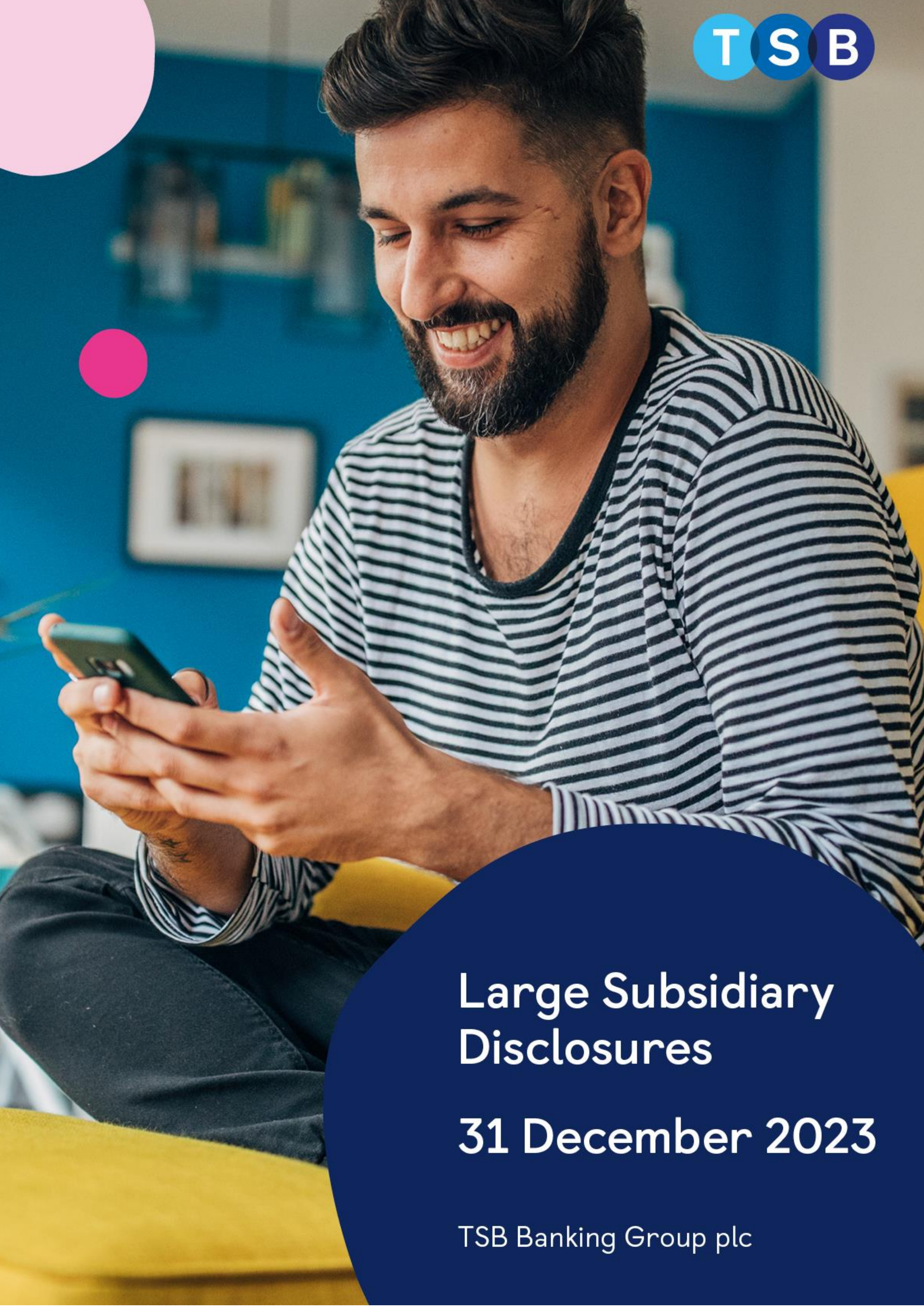

Large Subsidiary Disclosures

31 December 2023

TSB Banking Group plc

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1. Introduction

This document presents the Pillar III Large Subsidiary Disclosures as at 31 December 2023 relating to TSB Banking Group plc (TSB). TSB operates in the United Kingdom (UK) and is authorised and regulated by the Prudential Regulation Authority (PRA). The disclosures have been prepared in accordance with the Capital Requirements Regulation (CRR) part of the PRA rulebook. Whilst TSB operates as a ring-fenced UK Bank, it is also part of a wider group, comprising Banco de Sabadell S.A (Sabadell) and its subsidiaries (together the Sabadell Group), and is required to adhere to relevant Sabadell Group polices, in addition to any relevant obligations imposed by Sabadell Group's regulators, the Bank of Spain and European Central Bank (ECB).

The disclosures presented are not required to be subject to an external audit. Instead, the disclosures have been verified and approved through internal governance procedures.

This document satisfies TSB's UK CRR disclosure obligations as a large subsidiary of Sabadell. An analysis of compliance with CRR in respect of large subsidiary disclosure requirements is set out in Appendix I.

This document should be considered in conjunction with the TSB's 2023 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 15 to 20 and the 'How the business is managed' (Corporate Governance) section within pages 33 to 39 of TSB's ARA and are not repeated in this document.

Comparative figures are reported to give insight into movements during the reporting period. Where specific rows and columns in the tables prescribed are not applicable or are immaterial to TSB's activities, TSB may omit them and follow the same approach for comparative disclosures.

The disclosures presented in this document are also included in Sabadell's consolidated Pillar III disclosures.

The diagram below summarises the structure of this report.

**Own Funds:
Pages 8-11**

Pillar 1 Capital Requirements: Pages 12-14	Pillar 2 Capital Requirements: Pages 15-16	Pillar 3 Credit Risk: Pages 17-41 Leverage Ratio: Pages 42-44 Liquidity: Pages 45-49 Remuneration: Pages 50-55

2. Executive summary

Ten years after separating from Lloyds Banking Group and returning to the high street as a standalone bank, TSB has firmly established itself as a leading challenger bank.

The Bank's tenth anniversary in September was an occasion not only for reflecting on just how far TSB has come, but also to look forward to what TSB can achieve in the future.

As the country faces into continued economic uncertainty, the need has never been more compelling for a strong, well capitalised bank, with a network across Britain, and a brand people trust, to drive competition and challenge the larger incumbent players.

TSB's focus in 2023 has been on supporting and better serving its customers, while building resilience, both financially and in its operations.

TSB has reported a statutory profit before tax of £237.2 million in 2023, a 29.3% increase on the £183.5 million earned in 2022. This reflects solid income growth in an increasing interest rate environment, robust cost management and lower notable costs, partially offset by an increase in expected credit loss charges that reflect the more challenging economic outlook.

Customer lending and deposit balances both reduced year on year, reflecting a selective approach in a challenging UK mortgage lending market, competition in the deposit market, and cost of living pressures.

TSB remains well capitalised, with a Common Equity Tier 1 (CET1) ratio of 16.7% on a fully loaded basis (2022: 17.1%) and 16.7% on an IFRS9 transitional basis (2022: 17.2%), and maintains a healthy liquidity buffer, with an average Liquidity Coverage Ratio of 188% (2022: 168%). In light of the Bank's capital strength, strong financial performance in 2023 and robust prospects, following the payment of an inaugural dividend to our shareholder, Sabadell, of £50.0 million in February 2023, the Board has recommended a 2023 dividend of £120.0 million to be paid in the first quarter of 2024.

During the year, the CET1 capital ratio reduced by 0.4 percentage points reflecting an increase in Risk Weighted Assets (RWAs).

Under the Bank of England's (BoE) UK leverage ratio framework, TSB's modified leverage ratio is 4.6%, in excess of the PRA minimum expectation of 3.25%.

Table 1a: Key metrics (KM1)

The table below presents key capital metrics:

	31 December 2023	30 June 2023	31 December 2022
Available capital (amounts)			
Common Equity Tier 1 (CET1) (£000)	**1,842,646**	1,859,042	1,791,545
Tier 1 capital (£000)	**1,842,646**	1,859,042	1,791,545
Total capital (£000)	**2,167,829**	2,182,320	2,109,761
Risk-weighted exposure amounts			
Total risk-weighted exposure amount (£000)	**11,052,751**	10,425,685	10,442,066
Capital ratios (as a percentage of risk-weighted exposure amount)			
Common Equity Tier 1 ratio	**16.7%**	17.8%	17.2%
Tier 1 ratio	**16.7%**	17.8%	17.2%
Total capital ratio	**19.6%**	20.9%	20.2%
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	**2.2%**	1.8%	1.8%
Of which: to be made up of CET1 capital	**1.2%**	1.0%	1.0%
Of which: to be made up of Tier 1 capital	**1.7%**	1.4%	1.4%
Total SREP own funds requirements	**10.2%**	9.8%	9.8%
Combined buffer requirement (as a percentage of risk-weighted exposure amount)			
Capital conservation buffer	**2.5%**	2.5%	2.5%
Institutional specific countercyclical capital buffer	**2.0%**	1.0%	1.0%
Combined buffer requirement	**4.5%**	3.5%	3.5%
Overall capital requirements	**14.7%**	13.3%	13.3%
CET1 available after meeting the total SREP own funds requirements[1]	**9.0%**	10.5%	9.8%
Leverage Ratio			
Leverage ratio total exposure measure[2] (£000)	**40,338,726**	40,560,388	42,544,451
Leverage ratio[2]	**4.6%**	4.6%	4.2%
Liquidity Coverage Ratio			
Total high-quality liquid assets (HQLA) (Weighted value – average) (£000)	**7,371,627**	7,159,476	6,788,964
Cash outflows – Total weighted value (£000)	**4,134,068**	4,360,990	4,326,960
Cash inflows – Total weighted value (£000)	**218,878**	250,365	260,513
Total net cash outflows (adjusted value) (£000)	**3,915,190**	4,110,625	4,066,447
Liquidity coverage ratio[3]	**188%**	175%	168%
Net Stable Funding Ratio (NSFR)[4]			
Total available stable funding[4] (£000)	**42,368,266**	42,660,491	42,774,578
Total required stable funding[4] (£000)	**27,601,540**	28,152,531	28,845,131
NSFR ratio[4]	**154%**	152%	148%

(1) Represents, as a percentage, the level of CET1 capital available to meet buffer requirements after meeting total Pillar 1 and Pillar 2A capital requirements. As TSB does not hold additional Tier 1 capital, the minimum CET1 requirement is equivalent to 6.0% (Pillar 1) plus additional CET1 SREP requirement (75% of Pillar 2A).
(2) Leverage ratio exposure and leverage ratio % have been calculated as defined in the PRA Rulebook introduced with effect from January 2022.
(3) Liquidity coverage ratio is presented based on a twelve month simple average.
(4) NSFR ratio presented is based on a four quarter simple average.

Table 1b: Comparison between institutions own funds capital ratios and leverage ratios with and without applying the transitional arrangements of IFRS9 or analogous ECLs (IFRS9-FL)

The table below presents capital, RWAs and leverage metrics on a fully loaded and transitional basis that takes account of IFRS9 transitional arrangements:

	31 December 2023	30 June 2023	31 December 2022
Available capital (amounts)			
Common Equity Tier 1 (CET1) (£000)	**1,842,646**	1,859,042	1,791,545
Common Equity Tier 1 (CET1) as if IFRS9 or analogous ECLs transitional arrangements had not been applied (£000)	**1,842,072**	1,858,470	1,782,184
Tier 1 capital (£000)	**1,842,646**	1,859,042	1,791,545
Tier 1 capital as if IFRS9 or analogous ECLs transitional arrangements had not been applied (£000)	**1,842,072**	1,858,470	1,782,184
Total capital (£000)	**2,167,829**	2,182,320	2,109,761
Total capital as if IFRS9 or analogous ECLs transitional arrangements had not been applied (£000)	**2,167,255**	2,181,748	2,108,152
Risk-weighted exposure amounts			
Total risk-weighted exposure amount (£000)	**11,052,751**	10,425,685	10,442,066
Total risk-weighted exposure amount as if IFRS9 or analogous ECLs transitional arrangements had not been applied (£000)	**11,052,728**	10,425,662	10,447,020
Capital ratios (as a percentage of risk-weighted exposure amount)			
Common Equity Tier 1 ratio	**16.7%**	17.8%	17.2%
Common Equity Tier 1 ratio as if IFRS9 or analogous ECLs transitional arrangements had not been applied	**16.7%**	17.8%	17.1%
Tier 1 ratio	**16.7%**	17.8%	17.2%
Tier 1 ratio as if IFRS9 or analogous ECLs transitional arrangements had not been applied	**16.7%**	17.8%	17.1%
Total capital ratio	**19.6%**	20.9%	20.2%
Total capital ratio as if IFRS9 or analogous ECLs transitional arrangements had not been applied	**19.6%**	20.9%	20.2%
Leverage Ratio			
Leverage ratio total exposure measure[1] (£000)	**40,338,726**	40,560,388	42,544,451
Leverage ratio	**4.6%**	4.6%	4.2%
Leverage ratio as if IFRS9 or analogous ECLs transitional arrangements had not been applied	**4.6%**	4.6%	4.2%

(1) Leverage ratio exposure and leverage ratio % have been calculated as defined in the PRA Rulebook introduced with effect from January 2022.

3. Own funds

3.1 Capital adequacy risk

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

Risk appetite
TSB's risk appetite methodology is set out on page 16 of TSB's ARA. TSB's approach to Capital Adequacy Risk is to use its capital effectively and efficiently to support TSB's growth, whilst ensuring that TSB remains solvent in all plausible scenarios. 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 15.

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 15 to 20 of TSB's ARA. These include TSB Executive Committee (Exco), 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 at 31 December 2023 are presented in the table below.

