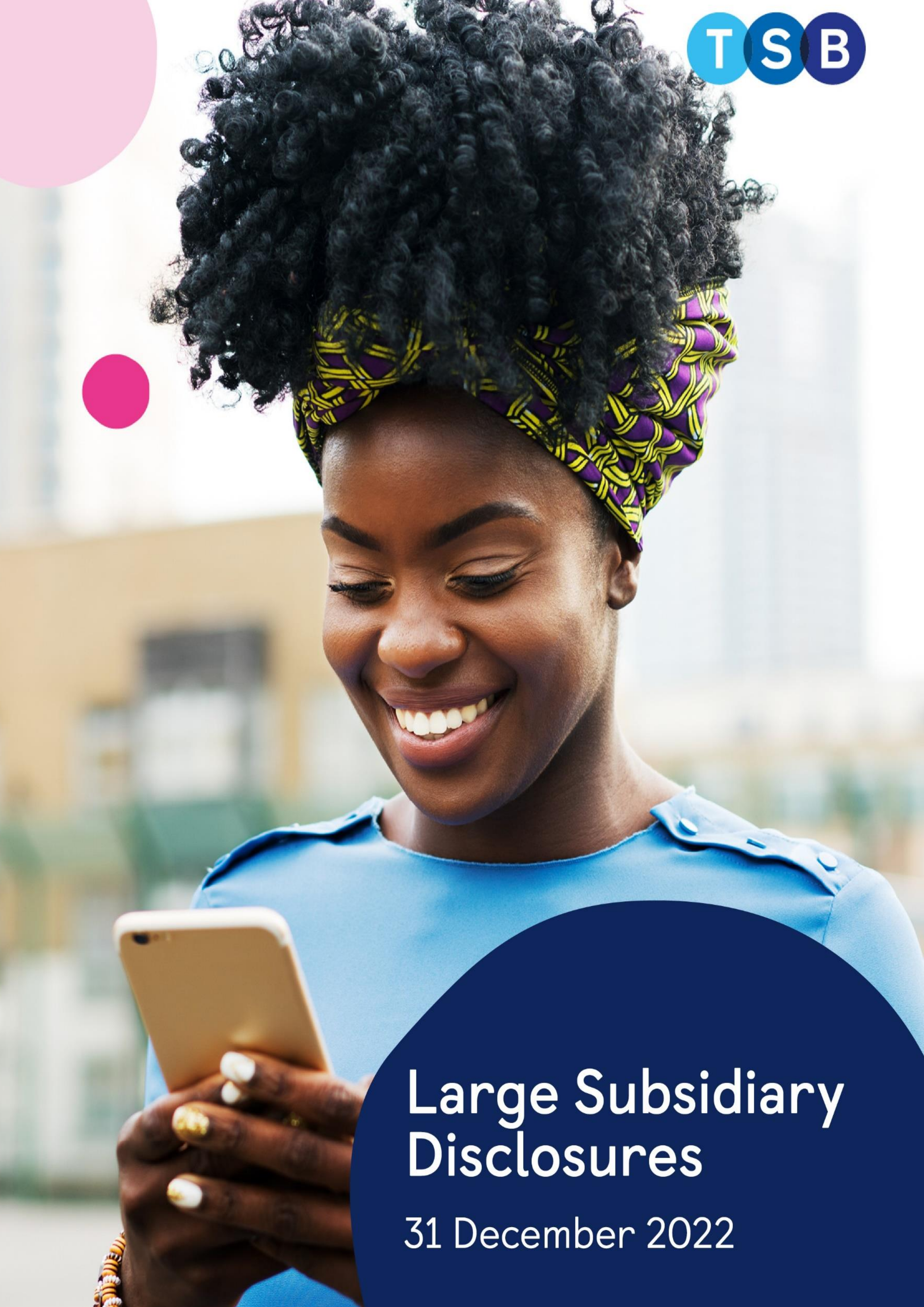

Large Subsidiary Disclosures

31 December 2022

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1. Introduction

This document presents the Pillar III Large Subsidiary Disclosures as at 31 December 2022 relating to TSB Banking Group plc (TSB), a subsidiary undertaking of Banco de Sabadell Group (Sabadell).

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. TSB 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.

The purpose of Pillar III is to make certain capital and risk management disclosures available to the market. This document satisfies TSB's Pillar III disclosure obligations in the UK through compliance with the CRR adopted in the UK from 1 January 2022. As TSB is a subsidiary of Sabadell, TSB is required to comply with the disclosure requirements laid down in Part Eight of the CRR as a consequence of the EU domicile of its parent institution.

An analysis of compliance with CRR in respect of large subsidiary disclosure requirements is set out in Appendix I. Reporting prior to this period, Risk Weighted Amounts (RWA) were based on CRR rules applicable in the UK up to 31 December 2021. From 1 January 2018, TSB has adopted the International Financial Reporting Standard 9 (IFRS 9) transitional arrangements in CRR (as amended in 2020 relating to COVID).

This document should be considered in conjunction with the TSB's 2022 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 14 to 20 and the 'How business is managed' (Corporate Governance) section within pages 36 to 42 of TSB's ARA and are not repeated in this document.

Comparative figures are reported to give insight into movements during the period. Where any table reporting requirement is quarterly, the year end, prior quarter and prior year end amounts have been reported. Where table reporting requirements are half yearly, year end, half year and prior year end have been reported, and where annual the year end and prior year. Where disclosures are new, or have been significantly changed, TSB has restated prior period comparatives. 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 and notes the location of the required disclosures on own funds, capital requirements and TSB's main Pillar 3 disclosures as appropriate for a Large Subsidiary Disclosures document.

**Own Funds:
Pages 8-11**

Pillar 1 Capital Requirements: Pages 12-14	Pillar 2 Capital Requirements: Pages 15-17	Pillar 3 Credit Risk: Pages 18-46 Leverage Ratio: Pages 47-49 Liquidity: Pages 50-54 Remuneration: Pages 55-58

2. Executive summary

TSB's relentless focus on its customers and delivering its Money Confidence purpose has been instrumental in its response to the cost of living crisis. The successful execution of its 2019 growth strategy means TSB is in good shape not only to weather this latest economic storm, but also to continue its momentum to be a stronger and better bank. The commercial strength of TSB's business, combined with a focus on customers, digital engagement and operational excellence, has contributed to a solid underlying performance.

TSB has reported a statutory profit before tax of £183.5 million in 2022, a 16.5% increase on the £157.5 million earned in 2021. This reflects strong income growth in an increasing interest rate environment, robust cost management, partially offset by an increase in expected credit loss charges that reflect the more challenging economic outlook.

Growth in both customer lending and deposit balances was solid, but more muted than prior years, and is evidence of management action to navigate the volatile and competitive retail banking markets during the year.

TSB remains well capitalised, with a Common Equity Tier 1 (CET1) ratio of 17.1% on a fully loaded basis (2021: 15.8%) and 17.2% on an IFRS9 transitional basis (2021: 15.9%), and maintains a healthy liquidity buffer, with an average Liquidity Coverage Ratio of 168% (2021: 165%). In light of the Bank's capital strength, strong financial performance in 2022 and robust prospects, the board has recommended, and distributed, an inaugural dividend of £50 million to TSB's shareholder, Sabadell, in the first quarter of 2023.

During the year, the CET1 capital ratio increased by 1.3 percentage points reflecting the statutory profit for the year, increase in other reserves, a reduction in regulatory capital adjustments and a reduction in Risk Weighted Assets (RWAs) despite the growth in lending portfolio.

Under the Bank of England's (BoE) UK leverage ratio framework, TSB's modified leverage ratio is 4.2%, in excess of the PRA minimum expectation of 3.25%.

Table 1a: Key metrics (KM1)

The table below presents key capital metrics:

	31 December 2022	30 June 2022	31 December 2021
Available capital (amounts)			
Common Equity Tier 1 (CET1) (£'000)	**1,791,545**	1,697,656	1,724,002
Tier 1 capital (£000)	**1,791,545**	1,697,656	1,724,002
Total risk-weighted exposure amount (£'000)	**10,442,066**	10,625,208	10,851,867
Total capital (£000)	**2,109,761**	1,997,656	2,024,002
Risk-weighted exposure amounts			
Total risk-weighted exposure amount (£'000)	**10,442,066**	10,625,208	10,851,867
Capital ratios (as a percentage of risk-weighted exposure amount)			
Common Equity Tier 1 ratio	**17.2%**	16.0%	15.9%
Tier 1 ratio	**17.2%**	16.0%	15.9%
Total capital ratio	**20.2%**	18.8%	18.7%
Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)			
Additional own funds requirements to address risks other than the risk of excessive leverage	**1.8%**	1.8%	1.8%
Of which: to be made up of CET1 capital	**1.0%**	1.0%	1.0%
Of which: to be made up of Tier 1 capital	**1.4%**	1.4%	1.4%
Total SREP own funds requirements	**9.8%**	9.8%	9.8%
Combined buffer requirement (as a percentage of risk-weighted exposure amount)			
Capital conservation buffer	**2.5%**	2.5%	2.5%
Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member state	**0.0%**	0.0%	0.0%
Institutional specific countercyclical capital buffer	**1.0%**	0.0%	0.0%
Combined buffer requirement	**3.5%**	2.5%	2.5%
Overall capital requirements	**13.3%**	12.3%	12.3%
CET1 available after meeting the total SREP own funds requirements	**9.8%**	8.6%	8.5%
Leverage Ratio			
Leverage ratio total exposure measure(1) (£'000)	**42,544,451**	42,580,259	42,569,754
Leverage ratio(1)	**4.2%**	4.0%	4.0%
Liquidity Coverage Ratio			
Total high-quality liquid assets (HQLA) (Weighted value – average) (£'000)	**6,788,964**	6,687,218	6,441,563
Cash outflows – Total weighted value (£'000)	**4,326,960**	4,111,546	4,123,393
Cash inflows – Total weighted value (£'000)	**260,513**	227,646	202,253
Total net cash outflows (adjusted value) (£'000)	**4,066,447**	3,883,900	3,921,140
Liquidity coverage ratio(2)	**168%**	173%	165%
Net Stable Funding Ratio (NSFR)			
Total available stable funding (£'000)	**42,774,578**		
Total required stable funding (£'000)	**28,845,131**		
NSFR ratio(3)	**148%**		

(1) Leverage ratio exposure and leverage ratio % have been calculated as defined in the PRA Rulebook introduced with effect from January 2022. December 2021 information has been restated for consistency excluding exposures to Central Banks.
(2) Liquidity coverage ratio is presented is based on a twelve month simple average
(3) NSFR ratio presented for 31 December 2022 is based on a four quarter simple average. Comparative have not been reported as the average calculation methodology was introduced by the PRA at 1 January 2022

Table 1b: Comparison between institutions own funds capital ratios and leverage ratios with and without applying the transitional arrangements of IFRS9 or analogues ECLs (IFRS 9-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 2022	30 June 2022	31 December 2021
Available capital (amounts)			
Common Equity Tier 1 (CET1) (£'000)	**1,791,545**	1,697,656	1,724,002
Common Equity Tier 1 (CET1) as if IFRS9 or analogous ECLs transitional arrangements had not been applied (£'000)	**1,782,184**	1,692,912	1,712,550
Tier 1 capital (£'000)	**1,791,545**	1,697,656	1,724,002
Tier 1 capital as if IFRS9 or analogous ECLs transitional arrangements had not been applied (£'000)	**1,782,184**	1,692,912	1,712,550
Total capital (£'000)	**2,109,761**	1,997,656	2,024,002
Total capital as if IFRS9 or analogous ECLs transitional arrangements had not been applied (£'000)	**2,108,152**	1,992,912	2,018,430
Risk-weighted exposure amounts			
Total risk-weighted exposure amount (£'000)	**10,442,066**	10,625,208	10,851,867
Total risk-weighted exposure amount as if IFRS9 or analogous ECLs transitional arrangements had not been applied (£'000)	**10,447,020**	10,626,935	10,855,618
Capital ratios (as a percentage of risk-weighted exposure amount)			
Common Equity Tier 1 ratio	**17.2%**	16.0%	15.9%
Common Equity Tier 1 ratio as if IFRS9 or analogous ECLs transitional arrangements had not been applied	**17.1%**	15.9%	15.8%
Tier 1 ratio	**17.2%**	16.0%	15.9%
Tier 1 ratio as if IFRS9 or analogous ECLs transitional arrangements had not been applied	**17.1%**	15.9%	15.8%
Total capital ratio	**20.2%**	18.8%	18.7%
Total capital ratio as if IFRS9 or analogous ECLs transitional arrangements had not been applied	**20.2%**	18.8%	18.6%
Leverage Ratio			
Leverage ratio total exposure measure[1] (£'000)	**42,544,451**	42,580,259	42,569,755
Leverage ratio	**4.2%**	4.0%	4.0%
Leverage ratio as if IFRS9 or analogous ECLs transitional arrangements had not been applied	**4.2%**	4.0%	4.0%

(1) Leverage ratio exposure and leverage ratio % have been calculated as defined in the PRA Rulebook introduced with effect from 1 January 2022. December 2021 information has been restated for consistency excluding exposures to Central Banks.

