Chairman's Statement

Introduction

The Law Debenture Pension Trust Corporation plc, as the sole Trustee of the TSB Pension Scheme (the 'Scheme'), has to provide members with a yearly statement which explains what steps have been taken by the Trustee, with help from its professional advisers, to meet certain governance standards. The law sets out what information has to be included in the Chairman's Statement and this is covered in the following statement.

This statement covers the period 1 April 2017 to 31 March 2018 ("the relevant period"), the Scheme year being 1 April to 31 March.

The Trustee is committed to having high governance standards and meets quarterly with its advisers and TSB representatives to monitor the controls and processes in place in connection with the Scheme's investments and administration. We welcome this opportunity to explain what the Trustee does to help ensure the Scheme is run as effectively as it can be. If you have any questions about anything that is set out below, or any suggestions about what can be improved, please do contact Equiniti, the Scheme Administrator, on 0345 266 9214 or email tsbpensions@equiniti.com.

Default investment arrangement

The Trustee is responsible for investment governance. This includes setting and monitoring the investment strategy for the Scheme's default arrangement.

The Trustee has chosen a lifestyling strategy which targets drawdown as the Scheme's default arrangement (called Destination Drawdown). Details of the investment strategy and investment objectives of the default arrangement are recorded in a document called the Statement of Investment Principles (SIP). A copy of the latest SIP is attached at the end of this report.

The Trustee is expected to:

- Review the investment strategy and objectives of the default arrangement at regular intervals, and at least once every 3 years; and
- Ensure that assets are invested in the best interests of the members and beneficiaries of the default arrangement

The Trustee reviews the investment performance of the default arrangement at each of its quarterly meetings with the advice of KPMG LLP, the Scheme's investment adviser, to ensure the return is consistent with the Trustee's aims, objectives and policies.

The Trustee carried out a detailed review of the strategy and performance of all the investment options of the Scheme including the then current default arrangement during the Scheme year 1 April 2015 to 31 March 2016 and the resulting changes were implemented in May 2016. No further formal review of the default arrangement has been undertaken during the relevant period. The default arrangement and fund range is next due to be reviewed during the Scheme year 1 April 2018 to 31 March 2019.

Charges and transaction costs paid by members

The law requires the charges and transaction costs (i.e. the costs of buying and selling investments in the Scheme) which are paid by members rather than the employer to be set out in this statement. The employer pays all the Scheme administration costs including the platform fees, other than investment fund charges, as set out in the following table.

Chairman's Statement (continued)

All member costs for the investment options that were available during the relevant period, including the default arrangement during the relevant period, are set out in the following table (which has been prepared having taken into account relevant guidance):

	Investment Funds	TER *
Default Arrangement	Growth	0.110 %
	Diversified	0.260 %
	Cash	0.050 %
Other Lifestyle Strategy Options	Mixed Bond	0.043 %
Self-Select Funds	Global Equity	0.049 %
	UK Equity	0.028 %
	North America Equity	0.040 %
	Continental Europe Equity	0.043 %
	Japan Equity	0.045 %
	Asia Pacific excluding Japan Equity	0.048 %
	Emerging Markets Equity	0.300 %
	Property	0.570 %
	Corporate Bond	0.043 %
	Index Linked Gilts	0.030 %

* TER (Total Expense Ratio) is the total annual running costs expressed as a percentage of a member's fund value, including annual management and fund administration charges.

The member borne charges for the Scheme's default arrangement complied with the charge cap during the relevant period.

With effect from 3 January 2018, firms that manage money on behalf of DC workplace pension schemes are required, on request, to provide information about transaction costs. The Financial Conduct Authority is also expected to produce a template to assist with the disclosure of such costs but this is not yet available.

With regards to transaction costs the Trustee has again asked Zurich Assurance Ltd, the Scheme's investment platform provider, to provide details on the transaction costs of the 14 available funds for members to invest in during the relevant period. Zurich has provided some information on transaction costs for the relevant period. However, this information is incomplete and it is not on a consistent basis. As a result, it has not been possible to include any information on transaction costs in the Chairman's Statement or factor this information into the Value for Member assessment which the Trustee has carried out.

The Trustee and its advisor, KPMG, are actively liaising with Zurich to ensure this information is available as soon as possible. Once further information is made available to the Trustee about the Scheme's transaction costs, it will consider that information and provide an update on the work undertaken in the next Chairman's Statement.

It is also noted that new requirements came in for Scheme years ending on or after 6 April 2018 for certain occupational money purchase schemes to publish charges and transaction cost information, disclose these to members and inform them how to access the information. This information will also be provided in next year's Chairman's Statement.

