million to £206.2 million, of which £147.1 million relates to performing exposure and £59.1 million to non-performing exposures. TSB's customer lending portfolios have remained resilient, and the economic outlook has continued to improve.

Total non-performing exposures as at 31 December 2021 of £572.0 million with impairment provision of £59.1 million compared to £480.0 million and £53.2 million respectively as at 31 December 2020. Excluding off-balance sheet exposures, non-performing exposures grew from £449.8 million to £541.0 million, an increase of £91.2 million, 20.2%.

Although gross on balance sheet loans and advances increased during 2021 by £3.9 billion (11.5%) to £37.9 billion, the growth in non-performing exposures was proportionally higher, predominantly as a result of the change in definition of default for the secured portfolio from 180 days past due to 90 days past due.

Total collateral largely related to secured household property. Since 31 December 2020, collateral has increased from £31.4 billion to £35.4 billion as at 31 December 2021.

TSB is not required to make disclosures on foreclosed assets as 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.

Further information on impairment losses on loans is reported with TSB's ARA consolidated statement of comprehensive income on page 64 and the notes to the consolidated financial statements on pages 71 to 78 and 89 to 95.

Table 20: Performing and non-performing exposures and related provisions[1] (CR1)

31 December 2021	Gross carrying amount / nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-offs	Collateral and financial guarantees received	
	Gross carrying amount / nominal amount			Non-performing exposures			Performing exposures – Accumulated impairment and provisions			Non-performing exposures – Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
£000	Total	of which: stage 1	of which: stage 2	Total	of which: stage 2	of which: stage 3	Total	of which: stage 1	of which: stage 2	Total	of which: stage 2	of which: stage 3			
Cash balances at central banks and other demand deposits	**4,750,460**	**4,750,460**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**		**-**	**-**
Loans and advances	**37,312,641**	**34,628,388**	**2,684,253**	**541,046**	**-**	**541,046**	**133,453**	**59,007**	**74,446**	**56,096**	**-**	**56,096**	**-**	**34,960,255**	**462,405**
Central banks	143,588	143.588	-	-	-	-	-	-	-	-	-	-	-	-	-
General governments	28,566	28,566	-	-	-	-	-	-	-	-	-	-	-	-	-
Credit institutions	73,626	73,626	-	-	-	-	-	-	-	-	-	-	-	-	-
Other financial corporations	37,203	36,513	690	40	-	40	25	11	14	-	-	-	-	2,599	40
Non-financial corporations	409,720	288,786	120,934	19,367	-	19,367	6,410	3,566	2,844	563	-	563	-	376,967	18,202
of which SMEs	409,720	288,786	120,934	19,367	-	19,367	6,410	3,566	2,844	563	-	563	-	376,967	18,202
Households	36,619,938	34,057,309	2,562,629	521,639	-	521,639	127,018	55,430	71,588	55,533	-	55,533	-	34,580,689	444,163
Debt securities	**3,235,727**	**3,235,727**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
General governments	2,683,290	2,683,290	-	-	-	-	-	-	-	-	-	-	-	-	-
Credit institutions	489,856	489,856	-	-	-	-	-	-	-	-	-	-	-	-	-
Other financial corporations	62,581	62,581	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-financial corporations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Off-balance-sheet exposures	**6,436,623**	**6,123,267**	**313,356**	**30,956**	**-**	**30,956**	**13,656**	**8,896**	**4,760**	**2,990**	**-**	**2,990**	**-**	**-**	**-**
Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
General governments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Credit institutions	173	173	-	-	-	-	-	-	-	-	-	-	-	-	-
Other financial corporations	100	100	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-financial corporations	13,160	12,278	882	44	-	44	-	-	-	-	-	-	-	-	-
Households	6,423,190	6,110,717	312,474	30,912	-	30,912	13,656	8,896	4,760	2,990	-	2,990	-	-	-
Total	**51,735,451**	**48,737,842**	**2,997,609**	**570,002**	**-**	**570,002**	**147,109**	**67,903**	**79,206**	**59,086**	**-**	**59,086**	**-**	**34,960,255**	**462,405**

Footnote

(1) Table reported in accordance with FINREP definitions.

5.14 Credit risk mitigation

TSB uses a range of approaches to mitigate credit risk.

Credit policies and standards

TSB's Risk function sets out credit policies and procedures for managing credit risk. These are reviewed at least annually, and any changes are subject to a review and approval process. Policies and procedures are reviewed, as appropriate, to help anticipate future areas of concern and allow TSB to take early and proactive mitigating actions.

Portfolio Risk teams define credit strategies, aligned to credit policies and procedures, to actively monitor and manage the credit risk of TSB's portfolios, both on and off-balance sheet. Business area processes and procedures provide guidance to operational areas on the management of portfolios where manual intervention is required. This includes documented guidance on lending for, and explicit limitations on, any discretionary powers held by sanctioners and underwriters; ensuring a consistent and controlled approach to making credit decisions. Portfolio and customer performance against TSB's policy is regularly assessed in the Portfolio Quality Review.

Retail credit assessment

TSB uses a variety of lending criteria when assessing applications for mortgages and unsecured lending. The general approval process uses credit scorecards and involves a review of an applicant's previous credit history in the form of information held by credit reference agencies. For mortgage and unsecured lending, TSB also assesses the affordability of lending to the customer. In addition, TSB has in place lending limits such as maximum loan amounts, the level of borrowing to income and the ratio of borrowing to collateral. Certain limits are subject to internal approval while others are hard limits above which TSB will reject the application. Credit scorecards and limits are subject to ongoing review and approval in line with TSB's governance, to ensure they remain appropriate and effective. TSB also has certain criteria applicable to specific products such as for buy-to-let mortgage applications.

TSB also provides active support to customers experiencing financial difficulties, including the extension of forbearance measures where appropriate.

Business banking credit assessment

Save for BBL and Coronavirus Business Interruption Loans (CBIL) exposures, where credit risk is mitigated by government guarantee, credit risk in the Retail SME customer portfolio is subject to individual credit assessments which consider the strengths and weaknesses of individual transactions and the balance of risk and reward. Exposure to counterparties or customer risk segments is controlled through a tiered hierarchy of delegated sanctioning authorities and limit and sector guidelines. Approval requirements for each decision are based on the transaction amount, the customer's aggregate facilities, credit risk ratings and the nature and term of the risk.

Concentration risk

Concentration risk is the risk of losses arising because of a concentration of exposures due to imperfect diversification. TSB manages credit concentration risk in relation to the geographical spread of its secured mortgage portfolio in the UK. TSB has also established controls to prevent concentration in wholesale treasury exposures.

Master netting

TSB's credit risk exposure on derivative and repo instruments is mainly subject to master netting agreements in accordance with TSB's Treasury Risk Counterparty Credit Risk Policy. Although these do not always result in an offset of balance sheet assets and liabilities, as many transactions are settled on a gross basis, they do reduce credit exposures by ensuring amounts due on all instruments covered under the agreement are settled on a net basis in the event of a default. Where master netting is not possible exposure is restricted to high quality financial institutions.

Collateral

The principal collateral types for loans and advances are:

- security over residential and commercial real estate;
- second charges over business assets, including commercial and residential property, inventory and accounts receivables; and
- guarantees received from third parties including from the UK Government through the British Business Bank in respect of BBLs.

It is TSB's policy that collateral should be realistically valued by an appropriately qualified source, independent of both the credit decision process and the customer, at the time of borrowing. Collateral is reviewed on a regular basis in accordance with business unit credit standards, which will vary according to the type of lending and collateral involved. For retail residential mortgages, collateral valuation is reviewed quarterly using external house price indices. LGD estimates for the secured IRB portfolio include adjustments to realisable collateral values through the application of recessionary house price movements and forced sale discounts.

Table 21: IRB approach – Disclosure of the extent of the use of CRM techniques (CR7-A)

31 December 2021 £000	TOTAL exposures	Credit Risk Mitigation Techniques – Funded Credit Protection (FCP): Financial Collaterals	Other eligible collaterals	Immovable property collaterals[1]	Credit Risk Mitigation Methods in the calculation of RWEAs: RWEA without substitution effects	RWEA substitution effects
	a	b	c	d	m	n
Retail	42,100,696	-	187.8%	187.8%	8,188,387	8,188,387
Of which Retail – Immovable property SMEs	-	-	-	-	-	-
Of which Retail – Immovable property Non-SMEs	37,195,813	-	212.6%	212.6%	5,370,574	5,370,574
Of which Retail – Qualifying revolving	3,597,397	-	0.0%	0.0%	1,260,843	1,260,843
Of which Retail – Other SMEs	-	-	-	-	-	-
Of which Retail – Other non-SMEs	1,307,486	-	0.0%	0.0%	1,556,970	1,556,970
Total	**42,100,696**	**-**	**187.8%**	**187.8%**	**8,188,387**	**8,188,387**

Footnote

(1) The disclosed value of collateral used to calculate the percentage is not limited to the value of the exposure at the level of an individual exposure.

