# Lloyds Bank plc

## 2023 Year-End

## Pillar 3 Disclosures

31 December 2023

# Table of contents

# Attestation Summary

The disclosures presented within this document are not required to be, and have not been, subjected to an external audit.

As set out in the Governance section of the 2023 Annual Report and Accounts, the Board is responsible for, and monitors, the Group's risk management and internal control systems. These are designed to facilitate effective and efficient operations and to ensure the quality and integrity of internal and external reporting, including compliance with the disclosure section of the PRA Rulebook.

We confirm that quantitative and qualitative disclosures have been prepared in accordance with relevant policies, internal processes, systems and controls and have subsequently been verified and approved through internal governance procedures.

This report was approved by the directors of the Board on 29th February 2024.

William Chalmers
Group Chief Financial Officer

Stephen Shelley
Group Chief Risk Officer

# Executive summary

## COMMON EQUITY TIER 1 (CET1) RATIO


The Group's common equity tier 1 (CET1) capital ratio decreased to 14.4 per cent at 31 December 2023 compared to 14.8 per cent at 31 December 2022. Profit for the year was more than offset by pension deficit contributions made to the defined benefit pension schemes, an increased deduction for goodwill and other intangible assets, the ordinary dividends paid in the second half of the year, the accrual for foreseeable ordinary dividends, distributions on other equity instruments and an increase in risk-weighted assets.

## TOTAL CAPITAL RATIO


The total capital ratio remained at 20.5 per cent at 31 December 2023. The increase in CET1 capital resources and the issuance of new AT1 and Tier 2 capital instruments were broadly offset by the increase in risk-weighted assets and other movements in Tier 2 capital instruments, which included the impact of sterling appreciation and regulatory amortisation.

## UK LEVERAGE RATIO


The UK leverage ratio increased to 5.6 per cent at 31 December 2023 compared to 5.4 per cent at 31 December 2022, reflecting the increase in the total tier 1 capital position. This was partially offset by the increase in the leverage exposure measure following increases in financial and other assets (excluding central bank claims), net of reductions in off-balance sheet items and the measure for securities financing transactions.

## RISK-WEIGHTED ASSETS


Risk-weighted assets increased by £7,658 million, or 4 per cent, from £174,902 million at 31 December 2022 to £182,560 million at 31 December 2023. This includes the impact of Retail secured CRD IV model updates of £5 billion. Excluding this, lending and operational risk increases, a modest uplift from credit and model calibrations and other movements were partly offset by optimisation, including capital efficient securitisation activity within the balance sheet.

## LIQUIDITY COVERAGE RATIO


The Group's liquidity coverage ratio (LCR) decreased to 133 per cent as at 31 December 2023 (31 December 2022: 136 per cent). The 3 percent decrease is due to a reduction in liquid assets, primarily from a decrease in customer deposits. Net cash outflows also reduced, primarily from a decrease in customer deposit outflows.

# Introduction

This document presents the consolidated Pillar 3 disclosures of Lloyds Bank plc ('the Group') as at 31 December 2023.

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

The disclosures presented in this document have been prepared in accordance with the Disclosure section of the PRA Rulebook. This incorporates Part Eight of the Capital Requirements Regulation (UK 'CRR').

## 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 Governance section of the 2023 Lloyds Bank plc Form 20-F (page 80) 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 2023 Pillar 3 disclosures have been prepared in accordance with the internal control processes agreed upon at the management body level (page 4).

## Large Subsidiary Disclosures

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 Liabilities (CRR Article 437(b))

A description of the main features of common equity tier 1 (CET1), additional tier 1 (AT1) and tier 2 (T2) capital instruments issued by Lloyds Banking Group plc (the ultimate parent company) and its large subsidiaries (including Lloyds Bank plc and Bank of Scotland plc) are included in a separate document on the Lloyds Banking Group website located at **www.lloydsbankinggroup.com/investors/financial-downloads**. In addition, the report identifies and provides a description of the main features of debt instruments that are recognised as eligible liabilities 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 2023 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 the Disclosure section of the PRA Rulebook. The following sets out the key elements of the policy including the basis of preparation, frequency, media and location, verification and risk profile disclosure.

## Basis of Preparation

These disclosures have been prepared in accordance with the Disclosure section of the PRA Rulebook.

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 in relation to 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 plc 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.  Further detail on excluded tables is included in Appendix 2.

The Group applies the full extent of the IFRS 9 transitional arrangements for capital as set out under CRR Article 473a (revised).

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 the disclosure requirements, 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 39 to 87).

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

## CRD IV

Changes to the regulations applicable to internal ratings based (IRB) models were implemented by the PRA on 1 January 2022. The Group's models to meet these requirements remain subject to further development and final approval by the PRA. As a result, the Group has applied temporary model adjustments to risk-weighted asset and expected loss amounts reflecting the anticipated impact of the new modelling requirements.

Under the new regulation, Residential Mortgage exposures are subject to a 90 day default backstop. The Group's incumbent UK Mortgage models at the reporting date use a 180 day default backstop. As a result, within the published CR6 and CR9 tables, Defaulted Exposure, Exposure at Default and risk metrics such as Probability of Default (PD) and Loss Given Default (LGD) are disclosed on a pre CRD IV basis (including a 180 day backstop) whilst risk-weighted assets and expected loss amounts reflect the impact of a 90 day backstop and other new modelling requirements. Less material definitional differences also exist for other IRB asset classes.

While acknowledging the significant value of these temporary post model adjustments to allow for an appropriate level of capital (aligned to new modelling requirements under CRDIV), PD back testing shows that the incumbent PD models are working effectively and prudently against pre CRD IV default definitions.

Standardised approach exposures already use a 90 day default backstop and this is reflected in the CR4 and CR5 tables. Tables CQ1, CQ4 and CQ5 are based on accounting definitions, and therefore also use the current 90 days past due definition.

## 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).

Additionally, the Group publishes limited Pillar 3 disclosures at the interim quarter ends and at half-year in accordance with the requirements of the Disclosure section of the PRA Rulebook.

## 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.

The Group's Pillar 3 disclosures focus primarily on the following risk categories: capital, credit, funding and liquidity, market and operational.  Comprehensive qualitative and quantitative disclosures are provided in respect of each category.

The 2023 Lloyds Bank plc Annual Report and Accounts provides an in depth analysis of the wider range of principal risks and emerging risks to which the Group is exposed.

The relevant analysis is presented in the following sections of the 2023 Lloyds Bank plc Annual Report and Accounts:

– Risk overview, pages 5;

– Risk categories, page 6 to 9;

– Emerging risks, page 10;

# Key metric and overview of risk weighted exposure amounts

## KM1: Key metrics[1]

| KM1 Ref | LR2 Ref | | **31 Dec 2023** | 30 Sep 2023 | 30 Jun 2023 | 31 Mar 2023 | 31 Dec 2022 |
|---|---|---|---|---|---|---|---|
| | | **Available own funds (amounts)** | | | | | |
| 1 | | Common Equity Tier 1 (CET1) capital (£m) | **26,220** | 25,709 | 26,354 | 26,246 | 25,926 |
| 2 | | Tier 1 capital (£m) | **31,238** | 30,728 | 31,372 | 31,264 | 30,194 |
| 3 | | Total capital (£m) | **37,402** | 36,967 | 37,035 | 37,074 | 35,815 |
| | | **Risk-weighted exposure amounts** | | | | | |
| 4 | | Total risk-weighted exposure amount (£m) | **182,560** | 180,311 | 178,534 | 174,916 | 174,902 |
| | | **Capital ratios (as a percentage of risk-weighted exposure amount)** | | | | | |
| 5 | | Common Equity Tier 1 ratio (%) | **14.4%** | 14.3% | 14.8% | 15.0% | 14.8% |
| 6 | | Tier 1 ratio (%) | **17.1%** | 17.0% | 17.6% | 17.9% | 17.3% |
| 7 | | Total capital ratio (%) | **20.5%** | 20.5% | 20.7% | 21.2% | 20.5% |
| | | **Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)** | | | | | |
| UK 7a | | Additional CET1 SREP requirements (%) | **1.7%** | 1.7% | 1.7% | 1.7% | 1.7% |
| UK 7b | | Additional AT1 SREP requirements (%) | **0.6%** | 0.6% | 0.6% | 0.6% | 0.6% |
| UK 7c | | Additional T2 SREP requirements (%) | **0.7%** | 0.7% | 0.7% | 0.7% | 0.7% |
| UK 7d | | Total SREP own funds requirements (%) | **11.0%** | 11.0% | 11.0% | 11.0% | 11.0% |
| | | **Combined buffer requirement (as a percentage of risk-weighted exposure amount)** | | | | | |
| 8 | | Capital conservation buffer (%) | **2.500%** | 2.500% | 2.500% | 2.500% | 2.500% |
| 9 | | Institution specific countercyclical capital buffer (%) | **1.905%** | 1.896% | 0.963% | 0.938% | 0.934% |
| UK 10a | | Other Systemically Important Institution buffer (%)[2] | **2.000%** | 2.000% | 2.000% | 2.000% | 2.000% |
| 11 | | Combined buffer requirement (%) | **6.405%** | 6.396% | 5.463% | 5.438% | 5.434% |
| UK 11a | | Overall capital requirements (%) | **17.4%** | 17.4% | 16.5% | 16.4% | 16.5% |
| 12 | | CET1 available after meeting minimum SREP own funds requirements (%)[3] | **8.2%** | 8.1% | 8.6% | 8.8% | 8.6% |
| | | **Leverage ratio** | | | | | |
| 13 | UK-24b | Total exposure measure excluding claims on central banks (£m) | **562,153** | 561,710 | 551,063 | 551,508 | 559,585 |
| 14 | 25 | Leverage ratio excluding claims on central banks (%) | **5.6%** | 5.5% | 5.7% | 5.7% | 5.4% |
| | | **Additional leverage ratio disclosure requirements** | | | | | |
| UK 14a | UK-25a | Fully loaded ECL accounting model leverage ratio excluding claims on central banks(%) | **5.5%** | 5.4% | 5.7% | 5.6% | 5.3% |
| UK 14b | UK-25c | Leverage ratio including claims on central banks (%) | **5.0%** | 4.9% | 5.0% | 5.0% | 4.8% |
| UK 14c | UK-34 | Average leverage ratio excluding claims on central banks (%)[4] | **5.5%** | 5.5% | 5.7% | 5.5% | 5.4% |
| UK 14d | UK-33 | Average leverage ratio including claims on central banks (%)[4] | **5.0%** | 5.0% | 5.0% | 4.9% | 4.8% |
| UK 14e | UK-27b | Countercyclical leverage ratio buffer (%)[5] | **0.7%** | 0.7% | 0.3% | 0.3% | 0.3% |
| | | **Average Liquidity Coverage Ratio (weighted) (LCR)[6]** | | | | | |
| 15 | | Total high-quality liquid assets (HQLA)(Weighted value -average) (£m) | **108,655** | 109,895 | 112,833 | 116,046 | 120,822 |
| UK 16a | | Cash outflows - Total weighted value - average (£m) | **87,371** | 88,141 | 89,440 | 90,737 | 92,932 |
| UK 16b | | Cash inflows - Total weighted value - average (£m) | **5,687** | 5,318 | 4,610 | 4,288 | 4,067 |
| 16 | | Total net cash outflows (adjusted value - average) (£m) | **81,684** | 82,823 | 84,830 | 86,449 | 88,865 |
| 17 | | Average liquidity coverage ratio (%) | **133%** | 133% | 133% | 134% | 136% |
| | | **Average Net Stable Funding Ratio[7]** | | | | | |
| 18 | | Total available stable funding (Weighted value - average) (£m) | **483,745** | 483,227 | 483,752 | 486,250 | 489,174 |
| 19 | | Total required stable funding (Weighted value - average) (£m) | **387,305** | 387,651 | 388,940 | 391,454 | 391,452 |
| 20 | | Average NSFR ratio (%) | **125%** | 125% | 124% | 124% | 125% |

1 The Group applies the full extent of the IFRS9 transitional arrangements for capital as set out under CRR Article 473a (revised). 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. The transitional arrangements for static relief ended on 1 January 2023 and therefore no static relief exists at 31 December 2023 (31 December 2022: £133 million). Dynamic relief under the transitional arrangements amounted to £155 million (31 December 2022: £278 million) through CET1 capital.

2 The Group is subject to an Other Systemically Important Institution (OSII) Buffer of 2.0 per cent of risk-weighted exposure amounts 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 Represents, as a percentage, the level of CET1 capital left available to meet buffer requirements after subtracting the minimum amount of CET1 capital required to meet total Pillar 1 plus Pillar 2A capital requirements, also referred to as total SREP own funds requirements. The minimum CET1 requirement is equivalent to 4.5 per cent (Pillar 1) plus the additional CET1 SREP requirement (56.25 per cent of Pillar 2A). The Group's Pillar 2A capital requirement is around 3.0 per cent of risk-weighted assets, of which around 1.7 per cent is to be met with CET1 capital.

4 The average leverage exposure measure (excluding claims on central banks) for the period from 1 October 2023 to 31 December 2023 amounted to £568,917 million. The average leverage exposure measure (including claims on central banks) for the period from 1 October 2023 to 31 December 2023 amounted to £627,191 million.

5 The countercyclical leverage ratio buffer (CCLB) is required to be rounded to the nearest tenth of a percentage. The Group's total leverage ratio buffer at 31 December 2023 was 1.4 per cent (31 December 2022: 1.0 per cent), of which 0.7 per cent reflects the additional leverage ratio buffer (ALRB) applied to the Group and is based upon the O-SII Buffer.

6 The liquidity balances are calculated as the simple averages of month end observations over the 12 months preceding the end of each quarter.

7 The net stable funding balances are calculated as the simple averages of month end observations over the 4 quarterly averages preceding the end of each quarter.

## **Key metric and overview of risk weighted exposure amounts** continued

## IFRS 9-FL: Capital

Comparison of institutions' own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 or analogous ECLs.

| | | **31 Dec 2023** | 30 Sep 2023 | 30 Jun 2023 | 31 Mar 2023 | 31 Dec 2022 |
|---|---|---|---|---|---|---|
| | **Available own funds (amounts)** | | | | | |
| 1 | Common Equity Tier 1 (CET1) capital (£m) | **26,220** | 25,709 | 26,354 | 26,246 | 25,926 |
| 2 | CET1 capital as if IFRS 9 transitional arrangements had not been applied (£m) | **26,065** | 25,508 | 26,129 | 26,068 | 25,515 |
| 3 | Tier 1 capital (£m) | **31,238** | 30,728 | 31,372 | 31,264 | 30,194 |
| 4 | Tier 1 capital as if IFRS 9 transitional arrangements had not been applied (£m) | **31,083** | 30,526 | 31,148 | 31,086 | 29,783 |
| 5 | Total capital (£m) | **37,402** | 36,967 | 37,035 | 37,074 | 35,815 |
| 6 | Total capital as if IFRS 9 transitional arrangements had not been applied (£m) | **37,398** | 36,848 | 36,883 | 37,094 | 35,855 |
| | **Risk-weighted exposure (amounts)** | | | | | |
| 7 | Total risk-weighted exposure amount (£m) | **182,560** | 180,311 | 178,534 | 174,916 | 174,902 |
| 8 | Total risk-weighted exposure amount as if IFRS 9 transitional arrangements had not been applied (£m) | **182,510** | 180,276 | 178,502 | 174,884 | 174,977 |
| | **Capital ratios (as a percentage of risk-weighted exposure amount)** | | | | | |
| 9 | Common Equity Tier 1 ratio (%) | **14.4%** | 14.3% | 14.8% | 15.0% | 14.8% |
| 10 | CET1 ratio as if IFRS 9 transitional arrangements had not been applied (%) | **14.3%** | 14.1% | 14.6% | 14.9% | 14.6% |
| 11 | Tier 1 ratio (%) | **17.1%** | 17.0% | 17.6% | 17.9% | 17.3% |
| 12 | Tier 1 ratio as if IFRS 9 transitional arrangements had not been applied (%) | **17.0%** | 16.9% | 17.4% | 17.8% | 17.0% |
| 13 | Total capital ratio (%) | **20.5%** | 20.5% | 20.7% | 21.2% | 20.5% |
| 14 | Total capital ratio as if IFRS 9 transitional arrangements had not been applied (%) | **20.5%** | 20.4% | 20.7% | 21.2% | 20.5% |
| | **Leverage ratio** | | | | | |
| 15 | Total exposure measure excluding claims on central banks (£m) | **562,153** | 561,710 | 551,063 | 551,508 | 559,585 |
| 16 | Leverage ratio excluding claims on central banks (%) | **5.6%** | 5.5% | 5.7% | 5.7% | 5.4% |
| 17 | Leverage ratio excluding claims on central banks as if IFRS 9 transitional arrangements had not been applied (%) | **5.5%** | 5.4% | 5.7% | 5.6% | 5.3% |

## Key metric and overview of risk weighted exposure amounts continued

## OV1: Overview of risk-weighted assets

| | | Total RWA | | Total own funds requirements |
|---|---|---|---|---|
| | | 31 Dec 2023 | 31 Dec 2022 | 31 Dec 2023 |
| | | £m | £m | £m |
| **1** | **Credit risk (excluding CCR)** | **147,061** | 144,602 | **11,765** |
| 2 | Of which the standardised approach | **19,021** | 19,795 | **1,522** |
| 3 | Of which the foundation IRB (FIRB) approach | **28,006** | 29,099 | **2,240** |
| 4 | Of which slotting approach | **8,472** | 8,808 | **678** |
| 5 | Of which the advanced IRB (AIRB) approach | **85,436** | 81,066 | **6,835** |
| | Of which: non-credit obligation assets[1] | **6,126** | 5,834 | **490** |
| **6** | **Counterparty credit risk (CCR)** | **1,329** | 1,115 | **106** |
| 7 | Of which the standardised approach | **510** | 546 | **41** |
| UK 8a | Of which exposures to a CCP | **113** | 30 | **9** |
| UK 8b | Of which credit valuation adjustment (CVA) | **454** | 342 | **36** |
| 9 | Of which other CCR | **252** | 197 | **20** |
| **16** | **Securitisation exposures in the non-trading book (after the cap)** | **8,246** | 5,899 | **660** |
| 17 | Of which SEC-IRBA approach | **4,102** | 2,176 | **328** |
| 18 | Of which SEC-ERBA approach (including IAA) | **1,437** | 1,501 | **115** |
| 19 | Of which SEC-SA approach | **2,707** | 2,222 | **217** |
| **20** | **Position, foreign exchange and commodities risks (Market risk)** | **319** | 82 | **26** |
| 21 | Of which the standardised approach | **319** | — | **26** |
| 22 | Of which IMA | **—** | 82 | **—** |
| **23** | **Operational risk** | **25,605** | 23,204 | **2,048** |
| UK 23b | Of which standardised approach | **25,605** | 23,204 | **2,048** |
| 24 | Memo: Amounts below the thresholds for deduction (subject to 250% risk weight) | **1,424** | 1,864 | **114** |
| **29** | **Total** | **182,560** | 174,902 | **14,605** |
| | Pillar 2A capital requirement[2] | | | **5,399** |
| | **Total capital requirement** | | | **20,004** |

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

2 As at 31 December 2023, the Pillar 2A capital requirement was around 3.0 per cent of risk-weighted assets, of which around 1.7 per cent was to be met with CET1 capital.

Risk-weighted assets increased by £7,658 million, or 4 per cent, from £174,902 million at 31 December 2022 to £182,560 million at 31 December 2023. This reflects:

- **Credit Risk (including amounts below the thresholds for deduction):** FIRB RWAs decreased by £1.1 billion to £28.0 billion principally due to a reduction in exposures from securitisation and other optimisation activity partially offset by model updates and refinements. AIRB RWAs increased by £4.4 billion to £85.4 billion primarily reflecting Retail Secured CRD IV model updates, growth in unsecured exposures and a modest uplift from credit and model calibrations. This was partially offset by optimisation, including capital efficient securitisation of a £2.5 billion legacy Retail mortgage portfolio and £2.7 billion of Retail unsecured loans. Non-credit obligations increased by £0.3 billion to £6.1 billion predominantly relating to increases in tangible assets following the acquisition of Tusker.
- **Counterparty Credit Risk:** Counterparty Credit Risk RWAs increased by £0.2 billion mainly due to higher default fund contributions to central counterparties (CCPs) and an increase in exposures eligible for credit valuation adjustment (CVA).
- **Securitisation**: Securitisation RWAs increased by £2.3 billion to £8.2 billion primarily due to increased holdings from originated securitisations during the period which included issuances from established Corporate programmes as well as the securitisation of legacy Retail mortgages and Retail unsecured loans.
- **Market Risk:** Market Risk RWAs increased by £0.2 billion primarily due to the move from the internal model approach to the standardised approach.
- **Operational Risk:** RWAs increased by £2.4 billion due to higher average income in the annual recalculation of operational risk.

# Scope of consolidation (LIB)

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

## Introduction

The Group is required to calculate consolidated capital requirements and consolidated capital resources in accordance with the relevant CRR provisions on prudential consolidation.

## Regulatory Consolidation

The scope of regulatory consolidation for the purposes of quantifying consolidated capital requirements and consolidated capital resources extends across the banking operations of the Group. All banking related undertakings included within the scope of the accounting consolidation are initially 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.

For the instances where the Group's capital-efficient securitisations are fully consolidated for accounting purposes, the underlying assets of the securitisations are derecognised from the regulatory balance sheet and replaced with the retained securitisation positions, risk-weighted in accordance with the securitisation framework. Conduit vehicles are deconsolidated for regulatory purposes and the corresponding liquidity lines are risk-weighted.

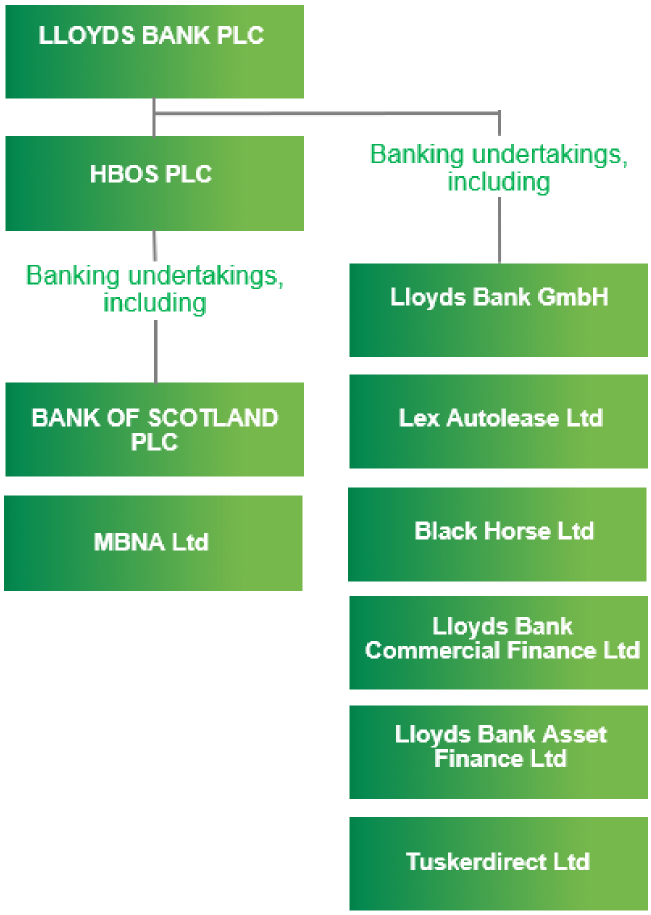
The full list of capital-efficient securitisation and conduit vehicles where the regulatory treatment differs from the accounting treatment is provided in LI3 on page 14.

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 2023 of the regulatory consolidation group upon which the disclosures presented within this document are based is provided below. In February 2023, the Group acquired 100 per cent of the ordinary share capital of Hamsard 3352 Limited ('Tusker'), which together with its subsidiaries operates a vehicle management and leasing business. The principal operating subsidiary is Tuskerdirect Limited.



## **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 2023 on an accounting consolidation basis (as presented on page 78 of the 2023 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 2023 | | | | | |
|---|---|---|---|---|---|---|
| | | | 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 | **57,909** | **57,909** | **57,909** | **–** | **–** | **–** |
| Financial assets at fair value through profit or loss | **1,862** | **1,273** | **1,269** | **4** | **–** | **–** |
| Derivative financial instruments | **3,165** | **3,176** | **–** | **3,176** | **–** | **–** |
| Loans and advances to banks | **8,810** | **8,810** | **7,626** | **1,184** | **–** | **–** |
| Loans and advances to customers | **433,124** | **431,586** | **402,570** | **395** | **28,621** | **–** |
| Reverse repurchase agreements | **32,751** | **32,751** | **1,241** | **31,510** | **–** | **–** |
| Debt securities | **12,546** | **12,087** | **7,421** | **–** | **4,666** | **–** |
| Due from fellow Lloyds Bank Group undertakings | **840** | **2,270** | **2,270** | **–** | **–** | **–** |
| Financial assets at amortised cost | **488,071** | **487,504** | **421,128** | **33,089** | **33,287** | **–** |
| Financial assets at fair value through other comprehensive income | **27,337** | **27,337** | **27,337** | **–** | **–** | **–** |
| Goodwill and other intangible assets | **5,837** | **5,837** | **–** | **–** | **–** | **5,837** |
| Current tax recoverable | **1,026** | **1,026** | **1,026** | **–** | **–** | **–** |
| Deferred tax assets | **4,636** | **4,636** | **570** | **–** | **–** | **4,066** |
| Retirement benefit assets | **3,624** | **3,624** | **–** | **–** | **–** | **3,624** |
| Other assets | **11,938** | **11,955** | **11,955** | **–** | **–** | **–** |
| **Total assets** | **605,405** | **604,277** | **521,193** | **36,270** | **33,287** | **13,527** |
| **Liabilities** | | | | | | |
| Deposits from banks | **3,557** | **3,557** | **–** | **–** | **–** | **3,557** |
| Customer deposits | **441,953** | **441,976** | **–** | **751** | **–** | **441,225** |
| Repurchase agreements at amortised cost | **37,702** | **37,702** | **–** | **37,702** | **–** | **–** |
| Due from fellow Lloyds Bank Group undertakings | **2,932** | **2,932** | **–** | **–** | **–** | **2,932** |
| Financial liabilities at fair value through profit or loss | **5,255** | **5,255** | **–** | **–** | **–** | **5,255** |
| Derivative financial instruments | **4,307** | **4,307** | **–** | **4,060** | **–** | **247** |
| Notes in circulation | **1,392** | **1,392** | **–** | **–** | **–** | **1,392** |
| Debt securities in issue | **52,449** | **51,373** | **–** | **–** | **–** | **51,373** |
| Other liabilities | **6,260** | **6,185** | **–** | **–** | **–** | **6,185** |
| Retirement benefit obligations | **136** | **136** | **–** | **–** | **–** | **136** |
| Current tax liabilities | **23** | **23** | **–** | **–** | **–** | **23** |
| Deferred tax liabilities | **157** | **157** | **–** | **–** | **–** | **157** |
| Other provisions | **1,916** | **1,916** | **–** | **–** | **–** | **1,916** |
| Subordinated liabilities | **6,935** | **6,935** | **–** | **–** | **–** | **6,935** |
| **Total liabilities** | **564,974** | **563,846** | **–** | **42,513** | **–** | **521,544** |

1 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.

**Scope of consolidation** (continued)

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

| | | 31 Dec 2023 | | | |
|---|---|---|---|---|---|
| | | | Items subject to | | |
| | | Total | Credit risk framework | CCR framework | Securitisation framework |
| | | £m | £m | £m | £m |
| 1 | **Assets carrying value amount under the scope of regulatory consolidation (as per template LI1)** | **590,750** | **521,193** | **36,270** | **33,287** |
| 2 | **Liabilities carrying value amount under the regulatory scope of consolidation (as per template LI1)** | **42,513** | **—** | **42,513** | **—** |
| **3** | **Total net amount under the regulatory scope of consolidation** | **548,237** | **521,193** | **(6,243)** | **33,287** |
| 4 | Off-balance-sheet amounts | 207,779 | 122,298 | 79,710 | 5,771 |
| 5 | Differences in valuations | — | — | — | — |
| 6 | Differences due to different netting rules, other than those already included in row 2 | (51,047) | — | (51,047) | — |
| 7 | Differences due to consideration of provisions | 3,570 | 3,570 | — | — |
| 8 | Differences due to the use of credit risk mitigation techniques (CRMs) | — | — | — | — |
| 9 | Differences due to credit conversion factors | (58,872) | (58,872) | — | — |
| 10 | Differences due to Securitisation with risk transfer | (612) | — | — | (612) |
| 11 | Other differences | 15,890 | 14,627 | 1,502 | (239) |
| **12** | **Exposure amounts considered for regulatory purposes** | **664,945** | **602,816** | **23,922** | **38,207** |

## UK LIA: Explanations of differences between accounting and regulatory exposure amounts

## Differences between accounting and regulatory scopes of consolidation in table UK LI1

The regulatory consolidation group diagram on page 12 highlights the key undertakings of the Group that are included in the scope of regulatory consolidation.

## Main sources of differences between the accounting and regulatory scope of consolidation in table UK LI2

**Off balance sheet items** are stated before the application of credit conversion factors (CCF). Under the credit risk framework, these balances principally consist of undrawn credit facilities. The impact of credit conversion factors is subsequently displayed in row 9.

The off balance sheet amounts included under the CCR framework relate to securities financing transactions. The related collateral is reported in row 6. Row 6 also includes the impact of derivative netting not already included in row 2.

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

Other differences: Includes add ons for modelled exposure in the RIRB portfolio, exposures relating to threshold risk-weighted assets and adjustments for potential future exposure and the SA-CCR alpha factor within the derivative portfolio.

## **Scope of consolidation** continued

## LI3: Outline of the differences between the accounting and regulatory scopes of consolidation[1,3]

| | | Method of regulatory consolidation | | | | | |
|---|---|---|---|---|---|---|---|
| Name of the entity | Method of accounting consolidation | Full consolidation | Proportional consolidation | Equity Method | Neither consolidated nor deducted | Deducted | Description of entity |
| **Securitisation SPEs[2]** | | | | | | | |
| CANCARA ASSET SECURITISATION LTD | Full Consolidation | | | | x | | Special Purpose Entity |
| FONTWELL II SECURITIES 2020 DAC | Full Consolidation | | | | x | | Special Purpose Entity |
| FONTWELL SECURITIES 2016 LIMITED | 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. 13) 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. 20) LTD | Full Consolidation | | | | x | | Special Purpose Entity |
| GRESHAM RECEIVABLES (NO. 24) 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. 32) 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 II SECURITIES 2018 DAC | Full Consolidation | | | | x | | Special Purpose Entity |
| WETHERBY III SECURITIES 2019 DAC | Full Consolidation | | | | x | | Special Purpose Entity |

1 The regulatory treatment of all entities listed as subsidiaries in the 2023 Lloyds Bank plc Annual Report and Accounts, pages 202 to 205, follows the accounting treatment unless otherwise stated in the table above.

2 For the instances where the Group's capital-efficient securitisations are fully consolidated for accounting purposes, the underlying assets of the securitisations are derecognised from the regulatory balance sheet and replaced with the retained securitisation positions, risk weighted in accordance with the securitisation framework. Conduit vehicles are deconsolidated for regulatory purposes and the corresponding liquidity lines are risk-weighted, as further described in the Securitisation section, pages 96 to 102.

3 Lloyds Bank plc Niederlassung Berlin is a licenced branch of Lloyds Bank plc and is included in the regulatory scope of consolidation.

# Risk Management Approach (UK OVA)

## Risk Overview

### Effective risk management and control

Risk management is a key element in shaping our business model and delivering the Group's strategy to enable sustainable growth. A strong risk management culture is crucial to keep the Group, our colleagues and our customers safe and secure from existing and emerging risks.

#### Our approach to risk

The Group's business model is based on a prudent approach to risk, which guides participation decisions while safeguarding our colleagues, customers and the Group. An overview of risk management is included in this section, with the detailed risk management section from pages 16 to 18.

- A detailed overview of how risk is managed within the Group, including the approach to risk appetite
- The framework by which these risks are identified, managed, mitigated and monitored

### Risk profile and performance

The Group has remained committed to maintaining support for its customers despite challenges with the rising cost of living and economic uncertainties in the global and domestic markets.

The Group's loans and advances continue to be well positioned and heightened monitoring is in place to identify signs of affordability stress. The mortgage book remains resilient with arrears below 2019, with the new Mortgage Charter providing additional enhanced support to customers during 2023. A selected summary of the principal risks most relevant to these Pillar III disclosures is included on page 16.

Unsecured and Commercial Banking portfolios continue to exhibit stable new to arrears and default trends broadly at, or below, pre-pandemic levels. Commercial Real Estate is demonstrating resilience and is well diversified with no speculative commercial development lending.

As part of the Group's strategy, there will be continuing investments in technology and infrastructure. The Group's operational resilience risks remain a key areas of focus, particularly relating to cyber risk and supply chain management.

The Group has overseen the embedding of its operational risk and control framework during 2023 and its oversight of management of financial crime risks and consumer fraud.

Climate risk remains a key priority for the Group, with positive progress in 2023 and a commitment to continued focus in 2024. The Group has enhanced the monitoring of progress against its strategic ambitions, alongside ongoing development of capabilities for measuring and managing key risks.

## Our enterprise risk management framework

The enterprise risk management framework (ERMF) is the foundation for the delivery of effective and consistent risk control across Lloyds Banking Group. It enables proactive identification, active management and monitoring of the Group's risks, which is supported by our risk and control self-assessment approach.

The ERMF is regularly updated to ensure it remains in line with regulation, law, corporate governance and industry good practice. The Board and senior management are responsible for the approval of the ERMF, together with Group-wide risk principles and policies. The effectiveness of the ERMF is assessed annually with the results reported directly to the Board.

More information on The  the Board's responsibilities can be found on page 17 our executive and Risk committees on page 20.

**Enterprise risk management framework**

| | | |
|---|---|---|
| 1 | Role of the Board and senior management | The Board delegates executive authorities to ensure there is effective oversight of risk management. |
| 2 | Risk culture and the customer | The appropriate culture ensures performance, risk and reward are aligned. |
| 3 | Risk appetite | The framework ensures our risks are managed in line with our risk appetite. |
| 4 | Risk and control self assessment | The identification, measurement and control of our risks form an integral part of our risk and control self assessment. |
| 5 | Risk governance | The governance framework supports a consistent approach to enterprise-wide behaviour and decision making. |
| 6 | Three lines of defence | The robust approach to monitoring oversight and assurance ensures effective risk management across the Group. |

## Principal risks

The principal risks outlined in this section are used to monitor and report the risk exposures posing the greatest potential impact to the Group.

Please refer to the Lloyds Bank plc Annual Report and Accounts for full details of all principal risks. A selected summary of the principal risks most relevant to these Pillar III disclosures is included below.

**Risk trends:** → Stable risk ↑ Elevated risk ↓ Reduced risk

### Capital risk →

#### Link to strategy: focus

The Group maintained its strong capital position in 2023 with a CET1 capital ratio of  14.4 per cent, after absorbing regulatory headwinds and the acquisition of Tusker.

This remains significantly ahead of minimum capital requirements. Downside risks from economic and regulatory headwinds, including the impact of further Retail secured CRD IV model updates, are being closely monitored. This is in addition to the potential impact from the FCA review of historical motor finance commission arrangements.

Risk appetite: The Group maintains capital levels commensurate with a prudent level of solvency to achieve financial resilience and market confidence.

## **Risk Management Approach (UK OVA)** continued

Key mitigating actions:

- Capital management framework that includes the setting of capital risk appetite, capital planning and stress testing activities
- Regular refresh and monitoring of a suite of early warning indicators and maintenance of a Capital Contingency Framework, designed to identify and act on emerging capital concerns at an early stage

**Climate risk** ➔

**Link to strategy: focus**

The Group is continuing to develop its capabilities for measuring and managing key climate risks including monitoring progress against its net zero ambitions.

However, the external landscape presents further challenges, both in relation to the policy changes required to support the transition to net zero, as well as increasing regulatory expectations.

Risk appetite: The Group takes action to support the Group and its customers' transition to net zero, and maintain its resilience against the risks relating to climate change.

Key mitigating actions:

- Further embedding of climate risk policy, providing a framework for consideration of climate-related risks across Lloyds Banking Group
- Established targets to reduce emissions across key areas of activity, as well as developing appropriate plans and strategies to support our transition to net zero
- Enhancing consideration of physical and transition risks within the credit risk process, including assessment of clients' credible transition plans
- Continuing to build an understanding of how greenwashing could impact the Group, including training for all colleagues to ensure it is avoided

**Credit risk** ➔

**Link to strategy: grow**

The Group's credit portfolio continued to be resilient with only modest evidence of deterioration to date. UK Mortgages new to arrears were relatively stable throughout 2023, having increased slightly at the start of the year, with other unsecured portfolios performing broadly at or favourable to pre-pandemic levels. Impairment was a net charge of £343 million, compared to £1,452 million for 2022 and includes a significant write-back following the full repayment of debt from a single name client in the fourth quarter and improvements in the Group's macroeconomic outlook. The Group's expected credit loss allowances have decreased to £4,007 million (2022: £4,779 million).

Risk appetite: The Group has a conservative and well-balanced credit portfolio through the economic cycle in line with the Group's target return on equity in aggregate. The Group's approach focuses on origination quality and levers at Board level while dynamically adapting to the risk environment, business growth strategy, industry practices and regulatory expectations.

Key mitigating actions:

- Extensive and thorough credit processes, strategies and controls to ensure effective risk identification, management and oversight
- Significant monitoring in place, including early warning indicators
- Selective credit tightening reflective of forecast changes in the macroeconomic environment, including updates to affordability lending controls for forward-looking costs

**Funding and liquidity risk** ➔

**Link to strategy: focus**

The Group maintained its strong funding and liquidity position in 2023. The loan to deposit ratio remained stable at 98 per cent (2022: 98 per cent). The Group's liquid assets continue to exceed the regulatory minimum and internal risk appetite, with a monthly rolling 12 month average liquidity coverage ratio (LCR) of 133 per cent (2022: 136 per cent). The Group maintains its access to diverse sources and tenors of funding.

Risk appetite: The Group maintains a prudent liquidity profile and a balance sheet structure that limits its reliance on potentially volatile sources of funding.

Key mitigating actions:

- Management and monitoring of liquidity risks and ensuring that management systems and arrangements are adequate with regard to the internal risk appetite, Group strategy and regulatory requirements
- Significant customer deposit base, driven by inflows to trusted brands
- Participation in term issuance programmes

**Market risk** ➔

**Link to strategy: focus**

Market conditions in 2023 remained volatile creating an uncertain environment for the management of market risk. However, the Group remains well hedged ensuring near-term interest rate exposure is appropriately managed.

The Group's structural hedge decreased to £242 billion (2022: £250 billion) mostly due to the changing mix of customer deposits, from current accounts into fixed savings products. In 2023 the pensions triennial valuation completed and following final contributions of £250 million in December, the pension schemes funding deficit was cleared. The IAS 19 accounting surplus remained broadly unchanged at £3.5 billion (2022: £3.7 billion).

Risk appetite: The Group has effective controls in place to identify and manage the market risk inherent in our customer and client-focused activities

Key mitigating actions:

- Structural hedge programmes implemented to stabilise earnings
- Close monitoring of market risks and, where appropriate, undertaking of asset and liability matching and hedging
- Monitoring of the credit allocation in the defined benefit pension schemes, as well as the hedges in place against adverse movements in nominal rates, inflation and longevity

**Model risk** ↑

**Link to strategy: focus, change**

Model risk remained elevated in 2023, following the pandemic-related government-led support schemes weakening the relationships between model inputs and outputs in 2022. The economy has steadied somewhat compared to 2022, now being more typical of the environment used to build the models, reducing need for judgemental overlays to account for this, but many of the effects of the pandemic and other stresses to the economy are still working their way through. The control environment for model risk continues to be strengthened to meet revised internal and regulatory requirements.

Risk appetite: Material models perform in line with expectations.

Key mitigating actions:

- Robust model risk management framework for managing and mitigating model risk within the Group

**Operational risk** ↑

**Link to strategy: grow, focus, change**

Operational risk has elevated in 2023. Overall, operational loss event volumes have slightly increased due to fraud instances, but financial losses have reduced compared with 2022.

Key operational risk areas for the Group are security, technology, and fraud, with an uplift in supplier issues over the last 12 months, although these have not been material in impact

Risk appetite: The Group has robust controls in place to manage operational losses, reputational events and regulatory breaches. It identifies and assesses emerging risks and acts to mitigate these.

Key mitigating actions:

- Review and investment in the Group's control environment, with a particular focus on automation, to ensure the Group addresses the inherent risks faced
- Deployment of a range of risk management strategies, including avoidance, mitigation, transfer (including insurance) and acceptance

## **Risk Management Approach (UK OVA)** continued

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 comply with UK specific ring-fencing requirements, core banking services are ring-fenced from other activities within the overall 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.

The Group's ERMF is structured to align with the industry-accepted internal control framework standards.

The ERMF applies to every area of the business and covers all types of risk. It is reviewed, updated and approved by the Board to reflect any changes in the nature of the Group's business and external regulations, law, corporate governance and industry good practice. The Group is in the process of conducting a more detailed review of the ERMF which will result in a reclassification of our principal risks in 2024.

The ERMF provides the Group with an effective mechanism for developing and embedding risk policies and risk management strategies which are aligned with the risks faced by its businesses. It also seeks to facilitate effective communication on these matters across the Group.

### Role of the Lloyds Bank Group Board and senior management

Key responsibilities of the Board and senior management include:

- Approval of the ERMF and Board risk appetite
- Approval of Group-wide risk principles and policies
- The cascade of delegated authority (for example to Board sub-committees and the Group Chief Executive)
- Effective oversight of risk management consistent with risk appetite

### Risk appetite

The Group's approach to setting, governing, embedding and monitoring risk appetite is detailed in the risk appetite framework, a key component of the ERMF.

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.

Business planning aims to optimise value within the Group's risk appetite parameters and deliver on its promise of Helping Britain Prosper.

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 executive-level metrics and cascaded into more detailed business appetite metrics and limits.

The following areas are currently included in the Group Board risk appetite:

- **Capital:** the Group maintains capital levels commensurate with a prudent level of solvency to achieve financial resilience and market confidence
- **Change and execution:** the Group has limited appetite for negative impacts on customers, colleagues, or the Group as a result of change activity
- **Climate:** the Group takes action to support the Group and its customers' transition to net zero, and maintain its resilience against the risks relating to climate change
- **Conduct:** the Group delivers good outcomes for its customers
- **Credit:** the Group has a conservative and well-balanced credit portfolio through the economic cycle in line with the Group's target return on equity in aggregate. The Group's approach focuses on origination quality and levers at Board level while dynamically adapting to the risk environment, business growth strategy, industry practices and regulatory expectations
- **Data:** the Group has zero appetite for data-related regulatory fines or enforcement actions
- **Funding and liquidity:** the Group maintains a prudent liquidity profile and a balance sheet structure that limits its reliance on potentially volatile sources of funding
- **Market:** the Group has effective controls in place to identify and manage the market risk inherent in our customer and client-focused activities
- **Model:** material models perform in line with expectations
- **Operational:** the Group has robust controls in place to manage operational losses, reputational events and regulatory breaches. It identifies and assesses emerging risks and acts to mitigate these
- **Operational resilience:** the Group has limited appetite for disruption to services to customers and stakeholders from significant unexpected events
- **People:** the Group leads responsibly and proficiently, manages people resource effectively, supports and develops colleague skills and talent, creates and nurtures the right culture and meets legal and regulatory obligations related to its people
- **Regulatory and legal:** the Group interprets and complies with all relevant regulation and all applicable laws (including codes of conduct which could have legal implications) and/or legal obligations

### Governance frameworks

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.

The Risk Committee governance framework is outlined on page 19.

## **Risk Management Approach (UK OVA)** continued

**Three lines of defence model**

The ERMF is implemented through a 'three lines of defence' model which defines clear responsibilities and accountabilities and ensures effective independent oversight and assurance activities take place covering key decisions.

Business lines (first line) have primary responsibility for risk decisions, identifying, measuring, monitoring and controlling risks within their areas of accountability. They are required to establish effective governance and control frameworks for their business to be compliant with Group policy requirements, to maintain appropriate risk management skills, mechanisms and toolkits, and to act within Group risk appetite parameters set and approved by the Board.

Risk division (second line) is centralised, headed by the Chief Risk Officer, providing oversight and constructive challenge to the effectiveness of risk decisions taken by business management, providing proactive advice and guidance, reviewing, challenging and reporting on the risk profile of the Group and ensuring that mitigating actions are appropriate.

It also has a key role in promoting the implementation of a strategic approach to risk management reflecting the risk appetite and ERMF agreed by the Board that encompasses:

– Overseeing embedding of effective risk management processes
– Transparent, focused risk monitoring and reporting
– Provision of expert and high-quality advice and guidance to the Board, executives and management on strategic issues and horizon scanning, including pending regulatory changes
– A constructive dialogue with the first line through provision of advice, development of common methodologies, understanding, education, training, and development of new risk management tools

The primary role of Group Internal Audit (third line) is to help the Board and executive management protect the assets, reputation and sustainability of the Group. Group Internal Audit is led by the Group Chief Internal Auditor. Group Internal Audit provides independent assurance to the Audit Committee and the Board through performing reviews and engaging with committees and executive management, providing opinion, challenge and informal advice on risk and the state of the control environment. Group Internal Audit is a single independent internal audit function, reporting to the Group Audit Committee, and the Board or Board Audit Committees of the sub-groups, subsidiaries and legal entities where applicable.

**Risk and control cycle from identification to reporting**

To allow senior management to make informed risk decisions, the business follows a continuous risk management approach. This risk and control cycle, from identification to reporting, ensures that there is consistency in the approach to managing and mitigating risks impacting the Group.

The risk and control self-assessment (RCSA) process is used to identify, measure and manage operational risk across the Group. Risks, including emerging risks, are identified and measured on an inherent basis, using a consistent quantification methodology.

All key controls are recorded against material inherent risks, and assessed on a regular basis, in response to triggers or as a minimum annually. Where a control is not effective, the root cause is established and action plans implemented to improve control design or performance. The assessment of control effectiveness combined with a view of the inherent risk assessment is used to determine the residual risk that the Group is exposed to.

Risks are reviewed and independently challenged by the Risk division and then reported on a regular basis to management and the Board through the risk governance structure. Risk exposure is compared to overall risk appetite as well as specific limits or triggers. When thresholds are breached, committee minutes are clear on the actions and time frames required to address the risk and bring the exposure back within tolerance.

Risk identification is also conducted through the use of scenario analysis which considers the most material risks the Group faces and identifies and assesses extreme, but plausible instances which may occur.

**Risk culture**

The Group operates a prudent business model and a balanced approach to risk management. This provides a solid foundation to deliver good customer outcomes and drive forward the Group's strategic transformation to ensure we continue Helping Britain Prosper. Guided by the Board, the senior management articulates and role models the core risk values to which the Group aspires. Lloyds Banking Group's Senior management establishes a strong focus on building and sustaining long-term relationships with customers, through the economic cycle. The Group's Code of Ethics and Responsibility, reinforce colleagues' accountability for the risks they take, and supports better decision making to meet their customers' needs.

**Risk resources and capabilities**

To support a strong risk culture across the Group, all colleagues complete risk training as part of their annual mandatory training. A library of risk management learning resources is available, which all colleagues who have specific risk management roles can access to build their skills and capabilities.

There is ongoing investment in risk systems and models alongside the Group's investment in customer and product systems and processes. This drives improvements in risk data quality, aggregation and reporting leading to effective and efficient risk 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 Key Risk Insights Report and Consolidated Risk Report (CRR), is reported to and discussed monthly at the Group Risk Committee with regular reporting to the Board Risk Committee and the Board.

**Financial reporting risk management systems and internal controls**

The Group maintains risk management systems and internal controls relating to the financial reporting process which are designed to:

– Ensure that accounting policies are appropriately and consistently applied, transactions are recorded accurately, and undertaken in accordance with delegated authorities, that assets are safeguarded and liabilities are properly stated
– Enable the calculation, preparation and reporting of financial, prudential regulatory and tax outcomes in accordance with applicable International Financial Reporting Standards, statutory and regulatory requirements
– Enable certifications by the Senior Accounting Officer relating to maintenance of appropriate tax accounting and in accordance with the 2009 Finance Act
– Ensure that disclosures are made on a timely basis in accordance with statutory and regulatory requirements (for example, UK Finance Code for Financial Reporting Disclosure and the US Sarbanes-Oxley Act)
– Ensure ongoing monitoring to assess the impact of emerging regulation and legislation on financial, prudential regulatory and tax reporting
– Ensure an accurate view of the Group's performance to allow the Board and senior management to appropriately manage the affairs and strategy of the business as a whole

The Audit Committee reviews the quality and acceptability of Lloyds Bank Group's financial disclosures. In addition, the Lloyds Banking Group Disclosure Committee assists the Lloyds Bank Group Chief Executive and Chief Financial Officer in fulfilling their disclosure responsibilities under relevant listing and other regulatory and legal requirements.

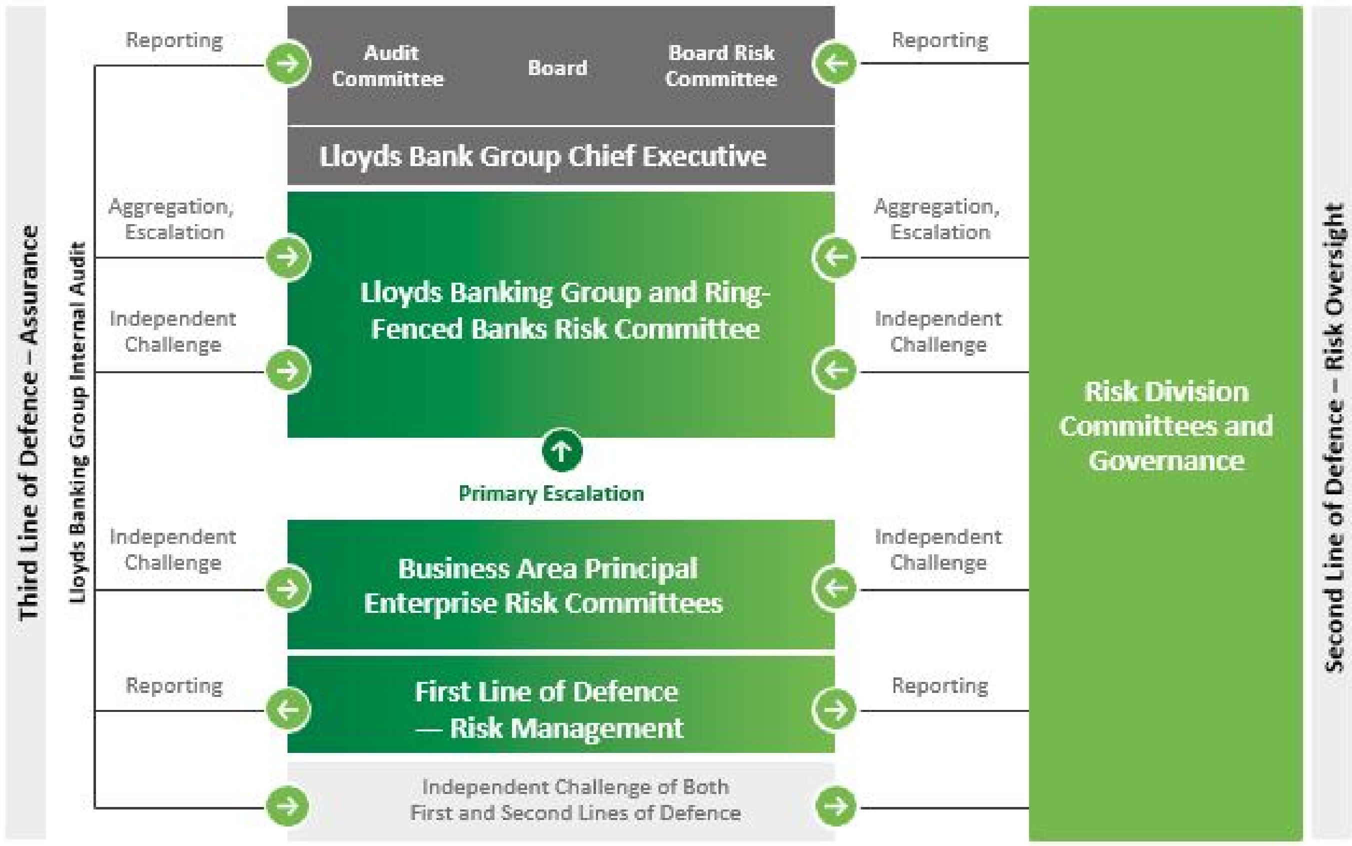
## **Risk Management Approach (UK OVA)** continued

**Risk governance**

The risk governance structure below is integral to effective risk management across Lloyds Banking Group, including Lloyds Bank Group. To meet ring-fencing requirements the Boards and Board Committees of Lloyds Banking Group and the Ring-Fenced Banks (Lloyds Bank plc and Bank of Scotland plc) as well as relevant Committees of Lloyds Banking Group and the Ring-Fenced Banks will sit concurrently and we refer to this as the Aligned Board Model. The Risk division is appropriately represented on key committees to ensure that risk management is discussed in these meetings. This structure outlines the flow and escalation of risk information and reporting from business areas and the Risk division to the Group Executive Committee and Board. Conversely, strategic direction and guidance is cascaded down from the Board and Group Executive Committee.