Chairman's Statement (continued)

Good value for members

When assessing the charges and transaction costs which are payable by members, the Trustee is required to consider the extent to which the charges and transaction costs represent good value for members. In doing so the Trustee has considered the investment options and the benefits offered by the Scheme in comparison with the other options available in the market.

There is no legal definition of "good value" and so the process of determining good value for members is a subjective one. The Trustee received advice on how to assess "good value" from its adviser KPMG and considered regulatory guidance. As a result, the Trustee with the assistance of KPMG carried out a value for money assessment of the Scheme across seven key areas. In each area, the Scheme was compared against a "basic scheme", an "average scheme" and an "above average scheme" and given a score based on this. What constitutes a basic, average or above average is based on the range of schemes KPMG advises as well as their knowledge of the DC market. The score for each area was then weighted in accordance with the Trustee's views as to each area's relevance to members. The results were as follows:

1. **Scheme charges**: The Total Expense Ratio (TER) charged to members was found to be low with the Scheme scoring above average in this area. In particular the Scheme's default LifePlan has TER charges ranging from 0.05% to 0.26% when compared to the 0.75% industry charge cap and to the DWP Pension Charges Survey 2016 (published in October 2017) which states that the average charge paid by members in a qualifying unbundled trust-based scheme was 0.42% p.a.. Members only pay for investment charges with the employer paying all the administration and other costs for the Scheme.

2. **Investment options and performance**: Given the review of investment options following the Scheme's launch in April 2014 and results of quarterly reviews of performance by the Trustee, the Scheme scored above average in this area.

3. **Retirement support**: The Scheme scored average in this area. The website www.tsbpensionscheme.co.uk provides members with pension and retirement planner tools. Hargreaves Lansdown also provides the Scheme with an annuity broking service and access to the new pension freedoms on request for members retiring (details included in retirement quote packs). The Trustee has put in place an option that enables members to take their fund as cash at retirement. The Scheme does not provide members with direct access to income drawdown or direct face to face support on retirement funded by the Scheme or TSB. The Trustee recognises that this is an evolving area and provided a simplified and updated Scheme's retirement guide to members asking for a retirement quote from May 2018. The Trustee also keeps the support available from Hargreaves Lansdown under review and will update this as and when appropriate.

4. **Governance:** The Scheme scored above average in this area. A professional Trustee is the sole trustee of the Scheme and meets at least quarterly with the Scheme's advisers and TSB representatives. Bespoke administration and investment reports are monitored at these meetings and various governance logs are reviewed (such as for conflicts of interest and the risk register) with action taken where required.

5. **Administration**: The Scheme scored above average in this area. It has agreed service levels in place with Equiniti, the Scheme Administrator. The service levels are regularly monitored and a dedicated support helpline is available to members. The Trustee and Pensions Manager also hold regular monitoring calls with Equiniti outside of their attendance at Trustee meetings.

6. **Contributions and associated benefits**: The Scheme has a very generous pension contribution structure considered above average for employers. Employer contributions are at least 2.5 times employee contributions. Members are also provided with group life cover at the employer's expense and access to salary sacrifice for pension contributions.

7. **Education and engagement**: The Scheme scored above average in this area. Members are provided with a booklet on joining and have access to a dedicated website with full details on the Scheme. The Scheme also has a communications plan and provides members with an annual newsletter. The above average score also reflects the fact that since August 2016, members have also had access to their pension account online.

Based on this assessment, the Trustee concluded that the Scheme represents good value for members.

Core financial transactions

The Trustee is required to report to you about the processes and controls in place in relation to the "core financial transactions" during the relevant period. The law specifies that these include the following:

- investing contributions paid into the Scheme;
- transferring members' assets into or out of the Scheme;
- transferring assets between different investments within the Scheme; and
- making payments from the Scheme to or on behalf of members.

The Trustee must ensure that these important financial transactions are processed promptly and accurately. In practice the Trustee delegates day-to-day responsibility for this to the Scheme Administrator, Equiniti.

During the relevant period, Equiniti provided regular reports to the Trustee which allowed it to assess how quickly and effectively these core financial transactions were completed. These were reported to be between 99.3% to 100% completed in accordance with service level agreements (SLA) in the monthly reports received during the relevant period. Any mistakes or delays were investigated thoroughly and action was taken not only to put things right as quickly as possible but also to address any underlying problem with the processes being used.

