TSB Banking Group plc

Significant Subsidiary Disclosures

31 December 2015

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1. Introduction

This document presents the Pillar III Significant Subsidiary Disclosures at 31 December 2015 relating to TSB Banking Group plc (TSB Group) as part of the Banco de Sabadell Group (Sabadell). Following TSB Group's acquisition by Sabadell in June 2015, TSB is not required to produce and publish full Pillar III disclosures. TSB Group's risk disclosures are included in Sabadell's consolidated Pillar III disclosures.

The purpose of Pillar III is to make certain capital and risk management disclosures available to the market. In compiling this significant subsidiary disclosure, best practice guidelines and interpretations of standards issued by the European Banking Authority (EBA), the Enhanced Disclosure Task Force (EDTF) and national and international trade associations have been taken into account. This document should be considered in conjunction with the TSB Group's Annual Report and Accounts (ARA).

A detailed overview of the governance arrangements within TSB Group is provided in the Risk Management section within pages 8 to 12 and the Corporate Governance section within pages 21 to 48 of TSB Group's ARA.

TSB Group continues to operate as a UK Group authorised and regulated by the Prudential Regulation Authority (PRA). Following its acquisition by Sabadell, TSB operates within relevant Sabadell policies and certain obligations imposed by Sabadell's regulators, the Bank of Spain and the European Central Bank.

2. Executive summary

2015 was another significant year for TSB Group. It was a year in which TSB delivered both organic customer and balance sheet growth above its targets and acquired a portfolio of over £3.0 billion of UK secured and unsecured loans. In total, TSB Group's total assets grew from £27.2bn to £31.6bn.

On 20 March 2015, the Boards of Sabadell and TSB Group announced that they had agreed on the terms of a recommended cash offer by Sabadell for the entire issued and to be issued share capital of the Company. The offer was declared unconditional in all respects on 30 June 2015 and the Company delisted from the London Stock Exchange with effect from 28 July 2015.

TSB Group has one of the highest capital ratios in the UK with a Common Equity Tier 1 (CET1) ratio of 17.8% and is well placed to continue to deliver its growth strategy.

Key metrics	**2015**	2014
Common Equity Tier 1	£1.7bn	£1.6bn
Common Equity Tier 1 ratio	17.8%	23.0%
Total Capital	£2.1bn	£2.0bn
Total Capital ratio	21.9%	28.5%
Credit Risk Exposure at Default (EAD)	£36.8bn	£28.2bn
Credit Risk Weighted Assets (RWAs)	£8.0bn	£5.5bn
Operational Risk RWAs	£1.4bn	£1.4bn
Total RWAs	£9.4bn	£6.9bn
Basel III Leverage ratio	5.2%	5.8%

Total capital increased during the year, primarily in the form of current year retained profits.

Having been pre-capitalised to support its growth strategy, TSB Group's capital ratios have, naturally and as expected, reduced during the year. This reflects the increase in credit risk exposure and RWA's noted above and the migration of overdraft and credit card portfolios to an internal ratings based method of capital requirements calculation.

TSB Group's leverage ratio continues to comfortably exceed the Basel Committee's proposed minimum of 3%, applicable from 1 January 2018.

3. Own funds

3.1. Capital risk

Definition
Capital risk is defined as the risk of TSB Group having a sub-optimal amount or quality of capital to support its business strategy.

Risk appetite
TSB Group's risk appetite methodology is set out on page 8 of the TSB Group's 2015 ARA. TSB Group maintains a strong capital base which meets both its regulatory requirements and supports the growth of the business, including under stressed conditions.

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

Measurement
Capital adequacy is measured in accordance with CRD IV.

Mitigation
Compliance with capital risk appetite is actively managed and monitored through TSB Group's planning, forecasting and stress testing processes. Five year forecasts of TSB Group's capital position, based upon its operating plan, are produced at least annually to inform capital strategy, whilst shorter term forecasts are more frequently undertaken to understand and respond to variations in actual performance against the plan. Business plans are tested for capital adequacy using a range of stress scenarios covering adverse economic conditions as well as other potential adverse developments. TSB Group, additionally, maintains a Recovery and Resolution Plan which sets out a range of potential mitigating actions that could be taken in response to stresses recommended by the regulator. The Recovery and Resolution Plan is reviewed annually and re-submitted to the regulator if any material changes have been made.

TSB Group is able to accumulate additional capital through profit retention and, if required and subject to market conditions, issuance of eligible capital instruments.

Monitoring
Capital policies and procedures are subject to independent oversight by Risk Management and Internal Audit. Regular reporting of actual and projected capital ratios against risk appetite is provided to appropriate committees within TSB Group's governance and risk management framework as outlined in page 8 of TSB Group's ARA. These include the Bank Executive Committee (BEC), Executive Risk Committee, the Asset and Liability Committee, Board Risk Committee and the Board.

The regulatory framework within which TSB Group operates continues to be subject to global banking reforms. TSB Group monitors these developments and analyses the potential impacts, ensuring that TSB Group continues to meet the regulatory requirements and operates within risk appetite.

3.2. TSB Group's own funds

TSB Group's own funds as at 31 December 2015 are presented in the table below. This table follows the disclosure format required by the EBA Implementing Technical Standard on Disclosure for Own Funds published in July 2013, however only items applicable to TSB are detailed.

Table 1: Own funds

	2015	2014
	£000	£000
Capital instruments and related share premium accounts	970,050	970,050
Of which: ordinary shares	5,000	5,000
Retained earnings	1,045,834	948,979
Accumulated other comprehensive income (and any other reserves)	(269,565)	(284,628)
CET1 capital before regulatory adjustments	**1,746,319**	**1,634,401**
CET1 capital: regulatory adjustments		
Additional value adjustment	(1,642)	-
Intangible assets (net of related tax liability)	(1,011)	(408)
Fair value reserve relating to gains and losses on cash flow hedge	861	-
Negative amounts resulting from the calculation of expected loss amounts	(72,069)	(41,037)
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(73,861)**	(41,445)
CET1 capital / Tier 1 capital(*)	**1,672,458**	**1,592,956**
Tier 2 capital: instruments and provisions		
Capital instruments and related share premium accounts	383,513	383,226
Credit risk adjustments	-	1,115
Tier 2 capital	**383,513**	**384,341**
Total capital	**2,055,971**	**1,977,297**
Total Risk Weighted Assets	**9,402,364**	**6,930,183**
Common Equity Tier 1 (as a percentage of total risk exposure amount)	17.8%	23.0%
Tier 1 (as a percentage of total risk exposure amount)	17.8%	23.0%
Total capital (as a percentage of total risk exposure amount)	21.9%	28.5%
Amounts below the threshold for deduction (before risk weighting)		
Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	22,400	-
Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	5,301	-
Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	121,055	108,078
Applicable caps on the inclusion of provisions in Tier 2		
Credit risk adjustments included in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	-	1,115
Cap for inclusion of credit risk adjustments in Tier 2 under internal ratings based approach	29,481	19,124

(*) TSB Group does not hold additional Tier 1 capital, hence the CET1 capital and Tier 1 capital have equal values.

3.3. Movements in capital

Common equity tier 1 capital

CET1 capital has increased by £80 million during 2015 primarily due to attributable profit of £89 million for the year, a movement in other comprehensive income of £15 million and a movement in other reserves of £8 million. These increases in CET1 capital are offset by the increase in excess of expected losses over impairment of £31 million which is mainly due to the migration of the overdraft and credit card portfolios to an internal ratings based method of calculating capital requirements. Further details of this migration are provided in section 5.2.

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

Table 2: Movements in capital

	CET1/Tier 1 Capital £000	Tier 2 Capital £000	Total Capital £000
At 31 December 2014	**1,592,956**	**384,341**	**1,977,297**
Profit attributable to ordinary shareholders	88,724	-	88,724
Movement in other comprehensive income (including available for sale)	15,035	-	15,035
Movement in other reserves	8,159	-	8,159
Cash flow hedging reserve regulatory adjustment	861		861
Change in excess of expected losses over impairment provisions	(31,032)	-	(31,032)
Movement in tier 2 subordinated liabilities	-	287	287
Change in excess of default provision over default expected loss	-	(1,115)	(1,115)
Change in intangible assets	(603)	-	(603)
Movement in prudent valuation adjustment	(1,642)	-	(1,642)
At 31 December 2015	**1,672,458**	**383,513**	**2,055,971**

	CET1 Capital £000	Tier 2 Capital £000	Total £000
At 31 December 2013	**1,182,001**	-	**1,182,001**
Profit attributable to ordinary shareholders	134,505	-	134,505
Share issuance	200,000	-	200,000
Movement in available for sale reserve	400	-	400
Movement in shares held by trusts	(9,071)	-	(9,071)
Share based compensation reserve	1,855	-	1,855
Change in excess of expected losses over impairment provisions	69,579	-	69,579
Issuance of subordinated debt	-	383,226	383,226
Change in excess of default provision over default expected loss	-	1,115	1,115
Change in intangible assets	(408)	-	(408)
Change in deferred tax asset deduction	14,095	-	14,095
At 31 December 2014	**1,592,956**	**384,341**	**1,977,297**

Table 3: Reconciliation between statutory and regulatory capital

	2015 Statutory balance	**2015 Regulatory adjustments**	**2015 Regulatory balance**	2014 Statutory balance	2014 Regulatory adjustments	2014 Regulatory balance
	£000	**£000**	**£000**	£000	£000	£000
Own funds	**1,730,884**	-	**1,730,884**	1,634,001	-	1,634,001
Capital	5,000	-	5,000	5,000	-	5,000
Share premium	965,050	-	965,050	965,050	-	965,050
Other reserves	(285,028)	-	(285,028)	(285,028)	-	(285,028)
Retain earnings	1,045,834	-	1,045,834	948,979	-	948,979
Value adjustments	**15,435**	-	**15,435**	400	-	400
Cash flows coverage	(861)	-	(861)	-	-	-
Other value adjustments	16,296	-	16,296	400	-	400
Total equity	**1,746,319**	-	**1,746,319**	1,634,401	-	1,634,401
Non-eligible value adjustments	-	861	861	-	-	-
Intangible assets	-	(1,011)	(1,011)	-	(408)	(408)
Prudent valuation adjustment	-	(1,642)	(1,642)	-	-	-
Negative amounts resulting from the calculation of expected loss amounts	-	(72,069)	(72,069)	-	(41,037)	(41,037)
Tier 1 Capital	-	**(73,861)**	**(73,861)**	-	(41,445)	(41,445)
Subordinated debt	383,513	-	383,513	383,226	-	383,226
Generic funds and provision excess	-	-	-	-	1,115	1,115
Tier 2 Capital	**383,513**	-	**383,513**	383,226	1,115	384,341
Total Regulatory Capital	**2,129,832**	**(73,861)**	**2,055,971**	2,017,627	(40,330)	1,977,297