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 15 of the 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 14 to 20 of the ARA. These include TSB Executive Committee, the Asset and Liability Committee (ALCO), Board Risk Committee (BRC) and the Board.

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

3.2 Own funds

TSB's own funds at 31 December 2022, 30 June 2022 and 31 December 2021 are presented in the table below.

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

		31 December 2022 £000	30 June 2022 £000	31 December 2021 £000	**Ref (Table CC2)**
CET1 capital: instruments and reserves					
1	Capital instruments and the related share premium accounts	970,050	970,050	970,050	(*) 32, 33
	of which: Common share	5,000	5,000	5,000	32
2	Retained earnings	1,160,185	1,160,185	1,029,937	36
3	Accumulated other comprehensive income (and other reserves)	(250,561)	(276,242)	(280,428)	(*) 38, 42
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	52,324	-	130,248	(*) 40
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**1,931,998**	1,853,993	1,849,807	
Common Equity Tier 1 capital: regulatory adjustments					
7	Additional value adjustments (negative amount)	(4,412)	(2,336)	(1,394)	
8	Intangible assets (net of related tax liability) (negative amount)	(70,617)	(75,124)	(44,110)	
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)	(41,570)	(75,484)	(99,560)	
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	(33,211)	(1,569)	7,806	
12	Negative amounts resulting from the calculation of expected loss amounts	-	(9,749)	(490)	
27a	Other regulatory adjustments (including IFRS 9 transitional adjustments when relevant)	9,357	7,925	11,943	
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(140,453)**	(156,337)	(125,805)	
29	**Common Equity Tier 1 (CET1) capital**	**1,791,545**	1,697,656	1,724,002	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**1,791,545**	1,697,656	1,724,002	
Tier 2 Capital: Instruments and Provisions					
46	Capital instruments and the related share premium accounts	300,000	300,000	300,000	
50	Credit risk adjustments	25,968	-	5,880	
51	**Tier 2 (T2) capital before regulatory adjustments**	**325,968**	300,000	305,880	
Tier 2 Capital: Regulatory Adjustments					
56b	Other regulatory adjustments to T2 capital	(7,752)	-	(5,880)	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**(7,752)**	-	(5,880)	
58	**Tier 2 (T2) capital**	**318,216**	300,000	300,000	
59	**Total capital (TC = T1 + T2)**	**2,109,761**	1,997,656	2,024,002	
60	**Total risk exposure amount**	**10,442,066**	10,625,208	10,851,867	
Capital ratios and buffers					
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	17.2%	16.0%	15.9%	
62	Tier 1 (as a percentage of total risk exposure amount)	17.2%	16.0%	15.9%	
63	Total capital (as a percentage of total risk exposure amount)	20.2%	18.8%	18.7%	
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)	9.0%	8.0%	8.0%	
65	of which: capital conservation buffer requirement	2.5%	2.5%	2.5%	
66	of which: countercyclical buffer requirement	1.0%	0.0%	0.0%	
67	of which: systemic risk buffer requirement	0.0%	0.0%	0.0%	
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0.0%	0.0%	0.0%	
67b	of which: additional own funds requirements to address risks other than the risk of excessive leverage.	1.0%	1.0%	1.0%	
68	Common Equity Tier 1 available to meet buffer (as a percentage of risk exposure amount)	9.8%	8.6%	8.5%	
Capital ratios and buffers					
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% thresholds and net of eligible short positions)	6,660	6,306	4,313	
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)	24,498	18,201	23,696	
Limits applicable to the inclusion of provisions in Tier 2 capital					
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	14,949	14,935	15,783	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	25,968	-	5,880	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	46,516	48,179	49,130	

(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 £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 subordinated liabilities	-	-	-
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.

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

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

Tier 1 Capital increased by £67.5 million during 2022. This was primarily due to retained earnings of £52.3 million for the year net of a final dividend of £50.0 million, reduction in deferred tax assets that rely on future profitability and do not arise from temporary differences of £58.0 million and other comprehensive income of £29.9 million, partially offset by the cash flow hedging reserve regulatory adjustment movement of £41.0 million and the increase in intangible fixed assets deduction of £26.5 million.

3.4 Other capital disclosures

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

	Assets – Breakdown by asset classes according to the balance sheet in the published financial accounts	Balance sheet as per published financial statements	Under regulatory scope of consolidation	Reference (table CC1)
		31 December 2022	31 December 2022	
		£000	£000	
1	Cash, cash balances at central banks and other demand deposits	5,238,782	5,238,782	
2	Financial assets held for trading	1,160,036	1,160,036	
3	Non-trading financial assets held at fair value through profit or loss	47	47	
4	Financial assets designated at fair value through profit or loss	-	-	
5	Financial assets at fair value with changes in other comprehensive income	509,525	509,525	
6	Financial assets at amortised cost	41,008,327	41,008,327	
7	Derivatives - hedge accounting	1,565,860	1,565,860	
8	Changes in the fair value of hedged items in a portfolio hedged risk	(542,814)	(542,814)	
9	Investments in joint ventures and associates	-	-	
10	Assets covered by insurance or reinsurance contracts	-	-	
11	Tangible assets	287,488	287,488	
12	Intangible assets	75,590	75,590	
13	Tax assets	64,557	64,557	
14	Memorandum items: Deferred tax assets	64,557	64,557	
15	Other assets	82,320	82,320	
16	Non-current assets and disposable groups of items classified as held for sale	-	-	
17	**TOTAL ASSETS**	**49,449,718**	**49,449,718**	
18	Financial liabilities held for trading	1,252,431	1,252,431	
19	Financial liabilities designated at fair value through profit or loss	-	-	
20	Financial liabilities at amortised cost	45,924,990	45,924,990	
21	Derivatives - hedge accounting	301,456	301,456	
22	Changes in the fair value of hedged items in a portfolio hedged risk	(321,325)	(321,325)	
23	Liabilities covered by insurance or reinsurance contracts	-	-	
24	Provisions	125,029	125,029	
25	Tax liabilities	1,158	1,158	
26	Memorandum: Deferred tax liabilities	-	-	
27	Reimbursable share capital at sight	-	-	
28	Other liabilities	183,981	183,981	
29	Liabilities included in disposable groups of items classified as held for sale	-	-	
30	**TOTAL LIABILITIES**	**47,467,720**	**47,467,720**	
	Equity			
31	Own Funds	1,947,559	1,947,559	(*)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	1,160,185	1,160,185	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]	102,324	102,324	(*)5a
41	Interim dividends	-	-	
42	Accumulated other comprehensive income	34,439	34,439	(*)3
43	Minority interest (non-dominant holdings)	-	-	
44	**Shareholders' equity**	**1,981,998**	**1,981,998**	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 £50.0 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 assets (OV1)

	RWAs 31 December 2022 £000	RWAs 30 September 2022 £000	RWAs 31 December 2021 £000	**Total own funds requirement[1] 31 December 2022 £000**
Credit risk (excluding CCR)	**8,781,922**	8,940,567	9,375,601	**702,554**
Of which the standardised approach[2]	1,029,312	1,048,274	1,187,214	82,345
Of which the advanced IRB (AIRB) approach	7,752,610	7,892,293	8,188,387	620,209
Counterparty credit risk (CCR)	**107,036**	32,208	17,276	**8,562**
Of which the standardised approach	86,237	7,587	408	6,899
Of which exposures to a CCP	2,542	1,853	16,713	203
Of which credit valuation adjustment - CVA	18,257	22,768	155	1,460
Operational risk	**1,475,213**	1,400,010	1,400,010	**118,017**
Of which Standardised Approach	1,475,213	1,400,010	1,400,010	118,017
Amounts below the thresholds for deduction (subject to 250% risk weight) [3]	**77,895**	63,834	58,980	**6,232**
Total	**10,442,066**	10,436,619	10,851,867	**835,365**

(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.

RWAs decreased during 2022 by £409.8 million, largely reflecting a £435.8 million decrease in RWAs measured under the internal rating based (IRB) approach, of which £295.2 million related to secured mortgage lending. The decrease in mortgage RWAs largely reflected the effect of increases in house prices on loss given default, partly offset by growth in secured lending.

The increase in RWAs measured under the standardised approach related to an increase in covered bond exposures and repurchase agreement (repo) transactions, partly offset by the continued reduction in exposures in the closed Whistletree portfolio.

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

Exposure classes and risk types	**2022 RWA £000**	**2022 Minimum Capital Requirements £000**	2021 RWA £000	2021 Minimum Capital Requirements £000
Credit risk (standardised approach)	**1,195,896**	**95,672**	1,262,679	101,014
Central governments and central banks	61,244	4,900	48,196	3,856
Institutions	180,694	14,455	53,512	4,281
Corporates	29,785	2,383	24,393	1,951
Retail	86,987	6,959	90,329	7,226
Exposures collateralised with residential or commercial property	325,120	26,010	382,277	30,582
Exposures in default status	72,596	5,808	72,313	5,785
Covered bonds	25,427	2,034	21,339	1,707
Equity exposures	-	-	10,784	863
Other exposures	414,043	33,123	559,536	44,763
Credit risk (internal ratings-based approach)	**7,752,610**	**620,209**	8,188,387	655,071
Retail	7,752,610	620,209	8,188,387	655,071
i) Mortgages for residential or commercial property	5,075,383	406,031	5,370,574	429,646
ii) Eligible revolving exposures	1,244,017	99,521	1,260,843	100,867
iii) Other retail	1,433,210	114,657	1,556,970	124,558
Contribution to default guarantee fund of a CCP	**90**	**7**	636	51
Operational risk	**1,475,213**	**118,017**	1,400,010	112,001
Operational risk (standardised approach)	1,475,213	118,017	1,400,010	112,001
Credit valuation adjustment risk	**18,257**	**1,460**	155	12
Total minimum own funds requirement	**10,442,066**	**835,365**	10,851,867	868,149

4.2 Risk weighted assets movements by key driver

Analysis of movements in IRB credit risk weighted exposure amounts (RWEAs) from 30 September 2022 to 31 December 2022 and 31 December 2021 to 31 December 2022 are presented in table 7.

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

	3 months to 31 December 2022 Risk weighted exposure amount £000	12 months to 31 December 2022 Risk weighted exposure amount £000
Risk weighted exposure amount as at the end of the previous reporting period	**7,892,293**	**8,188,387**
Asset size (+/-)	(146,679)	372,568
Asset quality (+/-)	(302,950)	(1,113,226)
Model updates (+/-)	(190,400)	(190,400)
Methodology and policy (+/-)	500,346	495,281
Risk weighted exposure amount as at the end of the reporting period	**7,752,610**	**7,752,610**

Movements during the quarter are due to:

- Reduction in asset size of £146.7 million reflecting reduction in new lending since 30 September 2022 relating to mortgages and personal loans.
- Asset quality improvements which led to a reduction in RWAs of £303.0 million including £279.8 million reduction relating to the mortgage portfolio, of which £126.1 million relates to increases in house prices.
- A reduction arising from model updates of £190.4 million reflecting the reduction in RWAs from the implementation of new operational score cards for the unsecured portfolio which aligned more closely to the behaviours of customers.
- An increase arising from changes in methodology and policy of £500.3 million 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 reduced, primarily, due to:

- Asset quality improvements led to a reduction in RWAs of £1,113.2 million. These improvements were driven by the mortgage portfolio, which benefitted from increases in house prices.
- Increased asset size which reflects the net effect of the origination of new business with higher risk weights offset by repayments of mature loans with lower risk weights. The £372.6 million increase in RWAs relates to an increase in the mortgage portfolio of £422.9 million partly offset by a £50.3 million reduction in unsecured RWAs.
- The model updates and the methodology and policy movements are largely driven by the updates during the last quarter. Other model and methodology movements were largely offsetting during the first 3 quarters.

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 2022, TSB's total Pillar 1 plus Pillar 2a capital requirement was 9.8% of RWAs (8% Pillar 1 plus 1.8% Pillar 2a). At least 56.25% of this requirement is required to be met in the form of CET1.

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%, 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)
TSB has assets of less than £175 billion and, therefore, a buffer of 0.0% applies.

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 to help avoid a credit crunch.

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

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

31 December 2022	General credit exposures		Total exposure value	Own funds requirements		Risk-weighted exposure amounts	Own funds requirement weights	Countercyclical 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	1,954,713	41,831,248	43,785,961	696,525	696,525	8,706,567	100.0%	1.0%
Total	**1,954,713**	**41,831,248**	**43,785,961**	**696,525**	**696,525**	**8,706,567**	**100.0%**	**1.0%**
30 June 2022								
Breakdown by country								
Country: United Kingdom	2,134,270	42,608,563	44,742,833	728,928	728,928	9,111,605	100.0%	0.0%
Total	2,134,270	42,608,563	44,742,833	728,928	728,928	9,111,605	100.0%	0.0%
31 December 2021								
Breakdown by country								
Country: United Kingdom	2,263,629	42,100,696	44,364,325	747,949	747,949	9,349,358	100.0%	0.0%
Total	2,263,629	42,100,696	44,364,325	747,949	747,949	9,349,358	100.0%	0.0%

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

	31 December 2022	30 June 2021	31 December 2021
	£000	£000	£000
Total risk exposure amount	10,442,066	10,625,208	10,851,867
Institution specific countercyclical buffer rate %	1.0%	0.0%	0.0%
Institution specific countercyclical buffer requirement(1)	104,421	-	-

(1) With effect from 13 December 2022 the Financial Policy Committee increased the CCyB to 1.0% from 0.0% for the UK reflecting economic recovery from the impact of Covid.