Equiniti also commissions annual internal control reports independently audited by KPMG LLP. These are produced in accordance with the principles established in "Assurance Reports on internal controls of service organisations made available to third parties" issued as AAF 01/06 by the Institute of Chartered Accountants in England and Wales ("AAF 01/06") and the International Standard on Assurance Reporting 3402 ("ISAE 3402") issued by the International Auditing and Assurance Standards Board ("IAASB"). Equiniti has adopted dual reporting under both AAF 01/06 and ISAE 3402. The latest available report confirms

Chairman's Statement (continued)

KPMG's opinion that the controls tested were operating with sufficient effectiveness to provide reasonable assurance throughout the period 1 January 2017 to 31 December 2017.

For accuracy of scheme data and record keeping, Equiniti produced a report for the Trustee in May 2018 that showed the Scheme achieved a common data score of 99% and a conditional data score of 86%. The Trustee has asked Equiniti to correct and cleanse the data where needed. We will provide updated data scores and comments on the work undertaken in the next Chairman's statement.

The Trustee noted in its risk log during the relevant period that the sponsoring employer of the Scheme, TSB Bank plc, had suffered IT system issues, and these were widely reported in the media during Q2 2018. TSB's payroll changed in February 2018 to a new SAP system administered by Sabis, the IT provider within the parent company, Banco Sabadell Group. This risk was discussed at the March 2018 Trustee meeting and confirmation was provided that no issues had been identified at that time. Subsequently, some contribution differences were identified which may have impacted on contributions paid during the last two months of the Scheme Year. Although the details underlying these issues are still being investigated the Trustee understands that there was no adverse impact on members. In the meantime the Trustee is confident that the processes and controls in place with the administrator are sufficiently robust to ensure that the financial transactions which are important to members are dealt with promptly and accurately.

Trustee knowledge and understanding

The law requires the Trustee (or directors of the Trustee) to possess sufficient knowledge and understanding to enable them to properly exercise their functions as a trustee including (in relation to a DC scheme) that they must be conversant with:

a) The trust deed and rules of the scheme.

b) The statement of investment principles.

c) Any other scheme administration policies or scheme documents.

And must have appropriate knowledge and understanding of:

a) The law relating to pensions and trusts.

b) The principles relating to

   i) The funding of occupational pension schemes.

   ii) Investment of the assets of such schemes.

These requirements have been met by virtue of:

- As the sole Trustee of the Scheme, The Law Debenture Pension Trust Corporation plc is a trust corporation and an established provider of Independent Pension Trustees in the UK. It provides professional high quality trustee services. Its Trustee Directors are senior professionals that are based and work together in a single office location. This means they can collaborate on the whole range of technical and client specific matters, ensuring that each scheme benefits from its collective knowledge and experience to receive pragmatic, timely and cost effective input.

Chairman's Statement (continued)

- All the Trustee Directors at Law Debenture have completed the Pensions Regulator's Trustee Toolkit online training and are members of the Association of Professional Pension Trustees.

- All the Trustee Directors undertake continuous professional development (CPD) activity. This includes:

    - A programme of external meetings with external advisers, fund managers, investment banks and other industry participants to discuss developments in their respective areas.
    - Bespoke Law Debenture training sessions on particular areas of interest.
    - Investment and pensions seminars and conferences including moderating sessions and speaking.
    - Schemes' own training sessions.
    - Participation within a range of trade associations and professional bodies including the Pensions Management Institute, Institute and Faculty of Actuaries, Pensions and Lifetime Savings Association, Association of Professional Pension Trustees, Society of Pension Professionals and the Pension Fund Investment Forum.
    - On-going interaction within the multi-disciplinary Law Debenture team.

- In addition to this CPD activity, Law Debenture has a comprehensive management and reporting structure centred on ongoing staff development, peer input and review. The team has monthly management meetings and semi-annual away days where both business strategy and client case studies are discussed.

- Law Debenture has an AAF Assurance report detailing its control objectives and procedures.

- Over the period covered by this Statement Law Debenture was represented by David Curtis. As a qualified actuary David is required to complete a minimum level of training and development in both technical and professional areas and this is monitored by the Institute and Faculty of Actuaries. This ensures David is up to date with the principles relating to the funding and investment of pension schemes. David has over 35 years of pensions experience and, immediately before joining Law Debenture, spent 12 years heading up pensions and benefits for an international bank. The responsibilities of this role included the design, management and development of the UK defined contribution plan.

- Time is allocated at each Trustee meeting to receive updates on current legal, investment and administrative issues and training on specific issues which, during the year covered by this Statement, included the General Data Protection Regulation and assessing value for members. This ensures the Trustee is up to date with pensions law and is conversant with scheme documentation and policies.

The Law Debenture Pension Trust Corporation plc. is registered in England at Fifth Floor, 100 Wood Street, London, EC2V 7EX; company number 3267461.