The Company Secretariat supports senior and Board level committees, and supports the Chairs in agenda planning. This gives a further line of escalation outside the three lines of defence

Risk governance structure




Lloyds Bank Group Chief Executive Committees

- Lloyds Banking Group and Ring-Fenced Banks Executive Committee (GEC)
- Lloyds Banking Group and Ring-Fenced Banks Risk Committees (GRC)
- Lloyds Banking Group and Ring-Fenced Banks Asset and Liability Committees (GALCO)
- Lloyds Banking Group and Ring-Fenced Banks Cost Management Committees
- Lloyds Banking Group and Ring-Fenced Banks Contentious Regulatory Committees
- Lloyds Banking Group and Ring-Fenced Banks Strategic Delivery Committees
- Lloyds Banking Group and Ring-Fenced Banks Net Zero Committees
- Lloyds Banking Group and Ring-Fenced Banks Conduct Investigations Committees

Risk function Committees and Governance

- Lloyds Banking Group and Ring-Fenced Banks Market Risk Committee
- Lloyds Banking Group and Ring-Fenced Banks Economic Crime Prevention Committee
- Lloyds Banking Group and Ring-Fenced Banks Financial Risk Committee
- Lloyds Banking Group and Ring-Fenced Banks Capital Risk Committee
- Lloyds Banking Group and Ring-Fenced Banks Model Governance Committee

**Board, Executive and Risk Committees**

The Group's risk governance structure strengthens risk evaluation and management, while also positioning the Group to manage the changing regulatory environment in an efficient and effective manner.

Assisted by the Board Risk and Audit Committees, the Board approves the Group's overall governance, risk and control frameworks and risk appetite.

The sub-group, divisional and functional risk committees review and recommend sub-group, divisional and functional risk appetite and monitor local risk profile and adherence to appetite.

## **Risk Management Approach (UK OVA)** continued

## Executive and Risk Committees

| Committees | Risk focus |
|---|---|
| Lloyds Banking Group and Ring-Fenced Banks Executive Committee (GEC) | Assists the Group Chief Executive in exercising their authority in relation to material matters having strategic, cross-business unit, cross-function or Group-wide implications. |
| Lloyds Banking Group and Ring-Fenced Banks Risk Committees (GRC) | Responsible for the development, implementation and effectiveness of Lloyds Banking Group's enterprise risk management framework, the clear articulation of the Group's risk appetite and monitoring and reviewing of the Group's aggregate risk exposures, control environment and concentrations of risk. |
| Lloyds Banking Group and Ring-Fenced Banks Asset and Liability Committees (GALCO) | Responsible for the strategic direction of the Group's assets and liabilities and the profit and loss implications of balance sheet management actions. The Committee reviews and determines the appropriate allocation of capital, funding and liquidity, and market risk resources and makes appropriate trade-offs between risk and reward. |
| Lloyds Banking Group and Ring-Fenced Banks Cost Management Committees | Leads and shapes the Group's approach to cost management, ensuring appropriate governance and process over Group-wide cost management activities and effective control of the Group's cost base. |
| Lloyds Banking Group and Ring-Fenced Banks Contentious Regulatory Committees | Responsible for providing senior management oversight, challenge and accountability in connection with the Group's engagement with contentious regulatory matters as agreed by the Group Chief Executive. |
| Lloyds Banking Group and Ring-Fenced Banks Strategic Delivery Committees | Responsible for driving execution of the Group's investment portfolio and strategic transformation agenda as agreed by the Group Chief Executive, and monitoring execution performance and progress against strategic objectives. Act as a clearing house to resolve issues on individual project areas and prioritisation across divisional and legal entity issues. Engage in resolution of challenges that require cross-Group support to resolve, ensuring funding and project performance provides value for money for the Group, and ensuring autonomy is maintained alongside accountability for projects and platforms. |
| Lloyds Banking Group and Ring-Fenced Banks Net Zero Committees | Responsible for providing direction and oversight of the Group's environmental sustainability strategy, including particular focus on the net zero transition and nature strategy. Oversight of the Group's approach to meeting external environmental commitments and targets, including but not limited to, progress in relation to the requirements of the Net Zero Banking Alliance (NZBA). Recommend all external material commitments and targets in relation to environmental sustainability. |
| Lloyds Banking Group and Ring-Fenced Banks Conduct Investigations Committee | Responsible for protecting and promoting the Group's conduct, values and behaviours by taking action to rectify the most serious cases of misconduct within the Group, identifying themes and lessons to share with the business. The Committee shall do this by making outcome decisions and recommendations (including sanctions) on investigations which have been referred to the Committee from the triage process and overseeing regular reviews of thematic outcomes and lessons learned. |
| The Lloyds Banking Group and Ring-Fenced Banks Risk Committee is supported through escalation and ongoing reporting by divisional risk committees, cross-divisional committees addressing specific matters of Group-wide significance and the following second line of defence Risk committees which ensure effective oversight of risk management: | |
| Lloyds Banking Group and Ring-Fenced Banks Market Risk Committee | Responsible for monitoring, oversight and challenge of market risk exposures across the Group. Reviews and proposes changes to the market risk management framework, and reviews the adequacy of data quality needed for managing market risks. It is also responsible for escalating issues of Group-level significance to GEC level (usually via GALCO) relating to the management of the Group's market risks. |
| Lloyds Banking Group and Ring-Fenced Banks Economic Crime Prevention Committee | Brings together accountable stakeholders and subject matter experts to ensure that the development and application of economic crime risk management complies with the Group's strategic aims, Group corporate responsibility, Group risk appetite and Group economic crime prevention (fraud, anti-money laundering, anti-bribery and sanctions) policy. It provides direction and appropriate focus on priorities to enhance the Group's economic crime risk management capabilities in line with business and customer objectives while aligning to the Group's target operating model. |
| Lloyds Banking Group and Ring-Fenced Banks Financial Risk Committee | Responsible for overseeing, reviewing, challenging and recommending, as required, to GEC/Board Risk Committee/Board for Lloyds Banking Group and Ring-Fenced Bank (i) annual internal stress tests, (ii) all Prudential Regulation Authority (PRA) and any other regulatory stress tests, (iii) reverse stress tests, (iv) Internal Capital Adequacy Assessment Process (ICAAP), (v) Pillar 3, (vi) recovery/resolution plans, and (vii) relevant ad hoc stress tests or other analysis as and when required by the Committee. |
| Lloyds Banking Group and Ring-Fenced Banks Capital Risk Committee | Responsible for providing oversight of relevant capital matters within the Lloyds Banking Group, Ring-Fenced Bank and material subsidiaries, including latest capital position and plans, capital risk appetite proposals, Pillar 2 developments (including stress testing), recovery and resolution matters and the impact of regulatory reforms and developments specific to capital. |
| Lloyds Banking Group and Ring-Fenced Banks Model Governance Committee | Responsible for supporting the Model Risk and Validation Director in fulfilling their responsibilities, from a Group-wide perspective, under the Group model governance policy through provision of debate, challenge and support of decisions. The Committee will be held as required to facilitate approval of models, model changes and model-related items as required by model policy, including items related to the governance framework as a whole and its application. |
| Lloyds Banking Group and Ring-Fenced Banks Liquidity Risk Committee | Responsible for providing monitoring, oversight, challenge, and approval for funding and liquidity risks across the Ring-Fenced Bank and Lloyds Banking Group. Reviews and proposes changes to the funding and liquidity risk management framework, including the ILAAP and internal liquidity stress testing. It is also responsible for escalating issues of RFB and Lloyds Banking Group-level significance to GEC (usually via GALCO) relating to the management of the Group's funding and liquidity risk. |

## **Risk Management Approach (UK OVA)** continued

### Stress Testing

Stress testing is recognised as a key risk management tool by the Boards, senior management, the businesses and the Risk and Finance functions of all parts of the Group and its legal entities. It is fully embedded in the planning process of the Group and its key legal entities as a key activity in medium-term planning, and senior management is actively involved in stress testing activities via the governance process.

Scenario stress testing is used to support:

Risk identification:

– Understanding key vulnerabilities of the Group and its key legal entities under adverse economic conditions

Risk appetite:

– Assessing the results of the stress test against the risk appetite of all parts of the Group to ensure the Group and its legal entities are managed within their risk parameters

– Setting of risk appetite by assessing the underlying risks under stress conditions

Strategic and capital planning:

– Senior management and the Boards of the Group and its applicable legal entities to adjust strategies if the plan does not meet risk appetite in a stressed scenario

– The ICAAP, by demonstrating capital adequacy and meet the requirements of regulatory stress tests that are used to inform the setting of the PRA and management buffers (see capital risk on page 25 of the Lloyds Bank Group plc Annual Report and Accounts) of the Group and its separately regulated legal entities in the Groups Annual Report and Accounts 2023.

Risk mitigation:

– The development of potential actions and contingency plans to mitigate the impact of adverse scenarios. Stress testing also links directly to the recovery and resolution planning process of the Group and its legal entities

### Internal stress tests

On at least an annual basis, the Group conducts macroeconomic stress tests to highlight and understand the key vulnerabilities of the Group's and its legal entities' business plans to adverse changes in the economic environment, and to ensure that there are adequate financial resources in the event of a downturn.

### Reverse stress testing

Reverse stress testing is used to explore the vulnerabilities of the Group's and its key legal entities' strategies and plans for extreme adverse events that would cause the businesses to fail. Where this identifies plausible scenarios with an unacceptably high risk, the Group or its entities will adopt measures to prevent or mitigate that and reflect these in strategic plans.

### Other stress testing activity

The Group's stress testing programme also involves undertaking assessments of liquidity scenarios, market risk sensitivities and scenarios, and business-specific scenarios (see the principal risk categories on 22 to 24 of the 2023 Lloyds Bank plc Annual Report and Accounts for further information on risk-specific stress testing). If required, ad hoc stress testing exercises are also undertaken to assess emerging risks, as well as in response to regulatory requests. This wide-ranging programme provides a comprehensive view of the potential impacts arising from the risks to which the Group is exposed and reflects the nature, scale and complexity of the Group. Lloyds Banking Group is currently participating in the Bank of England's System-wide exploratory scenario (SWES), which aims to improve understanding of the behaviours of banks and non-bank financial institutions during stressed financial market conditions. Results of this exercise will be published in late 2024.

### Methodology

The stress tests process must comply with all regulatory requirements, which is achieved through comprehensive macroeconomic scenarios and a rigorous divisional, functional, risk and executive review and challenge process, supported by analysis and insight into impacts on customers and business drivers.

All relevant business, Risk and Finance teams are involved in the delivery of analysis, and ensure the sensitivity of the business plan to each risk is well understood. The methodologies and modelling approach used for stress testing embed direct links between the macroeconomic scenarios and the drivers for each business area to give appropriate stress sensitivities. All material assumptions used in modelling are documented and justified, with a clearly communicated review and sign-off process. Modelling is supported by expert judgement and is subject to Lloyds Banking Group model governance policy.

### Governance

Clear accountabilities and responsibilities for stress testing are assigned to senior management and the Risk and Finance functions throughout the Group and its key legal entities. This is formalised through the Lloyds Banking Group business planning and stress testing policy and procedure, which are reviewed at least annually.

The GFRC, chaired by the Chief Risk Officer and attended by the Chief Financial Officer and other senior Risk and Finance colleagues, has primary responsibility for overseeing the development and execution of the Group's stress tests.

The review and challenge of the Group's detailed stress forecasts, the key assumptions behind these, and the methodology used to translate the economic assumptions into stressed outputs conclude with the appropriate Finance and Risk sign-off. The outputs are then presented to the GFRC and the Board Risk Committee for review and challenge. With all regulatory exercises being approved by the Board.

### Information on the strategies and processes to manage, hedge and mitigate risks

The Group uses a range of approaches to mitigate and hedge risk that vary depending on the risk type. Further detail can be found on pages 39 to 87 (credit risk), 88 to 95 (counterparty credit risk).

# The Regulatory Capital Framework

The Group assesses both its regulatory capital requirements and the quantity and quality of capital resources it holds to meet those requirements in accordance with the relevant provisions of the Capital Requirements Directive (CRD V) and Capital Requirements Regulation (UK CRR). This is supplemented through additional regulation set out under the PRA Rulebook and through associated statements of policy, supervisory statements and other regulatory guidance.

The regulatory capital framework consists of various classifications of capital resources – Common Equity Tier 1 (CET1), Additional Tier 1 (AT1) and Tier 2 (T2) – which are held to meet a stack of regulatory capital requirements and buffers.

## Regulatory Capital Resources

The Group's capital resources are classified depending on the degree of permanency and loss absorbency exhibited.

## Common equity tier 1 capital

This represents the strongest form of capital consisting of shareholders' equity (ordinary share capital and reserves) after a number of regulatory adjustments and deductions have been applied. These include the elimination of the cash flow hedging reserve and deductions for goodwill and other intangible assets, the majority of deferred tax assets and defined benefit pension scheme surpluses. In addition reserves are adjusted to reflect the application of the IFRS 9 transitional relief arrangements for capital and accruals for foreseeable dividends.

## Additional tier 1 capital

AT1 capital instruments are non-cumulative perpetual securities containing a specific provision to write down the security or convert it to equity should the CET1 ratio fall to a defined trigger limit. The Group's current AT1 securities contain a trigger limit of 7 per cent.

CET1 and AT1 together form Tier 1 Capital (T1).

## Tier 2 capital

T2 capital comprises certain other subordinated debt securities that do not qualify as AT1. They must have an original term of at least 5 years, cannot normally be redeemed within their first 5 years and are phased out as T2 regulatory capital in the final 5 years before maturity through the application of regulatory amortisation.

Under the CRR 2 revised transitional rules for capital, certain legacy capital instruments may continue to be recognised as regulatory capital until June 2025. The Group's single legacy T2 capital instrument that remained eligible under the revised transitional rules matured in April 2023.

Any excess of IFRS 9 expected credit losses over regulatory expected losses in respect of the Group's IRB portfolios is added to T2 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.

T1 and T2 together form Total Capital.

## Regulatory Capital Requirements and Buffers

Prudential requirements under the Basel framework are categorised under three pillars: Pillar 1 – Minimum Capital Requirements; Pillar 2 – Supervisory Review Process; and Pillar 3 – Market Discipline.

## Pillar 1 - Minimum Capital Requirements

Pillar 1 of the regulatory framework focuses on the determination of risk weighted assets and expected losses in respect of the firm's exposure to credit, counterparty credit, market and operational risks.

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 met with CET1 capital and at least 6 per cent of risk-weighted assets are required to be met with tier 1 capital.

A range of approaches, varying in sophistication, are available under the regulatory framework to use in measuring risk-weighted assets and thereby determine the minimum level of capital required under Pillar 1. The Group's risk-weighted assets are predominantly calculated using internal models that are prudently calibrated based on loss experience and are subject to a number of internal controls and external approval from the PRA. Group models designed to meet revised regulations implemented by the PRA on 1 January 2022 remain in development and as a result the Group has applied temporary model adjustments to risk-weighted assets and expected loss amounts. A brief summary of the different approaches for the different risk types and their application by the Group as at 31 December 2023 is disclosed on pages 23 and 24, with further detail provided in each of the sections as indicated.

**THE REGULATORY CAPITAL FRAMEWORK** continued

## Pillar 1 Capital Requirements

| Risk type | Approaches | Application within the Group |
|---|---|---|
| **Credit risk** | Credit risk risk-weighted assets represent a measure of on and off-balance sheet exposures weighted according to risk as specified under the rules. There are two approaches available: | |
| | **Standardised Approach (STA)**<br>A simple approach which relies on the application of a prescribed set of risk weights to credit risk exposures, dependent on a number of factors including the applicable asset class and underlying credit quality.<br>The Standardised Approach takes account of credit risk mitigation and specific credit risk adjustments (SCRAs) that the Group has applied against an exposure, before the relevant risk weight is applied to the adjusted exposure amount. Unlike exposures modelled under the IRB approaches, there is no distinction made between expected and unexpected losses for exposures on the Standardised Approach.<br>Under this approach banks can utilise risk assessments from External Credit Assessment Institutions (ECAIs) for a number of exposure classes that cover rated counterparties, including corporates, central governments or central banks and institutions. The Group uses ratings published by Standard & Poor's, Moody's and Fitch to determine risk-weights for rated counterparties under this approach.<br>The Standardised Approach is also applied to exposures in the form of units or shares in a Collective Investment Unit (CIU). | The Group applies the Standardised Approach to the majority of its central government and central bank exposures, its MBNA credit card portfolio, the acquired (closed book) of residential mortgages from Tesco Bank and a small number of other exposure types across the Group. A small number of portfolios are permanently exempt from the IRB approach (including certain non UK incorporated Corporate assets and Tesco Bank residential mortgages) with certain portfolios (including MBNA) currently awaiting roll out under the Group's IRB model roll-out plan. |
| | **IRB Approach (IRB)**<br>There are two main variations for commercial exposures – Foundation IRB (FIRB) and Advanced IRB (AIRB). For retail exposures, Retail IRB (RIRB) is available (a variation of AIRB). In each case a prescribed regulatory formula is used to calculate risk-weighted assets which incorporates probability of default (PD), loss given default (LGD) and exposure at default (EAD) in addition to other variables such as maturity and correlation.<br>Regulatory expected losses (EL) under the FIRB, AIRB and RIRB approaches are calculated by multiplying regulatory EAD by PD and LGD, with the exception of defaulted exposures on the AIRB and RIRB where the best estimate of expected loss (BEEL) is used.<br>Scaling factors are applied to the calculation of risk-weighted assets with an uplift applied for Financial Institutions Interconnectedness (FII) and a reduction for exposures to SMEs.<br><br>The FIRB Approach uses internal assessments of a counterparty's PD (subject to certain floors) together with regulatory defined assessments for LGD and EAD<br><br>The AIRB Approach uses internal assessments of PD, EAD and LGD (subject to certain floors).<br><br>The Retail IRB Approach is a version of the AIRB Approach tailored to retail exposures.<br><br>For certain specialised lending exposures there is also a Supervisory Slotting Approach which assigns regulatory prescribed risk weights to assets based on the characteristics of each exposure.<br><br>A number of alternative methodologies exist for other exposures such as equity exposures and securitisation positions. | The FIRB Approach is used for the majority of the Group's commercial exposures as the Group does not have permission to utilise the AIRB Approach for these portfolios.<br><br>The Group has permission to utilise the RIRB Approach for retail portfolios and applies this with few exceptions (e.g. MBNA which is on the Groups roll-out plan).<br><br>For more information on IRB models refer to the Model Performance section on pages 67 to 70.<br><br>The Group applies the Supervisory Slotting Approach to certain corporate specialised lending exposures that comprise mainly of commercial real estate portfolios.<br><br>The Simple Risk Weight Method is applied to the Group's equity exposures.<br><br>Securitisation positions are risk weighted under the Securitisation External Ratings Based Approach (SEC-ERBA), the Securitisation Internal Ratings Based Approach (SEC-IRBA) or the Securitisation Standardised Approach (SEC-SA). |

| Risk type | Approaches | Application within the Group |
|---|---|---|
| **Counterparty credit risk** | There are several approaches for measuring exposures to counterparty credit risk, as set out below. The resultant exposures are risk-weighted under either the Standardised Approach or the relevant IRB Approach, as appropriate, to determine the capital requirement.<br><br>Standardised Approach (SA-CCR): The exposure value is calculated by applying a multiplier (alpha) to a combination of the market value and potential future exposure (PFE). The calculation includes collateral haircuts, mapping of trades to 'hedging sets' and application of any margin received and posted.<br><br>Simplified Standardised Approach (Simplified SA-CCR): The exposure value is calculated by applying a multiplier (alpha) to a combination of the market value and PFE. However, replacement cost and PFE are calculated in a simplified way.<br><br>Original Exposure Method: The exposure value is calculated by applying a multiplier (alpha) to a combination of the market value and PFE. However, PFE is calculated by multiplying the notional amount of the instrument by set percentages prescribed depending on maturity.<br><br>SFT Comprehensive Approach: Volatility adjustments are applied to the market value of collateral to take account of price volatility.<br><br>Internal Models Method (IMM): The fair value on the balance sheet is replaced by an exposure value calculated using internal models.<br><br>Exposures to central counterparties (CCPs), comprising trades, default fund contributions and initial margin are subject to specific measurement and risk weight requirements. | The Group's derivative and SFT counterparty credit risk exposures are measured under the Standardised Approach (SA-CCR) and SFT Comprehensive Approach respectively, prior to being risk weighted under the Standardised Approach, FIRB Approach or Supervisory Slotting Approach as appropriate. |
| | Credit valuation adjustment (CVA) risk can be calculated under either the Advanced Method (via the use of internal models) or the Standardised Method. | The Group applies the Standardised Method for calculating CVA risk. |
| **Market risk** | The two key approaches for Market Risks are as follows.<br><br>Standardised Approach (STA): This requires the calculation of position risk requirements (PRR) for each type of market risk in the trading book.<br><br>Internal Models Approach (IMA): Involves the use of internal Value at Risk (VaR) and other models to determine appropriate capital requirements based on the market risks in the trading book. | The Group uses the Standardised approach for calculating Market risk. |
| **Operational risk** | There are three approaches for Operational Risk as set out below.<br><br>Basic Indicator Approach (BIA): A low risk sensitivity approach which calculates the capital requirement as a percentage of average net interest and non-interest income.<br><br>Standardised Approach (TSA): A medium risk sensitivity approach where the capital requirement is derived from regulatory prescribed factors applied to the three year average income from various business lines.<br><br>Advanced Measurement Approach (AMA): A high risk sensitivity approach, the capital requirement is determined through the use of an internal operational risk measurement model. | The Group measures its operational risk requirement using The Standardised Approach. |

## **The Regulatory Capital Framework** continued

## Pillar 2 - Supervisory Review Process

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 capital buffers which are further described on pages 26 and 27.

## Individual Capital Requirement (UK OVC)

The PRA sets an additional minimum capital requirement under Pillar 2A. This reflects a point in time estimate of the amount of capital required to cover risks that are not fully covered by Pillar 1, such as credit concentration and operational risk, and those risks not covered at all by Pillar 1, such as pension obligation risk and interest rate risk in the banking book (IRRBB).

Pillar 2A capital requirements consist of a variable amount (being a set percentage of risk-weighted assets), with fixed add-ons for certain risk types.

The Group's Pillar 2A capital requirement is around 3.0 per cent of risk-weighted assets, of which around 1.7 per cent of risk-weighted assets must be met by CET1 capital. The Pillar 2A capital requirement includes a reduction linked to the setting of a 2 per cent UK countercyclical capital buffer rate under normal conditions, as defined by the Bank of England's Financial Policy Committee (FPC). The Group is not permitted by the PRA to disclose any details on the individual components of its Pillar 2A capital requirement.

A key input into the PRA's Pillar 2A setting process is a bank's own assessment of the minimum amount of capital it needs to cover risks that are not covered or not fully covered by Pillar 1 as part of its Internal Capital Adequacy Assessment Process (ICAAP).

Some of the key risks assessed within the Pillar 2A assessment part of the Group's ICAAP include:

- Concentration risk – greater loss volatility arising from a higher level of loan default correlation than is assumed by the Pillar 1 assessment. Such correlation can arise from, for example, geographic, industry sector and single name concentrations.
- Underestimation risk – where it is considered that the Pillar 1 capital assessments for credit, market, credit valuation adjustment (CVA) or operational risk underestimate the risk, including as a result of climate change related considerations. The operational risk assessment includes consideration of conduct risk.
- Residual value risk – the risk that the value of assets being returned are less than the customer balance, with resultant loss to the Group.
- Pension obligation risk – the potential for losses that the Group would incur in the event of a significant deterioration in the funding position of the Group's defined benefit pension schemes.
- Interest rate risk in the banking book – the potential losses in the non-trading book resulting from interest rate changes or changes in spreads between different rates.

The detailed ICAAP document is subject to a robust review process, approved by the Board Risk Committee and submitted to the PRA for their consideration ahead of setting the Group's P2A requirement.

## Regulatory Capital Buffers

The Group is also required to meet a number of regulatory capital buffers with CET1 capital.

### Systemic buffers

Systemic buffers are designed to hold systemically important banks to higher capital standards, so that they can withstand a greater level of stress before requiring resolution. The Group is not currently classified as a global systemically important institution (G-SII) but has been classified as an 'other' systemically important institution (O-SII) by the PRA.

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. The FPC amended the O-SII buffer framework in 2022, changing the metric for determining the buffer rate from total assets to the UK leverage exposure measure. The first review point under the revised framework occurred during December 2023 (based upon the RFB sub-group's UK leverage exposure measure as at 31 December 2022) which resulted in no change to the current buffer.

### Capital conservation buffer

The capital conservation buffer (CCB) is a standard buffer of 2.5 per cent of risk-weighted assets designed to provide for losses in the event of stress.

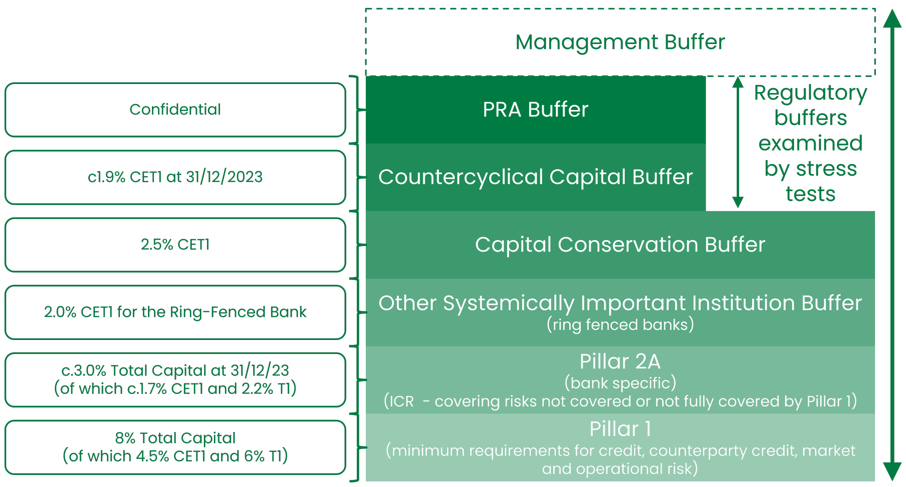
### Countercyclical capital buffer

The countercyclical capital buffer (CCyB) is time-varying and is designed to require banks to hold additional capital to remove or reduce the build-up of systemic risk in times of credit boom, providing additional loss-absorbing capacity and acting as an incentive for banks to constrain further credit growth. The amount of the buffer is determined by reference to buffer rates published by the FPC for the individual countries where the Group has relevant credit exposures. The FPC also sets the UK CCyB rate which is currently set at 2 per cent, following a 1 per cent increase in July 2023. The FPC judges that the neutral rate for the UK CCyB is around 2 per cent.

Given the Group's UK focused business model, the Group's CCyB at 31 December 2023 was around 1.9 per cent of risk-weighted assets.

### PRA buffer

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 Pillar 2A requirement. The PRA considers outputs from both the Group's internal stress tests and Bank of England (BoE) stress tests, in conjunction with other information, as part of the process for informing the setting of a bank-specific capital buffer for the Group, known as the PRA Buffer. The PRA requires this buffer to remain confidential.




The PRA provided an update of the Group's Pillar 2A CET1 capital requirement during the fourth quarter of 2023, with the requirement remaining at around 1.7 per cent of risk-weighted assets.

The Group's countercyclical capital buffer is currently around 1.9 percent of RWAs, following the increase in the UK countercyclical capital buffer rate to 2 per cent in July 2023.

## The Regulatory Capital Framework continued

## All buffers

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 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.

## Sectoral capital requirements

The FPC can also set sectoral capital requirements which are temporary increases to banks' capital requirements on exposures to specific sectors, if the FPC judges that exuberant lending to those sectors poses risks to financial stability. No sectoral capital requirements currently apply to the Group.

## Pillar 3 – Market Discipline

The third pillar addresses the external publication of disclosures surrounding a firm's risk management practices, its approach to capital management, its capital resources and Pillar 1 capital requirements and a detailed analysis of its risk exposures.

The Group's Pillar 3 disclosures comply with the requirements of the Disclosure section of the PRA Rulebook.

## Leverage Framework

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 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 tier 1 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) requirement which is determined by multiplying the Group's CCyB rate by 35 per cent, with the result rounded to the nearest tenth of a percentage. As at 31 December 2023 the CCLB for the Group was 0.7 per cent. An additional leverage ratio buffer (ALRB) requirement of 0.7 per cent applies to the Group and is determined by multiplying the O-SII buffer by 35 per cent.

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.

## IFRS 9 Transitional Arrangements

IFRS 9 transitional arrangements for capital as set out under CRR Article 473a were designed to 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.

These arrangements have provided some stability in capital requirements against the volatility and provisioning connected to the impact of IFRS 9.

The Group applies the full extent of the arrangements, which were amended in June 2020 as part of the CRR 'Quick Fix' revisions. A description of the arrangements is set out below:

– The initial net impact on CET1 capital was phased in over 5 years from the original 1 January 2018 implementation date - this was referred to as 'static' relief. On 1 January 2023 the static relief arrangements came to an end, resulting in the full recognition of the initial net impact on CET1 capital.

– The start point for measuring subsequent increases in Stage 1 and Stage 2 ECLs (net of movements in regulatory expected losses) is 1 January 2020. During 2023 the revised arrangements allowed 50 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 25 per cent in 2024, then to zero in 2025. 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 to reflect the relief results in further consequential adjustments being made to tier 2 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 revised CRR Article 473a.

## 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 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 2023, the Group's internal MREL resources exceeded the minimum required.

**The Regulatory Capital Framework** continued

## Regulatory Updates

## Final Basel III reforms

The Basel Committee published its final reforms on Basel III in December 2017. The purpose of the reforms is to restore credibility in the calculation of risk-weighted assets through greater robustness and risk-sensitivity in the Standardised approaches, constraints on the use of internal models, and restricting the RWA benefits that internal models can provide. The aim is to improve comparability between banks' capital ratios through the following measures:

- improving the granularity and risk sensitivity of the standardised credit risk framework
- addressing shortcomings related to the use of the IRB credit risk framework, including excessive complexity, lack of comparability and lack of robustness in modelling certain asset classes
- removing the option to apply the Advanced IRB Approach for low default portfolios
- adopting input floors for PDs, LGDs and EADs to ensure a degree of conservatism is maintained in modelled outputs and providing greater specification of parameter estimation practices to reduce variability in risk-weighted assets
- replacing the existing approaches under the operational risk framework with a single risk sensitive standardised approach that combines a measure of a bank's income with a measure of its historic operational risk losses
- revisions to the credit valuation adjustment (CVA) risk framework designed to enhance its risk sensitivity, strengthen its robustness and improve its consistency
- replacing the current Basel II capital floors (output) requirement with a new version based on the revised Basel III standardised approaches to ensure that total RWAs for banks using internal models and subject to the floor cannot fall below 72.5% of RWAs derived under the standardised approaches, to be phased in over five years.

The Basel Committee proposed that the reforms should be implemented by 1 January 2023 (extended from 1 January 2022 in response to the coronavirus pandemic). Implementation is the responsibility of local regulators.

On 30 November 2022, the Prudential Regulation Authority (PRA) published a consultation paper (CP16/22) setting out its proposals to implement the final reforms to the Basel III framework in the UK. The PRA refers to these as the 'Basel 3.1 standards'.

The consultation paper contained a comprehensive package of proposed measures that would make significant changes to the way banks regulated in the UK calculate RWAs.

Overall, the PRA's proposals closely align with the Basel III framework with certain specific adjustments tailored to the UK market including:

- application of the Output Floor at UK group consolidated level and sub-consolidated level for ring-fenced banks;
- Standardised credit risk framework adjustments including: residential real estate valuations being based at origination or updated when an obligor refinances their mortgage at the end of a fixed period; a 100% risk weight floor for commercial real estate exposures; and an alternative risk-sensitive approach for unrated corporates;
- A 50% conversion factor for off-balance sheet other commitments;
- A 0.1% PD floor for UK retail residential mortgage exposures;
- Removal of the IRB approach for central government and central bank exposures;
- Permission to apply a reduced 'alpha factor' of one in the standardised approach to counterparty credit risk (SA-CCR) framework for calculating exposures to non-financial counterparties and pension funds but with transitional arrangements for legacy trades to maintain additional Pillar 1 capital which would reduce linearly over five years;
- setting the internal loss multiplier (ILM) equal to one under the new Standardised approach for Pillar 1 Operational Risk capital requirements.

While the PRA proposal to increase the CVA framework scope to include exposures to Sovereigns, non-financial counterparties and pension funds is in line with the Basel III framework, the PRA proposals give firms an option to apply a transitional approach for legacy transactions over a 5 year period

Following the volume of feedback received for CP16/22, the PRA issued a statement in September 2023 announcing (i) the delay of the implementation date from 1 January 2025 to 1 July 2025 with the the Output Floor still to be fully phased in on 1 January 2030; and (ii) the intention to split the publication of the final rules into two packages. Policy Statement 17/23 was issued on 12 December 2023 and included near final rules on market risk, credit valuation adjustment risk, counterparty credit risk and operational risk. A policy statement covering final rules in relation to credit risk, the Output Floor, reporting and disclosure requirements is expected in Q2 2024.

## Other Developments

The Group continues to monitor and engage in developments in relation to climate-related financial risk. This includes participation in industry working groups and feedback on the Basel consultation on the disclosure of climate-related financial risks (November 2023) which proposes the introduction of new Pillar 3 reporting requirements.

The BoE is continuing to work on a more enduring capital treatment of IFRS 9 for the purposes of future stress tests.

Changes to the regulations applicable to internal ratings based (IRB) models were implemented by the PRA on 1 January 2022. The Group's models to meet these requirements remain subject to further development and final approval by the PRA. As a result, the Group has applied temporary model adjustments to risk-weighted asset and expected loss amounts reflecting the anticipated impact of the new modelling requirements.
In relation to the Retail secured CRD IV models, it is estimated that a further £5 billion RWA increase will be required over 2024 to 2026, noting that this will be subject to final model outcomes.

# Capital Management

## The Group's Approach to Capital Risk

### Definition

Capital risk is defined as the risk that an insufficient quantity or quality of capital is held to meet regulatory requirements or to support business strategy, an inefficient level of capital is held 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 and leverage or the minimum requirement for own funds and eligible liabilities (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.

Further information on the Group's approach to measuring both capital requirements and the amount of capital resources it holds to meet those requirements can be found on pages 22 to 27 (The Regulatory Capital Framework).

### Mitigation

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

The Group regularly refreshes and monitors its suite of early warning indicators and maintains a Capital Contingency Framework as part of the Lloyds Banking Group Recovery Plan which are designed to identify and escalate 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, business disposals and through the efficient use of securitisations and other optimisation activity.

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, as well as at the Ring-Fenced Bank's Boards and Board Risk Committee. 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 Group continues to monitor prudential 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.

### Analysis of CET1 Capital Position

The Group's common equity tier 1 (CET1) capital ratio decreased to 14.4 per cent at 31 December 2023 compared to 14.8 per cent at 31 December 2022. Profit for the year was more than offset by pension deficit contributions made to the defined benefit pension schemes, an increased deduction for goodwill and other intangible assets, the ordinary dividends paid in the second half of the year, the accrual for foreseeable ordinary dividends, distributions on other equity instruments and an increase in risk-weighted assets.

### Total Capital Requirement

The Group's total capital requirement (TCR) as at 31 December 2023, being the aggregate of the Group's Pillar 1 and current Pillar 2A capital requirements, was £20,004 million (31 December 2022: £19,297 million).

### Capital Resources

An analysis of the Group's capital position as at 31 December 2023 is presented in the following section. This reflects the application of the transitional arrangements for IFRS 9.

## **Capital Management** continued

## Capital resources

| | At 31 Dec 2023 £m | At 31 Dec 2022 £m |
|---|---|---|
| **Common equity tier 1** | | |
| Shareholders' equity per balance sheet | **35,355** | 34,709 |
| Adjustment to retained earnings for foreseeable dividends | **(490)** | (1,900) |
| Cash flow hedging reserve | **3,554** | 5,168 |
| Other adjustments[1] | **73** | 131 |
| | **38,492** | 38,108 |
| **less: deductions from common equity tier 1** | | |
| Goodwill and other intangible assets | **(5,531)** | (4,783) |
| Prudent valuation adjustment | **(117)** | (132) |
| Removal of defined benefit pension surplus | **(2,653)** | (2,804) |
| Deferred tax assets | **(3,971)** | (4,463) |
| **Common equity tier 1 capital** | **26,220** | 25,926 |
| **Additional tier 1** | | |
| Additional tier 1 instruments | **5,018** | 4,268 |
| **Total tier 1 capital** | **31,238** | 30,194 |
| **Tier 2** | | |
| Tier 2 instruments | **5,747** | 5,318 |
| Other adjustments | **417** | 303 |
| **Total tier 2 capital** | **6,164** | 5,621 |
| **Total capital resources** | **37,402** | 35,815 |
| | | |
| **Risk-weighted assets** | **182,560** | 174,902 |
| | | |
| **Common equity tier 1 capital ratio** | **14.4%** | 14.8% |
| **Tier 1 capital ratio** | **17.1%** | 17.3% |
| **Total capital ratio** | **20.5%** | 20.5% |

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

**Capital Management** continued

## Movements in CET1 capital resources

The key movements are set out in the table below.

| | Common equity tier 1 £m |
|---|---|
| At 31 December 2022 | 25,926 |
| Profit for the year | **5,207** |
| Movement in foreseeable dividends[1] | **1,410** |
| Dividends paid out on ordinary shares during the year | **(4,700)** |
| IFRS 9 transitional adjustment to retained earnings | **(242)** |
| Pension deficit contributions | **(768)** |
| Fair value through other comprehensive income reserve | **71** |
| Deferred tax asset | **492** |
| Goodwill and other intangible assets | **(748)** |
| Distributions on other equity instruments | **(334)** |
| Other movements | **(94)** |
| **At 31 December 2023** | **26,220** |

1 Reflects the reversal of the brought forward accrual from 31 December 2022, net of the accrual recognised at 31 December 2023.

CET1 capital resources have increased by £294 million during the year, primarily reflecting profit for the year, largely offset by:

- Pension deficit contributions (fixed and variable) paid during the year into the Group's three main defined benefit pension scheme
- The increase in goodwill and other intangible assets, which included the acquisition of Tusker in February 2023
- The payment of ordinary dividends during the second half of the year, the accrual for foreseeable ordinary dividends and distributions on other equity instruments

The IFRS 9 transitional arrangements for static relief ended on 1 January 2023 and therefore no static relief exists at 31 December 2023 (31 December 2022: £133 million). Dynamic relief amounted to £155 million (31 December 2022: £278 million) through CET1 capital. On 1 January 2024, IFRS 9 dynamic relief reduced by a further 25 per cent.

### Movements in total capital

Total capital resources have increased by £1,587 million during the year, reflecting the increase in CET1 capital resources and increases in both AT1 and Tier 2 capital resources of £750 million and £543 million respectively, following the issuance of new AT1 and Tier 2 capital instruments. This was partially offset by other movements in Tier 2 capital instruments, which included the impact of sterling appreciation and regulatory amortisation.

## **Capital Management** continued

## Leverage ratio

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

| | At 31 Dec 2023 £m | At 31 Dec 2022 £m |
|---|---|---|
| **Total tier 1 capital** | **31,238** | 30,194 |
| **Exposure measure** | | |
| **Statutory balance sheet assets** | | |
| Derivative financial instruments | **3,165** | 3,857 |
| Securities financing transactions | **32,796** | 39,261 |
| Loans and advances and other assets | **569,444** | 573,810 |
| **Total assets** | **605,405** | 616,928 |
| Qualifying central bank claims | **(57,430)** | (71,747) |
| Derivatives adjustments | **(1,737)** | (2,960) |
| Securities financing transactions adjustments | **1,431** | 1,939 |
| Off-balance sheet items | **31,494** | 33,863 |
| Amounts already deducted from Tier 1 capital | **(12,060)** | (11,724) |
| Other regulatory adjustments[1] | **(4,950)** | (6,714) |
| **Total exposure measure** | **562,153** | 559,585 |
| **Average exposure measure[2]** | **568,917** | |
| **UK leverage ratio** | **5.6%** | 5.4% |
| **Average UK leverage ratio[2]** | **5.5%** | |
| **Leverage exposure measure (including central bank claims)** | **619,583** | 631,332 |
| **Leverage ratio (including central bank claims)** | **5.0%** | 4.8% |

1 Includes deconsolidation adjustments that relate to the deconsolidation of certain Group entities that fall outside the scope of the Group's regulatory capital consolidation and adjustments to exclude lending under the UK Government's Bounce Back Loan Scheme (BBLS).

2 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 2023 to 31 December 2023). The average of 5.5 per cent compares to 5.5 per cent at the start and 5.6 per cent at the end of the quarter.

### Analysis of leverage movements

The UK leverage ratio increased to 5.6 per cent at 31 December 2023 compared to 5.4 per cent at 31 December 2022, reflecting the increase in the total tier 1 capital position. This was partially offset by the increase in the leverage exposure measure following increases in financial and other assets (excluding central bank claims), net of reductions in off-balance sheet items and the measure for securities financing transactions.

# Own funds

## CC1: Composition of regulatory own funds

The capital positions presented below reflect the application of the transitional arrangements for IFRS 9.

| | | 31 Dec 2023 £m | 31 Dec 2022 £m | CC2 Reference |
|---|---|---|---|---|
| **Common Equity Tier 1 (CET1) capital: instruments and reserves** | | | | |
| 1 | Capital instruments and the related share premium accounts | **2,174** | 2,174 | |
| | of which: called up share capital | **1,574** | 1,574 | a |
| | of which: share premium | **600** | 600 | b |
| 2 | Retained earnings | **36,243** | 35,876 | d |
| 3 | Accumulated other comprehensive income (and other reserves) | **(3,062)** | (3,341) | d |
| UK-5a | Independently reviewed interim profits net of any foreseeable charge or dividend[1] | **(490)** | (1,900) | |
| **6** | **Common Equity Tier 1 (CET1) capital before regulatory adjustments** | **34,865** | 32,809 | |
| **Common Equity Tier 1 (CET1) capital: regulatory adjustments** | | | | |
| 7 | Additional value adjustments | **(117)** | (132) | |
| 8 | Intangible assets (net of related tax liability) | **(5,531)** | (4,783) | e |
| 10 | Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) CRR are met) | **(3,971)** | (4,463) | f |
| 11 | Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value | **3,554** | 5,168 | |
| 14 | Gains or losses on liabilities valued at fair value resulting from changes in own credit standing | **(74)** | (245) | |
| 15 | Defined-benefit pension fund assets | **(2,653)** | (2,804) | g |
| 27a | Other regulatory adjustments to CET1 capital | **147** | 376 | |
| **28** | **Total regulatory adjustments to Common Equity Tier 1 (CET1)** | **(8,645)** | (6,883) | |
| **29** | **Common Equity Tier 1 (CET1) capital** | **26,220** | 25,926 | |
| **Additional Tier 1 (AT1) capital: instruments** | | | | |
| 30 | Capital instruments and the related share premium accounts | **5,018** | 4,268 | c |
| 31 | of which: classified as equity under applicable accounting standards | **5,018** | 4,268 | |
| **44** | **Additional Tier 1 (AT1) capital** | **5,018** | 4,268 | |
| **45** | **Tier 1 capital (T1 = CET1 + AT1)** | **31,238** | 30,194 | |
| **Tier 2 (T2) capital: instruments** | | | | |
| 46 | Capital instruments and the related share premium accounts | **5,747** | 5,313 | h |
| 47 | Amount of qualifying items referred to in Article 484 (5) CRR and the related share premium accounts subject to phase out from T2 as described in Article 486(4) CRR | **—** | 5 | h |
| 50 | Credit risk adjustments | **417** | 303 | |
| **51** | **Tier 2 (T2) capital before regulatory adjustments** | **6,164** | 5,621 | |
| **58** | **Tier 2 (T2) capital** | **6,164** | 5,621 | |
| **59** | **Total capital** | **37,402** | 35,815 | |
| **60** | **Total risk exposure amount** | **182,560** | 174,902 | |
| **Capital ratios and buffers** | | | | |
| **61** | **Common Equity Tier 1 (as a percentage of total risk exposure amount)** | **14.4%** | 14.8% | |
| **62** | **Tier 1 (as a percentage of total risk exposure amount)** | **17.1%** | 17.3% | |
| **63** | **Total capital (as a percentage of total risk exposure amount)** | **20.5%** | 20.5% | |
| 64 | Institution CET1 overall capital requirement (CET1 requirement in accordance with Article 92 (1) CRR, plus additional CET1 requirement which the institution is required to hold in accordance with point (a) of Article 104(1) CRD, plus combined buffer requirement in accordance with Article 128(6) CRD) expressed as a percentage of risk exposure amount) | **12.6%** | 11.6% | |
| 65 | of which: capital conservation buffer requirement | **2.500%** | 2.500% | |
| 66 | of which: countercyclical buffer requirement | **1.905%** | 0.934% | |
| UK-67a | of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer | **2.000%** | 2.000% | |
| 68 | Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount) | **8.2%** | 8.6% | |
| **Amounts below the thresholds for deduction (before risk weighting)** | | | | |
| 72 | Direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions) | **256** | 252 | |
| 75 | Deferred tax assets arising from temporary differences (amount below 17,65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met) | **570** | 746 | |
| **Applicable caps on the inclusion of provisions in Tier 2** | | | | |
| 78 | Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap) | **417** | 303 | |
| 79 | Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach | **772** | 753 | |

1 The reported amounts for 31 December 2023 and 31 December 2022 through row UK-5a reflect the year end foreseeable dividend accrual only as the externally audited profits for the year to 31 December 2023 and 31 December 2022 are included in row 2 (Retained earnings).

## **Own funds** continued

## CC2: Reconciliation of regulatory own funds to balance sheet in the financial statements

The following table presents the Group's regulatory balance sheet as at 31 December 2023. The regulatory scope of consolidation is materially aligned to the accounting scope, with minor adjustments for the deconsolidation of certain Group entities. The regulatory scope of consolidation is the basis for the calculation of the Group's regulatory own funds as presented in table CC1.

| | | Balance sheet under regulatory scope of consolidation at 31 Dec 2023 | |
|---|---|---|---|
| **Assets** | | **£m** | **Reference**[1] |
| 1 | Cash and balances at central banks | **57,909** | |
| 3 | Financial assets at fair value through profit or loss | **1,273** | |
| 4 | Derivative financial instruments | **3,176** | |
| 5 | Loans and advances to banks | **8,810** | |
| 6 | Loans and advances to customers | **431,586** | |
| 7 | Reverse repurchase agreements | **32,751** | |
| 8 | Debt securities | **12,087** | |
| 9 | Due from fellow Lloyds Banking Group undertakings | **2,270** | |
| 10 | Financial assets at amortised cost | **487,504** | |
| 11 | Financial assets at fair value through other comprehensive income | **27,337** | |
| 12 | Goodwill and other intangible assets | **5,837** | e |
| 14 | Current tax recoverable | **1,026** | |
| 15 | Deferred tax assets[2] | **4,636** | f |
| 16 | Retirement benefit assets | **3,624** | g |
| 17 | Other assets | **11,955** | |
| **18** | **Total assets** | **604,277** | |
| **Liabilities** | | | |
| 1 | Deposits from banks | **3,557** | |
| 2 | Customer deposits | **441,976** | |
| 3 | Repurchase agreements at amortised cost | **37,702** | |
| 4 | Due to fellow Lloyds Banking Group undertakings | **2,932** | |
| 6 | Financial liabilities at fair value through profit or loss | **5,255** | |
| 7 | Derivative financial instruments | **4,307** | |
| 8 | Notes in circulation | **1,392** | |
| 9 | Debt securities in issue | **51,373** | |
| 10 | Other liabilities | **6,185** | |
| 11 | Retirement benefit obligations | **136** | |
| 12 | Current tax liabilities | **23** | |
| 13 | Deferred tax liabilities[2] | **157** | f |
| 14 | Other provisions | **1,916** | |
| 15 | Subordinated liabilities | **6,935** | h |
| **16** | **Total liabilities** | **563,846** | |
| **Shareholders' equity** | | | |
| 1 | Called up share capital | **2,174** | |
| 2 | of which: share capital | **1,574** | a |
| 3 | of which: share premium | **600** | b |
| 4 | Other equity instruments | **5,018** | c |
| 5 | Retained earnings, accumulated other comprehensive income and other reserves[3] | **33,181** | d |
| **6** | **Total equity excluding non-controlling interests** | **40,373** | |
| 7 | Non-controlling interests | **58** | |
| **8** | **Total equity** | **40,431** | |
| **9** | **Total equity and liabilities** | **604,277** | |

1. The references (a) to (h) identify regulatory balance sheet components that link initially to items disclosed in table CC1, prior to the application of regulatory definitions and adjustments per the rules for calculating own funds.
2. Deferred tax assets that rely on future profitability may be reduced by associated deferred tax liabilities where the conditions specified in Article 38 of the CRR are met. The resultant net deferred tax asset positions are deducted from CET1 capital, except in the case of deferred tax assets that arise from temporary differences which may be risk weighted instead of deducted from capital for the portion of the balance that does not exceed a threshold limit. Deferred tax assets are also adjusted to reflect the application of the IFRS 9 transitional arrangements.
3. The regulatory definition of eligible items for inclusion in retained earnings differs from the accounting 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.