Funded credit protection for TSB relates to real estate collateral secured on mortgage lending. As at the 31 December 2021 the indexed linked value of real estate was £79.1 billion. The value of eligible collateral in table above has been presented based on that value. Limiting the value of collateral to the exposure of individual exposures results in 99.3% coverage in immoveable property.

Exposures covered by eligible collateral and guarantees

The criteria for recognising eligible collateral, the treatments that apply and the extent to which adjustments are made are set out under the relevant CRR provisions governing the application of credit risk mitigation under the IRB approach (CRR Chapter 3) and the standardised approach (CRR Chapter 2).

Where a credit risk exposure subject to the IRB approach is covered by a form of credit risk mitigation, this can result in an adjustment to the LGD value used in the calculation of the RWA amount.

TSB uses the financial collateral comprehensive method for the valuation of treasury exposures. This applies relevant adjustments for volatility to the market value of collateral and maturity mismatches for all collateral types. The regulatory requirements for recognition include a number of considerations including legal certainty of charge, frequency and independence of revaluation and correlation of the value of the underlying asset to the obligor. For counterparty credit risk exposure calculations, TSB uses the current exposure method. From 1 January 2022 TSB will use the Standardised Approach for Counterparty Credit Risk.

TSB does not make use of credit derivatives for regulatory capital purposes.

The net carrying value of TSB's unsecured and secured exposures is set out in the table below. Secured exposures are those exposures secured by residential property and central governments guarantees. Unsecured exposures include unsecured retail lending.

Table 22: Disclosure of the use of credit risk mitigation techniques (CR3)

		Secured Carrying Amount			
				Of which secured by financial guarantees	
31 December 2021	Unsecured carrying amount £000	Total £000	Of which secured by collateral £000	Total £000	Of which secured by credit derivatives £000
Loans and advances[1]	7,181,487	35,422,660	34,908,598	514,061	-
Debt securities	3,235,727	-	-	-	
Total	10,417,214	35,422,860	34,908,598	514,061	-
Of which non-performing exposures	78,641	462,405	436,320	26,085	-
Of which defaulted	48,776	369,456			

Footnote
(1) Loans and advances exclude cash balances at central banks or other assets.

The exposures secured by financial guarantees for total loans relates to BBLs guaranteed by UK Government through the British Business Bank to support businesses.

Secured by collateral largely relates to lending secured on residential property relating to TSB's retail mortgage portfolio.

Debt securities include covered bonds of £213.4 million and government guaranteed public sector entity exposures of £79.6 million.

6. Leverage ratio

The following tables present CRR disclosures on the leverage ratio. Only rows applicable to TSB are presented within tables 23, 24 and 25.

6.1 Leverage ratio exposure

Table 23: Summary reconciliation of accounting assets and leverage ratio exposures (LR1)

Applicable Amounts	**2021 £000**	2020 £000
Total assets as per published financial statements	46,688,763	42,406,594
Adjustments for derivative financial instruments	(276,494)	(422,522)
Adjustment for securities financing transactions (SFTs)	-	1,089
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	1,050,945	978,692
(Adjustment for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital)	(1,394)	(2,345)
Other adjustments	(49,812)	(7,539)
Leverage ratio total exposure measure	**47,412,008**	42,933,969

TSB calculates its leverage based on the CRR definition of exposure measure and Tier 1 capital. The leverage ratio measure is defined as the ratio of Tier 1 capital to total exposure. Items deducted from Tier 1 capital are also deducted from the exposure measure to ensure consistency between the capital and exposure components of the ratio. The leverage ratio is intended to complement the risk-based capital requirements with a simple, non-risk based 'backstop' measure.

TSB's EBA leverage ratio is 3.6% which comfortably exceeds the CRR minimum of 3.0%.

The leverage ratio has decreased from 3.8% to 3.6% as a result of an increase in Tier 1 capital of £93.6 million in 2021(largely due to the 2021 profit of £130.2 million, partly offset by a lower IFRS9 transitional adjustment and a higher intangible fixed assets deduction) and an increase in the leverage exposure of £4.5 billion to £47.4bn (largely driven by increases in mortgage lending and holdings of UK Gilts).

Under the PRA UK leverage ratio framework leverage ratios can be calculated on a modified basis to exclude qualifying central bank reserves and COVID-19 lending covered by government guarantee from the exposure measure. On this basis, which applies to banks with customer deposits in excess of £50 billion and, therefore, does not currently apply to TSB, TSB's ratio of 4.1% exceeds the PRA's expectation of 3.25%.

Table 24: Leverage ratio common disclosure (LR2)

CRR leverage ratio exposure	2021 £000	2020 £000
On-balance sheet exposures (excluding derivatives and SFTs)		
On-balance sheet items (excluding derivatives SFTs, but including collateral)	46,379,561	41,958,608
(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	(18,087)	-
(Asset amounts deducted in determining Tier 1 capital)	(137,748)	(125,188)
Total on-balance sheet exposures (excluding derivatives and SFTs)	**46,223,726**	**41,833,420**
Derivative exposures		
Replacement cost associated with SA-CCR derivatives transactions (i.e. net of eligible cash variation margin)	645	-
Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	136,692	77,193
Adjusted effective notional amount of written credit derivatives	-	(181,479)
Total derivatives exposures	**137,337**	**(104,286)**
Securities financing transaction (SFT) exposures		
Gross SFT assets (with no recognition of netting), after adjustment for sales accounting transactions	-	225,054
(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	1,089
Total securities financing transaction exposures	**-**	**226,143**
Other off-balance sheet exposures		
Off-balance sheet exposures at gross notional amount	6,454,105	6,254,116
(Adjustments for conversion to credit equivalent amounts)	(5,403,160)	(5,275,424)
Off-balance sheet exposures	**1,050,945**	**978,692**
Capital and total exposures measure		
Tier 1 capital	1,724,002	1,630,434
Leverage total exposure measure	**47,412,008**	**42,933,969**
Leverage ratio		
Leverage ratio (%)	3.6%	3.8%
Leverage ratio (excluding the impact of the exemption of public sector investments and promotional loans) (%)	3.6%	3.8%
Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) (%)	3.6%	3.8%
Regulatory minimum leverage ratio requirement (%)	0.0%	0.0%
Additional own funds requirements to address the risk of excessive leverage (%)	0.0%	0.0%
of which: to be made up of CET1 capital	0.0%	0.0%
Leverage ratio buffer requirement (%)	0.0%	0.0%
Overall leverage ratio requirement (%)	0.0%	0.0%
Disclosure of mean values		
Mean of daily values of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivable	15	
Total exposure measure (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	47,412,023	42,933,969
Total exposure measure (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	47,412,023	42,933,969
Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	3.6%	3.8%
Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	3.6%	3.8%

Table 25: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures) (LR3)

CRR leverage ratio exposures	2021 £000	2020 £000
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**46,361,474**	41,777,129
Banking book exposures, of which:	46,361,474	41,777,129
Covered bonds	213,393	211,531
Exposures treated as sovereigns	8,030,932	7,562,008
Institutions	75,654	57,449
Secured by mortgages of immovable properties	34,487,747	30,587,965
Retail exposures	2,425,272	2,441,972
Corporate	28,099	25,013
Exposures in default	407,779	226,366
Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	692,598	646,825

Exempted exposures consist of variation margin pledged of £18.1 million in 2021 and £181.5 million in 2020.

6.2 Management of excessive leverage

The risk of excessive leverage is the risk resulting from an institution's vulnerability to leverage or contingent leverage that may require unintended corrective measures to the business plan, including distressed selling of assets which might result in losses or in valuation adjustments to the remaining assets.

TSB monitors the risk of excessive leverage through the leverage ratio which is calculated and reported to Board, Executive Committee (EC) and ALCO on a monthly basis.

The Board approved leverage ratio risk appetite is set above the minimum regulatory requirements. The Medium-Term Plan (MTP), updated at least annually, considers compliance with the leverage ratio risk appetite. Where the risk of excessive leverage is identified in the MTP, the business plans are reconsidered to mitigate that risk.

7. Liquidity

TSB's Liquidity & Funding risk management framework ensures that liquidity and funding risks are effectively managed and the PRA's Overall Liquidity Adequacy Rule (OLAR) is met. The following tables present CRR liquidity disclosures. Only rows applicable to TSB are presented within tables 26 and 27.