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

		31 December 2023 £000	Ref (Table CC2)
CET1 capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	970,050	(*) 32, 33
	of which: Common share	5,000	32
2	Retained earnings	1,212,509	36
3	Accumulated other comprehensive income (and other reserves)	(279,208)	(*) 38, 42
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	54,887	(*) 40
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**1,958,238**	
Common Equity Tier 1 capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	(2,992)	
8	Intangible assets (net of related tax liability) (negative amount)	(80,879)	
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)	(20,034)	
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	(12,262)	
27a	Other regulatory adjustments (including IFRS 9 transitional adjustments when relevant)	575	
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(115,592)**	
29	**Common Equity Tier 1 (CET1) capital**	**1,842,646**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**1,842,646**	
Tier 2 Capital: Instruments and Provisions			
46	Capital instruments and the related share premium accounts	300,000	
50	Credit risk adjustments	25,183	
51	**Tier 2 (T2) capital before regulatory adjustments**	**325,183**	
Tier 2 Capital: Regulatory Adjustments			
56b	Other regulatory adjustments to T2 capital	-	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**-**	
58	**Tier 2 (T2) capital**	**325,183**	
59	**Total capital (TC = T1 + T2)**	**2,167,829**	
60	**Total risk exposure amount**	**11,052,751**	
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	16.7%	
62	Tier 1 (as a percentage of total risk exposure amount)	16.7%	
63	Total capital (as a percentage of total risk exposure amount)	19.6%	
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)	10.2%	
65	of which: capital conservation buffer requirement	2.5%	
66	of which: countercyclical buffer requirement	2.0%	
67b	of which: additional own funds requirements to address risks other than the risk of excessive leverage.	1.2%	
68	Common Equity Tier 1 available to meet buffer (as a percentage of risk exposure amount)	9.0%	
Amounts below the thresholds for deduction (before risk weighting)			
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)	7,880	
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)	28,077	
Limits applicable to the inclusion of provisions in Tier 2 capital			
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	14,364	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	25,183	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	49,547	

(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(1)

	CET1/Tier 1 Capital £000	Tier 2 Capital £000	Total Capital £000
At 31 December 2022	**1,791,545**	**318,216**	**2,109,761**
Profit (Loss) attributable to the ordinary shareholder (net of final dividend)(2)	54,887	-	54,887
Movement in other comprehensive income (including available for sale)	(28,648)	-	(28,648)
Cash flow hedging reserve regulatory adjustment	20,949	-	20,949
Change in excess of default provision over default expected loss	-	(785)	(785)
Change in intangible fixed assets	(10,262)	-	(10,262)
Movement in prudent valuation adjustment	1,421	-	1,421
IFRS 9 transitional adjustments	(8,786)	7,752	(1,034)
Movement in insufficient coverage for non-performing exposures	3	-	3
Movement in deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	21,537	-	21,537
At 31 December 2023	**1,842,646**	**325,183**	**2,167,829**

(1) Capital positions are presented on a CRD IV IFRS9 transitional basis.
(2) Final dividend of £120.0 million proposed at 31 December 2023 and paid on 29 February 2024.

	CET1/Tier 1 Capital £000	Tier 2 Capital £000	Total Capital £000
At 31 December 2021	1,724,002	300,000	2,024,002
Profit (Loss) attributable to the ordinary shareholder (net of final dividend)(2)	52,324	-	52,324
Movement in other comprehensive income (including available for sale)	29,867	-	29,867
Cash flow hedging reserve regulatory adjustment	(41,018)	-	(41,018)
Change in excess of expected losses over impairment allowances	490	-	490
Change in excess of default provision over default expected loss	-	20,088	20,088
Change in intangible fixed assets	(26,507)	-	(26,507)
Movement in prudent valuation adjustment	(3,018)	-	(3,018)
IFRS 9 transitional adjustments	(2,582)	(1,872)	(4,454)
Movement in insufficient coverage for non-performing exposures	(3)	-	(3)
Movement in deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	57,990	-	57,990
At 31 December 2022	1,791,545	318,216	2,109,761

(1) Capital positions are presented on a CRD IV IFRS9 transitional basis.
(2) Final dividend of £50.0 million proposed at 31 December 2022 and paid on 24 February 2023.

Tier 1 Capital increased by £51.1 million during 2023. This was primarily due to retained profit of £54.9 million, for the year net of a final dividend of £120.0 million. Other movements included a decrease in deduction for deferred tax assets that rely on future profitability and do not arise from temporary differences of £21.5 million and cash flow hedging reserve regulatory adjustment of £20.9 million, offset by reduction in other comprehensive income £28.6 million, increase in intangible fixed assets deduction of £10.2 million and decrease in IFRS9 transitional adjustment of £8.8m.

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 31 December 2023 £000	Under regulatory scope of consolidation 31 December 2023 £000	Reference (table CC1)
1	Cash, cash balances at central banks and other demand deposits	5,897,319	5,897,319	
2	Financial assets held for trading	823,549	823,549	
3	Non-trading financial assets held at fair value through profit or loss	-	-	
4	Financial assets designated at fair value through profit or loss	-	-	
5	Financial assets at fair value with changes in other comprehensive income	356,571	356,571	
6	Financial assets at amortised cost	38,907,664	38,907,664	
7	Derivatives - hedge accounting	1,346,878	1,346,878	
8	Changes in the fair value of hedged items in a portfolio hedged risk	(154,869)	(154,869)	
9	Investments in joint ventures and associates	-	-	
10	Assets covered by insurance or reinsurance contracts	-	-	
11	Tangible assets	253,528	253,528	
12	Intangible assets	86,054	86,054	
13	Tax assets	46,974	46,974	
14	Memorandum items: Deferred tax assets	43,156	43,156	
15	Other assets	89,000	89,000	
16	Non-current assets and disposable groups of items classified as held for sale	-	-	
17	**TOTAL ASSETS**	**47,652,668**	**47,652,668**	
18	Financial liabilities held for trading	982,155	982,155	
19	Financial liabilities designated at fair value through profit or loss	-	-	
20	Financial liabilities at amortised cost	44,112,266	44,112,266	
21	Derivatives - hedge accounting	318,666	318,666	
22	Changes in the fair value of hedged items in a portfolio hedged risk	(85,492)	(85,492)	
23	Liabilities covered by insurance or reinsurance contracts	-	-	
24	Provisions	75,160	75,160	
25	Tax liabilities	-	-	
26	Memorandum: Deferred tax liabilities	-	-	
27	Reimbursable share capital at sight	-	-	
28	Other liabilities	171,675	171,675	
29	Liabilities included in disposable groups of items classified as held for sale	-	-	
30	**TOTAL LIABILITIES**	**45,574,430**	**45,574,430**	
	Equity			
31	Own Funds	2,072,446	2,072,446	(*) 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	1,212,509	1,212,509	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[(2)]	174,887	174,887	(*) 5a
41	Interim dividends	-	-	
42	Accumulated other comprehensive income	5,792	5,792	(*) 3
43	Minority interest (non-dominant holdings)	-	-	
44	**Shareholders' equity**	**2,078,238**	**2,078,238**	(*) 6

(1) (*) in reference to Table CC1 column indicates "sum of" or using elements of the row referenced from Table CC1.
(2) Statutory balance sheet results are not adjusted for the foreseeable final dividend of £120.0 million, which reduces retained earnings available for CET1.

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 are presented in the following table:

Table 5: Overview of risk-weighted exposure amounts (OV1)

	RWAs 31 December 2023 £000	RWAs 30 September 2023 £000	RWAs 31 December 2022 £000	**Total own funds requirement[1] 31 December 2023 £000**
Credit risk (excluding CCR)	**9,285,021**	9,002,362	8,781,922	**742,802**
Of which the standardised approach[2]	1,027,173	1,034,945	1,029,312	82,174
Of which the advanced IRB (AIRB) approach	8,257,848	7,967,417	7,752,610	660,628
Counterparty credit risk (CCR)	**47,113**	18,242	107,036	**3,769**
Of which the standardised approach	4,450	4,412	6,736	356
Of which exposures to a CCP	2,067	903	2,542	165
Of which credit valuation adjustment - CVA	12,250	12,927	18,257	980
Of which CCR	28,346	-	79,501	2,268
Operational risk	**1,633,140**	1,475,213	1,475,213	**130,651**
Of which standardised Approach	1,633,140	1,475,213	1,475,213	130,651
Amounts below the thresholds for deduction (subject to 250% risk weight) [3]	**87,477**	83,109	77,895	**6,998**
Total	**11,052,751**	10,578,926	10,442,066	**884,220**

(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 reported in Institutions and amounts subject to 250% risk weight reported in central governments and central banks, and Institutions.
(3) Subject to 250% risk weight has been presented as a separate row included in the overall total rather than an 'of which' of the standardised approach.

In the year ended 31 December 2023, RWAs increased by £610.7 million (5.8%). The increase was primarily driven by higher credit risk RWAs, as the challenging economic conditions led to an increase in Internal Ratings Based modelled amounts, and higher operational risk RWA reflecting growth in TSB's income.

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

Exposure classes and risk types	31 December 2023 RWA £000	31 December 2023 Minimum Capital Requirements £000	31 December 2022 RWA £000	31 December 2022 Minimum Capital Requirements £000
Credit risk (standardised approach)	**1,149,102**	**91,928**	1,195,896	95,672
Central governments and central banks	67,776	5,422	61,244	4,900
Institutions	180,109	14,409	180,694	14,455
Corporates	33,836	2,707	29,785	2,383
Retail	92,781	7,422	86,987	6,959
Exposures collateralised with residential or commercial property	277,613	22,209	325,120	26,010
Exposures in default status	76,521	6,122	72,596	5,808
Covered bonds	22,403	1,792	25,427	2,034
Other exposures	398,063	31,845	414,043	33,123
Credit risk (internal ratings-based approach)	**8,257,848**	**660,628**	7,752,610	620,209
Retail	8,257,848	660,628	7,752,610	620,209
i) Mortgages for residential or commercial property	5,668,060	453,445	5,075,383	406,031
ii) Eligible revolving exposures	1,241,623	99,330	1,244,017	99,521
iii) Other retail	1,348,165	107,853	1,433,210	114,657
Contribution to default guarantee fund of a CCP	**411**	**33**	90	7
Operational risk	**1,633,140**	**130,651**	1,475,213	118,017
Operational risk (standardised approach)	1,633,140	130,651	1,475,213	118,017
Credit valuation adjustment risk	**12,250**	**980**	18,257	1,460
Total minimum own funds requirement	**11,052,751**	**884,220**	10,442,066	835,365

4.2 Risk weighted assets movements by key driver

Analysis of movements in IRB credit risk weighted exposure amounts (RWEAs) from 30 September 2023 to 31 December 2023 and 31 December 2022 to 31 December 2023 are presented in table 7.

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

	3 months to 31 December 2023 Risk weighted exposure amount £000	12 months to 31 December 2023 Risk weighted exposure amount £000
Risk weighted exposure amount as at the end of the previous reporting period	**7,967,417**	**7,752,610**
Asset size (+/-)	46,011	(33,934)
Asset quality (+/-)	(20,219)	330,443
Model updates (+/-)	-	(55,460)
Methodology and policy (+/-)	264,639	264,189
Risk weighted exposure amount as at the end of the reporting period	**8,257,848**	**8,257,848**

Movements during the quarter are due to:

- Increase in mortgage RWAs from new lending since 30 September 2023.
- Asset quality improvements has largely been driven by improvements in loss given defaults (LGD) and house price index (HPI) for secured mortgages lending.
- Methodology and policy increase representing increases in RWAs for requirements set out within the CRR to have risk models aligned with new definition of default regulations. The movement represents the gap between the existing and proposed rating system.

Full year, IRB credit risk RWAs increased, primarily, due to:

- Main asset size movement reflects net reduction in mortgage and personal loan lending.
- Asset quality movement led to an increase in RWAs of £330.4 million. These movements were driven primarily by the mortgage portfolio reflecting the more challenging economic outlook.
- The model updates movements reflect implementation of new scorecard relating to unsecured lending portfolio.
- Methodology and policy increase representing increases in RWAs for requirements set out within the CRR to have risk models aligned with new definition of default regulations.

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. The 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.

At 31 December 2023, TSB's total Pillar 1 plus Pillar 2a capital requirement was 10.2% of RWAs (8.0% Pillar 1 plus 2.2% Pillar 2a). At least 56.25% of this requirement is required to be met in the form of CET1.

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 where required. The PRA uses the output from these stresses to set a PRA buffer for TSB. The PRA buffer can also be used to counter deficiencies in risk management and governance identified by the PRA.

Capital conservation buffer
The capital conservation buffer, set at 2.5% for all banks, is designed to ensure that institutions build up capital buffers that can be drawn upon during times of stress.

Other Systemically Important Institutions buffer (O-SII buffer)
Does not apply to TSB as TSB has assets of less than £175 billion.

Countercyclical capital buffer (CCyB)
The CCyB aims to provide the banking sector with additional capital to protect it from potential future losses. In times of adverse financial or economic circumstances, when losses tend to deplete capital and banks are likely to restrict the supply of credit, the CCyB can be released by the regulator.

The Financial Policy Committee (FPC) of the BoE is responsible for setting the UK CCyB, which increased to 2.0% with effect from July 2023. The UK CCyB applies to all TSB exposures as non-UK relevant credit exposure RWAs are less than the 2.0% threshold of total RWAs.