Signed on behalf of the Trustee

.... Chairman

31/10/18

TSB Pension Scheme

Statement of Investment Principles

October 2016

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Section 1: Introduction

Scheme details

1.1. This document describes the investment policy pursued by the Trustee of the TSB Pension Scheme ("the Scheme").

1.2. The Scheme is a registered pension scheme under the Finance Act 2004.

Pensions Acts

1.3. Under the Pensions Act 1995 (as amended by the Pensions Act 2004), the Trustee is required to prepare a statement of the principles governing investment decisions. This document contains that statement and describes the investment principles adopted by the Trustee of the Scheme.

1.4. Before preparing this document, the Trustee consulted the sponsor, TSB Bank plc ('the Sponsor') and the Trustee will consult the Sponsor before revising this document. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustee.

1.5. In drawing up this document, the Trustee has sought advice from the Scheme's investment consultant, KPMG LLP. Before preparing this document the Trustee has had regard to the requirements of Section 36 of the Pensions Act 1995 concerning diversification and suitability of investments and the Trustee will consider those requirements on any review of this document or any change in its investment policy. The Trustee will refer to this document where necessary to ensure that it exercises its powers of investment so as to give effect to the principles set out in it as far as is reasonable.

Financial Services and Markets Act 2000

1.6. In accordance with the Financial Services and Markets Act 2000, the Trustee will set general investment policy, but will delegate the responsibility for selection of specific investments to appointed investment managers, which may include an insurance company or companies.

The Myners Code

1.7. The Myners review was a wide-ranging report into the investment decision making process of UK pension fund trustees. One of the recommendations is that pension funds should embrace a range of best practice principles, covering a broad range of issues from governance to benchmarks. The Myners Code has been updated for defined contribution schemes in the form of the Investment Governance Group ('IGG') Principles. These six principles are outlined in Appendix B. The Trustee has had regard to the Myners code and the IGG Principles, in the process of preparing this document.

Section 2: Division of Responsibilities

2.1. The Trustee has ultimate responsibility for decision-making on investment matters. In order to ensure that investment decisions are taken only by persons or organisations with the skills, information and resources necessary to take them effectively, the Trustee delegates some of these responsibilities.

Trustee

2.2. The Scheme Trustee's responsibilities include:

- (i) Reviewing the content of this Statement of Investment Principles and modifying it, if deemed appropriate, in consultation with the investment consultant and the Sponsor.
- (ii) Developing a business plan for the Scheme.
- (iii) Assessing its own performance and those of its advisers and delegates in fulfilling the requirements of the business plan.
- (iv) Reporting to Scheme members as appropriate on the content of and compliance with this statement.
- (v) Monitoring investment arrangements on an on-going basis.
- (vi) Communicating and providing reasonable assistance to help members make informed retirement savings decisions and monitor their progress.
- (vii) Appointing and discharging the investment manager(s).
- (viii) Assessing the quality of the performance and processes of the investment managers by means of regular reviews of the investment results and other information, in consultation with the investment consultant.
- (ix) Monitoring and considering the appropriateness of the investment strategy, having regard to the need for diversification of investment so far as is appropriate and to the suitability of investments.
- (x) Engaging with each investment manager about their preferred benchmarks and policies for shareholder activism and transaction cost minimisation.

Members

2.3. The individual member is responsible for:

- (i) Investing in suitable investment funds from the range (including the 'LifePlan', the Scheme's lifestyling option) provided by the Scheme.
- (ii) Ensuring these investment choices are appropriate to their personal circumstances and needs.
- (iii) Keeping the chosen investment choices under review to ensure they continue to meet their personal circumstances and needs.

Investment managers

2.4. The investment managers' responsibilities include:

- (i) At their discretion, but within the guidelines for each individual fund, implementing changes in the asset mix and selecting securities within each asset class.
- (ii) Informing the Trustee of any changes in the internal performance objective and guidelines of any pooled fund used by the Scheme as and when they occur, as well as any change in personnel and business.
- (iii) Providing the Trustee with quarterly statements of the assets together with a quarterly report on actions and future intentions and any changes to the processes applied to the portfolio.
- (iv) The independent safekeeping of the assets and appropriate administration (including income collection and corporate actions) within any pooled funds used by the Scheme.

Investment Consultant

2.5. The investment consultant's responsibilities include:

(i) Assisting the Trustee in reviews of this Statement of Investment Principles.

(ii) Undertaking project work as required including transitions and implementations, strategy reviews and reviews of the platform provider and the investment managers.

(iii) Advising the Trustee on:

- as requested, how any changes within the Scheme's membership profile may affect the manner in which the assets should be invested
- how any changes in the investment managers' organisations could affect the interests of the Scheme
- how any changes in the investment environment could either present opportunities or problems for the Scheme.
- any changes to investment legislation that the Trustee will need to comply with.

