Lloyds Bank Plc

2021 Year-End
Pillar 3 Disclosures

31 December 2021

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FORWARD LOOKING STATEMENTS

This document contains certain forward looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934, as amended, and section 27A of the US Securities Act of 1933, as amended, with respect to the business, strategy, plans and/or results of Lloyds Bank plc together with its subsidiaries (the Lloyds Bank Group) and its current goals and expectations. Statements that are not historical or current facts, including statements about the Lloyds Bank Group's or its directors' and/or management's beliefs and expectations, are forward looking statements. Words such as, without limitation, 'believes', 'achieves', 'anticipates', 'estimates', 'expects', 'targets', 'should', 'intends', 'aims', 'projects', 'plans', 'potential', 'will', 'would', 'could', 'considered', 'likely', 'may', 'seek', 'estimate', 'probability', 'goal', 'objective', 'deliver', 'endeavour', 'prospects', 'optimistic' and similar expressions or variations on these expressions are intended to identify forward looking statements. These statements concern or may affect future matters, including but not limited to: projections or expectations of the Lloyds Bank Group's future financial position, including profit attributable to shareholders, provisions, economic profit, dividends, capital structure, portfolios, net interest margin, capital ratios, liquidity, risk-weighted assets (RWAs), expenditures or any other financial items or ratios; litigation, regulatory and governmental investigations; the Lloyds Bank Group's future financial performance; the level and extent of future impairments and write-downs; the Lloyds Bank Group's ESG targets and/or commitments; statements of plans, objectives or goals of the Lloyds Bank Group or its management and other statements that are not historical fact; expectations about the impact of COVID-19; and statements of assumptions underlying such statements. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend upon circumstances that will or may occur in the future. Factors that could cause actual business, strategy, plans and/or results (including but not limited to the payment of dividends) to differ materially from forward looking statements include, but are not limited to: general economic and business conditions in the UK and internationally; market related risks, trends and developments; risks concerning borrower and counterparty credit quality; fluctuations in interest rates, inflation, exchange rates, stock markets and currencies; volatility in credit markets; volatility in the price of our securities; any impact of the transition from IBORs to alternative reference rates; the ability to access sufficient sources of capital, liquidity and funding when required; changes to the Lloyds Bank Group's or Lloyds Banking Group plc's credit ratings; the ability to derive cost savings and other benefits including, but without limitation, as a result of any acquisitions, disposals and other strategic transactions; inability to capture accurately the expected value from acquisitions; potential changes in dividend policy; the ability to achieve strategic objectives; insurance risks; management and monitoring of conduct risk; exposure to counterparty risk; credit rating risk; tightening of monetary policy in jurisdictions in which the Lloyds Bank Group operates; instability in the global financial markets, including within the Eurozone, and as a result of ongoing uncertainty following the exit by the UK from the European Union (EU) and the effects of the EU-UK Trade and Cooperation Agreement; political instability including as a result of any UK general election and any further possible referendum on Scottish independence; operational risks; conduct risk; technological changes and risks to the security of IT and operational infrastructure, systems, data and information resulting from increased threat of cyber and other attacks; natural pandemic (including but not limited to the COVID-19 pandemic) and other disasters; inadequate or failed internal or external processes or systems; acts of hostility or terrorism and responses to those acts, or other such events; geopolitical unpredictability; risks relating to sustainability and climate change (and achieving climate change ambitions), including the Lloyds Bank Group's or the Lloyds Banking Group's ability along with the government and other stakeholders to measure, manage and mitigate the impacts of climate change effectively; changes in laws, regulations, practices and accounting standards or taxation; changes to regulatory capital or liquidity requirements and similar contingencies; assessment related to resolution planning requirements; the policies and actions of governmental or regulatory authorities or courts together with any resulting impact on the future structure of the Lloyds Bank Group; failure to comply with anti-money laundering, counter terrorist financing, anti-bribery and sanctions regulations; failure to prevent or detect any illegal or improper activities; projected employee numbers and key person risk; increased labour costs; assumptions and estimates that form the basis of our financial statements; the impact of competitive conditions; and exposure to legal, regulatory or competition proceedings, investigations or complaints. A number of these influences and factors are beyond the Lloyds Bank Group's control.. Please refer to the latest Annual Report on Form 20-F filed by Lloyds Bank plc with the US Securities and Exchange Commission (the SEC), which is available on the SEC's website at www.sec.gov, for a discussion of certain factors and risks. Lloyds Bank plc may also make or disclose written and/or oral forward-looking statements in other written materials and in oral statements made by the directors, officers or employees of Lloyds Bank plc to third parties, including financial analysts. Except as required by any applicable law or regulation, the forward-looking statements contained in this document are made as of today's date, and the Lloyds Bank Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements contained in this document whether as a result of new information, future events or otherwise. The information, statements and opinions contained in this document do not constitute a public offer under any applicable law or an offer to sell any securities or financial instruments or any advice or recommendation with respect to such securities or financial instruments.

Executive summary

COMMON EQUITY TIER 1 RATIO

The Group's common equity tier 1 (CET1) capital ratio has increased to 16.7 per cent (31 December 2020: 15.5 per cent) largely reflecting profits for the year and a reduction in risk-weighted assets, partially offset by dividends paid (net of the brought forward foreseeable dividend accrual), pension contributions made to the defined benefit pension schemes and a release of IFRS 9 transitional relief which largely offset the impairment credit through profits.

TOTAL CAPITAL RATIO

The transitional total capital ratio remained at 23.5 per cent, with the benefit of the increase in CET1 capital and reduction in risk-weighted assets broadly offset by reductions in Additional Tier 1 (AT1) and Tier 2 capital instruments. The latter largely reflected the reduction in transitional limits applied to legacy tier 1 and tier 2 capital instruments and calls made on both AT1 and tier 2 capital instruments, partially offset by new issuances.

UK LEVERAGE RATIO

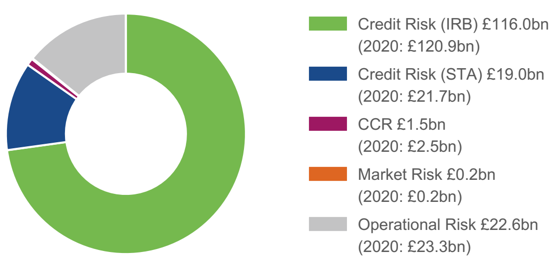
The UK leverage ratio reduced to 5.3 per cent from 5.5 percent at 31 December 2020, as a result of the reduction in the fully loaded total tier 1 capital position which was partially offset by the reduction in the leverage exposure measure, the latter primarily reflecting movements in securities financing transactions and off-balance sheet items, net of increased balance sheet lending.

RISK-WEIGHTED ASSETS

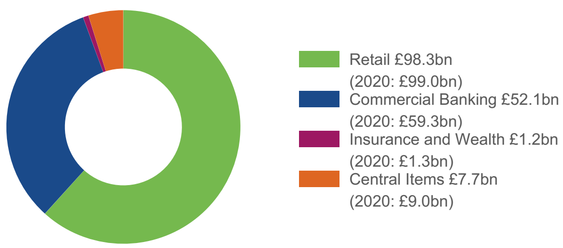
Risk-weighted assets reduced by £9.3 billion, or 5 per cent, from £170.9 billion at 31 December 2020 to £161.6 billion at 31 December 2021. This was primarily as a result of optimisation activity undertaken in Commercial Banking, partially offset by balance sheet growth in the business. Credit migrations have had a limited impact on the risk-weighted asset position, in part due to the increase in house prices.

SPLIT OF RISK WEIGHTED ASSETS

Risk-weighted assets by risk type[1,2]



Split of Risk-weighted assets by division[1]



1 Numbers do not include threshold risk-weighted assets.

2 Counterparty credit risk (CCR) includes contributions to the default fund of central counterparties and credit valuation adjustment risk.

KEY METRICS

The table below provides an overview of the Group's prudential regulatory metrics.

KM1: Key metrics and a comparison of own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 (IFRS9-FL)[1,4]

		31 Dec 2021	30 Sep 2021	30 Jun 2021	31 Mar 2021	31 Dec 2020
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1) (£m)	**26,904**	26,749	26,960	27,069	26,567
2	CET1 capital as if IFRS 9 transitional arrangements had not been applied (£m)	**26,253**	25,696	25,628	25,471	24,591
3	Tier 1 (£m)	**31,853**	31,698	31,909	33,684	33,862
4	Tier 1 capital as if IFRS 9 transitional arrangements had not been applied (£m)	**31,202**	30,645	30,577	32,086	31,886
5	Total capital (£m)	**37,909**	37,149	38,362	40,149	40,163
6	Total capital as if IFRS 9 transitional arrangements had not been applied (£m)	**38,039**	37,202	38,273	39,755	39,422
	Risk-weighted assets (amounts)					
7	Total risk-weighted assets (£m)	**161,576**	166,677	167,190	168,215	170,862
8	Total risk-weighted assets as if IFRS 9 transitional arrangements had not been applied (£m)	**161,805**	166,878	167,332	168,330	171,015
	Risk-based capital ratios as a percentage of RWA					
9	Common Equity Tier 1 ratio (%)	**16.7%**	16.0%	16.1%	16.1%	15.5%
10	CET1 ratio as if IFRS 9 transitional arrangements had not been applied (%)	**16.2%**	15.4%	15.3%	15.1%	14.4%
11	Tier 1 ratio (%)	**19.7%**	19.0%	19.1%	20.0%	19.8%
12	Tier 1 ratio as if IFRS 9 transitional arrangements had not been applied (%)	**19.3%**	18.4%	18.3%	19.1%	18.6%
13	Total capital ratio (%)	**23.5%**	22.3%	22.9%	23.9%	23.5%
14	Total capital ratio as if IFRS 9 transitional arrangements had not been applied (%)	**23.5%**	22.3%	22.9%	23.6%	23.1%
	Additional CET1 buffer requirements as a percentage of RWA					
	Capital conservation buffer requirement	**2.500%**	2.500%	2.500%	2.500%	2.500%
	Countercyclical buffer requirement	**0.003%**	0.003%	0.001%	0.001%	0.001%
	Bank G-SIB and/or D-SIB additional requirements[2]	**2.000%**	2.000%	2.000%	2.000%	2.000%
	Total of bank CET1 specific buffer requirements	**4.503%**	4.503%	4.501%	4.501%	4.501%
	CET1 available after meeting the bank's minimum capital requirements	**12.2%**	11.5%	11.6%	11.6%	11.0%
	UK leverage ratio[3]					
15	UK leverage ratio exposure measure (£m)	**584,650**	591,233	587,248	584,853	593,546
16	UK leverage ratio	**5.3%**	5.2%	5.3%	5.6%	5.5%
17	UK leverage ratio as if IFRS 9 transitional arrangements had not been applied	**5.2%**	5.1%	5.1%	5.4%	5.2%
	Average Liquidity Coverage Ratio (weighted) (LCR)					
	Total High Quality Liquid Assets (HQLA) (£m)	**114,712**	111,625	111,676	113,493	113,434
	Total net cash outflow (£m)	**91,296**	91,979	91,666	91,349	89,844
	LCR ratio (%)	**126%**	121%	122%	124%	126%

1 The Group applies the full extent of the IFRS 9 transitional arrangements for capital as set out under CRR Article 473a (as amended via the CRR 'Quick Fix' revisions published in June 2020). Specifically, the Group has opted to apply both paragraphs 2 and 4 of CRR Article 473a (static and dynamic relief) and in addition to apply a 100 per cent risk weight to the consequential Standardised credit risk exposure add-back as permitted under paragraph 7a of the revisions. As at 31 December 2021, static relief under the transitional arrangements amounted to £264 million (31 December 2020: £370 million) and dynamic relief under the transitional arrangements amounted to £387 million (31 December 2020: £1,606 million) through CET1 capital.

2 The Group is subject to an Other Systemically Important Institution (OSII) Buffer (previously referred to as a Systemic Risk Buffer) of 2.0 per cent of risk-weighted assets which is designed to hold systemically important banks to higher capital standards so that they can withstand a greater level of stress before requiring resolution.

3 The CRD IV leverage ratio at 31 December 2021 is 4.9 per cent (31 December 2020: 5.1 per cent).

4 The Group has chosen not to apply the temporary treatment specified under CRR Article 468 (as amended via the CRR 'Quick Fix' revisions published in June 2020) and therefore the reported own funds, capital and leverage ratios already reflect the full impact of unrealised gains and losses on holdings in government and public sector debt measured at fair value through other comprehensive income.

Introduction

This document presents the consolidated Pillar 3 disclosures of Lloyds Bank plc ('the Group') as at 31 December 2021.

Pillar 3 disclosure requirements are designed to promote market discipline through the provision of key information around capital, risk exposures and risk management.

Under UK law, EU capital rules that existed on 31 December 2020 (including applicable Pillar 3 disclosure requirements) continue to apply to the Group following the end of the transition period for the UK's withdrawal from the European Union, subject to the temporary transitional powers (TTP) granted to the Prudential Regulation Authority (PRA) which extend until 31 March 2022. The Group continues to therefore apply the regulatory framework defined by the Capital Requirements Directive and Regulation (CRD IV), as amended by revisions to the Capital Requirements Directive implemented in December 2020 (CRD V) and by those provisions of the revised Capital Requirements Regulation (CRR II) that came into force in June 2019 and December 2020.

The Group's Pillar 3 disclosures have therefore been prepared in accordance with the requirements of CRD IV, as amended, and associated European Banking Authority (EBA) guidelines and technical standards that were in force on 31 December 2020.

As of 1 January 2022, UK Pillar 3 disclosure requirements are now set out under the new Disclosure Part of the PRA Rulebook. This includes revised disclosure requirements that apply from the same date and which reflect the UK implementation of the remaining provisions of CRR II which are broadly aligned to the equivalent revisions that have already come into force under the EU version of CRR II.

In satisfaction of certain disclosure requirements, reference has been made to the 2021 Lloyds Bank plc Annual Report and Accounts (ARA) and the 2021 Lloyds Bank plc Form 20-F. As such, this document should be read in conjunction with the Annual Report and Accounts (ARA) and Form 20-F, as highlighted throughout the remainder of the document.

INTERNAL CONTROL

The effectiveness of the risk management and internal control systems is reviewed regularly by the Board and the Audit Committee, which also receives reports of reviews undertaken by the Risk Division and Group Internal Audit. A statement from the Board is included within the Lloyds Bank plc Form 20-F (page 93) confirming that the Board concluded that the Group's risk management arrangements were adequate to provide assurance that the risk management systems put in place are suitable with regard to the Group's profile and strategy.

The Chief Finance Officer (CFO) and the Chief Risk Officer (CRO) have also attested that the 2021 Pillar 3 disclosures have been prepared in accordance with the internal control processes agreed upon at the management body level.

PILLAR 3 REQUIREMENTS NOT INCLUDED IN EITHER THE ANNUAL REPORT AND ACCOUNTS OR THE LLOYDS BANK PLC PILLAR 3 REPORT

LARGE SUBSIDIARY DISCLOSURES (CRRII ARTICLE 13)

Additional disclosures surrounding the capital resources, leverage exposures and capital requirements of Bank of Scotland plc will be published separately in conjunction with the Annual Report and Accounts for this subsidiary.

CAPITAL INSTRUMENTS AND ELIGIBLE MREL LIABILITIES (CRR ARTICLE 437(1)(B))

A description of the main features of common equity tier 1 (CET1), additional tier 1 (AT1) and tier 2 (T2) instruments issued by the Group and its significant subsidiaries are included in a separate document on the Group's website located at www.lloydsbankinggroup.com/investors/financial-downloads. In addition, the report identifies and provides a description of the main features of those instruments that are recognised as eligible MREL in accordance with the Bank of England's MREL framework. Template TLAC 2 is included within the Pillar 3 disclosures for Lloyds Banking Group plc and details the creditor hierarchy and nominal values of instruments issued by Lloyds Bank plc and Bank of Scotland plc. The Lloyds Banking Group plc 2021 Year-end Pillar 3 Disclosures can be found on the Lloyds Banking Group plc website.

Disclosure policy

The Group maintains a Pillar 3 Disclosure Policy to support compliance with Articles 431- 455 of the CRR and associated EBA guidelines and technical standards that were in force on 31 December 2020. The following sets out the key elements of the disclosure policy including the basis of preparation, frequency, media and location, verification and risk profile disclosure.

BASIS OF PREPARATION

This document contains the consolidated Pillar 3 disclosures of Lloyds Bank plc as at 31 December 2021. A CRR mapping table has been included in Appendix 7, which details how the Group has complied with each of the articles that cover the Pillar 3 disclosure requirements.

A number of significant differences exist between accounting disclosures published in accordance with International Financial Reporting Standards (IFRS) and Pillar 3 disclosures published in accordance with capital regulations, which prevent direct comparison in a number of areas. These include differences surrounding the scope of consolidation, the definition of credit risk exposure and the recognition, classification and valuation of capital instruments.

Details on the scope of consolidation applied to the disclosures presented within this document are provided within the Scope of Consolidation section.

Pursuant to the disclosure requirements under the PRA's Group Financial Support Instrument, and in accordance with the general principles set out in Articles 431-434 of the CRR, Lloyds Bank Group has not entered into any group financial support agreement.

Article 432 of the CRR on non-material, proprietary or confidential information permits institutions to omit one or more disclosures if the information provided by such a disclosure is not regarded as material. As the Group's market risk risk-weighted assets are a small proportion of total risk-weighted assets, the Group has elected to provide only a summary of its market risk positions. Further detail on excluded tables is included in Appendix 6.

CRD IV originally set out transitional arrangements for legacy capital instruments, with full implementation required by 1 January 2022. Consequently, the Group's capital position as at 31 December 2021 is shown by separately applying both the transitional arrangements and the end-point rules (the 'fully loaded' basis) for these legacy capital instruments, as amended by provisions of the revised Capital Requirements Regulation (CRR II) that came into force in June 2019 and which extend the grandfathering period for certain eligible legacy instruments out to June 2025.

The Group applies the full extent of the IFRS 9 transitional arrangements for capital as set out under CRR Article 473a (as amended via the CRR 'Quick Fix' revisions published in June 2020).

The minimum Pillar 1 capital requirements referred to in this document are calculated as 8 per cent of aggregated risk-weighted assets.

BASIS OF CREDIT RISK EXPOSURES

To ensure compliance with both CRR requirements and subsequent EBA guidelines, credit risk exposures are presented on different bases throughout the document. Information on the exposure basis is given either in column headings or supporting narrative within the Pillar 3 Credit Risk section (pages 22 to 75).

Counterparty credit risk exposures are presented on a post CRM basis, unless otherwise stated.

Securitisation positions represent the aggregate of the Group's retained or purchased positions, excluding those positions rated below BB- or that are unrated and therefore deducted from capital.

FREQUENCY, MEDIA AND LOCATION

In accordance with Pillar 3 disclosure requirements the Group will continue to make available its full consolidated Pillar 3 disclosures on an annual basis. A standalone copy of these disclosures is located on the Lloyds Banking Group plc website (www.lloydsbankinggroup.com/investors/financial-downloads).

The Group has previously published limited Pillar 3 disclosures at the interim quarter ends and at half-year in accordance with EBA guidelines. These set out specific Pillar 3 templates that banks were required to disclose on either a quarterly or semi-annual basis. From 1 January 2022, revised requirements on the frequency of publication of certain templates and other disclosures will apply to the Group in accordance with the new Disclosure Part of the PRA Rulebook. This will also reflect revisions made to Pillar 3 disclosure requirements following the UK implementation of the remainder of CRR II.

VERIFICATION

The disclosures presented within this document are not required to be subjected to an external audit. Instead, the disclosures have been verified and approved through internal governance procedures in line with the Group's Pillar 3 Disclosure Policy, including the review and approval of the disclosures by the Group's Disclosure Committee and Audit Committee following the receipt of attestations in respect of both the quantitative and qualitative disclosures from Finance and Risk Directors.

RISK PROFILE DISCLOSURE

In accordance with Pillar 3 disclosure requirements, the Group is required to assess whether its external disclosures taken as a whole (including the Group's Annual Report and Accounts and Pillar 3 disclosures) comprehensively portray its risk profile.

In this respect, the 2021 Lloyds Bank plc Annual Report and Accounts provides an in depth analysis of the principal risks and emerging risks to which the Group is exposed, together with further detail on the Group's key risk drivers.

The Group's Pillar 3 disclosures focus primarily on capital risk and the key risk categories behind the Group's Pillar 1 capital requirements (credit, counterparty credit, market and operational risks), providing granular information and analysis in addition to that presented within the 2021 Lloyds Bank plc Annual Report and Accounts.

The relevant analysis is presented in the following sections of the 2021 Lloyds Bank plc Annual Report and Accounts:

– Risk overview, page 5;
– Risk categories, page 23.

Scope of consolidation

The following information sets out the scope of consolidation applied to the disclosures presented within this document.

INTRODUCTION

Lloyds Bank Group is required to calculate consolidated capital requirements and consolidated capital resources based on the prudential consolidation provisions applicable to banks under the CRR, as amended by CRR II revisions on prudential consolidation that came into force in December 2020.

REGULATORY CONSOLIDATION

The scope of regulatory consolidation for the purposes of quantifying consolidated capital requirements and consolidated capital resources extends across the banking and investment operations of the Group. All banking and investment services related undertakings included within the scope of the accounting consolidation are also included within the scope of the regulatory consolidation. There are, however, a number of differences in the methods by which certain undertakings are consolidated or otherwise treated for regulatory capital purposes.

Subsidiary undertakings included within the scope of the regulatory consolidation are fully consolidated, with capital resources determined on a line-by-line (accounting) consolidation basis. Capital requirements are determined either on a line-by-line (accounting) consolidation basis or by aggregating individual subsidiaries' risk capital requirements.

The Group's capital-efficient securitisations and conduit vehicles are fully consolidated for accounting purposes. However, the underlying assets of the capital-efficient securitisations are de-recognised from the regulatory balance sheet and replaced with retained securitisation positions, risk-weighted in line the securitisation framework. In addition, the conduit vehicles are deconsolidated for regulatory purposes and the corresponding liquidity lines are risk-weighted.

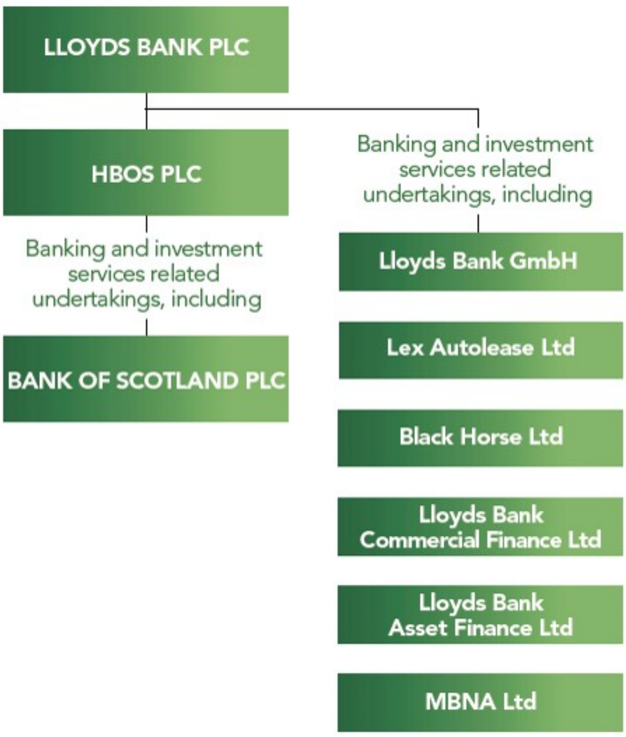
The full list of capital-efficient securitisation and conduit vehicles where the regulatory treatment differs from the accounting treatment is provided in Appendix 5, LI3.

Management practice and policy ensures that capital adequacy is maintained at all levels of banking within the Group in accordance with the appropriate regulatory requirements.

The current legal and regulatory structure of the Group provides a capability for the transfer of surplus capital resources over and above regulatory and internal risk appetite requirements or repayment of liabilities when due throughout the Group. Any such transfer would be subject to legal and regulatory requirements including those required by ring fencing legislation to ensure the Group remains adequately capitalised and any conflicts independently governed. There are no other material barriers to such transfers or repayments.

REGULATORY CONSOLIDATION GROUP

A summarised diagrammatical representation (as at 31 December 2021) of the regulatory consolidation group upon which the disclosures presented within this document are based is provided below.



Scope of consolidation continued

CONSOLIDATED BALANCE SHEET UNDER THE REGULATORY SCOPE OF CONSOLIDATION

The following table provides a reconciliation of the Group's consolidated balance sheet as at 31 December 2021 on an accounting consolidation basis (as presented on pages 82 and 83 of the 2021 Lloyds Bank plc Annual Report and Accounts) to the Group's consolidated balance sheet under the regulatory scope of consolidation. It also breaks down how carrying values under the scope of regulatory consolidation are allocated to the different risk frameworks laid out in Part Three of the CRR.

LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories[1]

	31 Dec 2021					
			Carrying values of items:			
	Carrying values as reported in published financial statements	Carrying values under regulatory scope of consolidation	subject to credit risk framework	subject to counterparty credit risk framework	subject to securitisation framework	not subject to capital requirements or subject to deduction from capital
	£m	£m	£m	£m	£m	£m
Assets						
Cash and balances at central banks	54,279	53,261	53,261	—	—	—
Items in the course of collection from banks	147	147	147	—	—	—
Financial assets at fair value through profit or loss	1,798	1,721	1,486	—	—	—
Derivative financial instruments	5,511	5,513	—	5,596	—	—
Financial assets at amortised cost	490,316	490,800	422,821	47,997	19,983	—
Loans and advances to banks	4,478	5,496	4,894	602	—	—
Loans and advances to customers	430,829	429,942	409,700	584	19,657	—
Reverse Repurchase Agreements	49,708	49,708	2,898	46,810		
Debt securities	4,562	4,107	3,781	—	325	—
Due from fellow Lloyds Banking Group undertakings	739	1,548	1,548		—	—
Financial assets at fair value through other comprehensive income	27,786	27,786	27,786	—	—	—
Goodwill	470	470	—	—	—	470
Other intangible assets	4,144	4,144	1,255	—	—	2,889
Current tax recoverable	220	220	220	—	—	—
Deferred tax assets	4,048	4,048	927	—	—	3,121
Retirement benefit assets	4,531	4,531	—	—	—	4,531
Other assets	9,599	9,599	9,599	—	—	—
Total Assets	602,849	602,239	517,502	53,593	19,983	11,010

Scope of consolidation continued

LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories[1] continued

	31 Dec 2021					
			Carrying values of items:			
	Carrying values as reported in published financial statements	Carrying values under regulatory scope of consolidation	subject to credit risk framework	subject to counterparty credit risk framework	subject to securitisation framework	not subject to capital requirements or subject to deduction from capital
	£m	£m	£m	£m	£m	£m
Liabilities						
Deposits from banks	3,363	3,363	—	—	—	3,363
Customer deposits	449,373	450,040	—	31,839	—	418,200
Repurchase agreements at amortised cost	30,106	30,106				30,106
Due to fellow Lloyds Banking Group undertakings	1,490	1,490	—	—	—	1,490
Items in course of transmission to banks	308	308	—	—	—	308
Financial liabilities at fair value through profit or loss	6,537	6,537	—	—	—	6,537
Derivative financial instruments	4,643	4,644	—	3,528	—	1,117
Notes in circulation	1,321	1,321	—	—	—	1,321
Debt securities in issue	48,724	47,446	—		—	47,446
Other liabilities	5,391	5,354	—	—	—	5,354
Retirement benefit obligations	230	229	—	—	—	229
Current tax liabilities	—	—	—	—	—	—
Other provisions	1,933	1,933	—	—	—	1,933
Subordinated liabilities	8,658	8,658	—	—	—	8,658
Total Liabilities	562,077	561,430	—	35,367	—	526,063

1 Information on exposures subject to the market risk framework has been excluded on grounds of materiality.

Differences between accounting and regulatory scopes of consolidation: Conduit securitisation vehicles are deconsolidated for regulatory purposes and the corresponding liquidity facilities are risk weighted as described in the Securitisation section on pages 76 to 86. The regulatory consolidation group diagram on page 8 highlights the key undertakings of the Group that are included in the scope of regulatory consolidation.

The table provides the breakdown of how the amounts reported in consolidated regulatory balance sheet correspond to regulatory risk framework categories. Certain items included in these columns are subject to more than one risk framework. As a consequence, the total reported in the 'Carrying Values under regulatory scope of consolidation' column may not equal the sum of all the risk framework categories.

Not subject to capital requirements or subject to deduction from capital: Includes items which are not subject to capital requirements, as well as assets that are ultimately deducted from own funds and which are therefore not risk-weighted. See Appendix 1: Items extracted from the consolidated regulatory balance sheet and reconciliation of own funds items to audited financial statements.

Scope of consolidation continued

REGULATORY BALANCE SHEET ASSETS RECONCILIATION TO EXPOSURE AT DEFAULT (EAD)

A reconciliation of the consolidated regulatory balance sheet to exposure at default (EAD) pre CRM, post CCF for items subject to the credit risk, CCR and securitisation frameworks is presented below.

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

	Items subject to:		
	Credit risk framework	CCR framework	Securitisation framework
	£m	£m	£m
Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	517,502	53,593	19,983
Off balance sheet amounts	79,196	71,571	5,952
Differences due to specific regulatory adjustments	9,295		(325)
Differences due to consideration of provisions	3,416		
Differences due to consideration of collateral, haircuts and netting		(105,533)	
Regulatory Potential Future Exposures		3,652	
Exposure amounts considered for regulatory purposes	609,409	23,283	25,609

The carrying value of assets corresponds to the balances reported in LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories..

Off balance sheet items are stated after the application of credit conversion factors (CCF). Under the credit risk framework, these balances principally consist of undrawn credit facilities. Under the counterparty credit risk framework, the off balance sheet items consist of the collateral given against cash received for securities financing transactions (SFT).

Differences due to specific regulatory adjustments primarily represent the uplift from gross exposure to modelled exposure at default for Retail IRB exposures.

Differences due to consideration of provisions relate to the grossing up of provisions related to IRB exposures.

Differences due to consideration of collateral, haircuts and netting consist of the regulatory calculation adjustments to arrive at the net exposure value.

Risk management

THE GROUP'S APPROACH TO RISK

The Group operates a prudent approach to risk with rigorous management controls to support sustainable business growth and minimise losses. Through a strong and independent risk function (Risk division), a robust control framework is maintained to identify and escalate current and emerging risks, support sustainable growth within the Group's risk appetite, and to drive and inform good risk reward decision-making.

To meet ring-fencing requirements, core UK retail and commercial financial services and ancillary retail activities are ring-fenced from other activities of the Lloyds Banking Group. The Group has adopted the enterprise risk management framework (ERMF) of Lloyds Banking Group and supplemented with additional tailored practices to address the ring-fencing requirements.

Risk culture

Based on the Group's prudent business model, prudent approach to risk management, and guided by the Board, the senior management articulates the core risk values to which the Group aspires, and sets the tone at the top. Senior management establishes a strong focus on building and sustaining long-term relationships with customers, through the economic cycle. The Group's Code of Responsibility reinforces colleagues' accountability for the risks they take and their responsibility to prioritise their customers' needs.

Risk appetite

Risk appetite is defined within the Group as the amount and type of risk that the Group is prepared to seek, accept or tolerate in delivering its strategy.

The Group's risk appetite statement details the risk parameters within which the Group operates. The statement forms part of the Group's control framework and is embedded into its policies, authorities and limits, to guide decision-making and risk management. Group risk appetite is regularly reviewed and refreshed to ensure appropriate coverage across our principal risks and any emerging risks, and to align with internal or external change.

The Board is responsible for approving the Group's Board risk appetite statement annually. Group Board-level metrics are augmented by further sub-Board-level metrics and cascaded into more detailed business appetite metrics and limits.

Governance and control

The Group's approach to risk is based on a robust control framework and a strong risk management culture which are the foundation for the delivery of effective risk management and guide the way all employees approach their work, behave and make decisions.

Governance is maintained through delegation of authority from the Board to individuals through the management hierarchy. Senior executives are supported where required by a committee-based structure which is designed to ensure open challenge and support effective decision-making.

The Group's risk appetite, principles, policies, procedures, controls and reporting are regularly reviewed and updated where needed to ensure they remain fully in line with regulation, law, corporate governance and industry good practice.

The interaction of the executive and non-executive governance structures relies upon a culture of transparency and openness that is encouraged by both the Board and senior management.

Board-level engagement, coupled with the direct involvement of senior management in Group-wide risk issues at Group Executive Committee level, ensures that escalated issues are promptly addressed and remediation plans are initiated where required.

Line managers are directly accountable for identifying and managing risks in their individual businesses, ensuring that business decisions strike an appropriate balance between risk and reward and are consistent with the Group's risk appetite.

Clear responsibilities and accountabilities for risk are defined across the Group through a three lines of defence model which ensures effective independent oversight and assurance in respect of key decisions.

Risk decision making and reporting

Risk analysis and reporting enables better understanding of risks and returns, supporting the identification of opportunities as well as better management of risks.

An aggregate view of the Group's overall risk profile, key risks and management actions, and performance against risk appetite, including the CRR, is reported to and discussed monthly at the Group Risk Committee with regular reporting to the Board Risk Committee and the Board.

Rigorous stress testing exercises are carried out to assess the impact of a range of adverse scenarios with different probabilities and severities to inform strategic planning.

The Chief Risk Officer regularly informs the Board Risk Committee of the aggregate risk profile and has direct access to the Chair and members of Board Risk Committee.

The most significant risks the Group faces which could impact delivery of its strategy together with key mitigating actions, in line with the Risk Management framework, are outlined in the Risk Overview section of the 2021 Lloyds Bank Group plc Annual Report and Accounts, pages 5 to 9.

Details of the Group's application of stress testing, the methodologies applied, use of reverse stress testing and governance are presented in the Risk Management section of the 2021 Lloyds Bank Group plc Annual Report and Accounts, page 20.

Further details on the Group's risk governance are presented in the Risk Management section of the 2021 Lloyds Bank Group plc Annual Report and Accounts, pages 21 to 23.

Further details on the Group's risk management processes in relation to the key risk drivers that do not fall under the scope of the Group's Pillar 3 disclosures are presented in the Risk Management section of the 2021 Lloyds Banking Group plc Annual Report and Accounts, as follows:

Funding and liquidity risk, page 43; Change / execution risk page 55; Conduct Risk page 56; Data Risk page 58; People risk, page 59; Operational resilience risk page 60; Regulatory & Legal risk page 65, Strategic risk page 66 and Climate Risk page 67.

CAPITAL MANAGEMENT

THE GROUP'S APPROACH TO CAPITAL RISK

DEFINITION

Capital risk is defined as the risk that the Group has a sub-optimal quantity or quality of capital or that capital is inefficiently deployed across the Group.

EXPOSURES

A capital risk event arises when the Group has insufficient capital resources to support its strategic objectives and plans, and to meet both regulatory and external stakeholder requirements and expectations. This could arise due to a depletion of the Group's capital resources as a result of the crystallisation of any of the risks to which it is exposed, or through a significant increase in risk-weighted assets as a result of rule changes or economic deterioration. Alternatively a shortage of capital could arise from an increase in the minimum requirements for capital, leverage or MREL either at Group level or regulated entity level. The Group's capital management approach is focused on maintaining sufficient and appropriate capital resources across all regulated levels of its structure in order to prevent such exposures.

MEASUREMENT

In accordance with UK ring-fencing legislation, the Group was appointed as the Ring-Fenced Bank sub-group ('RFB sub-group') under Lloyds Banking Group plc. As a result the Group is subject to separate supervision by the UK Prudential Regulation Authority (PRA) on a sub-consolidated basis (as the RFB sub-group) in addition to the supervision applied to Lloyds Bank plc on an individual basis.

The Group maintains capital levels on a consolidated and individual basis commensurate with a prudent level of solvency to achieve financial resilience and market confidence. To support this, capital risk appetite on both a consolidated and individual basis is calibrated by taking into consideration both an internal view of the amount of capital to hold as well as external regulatory requirements.

Under UK law, EU capital rules that existed on 31 December 2020 continue to apply to the Group following the end of the transition period for the UK's withdrawal from the European Union, subject to the temporary transitional powers (TTP) granted to the PRA which extend until 31 March 2022. The Group continues to therefore measure both its capital requirements and the amount of capital resources it holds to meet those requirements through applying the regulatory framework defined by the Capital Requirements Directive and Regulation (CRD IV), as amended by revisions to the Capital Requirements Directive implemented in December 2020 (CRD V) and by those provisions of the revised Capital Requirements Regulation (CRR II) that came into force in June 2019 and December 2020. The requirements are implemented in the UK by the PRA and supplemented through additional regulation under the PRA Rulebook and associated statements of policy, supervisory statements and other guidance.

The remaining provisions of CRR II will apply in the UK from 1 January 2022 and have been largely enacted via the PRA Rulebook.

The minimum amount of total capital, under Pillar 1 of the regulatory capital framework, is set at 8 per cent of total risk-weighted assets. At least 4.5 per cent of risk-weighted assets are required to be covered by common equity tier 1 (CET1) capital and at least 6 per cent of risk-weighted assets are required to be covered by tier 1 capital. These minimum Pillar 1 requirements are supplemented by additional minimum requirements under Pillar 2A of the regulatory capital framework, the aggregate of which is referred to as the Group's Total Capital Requirement (TCR), and a number of regulatory buffers as described below.

Under Pillar 2A, additional minimum requirements are set through the issuance of an Individual Capital Requirement (ICR), which adjusts the Pillar 1 minimum requirement for those risks not covered or not fully covered under Pillar 1. A key input into the PRA's ICR process is the Group's own assessment of the amount of capital it needs, a process known as the Internal Capital Adequacy Assessment Process (ICAAP). During the year the PRA reduced the Group's nominal Pillar 2A capital requirement, which was the equivalent of around 4.0 per cent of risk-weighted assets as at 31 December 2021, of which the minimum amount to be met by CET1 capital was the equivalent of around 2.2 per cent of risk-weighted assets. During 2022, the PRA will revert to setting a variable amount for the Group's Pillar 2A capital requirement (being a set percentage of risk-weighted assets), with fixed add-ons for certain risk types.

A range of additional regulatory capital buffers apply under the capital rules, which are required to be met with CET1 capital. These include a capital conservation buffer (2.5 per cent of risk-weighted assets) and a time-varying countercyclical capital buffer (CCyB) which is currently around 0 per cent of risk-weighted assets following the decision by UK regulators to reduce the UK CCyB rate to nil during the first half of 2020 as part of the measures introduced in response to the coronavirus pandemic. In December 2021 the Bank of England's Financial Policy Committee announced that the UK CCyB rate will increase to 1 per cent in December 2022, with an expectation that it will increase to 2 per cent in Q2 2023 if the economy continues to recover broadly in line with the Bank of England's central projections and upon the assumption there is no significant change to the financial stability outlook. This would represent an equivalent increase in the Group's CCyB to 0.9 per cent in December 2022 and 1.9 per cent in Q2 2023, based upon the position of the Group at 31 December 2021.

In addition, the Group in its capacity as the RFB sub-group is subject to an other systemically important institution (O-SII) buffer of 2.0 per cent of risk-weighted assets (formerly referred to as the systemic risk buffer) which is designed to hold systemically important banks to higher capital standards so that they can withstand a greater level of stress before requiring resolution. The next review of the RFB sub-group's O-SII buffer will take place in December 2023, based upon year-end 2022 financial results, with any changes applying from 1 January 2025. The FPC is proposing to amend the O-SII buffer framework in order to change the metric for determining the buffer rate from total assets to the UK leverage exposure measure.

As part of the Group's capital planning process, forecast capital positions are subjected to stress testing to determine the adequacy of the Group's capital resources against minimum requirements, including the ICR. The PRA considers outputs from the Group's stress tests, in conjunction with other information, as part of the process for informing the setting of a capital buffer for the Group, known as the PRA Buffer. The PRA requires this buffer to remain confidential.

Usage of the PRA Buffer would trigger a dialogue between the Group and the PRA to agree what action is required whereas a breach of the combined capital buffer (all other regulatory buffers, as referenced above) would give rise to mandatory restrictions upon any discretionary capital distributions. The PRA has previously communicated its expectation that banks' capital and liquidity buffers can be drawn down as necessary to support the real economy through a shock and that sufficient time would be made available to restore buffers in a gradual manner.

Capital management continued

In addition to the risk-based capital framework outlined above, the Group is also subject to minimum capital requirements under the UK Leverage Ratio Framework. The leverage ratio is calculated by dividing fully loaded tier 1 capital resources by the leverage exposure which is a defined measure of on-balance sheet assets and off-balance sheet items.

The minimum leverage ratio requirement under the UK Leverage Ratio Framework is 3.25 per cent. This is supplemented by a time-varying countercyclical leverage buffer (CCLB), which is currently 0 per cent of the leverage exposure measure, and an additional leverage ratio buffer of 0.7 per cent of the leverage exposure measure which reflects the application of the Group's O-SII buffer. Following the FPC's announcements on the planned increase of the UK CCyB rate, the Group's CCLB would be expected to increase to 0.3 per cent in December 2022 and 0.7 per cent in Q2 2023, based upon the position of the Group at 31 December 2021.

At least 75 per cent of the 3.25 per cent minimum leverage ratio requirement as well as 100 per cent of regulatory leverage buffers must be met by CET1 capital.

The leverage ratio framework does not currently give rise to higher regulatory capital requirements for the Group than the risk-based capital framework.

MITIGATION

The Group's capital management framework is part of a comprehensive capital management framework within Lloyds Banking Group that includes the setting of capital risk appetite and capital planning and stress testing activities. Close monitoring of capital and leverage ratios is undertaken to ensure the Group meets regulatory requirements and risk appetite levels and deploys its capital resources efficiently.

The Group monitors early warning indicators and maintains a Capital Contingency Framework as part of the Lloyds Banking Group Recovery Plan which are designed to identify emerging capital concerns at an early stage, so that mitigating actions can be taken, if needed. The Recovery Plan sets out a range of potential mitigating actions that the Group could take in response to a stress, including as part of the wider Lloyds Banking Group response. For example the Group is able to accumulate additional capital through the retention of profits over time, which can be enhanced through reducing or cancelling dividend payments upstreamed to its parent (Lloyds Banking Group plc), by raising new equity via an injection of capital from its parent and by issuing additional tier 1 or tier 2 capital securities to its parent. The cost and availability of additional capital from its parent is dependent upon market conditions and perceptions at the time.

The Group is also able to manage the demand for capital through management actions including adjusting its lending strategy, risk hedging strategies and through business disposals.

Capital policies and procedures are well established and subject to independent oversight.

MONITORING

The Group's capital is actively managed and monitoring capital ratios is a key factor in the Group's planning processes and stress testing. Multi-year base case forecasts of the Group's capital position, based upon the Group's operating plan, are produced at least annually to inform the Group capital plan whilst shorter term forecasts are undertaken to understand and respond to variations of the Group's actual performance against the plan. The Group's capital plan is tested for capital adequacy using relevant stress scenarios and sensitivities covering adverse economic conditions as well as other adverse factors that could impact the Group.

Regular monitoring of the capital position for the Group and its key regulated entities is undertaken by a range of committees, including Group Capital Risk Committee (GCRC), Group Financial Risk Committee (GFRC), Group and Ring-Fenced Banks Asset and Liability Committees (GALCO), Group and Ring-Fenced Banks Risk Committees (GRC), Board Risk Committee (BRC) and the Board. This includes reporting of actual ratios against forecasts and risk appetite, base case and stress scenario projected ratios, and review of early warning indicators and assessment against the Capital Contingency Framework.

The regulatory framework within which the Group operates continues to be developed at a global level through the Financial Stability Board (FSB) and Basel Committee on Banking Supervision (BCBS) and within the UK by the PRA and through directions from the Financial Policy Committee (FPC). The Group continues to monitor these developments very closely, analysing the potential capital impacts to ensure that, through organic capital generation and management actions, the Group continues to maintain a strong capital position that exceeds both minimum regulatory requirements and the Group's risk appetite and is consistent with market expectations.

IFRS 9 TRANSITIONAL ARRANGEMENTS

IFRS 9 transitional arrangements for capital as set out under CRR Article 473a allow the initial net impact on CET1 capital on 1 January 2018 resulting from the increase in accounting impairment provisions under the IFRS 9 Expected Credit Loss (ECL) framework, and the capital impact of any subsequent increases in Stage 1 and Stage 2 ECLs (net of movements in regulatory expected losses), to be phased in over set transition periods.

As part of the response to the impact of the coronavirus pandemic, revised arrangements were published in June 2020 via the CRR 'Quick Fix' revisions which included the following:

- The initial net impact on CET1 capital continues to be phased in over 5 years from the original 1 January 2018 implementation date - this is referred to as 'static' relief. During 2021 the arrangements allowed 50 per cent of the initial net impact to be added back to CET1 capital. This will reduce down to 25 per cent in 2022, with full recognition of the initial net impact on CET1 capital from 2023.
- The start point for measuring subsequent increases in Stage 1 and Stage 2 ECLs (net of movements in regulatory expected losses) has been changed from 1 January 2018 to 1 January 2020. During 2021 the revised arrangements allow 100 per cent of any resultant net increase to be added back to CET 1 capital - this is referred to as 'dynamic' relief. The factor reduces down to 75 per cent in 2022, 50 per cent in 2023 and 25 per cent in 2024, with no relief available thereafter. Increases in Stage 3 ECLs are not covered by the arrangements and therefore impact CET1 capital in full.

The effect of adding back amounts to CET1 capital under both static and dynamic relief results in further consequential adjustments being made to T2 capital (eligible provisions) and risk-weighted assets. For the latter the Group has opted to apply a 100 per cent risk weight to the consequential Standardised credit risk exposure add-back as permitted under paragraph 7a of the revisions (amendments to CRR Article 473a).

Capital management continued

MINIMUM REQUIREMENT FOR OWN FUNDS AND ELIGIBLE LIABILITIES (MREL)

Global systemically important banks (G-SIBs) are subject to an international standard on total loss absorbing capacity (TLAC). The standard, which first applied from 1 January 2019, is designed to enhance the resilience of the global financial system by ensuring that failing G-SIBs have sufficient capital to absorb losses and recapitalise under resolution, whilst continuing to provide critical banking services.

In the UK, the Bank of England has implemented the requirements of the international TLAC standard through the establishment of a framework which sets out minimum requirements for own funds and eligible liabilities (MREL). The purpose of MREL is to require firms to maintain sufficient own funds and eligible liabilities that are capable of credibly bearing losses or recapitalising a bank whilst in resolution. MREL can be satisfied by a combination of regulatory capital and certain unsecured liabilities (which must be subordinate to a firm’s operating liabilities).

The Bank of England's MREL statement of policy (MREL SoP) sets out its approach to setting external MREL and the distribution of MREL resources internally within groups. Internal MREL resources are intended to enable a material subsidiary to be recapitalised as part of a group resolution strategy without the need for the Bank of England to apply its resolution powers directly to the subsidiary itself.

The Group’s parent, Lloyds Banking Group plc, is subject to the Bank of England’s MREL SoP and must therefore maintain a minimum level of external MREL resources. Lloyds Banking Group plc operates a single point of entry (SPE) resolution strategy, with Lloyds Banking Group plc as the designated resolution entity. Under this strategy, the Group has been identified as a material subsidiary of Lloyds Banking Group plc and must therefore maintain a minimum level of internal MREL resources. As at 31 December 2021, the Group's internal MREL resources exceeded the interim minimum required.

The Bank of England completed a review of its existing approach to setting MREL in December 2021 and has published a revised approach which became effective and binding on the Group from 1 January 2022. There has been no change to the basis for determining the Group’s internal MREL.

ANALYSIS OF CAPITAL POSITION

The Group’s common equity tier 1 (CET1) capital ratio has increased to 16.7 per cent (31 December 2020: 15.5 per cent) largely reflecting profits for the year and a reduction in risk-weighted assets, partially offset by dividends paid (net of the brought forward foreseeable dividend accrual), pension contributions made to the defined benefit pension schemes and a release of IFRS 9 transitional relief which largely offset the impairment credit through profits.

Risk-weighted assets reduced by £9.3 billion, or 5 per cent, from £170.9 billion at 31 December 2020 to £161.6 billion at 31 December 2021. This was primarily as a result of optimisation activity undertaken in Commercial Banking, partially offset by balance sheet growth in the business. Credit migrations have had a limited impact on the risk-weighted asset position, in part due to the increase in house prices.