Table 4: Principal features of TSB Group's capital instruments

	Share Capital 1	Share Capital 2	Subordinated Liabilities
Issuer	TSB Banking Group plc	TSB Banking Group plc	TSB Banking Group plc
Unique identifier (ISIN)	GB00BMQX2Q65	GB00BMQX2Q65	XS1061206337
Governing law(s) of the instrument	English	English	English
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 and (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	£1,386.5 million	£200.0 million	£383.0 million
Nominal amount of instrument	£0.5 million	£4.4 million	£385.0 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	99.49%
Redemption price	n/a	n/a	100%
Accounting classification	Shareholder's equity	Shareholder's equity	Liability - amortised cost
Original date of issuance	25 April 2014	19 May 2014	01 May 2014
Perpetual or dated	Perpetual	Perpetual	Dated
Original maturity date	no maturity	no maturity	06 May 2026
Issuer call subject to prior supervisory approval	No	No	Yes
Optional call date, contingent call dates and redemption amount	n/a	n/a	6 May 2021 - 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 £385 million.
Subsequent call dates, if applicable	n/a	n/a	Each subsequent Interest Payment Date after the first call option.
Coupons / dividends			
Fixed or floating dividend/coupon	n/a	n/a	Fixed to floating
Coupon rate and any related index	n/a	n/a	Interest will be payable (i) semi-annually in arrear in respect of each Interest Period commencing prior to the Reset Date at a rate of 5.75% per annum (the "Fixed Rate Period") and (ii) quarterly in arrear in respect of each Interest Period commencing on or following the Reset Date at a rate of interest per annum determined on the relevant Interest Period commencement date to be equal to the 3 month GBP LIBOR rate plus the Initial Margin (no step up).
Existence of a dividend stopper	No	No	No
Fully discretionary, partially or mandatory (in terms of timing)	Fully discretionary	Fully discretionary	Mandatory
Fully discretionary, partially or mandatory (in terms of amount)	Fully discretionary	Fully discretionary	Mandatory
Existence of step up or other incentive to redeem	No	No	No
Non-cumulative or cumulative	Non-cumulative	Non-cumulative	Cumulative
Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated Debt	Subordinated debt	Subordinated in right of payment to the claims of depositors and other unsubordinated creditors of the issuer
Non-compliant transitioned feature	No	No	No

4. Leverage ratio

The following tables present the disclosure format required by the EBA Implementing Technical Standards (ITS) on disclosure for leverage ratio issued in June 2014 and revised in June 2015. Only items applicable to TSB Group are presented.

Table 5: Summary reconciliation of accounting assets and leverage ratio exposures

Basel III basis	**2015** **£000**	2014 £000
Total assets as per published financial statements	**31,617,972**	27,171,470
Adjustments for derivative financial instruments	(228,172)	(95,059)
Adjustments for securities financing transactions (SFTs)	597	400
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	709,656	404,998
Other regulatory adjustments (*)	(73,861)	(41,445)
Total leverage ratio exposure	**32,026,192**	27,440,364

(*) Other regulatory adjustments are detailed in Table 1: Own funds.

TSB Group calculates its leverage based on the exposure measure in CRR as amended by the EU Delegated Regulation 2015/62 published in January 2015, and the CRR definition of Tier 1. Final adjustments to the definition and calibration of the leverage ratio are expected in 2017, with a view to migrating to a Pillar 1 treatment in 2018. TSB Group continues to monitor developments in Basel III and their adoption in the CRD IV framework.

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 Group's leverage ratio is 5.2% which comfortably exceeds the Basel Committee's proposed minimum of 3.0%, applicable from 2018. TSB Group will continue to monitor closely the leverage ratio against the emerging rules and minimum calibration.

Table 6: Leverage ratio disclosure

CRR leverage ratio exposures	**2015** **£000**	2014 £000
On-balance sheet exposures (excluding derivatives and SFTs)		
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	31,527,449	27,048,334
(Asset amounts deducted in determining Basel III Tier 1 capital)	(73,861)	(41,445)
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	**31,453,588**	27,006,889
Derivative exposures		
Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	5,804	-
Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	53,349	29,087
(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	(196,802)	(1,010)
Total derivative exposures	**(137,649)**	28,077
Securities financing transaction exposures		
Counterparty credit risk exposure for SFT assets	597	400
Total securities financing transaction exposures	**597**	400
Other off-balance sheet exposures		
Off-balance sheet exposures at gross notional amount	5,311,578	3,726,727
(Adjustments for conversion to credit equivalent amounts)	(4,601,922)	(3,321,729)
Other off-balance sheet exposures	**709,656**	404,998
	32,026,192	27,440,364
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)		
(Exemption of intra group exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	-	-
Capital and total exposures		
Tier 1 capital	1,672,458	1,592,955
Total leverage ratio exposures	32,026,192	27,440,364
Leverage ratio	**5.2%**	**5.8%**

The leverage ratio has decreased in 2015 mainly due to the lower relative increase in total Tier 1 capital (4.9%) compared to the increase in balance sheet exposures (16.7%).

Table 7: Analysis of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

CRR leverage ratio exposures	**2015** **£000**	2014 £000
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**31,277,793**	26,995,046
Banking book exposures, of which:	31,277,793	26,995,046
Exposures treated as sovereigns	3,958,076	4,663,892
Institutions	340,059	134,516
Secured by mortgages of immovable properties	23,625,733	19,359,306
Retail exposures	2,292,752	2,216,197
Corporate	856	1,635
Exposures in default	407,986	30,424
Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	652,331	589,076

2015 exempted exposures consist of collateral of £249.6 million in 2015 and £53.0 million in 2014.

4.1. 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 Group monitors its risk of excessive leverage through the leverage ratio which is calculated and reported internally and to the regulator on a monthly basis.

A 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.

5. Capital requirements

5.1. TSB Group's risk weighted assets and Pillar 1 capital requirements

The Risk weighted assets and Pillar 1 capital requirements of TSB Group as at 31 December 2015 are presented in the following table:

Table 8: Minimum own funds requirements

	2015 Risk weighted assets £000	**2015 Own funds requirement £000**	2014 Risk weighted assets £000	2014 Own funds requirement £000
Credit Risk (Standardised Approach)	**3,038,871**	**243,110**	2,289,700	183,176
Central governments and central banks	302,639	24,211	270,296	21,624
Institutions (*)	98,766	7,901	53,405	4,274
Corporates	858	69	1,651	132
Retail	255,907	20,473	686,605	54,928
Exposures secured by real estate property	1,721,748	137,740	987,391	78,991
Defaulted exposures	275,208	22,017	32,808	2,625
Equity exposures (*)	35,652	2,852	-	-
Other exposures	348,093	27,847	257,544	20,603
Credit Risk (Internal Ratings Based Approach, IRB)	**4,913,431**	**393,074**	3,187,287	254,983
Retail	4,913,431	393,074	3,187,287	254,983
Secured by real estate	2,202,723	176,218	1,672,649	133,812
Qualifying revolving	1,272,382	101,790	-	-
Other	1,438,326	115,066	1,514,638	121,171
Contributions to the default fund	**735**	**59**	973	78
Operational Risk	**1,416,377**	**113,310**	1,451,492	116,119
Operational risk (Standardised Approach)	1,416,377	113,310	1,451,492	116,119
Credit Valuation Adjustment risk	**32,950**	**2,636**	731	59
Minimum own funds requirements	**9,402,364**	**752,189**	6,930,183	554,415

(*) TSB Group's RWA include £17.5 million of exposure to Sabadell.

TSB Group's risk weighted assets have increased in 2015 from £6,930 million to £9,402 million. RWAs of £18.3 million relating to Counterparty Credit Risk are included under "Institutions", with an Own funds requirement of £1.5 million for 2015.

5.2. TSB Group's risk weighted assets movements by key driver

The table below analyses movements in total RWAs from 31 December 2014 to 31 December 2015:

Table 9: Movements in credit risk requirements during the period

	Notes	RWAs £000	Capital £000
At 31 December 2014		**5,477,960**	**438,237**
Exposure at default (EAD) impacts		**2,754,933**	**220,395**
Acquired Ex-Northern Rock book	(1)	1,391,769	111,342
Business risk changes	(2)	740,635	59,251
Changes in the perimeter of the IRB portfolios	(3)	622,529	49,802
Methodological impacts		**(37,970)**	**(3,038)**
Implementation of new calibrations		(37,970)	(3,038)
Changes in credit portfolio quality	(4)	**(241,886)**	**(19,351)**
At 31 December 2015		**7,953,037**	**636,243**

	RWAs £000	Capital £000
At 31 December 2013	5,689,885	455,191
EAD impacts	(96,506)	(7,720)
Business risk changes	(150,550)	(12,044)
Changes in the perimeter of the IRB portfolios	(930,735)	(74,459)
Acquisition of Mortgage Enhancement book (*)	984,779	78,782
Methodological impacts	61,949	4,955
Implementation of Regulation 575/2013	91,006	7,280
Implementation of new calibrations	(29,057)	(2,325)
Changes in credit portfolio quality	(177,368)	(14,189)
At 31 December 2014	5,477,960	438,237

(*) With effect from 28 February 2014, the economic benefit of a £3.4 billion portfolio of mortgage loans was assigned to the TSB Group by Lloyds Banking Group (LBG). This is designed to enhance the TSB Group's profit before tax (PBT) by a cumulative £230 million over approximately five years. This portfolio is subject to a call option exercisable by LBG, after the £230 million profit target has been achieved including at least £30 million in 2017.

During 2015, RWAs increased by £2.5 billion (45.2%) due to the following factors:

(1) The acquisition on 7 December 2015 of a £3.0 billion portfolio of ex-Northern Rock loans from Cerberus Capital Management, which primarily comprises mortgages and a small balance of unsecured loans. This portfolio, assessed under the Standardised approach, increased TSB Group's RWAs by £1.4 billion.

(2) Net asset growth resulting in increased RWAs of £741 million, including:
- the launch of TSB's mortgage intermediary distribution channel in January 2015, which resulted in £5.5 billion of mortgage loan applications;
- diversification of TSB Group's liquid asset buffer with investments in gilts and reverse repos during 2015; and
- Mortgage Enhancement loan balances reduced by £0.5 billion in line with the expected run-off of this book.

(3) The transition of TSB Group's qualifying revolving retail exposures from a Standardised to an IRB basis. The resulting increase in RWAs of £623 million is largely due to the treatment of off balance sheet exposures under the IRB approach. The table below summarises the changes in the models applied in 2014 and 2015.