# 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 2023 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Risk category | | | | | Category level AVA - Valuation uncertainty | | Total category level post-diversification | | |
| | | Equity | Interest Rates | Foreign exchange | Credit | Commodities | Unearned credit spreads AVA | Investment and funding costs AVA | | Of which: Total core approach in the trading book | Of which: Total core approach in the banking book |
| | **Category level AVA** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** |
| 1 | Market price uncertainty | 1 | 9 | — | 33 | — | 4 | 2 | 25 | — | 25 |
| 3 | Close-out cost | — | 55 | — | 11 | — | 2 | — | 34 | — | 34 |
| 4 | Concentrated positions | — | — | — | 18 | — | | | 17 | — | 17 |
| 5 | Early termination | — | — | — | — | — | | | — | — | — |
| 6 | Model risk | — | 10 | — | 22 | — | — | — | 16 | — | 16 |
| 7 | Operational risk | — | 6 | — | 5 | — | | | 12 | — | 12 |
| 10 | Future administrative costs | — | 9 | — | 4 | — | | | 13 | — | 13 |
| **12** | **Total Additional Valuation Adjustments (AVAs)** | | | | | | | | 117 | — | 117 |

| | | 31 Dec 2022 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Risk category | | | | | Category level AVA - Valuation uncertainty | | Total category level post-diversification | | |
| | | Equity | Interest Rates | Foreign exchange | Credit | Commodities | Unearned credit spreads AVA | Investment and funding costs AVA | | Of which: Total core approach in the trading book | Of which: Total core approach in the banking book |
| | Category level AVA | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| 1 | Market price uncertainty | 2 | 9 | — | 29 | — | 5 | 2 | 23 | — | 23 |
| 3 | Close-out cost | — | 65 | — | 11 | — | 2 | — | 39 | — | 39 |
| 4 | Concentrated positions | — | — | — | 33 | — | | | 34 | — | 34 |
| 5 | Early termination | — | — | — | — | — | | | — | — | — |
| 6 | Model risk | — | 6 | — | 15 | — | 1 | — | 11 | — | 11 |
| 7 | Operational risk | — | 7 | — | 5 | — | | | 12 | — | 12 |
| 10 | Future administrative costs | — | 9 | — | 4 | — | | | 13 | — | 13 |
| 12 | Total Additional Valuation Adjustments (AVAs) | | | | | | | | 132 | — | 132 |

# Countercyclical capital buffers

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

| | 31 Dec 2023 | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | General credit exposures[2,3] | | Relevant credit exposures - Market risk[2] | | Securitisation exposures[3] | | Own fund requirements - relevant credit exposures | | | | | | |
| | Exposure value under the standardised approach | Exposure value under the IRB approach | 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 | Total exposure value | Credit risk[2,3] | Market risk[2] | Securitisation positions in the non-trading book[3] | Total | Risk-weighted exposure amounts | Own fund requirements weights | Countercyclical buffer rate |
| **Breakdown by Country** | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | % | % |
| United Kingdom | 20,783 | 453,426 | — | — | 30,043 | 504,252 | 10,861 | — | 556 | 11,417 | 142,706 | 93.92% | 2.00% |
| Australia | 12 | 75 | — | — | — | 87 | 2 | — | — | 2 | 25 | 0.02% | 1.00% |
| Bulgaria | — | — | — | — | — | — | — | — | — | — | — | — | 2.00% |
| Croatia | — | — | — | — | — | — | — | — | — | — | — | — | 1.00% |
| Cyprus | 60 | — | — | — | — | 60 | 5 | — | — | 5 | 59 | 0.04% | 0.50% |
| Czech Republic | — | — | — | — | — | — | — | — | — | — | — | — | 2.00% |
| Denmark | — | 6 | — | — | — | 6 | 1 | — | — | 1 | 7 | — | 2.50% |
| Estonia | — | — | — | — | — | — | — | — | — | — | — | — | 1.50% |
| France | 254 | 107 | — | — | 254 | 615 | 23 | — | 7 | 30 | 372 | 0.25% | 0.50% |
| Germany | 771 | 187 | — | — | 547 | 1,505 | 53 | — | 5 | 58 | 726 | 0.48% | 0.75% |
| Hong Kong | 62 | 40 | — | — | — | 102 | 2 | — | — | 2 | 29 | 0.02% | 1.00% |
| Iceland | — | — | — | — | — | — | — | — | — | — | — | — | 2.00% |
| Ireland | 76 | 235 | — | — | 41 | 352 | 20 | — | — | 20 | 248 | 0.16% | 1.00% |
| Lithuania | — | — | — | — | — | — | — | — | — | — | — | — | 1.00% |
| Luxembourg | 16 | 238 | — | — | 484 | 738 | 13 | — | 4 | 17 | 216 | 0.14% | 0.50% |
| Netherlands | 816 | 15,420 | — | — | 196 | 16,432 | 218 | — | 2 | 220 | 2,740 | 1.80% | 1.00% |
| Norway | 2 | 73 | — | — | — | 75 | 5 | — | — | 5 | 66 | 0.05% | 2.50% |
| Romania | — | — | — | — | — | — | — | — | — | — | — | — | 1.00% |
| Slovakia | — | — | — | — | — | — | — | — | — | — | — | — | 1.50% |
| Slovenia | — | — | — | — | — | — | — | — | — | — | — | — | 0.50% |
| Sweden | — | 2 | — | — | — | 2 | — | — | — | — | 1 | — | 2.00% |
| **i) Total[1]** | 22,852 | 469,809 | — | — | 31,565 | 524,226 | 11,203 | — | 574 | 11,777 | 147,195 | 96.88% | |
| United States of America | 900 | 2,347 | — | — | 6,512 | 9,759 | 129 | — | 85 | 214 | 2,678 | 1.76% | |
| **ii) Total[1]** | 900 | 2,347 | — | — | 6,512 | 9,759 | 129 | — | 85 | 214 | 2,678 | 1.76% | |
| **iii) Rest of the World[1]** | 479 | 3,350 | — | — | 130 | 3,959 | 164 | — | 1 | 165 | 2,070 | 1.36% | |
| **Total** | 24,231 | 475,506 | — | — | 38,207 | 537,944 | 11,496 | — | 660 | 12,156 | 151,943 | 100.00% | |

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

31 Dec 2022

| | General credit exposures[2,3] | | Relevant credit exposures -Market risk[2] | | Securitisation exposures[3] | | Own fund requirements - relevant credit exposures | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Exposure value under the standardised approach | Exposure value under the IRB approach | 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 | Total exposure value | Credit risk[2,3] | Market risk[2] | Securitisation positions in the non-trading book[3] | Total | Risk-weighted exposure amounts | Own fund requirements weights | Countercyclical buffer rate |
| Breakdown by Country | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | % | % |
| United Kingdom | 20,502 | 462,740 | — | — | 22,856 | 506,098 | 10,575 | — | 380 | 10,955 | 136,940 | 93.02% | 1.00% |
| Bulgaria | — | — | — | — | — | — | — | — | — | — | — | — | 1.00% |
| Czech Republic | — | — | — | — | — | — | — | — | — | — | — | — | 1.50% |
| Denmark | — | 7 | — | — | — | 7 | 1 | — | — | 1 | 8 | 0.01% | 2.00% |
| Estonia | — | — | — | — | — | — | — | — | — | — | — | — | 1.00% |
| Hong Kong | 77 | 11 | — | — | — | 88 | 3 | — | — | 3 | 43 | 0.03% | 1.00% |
| Iceland | — | — | — | — | — | — | — | — | — | — | — | — | 2.00% |
| Luxembourg | 4 | 274 | — | — | 64 | 342 | 13 | — | 1 | 14 | 177 | 0.12% | 0.50% |
| Norway | 1 | 188 | — | — | — | 189 | 15 | — | — | 15 | 193 | 0.13% | 2.00% |
| Romania | — | — | — | — | — | — | — | — | — | — | — | — | 0.50% |
| Slovakia | — | — | — | — | — | — | — | — | — | — | — | — | 1.00% |
| Sweden | — | 2 | — | — | — | 2 | — | — | — | — | 2 | — | 1.00% |
| i) Total[1] | 20,584 | 463,222 | — | — | 22,920 | 506,726 | 10,607 | — | 381 | 10,988 | 137,363 | 93.31% | |
| United States of America | 746 | 2,262 | — | — | 5,591 | 8,599 | 141 | — | 76 | 217 | 2,714 | 1.85% | |
| Netherlands | 1,211 | 13,727 | — | — | 100 | 15,038 | 238 | — | 1 | 239 | 2,992 | 2.03% | |
| ii) Total[1] | 1,957 | 15,989 | — | — | 5,691 | 23,637 | 379 | — | 77 | 456 | 5,706 | 3.88% | |
| iii) Rest of the World[1] | 1,882 | 4,207 | — | — | 1,068 | 7,157 | 319 | — | 14 | 333 | 4,141 | 2.81% | |
| Total | 24,423 | 483,418 | — | — | 29,679 | 537,520 | 11,305 | — | 472 | 11,777 | 147,210 | 100.00% | |

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 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.

## CCyB2: Amount of institution-specific countercyclical capital buffer

| | | 31 Dec 2023 | 31 Dec 2022 |
|---|---|---|---|
| 1 | Total risk exposure amount | **£182,560m** | £174,902m |
| 2 | Institution specific countercyclical capital buffer rate | **1.905%** | 0.934% |
| 3 | Institution specific countercyclical capital buffer requirement | **£3,478m** | £1,634m |

# Leverage

## LR2: Leverage ratio common disclosure

| | | 31 Dec 2023 £m | 31 Dec 2022 £m |
|---|---|---|---|
| **On-balance sheet exposures (excluding derivatives and SFTs)** | | | |
| 1 | On-balance sheet items (excluding derivatives, SFTs, but including collateral)[1] | **564,483** | 567,091 |
| 2 | Gross-up for derivatives collateral provided, where deducted from the balance sheet assets pursuant to the applicable accounting framework | **3,273** | 3,305 |
| 3 | Deductions of receivables assets for cash variation margin provided in derivatives transactions | **(4,477)** | (5,040) |
| 6 | Asset amounts deducted in determining tier 1 capital (leverage) | **(12,060)** | (11,724) |
| 7 | Total on-balance sheet exposures (excluding derivatives and SFTs) | **551,219** | 553,632 |
| **Derivative exposures** | | | |
| 8 | Replacement cost associated with SA-CCR derivatives transactions (i.e. net of eligible cash variation margin) | **779** | 805 |
| 9 | Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions | **1,840** | 1,807 |
| 11 | Adjusted effective notional amount of written credit derivatives | **24** | 108 |
| 12 | Adjusted effective notional offsets and add-on deductions for written credit derivatives | **—** | (83) |
| 13 | Total derivatives exposures | **2,643** | 2,637 |
| **Securities financing transaction (SFT) exposures** | | | |
| 14 | Gross SFT assets (with no recognition of netting), after adjustment for sales accounting transactions | **40,432** | 49,696 |
| 15 | Netted amounts of cash payables and cash receivables of gross SFT assets | **(7,636)** | (10,435) |
| 16 | Counterparty credit risk exposure for SFT assets | **1,431** | 1,939 |
| 18 | Total securities financing transaction exposures | **34,227** | 41,200 |
| **Other off-balance sheet exposures** | | | |
| 19 | Off-balance sheet exposures at gross notional amount | **128,069** | 133,728 |
| 20 | Adjustments for conversion to credit equivalent amounts | **(96,355)** | (99,642) |
| 21 | General provisions deducted in determining tier 1 capital (leverage) and specific provisions associated with off-balance sheet exposures | **(220)** | (223) |
| 22 | Off-balance sheet exposures | **31,494** | 33,863 |
| **Capital and total exposure measure** | | | |
| 23 | Tier 1 capital (leverage) | **31,238** | 30,194 |
| 24 | Total exposure measure including claims on central banks | **619,583** | 631,332 |
| UK-24a | (-) Claims on central banks excluded | **(57,430)** | (71,747) |
| UK-24b | Total exposure measure excluding claims on central banks | **562,153** | 559,585 |
| **Leverage ratio** | | | |
| 25 | Leverage ratio excluding claims on central banks (%) | **5.6%** | 5.4% |
| UK-25a | Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%) | **5.5%** | 5.3% |
| UK-25c | Leverage ratio including claims on central banks (%) | **5.0%** | 4.8% |
| 26 | Regulatory minimum leverage ratio requirement (%) | **3.25%** | 3.25% |
| **Additional leverage ratio disclosure requirements - leverage ratio buffers** | | | |
| 27 | Leverage ratio buffer (%)[2] | **1.4%** | 1.0% |
| UK-27a | Of which: G-SII or O-SII additional leverage ratio buffer (%) | **0.7%** | 0.7% |
| UK-27b | Of which: countercyclical leverage ratio buffer (%) | **0.7%** | 0.3% |
| **Additional leverage ratio disclosure requirements - disclosure of mean values** | | | |
| 28 | Mean of daily values of gross SFT assets (over the quarter), after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivable | **42,232** | 57,873 |
| 29 | Quarter-end value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables | **32,796** | 39,261 |
| UK-31 | Average total exposure measure including claims on central banks | **627,191** | 638,302 |
| UK-32 | Average total exposure measure excluding claims on central banks | **568,917** | 572,388 |
| UK-33 | Average leverage ratio including claims on central banks | **5.0%** | 4.8% |
| UK-34 | Average leverage ratio excluding claims on central banks | **5.5%** | 5.4% |

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

2 The Group's additional leverage ratio buffer (ALRB) is based upon the O-SII Buffer. The countercyclical leverage ratio buffer (CCLB) is required to be rounded to the nearest tenth of a percentage.

**Leverage** continued

## LR1: Summary reconciliation of accounting assets and leverage ratio exposures

| | | 31 Dec 2023 £m | 31 Dec 2022 £m |
|---|---|---|---|
| 1 | Total assets as per published financial statements | **605,405** | 616,928 |
| 2 | Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential consolidation | **(1,128)** | (1,109) |
| 4 | Adjustment for exemption of exposures to central banks | **(57,430)** | (71,747) |
| 6 | Adjustment for regular-way purchases and sales of financial assets subject to trade date accounting | **(31)** | (56) |
| 8 | Adjustment for derivative financial instruments | **(1,737)** | (2,960) |
| 9 | Adjustment for securities financing transactions (SFTs) | **1,431** | 1,939 |
| 10 | Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)[1] | **31,714** | 34,086 |
| 11 | Adjustment for items and specific and general provisions which have reduced tier 1 capital (leverage) | **(12,280)** | (11,947) |
| 12 | Other adjustments[2] | **(3,791)** | (5,549) |
| **13** | **Total exposure measure** | **562,153** | 559,585 |

1 Gross of specific provisions. The amount net of specific provisions at 31 December 2023 is £31,494 million (31 December 2022: £33,863 million).
2 Includes an adjustment to exclude lending under the UK Government's Bounce Back Loan Scheme (BBLS).

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

| | | 31 Dec 2023 £m | 31 Dec 2022 £m |
|---|---|---|---|
| **UK-1** | **Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:** | **564,483** | 567,091 |
| **UK-2** | **Trading book exposures** | **1** | — |
| **UK-3** | **Banking book exposures, of which:** | **564,482** | 567,091 |
| UK-4 | Covered bonds | **4,123** | 3,302 |
| UK-5 | Exposures treated as sovereigns | **83,848** | 96,175 |
| UK-6 | Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns | **3,173** | 3,112 |
| UK-7 | Institutions | **8,320** | 7,710 |
| UK-8 | Secured by mortgages of immovable properties | **336,562** | 341,806 |
| UK-9 | Retail exposures | **39,864** | 40,625 |
| UK-10 | Corporates | **42,438** | 41,321 |
| UK-11 | Exposures in default | **5,743** | 5,096 |
| UK-12 | Other exposures (e.g. equity, securitisations, and other non-credit obligation assets) | **40,411** | 27,944 |

# LRA: Disclosure of LR qualitative information

## 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 a range of committees as well as at the Ring-Fenced Bank's Boards and Board Risk Committee.

The risks of contingent leverage are appropriately assessed as part of the Internal Capital Adequacy Assessment Process (ICAAP).

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 page 28.

## Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers

Further details on the factors that had an impact on the leverage ratio during the period are discussed on page 37.

# PILLAR 1 CAPITAL REQUIREMENTS: CREDIT RISK

## Divisional credit risk exposures and risk-weighted assets[1]

| | | 31 Dec 2023 | | | 31 Dec 2022 | | |
|---|---|---|---|---|---|---|---|
| **Division** | **Risk Weight approach** | **EAD post CRM post CCF** | **Risk-weighted assets** | **Average risk weight** | EAD post CRM post CCF | Risk-weighted assets | Average risk weight |
| | | **£m** | **£m** | **%** | £m | £m | % |
| Retail | IRB | **412,351** | **89,134** | **22%** | 416,364 | 83,333 | 20% |
| | Standardised | **16,447** | **11,426** | **69%** | 15,449 | 10,369 | 67% |
| Commercial Banking | IRB | **67,419** | **35,136** | **52%** | 70,506 | 37,618 | 53% |
| | Standardised | **14,715** | **5,019** | **34%** | 18,182 | 6,432 | 35% |
| Insurance, Pensions & Investments | IRB | **—** | **—** | **—%** | — | — | —% |
| | Standardised | **—** | **—** | **—%** | 116 | 59 | 51% |
| Equity Investments & Central Items | IRB | **8,845** | **3,769** | **43%** | 8,575 | 3,854 | 45% |
| | Standardised | **83,039** | **2,576** | **3%** | 93,291 | 2,935 | 3% |
| | **Total** | **602,816** | **147,060** | **24%** | 622,483 | 144,600 | 23% |
| | **Total IRB** | **488,615** | **128,039** | **26%** | 495,445 | 124,805 | 25% |
| | **Total Standardised** | **114,201** | **19,021** | **17%** | 127,038 | 19,795 | 16% |

1 Excludes securitisation.

# UK CRA: General qualitative information about credit risk

## 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).

## Exposures

The principal sources of credit risk within the Group arise from loans and advances, contingent liabilities, commitments and debt securities to customers, financial institutions and sovereigns. The credit risk exposures of the Group are set out in note 24 on page 192 of the 2023 Lloyds Bank plc Annual Report and Accounts.

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. Commercial term commitments are also contingent upon customers maintaining specific credit standards.

## 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 but are not limited to, total exposure, ECL, risk-weighted assets, new business quality, concentration risk and portfolio performance, are reported monthly to risk committees and forums.

Measures such as ECL, 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) have been incorporated into the Group's credit risk management practices to enable effective risk measurement across the Group.

The Group has also continued to strengthen its capabilities and abilities for identifying, assessing and managing climate-related risks and opportunities, recognising that climate change is likely to result in changes in the risk profile and outlook for the Group's customers, the sectors the Group operates in and collateral/asset valuations.

In addition, stress testing and scenario analysis, including preparation of credit playbooks to analyse and forward plan for specific events and/or emerging issues, are used to estimate impairment losses and capital demand forecasts for both regulatory and internal purposes and to assist in the formulation and calibration of credit risk appetite, where appropriate.

As part of the 'three lines of defence' model, the Risk division is the second line of defence providing oversight and independent challenge to key risk decisions taken by business management. The Risk division also tests the effectiveness of credit risk management and internal credit risk controls. This includes ensuring that the control and monitoring of higher risk and vulnerable portfolios and sectors is appropriate and confirming that appropriate loss allowances for impairment are in place. Output from these reviews helps to inform credit risk appetite, credit policy and portfolio mandates.

As the third line of defence, Group Internal Audit undertakes regular risk-based reviews to assess the effectiveness of credit risk management and controls.

### **UK CRA: General qualitative information about credit risk** continued

## Mitigation

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

**Prudent credit principles, risk policies and appetite statements:** the independent Risk division sets out the credit principles, credit risk policies and credit risk appetite statements. These are subject to regular review and governance, with any changes subject to an approval process. Risk teams monitor credit performance trends and the outlook. Risk teams also test the adequacy of and adherence to credit risk policies and processes throughout the Group. This includes tracking portfolio performance against an agreed set of credit risk appetite tolerances.

**Robust models and controls:** The model risk management framework, established by and with continued oversight from an independent team in the Risk division, provides the foundation for managing and mitigating model risk within the Group. Accountability is cascaded from the Board and senior management via the Group enterprise risk management framework.

**Limitations on concentration risk:** there are portfolio controls on certain industries, sectors and products to reflect risk appetite as well as individual, customer and bank limit risk tolerances. Credit policies, appetite statements and mandates are aligned to the Group's risk appetite and restrict exposure to higher risk countries and potentially vulnerable sectors and asset classes. Note 24 on page 192 of the 2023 Lloyds Bank plc Annual Reports and Accounts provides an analysis of loans and advances to customers by industry (for commercial customers) and product (for retail customers). Exposures are monitored to prevent both an excessive concentration of risk and single name concentrations. These concentration risk controls are not necessarily in the form of a maximum limit on exposure, but may instead require new business in concentrated sectors to fulfil additional minimum policy and/or guideline requirements. The Group's largest credit limits are regularly monitored by the Board Risk Committee and reported in accordance with regulatory requirements.

**Defined country risk management framework:** the Group sets a broad maximum country risk appetite. Risk-based appetite for all countries is set within the independent Risk division, taking into account economic, financial, political and social factors as well as the approved business and strategic plans of the Group.

**Specialist expertise:** credit quality is managed and controlled by a number of specialist units within the business and Risk division, which provide for example: intensive management and control; security perfection; maintenance of customer and facility records; expertise in documentation for lending and associated products; sector-specific expertise; and legal services applicable to the particular market segments and product ranges offered by the Group.

**Stress testing:** the Group's credit portfolios are subject to regular stress testing. In addition to the Group-led, PRA and other regulatory stress tests, exercises focused on individual divisions and portfolios are also performed. For further information on the Group wide stress testing process, methodology and governance see page 21.

**Frequent and robust credit risk assurance:** assurance of credit risk is undertaken by an independent function operating within the Risk division which is part of the Group's second line of defence. Its primary objective is to provide reasonable and independent assurance and confidence that credit risk is being effectively managed and to ensure that appropriate controls are in place and being adhered to. Group Internal Audit also provides assurance to the Audit Committee on the effectiveness of credit risk management controls across the Group's activities.

Obtaining collateral and other credit transfers - see UK CRC on page 49 for further detail.

## Credit risk management function

Centralised functions in the Risk Division:

- Undertake the majority of credit risk sanctioning across the Group;
- Provide robust 2nd Line credit risk oversight practices, identifying and escalating emerging credit risks;
- Review and report the performance of the credit portfolio against credit risk appetite metrics;
- Undertake control and monitoring activity to ensure compliance with and effective implementation of credit risk policies;
- Review and reports on the credit risk profile of the credit risk portfolios;
- Develop the sustainability risk appetite response for credit risk;
- Ensure that appropriate mitigating actions are in place where unacceptable credit risk is identified;
- Support sustainable growth opportunities within agreed risk appetite;
- Provide reporting, model governance and capital stress testing and impairment methodology tools.

## Relationships between credit risk management, risk control, compliance and internal audit functions

The Group operates a 'three lines of defence' model. Further detail can be found in UK OVA on page 21.

# UK CRB: Additional disclosure related to the credit quality of assets

**The scope and definitions of 'past-due' and 'impaired' exposures used for accounting purposes and regulatory purposes**

On 1 January 2022, as part of changes to new CRD IV regulations applicable to internal ratings based (IRB) models, the Group amended its definition of default for UK mortgages which aligned accounting and regulatory definitions of default. For UK mortgages, regulatory default was previously deemed to have occurred no later than when a payment was 180 days past due. In line with CRD IV, this definition was reduced to 90 days, as well as including end-of-term payments on past due interest-only accounts and any non performing loans. As such, all exposures greater than 90 days past due are now considered impaired and in default for both accounting and regulatory purposes.

The change in definition of default was one element of a wider range of CRD IV changes for modelled outputs. The Groups models to meet these new requirements remain subject to further development and final approval by the PRA. As a result the Group has has applied temporary model adjustments to risk-weighted asset and expected loss amounts reflecting the anticipated impact of the new modelling requirements. Regulatory IRB figures for Exposure at Default (EAD), Probability of Default (PD) and Loss Given Default (LGD) in these disclosures are based on existing (pre-CRD IV) models. For EAD disclosures this includes the reporting of defaulted exposures on a 180 days past due basis.

**The extent of past-due exposures (more than 90 days) that are not considered to be impaired and the reasons for this.**

Per above, all exposures greater than 90 days past due are considered impaired.

**Methods used for determining general and specific credit risk adjustments.**

All expected credit losses are calculated in line with International Financial Reporting Standard 9 Financial Instruments (IFRS 9). All expected credit losses are allocated against individual exposures and so all are considered as specific credit risk adjustments. The Group does not recognise any general credit risk adjustments.

**The institution's own definition of a restructured exposure (CRR Articles 178(3)(d) and 47b)**

Following the change in definition of default recognised by the Group on 1 January 2022, the Group's definition of a restructured exposure aligns to Article 178(3)(d) and Article 47(b).

# Credit risk

The tables in this section reflect FINREP categories and definitions. The reported values for defaulted exposure reflect a definition of default backstop of 90 days.

## CR1: Performing and non-performing exposures and related provisions

| | | 31 Dec 2023 | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Gross carrying amount/nominal amount[1] | | | | | | Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions[1] | | | | | | | 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 stage 2 | Of which stage 3 | | Of which stage 1 | Of which stage 2 | | Of which stage 2 | Of which stage 3 | Accumulated partial write-off | On performing exposures | On non-performing exposures |
| | | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| **005** | **Cash balances at central banks and other demand deposits** | **55,424** | **55,424** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** |
| **010** | **Loans and advances** | **470,670** | **412,397** | **52,189** | **10,753** | **788** | **7,128** | **(2,316)** | **(892)** | **(1,406)** | **(1,384)** | **(57)** | **(1,133)** | **(358)** | **361,754** | **7,882** |
| 020 | Central banks | **1,421** | **1,421** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** |
| 030 | General governments | **1,082** | **1,061** | **6** | **—** | **—** | **—** | **(1)** | **—** | **(1)** | **—** | **—** | **—** | **—** | **1,032** | **—** |
| 040 | Credit institutions | **15,178** | **15,178** | **—** | **5** | **5** | **—** | **(6)** | **(6)** | **—** | **—** | **—** | **—** | **—** | **—** | **—** |
| 050 | Other financial corporations | **38,610** | **37,670** | **139** | **44** | **2** | **43** | **(22)** | **(14)** | **(8)** | **(18)** | **—** | **(18)** | **—** | **288** | **3** |
| 060 | Non-financial corporations | **61,985** | **54,501** | **7,409** | **2,281** | **239** | **2,042** | **(569)** | **(210)** | **(359)** | **(414)** | **—** | **(414)** | **(358)** | **35,417** | **851** |
| 070 | Of which SMEs | **29,938** | **26,005** | **3,933** | **1,420** | **65** | **1,355** | **(212)** | **(74)** | **(138)** | **(122)** | **—** | **(122)** | **—** | **20,617** | **652** |
| 080 | Households | **352,394** | **302,566** | **44,635** | **8,423** | **542** | **5,043** | **(1,718)** | **(662)** | **(1,038)** | **(952)** | **(57)** | **(701)** | **—** | **325,017** | **7,028** |
| **090** | **Debt securities** | **39,436** | **39,436** | **—** | **1** | **—** | **1** | **(13)** | **(13)** | **—** | **(1)** | **—** | **(1)** | **—** | **—** | **—** |
| 110 | General governments | **18,287** | **18,287** | **—** | **—** | **—** | **—** | **(4)** | **(4)** | **—** | **—** | **—** | **—** | **—** | **—** | **—** |
| 120 | Credit institutions | **9,836** | **9,836** | **—** | **—** | **—** | **—** | **(1)** | **(1)** | **—** | **—** | **—** | **—** | **—** | **—** | **—** |
| 130 | Other financial corporations | **11,269** | **11,269** | **—** | **—** | **—** | **—** | **(8)** | **(8)** | **—** | **—** | **—** | **—** | **—** | **—** | **—** |
| 140 | Non-financial corporations | **44** | **44** | **—** | **1** | **—** | **1** | **—** | **—** | **—** | **(1)** | **—** | **(1)** | **—** | **—** | **—** |
| **150** | **Off-balance-sheet exposures** | **123,824** | **118,056** | **5,710** | **383** | **239** | **144** | **(306)** | **(153)** | **(153)** | **(8)** | **(6)** | **(2)** | | **5,620** | **40** |
| 170 | General governments | **480** | **480** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | | **175** | **—** |
| 180 | Credit institutions | **348** | **348** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | | **—** | **—** |
| 190 | Other financial corporations | **9,346** | **9,101** | **245** | **11** | **11** | **—** | **(7)** | **(3)** | **(4)** | **—** | **—** | **—** | | **98** | **—** |
| 200 | Non-financial corporations | **35,795** | **33,443** | **2,351** | **148** | **84** | **64** | **(127)** | **(56)** | **(72)** | **(2)** | **—** | **(2)** | | **5,347** | **40** |
| 210 | Households | **77,855** | **74,684** | **3,114** | **224** | **144** | **80** | **(172)** | **(94)** | **(77)** | **(6)** | **(6)** | **—** | | **—** | **—** |
| **220** | **Total** | **689,354** | **625,313** | **57,899** | **11,137** | **1,027** | **7,273** | **(2,635)** | **(1,058)** | **(1,559)** | **(1,393)** | **(63)** | **(1,136)** | **(358)** | **367,374** | **7,922** |

## **CR1: Performing and non-performing exposures and related provisions** continued

| | | 31 Dec 2022 | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Gross carrying amount/nominal amount[1] | | | | | | Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions[1] | | | | | | | 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 stage 2 | Of which stage 3 | | Of which stage 1 | Of which stage 2 | | Of which stage 2 | Of which stage 3 | Accumulated partial write-off | On performing exposures | On non-performing exposures |
| | | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| 005 | Cash balances at central banks and other demand deposits | 69,885 | 69,885 | – | – | – | – | – | – | – | – | – | – | – | – | – |
| 010 | Loans and advances | 479,018 | 411,786 | 59,422 | 11,194 | 684 | 7,608 | (2,434) | (687) | (1,712) | (2,051) | (80) | (1,752) | (341) | 367,769 | 7,504 |
| 020 | Central banks | 1,285 | 1,285 | – | – | – | – | – | – | – | – | – | – | – | – | – |
| 030 | General governments | 1,253 | 1,222 | 13 | – | – | – | (1) | (1) | – | – | – | – | – | 1,111 | – |
| 040 | Credit institutions | 11,914 | 11,912 | 3 | – | – | – | (9) | (9) | – | – | – | – | – | – | – |
| 050 | Other financial corporations | 46,220 | 45,244 | 333 | 41 | 17 | 24 | (19) | (9) | (10) | (5) | – | (5) | – | 440 | 10 |
| 060 | Non-financial corporations | 64,284 | 54,168 | 9,888 | 3,568 | 214 | 3,354 | (554) | (184) | (370) | (1,102) | (21) | (1,081) | (341) | 39,778 | 1,333 |
| 070 | Of which SMEs | 33,861 | 28,701 | 5,160 | 1,802 | 179 | 1,623 | (238) | (72) | (166) | (110) | – | (110) | – | 24,226 | 1,308 |
| 080 | Households | 354,062 | 297,955 | 49,185 | 7,585 | 453 | 4,230 | (1,851) | (484) | (1,332) | (944) | (59) | (666) | – | 326,440 | 6,161 |
| 090 | Debt securities | 29,533 | 29,533 | – | 1 | – | 1 | (15) | (15) | – | (1) | – | (1) | – | – | – |
| 110 | General governments | 12,052 | 12,052 | – | – | – | – | (6) | (7) | – | – | – | – | – | – | – |
| 120 | Credit institutions | 11,789 | 11,789 | – | – | – | – | (2) | (2) | – | – | – | – | – | – | – |
| 130 | Other financial corporations | 5,288 | 5,288 | – | – | – | – | (6) | (6) | – | – | – | – | – | – | – |
| 140 | Non-financial corporations | 404 | 404 | – | 1 | – | 1 | (1) | – | – | (1) | – | (1) | – | – | – |
| 150 | Off-balance-sheet exposures | 128,476 | 121,959 | 6,451 | 358 | 232 | 126 | (296) | (123) | (173) | (8) | (5) | (4) | | 6,576 | 44 |
| 170 | General governments | 137 | 137 | – | – | – | – | – | – | – | – | – | – | | 5 | – |
| 180 | Credit institutions | 159 | 159 | – | – | – | – | – | – | – | – | – | – | | 10 | – |
| 190 | Other financial corporations | 10,545 | 10,180 | 365 | 2 | 2 | – | (12) | (4) | (8) | – | – | – | | 211 | – |
| 200 | Non-financial corporations | 35,935 | 34,127 | 1,808 | 88 | 41 | 47 | (119) | (47) | (72) | (3) | – | (4) | | 6,350 | 44 |
| 210 | Households | 81,700 | 77,356 | 4,278 | 268 | 189 | 79 | (165) | (72) | (93) | (5) | (5) | – | | – | – |
| 220 | Total | 706,912 | 633,163 | 65,873 | 11,553 | 916 | 7,735 | (2,745) | (825) | (1,885) | (2,060) | (85) | (1,757) | (341) | 374,345 | 7,548 |

1 Staging analysis will exclude those assets and provisions that can not be allocated to a stage such as those classified as 'purchased or originated credit impaired' (POCI) and those measured at fair value.

**Credit risk** continued

## CR1-A: Maturity of exposures

| | | 31 Dec 2023 | | | | | |
|---|---|---|---|---|---|---|---|
| | | Net exposure value | | | | | |
| | | On demand | <=1 year | > 1 year <= 5 years | > 5 years | No stated maturity | Total |
| | | £m | £m | £m | £m | £m | £m |
| 1 | Loans and advances | 22,346 | 54,863 | 76,909 | 323,430 | 176 | 477,724 |
| 2 | Debt securities | — | 2,822 | 18,751 | 17,849 | — | 39,422 |
| **3** | **Total** | **22,346** | **57,685** | **95,660** | **341,279** | **176** | **517,146** |
| | | 31 Dec 2022 | | | | | |
| | | £m | £m | £m | £m | £m | £m |
| 1 | Loans and advances[1] | 23,026 | 60,727 | 73,982 | 327,791 | 202 | 485,728 |
| 2 | Debt securities | — | 2,808 | 15,948 | 10,762 | — | 29,518 |
| 3 | Total | 23,026 | 63,535 | 89,930 | 338,553 | 202 | 515,246 |

1. 2022 Comparative Maturity Profile has been restated.

## CR2: Changes in the stock of non-performing loans and advances

| | | Gross carrying amount |
|---|---|---|
| | | £m |
| 010 | Initial stock of non-performing loans and advances at 31 December 2022 | 11,194 |
| 020 | Inflows to non-performing portfolios | 5,883 |
| 030 | Outflows from non-performing portfolios | (6,324) |
| 040 | Outflows due to write-offs | (1,229) |
| 050 | Outflow due to other situations | (5,094) |
| **060** | **Final stock of non-performing loans and advances at 31 December 2023** | **10,753** |

**Credit risk** continued

## CQ1: Credit quality of forborne exposures

| | | 31 Dec 2023 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | 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 | |
| | | Performing forborne | Non-performing forborne | | | | | | |
| | | | | Of which defaulted | Of which 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 |
| 010 | **Loans and advances** | 1,515 | 4,843 | 4,544 | 4,544 | (39) | (723) | 3,913 | 2,752 |
| 040 | Credit institutions | — | 5 | — | — | — | — | — | — |
| 050 | Other financial corporations | 28 | 42 | 42 | 42 | — | (18) | 3 | 1 |
| 060 | Non-financial corporations | 316 | 1,961 | 1,863 | 1,863 | (2) | (393) | 680 | 527 |
| 070 | Households | 1,171 | 2,835 | 2,639 | 2,639 | (37) | (312) | 3,230 | 2,224 |
| 080 | Debt Securities | — | — | — | — | — | — | — | — |
| 090 | Loan commitments given | 147 | 208 | 82 | 82 | (3) | (5) | — | — |
| **100** | **Total** | **1,662** | **5,051** | **4,626** | **4,626** | **(42)** | **(728)** | **3,913** | **2,752** |

| | | 31 Dec 2022 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | £m | £m | £m | £m | £m | £m | £m | £m |
| 010 | Loans and advances | 2,019 | 5,924 | 5,721 | 5,720 | (51) | (1,434) | 4,488 | 3,178 |
| 050 | Other financial corporations | 19 | 38 | 24 | 24 | — | (5) | 7 | 6 |
| 060 | Non-financial corporations | 547 | 2,892 | 2,873 | 2,873 | (4) | (1,085) | 887 | 826 |
| 070 | Households | 1,453 | 2,994 | 2,824 | 2,823 | (47) | (344) | 3,594 | 2,346 |
| 080 | Debt Securities | — | — | — | — | — | — | — | — |
| 090 | Loan commitments given | 290 | 181 | 82 | 82 | (5) | (6) | — | — |
| 100 | Total | 2,309 | 6,105 | 5,803 | 5,802 | (56) | (1,440) | 4,488 | 3,178 |

**Credit risk** continued

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

| | | 31 Dec 2023 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Gross carrying amount/nominal amount | | | | | | | | | | | |
| | | Performing exposures | | | Non-performing exposures | | | | | | | | |
| | | | Not past due or past due ≤ 30 days | Past due > 30 days ≤ 90 days | | Unlikely to pay that are not past due or are past due ≤ 90 days | Past due > 90 days ≤ 180 days | Past due > 180 days ≤ 1 year | Past due > 1 year ≤ 2 years | Past due > 2 years ≤ 5 years | Past due > 5 years ≤ 7 years | Past due > 7 years | Of which defaulted |
| | | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| **005** | **Cash balances at central banks and other demand deposits** | **55,424** | **55,424** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** |
| **010** | **Loans and advances** | **470,670** | **468,915** | **1,755** | **10,753** | **4,281** | **2,302** | **1,925** | **1,069** | **844** | **158** | **174** | **9,901** |
| 020 | Central banks | 1,421 | 1,421 | — | — | — | — | — | — | — | — | — | — |
| 030 | General governments | 1,082 | 1,082 | — | — | — | — | — | — | — | — | — | — |
| 040 | Credit institutions | 15,178 | 15,178 | — | 5 | — | 1 | 2 | 1 | 1 | — | — | — |
| 050 | Other financial corporations | 38,610 | 38,609 | 1 | 44 | 1 | 9 | 8 | 17 | 5 | 3 | 1 | 43 |
| 060 | Non-financial corporations | 61,985 | 61,777 | 208 | 2,281 | 606 | 532 | 475 | 281 | 267 | 69 | 51 | 2,042 |
| 070 | Of which SMEs | 29,938 | 29,822 | 116 | 1,420 | 505 | 331 | 229 | 146 | 139 | 41 | 29 | 1,355 |
| 080 | Households | 352,394 | 350,848 | 1,546 | 8,423 | 3,674 | 1,760 | 1,440 | 770 | 571 | 86 | 122 | 7,816 |
| **090** | **Debt securities** | **39,436** | **39,436** | **—** | **1** | **—** | **—** | **—** | **—** | **—** | **—** | **1** | **1** |
| 110 | General governments | 18,287 | 18,287 | — | — | — | — | — | — | — | — | — | — |
| 120 | Credit institutions | 9,836 | 9,836 | — | — | — | — | — | — | — | — | — | — |
| 130 | Other financial corporations | 11,269 | 11,269 | — | — | — | — | — | — | — | — | — | — |
| 140 | Non-financial corporations | 44 | 44 | — | 1 | — | — | — | — | — | — | 1 | 1 |
| **150** | **Off-balance-sheet exposures** | **123,824** | | | **383** | | | | | | | | **136** |
| 170 | General governments | 480 | | | — | | | | | | | | — |
| 180 | Credit institutions | 348 | | | — | | | | | | | | — |
| 190 | Other financial corporations | 9,346 | | | 11 | | | | | | | | — |
| 200 | Non-financial corporations | 35,795 | | | 148 | | | | | | | | 56 |
| 210 | Households | 77,855 | | | 224 | | | | | | | | 80 |
| **220** | **Total** | **689,354** | **563,775** | **1,755** | **11,137** | **4,281** | **2,302** | **1,925** | **1,069** | **844** | **158** | **175** | **10,038** |

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

| | | 31 Dec 2022 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Gross carrying amount/nominal amount | | | | | | | | | | | |
| | | Performing exposures | | | Non-performing exposures | | | | | | | | |
| | | | Not past due or past due ≤ 30 days | Past due > 30 days ≤ 90 days | | Unlikely to pay that are not past due or are past due ≤ 90 days | Past due > 90 days ≤ 180 days | Past due > 180 days ≤ 1 year | Past due > 1 year ≤ 2 years | Past due > 2 years ≤ 5 years | Past due > 5 years ≤ 7 years | Past due > 7 years | Of which defaulted |
| | | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| 005 | Cash balances at central banks and other demand deposits | 69,885 | 69,885 | — | — | — | — | — | — | — | — | — | — |
| 010 | Loans and advances | 479,018 | 477,317 | 1,701 | 11,194 | 5,426 | 1,924 | 858 | 894 | 1,828 | 137 | 127 | 10,440 |
| 020 | Central banks | 1,285 | 1,285 | — | — | — | — | — | — | — | — | — | — |
| 030 | General governments | 1,253 | 1,252 | — | — | — | — | — | — | — | — | — | — |
| 040 | Credit institutions | 11,914 | 11,914 | — | — | — | — | — | — | — | — | — | — |
| 050 | Other financial corporations | 46,220 | 46,219 | 1 | 41 | 34 | 5 | — | — | 2 | — | — | 24 |
| 060 | Non-financial corporations | 64,283 | 63,986 | 298 | 3,568 | 1,645 | 769 | 5 | 3 | 1,134 | 11 | 1 | 3,354 |
| 070 | Of which SMEs | 33,861 | 33,726 | 135 | 1,802 | 1,053 | 744 | 4 | 1 | 1 | — | — | 1,623 |
| 080 | Households | 354,063 | 352,661 | 1,402 | 7,585 | 3,747 | 1,150 | 853 | 891 | 692 | 126 | 126 | 7,062 |
| 090 | Debt securities | 29,533 | 29,533 | — | 1 | — | — | — | — | — | — | 1 | 1 |
| 110 | General governments | 12,052 | 12,052 | — | — | — | — | — | — | — | — | — | — |
| 120 | Credit institutions | 11,789 | 11,789 | — | — | — | — | — | — | — | — | — | — |
| 130 | Other financial corporations | 5,288 | 5,288 | — | — | — | — | — | — | — | — | — | — |
| 140 | Non-financial corporations | 404 | 404 | — | 1 | — | — | — | — | — | — | 1 | 1 |
| 150 | Off-balance-sheet exposures | 128,476 | | | 358 | | | | | | | | 126 |
| 170 | General governments | 137 | | | — | | | | | | | | — |
| 180 | Credit institutions | 159 | | | — | | | | | | | | — |
| 190 | Other financial corporations | 10,545 | | | 2 | | | | | | | | — |
| 200 | Non-financial corporations | 35,935 | | | 88 | | | | | | | | 47 |
| 210 | Households | 81,700 | | | 268 | | | | | | | | 79 |
| 220 | Total | 706,912 | 576,735 | 1,701 | 11,553 | 5,426 | 1,924 | 858 | 894 | 1,828 | 137 | 128 | 10,567 |

**Credit risk** continued

## CQ4: Quality of non-performing exposures by geography

| | | 31 Dec 2023 | | | | |
|---|---|---|---|---|---|---|
| | | Gross carrying/nominal amount | | | | |
| | | Total performing and non-performing | Of which defaulted | Accumulated impairment | Provisions on off-balance-sheet commitments and financial guarantees given | Accumulated negative changes in fair value due to credit risk on non-performing exposures |
| | | £m | £m | £m | £m | £m |
| **010** | **On-balance-sheet exposures** | **520,860** | **9,902** | **(3,713)** | | **—** |
| 030 | Netherlands | **15,386** | **16** | **(23)** | | **—** |
| 040 | United Kingdom | **464,520** | **9,768** | **(3,566)** | | **—** |
| 050 | United States | **9,776** | **—** | **(23)** | | **—** |
| 070 | Other countries | **31,178** | **118** | **(101)** | | **—** |
| **080** | **Off-balance-sheet exposures** | **124,207** | **136** | | **(314)** | |
| 100 | Netherlands | **1,634** | **15** | | **(4)** | |
| 110 | United Kingdom | **115,692** | **119** | | **(292)** | |
| 120 | United States | **3,762** | **—** | | **(11)** | |
| 140 | Other countries | **3,119** | **2** | | **(7)** | |
| **150** | **Total** | **645,067** | **10,038** | **(3,713)** | **(314)** | **—** |
| | | 31 Dec 2022 | | | | |
| | | £m | £m | £m | £m | £m |
| 010 | On-balance-sheet exposures | 519,746 | 10,441 | (4,500) | | — |
| 030 | Netherlands | 12,893 | 23 | (22) | | — |
| 040 | United Kingdom | 475,605 | 9,214 | (3,640) | | — |
| 050 | United States | 10,009 | — | (20) | | — |
| 070 | Other countries | 21,239 | 1,204 | (818) | | |
| 080 | Off-balance-sheet exposures | 128,834 | 126 | | (304) | |
| 100 | Netherlands | 2,157 | 3 | | (5) | |
| 110 | United Kingdom | 119,427 | 123 | | (285) | |
| 120 | United States | 2,491 | — | | (7) | |
| 140 | Other countries | 4,759 | — | | (7) | |
| 150 | Total | 648,580 | 10,567 | (4,500) | (304) | — |

**Credit risk** continued

## CQ5: Quality of loans and advances to non-financial corporations by industry

| | | 31 Dec 2023 | | | |
|---|---|---|---|---|---|
| | | Gross carrying amount | | | |
| | | | Of which defaulted | Accumulated impairment | Accumulated negative changes in fair value due to credit risk on non-performing exposures |
| | | £m | £m | £m | £m |
| 010 | Agriculture, forestry and fishing | **7,142** | **323** | **(78)** | **—** |
| 020 | Mining and quarrying | **356** | **3** | **(10)** | **—** |
| 030 | Manufacturing | **4,485** | **132** | **(76)** | **—** |
| 040 | Electricity, gas, steam and air conditioning supply | **2,939** | **—** | **(14)** | **—** |
| 050 | Water supply | **775** | **3** | **(4)** | **—** |
| 060 | Construction | **3,837** | **463** | **(206)** | **—** |
| 070 | Wholesale and retail trade | **6,973** | **196** | **(96)** | **—** |
| 080 | Transport and storage | **2,294** | **51** | **(32)** | **—** |
| 090 | Accommodation and food service activities | **2,033** | **191** | **(39)** | **—** |
| 100 | Information and communication | **2,433** | **69** | **(33)** | **—** |
| 110 | Financial and insurance activities | | | | |
| 120 | Real estate activities | **20,328** | **280** | **(243)** | **—** |
| 130 | Professional, scientific and technical activities | **2,317** | **75** | **(37)** | **—** |
| 140 | Administrative and support service activities | **2,547** | **55** | **(27)** | **—** |
| 150 | Public administration and defence, compulsory social security | **19** | **—** | **—** | **—** |
| 160 | Education | **1,108** | **37** | **(13)** | **—** |
| 170 | Human health services and social work activities | **3,294** | **107** | **(50)** | **—** |
| 180 | Arts, entertainment and recreation | **513** | **32** | **(12)** | **—** |
| 190 | Other services | **873** | **25** | **(13)** | **—** |
| **200** | **Total** | **64,266** | **2,042** | **(983)** | **—** |

| | | 31 Dec 2022 | | | |
|---|---|---|---|---|---|
| | | £m | £m | £m | £m |
| 010 | Agriculture, forestry and fishing | 7,587 | 192 | (54) | — |
| 020 | Mining and quarrying | 750 | 39 | (12) | — |
| 030 | Manufacturing | 3,946 | 117 | (57) | — |
| 040 | Electricity, gas, steam and air conditioning supply | 2,204 | 20 | (11) | — |
| 050 | Water supply | 586 | 5 | (5) | — |
| 060 | Construction | 4,253 | 416 | (145) | — |
| 070 | Wholesale and retail trade | 7,794 | 269 | (118) | — |
| 080 | Transport and storage | 2,825 | 98 | (46) | — |
| 090 | Accommodation and food service activities | 3,537 | 1,275 | (787) | — |
| 100 | Information and communication | 2,707 | 54 | (44) | — |
| 110 | Financial and insurance activities | | | | |
| 120 | Real estate activities | 20,191 | 350 | (218) | — |
| 130 | Professional, scientific and technical activities | 2,659 | 84 | (29) | — |
| 140 | Administrative and support service activities | 2,503 | 106 | (55) | — |
| 150 | Public administration and defence, compulsory social security | 12 | 1 | — | — |
| 160 | Education | 1,200 | 46 | (12) | — |
| 170 | Human health services and social work activities | 3,398 | 69 | (39) | — |
| 180 | Arts, entertainment and recreation | 523 | 32 | (10) | — |
| 190 | Other services | 1,176 | 377 | (17) | — |
| 200 | Total | 67,851 | 3,550 | (1,659) | — |

# UK CRC: Qualitative disclosure requirements related to CRM techniques

**Collateral**

The principal types of acceptable collateral include:

– Residential and commercial properties

– Charges over business assets such as inventory and accounts receivable

– Financial instruments such as debt securities

– Vehicles

– Cash

– Guarantees received from third parties

The Group maintains appetite parameters on the acceptability of specific classes of collateral.

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

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.

The requirement for collateral and the type to be taken at origination will be based upon the nature of the transaction and the credit quality, size and structure of the borrower. For non-retail exposures, if required, the Group will often seek that any collateral includes a first charge over land and buildings owned and occupied by the business, a debenture over the assets of a company or limited liability partnership, personal guarantees, limited in amount, from the directors of a company or limited liability partnership and key man insurance. The Group maintains policies setting out which types of collateral valuation are acceptable, maximum loan to value (LTV) ratios and other criteria that are to be considered when reviewing an application. The fundamental business proposition must evidence the ability of the business to generate funds from normal business sources to repay a customer or counterparty's financial commitment, rather than reliance on the disposal of any security provided.

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.
The Group makes limited use of balance sheet netting in the credit risk portfolio. Master netting agreements are used in the counterparty credit risk portfolio.

**Application of Credit Risk Mitigation**

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 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.

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.

## UK CRC: Qualitative disclosure requirements related to CRM techniques continued

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 | | ✓ | | ✓ | |
| 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.

### 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 On and Off Balance Sheet Exposure pre CCF and CRM) 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 the pre-CRM Gross Exposure as a result of this substitution effect.