The Group continues to apply the revised IFRS 9 transitional arrangements for capital which provide for temporary capital relief for the increase in accounting impairment provisions following the initial implementation of IFRS 9 (‘static’ relief) and subsequent relief for any increases in Stage 1 and Stage 2 expected credit losses since 1 January 2020 (‘dynamic’ relief). The transitional arrangements do not cover Stage 3 expected credit losses.

On 1 January 2022, the CET1 capital ratio reduced by around 250 basis points to 14.1 per cent, reflecting the following:

- An increase in risk-weighted assets to £178 billion, in addition to other related modelled impacts on CET1 capital, following the implementation of new CRD IV mortgage, retail unsecured and commercial banking models to meet revised regulatory standards for modelled outputs and the UK implementation of the remainder of CRR II which includes a new standardised approach for measuring counterparty credit risk (SA-CCR). These were partially offset by the removal of risk-weighted assets linked to the reversal of the revised treatment that had previously been applied to intangible software assets. The new CRD IV models are subject to finalisation and approval by the PRA and therefore uncertainty over the final impacts remains
- An increase in intangible software assets deducted from CET1 capital following the reversal of the revised treatment
- A reduction in IFRS 9 relief reflecting both phasing under the transitional arrangements and the impact of the new CRD IV models

The transitional total capital ratio remained at 23.5 per cent, with the benefit of the increase in CET1 capital and reduction in risk-weighted assets broadly offset by reductions in Additional Tier 1 (AT1) and Tier 2 capital instruments. The latter largely reflected the reduction in transitional limits applied to legacy tier 1 and tier 2 capital instruments and calls made on both AT1 and tier 2 capital instruments, partially offset by new issuances.

The UK leverage ratio reduced to 5.3 per cent from 5.5 percent at 31 December 2020, as a result of the reduction in the fully loaded total tier 1 capital position which was partially offset by the reduction in the leverage exposure measure, the latter primarily reflecting movements in securities financing transactions and off-balance sheet items, net of increased balance sheet lending.

TOTAL CAPITAL REQUIREMENT

The Group’s total capital requirement (TCR) as at 31 December 2021, being the aggregate of the Group's Pillar 1 and current Pillar 2A capital requirements, was £19,364 million (31 December 2020: £20,567 million).

CAPITAL RESOURCES

An analysis of the Group’s capital position as at 31 December 2021 is presented in the following section on both a transitional arrangements basis and a fully loaded basis in respect of legacy capital securities that were subject to grandfathering provisions prior to 1 January 2022. In addition the Group’s capital position under both bases reflects the application of the separate transitional arrangements for IFRS 9.

Capital management continued

CAPITAL RESOURCES

The table below summarises the consolidated capital position of the Group.

Capital resources

	Transitional		Fully loaded	
	2021 £m	2020 £m	2021 £m	2020 £m
Common equity tier 1				
Shareholders' equity per balance sheet	36,410	35,105	36,410	35,105
Adjustment to retained earnings for foreseeable dividends	–	(1,000)	–	(1,000)
Adjustment for own credit	133	81	133	81
Cash flow hedging reserve	451	(1,507)	451	(1,507)
Other adjustments[1]	637	1,894	637	1,894
	37,631	34,573	37,631	34,573
Less: deductions from common equity tier 1				
Goodwill and other intangible assets	(2,870)	(2,986)	(2,870)	(2,986)
Prudent valuation adjustment	(159)	(173)	(159)	(173)
Excess of expected losses over impairment provisions and value adjustments	–	—	–	—
Removal of defined benefit pension surplus	(3,200)	(1,322)	(3,200)	(1,322)
Deferred tax assets	(4,498)	(3,525)	(4,498)	(3,525)
Common equity tier 1 capital	26,904	26,567	26,904	26,567
Additional tier 1				
Additional tier 1 instruments	4,949	7,295	4,268	5,935
Total tier 1 capital	31,853	33,862	31,172	32,502
Tier 2				
Tier 2 instruments	6,322	6,825	5,635	5,454
Other adjustments	(266)	(524)	(266)	(524)
Total tier 2 capital	6,056	6,301	5,369	4,930
Total capital resources	37,909	40,163	36,541	37,432
Risk-weighted assets	161,576	170,862	161,576	170,862
Common equity tier 1 capital ratio (%)	16.7%	15.5%	16.7%	15.5%
Tier 1 capital ratio (%)	19.7%	19.8%	19.3%	19.0%
Total capital ratio (%)	23.5%	23.5%	22.6%	21.9%

1 Includes an adjustment applied to reserves to reflect the application of the IFRS 9 transitional arrangements for capital.

Capital management continued

Movements in capital resources

The key difference between the transitional capital calculation as at 31 December 2021 and the fully loaded equivalent is primarily related to legacy capital securities that previously qualified as tier 1 or tier 2 capital, but that do not fully qualify under the regulation, which can be included in additional tier 1 (AT1) or tier 2 capital (as applicable) up to specified limits which reduced by 10 per cent per annum until 2022. From 1 January 2022, legacy capital securities will cease to be recognised as eligible regulatory capital, with the exception of securities that qualify for the extended transitional rules under CRR II. As of 31 December 2021, the Group has a single legacy capital security that qualifies for the extension which will allow it to be recognised as tier 2 capital until June 2025.

The key movements on a transitional capital basis are set out in the table below.

	Common equity tier 1 £m	Additional tier 1 £m	Tier 2 £m	Total capital £m
At 31 December 2020	26,567	7,295	6,301	40,163
Profit for the year	5,202	—	—	5,202
Interim dividends paid out on ordinary shares during the year[1]	(1,900)	—	—	(1,900)
IFRS 9 transitional adjustment to retained earnings	(1,254)	—	—	(1,254)
Pension contributions	(944)	—	—	(944)
Fair value through other comprehensive income reserve	196	—	—	196
Deferred tax asset	(973)	—	—	(973)
Goodwill and other intangible assets	116	—	—	116
Movements in other equity, subordinated liabilities, other tier 2 items and related adjustments	—	(2,346)	(245)	(2,591)
Distributions on other equity instruments	(344)	—	—	(344)
Other movements[2]	238	—	—	238
At 31 December 2021	26,904	4,949	6,056	37,909

1 Net of the brought forward foreseeable dividend accrual of £1,000 million.

2 Includes other pension movements.

CET1 capital resources have increased by £337 million over the year, primarily reflecting profits, with the impairment credit more than offset by the partial unwind of IFRS 9 transitional relief. Further offsets comprised of the following:

- the interim ordinary dividend paid out in October 2021
- distributions on other equity instruments
- pension contributions made to the defined benefit pension schemes
- an increase in deferred tax assets deducted from capital which primarily reflects the remeasurement of deferred tax assets following the announced increase in the UK corporation tax rate from 1 April 2023. The remeasurement has a limited overall capital benefit as the tax credit through profits is largely offset by the increase in the deferred tax asset deduction.

AT1 capital resources have reduced by £2,346 million during the year, reflecting the reduced transitional limit applied to legacy tier 1 capital instruments and the net impact of the derecognition of called AT1 capital instruments and subsequent issuance of new AT1 capital instruments.

Tier 2 capital resources have reduced by £245 million during the year, largely reflecting the reduced transitional limit applied to legacy tier 2 capital instruments, the derecognition of called tier 2 capital instruments, regulatory amortisation and the impact of movements in rates, partially offset by the issuance of new tier 2 capital instruments.

Capital management continued

LEVERAGE RATIO

Leverage ratio

The table below summarises the component parts of the Group's leverage ratio.

	Fully loaded	
	At 31 Dec 2021 £m	At 31 Dec 2020 £m
Total tier 1 capital for leverage ratio		
Common equity tier 1 capital	**26,904**	26,567
Additional tier 1 capital	**4,268**	5,935
Total tier 1 capital	**31,172**	32,502
Exposure measure		
Statutory balance sheet assets		
Derivative financial instruments	**5,511**	8,341
Securities financing transactions	**49,708**	56,073
Loans and advances and other assets	**547,630**	535,525
Total assets	**602,849**	599,939
Qualifying central bank claims	**(50,824)**	(43,973)
Deconsolidation adjustments[1]		
Derivatives financial instruments	**2**	16
Securities financing transactions	**—**	—
Loans and advances and other assets	**(612)**	(139)
Total deconsolidation adjustments	**(610)**	(123)
Derivatives adjustments		
Adjustment for regulatory netting	**(2,584)**	(2,225)
Adjustment for cash collateral	**(905)**	(5,601)
Net written credit protection	**22**	145
Regulatory potential future exposure	**3,652**	5,744
Total derivatives adjustments	**185**	(1,937)
Securities financing transactions adjustments	**1,321**	1,060
Off-balance sheet items	**49,349**	53,350
Regulatory deductions and other adjustments[2]	**(17,620)**	(14,770)
Total exposure measure[4]	**584,650**	593,546
Average leverage exposure measure[3]	**598,563**	
UK leverage ratio[4]	**5.3%**	5.5%
Average UK leverage ratio[3]	**5.2%**	
CRD IV leverage exposure measure[5]	**635,474**	637,519
CRD IV leverage ratio[5]	**4.9%**	5.1%

1 Deconsolidation adjustments relate to the deconsolidation of certain Group entities that fall outside the scope of the Group's regulatory capital consolidation.

2 Includes adjustments to exclude lending under the UK Government's Bounce Back Loan Scheme (BBLS) and the netting of regular-way purchases and sales awaiting settlement in accordance with CRR Article 500d.

3 The average UK leverage ratio is based on the average of the month end tier 1 capital position and average exposure measure over the quarter (1 October 2021 to 31 December 2021). The average of 5.2 per cent compares to 5.2 per cent at the start and 5.3 per cent at the end of the quarter.

4 Calculated in accordance with the UK Leverage Ratio Framework which requires qualifying central bank claims to be excluded from the leverage exposure measure.

5 Calculated in accordance with CRD IV rules which include central bank claims within the leverage exposure measure.

Analysis of leverage movements

The Group's fully loaded UK leverage ratio reduced to 5.3 per cent (31 December 2020: 5.5 per cent), driven by the impact of the reduction in the fully loaded total tier 1 capital position. This was offset in part by the reduction in the leverage exposure measure which reduced by £8.9 billion during the year, largely reflecting movements in securities financing transactions and off-balance sheet items, net of increased balance sheet lending. Following a direction received from the PRA during 2020 the Group is permitted to exclude lending under the UK Government's Bounce Back Loan Scheme (BBLS) from the leverage exposure measure.

The average UK leverage ratio was 5.2 per cent over the quarter, which largely reflected a higher average exposure measure compared to the position at the end of the quarter, partially offset by a higher average fully loaded total tier 1 capital position.

PILLAR 1 CAPITAL REQUIREMENTS: OVERVIEW OF RISK-WEIGHTED ASSETS

This section details the Group's risk-weighted assets and pillar 1 capital requirements.

The risk-weighted assets movement tables presented below provide analysis of the movement in risk-weighted assets in the period by risk type and an insight into the key drivers of the movements. The key driver analysis is compiled on a monthly basis through the identification and categorisation of risk-weighted asset movements and is subject to management judgement.

Risk-weighted assets movement by key driver - 3 months to 31 December 2021

	Credit risk IRB	Credit risk SA	Credit risk total[1]	Counterparty credit risk[2]	Market risk	Operational risk	Total
	£m	£m	£m	£m	£m	£m	£m
Total risk-weighted assets as at 30 September 2021							**166,678**
Less: total threshold risk-weighted assets[3]							(2,368)
Risk-weighted assets at 30 September 2021	119,613	19,394	139,007	1,633	221	23,449	164,310
Asset size	(252)	78	(174)	(78)	—	—	(252)
Asset quality	(1,477)	(71)	(1,548)	(95)	—	—	(1,643)
Model updates	—	—	—	—	(11)	—	(11)
Methodology and policy	(1,819)	(378)	(2,197)	—	—	—	(2,197)
Acquisitions and disposals	—	—	—	—	—	—	—
Movement in risk levels (Market risk only)	—	—	—	—	(7)	—	(7)
Foreign exchange movements	(54)	(18)	(72)	4	—	—	(68)
Other	—	—	—	—	—	(874)	(874)
Risk-weighted assets at 31 December 2021	116,011	19,005	135,016	1,464	203	22,575	159,258
Threshold risk-weighted assets[3]							2,318
Total risk-weighted assets as at 31 December 2021							**161,576**

1 Credit risk includes securitisation risk-weighted assets.

2 Counterparty credit risk includes movements in contributions to the default funds of central counterparties and movements in credit valuation adjustment risk.

3 Threshold risk-weighted assets reflect the element of deferred tax assets that are permitted to be risk-weighted instead of being deducted from CET1 capital.

Key movements

Credit risk, risk weighted assets:

- Asset size reduction of £0.2 billion mainly reflects continued optimisation in Commercial Banking.
- Asset quality reduction of £1.5 billion mainly reflects the reversal of a temporary model calibration uplift at Q3 2021.
- Methodology and policy reduction of £2.2 billion include reduction in risk-weighted assets through securitisation and other optimisation activity.

Operational risk, risk-weighted assets: reduced by £0.9 billion due to a reduction in 3 year average income levels.

Risk-weighted assets movement by key driver - year to 31 December 2021

	Credit risk IRB £m	Credit risk SA £m	Credit risk total[1] £m	Counterparty credit risk[2] £m	Market risk £m	Operational risk £m	Total £m
Total risk-weighted assets as at 31 December 2020							170,862
Less: total threshold risk-weighted assets[3]							(2,280)
Risk-weighted assets at 31 December 2020	120,904	21,673	142,577	2,488	210	23,307	168,582
Asset size	(3,645)	(628)	(4,273)	(557)	—	—	(4,830)
Asset quality	221	(213)	8	(431)	—	—	(423)
Model updates	—	—	—	—	16	—	16
Methodology and policy	(1,335)	(1,757)	(3,092)	—	1	—	(3,091)
Acquisitions and disposals	—	—	—	—	—	—	—
Movement in risk levels (Market risk only)	—	—	—	—	(24)	—	(24)
Foreign exchange movements	(134)	(70)	(204)	(36)	—	—	(240)
Other	—	—	—	—	—	(732)	(732)
Risk-weighted assets at 31 December 2021	116,011	19,005	135,016	1,464	203	22,575	159,258
Threshold risk-weighted assets[3]							2,318
Total risk-weighted assets as at 31 December 2021							161,576

1 Credit risk includes securitisation risk-weighted assets.

2 Counterparty credit risk includes movements in contributions to the default funds of central counterparties and movements in credit valuation adjustment risk.

3 Threshold risk-weighted assets reflect the element of deferred tax assets that are permitted to be risk-weighted instead of being deducted from CET1 capital.

Key movements

Credit risk, risk weighted assets:

- Asset size reduction of £4.3 billion predominantly reflects increased levels of optimisation in Commercial Banking and lower unsecured balances, partially offset by increased mortgage lending.
- Asset quality mainly reflects the impact of retail model calibrations with limited credit migration in part due to the benefit of House Price Index increases.
- Methodology and policy changes of £3.1 billion include reductions in risk-weighted assets through securitisation activity, other optimisation activity and enhanced identification of SME exposures.

Counterparty credit risk, risk-weighted assets: reduced by £1.0 billion predominantly due to movements in market rates during the period.

Operational risk, risk-weighted assets: reduced by £0.7 billion due to a reduction in 3 year average income levels.

Pillar 1 Capital requirements: Overview of risk-weighted assets continued

OV1: Overview of risk-weighted assets

		31 Dec 2021 RWA £m	31 Dec 2020 RWA £m	31 Dec 2021 Minimum capital Requirements £m	31 Dec 2020 Minimum capital Requirements £m
1	**Credit risk (excluding counterparty credit risk)**	**129,643**	137,461	**10,371**	10,997
2	of which: standardised approach	**17,543**	20,684	**1,403**	1,655
3	of which: the foundation rating-based (FIRB) approach	**30,697**	34,676	**2,456**	2,774
4	of which: the retail IRB (RIRB) approach	**65,435**	65,207	**5,235**	5,217
	of which: corporates – specialised lending	**8,852**	9,105	**708**	728
	of which: non-credit obligation assets[1]	**7,117**	7,788	**569**	623
6	**Counterparty credit risk**	**1,464**	2,488	**117**	199
7	of which: marked to market	**895**	1,436	**72**	115
	of which: comprehensive approach for credit risk mitigation (for SFTs)	**200**	305	**16**	24
11	of which: exposures to central counterparties (including trades, default fund contributions and initial margin)	**162**	393	**13**	31
12	of which: credit valuation adjustment (CVA)	**207**	355	**17**	28
14	**Securitisation exposures in banking book[2]**	**5,373**	5,116	**430**	409
	of which: internal ratings based approach	**2,188**	1,951	**175**	156
	of which: standardised approach	**1,462**	989	**117**	79
	of which: external ratings based approach	**1,723**	2,176	**138**	174
19	**Market risk**	**203**	210	**16**	17
20	of which: standardised approach	**78**	56	**6**	4
21	of which: internal model approaches	**126**	154	**10**	12
23	**Operational risk**	**22,575**	23,307	**1,806**	1,865
25	of which: standardised approach	**22,575**	23,307	**1,806**	1,865
27	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**2,318**	2,280	**185**	182
28	**Floor adjustment**	**—**	—	**—**	—
29	**Total**	**161,576**	170,862	**12,926**	13,669
	Pillar 2A capital requirement[3]			**6,438**	6,898
	Total capital requirement			**19,364**	20,567

1 Non-credit obligation assets (IRB approach) predominately relate to other balance sheet assets that have no associated credit risk.

2 Securitisations are shown separately within this table but are included within credit risk in the movements by key driver analysis.

3 As at 31 December 2021, the Pillar 2A capital requirement was c4.0 per cent of aggregated risk-weighted assets, of which c2.2 per cent was to be met with CET1 capital.

PILLAR 1 CAPITAL REQUIREMENTS: CREDIT RISK

OVERVIEW

CR8: Risk-weighted assets flow statements of credit risk exposures

	Credit Risk IRB RWA amount Total £m	Credit Risk IRB Capital requirement Total £m	Credit Risk STA RWA amount Total £m	Credit Risk STA Capital requirements Total £m
1 Risk-weighted assets at 31 December 2020[1]	**120,904**	**9,672**	**21,673**	**1,734**
2 Asset size	(3,645)	(292)	(628)	(50)
3 Asset quality	221	18	(213)	(17)
4 Model updates	—	—	—	—
5 Methodology and policy	(1,335)	(107)	(1,757)	(141)
6 Acquisitions and disposals	—	—	—	—
7 Foreign exchange movements	(134)	(11)	(70)	(6)
8 Other	—	—	—	—
9 Risk-weighted assets at 31 December 2021[1]	**116,011**	**9,281**	**19,005**	**1,520**

1 Credit risk, risk-weighted assets and capital requirements in CR8 are inclusive of securitisations. At 31 December 2021 IRB securitisation risk-weighted assets were £3,911 million (2020: £4,080 million) and standardised securitisation risk-weighted assets were £1,462 million (2020: £418 million).

DEFINITION

Credit risk is defined as the risk that parties with whom the Group has contracted fail to meet their financial obligations (both on and off- balance sheet).

RISK APPETITE

The Lloyds Bank Group has a conservative and well balanced credit portfolio managed through the economic cycle.

EXPOSURES

The principal sources of credit risk within the Group arise from loans and advances, contingent liabilities, commitments, debt securities and derivatives to customers, financial institutions and sovereigns. The credit risk exposures are categorised as 'retail', arising primarily in the Retail division, and some small and medium sized enterprises (SMEs), and 'corporate' (including larger SMEs, corporates, banks, financial institutions and sovereigns) arising primarily in the Commercial Banking, Wealth and Central Items divisions.

In terms of loans and advances (for example mortgages, term loans and overdrafts) and contingent liabilities (for example credit instruments such as guarantees and documentary letters of credit), credit risk arises both from amounts advanced and commitments to extend credit to a customer or bank. With respect to commitments to extend credit, the Group is also potentially exposed to an additional loss up to an amount equal to the total unutilised commitments. However, the likely amount of loss may be less than the total unutilised commitments, as most retail and certain commercial lending commitments may be cancelled based on regular assessment of the prevailing creditworthiness of customers. Most commercial term commitments are also contingent upon customers maintaining specific credit standards.

The credit risk exposures of the Group from a regulatory capital perspective, as defined by the CRR, are included throughout the Pillar 3 disclosures.

Exposures and risk-weighted assets values presented in this section (Pillar 1 Capital requirements: Credit risk) exclude securitisation positions in line with the EBA prescribed format. This presentation is reflected in both current and comparative numbers.

MEASUREMENT

The process for credit risk identification, measurement and control is integrated into the Board-approved framework for credit risk appetite and governance.

Credit risk is measured from different perspectives using a range of appropriate modelling and scoring techniques at a number of levels of granularity, including total balance sheet, individual portfolio, pertinent concentrations and individual customer - for both new business and existing exposure.

Key metrics, which may include total exposure, expected credit loss (ECL), risk-weighted assets, new business quality, concentration risk and portfolio performance, are reported monthly to Risk Committees and Forums.

Measures such as expected credit loss, risk-weighted assets, observed credit performance, predicted credit quality (usually from predictive credit scoring models), collateral cover and quality and other credit drivers (such as cash flow, affordability, leverage and indebtedness) are used to enable effective risk measurement across the Group.

For regulatory capital purposes the Group's credit risk exposures are measured as risk-weighted assets, primarily calculated using Internal Ratings Based approach, with the remainder calculated under the Standardised approach.

Pillar 1 Capital requirements: Credit risk continued

MONITORING

In conjunction with the Risk division, businesses identify and define portfolios of credit and related risk exposures and the key behaviours and characteristics by which those portfolios are managed and monitored.

This entails the production and analysis of regular portfolio monitoring reports for review by senior management. The Risk division in turn produces an aggregated view of credit risk across the Group, including reports on material credit exposures, concentrations, concerns and other management information, which is presented to the divisional risk committees and forums, Group Risk Committee and the Board Risk Committee.

The performance of all rating models is monitored on a regular basis, as outlined on pages 32 to 40.

Further details are provided on page 30 of the Risk Management section of the 2021 Lloyds Bank plc Annual Report and Accounts.

CREDIT RISK MITIGATION

The Group uses a range of approaches to mitigate credit risk. For detailed information on approaches to mitigate credit risk, including details of the Group's policies and principles, see pages 28 to 30 of the 2021 Lloyds Bank plc Annual Report and Accounts.

Collateral

The Group maintains appetite parameters on the acceptability of specific classes of collateral. Only certain types of collateral are deemed eligible for internal risk management and regulatory capital purposes. The recognition of eligible collateral requires a number of factors to be considered such as legal certainty of charge, frequency and independency of revaluation and correlation of the value of the underlying asset to the obligor.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the underlying exposure. Debt securities, including treasury and other bills, are generally unsecured, with the exception of asset-backed securities and similar instruments such as covered bonds, which are secured by portfolios of financial assets. Collateral is generally not held against loans and advances to financial institutions. However, securities are held as part of reverse repurchase or securities borrowing transactions or where a collateral agreement has been entered into under a master netting agreement.

For non-mortgage retail lending to small businesses, collateral may include second charges over residential property and the assignment of life cover.

The additional mitigation for Retail and Commercial customers is explained in more detail on pages 29 to 30 of the 2021 Lloyds Bank Group plc Annual Report and Accounts.

Where collateral is held, the eligible collateral for loans and advances and contingent liabilities is classified as either financial collateral or other collateral, as outlined below:

Eligible financial collateral

- Eligible financial collateral includes cash on deposit with the bank, gold, rated debt securities (subject to certain restrictions), equities or convertible bonds included in a main index and units in certain collective investment undertakings or mutual funds.
- The Group predominantly applies financial collateral to its corporate (IRB and Standardised) and institutions (IRB) exposures.

Other eligible collateral

- Real estate collateral includes charges over residential and commercial properties, for example, for the Group's mainstream mortgages.
- Other eligible collateral includes short term financial receivables, credit insurance, life policies and other physical collateral for example, vehicles, providing the criteria for eligibility are met.
- The Group largely applies other eligible collateral to the IRB corporate main, corporate SME and retail asset classes.

The Group requires collateral to be realistically valued by an appropriately qualified source, independent of both the credit decision process and the customer, at the time of borrowing. In certain circumstances, for Retail residential mortgages this may include the use of automated valuation models based on market data, subject to accuracy criteria and LTV limits. Where third parties are used for collateral valuations, they are subject to regular monitoring and review. Collateral values are subject to review, which will vary according to the type of lending, collateral involved and account performance. Such reviews are undertaken to confirm that the value recorded remains appropriate and whether revaluation is required, considering, for example, account performance, market conditions and any information available that may indicate that the value of the collateral has materially declined. In such instances, the Group may seek additional collateral and/or other amendments to the terms of the facility. The Group adjusts estimated market values to take account of the costs of realisation and any discount associated with the realisation of the collateral when estimating credit losses.

The Group considers risk concentrations by collateral providers and collateral type with a view to ensuring that any potential undue concentrations of risk are identified and suitably managed by changes to strategy, policy and/or business plans.

Refer to page 179 of the Risk Management section and Note 44 (Financial Risk Management) of the 2021 Lloyds Bank Group plc Annual Report and Accounts for further information on collateral.

Other credit risk transfers

The Group also undertakes asset sales, credit derivative based transactions, securitisations (including significant risk transfer transactions), purchases of credit default swaps and purchase of credit insurance as a means of mitigating or reducing credit risk and/or risk concentration, taking into account the nature of assets and the prevailing market conditions.

- Credit derivatives are a method of transferring credit risk from one counterparty (the protection buyer) to another (the protection seller). Capital relief under regulatory requirements is restricted to the following types of credit derivative: credit default swaps (CDS); total return swaps; and credit linked notes (CLN) (to the extent of their cash funding).
- The Group makes limited use of credit derivatives as credit risk mitigation from a capital perspective.
- Further details on the application within the Group are included within the Counterparty credit risk section on page 87.

Pillar 1 Capital requirements: Credit risk continued

Guarantees

– In addition, guarantees from eligible protection providers including governments, institutions and corporates, can also provide regulatory capital relief, although there are minimum operational and legal requirements which must be met before reflecting the risk mitigating effect. On the basis that these requirements are met, alternative forms of protection, for example indemnities, may be classified as a guarantee for regulatory capital purposes. Export Credit agencies can provide risk mitigation in the form of a guarantee (typically up to 85% – 95% of a contract value) providing cover and guarantee of payment in relation to commercial and political risk.

– Regulatory capital relief is taken for guarantees provided by appropriate sovereigns, institutions or corporates, as well as for collateralised guarantees from corporates where available. This includes COVID-19 government lending schemes.

APPLICATION OF CREDIT RISK MITIGATION

The Group's application of different types of credit risk mitigation from a regulatory capital perspective is outlined below:

	Standardised		IRB		
	EAD	Other	EAD	LGD	PD
Eligible financial collateral					
trading book	✓		✓		
non-trading book	✓			✓	
Other eligible collateral					
real estate collateral[1]		✓		✓	✓
other physical collateral				✓	✓
credit insurance[2]		✓			✓
receivables	✓			✓	
life policies	✓			✓	
Credit derivatives[2]		✓			✓
Collateralised guarantees[2]		✓		✓	
Non collateralised guarantees[2]		✓			✓

1 Real estate collateral determines the exposure class under the Standardised Approach as explained below.

2 As per application under the Substitution Approach, as explained below.

Application under the Standardised Approach

Where a credit risk exposure subject to the Standardised Approach is covered by a form of eligible financial collateral the EAD value is adjusted accordingly under the Financial Collateral Comprehensive Method (FCCM) applying adjustments for volatility and currency mismatch, in addition to maturity mismatches for all collateral types and appropriate value discounts as needed.

For unfunded credit protection, where both the protection provider and the original obligor are reported under the Standardised approach, for example where certain guarantees or credit derivatives apply, the exposure class and therefore risk weight applied to the portion of the exposure covered by the protection provider is based on the exposure class of the provider, referred to as the Substitution Approach. The covered portion is determined after the application of 'haircuts' for currency and maturity mismatch applied to the protection provided. The risk weight applied to the uncovered portion of the exposure is not impacted.

Real estate collateral does not impact EAD directly under the Standardised Approach, however, it instead determines the exposure class and directly impacts the risk-weight applied to the exposure.

Collateral may also be used as an input for modelling SCRAs against exposures, which will also indirectly reduce the EAD for exposures subject to the Standardised Approach.

Application under the IRB approach

In recognising eligible financial collateral under the FIRB Approach, the Group adjusts the relevant LGD value in accordance with the application of the FCCM, applying adjustments for volatility and currency mismatch, in addition to maturity mismatches for all collateral types and appropriate value discounts as needed.

Other eligible collateral, collateralised guarantees and real estate collateral applied under the FIRB Approach will typically result in an adjustment to the regulatory LGD value, subject to floors as prescribed in the CRR. The adjustment applied is dependent on the value and type of collateral used.

Where appropriate guarantees or credit derivatives apply and both the protection provider and the original obligor are reported under the FIRB approach, the PD applied to the portion of the exposure covered by the protection provider is based on the PD of the provider, referred to as the PD substitution approach. The covered portion is determined after the application of 'haircuts' for currency and maturity mismatch applied to the protection provided. The PD applied to the uncovered portion of the exposure is not impacted.

Under the Retail IRB Approach, own estimates of LGD are used, taking into account eligible collateral, including real estate collateral or other physical collateral, among other factors. As well as impacting LGD, real estate collateral may also influence a counterparty's PD under the Retail IRB approach in certain cases, for example, for residential mortgages.

Pillar 1 Capital requirements: Credit risk continued

Application between the IRB and Standardised Approaches

Under the Substitution Effect a non-collateralised guarantee could also result in an exposure moving between regulatory approaches, i.e. SA to IRB or IRB to SA. This occurs where the original obligor and the protection provider would be reported under different approaches due to their specific characteristics. This is most notable for COVID-19 government lending schemes where the UK government (as protection provider) is reported as a Standardised obligor whilst the majority of the original obligors are reported under the FIRB or RIRB approaches, though it can also occur for other government, corporate or institutional guarantees (including centrally cleared credit default swap protection). When this situation arises the covered exposure, after taking account of the specific exposure covered by the protection and application of 'haircuts' for any currency and / or maturity mismatches, is substituted from its original approach/exposure class into the approach/exposure class of the protection provider. Where this results in the exposure moving to the Standardised approach the risk weight is then based on the exposure class of the protection provider. If it results in the exposure moving into the IRB approach the RWA is based on the PD of the protection provider. Such substitution is only undertaken if the resultant position benefits from a lower capital requirement than was originally required.

Within Pillar 3 reporting this is evident as the Gross Exposure (or drawn and undrawn balances) shown in a particular table will include the exposure against the original obligor's exposure class as this is usually presented pre-CRM. The EAD for that asset class will not include that same exposure as it is shown post-CRM and therefore reflects that the exposure has substituted into the exposure class of the protection provider. EAD can therefore be higher or lower than Gross Exposure as a result of this substitution effect.

ANALYSIS OF CREDIT RISK MITIGATION

The following table provides an analysis of net carrying values of credit risk exposures secured by different CRM techniques split by regulatory approach and asset class.

CR3: CRM techniques – Overview

	31 Dec 2021				
	Exposures unsecured – carrying amount £m	Exposures to be secured [1] £m	Exposures secured by collateral [2] £m	Exposures secured by financial guarantees £m	Exposures secured by credit derivatives £m
Exposures subject to the IRB approach					
Central governments or central banks	2,286	521	—	521	—
Institutions[3]	4,580	2,809	2,800	—	9
Corporates	38,926	34,752	32,071	2,185	496
of which: Specialised lending	2	13,327	13,327	—	—
of which: SMEs	5,161	6,605	5,529	1,076	—
Retail	61,616	354,934	347,364	7,571	—
Secured by real estate property	16	336,182	336,182	—	—
SMEs	16	5,810	5,810	—	—
Non-SMEs	—	330,372	330,372	—	—
Qualifying revolving	51,735	—	—	—	—
Other retail	9,865	18,753	11,182	7,571	—
SMEs	1,895	7,584	13	7,571	—
Non-SMEs	7,969	11,169	11,169	—	—
Non-credit obligation assets	10,181	—	—	—	—
Total – IRB approach	117,589	393,016	382,234	10,277	505
Exposures subject to the standardised approach					
Central governments and central banks	67,750	88	—	88	—
Regional governments or local authorities	535	—	—	—	—
Public sector entities	4,155	—	—	—	—
Multilateral development banks	7,735	—	—	—	—
Institutions	480	—	—	—	—
Corporates	8,262	721	433	213	75
Retail	33,190	1,126	272	855	—
Secured by mortgages on immovable property	31	5,380	5,378	2	—
Exposures in default	807	447	348	99	—
Other exposures	2,176	—	—	—	—
Total – standardised approach	125,120	7,761	6,431	1,255	75
Total exposures	242,709	400,778	388,666	11,533	580
of which: defaulted (IRB and STA)	2,773	3,490	3,391	99	—

CR3: CRM techniques – Overview continued

	31 Dec 2020				
	Exposures unsecured – carrying amount	Exposures to be secured [1]	Exposures secured by collateral [2]	Exposures secured by financial guarantees[4]	Exposures secured by credit derivatives
	£m	£m	£m	£m	£m
Exposures subject to the IRB approach					
Central governments or central banks	2,371	647	—	737	—
Institutions[3]	3,837	2,943	2,943	—	5
Corporates	41,836	36,417	33,940	1,845	678
of which: Specialised Lending	—	13,031	13,031	—	—
of which: SME	3,607	7,388	6,392	996	—
Retail	62,761	344,681	336,403	7,550	—
Secured by real estate property	93	325,026	324,835	267	—
SME	93	7,564	7,374	267	—
Non-SME	—	317,462	317,462	—	—
Qualifying Revolving	52,941	—	—	—	—
Other Retail	9,727	19,656	11,567	7,283	—
SME	1,783	8,097	9	7,283	—
Non-SME	7,944	11,558	11,558	—	—
Non-credit obligation assets	10,573	—	—	—	—
Total – IRB approach	121,378	384,689	373,286	10,132	683
Exposures subject to the standardised approach					
Central governments and central banks[4]	60,695	—	—	—	—
Regional governments or local authorities[4]	425	1	—	1	—
Public sector entities[4]	4,274	—	—	—	—
Multilateral development banks	7,158	—	—	—	—
Institutions	957	—	—	—	—
Corporates	11,219	800	412	370	22
Retail	33,298	1,078	155	922	—
Secured by mortgages on immovable property	13	5,897	5,897	—	—
Exposures in default	767	355	353	2	—
Other exposures	2,550	—	—	—	—
Total – standardised approach	121,357	8,130	6,817	1,295	22
Total exposures	242,735	392,819	380,103	11,426	705
of which: defaulted (IRB and STA)	2,288	3,841	3,840	2	—

1 Allocation of the carrying amount of multi-secured exposures is made by order of priority to their different CRM techniques.

2 At Dec 2021 the value of exposures secured by eligible financial collateral is £2.3bn (Dec 2020: £3.0bn) and the value of exposures secured by other eligible collateral is £386.4bn (Dec 2020: £377.1bn).

3 Exposures to Institutions secured by collateral includes £2,181m (Dec 2020: £2,395m) of exposures in the form of covered bonds.

4 Restated at 30 June 2021.

Pillar 1 Capital requirements: Credit risk continued

INTERNAL RATING SCALES

Within the Group, internal PD rating scales are used in assessing the credit quality of the Foundation IRB and Retail IRB portfolios. There are two master scales – a Corporate master scale which covers all relevant corporate, central government or central bank and institution portfolios and a Retail master scale which covers all relevant retail portfolios.

For reporting purposes, customers are segmented into a number of rating grades, each representing a defined range of default probabilities. Counterparties/exposures migrate between rating grades if the assessment of PD changes.

Internal Corporate master scale

In corporate portfolios the modelled PDs 'map' to the single Corporate master scale comprising of 19 non-default ratings and 4 default ratings. This rating scale can be mapped to external ratings as shown below.

	Range			
PD Grades	Lower	Mid	Upper	External S&P Rating (Approximate Equivalent)
1-4	0.000%	0.018%	0.035%	AAA to AA-
5	0.036%	0.040%	0.050%	A+
6	0.051%	0.060%	0.080%	A
7	0.081%	0.110%	0.140%	A-
8	0.141%	0.180%	0.220%	BBB+
9	0.221%	0.280%	0.340%	BBB
10	0.341%	0.420%	0.500%	BBB-
11	0.501%	0.630%	0.760%	BB+
12	0.761%	1.000%	1.240%	BB
13	1.241%	1.620%	2.000%	BB-
14	2.001%	2.600%	3.200%	B+
15	3.201%	4.200%	5.200%	B+
16	5.201%	6.200%	7.200%	B
17	7.201%	8.700%	10.200%	B-
18	10.201%	12.000%	13.800%	B-
19	13.801%	31.000%	99.999%	CCC to C
20 – 23 (Default)	100.000%	100.000%	100.000%	Default

Internal Retail master scale

The Retail master scale comprises 13 non-default ratings and one default rating.

	Range		
PD Grades	Lower	Mid	Upper
0	0.000%	0.050%	0.100%
1	0.101%	0.251%	0.400%
2	0.401%	0.601%	0.800%
3	0.801%	1.001%	1.200%
4	1.201%	1.851%	2.500%
5	2.501%	3.501%	4.500%
6	4.501%	6.001%	7.500%
7	7.501%	8.751%	10.000%
8	10.001%	12.001%	14.000%
9	14.001%	17.001%	20.000%
10	20.001%	25.001%	30.000%
11	30.001%	37.501%	45.000%
12	45.001%	72.500%	99.999%
Default	100.000%	100.000%	100.000%

Pillar 1 Capital requirements: Credit risk continued

Distribution of Exposures by approach

To illustrate the degree to which IRB models are used within the bank, the table below shows the EAD split between RIRB, FIRB, Other IRB (including supervisory slotting, equity exposures) and Standardised (not modelled) approaches across the different Basel asset classes. Securitisation exposure values are excluded. Exposures presented in the table below are in line with table CRB-B: Total and average net amount of exposures, and are on a post CRM and post CCF basis.

	RIRB £m	FIRB £m	Other IRB £m	Standardised £m
Central governments or central banks	—	2,306	–	79,042
Regional governments or local authorities	—			535
Public sector entities	—			4,155
Multilateral development banks	—			7,735
Institutions	—	7,025	–	934
Corporates[1]	—	47,060	12,263	5,903
Retail – Secured by property	351,201	–	–	5,379
Retail – Qualifying revolving	39,521	–	–	6,201
Retail – Other	21,666	–	–	3,682
Other[2]	–	–	10,581	3,269
Total	412,388	56,391	22,844	116,835
% coverage	68%	9%	4%	19%

1 Corporate Other IRB exposures represent exposures risk-weighted under the Supervisory Slotting Approach.

2 Other exposures include, non-credit obligations, standardised exposures in default, collective investment undertakings and other exposures.

SCOPE OF THE IRB PERMISSION

The Group has regulatory approval to use its internal models in the calculation of the majority of its credit risk capital requirements. The Group currently has permission to use both the FIRB Approach (used for corporate exposures, institutions and central governments or central banks) and the RIRB Approach (for retail exposures).

The Group applies the Supervisory Slotting Approach to certain corporate specialised lending exposures (including the Group's income-producing real estate exposures) and no model is used for this. Capital Requirements in relation to securitisation positions are primarily determined under the SEC-IRBA, the SEC-SA and the SEC-ERBA approaches.

Exposures advanced through government loan schemes (BBLs, CBILs and CLBILs) are reported predominantly under the Standardised Approach. The impact of a guarantee on government lending schemes leads to substitution of exposure predominantly from IRB to STA approaches. Gross exposures are predominantly in the Retail SME asset class and substituted to STA Central Governments and Banks.

Further details on other areas such as the Supervisory Slotting Approach for Corporate Specialised Lending exposures and various approaches for Securitisations can be found in the relevant sections later in the document (see CR10 and SEC tables).

Under the Group's IRB permission, the following list comprises the rating systems that are significant at a Group level, each having risk-weighted assets in excess of £2.5bn (based on risk-weighted asset figures in the latest CRR attestation). The capital models listed are the same as those used in the PD backtesting analysis (later in this section) with the exception of the PELF rating system which is excluded from PD backtesting due to the low level of defaults, and the HBOS Other Mortgages rating system (a closed book) which is included in the backtesting, but recently dropped below the threshold of £2.5bn RWA.

Ratings system	Approach	Basel asset class	Associated Portfolio (risk-weighted assets)
HBOS Mainstream and Lloyds Bank Mortgages[1,2]	RIRB	Retail Mortgages	>£15bn
Unquoted	FIRB	Corporate Main, Corporate SME	£10bn – £15bn
Publicly Quoted	FIRB	Corporate Main, Corporate SME	£5bn – £10bn
HBOS and Lloyds Bank Loans[1]	RIRB	Retail – Other (non-SME)	£5bn – £10bn
HBOS and Lloyds Bank Credit Cards[1,3]	RIRB	Retail – Qualifying revolving	£5bn – £10bn
HBOS Buy-to-Let Mortgages	RIRB	Retail Mortgages	£5bn – £10bn
UK Motor Finance (Retail)	RIRB	Retail – Other (non-SME)	£5bn – £10bn
Business Dynamic Credit Scoring (BDCS)	FIRB/RIRB	Corporate SME, Retail SME and Retail Mortgages	£2.5bn – £5bn
HBOS and Lloyds Bank Overdrafts[1]	RIRB	Retail – Qualifying revolving	£2.5bn – £5bn
UK Motor Finance (Commercial)	FIRB	Corporate Main	£2.5bn – £5bn

1 For these products, separate rating systems exist for Lloyds Bank and HBOS. However, as the risk profiles are sufficiently similar, they are grouped together in this table.

2 Lloyds Bank Mortgages comprise of three rating systems – Lloyds Mainstream mortgages, Lloyds Near-Mainstream mortgages and Lloyds Buy-to-Let mortgages.

3 The Group applies the Standardised Approach to the MBNA credit card portfolio.

Pillar 1 Capital requirements: Credit risk continued

KEY CHARACTERISTICS OF MATERIAL GROUP RATINGS SYSTEMS

PD rating philosophy

PD ratings generally adhere to either 'Point-in-time' (PIT) or 'Through-the-cycle' (TTC) rating approaches.

- For Qualifying Revolving Retail Exposures (QRRE) and Retail – Other (non-SME), PD ratings are constructed on a PIT basis with a PD 'buffer' added to the PIT PD to cover potential underestimation of default risk between regular calibrations.
- Retail Mortgages use a TTC approach where this is available (the majority of Lloyds Bank and Halifax Mainstream mortgages) and a PIT approach with a PD buffer otherwise.
- Corporate PD models are largely calibrated to the long-run default experience, meaning the PD predictions are more TTC in nature. The material exception to this being BDCS, which is more PIT in nature.

Models currently use a definition of default based on a 90 days-past-due backstop, with the exception of the Lloyds/HBOS UK retail mortgage portfolios, which use a 180 days-past-due backstop. Additionally, Unlikeliness To Pay triggers are included in the definition of default and vary by portfolio, using criteria such as bankruptcy/IVAs, repossessions and forbearance treatments.

The PD models are based on a number of counterparty-specific or account-specific factors. In retail portfolios this includes application and behavioural scorecards; in commercial portfolios this includes counterparty quantitative (e.g. financial) and qualitative (e.g. assessment of management) factors.

EAD and LGD modelling approach

EAD models are used to determine the Group's exposure to a counterparty in the event of them defaulting. LGD models determine the loss experienced in the event of that default.

Corporate exposures are rated using the FIRB approach, so have no LGD or EAD models for capital purposes.

Retail exposures use EAD models, where the general approach is to estimate the proportion of the unused credit facility that will be further drawn down prior to default and add this to the current balance. This is material for revolving credit facilities, but generally not material for term products. The EAD calculated to determine regulatory capital is based on an economic downturn.

Retail LGD models are built using statistical models based on key drivers of loss. The LGD calculated to determine regulatory capital is based on an economic downturn. For portfolios with security (residential property, non-residential property and vehicles), components include probability of repossession and loss severity; for portfolios of an unsecured nature, components include probability of paying back a proportion of the debt and severity of loss.

Data history

The Group always seeks to use the longest history of available representative data when building its capital models:

- Mortgage models are built on data dating back to 1987
- Credit card, Loans, Overdrafts, Unquoted and UK Motor Finance (Retail) models are built on data dating back to 2007
- Publicly Quoted companies model is built on data dating back to 2004
- BDCS, PELF and UK Motor Finance (Commercial) models use data dating back to 2008

When default volumes are sufficient, the Group's PD models are built using logistic regression. Where historical default volumes are low, alternative approaches are used; in the case of the Publicly Quoted model, a ratings replication approach has been taken, while the PELF model is designed to align to the rank-order assessment of default risk by portfolio experts. Low default calibration methods are used as appropriate to ensure that the Group does not erroneously underestimate risk due to low volumes of default data.

INTERNAL DEVELOPMENT AND MONITORING OF IRB MODELS

Model development, validation and review

Risk models (including all IRB models), and subsequent changes, are generally developed by a centralised modelling team within the Risk Division on behalf of the business. The models are challenged, both technically and from a business usage perspective, by an independent 'second line' unit (Model Risk and Validation team) which reports through an independent reporting line within the Risk division.

The Group's most material models are approved and monitored by the Group Risk Committee (GRC). GRC is the most senior risk committee in the Group, and its membership includes the Chief Financial Officer and the Chief Risk Officer, as well as representation from each division of the Group.

Lower materiality models are approved and monitored by the Model Governance Committee (MGC). The chair of MGC has delegated approval responsibility from GRC. MGC attendees include senior risk and business model owners responsible for the model under consideration. All new IRB models and all material model changes are subject to governance in line with regulatory guidance from the regulators.

Once a model has been approved, it is subject to ongoing monitoring and periodic validation requirements. The periodic validation of models is undertaken by the centralised modelling team and is subject to the same governance process as a new model build. Periodic validations are undertaken on an annual basis for all IRB models.

A hierarchy of model monitoring exists for all IRB models – regular and detailed model monitoring (including rank ordering and predictive accuracy) is used to prioritise both model changes and corrective action for model underperformance. This is supplemented by more summarised half-yearly model monitoring to MGC. GRC is provided with an annual update on model performance. IRB model monitoring is also provided to and discussed with the PRA on a regular basis.

In addition to a technical / statistical review of IRB models, the Model Risk and Validation team undertakes a review of the controls and processes that are in place to support the production of Pillar 1 capital outputs. This focusses on three areas: data, implementation and usage of models. The review frequency of this is linked to the materiality of the model and is stipulated within the Group Model Governance Policy. Additional reviews can occur if there are material changes to the controls and processes – such reviews would focus on those revised controls and processes.

Where required, typically where there is a data or model weakness, an appropriate degree of conservatism is included in the estimated risk parameters to ensure capital adequacy. If a model or data weakness is identified that indicates the understatement of capital, the capital requirements are adjusted, on a temporary and immediate 'post model adjustment' basis until the issue is remediated.

The Model Risk and Validation team maintains an inventory of all models within the scope of the Group Model Governance Policy, including IRB models. This serves to assist the wider model governance process. More specifically, the inventory enables the following: a schedule of models under development or awaiting periodic validation to be maintained, a means of tracking the resolution of corrective actions set by the Model Risk and Validation team, individual accountability for models to be defined and the collation of documentation relating to all models.

Pillar 1 Capital requirements: Credit risk continued

The governance framework, supported by comprehensive risk model management information, provides the Group with confidence that its Pillar 1 capital requirements adequately reflect the Group's risk exposure.

Further information on model risk, including details on measurement, mitigation and monitoring can be found in the Risk Management section of the 2021 Lloyds Bank plc Annual Report and Accounts (page 64).

Relationships between risk management function and internal audit function

Group Internal Audit (the 'third line' of defence) undertake a program of internal audits to check that appropriate controls and processes are in place and operating effectively across all aspects of capital models. Group Internal Audit is independent from the first and second lines of defence, reporting to the Chief Internal Auditor, a Group Executive Committee attendee.