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 16.2%, excluding regulatory stress buffers. TSB's MREL ratio of 26.9% exceeds its interim MREL requirements.

5. Credit risk

5.1 Overview

Definition
TSB defines credit risk as the risk that a borrower, or counterparty, fails to pay the interest or to repay the principal on a loan or other financial instrument as they fall due.

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

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

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

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

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

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

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

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

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

5.2 Consolidated balance sheet under the regulatory scope of consolidation

The following table shows that the scope of consolidation of the TSB Group's consolidated balance sheet on an accounting basis (as presented on page 64 of TSB Group's ARA) and the consolidated balance sheet on a regulatory basis are the same. The table also provides a mapping of financial statement categories to regulatory risk.

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 2022 £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	5,238,782	5,238,782	5,238,782	-	-
Financial assets held for trading:					
Derivative financial assets	1,160,036	1,160,036	-	1,160,036	-
Financial assets designated at fair value through profit or loss:					
Equity instruments	47	47	47	-	-
Financial assets at fair value through other comprehensive income	509,525	509,525	509,525	-	-
Financial assets designated at amortised cost:					
Debt securities	1,951,638	1,951,638	1,951,638	-	-
Loans to central banks	144,271	144,271	144,271	-	-
Loans to credit institutions	159,188	159,188	159,188		-
Loans and advances to customers	38,049,986	38,049,986	38,049,986	-	-
Other advances	703,244	703,244	47,686	655,558	-
Hedging derivative assets	1,565,860	1,565,860	-	1,565,860	-
Fair value adjustments for portfolio hedged risk	(542,814)	(542,814)	-	-	(542,814)
Property, plant and equipment	287,488	287,488	287,488	-	-
Intangible Assets	75,590	75,590	-	-	75,590
Deferred tax assets	64,557	64,557	27,960	-	36,597
Other assets	82,320	82,320	82,320	-	-
Total Assets	**49,449,718**	**49,449,718**	**46,498,891**	**3,381,454**	**(430,627)**
Liabilities					
Financial liabilities held for trading:					
Derivative financial liabilities	1,252,430	1,252,430	-	1,252,430	-
Financial liabilities at amortised cost:					
Borrowings from central banks	5,538,337	5,538,337	-	-	5,538,337
Deposits from public administrations	7,907	7,907	-	-	7,907
Customer deposits	36,330,262	36,330,262	-	-	36,330,262
Repurchase agreements	359,976	359,976	-	359,976	-
Debt securities in issue	1,955,511	1,955,511	-	-	1,955,511
Subordinated liabilities	265,367	265,367	-	-	265,367
Other financial liabilities	1,467,631	1,467,631	-	10,108	1,457,523
Hedging derivative liabilities	301,456	301,456	-	301,456	-
Fair value adjustments for portfolio hedged risk	(321,325)	(321,325)	-	-	(321,325)
Provisions	125,029	125,029	-	-	125,029
Current tax liabilities	1,158	1,158	-	-	1,158
Other liabilities	183,981	183,981	-	-	183,981
Total Liabilities	**47,467,720**	**47,467,720**	-	**1,923,970**	**45,543,750**
Shareholder's equity	**1,981,998**	**1,981,998**	-	-	**1,981,998**
Total equity and liabilities	**49,449,718**	**49,449,718**	-	**1,923,970**	**47,525,748**

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

		Items subject to	
31 December 2022	**Total**	**Credit risk framework**	**CCR framework**
	£000	**£000**	**£000**
Assets carrying value amount under the scope of regulatory consolidation (as per template LI1)[1]	**49,880,345**	**46,498,891**	**3,381,454**
Liabilities carrying value amount under the regulatory scope of consolidation (as per template LI1)	1,923,970	-	1,923,970
Total net amount under the regulatory scope of consolidation	47,956,375	46,498,891	1,457,484
Off-balance-sheet amounts	5,596,222	5,596,222	-
Removal of accounting values for CCR	(1,457,484)	-	(1,457,484)
Regulatory CCR Exposure	308,564	-	308,564
Differences due to consideration of provisions	185,828	185,828	-
Difference in valuation methodologies / regulatory adjustments	876,817	876,817	-
Differences due to CCFs	(1,271,928)	(1,271,928)	-
Exposure amounts considered for regulatory purposes	**52,194,394**	**51,885,830**	**308,564**

(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 to non-financial corporations by industry (CQ5)

31 December 2022	Gross carrying amount				Accumulated impairment
		Of which: non-performing		Of which: loans and advances subject to impairment	
	Total		Of which: defaulted		
	£000	£000	£000	£000	£000
Agriculture, forestry, and fishing	3,297	149	139	3,297	(115)
Mining and quarrying	9	-	-	9	-
Manufacturing	9,891	471	420	9,891	(81)
Electricity, gas, steam, and air conditioning supply	239	-	-	239	(1)
Water supply	1,148	54	10	1,148	(17)
Construction	48,970	3,647	2,644	48,970	(306)
Wholesale and retail trade	55,041	3,726	3,093	55,041	(506)
Transport and storage	12,214	1,213	972	12,214	(57)
Accommodation and food service activities	30,907	2,778	2,522	30,907	(257)
Information and communication	11,757	863	661	11,757	(59)
Real estate activities	95,185	3,430	762	95,185	(2,869)
Professional, scientific, and technical activities	37,849	1,838	1,601	37,849	(303)
Administrative and support service activities	15,139	1,072	735	15,139	(94)
Public administration and defence, compulsory social security	435	46	46	435	(2)
Education	3,935	81	30	3,935	(44)
Human health services and social work	22,505	483	408	22,505	(492)
Arts, entertainment, and recreation	4,304	423	256	4,304	(22)
Other services	9,215	594	506	9,215	(210)
Total	**362,040**	**20,868**	**14,805**	**362,040**	**(5,435)**

30 June 2022	Gross carrying amount Total	Of which: non-performing	Of which: defaulted	Of which: loans and advances subject to impairment	Accumulated impairment
	£000	£000	£000	£000	£000
Agriculture, forestry, and fishing	3,893	294	95	3,893	(151)
Mining and quarrying	10	-	-	10	-
Manufacturing	11,204	651	525	11,204	(114)
Electricity, gas, steam, and air conditioning supply	264	-	-	264	(1)
Water supply	1,283	39	39	1,283	(24)
Construction	56,721	4,630	3,979	56,721	(433)
Wholesale and retail trade	63,328	4,703	4,377	63,628	(763)
Transport and storage	14,704	1,747	1,597	14,704	(83)
Accommodation and food service activities	37,637	3,406	3,191	37,637	(345)
Information and communication	14,080	1,147	1,057	14,080	(75)
Real estate activities	90,343	3,892	1,006	90,343	(3,938)
Professional, scientific, and technical activities	43,259	3,042	2,733	43,259	(379)
Administrative and support service activities	17,581	1,450	1,331	17,581	(124)
Public administration and defence, compulsory social security	468	-	-	468	(2)
Education	4,600	224	224	4,600	(60)
Human health services and social work	22,671	682	636	22,671	(780)
Arts, entertainment, and recreation	5,081	389	344	5,081	(28)
Other services	10,849	703	686	10,849	(221)
Total	397,976	26,999	21,820	397,976	(7,521)

31 December 2021	Gross carrying amount Total	Of which: non-performing	Of which: defaulted	Of which: loans and advances subject to impairment	Accumulated impairment
	£000	£000	£000	£000	£000
Agriculture, forestry, and fishing	3,501	417	86	3,501	(88)
Mining and quarrying	19	-	-	19	-
Manufacturing	13,057	656	624	13,057	(115)
Electricity, gas, steam, and air conditioning supply	288	-	-	288	(1)
Water supply	1,509	113	113	1,509	(21)
Construction	65,258	3,934	3,039	65,257	(531)
Wholesale and retail trade	73,425	3,309	3,067	73,425	(686)
Transport and storage	18,429	1,783	1,561	18,249	(155)
Accommodation and food service activities	44,732	2,315	2,077	44,732	(351)
Information and communication	16,375	642	494	16,375	(101)
Real estate activities	75,752	1,018	805	75,752	(3,461)
Professional, scientific, and technical activities	48,971	2,324	2,006	48,971	(393)
Administrative and support service activities	20,531	1,141	966	20,531	(187)
Public administration and defence, compulsory social security	613	13	13	613	(4)
Education	5,235	225	78	5,235	(49)
Human health services and social work	22,694	582	491	22,694	(546)
Arts, entertainment, and recreation	6,091	268	220	6,091	(41)
Other services	12,786	626	573	12,786	(242)
Total	429,086	19,366	16,213	429,086	(6,972)

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 £418.3 million at 31 December 2022 compared to £284.9 million at December 2021. This increase is largely related to an increase in covered bonds, public sector entity exposures and other non-UK institutional exposures.

TSB also has £125.8 million (December 2021: £127.7 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 2022	**On Demand £000**	**≤ 1 year £000**	**> 1 year ≤ 5 years £000**	**> 5 years £000**	**No stated maturity £000**	**Total £000**
Loans and advances	4,660,039	472,157	2,979,284	36,545,085	3,965	44,660,530
Debt Securities	-	39,399	434,221	1,987,543	-	2,461,163
Total	**4,660,039**	**511,556**	**3,413,505**	**38,532,628**	**3,965**	**47,121,693**

	Net exposure value					
30 June 2022	On Demand £000	≤ 1 year £000	> 1 year ≤ 5 years £000	> 5 years £000	No stated maturity £000	Total £000
Loans and advances	4,582,718	477,416	2,957,741	36,913,652	5,031	44,936,558
Debt Securities	-	290,785	150,800	2,339,484	-	2,781,069
Total	4,582,718	768,201	3,108,541	39,253,136	5,031	47,717,627

	Net exposure value					
31 December 2021	On Demand £000	≤ 1 year £000	> 1 year ≤ 5 years £000	> 5 years £000	No stated maturity £000	Total £000
Loans and advances	4,548,931	481,739	2,983,006	36,095,540	5,870	44,115,086
Debt Securities	-	67,135	354,887	2,813,706	-	3,235,728
Total	4,548,931	548,874	3,337,893	38,909,246	5,870	47,350,814

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

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

Table 14: Standardised approach - Credit risk exposure and CRM effects (CR4)[1]

31 December 2022	**Exposures before CCF and CRM**		**Exposures post CCF and CRM**			
	On-balance-sheet amount £000	**Off-balance-sheet amount £000**	**On-balance-sheet amount £000**	**Off-balance-sheet amount £000**	**RWAs £000**	**RWA density %**
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%
Equity [2]	-	-	-	-	-	-
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%**

30 June 2022	Exposures before CCF and CRM		Exposures post CCF and CRM			
	On-balance-sheet amount £000	Off-balance-sheet amount £000	On-balance-sheet amount £000	Off-balance-sheet amount £000	RWAs £000	RWA density %
Central governments or central banks	6,918,889	-	7,436,873	33	44,821	0.6%
Public sector entities	95,579	-	21,528	-	-	0.0%
Multilateral development banks	196,750	-	196,750	-	-	0.0%
Institutions	72,645	6,266	72,645	6,267	48,165	61.0%
Corporates	29,348	15	29,348	3	25,862	88.1%
Retail	548,286	25,865	132,790	5,156	85,972	62.3%
Secured by mortgages on immovable property	873,109	288,829	870,487	144,212	353,983	34.9%
Exposures in default	101,408	310	75,594	146	76,066	100.4%
Covered bonds	224,982	-	224,982	-	22,498	10.0%
Equity [2]	-	-	-	-	-	-
Other items	626,718	44,469	626,717	24,835	517,362	79.4%
Total	9,687,714	365,754	9,687,714	180,652	1,174,729	11.9%

31 December 2021	Exposures before CCF and CRM		Exposures post CCF and CRM			
	On-balance-sheet amount £000	Off-balance-sheet amount £000	On-balance-sheet amount £000	Off-balance-sheet amount £000	RWAs £000	RWA density %
Central governments or central banks	7,617,722	-	8,207,020	49	48,196	0.6%
Public sector entities	102,094	-	22,486	-	-	0.0%
Multilateral development banks	206,932	-	206,932	-	-	0.0%
Institutions	75,654	-	75,654	-	37,026	48.9%
Corporates	28,099	15	28,099	3	24,393	86.8%
Retail	627,933	29,264	139,910	5,839	90,330	62.0%
Secured by mortgages on immovable property	954,758	286,240	951,845	142,886	382,277	34.9%
Exposures in default	90,673	405	71,919	193	72,313	100.3%
Covered bonds	213,393	-	213,393	-	21,339	10.0%
Collective investment undertakings	-	-	-	-	-	-
Equity[2]	115	4,198	115	4,198	10,784	250.0%
Other items	644,936	79,475	644,936	60,292	559,536	79.3%
Total	10,562,309	399,597	10,562,309	213,460	1,246,194	11.6%

(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.