Portfolio	2014 Transition	31 December 2014	2015 Transition	31 December 2015	Future movements
Franchise Mortgages	IRB – TSB permission from June 2014	IRB – TSB permission	n/a	IRB – TSB permission	n/a
Qualifying revolving retail exposures	Standardised from June 2014	Standardised	Standardised to IRB – TSB permission from June 2015	IRB – TSB permission	n/a
Other Retail	Standardised from June 2014, IRB – TSB permission from October 2014	IRB – TSB permission	n/a	IRB – TSB permission	n/a
SME	Standardised from June 2014	Standardised	n/a	Standardised	IRB – TSB permission from end of 2017
Mortgage enhancement	Standardised from June 2014	Standardised	n/a	Standardised	IRB – TSB permission from end of 2018
Acquired ex-Northern Rock loans	n/a	n/a	n/a	Standardised	Discussions ongoing with regulator

(4) Improvements in the underlying economy and the ongoing active management of the customer portfolio which resulted in improvements in credit quality and a reduction in RWAs of £242 million.

5.3. Segmental risk weighted assets

The risk weighted assets of TSB Group's segments as at 31 December 2015 are presented in the table below. At 31 December 2015 TSB Group had 3 reporting segments: Franchise, Mortgage Enhancement and, following the acquisition in December 2015, ex-Northern Rock Loans.

Table 10: Segmental analysis of total risk weighted assets

	2015 Risk weighted assets	**2015 Capital requirement**	2014 Risk weighted assets	2014 Capital requirement
	£000	**£000**	£000	£000
Total Credit risk:	**7,953,037**	**636,243**	5,477,960	438,237
Total Franchise	5,739,860	459,188	4,487,897	359,032
Of which: Franchise standardised approach	826,429	66,114	1,300,601	104,048
Franchise IRB approach	4,913,431	393,074	3,187,296	254,984
Mortgage Enhancement standardised approach	802,341	64,187	984,779	78,782
Acquired ex-Northern Rock Assets standardised approach	1,391,769	111,342	-	-
Counterparty credit risk	18,332	1,467	4,311	345
Contributions to default fund of a Central Clearing Counterparty	735	59	973	78
Operational risk	**1,416,377**	**113,310**	1,451,492	116,119
Credit Valuation Adjustment risk	**32,950**	**2,636**	731	59
Total risk weighted assets	**9,402,364**	**752,189**	6,930,183	554,415

5.4. Exposures subject to the Retail IRB approach

This section provides a detailed analysis, by Probability of Default (PD) grade, of retail credit risk exposures subject to the Retail IRB Approach.

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

Internal rating scales

PD internal rating scales are used within TSB Group in assessing the credit quality of the Retail IRB unsecured lending and Franchise mortgages portfolios. One scale exists within the business – Retail Master Scale - which covers all relevant retail portfolios. TSB use a continuous PD scale where customers are allocated to rating buckets for the purposes of reporting.

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

Table 11: Retail mortgage exposures by PD grade[1]

At 31 December 2015 **PD Grade**	**Credit Risk Exposure**	**Exposure weighted average PD**	**Exposure weighted average LGD[2]**	**Average risk weight**	**Undrawn commitments (gross)**	**Undrawn commitments (post CCF)**
	£000	**%**	**%**	**%**	**£000**	**£000**
0	16,894,529	0.3%	9.5%	5.4%	759,700	793,696
1	3,272,478	1.3%	12.1%	19.7%	553,124	579,777
2	473,469	3.5%	13.1%	40.1%	103,985	109,053
3	158,606	6.4%	11.8%	50.1%	19,847	20,821
4	153,586	10.8%	10.7%	57.8%	3,166	3,323
5	109,882	20.1%	11.4%	75.9%	51	54
6	52,269	29.7%	11.3%	80.5%	-	-
7	29,582	41.8%	10.2%	71.5%	113	118
8	36,528	49.9%	10.6%	69.8%	-	-
9	11,517	61.3%	11.8%	68.4%	-	-
10	15,117	75.7%	11.8%	52.3%	-	-
11	20,188	87.4%	10.4%	33.0%	-	-
12	24,284	99.9%	10.2%	16.3%	547	574
Default	96,534	100.0%	10.7%	92.5%	-	-
Total	**21,348,569**	**1.7%**	**10.0%**	**10.3%**	**1,440,533**	**1,507,416**

At 31 December 2014 PD Grade	Credit Risk Exposure	Exposure weighted average PD	Exposure weighted average LGD(2)	Average risk weight	Undrawn commitments (gross)	Undrawn commitments (post CCF)
	£000	%	%	%	£000	£000
0	12,546,547	0.18%	9.39%	4.02%	116,681	116,581
1	3,646,903	0.71%	11.18%	12.71%	76,442	76,442
2	603,809	2.06%	12.91%	29.96%	32,019	32,019
3	151,911	3.61%	12.85%	41.53%	10,261	10,261
4	192,009	6.13%	11.50%	48.87%	7,980	7,980
5	74,668	11.77%	12.23%	69.37%	308	308
6	60,370	19.63%	11.50%	75.83%	44	44
7	56,937	25.64%	11.15%	76.59%	35	35
8	12,301	35.26%	12.48%	84.71%	-	-
9	45,949	43.59%	11.84%	75.81%	-	-
10	35,927	53.89%	11.61%	65.49%	-	-
11	35,426	67.18%	12.18%	52.54%	-	-
12	46,727	86.80%	12.75%	23.94%	3,627	3,627
Default	131,440	100.00%	11.71%	96.63%	-	-
Total	**17,640,924**	**2.00%**	**10.00%**	**9.48%**	**247,397**	**247,297**

(1) The Mortgage PD model uses a TTC approach.
(2) Where portfolio level Downturn LGD is lower than 10%, adjustments are made to individual account level LGDs so that Downturn LGD for the TSB portfolio is equal to the 10% regulatory floor.

Table 12: Other retail: personal loan exposures by PD grade

At 31 December 2015 PD Grade	Credit Risk Exposure	Exposure weighted average PD	Exposure weighted average LGD	Average risk weight	Undrawn commitments (gross)	Undrawn commitments (post CCF)
	£000	%	%	%	£000	£000
0	1,347	0.1%	79.9%	19.1%	5	1
1	56,637	0.3%	81.2%	43.3%	206	41
2	133,492	0.6%	82.6%	70.0%	568	114
3	187,028	1.0%	84.6%	91.3%	901	180
4	480,592	1.8%	86.0%	113.0%	2,859	572
5	238,294	3.3%	87.5%	130.6%	1,718	344
6	86,305	5.6%	88.1%	139.7%	732	146
7	21,117	8.6%	88.7%	151.3%	209	42
8	14,187	11.6%	89.3%	167.8%	149	30
9	5,614	16.8%	89.8%	196.6%	47	9
10	2,642	24.2%	89.6%	226.7%	25	5
11	2,895	38.2%	88.5%	247.3%	26	5
12	9,262	66.2%	88.6%	184.8%	57	11
Default	23,279	100.0%	87.5%	333.1%	-	-
Total	**1,262,691**	**4.7%**	**85.8%**	**113.9%**	**7,502**	**1,500**

At 31 December 2014 PD Grade	Credit Risk Exposure	Exposure weighted average PD	Exposure weighted average LGD	Average risk weight	Undrawn commitments (gross)	Undrawn commitments (post CCF)
	£000	%	%	%	£000	£000
0	479	0.09%	82.47%	20.64%	16	3
1	45,003	0.30%	83.63%	45.95%	922	184
2	109,029	0.61%	84.66%	71.54%	1,877	375
3	161,341	1.03%	85.47%	93.03%	1,733	347
4	409,257	1.79%	86.68%	114.08%	3,146	629
5	303,784	3.27%	87.34%	130.23%	2,109	422
6	147,922	5.91%	87.60%	139.70%	1,545	309
7	36,085	8.36%	87.87%	148.78%	378	76
8	19,895	11.26%	87.86%	163.00%	237	47
9	8,583	16.31%	87.91%	190.00%	112	22
10	3,405	23.96%	87.94%	221.75%	48	10
11	2,261	37.36%	86.91%	242.36%	20	4
12	12,178	68.34%	86.49%	176.58%	333	67
Default	23,851	100.00%	87.76%	250.20%	-	-
Total	1,283,073	5.38%	86.59%	118.05%	12,476	2,495

Table 13: Other retail: qualifying revolving exposures by PD grade: PCA

At 31 December 2015 PD Grade	Credit Risk Exposure	Exposure weighted average PD	Exposure weighted average LGD	Average risk weight	Undrawn commitments (gross)	Undrawn commitments (post CCF)
	£000	%	%	%	£000	£000
0	295,022	0.1%	82.8%	3.4%	168,281	294,015
1	533,359	0.2%	81.5%	10.8%	272,436	521,968
2	204,042	0.6%	80.2%	21.0%	111,344	182,330
3	122,838	1.0%	79.9%	31.9%	60,050	98,895
4	190,088	1.8%	79.4%	49.0%	80,343	134,941
5	104,208	3.3%	79.6%	77.8%	34,029	61,215
6	61,297	5.7%	80.2%	112.8%	14,269	32,711
7	25,583	8.5%	79.5%	143.2%	5,257	11,794
8	19,696	11.8%	79.5%	171.6%	3,280	8,145
9	13,800	16.7%	79.8%	204.9%	1,744	4,943
10	9,622	24.2%	79.9%	236.7%	967	3,088
11	6,106	36.1%	79.9%	257.1%	385	1,695
12	7,221	71.5%	80.9%	168.0%	400	1,688
Default	14,574	100.0%	76.0%	482.4%	368	-
Total	**1,607,456**	**2.8%**	**80.9%**	**38.1%**	**753,153**	**1,357,428**

Table 14: Other retail: qualifying revolving exposures by PD grade: Credit Cards

At 31 December 2015 PD Grade	Credit Risk Exposure	Exposure weighted average PD	Exposure weighted average LGD	Average risk weight	Undrawn commitments (gross)	Undrawn commitments (post CCF)
	£000	%	%	%	£000	£000
0	667,430	0.1%	70.1%	2.6%	1,174,562	637,495
1	532,598	0.2%	75.2%	8.8%	931,745	451,932
2	189,276	0.6%	82.1%	21.6%	272,092	122,288
3	110,893	1.0%	85.1%	34.2%	124,845	56,013
4	168,140	1.8%	87.7%	54.0%	135,561	64,039
5	115,363	3.3%	90.0%	88.0%	53,854	28,497
6	68,659	5.7%	91.5%	128.7%	19,557	12,644
7	33,485	8.8%	89.8%	164.7%	14,678	9,149
8	19,476	11.7%	92.4%	198.2%	3,490	2,888
9	12,803	16.7%	92.6%	237.5%	1,895	1,782
10	8,540	24.3%	93.0%	276.2%	1,144	1,174
11	5,550	36.1%	93.5%	301.0%	589	711
12	5,179	62.3%	94.7%	245.0%	336	561
Default	21,956	100.0%	81.7%	264.4%	9,515	-
Total	1,959,348	2.6%	78.0%	33.7%	2,743,863	1,389,173

At 31 December 2015, retail exposures subject to the Retail IRB Approach totalled £26.2 billion (2014: £18.9 billion) comprising Retail Mortgages of £21.3 billion (2014: £17.6 billion), Other Retail (Personal Lending) of £1.3 billion (2014: £1.3 billion), and Qualifying Revolving Retail exposures, Credit Cards £2.0 billion (2014: £ nil) and Personal Current Accounts (PCA) £1.6 billion (2014: £ nil).