**Credit risk** continued

## CR3: CRM techniques – Overview

| | 31 Dec 2023 | | | | |
|---|---|---|---|---|---|
| | **Unsecured carrying amount** | **Secured carrying amount** | **Of which secured by collateral** | **Of which secured by financial guarantees** | **Of which secured by credit derivatives** |
| | **£m** | **£m** | **£m** | **£m** | **£m** |
| Loans and advances | **108,087** | **369,636** | **363,022** | **6,614** | **12** |
| Debt securities | **39,423** | **—** | **—** | **—** | |
| **Total** | **147,510** | **369,636** | **363,022** | **6,614** | **12** |
| Of which non-performing exposures | **1,488** | **7,882** | **7,485** | **396** | **—** |
| Of which defaulted | **1,011** | **7,506** | | | |

| | 31 Dec 2022 | | | | |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| Loans and advances | 110,454 | 375,273 | 366,207 | 9,066 | 14 |
| Debt securities | 29,518 | — | — | — | |
| Total | 139,972 | 375,273 | 366,207 | 9,066 | 14 |
| Of which non-performing exposures | 1,639 | 7,504 | 6,486 | 1,018 | — |
| Of which defaulted | 1,175 | 7,214 | | | |

# Credit risk exposures

The table below gives an overview of credit risk exposure at default and risk-weighted assets.The amounts include threshold risk-weighted assets and related exposures and exclude securitisation exposures and risk-weighted assets.

| | 31 Dec 2023 | | | 31 Dec-2022 | | |
|---|---|---|---|---|---|---|
| | **EAD post CRM and post CCF** | **Risk-weighted assets** | **Average risk weight** | EAD post CRM and post CCF | Risk-weighted assets | Average risk weight |
| **Exposure classes** | **£m** | **£m** | **%** | £m | £m | % |
| Central governments or central banks | **1,726** | **129** | **7%** | 2,185 | 220 | 10% |
| Institutions | **12,396** | **2,107** | **17%** | 11,103 | 1,437 | 13% |
| Corporates | **56,550** | **34,241** | **61%** | 57,686 | 36,249 | 63% |
| of which: Specialised lending | **12,182** | **8,472** | **70%** | 12,252 | 8,807 | 72% |
| of which: SMEs | **6,508** | **4,230** | **65%** | 7,708 | 5,125 | 66% |
| Retail | **408,629** | **85,436** | **21%** | 416,022 | 81,066 | 19% |
| Secured by real estate property | **350,093** | **58,723** | **17%** | 357,346 | 53,900 | 15% |
| SMEs | **4,051** | **915** | **23%** | 5,106 | 1,125 | 22% |
| Non-SMEs | **346,042** | **57,808** | **17%** | 352,240 | 52,775 | 15% |
| Qualifying revolving | **39,427** | **13,087** | **33%** | 36,934 | 11,495 | 31% |
| Other retail | **19,109** | **13,625** | **71%** | 21,742 | 15,671 | 72% |
| SMEs | **1,477** | **1,171** | **79%** | 1,603 | 1,037 | 65% |
| Non-SMEs | **17,631** | **12,455** | **71%** | 20,139 | 14,633 | 73% |
| Non-credit obligation assets | **9,314** | **6,126** | **66%** | 8,451 | 5,834 | 69% |
| **Total IRB approach** | **488,615** | **128,039** | **26%** | 495,446 | 124,806 | 25% |
| Central governments or central banks | **79,342** | **1,424** | **2%** | 92,066 | 1,864 | 2% |
| Regional governments or local authorities | **647** | **32** | **5%** | 442 | 28 | 6% |
| Public sector entities | **2,526** | **—** | **—%** | 2,671 | — | —% |
| Multilateral development banks | **6,502** | **—** | **—%** | 6,942 | — | —% |
| International organisations | **500** | **—** | **—%** | 12 | — | —% |
| Institutions | **500** | **142** | **28%** | 511 | 129 | 25% |
| Corporates | **5,955** | **4,955** | **83%** | 6,388 | 5,591 | 88% |
| of which: SMEs | **2,451** | **1,967** | **80%** | 2,420 | 1,937 | 80% |
| Retail | **11,151** | **8,200** | **74%** | 10,426 | 7,621 | 73% |
| of which: SMEs | **918** | **525** | **57%** | 1,115 | 638 | 57% |
| Secured by mortgages on immovable property | **3,702** | **1,397** | **38%** | 4,362 | 1,648 | 38% |
| of which: SMEs | **258** | **192** | **74%** | 315 | 231 | 73% |
| Exposures in default | **685** | **817** | **119%** | 939 | 1,089 | 116% |
| Claims on institutions and corporates with a short- term credit assessment | **188** | **94** | **50%** | 123 | 62 | 50% |
| Other exposures | **2,505** | **1,961** | **78%** | 2,155 | 1,763 | 82% |
| **Total standardised approach** | **114,201** | **19,022** | **17%** | 127,037 | 19,795 | 16% |
| **Total** | **602,816** | **147,061** | **24%** | 622,483 | 144,601 | 23% |

## **Credit risk** continued

**UK CRD: Qualitative disclosure requirements related to standardised mode**

The Group uses ratings published by Standard & Poor's, Moody's and Fitch ('ECAIs') to determine risk-weights for rated counterparties under the standardised approach. The Group complies with the standard association of these ECAI ratings to the credit quality steps published by the EBA and included in the PRA rulebook.

The ratings are used for exposures in a number of asset classes including Central Governments and Central Banks, Corporates and Institutions. Table CR5 on page 54 indicates the unrated element of each asset class with the remaining balance in each asset class therefore using a rating.

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

| | | 31 Dec 2023 | | | | | |
|---|---|---|---|---|---|---|---|
| | | Exposures before CCF and before CRM | | Exposures post CCF and post CRM | | RWAs and RWAs density[1] | |
| | | On-balance-sheet exposures | Off-balance-sheet exposures | On-balance-sheet exposures | Off-balance-sheet amount | RWAs | RWAs density |
| | Exposure classes | £m | £m | £m | £m | £m | % |
| 1 | Central governments or central banks | **72,743** | **277** | **78,910** | **432** | **1,424** | **2%** |
| 2 | Regional government or local authorities | **647** | **—** | **647** | **—** | **32** | **5%** |
| 3 | Public sector entities | **2,526** | **—** | **2,526** | **—** | **—** | **—%** |
| 4 | Multilateral development banks | **6,502** | **—** | **6,502** | **—** | **—** | **—%** |
| 5 | International organisations | **500** | **—** | **500** | **—** | **—** | **—%** |
| 6 | Institutions | **219** | **381** | **159** | **341** | **142** | **28%** |
| 7 | Corporates | **4,821** | **4,783** | **4,536** | **1,419** | **4,954** | **83%** |
| 8 | Retail | **11,498** | **22,059** | **11,075** | **76** | **8,200** | **74%** |
| 9 | Secured by mortgages on immovable property | **3,694** | **40** | **3,694** | **8** | **1,397** | **38%** |
| 10 | Exposures in default | **726** | **23** | **676** | **9** | **817** | **119%** |
| 13 | Institutions and corporates with a short-term credit assessment | **74** | **—** | **74** | **114** | **94** | **50%** |
| 16 | Other items | **2,505** | **—** | **2,505** | **—** | **1,961** | **78%** |
| **17** | **Total** | **106,455** | **27,563** | **111,803** | **2,398** | **19,021** | **17%** |
| | | 31 Dec 2022 | | | | | |
| | | £m | £m | £m | £m | £m | % |
| 1 | Central governments or central banks | 83,106 | 277 | 91,707 | 359 | 1,864 | 2% |
| 2 | Regional government or local authorities | 442 | — | 442 | — | 28 | 6% |
| 3 | Public sector entities | 2,671 | — | 2,671 | — | — | —% |
| 4 | Multilateral development banks | 6,942 | — | 6,942 | — | — | —% |
| 5 | International organisations | 12 | — | 12 | — | — | —% |
| 6 | Institutions | 265 | 344 | 188 | 323 | 129 | 25% |
| 7 | Corporates | 4,783 | 5,095 | 4,634 | 1,755 | 5,591 | 88% |
| 8 | Retail | 10,845 | 23,035 | 10,233 | 193 | 7,621 | 73% |
| 9 | Secured by mortgages on immovable property | 4,343 | 37 | 4,342 | 20 | 1,648 | 38% |
| 10 | Exposures in default | 1,078 | 49 | 916 | 24 | 1,089 | 116% |
| 13 | Institutions and corporates with a short-term credit assessment | — | — | — | 123 | 62 | 50% |
| 16 | Other items | 2,155 | — | 2,155 | — | 1,763 | 82% |
| 17 | Total | 116,642 | 28,839 | 124,241 | 2,797 | 19,795 | 16% |

1 Risk-weighted assets and density reported in this table are disclosed after application of supporting factors.

## **Credit risk** continued

## CR5: Standardised approach – exposures by asset classes and risk weights (post CCF and post CRM)

| | | 31 Dec 2023 | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 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 |
| 1 | Central governments or central banks | **78,772** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **570** | **—** | **—** | **—** | **79,342** | **79,091** |
| 2 | Regional government or local authorities | **487** | **—** | **—** | **—** | **160** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **646** | **98** |
| 3 | Public sector entities | **2,526** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **2,526** | **342** |
| 4 | Multilateral development banks | **6,502** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **6,502** | **6,502** |
| 5 | International organisations | **500** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **500** | **500** |
| 6 | Institutions | **—** | **—** | **196** | **—** | **79** | **—** | **208** | **—** | **—** | **16** | **—** | **—** | **—** | **—** | **—** | **499** | **217** |
| 7 | Corporates | **—** | **—** | **—** | **—** | **14** | **—** | **1,024** | **—** | **—** | **4,903** | **14** | **—** | **—** | **—** | **—** | **5,955** | **4,812** |
| 8 | Retail exposures | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **11,151** | **—** | **—** | **—** | **—** | **—** | **—** | **11,151** | **11,151** |
| 9 | Exposures secured by mortgages on immovable property | **—** | **—** | **—** | **—** | **—** | **3,461** | **—** | **—** | **38** | **203** | **—** | **—** | **—** | **—** | **—** | **3,702** | **3,702** |
| 10 | Exposures in default | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **421** | **264** | **—** | **—** | **—** | **—** | **685** | **685** |
| 13 | Exposures to institutions and corporates with a short-term credit assessment | **—** | **—** | **—** | **—** | **—** | **—** | **188** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **188** | **—** |
| 16 | Other items | **29** | **—** | **—** | **—** | **644** | **—** | **—** | **—** | **—** | **1,832** | **—** | **—** | **—** | **—** | **—** | **2,505** | **2,505** |
| **17** | **Total** | **88,816** | **—** | **196** | **—** | **897** | **3,461** | **1,420** | **—** | **11,189** | **7,375** | **278** | **570** | **—** | **—** | **—** | **114,201** | **109,605** |
| | | 31 Dec 2022 | | | | | | | | | | | | | | | | |
| 1 | Central governments or central banks | 91,320 | — | — | — | — | — | — | — | — | — | — | 746 | — | — | — | 92,066 | 91,967 |
| 2 | Regional government or local authorities | 303 | — | — | — | 138 | — | — | — | — | — | — | — | — | — | — | 442 | — |
| 3 | Public sector entities | 2,671 | — | — | — | — | — | — | — | — | — | — | — | — | — | — | 2,671 | 1,253 |
| 4 | Multilateral development banks | 6,942 | — | — | — | — | — | — | — | — | — | — | — | — | — | — | 6,942 | 6,942 |
| 5 | International organisations | 12 | — | — | — | — | — | — | — | — | — | — | — | — | — | — | 12 | 12 |
| 6 | Institutions | — | — | 203 | — | 133 | — | 168 | — | — | 7 | — | — | — | — | — | 511 | 210 |
| 7 | Corporates | — | — | — | — | 15 | — | 619 | — | — | 5,741 | 14 | — | — | — | — | 6,389 | 5,673 |
| 8 | Retail exposures | — | — | — | — | — | — | — | — | 10,426 | — | — | — | — | — | — | 10,426 | 10,426 |
| 9 | Exposures secured by mortgages on immovable property | — | — | — | — | — | 4,072 | — | — | 48 | 242 | — | — | — | — | — | 4,362 | 4,362 |
| 10 | Exposures in default | — | — | — | — | — | — | — | — | — | 639 | 300 | — | — | — | — | 939 | 939 |
| 13 | Exposures to institutions and corporates with a short-term credit assessment | — | — | — | — | — | — | 123 | — | — | — | — | — | — | — | — | 123 | — |
| 16 | Other items | 2 | — | — | — | 487 | — | — | — | — | 1,666 | — | — | — | — | — | 2,155 | 2,155 |
| 17 | Total | 101,250 | — | 203 | — | 773 | 4,072 | 910 | — | 10,474 | 8,295 | 314 | 746 | — | — | — | 127,038 | 123,939 |

# CRE: Qualitative Disclosure Requirements related to IRB Approach

## Scope of IRB permission and disclosure of the internal rating systems by exposure class

### Distribution of exposures by approach

To illustrate the degree to which IRB models are used within the bank, the following table shows the EAD split between RIRB, FIRB, Other IRB (including supervisory slotting) and Standardised (not modelled) approaches across the different exposure classes. Securitisation exposure values are excluded. Exposures presented in the table below are in line with tables CR4 and CR6, and are on a post CRM and post CCF basis and include off-balance sheet exposures.

| Exposure Class | RIRB £m | FIRB £m | Other IRB £m | Standardised £m |
|---|---|---|---|---|
| Central governments or central banks | — | 1,726 | — | 79,342 |
| Regional governments or local authorities | — | — | — | 647 |
| Public sector entities | — | — | — | 2,526 |
| Multilateral development banks | — | — | — | 6,502 |
| Institutions | — | 12,396 | — | 500 |
| Corporates[1] | — | 44,368 | 12,182 | 5,955 |
| Retail – Secured by property | 350,093 | — | — | 3,702 |
| Retail – Qualifying revolving | 39,427 | — | — | 11,151 |
| Retail – Other | 19,109 | — | — | |
| Other[2] | — | — | 9,314 | 3,877 |
| **Total Exposure** | **408,629** | **58,490** | **21,496** | **114,202** |
| **% coverage** | **68%** | **10%** | **4%** | **19%** |

1. Corporate 'Other IRB' exposures represent exposures risk-weighted under the Supervisory Slotting Approach.
2. Other exposures include NCOs (Other IRB), Standardised exposures in default, other exposures, International organisations and, Claims on institutions and corporates with a short-term credit assessment (Standardised).

### 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 has permanent exemption to use the Standardised Approach for a number of portfolios, including;

– Tesco Mortgages (closed portfolio)

– Sub Prime Mortgages

– UK Private Banking

– Certain asset types under UK Motor Finance

A number of other portfolios, currently under the Standardised Approach, are on the IRB Roll-Out plan. Most prominent among these are the following:

– MBNA Unsecured

– BoS Commercial (BDCS)

The Group applies the Supervisory Slotting Approach to certain corporate specialised lending exposures (including the Group's income-producing real estate exposures), hence no models are used. 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, CLBILS and RLS) are reported predominantly under the Standardised Approach. The impact of a guarantee on government lending schemes leads to substitution of exposure primarily from IRB to the Standardised Approach. These exposures are mainly in the Retail SME asset class and substituted to Standardised Central Governments and Central 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 of this document (see CR10 and SEC tables).

Under the Group's IRB permission, the following list comprises the rating systems that are significant at a Bank level, each having risk-weighted assets in excess of £2.5 billion (as at end September 2023). The IRB models listed are existing (pre CRD IV) models and are the same as those used in the PD back-testing analysis (later in this section). Additionally, since the BoS Netherlands mortgages, Lloyds Buy-to-Let mortgages, and Lloyds Near Prime mortgages rating systems are collectively material, they are also included despite being individually below the £2.5 billion RWA threshold. The rating systems included in the PD back-testing analysis represent the overwhelming majority of obligors across the bank that are assessed under either the RIRB or FIRB approaches. Other rating systems with risk-weighted assets less than £2.5 billion generally have low volumes of obligors, and their absence from the PD back-testing tables has a low impact.

With one exception, the rating systems listed all use 10 or more years of data in their development / calibration process. The exception is UK Motor Finance (Non-Retail) which uses less than five years of data.

Those rating systems with EAD and LGD components are reported under the Retail IRB approach, the remainder are reported under the Foundation IRB approach.

All RWAs are inclusive of Post Model Adjustments and as at end September 2023.

## **CRE: Qualitative Disclosure Requirements related to IRB Approach** continued

**Significant IRB credit risk rating systems: selected features**

| 30 Sep 2023 | | | | | |
|---|---|---|---|---|---|
| **Rating System** | **RWAs (£m)** | **Component Model Type** | **Exposure Class** | **IRB Model Segmentation** | **Model Characteristics** |
| Halifax and Lloyds Bank Mainstream Mortgages[1] | 34,643 | PD | Retail – Secured by real estate (non-SME) | Separate PD and LGD model calibration for Halifax and Lloyds branded mortgages. | Calibration of the internal mortgage application and behavioural scores. Variable Scalar approach (segmented by origination Loan to Value and Loan to Income) used to determine Regulatory PD. |
| | | EAD | | | Based predominantly on current balance |
| | | LGD | | | Estimated by modelling probability of possession given default (key driver: LTV) and loss given repossession (key drivers: LTV and property type). |
| HBOS Buy-to-Let Mortgages | 11,745 | PD | Retail – Secured by real estate (non-SME) | Single model | Calibration of the internal mortgage application and behavioural scores. Point in Time plus buffer approach used to determine Regulatory PD. |
| | | EAD | | | Based predominantly on current balance. |
| | | LGD | | | Estimated by modelling probability of possession given default (key driver: LTV) and loss given repossession (key drivers: LTV and property type). |
| HBOS and Lloyds Bank Unsecured Personal Loans[1] | 10,218 | PD | Retail - Other (non-SME) | Separate PD and LGD model calibration for Halifax and Lloyds branded Loans. | Calibration of the application and customer scores. Point in Time plus buffer approach used to determine Regulatory PD. |
| | | EAD | | | Based predominantly on current balance. |
| | | LGD | | | Statistical models to predict customer propensity to repay and estimate resultant recovery cashflows (key drivers: default status and exposure at default). |
| Unquoted | 9,990 | PD | Corporate Other, Corporate SME | Single model used to rate corporate customers not listed on a stock exchange, with segments based on turnover, heritage and leverage. | Default predictor approach using a blend of financial and qualitative factors to produce model score. Final model score converted to PD using logistic transform which is mapped to an internal risk grade. |
| HBOS and Lloyds Bank Credit Cards[1,2] | 8,583 | PD | Retail - Qualifying Revolving | Separate PD, EAD and LGD model calibration for Halifax and Lloyds branded Cards. | Calibration of the application and customer scores. Point in Time plus buffer approach used to determine Regulatory PD. |
| | | EAD | | | Statistical models used to estimate EAD as a function of current balance and remaining limit. |
| | | LGD | | | Statistical models to predict customer propensity to repay and estimate resultant recovery cashflows (key drivers: default status and exposure at default). |
| Publicly Quoted | 5,958 | PD | Corporate Other, Corporate SME | Single model used to rate publicly quoted companies (apart from listed Banks and Insurance companies, which are rated through separate models). | Rating replicator approach using a blend of financial and qualitative factors to produce an internally derived rating closely approximating ECAI ratings from the major rating agencies (Moody's, Fitch and S&P). |

| | | | | | |
|---|---|---|---|---|---|
| HBOS Other Mortgages | 4,883 | PD | Retail – Secured by real estate – non-SME | Single model | Calibration of the internal mortgage behavioural scores. Point in Time approach used to determine Regulatory PD. |
| | | EAD | | | Based predominantly on current balance |
| | | LGD | | | Estimated by modelling probability of possession given default (key driver: LTV) and loss given repossession (key drivers: LTV and property type). |
| UK Motor Finance (Retail) | 4,832 | PD | Retail - Other (non-SME) | Single model. | Calibration of the internal application and customer scores. |
| | | EAD | | | Based predominantly on current balance. |
| | | LGD | | | Differentiated loss estimates based on underlying asset type. |
| HBOS and Lloyds Bank Overdrafts [1] | 4,167 | PD | Retail - Qualifying revolving | | Calibration of the application and customer scores. Point in Time plus buffer approach used to calculate regulatory PD |
| | | EAD | | | Statistical models used to estimate EAD as a function of current balance and remaining limit. |
| | | LGD | | | Statistical models to predict customer propensity to repay and estimate resultant recovery cashflows (key drivers: default status and exposure at default). |
| BDCS | 4,063 | PD | Corporate SME, Retail SME and Retail Mortgages (SME) | Separate PD models for Business Banking and SME clients, with industry sector segmentations within SME. | Account behavioural models calibrated with a Point in Time bias. |
| | | EAD | | | Statistical models used to estimate EAD as a function of current balance and remaining limit. |
| | | LGD | | Common EAD and LGD models for Retail exposures. | Statistical models to predict customer propensity to repay and estimate resultant recovery cashflows (key drivers: default status, probability of transfer to recoveries, exposure at default and collateral coverage). |
| UK Motor Finance (Non-Retail) | 2,584 | PD | Corporate Other | Separate PD models rating corporate motor finance customers submitting Full or Abridged Accounts to Companies House. | Logistic regression models targeting 12-month default rates. Key drivers in both the Full and Abridged models are liquidity and payment performance. Model score converted to PD using logistic transform which is mapped to an internal risk grade. |

1. For these products, separate rating systems exist for Lloyds Bank and HBOS (Halifax). However, as the risk profiles are sufficiently similar, they are grouped together in this table.
2. The Group applies the Standardised Approach to the MBNA credit card portfolio.

## **CRE: Qualitative Disclosure Requirements related to IRB Approach** continued

### Further details of Bank rating systems

#### PD rating philosophy

PD ratings from the Group's existing (pre-CRD IV) models 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 - Secured by real estate uses a TTC approach where this is available (the majority of Lloyds Bank and HBOS 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. (This will change to 90 days-past-due when the CRD IV capital model is approved for use, but until that definition is implemented a temporary model adjustment is being held for the anticipated uplift in RWA, per Article 146 of CRR). 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, the assigned PDs are calibrations of the obligor's associated application or behavioural scores. These are statistical models which are in turn based on a mix of internal behavioural and external (credit bureau) data. For corporate portfolios the PD models include 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 loss severity.

#### Model development, validation and review

IRB models, and subsequent changes to those models, 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 unit (the Model Risk and Validation team) which reports through an independent reporting line within the Risk division.

Three overarching methods of testing are used within independent model reviews and are applicable to both the initial model development and subsequent annual validation: Desktop Reviews (focusing on documentation relating to the model), Code Assessment, and Independent Quantitative Testing (IQT). IQT may include statistical analysis of the model, data quality assessment, independent recoding, and use of challenger approaches. Reviews are more in-depth for the more material IRB rating systems. All IRB models are reviewed annually in line with regulatory requirements.

GRC (whose membership includes the Chief Financial Officer and the Chief Risk Officer, as well as representation from each division of the Group) approves the Group's most material IRB models, and their performance is reported monthly to BRC.

Lower materiality IRB 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.

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 framework as a new model build.

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 2023, there have been no material model changes impacting the CR9 back-testing tables. A pre-notification was approved by the PRA in 2022 with reference to the reversion to Standardised from IRB of the Retirement Home Plan and the Scottish Widows Bank BTL portfolios. This amendment will come into effect alongside changes to be made to the Retail Mortgage rating systems in relation to CRD IV regulations.

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 includes providing BRC with an annual update on model performance and wider modelling issues. IRB model monitoring is also provided to the PRA at their request. As with model development and annual validation, the independent validation function uses the three overarching methods of testing to verify the suitability and effectiveness of the model monitoring framework.

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 an immediate and 'temporary 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. Accountability for model development and maintenance is assigned at an individual level. Similarly, accountability for the wider control environment for the model is also assigned at an individual level. The Model Risk and Validation Director is the owner of the Group Model Governance Policy, which defines the principles and framework by which models must be developed and maintained. Included in the responsibilities of the Model Risk and Validation Director are maintaining a relationship with regulators, chairing of MGC, reviewing risk appetite performance, and where appropriate, escalating material model issues to the GRC and Board.

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

Further information on model risk, including details on measurement, mitigation and monitoring can be found in the Risk Management section of the 2023 Lloyds Bank plc Annual Report and Accounts (page 58).

## **CRE: Qualitative Disclosure Requirements related to IRB Approach** continued

**Relationships between risk management function and internal audit function**

Group Internal Audit undertake a program of internal audits to check that appropriate controls and processes are in place and operating effectively across all aspects of IRB models. Group Internal Audit is independent from the model development and validation teams, reporting to the Chief Internal Auditor, a Group Executive Committee member.

**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 of this differs between business areas. For retail exposures, operational, application and behavioural scorecards (primarily used to make retail credit approval and account management decisions) are typically used as inputs to PD models. For corporate exposures, the PD model ascribes a credit risk grade to each customer, and is a key consideration in credit underwriting.

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-based pricing.

Calculating impairment: IRB component models are typically used as an input into the impairment process, within the wider IFRS 9 reporting framework; this may be through direct use of the PDs, or through shared use of inputs (typically the use of scorecards as an input to both capital and impairment models). 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. Additionally, the IRB models themselves will be replicated (using approximations where necessary) over the forecasting period.

**Model Performance**

**PD Back-testing tables**

The following PD back-testing tables (CR9) compare assigned PDs with observed default rates over both a 1-year and a 5-year period. 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).

The PD back-testing is based on existing (pre-CRD IV) models. The introduction of CRD IV regulations has led to a significant increase in the level of Post Model Adjustments (PMAs) for both RWA and EL, primarily in Retail Mortgages due to modelling changes. While acknowledging the significant value of these PMAs (which have been made to ensure capital levels reflect the anticipated impact of the new modelling requirements), PD back-testing needs to be assessed using the currently implemented definition of default. The back-testing shows that the incumbent PD models are generally working effectively and prudently against the pre CRD IV default definitions. The introduction of approved rating systems for CRD IV will see the removal of most PMAs.

For Corporate exposure classes, a September to September window is used. For Retail the window is November to November except for BDCS which is September to September.

The proportion of total IRB RWA covered within each exposure class is as follows:

- Corporate Other: 67%
- Corporate SME: 79%
- Retail - Secured by real estate (SME): 100%
- Retail SME: 100%
- Retail Other (non-SME): 100%
- QRRE: 100%
- Retail - Secured by real estate (non-SME) 98%

The lower coverage figures for Corporate SME and Corporate Other reflect the absence of rating systems with high value and low volume. Such rating systems would have little impact on the PD back-testing tables whose patterns and results are driven by volume only.

Two additional back-testing tables are presented, showing aggregate figures for Corporates (Corporate SME and Corporate Other) and Retail (all other tables). Given the rating systems in scope, there are no tables presented for the Institutions and Central Government and Central Banks exposure classes.

In line with reporting requirements, a separate table is shown (CR9.1) for obligors rated under the Publicly Quoted rating system as it meets the criteria specified in point f Article 180(1) of CRR in relation to the use of External Credit Assessment Institution (ECAI) ratings. Only Corporate Other is shown due to the extremely low volume of Publicly Quoted obligors within the Corporate SME exposure class.

All tables follow the same format and adopt the following definitions:

- The PD ranges are as prescribed in Annex XXI of the CRR.
- The Observed Average Default Rate is calculated as the number of defaults in the 12-month period divided by the number of obligors at the start of the period.
- 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 allocation to a risk grade is based on the PIT PD at the start of the year for Retail (non-SME) exposure classes and regulatory PD for other exposure classes.
- 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.
  - Retail Mortgages (excluding BDCS) and UK Motor Finance (Retail) treat each account as an obligor. Hence, a customer with two accounts would be represented as two obligors with distinct PD estimates.
  - The definition for models in the Corporate and Retail SME exposure classes 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).
  - Obligors that are 'connected' may share the same PD subject to certain conditions (these are known as Obligor Risk Groups, or ORGs). These cases are aggregated and reported as single obligors within a single exposure class.
- For Table 9.1, the external rating equivalent is based on the S&P rating scale.

For all IRB asset classes except Corporate Other and Corporate SME, the Group exposures shown in the following tables are the same as the Lloyds Banking Group disclosures. The other two tables are based solely on Lloyds Bank plc.

## CRE: Qualitative Disclosure Requirements related to IRB Approach continued

The table below summarises the rating systems in scope for each exposure class within the PD back-testing analysis. All rating systems reported here cover UK exposures only, with the exception of Publicly Quoted which is a global rating system and the BoS Netherlands Mortgages rating system.

| Exposure Class | Rating Systems Included |
|---|---|
| Corporate Other | Publicly Quoted, Unquoted, UK Motor Finance (Non-Retail) |
| Corporate SME | Unquoted, Publicly Quoted, BDCS |
| Retail - Secured by real estate (non-SME) | Halifax Mainstream Mortgages, Lloyds Bank Mainstream Mortgages, HBOS Buy-to-Let Mortgages, HBOS Other Mortgages, Lloyds Near Prime Mortgages, Lloyds Buy to Let Mortgages, BoS Netherlands Mortgages. |
| Retail - Secured by real estate (SME) | 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 (Retail) |

# Model Performance

## CR9: Back-testing of PD per portfolio – Corporate Other

| | 31 Dec 2023 | | | | | |
|---|---|---|---|---|---|---|
| | Number of obligors in the end of previous year | | | | | |
| | | Of which number of obligors which defaulted in the year | Observed average default rate | Exposure weighted average PD | Average PD | Average historical annual default rate |
| **PD range** | **No.** | **No.** | **%** | **%** | **%** | **%** |
| 0.00 to <0.15 | **195** | **—** | **—%** | **0.08%** | **0.08%** | **0.09%** |
| 0.00 to <0.10 | **87** | **—** | **—%** | **0.05%** | **0.05%** | **0.10%** |
| 0.10 to <0.15 | **108** | **—** | **—%** | **0.11%** | **0.11%** | **0.09%** |
| 0.15 to <0.25 | **747** | **1** | **0.13%** | **0.18%** | **0.19%** | **0.10%** |
| 0.25 to <0.50 | **1,975** | **4** | **0.20%** | **0.34%** | **0.37%** | **0.26%** |
| 0.50 to <0.75 | **1,779** | **4** | **0.22%** | **0.62%** | **0.58%** | **0.39%** |
| 0.75 to <2.50 | **4,023** | **37** | **0.92%** | **1.27%** | **1.11%** | **0.92%** |
| 0.75 to <1.75 | **3,628** | **28** | **0.77%** | **1.26%** | **1.02%** | **0.78%** |
| 1.75 to <2.50 | **395** | **9** | **2.28%** | **1.90%** | **1.91%** | **2.09%** |
| 2.50 to <10.00 | **1,502** | **40** | **2.66%** | **4.07%** | **3.87%** | **3.00%** |
| 2.50 to <5.00 | **1,363** | **34** | **2.49%** | **3.34%** | **3.56%** | **2.56%** |
| 5.00 to <10.00 | **139** | **6** | **4.32%** | **6.57%** | **6.99%** | **5.73%** |
| 10.00 to <100.00 | **97** | **16** | **16.49%** | **18.65%** | **23.92%** | **13.57%** |
| 10.00 to <20.00 | **25** | **3** | **12.00%** | **12.00%** | **11.96%** | **11.25%** |
| 20.00 to <30.00 | **18** | **3** | **16.67%** | **20.00%** | **20.00%** | **3.96%** |
| 30.00 to <100.00 | **54** | **10** | **18.52%** | **30.99%** | **30.76%** | **15.79%** |
| 100.00 (Default) | **224** | **N/A** | **N/A** | **100.00%** | **100.00%** | **N/A** |

| | 31 Dec 2022 | | | | | |
|---|---|---|---|---|---|---|
| | No. | No. | % | % | % | % |
| 0.00 to <0.15 | 194 | — | —% | 0.08% | 0.08% | 0.11% |
| 0.00 to <0.10 | 88 | — | —% | 0.05% | 0.05% | 0.11% |
| 0.10 to <0.15 | 106 | — | —% | 0.11% | 0.11% | 0.12% |
| 0.15 to <0.25 | 664 | — | —% | 0.18% | 0.19% | 0.10% |
| 0.25 to <0.50 | 2,071 | — | —% | 0.33% | 0.36% | 0.23% |
| 0.50 to <0.75 | 1,717 | 6 | 0.35% | 0.61% | 0.58% | 0.37% |
| 0.75 to <2.50 | 3,782 | 28 | 0.74% | 1.24% | 1.12% | 0.83% |
| 0.75 to <1.75 | 3,412 | 18 | 0.53% | 1.24% | 1.04% | 0.72% |
| 1.75 to <2.50 | 370 | 10 | 2.70% | 1.90% | 1.91% | 1.66% |
| 2.50 to <10.00 | 1,708 | 31 | 1.81% | 4.16% | 3.91% | 2.75% |
| 2.50 to <5.00 | 1,536 | 26 | 1.69% | 3.14% | 3.57% | 2.18% |
| 5.00 to <10.00 | 172 | 5 | 2.91% | 6.39% | 6.96% | 6.52% |
| 10.00 to <100.00 | 104 | 10 | 9.62% | 20.64% | 22.58% | 11.75% |
| 10.00 to <20.00 | 42 | 3 | 7.14% | 12.00% | 12.43% | 10.65% |
| 20.00 to <30.00 | 12 | — | —% | 20.00% | 20.00% | 0.63% |
| 30.00 to <100.00 | 50 | 7 | 14.00% | 30.99% | 31.73% | 14.94% |
| 100.00 (Default) | 287 | N/A | N/A | 100.00% | 100.00% | N/A |

**Key observations**

- Over 85% of obligors reported in this exposure class are on the UK Motor Finance (Commercial) portfolio, with the remainder being on the Publicly Quoted and Unquoted rating systems.
- Relatively low default volumes lead to year-on-year volatility in 1-year default rates within a given PD range. At an overall level, 1-year default rates remain low and continue to track below average PD.
- The average historical (5-year) default rate remains either within or below the respective PD band.
- A regulatory default reporting error exists within the UK Motor Finance (Commercial) rating system, whereby certain 90 days-past-due defaults have been under-reported. This is mitigated through a Post Model Adjustment.

## **Model Performance** continued

## CR9: Back-testing of PD per portfolio – Corporate SME

| | 31 Dec 2023 | | | | | |
|---|---|---|---|---|---|---|
| | Number of obligors in the end of previous year | | | | | |
| | | Of which number of obligors which defaulted in the year | Observed average default rate | Exposure weighted average PD | Average PD | Average historical annual default rate |
| PD range | No. | No. | % | % | % | % |
| 0.00 to <0.15 | **35** | **—** | **0.00%** | **0.06%** | **0.05%** | **0.48%** |
| 0.00 to <0.10 | **30** | **—** | **0.00%** | **0.06%** | **0.04%** | **0.63%** |
| 0.10 to <0.15 | **5** | **—** | **0.00%** | **0.11%** | **0.11%** | **0.00%** |
| 0.15 to <0.25 | **46** | **—** | **0.00%** | **0.18%** | **0.18%** | **0.00%** |
| 0.25 to <0.50 | **1,154** | **1** | **0.09%** | **0.39%** | **0.39%** | **0.15%** |
| 0.50 to <0.75 | **18,220** | **32** | **0.18%** | **0.57%** | **0.54%** | **0.29%** |
| 0.75 to <2.50 | **11,806** | **104** | **0.88%** | **1.21%** | **1.12%** | **0.92%** |
| 0.75 to <1.75 | **11,806** | **104** | **0.88%** | **1.21%** | **1.12%** | **0.92%** |
| 2.50 to <10.00 | **3,930** | **128** | **3.26%** | **4.29%** | **4.20%** | **3.30%** |
| 2.5 to <5.00 | **2,252** | **46** | **2.04%** | **3.18%** | **2.84%** | **1.69%** |
| 5.00 to <10.00 | **1,678** | **82** | **4.89%** | **6.31%** | **6.03%** | **5.44%** |
| 10.00 to <100.00 | **1,043** | **84** | **8.05%** | **22.78%** | **21.51%** | **8.72%** |
| 10.00 to <20.00 | **454** | **44** | **9.69%** | **12.39%** | **12.75%** | **7.63%** |
| 20.00 to <30.00 | **368** | **2** | **0.54%** | **20.00%** | **20.02%** | **1.01%** |
| 30.00 to <100.00 | **221** | **38** | **17.19%** | **38.24%** | **41.95%** | **16.27%** |
| 100.00 (Default) | **448** | **N/A** | **N/A** | **100.00%** | **100.00%** | **N/A** |

| | 31 Dec 2022 | | | | | |
|---|---|---|---|---|---|---|
| | No. | No. | % | % | % | % |
| 0.00 to <0.15 | 42 | 1 | 2.38% | 0.06% | 0.06% | 0.48% |
| 0.00 to <0.10 | 32 | 1 | 3.13% | 0.04% | 0.04% | 0.63% |
| 0.10 to <0.15 | 10 | — | 0.00% | 0.11% | 0.11% | 0.00% |
| 0.15 to <0.25 | 47 | — | 0.00% | 0.18% | 0.18% | 0.15% |
| 0.25 to <0.50 | 1,103 | 1 | 0.09% | 0.37% | 0.39% | 0.21% |
| 0.50 to <0.75 | 3,983 | 19 | 0.48% | 0.56% | 0.55% | 0.33% |
| 0.75 to <2.50 | 5,484 | 68 | 1.24% | 1.25% | 1.19% | 0.87% |
| 0.75 to <1.75 | 5,484 | 68 | 1.24% | 1.25% | 1.19% | 0.87% |
| 2.50 to <10.00 | 2,641 | 109 | 4.13% | 4.10% | 4.28% | 3.12% |
| 2.50 to <5.00 | 1,566 | 28 | 1.79% | 2.96% | 2.94% | 1.45% |
| 5.00 to <10.00 | 1,075 | 81 | 7.53% | 6.22% | 6.23% | 5.37% |
| 10.00 to <100.00 | 403 | 61 | 15.14% | 21.80% | 24.38% | 8.34% |
| 10.00 to <20.00 | 234 | 23 | 9.83% | 11.90% | 12.63% | 6.75% |
| 20.00 to <30.00 | — | — | 0.00% | 0.00% | 0.00% | 0.87% |
| 30.00 to <100.00 | 169 | 38 | 22.49% | 35.60% | 40.64% | 15.17% |
| 100.00 (Default) | 614 | N/A | N/A | 100.00% | 100.00% | N/A |

**Key observations**

- This exposure class reports obligors on the BDCS, Unquoted and Publicly Quoted rating systems, with the majority (85% by volume) being BDCS.
- Obligor volumes have increased in this exposure class since last year's report due to a change in aggregation methodology to recognise customer groups. This leads to a movement of BDCS rated obligors from the Retail Other SME to the Corporate SME exposure class. This includes obligors with relatively low exposures that now appear in the 20 to <30 PD range of this exposure class.
- The overall 1-year default rate in this exposure class has reduced compared to last year. 1-year and 5-year default rates are below the average PD in each of the PD ranges, except for the average historical default rate for 0.00 to < 0.10 where a single default across five years of data is driving the observation.

## **Model Performance** continued
## CR9: Back-testing of PD per portfolio – Retail SME

| | 31 Dec 2023 | | | | | |
|---|---|---|---|---|---|---|
| | Number of obligors in the end of previous year | | | | | |
| | | Of which number of obligors which defaulted in the year | Observed average default rate | Exposure weighted average PD | Average PD | Average historical annual default rate |
| PD range | No. | No. | % | % | % | % |
| 0.50 to <0.75 | **33,022** | **239** | **0.72%** | **0.54%** | **0.54%** | **0.35%** |
| 0.75 to <2.50 | **30,179** | **802** | **2.66%** | **1.13%** | **1.15%** | **1.40%** |
| 0.75 to <1.75 | **30,179** | **802** | **2.66%** | **1.13%** | **1.15%** | **1.40%** |
| 2.50 to <10.00 | **14,785** | **1,374** | **9.29%** | **4.18%** | **4.19%** | **5.02%** |
| 2.50 to <5.00 | **7,205** | **449** | **6.23%** | **2.62%** | **2.62%** | **3.45%** |
| 5.00 to <10.00 | **7,580** | **925** | **12.20%** | **5.74%** | **5.68%** | **6.47%** |
| 10.00 to <100.00 | **17,192** | **8,611** | **50.09%** | **29.41%** | **24.96%** | **21.33%** |
| 10.00 to <20.00 | **4,957** | **1,141** | **23.02%** | **12.99%** | **13.13%** | **13.48%** |
| 20.00 to <30.00 | **9,201** | **5,549** | **60.31%** | **20.00%** | **20.00%** | **20.55%** |
| 30.00 to <100.00 | **3,034** | **1,921** | **63.32%** | **57.36%** | **59.32%** | **38.33%** |
| 100.00 (Default) | **35,295** | **N/A** | **N/A** | **100.00%** | **100.00%** | **N/A** |

| | 31 Dec 2022 | | | | | |
|---|---|---|---|---|---|---|
| | No. | No. | % | % | % | % |
| 0.50 to <0.75 | 57,730 | 287 | 0.50% | 0.54% | 0.54% | 0.24% |
| 0.75 to <2.50 | 40,179 | 890 | 2.22% | 1.13% | 1.13% | 1.04% |
| 0.75 to <1.75 | 40,179 | 890 | 2.22% | 1.13% | 1.13% | 1.04% |
| 2.50 to <10.00 | 16,955 | 1,332 | 7.86% | 4.10% | 4.11% | 3.93% |
| 2.50 to <5.00 | 8,700 | 490 | 5.63% | 2.62% | 2.62% | 2.70% |
| 5.00 to <10.00 | 8,255 | 842 | 10.20% | 5.75% | 5.68% | 5.05% |
| 10.00 to <100.00 | 27,386 | 10,301 | 37.61% | 28.19% | 22.59% | 12.96% |
| 10.00 to <20.00 | 4,601 | 986 | 21.43% | 12.91% | 13.03% | 11.17% |
| 20.00 to <30.00 | 20,123 | 7,705 | 38.29% | 20.00% | 20.00% | 9.04% |
| 30.00 to <100.00 | 2,662 | 1,610 | 60.48% | 55.91% | 58.74% | 31.79% |
| 100.00 (Default) | 13,499 | N/A | N/A | 100.00% | 100.00% | N/A |

**Key observations**

- This table relates solely to obligors rated on the Group's BDCS rating system. However, where an obligor's only borrowing is under the UK Government's Bounce Back Loan Scheme, these obligors are excluded from the table above. These obligors are included within CR6 tables on a pre-CRM basis (prior to being substituted to Standardised Central Governments) and this explains the significant difference in number of obligors between these two tables.
- Obligor volumes have reduced since last year's report due to a change in aggregation methodology to recognise customer groups. This leads to a movement of obligors from the Retail Other SME to the Corporate SME exposure class.
- The observed 1-year default rate in each PD range has increased compared to last year's return. These default rates exceed the average prediction in all PD ranges. Mitigating action has been taken for 2023 year-end reporting in line with an approach agreed with the regulator and applied by way of a Post Model Adjustment to recognise the current under-prediction and ensure capital adequacy pending a recalibration.
- The vast majority of obligors in the 20 to <30 PD range have an exposure of less than £100, with defaults occurring on the obligor's Bounce Back Loan which cross-defaults the relatively small amount of non Bounce Back Loan exposure held by the customer.

## **Model Performance** continued

## CR9: Back-testing of PD per portfolio – Retail - Other (non-SME)

| | 31 Dec 2023 | | | | | |
|---|---|---|---|---|---|---|
| | Number of obligors in the end of previous year | | | | | |
| | | Of which number of obligors which defaulted in the year | Observed average default rate | Exposure weighted average PD | Average PD | Average historical annual default rate |
| PD range | No. | No. | % | % | % | % |
| 0.00 to <0.15 | **29,167** | **31** | **0.11%** | **0.08%** | **0.08%** | **0.16%** |
| 0.00 to <0.10 | **27,270** | **20** | **0.07%** | **0.08%** | **0.08%** | **0.15%** |
| 0.10 to <0.15 | **1,897** | **11** | **0.58%** | **0.14%** | **0.14%** | **0.36%** |
| 0.15 to <0.25 | **16,470** | **68** | **0.41%** | **0.22%** | **0.21%** | **0.43%** |
| 0.25 to <0.50 | **420,652** | **1,247** | **0.30%** | **0.37%** | **0.37%** | **0.71%** |
| 0.50 to <0.75 | **244,675** | **1,140** | **0.47%** | **0.72%** | **0.70%** | **0.85%** |
| 0.75 to <2.50 | **631,486** | **6,005** | **0.95%** | **1.56%** | **1.54%** | **1.28%** |
| 0.75 to <1.75 | **474,984** | **3,766** | **0.79%** | **1.41%** | **1.35%** | **1.15%** |
| 1.75 to <2.50 | **156,502** | **2,239** | **1.43%** | **2.11%** | **2.11%** | **1.69%** |
| 2.50 to <10.00 | **423,959** | **18,839** | **4.44%** | **4.50%** | **4.65%** | **5.29%** |
| 2.50 to <5.00 | **276,455** | **8,149** | **2.95%** | **3.41%** | **3.46%** | **3.80%** |
| 5.00 to <10.00 | **147,504** | **10,690** | **7.25%** | **6.71%** | **6.88%** | **8.42%** |
| 10.00 to <100.00 | **91,588** | **20,543** | **22.43%** | **26.86%** | **26.89%** | **27.22%** |
| 10.00 to <20.00 | **45,554** | **6,457** | **14.17%** | **12.63%** | **13.08%** | **14.81%** |
| 20.00 to <30.00 | **17,493** | **2,651** | **15.15%** | **21.75%** | **22.36%** | **17.40%** |
| 30.00 to <100.00 | **28,541** | **11,435** | **40.07%** | **48.14%** | **51.54%** | **46.07%** |
| 100.00 (Default) | **60,704** | **N/A** | **N/A** | **100.00%** | **100.00%** | **N/A** |

| | 31 Dec 2022 | | | | | |
|---|---|---|---|---|---|---|
| | No. | No. | % | % | % | % |
| 0.00 to <0.15 | 23,977 | 26 | 0.11% | 0.08% | 0.08% | 0.16% |
| 0.00 to <0.10 | 23,536 | 26 | 0.11% | 0.08% | 0.08% | 0.15% |
| 0.10 to <0.15 | 441 | — | —% | 0.15% | 0.15% | 0.30% |
| 0.15 to <0.25 | 8,683 | 48 | 0.55% | 0.22% | 0.22% | 0.42% |
| 0.25 to <0.50 | 454,025 | 1,261 | 0.28% | 0.37% | 0.37% | 0.79% |
| 0.50 to <0.75 | 245,404 | 1,047 | 0.43% | 0.72% | 0.70% | 0.93% |
| 0.75 to <2.50 | 653,731 | 5,887 | 0.90% | 1.57% | 1.54% | 1.35% |
| 0.75 to <1.75 | 491,302 | 3,715 | 0.76% | 1.41% | 1.35% | 1.24% |
| 1.75 to <2.50 | 162,429 | 2,172 | 1.34% | 2.11% | 2.11% | 1.73% |
| 2.50 to <10.00 | 421,765 | 18,578 | 4.40% | 4.42% | 4.55% | 5.52% |
| 2.50 to <5.00 | 284,947 | 8,600 | 3.02% | 3.41% | 3.44% | 4.04% |
| 5.00 to <10.00 | 136,818 | 9,978 | 7.29% | 6.66% | 6.83% | 8.82% |
| 10.00 to <100.00 | 78,457 | 18,476 | 23.55% | 27.41% | 27.37% | 29.02% |
| 10.00 to <20.00 | 37,376 | 5,376 | 14.38% | 12.41% | 12.82% | 15.09% |
| 20.00 to <30.00 | 14,393 | 2,108 | 14.65% | 21.64% | 22.19% | 18.05% |
| 30.00 to <100.00 | 26,688 | 10,992 | 41.19% | 47.42% | 50.23% | 47.95% |
| 100.00 (Default) | 70,748 | N/A | N/A | 100.00% | 100.00% | N/A |

**Key observations**

- Overall, the average historical annual default rate has shown a small decrease in 2023.
- Where 1-year and 5-year 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. The PD models are not optimised to predict these events, contributing to the under-prediction which would not exist if these cases were removed.

## **Model Performance** continued

## CR9: Back-testing of PD per portfolio – Retail QRRE

| | 31 Dec 2023 | | | | | |
|---|---|---|---|---|---|---|
| | Number of obligors in the end of previous year | | | | | |
| | | Of which number of obligors which defaulted in the year | Observed average default rate | Exposure weighted average PD | Average PD | Average historical annual default rate |
| PD range | No. | No. | % | % | % | % |
| 0.00 to <0.15 | **8,882,797** | **2,936** | **0.03%** | **0.09%** | **0.09%** | **0.03%** |
| 0.00 to <0.10 | **5,789,694** | **1,433** | **0.02%** | **0.07%** | **0.07%** | **0.02%** |
| 0.10 to <0.15 | **3,093,103** | **1,503** | **0.05%** | **0.13%** | **0.13%** | **0.04%** |
| 0.15 to <0.25 | **4,228,421** | **3,392** | **0.08%** | **0.20%** | **0.20%** | **0.07%** |
| 0.25 to <0.50 | **5,610,037** | **10,614** | **0.19%** | **0.37%** | **0.37%** | **0.17%** |
| 0.50 to <0.75 | **3,316,723** | **12,698** | **0.38%** | **0.62%** | **0.63%** | **0.38%** |
| 0.75 to <2.50 | **6,296,181** | **72,146** | **1.15%** | **1.37%** | **1.30%** | **1.22%** |
| 0.75 to <1.75 | **5,084,094** | **46,118** | **0.91%** | **1.15%** | **1.11%** | **0.96%** |
| 1.75 to <2.50 | **1,212,087** | **26,028** | **2.15%** | **2.11%** | **2.10%** | **2.36%** |
| 2.50 to <10.00 | **2,033,817** | **105,265** | **5.18%** | **4.69%** | **4.56%** | **5.44%** |
| 2.50 to <5.00 | **1,420,149** | **55,610** | **3.92%** | **3.55%** | **3.54%** | **4.23%** |
| 5.00 to <10.00 | **613,668** | **49,655** | **8.09%** | **6.90%** | **6.93%** | **8.45%** |
| 10.00 to <100.00 | **647,554** | **140,527** | **21.70%** | **29.11%** | **28.60%** | **23.02%** |
| 10.00 to <20.00 | **285,468** | **36,871** | **12.92%** | **13.70%** | **14.00%** | **13.11%** |
| 20.00 to <30.00 | **121,728** | **22,815** | **18.74%** | **24.48%** | **24.63%** | **19.05%** |
| 30.00 to <100.00 | **240,358** | **80,841** | **33.63%** | **52.02%** | **47.96%** | **35.00%** |
| 100.00 (Default) | **297,565** | **N/A** | **N/A** | **100.00%** | **100.00%** | **N/A** |
| | 31 Dec 2022 | | | | | |
| | No. | No. | % | % | % | % |
| 0.00 to <0.15 | 8,198,910 | 2,636 | 0.03% | 0.09% | 0.09% | 0.02% |
| 0.00 to <0.10 | 4,912,877 | 1,237 | 0.03% | 0.07% | 0.07% | 0.02% |
| 0.10 to <0.15 | 3,286,033 | 1,399 | 0.04% | 0.13% | 0.13% | 0.03% |
| 0.15 to <0.25 | 4,479,095 | 3,313 | 0.07% | 0.20% | 0.20% | 0.06% |
| 0.25 to <0.50 | 5,925,583 | 10,672 | 0.18% | 0.36% | 0.36% | 0.16% |
| 0.50 to <0.75 | 3,285,003 | 12,461 | 0.38% | 0.62% | 0.63% | 0.37% |
| 0.75 to <2.50 | 5,956,989 | 73,745 | 1.24% | 1.35% | 1.29% | 1.23% |
| 0.75 to <1.75 | 4,880,661 | 46,864 | 0.96% | 1.14% | 1.11% | 0.96% |
| 1.75 to <2.50 | 1,076,328 | 26,881 | 2.50% | 2.11% | 2.11% | 2.41% |
| 2.50 to <10.00 | 1,749,048 | 100,782 | 5.76% | 4.55% | 4.45% | 5.52% |
| 2.50 to <5.00 | 1,260,770 | 55,666 | 4.42% | 3.52% | 3.52% | 4.34% |
| 5.00 to <10.00 | 488,278 | 45,116 | 9.24% | 6.83% | 6.86% | 8.52% |
| 10.00 to <100.00 | 526,992 | 123,583 | 23.45% | 28.64% | 28.40% | 23.55% |
| 10.00 to <20.00 | 215,039 | 30,356 | 14.12% | 13.55% | 13.92% | 13.01% |
| 20.00 to <30.00 | 105,946 | 20,584 | 19.43% | 24.61% | 24.84% | 19.82% |
| 30.00 to <100.00 | 206,007 | 72,643 | 35.26% | 49.07% | 45.35% | 35.89% |
| 100.00 (Default) | 315,947 | N/A | N/A | 100.00% | 100.00% | N/A |

**Key observations**

- Overall, the average historical annual default rate has remained broadly stable through 2023 and is comparable with 2022.
- As a result of the calibration methodology there is a degree of under-prediction in some mid-range PD bands; these account for less than 10% of the population. At an overall level, the PDs remain above the 1-year and 5-year default rates due to the presence of a PD buffer.