(2) Equity exposures previously reported within Equity have been reclassified and presented in institutions following guidance from PRA with regards to article 133(3) and article 48(4).

5.7 Exposures subject to the Retail IRB approach

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

Regulatory Exposure Portfolio	Internal Portfolio	Internal Estimates Used	Approach	Status
Retail	Residential Mortgages	Probability of default (PD) Loss given default (LGD) EAD direct estimation	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

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

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.

31 December 2021	PD scale	On-balance sheet exposure	Off-balance sheet exposures pre CCF	Exposure-weighted average conversion factor	Exposure after applying conversion factors and credit risk reduction[2]	Average PD Weighted by exposition (%)	Number of obligors	Exposure-weighted average LGD (%)	Risk-weighted exposure amount after applying the supporting factors	Density of the risk-weighted exposure amount	Amount of expected losses	Value adjustments and provisions
		£000	£000	%	£000	%		%	£000	%	£000	£000
Total Retail	0.00 to < 0.15	1,953,724	1,787,352	73.22%	3,298,115	0.11%	1,472,254	37.67%	128,751	3.90%	1,317	(3,455)
	0.00 to < 0.10	31,734	1,261,366	73.17%	944,095	0.06%	1,038,725	77.88%	37,231	3.94%	560	(1,839)
	0.10 to < 0.15	1,921,990	525,986	73.34%	2,354,020	0.13%	433,529	21.55%	91,520	3.89%	757	(1,616)
	0.15 to < 0.25	9,620,456	642,137	69.52%	10,321,738	0.23%	517,176	16.37%	666,309	6.46%	3,939	(6,153)
	0.25 to < 0.50	13,473,123	2,496,626	94.75%	16,255,973	0.38%	597,512	20.02%	2,037,697	12.54%	12,698	(12,614)
	0.50 to < 0.75	4,986,262	259,931	130.88%	5,455,798	0.68%	982,887	22.74%	1,046,222	19.18%	8,649	(10,576)
	0.75 to < 2.50	3,558,133	696,760	94.81%	4,303,102	1.37%	552,587	38.39%	2,027,024	47.11%	26,255	(36,485)
	0.75 to < 1.75	2,819,141	626,106	94.60%	3,482,772	1.21%	398,553	32.33%	1,318,822	37.87%	14,438	(18,737)
	1.75 to < 2.50	738,992	70,654	96.71%	820,330	2.05%	154,034	64.08%	708,202	86.33%	11,817	(17,748)
	2.50 to < 10.00	1,310,474	111,151	118.08%	1,475,062	4.65%	345,872	44.59%	1,221,294	82.80%	33,572	(51,093)
	2.50 to < 5.00	828,325	78,463	116.23%	938,949	3.50%	229,615	48.60%	767,609	81.75%	17,980	(26,985)
	5.00 to < 10.00	482,149	32,688	122.50%	536,113	6.68%	116,257	37.56%	453,685	84.62%	15,592	(24,108)
	10.00 to < 100.00	586,622	62,654	78.92%	655,674	28.82%	119,437	29.87%	744,087	113.48%	51,344	(39,467)
	10.00 to < 20.00	338,469	58,016	69.23%	388,544	16.56%	62,413	34.32%	508,667	130.92%	22,984	(21,383)
	20.00 to < 30.00	17,490	2,408	269.29%	26,446	24.15%	39,544	82.65%	70,633	267.08%	6,049	(6,043)
	30.00 to < 100.00	230,663	2,230	125.56%	240,684	49.13%	17,480	16.89%	164,787	68.47%	22,311	(12,041)
	100.00 (Default)	335,109	14,257	16.51%	335,233	100.00%	29,736	20.36%	317,004	94.56%	49,176	(32,986)
	Sub-total	35,823,903	6,070,868	87.38%	42,100,695	1.85%	4,617,461	23.76%	8,188,388	19.45%	186,950	(192,829)
Exposure Class: Retail mortgage	0.00 to < 0.15	1,892,379	-	100.00%	1,947,286	0.14%	16,141	9.84%	61,453	3.16%	263	(445)
	0.00 to < 0.10	-	-	-	-	-	-	-	-	-	-	-
	0.10 to < 0.15	1,892,379	-	100.00%	1,947,286	0.14%	16,141	9.84%	61,453	3.16%	263	(445)
	0.15 to < 0.25	9,554,236	-	100.00%	9,824,523	0.23%	70,690	13.26%	609,328	6.20%	2,961	(4,258)
	0.25 to < 0.50	13,322,922	1,960,320	100.00%	15,718,296	0.39%	102,142	17.98%	1,920,543	12.22%	10,773	(9,437)
	0.50 to < 0.75	4,813,830	-	100.00%	4,951,179	0.69%	39,207	16.77%	862,016	17.41%	5,768	(5,345)
	0.75 to < 2.50	2,638,336	353,804	100.00%	3,077,699	1.29%	24,222	19.56%	914,049	29.70%	7,450	(4,435)
	0.75 to < 1.75	2,391,220	353,804	100.00%	2,823,484	1.22%	22,342	20.18%	843,865	29.89%	6,746	(3,938)
	1.75 to < 2.50	247,116	-	100.00%	254,215	2.11%	1,880	12.71%	70,184	27.61%	704	(497)
	2.50 to < 10.00	846,410	-	100.00%	870,725	4.74%	8,657	14.58%	409,553	47.04%	5,683	(2,438)
	2.50 to < 5.00	503,656	-	100.00%	518,141	3.46%	5,126	16.59%	245,162	47.32%	2,960	(1,337)
	5.00 to < 10.00	342,754	-	100.00%	352,584	6.61%	3,531	11.62%	164,391	46.62%	2,723	(1,101)
	10.00 to < 100.00	494,261	812	100.00%	508,343	31.07%	4,292	13.90%	392,098	77.13%	19,955	(3,527)
	10.00 to < 20.00	280,179	-	100.00%	287,903	17.69%	2,249	16.75%	279,891	97.22%	8,676	(2,215)
	20.00 to < 30.00	813	-	100.00%	836	24.56%	6	7.65%	394	47.04%	16	(3)
	30.00 to < 100.00	213,269	812	100.00%	219,604	48.64%	2,037	10.19%	111,813	50.92%	11,263	(1,309)
	100.00 (Default)	298,141	-	100.00%	297,762	100.00%	3,182	11.88%	201,535	67.68%	27,446	(6,525)
	Sub-total	33,860,515	2,314,936	100.00%	37,195,813	1.77%	268,533	16.09%	5,370,575	14.44%	80,299	(36,410)

31 December 2021 (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	53,332	1,787,352	73.22%	1,342,667	0.08%	1,454,035	77.76%	65,369	4.87%	1,046	(2,966)
	0.00 to < 0.10	28,235	1,261,366	73.17%	940,535	0.06%	1,037,849	77.85%	36,555	3.89%	557	(1,821)
	0.10 to < 0.15	25,097	525,986	73.34%	402,132	0.12%	416,186	77.55%	28,814	7.17%	489	(1,145)
	0.15 to < 0.25	50,968	642,137	69.52%	481,673	0.20%	442,695	77.60%	51,298	10.65%	950	(1,786)
	0.25 to < 0.50	85,468	536,306	75.54%	471,795	0.36%	481,336	79.70%	82,952	17.58%	1,720	(2,632)
	0.50 to < 0.75	61,625	259,931	130.88%	392,083	0.59%	927,817	80.31%	98,491	25.12%	2,227	(3,612)
	0.75 to < 2.50	182,931	342,956	89.46%	474,517	1.40%	434,921	82.15%	242,917	51.19%	6,871	(14,923)
	0.75 to < 1.75	127,491	272,302	87.58%	353,083	1.16%	333,550	81.82%	157,700	44.66%	4,230	(9,104)
	1.75 to < 2.50	55,440	70,654	96.71%	121,434	2.10%	101,371	83.09%	85,217	70.18%	2,641	(5,819)
	2.50 to < 10.00	164,042	111,151	118.08%	297,061	4.79%	306,356	83.47%	363,783	122.46%	14,823	(27,188)
	2.50 to < 5.00	97,133	78,463	116.23%	188,059	3.55%	202,097	83.48%	190,938	101.53%	6,915	(12,886)
	5.00 to < 10.00	66,909	32,688	122.50%	109,002	6.93%	104,259	83.47%	172,845	158.57%	7,908	(14,302)
	10.00 to < 100.00	62,143	61,842	78.65%	116,201	18.87%	111,082	82.80%	288,965	248.68%	22,341	(26,288)
	10.00 to < 20.00	40,459	58,016	69.23%	82,234	13.28%	57,860	82.61%	193,420	235.21%	11,812	(15,554)
	20.00 to < 30.00	12,989	2,408	269.29%	21,786	24.14%	38,991	83.63%	60,912	279.59%	5,108	(5,026)
	30.00 to < 100.00	8,695	1,418	140.19%	12,181	47.24%	14,231	82.57%	34,633	284.32%	5,421	(5,708)
	100.00 (Default)	20,897	14,257	16.51%	21,400	100.00%	24,615	83.85%	67,068	313.41%	12,121	(17,279)
	Sub-total	681,406	3,755,932	79.59%	3,597,397	1.95%	4,182,857	79.52%	1,260,843	35.05%	62,099	(96,674)
Exposure Class: Retail Loans	0.00 to <0.15	8,013	-	-	8,162	0.11%	2,078	83.87%	1,929	23.64%	8	(44)
	0.00 to < 0.10	3,499	-	-	3,560	0.08%	876	84.94%	676	18.99%	3	(18)
	0.10 to < 0.15	4,514	-	-	4,602	0.13%	1,202	83.04%	1,253	27.23%	5	(26)
	0.15 to < 0.25	15,252	-	-	15,542	0.20%	3,791	81.57%	5,683	36.56%	28	(109)
	0.25 to < 0.50	64,733	-	-	65,882	0.36%	14,034	80.81%	34,202	51.91%	205	(545)
	0.50 to < 0.75	110,807	-	-	112,536	0.63%	15,863	85.08%	85,715	76.17%	654	(1,619)
	0.75 to < 2.50	736,866	-	-	750,886	1.68%	93,444	87.89%	870,058	115.87%	11,934	(17,127)
	0.75 to < 1.75	300,430	-	-	306,205	1.20%	42,661	87.37%	317,257	103.61%	3,462	(5,695)
	1.75 to < 2.50	436,436	-	-	444,681	2.00%	50,783	88.25%	552,801	124.31%	8,472	(11,432)
	2.50 to < 10.00	300,022	-	-	307,276	4.29%	30,859	92.06%	447,958	145.78%	13,066	(21,467)
	2.50 to < 5.00	227,536	-	-	232,749	3.53%	22,392	91.71%	331,509	142.43%	8,105	(12,762)
	5.00 to < 10.00	72,486	-	-	74,527	6.64%	8,467	93.15%	116,449	156.25%	4,961	(8,705)
	10.00 to < 100.00	30,218	-	-	31,130	29.17%	4,063	93.11%	63,024	202.45%	9,048	(9,652)
	10.00 to < 20.00	17,831	-	-	18,407	13.50%	2,304	93.35%	35,356	192.08%	2,496	(3,614)
	20.00 to < 30.00	3,688	-	-	3,824	24.11%	547	93.45%	9,327	243.93%	925	(1,014)
	30.00 to < 100.00	8,699	-	-	8,899	63.75%	1,212	92.47%	18,341	206.09%	5,627	(5,024)
	100.00 (Default)	16,071	-	-	16,071	100.00%	1,939	92.82%	48,401	301.17%	9,609	(9,182)
	Sub-total	1,281,982	-	-	1,307,485	3.97%	166,071	88.35%	1,556,970	119.08%	44,552	(59,745)
Total value (all portfolios)		35,823,903	6,070,868	87.38%	42,100,695	1.85%	4,617,461	23.76%	8,188,388	19.45%	186,950	(192,829)

(1) RMS Grades (PD Scale) is based on Regulatory PDs post-Margins of Conservatism (MoCs).
(2) IRB EAD includes the impact of additional fees and interest receivable in the event of customer default.

5.8 Model performance

This section provides analysis of TSB's IRB PD model performance at 30 November 2022 (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 2022 IRB models covered 74.2% of TSB's total RWAs, which is consistent with December 2021 (75.5%).