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

31 December 2023	General credit exposures		Total exposure value	Own funds requirements		Risk-weighted exposure amounts	Own funds requirement weights	Counter-cyclical capital buffer rate
	Exposure value under the standardised approach	Exposure value under the IRB approach		Relevant credit risk exposures – Credit Risk	Total			
	£000	£000	£000	£000	£000	£000	%	%
Breakdown by country								
Country: United Kingdom	1,795,054	40,244,040	42,039,094	732,725	732,725	9,159,066	100.0%	2.0%
Total	**1,795,054**	**40,244,040**	**42,039,094**	**732,725**	**732,725**	**9,159,066**	**100.0%**	**2.0%**

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

	31 December 2023
	£000
Total risk exposure amount	11,052,751
Institution specific countercyclical buffer rate %	2.0%
Institution specific countercyclical buffer requirement	221,055

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

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. TSB is subject to internal MREL requirements of 18.4%, excluding regulatory stress buffers. TSB's MREL ratio of 27.8% exceeds these 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 Small to Medium sized Enterprises (SME) exposures - 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 TSB Group's consolidated balance sheet on an accounting basis (as presented on page 58 of TSB'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 2023 **£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**	**Not subject to capital requirements or subject to deduction from capital**
Assets					
Cash, cash balances at central banks and other demand deposits	5,897,319	5,897,319	5,897,319	-	-
Financial assets held for trading:					
Derivative financial assets	823,549	823,549	-	823,549	-
Financial assets at fair value through other comprehensive income	356,571	356,571	356,571	-	-
Financial assets designated at amortised cost:					
Debt securities	2,124,242	2,124,242	2,124,242	-	-
Loans to central banks	136,020	136,020	136,020	-	-
Loans to credit institutions	192,032	192,032	192,032	-	-
Loans and advances to customers	36,245,932	36,245,932	36,245,932	-	-
Other advances	209,437	209,437	35,592	173,845	-
Hedging derivative assets	1,346,879	1,346,879	-	1,346,879	-
Fair value adjustments for portfolio hedged risk	(154,869)	(154,869)	-	-	(154,869)
Property, plant and equipment	253,528	253,528	253,528	-	-
Intangible Assets	86,054	86,054	-	-	86,054
Current tax Assets	3,818	3,818	3,818	-	-
Deferred tax assets	43,156	43,156	28,298	-	14,858
Other assets	89,000	89,000	89,000	-	-
Total Assets	**47,652,668**	**47,652,668**	**45,362,352**	**2,344,273**	**(53,957)**
Liabilities					
Financial liabilities held for trading:					
Derivative financial liabilities	982,155	982,155	-	982,155	-
Financial liabilities at amortised cost:					
Borrowings from central banks	4,057,940	4,057,940	-	-	4,057,940
Deposits from public administrations	8,352	8,352	-	-	8,352
Customer deposits	34,755,885	34,755,885	-	-	34,755,885
Debt securities in issue	3,664,092	3,664,092	-	-	3,664,092
Subordinated liabilities	277,714	277,714	-	-	277,714
Other financial liabilities	1,348,283	1,348,283	-	926,508	421,775
Hedging derivative liabilities	318,666	318,666	-	318,666	-
Fair value adjustments for portfolio hedged risk	(85,492)	(85,492)	-	-	(85,492)
Provisions	75,160	75,160	-	-	75,160
Other liabilities	171,675	171,675	-	-	171,675
Total Liabilities	**45,574,430**	**45,574,430**	-	**2,227,329**	**44,347,101**
Shareholder's equity	**2,078,238**	**2,078,238**	-	-	**2,078,238**
Total equity and liabilities	**47,652,668**	**47,652,668**	-	**2,227,329**	**45,425,339**

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

31 December 2023 £000	Total	Items subject to Credit risk framework	Items subject to CCR framework
Assets carrying value amount under the scope of regulatory consolidation (as per template LI1)[(1)]	**47,706,624**	**45,362,352**	**2,344,272**
Liabilities carrying value amount under the regulatory scope of consolidation (as per template LI1)	2,227,329	-	2,227,329
Total net amount under the regulatory scope of consolidation	45,479,295	45,362,352	116,943
Off-balance-sheet amounts	5,812,589	5,812,589	-
Removal of accounting values for CCR	(116,943)	-	(116,943)
Regulatory CCR Exposure	159,885	-	159,885
Differences due to consideration of provisions	200,815	200,815	-
Difference in valuation methodologies / regulatory adjustments	854,484	854,484	-
Differences due to CCFs	(1,481,885)	(1,481,885)	-
Exposure amounts considered for regulatory purposes	**50,908,240**	**50,748,355**	**159,885**

(1) Excludes carrying value of items not subject to deduction from own funds.

5.3 Concentration of exposures: By industry

Lending to non-financial corporations relates to SME lending, which includes Bounce Back Lending Scheme loans, that benefit from a 100% guarantee from the UK Government.

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

Table 12: Credit quality of loans and advances by industry (CQ5)

	Gross carrying amount				
		Of which: non-performing		Of which: loans and advances subject to impairment	Accumulated impairment
31 December 2023 £000	**Total**		**Of which: defaulted**		
Agriculture, forestry, and fishing	2,613	11	11	2,613	(21)
Mining and quarrying	6	-	-	6	-
Manufacturing	6,988	163	85	6,988	(42)
Electricity, gas, steam, and air conditioning supply	131	40	-	131	-
Water supply	891	34	24	891	(8)
Construction	33,950	1,310	479	33,950	(153)
Wholesale and retail trade	53,905	791	472	53,905	(1,014)
Transport and storage	8,635	323	225	8,635	(33)
Accommodation and food service activities	21,016	679	288	21,016	(108)
Information and communication	8,608	461	382	8,608	(33)
Real estate activities	96,854	448	188	96,854	(1,642)
Professional, scientific, and technical activities	28,087	661	431	28,087	(138)
Administrative and support service activities	9,781	226	130	9,781	(47)
Public administration and defence, compulsory social security	251	-	-	251	(1)
Education	3,215	8	8	3,215	(21)
Human health services and social work	24,769	752	722	24,769	(1,235)
Arts, entertainment, and recreation	3,011	32	-	3,011	(14)
Other services	6,636	296	172	6,636	(181)
Total	**309,347**	**6,235**	**3,617**	**309,347**	**(4,691)**

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 reporting thresholds (of 10% gross exposures or 2% qualifying RWAs). These non-UK exposures relate to institutional exposures of £487.8 million at 31 December 2023 compared to £418.3 million at 31 December 2022.

TSB also has £105.5 million (31 December 2022: £125.8 million) of mainly retail secured exposures to customers currently resident overseas.

All credit risk exposures are therefore categorised as being in the UK.

5.5 Credit risk exposure: Analysis by maturity

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

Table 13: Maturity of exposures (CR1-A)

	Net exposure value					
31 December 2023 £000	**On demand**	**≤ 1 year**	**> 1 year ≤ 5 years**	**> 5 years**	**No stated maturity**	**Total**
Loans and advances	4,579,261	614,191	2,628,125	34,748,492	16,119	42,586,188
Debt Securities	-	142,359	465,760	1,872,694	-	2,480,813
Total	**4,579,261**	**756,550**	**3,093,885**	**36,621,186**	**16,119**	**45,067,001**

On demand amounts largely relate to personal current account and credit card exposures. The greater than 5 years amounts largely relate to secured retail mortgage lending and gilts.

5.6 Credit risk exposure: Non-Performing Loans and Advances

This table illustrates the changes in the stock of non-performing loans and advances. As TSB's non-performing loan ratio <5%, other non-performing exposures reporting requirements are out of scope.

Table 14: Changes in the stock of non-performing loans and advances (CR2)

31 December 2023 £000	**Gross carrying amount**
Initial Stock of non-performing loans and advances as at the end of the previous reporting period	**500,727**
Inflows to non-performing portfolios	362,318
Outflows from non-performing portfolios	(330,845)
Outflows due to write-offs	(52,387)
Outflows due to other situations	(278,458)
Final stock of non-performing loans and advances as at the end of the reporting period	**532,200**

5.7 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 15: Standardised approach - Credit risk exposure and CRM effects (CR4)[1]

	Exposures before CCF and CRM		Exposures post CCF and CRM			
	On-balance-sheet amount	**Off-balance-sheet amount**	**On-balance-sheet amount**	**Off-balance-sheet amount**	**RWAs**	**RWA density**
31 December 2023	**£000**	**£000**	**£000**	**£000**	**£000**	**%**
Central governments or central banks	7,775,313	-	8,113,367	-	67,776	0.8%
Public sector entities	73,368	-	-	-	-	0.0%
Multilateral development banks	192,582	-	192,582	-	-	0.0%
Institutions	395,431	7,880	395,431	7,880	145,657	36.1%
Corporates	39,478	14	39,478	3	33,836	85.7%
Retail	409,168	23,334	149,076	4,674	92,781	60.3%
Secured by mortgages on immovable property	650,488	294,114	648,891	146,897	277,613	34.9%
Exposures in default	79,204	228	76,207	110	76,521	100.3%
Covered bonds	224,034	-	224,034	-	22,403	10.0%
Other items	476,201	63,774	476,201	29,484	398,063	78.7%
Total	**10,315,267**	**389,344**	**10,315,267**	**189,048**	**1,114,650**	**10.6%**

(1) 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.

	Exposures before CCF and CRM		Exposures post CCF and CRM			
	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
31 December 2022	£000	£000	£000	£000	£000	%
Central governments or central banks	7,223,183	-	7,649,644	-	61,244	0.8%
Public sector entities	71,037	-	20,496	-	-	0.0%
Multilateral development banks	188,091	-	188,091	-	-	0.0%
Institutions	235,026	6,613	235,026	6,613	92,005	38.1%
Corporates	34,259	15	34,259	3	29,785	86.9%
Retail	491,131	24,933	136,528	4,994	86,987	61.5%
Secured by mortgages on immovable property	789,141	291,180	786,777	145,380	325,120	34.9%
Exposures in default	91,063	221	72,110	104	72,596	100.5%
Covered bonds	254,271	-	254,271	-	25,427	10.0%
Other items	498,007	38,334	498,007	22,280	414,043	79.6%
Total	9,875,209	361,296	9,875,209	179,374	1,107,207	11.0%

(1) 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.

5.8 Exposures subject to the Retail IRB approach

Table 16: 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	PD LGD EAD	Retail IRB	Authorised in 06/2014
Retail	Consumer Loans	PD LGD EAD	Retail IRB	Authorised in 10/2014
Retail	Consumer Credit Cards	PD LGD EAD	Retail IRB	Authorised in 06/2015
Retail	Personal Current Accounts	PD LGD EAD	Retail IRB	Authorised in 06/2015
Retail	Retail SME(1)	-	Standardised	Under roll-out plan to IRB 06/2026

(1) UK SME loan portfolio excluding de minimis corporate exposure.

Internal rating scales

PD internal rating scales are used within TSB to assess the credit quality of the Retail IRB unsecured lending and mortgage portfolios. The retail master scale exists within the business, which covers all relevant retail portfolios. For the purpose of reporting unsecured lending, TSB uses a continuous PD scale with customers allocated to PD grades based upon their PD sitting within the upper and lower bounds of the grade range. Secured mortgage lending is allocated a PD grade based upon segmentations for account type, credit score and repayment status.

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 account of regulatory PD and LGD floors applied in the regulatory capital requirement calculation.

Table 17: IRB approach – Credit risk exposures by exposure class and PD range (CR6)[1]

31 December 2023	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	1,597,599	1,104,304	87.84%	2,413,684	0.12%	1,094,261	31.45%	92,924	3.85%	945	(2,621)
	0.00 to < 0.10	13,964	475,605	87.73%	425,499	0.08%	613,589	76.85%	17,021	4.00%	311	(758)
	0.10 to < 0.15	1,583,635	628,699	87.83%	1,988,185	0.13%	480,672	21.73%	75,903	3.82%	634	(1,863)
	0.15 to < 0.25	8,788,573	678,244	98.46%	9,569,164	0.23%	1,320,828	15.37%	606,234	6.34%	3,565	(3,559)
	0.25 to < 0.50	13,576,878	2,038,297	98.36%	15,878,627	0.39%	640,584	18.48%	2,133,627	13.44%	12,053	(10,825)
	0.50 to < 0.75	5,415,967	467,510	92.75%	5,795,517	0.69%	415,260	21.03%	1,197,672	20.67%	8,649	(11,104)
	0.75 to < 2.50	3,506,308	857,320	77.25%	4,021,458	1.38%	646,122	36.73%	1,788,775	44.48%	21,337	(31,894)
	0.75 to < 1.75	3,049,733	717,817	79.80%	3,487,079	1.26%	504,892	34.35%	1,435,910	41.18%	15,243	(18,024)
	1.75 to < 2.50	456,575	139,503	61.43%	534,379	2.12%	141,230	52.31%	352,865	66.03%	6,094	(13,870)
	2.50 to < 10.00	1,435,436	201,945	71.24%	1,590,860	4.52%	374,848	45.67%	1,350,455	84.89%	33,861	(50,797)
	2.50 to < 5.00	987,717	149,954	67.57%	1,094,449	3.47%	237,344	48.01%	906,614	82.84%	19,112	(27,990)
	5.00 to < 10.00	447,719	51,991	80.32%	496,411	6.84%	137,504	40.52%	443,841	89.41%	14,749	(22,807)
	10.00 to < 100.00	544,347	70,207	80.35%	597,216	30.72%	137,392	35.00%	704,225	117.92%	55,813	(50,880)
	10.00 to < 20.00	292,533	54,650	77.04%	330,113	15.83%	96,213	39.10%	423,746	128.36%	19,369	(22,154)
	20.00 to < 30.00	28,791	12,919	51.44%	35,859	25.84%	24,945	86.03%	99,628	277.83%	8,358	(9,031)
	30.00 to < 100.00	223,023	2,638	93.20%	231,244	52.73%	16,234	21.24%	180,851	78.21%	28,086	(19,695)
	100.00 (Default)	377,378	12,286	86.00%	377,514	100.00%	37,871	22.34%	383,936	101.70%	49,677	(49,402)
	Sub-total	**35,242,486**	**5,430,113**	**91.15%**	**40,244,040**	**2.02%**	**4,667,166**	**22.07%**	**8,257,848**	**20.52%**	**185,900**	**(211,082)**
Exposure Class: Retail mortgage	0.00 to < 0.15	1,559,200	-	100.00%	1,604,938	0.14%	13,248	8.87%	52,299	3.26%	206	(1,176)
	0.00 to < 0.10	-	-	-	-	-	-	-	-	-	-	-
	0.10 to < 0.15	1,559,200	-	100.00%	1,604,938	0.14%	13,248	8.87%	52,299	3.26%	206	(1,176)
	0.15 to < 0.25	8,755,660	-	100.00%	9,005,675	0.23%	63,427	11.48%	554,290	6.15%	2,479	(1,760)
	0.25 to < 0.50	13,455,442	1,548,712	100.00%	15,434,306	0.39%	98,070	16.68%	2,030,965	13.16%	10,539	(8,657)
	0.50 to < 0.75	5,188,495	-	100.00%	5,337,957	0.69%	41,794	15.80%	1,001,625	18.76%	6,163	(7,431)
	0.75 to < 2.50	2,776,935	51,854	100.00%	2,910,111	1.38%	22,677	18.26%	985,303	33.86%	7,631	(6,519)
	0.75 to < 1.75	2,530,210	51,854	100.00%	2,656,206	1.30%	20,788	18.66%	893,526	33.64%	6,768	(2,905)
	1.75 to < 2.50	246,725	-	100.00%	253,905	2.19%	1,889	14.07%	91,777	36.15%	863	(3,614)
	2.50 to < 10.00	900,391	-	100.00%	926,423	4.57%	8,687	15.26%	511,497	55.21%	6,421	(3,345)
	2.50 to < 5.00	597,946	-	100.00%	615,216	3.44%	5,494	17.34%	347,871	56.54%	3,857	(1,593)
	5.00 to < 10.00	302,445	-	100.00%	311,207	6.80%	3,193	11.15%	163,626	52.58%	2,564	(1,752)
	10.00 to < 100.00	407,430	376	100.00%	418,318	34.03%	3,702	11.75%	294,708	70.45%	17,002	(7,840)
	10.00 to < 20.00	212,242	-	100.00%	217,918	17.23%	1,784	13.55%	194,450	89.23%	5,351	(4,381)
	20.00 to < 30.00	2,121	-	100.00%	2,184	24.56%	17	15.64%	2,404	110.09%	88	(126)
	30.00 to < 100.00	193,067	376	100.00%	198,216	52.61%	1,901	9.72%	97,854	49.37%	11,563	(3,333)
	100.00 (Default)	326,982	-	100.00%	326,660	100.00%	2,877	12.44%	237,373	72.67%	21,637	(16,946)
	Sub-total	**33,370,535**	**1,600,942**	**100.00%**	**35,964,388**	**1.87%**	**254,482**	**14.90%**	**5,668,060**	**15.76%**	**72,078**	**(53,674)**