Section 3: Objective and Investment

Strategy

3.1. The Scheme is a defined contribution scheme and therefore members' benefits are dependent on the amount of money paid into their individual accounts, performance of investments and the cost of securing benefits at retirement.

Investment Objective

3.2. The Trustee's objective is to make available to members a programme of investment via pooled funds which seeks to generate income and capital growth which will provide a fund at retirement.

Investment Strategy

3.3. A full list of the range of funds offered is shown in Appendix A. This includes the 'LifePlan' as the Scheme's lifestyling option.

3.4. The assets in excess of the member accounts are to be invested in cash and cash-like assets to meet expected cashflow requirements over a 6 month period.

Default Option

3.5. The Trustee offers members the option to invest in the range of funds described in Appendix A entirely at their discretion. The Trustee has designated the Destination Drawdown LifePlan strategy as the default investment option for the Scheme. More information on the investments held in the default strategy is provided at Appendix A.

3.6. The Destination Drawdown LifePlan strategy has been constructed following analysis of the membership of the Scheme. The Trustee also considered the various options that members will have regarding the way in which they draw their benefits in retirement, and the charge cap that became effective for default investment options from 6 April 2015.

3.7. The Trustee's aim is that the medium to long term return of the growth phase of the default option (i.e. the equity and diversified fund) will exceed salary and price inflation. The Trustee believes it is important to manage volatility in this phase and as such the diversified fund has been included in the lead up to retirement to reduce the expected volatility of returns.

3.8. As the member approaches retirement, the default option automatically transfers the member's investments into a diversified fund and a cash fund. The cash fund provides protection against changes in short-term capital values and aims to match the tax free lump sum members are likely to take at retirement. This strategy is aimed at members targeting drawdown at retirement and is intended to take into account members' greater capacity for risk early on and reduced capacity for risk in later years.

3.9. The retirement outcomes of the Destination Drawdown LifePlan strategy will be reviewed at least triennially or earlier in the event of any significant changes in the investment policy or member demographics. The review will take into account the manner in which members take their benefits from the Scheme and any significant changes in the demographic profile of the relevant members.

3.10. The Trustee's policies in relation to the default arrangement in respect of matters set out in Regulation 2(3) of the Occupational Pension Schemes (Investment) Regulations 2005, as amended, are those set out in the rest of this statement.

Expected Risk and Return

3.11. The investment options invest in the following assets which have the following risk and expected return characteristics:

(i) Equities – expected to produce returns in excess of rates of salary and price inflation in the medium to long term. Capital values may be highly volatile in the short term.

(ii) Diversified assets – expected to produce returns in excess of rates of salary and price inflation in the medium to long term. Capital values may be volatile in the short term although this is expected to be less than for equities.

(iii) Bonds – capital values are likely to be less volatile than equities but tend to produce lower returns in the medium to long term. The value of bonds is expected to move broadly in line with the price of annuities, providing some protection to the 'purchasing power' of a member's account near retirement, should they choose to purchase an annuity.

(iv) Cash – low risk to capital and asset values are easily realisable with limited investment returns associated with the low risk nature of the assets.

Section 4: Other investment policies

The Trustee also faces other requirements relating to investment, be they legislative or considered best practice.

Choosing investments

4.1. The Trustee has appointed investment managers who are authorised under Financial Services and Markets Act 2000 to undertake investment business, and regulated by the FCA. After gaining (and reconfirming at least annually) appropriate investment advice, the Trustee has specified the asset allocation of every manager. Investment choice has been delegated to the managers subject to defined tolerances relative to their respective benchmarks.

4.2. In this context, investment advice is defined by Section 36 of Pensions Act 1995 (as amended).

Socially responsible investments

4.3. The Trustee has delegated responsibility for the selection, retention and realisation of investments to the investment managers (within certain guidelines and restrictions). The Trustee's policy is that the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments is left to the discretion of the active investment managers.

Active ownership

4.4. The Trustee will require any investment manager appointed to report annually on corporate governance and particularly on the manager's voting record. The Trustee accepts that, in general, an investment manager is likely to choose to support and vote with incumbent company management, and that therefore "exception reporting" is expected. The Trustee has asked the investment managers to report exceptions to the Stewardship Code. The Stewardship Code should be followed in so far as it is possible to do so without restricting the investment decisions being taken. Significant shareholder action other than voting against incumbent management (for example, the acceptance of a hostile take-over bid) should also be reported. Again, an immediate report to the Trustee may be appropriate where an issue is particularly contentious or topical.

Rights attaching to investments

4.5. The Trustee's policy is to delegate responsibility for the exercise of rights (including voting rights) attaching to investments to the investment managers.

