Lloyds Banking Group plc

2022 Year-End
Pillar 3 Disclosures

31 December 2022

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FORWARD LOOKING STATEMENTS

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

Executive summary

COMMON EQUITY TIER 1 (CET1) RATIO

The Group's CET1 capital ratio reduced to 15.1 per cent (31 December 2021: 17.3 per cent) largely reflecting a reduction on 1 January 2022 for regulatory changes. This included the reinstatement of the full deduction treatment for intangible software assets, phased and other reductions in IFRS 9 transitional relief and an increase in risk-weighted assets. Subsequent to this, banking business profits for the year and dividends received from the Insurance business during the year were offset by pension contributions made to the defined benefit pension schemes, the impact of the ordinary share buyback programme that completed during the year, ordinary dividends paid and accrued and other equity distributions. The pro forma CET1 capital ratio at 31 December 2022 was 14.1 per cent, reflecting the dividend received from the Insurance business in February 2023 and [the accrual for the announced ordinary share buyback programme.]

TOTAL CAPITAL RATIO

The Group's total capital ratio reduced to 19.7 per cent (31 December 2021: 23.6 per cent) reflecting the reduction in CET1 capital, the derecognition of legacy AT1 and Tier 2 capital instruments following the completion of the transition to end-point eligibility rules for regulatory capital on 1 January 2022, instrument repurchases, the impact of interest rate increases and regulatory amortisation on eligible Tier 2 capital instruments and the increase in risk-weighted assets. This was partially offset by the issuance of new AT1 and Tier 2 capital instruments, the impact of sterling depreciation and an increase in eligible provisions recognised through Tier 2 capital.

MREL RATIO

The Group's minimum requirement for own funds and eligible liabilities (MREL) ratio reduced to 31.7 per cent (31 December 2021: 37.2 per cent), reflecting the increase in risk-weighted assets, reduction in total capital and a reduction in other eligible liabilities. The latter largely reflected the derecognition of senior unsecured debt instruments with less than one year to maturity, calls and interest rate increases, partially offset by new issuances and sterling depreciation.

UK LEVERAGE RATIO

The Group's UK leverage ratio reduced to 5.6 per cent (31 December 2021: 5.8 per cent) primarily reflecting the reduction in the total tier 1 capital position. This was partially offset by a reduction in the leverage exposure measure which largely reflected a reduction in securities financing transactions and optimisation activity in respect of the measure for off-balance sheet items.

RISK-WEIGHTED ASSETS

Risk-weighted assets increased by £15 billion during the year to £211 billion. An increase of £16 billion on 1 January 2022 reflected regulatory changes including the anticipated impact of the implementation of new CRD IV models to meet revised regulatory standards for modelled outputs. A £1 billion reduction during the year (subsequent to the 1 January 2022 regulatory changes) largely reflected optimisation activity and Retail model reductions reflecting the resilient underlying credit performance, partly offset by the growth in balance sheet lending and the impact of foreign exchange movements.

LIQUIDITY COVERAGE RATIO

The Group's liquidity coverage ratio (LCR) increased to 144 per cent (based on a monthly rolling average over the previous 12 months) as at 31 December 2022 (31 December 2021: 135 per cent). The increase in LCR is explained primarily by an increase in liquid assets from the Bank of England Term Funding Scheme with additional incentives for SMEs (TFSME) drawdowns in 2021.

Introduction

This document presents the consolidated Pillar 3 disclosures of Lloyds Banking Group plc ('the Group') as at 31 December 2022.

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 Part of the PRA Rulebook. This incorporates Part Eight of the Capital Requirements Regulation ('CRR') and includes revised disclosure requirements applicable from 1 January 2022 following the UK implementation of the remaining provisions of Capital Requirements Regulation II ('CRR 2').

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 2022 Lloyds Banking Group plc Annual Report and Accounts (page 91) 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 2022 Pillar 3 disclosures have been prepared in accordance with the internal control processes agreed upon at the management body level.

PILLAR 3 REQUIREMENTS NOT INCLUDED IN EITHER THE ANNUAL REPORT AND ACCOUNTS OR THE LLOYDS BANKING GROUP PILLAR 3 REPORT

RING-FENCED BANK SUB-GROUP PILLAR 3 DISCLOSURES

In line with UK ring-fencing legislation, the Group's ring-fenced bank sub-group (Lloyds Bank Group) is required to publish consolidated Pillar 3 disclosures.

The Lloyds Bank Group Pillar 3 disclosures will be published in conjunction with the Lloyds Bank plc Annual Report and Accounts.

LARGE SUBSIDIARY DISCLOSURES (CRR II ARTICLE 13)

Additional disclosures surrounding the capital resources, leverage exposures and capital requirements of Bank of Scotland plc and Lloyds Bank Corporate Markets plc will be published separately in conjunction with the Annual Report and Accounts for these subsidiaries.

G-SIB DISCLOSURE (CRR ARTICLE 441(1))

The Group is not currently classified as a Global Systemically Important Bank (G-SIB), however, by virtue of the Group's leverage exposure measure exceeding €200 billion the Group is required to report G-SIB indicator metrics to the PRA. The Group's indicator metrics used within the 2022 Basel G-SIBs annual exercise will be disclosed from April 2023 and the results are expected to be made available by the Basel Committee later this year.

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

A description of the main features of common equity tier 1 (CET1), additional tier 1 (AT1) and tier 2 (T2) capital instruments issued by the Group and its large subsidiaries are included in a separate document on the Group's website located at www.lloydsbankinggroup.com/investors/financial-downloads. In addition, the report identifies and provides a description of the main features of debt instruments that are recognised as eligible liabilities in accordance with the Bank of England's MREL framework.

ENVIRONMENTAL SUSTAINABILITY REPORT 2022

The Environmental Sustainability Report covers the Group's progress against the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and recommended disclosures, along with the Group's approach to addressing the broader environmental and associated governance areas. The Group continues to gather pace in understanding the risks and opportunities that climate change presents for its business and customers. The 2022 report provides an update on the Group's progress towards its ambitions, along with the activities it is undertaking to help customers and stakeholders. The report also sets out the work the Group is doing to better understand and manage its climate-related risks. The report can be located on the Group's website located at www.lloydsbankinggroup.com/investors/financial-downloads.

Disclosure policy

The Group maintains a Pillar 3 Disclosure Policy to support compliance with the Disclosure Part 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

This document incorporates revised disclosure requirements applicable from 1 January 2022 following the UK implementation of the remaining provisions of CRR 2. In general, comparatives are not provided for new or substantially revised disclosure templates where these are included in the disclosures for the first time.

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

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

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

Article 432 of the CRR on non-material, proprietary or confidential information permits institutions to omit one or more disclosures if the information provided by such a disclosure is not regarded as material. As the Group's portfolio of trading book securitisation positions is relatively small (£18m exposure, £3m risk-weighted assets) in the context of both the overall trading book and the Group's banking book securitisation positions, the Group has elected to provide only limited disclosure around its trading book securitisation positions. Appendix 2 includes a list of excluded disclosures and the reason for exclusion.

Following the completion of the transition to end-point eligibility rules on 1 January 2022, legacy tier 1 and tier 2 capital instruments subject to the original CRR transitional rules have now been fully removed from regulatory capital. A single legacy tier 2 capital instrument of £5m (as at 31 December 2022) remains eligible under the revised transitional rules of CRR 2 which extend the grandfathering period for certain eligible legacy instruments.

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

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

BASIS OF CREDIT RISK EXPOSURES

To ensure compliance with 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 52 to 95).

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

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

FREQUENCY, MEDIA AND LOCATION

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

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 Part of the PRA Rulebook.

VERIFICATION

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

RISK PROFILE DISCLOSURE

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

The Group's Pillar 3 disclosures focus primarily on capital risk and the key risk categories behind the Group's Pillar 1 capital requirements (credit, counterparty credit, market, operational and liquidity risks), providing granular information and analysis.

The 2022 Lloyds Banking Group 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, including data risk, people risk, climate risk and strategic amongst others.

The relevant analysis is presented in the following sections of the 2022 Lloyds Banking Group plc Annual Report and Accounts:

- Risk overview, pages 38 to 41;
- Emerging risks, page 145;
- Risk categories, page 147.

Executive Summary (continued)

KM1: Key Metrics[1,3]

KM1		31 Dec 2022	30 Sep 2022	30 Jun 2022	31 Mar 2022	31 Dec 2021
Ref	**Available own funds (amounts)**					
1	Common Equity Tier 1 (CET1) capital (£m)	**31,865**	31,571	30,743	29,816	33,815
2	Tier 1 capital (£m)	**36,036**	35,607	35,101	34,174	39,145
3	Total capital (£m)	**41,580**	40,885	40,502	39,735	46,334
	Risk-weighted exposure amounts					
4	Total risk-weighted exposure amount (£m)	**210,859**	210,822	209,619	210,220	195,967
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 ratio (%)	**15.1 %**	15.0 %	14.7 %	14.2 %	17.3 %
6	Tier 1 ratio (%)	**17.1%**	16.9%	16.7%	16.3%	20.0%
7	Total capital ratio (%)	**19.7%**	19.4%	19.3%	18.9%	23.6%
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)					
UK 7a	Additional CET1 SREP requirements (%)	**1.5 %**	1.9 %	2.0 %	2.0 %	2.1 %
UK 7b	Additional AT1 SREP requirements (%)	**0.5%**	0.7%	0.7%	0.7%	0.7%
UK 7c	Additional T2 SREP requirements (%)	**0.7%**	0.9%	0.9%	0.9%	0.9%
UK 7d	Total SREP own funds requirements (%)	**10.7%**	11.5%	11.5%	11.5%	11.7%
	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 (%)	**0.895%**	0.007%	0.008%	0.005%	0.005%
10a	Other Systemically Important Institution buffer (%)[2]	**—**	—	—	—	—
11	Combined buffer requirement (%)	**3.395%**	2.507%	2.508%	2.505%	2.505%
UK 11a	Overall capital requirements (%)	**14.1%**	14.0%	14.0%	14.0%	14.2%
12	CET1 available after meeting minimum SREP own funds requirements (%)[4]	**9.1%**	8.6%	8.2%	7.7%	10.7%
	Leverage ratio					
13	Total exposure measure excluding claims on central banks (£m)	**638,815**	665,993	656,459	663,025	664,362
14	Leverage ratio excluding claims on central banks (%)	**5.6 %**	5.3 %	5.3 %	5.2 %	5.8 %
	Additional leverage ratio disclosure requirements					
UK 14a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)	**5.6 %**	5.3 %	5.3 %	5.1 %	5.7 %
UK 14b	Leverage ratio including claims on central banks (%)	**4.9 %**	4.8 %	4.7 %	4.5 %	5.2 %
UK 14c	Average leverage ratio excluding claims on central banks (%)[5]	**5.5 %**	5.4 %	5.3 %	5.3 %	5.8 %
UK 14d	Average leverage ratio including claims on central banks (%)	**4.9 %**	4.8 %	4.6 %	4.7 %	5.2 %
UK 14e	Countercyclical leverage ratio buffer (%)[6]	**0.3%**	0.0%	0.0%	0.0%	0.0%
	Average Liquidity Coverage Ratio (weighted) (LCR)[7]					
15	Total high-quality liquid assets (HQLA) (Weighted value -average) (£m)	**144,682**	148,545	145,894	144,247	140,222
UK 16a	Cash outflows - Total weighted value - average (£m)	**114,557**	114,539	115,298	115,635	114,229
UK 16b	Cash inflows - Total weighted value - average (£m)	**14,275**	12,796	12,387	11,288	10,028
16	Total net cash outflows (adjusted value - average) (£m)	**100,282**	101,743	102,911	104,347	104,201
17	Average liquidity coverage ratio (%)	**144%**	146%	142%	138%	135%

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% risk weight to the consequential Standardised credit risk exposure add-back as permitted under paragraph 7a of the revisions. As at 31 December 2022, static relief under the transitional arrangements amounted to £232 million (31 December 2021: £353 million) and dynamic relief under the transitional arrangements amounted to £358 million (31 December 2021: £428 million) through CET1 capital.

2 Although the Group does not have an Other Systemically Important Institution (O-SII) buffer, it is required to hold additional CET1 capital to meet its Ring-Fenced Bank's O-SII buffer of 2.0 per cent, which equates to 1.7 per cent of the Group's total risk-weighted exposure amount.

3 The Group has chosen not to apply the temporary treatment specified under CRR Article 468 (revised) and therefore the reported own funds, capital and leverage ratios already reflect the full impact of unrealised gains and losses on holdings in government and public sector debt measured at fair value through other comprehensive income.

4 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). In October 2022 the PRA reduced the Group's Pillar 2A capital requirement to around 2.7 per cent of risk-weighted assets, of which around 1.5 per cent is to be met with CET1 capital.

5 The average leverage exposure measure (excluding claims on central banks) for the period from 1 October 2022 to 31 December 2022 amounted to £658,435 million.

6 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 2022 was 0.9 per cent (31 December 2021: 0.6 per cent), of which 0.6 per cent equates to the additional leverage ratio buffer (ALRB) of 0.7 per cent applied to the Ring-Fenced Bank.

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

Executive Summary (continued)

Capital - IFRS 9 / Article 468-FL[1]

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 2022	30 Sep 2022	30 Jun 2022	31 Mar 2022	31 Dec 2021
	Available own funds (amounts)					
1	Common Equity Tier 1 (CET1) capital (£m)	**31,865**	31,571	30,743	29,816	33,815
2	CET1 capital as if IFRS 9 transitional arrangements had not been applied (£m)	**31,275**	31,101	30,478	29,565	33,033
3	Tier 1 capital (£m)	**36,036**	35,607	35,101	34,174	39,145
4	Tier 1 capital as if IFRS 9 transitional arrangements had not been applied (£m)	**35,446**	35,136	34,835	33,922	38,363
5	Total capital (£m)	**41,580**	40,885	40,502	39,735	46,334
6	Total capital as if IFRS 9 transitional arrangements had not been applied (£m)	**41,480**	40,791	40,402	39,629	46,336
	Risk-weighted exposure amounts					
7	Total risk-weighted exposure amount (£m)	**210,859**	210,822	209,619	210,220	195,967
8	Total risk-weighted exposure amount as if IFRS 9 transitional arrangements had not been applied (£m)	**210,573**	210,554	209,451	210,065	195,874
	Capital ratios (as a percentage of risk-weighted exposure amount)					
9	Common Equity Tier 1 ratio (%)	**15.1%**	15.0 %	14.7 %	14.2 %	17.3 %
10	CET1 ratio as if IFRS 9 transitional arrangements had not been applied (%)	**14.9%**	14.8%	14.6%	14.1%	16.9%
11	Tier 1 ratio (%)	**17.1%**	16.9%	16.7%	16.3%	20.0%
12	Tier 1 ratio as if IFRS 9 transitional arrangements had not been applied (%)	**16.8%**	16.7%	16.6%	16.1%	19.6%
13	Total capital ratio (%)	**19.7%**	19.4%	19.3%	18.9%	23.6%
14	Total capital ratio as if IFRS 9 transitional arrangements had not been applied (%)	**19.7%**	19.4%	19.3%	18.9%	23.7%
	Leverage ratio					
15	Total exposure measure excluding claims on central banks (£m)	**638,815**	665,993	656,459	663,025	664,362
16	Leverage ratio excluding claims on central banks (%)	**5.6%**	5.3%	5.3%	5.2%	5.8%
17	Leverage ratio excluding claims on central banks as if IFRS 9 transitional arrangements had not been applied (%)	**5.6%**	5.3%	5.3%	5.1%	5.7%

1 The Group has chosen not to apply the temporary treatment specified under CRR Article 468 (revised) and therefore the reported own funds, capital and leverage ratios already reflect the full impact of unrealised gains and losses on holdings in government and public sector debt measured at fair value through other comprehensive income.