31 December 2023 (continued)	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	38,399	1,104,304	71.24%	808,746	0.10%	1,081,013	76.26%	40,625	5.02%	739	(1,445)
	0.00 to < 0.10	13,964	475,605	87.73%	425,499	0.08%	613,589	76.85%	17,021	4.00%	311	(758)
	0.10 to < 0.15	24,435	628,699	58.76%	383,247	0.13%	467,424	75.59%	23,604	6.16%	428	(687)
	0.15 to < 0.25	32,913	678,244	79.50%	563,489	0.20%	1,257,401	77.55%	51,944	9.22%	1,086	(1,799)
	0.25 to < 0.50	39,107	489,585	67.00%	360,702	0.35%	531,376	80.28%	54,773	15.18%	1,221	(1,474)
	0.50 to < 0.75	54,334	467,510	51.47%	281,440	0.62%	351,105	80.16%	67,949	24.14%	1,555	(1,607)
	0.75 to < 2.50	237,393	805,466	51.99%	608,527	1.36%	562,580	83.77%	282,701	46.46%	7,612	(12,076)
	0.75 to < 1.75	166,208	665,963	51.00%	470,088	1.14%	439,484	82.85%	190,301	40.48%	4,875	(7,459)
	1.75 to < 2.50	71,185	139,503	56.70%	138,439	2.09%	123,096	86.89%	92,400	66.74%	2,737	(4,617)
	2.50 to < 10.00	187,514	201,945	68.31%	307,174	4.71%	316,753	89.04%	361,702	117.75%	14,193	(21,228)
	2.50 to < 5.00	116,652	149,954	64.08%	199,042	3.51%	193,063	88.34%	193,855	97.39%	6,748	(10,237)
	5.00 to < 10.00	70,862	51,991	80.51%	108,132	6.93%	123,690	90.32%	167,847	155.22%	7,445	(10,991)
	10.00 to < 100.00	80,067	69,831	57.38%	119,798	21.04%	124,177	89.57%	298,980	249.57%	24,647	(23,106)
	10.00 to < 20.00	44,915	54,650	55.46%	75,271	13.11%	88,535	88.74%	164,847	219.01%	9,721	(10,038)
	20.00 to < 30.00	20,197	12,919	58.39%	26,935	26.35%	23,718	90.80%	81,924	304.15%	6,806	(6,507)
	30.00 to < 100.00	14,955	2,262	97.99%	17,592	46.78%	11,924	91.22%	52,209	296.77%	8,120	(6,561)
	100.00 (Default)	25,939	12,286	21.24%	26,397	100.00%	32,493	80.71%	82,949	314.23%	13,619	(17,354)
	Sub-total	**695,666**	**3,829,171**	**65.13%**	**3,076,273**	**2.58%**	**4,256,898**	**80.64%**	**1,241,623**	**40.36%**	**64,672**	**(80,089)**
Exposure Class: Retail Loans	0.00 to < 0.15	-	-	-	-	-	-	-	-	-	-	-
	0.00 to < 0.10	-	-	-	-	-	-	-	-	-	-	-
	0.10 to < 0.15	-	-	-	-	-	-	-	-	-	-	-
	0.15 to < 0.25	-	-	-	-	-	-	-	-	-	-	-
	0.25 to < 0.50	82,329	-	-	83,619	0.42%	11,138	82.96%	47,889	57.27%	293	(694)
	0.50 to < 0.75	173,138	-	-	176,120	0.62%	22,361	84.92%	128,098	72.73%	931	(2,066)
	0.75 to < 2.50	491,980	-	-	502,820	1.39%	60,865	86.73%	520,771	103.57%	6,094	(13,299)
	0.75 to < 1.75	353,315	-	-	360,785	1.15%	44,620	86.63%	352,083	97.59%	3,600	(7,660)
	1.75 to < 2.50	138,665	-	-	142,035	2.02%	16,245	86.97%	168,688	118.77%	2,494	(5,639)
	2.50 to < 10.00	347,531	-	-	357,263	4.23%	49,408	87.26%	477,256	133.59%	13,247	(26,224)
	2.50 to < 5.00	273,119	-	-	280,191	3.50%	38,787	86.70%	364,888	130.23%	8,507	(16,160)
	5.00 to < 10.00	74,412	-	-	77,072	6.89%	10,621	89.26%	112,368	145.80%	4,740	(10,064)
	10.00 to < 100.00	56,850	-	-	59,100	26.87%	9,513	88.97%	110,537	187.03%	14,164	(19,934)
	10.00 to < 20.00	35,376	-	-	36,924	13.11%	5,894	88.67%	64,449	174.54%	4,297	(7,735)
	20.00 to < 30.00	6,473	-	-	6,740	24.20%	1,210	89.77%	15,300	227.00%	1,464	(2,398)
	30.00 to < 100.00	15,001	-	-	15,436	60.95%	2,409	89.36%	30,788	199.45%	8,403	(9,801)
	100.00 (Default)	24,457	-	-	24,457	100.00%	2,501	91.59%	63,614	260.12%	14,421	(15,102)
	Sub-total	**1,176,285**	**-**	**-**	**1,203,379**	**5.31%**	**155,786**	**86.57%**	**1,348,165**	**112.03%**	**49,150**	**(77,319)**
Total value (all portfolios)		**35,242,486**	**5,430,113**	**91.15%**	**40,244,040**	**2.02%**	**4,667,166**	**22.07%**	**8,257,848**	**20.52%**	**185,900**	**(211,082)**

(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.

31 December 2022	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	1,783,223	992,226	89.21%	2,519,593	0.13%	827,312	28.60%	99,109	3.93%	971	(1,692)
	0.00 to < 0.10	4,941	196,245	107.67%	214,085	0.08%	253,107	77.54%	8,975	4.19%	171	(343)
	0.10 to < 0.15	1,778,282	795,981	87.74%	2,305,508	0.13%	574,205	24.06%	90,134	3.91%	800	(1,349)
	0.15 to < 0.25	9,489,133	702,980	97.81%	10,233,905	0.23%	680,629	14.87%	622,997	6.09%	3,517	(5,024)
	0.25 to < 0.50	14,224,346	1,917,660	98.63%	16,433,855	0.39%	753,272	18.18%	2,019,598	12.29%	11,772	(14,727)
	0.50 to < 0.75	5,676,835	521,035	95.31%	6,257,042	0.68%	1,089,040	22.19%	1,198,009	19.15%	9,608	(12,183)
	0.75 to < 2.50	3,527,909	862,161	73.39%	4,066,800	1.39%	733,174	38.48%	1,801,868	44.31%	23,206	(36,485)
	0.75 to < 1.75	2,953,579	729,608	78.51%	3,415,213	1.25%	569,939	34.18%	1,295,406	37.93%	14,482	(21,682)
	1.75 to < 2.50	574,330	132,553	46.91%	651,587	2.14%	163,235	61.04%	506,462	77.73%	8,724	(14,803)
	2.50 to < 10.00	1,254,561	183,512	77.76%	1,412,962	4.66%	378,550	42.09%	1,081,160	76.52%	29,091	(44,725)
	2.50 to < 5.00	804,275	134,503	74.97%	910,092	3.50%	240,961	44.50%	676,539	74.34%	15,175	(22,926)
	5.00 to < 10.00	450,286	49,009	83.69%	502,870	6.76%	137,589	37.72%	404,621	80.46%	13,916	(21,799)
	10.00 to < 100.00	528,298	70,506	82.68%	586,938	31.23%	143,618	33.18%	645,255	109.94%	54,790	(46,573)
	10.00 to < 20.00	267,904	55,745	79.61%	308,441	16.01%	92,817	36.68%	358,525	116.24%	17,353	(18,055)
	20.00 to < 30.00	26,282	11,672	55.14%	34,097	25.28%	29,852	86.11%	92,204	270.41%	8,035	(8,784)
	30.00 to < 100.00	234,112	3,089	95.42%	244,400	51.26%	20,949	21.38%	194,526	79.59%	29,402	(19,734)
	100.00 (Default)	319,863	11,738	87.02%	320,152	100.00%	35,087	20.22%	284,614	88.90%	40,602	(37,966)
	Sub-total	36,804,168	5,261,818	91.31%	41,831,247	1.81%	4,640,682	21.61%	7,752,610	18.53%	173,557	(199,375)
Exposure Class: Retail mortgage	0.00 to < 0.15	1,748,944	-	100.00%	1,799,820	0.14%	14,923	9.38%	59,469	3.30%	235	(621)
	0.00 to < 0.10	-	-	-	-	-	-	-	-	-	-	-
	0.10 to < 0.15	1,748,944	-	100.00%	1,799,820	0.14%	14,923	9.38%	59,469	3.30%	235	(621)
	0.15 to < 0.25	9,462,775	-	100.00%	9,730,575	0.23%	68,136	11.57%	577,349	5.93%	2,591	(4,085)
	0.25 to < 0.50	14,112,909	1,345,326	100.00%	15,897,729	0.39%	101,190	16.03%	1,904,867	11.98%	9,880	(13,035)
	0.50 to < 0.75	5,412,415	-	100.00%	5,566,791	0.69%	42,688	14.83%	940,385	16.89%	5,812	(8,156)
	0.75 to < 2.50	2,589,329	74,423	100.00%	2,739,853	1.36%	22,260	15.86%	759,345	27.71%	5,853	(6,297)
	0.75 to < 1.75	2,375,040	74,423	100.00%	2,519,372	1.29%	20,554	16.22%	696,828	27.66%	5,267	(5,106)
	1.75 to < 2.50	214,289	-	100.00%	220,481	2.17%	1,706	11.66%	62,517	28.35%	586	(1,191)
	2.50 to < 10.00	845,504	-	100.00%	869,766	4.65%	8,482	13.20%	399,975	45.99%	5,055	(3,249)
	2.50 to < 5.00	529,967	-	100.00%	545,192	3.44%	5,157	15.32%	260,715	47.82%	2,899	(1,890)
	5.00 to < 10.00	315,537	-	100.00%	324,574	6.69%	3,325	9.65%	139,260	42.91%	2,156	(1,359)
	10.00 to < 100.00	404,762	659	100.00%	415,803	33.92%	3,660	10.51%	256,030	61.57%	14,551	(4,808)
	10.00 to < 20.00	201,242	-	100.00%	206,576	17.26%	1,782	11.45%	149,023	72.14%	4,120	(2,390)
	20.00 to < 30.00	1,291	-	100.00%	1,328	25.03%	11	10.69%	958	72.11%	36	(18)
	30.00 to < 100.00	202,229	659	100.00%	207,899	50.53%	1,867	9.57%	106,049	51.01%	10,395	(2,400)
	100.00 (Default)	281,545	-	100.00%	281,199	100.00%	2,892	11.13%	177,963	63.29%	17,051	(10,838)
	Sub-total	34,858,183	1,420,408	100.00%	37,301,536	1.68%	264,231	14.19%	5,075,383	13.61%	61,028	(51,089)