## **Model Performance** continued

## CR9: Back-testing of PD per portfolio – Retail - Secured by real estate - non-SME

| | 31 Dec 2023[1] | | | | | |
|---|---|---|---|---|---|---|
| | Number of obligors in the end of previous year | | | | | |
| | | Of which number of obligors which defaulted in the year | Observed average default rate | Exposure weighted average PD | Average PD | Average historical annual default rate |
| PD range | No. | No. | % | % | % | % |
| 0.00 to <0.15 | 2,076,241 | 1,606 | 0.08% | 0.38% | 0.35% | 0.05% |
| 0.00 to <0.10 | 1,888,249 | 1,129 | 0.06% | 0.35% | 0.31% | 0.04% |
| 0.10 to <0.15 | 187,992 | 477 | 0.25% | 0.77% | 0.72% | 0.15% |
| 0.15 to <0.25 | 135,996 | 512 | 0.38% | 1.19% | 1.13% | 0.22% |
| 0.25 to <0.50 | 99,182 | 812 | 0.82% | 2.01% | 2.03% | 0.44% |
| 0.50 to <0.75 | 21,322 | 370 | 1.74% | 3.57% | 3.64% | 0.88% |
| 0.75 to <2.50 | 32,350 | 1,039 | 3.21% | 8.52% | 8.23% | 1.66% |
| 0.75 to <1.75 | 19,716 | 583 | 2.96% | 6.00% | 6.09% | 1.50% |
| 1.75 to <2.50 | 12,634 | 456 | 3.61% | 12.08% | 11.57% | 2.03% |
| 2.50 to <10.00 | 20,691 | 2,253 | 10.89% | 22.74% | 22.45% | 5.88% |
| 2.50 to <5.00 | 12,399 | 1,015 | 8.19% | 18.63% | 18.33% | 4.19% |
| 5.00 to <10.00 | 8,292 | 1,238 | 14.93% | 28.53% | 28.60% | 8.58% |
| 10.00 to <100.00 | 14,929 | 5,733 | 38.40% | 57.00% | 57.90% | 30.92% |
| 10.00 to <20.00 | 6,443 | 1,504 | 23.34% | 41.70% | 41.71% | 15.44% |
| 20.00 to <30.00 | 2,485 | 824 | 33.16% | 56.12% | 56.76% | 26.57% |
| 30.00 to <100.00 | 6,001 | 3,405 | 56.74% | 74.30% | 75.76% | 50.50% |
| 100.00 (Default) | 16,384 | N/A | N/A | 100.00% | 100.00% | N/A |

| | 31 Dec 2022 | | | | | |
|---|---|---|---|---|---|---|
| | No. | No. | % | % | % | % |
| 0.00 to <0.15 | 2,014,225 | 830 | 0.04% | 0.38% | 0.35% | 0.05% |
| 0.00 to <0.10 | 1,748,672 | 597 | 0.03% | 0.34% | 0.30% | 0.04% |
| 0.10 to <0.15 | 265,553 | 233 | 0.09% | 0.70% | 0.63% | 0.12% |
| 0.15 to <0.25 | 170,164 | 238 | 0.14% | 1.24% | 1.12% | 0.19% |
| 0.25 to <0.50 | 125,537 | 384 | 0.31% | 1.85% | 1.78% | 0.38% |
| 0.50 to <0.75 | 34,376 | 213 | 0.62% | 2.91% | 2.89% | 0.72% |
| 0.75 to <2.50 | 42,899 | 441 | 1.03% | 6.88% | 6.67% | 1.32% |
| 0.75 to <1.75 | 31,332 | 310 | 0.99% | 5.74% | 5.64% | 1.18% |
| 1.75 to <2.50 | 11,567 | 131 | 1.13% | 9.56% | 9.46% | 1.66% |
| 2.50 to <10.00 | 26,511 | 1,128 | 4.25% | 19.24% | 19.12% | 4.80% |
| 2.50 to <5.00 | 16,923 | 521 | 3.08% | 15.73% | 15.50% | 3.39% |
| 5.00 to <10.00 | 9,588 | 607 | 6.33% | 25.55% | 25.52% | 7.17% |
| 10.00 to <100.00 | 15,905 | 4,258 | 26.77% | 54.81% | 55.23% | 29.40% |
| 10.00 to <20.00 | 6,313 | 723 | 11.45% | 39.32% | 39.19% | 13.65% |
| 20.00 to <30.00 | 3,503 | 751 | 21.44% | 52.69% | 52.00% | 24.74% |
| 30.00 to <100.00 | 6,089 | 2,784 | 45.72% | 72.51% | 73.72% | 48.73% |
| 100.00 (Default) | 21,095 | N/A | N/A | 100.00% | 100.00% | N/A |

1. 2023 table includes obligors and defaults from our Netherlands portfolio

### Key observations

- The values shown represent the 180 days past due definition of default. Material Post Model Adjustments are in place to reflect the impact of new modelling requirements under CRDIV, including a 90 day definition of default.
- Obligors are allocated to grades using 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, 1-year default rates have increased from a historically low level last year.
- BoS Netherlands mortgage book included for this first time this year. This portfolio has not been included retrospectively.

## **Model Performance** continued
## CR9: Back-testing of PD per portfolio – Retail - Mortgages SME

| | 31 Dec 2023 | | | | | |
|---|---|---|---|---|---|---|
| | Number of obligors in the end of previous year | | | | | |
| | | Of which number of obligors which defaulted in the year | Observed average default rate | Exposure weighted average PD | Average PD | Average historical annual default rate |
| PD range | No. | No. | % | % | % | % |
| 0.50 to <0.75 | **18,716** | **90** | **0.48%** | **0.54%** | **0.54%** | **0.25%** |
| 0.75 to <2.50 | **12,577** | **157** | **1.25%** | **1.12%** | **1.12%** | **0.81%** |
| 0.75 to <1.75 | **12,577** | **157** | **1.25%** | **1.12%** | **1.12%** | **0.81%** |
| 2.50 to <10.00 | **4,076** | **192** | **4.71%** | **4.16%** | **4.15%** | **3.44%** |
| 2.50 to <5.00 | **2,052** | **62** | **3.02%** | **2.62%** | **2.62%** | **1.78%** |
| 5.00 to <10.00 | **2,024** | **130** | **6.42%** | **5.72%** | **5.69%** | **5.13%** |
| 10.00 to <100.00 | **1,570** | **294** | **18.73%** | **23.63%** | **22.45%** | **12.43%** |
| 10.00 to <20.00 | **1,008** | **142** | **14.09%** | **12.68%** | **12.92%** | **8.90%** |
| 20.00 to <30.00 | **202** | **25** | **12.38%** | **20.00%** | **20.00%** | **4.01%** |
| 30.00 to <100.00 | **360** | **127** | **35.28%** | **51.84%** | **50.51%** | **26.38%** |
| 100.00 (Default) | **661** | **N/A** | **N/A** | **100.00%** | **100.00%** | **N/A** |

| | 31 Dec 2022 | | | | | |
|---|---|---|---|---|---|---|
| | No. | No. | % | % | % | % |
| 0.50 to <0.75 | 23,102 | 55 | 0.24% | 0.54% | 0.54% | 0.20% |
| 0.75 to <2.50 | 14,490 | 122 | 0.84% | 1.12% | 1.11% | 0.67% |
| 0.75 to <1.75 | 14,490 | 122 | 0.84% | 1.12% | 1.11% | 0.67% |
| 2.50 to <10.00 | 4,382 | 167 | 3.81% | 4.12% | 4.07% | 2.98% |
| 2.50 to <5.00 | 2,329 | 37 | 1.59% | 2.62% | 2.62% | 1.43% |
| 5.00 to <10.00 | 2,053 | 130 | 6.33% | 5.75% | 5.72% | 4.55% |
| 10.00 to <100.00 | 1,514 | 211 | 13.94% | 21.91% | 22.21% | 10.90% |
| 10.00 to <20.00 | 862 | 88 | 10.21% | 12.90% | 12.82% | 7.53% |
| 20.00 to <30.00 | 323 | 12 | 3.72% | 20.00% | 20.00% | 1.78% |
| 30.00 to <100.00 | 329 | 111 | 33.74% | 46.33% | 48.97% | 24.48% |
| 100.00 (Default) | 764 | N/A | N/A | 100.00% | 100.00% | N/A |

**Key observations**

- This table relates solely to the BDCS rating system.
- Obligor volumes have reduced compared to last year's return and default rates have increased in all PD ranges. 1-year default rates exceed the average prediction in all but three PD ranges.
- The increased 1-year and 5-year default rates are driven in part by cross-defaults arising from government support schemes. Mitigating action has been taken for 2023 year-end reporting in line with an approach agreed with the regulator and applied by way of a Post Model Adjustment to recognise the current under-prediction and ensure capital adequacy pending a recalibration.
- Average historical default rates remain within (or below) the PD range.

## **Model Performance** continued
## CR9: Back-testing of PD per portfolio – Retail Total

| | 31 Dec 2023 | | | | | |
|---|---|---|---|---|---|---|
| | Number of obligors in the end of previous year | | | | | |
| | | Of which number of obligors which defaulted in the year | Observed average default rate | Exposure weighted average PD | Average PD | Average historical annual default rate |
| **PD range** | **No.** | **No.** | **%** | **%** | **%** | **%** |
| 0.00 to <0.15 | **10,988,205** | **4,573** | **0.04%** | **0.37%** | **0.14%** | **0.03%** |
| 0.00 to <0.10 | **7,705,213** | **2,582** | **0.03%** | **0.34%** | **0.13%** | **0.03%** |
| 0.10 to <0.15 | **3,282,992** | **1,991** | **0.06%** | **0.69%** | **0.16%** | **0.05%** |
| 0.15 to <0.25 | **4,380,887** | **3,972** | **0.09%** | **0.98%** | **0.23%** | **0.08%** |
| 0.25 to <0.50 | **6,129,871** | **12,673** | **0.21%** | **1.20%** | **0.39%** | **0.22%** |
| 0.50 to <0.75 | **3,634,458** | **14,537** | **0.40%** | **1.20%** | **0.65%** | **0.42%** |
| 0.75 to <2.50 | **7,002,773** | **80,149** | **1.14%** | **2.75%** | **1.36%** | **1.23%** |
| 0.75 to <1.75 | **5,621,550** | **51,426** | **0.91%** | **1.93%** | **1.15%** | **0.99%** |
| 1.75 to <2.50 | **1,381,223** | **28,723** | **2.08%** | **5.46%** | **2.19%** | **2.27%** |
| 2.50 to <10.00 | **2,497,328** | **127,923** | **5.12%** | **8.81%** | **4.72%** | **5.39%** |
| 2.50 to <5.00 | **1,718,260** | **65,285** | **3.80%** | **6.71%** | **3.63%** | **4.14%** |
| 5.00 to <10.00 | **779,068** | **62,638** | **8.04%** | **12.43%** | **7.13%** | **8.34%** |
| 10.00 to <100.00 | **772,833** | **175,708** | **22.74%** | **41.96%** | **28.87%** | **23.46%** |
| 10.00 to <20.00 | **343,430** | **46,115** | **13.43%** | **26.14%** | **14.38%** | **13.28%** |
| 20.00 to <30.00 | **151,109** | **31,864** | **21.09%** | **39.56%** | **24.61%** | **18.71%** |
| 30.00 to <100.00 | **278,294** | **97,729** | **35.12%** | **62.95%** | **49.05%** | **36.74%** |
| 100.00 (Default) | **410,609** | **N/A** | **N/A** | **100.00%** | **100.00%** | **N/A** |

| | 31 Dec 2022 | | | | | |
|---|---|---|---|---|---|---|
| | No. | No. | % | % | % | % |
| 0.00 to <0.15 | 10,237,112 | 3,492 | 0.03% | 0.37% | 0.14% | 0.03% |
| 0.00 to <0.10 | 6,685,085 | 1,860 | 0.03% | 0.33% | 0.13% | 0.02% |
| 0.10 to <0.15 | 3,552,027 | 1,632 | 0.05% | 0.64% | 0.17% | 0.04% |
| 0.15 to <0.25 | 4,657,942 | 3,599 | 0.08% | 1.00% | 0.23% | 0.07% |
| 0.25 to <0.50 | 6,505,145 | 12,317 | 0.19% | 1.15% | 0.39% | 0.22% |
| 0.50 to <0.75 | 3,645,615 | 14,063 | 0.39% | 1.22% | 0.65% | 0.41% |
| 0.75 to <2.50 | 6,708,288 | 81,085 | 1.21% | 2.59% | 1.35% | 1.24% |
| 0.75 to <1.75 | 5,457,964 | 51,901 | 0.95% | 2.10% | 1.16% | 0.99% |
| 1.75 to <2.50 | 1,250,324 | 29,184 | 2.33% | 4.53% | 2.18% | 2.31% |
| 2.50 to <10.00 | 2,218,661 | 121,987 | 5.50% | 8.72% | 4.64% | 5.47% |
| 2.50 to <5.00 | 1,573,669 | 65,314 | 4.15% | 6.88% | 3.63% | 4.25% |
| 5.00 to <10.00 | 644,992 | 56,673 | 8.79% | 12.26% | 7.11% | 8.43% |
| 10.00 to <100.00 | 650,254 | 156,829 | 24.12% | 41.97% | 28.67% | 23.84% |
| 10.00 to <20.00 | 264,191 | 37,529 | 14.21% | 25.78% | 14.35% | 13.15% |
| 20.00 to <30.00 | 144,288 | 31,160 | 21.60% | 41.42% | 24.55% | 18.56% |
| 30.00 to <100.00 | 241,775 | 88,140 | 36.46% | 61.52% | 46.75% | 37.68% |
| 100.00 (Default) | 422,053 | N/A | N/A | 100.00% | 100.00% | N/A |

## **Model Performance** continued

## CR9: Back-testing of PD per portfolio – Corporate Total

| | 31 Dec 2023 | | | | | |
|---|---|---|---|---|---|---|
| | Number of obligors in the end of previous year | | | | | |
| PD range | | Of which number of obligors which defaulted in the year | Observed average default rate | Exposure weighted average PD | Average PD | Average historical annual default rate |
| | No. | No. | % | % | % | % |
| 0.00 to <0.15 | **230** | **—** | **0.00%** | **0.08%** | **0.08%** | **0.16%** |
| 0.00 to <0.10 | **117** | **—** | **0.00%** | **0.05%** | **0.05%** | **0.26%** |
| 0.10 to <0.15 | **113** | **—** | **0.00%** | **0.11%** | **0.11%** | **0.08%** |
| 0.15 to <0.25 | **793** | **1** | **0.13%** | **0.18%** | **0.19%** | **0.10%** |
| 0.25 to <0.50 | **3,129** | **5** | **0.16%** | **0.35%** | **0.38%** | **0.24%** |
| 0.50 to <0.75 | **19,999** | **36** | **0.18%** | **0.60%** | **0.55%** | **0.33%** |
| 0.75 to <2.50 | **15,829** | **141** | **0.89%** | **1.25%** | **1.12%** | **0.93%** |
| 0.75 to <1.75 | **15,434** | **132** | **0.86%** | **1.25%** | **1.10%** | **0.87%** |
| 1.75 to <2.50 | **395** | **9** | **2.28%** | **1.90%** | **1.91%** | **2.09%** |
| 2.50 to <10.00 | **5,432** | **168** | **3.09%** | **4.14%** | **4.11%** | **3.25%** |
| 2.50 to <5.00 | **3,615** | **80** | **2.21%** | **3.29%** | **3.11%** | **2.21%** |
| 5.00 to <10.00 | **1,817** | **88** | **4.84%** | **6.46%** | **6.11%** | **5.62%** |
| 10.00 to <100.00 | **1,140** | **100** | **8.77%** | **20.88%** | **21.71%** | **9.78%** |
| 10.00 to <20.00 | **479** | **47** | **9.81%** | **12.20%** | **12.71%** | **8.23%** |
| 20.00 to <30.00 | **386** | **5** | **1.30%** | **20.00%** | **20.02%** | **0.98%** |
| 30.00 to <100.00 | **275** | **48** | **17.45%** | **35.16%** | **39.76%** | **16.62%** |
| 100.00 (Default) | **672** | **N/A** | **N/A** | **100.00%** | **100.00%** | **N/A** |

| | 31 Dec 2022 | | | | | |
|---|---|---|---|---|---|---|
| | No. | No. | % | % | % | % |
| 0.00 to <0.15 | 236 | 1 | 0.42% | 0.08% | 0.08% | 0.18% |
| 0.00 to <0.10 | 120 | 1 | 0.83% | 0.05% | 0.05% | 0.26% |
| 0.10 to <0.15 | 116 | — | 0.00% | 0.11% | 0.11% | 0.11% |
| 0.15 to <0.25 | 711 | — | 0.00% | 0.18% | 0.19% | 0.11% |
| 0.25 to <0.50 | 3,174 | 1 | 0.03% | 0.34% | 0.37% | 0.23% |
| 0.50 to <0.75 | 5,700 | 25 | 0.44% | 0.59% | 0.56% | 0.35% |
| 0.75 to <2.50 | 9,266 | 96 | 1.04% | 1.25% | 1.16% | 0.87% |
| 0.75 to <1.75 | 8,896 | 86 | 0.97% | 1.24% | 1.13% | 0.82% |
| 1.75 to <2.50 | 370 | 10 | 2.70% | 1.90% | 1.91% | 1.66% |
| 2.50 to <10.00 | 4,349 | 140 | 3.22% | 4.14% | 4.14% | 2.97% |
| 2.50 to <5.00 | 3,102 | 54 | 1.74% | 3.08% | 3.25% | 1.84% |
| 5.00 to <10.00 | 1,247 | 86 | 6.90% | 6.33% | 6.33% | 5.66% |
| 10.00 to <100.00 | 507 | 71 | 14.00% | 21.08% | 24.01% | 9.47% |
| 10.00 to <20.00 | 276 | 26 | 9.42% | 11.96% | 12.60% | 7.42% |
| 20.00 to <30.00 | 12 | — | 0.00% | 20.00% | 20.00% | 0.70% |
| 30.00 to <100.00 | 219 | 45 | 20.55% | 32.65% | 38.61% | 15.95% |
| 100.00 (Default) | 901 | N/A | N/A | 100.00% | 100.00% | N/A |

## **Model Performance** continued

### CR9.1: Back-testing of PD per exposure class – Corporates Other

| | | 31 Dec 2023 | | | | |
|---|---|---|---|---|---|---|
| | | Number of obligors at the end of previous year | | | | |
| | | | Of which number of obligors which defaulted in the year | Observed average default rate | Average PD | Average historical annual default rate |
| PD range | External rating equivalent | No. | No. | % | % | % |
| 0.015 - 0.025% | AAA to AA | — | — | —% | 0.00% | —% |
| 0.025 - 0.035% | AA- | 3 | — | —% | 0.03% | —% |
| 0.035 - 0.050% | A+ | 1 | — | —% | 0.04% | —% |
| 0.050 - 0.080% | A | 6 | — | —% | 0.06% | —% |
| 0.080 - 0.140% | A- | 22 | — | —% | 0.11% | —% |
| 0.140 - 0.220% | BBB+ | 25 | — | —% | 0.18% | 0.49% |
| 0.220 - 0.340% | BBB | 44 | — | —% | 0.28% | —% |
| 0.340 - 0.500% | BBB- | 41 | — | —% | 0.42% | 0.40% |
| 0.500 - 0.760% | BB+ | 17 | — | —% | 0.63% | 0.51% |
| 0.760 - 1.240% | BB | 26 | — | —% | 1.00% | 0.43% |
| 1.240 - 2.000% | BB- | 20 | — | —% | 1.62% | —% |
| 2.000 - 3.200% | B+ | 6 | 1 | 16.67% | 2.60% | 6.49% |
| 3.200 - 5.200% | B+ | 9 | — | —% | 4.20% | 1.54% |
| 5.200 - 7.200% | B | 4 | 1 | 25.00% | 6.20% | 12.50% |
| 7.200 - 10.200% | B- | 1 | — | —% | 8.70% | 4.00% |
| 10.200 - 13.800% | B- | 1 | — | —% | 12.00% | 12.00% |
| 13.800 - 99.999% | CCC to C | 2 | — | —% | 31.00% | 11.67% |
| 100.000 (Default) | | 6 | N/A | 100.00% | 100.00% | N/A |

| | | 31 Dec 2022 | | | | |
|---|---|---|---|---|---|---|
| PD range | External rating equivalent | No. | No. | % | % | % |
| 0.015 - 0.025% | AAA to AA | 1 | — | —% | 0.02% | —% |
| 0.025 - 0.035% | AA- | 5 | — | —% | 0.03% | —% |
| 0.035 - 0.050% | A+ | 2 | — | —% | 0.04% | —% |
| 0.050 - 0.080% | A | 6 | — | —% | 0.06% | —% |
| 0.080 - 0.140% | A- | 19 | — | —% | 0.11% | —% |
| 0.140 - 0.220% | BBB+ | 21 | — | —% | 0.18% | 0.61% |
| 0.220 - 0.340% | BBB | 52 | — | —% | 0.28% | —% |
| 0.340 - 0.500% | BBB- | 43 | — | —% | 0.42% | 0.50% |
| 0.500 - 0.760% | BB+ | 23 | — | —% | 0.63% | 0.64% |
| 0.760 - 1.240% | BB | 22 | — | —% | 1.00% | 0.54% |
| 1.240 - 2.000% | BB- | 28 | — | —% | 1.62% | —% |
| 2.000 - 3.200% | B+ | 15 | — | —% | 2.60% | 3.95% |
| 3.200 - 5.200% | B+ | 6 | — | —% | 4.20% | 1.92% |
| 5.200 - 7.200% | B | 4 | — | —% | 6.20% | 9.38% |
| 7.200 - 10.200% | B- | 5 | 1 | 20.00% | 8.70% | 5.00% |
| 10.200 - 13.800% | B- | 4 | — | —% | 12.00% | 15.00% |
| 13.800 - 99.999% | CCC to C | 4 | 1 | 25.00% | 31.00% | 14.58% |
| 100.000 (Default) | | 8 | N/A | 100.00% | 100.00% | N/A |

**Key observations**

- This table reports on the Publicly Quoted rating system only. It is the Group's most material rating system which meets the criteria specified in point f Article 180(1) of CRR in relation to the use of External Credit Assessment Institution (ECAI) ratings.
- Default volumes are low; only two defaults observed in the most recent 12-month outcome period. Both were rated as sub-investment grade at the observation point.
- Low volumes of customers and defaults leads to a significant degree of volatility in 1-year default rates.

# Credit risk

The table below summarises the movements of risk-weighted assets for credit risk exposures under the Internal Ratings Based (IRB) Approach. The table excludes counterparty credit risk exposures, securitisation exposures, other non-credit obligation assets and equity exposures.

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

| | | Total RWA quarter to 31 Dec 2023 | Total RWA YTD 31 Dec 2023 |
|---|---|---|---|
| | | £m | £m |
| 1 | Risk weighted exposure amount as at the end of previous reporting period | 122,108 | 118,973 |
| 2 | Asset size (+/-) | **63** | **1,507** |
| 3 | Asset quality (+/-) | **857** | **2,677** |
| 4 | Model updates (+/-) | **1,449** | **1,449** |
| 5 | Methodology and policy (+/-) | **1,955** | **4,507** |
| 6 | Acquisitions and disposals (+/-) | **(3,260)** | **(4,650)** |
| 7 | Foreign exchange movements (+/-) | **(149)** | **(305)** |
| 8 | Other (+/-) | **(1,109)** | **(2,244)** |
| **9** | **Risk weighted exposure amount at the end of the reporting period** | **121,914** | **121,914** |

**Key movements 30 September to 31 December 2023**

– Asset quality movement mainly driven by a modest uplift from credit across certain portfolios.

– Model updates largely reflect changes and refinements in Commercial Banking, Motor and Unsecured portfolios.

– Methodology and policy movements largely reflect Secured CRD IV model updates partially offset by optimisation activity in Commercial Banking.

– Acquisitions and disposals primarily reflect the securitisation of £2.7 billion of Retail unsecured loans.

– Other reductions in risk-weighted assets are due to optimisation of the Commercial Banking portfolio through Securitisation activity.

## **Credit risk** continued

## CR6: Credit risk exposures by portfolio and PD range

The Group's CRD IV models are subject to further development and final approval by the PRA and therefore risk metrics (PD, LGD and EAD) and default classifications in the CR6 tables reflect incumbent (non CRD IV) models. This includes classifying defaults in the Retail mortgages exposure class at 180 days rather than 90 days. However, in line with our stated approach we have applied temporary model adjustments to risk-weighted asset and expected loss amounts in the CR6 tables below to reflect the anticipated impact of the new CRD IV modelling requirement. These adjustments include a 90-days past due default backstop for Retail mortgages and other new modelling requirements.

| | 31 Dec 2023 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **PD range** | **On-balance sheet exposures** | **Off-balance-sheet exposures pre-CCF** | **Exposure weighted average CCF** | **Exposure post CCF and post CRM** | **Exposure weighted average PD** | **Number of obligors** | **Exposure weighted average LGD** | **Exposure weighted average maturity (years)** | **Risk weighted exposure amount after supporting factors** | **Density of risk weighted exposure amount** | **Expected loss amount** | **Value adjustments and provisions** |
| **Central Governments or Central Banks** | **£m** | **£m** | **%** | **£m** | **%** | **No.** | **%** | **No.** | **£m** | **%** | **£m** | **£m** |
| **0.00 to <0.15** | **2,148** | **3** | **—%** | **1,721** | **0.01%** | **8** | **45.00%** | **2.3** | **125** | **7.24%** | **—** | **—** |
| 0.00 to <0.10 | 2,148 | 3 | —% | 1,721 | 0.01% | 8 | 45.00% | 2.3 | 125 | 7.24% | — | — |
| **0.15 to <0.25** | **—** | **—** | **75.00%** | **4** | **0.18%** | **2** | **45.00%** | **5.0** | **3** | **84.60%** | **—** | **—** |
| **0.25 to <0.50** | **—** | **—** | **—%** | **—** | **0.42%** | **1** | **45.00%** | **5.0** | **—** | **97.82%** | **—** | **—** |
| **0.75 to <2.50** | **74** | **1** | **—%** | **—** | **—%** | **1** | **—%** | **—** | **—** | **—%** | **—** | **—** |
| 0.75 to <1.75 | 74 | 1 | —% | — | —% | 1 | —% | — | — | —% | — | — |
| **2.50 to <10.00** | **40** | **66** | **75.00%** | **—** | **6.20%** | **4** | **45.00%** | **1.9** | **1** | **163.99%** | **—** | **—** |
| 2.50 to <5.00 | 4 | 66 | —% | — | —% | 2 | —% | — | — | —% | — | — |
| 5.00 to <10.00 | 36 | — | 75.00% | — | 6.20% | 2 | 45.00% | 1.9 | 1 | 163.99% | — | — |
| **10.00 to <100.00** | **44** | **1** | **—%** | **—** | **—%** | **1** | **—%** | **—** | **—** | **—%** | **—** | **—** |
| 10.00 to <20.00 | 44 | 1 | —% | — | —% | 1 | —% | — | — | —% | — | — |
| **Subtotal** | **2,306** | **71** | **43.90%** | **1,725** | **0.01%** | **17** | **45.00%** | **2.3** | **129** | **7.46%** | **—** | **—** |
| | 31 Dec 2022 | | | | | | | | | | | |
| Central Governments or Central Banks | £m | £m | % | £m | % | No. | % | No. | £m | % | £m | £m |
| 0.00 to <0.15 | 2,406 | 3 | 75.00% | 2,184 | 0.01% | 12 | 45.00% | 2.9 | 216 | 9.91% | — | — |
| 0.00 to <0.10 | 2,406 | 3 | 75.00% | 2,184 | 0.01% | 12 | 45.00% | 2.9 | 216 | 9.91% | — | — |
| 0.15 to <0.25 | — | — | —% | — | —% | — | —% | — | — | —% | — | — |
| 0.25 to <0.50 | — | — | 75.00% | — | 0.42% | 1 | 45.00% | 2.4 | — | 82.67% | — | — |
| 0.75 to <2.50 | 98 | 1 | —% | — | —% | 1 | —% | — | — | —% | — | — |
| 0.75 to <1.75 | 98 | 1 | —% | — | —% | 1 | —% | — | — | —% | — | — |
| 2.50 to <10.00 | 41 | 92 | 75.00% | 1 | 6.20% | 3 | 45.00% | 2.9 | 4 | 418.88% | — | — |
| 2.50 to <5.00 | — | 91 | —% | — | —% | 1 | —% | — | — | —% | — | — |
| 5.00 to <10.00 | 41 | 1 | 75.00% | 1 | 6.20% | 2 | 45.00% | 2.9 | 4 | 418.88% | — | — |
| 10.00 to <100.00 | 46 | — | —% | — | —% | 1 | —% | — | — | —% | — | — |
| 10.00 to <20.00 | 46 | — | —% | — | —% | 1 | —% | — | — | —% | — | — |
| Subtotal | 2,591 | 96 | 75.00% | 2,185 | 0.01% | 18 | 45.00% | 2.9 | 220 | 10.06% | — | — |

## **CR6: Credit risk exposures by portfolio and PD range** continued

| | 31 Dec 2023 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| PD range | On-balance sheet exposures | Off-balance-sheet exposures pre-CCF | Exposure weighted average CCF | Exposure post CCF and post CRM | Exposure weighted average PD | Number of obligors | Exposure weighted average LGD | Exposure weighted average maturity (years) | Risk weighted exposure amount after supporting factors | Density of risk weighted exposure amount | Expected loss amount | Value adjustments and provisions |
| **Institutions** | **£m** | **£m** | **%** | **£m** | **%** | **No.** | **%** | **No.** | **£m** | **%** | **£m** | **£m** |
| **0.00 to <0.15** | **11,988** | **381** | **18.08%** | **12,069** | **0.06%** | **794** | **36.53%** | **1.2** | **1,922** | **15.93%** | **3** | **1** |
| 0.00 to <0.10 | 10,043 | 251 | 17.11% | 10,098 | 0.05% | 658 | 36.57% | 1.3 | 1,456 | 14.42% | 2 | 1 |
| 0.10 to <0.15 | 1,945 | 130 | 20.03% | 1,971 | 0.11% | 136 | 36.34% | 0.9 | 466 | 23.66% | 1 | — |
| **0.15 to <0.25** | **3** | **5** | **20.00%** | **4** | **0.18%** | **36** | **42.94%** | **1.2** | **2** | **50.66%** | **—** | **—** |
| **0.25 to <0.50** | **207** | **19** | **28.20%** | **212** | **0.32%** | **60** | **20.55%** | **2.9** | **71** | **33.64%** | **—** | **—** |
| **0.50 to <0.75** | **52** | **30** | **2.63%** | **53** | **0.63%** | **41** | **42.42%** | **1.1** | **49** | **92.72%** | **—** | **—** |
| **0.75 to <2.50** | **21** | **166** | **20.05%** | **55** | **1.06%** | **58** | **40.70%** | **0.6** | **58** | **106.99%** | **—** | **—** |
| 0.75 to <1.75 | 21 | 166 | 20.05% | 55 | 1.06% | 54 | 40.69% | 0.6 | 58 | 106.98% | — | — |
| 1.75 to <2.50 | — | — | —% | — | 1.90% | 4 | 43.02% | 1.3 | — | 123.06% | — | — |
| **2.50 to <10.00** | **1** | **—** | **86.65%** | **2** | **3.85%** | **23** | **44.87%** | **0.7** | **3** | **156.38%** | **—** | **—** |
| 2.50 to <5.00 | 1 | — | 90.43% | 2 | 3.40% | 14 | 44.84% | 0.7 | 2 | 145.41% | — | — |
| 5.00 to <10.00 | — | — | 75.00% | — | 6.20% | 9 | 45.00% | 1.1 | 1 | 213.36% | — | — |
| **10.00 to <100.00** | **—** | **—** | **—%** | **—** | **29.09%** | **8** | **45.00%** | **1.0** | **—** | **339.39%** | **—** | **—** |
| 10.00 to <20.00 | — | — | —% | — | 20.00% | 2 | 45.00% | 1.0 | — | 268.31% | — | — |
| 30.00 to <100.00 | — | — | —% | — | 31.00% | 6 | 45.00% | 1.0 | — | 354.31% | — | — |
| **100.00 (Default)** | — | — | —% | — | 100.00% | — | 45.00% | — | — | —% | — | — |
| **Subtotal** | **12,272** | **601** | **18.26%** | **12,395** | **0.07%** | **1,020** | **36.31%** | **1.3** | **2,107** | **17.00%** | **3** | **1** |
| | 31 Dec 2022 | | | | | | | | | | | |
| Institutions | £m | £m | % | £m | % | No. | % | No. | £m | % | £m | £m |
| 0.00 to <0.15 | 10,541 | 888 | 29.20% | 10,813 | 0.06% | 841 | 35.34% | 1.1 | 1,285 | 11.88% | 2 | — |
| 0.00 to <0.10 | 8,936 | 666 | 31.24% | 9,157 | 0.05% | 704 | 35.25% | 1.2 | 996 | 10.88% | 1 | — |
| 0.10 to <0.15 | 1,605 | 222 | 22.98% | 1,656 | 0.11% | 137 | 35.85% | 0.9 | 289 | 17.43% | 1 | — |
| 0.15 to <0.25 | 176 | 31 | 22.83% | 183 | 0.18% | 31 | 44.73% | 0.4 | 53 | 28.91% | — | — |
| 0.25 to <0.50 | 8 | 18 | 30.55% | 14 | 0.34% | 49 | 31.80% | 1.3 | 6 | 44.84% | — | — |
| 0.50 to <0.75 | 8 | 5 | 72.11% | 11 | 0.63% | 43 | 43.33% | 2.4 | 12 | 106.94% | — | — |
| 0.75 to <2.50 | 76 | 26 | 0.86% | 77 | 1.00% | 48 | 43.54% | 1.1 | 75 | 98.13% | 1 | — |
| 0.75 to <1.75 | 76 | 26 | 0.86% | 77 | 1.00% | 45 | 43.54% | 1.1 | 75 | 98.12% | 1 | — |
| 1.75 to <2.50 | — | — | —% | — | 1.90% | 3 | 40.00% | 1.5 | — | 118.44% | 0 | — |
| 2.50 to <10.00 | 5 | — | 75.00% | 5 | 2.78% | 24 | 44.98% | 0.4 | 6 | 129.76% | — | — |
| 2.50 to <5.00 | 5 | — | 75.00% | 5 | 2.70% | 17 | 44.97% | 0.4 | 6 | 127.78% | 0 | — |
| 5.00 to <10.00 | — | — | —% | — | 6.20% | 7 | 45.00% | 1.0 | — | 216.60% | 0 | — |
| 10.00 to <100.00 | — | — | —% | — | 19.39% | 8 | 45.00% | 1.0 | — | 254.74% | — | — |
| 10.00 to <20.00 | — | — | —% | — | 12.00% | 3 | 45.00% | 1.0 | — | 240.31% | 0 | — |
| 30.00 to <100.00 | — | — | —% | — | 31.00% | 5 | 45.00% | 1.0 | — | 277.40% | 0 | — |
| 100.00 (Default) | — | — | —% | — | 100.00% | 3 | 45.00% | 1.0 | — | —% | — | — |
| Subtotal | 10,814 | 968 | 28.47% | 11,103 | 0.07% | 1,047 | 35.56% | 1.1 | 1,437 | 12.94% | 3 | — |

## CR6: Credit risk exposures by portfolio and PD range continued

| PD range | On-balance sheet exposures | Off-balance-sheet exposures pre-CCF | Exposure weighted average CCF | Exposure post CCF and post CRM | Exposure weighted average PD | Number of obligors | Exposure weighted average LGD | Exposure weighted average maturity (years) | Risk weighted exposure amount after supporting factors | Density of risk weighted exposure amount | Expected loss amount | Value adjustments and provisions |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | 31 Dec 2023 | | | | | |
| **Corporate SME** | **£m** | **£m** | **%** | **£m** | **%** | **No.** | **%** | **No.** | **£m** | **%** | **£m** | **£m** |
| **0.00 to <0.15** | **591** | **615** | **24.75%** | **743** | **0.07%** | **228** | **40.88%** | **4.0** | **200** | **26.96%** | **—** | **—** |
| 0.00 to <0.10 | 414 | 395 | 21.48% | 499 | 0.05% | 162 | 40.18% | 4.0 | 110 | 22.09% | — | — |
| 0.10 to <0.15 | 177 | 220 | 30.60% | 244 | 0.11% | 66 | 42.31% | 4.0 | 90 | 36.92% | — | — |
| **0.25 to <0.50** | **605** | **296** | **13.54%** | **603** | **0.39%** | **1,236** | **41.35%** | **3.6** | **330** | **54.84%** | **1** | **1** |
| **0.50 to <0.75** | **940** | **446** | **8.82%** | **911** | **0.58%** | **18,280** | **40.11%** | **3.7** | **535** | **58.73%** | **2** | **3** |
| **0.75 to <2.50** | **2,184** | **850** | **15.21%** | **2,151** | **1.28%** | **13,552** | **40.43%** | **3.1** | **1,562** | **72.63%** | **12** | **17** |
| 0.75 to <1.75 | 2,180 | 850 | 15.21% | 2,147 | 1.28% | 13,520 | 40.42% | 3.1 | 1,559 | 72.62% | 12 | 17 |
| 1.75 to <2.50 | 4 | — | —% | 4 | 2.00% | 32 | 45.00% | 1.3 | 3 | 74.71% | — | — |
| **2.50 to <10.00** | **1,428** | **356** | **25.92%** | **1,397** | **3.98%** | **6,313** | **39.91%** | **2.9** | **1,283** | **91.80%** | **24** | **30** |
| 2.50 to <5.00 | 974 | 289 | 28.66% | 968 | 2.98% | 3,475 | 40.34% | 2.9 | 851 | 87.91% | 13 | 19 |
| 5.00 to <10.00 | 454 | 67 | 14.19% | 429 | 6.24% | 2,838 | 38.93% | 3.0 | 432 | 100.57% | 11 | 11 |
| **10.00 to <100.00** | **190** | **32** | **29.72%** | **174** | **20.43%** | **1,861** | **38.95%** | **2.2** | **261** | **149.89%** | **15** | **12** |
| 10.00 to <20.00 | 117 | 10 | 9.52% | 108 | 13.01% | 1,528 | 37.38% | 2.1 | 142 | 131.47% | 6 | 4 |
| 20.00 to <30.00 | — | — | —% | — | —% | — | —% | — | — | —% | — | — |
| 30.00 to <100.00 | 73 | 22 | 38.60% | 66 | 32.69% | 333 | 41.65% | 2.4 | 119 | 180.36% | 9 | 8 |
| **100.00 (Default)** | 417 | 37 | 24.38% | 395 | 100.00% | 911 | 40.43% | 2.4 | — | —% | 160 | 87 |
| **Subtotal** | **6,482** | **2,659** | **18.08%** | **6,508** | **8.02%** | **42,599** | **40.44%** | **3.2** | **4,230** | **64.99%** | **215** | **150** |
| | | | | | | | 31 Dec 2022 | | | | | |
| Corporate SME | £m | £m | % | £m | % | No. | % | No. | £m | % | £m | £m |
| 0.00 to <0.15 | 623 | 689 | 23.82% | 787 | 0.06% | 258 | 40.56% | 3.9 | 200 | 25.43% | 0 | — |
| 0.00 to <0.10 | 504 | 602 | 26.56% | 664 | 0.05% | 199 | 40.29% | 4.0 | 150 | 22.57% | 0 | — |
| 0.10 to <0.15 | 119 | 87 | 4.68% | 123 | 0.11% | 59 | 42.05% | 3.5 | 50 | 40.83% | 0 | — |
| 0.15 to <0.25 | 139 | 165 | 69.99% | 250 | 0.19% | 221 | 42.63% | 3.5 | 103 | 41.22% | 0 | — |
| 0.25 to <0.50 | 754 | 346 | 26.90% | 768 | 0.39% | 1,412 | 41.59% | 3.4 | 420 | 54.64% | 1 | 2 |
| 0.50 to <0.75 | 1,148 | 475 | 15.25% | 1,091 | 0.57% | 19,686 | 39.42% | 3.7 | 609 | 55.85% | 3 | 3 |
| 0.75 to <2.50 | 2,772 | 825 | 20.46% | 2,683 | 1.30% | 13,582 | 39.93% | 3.3 | 1,931 | 71.98% | 16 | 15 |
| 0.75 to <1.75 | 2,420 | 786 | 21.00% | 2,357 | 1.17% | 11,085 | 40.15% | 3.2 | 1,681 | 71.32% | 13 | 12 |
| 1.75 to <2.50 | 352 | 39 | 9.61% | 326 | 2.29% | 2,497 | 38.40% | 3.8 | 250 | 76.75% | 3 | 3 |
| 2.50 to <10.00 | 1,569 | 385 | 23.63% | 1,474 | 4.63% | 6,076 | 39.03% | 2.9 | 1,393 | 94.49% | 30 | 37 |
| 2.50 to <5.00 | 996 | 308 | 24.94% | 953 | 3.29% | 3,370 | 39.17% | 2.9 | 824 | 86.38% | 14 | 19 |
| 5.00 to <10.00 | 573 | 77 | 18.40% | 521 | 7.07% | 2,705 | 38.78% | 3.0 | 569 | 109.35% | 16 | 18 |
| 10.00 to <100.00 | 327 | 48 | 30.68% | 311 | 22.53% | 1,830 | 40.16% | 2.4 | 469 | 150.90% | 31 | 25 |
| 10.00 to <20.00 | 175 | 26 | 16.33% | 167 | 13.28% | 1,318 | 39.06% | 2.1 | 222 | 132.40% | 11 | 7 |
| 20.00 to <30.00 | 23 | 1 | 52.62% | 20 | 23.79% | 153 | 38.06% | 3.8 | 29 | 147.41% | 2 | 2 |
| 30.00 to <100.00 | 129 | 21 | 46.67% | 124 | 34.84% | 359 | 41.99% | 2.6 | 218 | 176.56% | 18 | 16 |
| 100.00 (Default) | 377 | 21 | 18.09% | 344 | 100.00% | 764 | 40.36% | 2.4 | — | —% | 139 | 72 |
| Subtotal | 7,709 | 2,955 | 24.49% | 7,708 | 6.84% | 43,828 | 40.03% | 3.3 | 5,125 | 66.49% | 219 | 154 |

## **CR6: Credit risk exposures by portfolio and PD range** continued

| PD range | On-balance sheet exposures | Off-balance-sheet exposures pre-CCF | Exposure weighted average CCF | Exposure post CCF and post CRM | Exposure weighted average PD | Number of obligors | Exposure weighted average LGD | Exposure weighted average maturity (years) | Risk weighted exposure amount after supporting factors | Density of risk weighted exposure amount | Expected loss amount | Value adjustments and provisions |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | 31 Dec 2023 | | | | | |
| **Corporate Main** | **£m** | **£m** | **%** | **£m** | **%** | **No.** | **%** | **No.** | **£m** | **%** | **£m** | **£m** |
| **0.00 to <0.15** | **6,377** | **10,961** | **50.18%** | **12,139** | **0.08%** | **411** | **41.34%** | **3.2** | **3,712** | **30.58%** | **6** | **21** |
| 0.00 to <0.10 | 3,409 | 6,371 | 46.41% | 6,552 | 0.05% | 224 | 41.72% | 3.3 | 1,695 | 25.87% | 2 | 9 |
| 0.10 to <0.15 | 2,968 | 4,590 | 55.51% | 5,587 | 0.11% | 187 | 40.89% | 3.0 | 2,017 | 36.09% | 4 | 12 |
| **0.15 to <0.25** | **2,248** | **4,463** | **56.41%** | **5,014** | **0.18%** | **2,686** | **43.40%** | **2.3** | **2,140** | **42.68%** | **5** | **13** |
| **0.25 to <0.50** | **5,813** | **5,887** | **47.14%** | **8,348** | **0.35%** | **4,124** | **39.88%** | **2.3** | **4,867** | **58.31%** | **15** | **41** |
| **0.50 to <0.75** | **2,003** | **1,956** | **39.94%** | **2,609** | **0.62%** | **6,005** | **41.16%** | **2.1** | **2,035** | **78.02%** | **9** | **21** |
| **0.75 to <2.50** | **3,358** | **4,495** | **64.32%** | **6,120** | **1.17%** | **7,295** | **27.26%** | **2.2** | **4,076** | **66.60%** | **25** | **64** |
| 0.75 to <1.75 | 3,274 | 4,483 | 64.49% | 6,037 | 1.16% | 6,008 | 27.02% | 2.2 | 3,982 | 65.96% | 24 | 64 |
| 1.75 to <2.50 | 84 | 12 | —% | 83 | 1.97% | 1,288 | 44.50% | 1.5 | 94 | 112.65% | 1 | — |
| **2.50 to <10.00** | **2,359** | **1,808** | **45.60%** | **2,904** | **3.79%** | **3,238** | **43.46%** | **2.2** | **4,212** | **145.06%** | **53** | **128** |
| 2.50 to <5.00 | 2,019 | 1,674 | 45.93% | 2,515 | 3.23% | 2,559 | 43.37% | 2.3 | 3,491 | 138.82% | 39 | 92 |
| 5.00 to <10.00 | 340 | 134 | 41.54% | 389 | 7.44% | 679 | 44.07% | 1.5 | 721 | 185.41% | 14 | 36 |
| **10.00 to <100.00** | **172** | **48** | **51.32%** | **196** | **24.64%** | **226** | **42.40%** | **1.5** | **497** | **253.35%** | **21** | **27** |
| 10.00 to <20.00 | 62 | 19 | 32.13% | 68 | 12.35% | 136 | 39.66% | 1.5 | 134 | 197.75% | 3 | 12 |
| 20.00 to <30.00 | 5 | 2 | —% | 5 | 30.00% | 17 | 44.96% | 1.0 | 15 | 289.41% | 1 | — |
| 30.00 to <100.00 | 105 | 27 | 68.70% | 123 | 31.11% | 73 | 43.72% | 1.5 | 348 | 282.16% | 17 | 15 |
| **100.00 (Default)** | **475** | **108** | **52.10%** | **530** | **100.00%** | **576** | **41.01%** | **1.5** | **—** | **—%** | **218** | **187** |
| **Subtotal** | **22,804** | **29,726** | **51.76%** | **37,859** | **2.18%** | **24,561** | **39.17%** | **2.5** | **21,539** | **56.89%** | **352** | **502** |
| | | | | | | | 31 Dec 2022 | | | | | |
| Corporate Main | £m | £m | % | £m | % | No. | % | No. | £m | % | £m | £m |
| 0.00 to <0.15 | 4,563 | 12,577 | 58.22% | 12,115 | 0.08% | 382 | 41.36% | 3.3 | 3,898 | 32.17% | 4 | 15 |
| 0.00 to <0.10 | 1,868 | 7,221 | 58.81% | 6,255 | 0.05% | 216 | 42.38% | 3.2 | 1,639 | 26.20% | 1 | 6 |
| 0.10 to <0.15 | 2,695 | 5,356 | 57.42% | 5,860 | 0.11% | 166 | 40.27% | 3.3 | 2,259 | 38.55% | 3 | 9 |
| 0.15 to <0.25 | 2,109 | 4,128 | 64.50% | 4,738 | 0.18% | 2,660 | 43.42% | 2.3 | 2,044 | 43.13% | 4 | 9 |
| 0.25 to <0.50 | 5,689 | 6,717 | 56.07% | 9,304 | 0.35% | 4,079 | 39.35% | 2.2 | 5,153 | 55.39% | 14 | 38 |
| 0.50 to <0.75 | 1,951 | 1,795 | 49.37% | 2,616 | 0.62% | 5,795 | 42.22% | 2.1 | 2,003 | 76.60% | 8 | 14 |
| 0.75 to <2.50 | 3,499 | 3,977 | 55.79% | 5,131 | 1.19% | 7,429 | 33.28% | 2.3 | 4,057 | 79.06% | 24 | 46 |
| 0.75 to <1.75 | 3,405 | 3,966 | 55.95% | 5,038 | 1.18% | 6,078 | 33.07% | 2.4 | 3,959 | 78.58% | 23 | 46 |
| 1.75 to <2.50 | 94 | 11 | —% | 93 | 1.97% | 1,351 | 44.35% | 1.4 | 98 | 105.17% | 1 | — |
| 2.50 to <10.00 | 2,458 | 1,784 | 50.44% | 3,101 | 4.00% | 3,463 | 42.61% | 2.4 | 4,504 | 145.24% | 57 | 114 |
| 2.50 to <5.00 | 1,756 | 1,407 | 50.68% | 2,404 | 3.20% | 2,701 | 42.42% | 2.6 | 3,340 | 138.95% | 36 | 75 |
| 5.00 to <10.00 | 702 | 377 | 49.62% | 697 | 6.75% | 762 | 43.27% | 1.5 | 1,164 | 166.91% | 21 | 39 |
| 10.00 to <100.00 | 174 | 181 | 58.71% | 279 | 18.87% | 243 | 43.64% | 1.6 | 658 | 236.10% | 25 | 35 |
| 10.00 to <20.00 | 87 | 163 | 57.43% | 179 | 12.07% | 160 | 43.35% | 1.1 | 399 | 222.90% | 11 | 20 |
| 20.00 to <30.00 | 1 | — | —% | 1 | 24.68% | 20 | 36.40% | 0.8 | 1 | 239.21% | 0 | — |
| 30.00 to <100.00 | 86 | 18 | 69.98% | 99 | 31.08% | 63 | 44.15% | 2.6 | 258 | 259.66% | 14 | 15 |
| 100.00 (Default) | 387 | 69 | 80.95% | 442 | 100.00% | 585 | 40.73% | 1.6 | — | —% | 180 | 147 |
| Subtotal | 20,830 | 31,227 | 57.41% | 37,726 | 1.98% | 24,636 | 40.19% | 2.6 | 22,317 | 59.15% | 316 | 418 |

## **CR6: Credit risk exposures by portfolio and PD range** continued

| | 31 Dec 2023 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **PD range** | **On-balance sheet exposures** | **Off-balance-sheet exposures pre-CCF** | **Exposure weighted average CCF** | **Exposure post CCF and post CRM** | **Exposure weighted average PD** | **Number of obligors** | **Exposure weighted average LGD** | **Risk weighted exposure amount after supporting factors** | **Density of risk weighted exposure amount** | **Expected loss amount** | **Value adjustments and provisions** |
| **Residential Mortgages (SME)** | **£m** | **£m** | **%** | **£m** | **%** | **No.** | **%** | **£m** | **%** | **£m** | **£m** |
| **0.50 to <0.75** | **1,678** | **164** | **97.16%** | **1,806** | **0.54%** | **13,246** | **18.16%** | **222** | **12.30%** | **2** | **36** |
| **0.75 to <2.50** | **1,386** | **154** | **98.25%** | **1,515** | **1.13%** | **9,094** | **16.03%** | **316** | **20.85%** | **4** | **16** |
| 0.75 to <1.75 | 1,386 | 154 | 98.25% | 1,515 | 1.13% | 9,094 | 16.03% | 316 | 20.85% | 4 | 16 |
| 1.75 to <2.50 | — | — | —% | — | —% | — | —% | — | —% | — | — |
| **2.50 to <10.00** | **438** | **25** | **98.86%** | **457** | **4.17%** | **2,968** | **17.59%** | **232** | **50.88%** | **5** | **13** |
| 2.50 to <5.00 | 218 | 13 | 100.31% | 228 | 2.62% | 1,493 | 17.67% | 93 | 40.91% | 2 | 6 |
| 5.00 to <10.00 | 220 | 12 | 97.28% | 229 | 5.72% | 1,475 | 17.50% | 139 | 60.83% | 3 | 7 |
| **10.00 to <100.00** | **127** | **8** | **97.91%** | **133** | **22.12%** | **1,115** | **18.20%** | **125** | **93.76%** | **8** | **11** |
| 10.00 to <20.00 | 93 | 7 | 98.24% | 99 | 13.32% | 882 | 18.23% | 95 | 95.72% | 4 | 8 |
| 20.00 to <30.00 | — | — | —% | — | —% | — | —% | — | —% | — | — |
| 30.00 to <100.00 | 34 | 1 | 94.53% | 34 | 47.68% | 233 | 18.12% | 30 | 88.06% | 4 | 3 |
| **100.00 (Default)** | **134** | **7** | **98.43%** | **140** | **100.00%** | **454** | **18.58%** | **20** | **14.20%** | **25** | **32** |
| **Subtotal** | **3,763** | **358** | **97.79%** | **4,051** | **5.30%** | **26,878** | **17.32%** | **915** | **22.60%** | **44** | **108** |

| | 31 Dec 2022 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Residential mortgages (SME) | £m | £m | % | £m | % | No. | % | £m | % | £m | £m |
| 0.50 to <0.75 | 2,197 | 208 | 97.40% | 2,356 | 0.54% | 15,644 | 18.30% | 292 | 12.39% | 2 | 48 |
| 0.75 to <2.50 | 1,731 | 164 | 98.11% | 1,857 | 1.28% | 9,779 | 16.90% | 372 | 20.05% | 4 | 14 |
| 0.75 to <1.75 | 1,287 | 134 | 98.20% | 1,392 | 0.94% | 7,379 | 16.81% | 231 | 16.62% | 2 | 11 |
| 1.75 to <2.50 | 444 | 30 | 97.69% | 465 | 2.30% | 2,400 | 17.17% | 141 | 30.31% | 2 | 3 |
| 2.50 to <10.00 | 583 | 29 | 97.71% | 602 | 5.56% | 3,184 | 17.74% | 301 | 50.00% | 6 | 19 |
| 2.50 to <5.00 | 296 | 16 | 97.94% | 307 | 3.64% | 1,630 | 17.75% | 126 | 41.06% | 2 | 7 |
| 5.00 to <10.00 | 287 | 13 | 97.43% | 295 | 7.56% | 1,554 | 17.73% | 175 | 59.30% | 4 | 12 |
| 10.00 to <100.00 | 160 | 6 | 97.07% | 164 | 24.82% | 1,131 | 18.82% | 134 | 82.11% | 8 | 13 |
| 10.00 to <20.00 | 76 | 4 | 97.50% | 79 | 14.29% | 653 | 18.39% | 62 | 78.56% | 2 | 5 |
| 20.00 to <30.00 | 41 | 1 | 95.80% | 41 | 23.79% | 234 | 18.99% | 37 | 91.41% | 2 | 4 |
| 30.00 to <100.00 | 43 | 1 | 96.63% | 44 | 44.86% | 244 | 19.43% | 35 | 79.83% | 4 | 4 |
| 100.00 (Default) | 121 | 7 | 97.70% | 127 | 100.00% | 410 | 19.16% | 26 | 20.48% | 24 | 26 |
| Subtotal | 4,792 | 414 | 97.70% | 5,106 | 4.65% | 30,148 | 17.76% | 1,125 | 22.04% | 44 | 120 |