KM2: Key Metrics – TLAC requirements

		31 Dec 2022	30 Sep 2022	30 Jun 2022	31 Mar 2022	31 Dec 2021
				Resolution Group[1]		
		£m		£m	£m	£m
1	Total loss absorbing capacity (TLAC) available	**66,830**	69,068	67,892	66,448	72,954
1a	Fully loaded ECL accounting model TLAC available	**66,729**	68,974	67,792	66,342	72,956
2	Total RWA at the level of the resolution group	**210,859**	210,822	209,619	210,220	195,967
3	TLAC as a percentage of RWA	**31.7%**	32.8%	32.4%	31.6%	37.2%
3a	Fully loaded ECL accounting model TLAC as a percentage of fully loaded ECL accounting model RWA	**31.7%**	32.8%	32.4%	31.6%	37.2%
4	UK leverage ratio exposure measure at the level of the resolution group	**638,815**	665,993	656,459	663,025	664,362
5	TLAC as a percentage of UK leverage ratio exposure measure	**10.5%**	10.4%	10.3%	10.0%	11.0%
5a	Fully loaded ECL accounting model TLAC as a percentage of fully loaded ECL accounting model UK leverage ratio exposure measure	**10.5%**	10.4%	10.3%	10.0%	11.0%
6a	Does the subordination exemption in the antepenultimate paragraph of Section 11 of the FSB TLAC Term Sheet apply?	**No**	No	No	No	No
6b	Does the subordination exemption in the penultimate paragraph of Section 11 of the FSB TLAC Term Sheet apply?	**No**	No	No	No	No
6c	If the capped subordination exemption applies, the amount of funding issued that ranks pari passu with excluded liabilities and that is recognised as external TLAC, divided by funding issued that ranks pari passu with excluded liabilities and that would be recognised as external TLAC if no cap was applied (%)	**N/a**	N/a	N/a	N/a	N/a

1 The consolidated position of Lloyds Banking Group plc (the resolution entity).

Executive Summary (continued)

OV1: Overview of risk-weighted assets

		Total RWA		Total own funds requirements
		31 Dec 2022	31 Dec 2021[1]	31 Dec 2022
		£m	£m	£m
1	**Credit risk (excluding CCR)[1]**	**170,474**	156,904	**13,638**
2	Of which the standardised approach[1]	23,119	21,628	1,850
3	Of which the foundation IRB (FIRB) approach	37,479	38,207	2,998
4	Of which slotting approach	9,021	9,048	722
UK 4a	Of which equities under the simple risk weighted approach[1]	13,672	15,314	1,094
5	Of which the advanced IRB (AIRB) approach	81,091	65,450	6,487
	Of which: non-credit obligation assets[2]	6,092	7,258	487
6	**Counterparty credit risk - CCR[1]**	**6,532**	5,939	**523**
7	Of which the standardised approach	5,488	—	439
	Of which: marked to market[1]	—	4,401	—
UK 8a	Of which exposures to a CCP	96	522	8
UK 8b	Of which credit valuation adjustment - CVA	621	678	50
9	Of which other CCR	327	338	26
16	**Securitisation exposures in the non-trading book (after the cap)[1]**	**6,397**	5,945	**512**
17	Of which SEC-IRBA approach	2,176	2,188	174
18	Of which SEC-ERBA (including IAA)[1]	1,657	1,978	133
19	Of which SEC-SA approach[1]	2,564	1,779	205
20	**Position, foreign exchange and commodities risks (Market risk)**	**3,215**	3,153	**257**
21	Of which the standardised approach	204	353	16
22	Of which IMA	3,011	2,800	241
23	**Operational risk**	**24,241**	24,025	**1,939**
UK 23b	Of which standardised approach	24,241	24,025	1,939
24	**Memo: Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)[1]**	11,883	12,359	951
29	**Total**	**210,859**	195,967	**16,869**
	Pillar 2A capital requirement[3]			5,681
	Total capital requirement			**22,550**

1 Restated in accordance with revised OV1 template requirements: (i) threshold balances now reported through relevant underlying category; (ii) counterparty credit risk exposures linked to securitisations now reported through securitisation exposures.

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

3 As at 31 December 2022, the Pillar 2A capital requirement was around 2.7 per cent of risk-weighted assets, of which around 1.5 per cent was to be met with CET1 capital.

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 and PRA Rulebook 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 and investment operations of the Group. All banking and investment services 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. Other undertakings in which the Group holds a 'participation', or where it is otherwise deemed that the Group exerts significant influence over the undertaking, may require to be consolidated on a proportional (pro-rata) basis where those undertakings fall under the scope of the regulatory consolidation. This follows line-by-line (accounting) consolidation based upon the ownership share in the undertaking. Such undertakings may include joint ventures and associates as recognised under accounting standards. In certain circumstances, a holding in a participation or an undertaking over which the Group otherwise exerts significant influence may be deducted from capital rather than proportionally consolidated.

Insurance undertakings are excluded from the calculation of consolidated capital requirements and consolidated capital resources. The Group's investments in insurance undertakings are instead subject to threshold rules under the regulations that determine the extent to which the investments can be risk-weighted with remaining amounts deducted from capital in accordance with the rules. The regulatory consolidation group diagram presented below highlights the key insurance undertakings of the Group that are excluded from the scope of the regulatory consolidation. The capital requirements for the regulated insurance undertakings within the Group and the capital available to meet those requirements are regularly assessed in accordance with Solvency II requirements in order to ensure that the undertakings are sufficiently capitalised. The minimum required capital for each regulated insurance undertaking must be maintained at all times throughout the year on either an individual or consolidated basis as required.

Venture capital investments that are not classified as financial institutions and investments held by the Group in respect of which it does not have the ability to exert significant influence are included within the calculation of capital requirements, being treated as equity exposures. The underlying assets of these investments are neither consolidated nor deducted.

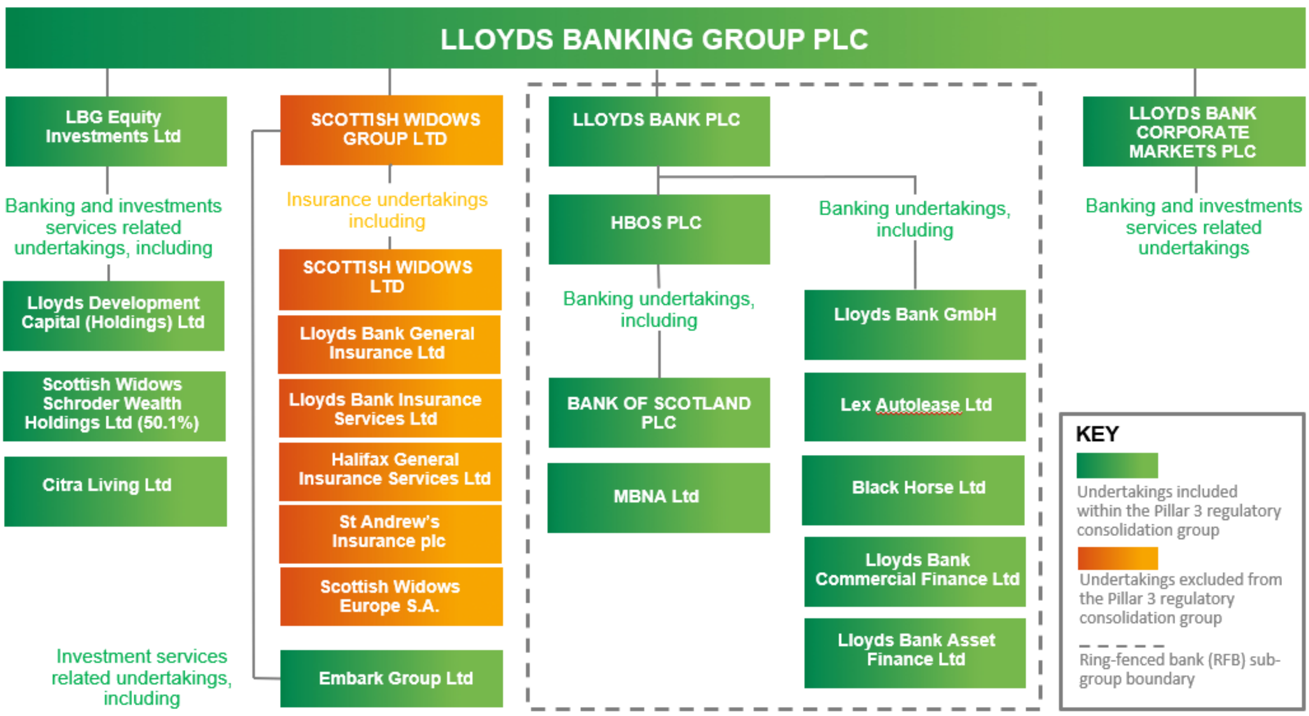
The full list of undertakings where the regulatory method of consolidation or treatment differs from the accounting method of consolidation or treatment is provided on pages 16 to 18.

Management practice and policy ensures that capital adequacy is maintained at all levels of banking and insurance consolidation 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's ring-fenced bank remains adequately capitalised and any conflicts independently governed. In addition, constraints are imposed over the available capital resources of the Group's life assurance business. There are no other material barriers to such transfers or repayments.

REGULATORY CONSOLIDATION GROUP

A summarised diagrammatical representation as at 31 December 2022 of the regulatory consolidation group upon which the disclosures presented within this document are based is provided below. In November 2022 MBNA Limited, a subsidiary undertaking, was transferred internally from Lloyds Bank plc to Bank of Scotland plc.



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 2022 on an accounting consolidation basis (as presented on pages 212 and 213 of the 2022 Lloyds Banking Group 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

		31 Dec 2022						
				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	subject to market risk framework	not subject to capital requirements or subject to deduction from capital[1]
		£m	£m	£m	£m	£m	£m	£m
	Assets							
1	Cash and balances at central banks	**91,388**	**91,388**	91,388	—	—	—	—
2	Items in course of collection from banks	**242**	**242**	242	—	—	—	—
3	Financial assets at fair value through profit or loss	**180,609**	**20,335**	4,654	12,079	—	14,216	969
4	Derivative financial instruments	**24,753**	**25,465**		23,961	—	21,817	—
5	Loans and advances to banks	**10,632**	**10,601**	7,504	3,097	—	—	—
6	Loans and advances to customers	**454,899**	**454,855**	426,991	1,898	25,966	—	—
7	Reverse repurchase agreements	**44,865**	**44,865**	2,012	42,853	—	—	—
8	Debt securities	**9,926**	**9,269**	9,076	—	193	—	—
9	Financial assets at amortised cost	**520,322**	**519,590**	445,583	47,848	26,159	—	—
10	Financial assets at fair value through other comprehensive income	**23,154**	**23,154**	22,903	—	—	—	251
11	Reinsurance assets	**616**	**—**	—	—	—	—	—
12	Investments in joint ventures and associates	**385**	**159**	—	—	—	—	159
13	Investment in subsidiaries	**—**	**9,279**	3,671	—	—	—	5,608
14	Goodwill	**2,655**	**550**	—	—	—	—	550
15	Value of in-force business	**5,419**	**—**	—	—	—	—	—
16	Other intangible assets	**4,786**	**4,772**	32	—	—	—	4,740
17	Current tax recoverable	**612**	**571**	571	—	—	—	—
18	Deferred tax assets	**5,228**	**6,281**	1,160	—	—	—	5,121
19	Retirement benefit assets	**3,823**	**3,823**	—	—	—	—	3,823
20	Other assets	**13,837**	**10,344**	10,344	—	—	—	—
21	**Total assets**	**877,829**	**715,953**	**580,548**	**83,888**	**26,159**	**36,033**	**21,221**

		31 Dec 2022						
		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	subject to market risk framework	not subject to capital requirements or subject to deduction from capital[1]
		£m	£m	£m	£m	£m	£m	£m
	Liabilities							
1	Deposits from banks	**7,266**	**7,114**	—	—	—	—	7,114
2	Customer deposits	**475,331**	**476,009**	—	5,152	—	—	470,857
3	Repurchase agreements at amortised cost	**48,596**	**48,596**	—	48,596	—	—	—
4	Items in course of transmission to banks	**372**	**372**	—	—	—	—	372
5	Financial liabilities at fair value through profit or loss	**17,755**	**17,735**	—	11,037	—	12,577	—
6	Derivative financial instruments	**24,042**	**23,305**	—	22,066	—	17,533	—
7	Notes in circulation	**1,280**	**1,280**	—	—	—	—	1,280
8	Debt securities in issue	**73,819**	**72,736**	—	—	—	—	72,736
9	Liabilities arising from insurance contracts and participating investment contracts	**106,893**	**—**	—	—	—	—	—
10	Liabilities arising from non-participating investment contracts	**42,975**	**—**	—	—	—	—	—
11	Other liabilities	**19,090**	**6,868**	—	—	—	—	6,868
12	Retirement benefit obligations	**126**	**126**	—	—	—	—	126
13	Current tax liabilities	**8**	**6**	—	—	—	—	6
14	Deferred tax liabilities	**216**	**189**	—	—	—	—	189
15	Other provisions	**1,809**	**1,659**	—	—	—	—	1,659
16	Subordinated liabilities	**10,730**	**9,379**	—	—	—	—	9,379
17	**Total liabilities**	**830,308**	**665,374**	**—**	**86,851**	**—**	**30,110**	**577,269**

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. See CC1 and CC2.

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

		Total	Items subject to			
			Credit risk framework	CCR framework	Securitisation framework	Market risk framework
		£m	£m	£m	£m	£m
1	Assets carrying value amount under the scope of regulatory consolidation (as per template LI1)	**726,628**	**580,548**	**83,888**	**26,159**	**36,033**
2	Liabilities carrying value amount under the regulatory scope of consolidation (as per template LI1)	**116,961**	**—**	**86,851**	**—**	**30,110**
3	Total net amount under the regulatory scope of consolidation	**609,667**	**580,548**	**(2,963)**	**26,159**	**5,923**
4	**Off-balance-sheet amounts**	**294,594**	142,649	145,382	6,563	
5	Differences in valuations	**—**	—	—	—	
6	Differences due to different netting rules, other than those already included in row 2	**(118,401)**	—	(118,401)	—	
7	Differences due to consideration of provisions	**3,860**	3,860	—	—	
8	Differences due to the use of credit risk mitigation techniques (CRMs)	**—**	—	—	—	
9	Differences due to credit conversion factors	**(64,776)**	(64,776)	—	—	
10	Differences due to Securitisation with risk transfer	**—**	—	—	—	
11	Other differences	**26,132**	17,800	8,525	(193)	
12	**Exposure amounts considered for regulatory**	**751,076**	**680,081**	**32,543**	**32,529**	**5,923**

Scope of consolidation (continued)

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

(a) Differences between accounting and regulatory scopes of consolidation in table UK LI1

Insurance undertakings are included in the published financial statements but excluded from the scope of the Group's regulatory consolidation. Therefore, assets and liabilities relating to the Group's insurance undertakings require to be removed from the regulatory balance sheet. The regulatory consolidation group diagram on page 12 highlights the key undertakings of the Group that are excluded from the scope of regulatory consolidation.