31 December 2022 (continued)	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	34,279	992,226	70.83%	719,773	0.11%	812,389	76.66%	39,640	5.51%	736	(1,071)
	0.00 to < 0.10	4,941	196,245	107.67%	214,085	0.08%	253,107	77.54%	8,975	4.19%	171	(343)
	0.10 to < 0.15	29,338	795,981	61.75%	505,688	0.12%	559,282	76.29%	30,665	6.06%	565	(728)
	0.15 to < 0.25	26,358	702,980	69.36%	503,330	0.19%	612,493	78.80%	45,648	9.07%	926	(939)
	0.25 to < 0.50	38,469	572,334	75.76%	462,214	0.36%	642,782	81.47%	71,118	15.39%	1,620	(1,252)
	0.50 to < 0.75	63,041	521,035	84.67%	485,899	0.58%	1,021,967	80.25%	108,734	22.38%	2,711	(2,338)
	0.75 to < 2.50	237,649	787,738	54.44%	612,421	1.35%	625,364	83.94%	282,449	46.12%	7,761	(15,203)
	0.75 to < 1.75	170,057	655,185	53.59%	479,626	1.14%	499,500	83.14%	193,719	40.39%	5,080	(9,667)
	1.75 to < 2.50	67,592	132,553	58.62%	132,795	2.10%	125,864	86.80%	88,730	66.82%	2,681	(5,536)
	2.50 to < 10.00	168,856	183,512	77.41%	295,633	4.74%	337,972	88.30%	343,128	116.07%	13,983	(23,145)
	2.50 to < 5.00	104,730	134,503	72.66%	190,399	3.51%	213,583	88.07%	183,757	96.51%	6,640	(11,360)
	5.00 to < 10.00	64,126	49,009	90.45%	105,234	6.95%	124,389	88.71%	159,371	151.44%	7,343	(11,785)
	10.00 to < 100.00	71,615	69,847	63.38%	117,227	21.96%	131,096	87.87%	285,215	243.30%	25,560	(24,529)
	10.00 to < 20.00	38,896	55,745	59.62%	72,887	13.48%	86,095	87.29%	158,073	216.88%	9,751	(10,369)
	20.00 to < 30.00	18,195	11,672	65.75%	25,663	25.63%	28,531	89.06%	75,176	292.93%	6,466	(6,866)
	30.00 to < 100.00	14,524	2,430	138.28%	18,677	50.01%	16,470	88.47%	51,966	278.24%	9,343	(7,294)
	100.00 (Default)	20,834	11,738	21.54%	21,469	100.00%	30,055	80.81%	68,085	317.13%	11,363	(14,474)
	Sub-total	661,101	3,841,410	69.84%	3,217,966	2.35%	4,214,118	81.12%	1,244,017	38.66%	64,660	(82,951)
Exposure Class: Retail Loans	0.00 to < 0.15	-	-	-	-	-	-	-	-	-	-	-
	0.00 to < 0.10	-	-	-	-	-	-	-	-	-	-	-
	0.10 to < 0.15	-	-	-	-	-	-	-	-	-	-	-
	0.15 to < 0.25	-	-	-	-	-	-	-	-	-	-	-
	0.25 to < 0.50	72,968	-	-	73,912	0.44%	9,300	83.36%	43,613	59.01%	272	(440)
	0.50 to < 0.75	201,379	-	-	204,352	0.63%	24,385	84.78%	148,890	72.86%	1,085	(1,689)
	0.75 to < 2.50	700,931	-	-	714,526	1.56%	85,550	86.28%	760,074	106.37%	9,592	(14,985)
	0.75 to < 1.75	408,482	-	-	416,215	1.15%	49,885	86.42%	404,859	97.27%	4,135	(6,909)
	1.75 to < 2.50	292,449	-	-	298,311	2.13%	35,665	86.08%	355,215	119.08%	5,457	(8,076)
	2.50 to < 10.00	240,201	-	-	247,563	4.59%	32,096	88.38%	338,057	136.55%	10,053	(18,331)
	2.50 to < 5.00	169,578	-	-	174,501	3.67%	22,221	88.11%	232,067	132.99%	5,636	(9,676)
	5.00 to < 10.00	70,623	-	-	73,062	6.79%	9,875	89.02%	105,990	145.07%	4,417	(8,655)
	10.00 to < 100.00	51,921	-	-	53,908	30.61%	8,862	89.13%	104,010	192.94%	14,679	(17,236)
	10.00 to < 20.00	27,766	-	-	28,978	13.46%	4,940	89.20%	51,429	177.47%	3,482	(5,296)
	20.00 to < 30.00	6,796	-	-	7,106	24.09%	1,310	89.56%	16,070	226.16%	1,533	(1,900)
	30.00 to < 100.00	17,359	-	-	17,824	61.08%	2,612	88.85%	36,511	204.84%	9,664	(10,040)
	100.00 (Default)	17,484	-	-	17,484	100.00%	2,140	92.00%	38,566	220.58%	12,188	(12,654)
	Sub-total	1,284,884	-	-	1,311,745	4.43%	162,333	86.47%	1,433,210	109.26%	47,869	(65,335)
Total value (all portfolios)		36,804,168	5,261,818	91.31%	41,831,247	1.81%	4,640,682	21.61%	7,752,610	18.53%	173,557	(199,375)

(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.

5.9 Model performance

This section provides analysis of TSB's IRB PD model performance at 30 November 2023 (to provide period for governance review of back testing performance prior to reporting) for Residential Mortgages, Loans, Cards and Personal Current Accounts (PCA). At 31 December 2023 IRB models covered 74.7% of TSB's total RWAs, which is consistent with 31 December 2022 (74.2%).

Table 18 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 which 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 which 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 has updated 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 18: 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
	%	Number of Obligors		%	%	%	%
Retail – Loans	0.00 to <0.15	-	-	-	-	-	0.18%
	0.00 to <0.10	-	-	-	-	-	0.00%
	0.10 to <0.15	-	-	-	-	-	0.30%
	0.15 to <0.25	-	-	-	-	-	0.30%
	0.25 to <0.50	9,534	25	0.26%	0.42%	0.42%	0.41%
	0.50 to <0.75	24,434	76	0.31%	0.62%	0.62%	0.49%
	0.75 to <2.50	86,300	1,391	1.54%	1.39%	1.37%	1.33%
	0.75 to <1.75	52,355	453	0.82%	1.15%	1.15%	0.91%
	1.75 to <2.50	33,945	938	2.65%	2.02%	2.09%	1.84%
	2.50 to <10.00	32,521	2,236	6.06%	4.23%	4.22%	4.10%
	2.50 to <5.00	21,686	1,085	4.55%	3.50%	3.36%	2.98%
	5.00 to <10.00	10,835	1,151	9.09%	6.89%	6.94%	7.31%
	10.00 to <100.00	8,434	2,301	26.71%	26.87%	25.70%	28.32%
	10.00 to <20.00	4,815	795	15.56%	13.11%	13.41%	14.40%
	20.00 to <30.00	1,377	333	24.18%	24.20%	24.35%	23.15%
	30.00 to <100.00	2,242	1,173	52.23%	60.95%	56.65%	54.31%
	100.00 (Default)	2,427	2,375	96.99%	100.00%	100.00%	96.76%
Retail – QRRE	0.00 to <0.15	810,722	296	0.04%	0.10%	0.10%	0.06%
	0.00 to <0.10	253,552	40	0.02%	0.08%	0.07%	0.06%
	0.10 to <0.15	557,170	256	0.05%	0.13%	0.12%	0.08%
	0.15 to <0.25	615,427	385	0.06%	0.20%	0.21%	0.11%
	0.25 to <0.50	646,252	1,105	0.17%	0.35%	0.35%	0.21%
	0.50 to <0.75	1,027,713	2,218	0.21%	0.62%	0.61%	0.33%
	0.75 to <2.50	632,285	7,090	1.07%	1.36%	1.35%	1.09%
	0.75 to <1.75	504,002	4,440	0.86%	1.14%	1.14%	0.90%
	1.75 to <2.50	128,283	2,650	1.92%	2.09%	2.09%	1.74%
	2.50 to <10.00	316,472	16,794	4.29%	4.71%	4.94%	4.08%
	2.50 to <5.00	191,003	8,375	3.15%	3.51%	3.51%	3.01%
	5.00 to <10.00	125,469	8,419	6.02%	6.93%	7.07%	5.59%
	10.00 to <100.00	118,428	17,314	13.88%	21.04%	19.43%	15.39%
	10.00 to <20.00	77,764	8,020	9.32%	13.11%	13.42%	9.48%
	20.00 to <30.00	21,954	3,526	15.86%	26.35%	24.06%	13.17%
	30.00 to <100.00	18,710	5,768	30.49%	46.78%	45.61%	42.43%
	100.00 (Default)	32,397	30,732	93.05%	100.00%	100.00%	90.61%
Retail – Mortgages	0.00 to <0.15	15,179	25	0.16%	0.14%	0.14%	0.04%
	0.00 to <0.10	-	-	-	-	-	0.01%
	0.10 to <0.15	15,179	25	0.16%	0.14%	0.14%	0.05%
	0.15 to <0.25	69,370	44	0.06%	0.23%	0.23%	0.04%
	0.25 to <0.50	102,787	86	0.08%	0.39%	0.39%	0.06%
	0.50 to <0.75	42,958	112	0.26%	0.69%	0.69%	0.16%
	0.75 to <2.50	22,541	130	0.58%	1.38%	1.38%	0.27%
	0.75 to <1.75	20,790	88	0.42%	1.30%	1.30%	0.23%
	1.75 to <2.50	1,751	42	2.40%	2.19%	2.23%	0.63%
	2.50 to <10.00	8,613	184	2.14%	4.57%	4.71%	1.30%
	2.50 to <5.00	5,233	100	1.91%	3.44%	3.43%	1.03%
	5.00 to <10.00	3,380	84	2.49%	6.80%	6.90%	1.80%
	10.00 to <100.00	3,585	748	20.86%	34.03%	36.53%	15.62%
	10.00 to <20.00	1,680	194	11.55%	17.23%	17.38%	6.01%
	20.00 to <30.00	-	-	-	24.56%	-	4.29%
	30.00 to <100.00	1,905	554	29.08%	52.61%	52.74%	24.42%
	100.00 (Default)	2,868	2,868	100.00%	100.00%	100.00%	98.61%

(1) Mortgage data is based on 31 December 2023 performance comparison but unsecured is based on November 2023 performance comparison.

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

Observed average default rate is calculated using the number of obligors that went into default during the period weighted by the number of obligors at the start of the period.

The exposure weighted average PD is calculated using the regulatory PD weighted by the EAD at the start of the period.

The average historic default rate is calculated based on the observed average default rate averaged over the past five years.

5.10 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 67 to 68.

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 since initial recognition. For financial assets in stage 2, recognition of a lifetime ECL impairment allowance is required. Interest income on stage 2 financial assets is calculated on the gross carrying amount of the financial asset; and

  - **Stage 3:** Financial assets which have experienced one or more events that have had a detrimental impact on the estimated future cash flows and are 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 (stage 3)

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

Definition of default for IFRS 9

- Loans and advances that are more than 90 days past due, or considered by management as unlikely to pay their obligations, are considered, for IFRS 9 purposes, to be in default, non performing, and credit impaired (stage 3). Examples of loans considered unlikely to pay include customers in bankruptcy or subject to an individual voluntary arrangement, customers undergoing 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.

5.11 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 above.

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.

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.

5.12 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 93 of TSB's ARA.

An analysis of non-performing and forborne exposures is presented in the tables below. The defaulted and impaired exposures reported in the tables 19, 20 and 21 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.

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

Table 19: Credit quality of forborne exposures (CQ1)

	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						
31 December 2023 £000	**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**
Loans and advances	**142,316**	**282,192**	**222,672**	**282,192**	**(2,973)**	**(55,474)**	**336,699**	**206,294**
Other financial corporations	-	15	-	15	-	(12)	-	-
Non-financial corporations	2,798	88	-	88	(291)	(2)	2,588	85
Households	139,518	282,089	222,672	282,089	(2,682)	(55,460)	334,111	206,209
Loan commitments given	**12,553**	**21,746**	**10,101**	**21,746**	**(270)**	**(1,004)**	**-**	**-**
Total	**154,869**	**303,938**	**232,773**	**303,938**	**(3,243)**	**(56,478)**	**336,699**	**206,294**

	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						
31 December 2022 £000	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
Loans and advances	114,057	238,059	184,547	238,059	(1,609)	(48,081)	281,578	174,681
Non-financial corporations	393	2,415	4	2,415	(17)	(252)	2,524	2,161
Households	113,664	235,644	184,543	235,644	(1,592)	(47,829)	279,054	172,520
Loan commitments given	10,337	19,189	9,358	19,189	(249)	(1,133)	-	-
Total	124,394	257,248	193,905	257,248	(1,858)	(49,214)	281,578	174,681

At 31 December 2023, total forborne exposures were £458.8 million, including £424.5 million of loans and advances, of which £342.2 million are secured by residential property, and £34.3 million of loan commitments. Of the £458.8 million forborne exposures £154.9 million were performing and £303.9 million were non-performing. Total collateral, which is largely residential property, of which £336.7 million is held against these forborne exposures and £59.7 million impairment provision has been provided.

Further information on forborne exposures is reported within the notes to the consolidated financial statements on pages 67 and 93 of TSB's ARA.

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

At 31 December 2023, past due (> 30 days) or non-performing exposures in respect of loans and advances to customers, regardless of impairment status, amounted to £612.9 million, of which £562.0 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 at 31 December 2023 are categorised as being in the UK, based on the materiality criteria, outlined on page 21 relating to retail exposures.

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

Table 20: Credit quality of performing and non-performing exposures by past due days[(1)] (CQ3)

	Gross carrying amount / nominal amount											
	Performing exposures			Non-performing exposures								
31 December 2023 £000	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	**5,808,103**	**5,808,103**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Loans and advances	**36,463,086**	**36,412,218**	**50,868**	**532,200**	**258,991**	**140,931**	**81,008**	**35,608**	**13,095**	**872**	**1,695**	**430,984**
Central banks	136,020	136,020	-	-	-	-	-	-	-	-	-	-
General governments	7,868	7,868	-	-	-	-	-	-	-	-	-	-
Credit institutions	312,019	312,019	-	-	-	-	-	-	-	-	-	-
Other financial corporations	83,451	83,451	-	127	88	39	-	-	-	-	-	-
Non-financial corporations	303,112	294,462	8,650	6,235	2,517	1,450	1,380	659	215	-	14	3,617
Of which SMEs	303,112	294,462	8,650	6,235	2,517	1,450	1,380	659	215	-	14	3,617
Households	35,620,616	35,578,398	42,218	525,838	256,386	139,442	79,628	34,949	12,880	872	1,681	427,367
Debt securities	**2,480,813**	**2,480,813**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
General governments	1,771,861	1,771,861	-	-	-	-	-	-	-	-	-	-
Credit institutions	656,848	656,848	-	-	-	-	-	-	-	-	-	-
Other financial corporations	52,104	52,104	-	-	-	-	-	-	-	-	-	-
Off-balance-sheet exposures	**5,783,379**			**29,804**								**12,408**
Credit institutions	595			-								-
Other financial corporations	115			-								-
Non-financial corporations	10,846			-								-
Households	5,771,823			29,804								12,408
Total	**50,535,381**	**44,701,134**	**50,868**	**562,004**	**258,991**	**140,931**	**81,008**	**35,608**	**13,095**	**872**	**1,695**	**443,392**

(1) Table reported in accordance with FINREP definitions.