4.6. The Trustee periodically reviews reports from investment managers to ensure that the policies outlined in sections 4.3 and 4.4 are being met.

Liquidity and realisation of investments

4.7. The members' accounts are held in funds which can be realised to provide pension benefits on retirement, or earlier on transfer to another pension arrangement.

Diversification

4.8. The Trustee believes that the provision of the investment funds and LifePlan (the Scheme's lifestyling option) is likely to meet the Scheme members' investment needs and that these funds provide adequate diversification opportunities for them.

Suitability

4.9. The Trustee has taken advice from the investment consultant to ensure that the investment options specified above are suitable for the Members. The Trustee continues to monitor, and take advice on, the various options on an on-going basis.

Section 5: Investment Manager Arrangements

Investment Manager Structure

5.1. Currently, the Scheme offers members a range of self-select and lifestyling investment options, held via an investment platform provided by Zurich Assurance Ltd, as listed in Appendix A.

5.2. The Trustee's policy is to obtain on-going advice on whether these funds continue to be satisfactory as required by the Pensions Act.

5.3. The investment managers have regard to:

(i) at their discretion, but within the guidelines for each individual fund, implementing changes in the asset mix and selecting securities within each asset class

(ii) informing the Trustee of any changes in the internal performance objective and guidelines of any pooled fund used by the Scheme as and when they occur

5.4. The Trustee recognises that the Myners Code recommends that investment managers should be given freedom to use financial instruments, unless specific circumstances of the Scheme preclude their use. The Trustee is satisfied that suitable freedom is given to each manager.

5.5. The Trustee has delegated day-to-day management of the assets to the investment managers.

Performance Objectives

5.6. Whilst the Trustee is not involved in each investment managers' day to day method of operation and therefore cannot directly influence attainment of the performance target, it will regularly assess performance and review appointments. A set of measurable objectives has been developed for each investment manager consistent with the achievement of the Scheme's longer term objectives with an acceptable level of risk.

5.7. The investment managers set performance objectives and risk tolerances for each of the Scheme's funds. The Trustee considers these investment performance objectives to be appropriate to assess each fund's performance against.

5.8. The investment objectives will be treated as a target only and will not be considered as an assurance or guarantee of the performance or risk of the Scheme or any part of it.

5.9. The Trustee recognises that the active managers' performance will be volatile and that they will not always achieve their target. Nonetheless, the managers should demonstrate that the skill exercised in managing the portfolios is consistent with the target given the levels of risk adopted.

Fees

5.10. The Trustee has accepted the fees of the Scheme's investment managers in line with the manager's stated fee scale.

5.11. The Scheme's investment consultants, KPMG LLP, will be paid for their services by the Sponsor, based on time cost (or as agreed in advance for specific projects).

Soft commission

5.12. The Scheme's investment managers do not enter into soft commission arrangements with brokers in relation to the Scheme's assets.

Section 6: Risk Management

6.1. The Trustee recognises specific investment risks which can be managed using the range of investment options provided to the members. These are:

(i) 'Inflation risk' - the risk that the investment return over members' working lives does not keep pace with inflation.

(ii) 'Conversion risk' - the risk that relative market movements in the years just prior to retirement lead to substantial reduction in the pension (should members choose to purchase an annuity) and cash lump sum secured.

(iii) 'Shortfall' or 'opportunity cost' risk - the risk that members end up with insufficient funds at retirement.

(iv) 'Manager risk' - the risk that the chosen investment manager underperforms the benchmark against which the investment manager is assessed.

(v) 'Capital risk' - the risk of a fall in the value of the members' fund.

6.2. The funds offered through the Scheme have been chosen, in part, to help members mitigate these risks. The Trustee recognises a number of risks involved in the investment of the assets of the Scheme:

1) Manager risk:
   (i) is measured by the expected deviation of the prospective risk and return, as set out in the managers' objectives, relative to the investment policy;
   (ii) is managed by monitoring the actual deviation of returns relative to the objective and factors supporting the managers' investment processes.
2) Liquidity risk:
   (i) is measured by the amount of a pooled fund investment that can be redeemed by members over a specified period;
   (ii) is managed by typically offering members pooled funds that are readily redeemable in normal circumstances at reasonable prices.
3) Political risk:
   (i) is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention;
   (ii) is managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy.
4) Diversification risk:
   (i) is measured by observing the relative and absolute volatility of the investment options;
   (ii) is managed through the selection of broad-based funds that show internal diversification, as well as by offering the membership a fund range which provides for reasonable diversification.
5) Currency risk:
   (i) is measured by observing the difference between hedged and unhedged returns;
   (ii) is managed by providing the membership with a number of GBP based investment options and communicating those funds which invest overseas.