(b) 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[1,2,6]

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation: Full consolidation	Proportional consolidation	Equity Method	Neither consolidation nor deducted	Deducted	Description of entity
Associates[3]							
MOTABILITY OPERATIONS GROUP PLC	Equity					x	Rental and leasing activities
THOUGHT MACHINE GROUP LIMITED	Equity					x	Business and domestic software development
LOYALTY ANGELS LIMITED (T/A BINK)	Equity					x	Business and domestic software development
SATAGO FINANCIAL SOLUTIONS LIMITED	Equity					x	Factoring
HUB INVESTMENT HOLDINGS LIMITED	Equity					x	Activities of financial services holding companies
SCOTTISH WIDOWS SCHRODER PERSONAL WEALTH LIMITED	Equity		x				Financial management
SCOTTISH WIDOWS SCHRODER PERSONAL WEALTH (ACD) LIMITED	Equity		x				Financial intermediation not elsewhere classified
SCOTTISH WIDOWS SCHRODER WEALTH HOLDINGS LIMITED	Equity		x				Activities of financial services holding companies
HOUSING GROWTH PARTNERSHIP II	Equity		x				Private Fund Limited Partnership
Securitisation SPEs[4]							
CANCARA ASSET SECURITISATION LTD	Full Consolidation				x		Special Purpose Entity
CHELTENHAM SECURITIES 2017 LIMITED	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. 11) UK LTD	Full Consolidation				x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 13) UK LTD	Full Consolidation				x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 14) UK LTD	Full Consolidation				x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 15) UK LTD	Full Consolidation				x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 16) UK LTD	Full Consolidation				x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 19) UK LTD	Full Consolidation				x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 20) LTD	Full Consolidation				x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 24) LTD	Full Consolidation				x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 25) UK LTD	Full Consolidation				x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 26) UK LTD	Full Consolidation				x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 27) UK LTD	Full Consolidation				x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 28) LTD	Full Consolidation				x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 29) LTD	Full Consolidation				x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 30) UK LTD	Full Consolidation				x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 31) UK LTD	Full Consolidation				x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 32) UK LTD	Full Consolidation				x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 33) UK LTD	Full Consolidation				x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 34) UK LTD	Full Consolidation				x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 35) LTD	Full Consolidation				x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 36) UK LTD	Full Consolidation				x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 37) UK LTD	Full Consolidation				x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 38) UK LTD	Full Consolidation				x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 39) UK LTD	Full Consolidation				x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 40) UK LTD	Full Consolidation				x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 41) UK LTD	Full Consolidation				x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 44) UK LTD	Full Consolidation				x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 45) UK LTD	Full Consolidation				x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 46) UK LTD	Full Consolidation				x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 47) UK LIMITED	Full Consolidation				x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 48) UK LIMITED	Full Consolidation				x		Special Purpose Entity

		Method of regulatory consolidation					
Name of the entity	Method of accounting consolidation	Full consolidation	Proportional consolidation	Equity Method	Neither consolidation nor deducted	Deducted	Description of entity
HOUSING ASSOCIATION RISK TRANSFER 2019 DAC	Full Consolidation				x		Special Purpose Entity
SALISBURY II SECURITIES 2016 LTD	Full Consolidation				x		Special Purpose Entity
SALISBURY II-A SECURITIES 2017 LIMITED	Full Consolidation				x		Special Purpose Entity
SALISBURY III Securities 2019 DAC	Full Consolidation				x		Special Purpose Entity
SALISBURY SECURITIES 2015 LTD	Full Consolidation				x		Special Purpose Entity
WETHERBY SECURITIES 2017 LIMITED	Full Consolidation				x		Special Purpose Entity
WETHERBY II SECURITIES 2018 DAC	Full Consolidation				x		Special Purpose Entity
WETHERBY III SECURITIES 2019 DAC	Full Consolidation				x		Special Purpose Entity
Insurance subsidiaries[5]							
SCOTTISH WIDOWS GROUP LTD	Full Consolidation					x	Activities of head offices; management consultancy activities
SCOTTISH WIDOWS LTD	Full Consolidation					x	Insurance, reinsurance and pension funding, except compulsory social security
CLERICAL MEDICAL NON STERLING PROPERTY COMPANY SARL	Full Consolidation					x	Financial service activities, except insurance and pension funding
CM VENTURE INVESTMENTS LTD	Full Consolidation					x	Financial service activities, except insurance and pension funding
DALKEITH CORPORATION	Full Consolidation					x	Financial service activities, except insurance and pension funding
FRANCE INDUSTRIAL PREMISES HOLDING COMPANY	Full Consolidation					x	Financial service activities, except insurance and pension funding
HALIFAX GENERAL INSURANCE SERVICES LTD	Full Consolidation					x	Financial service activities, except insurance and pension funding
HALIFAX LIFE LTD	Full Consolidation					x	Insurance, reinsurance and pension funding, except compulsory social security
HBOS INTERNATIONAL FINANCIAL SERVICES HOLDINGS LTD	Full Consolidation					x	Activities of head offices; management consultancy activities
LLOYDS BANK GENERAL INSURANCE HOLDINGS LTD	Full Consolidation					x	Activities of head offices; management consultancy activities
LLOYDS BANK GENERAL INSURANCE LTD	Full Consolidation					x	Insurance, reinsurance and pension funding, except compulsory social security
LLOYDS BANK INSURANCE SERVICES LTD	Full Consolidation					x	Insurance, reinsurance and pension funding, except compulsory social security
PENSIONS MANAGEMENT (S.W.F.) LTD	Full Consolidation					x	Insurance, reinsurance and pension funding, except compulsory social security
SAINT MICHEL HOLDING COMPANY NO1	Full Consolidation					x	Financial service activities, except insurance and pension funding
SAINT MICHEL INVESTMENT PROPERTY	Full Consolidation					x	Financial service activities, except insurance and pension funding
SAINT WITZ 2 HOLDING COMPANY NO1	Full Consolidation					x	Financial service activities, except insurance and pension funding
SAINT WITZ 2 INVESTMENT PROPERTY	Full Consolidation					x	Financial service activities, except insurance and pension funding
SCOTTISH WIDOWS ADMINISTRATION SERVICES (NOMINEES) LTD	Full Consolidation					x	Non-Trading Company
SCOTTISH WIDOWS AUTO ENROLMENT SERVICES LTD	Full Consolidation					x	Office administrative, office support and other business support activities
SCOTTISH WIDOWS EUROPE	Full Consolidation					x	Insurance, reinsurance and pension funding, except compulsory social security
SCOTTISH WIDOWS FINANCIAL SERVICES HOLDINGS	Full Consolidation					x	Activities of head offices; management consultancy activities
SCOTTISH WIDOWS' FUND AND LIFE ASSURANCE SOCIETY	Full Consolidation					x	Insurance, reinsurance and pension funding, except compulsory social security
SCOTTISH WIDOWS INDUSTRIAL PROPERTIES EUROPE B.V.	Full Consolidation					x	Real estate activities

		Method of regulatory consolidation					
Name of the entity	Method of accounting consolidation	Full consolidation	Proportional consolidation	Equity Method	Neither consolidation nor deducted	Deducted	Description of entity
SCOTTISH WIDOWS TRUSTEES LTD	Full Consolidation					x	Office administrative, office support and other business support activities
SCOTTISH WIDOWS PENSION TRUSTEES LTD	Full Consolidation					x	Office administrative, office support and other business support activities
SCOTTISH WIDOWS UNIT FUNDS LTD	Full Consolidation					x	Insurance, reinsurance and pension funding, except compulsory social security
ST ANDREW'S GROUP LTD	Full Consolidation					x	Financial service activities, except insurance and pension funding
ST ANDREW'S INSURANCE PLC	Full Consolidation					x	Insurance, reinsurance and pension funding, except compulsory social security
ST ANDREW'S LIFE ASSURANCE PLC	Full Consolidation					x	Insurance, reinsurance and pension funding, except compulsory social security
SW FUNDING PLC	Full Consolidation					x	Insurance, reinsurance and pension funding, except compulsory social security
SW NO.1 LTD	Full Consolidation					x	Financial service activities, except insurance and pension funding
WAVERLEY - FUND II INVESTOR LLC	Full Consolidation					x	Financial service activities, except insurance and pension funding
WAVERLEY - FUND III INVESTOR LLC	Full Consolidation					x	Financial service activities, except insurance and pension funding
CELSIUS EUROPEAN LUX 2 SARL	Full Consolidation					x	Special Purpose Entity
SARL HIRAM	Full Consolidation					x	Special Purpose Entity
SAS COMPAGNIE FONCIERE DE FRANCE	Full Consolidation					x	Special Purpose Entity
SCI DE L'HORLOGE	Full Consolidation					x	Special Purpose Entity
SCI RAMBUTEAU CFF	Full Consolidation					x	Special Purpose Entity
THISTLE INVESTMENTS (AMC) LTD	Full Consolidation					x	Special Purpose Entity
THISTLE INVESTMENTS (ERM) LTD	Full Consolidation					x	Special Purpose Entity

1 The regulatory treatment of all entities listed as subsidiaries in the 2022 Lloyds Banking Group plc Annual Report and Accounts, pages 352 to 354, follows the accounting treatment unless otherwise stated in the table above.

2 Collective Investment Vehicles, as listed in the 2022 Lloyds Banking Group plc Annual Report and Accounts, pages 358 to 359 are excluded from the regulatory scope of consolidation.

3 Associated undertakings, as listed in the 2022 Lloyds Banking Group plc Annual Report and Accounts, pages 355 to 358, are, unless otherwise stated in the list above, predominantly a mix of private equity investments, to which the venture capital exemption applies, and underlying investments through the Housing Growth Partnership (HGP). The private equity investments are accounted for at FVTPL for accounting purposes and are risk weighted for regulatory purposes. The HGP investments are equity accounted and risk weighted for regulatory purposes as shares or units in collective investment undertakings.

4 The Group's capital-efficient securitisations and conduit vehicles are fully consolidated for accounting purposes. The underlying assets of the capital-efficient securitisations are derecognised from the regulatory balance sheet and replaced with the retained securitisation positions, risk weighted in accordance with the securitisation framework. The conduit vehicles are deconsolidated for regulatory purposes and the corresponding liquidity lines are risk-weighted, as further described in the Securitisation section, pages 103 to 110

5 All Insurance subsidiaries, other than those identified as investment firms or asset management companies, are excluded from the regulatory scope of consolidation and are classified as 'deducted', as they form part of the Insurance Group headed by Scottish Widows Group Limited. The debt and equity investments held by the Group in Scottish Widows Group Limited are deducted from capital, subject to thresholds.

6 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

OUR APPROACH TO RISK

Risk management is at the heart of the Group's purpose of Helping Britain Prosper. A strong risk management culture is crucial for sustainable growth, supporting the transition to a low carbon economy and building an inclusive society.

Employing informed risk decision-making and robust risk management, supported by a consistent risk-focused culture, we strive to protect the Group and our stakeholders, while fulfilling our strategic mission.

A prudent approach to risk is fundamental to the Group's business model and drives our participation choices, whilst protecting customers, colleagues and the Group.

The risk management section from pages 138 to 195 of the 2022 Lloyds Banking Group Annual Reports and Accounts provides an in-depth picture of how risk is managed within the Group, including the approach to risk appetite, risk governance, stress testing and detailed analysis of the principal risk categories, including the framework by which these risks are identified, managed, mitigated and monitored. A selected summary of the principal risks most relevant to these Pillar III disclosures is included on page 20.

OUR ENTERPRISE RISK MANAGEMENT FRAMEWORK

The Group's comprehensive enterprise risk management framework, that applies to all legal entities across the Group, is the foundation for the delivery of effective and consistent risk control. It enables proactive identification, active management and monitoring of the Group's risks, which is supported by our One Risk and Control Self-Assessment approach.

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

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

The Board is responsible for approving the Group's Board risk appetite statement annually. Board-level risk appetite metrics are augmented further by sub-Board level metrics and cascaded into more detailed business metrics and limits. Regular close monitoring and comprehensive reporting to all levels of management and the Board ensures appetite limits are maintained and subject to stress analysis at a risk type and portfolio level, as appropriate.

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

RISK CULTURE AND THE CUSTOMER

The Board and senior management play a vital role in shaping and embedding a healthy corporate culture.

Our responsible, inclusive and diverse culture supports colleagues to consistently do the right thing for customers. The Group's Code of Responsibility and refreshed values reinforces colleagues' accountability for the risks they take and their responsibility to prioritise customers' needs.

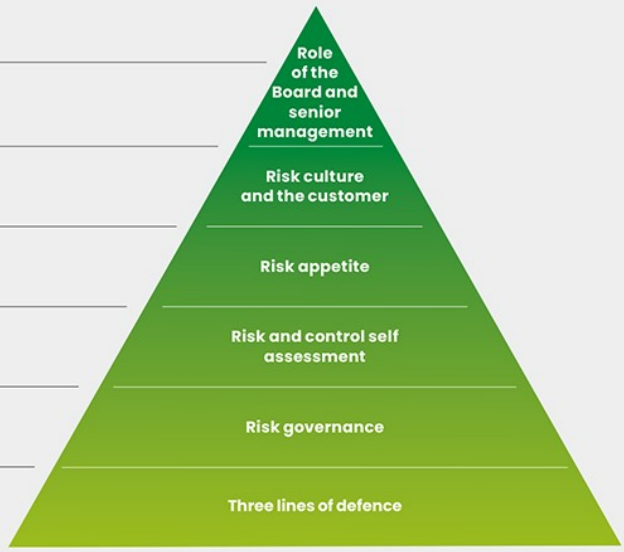
As a Group, we are open, honest and transparent with colleagues working in collaboration with business units to:

- Support effective risk management and provide constructive challenge
- Share lessons learned and understand root causes when things go wrong
- Consider horizon risks and opportunities

The Group aims to maintain a strong focus on building and sustaining long-term relationships with customers through the economic cycle.

Enterprise risk management framework

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



RISK PROFILE AND PERFORMANCE

The Group has continued to maintain support for its customers amid the backdrop of supply chain pressures, cost of living increases and global and domestic economic uncertainty.

Observed credit performance remains strong, with very modest evidence of deterioration. The Group's loan portfolio continues to be well-positioned and heightened monitoring is in place to identify signs of affordability stress.

The Group's strategy will see ongoing investment in technology, driving the evolution of processes and further strengthening of the Group's operational resilience, amid continuously evolving threats, such as cyber risk.

Climate change remains a key consideration for the Group, with positive progress in 2022 and a commitment to continued focus in 2023.

Overall, key risks continue to be managed effectively and the Group is well positioned to safely progress its strategic ambitions.

RISK MANAGEMENT APPROACH (UK OVA) (continued)

Principal risks are the Board-approved enterprise-wide risk categories, used to monitor and report the risk exposures posing the greatest impact to the Group.

Please refer to the Lloyds Banking Group 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 🡅 Increased risk 🡇 Decreased risk

CAPITAL RISK ➔

The Group maintained its capital position in 2022 with a CET1 ratio of 15.1 per cent having also absorbed significant regulatory headwinds on 1st January 2022. This is significantly ahead of regulatory requirements and in excess of the Group's ongoing target of around 12.5 per cent, plus a management buffer of around 1 per cent. Downside risks from economic and regulatory headwinds are being closely monitored.

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

Key mitigating actions:

- Capital management framework that includes the setting of capital risk appetite, capital planning and stress testing activities
- Monitoring 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 ➔

2022 has seen significant progress in embedding climate risk, with a consistent framework and clear responsibilities that will enhance understanding of the Group's climate risks and their management, in line with regulatory requirements. Progress continues in key areas, including developing climate data and scenario analysis capabilities; enhancing risk appetite measures; as well progressing the Group's ambitions for reducing emissions.

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:

- Climate risk policy in place, embedded across the Group
- Regular updates to the Board and further development of climate risk reporting
- Consideration of key climate risks as part of the Group's financial planning process

CREDIT RISK 🡅

The Group's credit portfolio continued to be well positioned with high levels of security, but a more challenging outlook, driven by interest rate rises and cost of living pressures, saw an increase in credit risk. Evidence of deterioration was very modest, with assets flowing into arrears, defaults and write offs remaining low. Impairment was a net charge of £1,522 million, compared to a net credit of £1,378 million for 2021. The Group's expected credit loss allowances have increased to £4,841 million (2021: £4,020 million).

Risk appetite: The Group has a conservative and well balanced credit portfolio through the economic cycle, generating an appropriate return on equity, in line with the Group's target return on equity in aggregate.

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 to remain close to any signs of portfolio deterioration, accompanied by a playbook of mitigating actions
- Pre-emptive credit tightening ahead of macroeconomic deterioration, including updates to affordability lending controls for forward look costs

FUNDING & LIQUIDITY RISK ➔

The Group maintained its strong funding and liquidity position in 2022. The loan to deposit ratio increased to 96 per cent (2021: 94 per cent), largely driven by increased lending. The Group's liquid assets continue to exceed the regulatory minimum and internal risk appetite, with a liquidity coverage ratio (based on monthly rolling average from the previous 12 months) of 144 per cent (2021: 135 per cent).

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

MARKET RISK 🡅

Market volatility in 2022 created an environment of increased market risk. The Group remains well-hedged, ensuring near-term interest rate exposure is managed, while benefitting from rising interest rates. The Group's structural hedge increased to £255 billion (2021: £240 billion) mostly due to the continued growth in stable customer deposits.

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

MODEL RISK 🡅

Broader model risk increased in 2022. The pandemic related government-led support schemes weakened the relationships between model inputs and outputs, and the current economic conditions remain outside those used to build the models, placing reliance on judgemental overlays. The Group's models are being managed to reduce this need for overlays. The control environment for model risk is being strengthened to meet revised regulatory requirements.