Qualifying revolving exposures (Credit Cards and PCA) were £nil on an IRB basis at 31 December 2014 as they were risk weighted on a Standardised approach. These exposures changed risk weighting methodology to IRB from Standardised approach in June 2015.

5.5. Model performance

This section provides an analysis of the performance of TSB Group's IRB models as at 30 November 2015 for Residential Mortgages, Loans, Cards and PCA.

Table 15 compares the estimated and actual Probability of Default (PD), Loss Given Default (LGD), and EAD ratio by exposure class. The values are taken from TSB Group's regulatory capital calculation models, including the application of regulatory floors. For the purposes of comparison, EAD weighting has been used throughout.

The validation of model parameters and outputs forms part of the control framework surrounding the development and monitoring of Retail IRB models.

This table indicates that TSB Group's IRB models conservatively estimate PD, LGD and EAD rates.

Table 15: PD, LGD and EAD by exposure class

IRB Exposure Class	Probability of Default		Loss Given Default of Defaulted Assets		Exposure at Default of Defaulted Assets
	Estimated Nov-14 %	Actual Nov-15 %	Estimated Nov-14 %	Actual Nov-15 %	Ratio of Predicted to Actual %
Retail – Loans	3.93%	2.88%	88.05%	76.15%	107.97%
Retail – Cards	1.80%	1.37%	91.66%	69.92%	104.27%
Retail – PCA	2.34%	1.86%	80.76%	73.42%	118.65%
Residential Mortgages	1.24%	0.40%	11.63%	3.76%	103.02%

A number of factors impact PD, LGD and EAD rates, for example, changes in portfolio composition arising from risk appetite realignment, changes in the risk profile of the portfolio, economic factors, movement in individual model parameters and prudence within the models. Models are refreshed through recalibration or replacement as required.

A 'Through the Cycle' (TTC) approach is preferable for PD estimation, as it reduces cyclicality in estimates, leading to capital requirements that are less influenced by changes in the economic environment. A Point in Time (PiT) approach for PD leads to capital requirements that are affected directly by changes in economic conditions, increasing during a downturn while decreasing as conditions improve. However, there are a number of specific compliance requirements outlined for firms in order to use TTC PDs, and, where it is not possible to demonstrate compliance with those requirements, the PRA continue to support the use of PiT approaches. Historic data is available for the mortgage portfolio to achieve compliance, but is unavailable for unsecured portfolios. TSB has adopted a PiT approach for these.

Specifically, it is noted that:

- The Mortgage PD model uses a TTC approach and, as a result, the gap between estimated and actual default rates will narrow or widen to reflect the economic environment at the point of measurement.
- The 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 the PiT estimate to capture any movements in default rates between calibration and implementation of the model.
- LGD models are downturn calibrated resulting in actual LGD being lower than predicted losses. For those assets where losses are not yet realised, the determination of actual LGD also includes the use of the PiT model estimates.
- The EAD ratio is provided as a proxy for the regulatory requirement to disclose information about credit conversion factors. The ratio provides a consistent measurement across Secured and Unsecured rating systems. When a ratio is greater than 100% predicted EAD is greater than the actual exposure on the date of default.
- The over-estimation of PCA EAD has since been recalibrated and implemented with effect from September 2015.

5.6. TSB Group's 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 issuance of Individual Capital Guidance (ICG) (Pillar 2a) and a Capital Planning Buffer (CPB) (Pillar 2b).

Pillar 2a
TSB Group's internal assessment of its capital adequacy, a process known as the Internal Capital Adequacy Assessment Process (ICAAP) is a key input to the PRA's Supervisory Review and Evaluation Process (SREP) and determination of ICG.

TSB Group's ICAAP supplements the Pillar 1 capital requirements for credit risk, counterparty credit risk, operational risk and market risk through the assessments of material risks not covered or not fully captured under Pillar 1.

TSB Group produces and submits the ICAAP at least annually to the PRA. For all firms, the PRA undertakes a regular review of a firm'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 to cover risks not covered in Pillar 1 and issues the firm with ICG. The PRA ordinarily updates its supervisory review of firms' capital adequacy annually.

TSB Group's ICAAP document is subject to a robust review process by the ICAAP Steering Group, Asset and Liability Committee and the Board. The Board approved ICAAP is submitted to the PRA.

Some of the key risks assessed within the ICAAP include:

Risks not fully captured under Pillar 1
- **Concentration Risk:** Credit concentration risk is the risk of losses arising as a result of concentrations of exposures due to imperfect diversification. This imperfect diversification can arise from the small size of a portfolio or a large number of exposures to specific obligors (single name concentration) or from imperfect diversification with respect to economic sectors or geographical regions. Pillar 1 credit risk capital requirements assume no significant concentrations. Where there are concentrations of exposures, additional capital is required under Pillar 2A.
- **Operational Risk:** Pillar 1 standardised approach for operational risk uses gross income as a measure of risk. This is not risk sensitive. The PRA therefore assesses operational risk further as part of its Pillar 2 review of firms' capital adequacy.

Risks not covered by Pillar 1
- **Interest Rate Risk in the Banking Book (IRRBB):** The potential losses in the non-trading book resulting from interest rate changes or widening of the spread between Base Rate and LIBOR rates.

Pillar 2b
As part of the capital planning process, forecast capital positions are subjected to extensive stress analyses to determine that TSB Group's own funds are adequate to meet minimum requirements. The PRA uses the output from these stress analyses to set a CPB for TSB Group that should be maintained as mitigation against potential future periods of stress.

Capital Buffers
From 1 January 2016, the PRA is phasing in its implementation of a PRA buffer to replace the CPB. The PRA buffer is the amount of capital that firms are required to hold, in addition to ICG, to cover losses that may arise under a severe stress scenario, but avoiding duplication with the CRD IV Systemic buffers and Capital conservation buffers.

The PRA buffer is set in addition to the CRD IV Countercylical capital buffer (CCB). The Financial Policy Committee has set the UK CCB rate at 0%. TSB Group's exposures are categorised as UK, due to non-UK exposures being less than 2% of total exposures.

6. Credit risk

6.1. Overview

Definition
TSB Group defines credit risk as the risk that parties with whom TSB has contracted, fail to meet their obligations to settle outstanding amounts when due, both on and off balance sheet.

By adopting decision making processes and systems geared to provide affordable lending, based on individual needs and circumstances at the time of application, TSB Group is able to help customers borrow well and limit the risks associated with non-repayment. To assist with this, TSB Group's Risk Appetite, which is regularly subject to oversight, and has been set for controlled growth, has measures and limits in place to act as a mechanism to prevent the bank and its customers from overreaching their ability to manage credit. These measures include loan-to-income ratios, limits on interest-only mortgage lending and maximum loan-to-value thresholds. Risk appetite metrics apply to all acquisition channels and where appropriate to specific segments such as buy-to-let mortgages. However, TSB Group understands that occasionally customer circumstances change which could impact on their ability to pay back borrowing. In these situations, TSB Group works with its customers to improve their position by offering various temporary treatment strategies and support.

Risk Appetite
TSB Group's risk appetite methodology is set out on page 8 of the TSB Group's 2015 ARA. For credit risk, TSB Group aims to have an appropriate and well balanced loan portfolio through the economic cycle. This includes the ex-Northern Rock portfolio of loans for which beneficial interest was acquired on 7 December 2015 which, while managed within Board approved risk appetite, continues to be serviced by a third party service provider under a discrete suite of policies that were in force at the point of acquisition.

Exposures
A range of approaches, varying in sophistication, are available under the CRD IV Framework to use in measuring credit risk and to determine the minimum level of capital required.

Under CRD IV credit risk exposures are classified into broad categories, as defined under:

1. **The Retail IRB Approach:** Use of internal models to calculate Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD); and
2. **The Standardised Approach:** Portfolios whose associated models have yet to roll out or where no model roll out is planned, are risk weighted under this approach.

The principal source of credit risk within TSB arises from loans and advances to retail and business banking customers. TSB Group'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 partnerships and small limited companies.

Credit risk arises principally from TSB Group's lending activities through adverse changes in the credit quality of customers and macro-economic disruptions to credit markets. TSB Group also faces credit risk in relation to the geographic concentration of its credit portfolio in the UK generally, and particularly, in Scotland and the South East of England. The acquisition of the portfolio of ex-Northern Rock loans in December reduced this concentration. Additional credit risks also arise in relation to the processes by which TSB Group assesses customer credit quality, which requires difficult, subjective and complex judgements, including forecasts of how changing macro-economic conditions might impair the ability of customers to repay their loans.

Additional sources of credit risk are managed in TSB Group's Treasury function. These include:

- Placing surplus funds with financial institution and sovereign counterparties e.g. the Bank of England;
- Holding government securities, e.g. UK gilts, for liquidity management; and
- Hedging its interest rate risk position with clearing houses and other market facing counterparties. This counterparty credit risk depends on the underlying valuation of the derivatives, the majority of which are collateralised and cleared.

Monitoring
Portfolio Quality Review meetings are held monthly in order to monitor and review the performance of the business against approved risk appetite, performance metrics and credit risk controls.

A review of aggregated overall credit risk reporting throughout TSB Group is subsequently produced and is reviewed by BEC, Board Risk Committee and Board.

6.2. Consolidated balance sheet under the regulatory scope of consolidation

The following table provides a reconciliation of the TSB Group's consolidated balance sheet on an accounting basis (as presented on page 52 of the 2015 TSB Group's ARA) to the TSB Group's consolidated balance sheet on a regulatory basis.