## CR6: Credit risk exposures by portfolio and PD range continued

| | 31 Dec 2023 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| PD range | On-balance sheet exposures | Off-balance-sheet exposures pre-CCF | Exposure weighted average CCF | Exposure post CCF and post CRM | Exposure weighted average PD[1] | Number of obligors[1] | Exposure weighted average LGD | Risk weighted exposure amount after supporting factors | Density of risk weighted exposure amount | Expected loss amount | Value adjustments and provisions |
| **Residential Mortgages (non-SME)[1,2]** | £m | £m | % | £m | % | No. | % | £m | % | £m | £m |
| **0.00 to <0.15** | **277,583** | **12,944** | **101.28%** | **302,774** | **0.34%** | **2,015,050** | **10.62%** | **32,510** | **10.74%** | **158** | **287** |
| 0.00 to <0.10 | 251,827 | 12,685 | 101.94% | 275,871 | 0.31% | 1,822,125 | 10.50% | 27,770 | 10.07% | 131 | 233 |
| 0.10 to <0.15 | 25,756 | 259 | 69.01% | 26,903 | 0.65% | 192,925 | 11.86% | 4,740 | 17.62% | 27 | 54 |
| **0.15 to <0.25** | **16,566** | **655** | **88.68%** | **17,855** | **1.05%** | **128,109** | **10.36%** | **4,212** | **23.59%** | **29** | **58** |
| **0.25 to <0.50** | **10,878** | **76** | **62.90%** | **11,402** | **1.82%** | **89,944** | **9.06%** | **3,329** | **29.20%** | **29** | **55** |
| **0.50 to <0.75** | **2,027** | **7** | **60.37%** | **2,118** | **3.41%** | **19,262** | **8.75%** | **846** | **39.93%** | **9** | **20** |
| **0.75 to <2.50** | **3,359** | **19** | **85.20%** | **3,523** | **7.37%** | **29,164** | **8.43%** | **2,168** | **61.52%** | **34** | **66** |
| 0.75 to <1.75 | 1,986 | 16 | 91.19% | 2,087 | 5.15% | 17,867 | 8.47% | 1,029 | 49.29% | 14 | 25 |
| 1.75 to <2.50 | 1,373 | 3 | 53.76% | 1,436 | 10.60% | 11,297 | 8.37% | 1,139 | 79.31% | 20 | 41 |
| **2.50 to <10.00** | **2,525** | **4** | **95.64%** | **2,629** | **21.15%** | **20,806** | **8.41%** | **2,243** | **85.33%** | **69** | **67** |
| 2.50 to <5.00 | 1,468 | 4 | 96.05% | 1,532 | 16.98% | 12,261 | 8.42% | 1,239 | 80.84% | 32 | 45 |
| 5.00 to <10.00 | 1,057 | — | 83.57% | 1,097 | 26.97% | 8,545 | 8.39% | 1,004 | 91.58% | 37 | 22 |
| **10.00 to <100.00** | **2,699** | **1** | **53.38%** | **2,760** | **57.02%** | **21,042** | **8.31%** | **2,494** | **90.36%** | **262** | **51** |
| 10.00 to <20.00 | 966 | — | 95.67% | 995 | 39.06% | 7,777 | 8.35% | 1,003 | 100.77% | 51 | 23 |
| 20.00 to <30.00 | 462 | — | —% | 474 | 52.29% | 3,710 | 8.27% | 538 | 113.52% | 39 | 11 |
| 30.00 to <100.00 | 1,271 | 1 | 49.75% | 1,291 | 72.61% | 9,555 | 8.30% | 953 | 73.82% | 172 | 17 |
| **100.00 (Default)** | **2,981** | **—** | **41.26%** | **2,981** | **100.00%** | **20,235** | **10.00%** | **10,006** | **335.68%** | **346** | **715** |
| **Subtotal** | **318,618** | **13,705** | **100.42%** | **346,042** | **1.99%** | **2,343,612** | **10.48%** | **57,808** | **16.71%** | **936** | **1,319** |

| PD range | 31 Dec 2022 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | On-balance sheet exposures | Off-balance-sheet exposures pre-CCF | Exposure weighted average CCF | Exposure post CCF and post CRM | Exposure weighted average PD[1] | Number of obligors[1] | Exposure weighted average LGD | Risk weighted exposure amount after supporting factors | Density of risk weighted exposure amount | Expected loss amount | Value adjustments and provisions |
| Residential mortgages (non-SME)[1 2] | £m | £m | % | £m | % | No. | % | £m | % | £m | £m |
| 0.00 to <0.15 | 276,846 | 16,299 | 100.55% | 305,428 | 0.37% | 2,092,696 | 10.45% | 30,090 | 9.85% | 167 | 285 |
| 0.00 to <0.10 | 255,896 | 16,063 | 101.20% | 283,397 | 0.33% | 1,914,574 | 10.54% | 26,190 | 9.24% | 139 | 219 |
| 0.10 to <0.15 | 20,950 | 236 | 56.57% | 22,031 | 0.82% | 178,122 | 9.26% | 3,900 | 17.70% | 28 | 66 |
| 0.15 to <0.25 | 18,287 | 766 | 75.65% | 19,620 | 1.07% | 143,158 | 10.69% | 4,449 | 22.68% | 34 | 95 |
| 0.25 to <0.50 | 12,952 | 103 | 71.20% | 13,557 | 1.75% | 106,555 | 9.61% | 3,742 | 27.61% | 34 | 81 |
| 0.50 to <0.75 | 2,320 | 10 | 62.24% | 2,422 | 3.32% | 21,988 | 9.09% | 968 | 39.98% | 12 | 30 |
| 0.75 to <2.50 | 3,867 | 17 | 35.49% | 4,043 | 7.62% | 33,643 | 8.59% | 2,607 | 64.49% | 48 | 103 |
| 0.75 to <1.75 | 2,382 | 14 | 32.34% | 2,490 | 5.24% | 20,965 | 8.67% | 1,355 | 54.42% | 20 | 43 |
| 1.75 to <2.5 | 1,485 | 3 | 52.27% | 1,553 | 11.43% | 12,678 | 8.46% | 1,252 | 80.64% | 28 | 60 |
| 2.50 to <10.00 | 2,677 | 5 | 47.36% | 2,786 | 21.80% | 22,403 | 8.66% | 2,617 | 93.94% | 93 | 97 |
| 2.5 to <5 | 1,504 | 5 | 46.65% | 1,568 | 17.07% | 12,782 | 8.68% | 1,364 | 86.95% | 39 | 62 |
| 5 to <10 | 1,173 | — | 69.58% | 1,218 | 27.89% | 9,621 | 8.63% | 1,253 | 102.94% | 54 | 35 |
| 10.00 to <100.00 | 2,036 | — | 69.06% | 2,085 | 55.40% | 16,632 | 8.61% | 2,262 | 108.48% | 269 | 60 |
| 10 to <20 | 842 | — | 100.00% | 868 | 40.34% | 6,851 | 8.58% | 996 | 114.74% | 62 | 30 |
| 20 to <30 | 372 | — | —% | 382 | 54.08% | 3,109 | 8.51% | 460 | 120.31% | 43 | 11 |
| 30.00 to <100.00 | 822 | — | 50.09% | 835 | 71.64% | 6,672 | 8.69% | 806 | 96.54% | 164 | 19 |
| 100.00 (Default) | 2,299 | — | 48.53% | 2,299 | 100.00% | 17,095 | 10.78% | 6,039 | 262.63% | 385 | 785 |
| Subtotal | 321,283 | 17,200 | 99.16% | 352,240 | 1.71% | 2,454,170 | 10.38% | 52,775 | 14.98% | 1,042 | 1,536 |

1 The Group's CRDIV models subject to further development and final approval by the PRA. A significant level of temporary model adjustments have been applied separately to the not-in-default and default populations, reflecting the anticipated impact of the new CRD IV modelling requirements. These adjustments include a 90-days past due default backstop and other new modelling requirements for this asset class.

2 Balance sheet exposures and Exposure post CCF/CRM are not adjusted for CRDIV and are allocated to ranges based on the underlying PiT PD from incumbent models. Weighted and arithmetic average PDs quoted are above the ranges due to the use of more conservative TTC PDs, also from incumbent models. This includes the use of a 180 days past due backstop within the definition of default.

## CR6: Credit risk exposures by portfolio and PD range continued

| | 31 Dec 2023 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| PD range | On-balance sheet exposures | Off-balance-sheet exposures pre-CCF | Exposure weighted average CCF | Exposure post CCF and post CRM | Exposure weighted average PD | Number of obligors | Exposure weighted average LGD | Risk weighted exposure amount after supporting factors | Density of risk weighted exposure amount | Expected loss amount | Value adjustments and provisions |
| **Qualifying revolving retail exposures** | £m | £m | % | £m | % | No. | % | £m | % | £m | £m |
| **0.00 to <0.15** | **861** | **14,553** | **64.35%** | **10,225** | **0.09%** | **8,265,226** | **57.61%** | **368** | **3.60%** | **6** | **49** |
| 0.00 to <0.10 | 493 | 9,439 | 64.90% | 6,620 | 0.07% | 5,211,559 | 56.74% | 187 | 2.83% | 3 | 32 |
| 0.10 to <0.15 | 368 | 5,114 | 63.31% | 3,605 | 0.13% | 3,053,667 | 59.22% | 181 | 5.01% | 3 | 17 |
| **0.15 to <0.25** | **531** | **6,470** | **64.40%** | **4,698** | **0.20%** | **4,112,262** | **60.85%** | **349** | **7.43%** | **6** | **21** |
| **0.25 to <0.50** | **1,161** | **9,468** | **62.39%** | **7,069** | **0.37%** | **5,868,075** | **63.51%** | **895** | **12.66%** | **18** | **34** |
| **0.50 to <0.75** | **840** | **4,065** | **67.08%** | **3,568** | **0.62%** | **3,384,508** | **69.84%** | **752** | **21.07%** | **17** | **22** |
| **0.75 to <2.50** | **3,359** | **6,785** | **72.52%** | **8,285** | **1.37%** | **7,551,369** | **76.63%** | **3,475** | **41.95%** | **95** | **114** |
| 0.75 to <1.75 | 2,314 | 5,539 | 72.42% | 6,330 | 1.15% | 6,089,385 | 76.38% | 2,327 | 36.76% | 60 | 71 |
| 1.75 to <2.50 | 1,045 | 1,246 | 72.93% | 1,955 | 2.09% | 1,461,984 | 77.46% | 1,148 | 58.72% | 35 | 43 |
| **2.50 to <10.00** | **3,001** | **1,671** | **73.94%** | **4,238** | **4.66%** | **2,403,373** | **78.42%** | **4,337** | **102.33%** | **170** | **214** |
| 2.50 to <5.00 | 1,869 | 1,310 | 72.38% | 2,818 | 3.53% | 1,686,388 | 78.16% | 2,421 | 85.91% | 85 | 109 |
| 5.00 to <10.00 | 1,132 | 361 | 79.62% | 1,420 | 6.90% | 716,985 | 78.92% | 1,916 | 134.91% | 85 | 105 |
| **10.00 to <100.00** | **930** | **184** | **87.08%** | **1,106** | **28.33%** | **706,180** | **78.02%** | **2,385** | **215.59%** | **264** | **155** |
| 10.00 to <20.00 | 477 | 101 | 90.09% | 569 | 13.57% | 317,797 | 78.81% | 1,117 | 196.49% | 66 | 68 |
| 20.00 to <30.00 | 126 | 34 | 84.21% | 157 | 24.29% | 127,825 | 76.94% | 384 | 244.00% | 32 | 24 |
| 30.00 to <100.00 | 327 | 49 | 82.91% | 380 | 52.06% | 260,558 | 77.25% | 884 | 232.42% | 166 | 63 |
| **100.00 (Default)** | **238** | **—** | **—%** | **238** | **100.00%** | **270,657** | **72.47%** | **526** | **221.11%** | **134** | **130** |
| **Subtotal** | **10,921** | **43,196** | **65.93%** | **39,427** | **2.36%** | **32,561,650** | **67.06%** | **13,087** | **33.19%** | **710** | **739** |

| | 31 Dec 2022 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 0.00 to <0.15 | 790 | 14,854 | 63.57% | 10,233 | 0.09% | 8,974,468 | 57.92% | 362 | 3.54% | 6 | 57 |
| 0.00 to <0.10 | 443 | 9,708 | 64.94% | 6,748 | 0.07% | 5,859,976 | 57.08% | 188 | 2.79% | 3 | 39 |
| 0.10 to <0.15 | 347 | 5,146 | 60.99% | 3,485 | 0.13% | 3,114,492 | 59.54% | 174 | 5.00% | 3 | 18 |
| 0.15 to <0.25 | 529 | 6,631 | 60.80% | 4,560 | 0.20% | 4,033,769 | 61.07% | 337 | 7.40% | 6 | 22 |
| 0.25 to <0.50 | 1,073 | 9,165 | 59.79% | 6,553 | 0.36% | 5,667,096 | 63.68% | 816 | 12.46% | 17 | 34 |
| 0.50 to <0.75 | 836 | 4,129 | 63.34% | 3,451 | 0.62% | 3,380,310 | 70.20% | 723 | 20.95% | 16 | 24 |
| 0.75 to <2.50 | 3,106 | 6,275 | 66.79% | 7,300 | 1.38% | 6,498,899 | 76.18% | 3,016 | 41.31% | 83 | 119 |
| 0.75 to <1.75 | 2,140 | 5,156 | 67.01% | 5,597 | 1.15% | 5,290,918 | 75.96% | 2,030 | 36.27% | 53 | 73 |
| 1.75 to <2.50 | 966 | 1,119 | 65.78% | 1,703 | 2.11% | 1,207,981 | 76.90% | 986 | 57.89% | 30 | 46 |
| 2.50 to <10.00 | 2,619 | 1,402 | 70.92% | 3,614 | 4.71% | 2,104,767 | 78.41% | 3,657 | 101.17% | 145 | 220 |
| 2.50 to <5.00 | 1,601 | 1,083 | 69.64% | 2,355 | 3.54% | 1,455,785 | 78.13% | 1,991 | 84.53% | 71 | 109 |
| 5.00 to <10.00 | 1,018 | 319 | 75.25% | 1,259 | 6.91% | 648,982 | 78.95% | 1,666 | 132.34% | 74 | 111 |
| 10.00 to <100.00 | 824 | 179 | 82.31% | 987 | 28.91% | 660,841 | 77.94% | 2,108 | 213.65% | 240 | 173 |
| 10.00 to <20.00 | 413 | 86 | 92.56% | 494 | 13.66% | 302,723 | 79.03% | 959 | 194.32% | 58 | 72 |
| 20.00 to <30.00 | 117 | 34 | 78.49% | 146 | 24.44% | 118,224 | 76.87% | 353 | 242.00% | 30 | 28 |
| 30.00 to <100.00 | 294 | 59 | 69.61% | 347 | 52.45% | 239,894 | 76.82% | 796 | 229.08% | 152 | 73 |
| 100.00 (Default) | 236 | — | —% | 236 | 100.00% | 273,986 | 72.18% | 475 | 201.74% | 132 | 114 |
| Subtotal | 10,012 | 42,635 | 63.10% | 36,934 | 2.32% | 31,594,136 | 66.72% | 11,495 | 31.12% | 645 | 764 |

## CR6: Credit risk exposures by portfolio and PD range continued

| PD range | On-balance sheet exposures | Off-balance-sheet exposures pre-CCF | Exposure weighted average CCF | Exposure post CCF and post CRM | Exposure weighted average PD | Number of obligors | Exposure weighted average LGD | Risk weighted exposure amount after supporting factors | Density of risk weighted exposure amount | Expected loss amount | Value adjustments and provisions |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | 31 Dec 2023 | | | | | |
| **Retail Other SME** | **£m** | **£m** | **%** | **£m** | **%** | **No.** | **%** | **£m** | **%** | **£m** | **£m** |
| **0.50 to <0.75** | **1,537** | **287** | **90.65%** | **474** | **0.54%** | **57,928** | **77.45%** | **222** | **46.93%** | **2** | **13** |
| **0.75 to <2.50** | **1,561** | **213** | **94.43%** | **479** | **1.15%** | **65,104** | **76.50%** | **442** | **92.36%** | **8** | **9** |
| 0.75 to <1.75 | 1,561 | 213 | 94.43% | 479 | 1.15% | 65,104 | 76.50% | 442 | 92.36% | 8 | 9 |
| 1.75 to <2.50 | — | — | —% | — | —% | — | —% | — | —% | — | — |
| **2.50 to <10.00** | **610** | **59** | **94.89%** | **188** | **4.19%** | **34,291** | **79.42%** | **255** | **135.09%** | **13** | **4** |
| 2.50 to <5.00 | 295 | 34 | 95.01% | 93 | 2.62% | 16,488 | 79.83% | 121 | 129.63% | 4 | 3 |
| 5.00 to <10.00 | 315 | 25 | 94.74% | 95 | 5.73% | 17,803 | 79.02% | 134 | 140.46% | 9 | 1 |
| **10.00 to <100.00** | **251** | **12** | **92.33%** | **77** | **28.67%** | **51,127** | **84.94%** | **150** | **193.29%** | **30** | **4** |
| 10.00 to <20.00 | 162 | 9 | 92.51% | 50 | 13.12% | 45,208 | 84.17% | 97 | 192.09% | 12 | 3 |
| 20.00 to <30.00 | — | — | —% | — | —% | — | —% | — | —% | — | — |
| 30.00 to <100.00 | 89 | 3 | 91.70% | 27 | 57.25% | 5,919 | 85.75% | 53 | 194.08% | 18 | 1 |
| **100.00 (Default)** | **677** | **4** | **93.12%** | **259** | **100.00%** | **72,453** | **8.33%** | **102** | **39.30%** | **21** | **21** |
| **Subtotal** | **4,636** | **575** | **92.54%** | **1,477** | **20.09%** | **280,901** | **65.68%** | **1,171** | **79.24%** | **74** | **51** |
| | | | | | | 31 Dec 2022 | | | | | |
| Retail Other SME | £m | £m | % | £m | % | No.[1] | % | £m | % | £m | £m |
| 0.50 to <0.75 | 2,211 | 323 | 90.85% | 548 | 0.54% | 66,704 | 77.10% | 258 | 47.08% | 2 | 17 |
| 0.75 to <2.50 | 2,137 | 236 | 94.37% | 516 | 1.32% | 72,224 | 76.44% | 345 | 66.81% | 5 | 7 |
| 0.75 to <1.75 | 1,535 | 180 | 94.31% | 373 | 0.94% | 50,624 | 76.22% | 227 | 60.73% | 3 | 6 |
| 1.75 to <2.50 | 602 | 56 | 94.55% | 143 | 2.30% | 21,600 | 77.00% | 118 | 82.75% | 2 | 1 |
| 2.50 to <10.00 | 804 | 64 | 94.42% | 205 | 5.66% | 37,103 | 78.92% | 197 | 95.70% | 9 | 8 |
| 2.50 to <5.00 | 393 | 36 | 94.66% | 100 | 3.64% | 17,863 | 79.95% | 93 | 92.96% | 3 | 4 |
| 5.00 to <10.00 | 411 | 28 | 94.10% | 105 | 7.59% | 19,240 | 77.95% | 104 | 98.50% | 6 | 4 |
| 10.00 to <100.00 | 343 | 16 | 92.39% | 93 | 31.79% | 53,502 | 84.29% | 134 | 144.86% | 27 | 5 |
| 10.00 to <20.00 | 145 | 10 | 93.55% | 40 | 14.56% | 41,953 | 83.65% | 54 | 137.03% | 6 | 2 |
| 20.00 to <30.00 | 74 | 3 | 91.90% | 20 | 23.79% | 4,411 | 83.79% | 33 | 161.19% | 4 | 1 |
| 30.00 to <100.00 | 124 | 3 | 89.45% | 33 | 56.84% | 7,138 | 84.61% | 47 | 142.62% | 17 | 2 |
| 100.00 (Default) | 799 | 4 | 88.86% | 241 | 100.00% | 55,273 | 10.31% | 104 | 43.03% | 24 | 17 |
| Subtotal | 6,294 | 642 | 92.52% | 1,603 | 18.20% | 284,806 | 67.50% | 1,037 | 64.71% | 68 | 54 |

1. 2022 obligor count has been restated.

## **CR6: Credit risk exposures by portfolio and PD range** continued

| | | | | | 31 Dec 2023 | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| PD range | On-balance sheet exposures | Off-balance-sheet exposures pre-CCF | Exposure weighted average CCF | Exposure post CCF and post CRM | Exposure weighted average PD (%) | Number of obligors | Exposure weighted average LGD (%) | Risk weighted exposure amount after supporting factors | Density of risk weighted exposure amount | Expected loss amount | Value adjustments and provisions |
| **Retail other non-SME** | £m | £m | % | £m | % | No. | % | £m | % | £m | £m |
| **0.00 to <0.15** | **378** | **—** | **30.00%** | **379** | **0.08%** | **20,381** | **36.68%** | **39** | **10.25%** | **—** | **2** |
| 0.00 to <0.10 | 371 | — | 30.00% | 372 | 0.08% | 18,225 | 35.97% | 37 | 9.95% | — | 2 |
| 0.10 to <0.15 | 7 | — | 30.00% | 7 | 0.14% | 2,156 | 72.48% | 2 | 25.60% | — | — |
| **0.15 to <0.25** | **53** | **1** | **30.00%** | **55** | **0.21%** | **13,513** | **74.70%** | **20** | **35.34%** | **—** | **—** |
| **0.25 to <0.50** | **4,352** | **6** | **30.00%** | **4,361** | **0.37%** | **361,187** | **37.78%** | **1,282** | **29.39%** | **5** | **62** |
| **0.50 to <0.75** | **3,218** | **5** | **30.00%** | **3,226** | **0.73%** | **225,616** | **41.62%** | **1,482** | **45.94%** | **9** | **58** |
| **0.75 to <2.50** | **5,154** | **20** | **30.00%** | **5,184** | **1.57%** | **477,976** | **59.82%** | **4,334** | **83.62%** | **50** | **113** |
| 0.75 to <1.75 | 4,253 | 13 | 30.00% | 4,273 | 1.46% | 377,389 | 55.15% | 3,245 | 75.94% | 33 | 88 |
| 1.75 to <2.50 | 901 | 7 | 30.00% | 911 | 2.11% | 100,587 | 81.70% | 1,089 | 119.64% | 17 | 25 |
| **2.50 to <10.00** | **3,456** | **15** | **30.00%** | **3,479** | **4.56%** | **344,889** | **66.29%** | **3,903** | **112.19%** | **111** | **104** |
| 2.50 to <5.00 | 2,285 | 9 | 30.00% | 2,299 | 3.42% | 225,209 | 67.79% | 2,558 | 111.28% | 57 | 65 |
| 5.00 to <10.00 | 1,171 | 6 | 30.00% | 1,180 | 6.78% | 119,680 | 63.35% | 1,345 | 113.97% | 54 | 39 |
| **10.00 to <100.00** | **716** | **5** | **30.00%** | **723** | **27.13%** | **82,530** | **56.96%** | **1,038** | **143.65%** | **115** | **53** |
| 10.00 to <20.00 | 282 | 3 | 30.00% | 286 | 12.35% | 38,729 | 69.27% | 418 | 146.42% | 27 | 13 |
| 20.00 to <30.00 | 167 | 1 | 30.00% | 168 | 21.55% | 16,116 | 46.28% | 224 | 133.33% | 17 | 12 |
| 30.00 to <100.00 | 267 | 1 | 30.00% | 269 | 46.31% | 27,685 | 50.55% | 396 | 147.14% | 71 | 28 |
| **100.00 (Default)** | **226** | **—** | **—%** | **226** | **100.00%** | **51,000** | **55.57%** | **357** | **158.07%** | **128** | **115** |
| **Subtotal** | **17,554** | **52** | **30.00%** | **17,631** | **3.98%** | **1,577,092** | **51.69%** | **12,455** | **70.64%** | **418** | **507** |
| | | | | | 31 Dec 2022 | | | | | | |
| 0.00 to <0.15 | 436 | — | 30.00% | 436 | 0.08% | 23,940 | 37.92% | 42 | 9.67% | — | 2 |
| 0.00 to <0.10 | 430 | — | 30.00% | 430 | 0.08% | 22,207 | 37.44% | 41 | 9.45% | — | 2 |
| 0.10 to <0.15 | 6 | — | 30.00% | 6 | 0.14% | 1,733 | 72.95% | 1 | 23.68% | — | — |
| 0.15 to <0.25 | 63 | 1 | 30.00% | 65 | 0.22% | 15,023 | 75.12% | 23 | 35.44% | — | 1 |
| 0.25 to <0.50 | 4,846 | 5 | 30.00% | 4,855 | 0.37% | 413,037 | 37.93% | 1,322 | 27.22% | 9 | 39 |
| 0.50 to <0.75 | 3,195 | 5 | 30.00% | 3,204 | 0.72% | 240,175 | 43.24% | 1,401 | 43.72% | 12 | 37 |
| 0.75 to <2.50 | 6,251 | 19 | 30.00% | 6,289 | 1.57% | 618,693 | 64.32% | 5,387 | 85.65% | 70 | 148 |
| 0.75 to <1.75 | 4,865 | 13 | 30.00% | 4,890 | 1.42% | 463,132 | 59.34% | 3,736 | 76.39% | 44 | 100 |
| 1.75 to <2.50 | 1,386 | 6 | 30.00% | 1,399 | 2.11% | 155,561 | 81.71% | 1,651 | 118.04% | 26 | 48 |
| 2.50 to <10.00 | 4,185 | 15 | 30.00% | 4,215 | 4.59% | 444,477 | 69.60% | 4,793 | 113.73% | 144 | 144 |
| 2.50 to <5.00 | 2,764 | 9 | 30.00% | 2,782 | 3.42% | 288,284 | 70.65% | 3,119 | 112.13% | 73 | 91 |
| 5.00 to <10.00 | 1,421 | 6 | 30.00% | 1,433 | 6.84% | 156,193 | 67.54% | 1,674 | 116.81% | 71 | 53 |
| 10.00 to <100.00 | 767 | 4 | 30.00% | 774 | 27.24% | 96,782 | 61.17% | 1,117 | 144.18% | 134 | 59 |
| 10.00 to <20.00 | 334 | 2 | 30.00% | 338 | 12.66% | 48,074 | 72.55% | 507 | 149.97% | 34 | 17 |
| 20.00 to <30.00 | 156 | 1 | 30.00% | 157 | 21.84% | 17,335 | 49.86% | 211 | 133.81% | 19 | 12 |
| 30.00 to <100.00 | 277 | 1 | 30.00% | 279 | 47.93% | 31,373 | 53.77% | 399 | 143.00% | 81 | 30 |
| 100.00 (Default) | 300 | — | —% | 300 | 100.00% | 60,224 | 55.55% | 549 | 183.09% | 126 | 153 |
| Subtotal | 20,043 | 49 | 30.00% | 20,139 | 4.19% | 1,912,351 | 54.92% | 14,633 | 72.66% | 495 | 583 |

## **Credit risk** continued

### CR6-A: Scope of the use of IRB and SA approaches

The exposure values in the table below are presented on a different basis. Column (a) IRB exposures are presented on a pre CRM post CCF basis in accordance with rules for calculating exposures under the IRB approach. Retail IRB exposures reported in column (a) use EAD models. For column (b), both standardised and IRB exposure values reported are calculated in accordance with CRR Article 429(4) relating to leverage exposure methodology. This is gross exposure, net of credit risk adjustments, and after application of CCFs as set out in CRR Article 429. For the majority of the Retail asset classes, due to the use of the lower Article 429 CCFs in column (b) versus the use higher modelled EAD in column (a), the reported value for Retail exposures in column (b) is less than that reported in column (a).

| | | 31 Dec 2023 | | | | |
|---|---|---|---|---|---|---|
| | | Exposure value as defined in Article 166 CRR for exposures subject to IRB approach | Total exposure value for exposures subject to the Standardised approach and to the IRB approach[1] | Percentage of total exposure value subject to the permanent partial use of the SA | Percentage of total exposure value subject to IRB Approach | Percentage of total exposure value subject to a roll-out plan |
| | | £m | £m | % | % | % |
| **1** | **Central governments or central banks** | **2,342** | **81,582** | **97.10%** | **2.90%** | **—%** |
| **2** | **Institutions** | **12,378** | **15,928** | **22.20%** | **77.80%** | **—%** |
| **3** | **Corporates** | **58,041** | **60,349** | **7.60%** | **88.60%** | **3.8%** |
| 3.2 | Of which Corporates - Specialised lending under slotting approach | | 12,152 | —% | 100.00% | —% |
| **4** | **Retail** | **412,381** | **377,969** | **2.10%** | **95.30%** | **2.6%** |
| 4.1 | of which Retail – Secured by real estate SMEs | | 3,964 | 0.70% | 93.40% | 5.9% |
| 4.2 | of which Retail – Secured by real estate non-SMEs | | 323,492 | 1.10% | 98.90% | —% |
| 4.3 | of which Retail – Qualifying revolving | | 24,195 | 6.00% | 60.40% | 33.6% |
| 4.4 | of which Retail – Other SMEs | | 6,027 | 9.90% | 77.10% | 13.0% |
| 4.5 | of which Retail – Other non-SMEs | | 19,859 | 10.40% | 85.90% | 3.7% |
| **6** | **Other non-credit obligation assets** | **9,314** | **11,703** | **21.40%** | **78.60%** | **—%** |
| **7** | **Total** | **494,456** | **547,531** | **17.90%** | **79.90%** | **2.2%** |

| | | 31 Dec 2022 | | | | |
|---|---|---|---|---|---|---|
| | | £m | £m | % | % | % |
| 1 | Central governments or central banks | 2,640 | 92,769 | 97.20% | 2.80% | —% |
| 2 | Institutions | 11,084 | 14,557 | 24.00% | 76.00% | —% |
| 3 | Corporates | 59,970 | 61,798 | 8.30% | 87.90% | 3.8% |
| 3.2 | Of which Corporates - Specialised lending under slotting approach | | 12,131 | —% | 100.00% | —% |
| 4 | Retail | 421,399 | 385,534 | 2.10% | 95.30% | 2.6% |
| 4.1 | of which Retail – Secured by real estate SMEs | | 5,058 | 0.90% | 93.70% | 5.3% |
| 4.2 | of which Retail – Secured by real estate non-SMEs | | 327,322 | 1.20% | 98.80% | —% |
| 4.3 | of which Retail – Qualifying revolving | | 21,870 | 0.10% | 62.30% | 37.6% |
| 4.4 | of which Retail – Other SMEs | | 8,096 | 10.50% | 78.40% | 11.1% |
| 4.5 | of which Retail – Other non-SMEs | | 22,785 | 11.90% | 85.50% | 2.6% |
| 6 | Other non-credit obligation assets | 8,451 | 10,426 | 20.70% | 79.30% | —% |
| 7 | Total | 503,545 | 565,085 | 19.30% | 78.50% | 2.2% |

1 Standardised exposures have been allocated to IRB exposure classes as defined under the IRB approach. Standardised regional governments, local authorities and public sector entities exposures have been allocated to exposure class Institutions per CRR Articles 147, 115 and 116.

## **Credit risk** continued

## CR7-A IRB - Disclosure of the extent of the use of CRM techniques

| | | 31 Dec 2023 | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Credit risk Mitigation techniques | | | | | | | | | | | Credit risk Mitigation methods in the calculation of RWEAs |
| | | | Funded credit Protection (FCP) | | | | | | | | | Unfunded credit Protection (UFCP)[2] | | |
| | | | | | Of which | | | | Of which | | | | | |
| | | Total exposures at default | Part of exposures covered by Financial Collaterals | Part of exposures covered by Other eligible collaterals[1] | Part of exposures covered by Immovable property Collaterals[1] | Part of exposures covered by Receivables | Part of exposures covered by Other physical collateral | Part of exposures covered by Other funded credit protection | Part of exposures covered by Cash on deposit | Part of exposures covered by Life insurance policies | Part of exposures covered by Instruments held by a third party | Part of exposures covered by Guarantees | Part of exposures covered by Credit Derivatives | RWEA with substitution effects (both reduction and substitution effects) |
| **A-IRB** | | £m | % | % | % | % | % | % | % | % | % | % | % | £m |
| **4** | **Retail** | **408,629** | **—%** | **79.67%** | **79.67%** | **—%** | **—%** | **—%** | **—%** | **—%** | **—%** | **—%** | **—%** | **85,436** |
| 4.1 | Of which Retail – Immovable property SMEs | 4,051 | 0.04% | 93.57% | 93.54% | —% | 0.02% | —% | —% | —% | —% | —% | —% | 915 |
| 4.2 | Of which Retail – Immovable property non-SMEs | 346,042 | —% | 92.98% | 92.98% | —% | —% | —% | —% | —% | —% | —% | —% | 57,808 |
| 4.3 | Of which Retail – Qualifying revolving | 39,427 | —% | —% | —% | —% | —% | —% | —% | —% | —% | —% | —% | 13,087 |
| 4.4 | Of which Retail – Other SMEs | 1,477 | 0.23% | 0.28% | —% | —% | 0.28% | —% | —% | —% | —% | —% | —% | 1,171 |
| 4.5 | Of which Retail – Other non-SMEs | 17,631 | —% | —% | —% | —% | —% | —% | —% | —% | —% | —% | —% | 12,455 |
| **5** | **Total** | **408,629** | **—%** | **79.67%** | **79.67%** | **—%** | **—%** | **—%** | **—%** | **—%** | **—%** | **—%** | **—%** | **85,436** |
| **F-IRB** | | | | | | | | | | | | | | |
| **1** | **Central governments and central banks** | **1,726** | **—%** | **—%** | **—%** | **—%** | **—%** | **—%** | | | | **37.97%** | **—%** | **129** |
| **2** | **Institutions** | **12,396** | **37.26%** | **1.26%** | **—%** | **—%** | **1.26%** | **—%** | | | | **—%** | **—%** | **2,107** |
| **3** | **Corporates** | **56,550** | **7.00%** | **21.15%** | **16.19%** | **2.50%** | **2.45%** | **—%** | | | | **2.48%** | **0.45%** | **34,241** |
| 3.1 | Of which Corporates – SMEs | 6,508 | 1.09% | 56.80% | 42.14% | 14.61% | 0.04% | —% | | | | 6.99% | —% | 4,230 |
| 3.2 | Of which Corporates – Specialised lending[3] | 12,182 | —% | —% | —% | —% | —% | —% | | | | —% | —% | 8,471 |
| 3.3 | Of which Corporates – Other | 37,859 | 10.26% | 21.83% | 16.94% | 1.23% | 3.65% | —% | | | | 2.50% | 0.67% | 21,540 |
| **4** | **Total** | **70,671** | **12.13%** | **17.15%** | **12.96%** | **2.00%** | **2.18%** | **—%** | | | | **2.91%** | **0.36%** | **36,477** |

## **CR7-A IRB - Disclosure of the extent of the use of CRM techniques** continued

| | | 31 Dec 2022 | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Credit risk Mitigation techniques | | | | | | | | | | | Credit risk Mitigation methods in the calculation of RWEAs |
| | | | Funded credit Protection (FCP) | | | | | | | | | Unfunded credit Protection (UFCP)[2] | | |
| | | | | Of which | | | | | Of which | | | | | |
| | | Total exposures at default | Part of exposures covered by Financial Collaterals | Part of exposures covered by Other eligible collaterals[1] | Part of exposures covered by Immovable property Collaterals[1] | Part of exposures covered by Receivables | Part of exposures covered by Other physical collateral | Part of exposures covered by Other funded credit protection | Part of exposures covered by Cash on deposit | Part of exposures covered by Life insurance policies | Part of exposures covered by Instruments held by a third party | Part of exposures covered by Guarantees | Part of exposures covered by Credit Derivatives | RWEA with substitution effects (both reduction and substitution effects) |
| A-IRB | | £m | % | % | % | % | % | % | % | % | % | % | % | £m |
| 4 | Retail | 416,021 | —% | 80.08% | 80.08% | —% | —% | —% | —% | —% | —% | —% | —% | 81,066 |
| 4.1 | Of which Retail – Immovable property SMEs | 5,105 | 0.08% | 92.38% | 92.33% | —% | 0.05% | —% | —% | —% | —% | —% | —% | 1,125 |
| 4.2 | Of which Retail – Immovable property non-SMEs | 352,240 | —% | 93.24% | 93.24% | —% | —% | —% | —% | —% | —% | —% | —% | 52,775 |
| 4.3 | Of which Retail – Qualifying revolving | 36,934 | —% | —% | —% | —% | —% | —% | —% | —% | —% | —% | —% | 11,495 |
| 4.4 | Of which Retail – Other SMEs | 1,603 | 0.23% | 0.38% | —% | —% | 0.38% | —% | —% | —% | —% | —% | —% | 1,037 |
| 4.5 | Of which Retail – Other non-SMEs | 20,139 | —% | —% | —% | —% | —% | —% | —% | —% | —% | —% | —% | 14,633 |
| 5 | Total | 416,021 | —% | 80.08% | 80.08% | —% | —% | —% | —% | —% | —% | —% | —% | 81,066 |
| F-IRB | | | | | | | | | | | | | | |
| 1 | Central governments and central banks | 2,185 | —% | —% | —% | —% | —% | —% | | | | 28.16% | —% | 220 |
| 2 | Institutions | 11,103 | 34.42% | 0.85% | —% | —% | 0.85% | —% | | | | —% | —% | 1,437 |
| 3 | Corporates | 57,686 | 5.39% | 21.77% | 16.96% | 3.00% | 1.81% | —% | | | | 3.41% | 0.55% | 36,250 |
| 3.1 | Of which Corporates – SMEs | 7,708 | 1.23% | 61.29% | 46.54% | 14.72% | 0.03% | —% | | | | 9.41% | —% | 5,125 |
| 3.2 | Of which Corporates – Specialised lending[3] | 12,252 | —% | —% | —% | —% | —% | —% | | | | —% | —% | 8,808 |
| 3.3 | Of which Corporates – Other | 37,726 | 7.99% | 20.77% | 16.43% | 1.58% | 2.77% | —% | | | | 3.29% | 0.85% | 22,317 |
| 4 | Total | 70,973 | 9.77% | 17.83% | 13.79% | 2.44% | 1.61% | —% | | | | 3.64% | 0.45% | 37,907 |

1 For AIRB the value of eligible collateral has been capped at individual exposure amount. The percentage immovable property collateral for Retail immovable property non-SMEs without capping collateral is 231 per cent. For FIRB, the amount is capped at the value used in determining the LGD.

2 For AIRB, the unfunded credit protection includes only cases where unfunded credit protection is taken into account in own estimates of LGD. For FIRB, it relates to unfunded credit protection which has substitution effect.

3. 100% of the exposures disclosed in the 'Of which Corporates - Specialised lending' row, use the Slotting approach.

**Credit risk** continued

## CR10.1: IRB – Specialised lending - Project Finance (Slotting approach)

| | | 31 Dec 2023 | | | | | |
|---|---|---|---|---|---|---|---|
| | | On-balance sheet exposure | Off-balance sheet exposure | Risk weight | Exposure value | Risk weighted exposure amount | Expected loss amount |
| **Regulatory categories** | **Remaining maturity** | £m | £m | | £m | £m | £m |
| 1) Strong | Less than 2.5 years | **595** | **432** | **50%** | **875** | **437** | **—** |
| | Equal to or more than 2.5 years | **1,668** | **1,047** | **70%** | **2,455** | **1,633** | **10** |
| 2) Good | Less than 2.5 years | **127** | **38** | **70%** | **157** | **110** | **1** |
| | Equal to or more than 2.5 years | **462** | **249** | **90%** | **705** | **635** | **6** |
| 3) Satisfactory | Less than 2.5 years | **15** | **2** | **115%** | **16** | **19** | **—** |
| | Equal to or more than 2.5 years | **39** | **6** | **115%** | **44** | **50** | **1** |
| 4) Weak | Less than 2.5 years | **—** | **—** | **250%** | **—** | **—** | **—** |
| | Equal to or more than 2.5 years | **23** | **17** | **250%** | **36** | **90** | **3** |
| 5) Default | Less than 2.5 years | **58** | **—** | | **58** | **—** | **29** |
| | Equal to or more than 2.5 years | **1** | **1** | | **2** | **—** | **1** |
| **Total** | **Less than 2.5 years** | **796** | **472** | | **1,107** | **566** | **30** |
| | **Equal to or more than 2.5 years** | **2,194** | **1,319** | | **3,242** | **2,408** | **21** |

| | | 31 Dec 2022 | | | | | |
|---|---|---|---|---|---|---|---|
| Regulatory categories | Remaining maturity | £m | £m | | £m | £m | £m |
| 1) Strong | Less than 2.5 years | 467 | 386 | 50% | 771 | 386 | — |
| | Equal to or more than 2.5 years | 1,618 | 803 | 70% | 2,222 | 1,556 | 9 |
| 2) Good | Less than 2.5 years | — | 9 | 70% | 7 | 5 | — |
| | Equal to or more than 2.5 years | 388 | 193 | 90% | 588 | 529 | 5 |
| 3) Satisfactory | Less than 2.5 years | 124 | 15 | 115% | 136 | 156 | 4 |
| | Equal to or more than 2.5 years | 120 | 13 | 115% | 130 | 150 | 4 |
| 4) Weak | Less than 2.5 years | — | — | 250% | — | — | — |
| | Equal to or more than 2.5 years | — | 1 | 250% | 1 | 3 | — |
| 5) Default | Less than 2.5 years | 31 | — | | 31 | — | 16 |
| | Equal to or more than 2.5 years | 20 | 1 | | 21 | — | 11 |
| Total | Less than 2.5 years | 623 | 411 | | 946 | 547 | 19 |
| | Equal to or more than 2.5 years | 2,145 | 1,012 | | 2,963 | 2,237 | 28 |

## **Credit risk** continued

### CR10.2: IRB – Specialised lending - Income-producing real estate and high volatility commercial real estate (Slotting approach)

| | | 31 Dec 2023 | | | | | |
|---|---|---|---|---|---|---|---|
| | | **On-balance sheet exposure** | **Off-balance sheet exposure** | **Risk weight** | **Exposure value** | **Risk weighted exposure amount** | **Expected loss amount** |
| **Regulatory categories** | **Remaining maturity** | **£m** | **£m** | | **£m** | **£m** | **£m** |
| 1) Strong | Less than 2.5 years | **1,907** | **474** | **50%** | **2,107** | **1,051** | **—** |
| | Equal to or more than 2.5 years | **950** | **99** | **70%** | **1,004** | **700** | **4** |
| 2) Good | Less than 2.5 years | **1,916** | **150** | **70%** | **2,006** | **1,404** | **8** |
| | Equal to or more than 2.5 years | **1,700** | **179** | **90%** | **1,830** | **1,647** | **14** |
| 3) Satisfactory | Less than 2.5 years | **252** | **12** | **115%** | **260** | **299** | **7** |
| | Equal to or more than 2.5 years | **197** | **2** | **115%** | **198** | **227** | **6** |
| 4) Weak | Less than 2.5 years | **31** | **1** | **250%** | **32** | **79** | **2** |
| | Equal to or more than 2.5 years | **10** | **—** | **250%** | **9** | **24** | **1** |
| 5) Default | Less than 2.5 years | **295** | **7** | | **299** | **—** | **150** |
| | Equal to or more than 2.5 years | **16** | **1** | | **16** | **—** | **8** |
| **Total** | **Less than 2.5 years** | **4,401** | **644** | | **4,704** | **2,833** | **167** |
| | **Equal to or more than 2.5 years** | **2,873** | **281** | | **3,057** | **2,598** | **33** |

| | | 31 Dec 2022 | | | | | |
|---|---|---|---|---|---|---|---|
| Regulatory categories | Remaining maturity | £m | £m | | £m | £m | £m |
| 1) Strong | Less than 2.5 years | 2,199 | 358 | 50% | 2,393 | 1,192 | — |
| | Equal to or more than 2.5 years | 892 | 259 | 70% | 1,077 | 752 | 4 |
| 2) Good | Less than 2.5 years | 2,059 | 211 | 70% | 2,206 | 1,544 | 9 |
| | Equal to or more than 2.5 years | 1,757 | 57 | 90% | 1,799 | 1,619 | 14 |
| 3) Satisfactory | Less than 2.5 years | 229 | 3 | 115% | 231 | 266 | 6 |
| | Equal to or more than 2.5 years | 206 | 1 | 115% | 207 | 239 | 6 |
| 4) Weak | Less than 2.5 years | 114 | 6 | 250% | 119 | 296 | 9 |
| | Equal to or more than 2.5 years | 15 | — | 250% | 15 | 37 | 1 |
| 5) Default | Less than 2.5 years | 187 | 2 | | 187 | — | 94 |
| | Equal to or more than 2.5 years | 21 | — | | 21 | — | 11 |
| Total | Less than 2.5 years | 4,789 | 580 | | 5,135 | 3,298 | 118 |
| | Equal to or more than 2.5 years | 2,892 | 317 | | 3,119 | 2,646 | 36 |

## **Credit risk** continued

## CR10.3: IRB – Specialised lending - Object finance (Slotting approach)

| | | 31 Dec 2023 | | | | | |
|---|---|---|---|---|---|---|---|
| | | **On-balance sheet exposure** | **Off-balance sheet exposure** | **Risk weight** | **Exposure value** | **Risk weighted exposure amount** | **Expected loss amount** |
| **Regulatory categories** | **Remaining maturity** | **£m** | **£m** | | **£m** | **£m** | **£m** |
| | Less than 2.5 years | **—** | **—** | **70%** | **—** | **—** | **—** |
| 2) Good | Equal to or more than 2.5 years | **73** | **—** | **90%** | **73** | **66** | **1** |
| | Less than 2.5 years | **—** | **—** | | **—** | **—** | **—** |
| Total | Equal to or more than 2.5 years | **73** | **—** | | **73** | **66** | **1** |

| | | 31 Dec 2022 | | | | | |
|---|---|---|---|---|---|---|---|
| Regulatory categories | Remaining maturity | £m | £m | | £m | £m | £m |
| | Less than 2.5 years | — | — | 70% | — | — | — |
| 2) Good | Equal to or more than 2.5 years | 88 | — | 90% | 88 | 79 | 1 |
| | Less than 2.5 years | — | — | | — | — | — |
| Total | Equal to or more than 2.5 years | 88 | — | | 88 | 79 | 1 |

# Pillar 1 Capital Requirements: Counterparty Credit Risk

## CCRA: Qualitative disclosure related to CCR

**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 SFT contracts.

**Internal Capital and Credit Limits**

The 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 SA-CCR methodology for regulatory purposes and internally developed exposure 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 risk type 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 and UK Government Gilts, 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) and Credit Support Deeds (CSD). 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.

**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).

**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.

As at 31st December 2023 a simultaneous one-notch downgrade in the long-term and associated short-term credit ratings of all rated entities in the Group would result in liquidity outflows of £0.3 billion before any mitigating management actions.

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.

**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 Group's own hedging activities, which may also include clearing trades with Central Counterparties (CCPs).

Any exceptions must be approved by the appropriate credit approver. 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.

## Counterparty credit risk continued

## CCR1: Analysis of CCR exposure by approach

| | | 31 Dec 2023 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Replacement cost (RC) | Potential future exposure (PFE) | EEPE | Alpha used for computing regulatory exposure | Exposure value pre-CRM | Exposure value post-CRM | Exposure value | RWA |
| | | £m | £m | £m | | £m | £m | £m | £m |
| UK1 | Original Exposure Method (for derivatives) | – | – | – | 1.4 | – | – | – | – |
| UK2 | Simplified SA-CCR (for derivatives) | – | – | – | 1.4 | – | – | – | – |
| 1 | SA-CCR (for derivatives) | 289 | 767 | – | 1.4 | 4,669 | 1,478 | 1,448 | 510 |
| 2 | IMM (for derivatives and SFTs) | – | – | – | | – | – | – | – |
| 2a | Of which securities financing transactions netting sets | – | – | – | | – | – | – | – |
| 2b | Of which derivatives and long settlement transactions netting sets | – | – | – | | – | – | – | – |
| 2c | Of which from contractual cross-product netting sets | – | – | – | | – | – | – | – |
| 3 | Financial collateral simple method (for SFTs) | – | – | – | | – | – | – | – |
| 4 | Financial collateral comprehensive method (for SFTs) | | | | | 101,681 | 21,467 | 21,467 | 252 |
| 5 | VaR for SFTs | | | | | – | | – | – |
| **6** | **Total** | | | | | **106,349** | **22,945** | **22,914** | **762** |

| | | 31 Dec 2022 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Replacement cost (RC) | Potential future exposure (PFE) | EEPE | Alpha used for computing regulatory exposure value | Exposure value pre-CRM | Exposure value post-CRM | Exposure value | RWA |
| | | £m | £m | £m | | £m | £m | £m | £m |
| UK1 | Original Exposure Method (for derivatives) | – | – | – | 1.4 | – | – | – | – |
| UK2 | Simplified SA-CCR (for derivatives) | – | – | – | 1.4 | – | – | – | – |
| 1 | SA-CCR (for derivatives) | 259 | 738 | – | 1.4 | 5,033 | 1,396 | 1,353 | 546 |
| 2 | IMM (for derivatives and SFTs) | – | – | – | | – | – | – | – |
| 2a | Of which securities financing transactions netting sets | – | – | – | | – | – | – | – |
| 2b | Of which derivatives and long settlement transactions netting sets | – | – | – | | – | – | – | – |
| 2c | Of which from contractual cross-product netting sets | – | – | – | | – | – | – | – |
| 3 | Financial collateral simple method (for SFTs) | – | – | – | | – | – | – | – |
| 4 | Financial collateral comprehensive method (for SFTs) | | | | | 110,414 | 17,664 | 17,664 | 197 |
| 5 | VaR for SFTs | | | | | – | – | – | – |
| 6 | Total | | | | | 115,447 | 19,060 | 19,016 | 743 |

## **Counterparty credit risk** continued

## CCR2: Credit valuation adjustment (CVA) capital charge

| | | 31 Dec 2023 | | 31 Dec 2022 | |
|---|---|---|---|---|---|
| | | Exposure value £m | RWA £m | Exposure value £m | RWA £m |
| 1 | Total transactions subject to the Advanced method | – | – | – | – |
| 2 | (i) VaR component (including the 3× multiplier) | | – | | – |
| 3 | (ii) stressed VaR component (including the 3× multiplier) | | – | | – |
| 4 | Transactions subject to the Standardised method | 993 | 454 | 867 | 342 |
| UK4 | Transactions subject to the Alternative approach (Based on the Original Exposure Method) | – | – | – | – |
| **5** | **Total transactions subject to own funds requirements for CVA risk** | **993** | **454** | 867 | 342 |

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

| | | 31 Dec 2023 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Risk weight | | | | | | | | | | | |
| | | 0% | 2% | 4% | 10% | 20% | 50% | 70% | 75% | 100% | 150% | Others | Total exposure value |
| | Exposure classes | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| 1 | Central governments or central banks | 19,355 | – | – | – | 42 | – | – | – | – | – | – | 19,397 |
| 4 | Multilateral development banks | 141 | – | – | – | – | – | – | – | – | – | – | 141 |
| 5 | International organisations | – | – | – | – | – | – | – | – | – | – | – | – |
| 6 | Institutions | – | 761 | 64 | – | – | 148 | – | – | – | – | – | 973 |
| 7 | Corporates | – | – | – | – | – | 23 | – | – | 22 | – | – | 45 |
| **11** | **Total exposure value** | **19,496** | **761** | **64** | – | **42** | **171** | – | – | **22** | – | – | **20,556** |
| | | 31 Dec 2022 | | | | | | | | | | | |
| | | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| 1 | Central governments or central banks | 15,620 | – | – | – | – | – | – | – | – | – | – | 15,621 |
| 4 | Multilateral development banks | 130 | – | – | – | – | – | – | – | – | – | – | 130 |
| 5 | International organisations | – | – | – | – | – | – | – | – | – | – | – | – |
| 6 | Institutions | – | 456 | 83 | – | – | 99 | – | – | – | – | – | 638 |
| 7 | Corporates | – | – | – | – | – | 28 | – | – | – | – | – | 28 |
| 11 | Total exposure value | 15,750 | 456 | 83 | – | – | 127 | – | – | – | – | – | 16,417 |

**Key movements**

– Increase in exposure mainly driven by an updated volatility adjustment calculation for Securities Financing Transactions (SFTs) and trades with CCPs.