Key mitigating actions:

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

OPERATIONAL RISK ➔

Operational risk remained stable in 2022 with operational losses reducing versus 2021. Security, technology and supplier management continue to be the most material operational risk areas.

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 Group. The Group's enterprise risk management framework (ERMF) and risk appetite apply across the Group. These are supplemented by sub-group specific risk management frameworks and risk appetites which operate within the Group parameters. The Group's Corporate Governance Framework applies across Lloyds Banking Group plc, Lloyds Bank plc, Bank of Scotland plc and HBOS plc. It is tailored where needed to meet the entity-specific needs of Lloyds Bank plc and Bank of Scotland plc, within the Ring-Fenced Bank sub-group and supplementary corporate governance frameworks are in place to address the specific requirements of the other sub-groups (Non-Ring-Fenced Bank, Insurance and Equity Investments).

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 at least annually to reflect any changes in the nature of the Group's business and external regulations, law, corporate governance and industry best practice. 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 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 to Help 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 sub-Board-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/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 transition to net zero, through our activities and our customers, and to maintain our resilience against the risks relating to climate change

Conduct: the Group delivers fair outcomes for its customers

Credit: the Group has a conservative and well balanced credit portfolio through the economic cycle, generating an appropriate return on equity, in line with the Group's target return on equity in aggregate

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

Insurance underwriting: the Insurance Group has an appetite to take on insurance underwriting risks where they fit with our strategic objectives

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 are performing 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.

RISK MANAGEMENT APPROACH (UK OVA) (continued)

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 23 and 24.

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 which includes producing appropriate and accurate risk reporting. The risk and control cycle sets out how this should be approached. This cycle, from identification to reporting, ensures consistency and is intended to manage and mitigate the risks impacting the Group.

The process for risk identification, measurement and control is integrated into the overall framework for risk governance. Risk identification processes are forward-looking to ensure emerging risks are identified. Risks are captured and measured using robust and consistent quantification methodologies. The measurement of risks includes the application of stress testing and scenario analysis, and considers whether relevant controls are in place before risks are incurred.

Identified risks are reported on a regular basis to the appropriate committee. The extent of the risk is compared to the 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 resolve the breach and bring risk within tolerances. There is a clear process for escalation of risks and risk events.

All key controls are recorded and assessed on a regular basis, in response to triggers or minimum annually. Control assessments consider both the adequacy of the design and operating effectiveness. Where a control is not effective, the root cause is established and action plans implemented to improve control design or performance. Control effectiveness against all residual risks are aggregated by risk category and reported and monitored via the monthly Key Risk Insights Report or Consolidated Risk Report (CRR). The Key Risk Insights Report and CRR are reviewed and independently challenged by the Risk division and provided to the Risk division Executive Committee and Group Risk Committee. On an annual basis, a point in time assessment is made for control effectiveness against each risk category and across sub-groups. The CRR data is the primary source used for this point-in-time assessment and a year-on-year comparison on control effectiveness is reported to the Board.

One Risk and Control Self-Assessment (One RCSA) is part of the Group's risk and control strategy to deliver a stronger risk culture and simplified risk and control environment. During 2022, there has been significant effort to embed One RCSA. This will continue into 2023 as risk practices, data quality, culture and capability mature.

Risk culture

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

Risk resources and capabilities

Appropriate mechanisms are in place to avoid over-reliance on key personnel or system/technical expertise within the Group. Adequate resources are in place to serve customers both under normal working conditions and in times of stress, and monitoring procedures are in place to ensure that the level of available resource can be increased if required. Colleagues undertake appropriate training to ensure they have the skills and knowledge necessary to enable them to deliver good outcomes for customers.

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 CRR, is reported to and discussed monthly at the Group Risk Committee with regular reporting to the Board Risk Committee and the Board.

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

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

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:

RISK MANAGEMENT APPROACH (UK OVA) (continued)

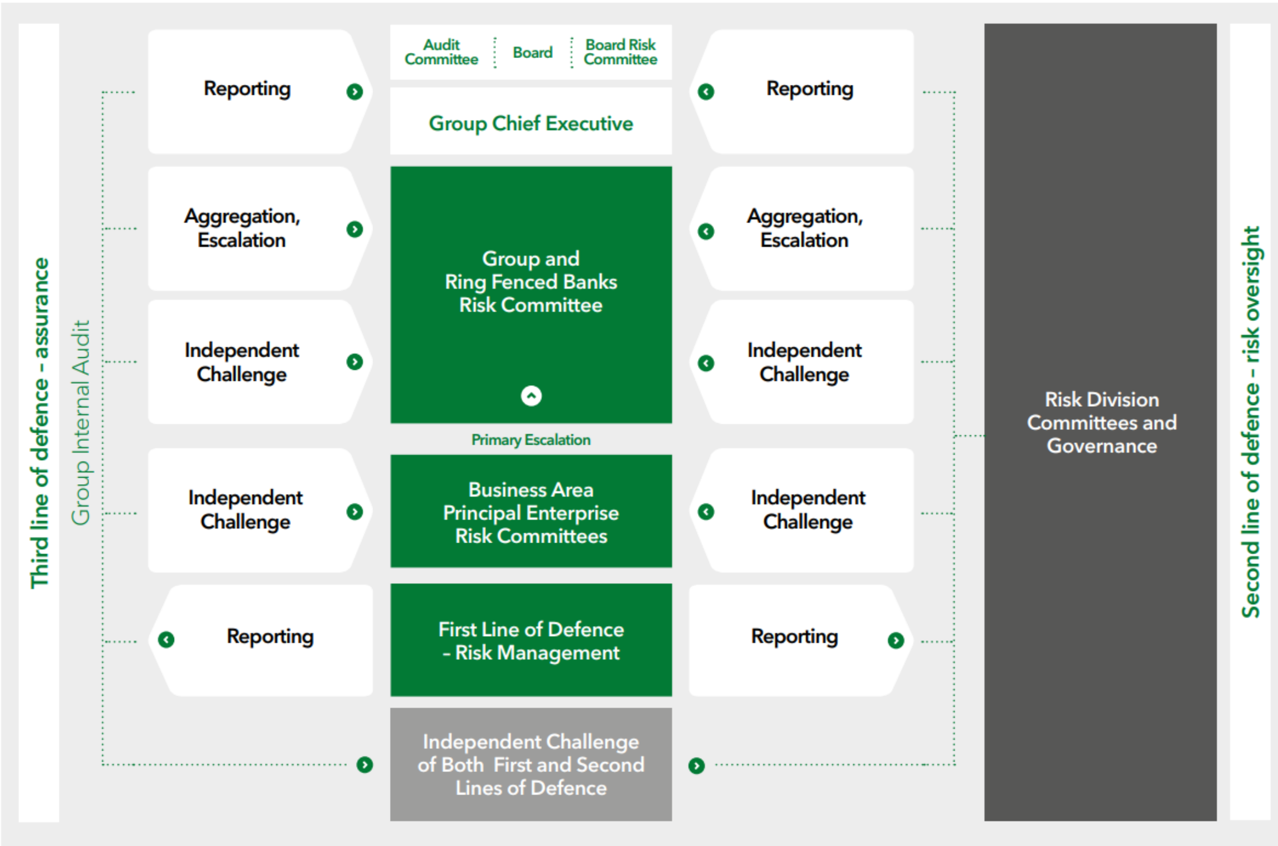
- Ensure that accounting policies are appropriately and consistently applied, transactions are recorded accurately, and undertaken in accordance with delegated authorities, that assets are safeguarded and liabilities are properly stated
- Enable the calculation, preparation and reporting of financial, 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 and each of its sub-groups

The Group has a Disclosure Committee which assists the Group Chief Executive and Chief Financial Officer in fulfilling their disclosure responsibilities under relevant listing and other regulatory and legal requirements. In addition, the Audit Committee reviews the quality and acceptability of the Group's financial disclosures. For further information on the Audit Committee's responsibilities relating to financial reporting see pages 95 to 98 of the 2022 Lloyds Banking Group Annual Report and Accounts.

Risk governance

The risk governance structure below is integral to effective risk management across the Group

Risk governance structure



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

Risk function Committees and Governance
- Group Market Risk Committee
- Group Economic Crime Prevention Committee
- Group Financial Risk Committee
- Group Capital Risk Committee
- Group 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. Refer to the corporate governance section on pages 73 to 91 of the 2022 Lloyds Banking Group Annual Report and Accounts for further information on Board Committees.

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[1]
Group Executive Committee (GEC)	Assists the Group Chief Executive in exercising their authority in relation to material matters having strategic, cross-business area or Group-wide implications.
Group and Ring-Fenced Banks Risk Committees (GRC)	Responsible for the development, implementation and effectiveness of the 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.
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.
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.
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.
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, including monitoring execution performance and progress against strategic objectives. To act as a clearing house to resolve issues on individual project areas and prioritisation across divisional and legal entity issues. Engaging in resolution of challenges that require cross-Group support to resolve, ensuring funding and project performance provides value for money for the Group, and autonomy is maintained alongside accountability for projects and platforms.
Group and Ring-Fenced Banks Net Zero Committees	Responsible for providing direction and oversight of the Company's environmental sustainability strategy, including particular focus on the net-zero transition and natural capital (biodiversity) strategy. Oversight of the Company'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). Recommending all external material commitments and targets in relation to environmental sustainability.
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 ensuring lessons are shared 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, including the Independent Triage Panel and overseeing regular reviews of thematic outcomes and lessons learned.
The Group Risk Committee is supported through escalation and ongoing reporting by business unit risk committees, cross-business unit committees addressing specific matters of Group-wide significance and the following second line of defence Risk committees which ensure effective oversight of risk management:	
Group 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, including those held in the Group's insurance companies.
Group 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.
Group Financial Risk Committee	Responsible for overseeing, reviewing, challenging and recommending to GEC/Board Risk Committee/Board for the Group and Ring-Fenced Bank (i) annual internal stress tests, (ii) all Prudential Regulation Authority (PRA) and any other regulatory stress tests, (iii) annual liquidity stress tests, (iv) reverse stress tests, (v) Individual Liquidity Adequacy Assessment (ILAA), (vi) Internal Capital Adequacy Assessment Process (ICAAP), (vii) Pillar 3, (viii) recovery/resolution plans, and (ix) relevant ad hoc stress tests or other analysis as and when required by the Committee.
Group Capital Risk Committee	Responsible for providing oversight of relevant capital matters within the 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.
Group 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.

1 Reference to Group within the risk focus of each committee relates to the Group and the Ring-Fenced Banks

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:

Risk identification:

- Understand key vulnerabilities of the Group and its key legal entities under adverse economic conditions

Risk appetite:

- Assess 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
- Inform the setting of risk appetite by assessing the underlying risks under stress conditions

Strategic and capital planning:

- Allow 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
- Support the Internal Capital Adequacy Assessment Process (ICAAP) by demonstrating capital adequacy, and meet the requirements of regulatory stress tests that are used to inform the setting of the Prudential Regulation Authority (PRA) and management buffers (see capital risk on pages 148 to 155 of the 2022 Lloyds Banking Group Annual Report and Accounts) of the Group and its separately regulated legal entities

Risk mitigation:

- Drive 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

Regulatory stress tests

Following two years of COVID-19 pandemic crisis related stress testing, in 2022 the PRA returned to the annual cyclical scenario (ACS) stress test framework. The launch of the stress test was postponed from March 2022 to September 2022 following Russia's invasion in Ukraine. The 2022 ACS included submissions for both the Group and Ring-Fenced Bank (RFB). The 2022 stress test objective was to assess the resilience of the UK banking system to deep simultaneous recessions in the UK and global economy, large falls in asset prices and higher global interest rates. The submission was made to the PRA in January and results will be published in Q3 2023.

Internal stress tests

On at least an annual basis, the Group conducts macroeconomic stress tests to highlight 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. The 2022 internal stress scenario focussed on assessing vulnerabilities to inflation and rising energy prices.

Reverse stress testing

Reverse stress testing is used to explore the vulnerabilities of the Group's and its key legal entities' strategies and plans to 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. 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. The Group participated in Part 1 of the Bank of England's Climate Biennial Exploratory Stress test in 2021 and will leverage the experience gained through that exercise to further embed climate risk into risk management and stress testing activities.

Methodology

The stress tests at all levels must comply with all regulatory requirements, 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.

The engagement of all required business, Risk and Finance teams is built into the preparation process, so that the appropriate analysis of each risk category's impact upon the business plans is understood and documented. The methodologies and modelling approach used for stress testing ensure that a clear link is shown between the macroeconomic scenarios, the business drivers for each area and the resultant stress testing outputs. 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 the 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 Group business planning and stress testing policy and procedure, which are reviewed at least annually.

The Group Financial Risk Committee (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 and Ring-Fenced Bank's stress tests. The Lloyds Bank Corporate Markets plc (LBCM) Risk Committee performs a similar function within the scope of LBCM.

The review and challenge of the Group's and Ring-Fenced Bank'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 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 52 to 95 (credit risk), 96 to 102 (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 through applying the regulatory capital framework set out under the Capital Requirements Directive and Regulation (CRD IV), as amended by subsequent revisions to the Directive (CRD V) and to the Regulation (CRR 2), the latter applying in full from 1 January 2022 following the UK implementation of the remaining provisions of CRR 2. The requirements are supplemented through additional regulation under the PRA Rulebook and 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. Significant deductions include the Group's equity investment in its Insurance business and the deductions applied for goodwill and other intangible assets and a large part of the Group's deferred tax assets. Other significant deductions and adjustments consist of the deconsolidation of Insurance reserves, the elimination of the cash flow hedging reserve and the removal of 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 and other forms of shareholder distributions.

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.

Under transitional rules for capital, legacy capital instruments that did not qualify in their own right to be recognised as AT1 capital but were issued and recognised as eligible tier 1 capital prior to the implementation of CRD IV could be partially included within AT1 capital ('grandfathering') until they were phased out altogether from regulatory capital on 1 January 2022.

Restricted Tier 1 capital instruments issued by the Group's Insurance business and held by the Group are deducted from AT1 capital.

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 transitional rules for capital, legacy capital instruments that did not qualify in their own right to be recognised as T2 capital but were issued and recognised as eligible T2 capital prior to the implementation of CRD IV could be partially included within T2 capital ('grandfathering') until they were phased out altogether from regulatory capital on 1 January 2022.

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 has a single legacy T2 capital instrument that remains eligible under the revised transitional rules.

Tier 2 subordinated debt instruments issued by the Group's Insurance business and held by the Group are deducted from T2 capital.

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. A brief summary of the different approaches for the different risk types and their application by the Group as at 31 December 2022 is disclosed on pages 27 and 28, 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)** This is the simpler 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. 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 approach, there is no distinction made between expected and unexpected losses for exposures on the Standardised Approach. 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. The Standardised Approach is 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) 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. 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. 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. *Foundation IRB Approach* The FIRB Approach uses internal assessments of a counterparty's PD (subject to certain floors) together with regulatory defined assessments for LGD and EAD. *Advanced IRB Approach* The AIRB Approach uses internal assessments of PD, EAD and LGD (subject to certain floors). *Retail IRB Approach* The Retail IRB Approach is a version of the AIRB Approach tailored to retail exposures. *Other IRB Approaches* 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.. A number of alternative methodologies exist for other exposures such as equity exposures and securitisation positions. For exposures on the Supervisory Slotting Approach and Equity Simple Risk Weight method, regulatory expected losses are determined by applying prescribed percentages.	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. The Group has permission to utilise the AIRB Approach for retail portfolios only and it therefore applies the Retail IRB Approach for its modelled retail exposures. For more information on IRB models refer to the Model Performance section on pages 68 to 81. The Group applies the Supervisory Slotting Approach to certain corporate specialised lending exposures that comprise mainly of commercial real estate portfolios. The Simple Risk Weight Method is applied to the Group's equity exposures. 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. **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. **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. **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. **SFT Comprehensive Approach** Volatility adjustments are applied to the market value of collateral to take account of price volatility. **Internal Models Method (IMM)** The fair value on the balance sheet is replaced by an exposure value calculated using internal models. Exposures to central counterparties (CCPs), comprising trades, default fund contributions and initial margin are subject to specific measurement and risk weight requirements. Credit valuation adjustment (CVA) risk is calculated under either the Advanced Method (via the use of internal models) or the Standardised Method.	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. The Group applies the Standardised Method for calculating CVA risk.
Market risk	The two key approaches for Market Risks are as follows **Standardised Approach (STA)** This requires the calculation of position risk requirements (PRR) for each type of market risk in the trading book in accordance with standard rules set by the PRA. **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 majority of the Group's trading book positions are assigned a capital requirement under the Internal Models Approach with the remainder following the Standardised Approach.
Operational risk	There are three approaches for Operational Risk: **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. **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. **Advanced Measurement Approach (AMA)** A high risk sensitivity approach where, following PRA approval, 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.