OTHER APPLICATIONS OF IRB MODEL OUTPUTS

In addition to the regulatory capital calculation process, IRB models are used for other purposes within the Group, for example:

Credit approval: IRB models are strongly linked to the credit approval process, though the precise nature differs between business areas. For retail exposures, operational, application and behavioural scorecards (primarily used to make retail credit approval and account management decisions) are used as inputs to PD models. For corporate exposures, the PD model ascribes a credit risk grade to each customer, and their exposures and this grade is used as a key input into the credit approval process.

Credit portfolio reporting and risk appetite: IRB parameters are embedded into management information at both Group and Divisional levels and are used to inform the setting of risk appetite.

Pricing: IRB outputs are used within various business' pricing tools to enable risk-adjusted pricing.

Calculating impairment: IRB models are used as an input into the impairment process, within the wider IFRS 9 reporting framework. The calculation of provision levels within each portfolio is subject to rigorous challenge and oversight from both Finance and Risk.

Stress Testing: IRB model outputs are used in the various internal and regulatory stress testing exercises.

Pillar 1 Capital requirements: Credit risk continued

MODEL PERFORMANCE

This section is in two parts. The first section focusses on the backtesting of the Group's most material PD models. The second provides high level analysis of the performance of EAD and LGD models used within the RIRB Approach over a three-year period.

Backtesting of PD models

This section focusses on the backtesting of PD models. The information in the following tables is based on the significant rating systems noted earlier in the scope of the IRB permission section, with the exception of PELF where inclusion of this model would have limited value due to the low level of defaults in the portfolio and with the addition of the HBOS Other Mortgages rating system.

In line with EBA guidance this information is aggregated to Basel asset class, with exposures assessed under RIRB and FIRB shown in separate tables. All tables follow the same format and adopt the following definitions:

- The PD ranges match those in the respective retail and commercial internal master scales.
- The external rating equivalent is the equivalent S&P rating described on page 28.
- The weighted average PD is calculated using the regulatory PD weighted by the EAD at the start of the period.
- The arithmetic average PD is calculated using the regulatory PD at the start of the period. This PD is volume weighted.
- The number of obligors is shown at the beginning and end of the period. This represents the full book position at both points, with new obligors (opened during the period) included in the end of year position (if still on book). Obligors that left during the year are not included in the end of year position. Various definitions of obligor operate within the bank, reflecting how the exposures are managed within each area. This translates as follows:
  - **Cards, Loans and Overdrafts** aggregate at customer level within brand and product.
  - **Mortgages and UK Motor Finance (Retail)** treat each account as a unique obligor. An obligor with two accounts would have two PDs.
  - The Commercial Banking (including BDCS) and **UK Motor Finance (Commercial)** definition is legal entity by source system (obligors reside on different source systems according to the nature of the lending). This means that one legal entity might be represented by one or more obligors in the data if that entity has borrowing across one or more businesses (source systems).

    Furthermore, obligors that are 'connected' may share the same PD subject to certain conditions (known as Obligor Risk Groups, or ORGs). These cases are aggregated and reported as single obligors. However, where exposures within an ORG span multiple asset classes, the ORG will be counted in each of those asset classes.
- The number of defaults during the year is the total number of non-defaulted obligors at the start of the year that subsequently defaulted at any point in the following 12 months. The allocation to a risk grade is based on the PIT PD at the start of the year for Retail asset classes and regulatory PD for Non-Retail asset classes. Exposures opened during the year are not included.
- 'Defaulted obligors – new exposures' relates to obligors that opened during the year and subsequently defaulted. Only one figure is provided within this column and this is assigned to the row 'New to Book'. This figure is currently unavailable for the Corporate SME and Corporate Main tables.
- The average default rate is calculated as a simple (volume weighted) average of the default rates over the past five years.

For each table, a risk-weighted-asset coverage per cent is shown. This represents the proportion of the total (not in default) IRB risk-weighted assets within that Basel asset class that is covered by the backtesting analysis. For example, a figure of 95 per cent would indicate that 5 per cent of the IRB risk-weighted assets for that Basel asset class has not been included – the 5 per cent would relate to rating systems not classed as significant or where they have been excluded due to the low volume of defaults.

The primary benefit of these tables is that they enable a comparison of the predicted PD to the actual default rate over both the short-term (12 months) and the medium-term (five years). When making this comparison, care needs to be taken with the interpretation as the result is partially dependent on the choice of PD approach (PIT or TTC).

Summary of Performance

The latest performance window covers a period when a number of mechanisms were in place to support customers through the COVID-19 pandemic, including repayment holidays and the government loan and furlough schemes. The effectiveness of these actions is evident across the portfolios where actual default rates have generally fallen in the latest reporting period. Actual default rates will likely increase in 2022 as the effect of these customer support measures ease.

Where material changes to rating systems are necessary, pre-notification to the PRA is required and their approval obtained before the change can be implemented. During 2021, there have been no model changes (PD, LGD or EAD) requiring pre-notification to the PRA.

As the PD backtesting tables have to be collated at Basel asset class level, the link between the Basel asset class and key rating systems has been summarised in the following table. All rating systems reported here cover UK exposures only with the exception of Publicly Quoted which is a global rating system.

Basel Asset Class	Rating Systems Included
Corporate Main	Publicly Quoted, Unquoted, UK Motor Finance (Commercial)
Corporate SME	Unquoted, Publicly Quoted, BDCS
Retail – Mortgages (UK)	HBOS Mainstream mortgages, Lloyds Bank mortgages, HBOS Buy-to-Let mortgages, HBOS Other mortgages, BDCS
Retail – SME	BDCS
Retail – Qualifying revolving	HBOS and Lloyds Bank Credit Cards, HBOS and Lloyds Bank
Overdrafts Retail – Other (non-SME)	HBOS and Lloyds Bank Personal Loans and UK Motor Finance

The above significant rating systems provide only a very small volume of obligors to Institutions and Central Governments or Banks and hence no backtesting results are shown for these asset classes.

Pillar 1 Capital requirements: Credit risk continued

For all IRB asset classes except Corporate Main and Corporate SME, the Group exposures shown in the following tables are the same as the Lloyds Banking Group disclosures. For that reason, the average historic annual default rates shown are the equivalent figures from the Lloyds Bank plc Pillar 3 disclosure. For Corporate Main and Corporate SME, where there are minor differences between the number of obligors in Group versus Lloyds Banking Group, a different approach has been taken. For Corporate Main, the average historic default rates are based on Lloyds Banking Group exposures for the last three years, and UK Motor Finance (Commercial) only for the preceding two years. For Corporate SME, where differences between Group and Lloyds Banking Group are very small, the average historic default rate is based on Lloyds Bank plc exposures for the last three years, and Group exposures for the preceding two years.

CR9: Back-testing of PD per portfolio – Retail – Mortgages (UK)

RWA Coverage 99%+

	31 Dec 2021						
			Number of obligors				
PD Range	**Weighted average PD**	**Arithmetic average PD by obligors**	**End of previous year**	**End the year**	**Defaulted obligors in the year**	**of which: new defaulted obligors in the year**	**Average historical annual default rate**
0.00 – 0.10%	**0.29%**	**0.25%**	**1,683,355**	**1,748,672**	**548**	**N/a**	**0.04%**
0.10 – 0.40%	**0.85%**	**0.79%**	**601,595**	**526,540**	**961**	**N/a**	**0.20%**
0.40 – 0.80%	**1.81%**	**1.86%**	**104,689**	**100,683**	**456**	**N/a**	**0.56%**
0.80 – 1.20%	**2.91%**	**3.21%**	**28,356**	**24,908**	**249**	**N/a**	**0.98%**
1.20 – 2.50%	**4.93%**	**5.41%**	**23,919**	**24,076**	**325**	**N/a**	**1.52%**
2.50 – 4.50%	**9.98%**	**10.35%**	**24,824**	**16,107**	**451**	**N/a**	**2.91%**
4.50 – 7.50%	**14.69%**	**15.71%**	**16,015**	**11,137**	**719**	**N/a**	**5.65%**
7.50 – 10.00%	**27.26%**	**27.04%**	**4,189**	**3,799**	**346**	**N/a**	**8.89%**
10.00 – 14.00%	**27.15%**	**27.59%**	**7,185**	**4,636**	**788**	**N/a**	**10.39%**
14.00 – 20.00%	**32.92%**	**33.04%**	**4,230**	**2,782**	**445**	**N/a**	**16.07%**
20.00 – 30.00%	**51.50%**	**51.43%**	**4,916**	**3,503**	**1,150**	**N/a**	**25.50%**
30.00 – 45.00%	**57.11%**	**58.90%**	**4,243**	**3,062**	**1,244**	**N/a**	**35.76%**
45.00 –99.99%	**77.44%**	**78.62%**	**4,830**	**3,278**	**2,678**	**N/a**	**59.68%**
In Default	**100.00%**	**100.00%**	**24,026**	**21,938**	**N/a**	**N/a**	**N/a**
New to Book	**N/a**	**N/a**	**N/A**	**270,114**	**N/a**	**12**	**N/a**

	31 Dec 2020						
			Number of obligors				
PD Range	Weighted average PD	Arithmetic average PD by obligors	End of previous year	End the year	Defaulted obligors in the year	of which: new defaulted obligors in the year	Average historical annual default rate
0.00 - 0.10%	0.27 %	0.23 %	1,700,923	1,683,355	743	N/a	0.04 %
0.10 - 0.40%	0.76 %	0.71 %	613,394	601,594	1,146	N/a	0.20 %
0.40 - 0.80%	1.54 %	1.62 %	109,857	104,182	617	N/a	0.59 %
0.80 - 1.20%	2.66 %	2.92 %	27,675	28,713	262	N/a	1.01 %
1.20 - 2.50%	5.32 %	5.70 %	27,411	24,052	459	N/a	1.59 %
2.50 - 4.50%	9.66 %	10.11 %	25,482	24,882	669	N/a	3.28 %
4.40 - 7.50%	14.29 %	15.27 %	17,660	15,914	1,127	N/a	5.98 %
7.50 - 10.00%	22.34 %	23.27 %	5,990	4,192	576	N/a	9.09 %
10.00 - 14.00%	26.45 %	26.87 %	8,339	7,068	1,026	N/a	10.35 %
14.00 - 20.00%	35.78 %	35.80 %	5,408	4,079	1,019	N/a	17.85 %
20.00 - 30.00%	47.17 %	48.20 %	4,563	4,916	1,350	N/a	27.16 %
30.00 - 45.00%	57.25 %	58.62 %	4,671	4,002	1,911	N/a	38.24 %
45.00 - 99.99%	76.48 %	77.88 %	4,564	4,679	2,863	N/a	61.04 %
In Default	100.00 %	100.00 %	22,433	24,009	N/a	N/a	N/a
New to Book	N/a	N/a	N/a	265,938	N/a	4	N/a

Key observations

- Due to system enhancements made from 2021 Q3, the start period for the BDCS rating system in this Basel asset class is the end of July 2020 with defaulted obligors being recorded across the 12 months ending July 2021 in order to maintain alignment in approach with previous disclosures. This, however, leads to small differences in the number of obligors reported at the end of 2020 compared to the start of 2021 given the small number of BDCS cases in this asset class. Internal monitoring confirms that the above table remains representative of model performance.
- Obligors are allocated to grades based on PIT PDs, so the weighted and arithmetic average PDs are above the range due to the use of more conservative TTC PDs.
- Most obligors are rated on a TTC basis, which is conservative relative to average historic default rates.
- Year-on-year, default rates have seen a reduction, expected to be aided by the positive impact of payment holidays and the government furlough schemes.
- Average PDs have increased since the 2020 disclosure. 2021 figures represent PD estimates using start of period obligors calibrated to an increased number of defaults observed throughout 2020 and prior to Covid support mechanisms taking full effect.

Pillar 1 Capital requirements: Credit risk continued

CR9: Back-testing of PD per portfolio – Retail – Qualifying Revolving

RWA Coverage 100%

31 Dec 2021

PD Range	Weighted average PD	Arithmetic average PD by obligors	Number of obligors: End of previous year	Number of obligors: End of the year	Defaulted obligors in the year	of which: new defaulted obligors in the year	Average historical annual default rate
0.00 – 0.10%	0.07%	0.07%	5,768,592	4,912,877	1,342	N/a	0.02%
0.10 – 0.40%	0.22%	0.22%	11,803,726	11,880,244	11,399	N/a	0.09%
0.40 – 0.80%	0.58%	0.59%	5,241,828	5,561,653	18,829	N/a	0.34%
0.80 – 1.20%	0.98%	0.97%	2,426,222	2,779,912	19,012	N/a	0.78%
1.20 – 2.50%	1.72%	1.71%	2,340,035	2,710,894	45,945	N/a	1.76%
2.50 – 4.50%	3.30%	3.28%	976,035	1,080,754	42,684	N/a	4.03%
4.50 – 7.50%	5.67%	5.63%	464,576	513,963	32,993	N/a	6.40%
7.50 – 10.00%	8.57%	8.59%	145,333	154,331	15,516	N/a	9.32%
10.00 – 14.00%	11.71%	11.75%	112,589	120,629	14,092	N/a	11.42%
14.00 – 20.00%	16.59%	16.70%	85,606	94,410	12,918	N/a	14.58%
20.00 – 30.00%	24.58%	24.78%	93,383	105,946	18,443	N/a	20.41%
30.00 – 45.00%	37.28%	37.02%	118,781	127,064	32,493	N/a	28.67%
45.00 –99.99%	62.34%	59.87%	93,201	78,563	43,607	N/a	47.81%
In Default	100.00%	100.00%	328,626	316,327	N/a	N/a	N/a
New to Book	N/a	N/a	N/a	1,923,241	N/a	12,108	N/a

31 Dec 2020

PD Range	Weighted average PD	Arithmetic average PD by obligors	Number of obligors: End of previous year	Number of obligors: End of the year	Defaulted obligors in the year	of which: new defaulted obligors in the year	Average historical annual default rate
0.00 – 0.10%	0.07 %	0.07 %	5,906,346	5,768,592	933	N/a	0.02 %
0.10 – 0.40%	0.22%	0.22%	11,181,057	11,803,726	9,277	N/a	0.10%
0.40 – 0.80%	0.58%	0.58%	5,628,122	5,241,828	21,863	N/a	0.35%
0.80 – 1.20%	0.98%	0.98%	2,157,844	2,426,222	20,466	N/a	0.79%
1.20 – 2.50%	1.73%	1.72%	2,363,264	2,340,035	47,800	N/a	1.67%
2.50 – 4.50%	3.33%	3.29%	986,888	976,035	42,897	N/a	3.72%
4.50 – 7.50%	5.69%	5.64%	496,659	464,576	32,593	N/a	5.88%
7.50 – 10.00%	8.63%	8.64%	147,760	145,333	14,245	N/a	8.46%
10.00 – 14.00%	11.71%	11.79%	119,924	112,589	13,629	N/a	11.00%
14.00 – 20.00%	16.62%	16.73%	100,820	85,606	15,053	N/a	14.62%
20.00 – 30.00%	24.58%	24.78%	110,902	93,383	21,541	N/a	20.99%
30.00 – 45.00%	37.06%	36.79%	112,932	118,781	29,304	N/a	29.91%
45.00 –99.99%	62.83%	61.43%	101,643	93,201	47,192	N/a	50.06%
In Default	100.00%	100.00%	1,100,814	328,626	N/a	N/a	N/a
New to Book	N/a	N/a	N/a	1,520,627	N/a	11,962	N/a

Key observations

– Overall the average historical annual default rate has remained broadly stable through 2021 and is comparable with 2020.

– There is a degree of under-prediction in some mid-range PD bands, which accounts for < 15% of the population, as a result of the calibration methodology. At an overall level, the PDs remain above the default rates due to the presence of a PD buffer.

Pillar 1 Capital requirements: Credit risk continued

CR9: Back-testing of PD per portfolio – Retail – Other (non-SME) RWA Coverage 100%

31 Dec 2021

PD Range	Weighted average PD	Arithmetic average PD by obligors	End of previous year	End of the year	Defaulted obligors in the year	of which: new defaulted obligors in the year	Average historical annual default rate
0.00 – 0.10%	0.08%	0.08%	27,726	23,536	34	N/a	0.15%
0.10 – 0.40%	0.36%	0.36%	480,963	430,642	3,781	N/a	0.89%
0.40 – 0.80%	0.70%	0.67%	326,491	298,938	2,488	N/a	0.91%
0.80 – 1.20%	1.00%	1.00%	163,881	140,795	1,164	N/a	0.68%
1.20 – 2.50%	1.70%	1.71%	499,013	491,909	7,363	N/a	1.75%
2.50 – 4.50%	3.28%	3.30%	240,735	256,196	8,545	N/a	3.96%
4.50 – 7.50%	5.90%	5.85%	123,231	132,910	8,862	N/a	7.92%
7.50 – 10.00%	8.77%	8.61%	29,800	32,659	3,337	N/a	10.76%
10.00 – 14.00%	11.16%	11.35%	27,477	26,719	3,879	N/a	14.04%
14.00 – 20.00%	16.48%	16.51%	10,043	10,657	1,918	N/a	16.22%
20.00 – 30.00%	21.47%	21.96%	20,149	14,393	3,433	N/a	19.09%
30.00 – 45.00%	35.23%	35.54%	15,483	13,929	5,304	N/a	33.06%
45.00 –99.99%	70.10%	69.52%	16,252	12,759	10,623	N/a	64.61%
In Default	100.00%	100.00%	75,741	70,748	N/a	N/a	N/a
New to Book	N/a	N/a	N/a	508,695	N/a	2,305	N/a

31 Dec 2020

			Number of obligors				
PD Range	Weighted average PD	Arithmetic average PD by obligors	End of previous year	End of the year	Defaulted obligors in the year	of which: new defaulted obligors in the year	Average historical annual default rate
0.00 – 0.10%	0.08%	0.08%	27,879	27,726	86	N/a	0.14%
0.10 – 0.40%	0.36%	0.36%	477,725	480,963	6,479	N/a	0.82%
0.40 – 0.80%	0.70%	0.67%	343,588	326,491	4,451	N/a	0.90%
0.80 – 1.20%	1.01%	1.01%	171,444	163,881	1,242	N/a	0.68%
1.20 – 2.50%	1.70%	1.72%	524,366	499,014	11,402	N/a	1.72%
2.50 – 4.50%	3.29%	3.32%	264,208	240,735	11,967	N/a	3.80%
4.50 – 7.50%	5.91%	5.87%	134,882	123,232	11,680	N/a	7.56%
7.50 – 10.00%	8.93%	8.69%	33,917	29,800	3,773	N/a	10.12%
10.00 – 14.00%	11.24%	11.38%	26,517	27,478	3,989	N/a	13.21%
14.00 – 20.00%	16.36%	16.43%	11,120	10,044	1,873	N/a	14.50%
20.00 – 30.00%	21.66%	22.11%	17,473	20,155	3,756	N/a	19.09%
30.00 – 45.00%	35.06%	35.28%	17,029	15,520	6,391	N/a	32.66%
45.00 –99.99%	71.69%	71.79%	19,921	16,908	12,517	N/a	64.47%
In Default	100.00%	100.00%	136,403	75,038	N/a	N/a	N/a
New to Book	N/a	N/a	N/a	498,495	N/a	2,906	N/a

Key observations

- Overall the average historical annual default rate has shown a small decrease in 2021.
- Where default rates are under-predicted, these are primarily driven by the Motor Finance definition of default which includes a number of non-credit related termination events throughout 2021. The PD models are not optimised to predict these events, contributing to the under-prediction which would not exist if these cases were removed.

Pillar 1 Capital requirements: Credit risk continued

CR9: Back-testing of PD per portfolio – Retail SME[1]

RWA Coverage 100%

31 Dec 2021

PD Range[1]	Weighted average PD	Arithmetic average PD by obligors	End of previous year	End of the year	Defaulted obligors in the year	of which: new defaulted obligors in the year	Average historical annual default rate
0.00 - 0.10%	—	—	—	—	—	N/a	—
0.10 - 0.40%	—	—	—	—	—	N/a	—
0.40 - 0.80%	0.61%	0.60%	59,445	74,529	126	N/a	0.26%
0.80 - 1.20%	1.12%	1.12%	16,312	14,538	63	N/a	0.71%
1.20 - 2.50%	1.67%	1.67%	14,301	11,422	93	N/a	1.36%
2.50 - 4.50%	2.62%	2.62%	12,910	8,937	126	N/a	2.15%
4.50 - 7.50%	5.67%	5.67%	16,269	8,709	316	N/a	4.20%
7.50 - 10.00%	8.04%	8.04%	192	55	7	N/a	2.90%
10.00 - 14.00%	10.61%	10.61%	7,723	3,286	333	N/a	6.54%
14.00 - 20.00%	18.07%	19.59%	18,648	20,239	372	N/a	6.51%
20.00 - 30.00%	—	—	—	—	—	N/a	—
30.00 - 45.00%	34.10%	34.10%	2,394	960	275	N/a	22.58%
45.00 -99.99%	78.18%	78.18%	4,166	1,735	804	N/a	28.53%
In Default	100.00%	100.00%	8,455	9,774	N/a	N/a	N/a
New to Book	N/a	N/a	N/a	N/a	N/a	N/a	N/a

31 Dec 2020

			Number of obligors				
PD Range[1]	Weighted average PD	Arithmetic average PD by obligors	End of previous year	End of the year	Defaulted obligors in the year	of which: new defaulted obligors in the year	Average historical annual default rate
0.00 - 0.10%	—	—	—	—	—	N/a	—
0.10 - 0.40%	—	—	—	—	—	N/a	—
0.40 - 0.80%	0.61%	0.60%	59,435	60,330	151	N/a	0.27%
0.80 - 1.20%	1.12%	1.12%	16,866	18,044	117	N/a	0.78%
1.20 - 2.50%	1.67%	1.67%	14,045	15,414	184	N/a	1.48%
2.50 - 4.50%	2.76%	2.62%	12,041	13,022	267	N/a	2.40%
4.50 - 7.50%	5.67%	5.67%	15,274	15,354	587	N/a	4.61%
7.50 - 10.00%	8.04%	8.04%	348	430	8	N/a	2.45%
10.00 - 14.00%	10.61%	10.61%	6,512	6,525	477	N/a	6.40%
14.00 - 20.00%	18.12%	19.73%	22,097	16,159	667	N/a	9.33%
20.00 - 30.00%	—	—	—	—	—	N/a	—
30.00 - 45.00%	34.10%	34.10%	1,878	1,850	374	N/a	25.88%
45.00 -99.99%	78.18%	78.18%	2,997	3,427	750	N/a	30.61%
In Default	100.00%	100.00%	8,297	8,295	N/a	N/a	N/a
New to Book	N/a	N/a	N/a	N/a	N/a	N/a	N/a

1 Covers BDCS only, mapped to the Retail master scale which leads to some 'gaps' in the risk grades.

Key observations

- Due to system enhancements made from 2021 Q3, the start period for the BDCS rating system in this Basel asset class is the end of July 2020 with defaulted obligors being recorded across the 12 months ending July 2021 in order to maintain alignment in approach with previous disclosures. This, however, leads to differences in the number of obligors reported at the end of 2020 compared to the start of 2021. Internal monitoring confirms that the above table remains representative of model performance.
- The overall population has reduced across the 2021 observation period.
- Increased liquidity afforded by government lending leads to a higher proportion of customers in the lower risk PD bands.
- The increased volumes in the 14.00 – 20.00% PD range relate to customers with low-value exposures. This cohort has a materially lower actual default rate in the most recent year.
- The average historical default rate is within (or below) the PD range in all cases. Relatively low default volumes lead to volatility in default rates within some PD bands.

Pillar 1 Capital requirements: Credit risk continued

CR9: Back-testing of PD per portfolio – Corporate Main[1]

RWA Coverage 80-85%

31 Dec 2021

PD Range	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	Number of obligors: End of previous year	Number of obligors: End of the year	Defaulted obligors in the year	new defaulted obligors in the year	Average historical annual default rate
0.00 - 0.035%	AAA to AA-	0.03%	0.03%	49	21	—	N/a	0.00%
0.035 - 0.050%	A+	0.04%	0.04%	35	56	—	N/a	0.56%
0.050 - 0.080%	A	0.06%	0.06%	39	42	—	N/a	0.00%
0.080 - 0.140%	A-	0.11%	0.11%	111	109	—	N/a	0.12%
0.140 - 0.220%	BBB+	0.18%	0.19%	572	689	—	N/a	0.13%
0.220 - 0.340%	BBB	0.28%	0.27%	527	720	—	N/a	0.26%
0.340 - 0.500%	BBB-	0.43%	0.43%	1,804	2,103	3	N/a	0.25%
0.500 - 0.760%	BB+	0.63%	0.66%	2,261	2,482	7	N/a	0.48%
0.760 - 1.240%	BB	1.01%	1.00%	2,051	2,059	9	N/a	0.75%
1.240 - 2.000%	BB-	1.62%	1.63%	1,550	1,447	12	N/a	1.22%
2.000 - 3.200%	B+	2.60%	2.60%	497	518	6	N/a	2.20%
3.200 - 5.200%	B+	4.02%	3.78%	2,429	1,357	18	N/a	2.47%
5.200 - 7.200%	B	6.20%	6.11%	217	233	8	N/a	8.84%
7.200 - 10.200%	B-	8.70%	8.65%	129	101	12	N/a	5.61%
10.200 - 13.800%	B-	12.00%	11.80%	71	57	7	N/a	11.69%
13.800 - 99.99%	CCC to C	30.76%	28.77%	125	113	16	N/a	14.36%
In Default	Default	100.00%	100.00%	465	356	N/a	N/a	N/a
New to Book	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a

31 Dec 2020

PD Range	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	Number of obligors: End of previous year	Number of obligors: End of the year	Defaulted obligors in the year	new defaulted obligors in the year	Average historical annual default rate
0.00 - 0.035%	AAA to AA-	0.03%	0.03%	52	49	—	N/a	0.00%
0.035 - 0.050%	A+	0.04%	0.04%	44	34	—	N/a	0.56%
0.050 - 0.080%	A	0.06%	0.06%	48	40	—	N/a	0.00%
0.080 - 0.140%	A-	0.11%	0.11%	164	105	1	N/a	0.12%
0.140 - 0.220%	BBB+	0.18%	0.19%	821	570	3	N/a	0.16%
0.220 - 0.340%	BBB	0.28%	0.27%	723	525	3	N/a	0.38%
0.340 - 0.500%	BBB-	0.42%	0.43%	2,440	1,793	9	N/a	0.27%
0.500 - 0.760%	BB+	0.63%	0.66%	2,788	2,256	17	N/a	0.47%
0.760 - 1.240%	BB	1.00%	1.00%	2,286	2,045	14	N/a	0.75%
1.240 - 2.000%	BB-	1.63%	1.63%	1,837	1,568	39	N/a	1.29%
2.000 - 3.200%	B+	2.60%	2.60%	537	494	12	N/a	2.47%
3.200 - 5.200%	B+	4.05%	3.82%	1,109	2,447	44	N/a	2.93%
5.200 - 7.200%	B	6.20%	6.13%	227	221	23	N/a	9.85%
7.200 - 10.200%	B-	8.69%	8.65%	117	136	8	N/a	5.49%
10.200 - 13.800%	B-	12.00%	11.87%	63	64	11	N/a	11.94%
13.800 - 99.99%	CCC to C	30.02%	29.17%	141	116	20	N/a	13.67%
In Default	Default	100.00%	100.00%	357	460	N/a	N/a	N/a
New to Book	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a

1 Covers Publicly Quoted, Unquoted and UK Motor Finance (Commercial)

Key observations

- Due to system enhancements made from 2021 Q3, the start period in this Basel asset class the start period is the end of July 2020 with defaulted obligors being recorded across the 12 months ending July 2021 in order to maintain alignment in approach with previous disclosures. This, however, leads to differences in the number of obligors reported at the end of 2020 compared to the start of 2021. Internal monitoring confirms that the above table remains representative of model performance.
- Population volume has decreased throughout 2021 as a result of reduced levels of new business in Motor Finance (Commercial).
- A noticeable migration into the 3.20-5.20% PD range in 2020 is unwinding in 2021 since fewer customers are now being affected by a policy processing error in Motor Finance (Commercial). An automated policy process was not updated in time to reflect government extensions to the submission dates for filing financials with Companies House during the Covid pandemic, leading to the initial increase in customers.
- Relatively low new to default volumes lead to year-on-year volatility in default rates within a given PD range. At an overall level, default rates have reduced due to stronger economic performance (relative to last year) following the easing of COVID-19 restrictions coupled with the continued availability of government support loans and payment holidays.
- Due to an issue in default reporting in UK Motor Finance (Commercial), certain 90 days-past-due defaults have been under-reported in the above table. For capital purposes, this continues to be mitigated through a post model adjustment.

Pillar 1 Capital requirements: Credit risk continued

CR9: Back-testing of PD per portfolio – Corporate SME[1]

RWA Coverage 80-85%

31 Dec 2021

PD Range	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	Number of obligors: End of previous year	Number of obligors: End of the year	Defaulted obligors in the year	new defaulted obligors in the year	Average historical annual default rate
0.00 – 0.035%	AAA to AA-	0.03%	0.03%	4	5	—	N/a	0.00%
0.035 – 0.050%	A+	0.04%	0.04%	2	6	—	N/a	0.00%
0.050 – 0.080%	A	0.06%	0.06%	6	6	—	N/a	0.00%
0.080 – 0.140%	A-	0.11%	0.11%	18	16	—	N/a	0.00%
0.140 – 0.220%	BBB+	0.18%	0.18%	40	44	—	N/a	0.15%
0.220 – 0.340%	BBB	0.28%	0.28%	164	151	—	N/a	0.20%
0.340 – 0.500%	BBB-	0.42%	0.42%	474	548	1	N/a	0.16%
0.500 – 0.760%	BB+	0.63%	0.62%	4,144	4,975	14	N/a	0.40%
0.760 – 1.240%	BB	1.07%	1.09%	1,988	2,179	5	N/a	0.59%
1.240 – 2.000%	BB-	1.65%	1.65%	1,788	1,664	26	N/a	1.09%
2.000 – 3.200%	B+	2.61%	2.61%	1,326	1,077	14	N/a	1.27%
3.200 – 5.200%	B+	4.20%	4.20%	235	248	5	N/a	1.66%
5.200 – 7.200%	B	5.81%	5.76%	1,063	875	44	N/a	5.18%
7.200 – 10.200%	B-	8.47%	8.44%	79	118	1	N/a	2.34%
13.800%	B-	10.86%	10.85%	249	159	12	N/a	6.41%
13.800 – 99.99%	CCC to C	33.60%	28.41%	314	298	30	N/a	10.76%
In Default	Default	100.00%	100.00%	253	296	N/A	N/a	N/a
New to Book	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a

31 Dec 2020

PD Range	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	Number of obligors: End of previous year	Number of obligors: End of the year	Defaulted obligors in the year	new defaulted obligors in the year	Average historical annual default rate
0.00 – 0.035%	AAA to AA-	0.03%	0.03%	4	5	—	N/a	0.00%
0.035 – 0.050%	A+	0.04%	0.04%	2	1	—	N/a	0.00%
0.050 – 0.080%	A	0.06%	0.06%	6	5	—	N/a	0.00%
0.080 – 0.140%	A-	0.11%	0.11%	24	17	—	N/a	0.00%
0.140 – 0.220%	BBB+	0.18%	0.18%	40	43	—	N/a	0.15%
0.220 – 0.340%	BBB	0.28%	0.28%	180	167	—	N/a	0.26%
0.340 – 0.500%	BBB-	0.42%	0.42%	514	483	3	N/a	0.12%
0.500 – 0.760%	BB+	0.62%	0.61%	4,307	4,163	20	N/a	0.44%
0.760 – 1.240%	BB	1.06%	1.09%	2,040	2,094	17	N/a	0.71%
1.240 – 2.000%	BB-	1.65%	1.65%	1,474	1,781	14	N/a	1.01%
2.000 – 3.200%	B+	2.61%	2.61%	1,167	1,404	20	N/a	1.57%
3.200 – 5.200%	B+	4.20%	4.20%	203	240	1	N/a	1.52%
5.200 – 7.200%	B	5.82%	5.77%	917	1,083	52	N/a	5.25%
7.200 – 10.200%	B-	8.26%	8.30%	158	75	6	N/a	2.08%
10.200 – 13.800%	B-	11.10%	10.86%	252	243	23	N/a	7.18%
13.800 – 99.99%	CCC to C	30.59%	27.05%	283	276	22	N/a	12.60%
In Default	Default	N/a	N/a	203	260	N/a	N/a	N/a
New to Book	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a

1 Covers BDCS and Unquoted with limited contribution from Publicly Quoted.

Key observations

- Due to system enhancements made from 2021 Q3, the start period in this Basel asset class the start period is the end of July 2020 with defaulted obligors being recorded across the 12 months ending July 2021 in order to maintain alignment in approach with previous disclosures. This, however, leads to differences in the number of obligors reported at the end of 2020 compared to the start of 2021. Internal monitoring confirms that the above table remains representative of model performance.
- A slight increase in population volumes is observed across the reporting period, particularly in the 0.50-0.76% PD range, which is driven by increased liquidity afforded by government lending leading to more customers achieving better quality ratings from the BDCS model.
- There is a reduction in the average default rate over the course of the year. The historical average default rate is within or below the PD range in all cases. Low volumes lead to some volatility, but in general the default rate increases with each PD band.

Pillar 1 Capital requirements: Credit risk continued

Performance summary of EAD and LGD models

The scope of this section covers rating systems using an RIRB approach. These are the same as the portfolios included in the PD backtesting section, with the addition of the BOS Netherlands Mortgage portfolio. This section reports on predicted and actual LGD and EAD grouped by exposure class. No information is provided for exposures modelled under the FIRB Approach since these use regulatory values for LGD and EAD.

The calculations for LGD consider the set of exposures that have defaulted during the year and compare the loss level experienced on these accounts with the amounts predicted by the Group's IRB models at the start of the period. For those defaulted assets where losses are not yet realised, the determination of actual LGD includes estimates of future recoveries; in the case of Retail SME and the small proportion of the Retail Mortgage book that is within the BDCS rating system, the estimates are based on downturn LGDs, whilst for other asset classes a PIT LGD is used.

The calculation of the EAD ratio considers the set of defaulted accounts during the relevant period and compares the realised EAD for these exposures with the amounts predicted by the Group's IRB models at the start of the period. Where the predicted EAD was greater than the actual exposure on the date of default, the ratio will be greater than 100%.

Care should be taken in interpreting the predicted to actual ratios for EAD: 'actual' outcome data is by its nature point-in-time and reflects the experience during a given year, whereas 'predicted' outputs are 'downturn' calibrated. The gap between 'predicted' and 'actual' outcomes will therefore narrow or widen according to the position in the economic cycle. In addition, differences between actuals and predictions may arise due to changes in circumstances over the course of the 12-month period, e.g. credit policy or operational process changes.

For asset classes in these tables, the Group and Lloyds Banking Group exposures are virtually identical; 0.3% of Retail - Other (non-SME) exposure is in Lloyds Banking Group but outside the Group. For this reason, the results shown are the same as those for the Parent Group.

Model performance

	Loss given default of defaulted assets		EAD of defaulted assets
	Predicted Dec 20	Actual Dec 21	Ratio of predicted to actual
IRB Exposure Class (2021)	%	%	%
Retail – Mortgages	**10.29%**	**3.42%**	**103%**
Retail – SME	**54.27%**	**50.97%**	**119%**
Retail – Qualifying revolving	**76.64%**	**63.36%**	**119%**
Retail – Other (non-SME)	**59.25%**	**46.75%**	**123%**

	Loss given default of defaulted assets		EAD of defaulted assets
	Predicted Dec 19	Actual Dec 20	Ratio of predicted to actual
IRB Exposure Class (2020)	%	%	%
Retail – Mortgages	10.85%	4.34%	103%
Retail – SME	80.89%	75.43%	103%
Retail – Qualifying revolving	79.92%	64.61%	111%
Retail – Other (non-SME)	54.06%	41.39%	120%

	Loss given default of defaulted assets		EAD of defaulted assets
	Predicted Dec 18	Actual Dec 19	Ratio of predicted to actual
IRB Exposure Class (2019)	%	%	%
Retail – Mortgages	12.11%	5.78%	103%
Retail – SME	80.76%	75.53%	101%
Retail – Qualifying revolving	78.17%	62.64%	110%
Retail – Other (non-SME)	56.40%	47.71%	119%

Pillar 1 Capital requirements: Credit risk continued

Key observations

Retail Mortgages:

– Predicted LGD and EAD continue to exceed actual LGD and EAD.

– LGDs have decreased, due in large part to sustained house price increases.

– The government's introduction of a moratorium on possessions until June 2021 has reduced write-offs observed during the outcome window.

Retail SME:

– This asset class relates exclusively to the BDCS rating system and the latest performance measures are from an observation point of July 2020.

– The take up of Covid related lending, particularly the Bounce Back Loan Scheme, was high in this segment. Exposures backed by a government guarantee are treated as Standardised for capital reporting purposes and are therefore not included here. However, due to the pace at which the schemes were launched, the collateral allocation process within the IRB LGD model could not be updated immediately and so the LGD estimates as at July 2020 are artificially low as they include a misallocation of government guarantees. For capital purposes, this underestimation of LGD was mitigated by a Post Model Adjustment at that time, which was released when the operational process was updated.

– For this reason, the LGD predictions for 2021 appear significantly lower than previous years. Furthermore, actual loss rates also appear lower due to the limited number of fully resolved recoveries during the Covid impacted outcome period, leading to the reported loss rate being driven largely by PIT model estimates.

– The increased liquidity afforded by government loan schemes has reduced drawn balances, leading to a higher EAD over-prediction in the latest period.

Retail – Qualifying revolving:

– Predicted LGD and EAD continue to exceed actual LGD and EAD.

– An increase in the EAD ratio is driven by larger reductions in actual EAD over the disclosure period compared with predicted EAD as a result of payment holidays allowing customers to reduce debt.

– Predicted and actual LGDs have decreased over the year with the latter driven by the positive impact of collections strategy changes.

Retail – Other (non-SME):

– Predicted LGD and EAD continue to exceed actual LGD and EAD.

– The 2020 disclosure was impacted by operational constraints in Motor Finance (Retail) leading to customers continuing to accrue arrears and enter default despite a payment holiday being granted. This consequently led to a higher proportion of defaults in 2020, relative to 2019, but lower LGDs as very low losses were observed on those payment holidays. The proportion of defaults has returned to similar levels observed in the 2019 disclosure as the operational constraints no longer impact the Motor Finance disclosure. In addition, the estimated and actual LGDs increased due to a change in the mix towards the Loans portfolio which has a significantly higher LGD..

Pillar 1 Capital requirements: Credit risk continued

ANALYSIS OF CREDIT RISK EXPOSURES BY ASSET CLASS

CREDIT RISK EXPOSURES

The following tables show the Group's credit exposures split by Basel exposure class, together with associated risk-weighted assets and average risk weight.

CRB-B: Total and average net amount of exposures

		31 Dec 2021					
		EAD pre CRM and post CCF £m	EAD post CRM and post CCF £m	Average credit risk exposure £m	Risk-weighted assets £m	Minimum capital requirements £m	Average risk weight %
1	Central governments or central banks	2,706	2,306	2,679	282	23	12%
2	Institutions	7,008	7,025	6,540	762	61	11%
3	Corporates	62,297	59,323	65,312	38,505	3,080	65%
4	of which: Specialised lending	12,790	12,263	12,825	8,852	708	72%
5	of which: SMEs	10,078	9,044	10,492	5,672	454	63%
6	Retail	419,960	412,387	414,884	65,435	5,235	16%
7	Secured by real estate property	351,201	351,201	346,077	39,492	3,159	11%
8	*SMEs*	5,956	5,956	6,827	1,257	101	21%
9	*Non-SMEs*	345,244	345,244	339,251	38,235	3,059	11%
10	Qualifying revolving	39,521	39,521	40,018	10,547	844	27%
11	Other retail	29,238	21,666	28,789	15,396	1,232	71%
12	*SMEs*	9,535	1,962	8,687	1,257	101	64%
13	*Non-SMEs*	19,704	19,704	20,101	14,139	1,131	72%
	Non-credit obligation assets[1]	10,581	10,581	10,847	7,117	569	67%
15	**Total IRB approach**	502,551	491,622	500,262	112,100	8,968	23 %
16	Central governments or central banks	67,596	79,042	65,240	—	—	—%
17	Regional governments or local authorities	535	535	503	28	2	5%
18	Public sector entities	4,155	4,155	4,459	—	—	—%
19	Multilateral development banks	7,735	7,735	7,624	—	—	—%
20	International organisations	—	—	6	—	—	—%
21	Institutions	357	934	483	163	13	17%
22	Corporates	6,063	5,903	7,247	5,032	403	85%
23	of which: SMEs	2,423	2,376	2,777	1,896	152	80%
24	Retail	10,739	9,883	12,410	7,202	576	73%
25	of which: SMEs	2,040	1,185	3,284	678	54	57%
26	Secured by mortgages on immovable property	5,381	5,379	5,611	2,052	164	38%
27	of which: SMEs	338	337	153	250	20	74%
28	Exposures in default	1,191	1,093	1,203	1,237	99	113%
31	Claims on institutions and corporates with a short- term credit assessment	—	—	7	—	—	100%
34	Other exposures[1]	2,176	2,176	2,374	1,829	146	84%
35	**Total standardised approach**	105,929	116,835	107,167	17,543	1,403	15%
36	**Total**	608,480	608,457	607,429	129,643	10,371	21%

Pillar 1 Capital requirements: Credit risk continued

		31 Dec 2020					
		EAD pre CRM and post CCF	EAD post CRM and post CCF	Average credit risk exposure	Risk-weighted assets	Minimum capital requirements	Average risk weight
		£m	£m	£m	£m	£m	%
1	Central governments or central banks	2,821	2,293	2,937	313	25	14%
2	Institutions	6,083	6,100	6,675	731	58	12%
3	Corporates	67,702	65,607	69,497	42,738	3,419	65%
4	of which: Specialised lending	12,752	12,415	12,736	9,105	728	73%
5	of which: SMEs	10,620	9,626	10,294	5,929	474	62%
6	Retail	410,894	403,436	395,488	65,207	5,217	16%
7	Secured by real estate property	339,724	339,547	328,948	38,427	3,074	11%
8	*SMEs*	7,746	7,568	8,020	1,713	137	23%
9	*Non-SMEs*	331,978	331,978	320,928	36,714	2,937	11%
10	Qualifying revolving	40,745	40,745	40,550	10,631	850	26%
11	Other retail	30,426	23,145	25,989	16,149	1,292	70%
12	*SMEs*	9,998	2,716	5,232	1,734	139	64%
13	*Non-SMEs*	20,428	20,428	20,758	14,415	1,153	71%
	Non-credit obligation assets[1]	10,973	10,973	10,368	7,788	623	71%
15	**Total IRB approach**	498,473	488,409	484,965	116,777	9,342	24 %
16	Central governments or central banks	60,695	72,027	61,870	—	—	—%
17	Regional governments or local authorities	426	425	462	29	2	7%
18	Public sector entities	4,274	4,274	4,164	1	—	—%
19	Multilateral development banks	7,158	7,158	6,874	—	—	—%
20	International organisations	—	—	—	—	—	—%
21	Institutions	598	1,294	406	296	24	23%
22	Corporates	9,973	8,558	8,506	7,418	593	87%
23	of which: SMEs	3,675	3,633	3,832	3,047	244	84%
24	Retail	11,568	10,646	11,707	7,606	608	71%
25	of which: SMEs	2,179	2,179	2,642	1,256	100	58%
26	Secured by mortgages on immovable property	5,893	5,893	6,342	2,063	165	35%
27	of which: SMEs	8	8	9	3	—	39%
28	Exposures in default	1,060	1,058	1,081	1,179	94	111%
31	Claims on institutions and corporates with a short- term credit assessment	—	—	—	—	—	—%
34	Other exposures[1]	2,550	2,550	2,815	2,092	167	82%
35	**Total standardised approach**	104,195	113,883	104,228	20,684	1,655	18%
36	**Total**	602,667	602,292	589,192	137,461	10,997	23%

1 Non-credit obligation assets (IRB approach) and other exposures (Standardised approach) predominantly relate to other balance sheet assets that have no associated credit risk. These comprise various non-financial assets, including fixed assets, cash, items in the course of collection, prepayments and sundry debtors.

Pillar 1 Capital requirements: Credit risk continued

Exposures referred to below are on a post CRM and post CCF basis

Exposures subject to the IRB approach – key movements

Corporates

- Corporate exposure, including Specialised Lending and Corporate SME, reduced by £6.3 billion reflecting optimisation activity partially offset by an increase due to a refined approach to netting of exposures.
- Risk-weighted assets reduced by £4.2 billion, as a result of optimisation activity including securitisation activity, increased recognition of 0% CCF on relevant undrawn facilities and enhanced identification of SMEs.

Retail – Secured by real estate property non-SME

- Exposures increased by £13.3 billion and risk-weighted assets increased by £1.5 billion due to an increase in mortgage volumes and model calibrations offset by the benefit from House Price Index increases during the year.

Retail – Secured by real estate property SME

- Exposures decreased by £1.6 billion and risk-weighted assets decreased by £0.5 billion due to lower lending volumes.

Retail – Qualifying revolving

- Exposures decreased by £1.2 billion as a result of active management of dormant accounts on Credit Cards. Risk-weighted assets reduced by £0.1 billion as the impact from management of dormant accounts was partially offset by model calibrations.

Retail – Other SME

- Exposure decreased by £0.8 billion and risk-weighted assets reduced by £0.5 billion due to a reduction in lending volumes.

Retail – Other non-SME

- Exposures reduced by £0.7 billion and risk-weighted assets reduced by £0.3 billion due to lower lending volumes partially offset by model calibrations.

Exposures subject to the Standardised approach – key movements

Central governments and central banks

- Exposures increased by £7.0 billion due to increased deposits placed with the Bank of England.

Multilateral development banks

- Increase of £0.6 billion due to higher bond exposures as part of liquidity management.

Corporates

- Exposures reduced by £2.7 billion and risk-weighted assets decreased by £2.4 billion including the impact of securitisation activity and increased recognition of 0% CCF on relevant undrawn facilities.

Retail

- Exposures and risk-weighted assets decreased by £0.8 billion and £0.4 billion due to lower unsecured lending balances and increased recognition of 0% CCF on relevant undrawn facilities.

Pillar 1 Capital requirements: Credit risk continued

ANALYSIS OF CREDIT RISK EXPOSURES SUBJECT TO THE FOUNDATION IRB APPROACH

This section provides a detailed analysis, by PD Grade, of credit risk exposures subject to the FIRB Approach. Exposures in the tables below are stated on two different bases (gross carrying values and EAD post-CCF and CRM). On-balance sheet gross exposures and off- balance sheet exposures represent gross carrying values (before taking into account SCRAs) before the application of CRM and CCF.

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

The EBA guidelines include a single prescribed scale for presenting the credit quality of all IRB portfolios by asset class. The tables that follow present the prescribed scale. This does not map directly to the internal scales, but is apportioned on the same basis.

Throughout this section 'RWA density' represents the 'average risk weight'. 'Number of obligors' corresponds to the number of individual PDs (in each band). In the case of Corporate Main and Corporate SME, as customers may have exposures in both Commercial Banking and Motor Finance divisions, an individual corporate obligor may be counted twice.