31 December 2022 £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	5,150,913	5,150,913	-	-	-	-	-	-	-	-	-	-
Loans and advances	38,753,978	38,702,378	51,600	500,727	290,249	101,579	48,951	37,292	16,056	1,618	4,982	399,763
Central banks	144,271	144,271	-	-	-	-	-	-	-	-	-	-
General governments	21,354	21,354	-	-	-	-	-	-	-	-	-	-
Credit institutions	311,481	311,481	-	-	-	-	-	-	-	-	-	-
Other financial corporations	531,468	531,468	-	178	-	74	44	60	-	-	-	55
Non-financial corporations	341,173	328,600	12,573	20,868	6,096	2,675	6,457	5,621	-	-	19	14,805
Of which SMEs	341,173	328,600	12,573	20,868	6,096	2,675	6,457	5,621	-	-	19	14,805
Households	37,404,231	37,365,204	39,027	479,681	284,153	98,830	42,450	31,611	16,056	1,618	4,963	384,903
Debt securities	2,461,163	2,461,163	-	-	-	-	-	-	-	-	-	-
General governments	1,861,748	1,861,748	-	-	-	-	-	-	-	-	-	-
Credit institutions	548,873	548,873	-	-	-	-	-	-	-	-	-	-
Other financial corporations	50,542	50,542	-	-	-	-	-	-	-	-	-	-
Off-balance-sheet exposures	5,589,976			27,675								11,800
Credit institutions	202			-								-
Other financial corporations	73			2								-
Non-financial corporations	11,108			22								9
Households	5,578,593			27,651								11,791
Total	51,956,030	46,314,454	51,600	528,402	290,249	101,579	48,951	37,292	16,056	1,618	4,982	411,563

(1) Table reported in accordance with FINREP definitions.

At 31 December 2023, TSB's non-performing loans (NPL) ratio was 1.1%, up from 1.0% at 31 December 2022.

Total loans and advances reduced by £2.3 billion, a 5.9% reduction, from £38.8 billion at 31 December 2022 to £36.5 billion at 31 December 2023. The contraction was largely due to managing of the secured household lending portfolio.

Since 31 December 2022 non-performing exposures have increased from £528.4 million to £562.0 million at 31 December 2023, of which default has also increased to £443.4 million from £411.6 million reflecting challenges in the economic environment.

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

The analysis of performing and non-performing exposures and related provisions at 31 December 2023, in respect of loans and advances to customers is provided in table 21.

At 31 December 2023 accumulated impairment had increased from £211.8 million at 31 December 2022 to £222.3 million, of which £141.5 million (£145.7 million 2022) relates to performing exposures and £80.8 million (£66.1 million 2022) to non-performing exposures. This reflects the more challenging economic outlook as reflected in higher forecast unemployment and interest rates (as described more fully in note 8 on page 71 of TSB's ARA).

Total non-performing exposures at 31 December 2023 of £562.0 million with impairment provision of £80.8 million compared to £528.4 million and £66.1 million respectively at 31 December 2022.

Total gross on balance sheet loans and advances decreased during 2023 by £2.3 billion (5.8%) to £37.0 billion, whereas there was an increase in non-performing exposures from £500.7 million to £532.2 million reflecting the economic environment.

Total loans collateralised by residential household property decreased from £35.8 billion to £33.6 billion at 31 December 2023.

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 59 and the notes to the consolidated financial statements on pages 66 to 77 and 86 to 92.

Table 21: Performing and non-performing exposures and related provisions[1] (CR1)

31 December 2023	Gross carrying amount / nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions[2]						Accumulated partial write-offs	Collateral and financial guarantees received	
	Performing exposures			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	**5,808,103**	**5,808,103**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Loans and advances	**36,463,086**	**32,703,307**	**3,687,847**	**532,200**	**-**	**509,209**	**(132,864)**	**(55,895)**	**(76,914)**	**(79,000)**	**-**	**(78,126)**	**-**	**33,586,414**	**415,215**
Central banks	136,020	136,020	-	-	-	-	-	-	-	-	-	-	-	-	-
General governments	7,868	7,868	-	-	-	-	-	-	-	-	-	-	-	7,868	-
Credit institutions	312,019	312,019	-	-	-	-	-	-	-	-	-	-	-	-	-
Other financial corporations	83,451	82,810	641	127	-	127	(38)	(4)	(34)	(19)	-	(19)	-	1,796	102
Non-financial corporations	303,112	242,797	60,315	6,235	-	6,235	(4,003)	(2,335)	(1,668)	(688)	-	(688)	-	288,425	5,535
of which SMEs	303,112	242,797	60,315	6,235	-	6,235	(4,003)	(2,335)	(1,668)	(688)	-	(688)	-	288,425	5,535
Households	35,620,616	31,921,793	3,626,891	525,838	-	502,847	(128,823)	(53,556)	(75,212)	(78,293)	-	(77,419)	-	33,288,325	409,578
Debt securities	**2,480,813**	**2,480,813**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
General governments	1,771,861	1,771,861	-	-	-	-	-	-	-	-	-	-	-	-	-
Credit institutions	656,848	656,848	-	-	-	-	-	-	-	-	-	-	-	-	-
Other financial corporations	52,104	52,104	-	-	-	-	-	-	-	-	-	-	-	-	-
Off-balance-sheet exposures	**5,783,379**	**5,330,651**	**431,332**	**29,804**	**-**	**29,766**	**(8,652)**	**(4,642)**	**(4,011)**	**(1,765)**	**-**	**(1,755)**		**-**	**-**
Credit institutions	595	595	-	-	-	-	-	-	-	-	-	-	-	-	-
Other financial corporations	115	90	25		-		-	-	-	-	-	-	-	-	-
Non-financial corporations	10,846	10,175	671		-		-	-	-	-	-	-	-	-	-
Households	5,771,823	5,319,791	430,636	29,804	-	29,766	(8,652)	(4,642)	(4,011)	(1,765)	-	(1,755)	-	-	-
Total	**50,535,381**	**46,322,874**	**4,119,179**	**562,004**	**-**	**538,975**	**(141,516)**	**(60,537)**	**(80,925)**	**(80,765)**	**-**	**(79,881)**	**-**	**33,586,414**	**415,215**

(1) Table reported in accordance with FINREP definitions.
(2) Accumulated impairment on Loan commitments reported as negative consistent with Loans and advances for presentational purposes.

31 December 2022	Gross carrying amount / nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions[2]						Accumulated partial write-offs	Collateral and financial guarantees received	
	Performing exposures			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	5,150,913	5,150,913	-	-	-	-	-	-	-	-	-	-	-	-	-
Loans and advances	38,753,978	34,801,636	3,870,620	500,727	-	473,102	(134,200)	(38,178)	(95,997)	(63,816)	-	(63,256)	-	35,708,110	410,208
Central banks	144,271	144,271	-	-	-	-	-	-	-	-	-	-	-	-	-
General governments	21,354	21,354	-	-	-	-	-	-	-	-	-	-	-	-	-
Credit institutions	311,481	311,481	-	-	-	-	-	-	-	-	-	-	-	-	-
Other financial corporations	531,468	531,152	316	178	-	178	(9)	(7)	(1)	(16)	-	(16)	-	1,837	154
Non-financial corporations	341,173	240,548	100,624	20,868	-	20,868	(4,885)	(3,672)	(1,212)	(551)	-	(551)	-	309,114	20,247
of which SMEs	341,173	240,548	100,624	20,868	-	20,868	(4,885)	(3,672)	(1,212)	(551)	-	(551)	-	309,114	20,247
Households	37,404,231	33,552,830	3,769,680	479,681	-	452,056	(129,306)	(34,499)	(94,784)	(63,249)	-	(62,689)	-	35,397,159	389,807
Debt securities	2,461,163	2,461,163	-	-	-	-	-	-	-	-	-	-	-	-	-
General governments	1,861,748	1,861,748	-	-	-	-	-	-	-	-	-	-	-	-	-
Credit institutions	548,873	548,873	-	-	-	-	-	-	-	-	-	-	-	-	-
Other financial corporations	50,542	50,542	-	-	-	-	-	-	-	-	-	-	-	-	-
Off-balance-sheet exposures	5,589,976	5,064,709	504,096	27,675	-	27,619	(11,541)	(4,356)	(7,185)	(2,268)	-	(2,212)	-	-	-
Credit institutions	202	202	-	-	-	-	-	-	-	-	-	-	-	-	-
Other financial corporations	73	73	-	2	-	2	-	-	-	-	-	-	-	-	-
Non-financial corporations	11,108	10,251	857	22	-	22	-	-	-	-	-	-	-	-	-
Households	5,578,593	5,054,183	503,239	27,651	-	27,595	(11,541)	(4,356)	(7,185)	(2,268)	-	(2,212)	-	-	-
Total	51,956,030	47,478,421	4,374,716	528,402	-	500,721	(145,741)	(42,534)	(103,182)	(66,084)	-	(65,468)	-	35,708,110	410,208

(1) Table reported in accordance with FINREP definitions.
(2) Accumulated impairment on Loan commitments reported as negative consistent with Loans and advances for presentational purposes.

5.15 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 BBLs 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 22: IRB approach – Disclosure of the extent of the use of CRM techniques (CR7-A)

		Credit Risk Mitigation Techniques		Credit Risk Mitigation Methods in the calculation of RWEAs	
		Funded Credit Protection (FCP)			
31 December 2023 £000	**Total exposures**	**Other eligible collaterals**	**Immovable property collaterals(1)**	**RWEA without substitution effects**	**RWEA substitution effects**
	a	**c**	**d**	**m**	**n**
Retail	40,244,040	192.8%	192.8%	8,257,848	8,257,848
Of which Retail – Immovable property Non-SMEs	35,964,388	215.8%	215.8%	5,668,060	5,668,060
Of which Retail – Qualifying revolving	3,076,273	0.0%	0.0%	1,241,623	1,241,623
Of which Retail – Other non-SMEs	1,203,379	0.0%	0.0%	1,348,165	1,348,165
Total	**40,244,040**	**192.8%**	**192.8%**	**8,257,848**	**8,257,848**

(1) The disclosed value of collateral used to calculate the percentage is the indexed market value.

		Credit Risk Mitigation Techniques		Credit Risk Mitigation Methods in the calculation of RWEAs	
		Funded Credit Protection (FCP)			
31 December 2022 £000	Total exposures	Other eligible collaterals	Immovable property collaterals(1)	RWEA without substitution effects	RWEA substitution effects
	a	**c**	**d**	**m**	**n**
Retail	41,831,248	201.8%	201.8%	7,752,610	7,752,610
Of which Retail – Immovable property Non-SMEs	37,301,537	226.3%	226.3%	5,075,383	5,075,383
Of which Retail – Qualifying revolving	3,217,966	0.0%	0.0%	1,244,017	1,244,017
Of which Retail – Other non-SMEs	1,311,745	0.0%	0.0%	1,433,210	1,433,210
Total	41,831,248	201.8%	201.8%	7,752,610	7,752,610

(1) The disclosed value of collateral used to calculate the percentage is the indexed market value.

Funded credit protection for TSB relates to real estate collateral secured on mortgage lending. At 31 December 2023 the indexed linked value of real estate was £77.6 billion compared to £84.4 billion at 31 December 2022. The value of eligible collateral in table above has been presented based on that value.

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 standardised approach.

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 guarantees from central governments. Unsecured exposures include unsecured retail lending.

Table 23: Disclosure of the use of credit risk mitigation techniques (CR3)

		Secured Carrying Amount			
				Of which secured by financial guarantees	
31 December 2023 £000	**Unsecured carrying amount**	**Total**	**Of which secured by collateral**	**Total**	**Of which secured by credit derivatives**
Loans and advances[1]	8,589,894	34,001,630	33,707,752	293,878	-
Debt securities	2,480,813	-	-	-	
Total	**11,070,707**	**34,001,630**	**33,707,752**	**293,878**	**-**
Of which non-performing exposures	37,984	415,215	406,236	8,979	-
Of which defaulted[2]	23,573	368,942			

(1) Loans and advances exclude cash balances at central banks and other assets.
(2) Of which default is reported net of impairment provisions.

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 £412.8 million and government guaranteed public sector entity exposures of £73.4 million.

6. Leverage ratio

The following tables present CRR disclosures on the leverage ratio.

6.1 Leverage ratio exposure

Table 24: LRSum: Summary reconciliation of accounting assets and leverage ratio exposures (UK LR1)

Applicable Amounts	**31 December 2023 £000**	31 December 2022 £000
Total assets as per published financial statements	47,652,668	49,449,717
(Adjustment for exemption of exposures to central banks)	(5,891,423)	(5,229,036)
Adjustments for derivative financial instruments	(1,963,138)	(2,464,681)
Adjustment for securities financing transactions (SFTs)	37,571	114,555
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	879,216	832,469
(Adjustment for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital (leverage))	(2,991)	(4,412)
Other adjustments	(373,177)	(154,161)
Leverage ratio total exposure measure	**40,338,726**	42,544,451

TSB calculates leverage ratio based on the PRA 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 leverage ratio is 4.6% which comfortably exceeds the PRA minimum expectation of 3.25%.

The leverage ratio has increased from 4.2% to 4.6% since 31 December 2022 as a result of an increase in Tier 1 capital of £51.1 million in 2023, largely due to the 2023 retained profit. The leverage exposure measure reduced by £2.2 billion to £40.3bn, largely driven by managed reductions in mortgage lending, lending to SME's and unsecured retail lending.

Under the PRA UK leverage ratio framework, the leverage ratio is calculated on a modified basis to exclude qualifying central bank reserves and COVID lending covered by government guarantee from the exposure measure.