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 29 and 30.

INDIVIDUAL CAPITAL REQUIREMENT (UK OVC)

Additional minimum capital requirements under Pillar 2A are set by the PRA as a firm-specific Individual Capital Requirement (ICR) reflecting a point in time estimate, which may change over time, of the minimum amount of capital 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.

During 2022 the PRA reduced the Group's Pillar 2A capital requirement to around 2.7 per cent of risk-weighted assets, of which around 1.5 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 or operational risk underestimate the risk. The operational risk assessment includes consideration of conduct risk.

THE REGULATORY CAPITAL FRAMEWORK (continued)

- 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 and submitted to the PRA for their consideration ahead of setting the ICR.

REGULATORY CAPITAL BUFFERS

The Group is also required to hold a number of regulatory capital buffers which are required to be met 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.Although the Group is not currently classified as a global systemically important institution (G-SII), it has been classified as an 'other' systemically important institution (O-SII) by the PRA.

The O-SII buffer applies to the Group's RFB sub-group and is currently set at 2.0 per cent of the RFB sub-group's risk-weighted assets. This equates to 1.7 per cent of risk-weighted assets at Group level, with the difference reflecting the risk-weighted assets of the Group that are not in the RFB sub-group and for which the O-SII buffer does not therefore apply. It is the PRA's policy to include this in the Group's PRA Buffer. The FPC amended the O-SII buffer framework during 2022, changing the metric for determining the buffer rate from total assets to the UK leverage exposure measure. This will apply from the next review point in December 2023 which will refer to the RFB sub-group's leverage exposure measure as at 31 December 2022, with any changes applying from 1 January 2025. Based on the RFB sub group's leverage exposure measure as at 31 December 2022, the O-SII buffer rate will be maintained at 2.0 per cent

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 1 per cent and will increase to 2 per cent in July 2023.

Given the Group's UK focused business model, the Group's CCyB at 31 December 2022 was around 0.9 per cent of risk-weighted assets. The increase in the UK CCyB rate to 2 per cent would represent an equivalent increase in the Group's CCyB to around 1.8 per cent from July 2023.

PRA buffer

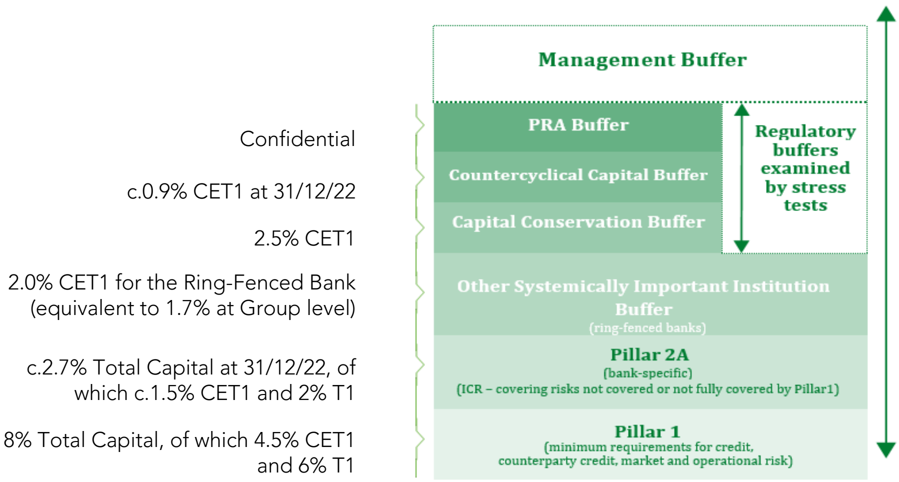
As part of the Group's capital planning process, forecast capital positions are subjected to stress testing to determine the adequacy of the Group's capital resources against minimum requirements, including the ICR. The PRA considers outputs from both the Group's internal stress tests and Bank of England 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.

Under recent Bank of England stress tests, the BoE has taken action to avoid an unwarranted de facto increase in capital requirements that could result from the interaction of IFRS 9. The stress hurdle rates for banks participating in the current Annual Cyclical Scenario stress test exercise will be adjusted to recognise the additional resilience provided by the earlier provisions taken under IFRS 9. The BoE is continuing to work on a more enduring treatment of IFRS 9 for the purposes of future stress tests.

Further details on the Group's stress testing processes are included on page 144 of the 2022 Lloyds Banking Group plc Annual Report and Accounts.

Management buffer

The Group's internal view of the amount of capital the Group should hold is informed by a number of factors including regulatory, market and investor expectations and the outputs from internal and regulatory stress testing exercises.



The Group's Pillar 2A CET1 capital requirement reduced during the year to around 1.5 per cent of RWAs.

The Group's countercyclical capital buffer is currently around 0.9 percent of RWAs. The UK countercyclical capital buffer rate will increase to 2 per cent in July 2023, with an equivalent increase in the Group's countercyclical capital buffer to around 1.8 per cent of RWAs.

The Board's view of the current level of CET1 capital required is c.12.5 per cent, plus a management buffer of c.1 per cent.

THE REGULATORY CAPITAL FRAMEWORK (continued)

All buffers

All buffers are required to be met with CET1 capital. 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 Part of the PRA Rulebook, including revised disclosure requirements applicable from 1 January 2022 following the UK implementation of the remaining provisions of CRR 2.

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 2022 the CCLB for the Group was 0.3 per cent. Following the planned increase in the UK CCyB rate, the Group's CCLB would be expected to increase to 0.6 per cent in Q3 2023. An additional leverage ratio buffer (ALRB) requirement of 0.7 per cent applies to the RFB sub-group and is determined by multiplying the RFB sub-group O-SII buffer by 35 per cent. At Group level an equivalent buffer of 0.6 per cent applies.

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.

RING-FENCING

The vast majority of the Group's banking operations continue to be held by Lloyds Bank plc and its subsidiaries (the 'Ring-Fenced Bank'). Non-ring-fenced banking operations are either held by Lloyds Bank Corporate Markets plc and its subsidiaries (the non-ring-fenced bank) or by LBG Equity Investments Limited and its subsidiaries. The Group's insurance operations continue to be held in the Scottish Widows Group.

IFRS 9 TRANSITIONAL ARRANGEMENTS

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

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. The current arrangements are set out below:

- The initial net impact on CET1 capital is phased in over 5 years from the original 1 January 2018 implementation date - this is referred to as 'static' relief. During 2022 the arrangements allowed 25 per cent of the initial net impact to be added back to CET1 capital. 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 2022 the revised arrangements allowed 75 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 50 per cent in 2023 and 25 per cent in 2024, with no relief available thereafter. Increases in Stage 3 ECLs are not covered by the arrangements and therefore impact CET1 capital in full.

The effect of adding back amounts to CET1 capital under both static and dynamic relief results in further consequential adjustments being made to 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).

Although the Group is not classified as a G-SIB it is subject to the Bank of England's MREL framework, including the statement of policy on MREL (the 'MREL SoP') which requires the Group to maintain a minimum level of MREL resources.

Under the requirements of the framework, the Group operates a single point of entry (SPE) resolution strategy, with Lloyds Banking Group plc as the designated resolution entity.

Applying the MREL SoP to minimum capital requirements at 31 December 2022, the Group's MREL requirement, excluding regulatory capital and leverage buffers, is the higher of 2 times Pillar 1 plus 2 times Pillar 2A, equivalent to 21.4 per cent of risk-weighted assets, or 6.5 per cent of the UK leverage ratio exposure measure. In addition, CET1 capital cannot be used to meet both MREL and capital or leverage buffers.

Internal minimum requirements for own funds and eligible liabilities (Internal MREL) also apply to the Group's material sub-groups and entities, including the RFB sub-group, Lloyds Bank plc, Bank of Scotland plc and Lloyds Bank Corporate Markets plc.

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, by 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 contains 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 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;

– An increase in the scope of the CVA framework to include exposures to Sovereigns, Non-Financial Counterparties, and Pension Funds with transitional arrangements for legacy trades that remain outstanding to continue to be exempted from CVA capital requirements for five years following implementation; and

– setting the internal loss multiplier (ILM) equal to one under the new Standardised approach for Pillar 1 Operational Risk capital requirements.

The PRA has considered the proposals of other major jurisdictions as they stood at the time of the PRA's policy-making process and intends to continue to monitor these as they evolve and consider these before finalising its own proposals. The PRA consultation closes on 31 March 2023 with final PRA publication of the Basel 3.1 standards expected in 2023. Implementation of the new requirements in the UK is scheduled for 1 January 2025 with a 5-year transition period for the implementation of the Output Floor to 1 January 2030.

Other developments

The Group participated in the Bank of England's Climate and Capital Conference in October 2022 and we will continue to monitor developments in this area.

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

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, leverage or MREL either at Group, Ring-Fenced Bank (RFB) sub-group 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 while optimising value for shareholders.

MEASUREMENT

The Group maintains capital levels across all regulated entities commensurate with a prudent level of solvency to achieve financial resilience and market confidence. To support this, capital risk appetite 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 26 to 31 (*The Regulatory Capital Framework*).

MITIGATION

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

The Group monitors early warning indicators and maintains a Capital Contingency Framework as part of a Recovery Plan which are designed to identify emerging capital concerns at an early stage, so that mitigating actions can be taken, if needed. The Recovery Plan sets out a range of potential mitigating actions that could be taken in response to a stress. 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 proposed dividend payments and share buybacks, by raising new equity via, for example, a rights issue or debt exchange and by raising additional tier 1 or tier 2 capital securities. The cost and availability of additional capital is dependent upon market conditions and perceptions at the time.

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

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

MONITORING

The Group's capital is actively managed and monitoring capital ratios is a key factor in the Group's planning processes, which separately cover the RFB sub-group and key individual banking entities. 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's capital plan whilst shorter term forecasts are more frequently 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 is undertaken by a range of committees, including Group Capital Risk Committee (GCRC), Group Financial Risk Committee (GFRC), Group and Ring-Fenced Banks Asset and Liability Committees (GALCO), Group and Ring-Fenced Banks Risk Committees (GRC), Board Risk Committee (BRC) and the Board. This includes reporting of actual ratios against forecasts and risk appetite, base case and stress scenario projected ratios, and review of early warning indicators and assessment against the Capital Contingency Framework.

The 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.

TARGET CAPITAL RATIOS

The Board's view of the ongoing level of CET1 capital required by the Group to grow the business, meet current and future regulatory requirements and cover uncertainties continues to be around 12.5 per cent plus a management buffer of around 1 per cent.

This takes into account, amongst other considerations:

- The minimum Pillar 1 CET1 capital requirement of 4.5 per cent of risk-weighted assets
- The Group's Pillar 2A capital requirement set by the PRA. During the year the PRA reduced the requirement, of which the minimum amount to be met by CET1 capital is the equivalent of around 1.5 per cent of risk-weighted assets
- The Group's current CCyB requirement which is around 0.9 per cent of risk-weighted assets
- The CCB requirement of 2.5 per cent of risk-weighted assets
- The RFB sub-group's O-SII buffer of 2.0 per cent of risk-weighted assets, which equates to 1.7 per cent of risk-weighted assets at Group level
- The Group's PRA Buffer
- The desire to maintain a progressive and sustainable ordinary dividend policy in the context of year to year earnings movements

CAPITAL MANAGEMENT (continued)

Analysis of capital position

The Group's CET1 capital ratio reduced from 17.3 per cent at 31 December 2021 to 15.1 per cent at 31 December 2022.

This initially reflected a reduction of 230 basis points on 1 January 2022 for regulatory changes which included an increase in risk-weighted assets, in addition to other related modelled impacts on CET1 capital, following:

- The anticipated impact of the implementation of new CRD IV mortgage, retail unsecured and commercial banking models to meet revised regulatory standards for modelled outputs
- The UK implementation of the remainder of CRR 2 which included a new standardised approach for measuring counterparty credit risk (SA-CCR)

This was in addition to the reinstatement of the full deduction treatment for intangible software assets and phased reductions in IFRS 9 transitional relief.

The impact of the regulatory changes on 1 January 2022 was subsequently offset by strong capital generation of 256 basis points during the year which reflected the following:

- Banking profitability of 230 basis points, including a net impairment charge of 44 basis points reflecting the impact of the impairment charge for the year (59 basis points) net of IFRS 9 dynamic relief (15 basis points) following the increase in Stage 1 and Stage 2 expected credit losses in the second half of the year
- 32 basis points for the £600 million of dividends received from the Insurance business during the year
- A reduction in risk-weighted assets (excluding threshold movements), post 1 January 2022 regulatory changes, generating an increase equivalent to 14 basis points and other movements of 11 basis points
- Offset in part by 31 basis points related to the full 2022 fixed contributions to the Group's three main defined benefit pension schemes

Capital usage resulted in a further reduction of 241 basis points reflecting:

- 81 basis points in total for the interim ordinary dividend of 0.80 pence per share paid in September 2022 and the accrual for the recommended final ordinary dividend for 2022 of 1.60 pence per share
- 108 basis points for the ordinary share buyback programme announced as part of the Group's 2021 year end results that completed during 2022
- 52 basis points for variable pension contributions made to the main defined benefit pension schemes, including £400 million of additional contributions paid in December, representing an acceleration of future planned contributions, ahead of the triennial pension fund renegotiation

Including the Insurance dividend received in February 2023 and the impact of the announced ordinary share buyback programme, the Group's pro forma CET1 capital ratio at 31 December 2022 was 14.1 per cent (31 December 2021: 16.3 per cent on a pro forma basis).

The ordinary share buyback will commence as soon as is practicable and the full impact will be accrued for through the Group's actual capital position during the first quarter of 2023.

As at 31 December 2022, static relief under the IFRS 9 transitional arrangements amounted to £232 million (31 December 2021: £353 million) and dynamic relief amounted to £358 million (31 December 2021: £428 million) through CET1 capital. On 1 January 2023 IFRS 9 static relief came to an end and the transitional factor applied to IFRS 9 dynamic relief reduced by a further 25 per cent, resulting in an overall reduction of 15 basis points. The Group's pro forma CET1 capital ratio at 31 December 2022 does not include the impact of the reduced relief.

The Group's total capital ratio reduced to 19.7 per cent (31 December 2021: 23.6 per cent) reflecting the reduction in CET1 capital, the derecognition of legacy AT1 and Tier 2 capital instruments following the completion of the transition to end-point eligibility rules for regulatory capital on 1 January 2022, instrument repurchases, the impact of interest rate increases and regulatory amortisation on eligible Tier 2 capital instruments and the increase in risk-weighted assets. This was partially offset by the issuance of new AT1 and Tier 2 capital instruments, the impact of sterling depreciation and an increase in eligible provisions recognised through Tier 2 capital.

The Group's minimum requirement for own funds and eligible liabilities (MREL) ratio reduced to 31.7 per cent (31 December 2021: 37.2 per cent), reflecting the increase in risk-weighted assets, reduction in total capital and a reduction in other eligible liabilities. The latter largely reflected the derecognition of senior unsecured debt instruments with less than one year to maturity, calls and interest rate increases, partially offset by new issuances and sterling depreciation.

The Group's UK leverage ratio reduced to 5.6 per cent (31 December 2021: 5.8 per cent) reflecting the reduction in the total tier 1 capital position, partially offset by a decrease in the leverage exposure measure following reductions in securities financing transactions and the measure for off-balance sheet items.

Total capital requirement

The Group's total capital requirement (TCR) as at 31 December 2022, being the aggregate of the Group's Pillar 1 and current Pillar 2A capital requirements, was £22,550 million (31 December 2021: 22,986 million).

Capital resources

An analysis of the Group's actual capital position as at 31 December 2022 is presented in the following section. The capital position reflects the application of the transitional arrangements for IFRS 9.