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

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

IRB ratings systems philosophies typically reside across two stylised extremes: a 'Through the Cycle' (TTC) approach to PD estimation 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 17: IRB approach – Back testing of PD per exposure class (CR9)

Exposure Class	PD range	Number of obligors at the end of the previous period	Of which number of obligors defaulted in year	Observed average default rate	Exposures weighted average PD	Average PD	Average historical annual default rate
30 November 2022		Number of Obligors		%	%	%	%
Retail – Loans	0.00 to <0.15	2,201	1	0.05%	0.00%	0.00%	0.17%
	0.00 to <0.10	924	-	0.00%	0.00%	0.00%	0.00%
	0.10 to <0.15	1,277	1	0.08%	0.00%	0.00%	0.29%
	0.15 to <0.25	3,986	17	0.43%	0.00%	0.00%	0.31%
	0.25 to <0.50	14,724	64	0.43%	0.44%	0.44%	0.46%
	0.50 to <0.75	13,809	80	0.58%	0.63%	0.62%	0.55%
	0.75 to <2.50	94,700	1,512	1.60%	1.56%	1.55%	1.26%
	0.75 to <1.75	46,135	455	0.99%	1.15%	1.15%	0.95%
	1.75 to <2.50	48,565	1,057	2.18%	2.13%	2.17%	1.69%
	2.50 to <10.00	31,455	1,405	4.47%	4.59%	4.65%	3.75%
	2.50 to <5.00	22,477	756	3.36%	3.67%	3.56%	2.77%
	5.00 to <10.00	8,978	649	7.23%	6.79%	6.85%	7.06%
	10.00 to <100.00	3,728	948	25.43%	30.61%	26.42%	29.75%
	10.00 to <20.00	2,313	351	15.18%	13.46%	13.72%	14.04%
	20.00 to <30.00	535	123	22.99%	24.09%	24.12%	23.48%
	30.00 to <100.00	880	474	53.86%	61.08%	55.11%	57.36%
	100.00 (Default)	2,264	2,152	95.05%	100.00%	100.00%	96.70%
Retail – QRRE	0.00 to <0.15	1,455,274	1,145	0.08%	0.11%	0.11%	0.07%
	0.00 to <0.10	1,041,176	667	0.06%	0.08%	0.08%	0.06%
	0.10 to <0.15	414,098	478	0.12%	0.12%	0.12%	0.08%
	0.15 to <0.25	444,339	735	0.17%	0.19%	0.19%	0.13%
	0.25 to <0.50	484,403	1,506	0.31%	0.36%	0.35%	0.26%
	0.50 to <0.75	933,844	2,439	0.26%	0.58%	0.55%	0.38%
	0.75 to <2.50	445,931	5,995	1.34%	1.35%	1.34%	1.10%
	0.75 to <1.75	340,723	3,790	1.11%	1.14%	1.14%	0.92%
	1.75 to <2.50	105,208	2,205	2.10%	2.10%	2.11%	1.66%
	2.50 to <10.00	283,629	13,790	4.86%	4.74%	4.92%	4.00%
	2.50 to <5.00	162,708	5,913	3.63%	3.51%	3.51%	2.97%
	5.00 to <10.00	120,921	7,877	6.51%	6.95%	7.04%	5.44%
	10.00 to <100.00	105,985	15,941	15.04%	21.96%	20.57%	16.43%
	10.00 to <20.00	61,058	6,524	10.68%	13.48%	13.55%	9.92%
	20.00 to <30.00	31,282	2,838	9.07%	25.63%	24.30%	13.03%
	30.00 to <100.00	13,645	6,579	48.22%	50.01%	44.87%	43.71%
	100.00 (Default)	28,412	25,033	88.11%	100.00%	100.00%	90.38%
Retail – Mortgages	0.00 to <0.15	16,333	12	0.07%	0.14%	0.14%	0.02%
	0.00 to <0.10	-	-	0.00%	0.00%	0.00%	0.01%
	0.10 to <0.15	16,333	12	0.07%	0.14%	0.14%	0.02%
	0.15 to <0.25	71,496	39	0.05%	0.23%	0.23%	0.02%
	0.25 to <0.50	101,756	59	0.06%	0.39%	0.39%	0.03%
	0.50 to <0.75	39,031	50	0.13%	0.69%	0.69%	0.07%
	0.75 to <2.50	24,052	82	0.34%	1.36%	1.36%	0.12%
	0.75 to <1.75	22,136	63	0.28%	1.29%	1.29%	0.11%
	1.75 to <2.50	1,916	19	0.99%	2.17%	2.20%	0.23%
	2.50 to <10.00	8,787	140	1.59%	4.65%	4.77%	0.64%
	2.50 to <5.00	5,203	66	1.27%	3.44%	3.43%	0.46%
	5.00 to <10.00	3,584	74	2.06%	6.69%	6.83%	1.06%
	10.00 to <100.00	4,243	668	15.74%	33.92%	35.10%	10.00%
	10.00 to <20.00	2,169	100	4.61%	17.26%	17.39%	2.79%
	20.00 to <30.00	-	-	0.00%	25.03%	0.00%	3.71%
	30.00 to <100.00	2,074	568	27.39%	50.53%	50.73%	16.51%
	100.00 (Default)	3,175	3,175	100.00%	100.00%	100.00%	95.85%

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.

5.9 Impaired lending and provisions

TSB's accounting policy in respect of impairment of financial assets is detailed in the notes to the financial statements in TSB's ARA on pages 73 to 74.

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 in to early arrears or have received an additional forbearance measure. Customers who have cured but who were 90 days past due, or considered unlikely to pay, in the previous six months are also considered to remain in default and classified as credit impaired. TSB policy is not to rebut the presumption in IFRS 9 that loans which are more than 90 days past due are in default.

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

5.10 Managing impaired exposures and impairment provisions

Provisioning policy

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

Adequacy and reporting

Lending assets are assessed for ECL on a monthly basis.

The process for assessing ECL considers information and events that have occurred in the context of current expectations of the future economic environment. IFRS 9 requires that financial assets be allocated to one of three 'stages' as described 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.

5.11 Management of customers experiencing financial difficulties

Forbearance

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

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

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

- Balances in probation;
- Forborne balances;
- Non-performing indicators; and
- Past due definition of default of 90 days for secured and unsecured.

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

Table 18: Credit quality of forborne exposures (CQ1)

31 December 2022 £000	Gross carrying amount / Nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Non-performing forborne						
	Performing forborne	**Total**	**Of which defaulted**	**Of which impaired**	**On performing forborne exposures**	**On non-performing forborne exposures**	**Total**	**Of which collateral and financial guarantees received on non-performing exposures with forbearance measures**
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**

30 June 2022 £000	Gross carrying amount / Nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Non-performing forborne						
	Performing forborne	Total	Of which defaulted	Of which impaired	On performing forborne exposures	On non-performing forborne exposures	Total	Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
Loans and advances	99,416	219,704	163,941	219,704	(1,285)	(44,986)	255,834	162,230
Non-financial corporations	377	2,422	-	2,422	(16)	(253)	2,510	2,168
Households	99,039	217,282	163,941	217,282	(1,269)	(44,733)	253,324	160,062
Loan commitments given	7,622	20,199	9,318	20,199	(148)	(1,164)	-	-
Total	107,038	239,903	173,259	239,903	(1,433)	(46,150)	255,834	162,230

31 December 2021 £000	Gross carrying amount / Nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Non-performing forborne						
	Performing forborne	Total	Of which defaulted	Of which impaired	On performing forborne exposures	On non-performing forborne exposures	Total	Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
Loans and advances	96,156	222,639	169,276	222,639	(1,397)	(40,556)	265,397	173,981
Non-financial corporations	2,679	-	-	-	(266)	-	2,384	-
Households	93,477	222,639	169,276	222,639	(1,131)	(40,556)	263,013	173,981
Loan commitments given	3,450	22,153	8,738	22,153	(112)	(1,890)	-	-
Total	99,606	244,792	178,014	244,792	(1,509)	(42,446)	265,397	173,981

At 31 December 2022, total forborne exposures were £381.6 million, including £352.1 million of loans and advances, of which £286.7 million are secured by residential property, and £29.5 million of loan commitments. Of the £381.6 million forborne exposures £124.4 million were performing and £257.2 million were non-performing. Total collateral, which is largely residential property, of £281.6 million is held against these forborne exposures and £51.1 million impairment provision has been provided.

Further information on forborne exposures is reported within the notes to the consolidated financial statements on pages 96 and 99 of TSB's ARA.

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

At 31 December 2022, past due exposures in respect of loans and advances to customers, regardless of impairment status, amounted to £580.0 million, of which £528.4 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 2022 are categorised as being in the United Kingdom, based on the materiality criteria, outlined on page 23 relating to retail exposures.

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

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

31 December 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.

31 December 2021 £000	Gross carrying amount / nominal amount											
	Performing exposures			Non-performing exposures								
	Total	Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days	Total	Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
Cash balances at central banks and other demand deposits	4,750,460	4,750,460	-	-	-	-	-	-	-	-	-	-
Loans and advances	37,312,641	37,265,370	47,271	541,047	292,635	119,151	51,413	38,335	26,672	4,664	8,177	422,371
Central banks	143,588	143,588	-	-	-	-	-	-	-	-	-	-
General governments	28,566	28,566	-	-	-	-	-	-	-	-	-	-
Credit institutions	73,626	73,626	-	-	-	-	-	-	-	-	-	-
Other financial corporations	37,203	37,179	24	41	-	41		-	-	-	-	10
Non-financial corporations	409,720	397,642	12,078	19,367	2,743	14,038	2,191	189	206			16,213
Of which SMEs	409,720	397,642	12,078	19,367	2,743	14,038	2,191	189	206			16,213
Households	36,619,938	36,584,769	35,169	521,639	289,892	105,072	49,222	38,146	26,466	4,664	8,177	406,148
Debt securities	3,235,727	3,235,727	-	-	-	-	-	-	-	-	-	-
General governments	2,683,290	2,683,290	-	-	-	-	-	-	-	-	-	-
Credit institutions	489,856	489,856	-	-	-	-	-	-	-	-	-	-
Other financial corporations	62,581	62,581	-	-	-	-	-	-	-	-	-	-
Off-balance-sheet exposures	6,436,623			30,955								10,923
Credit institutions	173			-								-
Other financial corporations	100			-								-
Non-financial corporations	13,160			43								24
Households	6,423,190			30,912								10,899
Total	51,735,451	45,251,557	47,271	572,002	292,635	119,151	51,413	38,335	26,672	4,664	8,177	433,294

(1) Table reported in accordance with FINREP definitions.

At 31 December 2022, TSB’s non-performing loans (NPL) ratio was 1.0%, reduced from 1.1% at 31 December 2021.

Total loans and advances grew by £1.5 billion, 3.9%, from £37.3 billion at 31 December 2021 to £38.8 billion at 31 December 2022. The growth was largely due to growth in secured household lending.

Since 31 December 2021 non-performing exposures have reduced from £572.0 million to £528.4 million at 31 December 2022, of which default has also fallen to £411.6 million from £433.3 million.

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

The analysis of performing and non-performing exposures and related provisions at 31 December 2022, in respect of loans and advances to customers is provided in table 20.

At 31 December 2022 accumulated impairment had increased from £206.2 million at 31 December 2021 to £211.8 million, of which £145.7 million (£147.1 million 2021) relates to performing exposures and £66.1 million (£59.1 million 2021) to non-performing exposures. This reflects of the more challenging economic outlook as reflected in higher forecast unemployment and interest rates (as described more fully in note 8 on page 77 of the ARA).

Total non-performing exposures at 31 December 2022 of £528.4 million with impairment provision of £66.1 million compared to £570.0 million and £59.1 million respectively at 31 December 2021. Excluding off-balance sheet exposures, non-performing exposures reduced from £541.0 million to £500.7 million, a reduction of £40.3 million, 7.5%.

Total gross on balance sheet loans and advances increased during 2022 by £1.4 billion (3.7%) to £39.3 billion, whereas there was a reduction in non-performing exposures from £541.0 million to £500.7 million despite the economic environment.

Total loans collateralised by residential household property increased from £35.0 billion to £35.8 billion at 31 December 2022.

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 65 and the notes to the consolidated financial statements on pages 72 to 81 and 92 to 98.

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

31 December 2022	Gross carrying amount / nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-offs	Collateral and financial guarantees received	
	Gross carrying amount / nominal amount			Non-performing exposures			Performing exposures – Accumulated impairment and provisions			Non-performing exposures – Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
£000	Total	of which: stage 1	of which: stage 2	Total	of which: stage 2	of which: stage 3	Total	of which: stage 1	of which: stage 2	Total	of which: stage 2	of which: stage 3			
Cash balances at central banks and other demand deposits	**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.