7.1 Liquidity Risk Management

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.

Risk appetite

TSB's risk appetite methodology is set out on page 14 of the ARA. 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 of ensuring that TSB has sufficient financial resources of appropriate quantity and quality.

Risk Profile and Measurement

TSB maintains a prudent liquidity profile to ensure that we can continue to operate under stressed conditions and will limit the proportion of our balance sheet which is reliant on wholesale funding. Liquidity and funding risks are monitored and measured using a suite of Risk Appetite Measures (RAM) and Early Warning Indicators (EWI). These indicators are contained within the risk appetite framework and reflect both the regulatory minimum requirements and TSB's internal appetite. The indicators are supported by a series of triggers and limits and cover the short, medium and long-term horizon of risks, including under stress conditions. TSB's loan to deposit ratio as at 31 December 2021 was 104% which is well within board approved risk appetite.

Liquidity is managed in accordance with the Internal Liquidity Adequacy Assessment Process (ILAAP), which is approved by the Board. Liquidity risk exposures are subject to assessment under both regulatory and internal requirements. The size and quality of TSB's liquid asset portfolio is calibrated based on a series of stress tests across a range of time horizons and stress conditions. The High-Quality Liquid Asset (HQLA) requirement is assessed and quantified as the outflow of funds under a series of stress scenarios less the impact of inflows from assets. Stress cash outflow assumptions have been established for identified liquidity risk drivers under idiosyncratic and market-wide stresses.

The funding plan supports the business strategy and establishes an acceptable level of liquidity and funding risk which is approved by the Board and is consistent with risk appetite and the strategic objectives of the business. The plan includes an assessment of TSB's market capacity for raising wholesale funds across a range of primary funding sources. Refinancing and concentrations risks are carefully managed within the risk appetite framework.

Several metrics are used to measure funding risks, including funding ratios, limits to concentration risk and levels of encumbrance. The established measures serve to limit the reliance on wholesale funding and manage the diversification of funding sources.

TSB's Liquidity Contingency Plan (LCP) is fully embedded and outlines the invocation and escalation process in the event of a liquidity event. The plan identifies the triggers for escalation, assesses capacity, details the invocation and action required, allocates the key tasks to individuals, provides a timeframe and defines a management committee to execute the action plan and return the bank to operating within its risk appetite.

TSB operates a Funds Transfer Pricing Framework, a key purpose of which is to ensure that liquidity and funding risk is considered in the pricing of loans and deposits.

Monitoring

The monitoring and management of liquidity and funding is undertaken by the Capital, Funding and Liquidity management team within the Treasury function. The Treasurer has delegated authority to manage liquidity and funding activities.

A suite of measures is used by TSB to monitor both short and long-term liquidity risk. These daily and monthly measures cover a combination of quantitative and qualitative indicators to monitor and manage risk exposures.
The liquidity and funding policy and procedures are subject to independent monitoring by the Oversight function and Internal Audit. Regular reporting of actual and projected ratios against risk appetite is provided to appropriate committees within TSB's governance and risk management framework as outlined in pages 13 to 14 of the ARA.

These include TSB Executive Committee, the Asset and Liability Committee, Board Risk Committee, and the Board.

The regulatory framework within which the TSB operates continues to be subject to UK & EU banking reforms. TSB monitors these developments and analyses the potential impacts to ensure that regulatory requirements continue to be met.

Mitigation

Compliance with the liquidity and funding risk appetite is actively managed and monitored through TSB's planning, forecasting and stress testing processes. A five-year forecast of TSB's liquidity and funding positions are produced at least annually to inform the strategy and form part of the Board approved operating plan. In addition, regular refreshes of plans are produced and reviewed that take into consideration the business and economic conditions at that time. The business plans are tested for liquidity and funding adequacy using a range of macroeconomic stress scenarios covering adverse economic conditions as well as other potential adverse developments. TSB holds a portfolio of HQLA that can be utilised to meet its liquidity requirements in times of stress. The size of the HQLA portfolio is calibrated based on a view of potential outflows under both systemic and idiosyncratic stress events. In addition, TSB can use the repo market and bilateral relationships to generate funds and can also participate in BoE operations through the Sterling Monetary Framework (SMF).

TSB has several sources of funding which are well-diversified in terms of the type of instrument, programmes, counterparty, term structure and market. In addition to retail customer funding, wholesale funding is used to support balance sheet growth, lengthen the contractual tenor of funding and diversify funding sources. These funding programmes leverage TSB's high-quality mortgage book as collateral for secured funding purposes.

TSB, as a participant of the SMF, has access to the BoE insurance liquidity facilities including the term funding schemes. Following its launch in April 2020, TSB has accessed the Term Funding Scheme with additional incentives for SME's (TFSME). During 2021, TSB repaid all outstanding TFS amounts, funded by a combination of customer deposits, public market issuance and TFSME drawings.

Adequacy of Liquidity Risk Management

TSB has a sound liquidity and funding risk management framework in place, consisting of:

- **Risk strategy and risk appetite:** TSB's liquidity and funding risk appetite measures have been approved by the Board. These measures are supported by detailed risk limits and are reviewed annually.

- **Organisation framework, policies and procedures:** TSB maintains an appropriate organisation framework, policies and procedures for funding and liquidity risk management. The liquidity and funding risk management and control system is based on a clear separation between the three lines of defence, providing independence in the assessment of positions and in the control and analysis of risks.

- **Risk identification, measurement, management, monitoring and reporting**: TSB has an appropriate framework in place to:
  - identify liquidity and funding risks in its banking activities (including the risks presented by new products);
  - measure the identified liquidity and funding risks;
  - manage the liquidity and funding risks;
  - monitor the liquidity and funding risks using risk appetite and early warning indicators;
  - report to senior management and committees against the risk appetite on a regular basis.

7.2 Quantitative information of Liquidity Coverage Ratio

The Liquidity Coverage Ratio (LCR) is a key regulatory tool used to monitor the short-term liquidity adequacy of the bank. As at 31 December 2021, TSB's LCR was 194% (December 2020: 201%).

The table below reflects the trailing 12 month-end average LCR balances at the applicable quarter end dates. The trailing 12 month-end average LCR to 31 December 2021 was 165%, shown in the LIQ1 disclosure table below:

Table 26: Quantitative information of LCR (LIQ1)

	Total unweighted value (average)				Total weighted value (average)			
£000	31 December 2021	30 September 2021	30 June 2021	31 March 2021	31 December 2021	30 September 2021	30 June 2021	31 March 2021
Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
HIGH-QUALITY LIQUID ASSETS								
Total high-quality liquid assets (HQLA)					**6,441,563**	**6,248,446**	**6,681,097**	**7,246,394**
CASH - OUTFLOWS								
Retail deposits and deposits from small business customers, of which:	**35,348,216**	**34,934,424**	**34,399,973**	**33,616,619**	**2,353,679**	**2,308,219**	**2,253,562**	**2,186,353**
Stable deposits	28,457,680	28,235,259	27,918,390	27,343,567	1,422,884	1,411,763	1,395,919	1,367,178
Less stable deposits	6,489,020	6,268,901	6,017,035	5,772,855	930,795	896,456	857,642	819,174
Unsecured wholesale funding	**266,972**	**241,740**	**238,229**	**183,696**	**142,362**	**131,974**	**144,169**	**102,861**
Non-operational deposits (all Counterparties)	232,280	206,470	178,984	155,016	107,670	96,704	84,923	74,181
Unsecured debt	34,692	35,270	59,245	28,681	34,692	35,270	59,245	28,681
Secured wholesale funding					**-**	**-**	**-**	**-**
Additional requirements	**3,973,912**	**3,937,208**	**3,884,663**	**3,819,896**	**353,505**	**332,801**	**312,761**	**291,759**
Outflows related to derivative exposures and other collateral requirements	162,957	143,095	124,766	106,068	162,957	143,095	124,766	106,068
Credit and liquidity facilities	3,810,955	3,794,113	3,759,898	3,713,827	190,549	189,705	187,995	185,691
Other contractual funding obligations	**107,771**	**114,082**	**119,315**	**116,9224**	**40,177**	**45,947**	**50,795**	**47,791**
Other contingent funding obligations	**2,739,520**	**2,655,572**	**2,420,302**	**2,124,459**	**1,233,670**	**1,195,841**	**1,089,969**	**957,093**
TOTAL CASH OUTFLOWS					**4,123,393**	**4,014,781**	**3,851,256**	**3,585,857**
CASH - INFLOWS								
Secured lending (e.g. reverse repos)	18,654	18,654	18,654	18,654	-	-	-	-
Inflows from fully performing exposures	311,269	303,510	310,311	317,302	190,750	184,215	191,046	199,170
Other cash inflows	25,109	23,534	21,005	19,817	11,503	9,931	7,682	7,100
TOTAL CASH INFLOWS	**355,032**	**345,698**	**349,970**	**355,773**	**202,253**	**194,146**	**198,728**	**206,270**
Fully exempt inflows	-	-	-	-	-	-	-	-
Inflows subject to 90% cap	-	-	-	-	-	-	-	-
Inflows subject to 75% cap	355,032	345,698	349,970	355,773	202,253	194,146	198,728	206,270
TOTAL ADJUSTED VALUE								
LIQUIDITY BUFFER					**6,441,563**	**6,248,446**	**6,681,097**	**7,246,394**
TOTAL NET CASH OUTFLOWS					**3,921,140**	**3,820,636**	**3,652,528**	**3,379,587**
LIQUIDITY COVERAGE RATIO (1)					**165%**	**165%**	**185%**	**218%**