Table 16: Consolidated regulatory balance sheet at 31 December 2015

Balance Sheet Category	**2015 TSB Statutory Balance Sheet**	**2015 Regulatory Reallocations[1]**	**2015 TSB Regulatory Balance Sheet**
	£000	**£000**	**£000**
Cash and balances at central banks	2,755,639	(164,035)	2,591,604
Loans and advances to customers	26,733,849	41,756	26,775,605
Loans and advances to banks	-	-	-
Available for sale financial assets	1,262,829	-	1,262,829
Items in course of collection from banks	163,030	-	163,030
Deferred tax assets	121,055	-	121,055
Property, plant and equipment	161,054	-	161,054
Other assets	329,993	193,507	523,500
Derivative financial assets	90,523	-	90,523
Total Assets	**31,617,972**	**71,228**	**31,689,200**
Customer deposits	25,915,690	-	25,915,690
Deposits from banks	802	-	802
Debt securities in issue	2,899,596	-	2,899,596
Subordinated liabilities	402,147	-	402,147
Items in course of transmission to banks	152,312	-	152,312
Other liabilities	217,768	-	217,768
Other provisions	-	71,228	71,228
Derivative financial liabilities	283,338	-	283,338
Total Liabilities	**29,871,653**	**71,228**	**29,942,881**
Total Equity [2]	**1,746,319**	-	**1,746,319**
Total Equity and Liabilities	**31,617,972**	**71,228**	**31,689,200**

Balance Sheet Category	2014 TSB Statutory Balance Sheet	2014 Regulatory Reallocations[1]	2014 TSB Regulatory Balance Sheet
	£000	£000	£000
Cash and balances at central banks	4,396,282	(180,019)	4,216,263
Loans and advances to customers	21,641,400	51,754	21,693,154
Loans and advances to banks	134,515	-	134,515
Available for sale financial assets	339,731	-	339,731
Items in course of collection from banks	135,738	-	135,738
Deferred tax assets	108,078	-	108,078
Property, plant and equipment	149,223	-	149,223
Other assets	143,367	214,322	357,689
Derivative financial assets	123,136	-	123,136
Total Assets	27,171,470	86,057	27,257,527
Customer deposits	24,624,897	-	24,624,897
Deposits from banks	32,532	-	32,532
Debt securities in issue	10,014	-	10,014
Subordinated liabilities	405,502	-	405,502
Items in course of transmission to banks	144,569	-	144,569
Other liabilities	202,847	-	202,847
Other provisions	-	86,057	86,057
Derivative financial liabilities	116,735	-	116,735
Total Liabilities	25,537,096	86,057	25,623,153
Total Equity [2]	1,634,374	-	1,634,374
Total Equity and Liabilities	27,171,470	86,057	27,257,527

(1) Regulatory reallocations are made in accordance with PRA reporting requirements. In particular, various balances categorised as other assets or liabilities are separated out for regulatory reporting purposes. The net difference arising is largely due to the reclassification of certain loan impairment provisions, previously netted against asset balances, to liabilities on the regulatory balance sheet.

(2) A reconciliation of total equity to CET1 capital is presented on page 8.

6.3. Regulatory balance sheet assets to total credit risk exposure

A reconciliation of consolidated regulatory balance sheet assets to total credit risk exposures is presented in the table below:

Table 17: Credit risk exposures at 31 December 2015

31 December 2015	Group Regulatory Balance Sheet	Assets Linked to Market Risk / Counterparty Credit Risk	Other Regulatory Adjustments (1)	Gross Drawn Credit Risk Exposures	Gross Undrawn Exposures incl.CCR	Credit conversion factors/Model overlays	Total credit risk exposure
	£000	£000	£000	£000	£000	£000	£000
Cash and balances at central banks	2,591,604	-	-	2,591,604	-	-	2,591,604
Items in the course of collection from banks	163,030	-	-	163,030	-	-	163,030
Derivative financial instruments	90,523	(90,523)	-	-	96,743	-	96,743
Loans and receivables	26,775,605	(21,611)	27,079	26,781,073	5,135,052	19,193	32,111,318
Available for sale financial assets	1,262,829	-	-	1,262,829	-	-	1,262,829
Property plant and equipment	161,054	-	(1,011)	160,043	-	-	160,043
Deferred tax assets	121,055	-	-	121,055	-	-	121,055
Other assets	523,500	(229,799)	(625)	293,076	30,250	(529)	322,797
Total (2)	31,689,200	(341,933)	25,443	31,372,710	5,262,045	194,664	36,829,419

31 December 2014	Group Regulatory Balance Sheet	Assets Linked to Market Risk / Counterparty Credit Risk	Other Regulatory Adjustments (1)	Gross Drawn Credit Risk Exposures	Gross Undrawn Exposures incl. CCR	Credit conversion factors/Model overlays	Total credit risk exposure
	£000	£000	£000	£000	£000	£000	£000
Cash and balances at central banks	4,216,263	-	-	4,216,263	-	-	4,216,263
Items in the course of collection from banks	135,738	-	(2,347)	133,391	-	-	133,391
Derivative financial instruments	123,136	(123,136)	-	-	82,175	-	82,175
Loans and receivables	21,827,669	-	3,826	21,831,495	3,707,684	(2,613,138)	22,926,041
Available for sale financial assets	339,731	-	(15,642)	324,089	-	-	324,089
Property plant and equipment	149,223	-	-	149,223	-	-	149,223
Deferred tax assets	108,078	-	-	108,078	-	-	108,078
Other assets	357,689	(55,278)	(40,772)	261,639	19,043	(19,043)	261,639
Total (2)	27,257,527	(178,414)	(54,935)	27,024,178	3,808,902	(2,632,181)	28,200,899

(1) Other regulatory adjustments reflect specific regulatory treatments and valuation methodologies.

(2) Default fund contributions are not included in Other Assets.

6.4. Credit risk exposure: analysis by exposure class

As at 31 December 2015, the total credit risk exposures of TSB Group amounted to £36.8 billion (2014: £28.2 billion).

Table 18: Reconciliation of original exposure to adjusted exposure pre-Credit Risk Mitigation (CRM)

Exposure Class	2015 Original exposure	2015 Impairment Allowances	2015 Adjusted Exposure(*)	2014 Adjusted Exposure (*)
	£000	£000	£000	£000
Standardised approach	**10,689,450**	**(2,925)**	**10,686,525**	12,637,454
Central governments and central banks	3,958,076	-	3,958,076	4,648,430
Institutions	435,047	-	435,047	178,561
Corporates	867	(2)	865	1,718
Retail	412,450	(970)	411,480	4,374,516
Exposures secured by real estate property	4,929,624	(569)	4,929,055	2,830,790
Defaulted exposures	272,189	(1,384)	270,805	40,004
Equity exposures	27,701	-	27,701	-
Other exposures	653,496	-	653,496	563,435
Internal Ratings Based Approach (IRB)	**25,948,230**	**-**	**25,948,230**	18,113,451
Retail	25,948,230	-	25,948,230	18,113,451
Total exposure	**36,637,680**	**(2,925)**	**36,634,755**	30,750,905

(*) Value adjustments are not deducted to determine the adjusted exposure under the IRB approach.

Table 19: Reconciliation of fully adjusted exposure pre CCF to EAD post CRM

Exposure Class	2015 Fully adjusted exposure value on balance sheet	2015 Fully adjusted exposure value off balance sheet (1)	2015 Average CCF (2)	2015 EAD	2014 EAD
	£000	£000	£000	£000	£000
Standardised approach	**10,369,532**	**316,993**	**100%**	**10,651,355**	**9,276,902**
Central governments and central banks	3,958,076	0	100%	3,958,076	4,648,430
Institutions	338,304	96,743	100%	435,047	260,736
Corporates	856	9	99%	858	1,651
Retail	342,839	68,641	92%	378,452	962,025
Exposures secured by real estate property	4,808,562	120,493	100%	4,927,564	2,829,200
Defaulted exposures	269,948	857	100%	270,692	30,468
Equity exposures	27,701	0	100%	27,701	0
Other exposures	623,246	30,250	100%	652,965	544,392
Internal Ratings Based Approach (IRB)	**21,003,178**	**4,945,052**	**101%**	**26,178,064**	**18,923,997**
Retail	21,003,178	4,945,052	101%	26,178,064	18,923,997
Total exposure	**31,372,710**	**5,262,045**		**36,829,419**	**28,200,899**

(1) Fully adjusted exposure value off balance sheet includes exposures to SFT and Derivatives.

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

Table 20: Average EAD by exposure class

Exposure Class	Notes	2015 Average EAD	2014 Average EAD
		£000	£000
Standardised approach		**9,086,611**	7,183,444
Central governments and central banks	(1)	5,071,217	2,224,299
Institutions	(2)	265,562	1,796,840
Corporates		1,044	1,866
Retail	(3)	511,451	898,210
Exposures secured by real estate property	(4)	2,576,618	1,611,037
Defaulted exposures		22,869	17,952
Equity exposures		4,422	-
Other exposures		633,428	633,240
Internal Ratings Based Approach (IRB)		**22,147,916**	21,667,749
Retail	(5)	22,147,916	21,667,749
Total exposure		**31,234,527**	28,851,193

The average EAD presented in the table above was calculated based on month end balances from 31 December 2014 to 31 December 2015. The average EAD excludes exposures representing the contributions to the default fund previously presented within Other Assets.

Key Movements:

(1) Balances held with Bank of England grew to £5.6 billion in November 2015 before the acquisition of ex-Northern Rock lending book in December 2015.

(2) Balances held with institutions reduced following TSB Group's IPO in June 2014 when surplus cash reserves were transferred from Lloyds Banking Group to an operational account with Bank of England.

(3) £0.8 billion of franchise credit card and personal overdraft exposures transitioned from a standardised to an IRB assessment basis in June 2015.

(4) Mortgage Enhancement exposures, were assessed on an IRB basis from their acquisition on 28 February 2014 until migration to the standardised basis in June 2014 and throughout 2015. In addition, £3bn ex-Northern Rock loans were acquired in December 2015, both of which increased Retail average exposures secured by real estate property year on year.

(5) The increase represents two significant changes:
- Growth in TSB Group's franchise mortgage book; and
- TSB Group's franchise unsecured portfolios transitioned between IRB and Standardised ratings as described on page 13.

6.5. Original exposure: analysis by industry

Original risk exposures as at 31 December 2015, analysed by major industrial sector, are provided in the table below:

Table 21: Distribution of original exposures due to credit risk by industry

At 31 December 2015	Agriculture, forestry and fishing	Manufacturing	Energy & Water Supply	Construction	Transport, distribution and hotels	Property companies	Financial, business and other services	Personal: mortgages	Personal: other	TOTAL
	%	%	%	%	%	%	%	%	%	£000
Standardised approach	**0.2%**	**0.1%**	**0.0%**	**0.3%**	**0.7%**	**0.6%**	**47.3%**	**48.2%**	**2.6%**	**10,689,450**
Central governments and central banks	-	-	-	-	-	-	-	-	-	**3,958,076**
Institutions	-	-	-	-	-	-	-	-	-	**435,047**
Corporates	10.9%	2.7%	0.1%	14.1%	30.1%	29.1%	13.0%	-	-	**867**
Retail	5.0%	1.2%	0.1%	6.5%	13.9%	13.4%	6.1%	-	53.8%	**412,450**
Exposures secured by real estate property	0.1%	0.0%	0.0%	0.1%	0.2%	0.2%	0.1%	99.3%	-	**4,929,624**
Defaulted exposures	0.2%	0.1%	-	0.3%	0.7%	0.6%	0.5%	96.4%	1.2%	**272,189**
Equity exposures	-	-	-	-	-	-	100.0%	-		**27,701**
Other exposures	0.1%	0.0%	0.0%	0.1%	0.2%	0.2%	91.7%	-	7.7%	**653,496**
Internal Ratings Based Approach (IRB)	**0.0%**	**-**	-	-	-	-	-	**78.5%**	**21.5%**	**25,948,230**
Corporates	-	-	-	-	-	-	-	-	-	**-**
Retail	-	-	-	-	-	-	-	78.5%	21.5%	**25,948,230**
Of which:										
(i) Secured by real estate	-	-	-	-	-	-	-	100.0%	-	**20,362,318**
(ii) Qualifying revolving	-	-	-	-	-	-	-	-	100.0%	**4,317,220**
(iii) Other	-	-	-	-	-	-	-	-	100.0%	**1,268,693**
Total exposure	**0.1%**	**0.0%**	**0.0%**	**0.1%**	**0.2%**	**0.2%**	**13.8%**	**69.6%**	**16.0%**	**36,637,680**

Standardised exposures include SME original exposures of £233.4 million, representing retail exposures of £190.4 million, exposures secured by real estate property of £36.3 million, defaulted exposures of £5.9 million and corporate exposures of £0.8 million.