30 June 2022	Gross carrying amount / nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-offs	Collateral and financial guarantees received	
	Gross carrying amount / nominal amount			Non-performing exposures			Performing exposures – Accumulated impairment and provisions			Non-performing exposures – Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
£000	Total	of which: stage 1	of which: stage 2	Total	of which: stage 2	of which: stage 3	Total	of which: stage 1	of which: stage 2	Total	of which: stage 2	of which: stage 3			
Cash balances at central banks and other demand deposits	4,508,970	4,508,970	-	-	-	-	-	-	-	-	-	-	-	-	-
Loans and advances	37,973,441	35,056,158	2,832,503	499,718	-	466,445	(125,975)	(38,180)	(87,751)	(60,478)	-	(59,789)	-	35,519,242	413,490
Central banks	146,765	146,765	-	-	-	-	-	-	-	-	-	-	-	-	-
General governments	43,894	43,894	-	-	-	-	-	-	-	-	-	-	-	-	-
Credit institutions	71,863	71,863	-	-	-	-	-	-	-	-	-	-	-	-	-
Other financial corporations	103,684	103,408	276	209	-	209	(13)	(10)	(3)	(11)	-	(11)	-	2,083	192
Non-financial corporations	370,977	262,835	108,142	26,999	-	26,999	(6,658)	(4,186)	(2,471)	(864)	-	(864)	-	341,447	25,264
of which SMEs	370,977	262,835	108,142	26,999	-	26,999	(6,658)	(4,186)	(2,471)	(864)	-	(864)	-	341,447	25,264
Households	37,236,258	34,427,393	2,724,085	472,510	-	439,237	(119,304)	(33,984)	(85,277)	(59,603)	-	(58,914)	-	35,175,712	388,034
Debt securities	2,781,069	2,781,069	-	-	-	-	-	-	-	-	-	-	-	-	-
General governments	2,233,705	2,233,705	-	-	-	-	-	-	-	-	-	-	-	-	-
Credit institutions	490,340	490,340	-	-	-	-	-	-	-	-	-	-	-	-	-
Other financial corporations	57,024	57,024	-	-	-	-	-	-	-	-	-	-	-	-	-
Off-balance-sheet exposures	6,635,820	6,199,752	415,199	29,156	-	28,903	(12,951)	(6,182)	(6,769)	(2,171)	-	(2,152)	-	-	-
Credit institutions	381	381	-	-	-	-	-	-	-	-	-	-	-	-	-
Other financial corporations	48	47	1	-	-	-	-	-	-	-	-	-	-	-	-
Non-financial corporations	11,961	11,150	811	35	-	35	-	-	-	-	-	-	-	-	-
Households	6,623,430	6,188,174	414,387	29,121	-	28,868	(12,951)	(6,182)	(6,769)	(2,171)	-	(2,152)	-	-	-
Total	51,899,300	48,545,949	3,247,702	528,874	-	495,348	(138,926)	(44,362)	(94,520)	(62,649)	-	(61,941)	-	35,519,242	413,490

(1) Table reported in accordance with FINREP definitions.

31 December 2021	Gross carrying amount / nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-offs	Collateral and financial guarantees received	
	Gross carrying amount / nominal amount			Non-performing exposures			Performing exposures – Accumulated impairment and provisions			Non-performing exposures – Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					
£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		On performing exposures	On non-performing exposures
Cash balances at central banks and other demand deposits	4,750,460	4,750,460	-	-	-	-	-	-	-	-	-	-		-	-
Loans and advances	37,312,641	34,628,388	2,684,253	541,046	-	541,046	(133,453)	(59,007)	(74,446)	(56,096)	-	(56,096)	-	34,960,255	462,405
Central banks	143,588	143,588	-	-	-	-	-	-	-	-	-	-	-	-	-
General governments	28,566	28,566	-	-	-	-	-	-	-	-	-	-	-	-	-
Credit institutions	73,626	73,626	-	-	-	-	-	-	-	-	-	-	-	-	-
Other financial corporations	37,203	36,513	690	40	-	40	(25)	(11)	(14)	-	-	-	-	2,599	40
Non-financial corporations	409,720	288,786	120,934	19,367	-	19,367	(6,410)	(3,566)	(2,844)	(563)	-	(563)	-	376,967	18,202
of which SMEs	409,720	288,786	120,934	19,367	-	19,367	(6,410)	(3,566)	(2,844)	(563)	-	(563)	-	376,967	18,202
Households	36,619,938	34,057,309	2,562,629	521,639	-	521,639	(127,018)	(55,430)	(71,588)	(55,533)	-	(55,533)	-	34,580,689	444,163
Debt securities	3,235,727	3,235,727	-	-	-	-	-	-	-	-	-	-	-	-	-
General governments	2,683,290	2,683,290	-	-	-	-	-	-	-	-	-	-	-	-	-
Credit institutions	489,856	489,856	-	-	-	-	-	-	-	-	-	-	-	-	-
Other financial corporations	62,581	62,581	-	-	-	-	-	-	-	-	-	-	-	-	-
Off-balance-sheet exposures	6,436,623	6,123,267	313,356	30,956	-	30,956	(13,656)	(8,896)	(4,760)	(2,990)	-	(2,990)	-	-	-
Credit institutions	173	173	-	-	-	-	-	-	-	-	-	-	-	-	-
Other financial corporations	100	100	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-financial corporations	13,160	12,278	882	44	-	44	-	-	-	-	-	-	-	-	-
Households	6,423,190	6,110,716	312,474	30,912	-	30,912	(13,656)	(8,896)	(4,760)	(2,990)	-	(2,990)	-	-	-
Total	51,735,451	48,737,842	2,997,609	570,002	-	570,002	(147,109)	(67,903)	(79,206)	(59,086)	-	(59,086)	-	34,960,255	462,405

(1) Table reported in accordance with FINREP definitions.

5.14 Credit risk mitigation

TSB uses a range of approaches to mitigate credit risk.

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

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

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

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

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

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

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

Collateral

The principal collateral types for loans and advances are:

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

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

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

31 December 2022 £000	TOTAL exposures	Credit Risk Mitigation Techniques – Funded Credit Protection (FCP): Other eligible collaterals	Credit Risk Mitigation Techniques – Funded Credit Protection (FCP): Immovable property collaterals(1)	Credit Risk Mitigation Methods in the calculation of RWEAs: RWEA without substitution effects	Credit Risk Mitigation Methods in the calculation of RWEAs: 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 SMEs	-	-	-	-	-
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 SMEs	-	-	-	-	-
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 not limited to the value of the exposure at the level of an individual exposure.

30 June 2022 £000	TOTAL exposures	Credit Risk Mitigation Techniques – Funded Credit Protection (FCP): Other eligible collaterals	Credit Risk Mitigation Techniques – Funded Credit Protection (FCP): Immovable property collaterals(1)	Credit Risk Mitigation Methods in the calculation of RWEAs: RWEA without substitution effects	Credit Risk Mitigation Methods in the calculation of RWEAs: RWEA substitution effects
	a	c	d	m	n
Retail	42,608,563	195.3%	195.3%	8,029,863	8,029,863
Of which Retail – Immovable property SMEs	-	-	-	-	-
Of which Retail – Immovable property Non-SMEs	38,037,761	218.7%	218.7%	5,189,762	5,189,762
Of which Retail – Qualifying revolving	3,208,946	0.0%	0.0%	1,231,869	1,231,869
Of which Retail – Other SMEs	-	-	-	-	-
Of which Retail – Other non-SMEs	1,361,856	0.0%	0.0%	1,608,232	1,608,232
Total	42,608,563	195.3%	195.3%	8,029,863	8,029,863

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

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

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

Funded credit protection for TSB relates to real estate collateral secured on mortgage lending. At 31 December 2022 the indexed linked value of real estate was £84.4 billion compared to £79.1 billion at 31 December 2021. 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 has, from 1 January 2022, used the Standardised Approach for Counterparty Credit Risk.

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

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

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

		Secured Carrying Amount			
				Of which secured by financial guarantees	
31 December 2022	**Unsecured carrying amount £000**	**Total £000**	**Of which secured by collateral £000**	**Total £000**	**Of which secured by credit derivatives £000**
Loans and advances[(1)]	8,089,284	36,118,318	35,725,570	392,748	-
Debt securities	2,461,163	-	-	-	
Total	10,550,447	36,118,318	35,725,570	392,748	-
Of which non-performing exposures	26,703	410,208	381,777	28,431	-
Of which defaulted[(2)]	10,327	325,620			

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

		Secured Carrying Amount			
				Of which secured by financial guarantees	
30 June 2022	Unsecured carrying amount £000	Total £000	Of which secured by collateral £000	Total £000	Of which secured by credit derivatives £000
Loans and advances[(1)]	6,862,944	35,932,732	35,487,944	444,788	-
Debt securities	2,781,069	-	-	-	
Total	9,644,013	35,932,732	35,487,944	444,788	-
Of which non-performing exposures	25,750	413,490	378,640	34,850	-
Of which defaulted[(2)]	17,277	314,558			

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

31 December 2021	Unsecured carrying amount £000	Secured Carrying Amount Total £000	Of which secured by collateral £000	Of which secured by financial guarantees Total £000	Of which secured by credit derivatives £000
Loans and advances[1]	7,181,487	35,422,660	34,908,598	514,061	-
Debt securities	3,235,727	-	-	-	
Total	10,417,214	35,422,660	34,908,598	514,061	-
Of which non-performing exposures	78,641	462,405	436,320	26,085	-
Of which defaulted[2]	5,929	360,347			

(1) Loans and advances exclude cash balances at central banks or 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 £310.1 million and government guaranteed public sector entity exposures of £50.5 million.

6. Leverage ratio

The following tables present CRR disclosures on the leverage ratio.

6.1 Leverage ratio exposure

Table 23: Summary reconciliation of accounting assets and leverage ratio exposures (LR1)[(1)]

Applicable Amounts	**31 December 2022 £000**	30 June 2022 £000	31 December 2021 £000
Total assets as per published financial statements	49,449,717	47,423,680	46,688,763
(Adjustment for exemption of exposures to central banks)	(5,229,036)	(4,566,817)	(4,842,254)
Adjustments for derivative financial instruments	(2,464,681)	(990,163)	(276,494)
Adjustment for securities financing transactions (SFTs)	114,555	4,952	-
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	832,469	1,043,529	1,050,945
(Adjustment for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital (leverage))	(4,412)	(2,336)	(1,394)
Other adjustments	(154,161)	(332,586)	(49,812)
Leverage ratio total exposure measure	**42,544,451**	42,580,259	42,569,754

(1) 31 December 2021 reporting has been represented following new PRA reporting requirements including adjustment for exemption of exposures to central banks.

TSB calculates its leverage 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 4.2% which comfortably exceeds the PRA minimum of 3.25%.

The leverage ratio has increased to 4.2% since 31 December 2021 as a result of an increase in Tier 1 capital of £67.5 million in 2022 largely due to the 2022 retained profit of £52.3 million, movement in deferred tax assets that rely on future profitability and do not arise from temporary differences of £58.0 million and other comprehensive income £29.9 million, partially offset by the decrease in the cash flow hedging reserve regulatory adjustment of £41.0 million and the increase in intangible fixed assets deduction of £26.5 million, while the leverage exposure measure has remained steady £42.5 billion.

Under the PRA UK leverage ratio framework applicable from 1 January 2022, 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 24: Leverage ratio common disclosure (LR2)[1]

CRR leverage ratio exposure	31 December 2022 £000	30 June 2021 £000	31 December 2021 £000
On-balance sheet exposures (excluding derivatives and SFTs)			
On-balance sheet items (excluding derivatives SFTs, but including collateral)	46,903,422	48,838,917	46,379,561
Deductions of receivables assets for cash variation margin provided in derivatives transactions	(197,719)	(64,713)	(18,087)
Asset amounts deducted in determining Tier 1 capital	(140,454)	(156,333)	(137,748)
Total on-balance sheet exposures (excluding derivatives and SFTs)	**46,565,249**	46,617,871	46,223,726
Derivative exposures			
Replacement cost associated with SA-CCR derivatives transactions (i.e. net of eligible cash variation margin)	174,981	411,488	645
Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	86,233	69,236	136,692
Total derivatives exposures	**261,214**	480,724	137,337
Securities financing transaction (SFT) exposures			
Counterparty credit risk exposure for SFT assets	114,555	4,952	-
Total securities financing transaction exposures	**114,555**	4,952	-
Other off-balance sheet exposures			
Off-balance sheet exposures at gross notional amount	5,622,343	6,670,070	6,454,105
Adjustments for conversion to credit equivalent amounts	(4,789,874)	(5,626,541)	(5,403,160)
Off-balance sheet exposures	**832,469**	1,043,529	1,050,945
Capital and total exposures measure			
Tier 1 capital (leverage)	1,791,545	1,697,660	1,724,002
Total exposure measure including claims on central banks	47,773,487	47,147,076	47,412,008
Claims on central banks excluded	(5,229,036)	(4,566,817)	(4,842,254)
Total exposure measure excluding claims on central banks	**42,544,451**	42,580,259	42,569,754
Leverage ratio			
Leverage ratio excluding claims on central banks (%)	4.2%	4.0%	4.1%
Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)	4.2%	4.0%	4.0%
Leverage ratio including claims on central banks (%)	3.8%	3.6%	3.6%

(1) 31 December 2021 reporting has been represented following new PRA reporting requirements including adjustment for exemption of exposures to central banks.