Footnote:

(1) The ratios reported in the above table are simple averages of month-end LCR ratios over the trailing 12 months to the reporting quarter date. Therefore, these ratios may not be equal to the implied LCR % calculated when using the average component amounts reported under 'LIQUIDITY BUFFER' and 'TOTAL NET CASH OUTFLOWS' in the above table.

TSB is primarily funded by retail deposits, in particular current and savings accounts, the majority of which being retail, are categorised as stable for LCR reporting. Non-retail sources of funding provide diversification and stability to the bank's funding profile. This funding includes cash drawings from the TFSME and external wholesale funding such as the Bank's Covered Bond issuances.

The liquidity buffer is composed primarily of BoE Central Bank Reserves and UK Government Gilts. The remainder includes Bonds issued by multilateral development banks and international organisations, extremely high-quality Covered Bonds and Coins and Banknotes.

The 12-month average LCR for the year to December 2021 decreased to 165% compared to 236% for the 12-month average to December 2020. This decrease is primarily driven by business activity, an increase in mortgage lending and the associated off balance sheet pipeline, offset by an increase in customer deposit balances, which has increased net Cash Outflows.

The Bank continued to maintain a strong average LCR over the reporting period with a prudent surplus to both Board approved risk appetite and regulatory minimum requirements. The LCR is calculated and reported on a consolidated basis in GBP. TSB has no material exposure to any other currencies.

7.3 Net Stable Funding

The Net stable funding ratio (NSFR) is an important regulatory metric used in TSB to monitor the stability of the funding profile in relation to its on and off-balance sheet activities. It is reported monthly and forms part of TSB's Risk Appetite metrics.

The TSB NSFR was 149% as at 31 December 2021, shown in the LIQ2 disclosure table below (note this is based on the CRR2 regulation which became applicable in the EU from June 2021 and UK from January 2022).

Table 27: Net Stable Funding Ratio (LIQ2)

	Unweighted value by residual maturity				
Available stable funding (ASF) Items £000	**No maturity[1]**	**< 6 months**	**6 months to < 1yr**	**≥ 1yr**	**Weighted value**
Capital items and instruments	1,869,556	-	-	300,000	2,169,556
Own funds	1,869,556	-	-	300,000	2,169,556
Retail deposits		35,428,295	106,976	201,822	33,619,817
Stable deposits		28,618,032	106,976	201,822	27,490,580
Less stable deposits		6,810,263	-	-	6,129,237
Wholesale funding:		726,403	500,000	6,750,000	7,123,602
Operational deposits		-	-	-	-
Other wholesale funding		726,403	500,000	6,750,000	7,123,602
Other liabilities:	7,762	366,037	-	-	-
NSFR derivative liabilities	7,762				
All other liabilities and capital instruments not included in the above categories		366,037	-	-	-
Total available stable funding (ASF)					**42,912,975**

	Unweighted value by residual maturity				
Required stable funding (RSF) Items	**No maturity[1]**	**< 6 months**	**6 months to < 1yr**	**≥ 1yr**	**Weighted values**
Total high-quality liquid assets (HQLA)					15,023
Assets encumbered for a residual maturity of one year or more in a cover pool		-	-	1,829,809	1,555,338
Performing loans and securities:		1,756,544	973,383	32,223,629	25,242,023
Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions		64,865	-	15	6,501
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:		**863,134**	**225,011**	**1,339,248**	**1,682,433**
Performing residential mortgages, of which:		**828,546**	**748,372**	**30,884,366**	**23,553,088**
With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		828,546	748,372	30,010,110	22,809,971
Other assets:	-	**631,739**	**19,765**	**1,403,850**	**1,678,418**
Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs		-	-	273,983	232,885
NSFR derivative liabilities before deduction of variation margin posted		6	-	-	-
All other assets not included in the above categories		631,733	19,765	1,129,867	1,445,532
Off-balance sheet items		3,848,577	-	-	220,187
Total RSF					**28,710,989**
Net stable funding ratio (%)					**149%**

Footnote

(1) The unweighted value of high-quality liquid assets is not included in this table according to the instructions provided.

8. Remuneration

As a 'Level 2' firm, under PRA Supervisory Statement 2/17, TSB presents the undernoted remuneration disclosures in accordance with Article 450 of the CRR, having applied the proportionality criteria referenced in Article 450 (2).

Ever since TSB was launched onto high streets across Great Britain, the remuneration approach has remained consistent. It is designed to be simple and fair. This underlying principle remains integral to our reward philosophy.

The Remuneration Committee is authorised by the Board to consider and recommend to the Board the remuneration policy framework. Policy is considered regularly by the Remuneration 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 by the Remuneration Committee, and then recommended to the Board for approval. The TSB Remuneration Committee met 6 times during 2021. Further information on the role of the Remuneration Committee including details of independent advice sought, terms of reference and members are on pages 53 to 56 of the ARA.

Our remuneration policy

The aim of TSB's remuneration policy as outlined on page 53 of TSB's ARA, is to provide competitive remuneration aligned to the delivery of the strategic goals (as explained in the Chief Executive's statement). It is designed to attract and retain talented individuals and to generate sustainable business performance, while taking into account effective risk management and acceptable conduct. In addition, TSB aims to align the remuneration approach with that of its parent, Sabadell.

Identified Staff

TSB's Identified Staff are employees whose professional activities have a significant impact on the risk profile of TSB in accordance with the qualitative and quantitative criteria set forth in current regulations and the internal criteria established by TSB.

The Remuneration Committee has reviewed and updated the list of Identified Staff in line with regulations.

Colleagues who form part of TSB's Identified Staff in 2021 include:

- All members of the Executive Leadership Team, Executive Directors and Senior Management;
- Non-Executive Directors; and
- Other employees whose activities could have a material impact on TSB's risk profile, including those who meet the quantitative criteria set out in the regulations.

As at 31 December 2021, TSB's Identified Staff consists of 50 people including 11 Non-Executive Directors. The Remuneration Committee retains the discretion to add any individual who, in its judgement, has a material impact on the risk profile of the bank.

The number of identified staff analysed by business area and senior management function is set out in the following table. There has been a decrease in the number of Identified Staff from 2020.

Table 28: Information on remuneration of staff whose professional activities have a material impact on institutions risk profile (identified staff) (REM5)

31 December 2021	Management Body Supervisory Function	Management Body Management Function	Total Management Body	Retail Banking	Corporate functions	Independent control functions	All Other	Total
Total number of identified staff								50
Of which: members of the management body	11	12	23					
Of which: other senior management				7	14	6	-	
Of which: other identified staff				-	-	-	-	
Total remuneration of identified staff £000	965	9,918	10,883	2,554	6,248	2.023	-	
Of which: variable remuneration	-	3,462	3,462	926	2,208	666	-	
Of which: fixed remuneration	965	6,456	7,421	1,628	4,040	1,357	-	

Characteristics of remuneration of TSB's Material Risk Takers

- Our remuneration is structured into three main elements: competitive fixed remuneration, variable remuneration and market appropriate benefits.

Fixed Remuneration

- Salary – provides core remuneration taking into account relevant market benchmarks, complexity of the role and the individual's experience and performance.

Variable Remuneration - which comprises the Variable Pay Award and Long-Term Incentive Plan (LTIP)

- The 2021 variable pay approach is based on a simple annual performance award structure called the Variable Pay Award. Pool creation is based on the achievement of pre-determined customer, conduct and culture (including risk appetite), financial and Group targets and criteria and is driven by a combined top down and bottom-up process with a risk adjustment waterfall in line with regulatory guidance.