CR6: IRB – Credit risk exposures by portfolio and PD range – Central governments or central banks

	31 Dec 2021											
	Original on-balance sheet gross exposure	Off balance sheet exposures pre CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of Obligors	Average LGD	Average Maturity (years)	RWA	RWA density	EL	Value adjustments and provisions
PD Scale	£m	£m	%	£m	%		%		£m	%	£m	£m
0.00 to <0.15	2,481	4	—%	2,293	0.01%	13	45.00%	3.4	258	11.25%	—	
0.25 to <0.50	—	—	75.00%	—	0.42%	1	45.00%	—	—	66.99%	—	
2.50 to <10.00	—	211	75.00%	13	4.26%	3	45.00%	—	24	182.45%	—	
Sub-total	**2,593**	**214**	**75.00%**	**2,306**	**0.04%**	**17**	**45.00%**	**3.4**	**282**	**12.21%**	**—**	**—**

	31 Dec 2020											
	Original on-balance sheet gross exposure	Off balance sheet exposures pre CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of Obligors	Average LGD	Average Maturity (years)	RWA	RWA density	EL	Value adjustments and provisions
PD Scale	£m	£m	%	£m	%		%		£m	%	£m	£m
0.00 to <0.15	2,617	402	—%	2,293	0.01%	4	45.00%	4.3	312	13.61%	—	
0.25 to <0.50	—	—	—%	—	—%	—	—%	—	—	—%	—	
2.50 to <10.00	—	—	—%	1	6.20%	2	45.00%	—	1	201.66%	—	
Sub-total	2,618	402	—%	2,293	0.01%	6	45.00%	4.3	313	13.66%	—	1

Pillar 1 Capital requirements: Credit risk continued

CR6: IRB – Credit risk exposures by portfolio and PD range – Institutions

	31 Dec 2021											
PD Scale	Original on-balance sheet gross exposure £m	Off balance sheet exposures pre CCF £m	Average CCF %	EAD post CRM and post CCF £m	Average PD %	Number of Obligors	Average LGD %	Average Maturity (years)	RWA £m	RWA density %	EL £m	Value adjustments and provisions £m
0.00 to <0.15	6,284	934	62.15%	6,879	0.05%	881	33.01%	1.0	656	9.54%	1	
0.15 to <0.25	20	26	71.93%	39	0.19%	44	38.77%	1.8	16	40.04%	—	
0.25 to <0.50	8	42	68.35%	37	0.35%	56	44.89%	1.1	21	56.37%	—	
0.50 to <0.75	2	3	51.88%	3	0.63%	26	44.88%	1.1	2	72.47%	—	
0.75 to <2.50	55	10	74.07%	62	1.02%	56	42.70%	1.0	61	97.71%	—	
2.50 to <10.00	1	4	75.00%	4	3.87%	23	44.96%	1.0	5	137.49%	—	
10.00 to <100.00	—	—	75.00%	—	18.24%	7	45.00%	1.0	1	247.34%	—	
100.00 (Default)	—	—	—%	—	100.00%	2	45.00%	1.0	—	—%	—	
Sub-total	6,370	1,019	62.79%	7,025	0.07%	1,094	33.20%	1.0	762	10.84%	2	—

	31 Dec 2020											
PD Scale	Original on-balance sheet gross exposure £m	Off balance sheet exposures pre CCF £m	Average CCF %	EAD post CRM and post CCF £m	Average PD %	Number of Obligors	Average LGD %	Average Maturity (years)	RWA £m	RWA density %	EL £m	Value adjustments and provisions £m
0.00 to <0.15	6,070	375	59.80%	5,846	0.06%	917	31.23%	1.4	561	9.60%	1	
0.15 to <0.25	134	21	46.52%	144	0.18%	31	43.12%	0.7	45	30.99%	—	
0.25 to <0.50	4	9	26.80%	6	0.39%	48	44.78%	1.1	4	61.08%	—	
0.50 to <0.75	2	9	71.44%	8	0.63%	30	44.94%	1.0	7	79.29%	—	
0.75 to <2.50	69	61	1.14%	70	1.55%	55	43.39%	0.7	80	113.69%	1	
2.50 to <10.00	24	—	99.67%	24	3.27%	32	44.91%	0.3	32	132.59%	—	
10.00 to <100.00	1	—	—%	1	28.54%	7	45.00%	0.9	2	246.57%	—	
100.00 (Default)	—	—	—%	—	100.00%	2	45.00%	1.0	—	—%	—	
Sub-total	6,305	475	50.63%	6,100	0.10%	1,121	31.74%	1.4	731	11.98%	2	1

Key movements

– Increase in average CCF due to change in mix of the portfolio.

Pillar 1 Capital requirements: Credit risk continued

CR6: IRB – Credit risk exposures by portfolio and PD range – Corporate Main

	31 Dec 2021											
PD Scale	Original on-balance sheet gross exposure £m	Off balance sheet exposures pre CCF £m	Average CCF %	EAD post CRM and post CCF £m	Average PD %	Number of Obligors	Average LGD %	Average Maturity (years)	RWA £m	RWA density %	EL £m	Value adjustments and provisions £m
0.00 to <0.15	3,882	11,178	72.87%	12,118	0.08%	384	41.40%	3.0	3,787	31.25%	5	
0.15 to <0.25	1,570	3,818	68.84%	4,148	0.18%	2,636	44.14%	2.7	2,093	50.45%	4	
0.25 to <0.50	5,355	5,771	59.00%	8,446	0.34%	4,098	38.41%	2.1	4,464	52.85%	12	
0.50 to <0.75	2,247	2,107	61.26%	3,384	0.62%	5,750	42.96%	2.4	2,714	80.21%	10	
0.75 to <2.50	3,965	3,277	57.18%	5,325	1.28%	7,946	42.20%	2.0	5,129	96.33%	32	
2.50 to <10.00	2,650	2,125	65.24%	3,744	4.30%	4,147	42.47%	2.2	5,309	141.81%	72	
10.00 to <100.00	145	151	66.32%	244	16.78%	240	41.00%	1.3	485	198.47%	16	
100.00 (Default)	543	101	64.87%	607	100.00%	829	43.08%	1.8	—	—%	262	
Sub-total	**20,357**	**28,527**	**66.35%**	**38,016**	**2.48%**	**26,028**	**41.42%**	**2.5**	**23,982**	**63.08%**	**412**	**300**

	31 Dec 2020											
PD Scale	Original on-balance sheet gross exposure £m	Off balance sheet exposures pre CCF £m	Average CCF %	EAD post CRM and post CCF £m	Average PD %	Number of Obligors	Average LGD %	Average Maturity (years)	RWA £m	RWA density %	EL £m	Value adjustments and provisions £m
0.00 to <0.15	5,043	12,339	75.46%	14,173	0.07%	1,005	41.41%	2.9	3,905	27.55%	5	
0.15 to <0.25	1,948	4,318	72.38%	4,660	0.18%	2,285	44.40%	2.5	2,167	46.51%	5	
0.25 to <0.50	5,301	5,626	71.75%	7,924	0.35%	4,280	44.02%	2.3	4,767	60.15%	13	
0.50 to <0.75	2,479	1,776	67.84%	3,216	0.62%	6,187	43.32%	2.1	2,443	75.97%	9	
0.75 to <2.50	4,350	4,392	70.33%	7,127	1.29%	10,107	43.34%	2.0	6,931	97.26%	43	
2.50 to <10.00	3,476	1,850	72.00%	4,421	4.56%	6,581	43.49%	1.9	6,448	145.85%	94	
10.00 to <100.00	293	223	73.11%	439	23.81%	412	44.44%	1.8	1,041	237.06%	45	
100.00 (Default)	1,375	314	78.89%	1,605	100.00%	1,252	42.87%	1.5	—	—%	688	
Sub-total	24,264	30,837	73.02%	43,566	4.75%	32,108	42.96%	2.4	27,703	63.59%	904	875

Key movements

- Exposure at default and RWA decreased by £5.6 billion and £3.7 billion respectively mainly due to optimisation activity (including the increased recognition of 0% CCFs on certain undrawn facilities) and enhancements in the identification of SMEs, partially offset by a refined approach to the netting.
- Average PD decreased from 4.75% to 2.48% largely due to a reduction in defaulted assets.
- A data enhancement in the mapping of customer groups and identification of SMEs has contributed to the reduction in the number of obligors.

CR6: IRB – Credit risk exposures by portfolio and PD range – Corporate SME

	31 Dec 2021											
PD Scale	Original on-balance sheet gross exposure £m	Off balance sheet exposures pre CCF £m	Average CCF %	EAD post CRM and post CCF £m	Average PD %	Number of Obligors	Average LGD %	Average Maturity (years)	RWA £m	RWA density %	EL £m	Value adjustments and provisions £m
0.00 to <0.15	703	736	73.16%	1,242	0.06%	258	39.30%	3.8	291	23.44%	—	
0.15 to <0.25	148	127	70.74%	230	0.19%	228	42.62%	3.4	84	36.49%	—	
0.25 to <0.50	811	373	39.22%	839	0.38%	1,364	41.47%	3.5	447	53.21%	1	
0.50 to <0.75	1,417	336	19.42%	1,324	0.57%	4,575	41.17%	4.0	770	58.17%	3	
0.75 to <2.50	2,904	936	24.28%	2,705	1.27%	7,188	40.38%	3.3	1,901	70.28%	15	
2.50 to <10.00	1,982	401	22.84%	1,845	4.04%	4,415	40.20%	2.8	1,645	89.15%	31	
10.00 to <100.00	367	59	46.82%	373	19.18%	973	41.19%	2.4	534	143.24%	29	
100.00 (Default)	508	120	29.51%	486	100.00%	918	40.76%	2.4	—	—%	198	
Sub-total	8,839	3,088	39.85%	9,044	7.50%	19,917	40.52%	3.3	5,672	62.71%	277	161

	31 Dec 2020											
PD Scale	Original on-balance sheet gross exposure £m	Off balance sheet exposures pre CCF £m	Average CCF %	EAD post CRM and post CCF £m	Average PD %	Number of Obligors	Average LGD %	Average Maturity (years)	RWA £m	RWA density %	EL £m	Value adjustments and provisions £m
0.00 to <0.15	608	79	86.94%	606	0.08%	1,013	41.47%	3.4	122	20.21%	—	
0.15 to <0.25	195	80	74.20%	254	0.18%	475	44.53%	2.8	91	35.82%	—	
0.25 to <0.50	502	397	73.24%	710	0.36%	1,085	40.84%	2.2	288	40.49%	1	
0.50 to <0.75	1,655	437	69.26%	1,794	0.57%	4,344	38.81%	3.4	946	52.71%	4	
0.75 to <2.50	2,951	895	73.79%	3,201	1.26%	7,829	38.69%	3.1	2,094	65.44%	16	
2.50 to <10.00	2,232	489	78.26%	2,391	4.18%	4,663	38.84%	2.9	2,094	87.62%	39	
10.00 to <100.00	235	36	72.73%	238	20.47%	1,101	37.42%	2.4	294	123.16%	18	
100.00 (Default)	407	53	71.52%	432	100.00%	742	38.71%	2.3	—	—%	167	
Sub-total	8,784	2,466	74.16%	9,626	6.60%	21,252	39.21%	3.0	5,929	61.60%	247	255

Key movements

- Exposure at default and RWA decreased £0.6 billion and £0.3 billion respectively mainly due to securitisation activity and increased recognition of 0% CCFs on certain undrawn facilities partially offset by enhancements in the identification of SMEs.
- Average PD increased from 6.60% to 7.50% due to a small increase in defaulted exposures.
- A data enhancement in the mapping of customer groups has contributed to the decrease in the number of obligors.

Pillar 1 Capital requirements: Credit risk continued

ANALYSIS OF CREDIT RISK EXPOSURES SUBJECT TO THE RETAIL IRB APPROACH

This section provides a detailed analysis, by PD Grade, of credit risk exposures subject to the Retail IRB Approach. Exposures in the tables below are stated on two different bases (gross carrying values and EAD post-CCF and CRM). On-balance sheet gross exposures and off- balance sheet exposures represent gross carrying values (before taking into account SCRAs) before the application of CRM and CCF.

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

The Basel guidelines include a single prescribed scale for presenting the credit quality of all IRB portfolios by asset class. The tables that follow present the prescribed scale. This does not map directly to the internal scales, but is apportioned on the same basis. Throughout this section 'RWA density' represents the 'average risk weight'.

'Number of obligors' corresponds to the number of individual PDs (in each band). This means that a customer may be counted more than once in the same asset class. In the case of Other Retail, for example, which includes both Motor Finance and Unsecured Personal Loans, a customer may have both of those products which would be reported as two separate obligors.

CR6: IRB – Credit risk exposures by portfolio and PD range – Residential mortgages (SME)

	31 Dec 2021											
PD Scale	Original on-balance sheet gross exposure £m	Off balance sheet exposures pre CCF £m	Average CCF %	EAD post CRM and post CCF £m	Average PD %	Number of Obligors	Average LGD %	RWA £m	RWA density %	EL £m	Value adjustments and provisions £m	Undrawn commitments (post CCF) £m
0.50 to <0.75	**2,504**	**242**	**99.75%**	**2,746**	**0.54%**	**18,206**	**18.14%**	**361**	**13.15%**	**3**		**242**
0.75 to <2.50	**2,006**	**196**	**99.79%**	**2,201**	**1.12%**	**11,220**	**16.27%**	**428**	**19.42%**	**4**		**195**
2.50 to <10.00	**665**	**40**	**99.81%**	**705**	**4.11%**	**3,327**	**16.88%**	**312**	**44.26%**	**5**		**40**
10.00 to <100.00	**163**	**6**	**99.82%**	**169**	**22.17%**	**1,027**	**17.85%**	**132**	**77.88%**	**7**		**6**
100.00 (Default)	**130**	**5**	**99.68%**	**135**	**100.00%**	**497**	**19.42%**	**24**	**18.16%**	**27**		**5**
Sub-total	**5,469**	**488**	**99.77%**	**5,956**	**4.04%**	**34,277**	**17.32%**	**1,257**	**21.10%**	**46**	**131**	**487**

	31 Dec 2020											
PD Scale	Original on-balance sheet gross exposure £m	Off balance sheet exposures pre CCF £m	Average CCF %	EAD post CRM and post CCF £m	Average PD %	Number of Obligors	Average LGD %	RWA £m	RWA density %	EL £m	Value adjustments and provisions £m	Undrawn commitments (post CCF) £m
0.50 to <0.75	2,690	307	97.41%	2,904	0.54%	23,388	18.57%	380	13.10%	3		299
0.75 to <2.50	2,933	301	97.94%	3,121	1.15%	19,771	17.20%	612	19.62%	6		295
2.50 to <10.00	1,106	74	97.46%	1,139	4.14%	7,174	17.79%	484	42.52%	8		72
10.00 to <100.00	240	10	97.20%	238	19.04%	2,126	19.09%	177	74.60%	8		10
100.00 (Default)	160	7	97.58%	167	100.00%	1,101	15.89%	59	35.13%	27		7
Sub-total	7,130	700	97.64%	7,568	4.11%	53,560	17.85%	1,713	22.63%	53	173	683

Key movements

– Exposures decreased by £1.6 billion and risk-weighted assets decreased by £0.5 billion due to lower lending volumes.
– A data enhancement in the mapping of customer groups has contributed to the reduction in the number of obligors.

Pillar 1 Capital requirements: Credit risk continued

CR6: IRB – Credit risk exposures by portfolio and PD range – Residential mortgages (non-SME)

	31 Dec 2021											
PD Scale	Original on-balance sheet gross exposure £m	Off balance sheet exposures pre CCF £m	Average CCF %	EAD post CRM and post CCF £m	Average PD[1] %	Number of Obligors	Average LGD %	RWA £m	RWA density %	EL £m	Value adjustments and provisions £m	Undrawn commitments (post CCF) £m
0.00 to <0.15	255,780	16,818	101.52%	284,268	0.37%	2,056,654	10.22%	22,967	8.08%	141		17,074
0.15 to <0.25	24,394	218	65.79%	25,520	1.01%	194,210	9.61%	3,638	14.25%	32		143
0.25 to <0.50	17,050	725	76.37%	18,317	1.53%	140,948	9.12%	3,358	18.33%	33		554
0.50 to <0.75	3,843	18	56.43%	4,020	2.80%	35,102	8.51%	1,069	26.59%	13		10
0.75 to <2.50	4,803	23	81.50%	5,032	6.24%	43,694	8.47%	1,928	38.32%	34		19
2.50 to <10.00	3,164	5	61.64%	3,298	18.46%	26,887	8.49%	2,068	62.69%	68		3
10.00 to <100.00	1,882	—	74.45%	1,929	54.59%	16,715	8.12%	1,139	59.04%	123		—
100.00 (Default)	2,860	—	45.25%	2,860	100.00%	21,177	9.86%	2,069	72.34%	392		—
Sub-total	**313,777**	**17,807**	**99.98%**	**345,244**	**1.90%**	**2,535,387**	**10.04%**	**38,235**	**11.07%**	**836**	**1,212**	**17,803**

	31 Dec 2020											
PD Scale	Original on-balance sheet gross exposure £m	Off balance sheet exposures pre CCF £m	Average CCF %	EAD post CRM and post CCF £m	Average PD %	Number of Obligors	Average LGD %	RWA £m	RWA density %	EL £m	Value adjustments and provisions £m	Undrawn commitments (post CCF) £m
0.00 to <0.15	234,022	19,122	101.50%	263,924	0.32%	2,025,421	10.80%	19,536	7.40%	119		19,409
0.15 to <0.25	24,706	225	62.59%	25,895	0.82%	209,916	9.82%	3,338	12.89%	27		141
0.25 to <0.50	19,741	200	69.84%	20,666	1.22%	159,961	10.30%	3,398	16.44%	30		140
0.50 to <0.75	4,773	580	74.32%	5,404	2.25%	45,330	10.15%	1,278	23.64%	14		431
0.75 to <2.50	5,082	30	83.37%	5,329	4.32%	44,638	10.36%	2,090	39.22%	28		25
2.50 to <10.00	4,437	9	64.45%	4,630	14.92%	37,082	9.52%	2,871	62.00%	81		6
10.00 to <100.00	2,895	—	41.76%	2,971	50.67%	23,622	9.44%	1,891	63.63%	185		—
100.00 (Default)	3,157	—	47.33%	3,158	100.00%	23,443	10.68%	2,312	73.23%	512		—
Sub-total	298,814	20,166	99.93%	331,978	2.11%	2,569,413	10.65%	36,714	11.06%	997	1,519	20,152

1 Obligors are allocated to grades based on PIT PDs, so the weighted and arithmetic average PDs are above the ranges due to the use of more conservative TTC PDs.

Key movements
- Significant increase in mortgage lending drives £13.3 billion increase in exposure at default.
- Average PD decreased from 2.11% to 1.90% partly due to reduction in defaulted assets.
- House Price Index increases drives the reduction in average LGD from 10.65% to 10.04%.
- EL reduction from £1.0 billion to £0.8 billion due to reduction defaulted exposure and reductions in average PD and average LGD.

Pillar 1 Capital requirements: Credit risk continued

Residential mortgage exposures by major portfolio

Exposures in the table below are presented are on a pre CRM and post CCF basis

	31 Dec 2021					
	EAD pre CRM and post CCF	Exposure weighted average PD	Exposure weighted average LGD[1]	Average risk weight	Undrawn commitments (pre CCF)[2]	Undrawn commitments (post CCF)
Major Portfolio	£m	%	%	%	£m	£m
UK mainstream	269,896	1.86%	10.06%	10.39%	14,991	15,260
UK buy-to-let	54,682	1.28%	10.23%	15.55%	1,757	1,787
UK self certified	9,184	7.93%	6.74%	11.71%	378	192
Dutch mortgages	10,124	0.42%	11.44%	5.47%	681	564
Other mortgages	7,315	3.82%	16.59%	18.17%	700	683
Total	351,201	1.98%	10.13%	11.24%	18,507	18,486

	31 Dec 2020					
	EAD pre CRM and post CCF	Exposure weighted average PD	Exposure weighted average LGD[1]	Average risk weight	Undrawn commitments (pre CCF)[2]	Undrawn commitments (post CCF)
Major Portfolio	£m	%	%	%	£m	£m
UK mainstream	256,167	2.02%	10.48%	10.37%	16,253	16,526
UK buy-to-let	54,402	1.50%	11.39%	14.30%	2,866	2,916
UK self certified	10,561	8.56%	7.53%	12.93%	406	207
Dutch mortgages	9,318	0.75%	14.26%	9.28%	642	502
Other mortgages	9,276	3.92%	16.80%	20.44%	700	683
Total	339,724	2.16%	10.81%	11.32%	20,866	20,834

1 The 10 per cent LGD floor that applies to residential mortgage exposures is not applied in alignment with the portfolios in the table above, rather at aggregated portfolio levels. This leads to the self-certified portfolio having an average LGD lower than 10 per cent in 2020 and 2021.

2 Undrawn commitments predominantly relate to pipeline mortgages, offered but not drawn down by the customer.

Pillar 1 Capital requirements: Credit risk continued

CR6: IRB – Credit risk exposures by portfolio and PD range – Qualifying revolving retail exposures

	31 Dec 2021											
PD Scale	Original on-balance sheet gross exposure £m	Off balance sheet exposures pre CCF £m	Average CCF %	EAD post CRM and post CCF £m	Average PD %	Number of Obligors	Average LGD %	RWA £m	RWA density %	EL £m	Value adjustments and provisions £m	Undrawn commitments (post CCF) £m
0.00 to <0.15	704	15,167	69.99%	11,319	0.09%	8,424,521	56.94%	394	3.48%	6		10,615
0.15 to <0.25	495	7,204	70.37%	5,564	0.20%	4,520,434	60.24%	390	7.01%	7		5,070
0.25 to <0.50	1,028	9,511	67.93%	7,488	0.36%	5,770,068	62.77%	881	11.77%	17		6,460
0.50 to <0.75	798	4,024	70.36%	3,629	0.62%	3,243,515	69.38%	721	19.86%	16		2,831
0.75 to <2.50	2,987	5,868	73.54%	7,302	1.35%	6,067,529	75.33%	2,855	39.10%	77		4,315
2.50 to <10.00	2,265	1,138	79.26%	3,169	4.62%	1,810,431	77.96%	3,082	97.26%	119		902
10.00 to <100.00	659	144	89.20%	802	29.29%	550,486	77.59%	1,735	216.24%	193		128
100.00 (Default)	247	—	—%	247	100.00%	289,341	71.12%	489	198.22%	136		—
Sub-total	**9,182**	**43,055**	**70.42%**	**39,521**	**2.02%**	**30,676,325**	**65.24%**	**10,547**	**26.69%**	**571**	**503**	**30,322**

	31 Dec 2020											
PD Scale	Original on-balance sheet gross exposure £m	Off balance sheet exposures pre CCF £m	Average CCF %	EAD post CRM and post CCF £m	Average PD %	Number of Obligors	Average LGD %	RWA £m	RWA density %	EL £m	Value adjustments and provisions £m	Undrawn commitments (post CCF) £m
0.00 to <0.15	756	17,784	69.26%	13,073	0.09%	9,172,244	54.10%	450	3.44%	7		12,317
0.15 to <0.25	517	7,798	69.76%	5,957	0.20%	4,424,429	57.48%	420	7.04%	7		5,440
0.25 to <0.50	1,100	9,243	68.98%	7,476	0.36%	5,774,965	61.53%	901	12.06%	18		6,376
0.50 to <0.75	897	3,745	70.99%	3,556	0.62%	3,150,988	68.63%	736	20.70%	16		2,659
0.75 to <2.50	2,967	4,748	76.39%	6,595	1.35%	5,330,245	73.82%	2,681	40.66%	72		3,627
2.50 to <10.00	2,037	1,216	85.73%	3,081	5.38%	1,587,290	76.35%	3,033	98.42%	136		1,043
10.00 to <100.00	593	118	95.88%	721	30.51%	493,611	75.67%	1,662	230.64%	188		113
100.00 (Default)	286	—	—%	286	100.00%	311,836	71.11%	748	261.30%	178		—
Sub-total	9,154	44,652	70.71%	40,745	2.04%	30,245,608	62.60%	10,631	26.09%	622	866	31,574

Key movements

– The decrease in EAD is due to active management of dormant accounts on Credit Cards.

Pillar 1 Capital requirements: Credit risk continued

CR6: IRB – Credit risk exposures by portfolio and PD range – Retail Other SME

	31 Dec 2021											
PD Scale	Original on-balance sheet gross exposure £m	Off balance sheet exposures pre CCF £m	Average CCF %	EAD post CRM and post CCF £m	Average PD %	Number of Obligors	Average LGD %	RWA £m	RWA density %	EL £m	Value adjustments and provisions £m	Undrawn commitments (post CCF) £m
0.50 to <0.75	3,268	490	99.28%	758	0.54%	112,599	80.44%	381	50.22%	3		487
0.75 to <2.50	2,734	307	99.44%	623	1.13%	76,600	77.89%	421	67.49%	6		305
2.50 to <10.00	1,180	84	99.60%	257	4.18%	32,090	77.77%	239	93.11%	8		83
10.00 to <100.00	403	14	99.29%	85	27.76%	33,821	81.30%	109	128.44%	20		14
100.00 (Default)	1,055	5	98.36%	239	100.00%	57,366	9.68%	107	45.02%	23		5
Sub-total	8,640	900	100.00%	1,962	14.48%	312,476	70.70%	1,257	64.08%	60	61	894

	31 Dec 2020											
PD Scale	Original on-balance sheet gross exposure £m	Off balance sheet exposures pre CCF £m	Average CCF %	EAD post CRM and post CCF £m	Average PD %	Number of Obligors	Average LGD %	RWA £m	RWA density %	EL £m	Value adjustments and provisions £m	Undrawn commitments (post CCF) £m
0.50 to <0.75	1,677	411	99.61%	806	0.54%	63,060	76.85%	380	47.13%	3		409
0.75 to <2.50	3,257	422	99.42%	1,060	1.15%	64,568	76.25%	690	65.15%	9		420
2.50 to <10.00	2,439	171	99.28%	518	4.20%	34,043	72.10%	429	82.80%	16		169
10.00 to <100.00	1,383	35	99.17%	157	23.19%	29,338	70.96%	172	109.55%	26		35
100.00 (Default)	203	5	99.84%	177	100.00%	9,633	7.95%	63	35.85%	14		5
Sub-total	8,959	1,044	100.00%	2,716	9.24%	200,642	70.89%	1,734	63.82%	68	123	1,038

Key movements

- EAD decreased by £0.8 billion and risk-weighted assets reduced by £0.5 billion due to a reduction in lending volumes.
- Average PD increased from 9.24% to 14.48% due to a small increase in defaulted EAD.
- The increase in obligor count is due to the inclusion of bounce back loans (BBLs) on a pre-CRM basis at 31 December 2021. At 31 December 2020 BBLs had been included on a post-CRM basis and so not reflected in the obligor count.

Pillar 1 Capital requirements: Credit risk continued

CR6: IRB – Credit risk exposures by portfolio and PD range – Retail Other non-SME

	31 Dec 2021											
PD Scale	Original on-balance sheet gross exposure £m	Off balance sheet exposures pre CCF £m	Average CCF %	EAD post CRM and post CCF £m	Average PD %	Number of Obligors	Average LGD %	RWA £m	RWA density %	EL £m	Value adjustments and provisions £m	Undrawn commitments (post CCF) £m
0.00 to <0.15	321	—	30.00%	321	0.08%	16,847	36.68%	33	10.26%	—		—
0.15 to <0.25	37	1	30.00%	38	0.22%	8,780	75.12%	13	33.92%	—		—
0.25 to <0.50	5,286	5	30.00%	5,296	0.37%	447,643	36.15%	1,491	28.16%	12		1
0.50 to <0.75	2,994	5	30.00%	3,004	0.72%	238,205	42.24%	1,357	45.19%	13		1
0.75 to <2.50	5,887	21	30.00%	5,930	1.58%	622,909	64.31%	5,016	84.59%	64		6
2.50 to <10.00	4,025	16	30.00%	4,057	4.59%	449,204	69.83%	4,513	111.24%	131		5
10.00 to <100.00	694	3	30.00%	701	27.15%	88,991	59.57%	986	140.76%	112		1
100.00 (Default)	357	—	—%	357	100.00%	69,791	53.01%	729	204.02%	149		—
Sub-total	19,601	51	30.00%	19,704	4.41%	1,942,370	53.71%	14,139	71.76%	481	513	15

	31 Dec 2020											
PD Scale	Original on-balance sheet gross exposure £m	Off balance sheet exposures pre CCF £m	Average CCF %	EAD post CRM and post CCF £m	Average PD %	Number of Obligors	Average LGD %	RWA £m	RWA density %	EL £m	Value adjustments and provisions £m	Undrawn commitments (post CCF) £m
0.00 to <0.15	352	—	30.00%	353	0.08%	20,267	34.64%	37	10.37%	—		—
0.15 to <0.25	71	2	30.00%	74	0.22%	17,321	74.68%	25	33.91%	—		—
0.25 to <0.50	5,678	6	30.00%	5,691	0.37%	499,192	36.71%	1,711	30.07%	18		2
0.50 to <0.75	3,191	5	30.00%	3,202	0.72%	263,635	43.56%	1,535	47.95%	17		2
0.75 to <2.50	6,334	21	30.00%	6,380	1.54%	676,431	64.79%	5,452	85.47%	73		6
2.50 to <10.00	3,557	12	30.00%	3,584	4.43%	400,537	67.04%	3,898	108.75%	112		4
10.00 to <100.00	747	3	30.00%	753	29.30%	89,126	54.25%	1,030	136.72%	126		1
100.00 (Default)	392	—	—%	392	100.00%	75,624	55.20%	727	185.66%	176		—
Sub-total	20,321	49	30.00%	20,428	4.48%	2,042,133	52.98%	14,415	70.57%	523	868	15

Pillar 1 Capital requirements: Credit risk continued

ANALYSIS OF CREDIT RISK EXPOSURES SUBJECT TO OTHER IRB APPROACHES

Corporate specialised lending exposures subject to supervisory slotting

Corporate specialised lending exposures subject to the IRB Supervisory Slotting Approach are assigned to a grade, the determination of which takes into account the following factors:

- financial strength e.g. market conditions, financial ratios, stress analysis, financial structure, cash flow predictability, market liquidity and degree of over-collateralisation of trade;
- political and legal environment e.g. political risks, country risks, force majeure risks, government support, stability of legal and regulatory environment, enforceability of contracts and collateral and security;
- transaction and/or asset characteristics e.g. location, design and technology risks, construction risks, completion guarantees, financial strength of contractors and reliability, operating risks, off-take risks, supply risks, financing terms, resale values, value sensitivities and susceptibility to damage;
- strength of the sponsor and developer including any public private partnership income stream e.g. sponsor's financial strength, quality of financial disclosure, sponsor's support, reputation and track record, trading controls and hedging policies; and
- security package e.g. assignment of contracts and accounts, pledge of assets, lender's control over cash flow, covenant package, reserve funds, nature of lien, quality of insurance coverage, asset control and inspection rights.

Differing criteria apply to each of the four sub-classes of specialised lending recognised by the PRA: i.e. project finance, object finance, commodities finance and income-producing real estate.

Once assigned to a grade, the exposure is risk-weighted in accordance with the risk weight applicable to that grade and remaining maturity banding.

As at 31 December 2021, corporate specialised lending exposures subject to supervisory slotting amounted to £12.3 billion (2020: £12.4 billion). Risk-weighted assets arising from this amounted to £8.9 billion (2020: £9.1 billion) as analysed in the table below.

Exposures in the table below are stated on two different bases. On-balance sheet and off-balance sheet amounts represent net carrying values (after taking into account specific credit risk adjustments (SCRA)) before the application of CRM and CCF. Exposure amount represents EAD post CRM and CCF.

CR10: IRB – Specialised lending

		31 Dec 2021					
		Specialised lending					
Regulatory Categories	Remaining maturity	On-balance sheet amount £m	Off-balance sheet amount £m	RW %	Exposure amount £m	RWA £m	Expected losses £m
1) Strong	Less than 2.5 years	2,449	826	50%	3,043	1,515	—
	Equal to or more than 2.5 years	2,402	861	70%	3,058	2,138	12
2) Good	Less than 2.5 years	1,978	202	70%	2,111	1,478	8
	Equal to or more than 2.5 years	3,038	535	90%	2,943	2,649	24
3) Satisfactory	Less than 2.5 years	343	27	115%	363	418	10
	Equal to or more than 2.5 years	318	13	115%	330	379	9
4) Weak	Less than 2.5 years	13	—	250%	13	33	1
	Equal to or more than 2.5 years	89	1	250%	97	242	8
5) Default	Less than 2.5 years	165	3	0%	242	—	121
	Equal to or more than 2.5 years	63	1	0%	63	—	32
Total	Less than 2.5 years	4,949	1,059		5,773	3,444	141
	Equal to or more than 2.5 years	5,911	1,411		6,490	5,408	84

		31 Dec 2020					
		Specialised lending					
Regulatory Categories	Remaining maturity	On-balance sheet amount £m	Off-balance sheet amount £m	RW %	Exposure amount £m	RWA £m	Expected losses £m
1) Strong	Less than 2.5 years	1,971	691	50%	2,526	1,263	—
	Equal to or more than 2.5 years	2,523	1,359	70%	3,273	2,290	13
2) Good	Less than 2.5 years	1,923	479	70%	2,319	1,622	9
	Equal to or more than 2.5 years	2,958	223	90%	3,230	2,905	26
3) Satisfactory	Less than 2.5 years	168	12	115%	189	216	5
	Equal to or more than 2.5 years	399	41	115%	468	535	13
4) Weak	Less than 2.5 years	27	1	250%	33	82	3
	Equal to or more than 2.5 years	60	—	250%	77	193	6
5) Default	Less than 2.5 years	136	38	0%	272	—	136
	Equal to or more than 2.5 years	20	1	0%	29	—	15
Total	Less than 2.5 years	4,225	1,222		5,338	3,183	153
	Equal to or more than 2.5 years	5,960	1,625		7,077	5,923	73

Pillar 1 Capital requirements: Credit risk continued

ANALYSIS OF CREDIT RISK EXPOSURES SUBJECT TO THE STANDARDISED APPROACH

Standardised exposures in the table below are stated on two different bases (pre-CCF and CRM and post-CCF and CRM). Note, the exposures are also net of SCRAs. Throughout this section 'RWA density' represents the 'average risk weight'.

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CR4: Standardised approach – credit risk exposure and Credit Risk Mitigation (CRM) effects

	31 Dec 2021					
	Exposures before CCF and CRM		Exposures post CCF and CRM		RWA and RWA density	
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density [1]
	£m	£m	£m	£m	£m	%
Central governments or central banks	67,517	320	78,546	496	—	—%
Regional governments or local authorities	535	—	535	—	28	5%
Public sector entities	4,155	—	4,155	—	—	—%
Multilateral development banks	7,735	—	7,735	—	—	—%
Institutions	251	229	260	674	163	17%
Corporates	4,448	4,535	4,368	1,535	5,032	85%
Retail	10,563	23,753	9,708	176	7,202	73%
Secured by mortgages on immovable property	5,359	51	5,357	22	2,052	38%
of which: residential property	4,999	31	4,999	10	1,755	35%
of which: commercial property	360	20	358	12	297	80%
Exposures in default	1,155	99	1,056	36	1,237	113%
Other items	2,176	—	2,176	—	1,829	84%
Total	103,894	28,987	113,897	2,939	17,543	15%

	31 Dec 2020					
	Exposures before CCF and CRM		Exposures post CCF and CRM		RWA and RWA density	
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density [1]
	£m	£m	£m	£m	£m	%
Central governments or central banks	60,695	—	71,296	730	—	— %
Regional governments or local authorities	426	—	425	—	29	7 %
Public sector entities	4,274	—	4,274	—	1	— %
Multilateral development banks	7,158	—	7,158	—	—	— %
Institutions	208	749	209	1,085	296	23 %
Corporates	6,967	5,052	6,713	1,845	7,418	87 %
Retail	11,332	23,044	10,410	236	7,606	71 %
Secured by mortgages on immovable property	5,886	24	5,886	7	2,063	35 %
of which: residential property	5,885	24	5,885	7	2,062	35 %
of which: commercial property	1	—	1	—	1	100 %
Exposures in default	1,034	87	1,032	26	1,179	111 %
Other items	2,550	—	2,550	—	2,092	82 %
Total	100,530	28,957	109,953	3,930	20,684	18 %

1 RWA density is RWA expressed as a percentage of exposures post CCF and CRM.

Pillar 1 Capital requirements: Credit risk continued

CR5: Standardised approach – exposures by asset class

Exposures in the table below are presented on a post CRM and post CCF basis.

The Group makes limited use of ECAIs assessments for its Standardised exposures. Where a credit assessment is used this must be provided by an eligible ECAI from the PRA's approved list. The appropriate risk weight to apply to the credit risk exposure is determined by assigning the exposure to the relevant credit quality step under CRD IV, based on the PRA's mapping of credit assessments to credit quality steps.

For the below disclosure, exposures are classed as 'rated' only where an ECAI rating has been used to derive the risk weight. Where a rating is unavailable, or where the risk weight has been determined by application of specific CRR provisions, exposures have been classed as 'unrated'. This also applies to central governments or central banks exposures within the UK and EEA that receive a zero per cent risk weight in line with regulatory permission.

	31 Dec 2021																
	Risk Weight																
	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others	Total	Of which: Unrated
Exposure Classes	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Central governments or central banks	79,042	—	—	—	—	—	—	—	—	—	—	—	—	—	—	79,042	78,660
Regional government or local authorities	393	—	—	—	142	—	—	—	—	—	—	—	—	—	—	535	–
Public sector entities	4,155	—	—	—	—	—	—	—	—	—	—	—	—	—	—	4,155	2,637
Multilateral development banks	7,735	—	—	—	—	—	—	—	—	—	—	—	—	—	—	7,735	7,735
Institutions	—	—	576	—	140	—	210	—	—	7	—	—	—	—	—	934	584
Corporates	—	—	—	—	19	—	753	—	—	5,042	—	—	—	—	90	5,903	4,904
Retail	—	—	—	—	—	—	—	—	9,883	—	—	—	—	—	—	9,883	9,883
Secured by mortgages on immovable property	—	—	—	—	—	5,005	—	—	60	315	—	—	—	—	—	5,379	5,379
of which: residential property	—	—	—	—	—	5,005	—	—	—	4	—	—	—	—	—	5,009	5,009
of which: commercial property	—	—	—	—	—	—	—	—	60	310	—	—	—	—	—	370	370
Exposures in default	—	—	—	—	—	—	—	—	—	804	289	—	—	—	—	1,093	1,093
Other items	2	—	—	—	431	—	—	—	—	1,743	—	—	—	—	—	2,176	2,176
Total	91,328	—	576	—	732	5,005	963	—	9,943	7,910	289	—	—	—	90	116,835	113,053

1 1,250 per cent risk weight relates to items classed as free deliveries.

Pillar 1 Capital requirements: Credit risk continued

CR5: Standardised approach – exposures by asset class (Continued)

	31 Dec 2020																
	Risk Weight																
	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others	Total	Of which: Unrated
Exposure Classes	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Central governments or central banks	72,027	—	—	—	—	—	—	—	—	—	—	—	—	—	—	72,027	71,812
Regional government or local authorities	278	—	—	—	147	—	—	—	—	—	—	—	—	—	—	425	1
Public sector entities	4,273	—	—	—	—	—	—	—	—	1	—	—	—	—	—	4,274	3,144
Multilateral development banks	7,158	—	—	—	—	—	—	—	—	—	—	—	—	—	—	7,158	7,158
Institutions	—	—	701	—	94	—	499	—	—	—	—	—	—	—	—	1,294	704
Corporates	1	—	—	—	—	—	1,131	—	—	7,401	26	—	—	—	—	8,558	7,435
Retail	—	—	—	—	—	—	—	—	10,646	—	—	—	—	—	—	10,646	10,646
Secured by mortgages on immovable property	—	—	—	—	—	5,892	—	—	—	1	—	—	—	—	—	5,893	5,893
of which: residential property	—	—	—	—	—	5,892	—	—	—	—	—	—	—	—	—	5,892	5,892
of which: commercial property	—	—	—	—	—	—	—	—	—	1	—	—	—	—	—	1	1
Exposures in default	—	—	—	—	—	—	—	—	—	816	242	—	—	—	—	1,058	1,058
Other items	79	—	—	—	474	—	—	—	—	1,997	—	—	—	—	—	2,550	2,550
Total	83,815	—	701	—	715	5,892	1,630	—	10,646	10,216	268	—	—	—	—	113,883	110,400

Pillar 1 Capital requirements: Credit risk continued

ANALYSIS OF CREDIT RISK EXPOSURES BY GEOGRAPHY

Credit risk exposures as at 31 December 2021, analysed by geographical region, based on country of residence/incorporation of the customers, are provided in the table below. Exposures are presented on a pre CRM and post CCF basis.

CRB-C: Geographical breakdown of exposures

	31 Dec 2021					
	United Kingdom £m	Rest of Europe £m	United States of America £m	Asia-Pacific £m	Other £m	Total £m
Central governments or central banks	—	111	2,129	—	466	2,706
Institutions	2,676	784	294	422	2,833	7,008
Corporates	55,041	3,563	2,348	579	766	62,297
of which: Specialised lending	10,713	1,830	14	14	220	12,790
of which: SMEs	9,865	208	—	—	6	10,078
Retail	409,827	10,131	1	—	1	419,960
Secured by real estate property	341,071	10,129	—	—	—	351,201
SMEs	5,950	5	—	—	—	5,956
Non-SMEs	335,120	10,124	—	—	—	345,244
Qualifying revolving	39,521	—	—	—	—	39,521
Other retail	29,235	2	1	—	1	29,238
SMEs	9,531	2	1	—	1	9,535
Non-SMEs	19,704	—	—	—	—	19,704
Non-credit oligation assets	10,577	4	—	—	—	10,581
Total IRB approach	478,120	14,592	4,772	1,001	4,066	502,551
Central governments or central banks	57,983	9,546	—	—	67	67,596
Regional governments or local authorities	—	393	—	—	142	535
Public sector entities	—	4,155	—	—	—	4,155
Multilateral development banks	—	—	—	—	7,735	7,735
Institutions	235	34	87	2	—	357
Corporates	4,248	982	591	174	69	6,063
Retail	10,062	668	2	4	3	10,739
Secured by mortgages on immovable property	4,837	139	42	224	139	5,381
Exposures in default	713	34	6	17	422	1,191
Other exposures	2,140	32	—	4	—	2,176
Total standardised approach	80,218	15,984	728	424	8,575	105,929
Total	558,338	30,576	5,499	1,425	12,641	608,480

Pillar 1 Capital requirements: Credit risk continued

	31 Dec 2020					
	United Kingdom £m	Rest of Europe £m	United States of America £m	Asia-Pacific £m	Other £m	Total £m
Central governments or central banks	—	—	2,147	—	674	2,821
Institutions	3,149	532	191	382	1,829	6,083
Corporates	60,488	5,134	959	94	1,027	67,702
of which: Specialised lending	10,775	1,425	43	1	508	12,752
of which: SMEs	10,590	24	—	—	6	10,620
Retail	401,570	9,321	—	1	2	410,894
Secured by real estate property	330,401	9,320	—	—	2	339,724
SMEs	7,740	2	—	—	2	7,746
Non-SMEs	322,660	9,318	—	—	—	331,978
Qualifying revolving	40,745	—	—	—	—	40,745
Other retail	30,425	—	—	—	—	30,426
SMEs	9,997	—	—	—	—	9,998
Non-SMEs	20,428	—	—	—	—	20,428
Non-credit oligation assets	10,963	9	—	—	—	10,972
Total IRB approach	476,171	14,996	3,297	476	3,532	498,472
Central governments or central banks	48,688	12,007	—	—	—	60,695
Regional governments or local authorities	1	278	—	—	146	426
Public sector entities	1	4,273	—	—	—	4,274
Multilateral development banks	—	—	—	—	7,158	7,158
Institutions	516	33	48	—	—	598
Corporates	7,152	1,431	511	217	661	9,973
Retail	10,803	754	2	5	4	11,568
Secured by mortgages on immovable property	5,312	175	55	272	79	5,893
Exposures in default	576	40	23	17	403	1,060
Other exposures	2,515	31	—	5	—	2,550
Total standardised approach	75,565	19,022	640	517	8,451	104,195
Total	551,735	34,018	3,937	993	11,983	602,667

Key movements

– The increase in UK exposure of £6.2 billion is due to increased amounts deposited with the Bank of England and an increase in mortgage lending.

Pillar 1 Capital requirements: Credit risk continued

Exposures in the table below are presented are on a pre CRM and post CCF basis.

Exposures subject to the IRB approach analysed by geographical region

	31 Dec 2021																	
	United Kingdom			Rest of Europe			United States of America			Asia-Pacific			Other			Total		
	EAD pre CRM and post CCF £m	LGD %	PD %	EAD pre CRM and post CCF £m	LGD %	PD %	EAD pre CRM and post CCF £m	LGD %	PD %	EAD pre CRM and post CCF £m	LGD %	PD %	EAD pre CRM and post CCF £m	LGD %	PD %	EAD pre CRM and post CCF £m	LGD %	PD %
Exposures subject to the IRB approach																		
Foundation IRB approach																		
Central governments or central banks	—		0.02%	111		3.68%	2,129		0.01%	—		—	466		0.05%	2,706		0.04%
Institutions	2,676		0.08%	784		0.08%	294		0.04%	422		—	2,833		0.06%	7,008		0.07%
Corporate – main	34,464		2.64%	1,525		2.38%	2,334		1.29%	565		—	541		0.29%	39,428		2.48%
Corporate – SME	9,865		7.51	208		7.21	—		—	—		—	6		0.67	10,078		7.50
Total – Foundation IRB approach	47,004		3.44%	2,628		2.07%	4,757		0.60%	986		—	3,845		0.10%	59,220		2.89%
Retail IRB approach																		
Retail mortgages	341,071	10.13%	1.98%	10,129	11.44%	0.43%	—	—	—	—	18.04%	—	—	12.78%	2.27%	351,201	10.17%	1.93%
of which: residential mortgages (SME)	5,950	17.32%	4.04%	5	16.40%	2.82%	—	—	—	—	18.04%	—	—	12.78%	2.27%	5,956	17.32%	4.04%
of which: residential mortgages (non-SME)	335,120	10.00%	1.94%	10,124	11.44%	0.42%	—	—	—	—	—	—	—	—	—	345,244	10.04%	1.90%
Qualifying revolving retail exposures	39,521	65.24%	2.02%	—	—	—	—	—	—	—	—	—	—	—	—	39,521	65.24%	2.02%
Other SME[1]	9,531	70.77%	14.50%	2	30.39%	8.27%	1	11.64%	0.55%	—	86.44%	—	1	49.62%	0.84%	9,535	70.70%	14.48%
Other non-SME	19,704	53.71%	4.41%	—	—	—	—	—	—	—	—	—	—	—	—	19,704	53.71%	4.41%
Total – Retail IRB approach	409,827	17.97%	2.16%	10,131	11.45%	0.43%	1	11.64%	0.55%	—	25.05%	—	1	38.51%	1.27%	419,960	17.81%	2.12%

Pillar 1 Capital requirements: Credit risk continued

31 Dec 2020

	United Kingdom			Rest of Europe			United States of America			Asia-Pacific			Other			Total		
	EAD pre CRM and post CCF £m	LGD %	PD %	EAD pre CRM and post CCF £m	LGD %	PD %	EAD pre CRM and post CCF £m	LGD %	PD %	EAD pre CRM and post CCF £m	LGD %	PD %	EAD pre CRM and post CCF £m	LGD %	PD %	EAD pre CRM and post CCF £m	LGD %	PD %
Exposures subject to the IRB approach																		
Foundation IRB approach																		
Central governments or central banks	—		—	—		—	2,147		0.01%	—		—	674		0.06%	2,821		0.01%
Institutions	3,149		0.09%	532		0.06%	191		0.04%	382		0.05%	1,829		0.14%	6,083		0.10%
Corporate – main	39,123		4.87%	3,685		4.93%	916		0.11%	93		0.25%	513		2.65%	44,330		4.75%
Corporate – SME	10,590		6.61%	24		0.77	—		—	—		—	6		2.58	10,620		6.60
Total – Foundation IRB approach	52,861		4.90%	4,241		4.29%	3,254		0.04%	475		0.09%	3,021		0.52%	63,853		4.40%
Retail IRB approach																		
Retail mortgages	330,401	10.71%	2.20%	9,320	14.26%	0.75%	—	2.20%	—	1	13.40%	1.11%	2	14.43%	1.90%	339,724	11.92%	2.16%
of which: residential mortgages (SME)	7,740	17.85%	4.12%	2	12.49%	2.25%	—	4.12%	—	1	14.89%	1.11%	2	14.43%	1.90%	7,746	18.96%	4.11%
of which: residential mortgages (non-SME)	322,660	10.54%	2.15%	9,318	14.26%	0.75%	—	2.15%	—	—	0.75%	—	—	—	—	331,978	10.65%	2.11
Qualifying revolving retail exposures	40,745	62.60%	2.04%	—	—	—	—	2.04%	—	—	—	—	—	—	—	40,745	62.60%	2.04
Other SME	9,997	70.89%	9.25%	—	73.63%	4.75%	—	96.03%	1.17%	—	43.03%	2.92%	—	81.86%	1.38%	9,998	73.81%	9.24%
Other non-SME	20,428	52.98%	4.48%	—	—	—	—	4.48%	—	—	—	—	—	—	—	20,428	52.98%	4.48
Total – Retail IRB approach	401,570	18.68%	2.35%	9,321	14.26%	0.75%	—	89.13%	1.17%	1	22.87%	1.78%	2	15.91%	1.90%	410,894	20.36%	2.31%

1 Exposure is stated pre substitution of exposures in relation to COVID-19 government lending schemes. Post CRM exposure value is £2.0 billion.