## **Counterparty credit risk** continued

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

| | | 31 Dec 2023 | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **PD scale** | **Exposure value** | **Exposure weighted average PD** | **Number of obligors** | **Exposure weighted average LGD** | **Exposure weighted average maturity (years)** | **RWA** | **Density of risk weighted exposure amounts** |
| | **Corporate** | **£m** | **%** | **No.** | **%** | **No.** | **£m** | **%** |
| 1 | 0.00 to <0.15 | **390** | **0.09%** | **150** | **45.0%** | **1.0** | **74** | **18.7%** |
| 2 | 0.15 to <0.25 | **64** | **0.18%** | **56** | **45.0%** | **0.0** | **13** | **20.5%** |
| 3 | 0.25 to <0.50 | **91** | **0.29%** | **223** | **45.0%** | **0.1** | **35** | **38.4%** |
| 4 | 0.50 to <0.75 | **11** | **0.63%** | **97** | **45.0%** | **2.1** | **7** | **64.5%** |
| 5 | 0.75 to <2.50 | **12** | **1.40%** | **148** | **45.0%** | **1.3** | **9** | **79.6%** |
| 6 | 2.50 to <10.00 | **6** | **5.92%** | **55** | **45.0%** | **1.0** | **9** | **137.0%** |
| 7 | 10.00 to <100.00 | **1** | **30.20%** | **6** | **45.0%** | **1.0** | **1** | **244.3%** |
| 8 | 100.00 (Default) | **—** | **100.00%** | **4** | **45.0%** | **4.9** | **—** | **—%** |
| | **Sub-total** | **575** | **0.27%** | **739** | **45.0%** | **0.8** | **148** | **25.7%** |

| | | 31 Dec 2022 | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | PD scale | £m | % | No. | % | No. | £m | % |
| 1 | 0.00 to <0.15 | 777 | 0.06% | 187 | 45.0% | 0.8 | 102 | 13.1% |
| 2 | 0.15 to <0.25 | 32 | 0.18% | 29 | 45.0% | 0.0 | 9 | 27.4% |
| 3 | 0.25 to <0.50 | 96 | 0.29% | 260 | 45.0% | 0.2 | 36 | 38.0% |
| 4 | 0.50 to <0.75 | 5 | 0.61% | 104 | 45.0% | 1.3 | 3 | 46.8% |
| 5 | 0.75 to <2.50 | 16 | 1.25% | 163 | 45.0% | 1.6 | 13 | 82.4% |
| 6 | 2.50 to <10.00 | 12 | 3.67% | 70 | 45.0% | 1.1 | 13 | 104.6% |
| 7 | 10.00 to <100.00 | 1 | 28.58% | 12 | 45.0% | 1.0 | 1 | 226.8% |
| 8 | 100.00 (Default) | — | 100.00% | 4 | 46.4% | 1.0 | — | —% |
| | Sub-total | 938 | 0.18% | 827 | 45.0% | 0.8 | 177 | 18.8% |

## **Counterparty credit risk - CCR4** continued

| | PD scale | Exposure value | Exposure weighted average PD | Number of obligors | Exposure weighted average LGD | Exposure weighted average maturity (years) | RWA | Density of risk weighted exposure amounts |
|---|---|---|---|---|---|---|---|---|
| | | **31 Dec 2023** | | | | | | |
| | **Central governments or central banks** | **£m** | **%** | **No.** | **%** | **No.** | **£m** | **%** |
| 1 | 0.00 to <0.15 | **349** | **0.04%** | **1** | **45.0%** | **0.0** | **17** | **4.9%** |
| | **Sub-total** | **349** | **0.04%** | **1** | **45.0%** | **0.0** | **17** | **4.9%** |
| | | 31 Dec 2022 | | | | | | |
| | PD scale | £m | % | No. | % | No. | £m | % |
| 1 | 0.00 to <0.15 | 432 | 0.06% | 3 | 45.0% | 0.0 | 32 | 7.5% |
| | Sub-total | 432 | 0.06% | 3 | 45.0% | 0.0 | 32 | 7.5% |

| | PD scale | Exposure value | Exposure weighted average PD | Number of obligors | Exposure weighted average LGD | Exposure weighted average maturity (years) | RWA | Density of risk weighted exposure amounts |
|---|---|---|---|---|---|---|---|---|
| | | **31 Dec 2023** | | | | | | |
| | **Institutions** | **£m** | **%** | **No.** | **%** | **No.** | **£m** | **%** |
| 1 | 0.00 to <0.15 | **1,963** | **0.05%** | **75** | **45.0%** | **0.8** | **275** | **14.0%** |
| 2 | 0.15 to <0.25 | **32** | **0.18%** | **3** | **45.0%** | **0.1** | **9** | **27.8%** |
| 3 | 0.25 to <0.50 | **9** | **0.28%** | **5** | **45.0%** | **0.0** | **3** | **38.9%** |
| 4 | 0.50 to <0.75 | **—** | **—%** | **—** | **—%** | **0.0** | **—** | **—%** |
| 5 | 0.75 to <2.50 | **—** | **—%** | **—** | **—%** | **0.0** | **—** | **—%** |
| | **Sub-total** | **2,004** | **0.05%** | **83** | **45.0%** | **0.8** | **287** | **14.3%** |
| | | 31 Dec 2022 | | | | | | |
| | PD scale | £m | % | No. | % | No. | £m | % |
| 1 | 0.00 to <0.15 | 1,505 | 0.04% | 83 | 45.0% | 1.7 | 285 | 19.0% |
| 2 | 0.15 to <0.25 | 19 | 0.18% | 3 | 45.0% | 0.7 | 7 | 36.2% |
| 3 | 0.25 to <0.50 | — | 0.34% | 2 | 45.0% | 1.0 | — | 58.0% |
| 4 | 0.50 to <0.75 | — | 0.63% | 1 | 45.0% | 1.0 | — | 81.1% |
| | Sub-total | 1,524 | 0.04% | 91 | 45.0% | 1.7 | 293 | 19.2% |

## **Counterparty credit risk** continued

## CCR Corporate exposures subject to supervisory slotting

| | | 31 Dec 2023 | | | | | |
|---|---|---|---|---|---|---|---|
| | | **On-balance sheet exposure** | **Off-balance sheet exposure** | **Risk weight** | **Exposure value** | **Risk weighted exposure amount** | **Expected loss amount** |
| **Regulatory categories** | **Remaining maturity** | **£m** | **£m** | **%** | **£m** | **£m** | **£m** |
| 1) Strong | Less than 2.5 years | **—** | **—** | **50 %** | **1** | **—** | **—** |
| | Equal to or more than 2.5 years | **241** | **—** | **70 %** | **221** | **155** | **1** |
| 2) Good | Less than 2.5 years | **—** | **—** | **70 %** | **—** | **—** | **—** |
| | Equal to or more than 2.5 years | **23** | **—** | **90 %** | **22** | **19** | **—** |
| 3) Satisfactory | Less than 2.5 years | **—** | **—** | **115 %** | **—** | **—** | **—** |
| | Equal to or more than 2.5 years | **13** | **—** | **115 %** | **11** | **13** | **1** |
| 4) Weak | Less than 2.5 years | **—** | **—** | **250 %** | **—** | **—** | **—** |
| | Equal to or more than 2.5 years | **2** | **—** | **250 %** | **1** | **3** | **—** |
| 5) Default | Less than 2.5 years | **—** | **—** | | **—** | **—** | **—** |
| | Equal to or more than 2.5 years | **1** | **—** | | **—** | **—** | **—** |
| **Total** | **Less than 2.5 years** | **—** | **—** | | **1** | **—** | **—** |
| | **Equal to or more than 2.5 years** | **280** | **—** | | **255** | **190** | **2** |

| | | 31 Dec 2022 | | | | | |
|---|---|---|---|---|---|---|---|
| Regulatory categories | Remaining maturity | £m | £m | % | £m | £m | £m |
| 1) Strong | Less than 2.5 years | 4 | — | 50% | 4 | 2 | — |
| | Equal to or more than 2.5 years | 239 | — | 70% | 211 | 148 | 1 |
| 2) Good | Less than 2.5 years | — | — | 70% | — | — | — |
| | Equal to or more than 2.5 years | 23 | — | 90% | 19 | 17 | — |
| 3) Satisfactory | Less than 2.5 years | — | — | 115% | — | — | — |
| | Equal to or more than 2.5 years | 12 | — | 115% | 10 | 11 | — |
| 5) Default | Less than 2.5 years | — | — | | — | — | — |
| | Equal to or more than 2.5 years | 1 | — | | 1 | — | — |
| Total | Less than 2.5 years | 4 | — | | 4 | 2 | — |
| | Equal to or more than 2.5 years | 275 | — | | 241 | 176 | 1 |

## **Counterparty credit risk** continued

## CCR5: Composition of collateral for exposures to CCR

| | | 31 Dec 2023 | | | | | |
|---|---|---|---|---|---|---|---|
| | | Collateral used in derivatives transactions | | | | Collateral used in securities financing transactions (SFTs) | |
| | | Fair value of collateral received | | Fair value of collateral posted | | Fair value of collateral received | Fair value of collateral posted |
| | | Segregated | Unsegregated | Segregated | Unsegregated | | |
| | Collateral type | £m | £m | £m | £m | £m | £m |
| 1 | Cash | **60** | **1,235** | **60** | **4,569** | **44,882** | **37,821** |
| 2 | Debt | **267** | **974** | **1,963** | **1,001** | **48,112** | **20,181** |
| 3 | Equity | **—** | **—** | **—** | **—** | **—** | **—** |
| 4 | Other | **106** | **—** | **588** | **—** | **455** | **54,527** |
| **5** | **Total** | **433** | **2,209** | **2,611** | **5,570** | **93,449** | **112,529** |

| | | 31 Dec 2022 | | | | | |
|---|---|---|---|---|---|---|---|
| | | Collateral used in derivatives transactions | | | | Collateral used in securities financing transactions (SFTs) | |
| | | Fair value of collateral received | | Fair value of collateral posted | | Fair value of collateral received | Fair value of collateral posted |
| | | Segregated | Unsegregated | Segregated | Unsegregated | | |
| | Collateral type | £m | £m | £m | £m | £m | £m |
| 1 | Cash | 60 | 1,783 | 60 | 5,195 | 60,282 | 46,988 |
| 2 | Debt | 455 | 1,347 | 1,865 | 1,351 | 54,731 | 31,940 |
| 3 | Equity | — | — | — | — | — | — |
| 4 | Other | — | — | — | — | 460 | 51,786 |
| 5 | Total | 515 | 3,130 | 1,925 | 6,547 | 115,473 | 130,714 |

## **Counterparty credit risk** continued

## CCR6: Credit derivatives exposures

| | | 31 Dec 2023 | | 31 Dec 2022 | |
|---|---|---|---|---|---|
| | | **Protection bought** | **Protection sold** | Protection bought | Protection sold |
| **Notionals** | | **£m** | **£m** | £m | £m |
| 1 | Single-name credit default swaps | **716** | **24** | 688 | 111 |
| 2 | Index credit default swaps | **162** | **—** | 187 | — |
| 3 | Total return swaps | **2,102** | **—** | 3,979 | — |
| 4 | Credit options | **—** | **—** | — | — |
| 5 | Other credit derivatives | **—** | **—** | — | — |
| **6** | **Total notionals** | **2,980** | **24** | 4,854 | 111 |
| **Fair values** | | | | | |
| 7 | Positive fair value (asset) | **876** | **—** | 1,364 | — |
| 8 | Negative fair value (liability) | **(30)** | **—** | (24) | (3) |

–

## CCR8: Exposures to CCPs

| | | 31 Dec 2023 | | 31 Dec 2022 | |
|---|---|---|---|---|---|
| | | **Exposure value** | **RWA** | Exposure value | RWA |
| | | **£m** | **£m** | £m | £m |
| **1** | **Exposures to QCCPs (total)** | | **113** | | 30 |
| 2 | Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which | **719** | **15** | 447 | 10 |
| 3 | (i) OTC derivatives | **651** | **13** | 367 | 7 |
| 4 | (ii) Exchange-traded derivatives | **57** | **2** | 59 | 2 |
| 5 | (iii) SFTs | **11** | **—** | 21 | — |
| 8 | Non-segregated initial margin | **106** | **2** | 92 | 2 |
| 9 | Prefunded default fund contributions | **182** | **96** | 78 | 18 |
| **11** | **Exposures to non-QCCPs (total)** | | **—** | | — |

# Pillar 1 Capital Requirements: Securitisation

## SECA: Qualitative disclosure requirements related to securitisation exposures

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 provides liquidity and funding facilities to sponsored securitisations as well as to third parties. In addition, the Group also holds a small portfolio of ABS trading book securitisation positions.

### 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.

Traditional originated securitisation transactions typically involve the sale of a group or portfolio of ringfenced loans to a securitisation special purpose entity (SSPE). A SSPE 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 SSPE. The originating Group company receives fees from the SSPE for continuing to service the loans and undertaking certain cash management activities on behalf of the SSPE. Traditional securitisations may be funding-driven transactions where the most junior tranches are retained by the Group meaning there is no transfer of credit risk away from the Group. Alternatively they may be structured to sell the junior tranches thereby achieving risk transfer and resulting in accounting de-recognition of the assets. In some cases they may provide capital efficiencies and the Group executed two such transactions in 2023 through the securitisation of £2.5 billion of legacy Retail mortgages and £2.7 billion of Retail unsecured loans.

Synthetic originated securitisations typically work in a similar way to the traditional version except that no sale of assets takes place, and the highest risk tranche(s) relating to the portfolio of assets is transferred outside the Group, with the Group retaining only the lowest risk tranche(s).

In 2021 the Group established the Lloyds Bank Synthetic Securitisation Note Programme. Whilst the rationale remains the same i.e. capital efficiency and reduction of risk concentration, no SSPE structure is used and Credit Linked Notes are issued directly by Lloyds Bank plc.

Where capital efficiency is sought, a test of significant risk transfer (SRT) may be 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, Cancara Asset Securitisation Limited (Cancara), 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.

### Structure and liquidity facilities

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

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.

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

### Risk retained in own-originated transactions

Where the Group acts as originator its securitisation programmes primarily include residential mortgage portfolios, credit card portfolios, auto-loan portfolios, commercial loan portfolios and personal loan portfolios. In each case credit risk is the primary risk driver attached to the underlying asset pool.

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.

Liquidity risk arises where insufficient funds are received by the SSPE 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 and applicable liquidity risk mechanisms in the programme documentation. 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.

### 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.

### Risk incurred in relation to transactions originated by third parties

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 SSPE.

The key risks attached to the Group's holding of trading book securitisation positions include price risk, credit risk, event risk, interest rate fluctuations, moral hazard and servicer risk. Liquidity risk is considered to be low as the Group's ABS trading book is relatively small, with maximum holding period limits and with positions held for the short term.

## SECA: Qualitative disclosure requirements related to securitisation exposures continued

**Monitoring changes in the credit risk of ABS portfolios**

Credit reviews are produced at least annually for a particular name, sector or for a specific bond (or all) as well as for third party ABS liquidity facilities.

A credit review process will also be triggered where an ECAI applies a significant downgrade to a bond or where the investor report suggests a trigger or other breach.

The relevant Credit teams provide an independent risk oversight for ABS credit reviews. Credit limits are sanctioned either locally or by referral to the credit committee.

Furthermore, additional monitoring measures are applied including stress testing of portfolios and in the case of the Liquid Asset Portfolio, which forms part of the Group's high quality liquid assets, a quarterly risk review forum is also conducted.

**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. In addition, for any synthetic securitisations with a currency mismatch, this is treated in line with CRR articles 218, 223 and 224.

**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.

**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.

**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.

**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.

**Simple, transparent and standardised (STS) securitisations**

The securitisation framework permits differentiated capital treatment for positions which qualify as STS (CRR Article 242 (10)). As at 31 December 2023 the Group had a small number of STS positions in its role as an Investor and Sponsor.

**SSPEs which reference exposures originated by The Group:**

| SSPE | Asset Type |
|---|---|
| Salisbury Securities 2015 Ltd | SME Commercial Real Estate |
| Salisbury II Securities 2016 Ltd | SME |
| Salisbury II-A Securities 2017 Ltd | SME |
| Fontwell Securities 2016 Ltd | Agricultural Mortgages |
| Salisbury III Securities 2019 DAC | SME |
| HART 2019 DAC | Social Housing |
| Wetherby III Securities 2019 DAC | Large Corporate Commercial Real Estate |
| Fontwell II Securities 2020 DAC | Agricultural Mortgages |
| Bridgegate Funding * | Mortgages |
| Performer Funding plc * | Personal Loans |

The above can also be seen on table LI3 (* these SSPEs are not consolidated for accounting purposes and are therefore not referenced in table LI3).

The following are not SSPEs but have been issued under the Lloyds Bank Synthetic Securitisation Notes Programme:

| Non-SSPEs | Asset Type |
|---|---|
| Lloyds Bank plc: SALIS 2021-1 (Salisbury IV) | SME |
| Lloyds Bank plc: SALIS 2022-1 (Salisbury V) | SME |
| Lloyds Bank plc: Musselburgh 2023-1 (Musselburgh 1) | Large Corporates |
| Lloyds Bank plc: Musselburgh 2023-2 (Musselburgh 2) | Large Corporates |
| Lloyds Bank plc: Epsom 2023-1 (Epsom) | Infrastructure & Project Finance |
| Lloyds Bank plc: SALIS 2023-1 (Salisbury VI) | SME |

As noted above, the Group acts as Sponsor for Cancara. Please refer to table LI3 for a list of SSPEs fully consolidated for accounting purposes, where the regulatory treatment differs (as further explained in footnote 4 to table LI3).

There are no SSPEs or legal entities in which we have an equity interest where the Group has provided securitisation-related services.

The Group does not provide implicit support to any entities under Chapter 5 of Title II of Part Three CRR (Article 449(e) CRR).

There are no entities affiliated with the Group that invest in securitisations originated by the Group (Article 449(f) CRR).

**Accounting policies**

From an accounting perspective, the treatment of SSPEs 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 SSPE 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. Where the Group controls and therefore consolidates the SSPE, it will recognise notes issued (excluding those held by the Group) as debt securities in issue, measured at amortised cost.

## SECA: Qualitative disclosure requirements related to securitisation exposures continued

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.

Where a securitisation has resulted in derecognition, the Group recognises it as a sale or partial sale. 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 majority of the Group's securitised residential mortgages and commercial banking loans are not 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 regulatory consolidation group and regulated insurance undertakings 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.

All the external assets in Cancara are consolidated for accounting purposes in the Group's financial statements. The total consolidated assets in the conduits are set out in Note 48 (Structured entities) of the 2023 Lloyds Banking Group plc Annual Report and Accounts.

Liquidity lines provided to conduits are accounted for in accordance with the accounting policies set out in the 2023 Lloyds Banking Group 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 2023 Lloyds Banking Group plc Annual Report and Accounts.

The majority of the direct third party ABS and notes investments are accounted for as debt securities at amortised cost on the balance sheet, 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 52(C) (Financial Risk Management: Credit Quality of Assets) of the 2023 Lloyds Banking Group plc Annual Report and Accounts.

For those positions measured at fair value, further details on the valuation methodologies applied are outlined in Note 49(2) (Financial Instruments: Fair Value measurement) of the 2023 Lloyds Banking Group plc Annual Report and Accounts.

The Group uses the following ECAIs to obtain external credit ratings for the exposures listed:

| ECAI | Type of exposure rated |
|---|---|
| Fitch Ratings | Agricultural Mortgages, Auto Leases, Auto Loans, Commercial Property, Consumer Loans, Credit Cards, Fleet Rental Trade Receivables, Infrastructure, Leisure, Mortgages and Student Loans |
| Kroll Bond Rating | Agricultural Mortgages |
| Moody's | Auto Leases, Auto Loans, Commercial Property, Consumer Loans, Credit Cards, Fleet Rental Trade Receivables, Infrastructure, Leisure, Mortgages and Student Loans |
| Standard & Poor's | Auto Leases, Auto Loans, Commercial Property, Consumer Loans, Credit Cards, Fleet Rental Trade Receivables, Infrastructure, Leisure, Mortgages and Student Loans |
| DBRS | ABS Note Holdings, Auto Leases, Auto Loans, Consumer Loans, Credit Cards, Fleet Rental Trade Receivables and Mortgages |

### Internal Assessment Approach

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.

## **Securitisation** continued

## SEC1: Securitisation exposures in the non-trading book

| | | 31 Dec 2023 | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Institution acts as originator | | | | | | | Institution acts as sponsor | | | | Institution acts as investor | | | |
| | | Traditional | | | | Synthetic | | | Traditional | | | | Traditional | | | |
| | | STS | | Non-STS | | | | | | | | | | | | |
| | | | of which SRT | | of which SRT | | of which SRT | Sub-total | STS | Non-STS | Synthetic | Sub-total | STS | Non-STS | Synthetic | Sub-total |
| | | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| **1** | **Total exposures** | **—** | **—** | **4,024** | **—** | **12,626** | **12,626** | **16,650** | **928** | **3,789** | **—** | **4,717** | **5,590** | **11,250** | **—** | **16,840** |
| **2** | **Retail (total)** | **—** | **—** | **4,024** | **—** | **—** | **—** | **4,024** | **724** | **3,154** | **—** | **3,878** | **5,322** | **8,214** | **—** | **13,536** |
| 3 | Residential mortgage | — | — | 1,696 | — | — | — | 1,696 | — | 339 | — | 339 | 1,068 | 4,066 | — | 5,133 |
| 4 | Credit card | — | — | — | — | — | — | — | — | — | — | — | — | 216 | — | 216 |
| 5 | Other retail exposures | — | — | 2,327 | — | — | — | 2,327 | 724 | 2,815 | — | 3,539 | 4,254 | 3,933 | — | 8,187 |
| **7** | **Wholesale (total)** | **—** | **—** | **—** | **—** | **12,626** | **12,626** | **12,626** | **204** | **635** | **—** | **839** | **268** | **3,036** | **—** | **3,304** |
| 8 | Loans to corporates | — | — | — | — | 7,559 | 7,559 | 7,559 | — | — | — | — | 12 | 279 | — | 292 |
| 9 | Commercial mortgage | — | — | — | — | 1,716 | 1,716 | 1,716 | — | — | — | — | — | 407 | — | 407 |
| 10 | Lease and receivables | — | — | — | — | — | — | — | 204 | 521 | — | 725 | 80 | 1,962 | — | 2,042 |
| 11 | Other wholesale | — | — | — | — | 3,351 | 3,351 | 3,351 | — | 114 | — | 114 | 175 | 388 | — | 563 |
| | | 31 Dec 2022 | | | | | | | | | | | | | | |
| | | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| 1 | Total exposures | — | — | — | — | 11,617 | 11,617 | 11,617 | 1,093 | 3,896 | — | 4,989 | 3,778 | 9,295 | — | 13,073 |
| 2 | Retail (total) | — | — | — | — | — | — | — | 885 | 3,102 | — | 3,987 | 3,629 | 7,057 | — | 10,686 |
| 3 | Residential mortgage | — | — | — | — | — | — | — | — | 339 | — | 339 | 791 | 4,270 | — | 5,061 |
| 5 | Other retail exposures | — | — | — | — | — | — | — | 885 | 2,763 | — | 3,648 | 2,838 | 2,787 | — | 5,625 |
| 7 | Wholesale (total) | — | — | — | — | 11,617 | 11,617 | 11,617 | 208 | 794 | — | 1,002 | 149 | 2,238 | — | 2,387 |
| 8 | Loans to corporates | — | — | — | — | 6,795 | 6,795 | 6,795 | — | — | — | — | — | 209 | — | 209 |
| 9 | Commercial mortgage | — | — | — | — | 1,929 | 1,929 | 1,929 | — | — | — | — | — | 486 | — | 486 |
| 10 | Lease and receivables | — | — | — | — | — | — | — | 208 | 687 | — | 895 | — | 1,143 | — | 1,143 |
| 11 | Other wholesale | — | — | — | — | 2,893 | 2,893 | 2,893 | — | 107 | — | 107 | 149 | 400 | — | 549 |

**Key movements**

Originator (Traditional) - Increase in exposure of £4.0 billion is driven by the securitisation of legacy Retail mortgages and Retail unsecured loans.

Originator (Synthetic) - Increase of £1.0 billion in exposure is driven by issue of new securitisations in the year relating to Large Corporates and SME's, partially offset by transactions in run off.

Sponsor - Decrease of £0.3 billion is primarily due to a net decrease in liquidity facilities provided to the Cancara conduit and FX movements.

Investor - Increase of £3.8 billion is primarily due to net new positions and net limit increases in retail exposures.

## **Securitisation** continued

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

| | | 31 Dec 2023 | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Exposure values (by RW bands/deductions) | | | | | Exposure values (by regulatory approach) | | | | RWA (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** | **11,797** | **8,196** | **1,263** | **91** | **20** | **14,933** | **4,813** | **1,620** | **—** | **4,102** | **1,026** | **625** | **—** | **328** | **82** | **50** | **—** |
| **2** | **Traditional transactions** | **5,934** | **2,648** | **114** | **25** | **20** | **4,023** | **4,717** | **—** | **—** | **1,247** | **887** | **—** | **—** | **100** | **71** | **—** | **—** |
| 3 | Securitisation | 5,934 | 2,648 | 114 | 25 | 20 | 4,023 | 4,717 | — | — | 1,247 | 887 | — | — | 100 | 71 | — | — |
| 4 | Retail underlying | 5,464 | 2,393 | — | 25 | 20 | 4,023 | 3,878 | — | — | 1,247 | 688 | — | — | 100 | 55 | — | — |
| 5 | Of which STS | 724 | — | — | — | — | — | 724 | — | — | — | 72 | — | — | — | 6 | — | — |
| 6 | Wholesale | 470 | 255 | 114 | — | — | — | 839 | — | — | — | 199 | — | — | — | 16 | — | — |
| 7 | Of which STS | 204 | — | — | — | — | — | 204 | — | — | — | 20 | — | — | — | 2 | — | — |
| **9** | **Synthetic transactions** | **5,863** | **5,548** | **1,149** | **66** | **—** | **10,910** | **96** | **1,620** | **—** | **2,855** | **139** | **625** | **—** | **228** | **11** | **50** | **—** |
| 10 | Securitisation | 5,863 | 5,548 | 1,149 | 66 | — | 10,910 | 96 | 1,620 | — | 2,855 | 139 | 625 | — | 228 | 11 | 50 | — |
| 12 | Wholesale | 5,863 | 5,548 | 1,149 | 66 | — | 10,910 | 96 | 1,620 | — | 2,855 | 139 | 625 | — | 228 | 11 | 50 | — |
| | | 31 Dec 2022 | | | | | | | | | | | | | | | | |
| | | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| 1 | Total exposures | 10,089 | 4,655 | 1,798 | 64 | — | 9,688 | 5,126 | 1,792 | — | 2,176 | 1,145 | 655 | — | 174 | 92 | 52 | — |
| 2 | Traditional transactions | 4,127 | 594 | 268 | — | — | — | 4,989 | — | — | — | 941 | — | — | — | 76 | — | — |
| 3 | Securitisation | 4,127 | 594 | 268 | — | — | — | 4,989 | — | — | — | 941 | — | — | — | 76 | — | — |
| 4 | Retail underlying | 3,648 | 339 | — | — | — | — | 3,987 | — | — | — | 671 | — | — | — | 54 | — | — |
| 5 | Of which STS | 885 | — | — | — | — | — | 885 | — | — | — | 88 | — | — | — | 7 | — | — |
| 6 | Wholesale | 479 | 255 | 268 | — | — | — | 1,002 | — | — | — | 270 | — | — | — | 22 | — | — |
| 7 | Of which STS | 208 | — | — | — | — | — | 208 | — | — | — | 21 | — | — | — | 2 | — | — |
| 9 | Synthetic transactions | 5,962 | 4,061 | 1,530 | 64 | — | 9,688 | 137 | 1,792 | — | 2,176 | 204 | 655 | — | 174 | 16 | 52 | — |
| 10 | Securitisation | 5,962 | 4,061 | 1,530 | 64 | — | 9,688 | 137 | 1,792 | — | 2,176 | 204 | 655 | — | 174 | 16 | 52 | — |
| 12 | Wholesale | 5,962 | 4,061 | 1,530 | 64 | — | 9,688 | 137 | 1,792 | — | 2,176 | 204 | 655 | — | 174 | 16 | 52 | — |

**Key movements**

Traditional transactions - Increase in exposure of £3.8 billion and risk weighted assets of £1.2 billion mainly driven by the retention of notes under SEC-IRBA in respect of the securitisation of legacy Retail mortgages and Retail unsecured loans.

Synthetic transactions - Increase in exposure of £1.0 billion and risk weighted assets of £0.6 billion mainly driven by the issue of new securitisations in the year relating to Large Corporates and SME's partially offset by transactions in run off.

## **Securitisation** continued

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

| | | 31 Dec 2023 | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 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** | **16,033** | **688** | **24** | **95** | **—** | **—** | **2,348** | **14,492** | **—** | **—** | **411** | **2,082** | **—** | **—** | **33** | **167** | **—** |
| **2** | **Traditional transactions** | **16,033** | **688** | **24** | **95** | **—** | **—** | **2,348** | **14,492** | **—** | **—** | **411** | **2,082** | **—** | **—** | **33** | **167** | **—** |
| 3 | Securitisation | 16,033 | 688 | 24 | 95 | — | — | 2,348 | 14,492 | — | — | 411 | 2,082 | — | — | 33 | 167 | — |
| 4 | Retail underlying | 13,516 | 20 | — | — | — | — | 2,229 | 11,307 | — | — | 292 | 1,519 | — | — | 23 | 122 | — |
| 5 | Of which STS | 5,322 | — | — | — | — | — | 1,202 | 4,120 | — | — | 120 | 424 | — | — | 10 | 34 | — |
| 6 | Wholesale | 2,517 | 668 | 24 | 95 | — | — | 119 | 3,185 | — | — | 119 | 563 | — | — | 10 | 45 | — |
| 7 | Of which STS | 268 | — | — | — | — | — | — | 268 | — | — | — | 27 | — | — | — | 2 | — |
| **9** | **Synthetic transactions** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** |
| | | 31 Dec 2022 | | | | | | | | | | | | | | | | |
| 1 | Total exposures | 12,624 | 330 | 52 | 66 | — | — | 1,970 | 11,103 | — | — | 356 | 1,567 | — | — | 29 | 125 | — |
| 2 | Traditional transactions | 12,624 | 330 | 52 | 66 | — | — | 1,970 | 11,103 | — | — | 356 | 1,567 | — | — | 29 | 125 | — |
| 3 | Securitisation | 12,624 | 330 | 52 | 66 | — | — | 1,970 | 11,103 | — | — | 356 | 1,567 | — | — | 29 | 125 | — |
| 4 | Retail underlying | 10,356 | 330 | — | — | — | — | 1,852 | 8,834 | — | — | 242 | 1,223 | — | — | 19 | 98 | — |
| 5 | Of which STS | 3,629 | — | — | — | — | — | 1,022 | 2,607 | — | — | 102 | 271 | — | — | 8 | 22 | — |
| 6 | Wholesale | 2,269 | — | 52 | 66 | — | — | 118 | 2,269 | — | — | 114 | 344 | — | — | 9 | 28 | — |
| 7 | Of which STS | 149 | — | — | — | — | — | — | 149 | — | — | — | 15 | — | — | — | 1 | — |
| 9 | Synthetic transactions | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |

**Key movements**

– Increase in exposure of £3.8 billion and risk weighted assets of £0.6 billion is primarily due to net new positions and net limit increases in retail exposures.

## **Securitisation** continued

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

| | | **31 Dec 2023** | | | 31 Dec 2022 | | |
|---|---|---|---|---|---|---|---|
| | | **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** | | **Total amount of specific credit risk adjustments made during the period** | Total outstanding nominal amount | | Total amount of specific credit risk adjustments made during the period |
| | | | **Of which exposures in default** | | | Of which exposures in default | |
| | | **£m** | **£m** | **£m** | £m | £m | £m |
| **1** | **Total exposures** | **19,282** | **75** | **–** | 13,114 | 31 | – |
| **2** | **Retail (total)** | **5,026** | **24** | **–** | – | – | – |
| 3 | Residential mortgage | **2,219** | **23** | **–** | – | – | – |
| 4 | Credit card | **–** | **–** | **–** | – | – | – |
| 5 | Other retail exposures | **2,807** | **1** | **–** | – | – | – |
| 6 | Re-securitisation | **–** | **–** | **–** | – | – | – |
| **7** | **Wholesale (total)** | **14,256** | **51** | **–** | 13,114 | 31 | – |
| 8 | Loans to corporates | **8,771** | **29** | **1** | 7,915 | 13 | – |
| 9 | Commercial mortgage | **1,988** | **22** | **–** | 2,201 | 18 | – |
| 10 | Lease and receivables | **–** | **–** | **–** | – | – | – |
| 11 | Other wholesale | **3,497** | **–** | **(1)** | 2,998 | – | – |
| 12 | Re-securitisation | **–** | **–** | **–** | – | – | – |

**Key movements**

– Increase in exposure predominantly driven by the securitisation of legacy Retail mortgages and Retail unsecured loans.

# Operational Risk

## ORA: Qualitative information on operational risk

### Definition

Operational risk is defined as the risk of loss from inadequate or failed internal processes, people and systems, or from external events.

Exposures

The principal operational risks to the Group which could result in customer detriment, unfair customer outcomes, financial loss, disruption and/or reputational damage include:

- Inadequate protections against internal and/or external crime, including cyber-attack and economic crime
- Failure of business processes, IT and/or critical third parties, including inability to timely recover from failure (e.g. of IT systems or data) within agreed impact tolerance.
- Failure to ensure compliance with increasingly complex and detailed regulation, including anti-money laundering, anti-bribery, counter-terrorist financing, data privacy and financial sanctions and prohibitions laws and regulations
- Failure to implement the policies, procedures, and culture to enable the Group to appropriately manage its people risks. This includes recruitment, remuneration, retention, and succession; capability and development; colleague wellbeing; and continuity / resilience
- Failure to appropriately manage the Group's exposure to direct and indirect impacts in relation to conduct. This includes the Group's culture, products and services and customer treatment strategies, as well as market misconduct. The introduction of Consumer Duty has increased regulatory expectations in relation to customer outcomes, including how the Group demonstrates and measures them. The Group is also continuing to engage closely with the FCA and Financial Ombudsman Service on the historic motor commission arrangements

A number of these risks could increase where there is a reliance on third party suppliers to provide services to the Group or its customers.

### Measurement

Operational risk is managed across the Group through an operational risk framework and policies. This framework includes a risk and control self-assessment process, risk impact likelihood matrix, risk and control indicators, risk appetite setting, a robust operational loss event management and escalation process, and a scenario analysis and operational loss forecasting process. This is supplemented by Group level and local management information and reporting across a suite of governed metrics.

The table on page 59 of the 2023 Lloyds Bank plc Annual Report and Accounts shows high level loss and event trends for the Group using Basel II categories. Based on data captured on the Group's RCSA, in 2023 the highest frequency of events occurred in external fraud with 91.08 per cent of the total volume. Clients, products and business practices accounted for 52.54 per cent of losses by value.

Operational risk losses and scenario analysis is used to inform the Internal Capital Adequacy Assessment Process (ICAAP). The Group calculates its minimum (Pillar I) operational risk capital requirements using The Standardised Approach (TSA). Pillar II is calculated using internal and external loss data and extreme but plausible scenarios that may occur in the next 12 months.

### Mitigation

The Group continues to focus on risk management requirements and developing the processes, systems and people skills and capabilities needed to mitigate risks. Risks, including IT systems and security-related risks, are reported and discussed at local governance forums and escalated to executive management and the Board as appropriate to ensure the correct level of visibility and engagement. The Group employs a range of risk management strategies, including: avoidance, mitigation, transfer (including insurance) and acceptance within appetite or tolerance. Where there is a reliance on third party suppliers to provide services, including the areas of IT systems and information security, the Group's sourcing policy ensures that outsourcing initiatives follow a defined process including due diligence, risk evaluation and ongoing assurance.

Mitigating actions to the principal operational risks include the following:

- The Group has set out key controls, aligned to the Group's risk appetite, via its policies, procedures and enterprise risk management framework, ensuring businesses assess the potential impacts of activity on customers, markets, colleagues and business risk profiles
- The Group adopts a risk-based approach to mitigate cyber threats it faces. The effective operation of the Group's estate is supported by an IT and Cyber Security Governance framework, guided by a threat-based strategy which underpins investment decisions. The ongoing protection of the estate and confidentiality of material information is ensured through adherence to the Group Security Policy which has been aligned to industry good practice including the NIST Cyber Security Framework; and material laws and regulations. The Group's IT systems and information security risk management processes, which includes assessment, documentation and treatment have been integrated into its overall enterprise risk management framework. The Group engages a specialist third party consultancy on a periodic basis, to assess the maturity of its cyber security programme, in assessing, identifying and managing material risks from cybersecurity threats. During the handling of an incident, the Cyber Security team will continuously monitor and assess the impact to the Group. Thresholds have been set that, once triggered, will bring the information security risk owning business representatives, legal and compliance teams together as a subcommittee. The subcommittee will own the invocation of crisis management, Board notification and the drafting of any regulatory notifications. In the event of a major information security incident, including those with a material impact on the Group, the Chief Security Officer (CSO) maintains engagement with the executive, supported by the Group incident management teams
- The Group has increased its focus on operational resilience and has updated its operational resilience strategy to reflect changing priorities of both customers and regulators. Furthermore, the Group is in the process of responding to the publication of regulatory policy statements. Focus has been given to ensure compliance, and existing frameworks have been adapted to consider important business services and impact tolerances
- The Group is focused on leadership and colleague engagement, through delivery of strategies to attract, retain and develop high calibre people together with a focus on creating a strong and resilient talent pipeline
- The Group continues to focus on its culture and inclusivity strategy by developing and delivering initiatives that reinforce the appropriate behaviours which generate the best possible long-term outcomes for customers and colleagues
- The Group is managing organisational capability and capacity through divisional people strategies to ensure there are the right skills and resources to meet customers' needs and deliver the Group's strategic plan
- The Group maintains an attractive colleague proposition to ensure they promote an appropriate culture and colleague behaviours that meet customer needs and regulatory expectations
- The Group ensures colleague wellbeing strategies and support are in place to meet colleague needs, alongside skills and capability growth required to maximise the potential of our people
- The Group ensures compliance with legal and regulatory requirements, embedding compliant and appropriate colleague behaviours in line with Group policies, values and its people risk priorities

## ORA: Qualitative information on operational risk continued

- The Group has implemented simplified and enhanced conduct policies and procedures, together with Group and local level conduct risk appetite and metrics, to ensure appropriate controls and processes that deliver good customer outcomes, and support market integrity and competition requirements
- The Group is committed to achieving a values-led culture through a consistent focus on behaviours to ensure it is transforming its culture for success in a digital world. This is supported by strong direction and tone from senior executives and the Board
- The Group continues to develop and oversight the implementation of its vulnerability strategy through the Group Customer Inclusion Forum to monitor vulnerable outcomes, provide strategic direction and ensure consistency across the Group
- The Group has a robust product governance framework to ensure products continue to offer customers fair value, and consistently meet their needs throughout the product lifecycle
- The Group effectively manages complaints through responding to, and learning from, root causes of complaint volumes and Financial Ombudsman Service (FOS) change rates

### Monitoring

Monitoring and reporting of operational risk is undertaken at Board, Group, Legal Entity and Business Unit and Functional committees. Each committee monitors key risks, control effectiveness, key risk and control indicators, events, operational losses, risk appetite metrics and the results of independent testing conducted by Risk division and/or Group Internal Audit.

The Group maintains a formal approach to operational risk event escalation, whereby events are identified, captured and escalated, where appropriate based on materiality. Root causes of events are determined, and action plans put in place to ensure an optimum level of control to keep customers and the business safe, reduce costs, and improve efficiency.

The insurance policies are monitored and reviewed regularly, with recommendations being made to the Group's senior management annually prior to each renewal. Insurers are monitored on an ongoing basis, to ensure counterparty risk is minimised. A process is in place to manage any insurer rating changes or insolvencies.

Further information on operational, operational resilience, people and conduct risk management can be found in the Annual Report and Accounts 2023.

### Approaches for assessment of own funds requirements

The Group measures its operational risk requirement using the Standardised Approach.

## OR1: Operational risk own funds requirements and risk-weighted exposure amounts

| | | 31 Dec 2023 | | | | |
|---|---|---|---|---|---|---|
| | | Relevant indicator | | | Own funds requirements | Risk weighted exposure amount |
| | | 2021 | 2022 | **2023**[1] | | |
| **Banking activities** | | £m | £m | **£m** | **£m** | **£m** |
| 1 | Banking activities subject to basic indicator approach (BIA) | – | – | **–** | **–** | **–** |
| 2 | Banking activities subject to standardised (TSA) / alternative standardised (ASA) approaches | 14,221 | 16,362 | **17,474** | **2,048** | **25,605** |
| 3 | Subject to TSA: | 14,221 | 16,362 | **17,474** | | |
| 4 | Subject to ASA: | – | – | **–** | | |
| 5 | Banking activities subject to advanced measurement approaches AMA | – | – | **–** | **–** | **–** |

1. Management estimates are used for 2023 relevant indicator as audited income not available at time of calculation.

# Liquidity

## LIQA: Liquidity risk management

### Strategies and processes in the management of the liquidity risk

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.

Liquidity policies and procedures are subject to independent internal oversight by Risk. Overseas branches and subsidiaries of the Group may also be required to meet the liquidity requirements of the entity's domestic country.

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 Group plans funding requirements over its planning period, combining business as usual and stressed conditions. Funding concentration by counterparty, currency and tenor is monitored on an ongoing basis and where concentrations do exist, these are managed as part of the planning process and limited by the internal funding and liquidity risk monitoring framework, with analysis regularly provided to senior management.

### Structure and organisation of the liquidity risk management function

The Group's Board develops the Group strategy within the boundaries set by the Group Risk Appetite which is reviewed and approved at least annually. The Group Board Risk Committee is responsible for reviewing the Group Risk Appetite, Enterprise Risk Management Framework (ERMF) and risk culture. The Group adopts the Lloyds Banking Group ERMF supplemented with additional tailored practices to address the Group specific requirements.

The Group and Ring-Fenced Banks Asset and Liability Committee (GALCO) is responsible for reviewing and determining the appropriate allocation of capital, funding and liquidity and market risk resources. GALCO is supported by Divisional ALCOs, second line risk committees and Group Corporate Treasury (GCT) in managing liquidity risk. The ERMF is implemented through a Three Lines of Defence model which defines clear responsibilities and accountabilities ensuring effective independent oversight and assurance of key decisions.

### A description of the degree of centralisation of liquidity management and interaction between the group's units

GCT is responsible for the Group's overall day-to-day liquidity risk management. Liquidity is managed on a legal entity basis, with liquidity only being transferable between legal entities upon agreement on an arm's length basis. Each liquidity group has a distinct liquidity risk appetite and will manage liquidity separately, in line with Group policy.

The Group operates a Liquidity Transfer Pricing process which allocates relevant interest expenses from the centre to the Group's banking businesses within the internal management accounts, and helps drive the correct inputs to customer pricing.

### Scope and nature of liquidity risk reporting and measurement systems.

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

The Group's liquidity risk reporting utilises the Group's strategic Liquidity Reporting System, which is used for both external regulatory reporting and a range of other internal liquidity metrics including the internal liquidity stress test.

Daily monitoring and control processes are in place to address both internal and regulatory liquidity reporting and measurement. The Group monitors a range of market and internal early warning indicators daily for early signs of liquidity risk in the market or specific to the Group.

### Policies for hedging and mitigating the liquidity risk and strategies and processes

The Group manages its liquidity position both with regard to its internal risk appetite, the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) as required by the PRA, the Capital Requirements Directive (CRD IV) and the Capital Requirements Regulation (CRR) liquidity requirements.

To mitigate liquidity risk, the Group holds a liquidity buffer consisting of central bank reserves and other diversified high quality liquid assets to mitigate potential liquidity outflow risks as indicated under the LCR and internal liquidity stress scenarios. The Group has access to a range of central bank facilities and has pre-positioned a substantial amount of assets at the Bank of England's Discount Window Facility, which can be used to access additional liquidity in a time of stress. The Group considers diversification across geography, currency, markets and tenor when assessing appropriate holding of liquid assets.

### An outline of the bank`s contingency funding plans

The Group maintains a  Liquidity Contingency Framework as part of the wider Recovery Plan which is designed to identify emerging liquidity concerns at an early stage, so that mitigating actions can be taken to avoid a crisis developing. The Liquidity Contingency Framework has a foundation of robust and regular monitoring and reporting of KPIs, EWIs and Risk Appetite by both GCT and Risk up to and including Board level. Where movements in any of these metrics and indicator suites point to a potential issue, SME teams and their Directors will escalate this information as appropriate.

### An explanation of how stress testing is used

The Group carries out internal stress testing of its liquidity and potential cash flow mismatch position over both short (up to one month) and longer-term horizons against a range of scenarios forming an important part of the internal risk appetite. The scenarios and assumptions are reviewed at least annually to ensure that they continue to be relevant to the nature of the business, including reflecting emerging horizon risks to the Group.

This scenario includes a two notch downgrade of the Group's current long-term debt rating and accompanying one notch short-term downgrade implemented instantaneously by all major rating agencies.

### A declaration approved by the management body on the adequacy of liquidity risk management

The Group Board confirm the adequacy of our liquidity risk management arrangements, including compliance with the PRA's Overall Liquidity Adequacy Rule, annually via the Group's Internal Liquidity Adequacy Assessment Process (ILAAP). The ILAAP documents and demonstrates that the Group maintains liquidity resources which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due.

### A concise liquidity risk statement approved by the management body

The Board approves the Group's Funding and Liquidity management framework, as defined by the ERMF, and approves the Group's Funding and Liquidity Risk Appetite Statement; that the Group 'maintains a prudent liquidity profile and a balance sheet structure that limits reliance on potentially volatile sources of funding'. senior management.

## **Liquidity** continued

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) | | | | Total weighted value (average) | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | **31 Dec 2023** | 31 Sep 2023 | 30 Jun 2023 | 31 Mar 2023 | **31 Dec 2023** | 31 Sep 2023 | 30 Jun 2023 | 31 Mar 2023 |
| | **Number of data points used in the calculation of averages** | **12** | 12 | 12 | 12 | **12** | 12 | 12 | 12 |
| **High-quality liquid assets (£m)** | | | | | | | | | |
| 1 | Total high-quality liquid assets (HQLA) | | | | | **108,655** | 109,895 | 112,833 | 116,046 |
| **Cash - outflows (£m)** | | | | | | | | | |
| 2 | Retail deposits and deposits from small business customers, of which: | **337,323** | 338,339 | 340,237 | 341,537 | **22,339** | 22,518 | 22,748 | 22,907 |
| 3 | Stable deposits | **260,876** | 261,108 | 261,873 | 262,426 | **13,044** | 13,056 | 13,094 | 13,121 |
| 4 | Less stable deposits | **76,447** | 77,231 | 78,364 | 79,111 | **9,295** | 9,462 | 9,654 | 9,786 |
| 5 | Unsecured wholesale funding | **90,862** | 92,583 | 95,530 | 98,178 | **45,792** | 46,010 | 47,035 | 47,830 |
| 6 | Operational deposits (all counterparties) and deposits in networks of cooperative banks | **21,777** | 25,847 | 30,160 | 34,626 | **5,444** | 6,462 | 7,540 | 8,656 |
| 7 | Non-operational deposits (all counterparties) | **65,754** | 63,137 | 61,616 | 59,266 | **37,017** | 35,949 | 35,741 | 34,888 |
| 8 | Unsecured debt | **3,331** | 3,599 | 3,754 | 4,286 | **3,331** | 3,599 | 3,754 | 4,286 |
| 9 | Secured wholesale funding | | | | | **105** | 76 | 49 | 41 |
| 10 | Additional requirements | **47,957** | 47,856 | 47,463 | 47,428 | **15,240** | 15,270 | 15,095 | 15,252 |
| 11 | Outflows related to derivative exposures and other collateral requirements | **8,328** | 8,279 | 7,842 | 7,803 | **8,328** | 8,279 | 7,841 | 7,804 |
| 12 | Outflows related to loss of funding on debt products | **751** | 855 | 1,071 | 1,295 | **751** | 856 | 1,071 | 1,295 |
| 13 | Credit and liquidity facilities | **38,878** | 38,722 | 38,550 | 38,330 | **6,161** | 6,135 | 6,183 | 6,153 |
| 14 | Other contractual funding obligations | **499** | 463 | 456 | 407 | **134** | 107 | 109 | 71 |
| 15 | Other contingent funding obligations | **85,029** | 87,394 | 88,817 | 89,314 | **3,761** | 4,160 | 4,404 | 4,636 |
| 16 | Total cash outflows | | | | | **87,371** | 88,141 | 89,440 | 90,737 |
| **Cash - inflows (£m)** | | | | | | | | | |
| 17 | Secured lending (e.g. reverse repos) | **13,726** | 14,803 | 15,673 | 15,373 | **297** | 299 | 299 | 259 |
| 18 | Inflows from fully performing exposures | **6,076** | 5,761 | 5,274 | 4,906 | **4,188** | 3,881 | 3,446 | 3,160 |
| 19 | Other cash inflows | **1,317** | 1,353 | 1,176 | 1,273 | **1,202** | 1,138 | 865 | 869 |
| 20 | Total cash inflows | **21,119** | 21,917 | 22,123 | 21,552 | **5,687** | 5,318 | 4,610 | 4,288 |
| UK-20c | Inflows subject to 75% cap | **20,598** | 21,543 | 21,833 | 21,431 | **5,687** | 5,318 | 4,610 | 4,288 |
| **Total adjusted value** | | | | | | | | | |
| UK-21 | Liquidity buffer (£m) | | | | | **108,655** | 109,895 | 112,833 | 116,046 |
| 22 | Total net cash outflows (£m) | | | | | **81,684** | 82,823 | 84,830 | 86,449 |
| 23 | Liquidity coverage ratio (%) | | | | | **133%** | 133% | 133% | 134% |

## **Liquidity** continued

### LIQB: Qualitative information on LCR

The Group's LCR disclosure (calculated as the simple average of month end observations over the 12 months preceding the end of each quarter) was 133 percent as of 31 December 2023, unchanged from prior quarter. For the quarterly change, Liquid assets decreased primarily from a reduction in customer deposits, offset with a decrease in net cash outflows primarily from an associated reduction in customer deposit outflows and mortgage pipeline commitments. For the 2023 calendar year, the decrease in LCR is explained primarily by an decrease in Liquid assets from a reduction in customer deposits.