Original exposures as at 31 December 2014, analysed by major industrial sector, are provided in the table below:

At 31 December 2014	Agriculture, forestry and fishing	Manufacturing	Energy & Water Supply	Construction	Transport, distribution and hotels	Property companies	Financial, business and other services	Personal: mortgages	Personal: other	TOTAL
	%	%	%	%	%	%	%	%	%	£000
Standardised approach	0.2%	0.1%	0.0%	0.3%	0.7%	0.7%	41.0%	22.0%	35.0%	12,760,453
Central governments and central banks	-	-	-	-	-	-	100.0%	-	-	4,648,430
Institutions	-	-	-	-	-	-	100.0%	-	-	260,736
Corporates	10.6%	2.8%	0.1%	13.2%	31.1%	29.5%	12.7%	-	-	1,718
Retail	0.6%	0.1%	0.0%	0.7%	1.7%	1.6%	0.7%	0.0%	94.7%	4,395,428
Exposures secured by real estate property	0.1%	0.0%	0.0%	0.2%	0.4%	0.4%	0.2%	98.8%	-	2,831,381
Defaulted exposures	1.3%	0.4%	0.0%	1.7%	3.9%	3.7%	1.6%	10.6%	76.8%	59,325
Equity exposures	-	-	-	-	-	-	-	-	-	-
Other exposures	0.1%	0.0%	0.0%	0.1%	0.2%	0.2%	51.8%	-	47.6%	563,435
Internal Ratings Based Approach (IRB)	-	-	-	-	-	-	-	92.9%	7.1%	18,113,451
Corporates	-	-	-	-	-	-	-	-	-	-
Retail	-	-	-	-	-	-	-	92.9%	7.1%	18,113,451
Of which:										
(iv) Secured by real estate	-	-	-	-	-	-	-	100.0%	-	16,823,034
(v) Qualifying revolving	-	-	-	-	-	-	-	-	-	-
(vi) Other	-	-	-	-	-	-	-	-	100.0%	1,290,417
Total exposure	0.1%	0.0%	0.0%	0.1%	0.3%	0.3%	17.0%	63.6%	18.6%	30,873,904

6.6. Credit risk exposure: analysis by geography

Under CRD IV Article 432, institutions may omit certain disclosures if the information is not regarded as material or is deemed to be confidential. TSB Group has opted to use this materiality provision in respect of an election not to disclose the geographical distribution of £0.3 billion of exposures to customers not resident in the UK. These exposures predominately reflect retail mortgages to customers currently resident overseas but secured on residential properties in the UK and are not deemed material in the context of the TSB Group's balance sheet. The TSB Group does not proactively seek non-UK business.

All credit risk exposures as at 31 December 2015 and at 31 December 2014 are categorised as being in the United Kingdom.

6.7. Credit risk exposure: analysis by residual maturity

Credit risk exposures as at 31 December 2015, analysed by residual contractual maturity with the exclusion of equity exposures, are provided in table 23 below:

Table 22: Analysis of EAD by residual maturity

31 December 2015	**Less than 1 year**	**Repayable between 1 and 5 years**	**Repayable over 5 years or undated**	**TOTAL**
	£000	**£000**	**£000**	**£000**
Standardised approach	**2,955,144**	**427,271**	**7,241,239**	**10,623,654**
Central governments and central banks	2,441,132	72,426	1,444,518	3,958,076
Institutions	164,145	49,256	221,646	435,047
Corporates	42	139	677	858
Retail	37,466	23,949	317,037	378,452
Exposures secured by real estate property	61,621	273,758	4,592,185	4,927,564
Defaulted exposures	2,767	7,743	260,182	270,692
Other exposures	247,971	-	404,994	652,965
Internal Ratings Based Approach (IRB)	**3,919,260**	**2,503,789**	**19,755,015**	**26,178,064**
Retail	3,919,260	2,503,789	19,755,015	26,178,064
Total exposure	**6,874,404**	**2,931,060**	**26,996,254**	**36,801,718**

31 December 2014	Less than 1 year	Repayable between 1 and 5 years	Repayable over 5 years or undated	TOTAL
	£000	£000	£000	£000
Standardised approach	220,027	318,435	8,738,448	9,276,910
Central governments and central banks	13,510	54,039	4,581,011	4,648,560
Institutions	183,821	47,263	29,531	260,615
Corporates	25	449	1,177	1,651
Retail	2,582	39,662	919,781	962,025
Exposures secured by real estate property	20,003	175,601	2,633,596	2,829,200
Defaulted exposures	86	1,421	28,960	30,467
Other exposures	-	-	544,392	544,392
Internal Ratings Based Approach (IRB)	310,668	2,362,302	16,251,019	18,923,989
Retail	310,668	2,362,302	16,251,019	18,923,989
Total exposure	530,695	2,680,737	24,989,467	28,200,899

6.8. Impaired lending and provisions

Definition

The following definitions are employed:

- **Past due but not impaired exposures**: An exposure is past due when a counterparty has failed to make a payment when contractually due, but TSB continues to expect to collect the amounts due.
- **Impaired exposures**: In respect of secured mortgage portfolios, impaired loans are those six months or more in arrears (or in certain cases where the borrower is bankrupt or the underlying security is in possession). For unsecured personal lending portfolios, the impairment trigger is generally when the balance is two or more instalments in arrears or where the customer has exhibited one or more of the impairment characteristics set out above.
- **Impairment provisions**: Impairment provisions are a provision held on the balance sheet as a result of raising a charge against profit for the incurred loss inherent in the lending book. An impairment provision may either be individually or collectively assessed.

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 Group's impairment provisions (whether individually or collectively assessed) are considered to be Specific Credit Risk Adjustments as they are recognised in accordance with International Accounting Standard 39 under an 'incurred loss' model.

Accounting Policy

At each balance sheet date TSB Group assesses whether, as a result of one or more events occurring after initial recognition, there is objective evidence that a financial asset or group of financial assets has become impaired.

If there is objective evidence that an impairment loss has been incurred, an allowance is established which is calculated as the difference between the balance sheet carrying value of the asset and the present value of estimated future cash flows discounted at that asset's original effective interest rate (EIR). If an asset has a variable interest rate, the discount rate used for measuring the impairment loss is the current EIR.

Impairment is assessed on a collective basis for homogenous groups of loans that are not considered individually impaired. The asset is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment.

Impairment allowances for portfolios of homogenous loans such as residential mortgages, personal loans and credit card balances, and for loan losses that have been incurred but not separately identified at the balance sheet date, are determined on a collective basis.

A loan or advance is normally written off, either partially or in full, against the related allowance when the proceeds from realising any available security have been received or there is no realistic prospect of recovery (as a result of the customer's insolvency, ceasing to trade or other reason) and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses.

TSB Group's accounting policy in respect of impaired exposures (financial assets) and impairment provisions raised in respect of loans and receivables is detailed in the Notes to the Financial Statements in TSB Group's Annual Report and Accounts on pages 59 to 60.

6.9. Managing impaired exposures and impairment provisions

Provisioning Policy

TSB Group's high level policies and standards in respect of the management of impaired exposures, the setting of impairment provisions and the write-off of impaired exposures are contained within the Risk function's Impairment Policies, and are reviewed and approved on an annual basis.

Adequacy Reviews

All lending assets are considered for impairment on a monthly basis.

Any assessment of impairment must be based on the information and events that have already occurred as at the review or balance sheet date. Events that occur after such date may be taken into account only where they inform the position at review or balance sheet date.

The process for estimating impairment must consider all credit exposures and not only those in default or of low credit quality.

Assets previously identified as impaired are reviewed to ensure that the objective evidence of impairment remains valid, that cash flow projections (including any potential net proceeds from the realisation of collateral) remain appropriate and that the impairment loss recorded in TSB Group's books and records continues to reflect the difference between the net present value and the carrying value of the asset. In the event that the future expected cash flow has changed from the previous assessment, an adjustment to the level of loss allowance is made as appropriate.

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

Upon review, if it can be evidenced that the impairment event has passed without detriment to the future expected cash flow and the net present value is greater than the carrying value of the asset, the asset can be re-categorised as unimpaired and the loss allowance released.

Reporting
All significant new impaired assets are reported by their respective business areas as soon as they arise. This supports the regular analysis of impairment exposures (including levels and trends) along with related provisions.

TSB Group reviews, at least annually, its provision forecast against actual experience to identify whether its policies have resulted in over or under provisioning across the economic cycle. The responsibility for the review rests with the Risk function.

Stress and scenario testing are widely used throughout TSB Group to assess and support the business strategy.

A robust governance framework has been established to monitor impairment exposures, provisions and the impact of stress scenarios. Findings and recommendations are reported to regular Portfolio Quality Review meetings, Executive Risk Committees and the Board.

6.10. Management of customers experiencing financial difficulties

Forbearance
TSB Group operates a number of schemes to assist borrowers who are experiencing financial difficulties. Forbearance solutions may offer temporary relief in the form of reductions to contractual payments, and for customers who have longer term financial difficulties, term extensions and 'repair' approaches such as capitalisation of arrears.

Further information and analysis on the measures adopted by TSB Group to support customers experiencing financial difficulties are detailed in the TSB Group plc Annual Report and Accounts on page 79.

6.11. Analysis of past due and impaired loans and advances to customers

As at 31 December 2015, past due but not impaired exposures in respect of loans and advances to customers amounted to £528 million (2014: £347 million). Impaired exposures in respect of loans and advances to customers amounted to £159 million (2014: £205 million), all of which were classified as 'impaired – provision held'.