Key movements

– The decrease in PD for Corporate - Main within the UK and Rest of Europe is due to a reduction in defaulted cases.

Pillar 1 Capital requirements: Credit risk continued

ANALYSIS OF CREDIT RISK EXPOSURES BY INDUSTRY

Credit risk exposures as at 31 December 2021, analysed by major industrial sector, are provided in the table below. Exposures are presented are on a pre CRM and post CCF basis.

CRB-D: Concentration of exposures by industry

	31 Dec 2021												
	Agriculture, forestry and fishing £m	Energy and water supply £m	Manufacturing £m	Construction £m	Transport, distribution and hotels £m	Postal and comms £m	Property companies £m	Financial, business and other services £m	Personal: mortgages £m	Personal: other £m	Lease financing £m	Hire purchase £m	Total £m
Central governments or central banks	—	—	—	—	—	—	—	2,706	—	—	—	—	2,706
Institutions	—	—	—	—	—	—	—	6,921	—	—	42	45	7,008
Corporates	986	4,258	7,297	4,314	12,491	2,529	15,470	10,925	—	—	1,232	2,796	62,297
of which: Specialised lending	—	1,664	80	1,005	953	292	8,278	435	—	—	83	—	12,790
of which: SMEs	899	118	927	533	2,198	79	1,674	3,315	—	—	4	332	10,078
Retail	1,377	59	801	2,039	3,908	292	2,863	4,133	345,244	47,818	—	11,425	419,960
Secured by real estate property	1,012	11	201	262	999	22	2,125	1,324	345,244	1	—	—	351,201
SMEs	1,012	11	201	262	999	22	2,125	1,324	—	1	—	—	5,956
Non-SMEs	—	—	—	—	—	—	—	—	345,244	—	—	—	345,244
Qualifying revolving	—	—	—	—	—	—	—	—	—	39,521	—	—	39,521
Other retail	365	48	600	1,777	2,909	270	738	2,809	—	8,296	—	11,425	29,238
SMEs	365	48	600	1,777	2,909	270	738	2,809	—	18	—	—	9,535
Non-SMEs	—	—	—	—	—	—	—	—	—	8,279	—	11,425	19,704
Non-credit obligation assets													10,581
Total IRB approach	2,363	4,317	8,097	6,353	16,399	2,821	18,333	24,685	345,244	47,818	1,273	14,266	502,551
Central governments or central banks	—	—	—	—	3	—	—	67,576	—	—	17	—	67,596
Regional governments or local authorities	—	—	—	—	—	—	—	535	—	—	—	—	535
Public sector entities	—	—	—	—	—	—	—	4,155	—	—	—	—	4,155
Multilateral development banks	—	—	—	—	—	—	—	7,735	—	—	—	—	7,735
Institutions	—	—	—	—	—	—	—	348	—	—	9	—	357
Corporates	1,480	108	390	27	1,179	213	411	1,609	—	292	208	148	6,063
Retail	350	10	117	211	496	38	294	494	157	7,414	231	926	10,739
Secured by mortgages on immovable property	191	—	13	6	107	—	50	27	4,986	—	—	—	5,381
Exposures in default	56	1	35	30	491	3	37	85	318	128	1	7	1,191
Other exposures													2,176
Total standardised approach	2,077	119	555	274	2,276	255	792	82,565	5,461	7,834	465	1,081	105,929
Total	4,440	4,436	8,652	6,627	18,675	3,076	19,125	107,250	350,705	55,653	1,738	15,347	608,480

Pillar 1 Capital requirements: Credit risk continued

31 Dec 2020

	Agriculture, forestry and fishing £m	Energy and water supply £m	Manufacturing £m	Construction £m	Transport, distribution and hotels £m	Postal and comms £m	Property companies £m	Financial, business and other services £m	Personal: mortgages £m	Personal: other £m	Lease financing £m	Hire purchase £m	Total £m
Central governments or central banks	—	—	—	—	—	—	—	2,821	—	—	—	—	2,821
Institutions	—	—	—	—	—	—	—	6,001	—	—	44	37	6,083
Corporates	1,281	3,322	8,431	3,750	13,423	870	17,714	14,638	—	7	1,330	2,936	67,702
of which: Specialised lending	—	1,180	126	225	944	198	9,408	670	—	—	—	—	12,752
of which: SMEs	1,161	69	1,176	493	2,239	81	1,227	3,822	—	—	2	348	10,620
Retail	1,662	9	926	1,873	4,343	118	3,842	4,952	331,978	49,197	—	11,995	410,894
Secured by real estate property	1,226	3	276	232	1,272	18	2,893	1,824	331,978	1	—	—	339,724
SMEs	1,226	3	276	232	1,272	18	2,893	1,824	—	1	—	—	7,746
Non-SMEs	—	—	—	—	—	—	—	—	331,978	—	—	—	331,978
Qualifying revolving	—	—	—	—	—	—	—	—	—	40,745	—	—	40,745
Other retail	436	6	650	1,641	3,071	99	949	3,128	—	8,451	—	11,995	30,426
SMEs	436	6	650	1,641	3,071	99	949	3,128	—	18	—	—	9,998
Non-SMEs	—	—	—	—	—	—	—	—	—	8,433	—	11,995	20,428
Non-credit obligation assets													10,973
Total IRB approach	2,944	3,331	9,358	5,622	17,766	988	21,556	28,412	331,978	49,203	1,375	14,967	498,473
Central governments or central banks	—	—	—	—	—	—	—	60,669	—	—	26	—	60,695
Regional governments or local authorities	—	—	—	—	—	—	—	426	—	—	—	—	426
Public sector entities	—	—	—	—	—	—	—	4,274	—	—	—	—	4,274
Multilateral development banks	—	—	—	—	—	—	—	7,158	—	—	—	—	7,158
Institutions	—	—	—	—	—	—	—	586	—	—	12	—	598
Corporates	2,528	164	648	115	1,306	23	768	3,394	4	257	206	560	9,973
Retail	1,512	5	31	45	174	2	201	1,131	111	7,807	210	339	11,568
Secured by mortgages on immovable property	—	—	—	—	—	—	1	2	5,889	—	—	—	5,893
Exposures in default	67	—	28	4	438	—	11	5	349	148	1	8	1,060
Other exposures													2,550
Total standardised approach	4,108	168	706	165	1,918	25	981	77,646	6,353	8,213	455	907	104,195
Total	7,051	3,499	10,064	5,787	19,684	1,013	22,537	106,058	338,331	57,416	1,829	15,875	602,667

Pillar 1 Capital requirements: Credit risk continued

ANALYSIS OF CREDIT RISK EXPOSURES BY RESIDUAL MATURITY

Credit risk exposures at 31 December 2021, analysed by residual maturity, are provided in the table below. Exposures are presented on a pre CRM and post CCF basis.

CRB-E: Maturity of exposures

	31 Dec 2021					
	Net exposure value					
	On demand £m	<= 1 year £m	> 1 year <= 5 years £m	> 5 years £m	No stated maturity £m	Total £m
Central governments or central banks	—	247	1,851	608	—	**2,706**
Institutions	6	5,067	1,723	212	—	**7,008**
Corporates	2,588	13,297	36,687	9,725	—	**62,297**
of which: Specialised lending	31	2,104	7,882	2,774	—	**12,790**
of which: SMEs	124	2,132	4,198	3,624	—	**10,078**
Retail	42,454	23,493	37,790	316,223	—	**419,960**
Secured by real estate property	2,206	19,980	16,692	312,322	—	**351,201**
SMEs	27	846	631	4,452	—	**5,956**
Non-SMEs	2,179	19,134	16,062	307,871	—	**345,244**
Qualifying revolving	39,521	—	—	—	—	**39,521**
Other retail	727	3,513	21,097	3,901	—	**29,238**
SMEs	683	1,038	5,079	2,735	—	**9,535**
Non-SMEs	44	2,475	16,019	1,166	—	**19,704**
Non-credit obligation assets	1,447	993	1,713	62	6,367	**10,581**
Total IRB approach	**46,495**	**43,096**	**79,763**	**326,831**	**6,367**	**502,551**
Central governments or central banks	40,285	12,368	1,197	13,746	—	**67,596**
Regional governments or local authorities	—	116	350	68	—	**535**
Public sector entities	—	847	2,731	577	—	**4,155**
Multilateral development banks	—	398	5,579	1,759	—	**7,735**
Institutions	145	139	38	35	—	**357**
Corporates	417	1,090	2,287	2,269	—	**6,063**
Retail	6,149	211	2,835	1,544	—	**10,739**
Secured by mortgages on immovable property	66	238	552	4,525	—	**5,381**
Exposures in default	238	377	259	318	—	**1,191**
Other exposures	300	—	240	678	959	**2,176**
Total standardised approach	**47,599**	**15,785**	**16,068**	**25,519**	**959**	**105,929**
Total	**94,094**	**58,881**	**95,830**	**352,350**	**7,325**	**608,480**

Pillar 1 Capital requirements: Credit risk continued

	31 Dec 2020					
	Net exposure value					
	On demand £m	<= 1 year £m	> 1 year <= 5 years £m	> 5 years £m	No stated maturity £m	Total £m
Central governments or central banks	—	—	920	1,901	—	2,821
Institutions	449	3,281	1,896	456	—	6,083
Corporates	5,231	14,532	35,467	12,472	—	67,702
of which: Specialised lending	178	2,118	7,212	3,245	—	12,752
of which: SMEs	655	2,883	2,242	4,840	—	10,620
Retail	42,866	26,108	34,273	307,647	—	410,894
Secured by real estate property	1,969	22,599	17,260	297,896	—	339,724
SMEs	143	999	688	5,915	—	7,746
Non-SMEs	1,826	21,600	16,572	291,980	—	331,978
Qualifying revolving	40,745	—	—	—	—	40,745
Other retail	153	3,508	17,013	9,751	—	30,426
SMEs	116	1,112	241	8,529	—	9,998
Non-SMEs	36	2,397	16,772	1,222	—	20,428
Non-credit obligation assets	1,340	950	1,561	29	7,093	10,973
Total IRB approach	49,887	44,871	74,117	322,505	7,093	498,473
Central governments or central banks	33,809	13,568	4,300	8,554	464	60,695
Regional governments or local authorities	—	34	244	148	—	426
Public sector entities	—	731	3,093	450	—	4,274
Multilateral development banks	—	358	5,108	1,692	—	7,158
Institutions	113	420	40	25	—	598
Corporates	433	1,992	3,798	3,751	—	9,973
Retail	6,653	333	1,564	3,018	—	11,568
Secured by mortgages on immovable property	23	167	522	5,181	—	5,893
Exposures in default	97	404	188	370	—	1,060
Other exposures	164	71	297	331	1,687	2,550
Total standardised approach	41,291	18,080	19,154	23,519	2,150	104,195
Total	91,178	62,950	93,272	346,024	9,243	602,667

IMPAIRMENT AND CREDIT QUALITY OF EXPOSURES

The tables below present analysis of credit risk exposures and credit risk adjustments analysed by regulatory exposure class, industry types and geography. Gross carrying value comprises both on and off-balance sheet exposures pre CCF and pre CRM. Net values represent gross carrying values less specific credit risk adjustments (note, the Group does not recognise any general credit risk adjustments (GCRAs) as defined by the EBA).

Further details on the Group's impairment charges and balances can be found in the 2021 Lloyds Banking Group plc Annual Report and Accounts.

CR1-A: Credit quality of exposures by exposure class and instrument

31 Dec 2021	Gross carrying values of				
	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment[1]	Credit risk adjustment charges in the period[1]	Net values
	£m	£m	£m	£m	£m
Central governments or central banks	—	2,808	—	(1)	2,808
Institutions	—	7,389	—	—	7,389
Corporates	1,583	72,690	595	(722)	73,678
of which: Specialised lending	311	13,152	134	(182)	13,329
of which: SMEs	628	11,299	161	(99)	11,766
Retail	4,659	414,312	2,421	(360)	416,550
Secured by real estate property	2,995	334,546	1,343	(306)	336,198
SMEs	135	5,822	131	(43)	5,826
Non-SMEs	2,860	328,724	1,212	(263)	330,372
Qualifying revolving	247	51,991	503	131	51,735
Other retail	1,417	27,775	574	(185)	28,618
SMEs	1,060	8,480	61	(62)	9,479
Non-SMEs	357	19,294	513	(123)	19,138
Non-credit obligation assets	—	10,581	—	—	10,581
Total IRB approach	6,242	507,780	3,016	(1,082)	511,006
Central governments or central banks		67,838	—	—	67,838
Regional governments or local authorities		535	—	—	535
Public sector entities		4,155	—	—	4,155
Multilateral development banks		7,735	—	—	7,735
Institutions		480	—	—	480
Corporates		9,024	41	(51)	8,983
of which: SMEs		2,594	7	(12)	2,588
Retail		34,515	199	(18)	34,316
of which: SMEs		2,458	6	(14)	2,452
Secured by mortgages on immovable property		5,447	37	(4)	5,410
of which: SMEs		351	1	—	350
Exposures in default[2]	2,033		779	33	1,254
Other exposures		2,176	—	—	2,176
Total standardised approach	2,033	131,905	1,057	(40)	132,881
Total	8,275	639,684	4,073	(1,122)	643,887
of which: Loans	8,022	414,892	3,878	(891)	419,037
of which: Debt securities	1	3,781	1	—	3,781
of which: Off-balance sheet exposures	252	126,381	194	(231)	126,439

Pillar 1 Capital requirements: Credit risk continued

CR1-A: Credit quality of exposures by exposure class and instrument (continued)

31 Dec 2020

	Gross carrying values of		Specific credit risk adjustment	Credit risk adjustment charges in the period	Net values
	Defaulted exposures	Non-defaulted exposures			
	£m	£m	£m	£m	£m
Central governments or central banks	—	3,020	1	1	3,019
Institutions	—	6,780	1	1	6,780
Corporates	2,454	77,245	1,446	1,015	78,253
of which: Specialised lending	306	13,041	316	249	13,031
of which: SMEs	460	10,791	255	139	10,995
Retail	4,210	406,780	3,548	1,906	407,443
Secured by real estate property	3,324	323,486	1,691	539	325,119
SMEs	167	7,663	173	89	7,657
Non-SMEs	3,157	315,823	1,519	450	317,462
Qualifying revolving	286	53,520	866	674	52,941
Other retail	599	29,774	991	693	29,383
SMEs	208	9,796	123	114	9,880
Non-SMEs	392	19,978	868	579	19,503
Non-credit obligation assets	—	10,973	—	—	10,973
Total IRB approach	6,664	504,799	4,996	2,924	506,467
Central governments or central banks		60,695	—	—	60,695
Regional governments or local authorities		426	—	—	426
Public sector entities		4,274	—	—	4,274
Multilateral development banks		7,158	—	—	7,158
Institutions		958	1	1	957
Corporates		12,123	104	106	12,019
of which: SMEs		4,041	17	12	4,024
Retail		34,749	373	261	34,376
of which: SMEs		3,343	19	6	3,324
Secured by mortgages on immovable property		5,945	35	8	5,910
of which: SMEs		8	—	—	8
Exposures in default[2]	1,887		765	327	1,121
Other exposures		2,550	—	—	2,550
Total standardised approach	1,887	128,879	1,279	702	129,487
Total	8,550	633,678	6,274	3,627	635,954
of which: Loans	8,043	407,806	5,847	3,374	410,002
of which: Debt securities	1	4,341	1	—	4,341
of which: Off-balance-sheet exposures	506	132,140	426	253	132,221

1 The total of specific credit risk adjustments and credit risk adjustment credits in the period are lower than financial reporting amounts predominantly due to the differing regulatory treatment of a number of exposures. The total specific credit risk adjustments also exclude the £400m central adjustment to the expected credit loss allowances.

2 The breakdown of 'exposures in default' by the exposure class that corresponds to the exposure before default, comprises Corporate £1,389m (2020: £1,254m) and Retail £644m (2020: £633m).

Pillar 1 Capital requirements: Credit risk continued

CR1-B: Credit quality of exposures by industry types

31 Dec 2021	Gross carrying values of Defaulted exposures £m	Gross carrying values of Non-defaulted exposures £m	Specific credit risk adjustment[1] £m	Credit risk adjustment charges in the period[1] £m	Net value £m
Agriculture, forestry and fishing	225	4,585	24	(63)	4,785
Energy and water supply	27	5,188	8	11	5,207
Manufacturing	274	10,947	53	(172)	11,169
Construction	557	7,044	96	(118)	7,505
Transport, distribution and hotels	1,803	21,447	754	(202)	22,496
Postal and communications	33	3,652	21	8	3,665
Property companies	382	20,545	140	(216)	20,786
Financial, business and other services	825	120,866	364	(73)	121,328
Personal: mortgages	3,235	334,009	1,310	(280)	335,934
Personal: other	660	91,459	1,020	156	91,099
Lease financing	7	4,659	1	17	4,665
Hire purchase	247	15,284	281	(188)	15,249
Total	8,275	639,684	4,073	(1,122)	643,887

31 Dec 2020	Gross carrying values of Defaulted exposures £m	Gross carrying values of Non-defaulted exposures £m	Specific credit risk adjustment £m	Credit risk adjustment charges in the period £m	Net value £m
Agriculture, forestry and fishing	231	7,134	83	82	7,282
Energy and water supply	1	4,390	12	33	4,380
Manufacturing	500	12,178	216	136	12,462
Construction	352	6,253	218	47	6,387
Transport, distribution and hotels	1,866	21,107	952	490	22,021
Postal and communications	4	1,177	12	19	1,169
Property companies	521	23,654	415	279	23,760
Financial, business and other services	462	122,659	507	369	122,614
Personal: mortgages	3,574	321,962	1,635	464	323,902
Personal: other	765	92,831	1,733	1,477	91,863
Lease financing	11	4,504	4	30	4,511
Hire purchase	263	15,828	487	200	15,604
Total	8,550	633,678	6,274	3,627	635,954

1 The total of specific credit risk adjustments and credit risk adjustment credits in the period are lower than financial reporting amounts predominantly due to the differing regulatory treatment of a number of exposures. The total specific credit risk adjustments also exclude the £400m central adjustment to the expected credit loss allowances.

Pillar 1 Capital requirements: Credit risk continued

CR1-C: Credit quality of exposures by geography

31 Dec 2021	Gross carrying values of Defaulted exposures £m	Gross carrying values of Non-defaulted exposures £m	Specific credit risk adjustment[1] £m	Credit risk adjustment charges in the period[1] £m	Net value £m
United Kingdom	7,004	587,064	3,323	(1,184)	590,745
Rest of Europe	225	31,963	117	(36)	32,071
United States of America	8	6,543	28	(4)	6,522
Asia-Pacific	21	1,782	6	(27)	1,797
Other	1,018	12,332	599	130	12,751
Total	8,275	639,684	4,073	(1,122)	643,887

31 Dec 2020	Gross carrying values of Defaulted exposures £m	Gross carrying values of Non-defaulted exposures £m	Specific credit risk adjustment £m	Credit risk adjustment charges in the period £m	Net value £m
United Kingdom	7,186	580,289	5,497	3,231	581,979
Rest of Europe	358	36,056	180	155	36,234
United States of America	25	4,741	9	3	4,757
Asia-Pacific	22	1,118	10	3	1,131
Other	959	11,473	579	234	11,853
Total	8,550	633,678	6,274	3,627	635,954

1 The total of specific credit risk adjustments and credit risk adjustment credits in the period are lower than financial reporting amounts predominantly due to the differing regulatory treatment of a number of exposures. The total specific credit risk adjustments also exclude the £400m central adjustment to the expected credit loss allowances.

COMPARISON OF EXPECTED LOSSES TO SPECIFIC CREDIT RISK ADJUSTMENTS

The table below provides a comparison of regulatory ELs to SCRAs (accounting impairment provisions) on loans and receivables, in respect of credit risk exposures subject to the IRB Approach.

Further details on accounting expected credit losses (ECLs) can be found in the 2021 Lloyds Bank plc Annual Report and Accounts: Note 2 (Accounting policies), Impairment of Financial assets and Note 3 (Critical accounting judgements and estimates).

Although the regulatory EL and accounting ECL are both forward looking measures, there are some key differences in the parameters applied when determining expected losses, in particular:

- Regulatory EL calculations are predicated on loss estimates over a 12 month time horizon. Under the accounting ECL model Stage 1 assets are also predicated on 12 month losses whereas assets classified as Stage 2 and Stage 3 carry an ECL allowance equivalent to the expected credit losses arising over the lifetime of the asset (lifetime expected credit losses).
- Regulatory ELs are based on TTC or PiT probability estimates that utilise historic default experience, whereas accounting ECLs are based on probability-weighted PiT measures reflecting a range of possible future economic scenarios.
- Regulatory ELs apply downturn LGD parameters whereas LGDs applied in the calculation of accounting ECLs also consider a range of possible future economic scenarios.
- Regulatory ELs under the Foundation IRB Approach use LGD that are set by the regulator. The LGD used in the accounting ECL calculation is modelled.

Pillar 1 Capital requirements: Credit risk continued

Regulatory expected losses and specific credit risk adjustments

Where ELs exceed SCRAs linked to the underlying credit risk exposures, the resultant excess expected loss (EEL) is deducted from capital resources. Where SCRAs exceed ELs, a surplus or 'eligible' provision may be recognised in tier 2 capital subject to certain restrictions.

	2021	2021	2021	2020	2020	2020
	Regulatory expected losses	Specific credit risk adjustments	Excess expected losses	Regulatory expected losses	Specific credit risk adjustments	Excess expected losses
	£m	£m	£m	£m	£m	£m
CREDIT RISK						
Foundation IRB approach						
Central governments or central banks	—	—	—	—	1	(1)
Institutions	2	—	2	2	1	2
Corporates	690	461	228	1,150	1,130	20
Retail IRB approach						
Residential mortgages	883	1,343	(461)	1,049	1,691	(642)
QRRE	571	503	68	622	866	(244)
Other SME	60	61	(1)	68	123	(55)
Other non-SME	481	513	(32)	523	868	(344)
Other IRB approaches						
Corporate – specialised lending	225	134	91	226	316	(90)
Other						
Counterparty credit risk	9	—	9	9	—	9
Central impairment adjustment		400	(400)	—	400	(400)
Other adjustments[1]	—	—	(20)	—	—	(20)
Total	2,921	3,416	(515)	3,650	5,396	(1,766)

Reconciliation of SCRAs to statutory consolidated balance sheet allowance for impairment losses on loans and receivables	2021	2020
Total SCRAs applied against expected losses	3,416	5,396
SCRAs applied to Standardised Approach exposures	1,056	1,279
Acquisition related and other adjustments[2]	(472)	(543)
Total per statutory consolidated balance sheet	4,000	6,132

1 Other adjustments relate to prudent valuation adjustments.

2 Includes the impact of HBOS and MBNA acquisition related adjustments.

Key movements (2021)

SCRAs:

Reductions in provisions across all asset classes reflecting the improving macroeconomic conditions.

Expected losses:

FIRB Corporates

– The £0.5 billion reduction in EL is predominantly due to the £0.9 billion reduction in defaulted EAD.

Retail IRB Residential Mortgages

– EL decreases by £0.2 billion due to a reduction in defaulted exposure and the beneficial impact of House Prices Index increases on average PD and average LGD.

QRRE

– Small decrease driven by reductions in lending exposure and a small reduction in defaulted exposure.

Retail Other – Non SME

– Decrease driven by small reduction in defaulted exposure.

Pillar 1 Capital requirements: Credit risk continued

ANALYSIS OF PERFORMING, NON-PERFORMING AND FORBORNE EXPOSURES

The exposures in the tables that follow have been prepared in accordance with FINREP definitions and as such the loans and debt securities include balances subject to the credit risk, counterparty credit risk and securitisation frameworks.

CQ1: Credit quality of forborne exposures

	31 Dec 2021								31 Dec 2020							
	Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures		Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
			Of Which:	Of Which:							Of Which:	Of Which:				
	Performing Forborne	Non-performing	Defaulted	Impaired	On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures	Performing Forborne	Non-performing	Defaulted	Impaired	On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
1 Loans and advances	2,572	7,078	4,857	5,742	(44)	(1,343)	5,792	3,639	2,592	7,952	5,586	6,276	(134)	(1,845)	5,893	3,808
5 Other financial corporations	20	32	32	31	—	(10)	8	2	27	37	37	13	(13)	(9)	34	2
6 Non-financial corporations	695	3,308	3,277	3,277	(4)	(969)	1,105	599	542	3,753	3,736	3,557	(38)	(1,306)	805	544
7 Households	1,856	3,738	1,548	2,434	(40)	(365)	4,679	3,038	2,023	4,162	1,813	2,706	(84)	(530)	5,054	3,261
8 Debt Securities	—	1	1	1	—	(1)	—	—	—	1	1	1	—	(1)	—	—
9 Loans Commitments Given	304	376	223	95	(2)	(5)	4	2	168	393	178	260	(2)	(24)	21	11
10 Total	**2,876**	**7,455**	**5,081**	**5,838**	**(46)**	**(1,349)**	**5,796**	**3,641**	**2,760**	**8,345**	**5,765**	**6,537**	**(136)**	**(1,870)**	**5,914**	**3,819**

Pillar 1 Capital requirements: Credit risk continued

CQ3: Credit quality of performing and non-performing exposures by past due days

		31 Dec 2021											
		Gross carrying amount/nominal amount											
		Performing			Non-performing								
			Not past due or Past due <= 30 days	Past due > 30 days <= 90 days		Unlikely to pay that are not past-due or past-due < = 90 days	Past due > 90 day <= 180 days	Past due > 180 day <= 1 year	Past due > 1 year <= 2 years	Past due > 2 years <= 5 years	Past due > 5 years <= 7 years	Past due > 7 years	Of which: defaulted
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
1	**Loans and advances**	**481,459**	**479,771**	**1,688**	**10,637**	**4,543**	**1,753**	**968**	**1,060**	**1,944**	**212**	**156**	**7,540**
2	Central banks	1,311	1,311	—	—	—	—	—	—	—	—	—	—
3	General governments	661	661	—	—	—	—	—	—	—	—	—	—
4	Credit institutions	7,446	7,446	—	—	—	—	—	—	—	—	—	—
5	Other financial corporations	54,224	54,223	1	33	24	6	—	—	4	—	—	33
6	Non-financial corporations	68,971	68,684	287	3,737	2,005	677	2	9	1,034	9	—	3,706
7	Of which: SMEs	38,344	38,230	115	1,703	1,069	628	2	—	1	3	—	1,685
8	Households	348,846	347,446	1,400	6,867	2,514	1,070	966	1,052	906	203	156	3,800
9	**Debt securities**	**31,896**	**31,896**	**—**	**1**	**—**	**—**	**—**	**—**	**—**	**—**	**1**	**1**
11	General governments	15,794	15,794	—	—	—	—	—	—	—	—	—	—
12	Credit institutions	12,963	12,963	—	—	—	—	—	—	—	—	—	—
13	Other financial corporations	2,740	2,740	—	—	—	—	—	—	—	—	—	—
14	Non-financial corporations	399	399	—	1	—	—	—	—	—	—	1	1
15	**Off-balance-sheet exposures**	**127,488**			**509**								**286**
17	General governments	234			—								—
18	Credit institutions	56			—								—
19	Other financial corporations	8,892			4								4
20	Non-financial corporations	34,708			283								282
21	Households	83,599			222								—
22	**Total**	**640,843**	**511,667**	**1,688**	**11,147**	**4,543**	**1,753**	**968**	**1,060**	**1,944**	**212**	**157**	**7,826**

Pillar 1 Capital requirements: Credit risk continued

CQ3: Credit quality of performing and non-performing exposures by past due days (continued)

		31 Dec 2020											
		Gross carrying amount/nominal amount											
		Performing			Non-performing								
			Not past due or Past due <= 30 days	Past due > 30 days <= 90 days		Unlikely to pay that are not past-due or past-due < = 90 days	Past due > 90 day <= 180 days	Past due > 180 day <= 1 year	Past due > 1 year <= 2 years	Past due > 2 years <= 5 years	Past due > 5 years <= 7 years	Past due > 7 years	Of which: defaulted
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
1	**Loans and advances**	**482,959**	**480,734**	**2,225**	**11,454**	**5,145**	**1,756**	**1,153**	**1,231**	**1,818**	**217**	**133**	**8,300**
2	Central banks	1,372	1,372	—	—	—	—	—	—	—	—	—	—
3	General governments	635	627	8	—	—	—	—	—	—	—	—	—
4	Credit institutions	5,590	5,586	4	—	—	—	—	—	—	—	—	—
5	Other financial corporations	63,141	63,136	5	38	26	1	—	—	4	—	7	38
6	Non-financial corporations	75,275	74,979	296	3,815	2,392	443	2	2	972	4	—	3,798
7	Of which: SMEs	42,033	42,025	8	939	568	367	1	1	—	3	—	927
8	Households	336,945	335,035	1,911	7,601	2,727	1,313	1,151	1,229	843	213	126	4,465
9	**Debt securities**	**32,840**	**32,840**	**—**	**1**	**—**	**—**	**—**	**—**	**—**	**—**	**1**	**1**
11	General governments	15,026	15,026	—	—	—	—	—	—	—	—	—	—
12	Credit institutions	11,637	11,637	—	—	—	—	—	—	—	—	—	—
13	Other financial corporations	5,455	5,455	—	—	—	—	—	—	—	—	—	—
14	Non-financial corporations	722	722	—	1	—	—	—	—	—	—	1	1
15	**Off-balance-sheet exposures**	**134,654**			**636**								**366**
17	General governments	164			—								—
18	Credit institutions	38			—								—
19	Other financial corporations	10,778			5								5
20	Non-financial corporations	37,053			363								361
21	Households	86,621			268								—
22	**Total**	**650,453**	**513,574**	**2,225**	**12,091**	**5,145**	**1,756**	**1,153**	**1,231**	**1,818**	**217**	**134**	**8,667**

Pillar 1 Capital requirements: Credit risk continued

CR1: Performing and non-performing exposures and related provisions

		31 Dec 2021														
		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					
			Of which stage 1	Of which stage 2		Of which stage2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		On performing exposures	On non-performing exposures
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
1	**Loans and advances**	**481,459**	**479,771**	**39,236**	**10,637**	**2,245**	**8,391**	**(1,979)**	**(909)**	**(1,070)**	**(1,825)**	**(116)**	**(1,710)**	**(316)**	**368,731**	**6,188**
2	Central banks	1,311	1,311	—	—	—	—	—	—	—	—	—	—	—	—	—
3	General governments	661	661	—	—	—	—	—	—	—	—	—	—	—	632	—
4	Credit institutions	7,446	7,446	1	—	—	—	—	—	—	—	—	—	—	—	—
5	Other financial corporations	54,224	54,223	26	33	2	31	(4)	(3)	(1)	(10)	—	(10)	—	458	2
6	Non-financial corporations	68,971	68,684	7,282	3,737	203	3,533	(469)	(222)	(246)	(985)	(16)	(969)	(316)	44,513	636
7	Of which: SMEs	38,344	38,230	4,070	1,703	188	1,516	(218)	(76)	(142)	(111)	—	(111)	—	27,747	572
8	Households	348,846	347,446	31,928	6,867	2,039	4,827	(1,507)	(684)	(823)	(831)	(100)	(731)	—	323,128	5,550
9	**Debt securities**	**31,896**	**31,896**	**9**	**1**	**—**	**1**	**(4)**	**(4)**	**—**	**(1)**	**—**	**(1)**	**—**	**—**	**—**
11	General governments	15,794	15,794	—	—	—	—	(2)	(2)	—	—	—	—	—	—	—
12	Credit institutions	12,963	12,963	—	—	—	—	—	—	—	—	—	—	—	—	—
13	Other financial corporations	2,740	2,740	9	—	—	—	(2)	(2)	—	—	—	—	—	—	—
14	Non-financial corporations	399	399	—	1	—	1	—	—	—	(1)	—	(1)	—	—	—
15	**Off-balance-sheet exposures**	**127,488**	**123,257**	**4,231**	**509**	**353**	**157**	**(187)**	**(103)**	**(84)**	**(6)**	**(1)**	**(5)**		**7,024**	**2**
17	General governments	234	234	1	—	—	—	—	—	—	—	—	—		43	—
18	Credit institutions	56	56	—	—	—	—	—	—	—	—	—	—		11	—
19	Other financial corporations	8,892	8,889	2	4	4	1	(2)	(2)	—	—	—	—		66	—
20	Non-financial corporations	34,708	33,290	1,417	283	217	66	(80)	(41)	(38)	(5)	—	(5)		6,904	2
21	Households	83,599	80,788	2,811	222	132	90	(106)	(60)	(46)	(1)	(1)	—		—	—
22	**Total**	**640,843**	**595,885**	**43,476**	**11,147**	**2,597**	**8,549**	**(2,170)**	**(1,015)**	**(1,155)**	**(1,832)**	**(117)**	**(1,715)**	**(316)**	**375,754**	**6,190**

The table above excludes loans and advances classified as held for sale, cash balances at central banks and other demand deposits to allow calculation of the NPL ratio in line with EBA definitions.

Debt securities classified as fair value through profit and loss have also been excluded from reported Stage 1 and 2 balances.

Pillar 1 Capital requirements: Credit risk continued

CR1: Performing and non-performing exposures and related provisions (continued)

		31 Dec 2020															
		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					
			Of which stage 1	Of which stage 2		Of which stage2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		On performing exposures	On non-performing exposures
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
1	Loans and advances	482,959	424,830	57,136	11,454	2,744	8,708	(3,329)	(1,355)	(1,974)	(2,380)	(233)	(2,147)	(280)	360,393	6,586
2	Central banks	1,372	1,372	—	—	—	—	—	—	—	—	—	—	—	—	—
3	General governments	635	608	—	—	—	—	—	—	—	—	—	—	—	462	—
4	Credit institutions	5,590	5,590	—	—	—	—	(9)	(9)	—	—	—	—	—	4	—
5	Other financial corporations	63,141	62,048	609	38	24	13	(81)	(19)	(62)	(9)	—	(9)	—	689	2
6	Non-financial corporations	75,275	61,244	13,899	3,815	257	3,557	(1,100)	(464)	(636)	(1,325)	(23)	(1,303)	(280)	49,278	551
7	Of which: SMEs	42,033	36,602	5,431	939	101	838	(457)	(157)	(301)	(149)	(2)	(147)	—	32,840	471
8	Households	336,945	293,968	42,628	7,601	2,462	5,138	(2,140)	(864)	(1,276)	(1,046)	(210)	(835)	—	309,961	6,033
9	Debt securities	32,840	32,840	—	1	—	1	(5)	(5)	—	(1)	—	(1)	—	—	—
11	General governments	15,026	15,026	—	—	—	—	(1)	(1)	—	—	—	—	—	—	—
12	Credit institutions	11,637	11,637	—	—	—	—	—	—	—	—	—	—	—	—	—
13	Other financial corporations	5,455	5,455	—	—	—	—	(5)	(5)	—	—	—	—	—	—	—
14	Non-financial corporations	722	722	—	1	—	1	—	—	—	(1)	—	(1)	—	—	—
15	Off-balance-sheet exposures	134,654	127,361	7,293	636	351	285	(400)	(192)	(208)	(27)	(13)	(13)	—	8,982	11
17	General governments	164	164	—	—	—	—	—	—	—	—	—	—	—	4	—
18	Credit institutions	38	38	—	—	—	—	—	—	—	—	—	—	—	38	—
19	Other financial corporations	10,778	10,734	44	5	5	—	(6)	(6)	(1)	—	—	—	—	123	—
20	Non-financial corporations	37,053	34,208	2,845	363	167	196	(169)	(74)	(94)	(18)	(5)	(13)	—	8,813	11
21	Households	86,621	82,217	4,404	268	180	88	(224)	(111)	(113)	(9)	(9)	—	—	5	—
22	Total	650,453	585,031	64,429	12,091	3,096	8,994	(3,734)	(1,552)	(2,182)	(2,408)	(247)	(2,161)	(280)	369,375	6,597

PILLAR 1 CAPITAL REQUIREMENTS - SECURITISATION

Role

The Group is an active participant in the securitisation market, operating as an originator, a sponsor of an asset-backed commercial paper conduit and as an arranger of and an investor in third party securitisations. The Group also provides liquidity and funding facilities to both own originated and sponsored securitisations as well as to third parties.

Banking book securitisation strategy and roles

The Group's objectives in relation to banking book securitisations are to manage risk concentrations in its balance sheet, to support relationships with customers and to manage its funding requirements and capital position. It undertakes the following roles to meet these objectives:

As an originator the Group uses securitisation as a means of managing its balance sheet. Although primarily a funding tool, the Group also uses originated securitisations to generate capital efficiencies and reduce risk concentrations through the use of synthetic loan securitisations which involve the issuance of Credit Linked Notes.

Traditional originated securitisation transactions typically involve the sale of a group or portfolio of ring fenced loans to a structured entity (SE). A SE is a purposely created company within a group of companies where the ultimate holding company of the group is unrelated to the originator and is usually held by a trust. This means the Group does not legally own the SE. The originating Group company receives fees from the SE for continuing to service the loans and undertaking certain cash management activities on behalf of the SE. Traditional securitisations are typically funding driven transactions where the most junior tranches are retained by the Group meaning there is effectively no significant risk transfer of credit risk away from the Group. Instead, the vehicle serves as a diverse source of funding for the Group.

Synthetic originated securitisations typically work in a similar way to the traditional version except that the economic risk of the assets is transferred using financial guarantees with the Group retaining the risk on the senior tranches.

In 2021 the Group established the Lloyds Bank Synthetic Securitisation Note Programme and undertook a single issuance of Credit Linked Notes (CLNs). Whilst the rationale for the issuance remains the same i.e. capital efficiency and reduction of risk concentration, no SE structure is used and the Credit Linked Notes are issued directly by Lloyds Bank plc.

Where capital efficiency is sought, a test of significant risk transfer (SRT) is required. Passing the test allows the capital required on the underlying exposures to be replaced by the lower capital requirements of the retained positions in the securitisation.

Origination activities mainly extend to the Group's retail and commercial lending portfolios.

As a sponsor the Group manages and supports, through the provision of liquidity facilities, an ABCP conduit (Cancara) that invests in client receivables. Liquidity facilities provided to Cancara are risk-weighted using the internal assessment approach (IAA). The Group also holds some commercial paper (CP) issued by Cancara.

All the external assets in Cancara are consolidated for accounting purposes in the Group's financial statements, following similar accounting policies to those established for originated securitisations.

As an investor the Group invests directly in third party ABS and notes and provides liquidity facilities to other third party securitisations.

Securitisation programmes and activity

The Group's securitisation programmes are predominantly funding or collateral creation transactions, including all of the residential mortgage programmes. The Group's principal originated securitisation programmes, together with the balances of the advances subject to securitisation and the carrying value of the notes in issue as at 31 December, are outlined in Note 25 (Securitisations and covered bonds) of the 2021 Lloyds Bank plc Annual Report and Accounts.

No securitisation transactions undertaken during the year were recognised as sales.

During the year, two SRTs were issued:

- Fontwell II, the second issuance utilising Agricultural Mortgage loans, successfully priced during December 2020, and closed on 6th January 2021. With a portfolio size of £1.8bn, at closing the transaction delivered day one RWA relief of £0.6 billion. The transaction was then upsized during March 2021 by utilising existing headroom within pre-approved parameters. This achieved improved RWA relief from £0.6 billion to £0.7billion.
- Salisbury IV, being the fifth transaction in the CB SRT SME franchise, successfully priced during December 2021 and closed on 15th December 2021. With a portfolio size of £1.8 billion, at closing the transaction provided £1 billion day one RWA relief. It is the first synthetic securitisation to be structured as a direct CLN issuance from Lloyds Bank plc (see note above on Lloyds Bank Synthetic Securitisation Note Programme).

Simple, transparent and standardised (STS) securitisations

The revised securitisation framework permits differentiated capital treatment for positions which qualify as STS (CRR Article 242 (10)). As at 31 December 2021 the Group had a small number of STS positions in its role as an Investor and Sponsor.

Risks inherent in banking book securitised assets

Where the Group acts as originator its securitisation programmes primarily include residential mortgage portfolios, credit card portfolios, auto-loan portfolios and commercial loan portfolios. In each case credit risk is the primary risk driver attached to the underlying asset pool. Assets securitised are originated from the Group's UK operations.

The performance of the securitised assets is largely dependent on prevailing economic conditions, and in the case of residential mortgage assets, the health of the UK housing market. The likelihood of defaults in the underlying asset pool and the amounts that may be recovered in the event of default are related to a number of factors and may vary according to characteristics, product type, security, collateral and customer support initiatives. Significant changes in the national or international economic climate, regional economic or housing conditions, tax laws, interest rates, inflation, the availability of financing, yields on alternative investments, political developments and government policies or in the health of a particular geographic zone that represents a concentration in the securitised assets, could also affect the cashflows from the underlying asset pool.

Pillar 1 Capital requirements: Securitisation continued

Liquidity risk arises where insufficient funds are received by the SE to service payments to the noteholders as they fall due. The receipt of funds is in part dependent on the level of repayment on the underlying asset pool. In general, where such a situation arises noteholders may not be paid in full and amounts may be deferred to subsequent periods. Such deferred amounts will be due but not payable until funds become available in accordance with the relevant priority of payments as set out in the programme documentation. Variations in the rate of prepayment of principal on the underlying loans may affect each series and class of notes differently.

In addition, both the notes in issue and the underlying asset pool are exposed to interest rate risk and, in certain cases, may be subject to foreign exchange risk.

Where the Group holds notes in a securitisation it is exposed to the credit performance of the underlying asset pool, the impact of interest rates and, in some cases, foreign exchange volatility on the value of the notes, and to the seniority of the notes held, the latter of which determines the extent to which the Group would suffer any loss as a result of a shortfall in funds received by the SE.

Monitoring changes in the credit risk of securitised exposures

The Group employs a range of measures to monitor changes in the credit risk of securitised assets. These include monitoring on a monthly basis of current exposures in the underlying pool (including credit events, default history and disposals), together with data tracking collateral cover and loan repayments which are tracked from the original amount advanced.

Monitoring changes in the credit risk of ABS portfolios

ABS exposures reside primarily in the residual run-off portfolio managed by the Specialist Non-Strategic Assets team within Business Strategy & Client Solutions. The Group also holds some small ABS exposures for liquidity coverage ratio (LCR) purposes which are managed by the Liquid Asset Portfolio team. Each team is therefore responsible for the monitoring of changes in the credit risk of ABS within its portfolio.

A credit review process will also be triggered where an ECAI applies a significant downgrade to a bond.

The Specialist Finance Credit (SFC) team provides an independent risk oversight for ABS credit reviews. It provides each ABS transaction with a credit risk classification (ranging from good to substandard), as well as sanctioning credit limits either locally or by referral to the credit committee.

Furthermore, additional monitoring measures are applied: quarterly watch list (including a review of downgraded bonds), stress testing of portfolios and in the case of the Liquid Asset Portfolio a quarterly risk review forum is also conducted.

Pillar 1 Capital requirements: Securitisation continued

Securitisation

Banking book securitisation analysis

The table below discloses the Group's retained and purchased positions across the non-trading book by exposure type and role.

SEC1: Securitisation exposures in the non-trading book

		31 Dec 2021														
		Institution acts as originator							Institution acts as sponsor				Institution acts as investor			
		Traditional				Synthetic		Sub-total	Traditional		Synthetic	Sub-total	Traditional		Synthetic	Sub-total
		STS	of which SRT	Non-STS	of which SRT		of which SRT		STS	Non-STS			STS	Non-STS		
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
1	**Total exposures**	—	—	—	—	12,669	12,669	12,669	993	3,405	—	4,398	1,995	6,547	—	8,542
2	Retail (total)	—	—	—	—	—	—	—	796	2,684	—	3,481	1,895	4,844	—	6,739
3	residential mortgage	—	—	—	—	—	—	—	—	306	—	306	—	2,496	—	2,496
5	other retail exposures	—	—	—	—	—	—	—	796	2,378	—	3,175	1,895	2,348	—	4,243
7	Wholesale (total)	—	—	—	—	12,669	12,669	12,669	197	721	—	918	100	1,703	—	1,803
8	loans to corporates	—	—	—	—	7,652	7,652	7,652	—	—	—	—	—	205	—	205
9	commercial mortgage	—	—	—	—	2,122	2,122	2,122	—	—	—	—	—	487	—	487
10	lease and receivables	—	—	—	—	—	—	—	197	644	—	841	—	677	—	677
11	other wholesale	—	—	—	—	2,895	2,895	2,895	—	77	—	77	100	334	—	434

Pillar 1 Capital requirements: Securitisation continued

SEC1: Securitisation exposures in the non-trading book (continued)

31 Dec 2020

	Institution acts as originator							Institution acts as sponsor				Institution acts as investor			
	Traditional				Synthetic		Sub-total	Traditional		Synthetic	Sub-total	Traditional		Synthetic	Sub-total
	STS	of which SRT	Non-STS	of which SRT		of which SRT		STS	Non-STS			STS	Non-STS		
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
1 **Total exposures**	—	—	—	—	10,949	10,949	10,949	811	4,914	—	5,725	2,064	5,664	—	7,727
2 Retail (total)	—	—	—	—	—	—	—	811	2,935	—	3,746	1,964	4,338	—	6,302
3 residential mortgage	—	—	—	—	—	—	—	—	306	—	306	—	2,461	—	2,461
5 other retail exposures	—	—	—	—	—	—	—	811	2,629	—	3,440	1,964	1,878	—	3,842
7 Wholesale (total)	—	—	—	—	10,949	10,949	10,949	—	1,979	—	1,979	100	1,325	—	1,425
8 loans to corporates	—	—	—	—	7,329	7,329	7,329	—	—	—	—	—	195	—	195
9 commercial mortgage	—	—	—	—	726	726	726	—	—	—	—	—	487	—	487
10 lease and receivables	—	—	—	—	—	—	—	—	1,506	—	1,506	—	300	—	300
11 other wholesale	—	—	—	—	2,895	2,895	2,895	—	473	—	473	100	343	—	443

Key movements:

Originator - The increase of £1.7bn in the year is mainly due to the issuance of 2 new SRTs (further details of these can be found in the commentary above).

Sponsor - The decrease of £1.3bn in the year is primarily due to a net decrease in liquidity facilities provided to the Cancara conduit. This is a result of reduced and matured positions partially offset by new and increased client transactions.

Pillar 1 Capital requirements: Securitisation continued

ORIGINATED SECURITISATIONS

Regulatory treatment

In deriving credit risk exposures associated with originated securitisations, the Group takes into account that certain securitised assets, whilst held on the balance sheet for accounting purposes, are deemed to have met the prudential SRT tests when securitised. Meeting these tests allows the retained positions in the securitisations to be included within regulatory calculations, and the risk-weighted assets on the exposures underlying the securitisation to be removed. Where the minimum requirements for recognition of SRT are not met, the underlying exposures remain part of the relevant exposure class and are risk-weighted accordingly.

Capital requirements in relation to originated securitisation positions are determined under the SEC-IRBA, the SEC-SA and the SEC-ERBA approaches. For synthetic securitisations any maturity mismatch between the credit protection and securitised exposures is treated in line with CRR Article 252.

On a regulatory basis, the gross securitised exposures in relation to originated securitisations where significant risk transfer is achieved amounted to £12.7 billion (2020: £10.9 billion) comprising synthetic originated securitisations. An analysis is provided in SEC4: Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as an investor.

Originated securitisations subject to the Securitisation Internal Ratings Based Approach (SEC-IRBA)

Under the SEC-IRBA the risk weight is determined by the capital requirement for the underlying assets, as calculated under the IRB approach, tranche thickness and maturity, the number of loans securitised and their loss given default.

As at 31 December 2021, securitisation positions arising from origination activities and risk-weighted under the SEC-IRBA amounted to £10.5 billion (2020: £10.2 billion), generating a capital requirement of £175 million (2020: £156 million). The increase was primarily due to the issuance of Salisbury IV, more details of which can be found in the commentary above.