CAPITAL MANAGEMENT (continued)

Capital resources

	At 31 Dec 2022 £m	At 31 Dec 2021 £m
Common equity tier 1		
Shareholders' equity per balance sheet	**41,980**	47,011
Adjustment to retained earnings for foreseeable dividends	**(1,062)**	(947)
Deconsolidation adjustments[1]	**3,058**	2,486
Cash flow hedging reserve	**5,476**	457
Other adjustments	**(80)**	547
	49,372	49,554
less: deductions from common equity tier 1		
Goodwill and other intangible assets	**(4,982)**	(3,026)
Prudent valuation adjustment	**(434)**	(457)
Removal of defined benefit pension surplus	**(2,803)**	(3,200)
Significant investments[1]	**(4,843)**	(4,573)
Deferred tax assets	**(4,445)**	(4,483)
Common equity tier 1 capital	**31,865**	33,815
Additional tier 1		
Other equity instruments	**5,271**	5,879
Preference shares and preferred securities[2]	**470**	2,149
Regulatory adjustments[3]	**(470)**	(1,598)
	5,271	6,430
less: deductions from tier 1		
Significant investments[1]	**(1,100)**	(1,100)
Total tier 1 capital	**36,036**	39,145
Tier 2		
Other subordinated liabilities[2,3]	**10,260**	10,959
Deconsolidation of instruments issued by insurance entities[1]	**(1,430)**	(1,753)
Regulatory adjustments[3]	**(2,323)**	(1,056)
	6,507	8,150
less: deductions from tier 2		
Significant investments[1]	**(963)**	(961)
Total capital resources[3]	**41,580**	46,334
Risk-weighted assets	**210,859**	195,967
Common equity tier 1 capital ratio	**15.1%**	17.3%
Tier 1 capital ratio	**17.1%**	20.0%
Total capital ratio	**19.7%**	23.6%

1 For regulatory capital purposes, the Group's Insurance business is deconsolidated and replaced by the amount of the Group's investment in the business. A part of this amount is deducted from capital (via 'significant investments' in the table above) and the remaining amount is risk-weighted, forming part of threshold risk-weighted assets.

2 Preference shares, preferred securities and other subordinated liabilities are reported as subordinated liabilities in the balance sheet.

3 Following the completion of the transition to end-point eligibility rules on 1 January 2022, legacy tier 1 and tier 2 capital instruments subject to the original CRR transitional rules have now been fully removed from regulatory capital. Included in other subordinated liabilities is a single legacy tier 2 capital instrument of £5 million that remains eligible under the extended transitional rules of CRR 2. Excluding this instrument, total capital resources at 31 December 2022 are £41,575 million and the total capital ratio is 19.7 per cent.

CAPITAL MANAGEMENT (continued)

Movements in capital resources

The key movements are set out in the table below.

	Common equity tier 1 £m	Additional tier 1 £m	Tier 2 £m	Total capital £m
At 31 December 2021	33,815	5,330	7,189	46,334
Banking business profits[1]	5,511	–	–	5,511
Movement in foreseeable dividend accrual[2]	(115)	–	–	(115)
Final 2021 dividend paid out on ordinary shares during the period	(930)	–	–	(930)
Interim 2022 dividend paid out on ordinary shares during the period	(545)	–	–	(545)
Share buyback reflected through retained profits	(2,013)	–	–	(2,013)
Dividends received from the Insurance business[3]	600	–	–	600
IFRS 9 transitional adjustment to retained earnings	(181)	–	–	(181)
Pension deficit contributions	(1,611)	–	–	(1,611)
Goodwill and other intangible assets	(1,956)	–	–	(1,956)
Significant investments	(270)	–	(2)	(272)
Movement in treasury shares and employee share schemes	204	–	–	204
Movements in other equity, subordinated liabilities, other tier 2 items and related adjustments	–	(1,159)	(1,643)	(2,802)
Distributions on other equity instruments	(438)	–	–	(438)
Other movements	(206)	–	–	(206)
At 31 December 2022	31,865	4,171	5,544	41,580

1 Under the regulatory capital framework, profits made by Insurance are removed from CET1 capital. However, when dividends are paid to the Group by Insurance these are recognised through CET1 capital.

2 Reflects the reversal of the brought forward accrual for the final 2021 ordinary dividend, net of the accrual for the final 2022 ordinary dividend.

3 Received in February 2022 and July 2022.

CET1 capital resources have reduced by £2.0 billion over the year, primarily reflecting:

- The reduction on 1 January 2022 for regulatory changes including the reinstatement of the full deduction treatment for intangible software assets in addition to phased and other reductions in IFRS 9 transitional relief
- The ordinary share buyback programme announced as part of the Group's 2021 year end results that completed during 2022
- The interim ordinary dividend paid in September 2022, the accrual for the final 2022 ordinary dividend and distributions on other equity instruments
- Pension deficit contributions (fixed and variable) paid into the Group's three main defined benefit pension schemes
- Partially offset by banking business profits for the year and the receipt of dividends paid up by the Insurance business during the year

AT1 capital resources have reduced by £1.2 billion and Tier 2 capital resources have reduced by £1.6 billion over the year. The reductions primarily reflect the derecognition of legacy AT1 and Tier 2 capital instruments following the completion of the transition to end-point eligibility rules for regulatory capital on 1 January 2022, instrument repurchases and the impact of interest rate increases and regulatory amortisation on eligible Tier 2 capital instruments. This was partially offset by the issuance of new AT1 and Tier 2 capital instruments, the impact of sterling depreciation and an increase in eligible provisions recognised through Tier 2 capital.

CAPITAL MANAGEMENT (continued)

Minimum requirement for own funds and eligible liabilities (MREL)

An analysis of the Group's current transitional MREL resources is provided below.

	31 Dec 2022 £m	31 Dec 2021 £m
Total capital resources	**41,580**	46,334
Ineligible AT1 and tier 2 instruments[1]	**(181)**	(163)
Amortised portion of eligible tier 2 instruments issued by Lloyds Banking Group plc	**1,346**	713
Other eligible liabilities issued by Lloyds Banking Group plc[2]	**24,085**	26,070
Total MREL resources	**66,830**	72,954
Risk-weighted assets	**210,859**	195,967
MREL ratio	**31.7%**	37.2%
Leverage exposure measure	**638,815**	664,362
MREL leverage ratio	**10.5%**	11.0%

1. Instruments with less than or equal to one year to maturity or instruments not issued out of the holding company.
2. Includes senior unsecured debt.

During the year the Group issued externally £6.1 billion (sterling equivalent at point of issuance) of senior unsecured debt from Lloyds Banking Group plc which, while not included in total capital, is eligible to meet MREL.

Total MREL resources reduced by £6.1 billion, driven by the reduction in total capital resources and a net reduction in other eligible liabilities. The latter largely reflected the derecognition of senior unsecured debt instruments with less than one year to maturity, calls and interest rate increases, partially offset by the new issuances and sterling depreciation.

CAPITAL MANAGEMENT (continued)

Leverage ratio

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

	At 31 Dec 2022 £m	At 31 Dec 2021 £m
Total tier 1 capital (fully loaded)	36,036	38,594
Exposure measure		
Statutory balance sheet assets		
Derivative financial instruments	24,753	22,051
Securities financing transactions	56,646	69,673
Loans and advances and other assets	796,430	794,801
Total assets	877,829	886,525
Qualifying central bank claims	(91,125)	(72,741)
Deconsolidation adjustments[1]		
Derivative financial instruments	712	(166)
Loans and advances and other assets	(168,531)	(186,965)
Total deconsolidation adjustments	(167,819)	(187,131)
Derivatives adjustments	(7,414)	(3,506)
Securities financing transactions adjustments	2,645	1,946
Off-balance sheet items	42,463	57,496
Amounts already deducted from tier 1 capital	(12,033)	(10,324)
Other regulatory adjustments[2]	(5,731)	(7,903)
Total exposure measure	638,815	664,362
Average exposure measure[3]	658,435	
UK leverage ratio	5.6%	5.8%
Average UK leverage ratio[3]	5.5%	
Leverage exposure measure (including central bank claims)	729,940	737,103
Leverage ratio (including central bank claims)	4.9%	5.2%

1. Deconsolidation adjustments relate to the deconsolidation of certain Group entities that fall outside the scope of the Group's regulatory capital consolidation, primarily the Group's Insurance business.
2. Includes adjustments to exclude lending under the UK Government's Bounce Back Loan Scheme (BBLS).
3. The average UK leverage ratio is based on the average of the month end tier 1 capital position and average exposure measure over the quarter (1 October 2022 to 31 December 2022). The average of 5.5 per cent compares to 5.3 per cent at the start and 5.6 per cent at the end of the quarter.

Analysis of leverage movements

The Group's UK leverage ratio has reduced to 5.6 per cent, primarily reflecting the reduction in the total tier 1 capital position. This was partially offset by the £26 billion reduction in the leverage exposure measure which largely reflected reductions in securities financing transactions and the measure for off-balance sheet items.

The securities financing transactions (SFT) exposure measure, representing the aggregate of SFT assets per the balance sheet and SFT adjustments, reduced by £12.3 billion during the year, reflecting a reduction in volumes.

Off-balance sheet items reduced by £15.0 billion during the year, largely reflecting optimisation activity which has resulted in a reduction in the credit conversion factor applied to residential mortgage offers.

The average UK leverage ratio was 5.5 per cent over the fourth quarter, reflecting an increase in the ratio across the quarter as the exposure measure reduced, largely driven by decreasing SFT volumes.

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 2022 £m	31 Dec 2021[1] £m	CC2 Reference
Common Equity Tier 1 (CET1) capital: instruments and reserves				
1	Capital instruments and the related share premium accounts	**25,233**	25,581	
	of which: called up share capital	**6,729**	7,102	a
	of which: share premium	**18,504**	18,479	b
2	Retained earnings	**17,111**	14,884	d
3	Accumulated other comprehensive income (and other reserves)	**2,510**	8,856	d
UK-5a	Independently reviewed interim profits net of any foreseeable charge or dividend[2]	**(1,062)**	(947)	
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**43,792**	48,374	
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments	**(434)**	(457)	
8	Intangible assets (net of related tax liability)	**(4,982)**	(3,026)	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)	**(4,445)**	(4,483)	f
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	**5,476**	457	
12	Negative amounts resulting from the calculation of expected loss amounts	**—**	—	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	**(279)**	116	
15	Defined-benefit pension fund assets	**(2,803)**	(3,200)	g
16	Direct, indirect and synthetic holdings by an institution of own CET1 instruments	**(35)**	(5)	
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions)	**(4,843)**	(4,573)	h
22	Amount exceeding the 17.65% threshold	**—**	—	
27a	Other regulatory adjustments to CET1 capital	**418**	612	
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(11,927)**	(14,558)	
29	**Common Equity Tier 1 (CET1) capital**	**31,865**	33,815	
Additional Tier 1 (AT1) capital: instruments				
30	Capital instruments and the related share premium accounts	**5,271**	5,879	c
31	of which: classified as equity under applicable accounting standards	**5,271**	5,879	
33	Amount of qualifying items referred to in Article 484 (4) CRR and the related share premium accounts subject to phase out from AT1 as described in Article 486(3) CRR	**—**	126	
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	**—**	425	
35	of which: instruments issued by subsidiaries subject to phase out	**—**	425	
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**5,271**	6,430	
Additional Tier 1 (AT1) capital: regulatory adjustments				
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions)	**(1,100)**	(1,100)	h
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	**(1,100)**	(1,100)	
44	**Additional Tier 1 (AT1) capital**	**4,171**	5,330	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**36,036**	39,145	

		31 Dec 2022 £m	31 Dec 2021[1] £m	CC2 Reference
Tier 2 (T2) capital: instruments				
46	Capital instruments and the related share premium accounts	**6,129**	6,560	i
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	**—**	231	
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	**131**	1,635	i
49	of which: instruments issued by subsidiaries subject to phase out	**5**	1,177	
50	Credit risk adjustments	**247**	—	
51	**Tier 2 (T2) capital before regulatory adjustments**	**6,507**	8,426	
Tier 2 (T2) capital: regulatory adjustments				
55	Direct, indirect and synthetic holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions)	**(963)**	(961)	
UK-56b	Other regulatory adjustments to T2 capital	**—**	(276)	
57	Total regulatory adjustments to Tier 2 (T2) capital	**(963)**	(1,237)	
58	**Tier 2 (T2) capital**	**5,544**	7,189	
59	**Total capital**	**41,580**	46,334	
60	**Total risk exposure amount**	**210,859**	195,967	
Capital ratios and buffers				
61	**Common Equity Tier 1 (as a percentage of total risk exposure amount)**	**15.1 %**	17.3 %	
62	**Tier 1 (as a percentage of total risk exposure amount)**	**17.1 %**	20.0 %	
63	**Total capital (as a percentage of total risk exposure amount)**	**19.7 %**	23.6 %	
64	Institution CET1 overall capital requirement (CET1 requirement in accordance with Article 92 (1) CRR, plus additional CET1 requirement which the institution is required to hold in accordance with point (a) of Article 104(1) CRD, plus combined buffer requirement in accordance with Article 128(6) CRD) expressed as a percentage of risk exposure amount)	**9.4 %**	9.1 %	
65	of which: capital conservation buffer requirement	**2.500 %**	2.500 %	
66	of which: countercyclical buffer requirement	**0.895 %**	0.005 %	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	**9.1 %**	10.7 %	
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)	**477**	443	
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% thresholds and net of eligible short positions)	**3,671**	3,839	
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)	**1,082**	1,105	
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)	**247**	—	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	**861**	781	

1 Comparatives have been restated to align with the revised disclosure template.

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

Own funds (continued)

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

The following table compares the Group's consolidated accounting and regulatory balance sheets as at 31 December 2022. The regulatory scope of consolidation, which excludes the Group's insurance undertakings, is the basis for the calculation of the Group's regulatory own funds as presented in table CC1.

		Balance sheet as in published financial statements at 31 Dec 2022 £m	Balance sheet under regulatory scope of consolidation at 31 Dec 2022[2] £m	Reference[1]
	Assets			
1	Cash and balances at central banks	91,388	91,388	
2	Items in the course of collection from banks	242	242	
3	Financial assets at fair value through profit or loss	180,609	20,335	
4	Derivative financial instruments	24,753	25,465	
5	Loans and advances to banks	10,632	10,601	
6	Loans and advances to customers	454,899	454,855	
7	Reverse repurchase agreements	44,865	44,865	
8	Debt securities	9,926	9,269	
9	Financial assets at amortised cost	520,322	519,590	
10	Financial assets at fair value through other comprehensive income	23,154	23,154	
11	Reinsurance assets	616	—	
12	Investments in joint ventures and associates	385	159	
13	Investment in subsidiaries[2]	—	9,279	h
14	Goodwill	2,655	550	e
15	Value of in-force business	5,419	—	
16	Other intangible assets	4,786	4,772	e
17	Current tax recoverable	612	571	
18	Deferred tax assets[3]	5,228	6,281	f
19	Retirement benefit assets	3,823	3,823	g
20	Other assets	13,837	10,344	
21	**Total assets**	**877,829**	**715,953**	

		Balance sheet as in published financial statements at 31 Dec 2022 £m	Balance sheet under regulatory scope of consolidation at 31 Dec 2022[2] £m	Reference[1]
Liabilities				
1	Deposits from banks	7,266	7,114	
2	Customer deposits	475,331	476,009	
3	Repurchase agreements at amortised cost	48,596	48,596	
4	Items in the course of transmission to banks	372	372	
5	Financial liabilities at fair value through profit or loss	17,755	17,735	
6	Derivative financial instruments	24,042	23,305	
7	Notes in circulation	1,280	1,280	
8	Debt securities in issue	73,819	72,736	
9	Liabilities arising from insurance contracts and participating investment contracts	106,893	—	
10	Liabilities arising from non-participating investment contracts	42,975	—	
11	Other liabilities	19,090	6,868	
12	Retirement benefit obligations	126	126	
13	Current tax liabilities	8	6	
14	Deferred tax liabilities[3]	216	189	f
15	Other provisions	1,809	1,659	
16	Subordinated liabilities	10,730	9,379	i
17	**Total liabilities**	**830,308**	**665,374**	
Shareholders' equity				
1	Called up share capital	25,233	25,233	
2	of which: share capital	6,729	6,729	a
3	of which: share premium	18,504	18,504	b
4	Other equity instruments	5,297	5,297	c
5	Retained earnings, accumulated other comprehensive income and other reserves[4]	16,747	19,805	d
6	**Total equity excluding non-controlling interests**	**47,277**	**50,335**	
7	Non-controlling interests	244	244	
8	**Total equity**	**47,521**	**50,579**	
9	**Total equity and liabilities**	**877,829**	**715,953**	

1 The references (a) to (i) 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 The primary difference between the balance sheet published per the financial statements and the balance sheet under the regulatory scope of consolidation relates to the adjustments required to deconsolidate the Insurance business headed by Scottish Widows Group Limited and replace this with the Group's investment in the equity and debt instruments issued by the undertaking, in addition to reinstating intragroup balances between the banking and insurance businesses that are otherwise eliminated upon accounting consolidation. The investment in subsidiaries balance of £9,279 million extracted from the regulatory balance sheet represents the Group's total investment in the equity instruments of Scottish Widows Group Limited which includes £1,100 million of other equity instruments that are classified as tier 1 capital and treated accordingly for own funds purposes. Capital regulations require a portion of the share capital investment in Scottish Widows Group Limited to be deducted from CET1 capital where this exceeds a threshold limit based upon the underlying CET1 capital base of the Group, with the remaining investment up to this limit becoming subject to risk weight.