Analysis by Industry
An analysis of past due but not impaired loans and advances to customers and impaired loans and advances to customers as at 31 December 2015, by industrial sector, is provided in the table below:

Table 23: Past due and impaired loans and advances to customers analysed by industry

At 31 December 2015	Past due but not impaired		Impaired		*Of which*	
	£000	As a % of credit risk exposure	£000	As a % of credit risk exposure	*Due to arrears*	*Due to other reasons*
Agriculture, forestry and fishing	390	1.6%	253	1.0%	253	-
Energy and water supply	-	0.0%	-	0.0%	-	-
Manufacturing	357	6.9%	79	1.5%	79	-
Construction	1,355	4.9%	318	1.1%	318	-
Transport, distribution and hotels	1,880	3.2%	1,177	2.0%	1,177	-
Property companies	1,597	2.8%	399	0.7%	399	-
Financial, business and other services	1,001	0.0%	218	0.0%	218	-
Personal mortgages	485,299	1.8%	98,972	0.4%	97,504	1,468
Personal other	36,273	0.7%	57,540	1.1%	39,582	17,958
Total	**528,152**	**1.4%**	**158,956**	**0.4%**	**139,530**	**19,426**

At 31 December 2014	Past due but not impaired		Impaired		*Of which*	
	£000	As a % of credit risk exposure	£000	As a % of credit risk exposure	*Due to arrears*	*Due to other reasons*
Agriculture, forestry and fishing	1,098	4.4%	343	1.2%	343	-
Energy and water supply	-	0.0%	-	0.0%	-	-
Manufacturing	598	9.0%	356	6.0%	356	-
Construction	694	2.2%	798	2.6%	798	-
Transport, distribution and hotels	2,606	3.5%	2,212	3.0%	2,212	-
Property companies	3,309	4.7%	1,391	2.0%	1,391	-
Financial, business and other services	901	0.0%	562	0.0%	562	-
Personal mortgages	307,401	1.5%	127,762	0.6%	125,360	2,402
Personal other	30,650	1.3%	71,454	3.1%	49,646	21,808
Total	347,257	**1.2%**	204,878	**0.7 %**	180,668	24,210

Analysis by Geography

All past due but not impaired loans and advances to customers and impaired loans and advances to customers as at 31 December 2015 and at 31 December 2014 are categorised as being in the United Kingdom, based on the materiality assumption outlined on page 25.

6.12. Analysis of impairment provisions in respect of loans and advances to customers

Analysis by Industry

An analysis of closing impairment provisions, the net charge to the income statement and advances written off in respect of loans and advances to customers, by major industrial sector, is provided below:

Table 24: Analysis of impairment provisions by industry

	2015 Impairment provisions	**2015 Net charge**	**2015 Advances written off**	2014 Impairment provisions	2014 Net charge	2014 Advances written off
	£000	**£000**	**£000**	£000	£000	£000
Agriculture, forestry and fishing	**95**	**81**	**183**	304	289	611
Energy and water supply	**1**	**1**	**2**	-	-	-
Manufacturing	**74**	**63**	**143**	89	84	349
Construction	**256**	**219**	**493**	401	381	873
Transport, distribution and hotels	**646**	**553**	**1,245**	918	871	1,641
Property companies	**90**	**77**	**174**	867	823	1,656
Financial, business and other services	**264**	**226**	**610**	372	153	825
Personal mortgages	**19,193**	**2,167**	**2,932**	19,929	(149)	3,925
Personal other	**50,609**	**78,924**	**108,513**	63,199	95,151	112,269
Total	**71,228**	**82,311**	**114,295**	86,079	97,603	122,149

The movement in impairment provisions, from 31 December 2014 to 31 December 2015, in respect of loans and advances to customers is provided below:

Table 25: Movement in impairment provisions

	2015	2014
	£000	£000
Opening balance	**86,079**	96,826
Advances written off	**(114,295)**	(122,149)
Recoveries of advances written off in previous years	**17,133**	13,799
Charge to the income statement	**82,311**	97,603
Closing balance	**71,228**	86,079

6.13. Credit risk mitigation

TSB Group uses a range of approaches to mitigate credit risk.

Credit policies and standards

TSB Group's Credit Risk function sets out credit policies and procedures according to which credit risk is managed. 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 Group to take early and proactive mitigating actions.

Portfolio Risk teams define credit strategies, aligned to credit policies and procedures, to manage the credit risk of TSB Group's portfolios. Business area processes and procedures provide guidance to operational areas on the management of the 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.

Retail credit assessment

TSB Group 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 lending, TSB Group also assesses the affordability of lending to the customer under stressed scenarios including increased interest rates. In addition, TSB Group has in place 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 levels while others are hard limits above which TSB Group will reject the application. TSB Group also has certain criteria applicable to specific products such as for buy-to-let mortgage applications.

Business banking credit assessment

Credit risk in the SME Retail 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 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

TSB Group considers risk concentrations by collateral providers and collateral type, as appropriate, with a view to ensuring that any potential undue concentrations of risk are identified and suitably managed by changes to strategy, policy or business plans. Concentration risks are reviewed and assessed at regular portfolio quality review meetings and the Executive Credit Risk Committee.

Collateral

The principal collateral types for loans and advances are:

- mortgages over residential and commercial real estate;
- charges over business assets such as premises, inventory and accounts receivables; and
- guarantees received from third parties.

It is TSB Group's policy that collateral should always 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.

Master netting

TSB Group's credit risk exposure on derivative and repo instruments is subject to master netting agreements in accordance with TSB 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.

Table 26: Net derivatives credit exposure

	2015 £000	2014 £000
Gross positive fair value of contracts	**103,917**	123,136
Netting benefits	**(290,459)**	(116,735)
Netted current credit exposure	**(186,542)**	6,401
Net potential future credit exposure	**53,349**	29,087
Net collateral pledged / received	**227,401**	42,715
Total net derivatives credit exposure	**94,208**	78,203
Securities financing transactions	**2,535**	3,972
Total counterparty credit risk exposure	**96,743**	82,175

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 CRD IV provisions governing the application of credit risk mitigation under the IRB Approach (CRD IV Chapter 3) and the Standardised Approach (CRD IV 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 risk weighted asset amount.

TSB Group uses the Financial Collateral Comprehensive Method and applies the relevant adjustments for volatility, in addition to 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, TSB Group uses the Current Exposure Method.

7. Remuneration

TSB Group's reward approach is designed to be simple and fair, putting customer service at the heart of what we do.

Consideration by the Directors of matters relating to Directors' remuneration

The Board entrusts the Remuneration Committee with responsibility for remuneration policy and its ongoing appropriateness and relevance. Policy is considered regularly by the Committee, taking account of changes in regulation and the wider market. In formulating and reviewing policy independent advice is sought and considered. In particular, the sustainability of the policies and their risk impact are carefully reviewed. The Bank's Remuneration Policy is formally reviewed at least annually and, once approved by the Committee is reviewed and approved by the Board. The effectiveness of the remuneration policy and its application are reviewed formally by the Risk function annually. The Committee considers the Risk function's report following that review and tracks and monitors any recommended actions.

The Committee's full terms of reference can be found on our corporate website at http://www.tsb.co.uk/investors/people/. The Committee met nine times in 2015.

The Committee is chaired by Dame Sandra Dawson and other committee members as at end December 2015 were Polly Williams and Miquel Montes. Committee meetings are also attended by the Company Chairman, the CEO, the CFO, the HR Director, the Chief Risk Officer, and the Director of Performance & Reward to provide input on their specialist areas. The Company Secretary acts as the secretary to the Committee. None of these additional attendees participates in the discussion of issues directly affecting their own remuneration.

The Committee appointed Deloitte LLP (Deloitte) to provide independent advice on remuneration matters in 2014. The Committee reviewed Deloitte's work during 2015 and decided to continue with Deloitte's appointment. Deloitte is a member of the Remuneration Consultants Group and, as such, voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. Deloitte has provided independent advice on matters under consideration by the Committee including compliance with regulations, advice on market trends and data, remuneration policy and implementation of remuneration arrangements. The Committee is satisfied the advice it has received has been objective and independent.

Overview of remuneration in 2015

The main elements of our remuneration policy are competitive fixed pay, the TSB Award for all Partners and the Sustainable Performance Award (SPA) for our more senior Partners.

The Committee considered some changes to be necessary post acquisition and these were made with the agreement of Banco Sabadell. The key changes are:

- The fixed pay of two senior executives was increased from 1 July 2015. The change to the CEO's fixed pay was partly in the form of a role based allowance.
- The Sabadell Integration Award (SIA), has been established for a small number of senior Partners. Awards will vest only if demanding corporate and personal performance conditions are met.
- Banco Sabadell's 2:1 cap on variable to fixed pay, approved by its shareholders for use in "exceptional circumstances," will apply to TSB Group from 1 July 2015. From 1 January to 30 June 2015, the 1:1 cap applied.

The aim of our remuneration policy remains to provide competitive remuneration aligned to the delivery of our strategic goals; the promotion of TSB values; the generation of sustainable business performance, taking into account the effective management of risk and acceptable conduct; and a focus on the need for successful integration into the Sabadell Group. TSB's remuneration policy meets all applicable regulatory requirements. We maintain a dialogue with our regulators on remuneration matters.

TSB Remuneration Policy overview

The table below summarises the key components of TSB's remuneration.

Fixed pay	TSB aims to provide market competitive fixed pay, taking into consideration relevant market benchmarks, complexity of the role and the individual's experience and performance. It includes: • Basic salary: Typically reviewed annually, taking account of general market movements and performance of TSB and the individual. • Pension: Participation in TSB's defined contribution scheme. Senior Partners may receive a cash allowance of equivalent value in lieu of a pension contribution. • Benefits: Benefits include private medical insurance, life assurance, provision of a car (or alternatively a cash based car allowance) and participation in TSB's flexible benefits scheme. Other benefits may be provided where appropriate (e.g. relocation allowances). • Role based allowance: This is only received by the CEO to reflect the change in his role following the acquisition of TSB by Banco Sabadell.
TSB Award	The TSB award is an annual incentive for all Partners on the same terms. It rewards the achievement of business and personal performance targets and aligns all Partners to common goals. An 'on-target' award level of 10% of basic salary applies to all. Awards are made only if certain 'gateways', including risk, profitability and individual conduct are satisfied and corporate performance targets are met.
Sustainable Performance Award (SPA)	The SPA is a long term incentive arrangement, designed to reward sustained business performance over time. Awards are funded subject to there being sufficient profit and the pool is determined based on assessment of corporate performance measures. Individual awards are then determined by reference to individual performance and are denominated in a mix of cash and shares (proportions vary depending on seniority). Awards are deferred in line with regulatory requirements and only vest to the extent that continuing vesting conditions are met.
Sabadell Integration Award (SIA)	SIAs will be made to a small number of Partners based on their role in achieving critical integration and potential migration objectives. The SIA will run from 2015 to 2017. Awards will only vest to the extent that stretching performance targets are achieved and will be deferred in line with regulatory requirements.

Taken as a whole, we believe TSB Group's remuneration package is balanced and competitive, driving sustainable long-term growth.

TSB Award

All eligible Partners participate in the TSB Award which is structured to pay the same percentage of basic salary, depending on corporate and individual performance, to those with the same performance rating.