Originated Securitisations subject to the Securitisation Standardised approach (SEC-SA)

The risk weight for SEC-SA is based on a supervisory formula and the capital requirement for the underlying assets as calculated under the standardised approach for credit risk, tranche thickness and the ratio of delinquent to total exposures. As at 31 December 2021, securitisation positions arising from origination activities and risk-weighted under the SEC-SA amounted to £1.4 billion (2020: £0.5 billion) generating a capital requirement of £34m (2020: £12 million). The increase was primarily due to the issuance of Fontwell II, more details of which can be found in the commentary above.

Originated Securitisations subject to the Securitisation External Ratings Based Approach (SEC-ERBA)

The SEC-ERBA approach calculates a risk weight with reference to the external rating of the securitisation, seniority of the tranche, tranche thickness and tranche maturity. As at 31 December 2021, securitisation positions arising from origination activities and risk-weighted under the SEC-ERBA amounted to £0.7 billion (2020: £0.2 billion) generating a capital requirement of £45 million (2020: £16 million). The increase was primarily due to the issuance of Fontwell II, more details of which can be found in the commentary above.

Accounting treatment

From an accounting perspective, the treatment of SEs is assessed in accordance with IFRS 10 which establishes the principles for when the Group is deemed to control another entity and therefore required to consolidate it through the Group's financial statements.

Under IFRS 10, the Group controls an entity where it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through the exercise of power.

Where the transfer of the Group assets to an SE that it controls fails the 'derecognition' accounting tests under IFRS 9, the transferred assets remain on the Group's balance sheet for accounting purposes. These assets are classified as financial assets measured at amortised cost on the balance sheet and the notes issued (excluding those held by the Group) are classified as debt securities in issue, which are also measured at amortised cost.

Securitised assets (which may include a fully proportionate share of all or specifically identified cash flows of assets) are only derecognised where the following conditions are met:

– the Group has transferred the contractual rights to receive the cash flows or assumed a contractual obligation to pay cash flows to a third party; and

– substantially all of the risks and rewards associated with the assets have been transferred in which case they are derecognised in full; or

– a significant proportion but not all of the risks and rewards have been transferred, in which case the assets are either derecognised in full where the transferee has the ability to sell the assets or continue to be recognised by the Group but only to the extent of its continuing involvement.

A securitisation transaction is recognised as a sale or partial sale where derecognition is achieved. The difference between the carrying amount and the consideration received is recorded in the income statement. Securitisation transactions that do not achieve derecognition are treated as financing arrangements. The Group's securitised residential mortgages and commercial banking loans are not typically derecognised because the Group retains substantially all the risks and rewards associated with the underlying portfolios of assets. In addition, for many of these assets, the Group has not transferred the contractual rights to receive the cash flows or assumed a contractual obligation to pay the cash flows to a third party. Where internal transactions between the banking group and the insurance group achieve accounting derecognition from the underlying banking subsidiary balance sheet, the assets continue to be fully consolidated from a Group perspective but may achieve derecognition under the regulatory scope of consolidation. Synthetic securitisations, where financial guarantees are used to transfer the economic risk of the underlying assets, but the Group retains legal ownership of the assets, are accounted for under similar accounting policies to those summarised above, with the associated credit protection accounted for under the requirements of IFRS 9.

Liquidity lines provided to conduits are accounted for in accordance with the accounting policies set out in the 2021 Lloyds Bank plc Annual Report and Accounts.

The Group's retained and purchased securitisation positions are valued for accounting purposes in accordance with the Group's accounting policies as outlined on Note 2(E) (Accounting Policies: Financial Assets and Liabilities) of the 2021 Lloyds Bank plc Annual Report and Accounts.

For those positions measured at fair value, further details on the valuation methodologies applied are outlined in Note 41(2) (Financial Instruments: Fair Value measurement) of the 2021 Lloyds Bank plc Annual Report and Accounts.

Pillar 1 Capital requirements: Securitisation continued

Use of financial guarantees

Synthetic securitisations, covering social housing associations, other loans to corporates and SMEs and owner-occupied residential mortgages, involve the provision of protection to the Group through a combination of financial guarantees and credit protection agreements with the SE, established under the transactions, that results in a net protected position of a junior tranche of the securitised portfolio. The SE, or Lloyds Bank plc via the Lloyds Bank Synthetic Securitisation Note Programme, issues CLNs to pass on the risk associated with the net protected position to third party investors who primarily include other institutions and professional investors.

The Group does not typically make use of hedging against securitisation positions.

SPONSORED SECURITISATIONS

Cancara – summary of activity

Cancara	
General description	Cancara was established in 2002 by Lloyds Bank. It provides financing facilities to the Group's core corporate and financial institution clients, funded by ABCP.
Programme limit/CP outstanding as at 31 December 2021	$20.0bn/$2.16bn (£14.8bn/£1.6bn)
Conduit structure	Fully supported multi-seller
Credit enhancement	Full support liquidity
Liquidity provider	Lloyds Bank Plc and Bank of Scotland Plc

Structure and liquidity facilities

Cancara Asset Securitisation Limited is an ABCP conduit that buys assets from clients of the Group. The conduit funds the purchase of the assets primarily by issuing ABCP. Cancara Asset Securitisation LLC is a separate bankruptcy remote, special purpose limited liability company established to co-issue US Dollar domestic CP with Cancara Asset Securitisation Limited.

Assets purchased relate to pools of third party receivables.

A number of intermediary special purpose entities within the conduit structure are used to purchase the assets. Each purchasing company enters into a commissioning agreement with the issuer, which then advances funds to the purchasing company to buy the assets. The purchasing company issues a purchaser demand note to the issuer which benefits from security over the assets.

For each new asset purchase, Cancara enters into a liquidity facility with the Group, to cover the repayment of the ABCP notes. In the absence of market disruption the conduit will usually look to fund through issuing ABCP. Certain liquidity facilities supporting the program are drawn to provide funding alongside the proceeds of ABCP issuance.

Cancara Assets

All the external assets in the conduit are consolidated for accounting purposes in the Group's financial statements, following similar accounting policies to those established for originated securitisations. The total consolidated assets in the conduits are set out in Note 40 (Structured entities) of the 2021 Lloyds Bank plc Annual Report and Accounts.

Capital assessment

With regard to sponsored activities, the Group has approval to utilise the IAA for calculating capital requirements for the liquidity facilities provided to the conduit purchasing companies.

The Group's IAA model is a proprietary credit rating system. This model generates a rating equivalent to an external rating. This rating then feeds the SEC-ERBA in order to calculate the capital requirement.

The model consists of a number of scorecards, one for each asset class. Unlike the Group's Foundation and Retail IRB models, the ABCP IAA model does not estimate the PD for the exposure, but instead is used to determine a model rating grade equivalent to an ECAI grade. The internal rating methodology must reflect the ECAI's methodology. Periodically, ECAIs publish updates to their methodologies relating to different asset classes. The Securitised Products Group monitors rating agency updates and undertakes assessment to confirm that all relevant changes to rating methodologies have been reflected in the cashflow modelling and the IAA model.

Stress factor inputs play an important part in determining the rating of a transaction. Depending on the level of credit enhancement, the stress factor contributes towards the final rating a transaction would receive from an ECAI taking into account 'stressed scenarios' on the level of cash-flows generated by the underlying pool of assets.

The sponsored receivables facilities are modelled using a stress factor input which reflects the ability of the transaction to withstand a significant deterioration in the asset quality and is a through-the-cycle measure that is applied to a base case default rate. To determine the base case default rate historic loss data is used. For example, in its approach Standard & Poor's incorporates additional analysis into historic loss data to mitigate any effects of recent changes with the result that in many cases the base case loss rate assumed is above the historical average.

The model is subject to a robust governance framework. In line with the Group Model Governance Policy, the Group undertakes an Annual Review to ensure that the model remains compliant with the requirements of CRR (Article 265) which establishes the criteria that must be met in order to apply the IAA to exposures relating to programmes such as liquidity facilities.

Pillar 1 Capital requirements: Securitisation continued

SEC3: Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as originator or as sponsor

		31 Dec 2021																
		Exposure values (by RW bands/deductions)					Exposure values (by regulatory approach)				RWEA (by regulatory approach)				Capital charge after cap			
		≤20% RW	>20% to 50% RW	>50% to 100% RW	>100% to <1250% RW	1250% RW/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250%/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250%/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250%/ deductions
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
1	**Total exposures**	**10,723**	**5,330**	**950**	**64**	**—**	**10,547**	**5,080**	**1,440**	**—**	**2,188**	**1,420**	**424**	**—**	**175**	**114**	**34**	**—**
2	**Traditional transactions**	**3,607**	**459**	**332**	**—**	**—**	**—**	**4,398**	**—**	**—**	**—**	**854**	**—**	**—**	**—**	**68**	**—**	**—**
3	**Securitisation**	**3,607**	**459**	**332**	**—**	**—**	**—**	**4,398**	**—**	**—**	**—**	**854**	**—**	**—**	**—**	**68**	**—**	**—**
4	Retail underlying	3,175	306	—	—	—	—	3,481	—		—	574	—		—	46	—	—
5	Of which STS	796	—	—	—	—	—	796	—		—	80	—		—	6	—	—
6	Wholesale	433	153	332	—	—	—	918	—		—	280	—		—	22	—	—
7	Of which STS	197	—	—	—	—	—	197	—		—	20	—		—	2	—	—
9	**Synthetic transactions**	**7,116**	**4,871**	**618**	**64**	**—**	**10,547**	**682**	**1,440**	**—**	**2,188**	**567**	**424**	**—**	**175**	**45**	**34**	**—**
10	**Securitisation**	**7,116**	**4,871**	**618**	**64**	**—**	**10,547**	**682**	**1,440**	**—**	**2,188**	**567**	**424**	**—**	**175**	**45**	**34**	**—**
12	Wholesale	7,116	4,871	618	64	—	10,547	682	1,440		2,188	567	424		175	45	34	—

Pillar 1 Capital requirements: Securitisation continued

SEC3: Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as originator or as sponsor (continued)

31 Dec 2020

	Exposure values (by RW bands/deductions)					Exposure values (by regulatory approach)				RWEA (by regulatory approach)				Capital charge after cap			
	≤20% RW	>20% to 50% RW	>50% to 100% RW	>100% to <1250% RW	1250% RW/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250%/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250%/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250%/ deductions
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
1 Total exposures	12,185	3,411	1,037	41	—	10,224	5,939	512	—	1,951	1,749	151	—	156	140	12	—
2 Traditional transactions	3,738	1,175	772	41	—	—	5,725	—	—	—	1,555	—	—	—	124	—	—
3 Securitisation	3,738	1,175	772	41	—	—	5,725	—	—	—	1,555	—	—	—	124	—	—
4 Retail underlying	3,216	530	—	—	—	—	3,746	—		—	643	—		—	51	—	—
5 Of which STS	811	—	—	—	—	—	811	—		—	81	—		—	6	—	—
6 Wholesale	522	644	772	41	—	—	1,979	—		—	912	—		—	73	—	—
7 Of which STS	—	—	—	—	—	—	—	—		—	—	—		—	—	—	—
9 Synthetic transactions	8,447	2,237	266	—	—	10,224	214	512	—	1,951	194	151	—	156	16	12	—
10 Securitisation	8,447	2,237	266	—	—	10,224	214	512	—	1,951	194	151	—	156	16	12	—
12 Wholesale	8,447	2,237	266	—	—	10,224	214	512		1,951	194	151		156	16	12	—

Pillar 1 Capital requirements: Securitisation continued

SEC5: Exposures securitised by the institution - Exposures in default and specific credit risk adjustments

		31 Dec 2021			31 Dec 2020		
		Exposures securitised by the institution - Institution acts as originator or as sponsor			Exposures securitised by the institution - Institution acts as originator or as sponsor		
		Total outstanding nominal amount	Of which exposures in default	Total amount of specific credit risk adjustments made during the period	Total outstanding nominal amount	Of which exposures in default	Total amount of specific credit risk adjustments made during the period
		£m	£m	£m	£m	£m	£m
1	**Total exposures**	**14,092**	**67**	**(22)**	12,055	80	1
7	Wholesale (total)	14,092	67	(22)	12,055	80	1
8	loans to corporates	8,698	63	(22)	8,217	76	1
9	commercial mortgage	2,394	4	—	841	4	—
11	other wholesale	3,000	—	—	2,997	—	—

Pillar 1 Capital requirements: Securitisation continued

INVESTED SECURITISATIONS

Direct investments and liquidity facilities

In addition to sponsoring an ABCP conduit, the Group has invested directly in third party ABS and notes and is a provider of liquidity facilities to other third party securitisations. Key movements in Investor positions were a result of new financing facilities, offset by terminations and amortisations during the year.

The majority of these direct investments are accounted for as loans and receivables on the balance sheet and held at amortised cost, with the remainder held at fair value through other comprehensive income or at fair value through profit or loss. Further details on the Group's holding of ABS are presented on in Note 44(c) (Financial Risk Management: Credit Quality of Assets) of the 2021 Lloyds Banking Group plc Annual Report and Accounts.

Invested securitisations

Capital requirements in relation to invested securitisations are calculated using the SEC-SA or SEC-ERBA. The risk weight for SEC-SA is based on a supervisory formula and the capital requirement for the underlying assets as calculated under the standardised approach for credit risk, tranche thickness and the ratio of delinquent to total exposures. The SEC-ERBA approach calculates a risk weight with reference to the external rating of the securitisation, seniority of the tranche, tranche thickness and tranche maturity.

As at 31 December 2021, securitisation positions relating to the Group's direct investments in third party ABS and notes and the provision of liquidity facilities to third party securitisations risk weighted under the SEC-SA, amounted to £6.8 billion (2020: £5.8 billion) and under the SEC-ERBA amounted to £1.7 billion (2020: £1.9 billion). This includes £2 billion (2020: £2 billion) exposure (capital requirement £17 million (2020: £16 million)) related to STS positions.

Pillar 1 Capital requirements: Securitisation continued

SEC4: Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as investor

31 Dec 2021

		Exposure values (by RW bands/deductions)					Exposure values (by regulatory approach)				RWEA (by regulatory approach)				Capital charge after cap			
		≤20% RW	>20% to 50% RW	>50% to 100% RW	>100% to <1250% RW	1250% RW/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250%/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250%/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250%/ deductions
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
1	**Total exposures**	**7,919**	**524**	**84**	**15**	**—**	**—**	**1,707**	**6,835**	**—**	**—**	**302**	**1,038**	**—**	**—**	**24**	**83**	**—**
2	Traditional securitisation	7,919	524	84	15	—	—	1,707	6,835	—	—	302	1,038	—	—	24	83	—
3	Securitisation	7,919	524	84	15	—	—	1,707	6,835	—	—	302	1,038	—	—	24	83	—
4	Retail underlying	6,289	450	—	—	—	—	1,609	5,130	—	—	211	768	—	—	17	61	—
5	Of which STS	1,895	—	—	—	—	—	926	969	—	—	93	106	—	—	7	9	—
6	Wholesale	1,630	74	84	15	—	—	98	1,704	—	—	91	270	—	—	7	22	—
7	Of which STS	100	—	—	—	—	—	—	100	—	—	—	10	—	—	—	1	—

31 Dec 2020

		Exposure values (by RW bands/deductions)					Exposure values (by regulatory approach)				RWEA (by regulatory approach)				Capital charge after cap			
		≤20% RW	>20% to 50% RW	>50% to 100% RW	>100% to <1250% RW	1250% RW/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250%/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250%/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250%/ deductions
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
1	**Total exposures**	7,204	295	222	6	—	—	1,910	5,817	—	—	428	837	—	—	34	67	—
2	Traditional securitisation	7,204	295	222	6	—	—	1,910	5,817	—	—	428	837	—	—	34	67	—
3	Securitisation	7,204	295	222	6	—	—	1,910	5,817	—	—	428	837	—	—	34	67	—
4	Retail underlying	6,109	193	—	—	—	—	1,682	4,620	—	—	218	655	—	—	17	52	—
5	Of which STS	1,964	—	—	—	—	—	912	1,051	—	—	91	105	—	—	7	8	—
6	Wholesale	1,095	102	222	6	—	—	228	1,197	—	—	210	183	—	—	17	15	—
7	Of which STS	100	—	—	—	—	—	—	100	—	—	—	10	—	—	—	1	—

PILLAR 1 CAPITAL REQUIREMENTS - COUNTERPARTY CREDIT RISK

DEFINITION

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 derivatives and repo contracts.

INTERNAL CAPITAL AND CREDIT LIMITS

The maximum credit risk appetite for counterparties is determined through a combination of credit quality (expressed as an internal credit rating) and size (measured by its capital and reserves). In general, activity of the Group is conducted with counterparties that have internal obligor ratings equivalent to investment grade as measured by external credit rating agencies.

Internal obligor ratings are mapped to modelled PDs, which when combined with LGDs and EADs determine EL. To calculate EAD, values for derivative products are determined by using the mark-to-market methodology for regulatory purposes and internally developed models for limit management.

Additionally a number of product specific, obligor quality limit guidelines and counterparty specific policies also serve to determine risk management and credit limit setting. Once commercial approval has been obtained for a counterparty, credit limits are established through the Group's credit approval framework on the basis of the projected maximum PFE of anticipated derivative transaction volumes, based on 95th percentile assumptions.

Credit limits are set by product and reflect documentation held for netting or collateral management purposes. Outstanding exposures are calculated on a PFE basis, based upon the transaction characteristics and documentation.

SECURING COLLATERAL AND ESTABLISHING CREDIT RESERVES

Use is made of collateral and risk mitigation techniques to reduce credit risks in various portfolios. These include the use of collateral (principally cash, which is largely applied to central governments or central banks and institution exposures; government securities and guarantees), break clauses and netting. A significant amount of derivative exposure is cleared at Qualified Central Counterparties (QCCPs), which replaces exposure to individual counterparties with an exposure against the Central Counterparty (CCP).

Policy is set governing types of acceptable collateral and haircuts, in line with industry practice.

Collateral arrangements are governed by standard agreements (such as Global Master Repurchase Agreements and Credit Support Annexes (CSA) to International Swaps and Derivative Association (ISDA) Master Agreements). It is policy that appropriate documentation is put in place for all clients prior to trading, any exceptions being subject to specific approval from the appropriate Credit Sanctioner. Policy also defines minimum acceptable requirements for the negotiation of ISDA and CSA documentation. Derivative transactions with financial counterparties are typically collateralised under a Credit Support Annex (CSA) in conjunction with the International Swaps and Derivatives Association (ISDA) Master Agreement. Derivative transactions with non-financial customers are not usually supported by a CSA.

To recognise the effects of credit risk mitigation, any agreements must be valid, enforceable, unconditional and irrevocable. In addition, collateral must be transferred to the bank through the passing of title and should be offset on a portfolio by portfolio basis. Once these conditions are met, the effect of collateral received is reflected in reductions to all applicable credit exposures and in capital adequacy calculations.
Collateral received is reviewed daily to ensure quality is maintained and concentrations are avoided as necessary.

MASTER NETTING AGREEMENTS

It is credit policy that a Group-approved master netting agreement must be used for all derivative and traded product transactions and must be in place prior to trading, with separate documentation required for each Group entity providing facilities. This requirement extends to trades with clients and the counterparties used for the Bank's own hedging activities, which may also include clearing trades with Central Counterparties (CCPs).Any exceptions must be approved by the appropriate credit sanctioner. Master netting agreements do not generally result in an offset of balance sheet assets and liabilities for accounting purposes, as transactions are usually settled on a gross basis. However, within relevant jurisdictions and for appropriate counterparty types, master netting agreements do reduce the credit risk to the extent that, if an event of default occurs, all trades with the counterparty may be terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting agreements can change substantially within a short period, since this is the net position of all trades under the master netting agreement.

COLLATERAL REQUIREMENTS IN THE EVENT OF A DOWNGRADE IN CREDIT RATING

The Group has a number of rating dependent contracts that would trigger cash and collateral outflows in the event of a credit rating downgrade.

The Group manages the impact of such an eventuality by holding sufficient levels of liquidity for these outflows through both its liquidity coverage ratio and internal liquidity stress tests, which continue to exceed the regulatory minimum and internal risk appetite.

CORRELATION (WRONG WAY) RISK

The Group seeks to avoid correlation or wrong-way risk where possible. Under the Group's repurchase (repo) policy, the issuer of the collateral and the repo counterparty should be neither the same nor connected. The same rule applies for derivatives. The Risk division has the necessary discretion to extend this rule to other cases where there is significant correlation. Countries with a rating equivalent to AA- or better may be considered to have no adverse correlation between the counterparty domiciled in that country and the country of risk (issuer of securities).

DERIVATIVE VALUATION ADJUSTMENTS

Details on the application of derivative valuation adjustments, including Credit and Debit Valuation Adjustments (CVA and DVA), are provided in Note 41 (Financial Instruments) of the 2021 Lloyds Bank plc Annual Report and Accounts.

Pillar 1 Capital requirements: Counterparty credit risk continued

Risk-weighted assets flow statements of CCR exposures[1,2]

	RWA amount	Capital requirements
	£m	£m
RWA as 31 December 2020	**2,488**	**199**
Asset Size	**(555)**	**(44)**
Asset quality	**(433)**	**(35)**
Model updates	**—**	**—**
Methodology and policy	**—**	**—**
Acquisitions and disposals	**—**	**—**
Foreign exchange movements	**(36)**	**(3)**
Other	**—**	**—**
RWA as at 31 December 2021	**1,464**	**117**

1 There are no exposures under the Internal Model Method requiring analysis under EBA template CCR7. The Group has elected to include the above risk-weighted assets flow statement of total CCR as a supplementary disclosure.

2 CCR includes movements in contributions to the default fund of central counterparties and movements in credit valuation adjustment risk.

Key movements

– Risk weighted assets decreased by £1 billion primarily due to movements in market rates during the period.

COUNTERPARTY CREDIT RISK EXPOSURES

Counterparty credit risk exposures are stated on an EAD post CRM basis throughout this section, unless otherwise stated.

CCR: analysis by measurement approach

	31 Dec 2021	31 Dec 2020
	EAD post CRM	EAD post CRM
	£m	£m
CCR standardised approach	**—**	—
CCR mark-to-market method	**1,644**	2,500
CCR internal model method	**—**	—
SFT comprehensive approach	**18,271**	13,767
CCR central counterparty	**3,245**	4,735
Contributions to the default fund of a central counterparty	**123**	242
Total	**23,283**	21,244

Key movements

– SFT exposure increased by £4.5 billion mainly due to trading under the Term Funding Scheme with additional incentives for SMEs (TFSME).

– CCR central counterparty exposure decreased by £1.5 billion mainly due to trade optimisation.

Pillar 1 Capital requirements: Counterparty credit risk continued

CCR1: Analysis of CCR exposure by approach[3]

The methods and parameters used to calculate the CCR regulatory requirements are presented in the table below.

	31 Dec 2021						
	Notional	Replacement cost/current market value [1]	Potential future credit exposure [1]	Effective expected positive exposure (EEPE)	Multiplier	EAD Post CRM [2]	RWAs
	£m	£m	£m	£m	x	£m	£m
1 Mark to Market		1,350	693			1,644	895
9 Financial collateral comprehensive method (for SFTs)						18,271	200
1 **Total**	—	1,350	693	—	—	19,915	1,095

	31 Dec 2020						
	Notional	Replacement cost/current market value[1]	Potential future credit exposure[1]	Effective expected positive exposure (EEPE)	Multiplier	EAD Post CRM[2]	RWAs
	£m	£m	£m	£m	x	£m	£m
1 Mark to Market		2,237	887			2,500	1,436
9 Financial collateral comprehensive method (for SFTs)						13,767	305
1 **Total**	—	2,237	887	—	—	16,267	1,740

1 Replacement cost and PFE have been reported on a net basis where a netting agreement is in place (collateral is deducted from the replacement cost).
2 Exposure values of £0.5 billion subject to CVA are embedded in this section, the CVA risk-weighted assets are excluded from this table.
3 CCP exposures and charges are excluded from this table. For CCP balances please refer to CCR8: Exposures to CCPs.

Key movements

– Financial collateral comprehensive method (for SFTs) increased by £4.5bn EAD mainly driven by exposure to the Term Funding Scheme with additional incentives for SMEs (TFSME) and also other smaller movements.

CCR8: Exposures to CCPs

An analysis of the group's exposures to CCPs and related capital requirements are shown in this table.

	31 Dec 2021		31 Dec 2020	
	EAD post CRM	RWA	EAD post CRM	RWA
	£m	£m	£m	£m
1 **Exposures to QCCPs (total)**	3,368	162	4,976	393
2 Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	3,145	66	4,630	96
3 (i) OTC derivatives	2,996	61	4,465	89
4 (ii) Exchange-traded derivatives	129	5	164	7
5 (iii) SFTs	20	—	1	—
8 Non-segregated initial margin	100	2	104	2
9 Prefunded default fund contributions	123	94	242	295
1 **Exposures to non-QCCPs (total)**	—	—	—	—

Key movements

- OTC derivatives exposure decrease of £1.5 billion is driven mainly by trade optimisation.
- Decrease in EAD and RWA regarding the Prefunded default fund contributions is predominately driven by reduction in the contribution to LCH SwapClear.

Pillar 1 Capital requirements: Counterparty credit risk continued

CCR2: Credit valuation adjustment (CVA) capital charge[1]

		31 Dec 2021		31 Dec 2020	
		EAD post CRM £m	RWA £m	EAD post CRM £m	RWA £m
4	All portfolios subject to the Standardised Method	515	207	630	355
5	**Total subject to the CVA capital charge**	**515**	**207**	630	355

1 The CVA exposures disclosed in this table are embedded in the exposures reported in CCR1: Analysis of CCR exposure by approach.

COUNTERPARTY CREDIT RISK EXPOSURES: ANALYSIS BY EXPOSURE CLASS

An analysis of counterparty credit risk exposures by exposure class is presented in the table below.

CCR: analysis by exposure class

	31 Dec 2021		31 Dec 2020	
	EAD post CRM £m	RWA £m	EAD post CRM £m	RWA £m
Foundation IRB approach				
Corporate – main	947	373	2,002	724
Corporate – SME	1	1	2	2
Central governments or central banks	124	9	1,587	94
Institutions	1,568	299	837	288
Other IRB approach				
Corporate – specialised lending[1]	543	399	828	614
Total IRB approach	**3,184**	**1,082**	5,256	1,723
Exposures subject to the standardised approach			—	—
Central governments or central banks	16,702	—	10,883	—
Multilateral development banks	—	—	—	—
International organisations	—	—	93	—
Institutions	3,257	74	4,737	99
Corporates	15	8	33	17
Total standardised approach	**19,975**	**82**	15,746	116
Contributions to the default fund of a Central Counterparty	123	94	242	295
Credit valuation adjustment[2]		207		355
Total	**23,282**	**1,464**	21,244	2,488

1 Exposures subject to the IRB Supervisory Slotting Approach.

2 CVA exposure values of £2.5bn (2020: £2.7bn) are embedded in the exposure class analysis above.

Key movements

- Exposures to Central governments or central banks subject to the Standardised approach increased by £5.8 billion EAD predominately attributable to trading under the Term Funding Scheme with additional incentives for SMEs (TFSME).
- Exposures to Central governments or central banks subject to the IRB approach decreased by £1.5 billion EAD driven by SFT trading with various counterparties.
- Exposures to Institutions subject to the Standardised approach decreased by £1.5 billion EAD mainly driven by trade optimisation with QCCPs.

Pillar 1 Capital requirements: Counterparty credit risk continued

COUNTERPARTY CREDIT RISK EXPOSURES: FURTHER ANALYSIS OF IRB EXPOSURES

Further analysis, by PD Grade, of counterparty credit risk exposures subject to the Foundation IRB Approach and the IRB Supervisory Slotting Approach are provided in the tables below.

Throughout this section 'RWA density' represents the average risk weight.

CCR4: IRB – Credit risk exposures by portfolio and PD range – Corporates Main

	31 Dec 2021						
	EAD post CRM	Average PD	Number of obligors	Average LGD	Average Maturity (years)	RWA	RWA density
PD Scale	£m	%		%		£m	%
0.00 to <0.15	638	0.08%	176	40.7%	4.0	215	33.6%
0.15 to <0.25	143	0.18%	41	45.0%	0.1	40	27.9%
0.25 to <0.50	92	0.29%	262	45.0%	0.2	36	39.3%
0.50 to <0.75	36	0.63%	68	36.4%	4.7	32	88.5%
0.75 to <2.50	6	1.19%	91	45.0%	1.6	5	91.3%
2.50 to <10.00	31	3.20%	64	45.0%	2.6	43	139.1%
10.00 to <100.00	—	17.80%	6	45.0%	2.5	1	232.6%
100.00 (Default)	—	100.00%	8	45.0%	1.8	—	—
Sub-total	**947**	**0.29%**	**716**	**41.7%**	**3.0**	**372**	**39.3%**

	31 Dec 2020						
	EAD post CRM	Average PD	Number of obligors	Average LGD	Average Maturity (years)	RWA	RWA density
PD Scale	£m	%		%		£m	%
0.00 to <0.15	1,421	0.07%	217	42.3%	3.0	374	26.4%
0.15 to <0.25	138	0.18%	55	45.0%	0.1	39	28.2%
0.25 to <0.50	285	0.36%	335	43.4%	0.9	126	44.1%
0.50 to <0.75	34	0.63%	72	45.0%	2.3	27	79.0%
0.75 to <2.50	62	1.36%	156	45.0%	2.9	70	113.0%
2.50 to <10.00	60	4.27%	93	45.0%	2.2	88	145.1%
10.00 to <100.00	—	19.30%	5	45.0%	1.6	1	224.7%
100.00 (Default)	2	100.00%	11	45.0%	1.1	—	—
Sub-total	2,002	0.40%	944	42.8%	2.5	724	36.2%

CCR4: IRB – CCR exposures by portfolio and PD scale – Central governments or central banks

	31 Dec 2021						
	EAD post CRM	Average PD	Number of obligors	Average LGD	Average Maturity (years)	RWA	RWA density
PD Scale	£m	%		%		£m	%
0.00 to <0.15	124	0.06%	3	45.0%	—	9	7.5%
Sub-total	**124**	**0.06%**	**3**	**45.0%**	**—**	**9**	**7.5%**

	31 Dec 2020						
	EAD post CRM	Average PD	Number of obligors	Average LGD	Average Maturity (years)	RWA	RWA density
PD Scale	£m	%		%		£m	%
0.00 to <0.15	1,587	0.05%	8	45.0%	—	94	6.0%
Sub-total	1,587	0.05%	8	45.0%	—	94	6.0%

Key movements

- Exposures to Central governments or central banks subject to the IRB approach decreased by £1.5 billion driven by SFT trading with various counterparties.

Pillar 1 Capital requirements: Counterparty credit risk continued

CCR4: IRB – CCR exposure by portfolio and PD scale – Institutions

	31 Dec 2021						
	EAD post CRM	Average PD	Number of obligors	Average LGD	Average Maturity (years)	RWA	RWA density
PD Scale	**£m**	**%**		**%**		**£m**	**%**
0.00 to <0.15	1,537	0.04%	84	45.0%	1.6	288	18.7%
0.15 to <0.25	31	0.18%	4	45.0%	0.8	12	37.3%
0.25 to <0.50	—	0.38%	2	45.0%	1.8	—	74.1%
0.50 to <0.75	—	0.63%	1	45.0%	—	—	127.5%
Sub-total	**1,568**	**0.05%**	**91**	**45.0%**	**1.6**	**299**	**19.1%**

	31 Dec 2020						
	EAD post CRM	Average PD	Number of obligors	Average LGD	Average Maturity (years)	RWA	RWA density
PD Scale	£m	%		%		£m	%
0.00 to <0.15	787	0.05%	100	45.0%	2.9	244	31.0%
0.15 to <0.25	50	0.18%	10	45.0%	4.7	44	87.2%
0.25 to <0.50	—	0.39%	2	45.0%	2.2	—	81.3%
Sub-total	837	0.06%	112	45.0%	3.0	288	34.4%

Pillar 1 Capital requirements: Counterparty credit risk continued

CCR corporate exposures subject to supervisory slotting

		31 Dec 2021 Specialised lending				
Regulatory categories	Remaining maturity	On-balance sheet amount £m	Off-balance sheet amount £m	RW %	EAD post CRM £m	RWA £m
1) Strong	Less than 2.5 years	7	—	50%	7	4
	Equal to or more than 2.5 years	745	—	70%	466	326
2) Good	Less than 2.5 years	5	—	70%	4	3
	Equal to or more than 2.5 years	67	—	90%	35	32
3) Satisfactory	Less than 2.5 years	—	—	115%	—	—
	Equal to or more than 2.5 years	30	—	115%	30	34
4) Weak	Less than 2.5 years	—	—	250%	—	—
	Equal to or more than 2.5 years	—	—	250%	—	—
5) Default	Less than 2.5 years	—	—	0%	—	—
	Equal to or more than 2.5 years	5	—	0%	1	—
Total	Less than 2.5 years	**12**	**—**		**11**	**6**
	Equal to or more than 2.5 years	**847**	**—**		**532**	**392**

		31 Dec 2020 Specialised lending				
Regulatory categories	Remaining maturity	On-balance sheet amount £m	Off-balance sheet amount £m	RW %	EAD post CRM £m	RWA £m
1) Strong	Less than 2.5 years	12	—	50%	12	6
	Equal to or more than 2.5 years	1,119	—	70%	684	479
2) Good	Less than 2.5 years	17	—	70%	15	11
	Equal to or more than 2.5 years	95	—	90%	62	56
3) Satisfactory	Less than 2.5 years	—	—	115%	—	—
	Equal to or more than 2.5 years	54	—	115%	54	62
4) Weak	Less than 2.5 years	—	—	250%	—	—
	Equal to or more than 2.5 years	—	—	250%	—	—
5) Default	Less than 2.5 years	—	—	0%	—	—
	Equal to or more than 2.5 years	—	—	0%	—	—
Total	Less than 2.5 years	30	—		27	17
	Equal to or more than 2.5 years	1,269	—		801	597

Pillar 1 Capital requirements: Counterparty credit risk continued

CCR3: Standardised approach – CCR exposures by regulatory portfolio and risk

Exposures are classed as "rated" only where an ECAI rating has been used to derive the risk-weight. Where a rating is unavailable, or where the risk weight has been determined by application of specific CRR provisions, exposures have been classed as "unrated".

		31 Dec 2021												
	Exposure Classes	0% £m	2% £m	4% £m	10% £m	20% £m	50% £m	70% £m	75% £m	100% £m	150% £m	Others £m	Total £m	Of which: Unrated £m
1	Central governments or central banks	16,702	—	—	—	—	—	—	—	—	—	—	16,702	16,702
5	International organisations	—	—	—	—	—	—	—	—	—	—	—	—	—
6	Institutions	—	3,116	129	—	—	13	—	—	—	—	—	3,257	3,245
7	Corporates	—	—	—	—	—	15	—	—	—	—	—	15	—
11	**Total – Standardised Approach**	**16,702**	**3,116**	**129**	**—**	**—**	**28**	**—**	**—**	**—**	**—**	**—**	**19,975**	**19,947**

		31 Dec 2020												
	Exposure Classes	0% £m	2% £m	4% £m	10% £m	20% £m	50% £m	70% £m	75% £m	100% £m	150% £m	Others £m	Total £m	Of which: Unrated[1] £m
1	Central governments or central banks	10,883	—	—	—	—	—	—	—	—	—	—	10,883	10,883
5	International organisations	93	—	—	—	—	—	—	—	—	—	—	93	93
6	Institutions	—	4,572	162	—	—	2	—	—	—	—	—	4,737	4,735
7	Corporates	—	—	—	—	—	32	—	—	1	—	—	33	1
11	**Total – Standardised Approach**	10,976	4,572	162	—	—	34	—	—	1	—	—	15,746	15,711

Key movements

- Exposures to Central governments or central banks subject to the Standardised approach increased by £5.8 billion predominately attributable to trading under the Term Funding Scheme with additional incentives for SMEs (TFSME).
- Exposures to Institutions subject to the Standardised approach decreased by £1.5 billion mainly driven by QCCP trading.

Pillar 1 Capital requirements: Counterparty credit risk continued

COUNTERPARTY CREDIT RISK EXPOSURES: ANALYSIS BY CONTRACT TYPE

An analysis of counterparty credit risk exposures by contract type is presented in the table below.

CCR: analysis by contract type

	31 Dec 2021 EAD post CRM £m	31 Dec 2020 EAD post CRM £m
Interest rate and inflation contracts	4,531	6,764
Foreign exchange contracts	106	264
Equity contracts	—	—
Credit derivatives	111	102
Commodity contracts	—	—
Securities financing transactions	18,412	13,872
Contributions to the default fund of a Central Counterparty	123	242
Total	23,283	21,244
of which: central counterparty	3,245	4,735

Key movements

– SFTs increased by £4.5 billion EAD mainly due to trading under the Term Funding Scheme with additional incentives for SMEs (TFSME).

– Interest rate and inflation contracts decreased by £2.2 billion EAD mainly driven by decreased central counterparty exposure due to trade optimisation.

NET DERIVATIVES CREDIT EXPOSURE

The gross positive fair value of contracts, netting benefits, netted current credit exposure, collateral held and resultant 'net derivatives and SFTs credit exposure', as at 31 December 2021, are presented separately in the table below.

CCR5-A: Impact of netting and collateral held on exposure values

		31 Dec 2021				
		Gross positive fair value exposure amount £m	Netting benefits credit £m	Netted current credit exposure £m	Collateral held[1] £m	Net Credit exposure[2] £m
1	Derivatives	34,145	31,215	2,930	1,952	979
2	SFTs	118,775	—	118,775	103,955	14,820
4	**Total**	152,920	31,215	121,705	105,907	15,799

		31 Dec 2020				
		Gross positive fair value exposure amount £m	Netting benefits credit £m	Netted current credit exposure £m	Collateral held[1] £m	Net Credit exposure[2] £m
1	Derivatives	67,664	61,826	5,838	3,958	1,880
2	SFTs	119,298	—	119,298	109,971	9,328
4	**Total**	186,962	61,826	125,136	113,929	11,208

1 The collateral held values for SFTs are reported after taking into account the volatility adjustments for these balances.

2 The net credit exposure value may differ from the EAD value disclosed in CCR1: Analysis of CCR exposure by approach), due to the other parameters for the calculation of the regulatory exposure values not being disclosed in this table.

Pillar 1 Capital requirements: Counterparty credit risk continued

NOTIONAL VALUE OF CREDIT DERIVATIVE TRANSACTIONS

The notional value of credit derivative transactions outstanding at 31 December 2021 was £2.9 billion. These transactions relate to CDS, total return swaps and other credit derivatives. All total return swaps, including those with gilts underlying, are classified as credit products and are reported in the table below.

CCR6: Credit derivative exposures

	31 Dec 2021			31 Dec 2020		
	Credit derivative hedges			Credit derivative hedges		
	Protection bought £m	Protection sold £m	Other credit derivations £m	Protection bought £m	Protection sold £m	Other credit derivations £m
Notionals						
Single-name credit default swaps	**1,207**	**22**	**—**	1,752	247	—
Index credit default swaps	**216**	**—**	**—**	405	—	—
Total return swaps	**—**	**2,898**	**—**	—	600	—
Total notionals	**1,422**	**2,920**	**—**	2,157	847	—
Fair values						
Positive fair value (asset)	**2**	**35**	**—**	7	15	—
Negative fair value (liability)	**(38)**	**(136)**	**—**	(60)	—	—

PILLAR 1 CAPITAL REQUIREMENTS - MARKET RISK

DEFINITION

– Market risk is defined as the risk that the Group's capital or earnings profile is affected by adverse market rates or prices, in particular interest rates and credit spreads in the Banking business, interest rates, equity prices and credit spreads in the Insurance business, and credit spreads in the Group’s defined benefit pension schemes.

– Market risk represents approximately 0.1% of the Group’s risk- weighted assets.

Market risk own funds requirements

	31 Dec 2021		31 Dec 2020	
	Risk-weighted assets	Capital requirements	Risk-weighted assets	Capital requirements
	£m	£m	£m	£m
Internal models approach	**126**	**10**	**154**	**12**
VaR	10	1	43	3
SVaR	98	8	100	8
Risks not in VaR	19	1	11	1
Standardised approach	**78**	**6**	**56**	**4**
Interest rate risk (general and specific)	—	—	8	1
Foreign exchange risk	78	6	48	4
Total	**203**	**16**	**210**	**17**

As permitted by Article 432 of the CRR, no further disclosures on market risk are provided on grounds of materiality.

Liquidity Risk

DEFINITION

Liquidity risk is defined as the risk that the Group has insufficient financial resources to meet its commitments as they fall due, or can only secure them at excessive cost.

EXPOSURE

Liquidity exposure represents the potential stressed outflows in any future period less expected inflows. The Group considers liquidity exposure from both an internal and a regulatory perspective.

MEASUREMENT

Liquidity risk is managed through a series of measures, tests and reports that are primarily based on contractual maturities with behavioural adjustments as appropriate. Additionally, the Group undertakes quantitative and qualitative analysis of behavioural aspects of its assets and liabilities in order to reflect their expected behaviour.

MITIGATION

The Group manages and monitors liquidity risks and ensures that liquidity risk management systems and arrangements are adequate with regard to the internal risk appetite, Group strategy and regulatory requirements.

MONITORING

Daily monitoring and control processes are in place to address internal and regulatory requirements. In addition, the Group carries out internal stress testing of its liquidity and maintains a Contingency Funding Plan, which is designed to identify emerging liquidity concerns at an early stage.

LIQUIDITY COVERAGE RATIO (LCR)

The scope of the LCR disclosure is the Consolidation Group which is the primary regulatory liquidity banking group capturing both the ring-fenced and non-ring-fenced banking entities.

The LCR is calculated on significant currency and a consolidated-all currencies basis which are all subject to internal risk appetite. The Group holds additional LCR eligible liquid assets to cover a PRA defined Pillar II buffer capturing liquidity risk not included in the LCR. The LCR is monitored on a daily basis and forms part of a suite of early warning indicators.

The Group's funding and liquidity position is underpinned by its significant customer deposit base, and is supported by strong relationships across customer segments. The composition of the Group's funding results in a low LCR outflow requirement relative to the overall size of the funding base, as a large proportion of this deposit base comes from Retail customers, which in aggregate provide a stable source of funding. The LCR captures both contractual derivative outflows and the impact of an adverse market scenario on derivative outflows and collateral calls. In addition, derivative outflows are subject to internal risk appetite through the Group's stress testing.

Further details on the Group's liquidity portfolio can be found in the Risk Management section of the 2021 Lloyds Bank plc Annual Report and Accounts (Funding and liquidity risk, page 43).

The table below presents the breakdown of the Group's cash outflows and cash inflows, as well as its available high quality liquid assets, calculated as the simple averages of month end observations over the 12 months preceding the end of each quarter.

LIQ1: Liquidity Coverage Ratio

		Total unweighted value (average) £m				Total weighted value (average) £m			
		31 Mar 2021	30 Jun 2021	30 Sep 2021	31 Dec 2021	31 Mar 2021	30 Jun 2021	30 Sep 2021	31 Dec 2021
	High-quality liquid assets								
1	Total HQLA					113,493	111,676	111,625	114,712
	Cash outflows								
2	**Retail deposits and deposits from small business customers, of which:**	302,427	312,781	321,879	329,834	19,741	20,524	21,273	21,956
3	Stable deposits	241,124	247,875	253,006	257,170	12,056	12,394	12,650	12,859
4	Less stable deposits	61,303	64,906	68,873	72,663	7,685	8,130	8,622	9,098
5	**Unsecured wholesale funding:**	96,229	96,712	97,794	98,243	48,392	48,074	48,258	47,822
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	28,823	30,477	32,045	33,618	7,206	7,619	8,011	8,405
7	Non-operational deposits (all counterparties)	64,752	63,473	62,979	61,958	38,532	37,694	37,476	36,751
8	Unsecured debt	2,654	2,761	2,771	2,666	2,654	2,761	2,771	2,666
9	**Secured wholesale funding**					55	94	116	116
10	**Additional requirements:**	55,324	55,728	55,188	53,296	21,770	21,381	20,713	19,797
11	Outflows related to derivative exposures and other collateral requirements	14,181	13,635	12,916	12,359	14,181	13,635	12,916	12,359
12	Outflows related to loss of funding on debt products	1,045	1,012	1,023	944	1,045	1,012	1,023	944
13	Credit and liquidity facilities	40,097	41,082	41,249	39,993	6,543	6,734	6,774	6,494
14	**Other contractual funding obligations**	597	411	406	397	259	75	73	66
15	**Other contingent funding obligations**	87,005	88,558	89,065	88,690	4,643	4,910	4,997	4,907
16	**TOTAL CASH OUTFLOWS**					94,859	95,058	95,429	94,665
	Cash inflows								
17	**Secured lending (eg: reverse repos)**	13,355	11,379	10,518	10,800	116	154	182	210
18	**Inflows from fully performing exposures**	4,131	4,010	3,972	3,929	2,631	2,528	2,516	2,498
19	Other cash inflows	1,149	1,087	1,132	1,050	763	709	751	661
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non- convertible)					—	—	—	—
EU-19b	(Excess inflows from a related specialised credit institution)					—	—	—	—
20	**TOTAL CASH INFLOWS**	18,635	16,476	15,621	15,779	3,510	3,392	3,449	3,369
EU-20a	**Fully exempt flows**	—	—	—	—	—	—	—	—
EU-20b	**Inflows subject to 90% cap**	—	—	—	—	—	—	—	—
EU-20c	**Inflows subject to 75% cap**	18,437	16,046	15,072	15,104	3,510	3,392	3,449	3,369
									Total adjusted value £m
21	**Liquidity buffer**					113,493	111,676	111,625	114,712
22	**Total net cash outflows**					91,349	91,666	91,979	91,296
23	**Liquidity Coverage Ratio (%)**					124%	122%	121%	126%

		Total unweighted value (average) £m				Total weighted value (average) £m			
		31 Mar 2020	30 Jun 2020	30 Sep 2020	31 Dec 2020	31 Mar 2020	30 Jun 2020	30 Sep 2020	31 Dec 2020
	High-quality liquid assets								
1	Total HQLA					111,487	113,983	112,506	113,434
	Cash outflows								—
2	**Retail deposits and deposits from small business customers, of which:**	272,522	276,414	282,775	291,188	17,975	18,153	18,502	19,003
3	Stable deposits	216,018	219,835	225,527	232,462	10,801	10,992	11,276	11,623
4	Less stable deposits	56,504	56,578	57,248	58,726	7,174	7,161	7,225	7,380
5	**Unsecured wholesale funding:**	89,364	90,713	92,236	94,429	48,352	48,088	47,925	48,209
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	23,551	24,189	25,322	26,930	5,888	6,047	6,331	6,732
7	Non-operational deposits (all counterparties)	63,595	64,228	64,321	64,786	40,247	39,745	39,001	38,763
8	Unsecured debt	2,218	2,295	2,593	2,713	2,218	2,295	2,593	2,713
9	**Secured wholesale funding**					77	51	36	36
10	**Additional requirements:**	52,252	51,841	52,167	53,997	20,167	20,473	20,790	21,706
11	Outflows related to derivative exposures and other collateral requirements	12,656	13,110	13,463	14,146	12,656	13,110	13,463	14,146
12	Outflows related to loss of funding on debt products	1,152	1,169	1,172	1,267	1,152	1,169	1,172	1,267
13	Credit and liquidity facilities	38,443	37,562	37,532	38,585	6,358	6,194	6,155	6,294
14	**Other contractual funding obligations**	863	816	640	592	427	443	280	245
15	**Other contingent funding obligations**	81,195	81,879	82,822	85,342	4,050	4,027	4,068	4,457
16	**TOTAL CASH OUTFLOWS**					91,049	91,234	91,600	93,656
	Cash inflows								
17	**Secured lending (eg: reverse repos)**	15,572	16,175	15,430	14,161	64	68	100	85
18	**Inflows from fully performing exposures**	4,408	4,397	4,404	4,331	2,734	2,810	2,898	2,835
19	Other cash inflows	1,293	1,259	1,326	1,304	938	856	906	893
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non- convertible)					—	—	—	—
EU-19b	(Excess inflows from a related specialised credit institution)					—	—	—	—
20	**TOTAL CASH INFLOWS**	21,272	21,832	21,161	19,797	3,736	3,734	3,904	3,813
EU-20a	**Fully exempt flows**	—	—	—	—	—	—	—	—
EU-20b	**Inflows subject to 90% cap**	—	—	—	—	—	—	—	—
EU-20c	**Inflows subject to 75% cap**	21,081	21,684	21,052	19,567	3,736	3,734	3,904	3,813
									Total adjusted value £m
21	**Liquidity buffer**					111,487	113,983	112,506	113,434
22	**Total net cash outflows**					87,313	87,501	87,697	89,844
23	**Liquidity Coverage Ratio (%)**					128%	130%	128%	126%

Appendix 1: Own Funds, Prudent Valuation Adjustments, Leverage and Countercyclical Capital Buffer

OWN FUNDS DISCLOSURE

CC1: Composition of regulatory own funds

An analysis of the Group's capital position as at 31 December 2021 is presented in the following table on both a transitional arrangements basis and a fully loaded basis in respect of legacy capital securities that were subject to grandfathering provisions prior to 1 January 2022. In addition, the Group's capital position under both bases reflects the application of the separate transitional arrangements for IFRS 9.