Section 7: Compliance with and Review of this Statement

Compliance with this Statement

7.1. The Trustee will monitor compliance with this Statement annually.

Review of this Statement

7.2. The Trustee will review this Statement in response to any material changes to any aspects of the Scheme, its membership profile and the attitude to risk of the Trustee, which it judges to have a bearing on the stated investment policy.

7.3. This review will occur no less frequently than every three years. Any such review will be based on written expert investment advice and the Sponsor will be consulted.

Appendix A: Fund range for members

The following investment options are open to all members:

Investment Option	Underlying Investment Manager(s)	Invests in	Total Expense Ratio (%)
LifePlan	LGIM & BlackRock	See below	Composite of underlying fund charges
Growth Fund	LGIM & BlackRock	75% global equities including UK and emerging markets (75% currency hedged) and 25% diversified range of asset classes.	0.11
Global Equity Fund	LGIM	Global equities including UK and emerging markets (75% currency hedged).	0.049
Diversified Fund	BlackRock	Diversified range of asset classes	0.260
Cash Fund	LGIM	Cash deposits and money market instruments	0.050
Mixed Bond Fund	LGIM	Fixed interest bonds	0.043
UK Equity Fund	LGIM	UK equities	0.028
North America Equity Fund	LGIM	US and Canadian equities	0.040
Continental Europe Equity Fund	LGIM	European (excluding UK) equities	0.043
Japan Equity Fund	LGIM	Japanese equities	0.045
Asia Pacific excluding Japan Equity Fund	LGIM	Asian and Pacific Rim equities (excluding Japan)	0.048
Emerging Markets Equity Fund	LGIM	Emerging markets equities	0.300
Property Fund	LGIM	Commercial property	0.570
Index-Linked Gilt Fund	LGIM	Index-linked bonds	0.030
Corporate Bond Fund	LGIM	Corporate bonds	0.043

The Diversified, Cash and Property funds are actively managed. The Growth Fund contains some active and some passive management. All other funds are passively managed.

The Global Equity Fund (and the allocation to this Fund within the Growth Fund) hedges foreign currency exposure of 75% of the overseas assets. The other regional equity funds do not undertake any currency hedging.

Members may only invest in either one LifePlan strategy, or in the range of PersonalChoice funds.

LifePlan

LifePlan is the name for the Scheme's lifestyling option(s).

Members are able to choose from 3 LifePlan strategies which all invest in the Growth Fund until 10 years from a member's Target Retirement Date. Over the final 10 years the strategies invest as follows:

Destination Drawdown:

Begins switching into the Diversified Fund ten years from Target Retirement Date and the Cash Fund three years from Target Retirement Date. At retirement the strategy is invested 75% Diversified Fund and 25% Cash Fund.

Destination Pension Annuity:
Begins switching into the Mixed Bond Fund ten years from Target Retirement Date and the Cash Fund three years from retirement. At retirement the strategy is invested 75% Mixed Bond Fund and 25% Cash Fund.

Destination Cash:
Begins switching into the Diversified Fund ten years from retirement and the TSB Cash Fund three years from retirement. At retirement the strategy is invested 100% Cash Fund.

Default investment option

As the Sponsor auto-enrols new members into the Scheme, a default investment option is required in the event that members do not specify a preferred investment choice themselves. The default investment option for TSB Pension Scheme is the Destination Drawdown LifePlan strategy.

Appendix B: The IGG Principles

Principle 1: Clear roles and responsibilities

Roles and responsibilities in relation to investment decision-making and governance are clearly defined and communicated to interested parties.

Decision makers:

(i) Are those responsible for investment governance and they must decide which responsibilities are allocated to which roles within the operation of the pension plan. A decision maker can be an employer, trustee, provider, adviser or member representative.

(ii) Should record the roles and responsibilities of each stakeholder, including delegations of responsibilities, in an investment governance plan or as part of the Statement of Investment Principles (where one exists).

(iii) Should make all decision makers and scheme members aware of the allocation of responsibilities among the decision makers, particularly those responsibilities which members must take on in relation to their own pension planning.

(iv) Should identify and document any conflicts of interest together with a plan to manage those conflicts where appropriate.

(v) Should agree a policy on responsible ownership, to the extent that it is practical in the context of the funds offered or under consideration, monitor its implementation and report on it to interested parties, including members and member representatives.

Principle 2: Effective decision-making

Decisions relating to investment governance are taken on a fully informed basis and the investment governance processes are sound.

Decision makers should:

(i) Have or acquire the relevant knowledge, understanding and skills to take decisions, which may be based on advice from those reasonably expected to have the necessary expertise.