- The LTIP - In December 2021, the Remuneration Committee approved the introduction of a new LTIP. This will have the benefit of further aligning TSB to the Sabadell Group remuneration structure and bring TSB more in line with UK market practice. The first awards will be made in Sabadell shares in April 2022 for a three-year performance period (2022 to 2024) to a small number of senior management. The LTIP will be subject to Sabadell performance metrics.

Market appropriate benefits

- These include, principally, pension contributions to a defined contribution scheme or where appropriate, an equivalent cash payment; 4% of salary available to use in our flexible benefits offering; and an employer provided car or alternative cash allowance at certain grades. In 2021, as part of TSB's commitment to be a carbon net zero organisation by 2030, an electric car scheme was introduced. A digital total reward statement was delivered to all colleagues in 2021 setting out the total value of the employment package for each individual.

From the start of 2020, TSB no longer uses individual performance ratings and, instead, has developed and enhanced the performance management process. As well as enhancing the transparency of the process, the focus is on improving performance rather than measuring it and encouraging coaching and development through frequent feedback and regular conversations between employees and line managers. Employees who achieve their personal objectives, demonstrate the core behaviours, regularly meet or go beyond the expectations of their role and whose performance is not classified as 'needs improvement' will be eligible for a Variable Pay Award.

The individual performance rating process for the most senior levels has been replaced with an assessment against the Primary Corporate Objectives (PCOs) (70%), including, customer (25%), conduct and culture (including risk appetite) (25%), and finance (50%), individual contribution (individual behaviours and areas of strategic focus) (20%), and Sabadell group performance metrics (10%). The financial and non-financial metrics in the individual scorecards are taken from the wider set of TSB's PCOs as well as Sabadell Group metrics.

In respect of 2021 performance, TSB will not exceed an annual cap on total variable remuneration of one times salary, calculated in accordance with the PRA's remuneration regulations.

The rationale for the fixed elements of remuneration is based on common market practice, the nature of these payments being fixed and not performance related.

For Identified Staff, the vesting of any 2021 deferred variable remuneration is contingent on three aspects:

- appropriate personal conduct maintained throughout the vesting period;
- application of malus and clawback; and
- subject to Sabadell performance metrics for the LTIP.

The testing of these aspects will determine, subject to the Remuneration Committee's discretion, the extent to which a tranche is released. The award amounts may be reduced, ultimately to zero, depending on the testing outcome and Remuneration Committee discretion.

In respect of variable pay plans, 60% of grants under the PRA Senior Managers Regime will be deferred over seven years with pro-rata release between the third and seventh year based on release underpins. Any shares issued will be subject to a 12-month retention period after the point of release. For a small number of Senior Managers and MRTs, 40% of grants will be deferred over four or five years, depending on the regulatory status of the employee, with a retention period on the shares of 12 months after the point of release. TSB's approach to deferral of total variable remuneration for senior employees ensures that awards are delivered as required by regulations.

Considerations of risk and conduct
TSB takes risk and conduct issues very seriously. Risk profile and behaviours are a key gateway that must be satisfied for any of the incentive awards to pay. Risk adjustment is a result of several factors:

- A balance of measures included in individual objectives and business scorecards which act as a framework for adjusting the bonus pool for both performance and risk inherent in TSB's activities;
- The use of a framework to quantify the risk adjustment of the variable remuneration pool in 2021; and
- The appropriate governance to make informed and robust decisions, including the Remuneration Governance Group (which makes recommendations to the Remuneration Committee on matters as required to ensure that the appropriate standards of risk management and corporate governance are applied), Remuneration Committee oversight and independent access to the Chief Risk Officer (CRO) and Chief Financial Officer (CFO).

Incentive pools and awards may be adjusted, including to zero, in the event of any material breaches. All elements of variable remuneration for MRTs are subject to malus and clawback provisions in line with regulatory requirements.

A Remuneration Governance Group (RGG), as referred to above, was established in 2017 to assist the Remuneration Committee in identifying MRTs across the bank and in considering risk-based adjustments to reward outcomes.

2021 reward outcomes for TSB employees are set out in the Remuneration Review on page 53 of TSB's ARA.

The Control Functions' heads (CRO and Chief Audit Officer (CAO)) are members of the Exco and all employees engaged in each discipline have direct reporting lines within that function. The CRO reports to the Chief Executive Officer (CEO) and has a dotted/indirect reporting line to the Chair of the Board Risk Committee. The CAO reports to the Chair of the Board Audit Committee with a dotted/indirect reporting line to the CEO. The CRO appraisal and remuneration are proposed by the CEO (with input from the Chair of the Board Risk Committee) and submitted to the Remuneration Committee for approval. The CAO appraisal and remuneration are proposed by the Chair of the Board Audit Committee (with input from the CEO) and submitted to the Remuneration Committee for approval.

For non-Identified Staff in the Control Functions, reviews of fixed and variable remuneration are managed by the line manager with oversight from the Human Resources (HR) department, based on external market data, internal relativities and corporate and individual performance, with personal objectives reflecting the delivery of the Risk and Audit annual work cycles. Final approval of reward outcomes for all staff sits with the CEO after review by the HR Director.

Other aspects
Guaranteed bonus payments may only be offered for a period of no more than one year and only in exceptional circumstances to new hires for the first year of service. Any buyout must be in line with the terms in place with the previous employer and have performance conditions attached to it. Guaranteed variable awards are not common practice for Identified Staff and will be limited to new hires.

Severance payments are made in line with contractual obligations and, in terms of variable remuneration, in line with the relevant scheme rules. For Identified Staff any variable remuneration which subsists post severance remains subject to the requirements on business performance, deferral and holding post vesting. In addition, malus and clawback provisions continue to apply.

Table 29: Remuneration awarded for the financial year (REM1)

	31 December 2021	Management Body Supervisory Function	Management Body Management Function	Other senior management	Other identified staff
Fixed Remuneration	**Number of identified staff**	**11**	**12**	**27**	**-**
	Total fixed remuneration £000[1]	**965**	**6,456**	**7,025**	**-**
	Of which: cash-based	965	6,456	7,025	-
	Of which: shares or equivalent ownership interests	-	-	-	-
	Of which: share-linked or equivalent non-cash interests	-	-	-	-
	Of which: other instruments	-	-	-	-
	Of which: other forms	-	-	-	-
Variable Remuneration	**Number of identified staff**	-	**10**	**25**	**-**
	Total variable remuneration £000[1]	-	**3,462**	**3,800**	**-**
	Of which: cash-based	-	1,658	1,867	-
	Of which: deferred	-	899	734	-
	Of which: shares or equivalent ownership interests	-	1,804	1,933	-
	Of which: deferred	-	1,045	851	-
	Of which: share-linked or equivalent non-cash interests	-	-	-	-
	Of which: deferred	-	-	-	-
	Of which: other instruments	-	-	-	-
	Of which: deferred	-	-	-	-
	Of which: other forms	-	-	-	-
	Of which: deferred	-	-	-	-
Total remuneration		**965**	**9,918**	**10,825**	**-**

Footnote

(1) Payment in lieu of notice is included in fixed remuneration

Table 30: Breakdown by remuneration brackets of Identified Staff with remuneration in excess of 1 million euros (REM 4)

The following table shows the number of MRTs with total remuneration of EUR 1 million or above arranged by remuneration band for the financial year ended 31 December 2021.

Total remuneration [1] (EUR)	No. of employees
1,000,001 - 1,500,000	3
1,500,001 - 2,000,000	2
2,000,001 - 2,500,000	-
2,500,001 - 3,000,000	-
3,000,001 - 3,500,000	-

Footnote

(1) Total remuneration is the sum of fixed remuneration and variable remuneration.