3 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.

4 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 differs.

Total Loss Absorbing Capacity

TLAC1: Total loss absorbing capital composition

		31 Dec 2022 Resolution Group £m	31 Dec 2021 Resolution Group £m
	Regulatory capital elements of TLAC and adjustments		
1	Common equity tier 1 (CET1) capital	31,865	33,815
2	Additional tier 1 (AT1) capital before TLAC adjustments	4,171	5,330
3	AT1 capital ineligible as TLAC as issued out of subsidiaries to third parties	—	—
4	Other adjustments	—	—
5	**AT1 instruments eligible under the TLAC framework**	4,171	5,330
6	Tier 2 (T2) capital before TLAC adjustments	5,544	7,189
7	Amortised portion of T2 instruments where remaining maturity > 1 year	1,346	713
8	T2 capital ineligible as TLAC as issued out of subsidiaries to third parties[1]	(176)	—
9	Other adjustments[2]	(5)	(163)
10	Tier 2 instruments eligible under the TLAC framework	6,709	7,739
11	**TLAC arising from regulatory capital**	42,745	46,884
	Non-regulatory capital elements of TLAC		
12	External TLAC instruments issued directly by the bank and subordinated to excluded liabilities	24,085	26,070
17	**TLAC arising from non-regulatory capital instruments before adjustments**	24,085	26,070
	Non-regulatory capital elements of TLAC: adjustments		
18	**TLAC before deductions**	66,830	72,954
22	**TLAC after deductions**	66,830	72,954
	Risk-weighted assets (RWA) and leverage exposure measure for TLAC purposes		
23	Total RWA adjusted as permitted under the TLAC regime	210,859	195,967
24	UK leverage exposure measure	638,815	664,362
	TLAC ratios and buffers		
25	**TLAC (as a percentage of RWA adjusted as permitted under the TLAC regime)**	31.7%	37.2%
26	**TLAC (as a percentage of UK leverage exposure)**	10.5%	11.0%
27	**CET1 (as a percentage of RWA) available after meeting the resolution group's minimum total capital and TLAC requirements[3]**	9.1%	10.7%
28	Institution-specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus higher loss absorbency requirement, expressed as a percentage of RWA)	3.4%	2.5%
29	Of which: capital conservation buffer requirement	2.5%	2.5%
30	Of which: bank specific countercyclical buffer requirement	0.9%	0.0%
31	Of which: higher loss absorbency requirement[4]	—	—

1 Until 1 January 2022, instruments issued externally out of operating entities could count towards the Group's MREL resources.

2 Instruments with less than or equal to one year to maturity.

3 Defined as CET1 remaining after meeting Pillar 1 and Pillar 2A CET1 capital requirements.

4 Although the Group does not have an Other Systemically Important Institution (O-SII) buffer, it is required to hold additional CET1 capital to meet its Ring-Fenced Bank's O-SII Buffer of 2.0 per cent, which equates to 1.7 per cent of the Group's total risk-weighted exposure amount.

Total Loss Absorbing Capacity (continued)

TLAC2: Material sub-group entity - creditor ranking at the entity level

The following disclosures provide information on the creditor hierarchy for each material entity within the resolution group, including Lloyds Bank plc, Bank of Scotland plc and Lloyds Bank Corporate Markets plc. The disclosures include information on the nominal value of all own funds instruments and other liabilities to the extent that they are subordinate to or rank pari passu with the most senior MREL claim. Where the instrument is denominated in foreign currency, the nominal value is converted into sterling using the rate as at 31 December 2022. For ordinary shares, this excludes the value of share premium and reserves attributable to ordinary shareholders.

		31 Dec 2022							
		Creditor ranking							
		£m	£m		£m	£m		£m	£m
	Lloyds Bank plc	(Most junior)							
1	Is the resolution entity the creditor/investor?	Y	Y	N	N	Y	N	Y	
2	Description of creditor ranking	Ordinary shares (£1.00 each)	Preference shares, preferred securities and AT1 equity instruments		Undated subordinated liabilities	Dated subordinated liabilities		Senior non-preferred liabilities	Total
3	Total capital and liabilities net of credit risk mitigation	1,574	4,376	—	100	6,889	365	17,420	30,724
5	Total capital and liabilities less excluded liabilities	1,574	4,376	—	100	6,889	365	17,420	30,724
6	Subset of row 5 that are eligible as TLAC	1,574	4,376	—	—	6,889	—	15,095	27,934
7	Subset of row 6 with 1 year ≤ residual maturity < 2 years		—	—	—	—	—	3,835	3,835
8	Subset of row 6 with 2 years ≤ residual maturity < 5 years		—	—	—	540	—	8,310	8,850
9	Subset of row 6 with 5 years ≤ residual maturity < 10 years		—	—	—	1,925	—	1,876	3,801
10	Subset of row 6 with residual maturity ≥ 10 years, but excluding perpetual securities		—	—	—	4,424	—	1,075	5,499
11	Subset of row 6 that are perpetual securities	1,574	4,376	—	—	—	—	—	5,950
	Bank of Scotland plc								
1	Is the resolution entity the creditor/investor?	N	Y	N	N	Y	N	N	
2	Description of creditor ranking	Ordinary shares (£0.25 each)	Preference shares, preferred securities and AT1 equity instruments		Undated subordinated liabilities	Dated subordinated liabilities		Senior non-preferred liabilities	Total
3	Total capital and liabilities net of credit risk mitigation	5,847	—	2,200	91	—	1,500	4,164	13,802
5	Total capital and liabilities less excluded liabilities	5,847	—	2,200	91	—	1,500	4,164	13,802
6	Subset of row 5 that are eligible as TLAC	5,847	—	2,200	—	—	1,500	4,164	13,711
7	Subset of row 6 with 1 year ≤ residual maturity < 2 years	—	—	—	—	—	—	147	147
8	Subset of row 6 with 2 years ≤ residual maturity < 5 years	—	—	—	—	—	—	1,385	1,385
9	Subset of row 6 with 5 years ≤ residual maturity < 10 years	—	—	—	—	—	1,500	1,606	3,106
10	Subset of row 6 with residual maturity ≥ 10 years, but excluding perpetual securities	—	—	—	—	—	—	1,027	1,027
11	Subset of row 6 that are perpetual securities	5,847	—	2,200	—	—	—	—	8,047

TLAC2: Material sub-group entity - creditor ranking at the entity level (continued)

	Lloyds Bank Corporate Markets plc								
1	Is the resolution entity the creditor/investor?	**Y**	**Y**	**N**	**Y**	**Y**	**N**	**Y**	
2	Description of creditor ranking	**Ordinary shares (£1.00 each)**	**AT1 equity instruments**		**Undated subordinated liabilities**	**Dated subordinated liabilities**		**Senior non-preferred liabilities**	**Total**
3	Total capital and liabilities net of credit risk mitigation	**370**	**845**	**—**	**—**	**756**	**—**	**3,373**	**5,344**
5	Total capital and liabilities less excluded liabilities	**370**	**845**	**—**	**—**	**756**	**—**	**3,373**	**5,344**
6	Subset of row 5 that are eligible as TLAC	**370**	**845**	**—**	**—**	**756**	**—**	**1,620**	**3,591**
7	Subset of row 6 with 1 year ≤ residual maturity < 2 years	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
8	Subset of row 6 with 2 years ≤ residual maturity < 5 years	**—**	**—**	**—**	**—**	**—**	**—**	**581**	**581**
9	Subset of row 6 with 5 years ≤ residual maturity < 10 years	**—**	**—**	**—**	**—**	**623**	**—**	**1,038**	**1,661**
10	Subset of row 6 with residual maturity ≥ 10 years, but excluding perpetual securities	**—**	**—**	**—**	**—**	**133**	**—**	**—**	**133**
11	Subset of row 6 that are perpetual securities	**370**	**845**	**—**	**—**	**—**	**—**	**—**	**1,215**

		31 Dec 2021							
		Creditor ranking							
		£m	£m		£m	£m		£m	£m
	Lloyds Bank plc	(Most junior)							
1	Is the resolution entity the creditor/investor?	Y	Y	N	N	Y	N	Y	
2	Description of creditor ranking	Ordinary shares (£1.00 each)	Preference shares, preferred securities and AT1 equity instruments		Undated subordinated liabilities	Dated subordinated liabilities		Senior non-preferred liabilities	Total
3	Total capital and liabilities net of credit risk mitigation	1,574	4,164	1,517	100	5,601	842	17,777	31,575
5	Total capital and liabilities less excluded liabilities	1,574	4,164	1,517	100	5,601	842	17,777	31,575
6	Subset of row 5 that are eligible as TLAC	1,574	4,164	1,517	100	5,601	842	17,777	31,575
7	Subset of row 6 with 1 year ≤ residual maturity < 2 years	—	—	—	—	—	92	6,268	6,360
8	Subset of row 6 with 2 years ≤ residual maturity < 5 years	—	—	—	—	482	750	10,353	11,586
9	Subset of row 6 with 5 years ≤ residual maturity < 10 years	—	—	—	—	461	—	1,118	1,579
10	Subset of row 6 with residual maturity ≥ 10 years, but excluding perpetual securities	—	—	—	—	4,657	—	37	4,695
11	Subset of row 6 that are perpetual securities	1,574	4,164	1,517	100	—	—	—	7,355

TLAC2: Material sub-group entity - creditor ranking at the entity level (continued)

		31 Dec 2021							
		Creditor ranking							
		£m	£m		£m	£m		£m	£m
	Bank of Scotland plc								
1	Is the resolution entity the creditor/investor?	N	Y	N	N	Y	N	N	
2	Description of creditor ranking	Ordinary shares (£0.25 each)	Preference shares, preferred securities and AT1 equity instruments		Undated subordinated liabilities	Dated subordinated liabilities		Senior non-preferred liabilities	Total
3	Total capital and liabilities net of credit risk mitigation	5,847	—	2,218	112	—	1,500	3,381	13,058
5	Total capital and liabilities less excluded liabilities	5,847	—	2,218	112	—	1,500	3,381	13,058
6	Subset of row 5 that are eligible as TLAC	5,847	—	2,218	112	—	1,500	3,381	13,058
7	Subset of row 6 with 1 year ≤ residual maturity < 2 years	—	—	—	—	—	—	1,181	1,181
8	Subset of row 6 with 2 years ≤ residual maturity < 5 years	—	—	—	—	—	—	2,200	2,200
9	Subset of row 6 with 5 years ≤ residual maturity < 10 years	—	—	—	—	—	1,500	—	1,500
10	Subset of row 6 with residual maturity ≥ 10 years, but excluding perpetual securities	—	—	—	—	—	—	—	—
11	Subset of row 6 that are perpetual securities	5,847	—	2,218	112	—	—	—	8,177
	Lloyds Bank Corporate Markets plc								
1	Is the resolution entity the creditor/investor?	Y	Y	N	Y	Y	N	Y	
2	Description of creditor ranking	Ordinary shares (£1.00 each)	AT1 equity instruments		Undated subordinated liabilities	Dated subordinated liabilities		Senior non-preferred liabilities	Total
3	Total capital and liabilities net of credit risk mitigation	120	767	—	—	683	—	3,109	4,678
5	Total capital and liabilities less excluded liabilities	120	767	—	—	683	—	3,109	4,678
6	Subset of row 5 that are eligible as TLAC	120	767	—	—	683	—	1,317	2,887
7	Subset of row 6 with 1 year ≤ residual maturity < 2 years	—	—	—	—	—	—	—	—
8	Subset of row 6 with 2 years ≤ residual maturity < 5 years	—	—	—	—	—	—	1,317	1,317
9	Subset of row 6 with 5 years ≤ residual maturity < 10 years	—	—	—	—	557	—	—	557
10	Subset of row 6 with residual maturity ≥ 10 years, but excluding perpetual securities	—	—	—	—	126	—	—	126
11	Subset of row 6 that are perpetual securities	120	767	—	—	—	—	—	887

Total Loss Absorbing Capacity (continued)

TLAC3: Resolution entity - creditor ranking at the legal entity level

The following disclosure provides information on the creditor hierarchy for the resolution entity (Lloyds Banking Group plc).

The disclosure includes information on the nominal value of all own funds instruments and other liabilities to the extent that they are subordinate to or rank pari passu with the most senior MREL claim. Where the instrument is denominated in foreign currency, the nominal value is converted into sterling using the rate as at 31 December 2022.

For ordinary shares, this excludes the value of share premium and reserves attributable to ordinary shareholders.

	Lloyds Banking Group plc	31 Dec 2022					
		Creditor ranking					
		£m	£m	£m	£m	£m	£m
		(Most junior)					
1	Description of creditor ranking	Ordinary shares (£0.10 each)	Preference shares and AT1 equity instruments	Undated subordinated liabilities	Dated subordinated liabilities	Senior liabilities	Total
2	Total capital and liabilities net of credit risk mitigation	6,729	6,268	10	9,685	30,463	53,155
3	Subset of row 2 that are excluded liabilities					416	416
4	Total capital and liabilities less excluded liabilities	6,729	6,268	10	9,685	30,048	52,739
5	Subset of row 4 that are potentially eligible as TLAC	6,729	6,268	10	9,685	25,220	47,912
6	Subset of row 5 with 1 year ≤ residual maturity < 2 years	—	—	—	830	3,549	4,379
7	Subset of row 5 with 2 years ≤ residual maturity < 5 years	—	—	—	2,370	13,309	15,679
8	Subset of row 5 with 5 years ≤ residual maturity < 10 years	—	—	—	1,439	7,225	8,664
9	Subset of row 5 with residual maturity ≥ 10 years, but excluding perpetual securities	—	—	—	5,046	1,137	6,183
10	Subset of row 5 that are perpetual securities	6,729	6,268	10	—	—	13,007
		31 Dec 2021					
2	Total capital and liabilities net of credit risk mitigation	7,102	6,509	10	8,155	26,930	48,706
3	Subset of row 2 that are excluded liabilities	—	—	—	—	202	202
4	Total capital and liabilities less excluded liabilities	7,102	6,509	10	8,155	26,728	48,504
5	Subset of row 4 that are potentially eligible as TLAC	7,102	6,509	10	8,155	25,614	47,390
6	Subset of row 5 with 1 year ≤ residual maturity < 2 years	—	—	—	—	7,056	7,056
7	Subset of row 5 with 2 years ≤ residual maturity < 5 years	—	—	—	2,860	11,949	14,809
8	Subset of row 5 with 5 years ≤ residual maturity < 10 years	—	—	—	1,390	6,508	7,897
9	Subset of row 5 with residual maturity ≥ 10 years, but excluding perpetual securities	—	—	—	3,906	102	4,007
10	Subset of row 5 that are perpetual securities	7,102	6,509	10	—	—	13,621

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 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	279	43	—	37	—	52	28	219	15	204
3	Close-out cost	—	106	—	12	—	12	—	64	53	11
4	Concentrated positions	—	7	—	39	—			46	7	39
5	Early termination	—	—	—	—	—			—	—	—
6	Model risk	—	25	1	24	—	9	3	31	16	15
7	Operational risk	28	15	—	14	—			57	14	43
10	Future administrative costs	—	13	—	4	—			17	8	9
12	**Total Additional Valuation Adjustments (AVAs)**								**434**	**113**	**321**