(ii) Make available sufficient time and resources for making investment governance decisions.

(iii) Develop an investment strategy and options which are within their governance capabilities.

(iv) Exercise sufficient control to allow them to adapt and develop their strategy as circumstances and market conditions require.

(v) Be sufficiently familiar with scheme documentation, regulatory requirements and supporting guidance to enable them to observe these principles and carry out their duties in accordance with the requirements set out in these documents.

(vi) Regularly assess the effectiveness of the investment decision-making and governance process with reference to investment performance, make improvements to the process as appropriate and report to interested parties (including members).

(vii) Regularly review the management of any external investment advisers, their contracts and their remuneration.

(viii) Produce guidelines for the selection of investment managers and apply them consistently.

Principle 3: Appropriate investment options

The investment options provided take account of a range of member risk profiles and needs and are designed appropriately.

Decision makers should:

(i) Offer an appropriate default strategy (see Principle 4).
(ii) Consider the number of funds (as components of the investment options or as standalone entities) to be made available and how the number on offer might impact the ability of members to make effective investment decisions.
(iii) Offer an adequate range of investment options given the expected risk tolerances and requirements of scheme members, including the likely format and structure of their retirement benefits, and consider how these options may change as they approach retirement.
(iv) Consider:
- the way investment options are classified and described with a view to making it easier for members to make appropriate choices (e.g. through the use of a core fund range or listing funds by risk rating of asset type);
- the operational characteristics of funds including dealing frequency and liquidity;
- the costs, including management fees and other fund expenses;
- the security and stability of the firm(s) providing investment management services and products.

(v) Ensure that the investment options/funds offered have appropriate names, clear investment objectives and relevant benchmarks.
(vi) Produce guidelines for the removal of investment managers and for any alteration to the range of investment options/funds and apply them consistently.
(vii) Ensure that investment fees/costs are reasonable and competitive given the performance expectations of the fund.

Principle 4: Appropriate default strategy

An appropriately designed investment strategy is offered for members who prefer not to make a choice.

Decision makers should:

(i) Ensure the default strategy meets the requirements described in Principle 3.
(ii) Allow appropriate time for design, review and monitoring of the default strategy as compared with other investment options.
(iii) Ensure there are clearly defined strategic objectives for the default strategy in terms of the levels of risk and returns inherent in achieving the desired outcomes for members.
(iv) Ensure the membership data on which the default strategy is based is as robust and detailed as is practical.
(v) Ensure the design of an appropriate default strategy considers, as far as is possible, the needs of the broad membership, including:
- risk and return (net of fees/costs);
- its position in relation to all other investment options;
- members' expected term to retirement;
- members' attitude to risk;

- the expected format and structure of their retirement benefits.

(vi) Ensure that investment fees/costs are reasonable and competitive given the performance expectations of the strategy.

Principle 5: Effective performance assessment

Performance of the options is monitored and reported.

Decision makers should:

(i) Regularly assess the default strategy against its strategic objectives and its future likelihood of delivering to these objectives.

(ii) Regularly assess the performance of each investment option, and the constituent components of the default strategy, against its stated performance objectives and its future likelihood of delivering to these objectives.

(iii) Consider removing any investment option which is not expected to perform well against its objectives from the range of options on offer.

(iv) Spend an appropriate amount of time and resources reviewing and managing each investment option.

(v) Monitor the suitability of any investment wrapper and be prepared to swap to other arrangements when appropriate.

(vi) Report performance including net of fees, risks and any alterations to members (expanded in Principles 1 and 6).

Principle 6: Clear and relevant communication

Clear information on the investment options and their characteristics that will allow members to make informed choices is provided.

Decision makers should ensure scheme members receive effective and relevant communications. Such communications should:

(i) Be tailored to the expertise of the members, using plain language and an appropriate format to engage their interest.

(ii) State the investment objectives, benchmarks and fees for all funds together with the risk/return characteristics of each fund in such a way as to enable members to make a meaningful choice between them.

(iii) Provide or signpost tools, seminars and further information that can help members to understand the basic tenets of investment strategy including, most particularly, the interaction between risk and return.

(iv) Provide or signpost tools to help members to appreciate that the contribution levels, term to retirement, net investment returns affect the size of the fund which will be available to them to provide a retirement income.

(v) Provide members with regular and consistent performance reporting, net of fees, on the investment options available to them.

(vi) Provide members with timely investment information relevant to their term to retirement and the decisions they will need to make to secure an income.

(vii) Set out clearly the options which will be available at retirement emphasising the importance of shopping around and how members can seek advice and guidance.

(viii) Provide members with access to the scheme's Governance Plan, or equivalent document.