	Transitional rules		Fully loaded rules	
	At 31 Dec 2021 £m	At 31 Dec 2020 £m	At 31 Dec 2021 £m	At 31 Dec 2020 £m
Common equity tier 1 (CET1) capital: instruments and reserves				
Capital instruments and related share premium accounts	**2,174**	2,174	**2,174**	2,174
of which: called up share capital	**1,574**	1,574	**1,574**	1,574
of which: share premium	**600**	600	**600**	600
Retained earnings	**31,843**	31,020	**31,843**	31,020
Accumulated other comprehensive income (and other reserves)	**3,038**	3,809	**3,038**	3,809
Foreseeable dividends	**—**	(1,000)	**—**	(1,000)
Common equity tier 1 (CET1) capital before regulatory adjustments	**37,055**	36,003	**37,055**	36,003
Common equity tier 1 (CET1) capital: regulatory adjustments				
Additional value adjustments	**(159)**	(173)	**(159)**	(173)
Intangible assets (net of related tax liability)	**(2,870)**	(2,986)	**(2,870)**	(2,986)
Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) of the CRR are met)	**(4,498)**	(3,525)	**(4,498)**	(3,525)
Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	**451**	(1,507)	**451**	(1,507)
Negative amounts resulting from the calculation of expected loss amounts	**—**	—	**—**	—
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	**130**	77	**130**	77
Defined benefit pension fund assets	**(3,200)**	(1,322)	**(3,200)**	(1,322)
Other regulatory adjustments to CET1 capital	**(5)**	—	**(5)**	—
Total regulatory adjustments applied to common equity tier 1 (CET1)	**(10,151)**	(9,436)	**(10,151)**	(9,436)
Common equity tier 1 (CET1) capital	**26,904**	26,567	**26,904**	26,567
Additional tier 1 (AT1) capital: instruments				
Capital instruments and related share premium accounts	**4,268**	5,935	**4,268**	5,935
of which: classified as equity under applicable accounting standards	**4,268**	5,935	**4,268**	5,935
Amount of qualifying items referred to in Article 484 (4) of the CRR and the related share premium accounts subject to phase out from AT1	**666**	1,225	**—**	—
Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in CET1) issued by subsidiaries and held by third parties	**15**	135	**—**	—
of which: instruments issued by subsidiaries subject to phase out	**15**	135	**—**	—
Additional tier 1 (AT1) capital	**4,949**	7,295	**4,268**	5,935
Tier 1 capital	**31,853**	33,862	**31,172**	32,502

Appendix 1: Own Funds, Prudent Valuation Adjustments, Leverage and Countercyclical Capital Buffer continued

CC1: Composition of regulatory own funds (continued)

	Transitional rules		Fully loaded rules	
	At 31 Dec 2021 £m	At 31 Dec 2020 £m	At 31 Dec 2021 £m	At 31 Dec 2020 £m
Tier 2 (T2) capital: Instruments and provisions				
Capital instruments and related share premium accounts	**5,635**	5,445	**5,635**	5,445
Amount of qualifying items referred to in Article 484 (5) of the CRR and the related share premium accounts subject to phase out from T2	**408**	572	**—**	—
Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in CET1 or AT1) issued by subsidiaries and held by third parties	**279**	808	**—**	9
of which: instruments issued by subsidiaries subject to phase out	**279**	798	**—**	—
Credit risk adjustments	**—**	—	**—**	—
Tier 2 (T2) capital before regulatory adjustments	**6,322**	6,825	**5,635**	5,454
Tier (T2) capital: regulatory adjustments				
IFRS 9 transitional adjustments	**(266)**	(524)	**(266)**	(524)
Total regulatory adjustments applied to tier 2 (T2) capital	**(266)**	(524)	**(266)**	(524)
Tier 2 (T2) capital	**6,056**	6,301	**5,369**	4,930
Total capital	**37,909**	40,163	**36,541**	37,432
Total risk exposure amount (risk-weighted assets)	**161,576**	170,862	**161,576**	170,862
Capital ratios and buffers				
Common Equity Tier 1 (as a percentage of risk exposure amount)	**16.7%**	15.5%	**16.7%**	15.5%
Tier 1 (as a percentage of risk exposure amount)	**19.7%**	19.8%	**19.3%**	19.0%
Total capital (as a percentage of risk exposure amount)	**23.5%**	23.5%	**22.6%**	21.9%
Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)	**4.503%**	4.501%	**4.503%**	4.501%
of which: capital conservation buffer requirement	**2.500%**	2.500%	**2.500%**	2.500%
of which: countercyclical buffer requirement	**0.003%**	0.001%	**0.003%**	0.001%
of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	**2.000%**	2.000%	**2.000%**	2.000%
Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)[1]	**12.2%**	11.0%	**12.2%**	11.0%
Amounts below the threshold for deduction (before risk weighting)				
Direct and indirect holdings of the capital of financial sector entities where the Group does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	**260**	293	**260**	293
Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in 38 (3) are met)	**927**	912	**927**	912
Applicable caps on the inclusion of provisions in Tier 2				
Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	**—**	—	**—**	—
Cap on inclusion of credit risk adjustments in T2 under internal ratings-based approach	**679**	711	**679**	711
Capital instruments subject to phase-out arrangements				
Current cap on AT1 instruments subject to phase out arrangements	**680**	1,360	**—**	—
Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	**931**	348	**—**	—
Current cap on T2 instruments subject to phase out arrangements	**662**	1,325	**—**	—
Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	**912**	249	**—**	—

1 Of which c.2.2 per cent is required to meet Pillar 2A requirements.

Appendix 1: Own Funds, Prudent Valuation Adjustments, Leverage and Countercyclical Capital Buffer continued

OWN FUNDS RECONCILIATION

The following table presents certain items from the Group's consolidated regulatory balance sheet (as presented on pages 9 and 10), for the year ended 31 December 2021, that are used to calculate own funds. Where necessary, the balance sheet components under the regulatory scope of consolidation have been expanded such that the components of the transitional own funds disclosure template appear separately.

Items extracted from the consolidated regulatory balance sheet and reconciliation of own funds items to audited financial statements

			Adjustments								
Lloyds Bank Group balance sheet category	Own funds description	Items extracted from the consolidated regulatory balance sheet (1) £m	Deferred tax £m	Threshold adjustments £m	Non-eligible instruments (9) £m	Amounts excluded from AT1 due to Cap (9) £m	Regulatory and other adjustments £m	Transitional own funds £m	Notes	Reversal of IFRS 9 transitional arrangements £m	Transitional own funds (IFRS 9 full impact) (10) £m
	Common equity tier 1 (CET1) capital: instruments and reserves										
	Capital instruments and related share premium accounts	2,174						2,174			2,174
Share capital	of which: called up share capital	1,574						1,574			1,574
Share premium account	of which: share premium	600						600			600
Retained profits	Retained earnings	31,227					616	31,843	2	(616)	31,227
Other reserves	Accumulated other comprehensive income (and other reserves)	3,038					—	3,038	2		3,038
	Common equity tier 1 (CET1) capital: regulatory adjustments										
	Additional value adjustments						(159)	(159)	3		(159)
Goodwill and other intangible assets	Intangible assets (net of related tax liability)	(4,614)	489				1,255	(2,870)	4		(2,870)
Deferred tax assets	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability where conditions in Article 38(3) of the CRR are met)	(4,048)	(2,137)	927			760	(4,498)	5	(35)	(4,533)
	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value						451	451	6		451
	Negative amounts resulting from the calculation of expected loss amounts						—	—	7		—
	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing						130	130	8		130
Retirement benefit assets	Defined benefit pension fund assets	(4,531)	1,331				—	(3,200)	5		(3,200)
	Other regulatory adjustments to CET1 capital						(5)	(5)			(5)
	Common equity tier 1 (CET1) capital	23,246	(317)	927	—	—	3,048	26,904		(651)	26,253

Lloyds Bank Group balance sheet category	Own funds description	Items extracted from the consolidated regulatory balance sheet (1) £m	Adjustments					Transitional own funds £m	Notes	Reversal of IFRS 9 transitional arrangements £m	Transitional own funds (IFRS 9 full impact) (10) £m
			Deferred tax £m	Threshold adjustments £m	Non-eligible instruments (9) £m	Amounts excluded from AT1 due to Cap (9) £m	Regulatory and other adjustments £m				
	Additional tier 1 (AT1) capital: instruments										
Other equity instruments	Capital instruments and the related share premium accounts	4,268						4,268			4,268
Subordinated liabilities	Amount of qualifying items referred to in Article 484 (4) of the CRR and the related share premium accounts subject to phase out from AT1	1,627			—	(911)	(50)	666	9		666
Subordinated liabilities	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in CET1) issued by subsidiaries and held by third parties	35			—	(20)	—	15	9		15
	Additional tier 1 (AT1) capital	5,930			—	(931)	(50)	4,949		—	4,949
	Tier 1 capital	29,176	(317)	927	—	(931)	2,998	31,853		(651)	31,202
	Tier 2 (T2) capital: instruments and provisions										
Subordinated liabilities	Capital instruments and related share premium accounts	6,041					(406)	5,635	9		5,635
Subordinated liabilities	Amount of qualifying items referred to in Article 484 (5) of the CRR and the related share premium accounts subject to phase out from T2	103			—	911	(606)	408	9		408
Subordinated liabilities	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in CET1 or AT1) issued by subsidiaries and held by third parties	852			(46)	20	(547)	279	9		279
	Tier 2 (T2) capital: regulatory adjustments										
	IFRS 9 transitional arrangements						(266)	(266)		266	—
	Eligible provisions						—	—	10	515	515
	Tier 2 (T2) capital	6,996			(46)	931	(1,825)	6,056		781	6,837
	Total capital	36,172	(317)	927	(46)	—	1,173	37,909		130	38,039

Appendix 1: Own Funds, Prudent Valuation Adjustments, Leverage and Countercyclical Capital Buffer continued

1 Assets on the regulatory balance sheet are presented as negative amounts, liabilities and equity are presented as positive amounts.

2 The regulatory definition of eligible items for inclusion in retained earnings differs from the statutory reporting definition. The aggregate of retained earnings and accumulated other comprehensive income and other reserves is comparable on both bases but the allocation between categories differ. Retained earnings are further adjusted to reflect the application of the IFRS 9 transitional arrangements - refer to note 10.

3 The additional value adjustments of £159m reflect the prudent valuation adjustment for all assets measured at fair value in accordance with Articles 34 and 105 of the CRR. Table PV1 on page 106 provides a breakdown of the constituent elements of the Group's prudent valuation adjustment.

4 Own funds intangible assets of £4,614m extracted from the consolidated regulatory balance sheet representing £470m of goodwill and £4,144m of other intangible assets (£3,383m relating to intangible software assets). Capital rules require the amount to be deducted from own funds to be reduced by the amount of associated deferred tax liabilities and, in addition, to be adjusted to reflect the prudential amortisation of intangible software assets in accordance with the revised capital treatment implemented in December 2020. Remaining unamortised 'available for use' intangible software assets are risk-weighted under the revised treatment rather than deducted from capital.

5 The own funds deduction of £4,498m for deferred tax excludes the deferred tax balances relating to intangible assets, cash flow hedge and the defined pension fund asset. Additionally, only the deferred tax amounts that rely on future profitability are required to be deducted from CET1, and may be reduced by associated deferred tax liabilities where conditions specified in Article 38 of CRR are met. £927m of the deferred tax assets relating to temporary differences may be risk weighted instead of deducted from capital as presented in the threshold adjustments column. Deferred tax assets are also adjusted to reflect the application of the IFRS 9 transitional arrangements.

6 Cash flow hedge reserve forms part of other reserves in the consolidated regulatory balance sheet. Please refer to Note 33 Other Reserves in the 2021 Lloyds Bank plc Annual Report and Accounts.

7 In accordance with Articles 36,62,158 and 159 of the CRR the excess of expected losses over specific credit risk adjustments (SCRAs) and additional value adjustments are deducted from CET1. A comparison of regulatory expected losses to SCRAs on loans and receivables, in respect of credit risk exposures subject to the application of the IRB approach is presented on page 70.

8 CRD IV requires the removal of the impact of any gains or losses recorded as liabilities held at fair value through profit and loss or derivative liabilities due to changes in the credit spreads of Lloyds Bank plc.

9 A reconciliation of subordinated liabilities from the Group's consolidated balance sheet to the amount recognised against each own funds description is presented in the table below.

Own funds description	Consolidated regulatory balance sheet total £m
Amount of qualifying items referred to in Article 484 (4) of the CRR and the related share premium accounts subject to phase out from AT1	1,627
Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in CET1) issued by subsidiaries and held by third parties	35
Capital instruments and related share premium accounts	6,041
Amount of qualifying items referred to in Article 484 (5) of the CRR and the related share premium accounts subject to phase out from T2	103
Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in CET1 or AT1) issued by subsidiaries and held by third parties	852
Total subordinated liabilities as presented on the consolidated regulatory balance sheet, page 10	8,658

Adjustments required by regulatory rules to the value of subordinated liabilities presented within the regulatory and other adjustments column on the reconciliation include adjustments for accrued interest and regulatory amortisation.

Legacy Tier 1 instruments that qualified as Tier 1 capital under regulations that preceded CRD IV are subject to certain restrictions, including a cap set at 10% of the value of such instruments that were in issue at 31 December 2012. Any excess over the cap is reallocated to Tier 2 capital where, together with legacy Tier 2 instruments that qualified as Tier 2 capital under regulations that preceded CRD IV, they become subject to equivalent restrictions, including a cap set at 10% of the value of the legacy Tier 2 instruments that were in issue at 31 December 2012.

In addition the Group has a Tier 2 instrument that will ultimately be subject to full phase out from regulatory capital by June 2025 under CRR II eligibility requirements.

10 The application of the IFRS 9 transitional arrangements for capital is reflected through the regulatory and other adjustments column. These comprise the following;

- An increase in retained earnings of £616m reflecting the tax adjusted add-back (subject to the applicable factor) for the initial net increase in impairment provisions on 1 January 2018 ('static' relief) and the subsequent net increase in Stage 1 and Stage 2 ECLs from 1 January 2020 ('dynamic' relief)
- A resultant movement in DTA deductions of £35m
- A consequential adjustment to reduce Tier 2 capital by £781m. Normally any excess of IFRS 9 expected credit losses over regulatory expected losses in respect of the Group's IRB portfolios is added to Tier 2 capital ('eligible provisions'), subject to a percentage cap based on IRB risk-weighted assets. However, as a consequence of applying the IFRS 9 transitional arrangements for capital, eligible provisions may be partially or fully reduced, with any resultant surplus adjustment under the arrangements subsequently deducted from Tier 2 capital.

Appendix 1: Own Funds, Prudent Valuation Adjustments, Leverage and Countercyclical Capital Buffer continued

PRUDENT VALUATION ADJUSTMENTS

The table below provides a breakdown of the constituent elements of the Group's Prudent Valuation Adjustments (PVA).

PV1: Prudent valuation adjustment

	31 Dec 2021							
	Equity £m	Interest rates £m	FX £m	Credit £m	Commodities £m	Total £m	of which: In the trading book £m	of which: In the banking book £m
Closeout uncertainty, of which:	2	125	—	50	—	177	—	177
Mid-market value	*2*	*38*	—	*27*	—	*67*	—	*67*
Closeout cost	—	*87*	—	*7*	—	*94*	—	*94*
Concentration	—	—	—	*16*	—	*16*	—	*16*
Model risk	—	11	—	17	—	29	—	29
Operational risk	—	13	—	6	—	19	—	19
Investing and funding costs	—	—	—	6	—	6	—	6
Unearned credit spreads	—	—	—	25	—	25	—	25
Future administrative costs	—	9	—	5	—	14	—	14
Other[1]	(1)	(68)	—	(41)	—	(111)	—	(111)
Total adjustment						**159**		

	31 Dec 2020							
	Equity £m	Interest rates £m	FX £m	Credit £m	Commodities £m	Total £m	of which: In the trading book £m	of which: In the banking book £m
Closeout uncertainty, of which:	3	177	—	59	—	239	—	239
Mid-market value	*3*	*81*	—	*28*	—	*111*	—	*111*
Closeout cost	—	*96*	—	*7*	—	*103*	—	*103*
Concentration	—	—	—	*25*	—	*25*	—	*25*
Model risk	—	21	—	19	—	40	—	40
Operational risk	—	18	—	9	—	27	—	27
Investing and funding costs	—	—	—	15	—	15	—	15
Unearned credit spreads	—	—	—	47	—	47	—	47
Future administrative costs	—	9	—	5	—	14	—	14
Other[1,2]	(2)	(131)	—	(75)	—	(208)	—	(208)
Total adjustment						173		

1 Other adjustments capture the diversification benefit which is permitted under EBA Regulatory Technical Standards (RTS) on Prudent Valuation.

2 The other adjustment in 2020 reflected a temporary increase in the diversification benefit set by the regulators.

Appendix 1: Own Funds, Prudent Valuation Adjustments, Leverage and Countercyclical Capital Buffer continued

LEVERAGE DISCLOSURE (CRD IV)

LRCom: Leverage ratio common disclosure

	At 31 Dec 2021 Fully loaded £m	At 31 Dec 2020 Fully loaded £m
On-balance sheet exposures (excluding derivatives and SFTs)		
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)[1]	539,392	526,629
Asset amounts deducted in determining Tier 1 capital	(9,995)	(6,013)
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	529,397	520,616
Derivative exposures		
Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	1,614	2,289
Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	3,652	5,744
Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	1,150	367
Deductions of receivables assets for cash variation margin provided in derivatives transactions	(739)	(2,125)
Adjusted effective notional amount of written credit derivatives	22	247
Adjusted effective notional offsets and add-on deductions for written credit derivatives	—	(102)
Total derivative exposures	5,699	6,420
Securities financing transaction exposures		
Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	59,645	61,490
Netted amounts of cash payables and cash receivables of gross SFT assets	(9,937)	(5,417)
Counterparty credit risk exposure for SFT assets	1,321	1,060
Total securities financing transaction exposures	51,029	57,133
Other off-balance sheet exposures		
Off-balance sheet exposures at gross notional amount	132,616	138,915
Adjustments for conversion to credit equivalent amounts	(83,267)	(85,565)
Other off-balance sheet exposures	49,349	53,350
Capital and total exposure measure		
Tier 1 capital	31,172	32,502
Leverage ratio total exposure measure	635,474	637,519
Leverage ratio		
Leverage ratio	4.9%	5.1%

1 Includes an adjustment to exclude lending under the UK Government's Bounce Back Loan Scheme (BBLS).

A description of the factors that had an impact on the leverage ratio during the year is discussed on page 18.

Appendix 1: Own Funds, Prudent Valuation Adjustments, Leverage and Countercyclical Capital Buffer continued

LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

	At 31 Dec 2021 Fully loaded £m	At 31 Dec 2020 Fully loaded £m
Total assets as per published financial statements	**602,849**	599,939
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	**(610)**	(123)
Adjustment for regular-way purchases and sales of financial assets subject to trade date accounting[1]	**(48)**	(35)
Adjustments for derivative financial instruments	**185**	(1,937)
Adjustments for securities financing transactions (SFTs)	**1,321**	1,060
Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	**49,349**	53,350
Other adjustments[2]	**(17,572)**	(14,735)
Leverage ratio total exposure measure	**635,474**	637,519

1 Reflects the accelerated implementation for the netting of regular-way purchases and sales awaiting settlement in accordance with CRR Article 500d.

2 Includes an adjustment to exclude lending under the UK Government's Bounce Back Loan Scheme (BBLS).

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

	At 31 Dec 2021 Fully loaded £m	At 31 Dec 2020 Fully loaded £m
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**539,392**	**526,629**
Trading book exposures	**—**	**—**
Banking book exposures, of which:	**539,392**	**526,629**
Covered bonds	**2,047**	**2,395**
Exposures treated as sovereigns	**81,923**	**72,940**
Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	**4,690**	**4,699**
Institutions	**4,588**	**3,672**
Secured by mortgages of immovable properties	**335,272**	**321,272**
Retail exposures	**38,820**	**40,818**
Corporates	**40,988**	**44,348**
Exposures in default	**6,311**	**7,551**
Other exposures (eg equity, securitisations, and other non-credit obligation assets)	**24,753**	**28,934**

Description of the processes used to manage the risk of excessive leverage

Capital is actively managed and regulatory ratios, including leverage, are a key factor in the Group's internal risk appetite assessment, planning processes and stress analyses.

Capital plans include an assessment of leverage requirements over the forecast period, with capital adequacy in respect of both risk-based capital and leverage requirements subjected to stress scenarios. Where relevant the scenarios consider the risk of excessive leverage and potential mitigating actions that could be undertaken in response.

The Group monitors its leverage position through a combination of actual and projected ratios, including those under stressed scenarios, ensuring that the ratio exceeds regulatory minimums and internal risk appetite and reports these on a regular basis to the Group and Ring-Fenced Banks Asset and Liability Committees, the Group Executive Committee, the Group and Ring-Fenced Banks Risk Committees, Board Risk Committee and the Board. Further details on the process by which the Group manages its capital position in respect of both risk-based capital and leverage requirements is discussed on pages 13 to 15.

Appendix 1: Own Funds, Prudent Valuation Adjustments, Leverage and Countercyclical Capital Buffer continued

CCyB1: Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

	2021 General credit exposures[2,3]		2021 Trading book exposures[2]		2021 Securitisation exposures[3]	2021 Own funds requirements					
Breakdown by Country (£m)	Exposure Value for SA	Exposure Value for IRB	Sum of long and short positions of trading book exposures for SA	Value of trading book exposures for internal models	Exposure value for non-trading book	of which: General credit exposures[2,3]	of which: Trading book exposures[2]	of which: Securitisation exposures[3]	Total	2021 Own funds requirement weights	2021 Countercyclical capital buffer rate
Hong Kong	94	14	—	—	—	4	—	—	4	0.04%	1.00%
Norway	2	271	—	—	—	21	—	—	21	0.20%	1.00%
Czech Republic	—	—	—	—	—	—	—	—	—	0.00%	0.50%
Slovakia	—	—	—	—	—	—	—	—	—	0.00%	1.00%
Bulgaria	—	—	—	—	—	—	—	—	—	0.00%	0.50%
Luxembourg	24	254	—	—	64	14	—	1	15	0.14%	0.50%
i) Total[1]	120	539	—	—	64	39	—	1	40	0.38%	
							—				
United Kingdom	21,009	466,734	—	—	20,135	9,744	—	346	10,090	93.66%	—
United States of America	576	2,090	—	—	4,341	119	—	69	188	1.75%	—
Netherlands	813	10,646	—	—	89	122	—	1	123	1.14%	—
ii) Total[1]	22,398	479,470	—	—	24,565	9,985	—	416	10,401	96.55%	
			—	—			—				
iii) Rest of the World[1]	1,932	3,897	—	—	980	319	—	12	331	3.07%	
			—	—			—				
Total	24,450	483,906	—	—	25,609	10,343	—	429	10,772	100.00%	

Appendix 1: Own Funds, Prudent Valuation Adjustments, Leverage and Countercyclical Capital Buffer continued

	2020 General credit exposures[2,3]		2020 Trading book exposures[2]		2020 Securitisation exposures[3]	2020 Own funds requirements					
Breakdown by Country (£m)	Exposure Value for SA	Exposure Value for IRB	Sum of long and short positions of trading book exposures for SA	Value of trading book exposures for internal models	Exposure value for non-trading book	of which: General credit exposures[2,3]	of which: Trading book exposures[2]	of which: Securitisation exposures[3]	Total	2020 Own funds requirement weights	2020 Countercyclical capital buffer rate
Hong Kong	117	—	—	—	—	4	—	—	4	0.03%	1.00%
Norway	2	80	—	—	—	5	—	—	5	0.05%	1.00%
Czech Republic	—	—	—	—	—	—	—	—	—	0.00%	0.50%
Slovakia	45	—	—	—	—	4	—	—	4	0.03%	1.00%
Bulgaria	—	—	—	—	—	—	—	—	—	0.00%	0.50%
Luxembourg	10	178	—	—	64	8	—	1	9	0.08%	0.25%
i) Total[1]	174	258	—	—	64	21	—	1	22	0.19%	
United Kingdom	24,718	466,236	—	—	18,518	10,344	—	294	10,638	93.08%	—
United States of America	592	1,349	—	—	4,522	70	—	90	160	1.40%	—
Netherlands	910	10,864	—	—	88	165	—	1	165	1.45%	—
ii) Total[1]	26,220	478,449	—	—	23,128	10,579	—	385	10,964	95.93%	
iii) Rest of the World[1]	2,344	4,382	—	—	1,210	420	—	23	443	3.88%	
Total	28,738	483,089	—	—	24,402	11,020	—	409	11,429	100.00%	

Amount of institution specific countercyclical capital buffer	**2021**	2020
Total risk exposure amount	**£161,576m**	£170,862m
Institution specific countercyclical buffer rate	**0.003%**	0.001%
Institution specific countercyclical buffer requirement	**£5m**	£2m

1 The breakdown by country is disclosed on the following basis:

i) those countries for which a countercyclical capital buffer rate has been set.

ii) those countries for which a countercyclical capital buffer rate has not been set and have an own funds requirement weighting of greater than or equal to one per cent, the threshold having been determined by the Group in accordance with the EBA guidelines on materiality for Pillar 3.

iii) the aggregate of all remaining countries for which a countercyclical buffer rate has not been set and individually have an own funds requirement weighting of less than one per cent.

2 For the purposes of the calculation of the countercyclical capital buffer, general credit risk and trading book exposures exclude exposures to central governments, central banks, regional governments, local authorities, public sector entities, multilateral development banks, international organisations and institutions. In addition, trading book exposures are limited to those that are subject to the own funds requirement for specific risk or incremental default and migration risk.

3 General credit and securitisation exposures include counterparty credit risk and are stated on a post CRM basis.

Appendix 2: Asset encumbrance

Asset Encumbrance

The values reported in the tables below represent the median of the quarter-end positions over the period 1 January 2021 to 31 December 2021.

	2021							
	Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
	£m	of which notionally eligible EHQLA and HQLA, £m	£m	of which notionally eligible EHQLA and HQLA, £m	£m	of which EHQLA and HQLA, £m	£m	of which EHQLA and HQLA, £m
Encumbered and unencumbered assets								
Total assets	70,323	13,888			536,655	68,712		
Equity instruments	—	—	—	—	208	—	208	—
Debt securities[1]	8,038	7,132	8,038	7,132	23,403	20,572	23,403	20,572
of which: covered bonds	6	6	6	6	2,112	2,101	2,112	2,101
of which: securitisations	1,225	—	1,225	—	182	—	182	—
of which: issued by general governments	6,210	6,062	6,210	6,062	7,770	7,770	7,770	7,770
of which: issued by financial corporations	1,897	672	1,897	672	14,931	12,105	14,931	12,105
of which: issued by non-financial corporations	14	14	14	14	682	682	682	682
Other assets[2]	62,780	6,921			514,538	48,280		

	2020							
	Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
	£m	of which notionally eligible EHQLA and HQLA, £m	£m	of which notionally eligible EHQLA and HQLA, £m	£m	of which EHQLA and HQLA, £m	£m	of which EHQLA and HQLA, £m
Encumbered and unencumbered assets								
Total assets	87,491	14,797			516,169	65,842		
Equity instruments	—	—	—	—	146	—	146	—
Debt securities[1]	8,470	6,792	8,470	6,792	25,439	21,627	25,439	21,627
of which: covered bonds	2	2	2	2	2,828	2,827	2,828	2,827
of which: securitisations	1,469	—	1,469	—	542	9	542	9
of which: issued by general governments	6,325	6,173	6,325	6,173	8,628	8,628	8,628	8,628
of which: issued by financial corporations	2,145	619	2,145	619	15,734	12,071	15,734	12,071
of which: issued by non-financial corporations	—	—	—	—	730	730	730	730
Other assets[2]	79,021	7,973			491,561	44,155		

Collateral received and own debt securities issued	2021 Fair value of encumbered collateral received or own debt securities issued £m	2021 of which notionally eligible EHQLA and HQLA, £m	2021 Unencumbered Fair value of collateral received or own debt securities issued available for encumbrance £m	2021 Unencumbered of which EHQLA and HQLA, £m	2020 Fair value of encumbered collateral received or own debt securities issued £m	2020 of which notionally eligible EHQLA and HQLA, £m	2020 Unencumbered Fair value of collateral received or own debt securities issued available for encumbrance £m	2020 Unencumbered of which EHQLA and HQLA, £m
Collateral received	**13,072**	**12,813**	**50,867**	**50,035**	21,375	21,312	50,192	50,106
Loans on demand	—	—	—	—	—	—	—	—
Equity instruments	—	—	—	—	—	—	—	—
Debt securities[1]	**13,072**	**12,813**	**50,867**	**50,035**	21,375	21,312	50,192	50,106
of which: covered bonds	—	—	**521**	**502**	—	—	905	893
of which: securitisations	—	—	**510**	**510**	—	—	534	534
of which: issued by general governments	**12,873**	**12,665**	**48,550**	**48,034**	21,051	21,051	48,632	48,632
of which: issued by financial corporations	**199**	**156**	**2,255**	**1,939**	246	183	1,251	1,165
of which: issued by non-financial corporations	—	—	**116**	**62**	—	—	302	302
Loans and advances other than loans on demand	—	—	—	—	—	—	—	—
Other collateral received	—	—	—	—	—	—	—	—
Own debt securities issued other than own covered bonds or	—	—	—	—	—	—	—	—
Own covered bonds and asset-backed securities issued and not yet pledged			**6,511**	—			8,413	—
Total assets, collateral received and own debt securities issued	**87,743**	**26,170**			110,069	36,665		

Sources of Encumbrance	2021 Matching liabilities, contingent liabilities or securities lent £m	2021 Assets, collateral received and own debt securities issued other than covered bonds and securitisations encumbered £m	2020 Matching liabilities, contingent liabilities or securities lent £m	2020 Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered £m
Carrying amount of selected financial liabilities[3]	**60,217**	**74,220**	83,821	95,644

1 Includes debt securities accounted for as financial assets at fair value through profit or loss, financial assets at amortised cost and financial assets at fair value through other comprehensive income.

2 All remaining regulatory balance sheet assets, including loans on demand and other loans and advances. The carrying amount of other encumbered assets predominantly reflects other loans and advances.

3 Consists of derivatives, deposits and debt securities issued.

Asset encumbrance

The Board and Group Asset and Liability Committee monitor and manage total balance sheet encumbrance via a number of risk appetite metrics. The vast majority of assets encumbered are in the UK banking entities, with the Group primarily encumbering mortgages and credit card receivables through the issuance programmes (covered bonds and securitisation) and tradable securities through securities financing activity (repo and stock lending). In some transactions (i.e. covered bonds and securitisations) the Group will encumber assets in excess of the matching liabilities to provide greater security for investors. The Group also separately identifies unencumbered assets which are available to meet any future possible funding requirements.

The Group provides collateralised security financing services to its clients, providing them with cash financing or specific securities. Collateralised security financing is also used to manage the Group's own short-term cash and collateral needs. For securities accepted as collateral, mandates are asset class and credit rating driven with appropriate notional limits per rating, asset and individual bond concentration. The vast majority of collateral the Group uses in repo/reverse repo and stock lending/stock borrowing transactions is investment grade government issued, primarily UK Government debt.

Appendix 3: Board of Directors

BOARD DIVERSITY POLICY

The Board Diversity Policy (the 'Policy') sets out the Board's approach to diversity. The Board places great emphasis on ensuring that its membership reflects diversity in its broadest sense. Consideration is given to the combination of demographics, skills, experience, race, age, gender, educational and professional background and other relevant personal attributes on the Board to provide the range of perspectives, insights and challenge needed to support good decision-making.

New appointments are made on merit, taking account of the specific skills and experience, independence and knowledge needed to ensure a rounded Board and the diverse benefits each candidate can bring to the overall Board composition.

Objectives for achieving Board diversity may be set on a regular basis. In January 2021 the Board considered and approved updates to aspirations set out in the Board Diversity Policy relating to gender diversity and the number of senior roles held by Black, Asian and Minority Ethnic executives.

On gender diversity the Board is committed to maintaining at least three female Board members and over time will aim to reach 50 per cent female representation on the Board to match the 50 per cent ambition that the Group has set for female senior roles. Reflecting these aspirations, the Board will aim to continue to meet the Hampton-Alexander objective of 33 per cent female representation. Female representation on the Board is currently 35.7 per cent (based on five female Directors and nine male Directors).

The Group has also set a target of 13 per cent of senior roles to be held by Black, Asian and Minority Ethnic executives by 2025. The Board currently meets, and will aim to continue to meet, the objectives of the Parker review with at least one Black, Asian and Minority Ethnic Board member.

BOARD OF DIRECTORS

Robin Budenberg CBE Chairman

Appointed: Non-Executive Director October 2020 and Chairman January 2021

Skills, experience and contribution:

– Extensive financial services and investment banking experience

– Strong governance and strategic advisory skills to companies and government

– Regulatory, public policy and stakeholder management experience

Robin spent 25 years advising UK companies and the UK Government while working for S.G. Warburg/UBS Investment Bank, and was formerly Chief Executive and Chairman of UK Financial Investments (UKFI), managing the Government's investments in UK banks following the 2008 financial crisis. He was awarded a CBE in 2015 for services to the taxpayer and the economy, and is a qualified Chartered Accountant.

External appointments: Chairman of The Crown Estate.

Charlie Nunn Executive Director and Group Chief Executive

Appointed: August 2021

Skills, experience and contribution:

– Extensive financial services experience including in Chief Executive and other leadership roles

– Strategic planning and implementation

– Extensive experience of digital transformation

Charlie has over 25 years' experience in the financial services sector. Prior to joining the Group, Charlie held a range of leadership positions at HSBC, including Global Chief Executive, Wealth and Personal Banking, and Group Head of Wealth Management and Digital, as well as Global Chief Operating Officer of Retail Banking and Wealth Management.

Charlie began his career at Accenture, where he worked for 13 years in the US, France, Switzerland and the UK before being made a Partner. He then moved to McKinsey & Co. as a Senior Partner, leading on projects for 5 years.

External appointments: None

William Chalmers Executive Director and Chief Financial Officer

Appointed: Chief Financial Officer August 2019 and Interim Group Chief Executive May to August 2021

Skills, experience and contribution:

– Significant board level strategic and financial leadership experience

– Strategic planning and development, mergers and acquisitions, equity and debt capital structuring and risk management.

William joined the Board in August 2019, when he was appointed Chief Financial Officer, and was appointed Interim Group Chief Executive from May 2021 to August 2021

William has worked in financial services for over 25 years and previously held a number of senior roles at Morgan Stanley, including Co-Head of the Global Financial Institutions Group and Head of EMEA Financial Institutions Group. Before joining Morgan Stanley, William worked for JP Morgan, again in the Financial Institutions Group.

External appointments: None.

Appendix 3: Board of Directors continued

Alan Dickinson Deputy Chair and Senior Independent Director

Appointed: September 2014 (Board), December 2019 (Senior Independent Director), May 2020 (Deputy Chair)

Skills, experience and contribution:

– Highly regarded retail and commercial banker

– Strong strategic, risk and core banking experience

– Regulatory and public policy experience

Alan has 37 years' experience with the Royal Bank of Scotland, most notably as Chief Executive of RBS UK. Alan was formerly Chairman of Urban&Civic plc and of Brown, Shipley & Co. Limited, a Non-Executive Director and Chairman of the Risk Committee of the Nationwide Building Society and of Willis Limited, and a Governor of Motability. Alan is a Fellow of the Chartered Institute of Bankers and the Royal Statistical Society.

External appointments: Non-Executive Director of England and Wales Cricket Board.

Nigel Hinshelwood Senior Independent Director

Appointed: January 2019

Skills, experience and contribution:

– Extensive experience in the financial services sector having worked across the UK and Europe, North and South America, the Middle East and Asia Pacific

– Significant experience of large scale transformation, operations and technology

Nigel was a partner at Ernst & Young (subsequently Cap Gemini Ernst & Young) for many years where he held numerous positions including Head of Financial Services and Chief Executive Officer of Southeast Asia. Before becoming a Non-Executive, he was the Head of HSBC UK and Deputy CEO of HSBC Bank plc. Within the HSBC Group he held a number of executive appointments including Head of HSBC Insurance Holdings, Chief Operating Officer for Europe, Middle East and Africa, and Global Head of Operations. Nigel was formerly a Non-Executive Director of Lloyd's of London Franchise Board.

External appointments: Non-Executive Director of Nordea Bank Group and Chairman of its Risk Committee, Member of Lloyd's of London's Technology and Transformation Committee, International Advisory Council Member of Adobe Systems Software Ireland Limited, Advisory Council Member of International Association of Credit Portfolio Managers and a Member of the Finance and Risk Committee of Business in the Community.

Brendan Gilligan Non-Executive Director

Appointed: January 2019

Skills, experience and contribution:

– Extensive experience in core strategic finance and controllership roles in the financial services industry

– Significant experience of serving on the boards of regulated financial services businesses in the UK, France, Switzerland and Poland.

Brendan's career began in the Public Audit division of KPMG in Ireland and Canada. He subsequently worked in commercial and consumer banking services and financing with Woodchester Investments plc and, after its acquisition by General Electric Company, with GE Capital until his retirement in April 2018.

External appointments: Non-Executive Director of Cabot UK Holdco Limited and Cabot Credit Management Group Limited and Chairman of its Audit and Risk Committees.

Sarah Bentley Director Lloyds Bank plc and Bank of Scotland plc

Appointed: January 2019

Skills, experience and contribution:

– Extensive digital and digital transformation experience

– Strong customer and marketing skills

Sarah is Chief Executive Officer and Executive Director of Thames Water Utilities Limited and a Director of Water UK, the trade association of the water and wastewater industry. Prior to joining Thames Water in autumn 2020, Sarah was Chief Customer Officer at Severn Trent plc and a member of its Executive Committee. Before joining Severn Trent, Sarah was the Managing Partner for Accenture's Digital business unit in the UK & Ireland. Sarah previously worked internationally in a number of roles including Strategy, Marketing & Propositions for BT's Global Services division, CEO of Datapoint, and Senior Vice President of eLoyalty.

External appointments: Thames Water, Chief Executive Officer and Director of Water UK

Sarah Legg Non-Executive Director

Appointed: December 2019

Skills, experience and contribution:

– Strong financial leadership and regulatory reporting skills

– Significant audit and risk experience in financial leadership

– Strong transformation programme experience

Sarah has spent her entire career in financial services with HSBC in finance leadership roles. She was the Group Financial Controller, a Group General Manager, and also Chief Financial Officer for HSBC's Asia Pacific region. She also spent 8 years as a Non-Executive Director on the board of Hang Seng Bank Limited, a Hong Kong listed bank.

External appointments: Chair of the Campaign Advisory Board, King's College, Cambridge University Honorary Vice President of the Hong Kong Society for Rehabilitation and a Trustee of the Lloyds Bank Foundation for England and Wales.

Appendix 3: Board of Directors continued

Lord Lupton CBE Non-Executive Director and Chair of Lloyds Bank Corporate Markets plc

Appointed: June 2017

Skills, experience and contribution:

– Extensive international corporate experience, especially in financial markets
– Strong board governance experience, including investor relations and remuneration
– Regulatory and public policy experience
– Significant experience in strategic planning and implementation

Lord Lupton was Deputy Chairman of Baring Brothers, co-founded the London office of Greenhill & Co., and was Chairman of Greenhill Europe. He is a former Treasurer of the Conservative Party and became a Life Peer in October 2015, serving on the House of Lords Select Committee on Charities.

External appointments: Senior Advisor to Greenhill Europe, a Trustee of The Lovington Foundation and Chairman of the Board of Visitors of the Ashmolean Museum.

Amanda Mackenzie OBE Non-Executive Director

Appointed: October 2018

Skills, experience and contribution:

– Extensive experience in ESG matters including responsible business and sustainability
– Considerable customer engagement experience
– Strong digital technology experience
– Significant marketing and brand background

Amanda was a member of Aviva's Group Executive for 7 years as Chief Marketing and Communications Officer and was seconded to help launch the United Nation's Sustainable Development Goals. She is also a former Director of British Airways AirMiles, BT, Hewlett Packard Inc and British Gas.

External appointments: Chief Executive of Business in the Community – The Prince's Responsible Business Network.

Stuart Sinclair Non-Executive Director

Appointed: January 2016

Skills, experience and contribution:

– Extensive experience in retail banking, insurance and consumer finance
– Significant experience in strategic planning and implementation
– Experience in consumer analysis, marketing and distribution

Stuart is a former Non-Executive Director of TSB Banking Group plc, LV Group and Virgin Direct. He was previously the Interim Chairman of Provident Financial plc, Senior Independent Director of Swinton Group and of QBE and a Council Member, Chatham House. In his executive career, he was President and Chief Operating Officer of Aspen Insurance, President of GE Capital China, Chief Executive Officer of Tesco Personal Finance and Director of UK Retail Banking at the Royal Bank of Scotland.

External appointments: Chairman of International Personal Finance plc and of Willis Limited.

Catherine Woods Non-Executive Director

Appointed: March 2020

Skills, experience and contribution:

– Extensive executive experience of international financial institutions
– Deep experience of risk and transformation oversight
– Strong focus on culture and corporate governance

Catherine is a former Deputy Chair and Senior Independent Director of AIB Group plc where she also chaired the Board Audit Committee. In her executive career with J P Morgan Securities, she was Vice President, European Financial Institutions, Mergers and Acquisitions, and Vice President Equity Research Department, forming the European Banks Team

External appointments: Non-Executive Director of Beazley plc and Non-Executive Director and Deputy Chair of BlackRock Asset Management Ireland Limited.

Harmeen Mehta Non-Executive Director

Appointed: November 2021

Skills, experience and contribution:

– Extensive experience leading digital, engineering, IT and innovation transformation
– A wealth of international and financial services knowledge having lived in 11 countries and worked across 30 countries in her career
– Experience of incubating new businesses and creating new revenue streams in businesses

Harmeen was appointed Chief Digital and Innovation Officer at BT in April 2021. Prior to that role, she spent seven years as Global Chief Information Officer and Head of Cyber Security and Cloud Business at Bharti Airtel, leading its cloud and security businesses. Earlier in her career, Harmeen held CIO positions at BBVA, HSBC and Bank of America Merrill Lynch.

External appointments: Chief Digital and Innovation Officer at BT; Non-Executive Director at Max Healthcare.

Appendix 4: Remuneration disclosure

This section discloses the remuneration awards made by the Group to Material Risk Takers (MRTs) in respect of the 2021 performance year. Additional information summarising the Group's remuneration policies, structure and governance is also provided. These disclosures should be read in conjunction with the disclosures for Executive Directors contained in the Directors' Remuneration Report (DRR) on pages 101 to 121 and the Directors' Remuneration Policy (DRP) on pages 115 to 123 of the 2019 Annual Report. Together these disclosures comply with the requirements of Article 450 of the onshored and amended version Capital Requirements Regulation (EU) No. 575/2013 (CRR).

The remuneration principles and practices detailed in the DRR apply to MRTs and non-MRTs in the same way as to Executive Directors (other than where stated in this disclosure).

In line with the PRA's guidance, the Group has applied the PRA version of the EBA Delegated Regulation (EU) No. 604/2014 as well as the draft revised Regulatory Technical Standards (RTS) for the identification of material risk takers published by the EBA in June 2020 to determine which colleagues should be identified as MRTs. MRTs are colleagues who are considered to have a material impact on the Group's risk profile, and include, but are not limited to:

– Board Executive Directors, Board Non-Executive Directors and members and attendees of the Group Executive Committee (GEC) and their respective executive level direct reports

– Business and Function Heads and their respective direct reports. Senior Management Function (SMF) holders and certain Certified roles

– Other highly remunerated individuals whose activities could have a material impact on the Group's risk profile

DECISION MAKING PROCESS FOR REMUNERATION POLICY

The Group has a strong belief in aligning the remuneration delivered to the Group's executives with the successful performance of the business and, through this, the delivery of long-term, superior and sustainable returns to shareholders. It has continued to seek the views of shareholders and other key stakeholders with regard to remuneration policy and seeks to motivate, incentivise and retain talent while being mindful of the economic outlook.

The overarching purpose of the Remuneration Committee is to consider, agree and recommend to the Board an overall remuneration policy and philosophy for the Group that is defined by, supports and is closely aligned to its long-term business strategy, business objectives, risk appetite and values and recognises the interests of relevant stakeholders. The remuneration policy governs all aspects of remuneration and applies in its entirety firm-wide to all divisions, business units and companies in the Group, including wholly-owned overseas businesses and all colleagues, contractors and temporary staff. The Committee reviews the policy annually and approves all compensation for Executive Directors, GEC members and attendees, senior risk and compliance officers, high earners and any other MRTs. During 2021 the Committee had 6 scheduled meetings. Further details on the operation of the Remuneration Committee and independent advice received during the year can be found on page 117 of the DRR.

The Group has a robust governance framework in place, which is cascaded through the Group with the Group People Committee having oversight for all other colleagues.

GOVERNANCE AND RISK MANAGEMENT

An essential component of the approach to remuneration is the governance process that underpins it. This ensures that the policy is robustly applied and risk is managed appropriately. In addition to setting the overall remuneration policy and philosophy for the Group, the Remuneration Committee ensures that colleagues who could have a material impact on the Group's risk profile are not rewarded for excessive risk taking but provided with appropriate incentives that recognise their individual contribution to the success of the organisation. The Remuneration Committee works closely with the Risk Committee in ensuring the Group Performance Share (GPS) plan outcome is moderated. The two Committees determine whether the proposed GPS outcome and performance assessments adequately reflect the risk appetite and framework of the Group; whether it took account of current and future risks; and whether any further adjustment is required or merited. The Group and the Remuneration Committee are determined to ensure that the aggregate of the variable remuneration for all colleagues is appropriate and balanced with the interests of shareholders and all other stakeholders.

The Remuneration Committee's terms of reference are available from the Company Secretary and are displayed on the Group's website,www.lloydsbankinggroup.com/who-we-are/group-overview/corporate-governance. These terms are reviewed each year to ensure compliance with the remuneration regulations and were last updated in January 2022.

LINK BETWEEN PAY AND PERFORMANCE

The Group's approach to reward is intended to provide a clear link between remuneration and delivery of its key strategic objectives, supporting the aim of becoming the best bank for customers, and through that, for shareholders. To this end, the performance management process has been developed, with the close participation from Group Risk, to ensure there is a clear alignment between award outcomes and individual performance, growth and development, whilst also reflecting divisional achievement.

The use of a balanced scorecard approach to measure performance enables the Remuneration Committee to assess the performance of the Group and its senior executives in a consistent and performance driven way. The Group's remuneration policy supports the business values and strategy, based on building long-term relationships with customers and colleagues and managing the financial consequences of business decisions across the entire economic cycle.

Further detail can be found in the DRR and the DRP within the Lloyds Banking Group plc 2021 Annual Report and Accounts. In particular, see pages 105 to 106.

Appendix 4: Remuneration disclosure

DESIGN AND STRUCTURE OF REMUNERATION

When establishing the remuneration policy and associated frameworks, the Group is required to take into account its size, organisation and the nature, scope and complexity of its activities. For the purpose of remuneration regulation, Lloyds Bank plc is treated as a proportionality level I firm and therefore subject to the more onerous remuneration rules.