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

CRR leverage ratio exposures	**31 December 2022 £000**	30 June 2022 £000	31 December 2021 £000
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**46,705,703**	45,774,204	46,361,474
Banking book exposures, of which:	46,705,703	45,774,204	46,361,474
Covered bonds	254,271	224,982	213,393
Exposures treated as sovereigns	7,166,325	6,848,831	8,030,932
Institutions	235,026	72,645	75,654
Secured by mortgages of immovable properties	35,325,984	35,091,388	34,487,747
Retail exposures	2,278,679	2,391,093	2,425,272
Corporate	34,259	29,348	28,099
Exposures in default	384,869	380,642	407,779
Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	1,026,290	735,275	692,598

Exempted exposures consist of variation margin pledged of £197.7 million at 31 December 2022, £64.7 million at 30 June 2022 and £18.1 million at 31 December 2021.

6.2 Management of excessive leverage

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

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

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, the business plans are reconsidered to mitigate that risk.

7. Liquidity

TSB's Liquidity & Funding risk management framework ensures that liquidity and funding risks are effectively managed, and the PRA's Overall Liquidity Adequacy Rule (OLAR) is met.

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

Risk Profile and Measurement
TSB maintains a prudent liquidity profile to ensure that 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 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 14 to 16 of the ARA. These include TSB Executive Committee, the Asset and Liability Committee, Board Risk Committee, and the Board.

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

The central treasury function is responsible for the liquidity risk management and monitoring of the TSB group. Although TSB is owned by the Spanish banking group Banco de 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 sound liquidity and funding risk management framework in place, consisting of:

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

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

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

7.2 Quantitative information of Liquidity Coverage Ratio

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

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 2022 was 168% (December 2021: 165%), shown in the LIQ1 disclosure table below:

Table 26: Quantitative information of LCR (LIQ1)

	Total unweighted value (average)				Total weighted value (average)			
£000	**31 December 2022**	**30 September 2022**	**30 June 2022**	**31 March 2022**	**31 December 2022**	**30 September 2022**	**30 June 2022**	**31 March 2022**
Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
HIGH-QUALITY LIQUID ASSETS								
Total high-quality liquid assets (HQLA)					**6,788,964**	**6,896,348**	**6,687,218**	**6,505,243**
CASH - OUTFLOWS								
Retail deposits and deposits from small business customers, of which:	**35,440,272**	**35,439,394**	**35,525,895**	**35,553,452**	**2,390,620**	**2,393,827**	**2,389,516**	**2,380,596**
Stable deposits	27,953,717	28,240,683	28,433,063	28,537,148	1,397,686	1,412,034	1,421,653	1,426,857
Less stable deposits	6,847,913	6,793,444	6,714,792	6,631,254	992,934	981,793	967,863	953,738
Unsecured wholesale funding	**340,291**	**297,303**	**297,313**	**285,347**	**201,671**	**158,914**	**158,282**	**150,276**
Non-operational deposits (all Counterparties)	257,486	257,058	257,593	250,417	118,866	118,669	118,562	115,346
Unsecured debt	82,805	40,245	39,720	34,930	82,805	40,245	39,720	34,930
Secured wholesale funding					**-**	**-**	**-**	**-**
Additional requirements	**4,270,502**	**4,125,429**	**4,037,400**	**3,998,203**	**608,365**	**474,932**	**397,501**	**368,552**
Outflows related to derivative exposures and other collateral requirements	415,621	282,800	205,928	177,517	415,621	282,801	205,928	177,517
Credit and liquidity facilities	3,854,881	3,842,629	3,831,472	3,820,686	192,744	192,131	191,573	191,035
Other contractual funding obligations	**79,806**	**79,385**	**77,251**	**89,814**	**14,705**	**13,822**	**11,031**	**22,980**
Other contingent funding obligations	**2,468,321**	**2,606,439**	**2,565,362**	**2,624,264**	**1,111,599**	**1,173,727**	**1,155,216**	**1,181,812**
TOTAL CASH OUTFLOWS					**4,326,960**	**4,215,222**	**4,111,546**	**4,104,216**
CASH - INFLOWS								
Secured lending (e.g. reverse repos)	-	-	-	-	-	-	-	-
Inflows from fully performing exposures	347,164	336,969	331,018	318,470	222,350	210,083	205,388	196,386
Other cash inflows	51,366	35,588	35,656	29,829	38,163	22,315	22,258	16,266
TOTAL CASH INFLOWS	**398,530**	**372,557**	**366,674**	**348,299**	**260,513**	**232,398**	**227,646**	**212,652**
Fully exempt inflows	-	-	-	-	-	-	-	-
Inflows subject to 90% cap	-	-	-	-	-	-	-	-
Inflows subject to 75% cap	398,530	372,557	366,674	348,299	260,513	232,398	227,646	212,652
TOTAL ADJUSTED VALUE								
LIQUIDITY BUFFER					**6,788,964**	**6,896,348**	**6,687,218**	**6,505,243**
TOTAL NET CASH OUTFLOWS					**4,066,447**	**3,982,824**	**3,883,900**	**3,891,564**
LIQUIDITY COVERAGE RATIO (1)					**168%**	**174%**	**173%**	**168%**

(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 27: Qualitative information on LCR, which complements template LIQ (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, are categorised as stable for LCR reporting. Non-retail sources of funding provide diversification and stability to the bank's funding profile. This funding includes cash drawings from the TFSME and external wholesale funding such as the Bank's Covered Bond issuances.
(b)	Explanations on the changes in the LCR over time.	The 12 month-end average LCR for the year to December 2022 increased to 168% (December 2021: 165%). This increase is primarily driven by an increase in average central bank (TFSME) and wholesale funding, offset by an increase in average lending (predominately mortgage lending).
(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 Covered Bonds.
(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 does has no other items in its LCR calculation, that are not captured in the LCR EU 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 four quarters. The average NSFR for the four quarter ends in the year to December 2022 was 148% (December 2021: n/a), shown in the LIQ2 disclosure table below. The average calculation methodology for LIQ2 was introduced by the PRA at 1 January 2022.

Table 28: Net Stable Funding Ratio (LIQ2)

31 December 2022	Unweighted value by residual maturity				
Available stable funding (ASF) Items £000	**No maturity[1]**	**< 6 months**	**6 months to < 1yr**	**≥ 1yr**	**Weighted value**
Capital items and instruments	1,872,548	-	-	300,000	2,172,548
Own funds	1,872,548	-	-	300,000	2,172,548
Retail deposits		34,840,694	413,085	250,666	33,397,975
Stable deposits		27,965,092	413,085	250,666	27,209,933
Less stable deposits		6,875,602	-	-	6,188,042
Wholesale funding:		1,230,084	125,000	7,025,000	7,204,055
Other wholesale funding		1,230,084	125,000	7,025,000	7,204,055
Other liabilities:	18,889	300,161	-	-	-
NSFR derivative liabilities	18,889				
All other liabilities and capital instruments not included in the above categories		300,161	-	-	-
Total available stable funding (ASF)					**42,774,578**

	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)					18,405
Assets encumbered for a residual maturity of one year or more in a cover pool		-	-	1,870,555	1,589,972
Performing loans and securities:		1,948,551	951,133	32,852,101	25,555,012
Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut		187,500	-	-	-
Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions		92,342	-	6,315	15,549
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:		847,368	229,500	1,310,795	1,652,610
Performing residential mortgages, of which:		821,341	721,633	31,534,991	23,886,853
With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		821,341	721,633	30,718,348	23,192,706
Other assets:	-	808,316	15,383	1,029,796	1,459,370
Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs		107,797	-	275,617	325,902
NSFR derivative assets		56,601			56,601
NSFR derivative liabilities before deduction of variation margin posted		12,837			642
All other assets not included in the above categories		631,080	15,383	754,179	1,076,225
Off-balance sheet items		**3,885,240**	-	-	**222,372**
Total RSF					**28,845,131**
Net stable funding ratio (%)[2]					**148%**

(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

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

Since TSB was relaunched in 2013, the remuneration approach has remained consistent. It 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 54 of TSB's ARA, is to provide competitive remuneration aligned to the delivery of the strategic goals (as explained in the Chief Executive's statement). It is designed to attract and retain talented individuals and to generate sustainable business performance, while taking into account effective risk management and acceptable conduct. In addition, TSB aims to align the remuneration approach with that of its parent, Sabadell.

The Remuneration Committee is authorised by the Board to consider and recommend to the Board the remuneration policy framework. 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 by the Remuneration Committee, and then recommended to the Board for approval. The TSB Remuneration Committee met 6 times during 2022. Further information on the role of the Remuneration Committee including details of independent advice sought, terms of reference and members are on pages 54 to 57 of the 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 2022 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 2022, there were 42 identified staff of which 6 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 29 and 30 include 50 identified staff of which there are 8 Non-Executive Directors for the full 2022 year. There are 4 further Non-Executive Directors who did not receive fees. They have therefore been excluded from the tables.

Table 29: Information on remuneration of staff whose professional activities have a material impact on institutions risk profile (identified staff) (REM5)

31 December 2022	Management Body Supervisory Function	Management Body Management Function	Total Management Body	Retail Banking	Corporate functions	Independent control functions	Total
Total number of identified staff							50
Of which: members of the management body	8	14	22				
Of which: other senior management				5	19	4	
Of which: other identified staff				-	-	-	
Total remuneration of identified staff £000	950	10,434	11,384	1,992	6,624	1,499	
Of which: variable remuneration [(1)]	-	4,570	4,570	700	2,164	459	
Of which: fixed remuneration	950	5,864	6,814	1,292	4,460	1,040	

(1) Includes the grant value of 2023-2025 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 2022 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 blueprint 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. The second set of awards will be made in Sabadell shares in April 2023 for a three-year performance period (2023 to 2025) to a small number of senior management. The LTIP will be subject to Sabadell performance metrics.

Market appropriate benefits

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

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

In 2022, 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 (8.75%), uptake of digital channels by customers (8.75%), 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 (personal objectives and Leadership Expectations) (20.0%), and group 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 2022 performance, TSB will not exceed an annual cap on total variable remuneration of one times salary, calculated in accordance with the PRA's remuneration regulations.

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

For identified staff, the vesting of any 2022 deferred variable remuneration is contingent on three aspects:

- Appropriate personal conduct maintained throughout the vesting period;
- Application of malus and clawback; and
- Subject to Sabadell performance metrics for the LTIP.

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

In respect of variable pay plans, 60% of grants 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 of the incentive awards to pay. A risk adjustment is made as a result of several factors:

- A balance of measures included in individual objectives and the Primary Corporate Objectives 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 2022; and
- The appropriate governance to make informed and robust decisions, including the Remuneration Governance Group (which makes recommendations to the Remuneration Committee on matters as required to ensure that the appropriate standards of risk management and corporate governance are applied), Remuneration Committee oversight and independent access to the Chief Risk Officer (CRO) and Chief Financial Officer (CFO).

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

A Remuneration Governance Group, 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.

2022 reward outcomes for TSB employees are set out in the Remuneration Review on page 55 of TSB's ARA.

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

For non-identified staff in the Control Functions, reviews of fixed and variable remuneration are managed by the line manager with oversight from the Human Resources (HR) department, based on external market data, internal relativities and corporate and individual performance. 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 30: Remuneration awarded for the financial year (REM1)

	31 December 2022	Management Body Supervisory Function	Management Body Management Function	Other senior management	Other identified staff
Fixed Remuneration	**Number of identified staff[1]**	**8**	**14**	**28**	**-**
	Total fixed remuneration £000[2]	**950**	**5,864**	**6,793**	**-**
	Of which: cash-based	950	5,864	6,793	-
Variable Remuneration	**Number of identified staff**	-	**12**	**23**	**-**
	Total variable remuneration £000[2] [3]	-	**4,570**	**3,322**	**-**
	Of which: cash-based	-	2,272	1,627	-
	Of which: deferred	-	1,291	675	-
	Of which: shares or equivalent ownership interests	-	2,298	1,695	-
	Of which: deferred	-	1,317	744	-
Total remuneration		**950**	**10,434**	**10,115**	**-**

(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 2023-2025 LTIP

Table 31: Breakdown by remuneration brackets of identified staff with remuneration in excess of 1 million Euros (REM 4)

The following table shows the number of MRTs with total remuneration of EUR 1 million or above arranged by remuneration band for the financial year ended 31 December 2022.

Total remuneration [1] (EUR)	No. of employees 31 December 2022
1,000,001 - 1,500,000	2
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 (OBS) items. The specific treatments for these four main exposure types are defined by the Basel III leverage ratio framework disclosure requirements.
Lifetime Expected Credit Losses (Lifetime ECL)	The allowance required for Expected Credit Losses resulting from default events expected over the estimated life of the financial instrument, in the event of a significant increase in credit risk.
Liquidity buffer	Refers to the stock of liquid assets that enables a bank to meet expected and unexpected cash flows and collateral needs without affecting the bank's daily operations. Supervisors encourage banks to make prudent use of the liquidity buffers in times of stress in order to continue to meet obligations to creditors and other counterparties while also continuing to support households and businesses.
Liquidity coverage ratio (LCR)	Measures the percentage of high-quality liquid assets relative to expected net cash outflows over a 30-day period. High quality liquid assets should be unencumbered, liquid in markets during a time of stress and, ideally, be central bank eligible.
Loss Given Default (LGD)	Loss given default represents the estimated proportion of an EAD amount that will be lost in the event of default. It is calculated after taking account of credit risk mitigation and includes the cost of recovery.
Material Risk Takers	Employees who have a material impact on TSB's risk profile.