Glossary

Capital Requirements Regulation (CRR)	The Capital Requirements Regulation No. 575/2013 is an EU law that aims to decrease the likelihood that banks go insolvent.
Clawback	The recovery of part or all of a remuneration award post vesting.
Central Clearing Counterparty (CCP)	A central clearing counterparty (CCP) is a clearing house that interposes itself between counterparties to contracts traded in one or more financial markets, becoming the buyer to every seller and the seller to every buyer and thereby ensuring the future performance of open contracts. For the purposes of the capital framework, a qualifying CCP is a financial institution.
Commercial real estate	Commercial real estate includes office buildings, medical centres, hotels, malls, retail stores, shopping centres, farmland, housing buildings, warehouses, garages, and industrial properties among others.
Common Equity Tier 1 (CET1) capital	The highest quality form of regulatory capital under CRR that comprises common shares issued and related share premium, retained earnings and other reserves less specified regulatory adjustments.
Common Equity Tier 1 ratio	Common Equity Tier 1 Capital as a percentage of risk weighted assets.
Contingent leverage	Contingent leverage represents off-balance sheet items which could convert into on-balance items e.g. unutilised credit limits could be utilised in future.
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.
Counterparty credit risk (CCR)	Counterparty credit risk is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. Such transactions relate to contracts for financial instruments and include derivative contracts and repo contracts.
Credit Conversion Factor (CCF)	Credit conversion factors (CCF) are used in determining the exposure at default (EAD) in relation to a credit risk exposure. The CCF is an estimate of the proportion of undrawn commitments expected to be drawn down at the point of default.
Credit risk	The risk of reductions in earnings and / or value, through financial loss, as a result of the failure of the party with whom the TSB has contracted to meet its obligations (both on and off-balance sheet).
Credit risk mitigation (CRM)	A technique used to reduce the credit risk associated with an exposure by application of credit risk mitigants such as collateral, guarantees and credit protection.
Debt securities	Debt securities are assets held by the TSB representing certificates of indebtedness of credit institutions, public bodies or other undertakings, excluding those issued by Central Banks.
Debt securities in issue	These are unsubordinated liabilities issued by the TSB. They include commercial paper, certificates of deposit, bonds and medium-term notes.
European Banking Authority (EBA)	The European Banking Authority (EBA) is a regulatory agency of the European Union headquartered in London, United Kingdom. Its activities include conducting stress tests on European banks to increase transparency in the European financial system and identifying weaknesses in banks' capital structures. The EBA was established on 1 January 2011, upon which date it inherited all of the tasks and responsibilities of the Committee of European Banking Supervisors (CEBS).
Expected Loss (EL)	Expected loss represents the anticipated loss, in the event of default, on a credit risk exposure modelled under the internal ratings-based approach. EL is determined by multiplying the associated probability of default, loss given default and exposure at default together and assumes a 12-month time horizon.
Exposure at Default (EAD)	Exposure at default 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 (see Credit Conversion Factors) and the application of credit risk mitigation (i.e. eligible financial collateral).

Financial Reporting Standards (FINREP)	Financial Reporting Standards framework represents a common standardised reporting framework with the objective to increase comparability of financial information produced by credit institutions for their respective national supervisory authorities.
Forbearance	Forbearance takes place when a concession is made on the contractual terms of a loan in response to an obligor's financial difficulties.
Foreclosed assets	A foreclosed asset is defined as a loan in which the bank has received physical possession of a borrower's assets, regardless of whether formal foreclosure proceedings have taken place or a deed in lieu of foreclosure has been issued.
General Credit Risk Adjustment	Those credit risk adjustments that are freely and fully available, about to timing and amount, to meet losses that are not yet materialised or where no evidence of a loss event has occurred.
Identified Employee	Any employee identified by TSB as a 'Material Risk Taker' for 2018 under paragraph 3.1 of the Remuneration Section of the PRA Rulebook.
Impairment allowances	Impairment allowances are a provision held on the balance sheet as a result of the raising of a charge against profit for the expected losses in the lending book. An impairment allowance may be either individual or collective.
Individually / collectively assessed	Impairment is measured individually for assets that are individually significant, and collectively where a portfolio comprises homogenous assets and where appropriate statistical techniques are available.
Internal Capital Adequacy Assessment Process (ICAAP)	The TSB's own assessment, based on CRR requirements, of the levels of capital that it needs to hold in respect of its regulatory capital requirements (for credit, market and operational risks) and for other risks including stress events as they apply on a solo level and on a consolidated level.
Internal Liquidity Adequacy Assessment Process (ILAAP)	An organisation's own assessment for the identification, measurement, management and monitoring of liquidity in regard to liquidity and funding risks.
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.
Leverage Ratio	A non-risk-based leverage ratio is calculated by dividing Tier 1 capital by a defined measure of on and off-balance sheet items. Banks are expected to maintain a leverage ratio in excess of 3%. 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.
Leverage Ratio exposure	The Leverage Ratio exposure measure is the sum of the following exposures: (a) on-balance sheet exposures; (b) derivative exposures; (c) securities financing transaction (SFT) exposures; and (d) off-balance sheet (OBS) items. The specific treatments for these four main exposure types are defined by the Basel III leverage ratio framework disclosure requirements.
Lifetime Expected Credit Losses (Lifetime ECL)	The allowance required for Expected Credit Losses resulting from default events expected over the estimated life of the financial instrument, in the event of a significant increase in credit risk.
Liquidity buffer	Refers to the stock of liquid assets that enables a bank to meet expected and unexpected cash flows and collateral needs without affecting the bank's daily operations. Supervisors encourage banks to make prudent use of the liquidity buffers in times of stress in order to continue to meet obligations to creditors and other counterparties while also continuing to support households and businesses.
Liquidity coverage ratio (LCR)	Measures the percentage of high-quality liquid assets relative to expected net cash outflows over a 30-day period. High quality liquid assets should be unencumbered, liquid in markets during a time of stress and, ideally, be central bank eligible.
Loss Given Default (LGD)	Loss given default 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.
Material Risk Takers	Employees who have a material impact on TSB's risk profile.
Malus	The reduction or cancellation of remuneration awards prior to vesting.
Market risk	The risk that unfavourable market movements (including changes in and increased volatility of interest rates, market-implied inflation rates, credit spreads and prices for

bonds, foreign exchange rates, equity, property and commodity prices and other instruments) lead to reductions in earnings and / or value.

Minimum capital requirement	The minimum amount of regulatory capital that a financial institution must hold to meet the Pillar 1 requirements for credit, market and operational risk.
Model validation	The process of assessing and providing evidence that the TSB's models perform as planned and adequately reflect the risk profile of the business, and that there are no material misstatements of the capital requirement.
Multilateral development banks (MBD)	An institution created by a group of countries to provide financing for the purpose of development.
Net Stable Funding Ratio (NSFR)	Liquidity standard requiring banks to hold enough stable funding to cover the duration of their long-term assets.
Netting	The ability to reduce credit risk exposures by offsetting the value of any deposits against loans to the same counterparty.
Non-performing exposures	Non-performing are those that satisfy either or both of the following criteria: a) material exposures which are more than 90 days past-due; b) the debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount or of the number of days past due.
Non-performing loans (NPL) ratio	The ratio of the amount of non-performing loans in a bank's loan portfolio to the total amount of outstanding loans the bank holds.
Operational risk	The risk of reductions in earnings and / or value, through financial or reputational loss, from inadequate or failed internal processes and systems, or from people-related or external events.
Original exposure	The exposure value without taking into account value adjustments and provisions, conversion factors and the effect of credit risk mitigation techniques.
Pillar 1	The first pillar of the Basel III framework sets out the quantitative elements – the minimum regulatory capital requirements for credit, operational and market risks.
Pillar 2	The second pillar of the Basel III framework sets out the qualitative expectations that should be met through the supervisory review process. This includes the ICAAP, governance process and the Supervisory Review Process.
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.
Point-in-Time (PiT)	Estimates of PD (or other measures) made on a point-in-time (PiT) basis generally cover a short time horizon (usually a 12-month period) and are sensitive to changes in the economic cycle. This differs from a through-the-cycle (TTC) basis which uses long run average economic and risk data to reduce such sensitivity.
Probability of Default (PD)	Probability of default represents an estimate of the likelihood that a customer will default on their obligation within a 12-month time horizon.
Public Sector Entity (PSE)	A non-commercial administrative bodies responsible to central governments, regional governments or local authorities; or authorities that exercise the same responsibilities as regional and local authorities; or non-commercial undertakings owned by central governments that have explicit guarantee arrangements; or self-administered bodies governed by law that are under public supervision.
Qualifying Revolving Retail Exposure (QRRE)	Qualifying Revolving Retail Exposures (QRRE) relate to revolving, unsecured retail exposures that, to the extent they are not drawn, are immediately and unconditionally cancellable. Such exposures include credit cards and overdraft facilities.
Regulatory capital	The amount of capital that the TSB holds, determined in accordance with rules established by the PRA.
Repurchase agreements or 'repos'	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.
Residual Maturity	The remaining time in years that a borrower is permitted to take to fully discharge its contractual obligation (principal, interest and fees) under the terms of a loan agreement.