Table 25: LRCom: Leverage ratio common disclosure (UK LR2)

CRR leverage ratio exposure	31 December 2023 £000	30 June 2023 £000	31 December 2022 £000
On-balance sheet exposures (excluding derivatives and SFTs)			
On-balance sheet items (excluding derivatives SFTs, but including collateral)	45,374,094	45,337,867	46,903,422
Deductions of receivables assets for cash variation margin provided in derivatives transactions	(152,430)	(242,628)	(197,719)
Asset amounts deducted in determining Tier 1 capital	(115,591)	(134,840)	(140,454)
Total on-balance sheet exposures (excluding derivatives and SFTs)	**45,106,073**	44,960,399	46,565,249
Derivative exposures			
Replacement cost associated with SA-CCR derivatives transactions (i.e. net of eligible cash variation margin)	138,117	191,416	174,981
Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	69,172	75,576	86,233
Total derivatives exposures	**207,289**	266,992	261,214
Securities financing transaction (SFT) exposures			
Counterparty credit risk exposure for SFT assets	37,571	33,810	114,555
Total securities financing transaction exposures	**37,571**	33,810	114,555
Other off-balance sheet exposures			
Off-balance sheet exposures at gross notional amount	5,820,214	5,640,912	5,622,343
Adjustments for conversion to credit equivalent amounts	(4,940,998)	(4,802,497)	(4,789,874)
Off-balance sheet exposures	**879,216**	838,415	832,469
Capital and total exposures measure			
Tier 1 capital (leverage)	1,842,646	1,859,042	1,791,545
Total exposure measure including claims on central banks	46,230,149	46,099,616	47,773,487
Claims on central banks excluded	(5,891,423)	(5,539,228)	(5,229,036)
Total exposure measure excluding claims on central banks	**40,338,726**	40,560,388	42,544,451
Leverage ratio			
Leverage ratio excluding claims on central banks (%)	4.6%	4.6%	4.2%
Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)	4.6%	4.6%	4.2%
Leverage ratio including claims on central banks (%)	4.0%	4.0%	3.8%

Table 26: LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures) (UK LR3)

CRR leverage ratio exposures	31 December 2023 £000	31 December 2022 £000
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**45,221,664**	46,705,703
Banking book exposures, of which:	45,221,664	46,705,703
Covered bonds	224,034	254,271
Exposures treated as sovereigns	7,804,040	7,166,325
Institutions	395,431	235,026
Secured by mortgages of immovable properties	33,657,864	35,325,984
Retail exposures	2,103,074	2,278,679
Corporate	39,478	34,259
Exposures in default	419,604	384,869
Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	578,139	1,026,290

Exempted exposures consist of variation margin pledged of £152.4 million at 31 December 2023 and £197.7 million at 31 December 2022.

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, Exco and ALCO on a monthly basis.

TSB monitors excessive leverage via both its Risk Appetite and Recovery Plan Framework. The Recovery plan includes actions which could be used to remediate an excessive leverage position. The Recovery Plan includes details of processes and timelines for its Recovery actions. Additionally, and with the aim of managing excessive leverage risk, the net stable funding ratio (NSFR) is used to monitor mismatches in maturities whilst the Encumbrance Ratio is used to measure asset encumbrance levels.

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, 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.

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 16 of TSB's 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 it can continue to operate under stressed conditions and will limit the proportion of the 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 at 31 December 2023 was 104% (31 December 2022 was 105%), 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 concentration risks are managed carefully 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 15 to 16 of TSB's ARA. These include Exco, ALCO, BRC, and the Board.

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

The central treasury function is responsible for the liquidity risk management and monitoring of TSB. Although TSB is owned by Sabadell, liquidity management is decentralised and TSB is considered an independent entity for liquidity management purposes. TSB has processes in place to manage and control intraday liquidity risk and ensure that the necessary liquid assets are available to cover.

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.

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. 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, as a participant of the SMF, has access to the BoE liquidity facilities including the term funding scheme. Following its launch in April 2020, TSB has accessed the Term Funding Scheme with additional incentives for SME's (TFSME).

Adequacy of Liquidity Risk Management

TSB has a strong 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 on Liquidity Coverage Ratio

The Liquidity Coverage Ratio (LCR) is a key regulatory tool used to monitor the short-term liquidity adequacy of the bank.

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 2023 was 188% (31 December 2022: 168%), shown in the UK LIQ1 disclosure table below:

Table 27: Quantitative information of LCR (UK LIQ1)

	Total unweighted value (average)				Total weighted value (average)			
£000	**31 December 2023**	**30 September 2023**	**30 June 2023**	**31 March 2023**	**31 December 2023**	**30 September 2023**	**30 June 2023**	**31 March 2023**
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)					**7,371,627**	**7,296,738**	**7,159,476**	**6,901,297**
CASH - OUTFLOWS								
Retail deposits and deposits from small business customers, of which:	**35,208,229**	**35,433,859**	**35,488,060**	**35,454,669**	**2,305,933**	**2,330,557**	**2,359,517**	**2,377,924**
Stable deposits	26,138,004	26,625,242	27,112,401	27,542,119	1,306,900	1,331,262	1,355,620	1,377,106
Less stable deposits	6,821,983	6,848,553	6,891,924	6,881,204	999,032	999,295	1,003,896	1,000,818
Unsecured wholesale funding	**239,470**	**295,383**	**304,453**	**342,410**	**115,772**	**162,373**	**165,675**	**202,799**
Non-operational deposits (all Counterparties)	227,766	244,616	255,734	258,340	104,068	111,605	116,957	118,729
Unsecured debt	11,703	50,769	48,719	84,070	11,703	50,768	48,719	84,070
Secured wholesale funding					**31,250**	**31,250**	**31,250**	**-**
Additional requirements	**4,592,195**	**4,594,664**	**4,528,608**	**4,409,488**	**917,114**	**916,471**	**853,393**	**740,112**
Outflows related to derivative exposures and other collateral requirements	723,689	722,882	659,961	546,987	723,689	722,882	659,961	546,987
Credit and liquidity facilities	3,868,506	3,871,782	3,868,647	3,862,501	193,425	193,589	193,432	193,125
Other contractual funding obligations	**169,169**	**134,552**	**108,751**	**90,056**	**102,393**	**68,721**	**43,443**	**25,037**
Other contingent funding obligations	**1,651,486**	**1,713,461**	**2,040,621**	**2,235,268**	**661,606**	**727,190**	**907,712**	**1,006,678**
TOTAL CASH OUTFLOWS					**4,134,068**	**4,236,562**	**4,360,990**	**4,352,550**
CASH - INFLOWS								
Secured lending (e.g. reverse repos)	31,250	31,250	31,250	-	-	-	-	-
Inflows from fully performing exposures	326,930	339,129	344,774	350,190	212,574	221,961	224,342	226,958
Other cash inflows	13,136	32,052	37,524	45,832	6,304	22,907	26,024	32,726
TOTAL CASH INFLOWS	**371,316**	**402,431**	**413,548**	**396,022**	**218,878**	**244,867**	**250,365**	**259,684**
Inflows subject to 75% cap	371,316	402,431	413,548	396,022	218,878	244,867	250,365	259,684
TOTAL ADJUSTED VALUE								
LIQUIDITY BUFFER					**7,371,627**	**7,296,738**	**7,159,476**	**6,901,297**
TOTAL NET CASH OUTFLOWS					**3,915,190**	**3,991,695**	**4,110,625**	**4,092,866**
LIQUIDITY COVERAGE RATIO (1)					**188%**	**183%**	**175%**	**170%**

(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.

Table 28: Qualitative information on LCR, which complements template UK LIQ1 (UK LIQB)

In accordance with Article 451a(2) CCR

Row	Requirement	
(a)	Explanations on the main drivers of the LCR results and the evolution of the contribution of inputs to the LCR's calculation over time.	TSB is primarily funded by retail deposits, in particular current and savings accounts, the majority of which being retail and are predominately 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.
(b)	Explanations on the changes in the LCR over time.	The 12 month-end average LCR for the year to 31 December 2023 increased to 188% (31 December 2022: 168%). This increase is primarily driven by an increase in retail funding and wholesale funding, partly offset by a decrease in average central bank funding (TFSME).
(c)	Explanations on the actual concentration of funding sources.	TSB 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. TSB has several sources of funding which are well diversified in terms of the type of instrument, programmes, counterparty, term structure and market. TSB's main source of funding is from retail customer funding, which is supplemented with wholesale funding to support balance sheet growth.
(d)	High-level description of the composition of the institution's liquidity buffer.	The liquidity buffer is composed primarily of BoE withdrawable central bank reserves and UK government gilts. The remainder includes bonds issued by multilateral development banks and international organisations, extremely high-quality and high-quality covered bonds, and coins and banknotes.
(e)	Derivative exposures and potential collateral calls.	Derivative transactions are largely subject to collateral agreements, protecting them against any changes in their market value. In addition, the LCR considers the liquidity risk from additional outflows arising from collateral requirements that would result from the impact of an adverse market scenario on the institution's derivatives transactions, which could potentially reduce the banks liquidity buffer. Within the LCR, the most significant net change in 30 days over the time horizon of the preceding 24 months is calculated and then included as a liquidity requirement.
(f)	Currency mismatch in the LCR.	The LCR is calculated and reported on a consolidated basis in GBP. TSB has no material exposure to other currencies.
(g)	Other items in the LCR calculation that are not captured in the LCR disclosure template but that the institution considers relevant for its liquidity profile.	TSB has no other items in its LCR calculation, that are not captured in the LCR UK LIQ1 disclosure template, that it considers relevant for its liquidity profile.

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 table below reflects the average NSFR balances at the year-end date, based on the quarter-end NSFRs for the last 4 quarters. The 4 quarter-end average NSFR to 31 December 2023 was 154% (31 December 2022: 148%), shown in the LIQ2 disclosure table below:

Table 29: Net stable funding ratio (UK LIQ2)

31 December 2023 £000	**Unweighted value by residual maturity**				
Available stable funding (ASF) Items	**No maturity[1]**	**< 6 months**	**6 months to < 1yr**	**≥ 1yr**	**Weighted value**
Capital items and instruments	1,935,822	-	-	300,000	2,235,822
Own funds	1,935,822	-	-	300,000	2,235,822
Retail deposits		34,494,053	859,894	859,434	33,158,200
Stable deposits		26,744,384	859,894	859,434	27,083,497
Less stable deposits		6,749,669	-	-	6,074,703
Wholesale funding:		863,176	375,000	6,687,500	6,974,244
Other wholesale funding		863,176	375,000	6,687,500	6,974,244
Other liabilities:	521	243,512	-	-	-
NSFR derivative liabilities	521				
All other liabilities and capital instruments not included in the above categories		243,512	-	-	-
Total available stable funding (ASF)					**42,368,266**

	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)					41,225
Assets encumbered for a residual maturity of one year or more in a cover pool		-	-	2,974,860	2,528,631
Performing loans and securities:		1,870,329	847,703	30,748,905	23,456,824
Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut		187,500	-	62,500	62,500
Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions		101,561	-	48,799	58,955
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:		850,596	219,563	1,136,111	1,500,774
Performing residential mortgages, of which:		730,672	628,140	29,501,495	21,834,595
With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk		730,672	628,140	28,710,870	21,162,564
Other assets:	-	585,314	13,694	1,144,557	1,352,118
Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs		-	-	431,000	366,350
NSFR derivative assets		103,127			103,127
NSFR derivative liabilities before deduction of variation margin posted		20,650			1,032
All other assets not included in the above categories		461,537	13,694	713,557	881,609
Off-balance sheet items		**3,899,787**	-	-	**222,742**
Total RSF					**27,601,540**
Net stable funding ratio (%)[2]					**154%**

(1) The unweighted value of high-quality liquid assets is not included in this table according to the instructions provided.
(2) The ratio reported in the above table is a simple average of quarter-end NSFR ratios over the last 4 quarters. Therefore, the ratio may not be equal to the implied NSFR% calculated when using the average component amounts reported under 'Total ASF' and 'Total RSF' in the above table.

8. Remuneration

TSB is a proportionality level 2 firm in the UK and therefore applies the appropriate requirements of the remuneration part of the UK's Remuneration Code. Following the removal of SS2/17 proportionality requirements for remuneration disclosures, additional remuneration disclosures are now presented for 2023.

TSB's remuneration approach is designed to be simple and fair. This underlying principle remains integral to TSB's reward philosophy.

Remuneration policy

The aim of TSB's remuneration policy as outlined on page 50 of TSB's ARA, is to provide competitive remuneration aligned to the delivery of the strategic goals and culture (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 appropriate conduct. In addition, TSB aims to align the remuneration approach with that of its parent, Sabadell.

The Remuneration Committee is authorised by the Board to consider and recommend to the Board the remuneration policy. The policy is considered regularly by the Remuneration Committee, taking account of changes in regulation and the wider market. In formulating and reviewing the policy, independent advice is sought and considered. In particular, the sustainability of the policy and its risk impact are carefully reviewed. The remuneration policy is formally reviewed at least annually and once endorsed by the Remuneration Committee, is reviewed and approved by the Board. The TSB Remuneration Committee met 6 times during 2023. Further information on the role of the Remuneration Committee including details of independent advice sought, terms of reference and members are on pages 50 to 53 of TSB's ARA.

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 2023 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.

At 31 December 2023, there were 45 identified staff of which 7 were 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 who performed those roles during the year is set out in the following table. Tables 30 and 31 include 51 identified staff of which there are 8 Non-Executive Directors for the full 2023 year. There are 3 further Non-Executive Directors who did not receive fees. They have therefore been excluded from the tables. The basis of reporting in tables REM1 to REM5 has changed since 2022 with the Executive Committee recategorized from Management Body Management Function to Other Senior Management and other Material Risk Takers (MRTs) recategorized from Other Senior Management to Other Identified Staff.

Table 30: Information on remuneration of staff whose professional activities have a material impact on institutions risk profile (identified staff) (REM5)

31 December 2023	Management Body Supervisory Function	Management Body Management Function	Total Management Body	Retail Banking	Corporate functions	Independent control functions	Total
Total number of identified staff[1]							51
Of which: members of the management body	8	2	10				
Of which: other senior management				2	7	2	
Of which: other identified staff				6	18	6	
Total remuneration of identified staff (£000)	1039	3,358	4,397	4,449	10,232	3,348	
Of which: variable remuneration[2]	-	1,630	1,630	1,823	3,789	1,366	
Of which: fixed remuneration	1039	1,729	2,768	2,626	6,443	1,981	

(1) The number of staff relates to the total during the year rather than the total at year end.
(2) Includes the grant value of 2024-2026 LTIP

Characteristics of remuneration of TSB's Material Risk Takers

- Remuneration is structured into three main elements: salary, variable pay 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 2023 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 targets based on TSB's Primary Corporate Objectives (PCOs) being the five key priorities that clearly link to TSB's purpose and core behaviours, as well as the strategic plan. Group targets are also included. Pool creation is driven by a combined top down and bottom-up process with a risk adjustment waterfall in line with regulatory guidance.
- In December 2021, the Remuneration Committee approved the introduction of a new LTIP. This has the benefit of further aligning TSB to the Sabadell Group remuneration structure and bringing TSB more in line with UK market practice. Awards will be made in Sabadell shares in April 2024 for a three year performance period (2024 to 2026) to a small number of senior management. The LTIP is subject to a combination of TSB and Sabadell performance metrics. The TSB metrics are based on Return on Tangible Equity, Bank Financial Research Survey rank for PCA, a sustainability measure related to diversity and employee engagement, and Sabadell total shareholder return.