Remuneration is delivered via a combination of fixed and variable remuneration. Fixed remuneration reflects the role, responsibility and experience of a colleague. Variable remuneration is based on an assessment of individual, business area and Group performance. The mix of variable and fixed remuneration is driven by seniority and role. Taking into account the expected value of awards, the performance-related elements of pay make up a considerable proportion of the total remuneration package for MRTs, whilst maintaining an appropriate balance between the fixed and variable elements. The maximum ratio of variable to fixed remuneration for MRTs is 200 per cent, which has been approved by shareholders (98.77 per cent of votes cast) at the AGM on 15 May 2014.

Remuneration for control functions is set in relation to benchmark market data to ensure that it is possible to attract and retain staff with the appropriate knowledge, experience and skills. An appropriate balance between fixed and variable compensation supports this approach. Generally, control function staff receive a higher proportion of fixed remuneration than other colleagues. Particular attention is paid to ensure remuneration for control function staff is linked to the performance of their function and independent from the business areas they control.

The information below summarises the different remuneration elements for MRTs (this includes control function staff) and non-MRTs. All references to pages contained within the DRR or DRP relate to the 2021 Directors' Remuneration Report (DRR) on pages 101 to 121 and the Directors' Remuneration Policy (DRP) on pages 115 to 123 of the 2019 Annual Report to Lloyds Banking Group plc.

Base salary

Base salaries are reviewed annually, taking into account individual performance and market information. Further information on base salaries can be found on page 115 of the DRP.

Applies to:

- Executive Directors, members/attendees of the Group Executive Committee and their respective direct reports
- Colleagues performing a Senior Management Function
- Other MRTs
- Non-MRTs

Fees

Non-Executive Director fees are reviewed periodically by the Board. Further information on fees can be found on page 111 of the DRR and page 123 of the DRP.

Applies to:

- Non-Executive Directors

Fixed share award

The fixed share award, made annually, delivers Lloyds Banking Group shares over a period of five years. With effect from 2020 fixed share awards will be delivered over a period of three years (subject to shareholder approval for Executive Directors). Its purpose is to ensure that total fixed remuneration is commensurate with the role, responsibilities and experience of the individual; provides a competitive reward package; and is appropriately balanced with variable remuneration, in line with regulatory requirements.

The fixed share award can be amended or withdrawn in the following circumstances:

- to reflect a change in role;
- to reflect a Group leave policy (e.g. parental leave or sickness absence);
- termination of employment with the Group;
- if the award would be inconsistent with any applicable legal, regulatory or tax requirements or market practice.

Further information on fixed share awards can be found on page 116 of the DRP.

Applies to:

- Executive Directors, members/attendees of the Group Executive Committee and their respective direct reports
- Colleagues performing a Senior Management Function
- Other MRTs
- Non-MRTs

Benefits

Core benefits for UK-based colleagues include pension, private medical insurance, life insurance and other benefits that may be selected through the Group's flexible benefits plan. Further information on benefits and all-employee share plans can be found on page 116 of the DRP. Benefits can be amended or withdrawn in the following circumstances:

- to reflect a change to colleague contractual terms;
- to reflect a change of grade;
- termination of employment with the Group;
- to reflect a change of Reward Strategy/benefit provision;
- if the award would be inconsistent with any statutory or tax requirements.

Details of NEDs' benefits are set out on page 123 of the DRP.

Applies to:

- Non-Executive Directors
- Executive Directors, members/attendees of the Group Executive Committee and their respective direct reports
- Colleagues performing a Senior Management Function
- Other MRTs
- Non-MRTs

Appendix 4: Remuneration disclosure

Group Performance Share

The Group Performance Share (GPS) plan is an annual discretionary bonus plan. The plan is designed to reflect specific goals linked to the performance of the Group. The majority of colleagues and all MRTs participate in the GPS plan. Individual GPS awards are based upon individual contribution, overall Group financial results and performance conversations over the past financial year. The Group's total risk-adjusted GPS outcome is determined by the Remuneration Committee annually as a percentage of the Group's underlying profit, modified for:

– Group balanced scorecard performance

– Collective and discretionary adjustments to reflect risk matters and/or other factors.

The Group applies deferral arrangements to GPS and variable pay awards made to colleagues. GPS awards for MRTs are subject to deferral and a holding period in line with regulatory requirements and market practice. Further information on the GPS plan can be found on pages 119 of the DRR as well as page 117 of the DRP.

Applies to:

– Executive Directors, members/attendees of the Group Executive Committee and their respective direct reports

– Colleagues performing a Senior Management Function

– Other MRTs

– Non-MRTs

Long Term Share Plan

The Long Term Share Plan is the Group's long-term incentive opportunity to align executive management and behaviour to the Group's objectives of delivering long-term superior and sustainable returns. Senior colleagues, including MRTs, are eligible to participate in the plan. Individual awards are based upon individual contribution.

Awards are made in the form of conditional shares and award levels are set at the time of grant, in compliance with regulatory requirements, and may be subject to a discount in determining total variable remuneration under the rules set by the European Banking Authority. The number of shares to be awarded may be calculated using a fair value or based on a discount to market value, as appropriate. Vesting of awards will be subject to an assessment of underpin thresholds being maintained measured over a period of three years, or such longer period, as determined by the Committee. Awards for MRTs are subject to deferral and a holding period in line with regulatory requirements and market practice. Further detail of the awards made in 2021 can be found on page 115 of the DRR.

Applies to:

– Executive Directors, members/attendees of the Group Executive Committee and their respective direct reports

– Colleagues performing a Senior Management Function

– Other MRTs

– Non-MRTs

Deferral, vesting and performance adjustment

At least 40 per cent of MRTs' variable remuneration is deferred into Lloyds Banking Group Shares. For all MRTs, variable remuneration is deferred in line with the regulatory requirements for four, five or seven years, (depending on MRT category). At least 50 per cent of each release is subject to a 12 month holding period.

For all colleagues, any deferred variable remuneration amount is subject to performance adjustment (malus) in accordance with the Group's Deferral and Performance Adjustment Policy.

MRTs' vested variable remuneration (including variable remuneration subject to a holding period) can be recovered from colleagues up to seven years after the date of award in the case of a material or severe risk event (clawback). This period may be extended to ten years where there is an ongoing internal or regulatory investigation. Clawback is used alongside other performance adjustment processes.

Further information on deferral, vesting and performance adjustment can be found in the DRR on pages 116 and 118 of the DRP.

Guaranteed variable remuneration

Guarantees, such as sign-on awards, may only be offered in exceptional circumstances to new hires for the first year of service and in accordance with regulatory requirements. Any awards made to new hires to compensate them for unvested variable remuneration they forfeit on leaving their previous employment will be subject to appropriate retention, deferral, performance and clawback arrangements in accordance with applicable regulatory requirements.

Retention awards may be made to existing colleagues in limited circumstances and are subject to prior regulatory approval in line with applicable regulatory requirements.

Applies to:

– Executive Directors, members/attendees of the Group Executive Committee and their respective direct reports

– Colleagues performing a Senior Management Function

– Other MRTs

– Non-MRTs

Shareholding requirement

Executive Directors: see DRR page 111.

For members/attendees of the GEC, at least 100 per cent of their salary and fixed share awards must be held in shares.

Applies to:

– Executive Directors, members/attendees of the Group Executive Committee

Termination payments

Executive Directors and GEC members: see pages 121 to 123 of the 2019 DRR.

All other termination payments comply with the Group's contractual, legal and regulatory requirements and are made in such a way as to ensure they do not reward failure or misconduct and reflect performance over time.

Applies to:

– Executive Directors, members/attendees of the Group Executive Committee and their respective direct reports

– Approved Persons performing SIFs and/or all colleagues performing a Senior Management Function

– Other MRTs

– Non-MRTs

Appendix 4: Remuneration disclosure

REM1: Remuneration awarded for the financial year

		MB Supervisory function	MB Management function	Other senior management[2]	Other identified staff
Fixed remuneration[4]	Number of identified staff	12	3	14	174
	Total fixed remuneration	£3,167,813	£6,448,308	£12,302,139	£57,376,272
	Of which: cash-based	£3,167,813	£3,230,511	£7,963,071	£47,323,129
	Of which: shares or equivalent ownership interests[1]	—	£2,604,000	£2,716,084	£1,299,800
	Of which: share-linked instruments or equivalent non-cash instruments	—	—	—	—
	Of which: other instruments	—	—	—	—
	Of which: other forms	—	£613,797	£1,622,984	£8,753,343
Variable remuneration	Number of identified staff	—	3	12	161
	Total variable remuneration	—	£5,415,947	£10,405,519	£44,689,176
	Of which: cash-based	—	£1,357,449	£1,828,092	£12,183,420
	Of which: deferred	—	£814,470	£1,096,856	£3,226,185
	Of which: shares or equivalent ownership interests[3]	—	£4,058,498	£8,577,427	£32,505,756
	Of which: deferred	—	£3,515,517	£7,846,189	£22,643,076
	Of which: share-linked instruments or equivalent non-cash instruments	—	—	—	—
	Of which: deferred	—	—	—	—
	Of which: other instruments	—	—	—	—
	Of which: deferred	—	—	—	—
	Of which: other forms	—	—	—	—
	Of which: deferred	—	—	—	—
Total remuneration		**£3,167,813**	**£11,864,255**	**£22,707,658**	**£102,065,448**

1 Released over a three-year period.

2 Senior Management is defined as Group Executive Committee (GEC) members/attendees (excluding Group Executive Directors and Non-Executive Directors). In 2020 and prior years Senior Management include GEC direct reports (excluding those direct reports who do not materially influence the risk profile of any in-scope group firm).

3 Values for Long Term Share Plan awards are based on face value at grant. An EBA discount factor has not been applied to awards made in 2022 in respect of performance year 2021.

4 Fixed Remuneration is calculated using annualised salary.

Appendix 4: Remuneration disclosure

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

	MB Supervisory function	MB Management function	Other senior management	Other identified staff
Guaranteed variable remuneration awards				
Guaranteed variable remuneration awards - Number of identified staff	—	1	—	1
Guaranteed variable remuneration awards -Total amount	—	£1,316,564	—	£185,000
Of which guaranteed variable remuneration awards paid during the financial year, that are not taken into account in the bonus cap	—	—	—	—
Severance payments awarded in previous periods, that have been paid out during the financial year				
Severance payments awarded in previous periods, that have been paid out during the financial year - Number of identified staff	—	—	1	2
Severance payments awarded in previous periods, that have been paid out during the financial year - Total amount	—	—	£47,685	£244,371
Severance payments awarded during the financial year				
Severance payments awarded during the financial year - Number of identified staff	—	—	—	5
Severance payments awarded during the financial year - Total amount	—	—	—	£763,667
Of which paid during the financial year	—	—	—	£259,140
Of which deferred	—	—	—	£504,527
Of which severance payments paid during the financial year, that are not taken into account in the bonus cap	—	—	—	—
Of which highest payment that has been awarded to a single person	—	—	—	£381,905

Appendix 4: Remuneration disclosure

REM3: Deferred remuneration

Deferred and retained remuneration	Total amount of deferred remuneration awarded for previous performance periods	Of which due to vest in the financial year	Of which vesting in subsequent financial years	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e.changes of value of deferred remuneration due to the changes of prices of instruments)	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
MB Supervisory function								
Cash-based	—	—	—	—	—	—	—	—
Shares or equivalent ownership interests	—	—	—	—	—	—	—	—
Share-linked instruments or equivalent non-cash instruments	—	—	—	—	—	—	—	—
Other instruments	—	—	—	—	—	—	—	—
Other forms	—	—	—	—	—	—	—	—
MB Management function								
Cash-based	—	—	—	—	—	—	—	—
Shares or equivalent ownership interests	£10,139,832	£764,562	£9,375,269	—	—	—	£637,464	£127,099
Share-linked instruments or equivalent non-cash instruments	—	—	—	—	—	—	—	—
Other instruments	—	—	—	—	—	—	—	—
Other forms	—	—	—	—	—	—	—	—
Other senior management								
Cash-based	—	—	—	—	—	—	—	—
Shares or equivalent ownership interests	£39,560,299	£2,919,680	£36,640,619	—	—	—	£2,189,764	£729,916
Share-linked instruments or equivalent non-cash instruments	—	—	—	—	—	—	—	—
Other instruments	—	—	—	—	—	—	—	—
Other forms	—	—	—	—	—	—	—	—
Other identified staff								
Cash-based	—	—	—	—	—	—	—	—
Shares or equivalent ownership interests	£85,234,866	£10,235,069	£74,999,797	—	—	—	£7,609,969	£2,625,100
Share-linked instruments or equivalent non-cash instruments	—	—	—	—	—	—	—	—
Other instruments	—	—	—	—	—	—	—	—
Other forms	—	—	—	—	—	—	—	—
Total amount	**£134,934,997**	**£13,919,312**	**£121,015,685**	**—**	**—**	**—**	**£10,437,197**	**£3,482,115**

1 Non-Executive Directors are not eligible to receive variable remuneration.

2 All deferred and unvested variable remuneration is in shares.

Appendix 4: Remuneration disclosure

REM4: Remuneration of 1 million EUR or more per year

EUR	Identified staff that are high earners as set out in Article 450(i) CRR
1 000 000 to below 1 500 000	10
1 500 000 to below 2 000 000	1
2 000 000 to below 2 500 000	6
2 500 000 to below 3 000 000	1
3 000 000 to below 3 500 000	0
3 500 000 to below 4 000 000	0
4 000 000 to below 4 500 000	0
4 500 000 to below 5 000 000	1
5 000 000 to below 6 000 000	0
6 000 000 to below 7 000 000	0
7 000 000 to below 8 000 000	0

1 Converted to Euros using £1: €1.18227 (the exchange used by the European Commission for financial programming for December 2021). The exchange rate used for 2020 was £1 = €1.11804.

2 Values for Long Term Share Plan awards are based on face value at grant. An EBA discount factor has not been applied to awards made in 2022 in respect of performance year 2021.

3 Total number of Material Risk Takers earning more than €1m has increased from 17 in 2020 to 19 in 2021.

Appendix 4: Remuneration disclosure

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

	Management body remuneration			Business areas						
	MB Supervisory function	MB Management function	Total MB	Investment banking	Retail banking[1]	Asset management	Corporate functions	Independent internal control functions	All other	Total
Total number of identified staff										**203**
Of which: members of the MB	12	3	15							
Of which: other senior management				—	2	—	5	3	4	
Of which: other identified staff				—	60	—	58	34	22	
Total remuneration of identified staff	**£3,167,813**	**£11,864,255**	**£15,032,068**	**—**	**£40,779,884**	**—**	**£39,469,277**	**£23,912,299**	**£20,611,647**	
Of which: variable remuneration	—	£5,415,947	£5,415,947	—	£18,726,517	—	£18,320,586	£9,950,439	£8,097,153	
Of which: fixed remuneration	£3,167,813	£6,448,308	£9,616,121	—	£22,053,367	—	£21,148,691	£13,961,860	£12,514,494	

1 Retail Banking includes the Retail and Commercial Banking divisions.

Appendix 5: Differences in the accounting and regulatory scopes of consolidation

LI3: Outline of the differences between the accounting and regulatory scopes of consolidation[1]

2021						
		Method of regulatory consolidation				
Name of the entity	Method of accounting consolidation	Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	Description of entity
	a	b	c	d	e	f
Securitisation SPEs[2]						
CANCARA ASSET SECURITISATION LTD	Full Consolidation			x		Special Purpose Entity
CHELTENHAM SECURITIES 2017 LIMITED	Full Consolidation			x		Special Purpose Entity
FONTWELL SECURITIES 2016 LTD	Full Consolidation			x		Special Purpose Entity
FONTWELL II SECURITIES 2020 DAC	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 1) LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 3) LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 10) LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO.11) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 12) LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO.13) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO.14) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 15) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO.16) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 19) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 20) LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 21) LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 22) LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 23) LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 24) LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 25) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 26) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 27) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 28) LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 29) LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 30) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 31) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 32) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 33) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 34) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 35) LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 36) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 37) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 38) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 39) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 40) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 41) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 44) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 45) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 46) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 47) UK LIMITED	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 48) UK LIMITED	Full Consolidation			x		Special Purpose Entity
HOUSING ASSOCIATION RISK TRANSFER 2019 DAC	Full Consolidation			x		Special Purpose Entity
SALISBURY II SECURITIES 2016 LTD	Full Consolidation			x		Special Purpose Entity
SALISBURY II-A SECURITIES 2017 LIMITED	Full Consolidation			x		Special Purpose Entity
SALISBURY III SECURITIES 2019 DAC	Full Consolidation			x		Special Purpose Entity
SALISBURY SECURITIES 2015 LTD	Full Consolidation			x		Special Purpose Entity
WETHERBY SECURITIES 2017 LIMITED	Full Consolidation			x		Special Purpose Entity
WETHERBY II SECURITIES 2018 DAC	Full Consolidation			x		Special Purpose Entity
WETHERBY III SECURITIES 2019	Full Consolidation			x		Special Purpose Entity

1 The regulatory treatment of all entities listed as subsidiaries in the 2021 Lloyds Bank plc Annual Report and Accounts, pages 209 to 212, follows the accounting treatment unless otherwise stated in the table above.

2 The Group's capital-efficient securitisations and conduit vehicles are fully consolidated for accounting purposes. The underlying assets of the capital-efficient securitisations have been de-recognised from the regulatory balance sheet and replaced with the retained securitisation positions, risk weighted in line with the securitisation framework. The conduit vehicles are deconsolidated for regulatory purposes and the corresponding liquidity lines are risk-weighted, as further described in the Securitisation section, pages 76 to 86.

Appendix 6: EBA and BCBS adopted templates

List of EBA and BCBS templates disclosed in Pillar 3 Report

Abbreviation	Template name
KM1	Key Metrics
LI1	Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories
LI2	Main sources of differences between regulatory exposure amounts and carrying values in financial statements
OV1	Overview of risk-weighted assets
CR8	Risk-weighted assets flow statements of credit risk exposures
CR3	CRM techniques – Overview
CR9	Backtesting of PD per portfolio
CRB-B	Total and average net amount of exposures
CR6	IRB – Credit risk exposures by portfolio and PD range
CR10	IRB - specialised lending
CR4	Standardised approach – Credit risk exposure and Credit Mitigation (CRM) effects
CR5	Standardised approach - Exposure by asset class
CRB-C	Geographical breakdown of exposures
CRB-D	Concentration of exposures by industry
CRB-E	Maturity of exposures
CR1-A	Credit quality of exposures by exposure class and instrument
CR1-B	Credit quality of exposures by industry types
CR1-C	Credit quality of exposures by geography
CQ1	Credit quality of forborne exposures
CQ3	Credit quality of performing and non-performing exposures by past due days
CR1	Performing and non-performing exposures and related provisions
SEC1	Securitisation exposures in the non-trading book
SEC3	Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as originator or as sponsor
SEC5	Exposures securitised by the institution - Exposures in default and specific credit risk adjustments
SEC4	Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as investor
CCR1	Analysis of CCR exposure by approach
CCR8	Exposures to CCPs
CCR2	Credit Valuation Adjustment (CVA) capital charge
CCR4	IRB – CCR exposure by portfolio and PD scale
CCR3	Standardised approach – CCR exposures by regulatory portfolio and risk
CCR5-A	Impact of netting and collateral held on exposure values
CCR6	Credit derivatives exposures
LIQ1	Liquidity coverage ratio
CC1	Composition of Regulatory Capital
PV1	Prudential valuation adjustment
REM1	Remuneration awarded for the financial year
REM2	Special payments to staff whose professional activities have a material impact on institutions risk profile (identified staff)
REM3	Deferred remuneration
REM4	Remuneration of 1 million EUR or more per year
REM5	Information on remuneration of staff whose professional activities have a material impact on institutions risk profile (identified staff)
LI3	Outline of the differences between the accounting and regulatory scopes of consolidation

Appendix 6: EBA and BCBS adopted templates continued

List of excluded EBA and BCBS templates

Abbreviation	Template name	Reasons for excluding
KM2	Key Metrics – TLAC Requirements	Not Applicable at Lloyds Bank Group level
INS1	Non-deducted participations in insurance undertakings	Not Applicable at Lloyds Bank Group level
CR10	IRB – Equity	Not Applicable at Lloyds Bank Group level
CQ2	Quality of forbearance	Threshold for disclosure not met
CQ4	Quality of non-performing exposures by geography	Threshold for disclosure not met
CQ5	Credit quality of loans and advances by industry	Threshold for disclosure not met
CQ6	Collateral valuation – loans and advances	Threshold for disclosure not met
CR2	Changes in the stock of non-performing loans and advances	Threshold for disclosure not met
CQ7	Collateral obtained by taking possession and execution processes	Threshold for disclosure not met
CQ8	Collateral obtained by taking possession and execution processes – vintage breakdown	Threshold for disclosure not met
CR2-A	Changes in the stock of general and specific credit risk adjustments	Equivalent disclosures are provided in the Lloyds Bank plc ARA
CR2-B	Changes in the stock of defaulted and impaired loans and debt securities	Equivalent disclosures are provided in the Lloyds Bank plc ARA
CR7	IRB – Effect on the RWAs of credit derivatives used as CRM techniques	Excluded on materiality basis
CCR7	RWA flow statements of CCR exposures under the IMM	Not Applicable at Lloyds Bank Group level
CCR5-B	Composition of collateral for exposures to CCR	Threshold for disclosure not met
MR4	Comparison of VaR estimates with gains/losses	Excluded on materiality basis
MR3	IMA values for trading portfolios	Excluded on materiality basis
MR2-A	Market risk under the Internal Models Approach	Excluded on materiality basis
MR2-B	Risk-weighted assets flow statements of market risk exposures under an IMA	Excluded on materiality basis
MR1	Market risk under standardised approach	Excluded on materiality basis
TLAC1	Total loss absorbing capital composition	Not Applicable at Lloyds Bank Group level
TLAC2	Material sub-group entity – creditor ranking at legal entity level	Not Applicable at Lloyds Bank Group level
TLAC3	Resolution entity – creditor ranking at legal entity level	Not Applicable at Lloyds Bank Group level
CC2	Reconciliation of Regulatory Capital to the balance sheet	Equivalent disclosure provided in the Own Funds Reconciliation (pages 103 to 105)
IRRBB1	Quantitative information on IRRBB	Equivalent disclosures are provided in appendix 4
COVID1	Information on loans and advances subject to legislative and non-legislative moratoria	Not Applicable at Lloyds Bank Group level
COVID2	Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria	Not Applicable at Lloyds Bank Group level
COVID3	Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to COVID-19 crisis	Not Applicable at Lloyds Bank Group level
SEC2	Securitisation exposures in the trading book	Excluded on materiality basis

Appendix 7: CRR mapping

CRR ref	High-level summary	Pillar 3	ARA	20-F	Compliance reference
Scope of disclosure requirements					
431 (1)	Requirement to publish Pillar 3 disclosures.	x			Lloyds Bank plc publishes Pillar 3 disclosures.
431 (2)	Firms with permission to use specific operational risk methodologies must disclose operational risk information.		x		The Group's operational risk systems, mitigation and approach to capital requirements are disclosed on page 62 to 63 of the Lloyds Bank plc Annual Report
431 (3)	Institution must have a policy covering frequency of disclosures, their verification, comprehensiveness and appropriateness. Institution must also have policies for assessing whether their disclosures convey their risk profile comprehensively to market participants.	x			Page 7 (Disclosure Policy).
431 (4)	Explanation of ratings decision upon request.				Not applicable
Non-material, proprietary or confidential information					
432 (1)	Institutions may omit information that is not material if certain conditions are respected.	x			Page 7 (Basis of preparation)
432 (2)	Institutions may omit information that is proprietary or confidential if certain conditions are respected.				Not applicable
432 (3)	Where 432 (2) applies this must be stated in the disclosures, and more general information must be disclosed.				Not applicable
432 (4)	Use of 432 (1), (2) or (3) is without prejudice to scope of liability for failure to disclose material information.				Not applicable
Frequency of disclosure					
433	Disclosures must be published once a year at a minimum and more frequently if necessary.	x			Page 7 (Frequency, media and location)
Means of disclosure					
434 (1)	To include all disclosures in one appropriate medium, or provide clear cross-references.	x			Page 7 (Frequency, media and location)
434 (2)	Disclosures made under other requirements (e.g. accounting) can be used to satisfy Pillar 3 if appropriate.	x			Any cross-references to accounting or other disclosures are clearly signposted in this document, where appropriate.
Risk management objectives and policies					
435 (1)	Disclose information on:				
435 (1) (a)	The strategies and processes to manage risks.		x		Lloyds Bank plc Annual Report pages 15-67 (Risk Management)
435 (1) (b)	Structure and organisation of risk management function.		x		Lloyds Bank plc Annual Report pages 15-67 (Risk Management)
435 (1) (c)	Risk reporting and measurement systems.		x		Lloyds Bank plc Annual Report pages 15-67 (Risk Management)
435 (1) (d)	Hedging and mitigating risk – policies and processes.		x		Lloyds Bank plc Annual Report pages 15-67 (Risk Management)
435 (1) (e)	A declaration of adequacy of risk management arrangements approved by the Board.			x	Page 97 of Lloyds Bank plc 20-F (Board responsibility)
435 (1) (f)	Concise risk statement approved by the Board.		x		Pages 5 to 8 of Lloyds Bank plc Annual Report (Risk overview)
435 (2)	Information on governance arrangements, including information on Board composition and recruitment and risk committees.			x	Page 92 to 94 of Lloyds Bank plc 20-F (Corporate Governance)
435 (2) (a)	Number of directorships held by Board members.	x			Appendix 3 Board of Directors
435 (2) (b)	Recruitment policy for selection of Board members, their actual knowledge, skills and expertise.	x			Appendix 3 Board of Directors
435 (2) (c)	Policy on diversity of Board membership and results against targets.	x			Appendix 3 Board of Directors
435 (2) (d)	Disclosure of whether a dedicated risk committee is in place, and number of meeting in the year.			x	Page 92 to 94 of Lloyds Bank plc 20-F (Corporate Governance)
435 (2) (e)	Description of information flow on risk to Board.		x		Lloyds Bank plc Annual Report pages 15-67 (Risk Management)
Scope of application					
436 (a)	Name of institution.	x			Page 6 Introduction.
436 (b)	Difference in basis of consolidation for accounting and prudential purposes, describing entities that are:	x			Page 8 (Scope of Consolidation).

Appendix 7: CRR mapping continued

CRR ref	High-level summary	Pillar 3	ARA	20-F	Compliance reference
436 (b) (i)	Fully consolidated;	x			Page 8 (Scope of Consolidation).
436 (b) (ii)	Proportionally consolidated;	x			
436 (b) (iii)	Deducted from own funds;	x			
436 (b) (iv)	Neither consolidated nor deducted	x			
436 (c)	Impediments to transfer of own funds between parent and subsidiaries.				not applicable
436 (d)	Capital shortfalls in any subsidiaries outside the scope of consolidation.	x			Page 13 (The Group's approach to Capital Risk) The group actively manages the capital of its subsidiaries to ensure they remain appropriately capitalised
436 (e)	Making use of articles on derogations from a) prudential requirements or b) liquidity requirements for individual subsidiaries/entities.	x			Page 8 (Scope of Consolidation).
Own funds					
437 (1)	Disclose the following information regarding own funds:				
437 (1) (a)	a full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and filters and deductions applied pursuant to Articles 32 to 35, 36, 56, 66 and 79 to own funds of the institution and the balance sheet in the audited financial statements of the institution;	x			Page 103 own funds reconciliation
437 (1) (b)	a description of the main features of the Common Equity Tier 1 and Additional Tier 1 instruments and Tier 2 instruments issued by the institution;				Separately disclosed on Lloyds Banking Group website https://www.lloydsbankinggroup.com/investors/financial-downloads
437 (1) (c)	the full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments;				Separately disclosed on Lloyds Banking Group website https://www.lloydsbankinggroup.com/investors/financial-downloads
437 (1) (d)	disclosure of the nature and amounts of the following:				Page 103 own funds reconciliation
437 (1) (d)	(i) each prudential filter applied pursuant to Articles 32 to 35.	x			
437 (1) (d)	(ii) each deduction made pursuant to Articles 36, 56 and 66;	x			
437 (1) (d)	(iii) items not deducted in accordance with Articles 47, 48, 56, 66 and 79;	x			
437 (1) (e)	a description of all restrictions applied to the calculation of own funds in accordance with this Regulation and the instruments, prudential filters and deductions to which those restrictions apply;	x			
437 (1) (f)	where institutions disclose capital ratios calculated using elements of own funds determined on a different basis.				Not applicable
Capital requirements					
438 (a)	Summary of institution's approach to assessing adequacy of capital levels.	x			Page 12 (The Group's approach to Capital Risk)
438 (b)	Result of ICAAP on demand from authorities.				Not applicable
438 (c)	Capital requirements for each Standardised approach credit risk exposure class.	x			Page 41 (Total and average net amount of exposures CRB-B)
438 (d)	Capital requirements for each Internal Ratings Based Approach credit risk exposure class.	x			
438 (e)	Capital requirements for market risk or settlement risk.	x			Page 97 (Market risk own funds requirements)
438 (f)	Capital requirements for operational risk, separately for the Basic Indicator Approach, the Standardised Approach, and the Advanced Measurement Approaches as applicable.	x			Page 21 (Overview of Risk-weighted Assets -OV1)
438	Requirement to disclose specialised lending exposures and equity exposures in the banking book falling under the simple risk weight approach.	x			Page 54 (IRB - Specialised lending (CR10) Equity exposures – not applicable)
Exposure to counterparty credit risk (CCR)					
439 (a)	Description of process to assign internal capital and credit limits to CCR exposures.	x			Page 87 (internal capital and credit limits)
439 (b)	Discussion of policies for securing collateral and establishing credit reserves.	x			Page 87 (securing collateral and establishing credit reserves)
439 (c)	Discussion of management of wrong-way risk exposures.	x			Page 87 (Correlation (wrong way) risk)

Appendix 7: CRR mapping continued

CRR ref	High-level summary	Pillar 3	ARA	20-F	Compliance reference
439 (d)	Disclosure of collateral to be provided (outflows) in the event of a ratings downgrade.	x			Page 87 (Collateral requirements in the event of a downgrade in credit rating)
439 (e)	Derivation of net derivative credit exposure.	x			Page 95 (Net derivatives credit exposures, including: Impact of netting and collateral held on exposure value (CCR5-A))
439 (f)	Exposure values for mark-to-market, original exposure, standardised and internal model methods.	x			Page 89 (Analysis of CCR exposure by approach (CCR1))
439 (g)	Notional value of credit derivative hedges and current credit exposure by type of exposure.	x			Page 96 (Notional value of credit derivative transactions including: Credit Derivative Exposures (CCR6))
439 (h)	Notional amounts of credit derivative transactions.	x			
439 (i)	Estimate of alpha, if applicable.				Not applicable
Capital buffers					
440 (1) (a)	Geographical distribution of relevant credit exposures for calculation of countercyclical capital buffer.	x			Page 109 (Geographic distribution of credit exposures relevant for the calculation of the countercyclical capital buffer)
440 (1) (b)	Amount of the institution specific countercyclical capital buffer.	x			
Indicators of global systemic importance					
441 (1)	Disclosure of the indicators of global systemic importance.				Not applicable
Credit risk adjustments					
442 (a)	Disclosure of bank's definitions of past due and impaired.	x			Page 71 (Analysis of performing, non-performing and forborne exposures)
442 (b)	Approaches for calculating specific and general credit risk adjustments.		x		Page 93 (Note 2(h): Accounting policies, Impairment of Financial assets)
442 (c)	Disclosure of pre-CRM EAD by exposure class.	x			Page 41 (Total and average net amount of exposures (CRB-B))
442 (d)	Disclosure of pre-CRM EAD by geography and exposure class.	x			Page 58 (Geographical breakdown of exposures (CRB-C))
442 (e)	Disclosure of pre-CRM EAD by industry and exposure class.	x			Page 62 (Concentration of exposures by industry (CRB-D))
442 (f)	Disclosure of pre-CRM EAD by residual maturity and exposure class.	x			Page 64 (Maturity of exposures (CRB-E))
442 (g) (i),	Breakdown of impaired, past due, specific and general (ii), (iii) credit risk adjustments, and impairment charges for the period, by industry.	x			Page 68 (Credit quality of exposures by industry types (CR1-B))
442 (h)	Impaired, past due exposures, by geographical area, and amounts of specific and general impairment for each geography.	x			Page 69 (Credit quality of exposures by geography (CR1-C)) Page 71 (Analysis of past due, non-performing and forborne exposures)
442 (i), (ii),	Reconciliation of changes in specific and general credit (iii), (iv), (v) risk adjustments for impaired exposures.		x		Page 127 (Note 15: Financial assets at amortised cost)
442	Specific credit risk adjustments recorded to income statement are disclosed separately.	x			Page 68 (Credit quality of exposures by industry types (CR1-B))
Unencumbered assets					
443	Disclosures on unencumbered assets.	x			Page 111: Appendix 2: Asset Encumbrance
Use of ECAIs					
444 (a)	Names of the ECAIs used in the calculation of Standardised approach risk-weighted assets and reasons for any changes.	x			Page 55 (Analysis of credit risk exposures subject to the Standardised approach)
444 (b)	Exposure classes associated with each ECAI.	x			Page 56 (Standardised approach – exposures by asset class (CR5))
444 (c)	Description of the process used to transfer credit assessments to non-trading book items.	x			
444 (d)	Mapping of external rating to CQS.				Not applicable The Group complies with the standard association published on the EBA website.
444 (e)	Exposure value pre and post-credit risk mitigation, by CQS.	x			Page 55 (Standardised approach – credit risk exposures and Credit Risk Mitigation (CRM) effects (CR4)) Page 56 (Standardised approach – exposures by asset class (CR5))

Appendix 7: CRR mapping continued

CRR ref	High-level summary	Pillar 3	ARA	20-F	Compliance reference
Exposure to market risk					
445	Disclosure of position risk,large exposures exceeding limits, FX, settlement and commodities risk.				Not provided on grounds of immateriality.
Operational risk					
446	Scope of approaches used to calculate operational risk.	x			Page 21 (Overview of Risk Weighted Assets (OV1))
Exposure in equities not included in the trading book					
447 (a)	Differentiation of exposures based on objectives and an overview of accounting techniques and valuation methodologies.				Not applicable
447 (b)	The balance sheet value, the fair value and, for those exchange-traded, a comparison to the market price where it is materially different from the fair value.				Not applicable
447 (c)	The types, nature and amounts of exchange-traded exposures, private equity exposures in sufficiently diversified portfolios, and other exposures.				Not applicable
447 (d)	Realised gains or losses arising from sales and liquidations in the period.				Not applicable
447 (e)	Total unrealised gains or losses, the total latent revaluation gains or losses, and any of these amounts included in the original or additional own funds.				Not applicable
Exposure to interest rate risk on positions not included in the trading book					
448 (a)	Nature of the interest rate risk and the key assumptions, and frequency of measurement of the interest rate risk.		x		Pages 24 to 26 of Lloyds Bank plc Annual Report (Market risk)
448 (b)	Variation in earnings, economic value or other relevant measure used by the bank for upward and downward rate shocks according to the banks method for measuring the interest rate risk, broken down by currency.		x		
Exposure to securitisation positions					
449 (a)	Objectives in relation to securitisation activity.	x			Page 76 (Banking book securitisation strategy and roles)
449 (b)	Nature of other risks in securitised assets, including liquidity.	x			Page 76 (Risks inherent in banking book securitised assets)
449 (c)	Risks in re-securitisation activity stemming from seniority of underlying securitisations and ultimate underlying assets.	x			Not Applicable
449 (d)	The roles played by the institution in the securitisation process.	x			Page 76 (Banking book securitisation strategy and roles)
449 (e)	Indication of the extent of involvement in roles.	x			Page 82 (Securitisation exposures in the non-trading book and associated regulatory capital requirements – institution acting as originator or as sponsor (SEC3)) Page 86 (Securitisation exposures in the non-trading book and associated regulatory capital requirements – institution acting as investor (SEC4))
449 (f)	Processes in place to monitor changes in credit and market risks of securitisation exposures, and how the processes differ for re-securitisation exposures.	x			Page 77 (Monitoring changes in the credit risk of securitised exposures and Monitoring changes in the credit risk of ABS portfolios)
449 (g)	Description of the institution's policies with respect to hedging and unfunded protection, and identification of material hedge counterparties.	x			Page 81 (Use of financial guarantees)
449 (h)	Approaches to the calculation of risk-weighted assets for securitisations mapped to types of exposures.	x			Page 78 (Securitisation exposures in the non-trading book (SEC1))
449 (i)	Types of SSPEs used to securitise third-party exposures as a sponsor.	x			Page 81 (Sponsored and invested securitisations)
449 (j) (i-vi)	Summary of accounting policies for securitisations.	x			Page 80 (Accounting treatment)
449 (k)	Names of ECAIs used for securitisations and type.	x			Page 80 (Originated securitisations – regulatory treatment) Page 81 (Capital assessment)
449 (l)	Full description of Internal Assessment Approach.	x			Page 81 (Capital assessment)
449 (m)	Explanation of significant changes in quantitative disclosures.	x			Key movements explained where applicable under relevant tables

Appendix 7: CRR mapping continued

CRR ref	High-level summary	Pillar 3	ARA	20-F	Compliance reference
449 (n)	As appropriate, separately for the Banking and trading book securitisation exposures:	x			Not applicable
449 (n) (i)	Amount of outstanding exposures securitised;	x			Page 78 (Securitisation exposures in the non-trading book (SEC1))
449 (n) (ii)	On balance sheet securitisation retained or purchased, and off balance sheet exposures;	x			Page 78 (Securitisation exposures in the non-trading book (SEC1))
449 (n) (iii)	Amount of assets awaiting securitisation;	x			Not applicable
449 (n) (iv)	Early amortisation treatment; aggregate drawn exposures, capital requirements.	x			Not applicable
449 (n) (v)	Deducted or 1,250%-weighted securitisation positions.	x			Page 82 (Securitisation exposures in the non-trading book and associated regulatory capital requirements – institution acting as originator or as sponsor (SEC3)) Page 86 (Securitisation exposures in the non-trading book and associated regulatory capital requirements – institution acting as investor (SEC4))
449 (n) (vi)	Securitisation activity including the amount of exposures securitised and recognised gains or losses on sales;	x			Page 76 (Securitisation programmes and activity)
449 (o)	Banking and trading book securitisations.				
449 (o) (i)	Retained and purchased positions and associated capital requirements, broken down by risk-weight bands.	x			Page 82 (Securitisation exposures in the non-trading book and associated regulatory capital requirements – institution acting as originator or as sponsor (SEC3)) Page 86 (Securitisation exposures in the non-trading book and associated regulatory capital requirements – institution acting as investor (SEC4))
449 (o) (ii)	Retained and purchased re-securitisation positions before and after hedging and insurance; exposure to financial guarantors broken down by guarantor credit worthiness.	x			Not applicable
449 (p)	Impaired assets and recognised losses related to banking book securitisations, by exposure type.	x			Page 84 (Exposures securitised by the institution – Exposures in default and specific credit risk adjustments (SEC5))
449 (q)	Exposure and capital requirements for trading book securitisations, separated into traditional and synthetic.	x			Not applicable
449 (r)	Whether the institution has provided non-contractual financial support to securitisation vehicles.	x			Not applicable
Remuneration disclosure					
450	Remuneration disclosures (Material Risk Takers).	x			Appendix 4: Remuneration disclosures (Material Risk Takers).
Leverage					
451 (1) (a) 451 (1) (b) 451 (1) (c)	Leverage ratio, and breakdown of total exposure measure, including reconciliation to financial statements, and derecognised fiduciary items.	x			Page 107 (Leverage ratio common disclosure) and Page 108 (Summary reconciliation of accounting assets and leverage ratio exposures) Page 108 (Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures))
451 (1) (d) 451 (1) (e)	Description of the processes used to manage the risk of excessive leverage, and factors that impacted the leverage ratio during the year.	x			Page 108 (Description of the processes used to manage the risk of excessive leverage)
Use of the IRB approach to credit risk					
452 (a)	Permission for use of the IRB approach from the competent authority.	x			Page 29 (Scope of the IRB permission)
452 (b)	Explanation of:				
452 (b) (i)	Internal rating scales, mapped to external ratings;	x			Page 28 (Internal rating scales)
452 (b) (ii)	Use of internal ratings for purposes other than capital requirement calculations;	x			Page 31 (Other applications of IRB model outputs)
452 (b) (iii)	Management and recognition of credit risk mitigation;	x			Pages 24 to 25 (Credit Risk Mitigation)
452 (b) (iv)	Controls around ratings systems.	x			Page 30 (Internal development and monitoring of IRB models)
452 (c) (i)-(v)	Description of ratings processes for each IRB asset class, provided separately.	x			Page 29 (Scope of the IRB permission) and Page 30 (Internal development and monitoring of IRB models)
452 (d)	Exposure values by IRB exposure class, separately for Advanced and Foundation IRB.	x			Page 41 (Total and average net amount of exposures (CRB-B). This is also shown in other tables throughout the document)

Appendix 7: CRR mapping continued

CRR ref	High-level summary	Pillar 3	ARA	20-F	Compliance reference
452 (e)-(f)	For each exposure class, disclosed separately by obligor grade: Total exposure, separating loans and undrawn exposures where applicable, and exposure-weighted average risk weight.	x			Pages 44 to 47 (Analysis of Credit Risk Exposures subject to the Foundation IRB approach (CR6)) Pages 48 to 53 (Exposures subject to the Retail IRB approach (CR6)) Page 54 (Exposures subject to other IRB approaches (CR10))
452 (g)	Actual specific risk adjustments for the period and explanation of changes.	x			Page 69 Comparison of expected losses to specific credit risk adjustments
452 (h)	Commentary on drivers of losses in preceding period.	x			Page 70 (Regulatory expected losses and specific credit risk adjustments)
452 (i)	Estimates against actual losses for sufficient period, and historical analysis to help assess the performance of the rating system over a sufficient period.	x			Pages 32 to 40 (Model performance including Model performance table (page 39) and (pages 33 to 38) Back-testing of PD per portfolio (CR9))
452 (j)	For all IRB exposure classes:				
452 (j) (i)-(ii)	Where applicable, PD and LGD by each country where the bank operates.	x			Page 60 (Exposures subject to the IRB approach analysed by geographical region)
Use of credit risk mitigation techniques					
453 (a)	Use of on and off-balance sheet netting.	x			Pages 23 to 27 (Credit Risk Mitigation)
453 (b)	How collateral valuation is managed.	x			Please note additional information with regards to balance sheet netting and derivatives is included in Counterparty Credit Risk section of Pillar 3 (Pages 87 to 96)
453 (c)	Description of types of collateral used by the institution.	x			
453 (d)	Main types of guarantor and credit derivative counterparty, creditworthiness.	x			
453 (e)	Market or credit risk concentrations within risk mitigation exposures.		x		Page 28 (Credit Risk – limitations on concentrations)
453 (f)	Standardised or Foundation IRB Approach, exposure value covered by eligible collateral.	x			Page 26 (CRM Techniques – Overview (CR3))
453 (g)	Exposures covered by guarantees or credit derivatives.	x			
Use of the Advanced Measurement Approaches to Operational Risk					
454	Description of the use of insurance or other risk transfer mechanisms to mitigate operational risk.				Not applicable
Use of Internal Market Risk Models					
455 (a) (i)	Disclosure of the characteristics of the market risk models.				Not applicable
455 (a) (ii)	Disclosure of the methodologies used to measure incremental default and migration risk.				Not applicable
455 (a) (iii)	Descriptions of stress tests applied to the portfolios.				Not applicable
455 (a) (iv)	Methodology for back-testing and validating the models.				Not applicable
455 (b)	Scope of permission for use of the models.				Not applicable
455 (c)	Policies and processes to determine trading book classification, and to comply with prudential valuation requirements.				Not applicable
455 (d) (i)-(iii)	High/Low/Mean values over the year of VaR, SVaR and incremental risk charge.				Not applicable
455 (e)	The elements of the own fund calculation.				Not applicable
455 (f)	Weighted average liquidity horizons of portfolios covered by models.				Not applicable
455 (g)	Comparison of end-of-day VaR measures compared with one-day changes in the portfolio's value.				Not applicable

Abbreviations

Abbreviation	Brief description
A	
ABCP	Asset-backed commercial paper
ABS	Asset-backed securities
AIRB	Advanced Internal Ratings-Based Approach
ALRB	Additional Leverage Ratio Buffer
AMA	Advanced Measurement Approach
ARA	Annual Report and Accounts
AT1	Additional Tier 1 capital
B	
BCBS	Basel Committee on Banking Supervision
BEEL	Best estimate of expected losses
BoE	Bank of England
BRC	Board Risk Committee
C	
CCB	Capital Conservation Buffer
CCF	Credit conversion factor
CCLB	Countercyclical Leverage Buffer
CCP	Central counterparty
CCR	Counterparty credit risk
CCyB	Countercyclical Capital Buffer
CDS	Credit default swap
CET1	Common equity tier 1 capital
CLN	Credit linked notes
CP	Commercial paper
CRD IV	Capital Requirements Directive & Regulation
CRM	Credit risk mitigation
CRR	Capital Requirements Regulation
CSA	Credit support annex
CVA	Credit valuation adjustment
D	
DVA	Debit valuation adjustment
E	
EAD	Exposure at default
EBA	European Banking Authority
ECAI	External Credit Assessment Institutions
EEL	Excess expected loss
EL	Expected loss
EU	European Union
F	
FCCM	Financial Collateral Comprehensive Method
FII	Financial Institutions Interconnectedness
FIRB	Foundation Internal Ratings-Based Approach
Fitch	Fitch Ratings
FPC	Financial Policy Committee (UK)
FRTB	Fundamental review of the trading book (BCBS)
G	
GALCO	Group Asset and Liability Committee
GEC	Group Executive Committee
GRC	Group Risk Committee
Group	Lloyds Bank Group plc together with its subsidiary undertakings on a consolidated basis
G-SIB	Global Systemically Important Bank
H	
HPI	House price index
HQLA	High quality liquid assets
I	
IAA	Internal Assessment Approach
IAS	International Accounting Standard
ICAAP	Internal Capital Adequacy Assessment Process
ICG	Individual Capital Guidance
IFRS	International Financial Reporting Standards
IMM	Internal Model Method
IRB	Internal Ratings-Based Approach
IRRBB	Interest rate risk in the banking book
IRC	Incremental risk charge
ISDA	International Swaps and Derivatives Association
L	
LCR	Liquidity coverage ratio
LGD	Loss given default
LIBOR	London Interbank Offer Rate
LTV	Loan-to-value
M	
MGC	Model Governance Committee
Moody's	Moody's Investors Service
MTM	Mark-to-market
O	
OTC	Over-the-counter
P	
PD	Probability of default
PFE	Potential future exposure
PIT	Point-in-time
PRA	Prudential Regulation Authority (UK)
PRR	Position risk requirement
PVA	Prudent valuation adjustment
Q	
QCCP	Qualifying Central Counterparty
QRRE	Qualifying revolving retail exposure
R	
RBA	
RBA	Ratings Based Approach
Retail IRB	Retail Internal Ratings Based Approach
RMBS	Residential mortgage-backed security
RNIV	Risks not in VaR

S	
STA	Standardised Approach
S&P	Standard and Poor's
SCRA	Specific credit risk adjustment
SE	Structured entity
SFTs	Securities financing transactions
SME	Small and medium-sized enterprise
SRB	Systemic risk buffer
SRT	Significant risk transfer

T	
TTC	Through-the-cycle
T1	Tier 1 capital
T2	Tier 2 capital

U	
UK	United Kingdom
US	United States of America

V	
VaR	Value-at-risk

CONTACTS

For further information please contact:

INVESTORS AND ANALYSTS

Douglas Radcliffe
Group Investor Relations Director
020 7356 1571
douglas.radcliffe@lloydsbanking.com

Edward Sands
Director of Investor Relations
020 7356 1585
edward.sands@lloydsbanking.com

Eileen Khoo
Director of Investor Relations
07385 376435
eileen.khoo@lloydsbanking.com

Nora Thoden
Director of Investor Relations - ESG
020 7356 2334
nora.thoden@lloydsbanking.com

CORPORATE AFFAIRS

Grant Ringshaw
External Relations Director
020 7356 2362
grant.ringshaw@lloydsbanking.com

Matt Smith
Head of Media Relations
020 7356 3522
matt.smith@lloydsbanking.com

Registered office: Lloyds Bank plc, 25 Gresham Street, London, EC2V 7HN
Registered in England no. 00002065