Retail Internal Ratings Based (Retail IRB)	The Retail Internal Ratings Based (Retail IRB) Approach allows internal estimates of PD, LGD and EAD to be used in determining credit risk capital requirements for retail portfolios.
Retail SME	A small or medium sized entity, an exposure to which may be treated as a retail exposure.
Risk appetite	The amount and type of risk that the TSB is prepared to seek, accept or tolerate.
Risk weighted assets (RWAs)	A measure of a bank's assets adjusted for their associated risks. Risk weightings are established in accordance with CRR.
RWA density	RWAs divided by exposure after default (post credit risk mitigation and the application of credit conversion factors).
Securities financing transactions (SFTs)	Securities financing transactions are repurchase and reverse repurchase agreements, buy / sell backs and securities lending. For the lender (seller) of the securities it is usually a way to raise funds to finance the securities positions. For the borrower (buyer) of the securities it is a way to invest short–term funds or to cover short (bond) positions.
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.
Specific Credit Risk Adjustment	Those credit risk adjustments that do not meet the criteria to be recognised as GCRAs. Credit risk adjustments recognised via an incurred loss model under IAS 39 are classed as SCRAs.
Stable deposits	Retail deposits are considered stable deposits when covered by a deposit guarantee scheme, they are provided with a 5% outflow weighting where the deposit is either part of an established relationship or held in a transactional account.
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 Rating Agencies to assign risk weights to exposures. Standardised approaches, following prescribed methodologies, also exist for calculating market risk and operational risk capital requirements.
Stress testing	Stress and scenario testing is the term used to describe techniques where plausible events are considered as vulnerabilities to ascertain how this will impact the own funds which are required to be held.
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.
Supervisory Review and Evaluation Process (SREP)	The appropriate supervisor's assessment of the adequacy of certain firms' capital.
Term Funding Scheme (TFSME)	Bank of England scheme which allows eligible banks and building societies to access funding with incentives for SME's.
Through-The-Cycle (TTC)	See Point-in-time (PiT).
Tier 1 capital	A measure of a bank's financial strength defined by CRR. 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 CRR, mainly comprising qualifying subordinated loan capital and eligible collective impairment allowances.
Total capital ratio	Total capital as a percentage risk weighted assets.
Trading book	Positions in financial instruments and commodities held for trading purposes or to hedge other elements of the trading book.
UK Leverage Ratio	A PRA defined modified measure of the leverage ratio which excludes qualifying central bank claims from the exposure measure. The PRA has set the minimum ratio at 3.25%.
Whistletree	Whistletree Loans includes a portfolio of former Northern Rock mortgages and unsecured loans which was acquired with effect from 7 December 2015 and a small portfolio of Airdrie Savings Bank customers which was acquired on 28th April 2017.

Appendix I – CRR Index

Article 13 of the Capital Requirements Regulation (CRR) 575/2013 establishes that EU parent institutions are obliged to comply with the disclosure requirements laid down in Part Eight of the CRR on the basis of their consolidated situation. Similarly, significant subsidiaries shall publish information required by the relevant Articles in Part Eight of that regulation which can be referenced in the disclosure index detailed below:

CRR Ref (575/2013) Part 8	High-Level Summary	Compliance reference
Own Funds		
437 (1)	Disclosure of the following information relating to Own Funds:	
437 (1)(a)	A full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and filters and deductions applied to own funds with the statutory balance sheet.	Table 4: Reconciliation of regulatory own funds to balance sheet in the audited financial statements (CC2) - page 10.
437 (1)(b)	A description of the main features of Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments.	Appendix II – Main features of regulatory own funds instruments and eligible liabilities instruments (CCA) – page 51.
437 (1)(c)	The full terms and conditions of all common Equity Tier 1, Additional Tier 1 and Tier 2 instruments.	Appendix II – Main features of regulatory own funds instruments and eligible liabilities instruments (CCA) - page 51.
437 (1)(d)	Disclosure of the nature and amounts of the following:	
437 (1)(d)(i)	Each prudential filter applied pursuant to Articles 32 to 35;	Table 2: Composition of Regulatory Own Funds (CC1) - page 8.
437 (1)(d)(ii)	Each deduction made pursuant to Article 36, 56 and 66;	Table 2: Composition of Regulatory Own Funds (CC1) - page 8.
437 (1)(d)(iii)	Items not deducted pursuant to Articles 47, 48, 56, 66 and 79;	Table 2: Composition of Regulatory Own Funds (CC1) - page 8.
437 (1) (e)	Description of all restrictions applied to the calculation of own funds and the instruments, prudential filters and deductions to which those restrictions apply.	Table 2: Composition of Regulatory Own Funds (CC1) - page 8.
437 (1) (f)	A comprehensive explanation where institutions disclose capital ratios calculated using elements of own funds determined on a different basis than CRR.	N/A
Capital requirements		
438 (a)	Institutions approach to assessing the adequacy of capital levels.	Section 3.1 Capital adequacy risk - page 7.
438 (b)	The amount of additional own funds requirements based on the supervisory review process and its composition in terms of Common Equity Tier 1, additional tier 1and Tier 2 instruments.	Section 4.3 Pillar 2 capital requirement – page 13.
438 (c)	ICAAP result on demand from reporting authorities.	Section 4.3 Pillar 2 capital requirement – page 13.
438 (d)	A breakdown of risk weighted exposure amount and own funds requirements broken down by risk categories.	Table 1: Key Metrics (KM1 / IFRS 9 - FL) – page 5, Table 5: Overview of RWAs (OV1) & Table 6: Total amount of risk weighted assets and minimum own funds requirements – pages 11 and 12.
438 (e)	Specialised lending and equity exposures.	N/A
438 (f)	Own funds instrument held in insurance undertakings	N/A
438 (g)	Supplementary own funds requirement and capital adequacy ratio of financial conglomerate.	N/A
438 (h)	Variation of risk weighted exposure amount between current and prior disclosure period that result from use of internal models, including key drivers.	Table 7: RWEA flow statements of credit risk exposures under the IRB Approach – page 12.
Capital buffers		
440 (1)(a)	Geographical distribution of credit exposures relevant for calculation of countercyclical capital buffer.	Section 4.3 Pillar 2 capital requirement Table 8 (CCyB1) Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer – page 13 and 14.
440 (1)(b)	Amount of the institution specific counter cyclical capital buffer.	Table 9 (CCyB2): Amount of institution specific countercyclical capital buffer - page 14.