Market appropriate benefits

- These include, principally, pension contributions to a defined contribution scheme or where appropriate, an equivalent cash payment (Executive Directors' pension contributions are aligned with the all employee pension contribution), TSB's flexible benefits offering of 9% of salary (grades B to D) and 4% of salary (more senior grades), and an employer provided car or alternative cash allowance at certain grades. From January 2023, all colleagues now receive private medical benefit as part of their core package which was previously only provided to managers. The minimum holiday allowance has increased TSB is supporting Money Confidence for colleagues with a revised pay mix which sees more of the total reward for some colleagues paid in their monthly salary.

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 PCOs broken down into the following 5 metrics: customer experience (10.5%), customer engagement (7.0%), achievement of risk appetite (8.75%), meeting targets established within the Do What Matters Plan (8.75%) and profit (35.0%). The remaining 30.0% is made up of individual contribution (individual objectives and leadership expectations) (20.0%), and Sabadell performance metrics (10.0%). 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 2023 performance, TSB will not exceed an annual cap on total variable remuneration of one times fixed pay.

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 2023 deferred variable remuneration is contingent on three aspects:

- Appropriate personal conduct maintained throughout the vesting period;
- Application of malus and clawback; and
- Subject to a combination of TSB and 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 for most Senior Managers 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 incentive awards to pay out. A risk adjustment is made as a result of several factors:

- A balance of measures included in individual objectives and the PCOs acts as a framework for adjusting the bonus pool for both performance and risk inherent in TSB's activities;
- The use of a framework to quantify the risk adjustment of the variable remuneration pool in 2023; 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. The Remuneration Committee takes into account any risk events during the year from a conduct, reputational, financial or operational perspective, including evidence from the Board Risk and Audit Committees.

A Remuneration Governance Group, 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.

2023 reward outcomes for TSB employees are set out in the Remuneration Review on page 51 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 an indirect reporting line to the Chair of the Board Risk Committee. The CAO reports to the Chair of the Board Audit Committee with an 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. 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 post vesting holding periods. In addition, malus and clawback provisions continue to apply.

Table 31: Remuneration awarded for the financial year (REM1)

31 December 2023		Management Body Supervisory Function	Management Body Management Function	Other senior management	Other identified staff
Fixed Remuneration	**Number of identified staff[1]**	**8**	**2**	**11**	**30**
	Total fixed remuneration (£000)[2]	**1,039**	**1,729**	**4,124**	**6,926**
	Of which: cash-based	1,039	1,729	4,124	6,926
Variable Remuneration	**Number of identified staff**	-	**2**	**11**	**27**
	Total variable remuneration (£000)[2] [3]	-	**1,630**	**2,996**	**3,923**
	Of which: cash-based	-	815	1,460	1,920
	Of which: deferred	-	489	788	759
	Of which: shares or equivalent ownership interests	-	815	1,535	2,063
	Of which: deferred	-	489	863	922
Total remuneration		**1,039**	**3,358**	**7,120**	**10,909**

(1) The number of staff relates to the total during the year rather than the total at year end.
(2) Payment in lieu of notice is included in fixed remuneration.
(3) Includes the grant value of 2024-2026 LTIP.

Table 32: Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff) (REM2)

31 December 2023	Management Body Supervisory Function	Management Body Management Function	Other senior Management	Other identified staff
Guaranteed variable remuneration awards				
Guaranteed variable remuneration awards - Number of identified staff	-	-	-	3
Guaranteed variable remuneration awards -Total amount (£000)	-	-	-	172
Of which guaranteed variable remuneration awards paid during the financial year, that are not taken into account in the bonus cap	-	-	-	-
Severance payments awarded in previous periods, that have been paid out during the financial year				
Severance payments awarded in previous periods, that have been paid out during the financial year - Number of identified staff	-	-	-	-
Severance payments awarded in previous periods, that have been paid out during the financial year - Total amount	-	-	-	-
Severance payments awarded during the financial year				
Severance payments awarded during the financial year - Number of identified staff	-	-	-	1
Severance payments awarded during the financial year - Total amount (£000)	-	-	-	40
Of which paid during the financial year	-	-	-	40
Of which deferred	-	-	-	-
Of which severance payments paid during the financial year, that are not taken into account in the bonus cap	-	-	-	-
Of which highest payment that has been awarded to a single person – Total amount (£000)	-	-	-	40

Table 33: Deferred remuneration (REM3)

31 December 2023 £000	Total amount of deferred remuneration awarded for previous performance periods	Of which due to vest in the financial year	Of which vesting in subsequent financial years	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e. changes of value of deferred remuneration due to the changes of prices of instruments)	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
MB Supervisory function	**2,919**	**776**	**2,143**	**-**	**-**	**366**	**283**	**427**
Cash-based	1,187	349	838	-	-		-	-
Shares or equivalent ownership interests	1,732	427	1,305	-	-	366	283	427
Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
Other instruments	-	-	-	-	-	-	-	-
Other forms	-	-	-	-	-	-	-	-
MB Management function	**4,836**	**1,797**	**3,039**	**-**	**-**	**595**	**792**	**897**
Cash-based	2,020	899	1,121	-	-	-	-	-
Shares or equivalent ownership interests	2,816	898	1,918	-	-	595	792	897
Share-linked instruments or equivalent non-cash instruments	-			-	-	-	-	-
Other instruments	-			-	-	-	-	-
Other forms	-			-	-	-	-	-
Other senior management	**5,783**	**2,532**	**3,251**	**-**	**-**	**710**	**1,185**	**1,190**
Cash-based	2,427	1,327	1,100	-	-	-	-	-
Shares or equivalent ownership interests	3,356	1,205	2,151	-	-	710	1,185	1,190
Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
Other instruments	-	-	-	-	-	-	-	-
Other forms	-	-	-	-	-	-	-	-
Other identified staff	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Cash-based	-	-	-	-	-	-	-	-
Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
Other instruments	-	-	-	-	-	-	-	-
Other forms	-	-	-	-	-	-	-	-
Total amount	**13,539**	**5,105**	**8,433**	**-**	**-**	**1,671**	**2,260**	**2,514**

Table 34: Breakdown by remuneration brackets of identified staff with remuneration in excess of 1 million euros (REM4)

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 2023.

Total remuneration[1] (EUR)	No. of employees 31 December 2023
1,000,001 - 1,500,000	4
1,500,001 - 2,000,000	-
2,000,001 - 2,500,000	1
2,500,001 - 3,000,000	-
3,000,001 - 3,500,000	-

(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 staff	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 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.

Multilateral development banks	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 enterprise, 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.
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%.

Appendix I – CRR Index

Details of compliance with CRR disclosure requirements in respect of large subsidiaries are set out below:

CRR Ref	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 11.
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 62.
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 62.
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 9.
437 (1)(d)(ii)	Each deduction made pursuant to Article 36, 56 and 66;	Table 2: Composition of Regulatory Own Funds (CC1) – page 9.
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 9.
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 9.
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 8.
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.	Table 1: Key Metrics Table 1a & IFRS9-FL Table 1b – pages 6 & 7, Section 4.3 Pillar 2 capital requirement – page 15.
438 (c)	ICAAP result on demand from reporting authorities.	Section 4.3 Pillar 2 capital requirement – page 15.
438 (d)	A breakdown of risk weighted exposure amount and own funds requirements broken down by risk categories.	Table 5: Overview of RWAs (OV1) & Table 6: Total amount of risk weighted assets and minimum own funds requirements – pages 12 & 13.
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 (CR8) – page 14.
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 16.
440 (1)(b)	Amount of the institution specific counter cyclical capital buffer.	Table 9 (CCyB2): Amount of institution specific countercyclical capital buffer – page 16.
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 5.10 Impaired lending and provisions – page 30.
442 (b)	Methodology applied to determine general and specific credit risk adjustments.	Section 5.10 Impaired lending and provisions and 5.11 Managing impaired exposures and impairment provisions – pages 30 and 31.
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 19 (CQ1) – page 32, Performing and non-performing exposures and related provisions – Table 21 (CR1) – page 37.
442 (d)	An ageing analysis of accounting past due exposures.	Credit quality of performing and non-performing exposures by past due days – Table 20 (CQ3) – page 34.
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 20. Credit quality of forborne exposures – Table 19 (CQ1) – page 32, Performing and non-performing exposures and related provisions – Table 21 (CR1) – page 37.
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.	Change in stock of non-performing loans and advances – Table 14 (CR2) – page 21.
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 21.

CRR ref	High-Level Summary	Compliance reference
Remuneration disclosures		
450 (1)(a)	Information on decision making processes and governance for remuneration policy.	Section 8 Remuneration - Introduction and Our Remuneration Policy – page 50.
450 (1)(b)	The link between pay and performance.	Section 8 Remuneration – Characteristics of remuneration of TSB's material risk takers – page 51.
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 50-52.
450 (1)(d)	Ratios between fixed and variable remuneration.	Characteristics of remuneration of TSBs material risk takers page 51 and Remuneration awarded for the financial year Table 31 (REM1) – page 53.
450 (1)(e)	Information on the performance criteria on which the entitlement to shares, options or variable remuneration is based	Characteristics of remuneration TSB's Material Risk Takers, Considerations of Risk and Conduct – pages 51-52.
450 (1)(f)	The main parameters and rationale for variable component and other non-cash benefits	Section 8 Remuneration – Characteristics of remuneration of TSB's material risk takers – page 51.
450 (1)(g)	Aggregate quantitative information on remuneration by business area.	Information on remuneration of identified staff Table 30 (REM5) – page 50.
450 (1)(h) (i)&(ii)	Amounts of fixed and variable remuneration for the financial year.	Characteristics of remuneration of TSBs material risk takers – page 51 and Remuneration awarded for the financial year Table 31 (REM1) – page 53.
450 (1)(h) (iii)&(iv)	Amounts of deferred remuneration	Deferred Remuneration Table 33 (REM3) – page 54.
450 (1)(h) (v)(vi)&(vii)	Information on severance payments	Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff) – Table 32 (REM2) – page 53.
450 (1)(i)	Information on remuneration > Euro 1 million	Breakdown by remuneration brackets of identified staff with remuneration in excess of 1 million Euros – Table 34 (REM4) – page 55.
Leverage		
451 (1)(a)	The Leverage ratio.	Table 25 Leverage ratio common disclosure (UK LR2) – page 43.
451 (1)(b)	The Leverage ratio calculated as if central bank claims were required to be included in exposure measure.	Table 25 Leverage ratio common disclosure (UK LR2) – page 43.
451 (1)(c)	A breakdown of total exposure measure including reconciliation with financial statements.	Table 24 Summary reconciliation of accounting assets and leverage ratio exposure (LR1) page 42, and Table 26 Split-up of on-balance sheet exposures (LR3) – page 44.
451 (1)(d)	Description of the processes used to manage the risk of excessive leverage.	Section 6.2 Management of excessive leverage – page 44.
450 (1)(e)	Description of the factors that impacted he leverage ratio during the year.	Section 6.1 Leverage ratio exposure - page 42.
450 (1)(f)	Leverage ratio calculated as if CRR article 468 did not apply.	N/A
450 (1)(g)	Leverage ratio calculated as if CRR article 473a did not apply.	Table 25 Leverage ratio common disclosure (LR2) – page 43.
Liquidity Risk		
451a (2)	Liquidity coverage ratio.	Section 7.2 Quantitative Information of LCR – pages 47-48.
451a (3)	Net stable funding ratio.	Section 7.3 Net Stable Funding – page 49.
451a (4)	Arrangements, systems, processes and strategies put in place to identify, measure, manage and monitor liquidity risk.	Section 7.1 Liquidity Risk Management – pages 45-46.
Use of credit risk mitigation techniques		
453 (a)	Use of off and on balance sheet netting.	Section 5.15 Credit risk mitigation – page 39 – Master netting.
453 (b)	Management of collateral valuation.	Section 5.15 Credit risk mitigation – page 39 – Credit Policies and standards, Retail & Business banking credit assessment & Collateral.
453 (c)	Description of the types of collateral used by the institution.	Section 5.15 Credit risk mitigation – page 40 – Collateral.
453 (d)	Creditworthiness and types of guarantor and credit derivative counterparty.	Section 5.15 Credit Risk Mitigation Exposures covered by eligible collateral and guarantees – page 41.
453 (e)	Market or Credit risk concentrations within risk mitigation exposures.	Section 5.15 Credit risk mitigation – page 39 – Concentration risk.
453 (f)	For exposures under the standardised or IRB approach, disclosure of exposure value covered by eligible credit protection.	Section 5.15 Disclosure of the use of credit risk mitigation techniques Table 23 (CR3) – page 41.
453 (g)	Conversion factor and credit risk mitigation with and without substitution effect.	Standardised approach – Credit Risk Exposure and Credit risk Mitigation effects (Table 15 (CR4) and IRB approach – disclosure of the extent of the use of CRM techniques Table 22 (CR7-A) – pages 24 and 40.
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 15 (CR4) – page 22.
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 15 (CR4) – page 22.
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 5. Table 1b IFRS 9 – FL – page 7. Section 3.2 Own funds – page 9. Section 3.3 Movements in capital – page 10.

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

Capital instruments' main features[(1) (2)]	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 (c) 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.
(2) TSB does not have a requirement to include MREL issuances as instruments. Confirmed by the PRA as TSB is not a G-SII or part of a G-SII.

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