The Group's funding and liquidity position is underpinned by its significant customer deposit base and is supported by strong relationships across customer segments. Funding concentration by counterparty, currency and tenor is monitored on an ongoing basis and where concentrations do exist, these are managed as part of the planning process and limited by the internal funding and liquidity risk monitoring framework, with analysis regularly provided to senior management.

The Group's liquidity buffer consists almost entirely of Level 1 assets. Level 1 assets are primarily held as central bank reserves and UK government bonds.

The Group's outflows related to derivative exposures and other collateral requirements include outflows for potential deterioration in credit rating and for the impact of an adverse market scenario on derivatives transactions.

The Group's liquidity risk management framework covers currency liquidity risk and ensures the currency denomination of LCR liquid assets is consistent with the distribution of net currency liquidity outflows. Granular LCR risk appetites by significant currency are set and monitored across tenors at Group committee level.

## **Liquidity** continued
## LIQ2: Net Stable Funding Ratio

| | | Unweighted value by residual maturity | | | | |
|---|---|---|---|---|---|---|
| | | No maturity | < 6 months | 6 months to < 1yr | ≥ 1yr | Weighted value |
| | | £m | £m | £m | £m | £m |
| **Available stable funding (ASF) Items** | | | | | | |
| **1** | **Capital items and instruments:** | **34,307** | **69** | **124** | **11,404** | **45,711** |
| 2 | Own funds | **34,307** | **—** | **124** | **10,789** | **45,096** |
| 3 | Other capital instruments | | **69** | **—** | **615** | **615** |
| **4** | **Retail deposits:** | | **338,691** | **2** | **—** | **317,925** |
| 5 | Stable deposits | | **262,034** | **—** | **—** | **248,932** |
| 6 | Less stable deposits | | **76,657** | **2** | **—** | **68,993** |
| **7** | **Wholesale funding:** | | **136,283** | **9,060** | **66,848** | **111,281** |
| 8 | Operational deposits | | **19,090** | **—** | **—** | **9,545** |
| 9 | Other wholesale funding | | **117,193** | **9,060** | **66,848** | **101,736** |
| **10** | **Interdependent liabilities** | | **—** | **—** | **—** | **—** |
| **11** | **Other liabilities:** | **—** | **2,073** | **—** | **8,828** | **8,828** |
| 12 | NSFR derivative liabilities | **—** | | | | |
| 13 | All other liabilities and capital instruments not included in the above categories | | **2,073** | **—** | **8,828** | **8,828** |
| **14** | **Total available stable funding (ASF)** | | | | | **483,745** |
| **Required stable funding (RSF) Items** | | | | | | |
| **15** | **Total high-quality liquid assets (HQLA)** | | | | | **5,239** |
| **UK-15a** | **Assets encumbered for more than 12m in cover pool** | | **513** | **425** | **16,306** | **14,657** |
| **16** | **Deposits held at other financial institutions for operational purposes** | | **—** | **—** | **—** | **—** |
| **17** | **Performing loans and securities:** | | **47,390** | **23,705** | **398,819** | **327,448** |
| 18 | Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut | | **22,065** | **6,116** | **3,239** | **6,297** |
| 19 | Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions | | **4,327** | **2,494** | **5,959** | **7,525** |
| 20 | Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which: | | **10,508** | **7,686** | **90,959** | **87,993** |
| 21 | With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk | | **—** | **—** | **—** | **—** |
| 22 | Performing residential mortgages, of which: | | **6,141** | **4,895** | **287,719** | **213,680** |
| 23 | With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk | | **5,710** | **4,508** | **264,295** | **193,164** |
| 24 | Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products | | **4,349** | **2,514** | **10,943** | **11,953** |
| **25** | **Interdependent assets** | | **—** | **—** | **—** | **—** |
| **26** | **Other assets:** | **6,960** | **1,165** | **232** | **31,000** | **36,824** |
| 27 | Physical traded commodities | | | | **—** | **—** |
| 28 | Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs | | | **—** | | **2,169** |
| 29 | NSFR derivative assets | | | **—** | | **2,582** |
| 30 | NSFR derivative liabilities before deduction of variation margin posted | | | **—** | | **91** |
| 31 | All other assets not included in the above categories | | **1,165** | **232** | **31,000** | **31,982** |
| **32** | **Off-balance sheet items** | | **124,705** | **—** | **—** | **3,137** |
| **33** | **Total RSF** | | | | | **387,305** |
| **34** | **Net Stable Funding Ratio (%)** | | | | | **125%** |

# Asset Encumbrance

## AE1: Encumbered and unencumbered assets

The reported values represent the median of the values reported to the regulator via quarterly supervisory returns over the period 31 Dec 2022 to 31 Dec 2023.

| | | 31 Dec 2023 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | **Carrying amount of encumbered assets** | | **Fair value of encumbered assets** | | **Carrying amount of unencumbered assets** | | **Fair value of unencumbered assets** | |
| | | | **of which notionally eligible EHQLA and HQLA** | | **of which notionally eligible EHQLA and HQLA** | | **of which EHQLA and HQLA** | | **of which EHQLA and HQLA** |
| | | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** |
| 010 | Total Assets | **94,027** | **17,531** | | | **519,035** | **78,224** | | |
| 030 | Equity instruments | **—** | **—** | **—** | **—** | **98** | **—** | **98** | **—** |
| 040 | Debt securities[1] | **11,857** | **10,269** | **11,857** | **10,269** | **21,159** | **15,527** | **21,159** | **15,527** |
| 050 | of which: covered bonds | **25** | **25** | **25** | **25** | **3,959** | **3,949** | **3,959** | **3,949** |
| 060 | of which: securitisations | **1,353** | **24** | **1,353** | **24** | **4,278** | **1,024** | **4,278** | **1,024** |
| 070 | of which: issued by general governments | **8,853** | **8,642** | **8,853** | **8,642** | **5,428** | **4,083** | **5,428** | **4,083** |
| 080 | of which: issued by financial corporations | **3,261** | **1,791** | **3,261** | **1,791** | **15,642** | **10,832** | **15,642** | **10,832** |
| 090 | of which: issued by non-financial corporations | **46** | **46** | **46** | **46** | **90** | **76** | **90** | **76** |
| **120** | **Other assets** | **82,207** | **7,261** | | | **497,825** | **63,062** | | |

| | | 31 Dec 2022 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Carrying amount of encumbered assets | | Fair value of encumbered assets | | Carrying amount of unencumbered assets | | Fair value of unencumbered assets | |
| | | | of which notionally eligible EHQLA and HQLA | | of which notionally eligible EHQLA and HQLA | | of which EHQLA and HQLA | | of which EHQLA and HQLA |
| | | £m | £m | £m | £m | £m | £m | £m | £m |
| 010 | Total Assets | 97,534 | 18,534 | | | 527,690 | 76,158 | | |
| 030 | Equity instruments | — | — | — | — | 241 | — | 241 | — |
| 040 | Debt securities[1] | 11,816 | 11,740 | 11,816 | 11,740 | 17,489 | 13,716 | 17,489 | 13,716 |
| 050 | of which: covered bonds | 2 | 2 | 2 | 2 | 2,590 | 2,579 | 2,590 | 2,579 |
| 060 | of which: securitisations | — | — | — | — | 3,329 | 995 | 3,329 | 995 |
| 070 | of which: issued by general governments | 8,989 | 8,913 | 8,989 | 8,913 | 2,481 | 2,481 | 2,481 | 2,481 |
| 080 | of which: issued by financial corporations | 2,649 | 2,649 | 2,649 | 2,649 | 14,703 | 9,947 | 14,703 | 9,947 |
| 090 | of which: issued by non-financial corporations | 1 | 1 | 1 | 1 | 410 | 398 | 410 | 398 |
| 120 | Other assets | 85,892 | 7,029 | | | 510,185 | 63,478 | | |

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

## **Asset Encumbrance** continued

## AE2: Collateral received and own debt securities issued

| | | 31 Dec 2023 | | | | 31 Dec 2022 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Unencumbered | | | | Unencumbered | |
| | | Fair value of encumbered collateral received or own debt securities issued | | Fair value of collateral received or own debt securities issued available for encumbrance | | Fair value of encumbered collateral received or own debt securities issued | | Fair value of collateral received or own debt securities issued available for encumbrance | |
| | | | of which notionally eligible EHQLA and HQLA | | of which EHQLA and HQLA | | of which notionally eligible EHQLA and HQLA | | of which EHQLA and HQLA |
| | | £m | £m | £m | £m | £m | £m | £m | £m |
| 130 | Collateral received by the reporting institution | **17,557** | **16,603** | **26,676** | **25,607** | 26,616 | 26,616 | 41,502 | 41,202 |
| 140 | Loans on demand | **—** | **—** | **—** | **—** | — | — | — | — |
| 150 | Equity instruments | **—** | **—** | **—** | **—** | — | — | — | — |
| 160 | Debt securities[1] | **17,557** | **16,603** | **26,676** | **25,607** | 26,616 | 26,616 | 41,502 | 41,202 |
| 170 | of which: covered bonds | **32** | **24** | **1,616** | **1,586** | — | — | 802 | 785 |
| 180 | of which: securitisations | **56** | **56** | **450** | **450** | 150 | 150 | 391 | 391 |
| 190 | of which: issued by general governments | **15,729** | **15,561** | **21,774** | **20,134** | 25,406 | 25,406 | 36,985 | 36,985 |
| 200 | of which: issued by financial corporations | **1,703** | **955** | **2,862** | **2,862** | 1,131 | 1,131 | 3,673 | 3,501 |
| 210 | of which: issued by non-financial corporations | **190** | **190** | **2,319** | **2,263** | 45 | 45 | 1,803 | 1,792 |
| 241 | Own covered bonds and asset-backed securities issued and not yet pledged | | | **8,585** | **—** | | | 5,110 | — |
| **250** | **Total assets, collateral received and own debt securities issued** | **113,064** | **34,134** | | | 122,642 | 45,035 | | |

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.

## AE3: Source of encumbrance

| | | 31 Dec 2023 | | 31 Dec 2022 | |
|---|---|---|---|---|---|
| | | Matching liabilities, contingent liabilities or securities lent | Assets, collateral received and own debt securities issued other than covered bonds and securitisations encumbered | Matching liabilities, contingent liabilities or securities lent | Assets, collateral received and own debt securities issued other than covered bonds and securitisations encumbered |
| | | £m | £m | £m | £m |
| 010 | Carrying amount of selected financial liabilities[1] | **70,046** | **95,983** | 78,632 | 111,222 |

1 Consists of derivatives, deposits and debt securities issued.

**Asset Encumbrance** continued

## UK AE4: Accompanying narrative information

### (a) Information on asset encumbrance

The reported values represent the median of the values reported to the regulator via quarterly supervisory returns over the period 31 Dec 2022 to 31 Dec 2023.

Encumbered assets and encumbered collateral received on a median basis has decreased in 2023 compared to the prior year. On a Dec 2023 spot basis, encumbered assets have increased year on year due to securitisations and covered bond issuances.

### (b) Information on the impact of the business model on levels of encumbrance and the importance of encumbrance on the finding model

The Group Asset and Liability Committee monitor and manage total balance sheet encumbrance, including via a defined risk appetite. The Group primarily encumbers mortgages and credit card receivables through the issuance of covered bonds and securitisation and by way of it's participation in the Bank of England's TFSME scheme together with tradable securities through securities financing activity via repo and stock lending. The majority of assets encumbered are in the UK banking entities with no significant intragroup encumbrance. In covered bonds and securitisations the Group will encumber assets in excess of the matching liabilities in line with the requirements of the relevant programmes.

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. In terms of securities accepted as collateral, mandates are asset class and credit rating driven with appropriate notional limits per rating, asset and individual bond concentration. The 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.

Row 120 of Template UK AE1 includes loans and advances, where mortgages, credit card receivables, car loans and social housing loans may be encumbered through securitisation and covered bonds and the Bank of England's TFSME scheme. Corresponding liabilities are reported in Row 010 of Template UK AE3. Some assets may be encumbered which are not associated with any liability. These include assets used in payment systems and the Cash Ratio Deposit scheme.

The Group separately identifies unencumbered assets which are available to meet any future possible funding requirements, further details are included on page 184 of the 2023 Lloyds Banking Group plc Annual Report and Accounts.

# Interest rate risk in the banking book (IRRBB)

## IRRBBA: IRRBB risk management objectives and policies

**Risk control and measurement of IRRBB**

The Group generates interest rate risk by virtue of the origination of customer assets and liabilities and any mismatch between these.

Interest rate risk can change the value of the Group's cash flows/ income in a number of ways. The main sources of interest rate risk in the banking book are yield curve changes, basis risk, margin risk, rate reset risk, prepayment risk, withdrawal risk, other embedded optionality and pre-hedging risk.

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. The Group risk appetite is cascaded first to the Group Asset and Liability Committee (GALCO), chaired by the Chief Financial Officer, where risk appetite is approved and monitored by risk type, and then to the Group Market Risk Committee (GMRC) where risk appetite is sub-allocated by division. These metrics are reviewed regularly by senior management to inform effective decision-making.

The 'three lines of defence' model defines clear responsibilities and accountabilities and ensures effective independent oversight and assurance activities take place covering key decisions.

**IRRBB management and mitigation strategies.**

GALCO is responsible for approving and monitoring Group market risks, management techniques, market risk measures, behavioural assumptions, and the market risk policy. Various mitigation activities are assessed and undertaken across the Group to manage portfolios and seek to ensure they remain within approved limits. The mitigation actions will vary dependent on exposure but will, in general, look to reduce risk in a cost effective manner by offsetting balance sheet exposures and externalising to the financial markets dependent on market liquidity.

**The periodicity of the calculation of the institution's IRRBB measures, and a description of the specific risk measures that the institution's uses to gauge its sensitivity to IRRBB, including changes to its economic value and earnings**.

Interest rate risk exposure is monitored monthly using, primarily:

- Market value sensitivity: this methodology considers all repricing mismatches (behaviourally adjusted where appropriate) in the current balance sheet and calculates the change in market value.

- Interest income sensitivity: this measures the impact on future net interest income arising from various economic scenarios.

Supplementary measures such as sensitivity and exposure limits are applied where they provide greater insight into risk positions. Frequency of reporting supplementary measures varies from daily to quarterly appropriate to each risk type.

**A description of the interest rate shock and stress scenarios that the institution uses to estimate changes in its economic value and in earnings.**

The change in market value is measured as a result from an instantaneous 25, 100 and 200 basis points parallel rise or fall in the yield curve.

For interest income sensitivities, scenarios include instantaneous 25, 100 and 200 basis point parallel shifts in all yield curves along with the Group economic scenarios.

These scenarios are reviewed every year and are designed to replicate severe but plausible economic events, capturing risks that would not be evident through the use of parallel shocks alone such as basis risk and steepening or flattening of the yield curve. Additional negative rate scenarios are also used, where floors are removed, to ensure that this risk is monitored; however, these are not measured against the limit framework for the purposes of risk appetite.

Additionally, the Group monitors the changes in economic value of equity (EVE) and net interest income (NII) against the six scenarios prescribed by the PRA. These included parallel shocks along with steepener, flattener, short rates up and short rates down scenarios. From the six scenarios prescribed by the PRA, net interest income sensitivity is measured against the parallel up and parallel down shocks. Results of which are found in table IRRBB1.

**Key modelling and parametric assumptions used in calculating change in economic value of equity (ΔEVE) and change in net interest income (ΔNII) in UK IRRBB1**.

The Group has applied the rules set out by the regulator in Annex XXXVII of the disclosure requirements of the PRA Rulebook in the calculation of both EVE and NII sensitivity. A high-level description of key modelling and parametric assumptions for each metric is given below:

EVE Sensitivity

- The spot balance sheet as at the reporting date is assumed to run off - cashflows are grouped into the appropriate duration.

- Equity is excluded from the calculation given the purpose of the calculation is to assess the sensitivity of the Group's economic value of equity.

- Dynamic prepayment profiles are applied to the Group's mortgage book for each of the 6 prescribed interest rate shocks.

- Interest cashflows are included until the next reset date or maturity date (whichever is first).

- Non maturing deposits (NMDs) are assumed to reprice overnight unless deemed interest rate insensitive, in which case the Group's own assessment of duration is applied.

- The yield curve at the report date is instantaneously shocked in line with the six prescribed interest rate scenarios.

NII Sensitivity

- Balance sheet volumes and margins are held static for the 12 month calculation period - new business replaces maturing business on a like for like basis.

- Behavioural and pass on assumptions are applied for managed rate products.

- The calculation includes product specific flooring where appropriate.

- The calculation doesn't include the impact of any management actions which may be taken in the prescribed interest rate scenarios.

**Significant modelling assumptions used in the institution's internal measurement systems (IMS) for purposes other than disclosure that differ from the modelling assumptions prescribed for the disclosure in UK IRRBB1, including their directional implications and the rationale for those differences.**

The Group's approach to the internal calculation of value sensitivity includes equity, which is assumed to reprice to an agreed profile, this significantly reduces the value sensitivity in an upward rate shock.

The interest rate pass on assumption used for NII disclosures is an illustrative percentage which differs from the more granular assumptions used internally. In addition, internal models use a forecast of balance sheet and margins rather than the static approach required by the regulation. As a result, internal models show a lower level of risk under the two prescribed scenarios.

## **IRRBBA: IRRBB risk management objectives and policies** continued

**A high-level description of how the institution hedges its IRRBB, as well as the associated accounting treatment.**

The Group's policy is to optimise reward while managing its market risk exposures within the risk appetite defined by the Board. The Group market risk policy and procedures outlines the hedging process, and the centralisation of risk from divisions into Group Corporate Treasury (GCT), e.g. via the transfer pricing framework. GCT is responsible for managing the centralised risk and does this through natural offsets of matching assets and liabilities, and appropriate hedging activity of the residual exposures, subject to the authorisation and mandate of GALCO within the Board risk appetite. The hedges are externalised to the market by derivative desks within GCT and the Commercial Bank. The Group mitigates income statement volatility through hedge accounting. This reduces the accounting volatility arising from the Group's economic hedging activities and any hedge accounting ineffectiveness is continuously monitored.

The largest residual risk exposure arises from balances that are deemed to be insensitive to changes in market rates (including current accounts, a portion of variable rate deposits and investable equity), and is managed through the Group's structural hedge. Consistent with the Group's strategy to deliver stable returns, GALCO seeks to minimise large reinvestment risk, and to smooth earnings over a range of investment tenors. The structural hedge consists of longer term fixed rate assets or interest rate swaps and the amount and duration of the hedging activity is reviewed regularly by GALCO.

While the Group faces uncertainty in customer behaviour due to a higher rate environment, its exposure to increased pipeline and prepayment risks are managed through hedging in line with expected customer behaviour. These are appropriately monitored and controlled through divisional Asset and Liability Committees (ALCOs).

**Any other information which the institution wishes to disclose regarding its interpretation of the significance and sensitivity of the IRRBB measures disclosed and/or an explanation of any significant variations in the level of the reported IRRBB since previous disclosures.**

### EVE Sensitivity

The Group monitors EVE sensitivity monthly through the Supervisory Outlier Test ensuring compliance with the ΔEVE as a percentage of Tier 1 capital regulatory limit of 15% . As described above, the main driver of risk is the exclusion of the Group's own equity, as a result of this the most severe outcome for the Group is the parallel up scenario.

### NII Sensitivity

The Group also monitors NII sensitivity against the two prescribed parallel shocks on a quarterly basis. The most severe outcome for the Group is the parallel down scenario, and the main drivers are reduced sensitivity from structural interest rate hedging and timing delays associated with the repricing of administered deposits. Note product specific floors are based on internal assumptions.

## IRRBB1: Quantitative information on IRRBB

The table below shows the Group's exposure to movements in interest rates based on the 6 prescribed scenarios defined by rule 9.7 of the ICAA part of the PRA Rulebook.

Average repricing maturity assigned to non-maturing deposits (NMDs).

The average repricing maturity of the Group's NMDs is 2.1 years. The calculation includes both profiled balances and those that are assumed to reprice overnight.

Longest repricing maturity assigned to NMDs.

The longest repricing maturity assigned to NMDs is 10 years.

| | | ΔEVE | | ΔNII | | Tier 1 capital | |
|---|---|---|---|---|---|---|---|
| | | **31 Dec 2023** | 31 Dec 2022 | **31 Dec 2023** | 31 Dec 2022 | **31 Dec 2023** | 31 Dec 2022 |
| | | **£m** | £m | **£m** | £m | **£m** | £m |
| 010 | Parallel shock up | **(1,658)** | (1,529) | **1,218** | 1,150 | | |
| 020 | Parallel shock down | **(13)** | 283 | **(1,527)** | (1,684) | | |
| 030 | Steepener shock | **252** | 367 | | | | |
| 040 | Flattener shock | **(617)** | (875) | | | | |
| 050 | Short rates shock up | **(1,095)** | (1,227) | | | | |
| 060 | Short rates shock down | **324** | 608 | | | | |
| 070 | Maximum | **(1,658)** | (1,529) | **(1,527)** | (1,684) | | |
| 080 | Tier 1 capital | | | | | **31,238** | 30,194 |

# Remuneration (REMA)

This section discloses the remuneration awards made by the Group to Material Risk Takers (MRTs) in respect of the 2023 performance year and provides additional information with respect to the Group's remuneration policies, structure and governance.

The remuneration principles and practices detailed in the Directors' Remuneration Report (DRR) in the 2023 Lloyds Banking Group Annual Reports and Accounts on pages 108 to 132 apply to MRTs and non-MRTs in the same way as to Executive Directors (other than were noted in the DRR).

The Group has applied the Remuneration Part of the PRA's Rulebook, and SYSC 19 of the Financial Conduct Authority's Handbook as well as associated guidance, 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

## Remuneration Policy

The Group has a strong belief in aligning remuneration with the successful performance of the business and, through this, the delivery of long-term, superior and sustainable returns to shareholders.

During 2023 the Ring Fence Bank Remuneration Committee comprised of seven independent non-executive directors, including Alan Dickinson who stepped down as Chair in November 2023, and held 5 scheduled meetings.

Since its appointment in 2022, Price Waterhouse Coopers (PwC) has provided independent remuneration advice to the Committee. PwC also provided professional services to the Group in the ordinary course of business including tax, advisory internal audit & non-audit assurance services. PwC has no other connections with the Group's Directors that may impair their independence as advisers to the Committee.

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.html. These Terms are reviewed each year to ensure compliance with applicable regulations and best practice guidelines and were last updated in February 2024.

The overarching purpose of the Remuneration Committee is to oversee the design of, and recommend to the Board an overall remuneration policy for the Group that is aligned with its long-term business strategy, its business objectives, its risk appetite, purpose and values and the long-term interests of the Group, and recognises the interests of relevant stakeholders, including the wider workforce.

The remuneration policy governs all aspects of remuneration and applies in its entirety firm-wide to all colleagues, contractors, seconded and temporary staff, including MRTs, in all entities and subsidiaries in the Group, including wholly owned overseas businesses.

The Committee reviews the policy annually and monitors the level and structure of remuneration for Executive Directors, GEC members and attendees, senior risk and compliance officers, high earners and any other MRTs.

In 2022, the Remuneration Committee performed a thorough review of the Directors' Remuneration Policy (DRP) to inform changes for 2023, in order to more closely align variable reward outcomes with the delivery of the Group's growth-oriented strategy and the creation of shareholder value. Input was sought from a range of key stakeholders, including institutional shareholders. The updated DRP was overwhelmingly approved at the 2023 AGM on 18 May 2023 and took effect from that date.

The most significant policy change in 2023 was the adoption of a Long-Term Incentive Plan ("LTIP") for our executive directors and Group Executive Committee members intended to more closely align variable reward outcomes to the Group's performance.

## 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 Group.

The Remuneration Committee receives input from the Chief Risk Officer, approved by the Board Risk Committee, to ensure that the Group Performance Share (GPS) outcome properly reflects risk considerations including whether the proposed GPS outcome and performance assessments adequately reflect the risk appetite and framework of the Group; whether it takes account of current and future risks; and whether any further risk adjustment is recommended.

A strong risk governance model is in place which manages against the Group's appetite for risk. The risk types considered are set out in the Risk Management Framework and include Market risk, Credit risk, Funding and Liquidity risk, Capital risk, People risk, Operational risk, Conduct risk, Regulatory and legal risk, Governance risk, financial reporting risk and Insurance risk.

The Remuneration Committee ensures that the aggregate variable remuneration for all colleagues is appropriate and balanced with the interests of shareholders and all other stakeholders.

## 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 delivery of the Group's purpose of Helping Britain Prosper, whilst delivering long-term superior and sustainable returns to shareholders. To this end, the performance management process has been developed, with input from Group Risk, to ensure there is a clear alignment between award outcomes and individual contribution, performance, behaviours and growth.

Our balanced scorecard provides transparency on how our performance directly aligns with remuneration outcomes for 2023 GPS, including for our executive directors.

In addition, the Remuneration Committee and/or Board Risk Committee may also use Performance adjustment which may result in a reduction of up to 100 per cent of the discretionary annual bonus (GPS) opportunity for the relevant period. It can be applied on a collective or individual basis. When considering collective adjustment, a report is submitted to the Remuneration Committee regarding any adjustments required to balanced scorecards or the overall GPS and outcome to reflect in-year or prior year risk matters.

The application of malus will generally be considered when:

- there is reasonable evidence of employee misbehaviour or material error or that they participated in conduct which resulted in losses for the Group or failed to meet appropriate standards of fitness and propriety;
- there is material failure of risk management at a Group, business area, division and/or business unit level;
- the Committee determines that the financial results for a given year do not support the level of variable remuneration awarded; and/or
- any other circumstances where the Committee consider adjustments should be made.

## Remuneration (REMA) continued

Judgement on individual performance adjustment is informed by considering the severity of the issue including its impact on customers, clients or other stakeholders, the individual's proximity to the issue and the individual's behaviour in respect of any necessary investigation or remediation. Individual adjustment may be applied through adjustments to balanced scorecard assessments and/or through reducing the variable remuneration outcome.

100% of variable awards are subject to clawback for a period of up to seven years after the date of award which may be extended to 10 years where there is an ongoing internal or regulatory investigation.

The application of clawback will generally be considered when:

– there is reasonable evidence of employee misbehaviour or material error; or
– there is material failure of risk management at a Group, business area, division and/or business unit level.

## Design and Structure of Remuneration

When establishing the remuneration policy and associated frameworks, the Group is required to consider 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 stringent 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 approved by shareholders at the 2014 AGM is 200 per cent.

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 in respect of the 2023 performance year.

## Base salary

Base salaries are reviewed annually, taking into account an individual's role, responsibilities as well as market information. Further information on base salaries can be found on pages 110 and 123 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

## Fees

Chair and Non-Executive Director fees provide an appropriate reward to attract and retain a high-calibre individual with the relevant skills, knowledge and experience. Non-Executive Director fees are reviewed periodically by the Board.

Further information on fees can be found on page 117 and 132 of the 2023 Directors' Remuneration Report.

## Fixed share award / Role based allowance

The fixed share award, made annually, delivers Lloyds Banking Group shares over a period of three years. Role based allowances are delivered monthly in cash. The purpose of the fixed share award/role based allowance 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 and role based allowance 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.

Applies to:

– Executive Directors, members/attendees of the Group Executive Committee and their respective direct reports
– Colleagues performing a Senior Management Function
– Other employees (with eligibility based on seniority and role)

## 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. 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 benefits are set out on page 112 and 129 of the 2023 Directors Remuneration Report.

The Chair receives an all-inclusive fee, which is reviewed periodically plus benefits including life insurance, medical insurance and transportation. NEDs are reimbursed for expenses incurred in the course of their duties, such as travel and accommodation expenses on a grossed-up basis (where applicable).

Details of Non-Executive Directors' benefits are set out on page132 of the 2023 Directors Remuneration Report.

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

# **Remuneration (REMA)** continued

## 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 (excluding NEDs) participate in the GPS plan. Individual GPS awards are based upon individual financial and non-financial performance, including risk management performance, as well as the Group's overall results. The Group's total risk-adjusted GPS outcome is determined by the Remuneration Committee annually with the Group's underlying profit as starting point, taking account of:

- 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, including information on the 2023 Group Balanced Scorecard outcome, can be found on pages 113 and 123 of the 2023 Directors Remuneration Report.

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 Incentive Plan 2023

Following the launch of the Group's new strategy in February 2022, which looks to deepen relationships with our customers and meet more of their financial needs, the Committee conducted a thorough review of the Group's remuneration policy to ensure it supports the Group's strategic priorities and the interests of our shareholders. The Committee concluded that returning to a performance based long term incentive plan ("LTIP") would deliver stronger alignment with our strategic objectives by supporting a more demanding performance culture and providing the opportunity to directly link vesting outcomes to delivery of the strategy and the realisation of its benefits for shareholders.

The LTIP was approved by shareholders at the 2023 AGM, and immediately replaced the previous LTSP.

The level of award will be determined with reference to a pre-grant test based on an assessment of performance by the Committee. The grant price of shares to be awarded may be discounted to reflect that the directors are not eligible for dividends on unvested awards.

Awards will be subject to forward looking performance measures based on financial and other strategic and environmental measures set out in the annual report on remuneration each year; performance will be measured over a period of not less than 3 years as determined by the Committee.

No more than 25 per cent of the award will vest for threshold performance. 100 per cent of the award will vest for achieving the maximum performance. Where performance falls between threshold, target and maximum levels, an intermediate number of awards will vest.

Awards will vest in five equal annual instalments which will not start before the third anniversary of grant; each vesting will be subject to a further holding period as required by regulation.

The Committee retains full discretion to amend the vesting levels should the outcome not reflect business and/or individual performance including risk and conduct outcomes. The Committee may reduce (including to zero) the level of the award, apply additional conditions to the vesting, or delay the vesting of awards to a specified date or until conditions set by the Committee are satisfied, where it considers it appropriate.

Further detail on the LTIP, including the applicable performance measures, can be found on page 124 of the 2023 Directors' Remuneration Report.

Applies to:

Members/attendees of the Group Executive Committee only

## Long Term Share Plan (replaced by the 2023 Long Term Incentive Plan)

The LTSP was implemented as the Group's long-term incentive opportunity in 2020 to reflect the Group's strategy at the time and our stable long-term business model and to align executive management and behaviour to the Group's objectives of delivering long-term superior and sustainable returns.

The plan has subsequently been replaced by the new Long Term Incentive Plan which was approved by shareholders at the AGM held in 2023.

Senior colleagues, including MRTs, were eligible to participate in the plan. Individual awards were based upon individual contribution.

Awards were made in the form of conditional shares and award levels were set at the time of grant, in compliance with regulatory requirements, and could be subject to a discount in determining total variable remuneration under the rules set by the PRA. Vesting of awards is subject to an assessment of three financial underpins and four key questions assessed over the three-year life of the award. Awards for MRTs are subject to deferral and a holding period in line with regulatory requirements and market practice.

Further detail on the LTSP, including the applicable financial underpins and four key questions, can be found on page 115 of the 2023 Directors Remuneration Report.

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 may be 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). For Senior Management Function holders, this period may be extended to ten years where there is an ongoing internal or regulatory investigation. Clawback may be used alongside other performance adjustment processes.

Further information on deferral, vesting and performance adjustment can be found on page 131 of the Lloyds Banking Group Annual Report and Accounts.

## De Minimis

In 2023, the Ring Fenced Bank relied on the 'de minimis' derogation under Sections 12.2(2) and 15.A1 (3) of the PRA Rulebook (Remuneration Part), and the equivalent provisions of SYSC 19D, in respect of the number of individuals (including non-executive directors) as detailed in the table below, and to each of whom Sections 12.2 and 15.15 to 15.19 of the PRA Rulebook (Remuneration Part) (and the equivalent provisions of SYSC 19D) therefore did not apply.

| De-Minimis | Total Fixed Remuneration (£) | Total Variable Remuneration (£) | Total Remuneration (£) |
|---|---|---|---|
| 24 | 4,021,261 | 148,159 | 4,169,420 |

**Remuneration (REMA)** continued

## Guaranteed variable remuneration

Guarantees, such as lost opportunity awards made to compensate for bonus awards that have been forfeited upon resignation, 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

For Executive Directors the minimum shareholding requirement are expected to meet are as follows: 350 per cent of base salary for the Group Chief Executive and 250 per cent of base salary for other Executive Directors. These requirements will increase to 400 per cent and 300 per cent respectively from 1 January 2024. Executive Directors will have five years from appointment to achieve the shareholding requirement.

Applies to:

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

## Termination payments

It is the Group's policy that where notice pay continues to be payable after termination, it should be paid on a phased basis, mitigated if alternative employment is secured. See pages 132 to 133 of the 2023 Directors Remuneration Policy which formed part of the 2023 Annual Report and Accounts.

Generally, on termination of employment, unvested Group Performance Share awards, Group Ownership Share awards, Long Term Share Plan awards, Long Term Incentive awards and other rights to payments will lapse except where termination falls within redundancy, retirement/ill health, injury, permanent disability, death, change of control or merger or another reason where the Remuneration Committee determines that the executive should be treated as a good leaver.

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

– All colleagues performing a Senior Management Function

– Other MRTs

– Non-MRTs

# Remuneration continued

## 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 | 2 | 16 | 187 |
| | Total fixed remuneration | £3,290,576 | £3,905,093 | £17,172,009 | £62,457,326 |
| | Of which: cash-based | £3,290,576 | £1,955,195 | £14,997,868 | £55,679,914 |
| | Of which: shares or equivalent ownership interests[1] | – | £1,554,000 | – | – |
| | Of which: share-linked instruments or equivalent non-cash instruments | – | – | – | – |
| | Of which: other instruments | – | – | – | – |
| | Of which: other forms | – | £395,898 | £2,174,141 | £6,777,412 |
| Variable remuneration | Number of identified staff | – | 2 | 15 | 179 |
| | Total variable remuneration | – | £6,643,283 | £21,507,008 | £46,174,927 |
| | Of which: cash-based | – | £1,099,015 | £3,139,247 | £22,266,606 |
| | Of which: deferred | – | – | £133,930 | £10,192,870 |
| | Of which: shares or equivalent ownership interests[3] | – | £5,544,268 | £18,367,762 | £23,908,321 |
| | Of which: deferred | – | £4,445,253 | £15,362,443 | £10,371,158 |
| | 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** | | £3,290,576 | £10,548,376 | £38,679,017 | £108,632,253 |

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 discounted value at grant. An EBA discount factor has been applied to awards made in 2024 in respect of performance year 2023.
4. Fixed Remuneration is calculated using annualised salary.

## **Remuneration** continued

### 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 | – | – | – | 2 |
| Guaranteed variable remuneration awards -Total amount | – | – | – | £618,719 |
| Of which guaranteed variable remuneration awards paid during the financial year, that are not taken into account in the bonus cap | – | – | – | – |
| **Severance payments awarded in previous periods, that have been paid out during the financial year** | | | | |
| Severance payments awarded in previous periods, that have been paid out during the financial year - Number of identified staff | – | – | – | – |
| Severance payments awarded in previous periods, that have been paid out during the financial year - Total amount | – | – | – | – |
| **Severance payments awarded during the financial year** | | | | |
| Severance payments awarded during the financial year - Number of identified staff | – | – | 1 | 13 |
| Severance payments awarded during the financial year - Total amount | – | – | £18,969 | £3,724,828 |
| Of which paid during the financial year | – | – | – | £1,547,100 |
| Of which deferred | – | – | £18,969 | £2,177,727 |
| 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 | – | – | £18,969 | £431,058 |

## **Remuneration** continued

## 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 | **£923,948** | **£210,654** | **£713,294** | – | – | – | **£210,654** | – |
| Shares or equivalent ownership interests | **£11,901,252** | **£1,409,070** | **£10,492,182** | – | – | – | **£778,057** | **£631,013** |
| Share-linked instruments or equivalent non-cash instruments | – | – | – | – | – | – | – | – |
| Other instruments | – | – | – | – | – | – | – | – |
| Other forms | – | – | – | – | – | – | – | – |
| **Other senior management** | | | | | | | | |
| Cash-based | **£4,940,614** | **£756,984** | **£4,183,630** | – | – | – | **£756,984** | – |
| Shares or equivalent ownership interests | **£39,345,455** | **£6,830,636** | **£32,514,819** | – | – | – | **£5,297,156** | **£1,533,481** |
| Share-linked instruments or equivalent non-cash instruments | – | – | – | – | – | – | – | – |
| Other instruments | – | – | – | – | – | – | – | – |
| Other forms | – | – | – | – | – | – | – | – |
| **Other identified staff** | | | | | | | | |
| Cash-based | **£5,187,890** | **£951,682** | **£4,236,208** | – | – | – | **£951,682** | – |
| Shares or equivalent ownership interests | **£72,382,559** | **£20,126,585** | **£52,255,974** | – | – | – | **£11,332,925** | **£8,793,660** |
| Share-linked instruments or equivalent non-cash instruments | – | – | – | – | – | – | – | – |
| Other instruments | – | – | – | – | – | – | – | – |
| Other forms | – | – | – | – | – | – | – | – |
| **Total amount** | **£134,681,718** | **£30,285,610** | **£104,396,107** | – | – | – | **£19,327,457** | **£10,958,153** |

1. Non-Executive Directors are not eligible to receive variable remuneration.

## **Remuneration** continued

## REM4: Remuneration of 1 million EUR or more per year[1,2,3]

| EUR | Identified staff that are high earners as set out in Article 450(i) CRR |
|---|---|
| 1 000 000 to below 1 500 000 | 30 |
| 1 500 000 to below 2 000 000 | 8 |
| 2 000 000 to below 2 500 000 | 3 |
| 2 500 000 to below 3 000 000 | 5 |
| 3 000 000 to below 3 500 000 | 1 |
| 3 500 000 to below 4 000 000 | 4 |
| 4 000 000 to below 4 500 000 | 1 |
| 4 500 000 to below 5 000 000 | 1 |
| 5 000 000 to below 6 000 000 | — |
| 6 000 000 to below 7 000 000 | — |
| 7 000 000 to below 8 000 000 | 1 |

1. Converted to Euros using £1: €1.15574 (the exchange used by the European Commission for financial programming for December 2023). The exchange rate used for 2022 was £1 = £1: €1.15985.
2. Values for Long Term Share Plan awards are based on discounted value at grant. An EBA discount factor has been applied to awards made in 2024 in respect of performance year 2023.
3. Total number of Material Risk Takers earning more than €1m has increased from 45 in 2022 to 54 in 2023.

## 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** | | | | | | | | | | **214** |
| Of which: members of the MB | 12 | 2 | 14 | | | | | | | |
| Of which: other senior management | | | | — | 6 | — | 3 | 2 | 5 | |
| Of which: other identified staff | | | | — | 72 | — | 53 | 36 | 23 | |
| **Total remuneration of identified staff** | £3,290,576 | £10,548,376 | £13,838,952 | — | £56,641,905 | — | £36,932,355 | £27,451,111 | £26,285,900 | |
| Of which: variable remuneration | — | £6,643,283 | £6,643,283 | — | £26,994,846 | — | £16,633,779 | £12,313,244 | £11,740,066 | |
| Of which: fixed remuneration | £3,290,576 | £3,905,093 | £7,195,669 | — | £29,647,059 | — | £20,298,575 | £15,137,867 | £14,545,834 | |

1. Retail Banking includes Consumer Lending, Consumer Relationship, Business & Commercial Banking and Corporate & Institutional Banking.

# Appendix 1: Board of Directors (OVB)

## Board Diversity Policy

The Board Diversity Policy (the "Policy") sets out the Board's approach to diversity and provides a high level indication of the Board's approach to inclusion and diversity in senior management roles which is governed in greater detail, through the Group's policies.

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 are reviewed on a regular basis. On gender diversity, the Board is committed to maintaining at least four women Board members and over time will aim to reach 50 per cent representation of men and women on the Board to match the 50 per cent ambition that the Group has set for women in senior roles. Reflecting these aspirations, the Board will also aim to meet the recommendations set out by the FTSE Women Leaders review. Female representation on the Board is currently 42.9 per cent (based on six female Directors and eight 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 colleagues by 2025. The Board will therefore aim to reflect this goal with regard to Board members.

As noted, the Board places high emphasis on ensuring the development of diversity in the senior management roles within the Group and supports and oversees the Group's ambition of achieving 50 per cent of senior roles held by women by 2025, and of 13 per cent of senior roles held by Black, Asian and Minority Ethnic colleagues by 2025 (including a minimum of 3 per cent of senior roles being held by Black Heritage colleagues). This is underpinned by a range of policies within the Group to help provide mentoring and development opportunities for women and Black, Asian and Minority Ethnic colleagues and to ensure unbiased career progression opportunities. Progress on this objective is monitored by the Board and built into its assessment of executive performance.

## Board of Directors

**Sir Robin Budenberg CBE**

Chair

**Appointed:** October 2020 (Board), January 2021 (Chair)

**Skills, experience and contribution:**

– Extensive financial services and investment banking experience

– Strong governance and strategic advisory skills in relation 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 is a qualified Chartered Accountant.

**External appointments:**

Chair of The Crown Estate.

**Alan Dickinson**

Deputy Chair

**Appointed**: September 2014 (Board), May 2020 (Deputy Chair)

**Skills, experience and contribution:**

– Highly regarded retail and commercial banker

– Strong strategic, risk management 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. Alan was Senior Independent Director of the Company between December 2019 and September 2023.

**External appointments:**

Non-Executive Director of the England and Wales Cricket Board.

**Cathy Turner**

Senior Independent Director

**Appointed:** November 2022 (Board), September 2023 (Senior Independent Director)

**Skills, experience and contribution:**

– Significant executive and non-executive financial services experience

– Knowledge of complex remuneration matters

– Communications expertise with a broad range of stakeholders including investors, regulators, government, media and unions

Cathy has significant financial services experience, having worked in senior executive positions at Barclays plc and at the Group. Cathy has previously been a Non-Executive Director and Chair of the Remuneration Committee of Aldermore Group plc, Quilter plc and Countrywide plc.

**External appointments:**

Non-Executive Director and Chair of the Remuneration Committee of Rentokil Initial plc and Non-Executive Director, Senior Independent Director and Chair of the Remuneration Committee of Spectris plc. Partner on a part-time basis at Manchester Square Partners LLP.

## **Appendix 1: Board of Directors (OVB)** continued

**Sarah Legg**
Independent 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 executive career in financial services with almost 30 years at HSBC. She was the Group Financial Controller, a Group General Manager, and CFO for HSBC's Asia Pacific region. She also spent eight years as a Non-Executive Director of Hang Seng Bank Limited.

**External appointments:**
Non-Executive Director and Chair of the Audit and Risk Committee of Severn Trent plc, a Trustee of the Lloyds Bank Foundation for England and Wales, Board Member of the Audit Committee Chair's Independent Forum and Chair of the Campaign Advisory Board, King's College, Cambridge University.

**Lord Lupton CBE**
Independent non-executive director and Chair of Lloyds Bank Corporate Markets plc

**Appointed:** June 2017 (Board), August 2017 (Chair of Lloyds Bank Corporate Markets plc)

**Skills, experience and contribution:**
- Extensive international corporate experience, especially in financial markets
- Strong board governance experience, including investor relations
- 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 LVO OBE**
Independent non-executive director

**Appointed:** October 2018

**Skills, experience and contribution:**
- Extensive experience in ESG matters including responsible business and sustainability
- Strong customer engagement and digital technology experience
- Significant marketing and brand background

Amanda was Chief Executive of Business in the Community, of which King Charles III is the Royal Founding Patron and which promotes responsible business and corporate responsibility. Prior to that role, she was a member of Aviva's Group Executive for seven 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:**
Non-Executive Director of The British Land Company plc, Chair of The Queen's Reading Room and trustee of the charity Cumberland Lodge.

**Harmeen Mehta**
Independent non-executive director

**Appointed:** November 2021

**Skills, experience and contribution:**
- Over 25 years' experience leading digital and complex transformation
- Experience of building and running technology-led businesses and creating new ventures
- A wealth of international and financial services knowledge having lived in 11 countries and worked across 30 countries on six continents

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.

**Scott Wheway**
Independent non-executive director and Chair of Scottish Widows Group

**Appointed:** August 2022 (Board), September 2022 (Chair of Scottish Widows Group)

**Skills, experience and contribution:**
- Significant financial services board and chair experience
- Extensive knowledge and experience of large-scale banking and insurance businesses
- Track record as a non-executive and executive in customer-centric companies

Scott was appointed Chair of Centrica plc in 2020 where he has served on the board since 2016. Scott was formerly Chair of AXA UK plc, Chair of Aviva Insurance Limited, a Non-Executive Director of Aviva plc and Senior Independent Director of Santander UK plc. He worked as an executive in the retail sector for over 25 years where he held positions including chief executive officer of Best Buy Europe, managing director of Boots the Chemist plc and a number of senior executive positions at Tesco plc.

**External appointments:**
Chair of Centrica plc.

**Catherine Woods**
Independent 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 and Deputy Chair of BlackRock Asset Management Ireland Limited.

## **Appendix 1: Board of Directors (OVB)** continued

**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 five years.

**External appointments:**

None

**William Chalmers**

Executive director and Chief Financial Officer

**Appointed:** August 2019

**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 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 J P Morgan, again in the Financial Institutions Group.

**External appointments:**

None

**Kate Cheetham**

Chief Legal Officer and Company Secretary

**Appointed:** July 2019

**Skills, experience and contribution:**

– Significant legal and governance leadership experience within financial services

– Strategic functional planning and development, corporate, mergers and acquisitions, regulation and risk management

Kate became Group General Counsel (now Chief Legal Officer) in May 2015 and Company Secretary in July 2019. Kate joined the Group in 2005 from Linklaters, where she was a corporate lawyer specialising in mergers and acquisitions transactions. Before her current roles, Kate held a number of senior positions including Deputy Group General Counsel and General Counsel for Group Legal.

**External appointments:**

None

**Nigel Hinshelwood**

Senior Independent Director Lloyds Bank plc and Bank of Scotland plc

**Appointed:** January 2019

**Skills, experience, and contribution:**

– Extensive experience in the financial services sector in the UK and worldwide

– 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 his positions included 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 several 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:**

Deputy Chair and Chair designate of Ikano Bank AB, Chair of AXA XL Underwriting Agencies Limited and AXA XL Insurance Company UK Limited, International Advisory Council Member of Adobe Systems Software Ireland Limited, Advisory Council Member of International Association of Credit Portfolio Managers and Member of the Finance and Risk Committee of Business in the Community.

**Sarah Bentley**

Non-executive 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 Chair of the Gender Equality Leadership Team at Business in the Community. She was formerly Chief Executive Officer and Executive Director of Thames Water Utilities Limited and Director of Water UK, the trade association of the water and wastewater industry. Prior to those roles, Sarah was Chief Customer Officer at Severn Trent plc and a member of its Executive Committee and the Managing Partner for Accenture's Digital business unit in the UK & Ireland. She has 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:**

Chair of the Gender Equality Leadership Team at Business in the Community (BITC) – His Majesty King Charles III's Responsible Business Network.

**Brendan Gilligan**

Non-executive director Lloyds Bank plc and Bank of Scotland plc

**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 Credit Management Group Limited and Chairman of its Audit and Risk Committees.

# Appendix 2: Excluded disclosures

The Pillar 3 templates listed below are required to be disclosed on a annual basis but have been excluded from his report for the reasons indicated. 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.

| Abbreviation | Template name | Reason for exclusion |
|---|---|---|
| INS1 | Insurance participations | Not applicable to the Group |
| INS2 | Financial conglomerates information on own funds and capital adequacy ratio | Not applicable to the Group |
| CR2a | Changes in the stock of non-performing loans and advances and related net accumulated recoveries | Threshold for disclosure not met |
| CQ2 | Quality of forbearance | Threshold for disclosure not met |
| CQ6 | Collateral valuation – loans and advances | Threshold for disclosure not met |
| CQ7 | Collateral obtained by taking possession and execution processes | No collateral taken into possession is recognised on the balance sheet |
| CQ8 | Collateral obtained by taking possession and execution processes – vintage breakdown | No collateral taken into possession is recognised on the balance sheet |
| CR7 | IRB – Effect on the RWAs of credit derivatives used as CRM techniques | Excluded on materiality basis |
| CR10.4 | Specialised lending: Commodities finance (Slotting approach) | Not applicable to the Group |
| CR10.5 | Equity exposures under the simple risk weighted approach | Not applicable to the Group |
| CCR7 | RWA flow statements of CCR exposures under the IMM | Not applicable to the Group |
| SEC2 | Securitisation exposures in the trading book | Excluded on materiality basis |
| MR2-B | Risk-weighted assets flow statements of market risk exposures under an IMA | |
| MR1 | Market risk under standardised approach | |
| MR2-A | Market risk under internal models approach | |
| MR3 | IMA values for trading portfolios | |
| MR4 | Comparison of VaR estimates with gains/losses | Excluded on materiality basis |

# 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 |
| AVA | Additional Valuation Adjustment |
| **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** | |
| DRR | Director Remuneration Report |
| DVA | Debit valuation adjustment |
| **E** | |
| EAD | Exposure at default |
| EBA | European Banking Authority |
| ECAI | External Credit Assessment Institutions |
| EEL | Excess expected loss |
| EHQLA | Extremely high quality liquid assets |
| 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 Banking Group plc together with its subsidiary undertakings on a consolidated basis |
| G-SIB | Global Systemically Important Bank |
| **H** | |
| HGP | Housing Growth Partnership |
| 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 |
| IQT | Independent Quantitative Testing |
| IRBA | 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 |
| LDP | Low default portfolio |
| LGD | Loss given default |
| LIBOR | London Interbank Offer Rate |
| LTIP | Long term incentive plan |
| LTSP | Long term share plan |
| LTV | Loan-to-value |
| **M** | |
| MGC | Model Governance Committee |
| Moody's | Moody's Investors Service |
| MRT | Material Risk Taker |
| MTM | Mark-to-market |
| **N** | |
| NCO | Non Credit Obligation |
| NED | Non Executive Director |
| NMD | Non Maturing Deposits |
| **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 |
| PSE | Public Sector Entities |
| PVA | Prudent valuation adjustment |
| **Q** | |
| QCCP | Qualifying Central Counterparty |
| QRRE | Qualifying revolving retail exposure |
| **R** | |
| RBA | Ratings Based Approach |
| Retail IRB | Retail Internal Ratings Based Approach |
| RMBS | Residential mortgage-backed security |
| RNIV | Risks not in VaR |
| **S** | |
| S&P | Standard and Poor's |
| SA-CCR | Standardised Approach or Counterparty Credit Risk |
| 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 |
| SSPE | Securitisation special purpose entity |
| STA | Standardised Approach |
| SVaR | Stressed value-at-risk |

| | |
|---|---|
| **SYSC** | Senior Management Arrangements, Systems and Controls |
| | **T** |
| **TTC** | Through-the-cycle |
| **T1** | Tier 1 capital |
| **T2** | Tier 2 capital |
| | **U** |
| **UFCP** | Unfunded Credit Protection |
| **UK** | United Kingdom |
| **UKFI** | UK Financial Investments |
| **US** | United States of America |
| | **V** |
| **VaR** | Value-at-risk |

# 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. 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