Malus The reduction or cancellation of remuneration awards prior to vesting.

Market risk The risk that unfavourable market movements (including changes in and increased volatility of interest rates, market-implied inflation rates, credit spreads and prices for bonds, foreign exchange rates, equity, property and commodity prices and other instruments) lead to reductions in earnings and / or value.

Minimum capital requirement The minimum amount of regulatory capital that a financial institution must hold to meet the Pillar 1 requirements for credit, market and operational risk.

Model validation The process of assessing and providing evidence that the TSB's models perform as planned and adequately reflect the risk profile of the business, and that there are no material misstatements of the capital requirement.

Multilateral development banks (MBD) An institution created by a group of countries to provide financing for the purpose of development.

Net Stable Funding Ratio (NSFR) Liquidity standard requiring banks to hold enough stable funding to cover the duration of their long-term assets.

Netting The ability to reduce credit risk exposures by offsetting the value of any deposits against loans to the same counterparty.

Non-performing exposures Non-performing are those that satisfy either or both of the following criteria: a) material exposures which are more than 90 days past-due; b) the debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount or of the number of days past due.

Non-performing loans (NPL) ratio The ratio of the amount of non-performing loans in a bank's loan portfolio to the total amount of outstanding loans the bank holds.

Operational risk The risk of reductions in earnings and / or value, through financial or reputational loss, from inadequate or failed internal processes and systems, or from people-related or external events.

Original exposure The exposure value without taking into account value adjustments and provisions, conversion factors and the effect of credit risk mitigation techniques.

Pillar 1 The first pillar of the Basel III framework sets out the quantitative elements – the minimum regulatory capital requirements for credit, operational and market risks.

Pillar 2 The second pillar of the Basel III framework sets out the qualitative expectations that should be met through the supervisory review process. This includes the ICAAP, governance process and the Supervisory Review Process.

Pillar 3 The third pillar of the Basel III framework aims to encourage market discipline by setting out disclosure requirements for banks on their capital, risk exposures and risk assessment processes. These disclosures are aimed at improving the information made available to the market.

Point-in-Time (PiT) Estimates of PD (or other measures) made on a point-in-time (PiT) basis generally cover a short time horizon (usually a 12-month period) and are sensitive to changes in the economic cycle. This differs from a through-the-cycle (TTC) basis which uses long run average economic and risk data to reduce such sensitivity.

Probability of Default (PD) Probability of default represents an estimate of the likelihood that a customer will default on their obligation within a 12-month time horizon.

Public Sector Entity (PSE) A non-commercial administrative bodies responsible to central governments, regional governments or local authorities; or authorities that exercise the same responsibilities as regional and local authorities; or non-commercial undertakings owned by central governments that have explicit guarantee arrangements; or self-administered bodies governed by law that are under public supervision.

Qualifying Revolving Retail Exposure (QRRE) Qualifying Revolving Retail Exposures (QRRE) relate to revolving, unsecured retail exposures that, to the extent they are not drawn, are immediately and unconditionally cancellable. Such exposures include credit cards and overdraft facilities.

Regulatory capital The amount of capital that the TSB holds, determined in accordance with rules established by the PRA.

Repurchase agreements or ‘repos’ Short-term funding agreements which allow a borrower to sell a financial asset as collateral for cash. As part of the agreement the borrower agrees to repurchase the security at some later date, usually less than 30 days, repaying the proceeds of the loan.

Residual Maturity	The remaining time in years that a borrower is permitted to take to fully discharge its contractual obligation (principal, interest and fees) under the terms of a loan agreement.
Retail Internal Ratings Based (Retail IRB)	The Retail Internal Ratings Based (Retail IRB) Approach allows internal estimates of PD, LGD and EAD to be used in determining credit risk capital requirements for retail portfolios.
Retail SME	A small or medium sized entity, an exposure to which may be treated as a retail exposure.
Risk appetite	The amount and type of risk that the TSB is prepared to seek, accept or tolerate.
Risk weighted assets (RWAs)	A measure of a bank's assets adjusted for their associated risks. Risk weightings are established in accordance with CRR.
RWA density	RWAs divided by exposure after default (post credit risk mitigation and the application of credit conversion factors).
Securities financing transactions (SFTs)	Securities financing transactions are repurchase and reverse repurchase agreements, buy / sell backs and securities lending. For the lender (seller) of the securities it is usually a way to raise funds to finance the securities positions. For the borrower (buyer) of the securities it is a way to invest short–term funds or to cover short (bond) positions.
Securitisation	Securitisation is a process by which a group of assets, usually loans, are aggregated into a pool, which is used to back the issuance of new securities.
Specific Credit Risk Adjustment	Those credit risk adjustments that do not meet the criteria to be recognised as GCRAs. Credit risk adjustments recognised via an incurred loss model under IAS 39 are classed as SCRAs.
Stable deposits	Retail deposits are considered stable deposits when covered by a deposit guarantee scheme, they are provided with a 5% outflow weighting where the deposit is either part of an established relationship or held in a transactional account.
Standardised Approach	The Standardised Approach to calculating credit risk capital requirements requires the use of a standard set of risk weights prescribed by the regulator. Use may be made of external credit ratings supplied by External Credit Rating Agencies to assign risk weights to exposures. Standardised approaches, following prescribed methodologies, also exist for calculating market risk and operational risk capital requirements.
Stress testing	Stress and scenario testing is the term used to describe techniques where plausible events are considered as vulnerabilities to ascertain how this will impact the own funds which are required to be held.
Subordinated liabilities	Liabilities which, in the event of insolvency or liquidation of the issuer, are subordinated to the claims of depositors and other creditors of the issuer.
Supervisory Review and Evaluation Process (SREP)	The appropriate supervisor's assessment of the adequacy of certain firms' capital.
Term Funding Scheme (TFSME)	Bank of England scheme which allows eligible banks and building societies to access funding with incentives for SME's.
Through-The-Cycle (TTC)	See Point-in-time (PiT).
Tier 1 capital	A measure of a bank's financial strength defined by CRR. It captures Common Equity Tier 1 Capital plus other Tier 1 securities in issue, subject to deductions.
Tier 1 capital ratio	Tier 1 capital as a percentage of risk weighted assets.
Tier 2 capital	A component of regulatory capital defined by CRR, mainly comprising qualifying subordinated loan capital and eligible collective impairment allowances.
Total capital ratio	Total capital as a percentage risk weighted assets.
Trading book	Positions in financial instruments and commodities held for trading purposes or to hedge other elements of the trading book.
UK Leverage Ratio	A PRA defined modified measure of the leverage ratio which excludes qualifying central bank claims from the exposure measure. The PRA has set the minimum ratio at 3.25%.
Whistletree	Whistletree Loans includes a portfolio of former Northern Rock mortgages and unsecured loans which was acquired with effect from 7 December 2015 and a small portfolio of Airdrie Savings Bank customers which was acquired on 28th April 2017.

Appendix I – CRR Index

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 65.
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 65.
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 17.
Credit risk adjustments		
442 (a)	The definitions used for accounting of past due and impaired the differences, if any, between the definitions of past due and default for accounting and regulatory purposes.	Section 5.9 Impaired lending and provisions - page 32.
442 (b)	Methodology applied to determine general and specific credit risk adjustments.	Section 5.9 Impaired lending and provisions and 5.10 Managing impaired exposures and impairment provisions - pages 32 and 33.
442 (c)	Information on the amount and quality of performing, non-performing and forborne exposures including impairment, provisions and negative fair value changes due to credit risk and amounts of collateral and financial guarantees received.	Credit quality of forborne exposures – Table 18 (CQ1) – page 34, Performing and non-performing exposures and related provisions - Table 20 (CR1) – page 39.
442 (d)	An ageing analysis of accounting past due exposures.	Credit quality of performing and non-performing exposures by past due days – Table 19 (CQ3) - page 36.
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 21. Credit quality of forborne exposures – Table 18 (CQ1) – page 34, Performing and non-performing exposures and related provisions - Table 20 (CR1) – page 39.
442 (f)	Changes in the gross amount of defaulted exposures including, as a minimum, opening and closing balances, the gross amount of any exposures reverted to non-defaulted status or subject to a write off.	N/A
442 (g)	The breakdown of loans and debt securities by residual maturity.	Section 5.5 Credit risk exposure: analysis by maturity – Table 13(CR1-A) – page 23.

CRR ref	High-Level Summary	Compliance reference
Remuneration disclosures – Proportionality under PRA SS2/17 applies		
450 (1)(a)	Information on decision making processes and governance for remuneration policy.	Section 8 Remuneration - Introduction and Our Remuneration Policy – page 55.
450 (1)(b)	The link between pay and performance.	Section 8 Remuneration – Characteristics of remuneration of TSB's material risk takers – page 56.
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 56-57.
450 (1)(d)	Ratios between fixed and variable remuneration.	Characteristics of remuneration of TSBs material risk takers page 42 and Remuneration awarded for the financial year Table 30 (REM1) – page 58.
450 (1)(g)	Aggregate quantitative information on remuneration by business area.	Information on remuneration of identified staff Table 29 (REM5) – page 55.
450(1)(h) (i)	Amounts of remuneration for the financial year.	Characteristics of remuneration of TSBs material risk takers – page 56 and Remuneration awarded for the financial year Table 30 (REM1)- page 58.
Leverage		
451 (1)(a)	The Leverage ratio.	Table 24 Leverage ratio common disclosure (LR2) – page 48.
451 (1)(b)	The Leverage ratio calculated as if central bank claims were required to be included in exposure measure.	Table 24 Leverage ratio common disclosure (LR2) – page 48.
451 (1)(c)	A breakdown of total exposure measure including reconciliation with financial statements.	Table 23 Summary reconciliation of accounting assets and leverage ratio exposure (LR1) page 47, and Table 25 Split-up of on-balance sheet exposures (LR3) - page 49.
451 (1)(d)	Description of the processes used to manage the risk of excessive leverage.	Section 6.2 Management of excessive leverage - page 49.
451 (1)(e)	Description of the factors that impacted he leverage ratio during the year.	Section 6.1 Leverage ratio exposure - page 47.
451 (1)(f)	Leverage ratio calculated as if CRR article 468 did not apply.	N/A
451(1)(g)	Leverage ratio calculated as if CRR article 473a did not apply.	Table 24 Leverage ratio common disclosure (LR2) – page 48.
Liquidity Risk		
451a (2)	Liquidity coverage ratio.	Section 7.2 Quantitative Information of LCR – pages 52-53.
451a (3)	Net stable funding ratio.	Section 7.3 Net Stable Funding - page 54.
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 50-51.
Use of credit risk mitigation techniques		
453 (a)	Use of off and on balance sheet netting.	Section 5.14 Credit risk mitigation - page 42 - Master netting.
453 (b)	Management of collateral valuation.	Section 5.14 Credit risk mitigation - page 42 – Credit Policies and standards, Retail & Business banking credit assessment & Collateral.
453 (c)	Description of the types of collateral used by the institution.	Section 5.14 Credit risk mitigation - page 43 – Collateral.
453 (d)	Creditworthiness and types of guarantor and credit derivative counterparty.	Section 5.14 Credit Risk Mitigation Exposures covered by eligible collateral and guarantees - page 45.
453 (e)	Market or Credit risk concentrations within risk mitigation exposures.	Section 5.14 Credit risk mitigation - page 42 - Concentration risk.
453 (f)	For exposures under the Standardised or IRB approach, disclosure of exposure value covered by eligible credit protection.	Section 5.14 Disclosure of the use of credit risk mitigation techniques Table 22 (CR3) - page 45.
453 (g)	Conversion factor and credit risk mitigation with and without substitution effect.	Standardised approach – Credit Risk Exposure and Credit risk Mitigation effects (Table 14 (CR4) and IRB approach – disclosure of the extent of the use of CRM techniques Table 21 (CR7-A) – pages 24 and 43.
453 (h)	For exposures under the standardised approach exposure by exposure class after conversion factors and credit risk mitigation.	Standardised approach – Credit Risk Exposure and Credit risk Mitigation effects (Table 14 (CR4) – page 24.
453 (i)	For exposures under the standardised approach RWA by exposure class after applying conversion factors and CRM.	Standardised approach – Credit Risk Exposure and Credit risk Mitigation effects (Table 14 (CR4) – page 24.
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© 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.

Contacts

For further information please contact:

Media

George Gordon
Communications and Corporate Affairs Director
Phone: +44 (0)207 003 9369
Mobile: +44 (0)7825 680197
Email: george.gordon@tsb.co.uk

Supreet Thomas
Head of Communications
Mobile: +44 (0) 07519 502123
Email: supreet.thomas@tsb.co.uk

Investors and analysts

investorrelations@bancsabadell.com

TSB