CRR Ref (575/2013) Part 8	High-Level Summary	Compliance reference
Credit risk adjustments		
442 (a)	The definitions used for accounting of past due and impaired the differences, if any, between the definitions of past due and default for accounting and regulatory purposes.	Section 5.9 Impaired lending and provisions - page 25.
442 (b)	Methodology applied to determine general and specific credit risk adjustments.	Section 5.9 Impaired lending and provisions and 5.10 Managing impaired exposures and impairment provisions - page 25 and 26.
442 (c)	Information on the amount and quality of performing, non-performing and forborne exposures including impairment, provisions and negative fair value changes due to credit risk and amounts of collateral and financial guarantees received.	Credit quality of forborne exposures – Table 18 (CQ1) – page 27, Performing and non-performing exposures and related provisions - Table 20 (CR1) – page 30.
442 (d)	An ageing analysis of accounting past due exposures.	Credit quality of performing and non-performing exposures by past due days – Table 19 (CQ3) - page 28.
442 (e)	The gross carrying amount of defaulted and non-defaulted exposures, specific and general credit risk adjustments, write-offs and net carrying amounts and their distribution by geography and industry.	Credit quality of loans and advances to non-financial corporations by industry – Table 12 (CQ5) – page 17. Credit quality of forborne exposures – Table 18 (CQ1) – page 27, Performing and non-performing exposures and related provisions - Table 20 (CR1) – page 30.
442 (f)	Changes in the gross amount of defaulted exposures including, as a minimum, opening and closing balances, the gross amount of any exposures reverted to non-defaulted status or subject to a write off.	N/A
442 (g)	The breakdown of loans and debt securities by residual maturity.	Section 5.5 Credit risk exposure: analysis by maturity – Table 13(CR1-A) – page 18.
Remuneration disclosures – Proportionality under PRA SS2/17 applies		
450 (1)(a)	Information on decision making processes and governance for remuneration policy.	Section 8. Remuneration - Introduction and Our Remuneration Policy – page 41.
450 (1)(b)	The link between pay and performance.	Section 8 Remuneration – Characteristics of remuneration of TSB's material risk takers – page 42.
450 (1)(c)	Most important design characteristics of the remuneration system.	Section 8. Remuneration – Our Remuneration Policy, Characteristics of remuneration TSB's Material Risk Takers, Considerations of Risk and Conduct – pages 41-43.
450 (1)(d)	Ratios between fixed and variable remuneration.	Characteristics of remuneration of TSBs material risk takers page 42 and Remuneration awarded for the financial year Table 29 (REM1) – page 44.
450 (1)(g)	Aggregate quantitative information on remuneration by business area.	Information on remuneration of identified staff Table 28 (REM5) – page 41.
450 (1)(h)(i)	Amounts of remuneration for the financial year.	Characteristics of remuneration of TSBs material risk takers – page 42 and Remuneration awarded for the financial year Table 29 (REM1)- page 44.
Leverage		
451 (1)(a)	The Leverage ratio and how article 499(2) applies.	Table 24 Leverage ratio common disclosure (LR2) – page 35.
451 (1)(b)	A breakdown of total exposure measure including reconciliation to financial statements.	Table 23 Summary reconciliation of accounting assets and leverage ratio exposure (LR1) page 34, and Table 25 Split-up of on-balance sheet exposures (LR3) - page 36.
451 (1)(c)	The amount of exposures calculated in accordance with article 429(8) and 429a(1) and the adjusted leverage ratio calculated in accordance with article 429a(7).	Table 24 Leverage ratio common disclosure (LR2) – page 35.
451 (1)(d)	Description of the processes used to manage the risk of excessive leverage.	Section 6.2 Management of excessive leverage - page 36.
451 (1)(e)	Description of the factors that impacted the leverage ratio during the year.	Section 6.1 Leverage ratio exposure - page 34.
Liquidity Risk		
451a(2)	Liquidity coverage ratio.	Section 7.2 Quantitative Information of LCR – page 39.
451a(3)	Net stable funding ratio.	Section 7.3 Net Stable Funding - page 40.
451a(4)	Arrangements, systems, processes and strategies put in place to identify, measure, manage and monitor liquidity risk.	Section 7.1 Liquidity Risk Management – page 37.
Use of credit risk mitigation techniques		
453 (a)	Use of off and on balance sheet netting.	Section 5.14 Credit risk mitigation - page 31 - Master netting.
453 (b)	Management of collateral valuation.	Section 5.14 Credit risk mitigation - page 31 – Credit Policies and standards, Retail & Business banking credit assessment & Collateral.
453 (c)	Description of the types of collateral used by the institution.	Section 5.14 Credit risk mitigation - page 32 – Collateral.
453 (d)	Creditworthiness and types of guarantor and credit derivative counterparty.	Section 5.14 Credit Risk Mitigation Exposures covered by eligible collateral and guarantees - page 32.
453 (e)	Market or Credit risk concentrations within risk mitigation exposures.	Section 5.14 Credit risk mitigation - page 31 - Concentration risk.
453 (f)	For exposures under the Standardised or IRB approach, disclosure of exposure value covered by eligible credit protection.	Section 5.14 Disclosure of the use of credit risk mitigation techniques Table 22 (CR3) - page 33.
453 (g)	Conversion factor and credit risk mitigation with and without substitution effect.	Standardised approach – Credit Risk Exposure and Credit risk Mitigation effects (Table 14 (CR4) and IRB approach – disclosure of the extent of the use of CRM techniques Table 21 (CR7-A) – pages 19 and 32.
453(h)	For exposures under the standardised approach exposure by exposure class after conversion factors and credit risk mitigation.	Standardised approach – Credit Risk Exposure and Credit risk Mitigation effects (Table 14 (CR4) – page 19.
453(i)	For exposures under the standardised approach RWA by exposure class after applying conversion factors and CRM.	Standardised approach – Credit Risk Exposure and Credit risk Mitigation effects (Table 14 (CR4) – page 19.
453(j)	For exposures under the IRB approach risk weighted exposure amount before and after recognition of credit derivatives.	N/A
Transitional period for the impact of the introduction of IFRS 9		
473a (8)	Transitional arrangements for IFRS 9.	Executive Summary – page 4. Table 1 Key Metrics / IFRS 9 – FL – page 5. Section 3.2 Own funds – page 8. Section 3.3 Movements in capital – page 9.

Appendix II – Main features of regulatory own funds instruments and eligible liabilities instruments (CCA)

Capital instruments' main features [1]	Share Capital 1	Share Capital 2	Subordinated Liabilities
Issuer	TSB Banking Group plc	TSB Banking Group plc	TSB Banking Group plc
Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement	N/A	N/A	XS2324523237
Public or private placement	N/A	N/A	Private
Governing law(s) of the instrument	English	English	English
Contractual recognition of write down and conversion powers of resolution authorities	No	No	Yes
Regulatory treatment			
Transitional CRR rules	Common Equity Tier 1	Common Equity Tier 1	Tier 2
Post-transitional CRR rules	Common Equity Tier 1	Common Equity Tier 1	Tier 2
Eligible at solo/(sub-) consolidated/solo & (sub-) consolidated	Solo and (Sub-) Consolidated	Solo and (Sub-) Consolidated	Solo and (Sub-) Consolidated
Instrument type (types to be specified by each jurisdiction)	Ordinary Shares	Ordinary Shares	Subordinated Tier 2 Notes
Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	£1,386.5 million	£200.0 million	£300.0 million
Nominal amount of instrument	£0.5 million	£4.4 million	£300.0 million
Issue price	The nominal value of shares issued was £0.5 million and a minimum premium amount required by the Companies Act 2006 of £769.5 million was transferred to share premium. The balance of £616.5 million was transferred to the Merger Reserve.	£0.4494 per share	£1.00
Redemption price	N/A	N/A	£1.00
Accounting classification	Shareholders' equity	Shareholders' equity	Liability - amortised cost
Original date of issuance	25 April 2014	19 May 2014	30 March 2021
Perpetual or dated	Perpetual	Perpetual	Dated
Original maturity date	No Maturity	No Maturity	30 March 2031
Issuer call subject to prior supervisory approval	No	No	Yes
Optional call date, contingent call dates, and redemption amount	N/A	N/A	30/03/2026 -the Notes may be redeemed, in whole but not in part, at the option of the Issuer on any Call Date, subject if so required at the relevant time to the Issuer giving prior written notice and receiving permission therefore from the Relevant Regulator. Redemption price £300 million/ Tax Call / Regulatory Call.
Subsequent call dates, if applicable	N/A	N/A	N/A
Coupons / dividends			
Fixed or floating dividend/coupon	N/A	N/A	Fixed to floating
Coupon rate and any related index	N/A	N/A	The notes pay interest at a rate of 3.449% per annum, payable quarterly in arrears until 30 March 2026 at which time the interest rate becomes SONIA + 3.05 per cent per annum payable quarterly in arrears.

Capital instruments' main features	**Share Capital 1**	**Share Capital 2**	**Subordinated Liabilities**
Existence of a dividend stopper	No	No	No
Fully discretionary, partially discretionary or mandatory (in terms of timing	Fully discretionary	Fully discretionary	Mandatory
Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary	Mandatory
Existence of step up or other incentive to redeem	No	No	No
Noncumulative or cumulative	Non-cumulative	Non-cumulative	Cumulative
Convertible or non-convertible	Non-convertible	Non-convertible	Convertible
If convertible, conversion trigger (s)	N/A	N/A	Point of non-viability trigger, Bank of England Statutory powers.
If convertible, fully or partially	N/A	N/A	May convert Fully or Partially
If convertible, conversion rate	N/A	N/A	To be determined at conversion
If convertible, mandatory or optional conversion	N/A	N/A	Mandatory
If convertible, specify instrument type convertible into	N/A	N/A	Common Equity Tier 1 or Other Securities (as per Condition 24c)
If convertible, specify issuer of instrument it converts into	N/A	N/A	TSB Banking Group Plc
Write-down features	No	No	Yes
If write-down, write-down trigger (s)	N/A	N/A	Point of non-viability trigger, Bank of England Statutory powers
If write-down, full or partial	N/A	N/A	May Convert Fully or Partially
If write-down, permanent or temporary	N/A	N/A	Permanent
If temporary write-down, description of write-up mechanism	N/A	N/A	N/A
Type of subordination (only for eligible liabilities)	N/A	N/A	N/A
Ranking Of the instrument in normal insolvency proceedings	N/A	N/A	Subordinated Debt eligible as Tier 2 as provided in condition 3© of the base Prospectus of the EMTN program dated 18th March 2021
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated in right of payment to the claims of depositors, other unsubordinated creditors and the subordinated debt of the issuer.	Subordinated in right of payment to the claims of depositors, other unsubordinated creditors and the subordinated debt of the issuer.	Subordinated in right of payment to the claims of depositors and other unsubordinated creditors of the issuer
Non-compliant transitioned features	No	No	No
If yes, specify non-compliant features	N/A	N/A	N/A
Link to the full terms and conditions of the instrument (signposting)	N/A	N/A	www.tsb.co.uk/investors/financials/debt-investors/emtn-debt/

(1) TSB has opted to omit disclosures with regards to original capitalisation of £50,000 by Lloyds Banking Group on the basis of materiality. This capital displays the same capital features as the ordinary shares disclosed in Appendix II.

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