The core TSB Award can vary between 0% and 15% of eligible basic salaries. Outcomes are always subject to the discretion of the Committee. At 'on target' performance the award is targeted to be 10% of eligible basic salaries. Individuals with an exceptional performance rating could be given a higher award, with a maximum of two times the core award. The highest award possible is 30% of basic salary. A zero award is also possible.

The process for determining the TSB Award is as follows:

- Assess whether profitability and risk management gateways have been satisfied at a corporate level.
- Assess corporate performance against pre-determined Key Performance Indicators (KPIs) to determine the overall award size and funding for the year.
- Assess individual performance to (i) ensure all individuals have met minimum performance criteria to be eligible for the award and (ii) identify any exceptional performance in the year which may warrant an enhanced "pioneer" award.

The KPIs used to determine the overall award size for 2015 were set under the following strategic priorities:

- Customer Outcomes –Targets were set relating to:
  - Customer satisfaction measured by a Net Promoter Score (NPS);
  - Customer advice measured through a sales fair outcomes assessment; and
  - Customer service based on how well we deal with customer complaints.
- Financial Resilience - A profit target was set.
- Strategic Delivery –Targets were set relating to:
  - Personal Current Account (PCA) market share flow;
  - Digital penetration of new PCA customers; and
  - Gross Asset Flows.

Sustainable Performance Award (SPA)
SPA awards are restricted to more senior Partners, broadly the BEC, their direct reports and some other senior roles.

The face value of a SPA grant may vary between 0% and 100% of basic salary. "On target" awards vary by seniority, but for BEC members would be 62.5% of basic salary. Exceptional corporate and individual performance may result in a higher award but no grant will exceed 100% of basic salary. A zero award can be made if either corporate and/or individual performance merit that result.

The process for determining the grant level for SPA Awards for participants is as follows:

- Assess whether profitability and risk management gateways have been satisfied at a corporate level.
- Assess corporate performance against pre-determined KPIs to determine the SPA pool size.
- Assess individual performance to determine individual award levels.

The KPIs used to determine the core award pool size for 2015 were set under the same strategic priorities as for the TSB Award, detailed above. One further target was set for the SPA under the heading of Financial Resilience relating to the management of operating costs.

SPA Awards will be made in the first quarter of 2016 and will vest in five annual tranches if the vesting conditions are met, from the first anniversary of the award as at 31 December 2015.

Sustainable performance release conditions
Each tranche is released subject to satisfactory individual conduct and performance, if the sustainable performance conditions have been met at each vesting date. These conditions are as follows:

- Capital and Liquidity: No significant breach of Board risk appetite in the year.
- Regulatory & Compliance: No material regulatory issues and satisfactory internal control environment in the year.
- Sustainable financial performance: Performance against a pre-determined financial target has been achieved.

The testing of the metrics will determine, subject to the Committee's discretion, whether, and the extent to which, a tranche vests.

Sabadell Integration Award (SIA)
The SIA is designed to support the delivery of a potential migration and integration plan. Each year up to the end of the 2017 financial year, the Remuneration Committee will consider grants to those eligible to participate in the SIA and the performance targets that need to be met for those awards to vest.

For the SIAs granted in 2015, individual performance objectives had to be met for the awards to vest. However, 2015 awards that vested were deferred. They will be released only if TSB Group achieves profit and operating cost targets and if the Committee is satisfied that the overall integration of TSB Group into the Sabadell Group is being achieved. 50% of the 2015 vested award is subject to these performance criteria for 2016 and 50% for 2017. Testing of corporate objectives will ensure individual objectives have not been met at the expense of TSB Group's sustainable financial performance and its successful integration into the Sabadell Group. The Committee will also ensure any payments under the SIA are affordable.

At an individual level, in respect of the 2015 awards, personal objectives were set relating to key targets for the second half of 2015. Account was also taken of individual 2015 performance against TSB Group's risk, culture and conduct requirements.

Consideration of risk
In designing the remuneration elements, careful consideration has been given to supporting and promoting sound and effective risk management. For example:

- Risk profile and behaviours are a key gateway that must be satisfied for any of the incentive awards to pay out. Incentive pools and awards may be adjusted, including to zero, in the event of any material breaches.

- All elements of variable remuneration for Material Risk Takers are subject to malus and clawback provisions in line with regulatory requirements.

- Risk based adjustments to variable reward outcomes at a collective and individual level are considered, and where appropriate, applied.

- A significant portion of variable remuneration is deferred.

Material Risk Takers - Aggregated remuneration information

Material Risk Takers (MRTs) are those individuals whose actions have a material impact on the risk profile of the Group and include executive and non-executive directors. During the year there were a total of 55 MRTs with 23 falling within the Senior Management category (being the executive and non-executive members of the Board and members of BEC). Aggregate remuneration expenditure in respect of all MRTs was £21,296,000 of which on average 61% represented fixed remuneration and 39% represented variable remuneration. There were two severance payments made to MRTs during 2015. No sign-on awards were made.

The remuneration information in the following table is prepared as at 31 December 2015 on a Significant Subsidiary basis, split by 'Senior Management' and 'Other Material Risk Takers' as defined by the Senior Managers Regime.

Table 27: Remuneration of senior management and other material risk takers (MRT's)

Aggregate Remuneration Senior Management	Number of MRTs	Aggregate Fixed Remuneration £000	Aggregate Variable Remuneration £000	Aggregate Total Remuneration £000
Senior Management	23	7,012	5,558	12,570
Other Material Risk Takers	32	5,958	2,767	8,725
Grand Total	**55**	**12,970**	**8,325**	**21,295**

There were no 'Other Material Risk Takers' beyond Senior Management in 2014.

Glossary

Adjusted exposure	Original exposure net of value adjustments and provisions.
Basel Committee	The Basel Committee is the primary global standard-setter for the prudential regulation of banks and provides a forum for cooperation on banking supervisory matters. Its mandate is to strengthen the regulation, supervision and practices of banks worldwide with the purpose of enhancing financial stability. The Committee reports to the Group of Governors and Heads of Supervision (GHOS).
Buy-to-let mortgages	Buy-to-let mortgages are those mortgages offered to customers purchasing residential property as a rental investment.
Capital Requirements Directive IV (CRD IV)	On 27 June 2013, the European Commission published, through the official journal of the European Union, its legislation for a Capital Requirements Directive and Capital Requirements Regulation (CRR), which form the CRD IV package. Amendments were subsequently made to the Regulation published on 30 November 2013. The package implements the Basel III proposals in addition to the inclusion of new proposals on sanctions for non-compliance and remuneration. The rules were implemented from 1 January 2014 onwards, with certain sections yet to be phased in.
Commercial real estate	Commercial real estate includes office buildings, medical centres, hotels, malls, retail stores, shopping centres, farm land, housing buildings, warehouses, garages, and industrial properties.
Common Equity Tier 1 (CET1) capital	The highest quality form of regulatory capital under CRD IV that comprises common shares issued and related share premium, retained earnings and other reserves less specified regulatory adjustments.
Common Equity Tier 1 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.
Core Tier 1 capital	As defined by the Prudential Regulation Authority (PRA) mainly comprising shareholders' equity after regulatory deductions.
Counterparty credit risk	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 Group 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 Group 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 Group. They include commercial paper, certificates of deposit, bonds and medium-term notes.
Enhanced Disclosure Task Force (EDTF)	The Enhanced Disclosure Task Force (EDTF) was established by the Financial Stability Board in May 2012 with the goal for improving the quality, comparability and transparency of risk disclosures. The EDTF issued a report in October 2012 setting out 32 recommendations across seven risk areas.
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.[2] 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).
Franchise	TSB's business excluding the Mortgage Enhancement transaction and acquired Ex-Northern Rock assets.
Fully adjusted exposure On Balance Sheet	Amount of the exposure net of value adjustments after taking into account outflows and inflows due to Credit Risk Mitigation (CRM). Article 220 (4), Article 223 (2) to (5) and Article 228 (1) of Capital Requirements Regulation.
Fully adjusted exposure Off Balance Sheet	Amount of the exposure net of value adjustments after taking into account outflows and inflows due to Credit Risk Mitigation (CRM) pre application of the Credit Conversion Factors.
General Credit Risk Adjustment (GCRA)	Those credit risk adjustments that are freely and fully available, as regards to timing and amount, to meet losses that are not yet materialised or where no evidence of a loss event has occurred.
Impaired loans	Impaired loans are loans where the TSB Group does not expect to collect all the contractual cash flows or to collect them when they are contractually due.
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 incurred loss inherent in the lending book. An impairment allowance may be either individual or collective.
Impairment losses	An impairment loss is the reduction in value that arises following an impairment review of an asset that determines that the asset's value is lower than its carrying value. For impaired financial assets measured at amortised cost, impairment losses are the difference between the carrying value and the present value of estimated future cash flows, discounted at the asset's original effective interest rate.
Incurred loss model	An incurred loss model assumes that all loans will be repaid until evidence to the contrary (known as a loss or trigger event) is identified. Only at that point is the impaired loan (or portfolio of loans) written down to a lower value.
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.
Interest Rate Risk in the Banking Book (IRRBB)	The risk of losses that TSB may incur as a result of outright movements in interest rates or the widening of the spread between TSB Group Base Rate and LIBOR rates.
Internal Capital Adequacy Assessment Process (ICAAP)	The TSB Group's own assessment, based on CRD IV 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 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	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 Loss (LEL)	The predicted expected loss over the whole term of the transaction in question.
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.
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.
Model validation	The process of assessing and providing evidence that the TSB Group'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.
Mortgage Enhancement	The business segment created to reflect the transfer of the economic benefit of a £3.4 billion portfolio of mortgages to the TSB Group from LBG with effect from 28 February 2014.

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. It sets out the review process for a bank's capital adequacy; the process under which the supervisors evaluate how well financial institutions are assessing their risks and the actions taken as a result of these assessments.
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.
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 Group 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) Approach	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 Group 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 CRD IV.
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 (SCRA)	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.
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 regulator's assessment of the adequacy of certain firms' capital.
The Standardised Approach (TSA)	A standardised measure for calculating operational risk capital requirements based on the three year average of the aggregate risk weighted relevant indicators of the underlying business. The relevant indicators are derived from total income.
Through-the-cycle (TTC)	See Point-in-time (PiT).
Tier 1 capital	A measure of a bank's financial strength defined by CRD IV. It captures Common Equity Tier 1 Capital plus other Tier 1 securities in issue, subject to deductions.
Tier 1 capital ratio	Tier 1 capital as a percentage of risk weighted assets.
Tier 2 capital	A component of regulatory capital defined by CRD IV, mainly comprising qualifying subordinated loan capital and eligible collective impairment allowances.
Trading book	Positions in financial instruments and commodities held for trading purposes or to hedge other elements of the trading book.
Undrawn commitments	Assets / Liabilities that have been committed but not yet transacted. In terms of credit risk, these are obligations to make loans or other payments in the future.

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