Countercyclical capital buffers

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

	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	22,649	478,596	7	16	24,837	526,105	11,534	3	410	11,947	149,344	88.86 %	1.00 %
Bulgaria	—	—	—	—	—	—	—	—	—	—	—	—	1.00 %
Czech Republic	—	—	—	—	—	—	—	—	—	—	—	—	1.50 %
Denmark	—	7	—	—	—	7	1	—	—	1	8	0.01 %	2.00 %
Estonia	—	—	—	—	—	—	—	—	—	—	—	—	1.00 %
Hong Kong	78	24	—	—	—	102	4	—	—	4	50	0.03 %	1.00 %
Iceland	—	—	—	—	—	—	—	—	—	—	—	—	2.00 %
Luxembourg	8	3,789	—	—	64	3,861	85	—	1	86	1,076	0.64 %	0.50 %
Norway	2	228	—	—	—	230	17	—	—	17	218	0.13 %	2.00 %
Romania	—	—	—	—	—	—	—	—	—	—	—	—	0.50 %
Slovakia	—	—	—	—	—	—	—	—	—	—	—	—	1.00 %
Sweden	—	2	—	—	—	2	—	—	—	—	2	—	1.00 %
i) Total[1]	22,737	482,646	7	16	24,901	530,307	11,641	3	411	12,055	150,698	89.67 %	
United States of America	950	11,578	6	14	6,239	18,787	466	3	84	553	6,919	4.12 %	—
Netherlands	1,335	13,845	—	—	100	15,280	251	—	1	252	3,146	1.87 %	—
ii) Total[1]	2,285	25,423	6	14	6,339	34,067	717	3	85	805	10,065	5.99 %	
iii) Rest of the World[1]	3,906	10,711	16	38	1,289	15,960	561	8	16	585	7,298	4.34 %	
Total	28,928	518,780	29	68	32,529	580,334	12,919	14	512	13,445	168,061	100.00 %	

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

	31 Dec 2021													
	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	%	%
Bulgaria	—	—	—	—	—	—	—	—	—	—	—	— %	0.50 %
Czech Republic	—	—	—	—	—	—	—	—	—	—	—	— %	0.50 %
Hong Kong	94	14	—	—	—	108	4	—	—	4	50	0.03 %	1.00 %
Luxembourg	30	2,970	—	—	64	3,064	73	—	1	74	925	0.60 %	0.50 %
Norway	6	271	—	—	—	277	22	—	—	22	275	0.18 %	1.00 %
Slovakia	—	—	—	—	—	—	—	—	—	—	—	— %	1.00 %
i) Total[1]	**130**	**3,255**	**—**	**—**	**64**	**3,449**	**99**	**—**	**1**	**100**	**1,250**	**0.81 %**	
United Kingdom	22,157	480,948	2	30	22,192	525,329	10,621	8	384	11,013	137,663	89.72 %	—
United States of America	703	9,834	3	46	4,738	15,324	380	12	75	467	5,838	3.81 %	—
Netherlands	895	10,697	—	—	89	11,681	129	—	1	130	1,625	1.06 %	—
ii) Total[1]	**23,755**	**501,479**	**5**	**76**	**27,019**	**552,334**	**11,130**	**20**	**460**	**11,610**	**145,126**	**94.59 %**	
iii) Rest of the World[1]	**3,685**	**9,506**	**2**	**32**	**1,273**	**14,498**	**541**	**9**	**15**	**565**	**7,062**	**4.60 %**	
Total	**27,570**	**514,240**	**7**	**108**	**28,356**	**570,281**	**11,770**	**29**	**476**	**12,275**	**153,438**	**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 2022	31 Dec 2021
1	Total risk exposure amount	**£210,859m**	£195,967m
2	Institution specific countercyclical capital buffer rate	**0.895 %**	0.005 %
3	Institution specific countercyclical capital buffer requirement	**£1,887m**	£10m

Leverage

LR2: Leverage ratio common disclosure

		31 Dec 2022 £m	31 Dec 2021[2] £m
On-balance sheet exposures (excluding derivatives and SFTs)			
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)[1]	622,168	599,933
2	Gross-up for derivatives collateral provided, where deducted from the balance sheet assets pursuant to the applicable accounting framework	3,305	2,906
3	Deductions of receivables assets for cash variation margin provided in derivatives transactions	(7,029)	(2,823)
6	Asset amounts deducted in determining tier 1 capital (leverage)	(12,033)	(10,323)
7	Total on-balance sheet exposures (excluding derivatives and SFTs)	606,411	589,693
Derivative exposures			
8	Replacement cost associated with SA-CCR derivatives transactions (i.e. net of eligible cash variation margin)	13,082	7,483
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	8,494	10,544
11	Adjusted effective notional amount of written credit derivatives	612	408
12	Adjusted effective notional offsets and add-on deductions for written credit derivatives	(413)	(141)
13	Total derivatives exposures	21,775	18,294
Securities financing transaction (SFT) exposures			
14	Gross SFT assets (with no recognition of netting), after adjustment for sales accounting transactions	87,739	98,308
15	Netted amounts of cash payables and cash receivables of gross SFT assets	(31,093)	(28,634)
16	Counterparty credit risk exposure for SFT assets	2,645	1,946
18	Total securities financing transaction exposures	59,291	71,620
Other off-balance sheet exposures			
19	Off-balance sheet exposures at gross notional amount	150,202	148,760
20	Adjustments for conversion to credit equivalent amounts	(107,504)	(91,264)
21	General provisions deducted in determining tier 1 capital (leverage) and specific provisions associated with off-balance sheet exposures	(235)	—
22	Off-balance sheet exposures	42,463	57,496
Capital and total exposure measure			
23	Tier 1 capital (leverage)	36,036	38,594
24	Total exposure measure including claims on central banks	729,940	737,103
UK-24a	(-) Claims on central banks excluded	(91,125)	(72,741)
UK-24b	Total exposure measure excluding claims on central banks	638,815	664,362
Leverage ratio			
25	Leverage ratio excluding claims on central banks (%)	5.6 %	5.8 %
UK-25a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)	5.6 %	5.7 %
UK-25c	Leverage ratio including claims on central banks (%)	4.9 %	5.2 %
26	Regulatory minimum leverage ratio requirement (%)	3.25 %	3.25 %
Additional leverage ratio disclosure requirements - leverage ratio buffers			
27	Leverage ratio buffer (%)[3]	0.9 %	0.6 %
UK-27a	Of which: G-SII or O-SII additional leverage ratio buffer (%)	0.0 %	0.0 %
UK-27b	Of which: countercyclical leverage ratio buffer (%)	0.3 %	0.0 %
Additional leverage ratio disclosure requirements - disclosure of mean values			
28	Mean of daily values of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivable	75,087	76,928
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	56,646	69,673
UK-31	Average total exposure measure including claims on central banks	743,544	746,554
UK-32	Average total exposure measure excluding claims on central banks	658,435	675,412
UK-33	Average leverage ratio including claims on central banks	4.9 %	5.2 %
UK-34	Average leverage ratio excluding claims on central banks	5.5 %	5.8 %

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

2 Comparatives have been restated to align with the revised disclosure template. Reported amounts remain on the basis of the rules that applied at 31 December 2021.

3 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 2022 was 0.9 per cent (31 December 2021: 0.6 per cent), of which 0.6 per cent equates to the additional leverage ratio buffer (ALRB) of 0.7 per cent applied to the Ring-Fenced Bank.

Leverage (continued)

LR1: Summary reconciliation of accounting assets and leverage ratio exposures

		31 Dec 2022 £m	31 Dec 2021[3] £m
1	Total assets as per published financial statements	**877,829**	886,525
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential consolidation	**(167,819)**	(187,131)
4	Adjustment for exemption of exposures to central banks	**(91,125)**	(72,741)
6	Adjustment for regular-way purchases and sales of financial assets subject to trade date accounting	**(182)**	(326)
8	Adjustment for derivative financial instruments	**(7,414)**	(3,506)
9	Adjustment for securities financing transactions (SFTs)	**2,645**	1,946
10	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)[1]	**42,698**	57,496
11	Adjustment for items and specific and general provisions which have reduced tier 1 capital (leverage)	**(12,268)**	(10,323)
12	Other adjustments[2]	**(5,549)**	(7,578)
13	**Total exposure measure**	**638,815**	**664,362**

1 Gross of specific provisions. The amount net of specific provisions at 31 December 2022 is £42,463m.

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

3 Comparatives have been restated to align with the revised disclosure template. Reported amounts remain on the basis of the rules that applied at 31 December 2021.

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

		31 Dec 2022 £m	31 Dec 2021 £m
UK-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**622,168**	**599,933**
UK-2	Trading book exposures	**2,435**	6,841
UK-3	Banking book exposures, of which:	**619,733**	593,092
UK-4	Covered bonds	**3,302**	2,047
UK-5	Exposures treated as sovereigns	**118,436**	106,500
UK-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	**3,129**	4,690
UK-7	Institutions	**8,245**	5,889
UK-8	Secured by mortgages of immovable properties	**343,225**	336,484
UK-9	Retail exposures	**40,802**	39,005
UK-10	Corporates	**56,322**	55,176
UK-11	Exposures in default	**5,280**	6,373
UK-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	**40,992**	36,928

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 the Group Financial Risk Committee, the Group and Ring-Fenced Banks Asset and Liability Committees, the Group Executive Committee, the Group and Ring-Fenced Banks Risk Committees, the Board Risk Committee and the Board.

Further details on the process by which the Group manages its capital position in respect of both risk-based capital and leverage requirements is discussed on page 32.

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 is discussed on page 37.

PILLAR 1 CAPITAL REQUIREMENTS: CREDIT RISK

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

Division	Risk Weight approach	2022 EAD post CRM post CCF £m	2022 Risk-weighted assets £m	2022 Average risk weight %	2021 EAD post CRM post CCF £m	2021 Risk-weighted assets[1] £m	2021 Average risk weight %
Retail	IRB	416,369	83,339	20 %	412,479	68,455	17 %
	Standardised	15,532	10,412	67 %	15,735	10,174	65 %
Commercial Banking	IRB	95,737	46,005	48 %	92,025	45,790	50 %
	Standardised	20,123	7,356	37 %	21,428	7,028	33 %
Insurance, Pensions & Investments	IRB	40	7	18 %	—	—	— %
	Standardised	169	85	50 %	156	117	75 %
Equity Investments & Central Items	IRB	22,831	18,005	79 %	23,200	21,032	91 %
	Standardised	109,280	5,266	5 %	102,234	4,309	4 %
Total		**680,081**	**170,475**	**25 %**	667,257	156,905	24 %
	Total IRB	**534,977**	**147,356**	**28 %**	527,704	135,277	26 %
	Total Standardised	**145,104**	**23,119**	**16 %**	139,553	21,628	15 %

1 Excludes securitisation.

Key movements

Retail IRB exposure increased due to growth in mortgage lending. Credit risk risk-weighted assets increased by £14.9 billion driven by the anticipated impact of regulatory changes on 1 January 2022 in relation to CRD IV modelled outputs, and growth in balance sheet lending, partially offset by optimisation activity and resilient underlying credit performance.

Commercial Banking exposure increased by £3.3 billion due to attractive growth opportunities and foreign exchange movements in the Corporate and Institutional portfolio, partly offset by net repayments within Small and Medium Businesses including government-backed lending. Credit risk risk-weighted assets increased by £0.5 billion driven by the impact of regulatory changes on 1 January 2022 including SA-CCR, capital accretive balance sheet growth and foreign exchange movements, partly offset by ongoing optimisation .

Equity Investments & Central Items exposure mainly increased by £6.7 billion due to increased deposits with central banks. Risk-weighted assets decreased by £2.1 billion mainly due to the impact of regulatory changes on 1 January 2022 including the change in treatment of software intangible assets and the reclassification of certain equity positions as collective investment undertakings.

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, debt securities and derivatives to customers, financial institutions and sovereigns. The credit risk exposures of the Group are set out in note 52 on page 317 of the 2022 Lloyds Banking Group 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. Most 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 total exposure, expected credit loss (ECL), risk-weighted assets, new business quality, concentration risk and portfolio performance, are reported monthly to risk committees and forums.

Measures such as 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 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 and credit policy.

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 52 on page 318 of the 2022 Lloyds Banking Group 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 stress testing process, methodology and governance see page 25.

Frequent and robust credit risk assurance: assurance of credit risk is undertaken by an independent function operating within the Risk division which are part of the Group's second line of defence. Their 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 61 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 22.

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 the Group amended its definition of default for UK mortgages, maintaining alignment between accounting and regulatory definitions of default. For UK mortgages, 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 has now been 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 output. The new models developed by the Group to meet these new requirements are still to be approved by the PRA. The Group has included temporary model adjustments to reported risk-weighted assets and expected losses to reflect the anticipated impact of these changes. 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 figures this includes the reporting of default 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 point (a) 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 for the purposes of Article 178(3)(d) and Article 47(b).

Credit risk quality

The tables in this section reflect FINREP categories and definitions. The reported values for defaulted exposure reflect the change in definition of default from 180 days to 90 days. This predominantly impacts residential mortgages and so the impact of the change can be seen through these disclosures through an increase in defaulted Household exposures.

CR1: Performing and non-performing exposures and related provisions

		31 Dec 2022														
		Gross carrying amount/nominal amount[1]						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions[1]						Accumulated partial write-off	Collateral and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
			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			
		£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**	**89,421**	**89,421**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
010	**Loans and advances**	**505,830**	**437,232**	**60,535**	**11,192**	**654**	**7,637**	**(2,497)**	**(711)**	**(1,751)**	**(2,035)**	**(59)**	**(1,757)**	**(341)**	**369,787**	**7,504**
020	Central banks	1,285	1,285	—	—	—	—	—	—	—	—	—	—	—	—	—
030	General governments	1,283	1,253	13	—	—	—	(1)	(1)	—	—	—	—	—	1,110	—
040	Credit institutions	13,943	13,918	25	—	—	—	(13)	(10)	(2)	—	—	—	—	—	—
050	Other financial	67,830	65,821	1,117	41	17	24	(48)	(28)	(20)	(5)	—	(5)	—	446	9
060	Non-financial corporations	65,852	55,458	10,163	3,564	182	3,382	(583)	(187)	(396)	(1,086)	—	(1,086)	(341)	40,290	1,334
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	355,637	299,497	49,217	7,587	455	4,231	(1,852)	(485)	(1,333)	(944)	(59)	(666)	—	327,941	6,161
090	**Debt securities**	**34,549**	**32,156**	**—**	**1,209**	**—**	**2**	**(15)**	**(15)**	**—**	**(870)**	**—**	**(2)**	**—**	**—**	**—**
110	General governments	12,150	12,088	—	—	—	—	(6)	(6)	—	—	—	—	—	—	—
120	Credit institutions	14,160	14,161	—	—	—	—	(2)	(2)	—	—	—	—	—	—	—
130	Other financial	6,661	5,491	—	—	—	—	(7)	(7)	—	—	—	—	—	—	—
140	Non-financial corporations	1,578	416	—	1,209	—	2	—	—	—	(870)	—	(2)	—	—	—
150	**Off-balance-sheet**	**145,193**	**138,222**	**6,905**	**369**	**231**	**137**	**(313)**	**(134)**	**(179)**	**(10)**	**(7)**	**(3)**		**8,258**	**55**
170	General governments	282	282	—	—	—	—	—	—	—	—	—	—		5	—
180	Credit institutions	690	690	—	—	—	—	—	—	—	—	—	—		418	—
190	Other financial	23,161	22,379	782	2	2	—	(27)	(12)	(15)	—	—	—		1,485	—
200	Non-financial corporations	39,271	37,426	1,845	99	40	59	(123)	(50)	(73)	(3)	—	(3)		6,350	55
210	Households	81,789	77,445	4,278	268	189	78	(163)	(72)	(91)	(7)	(7)	—		—	—
220	**Total**	**774,993**	**697,031**	**67,440**	**12,770**	**885**	**7,776**	**(2,825)**	**(860)**	**(1,930)**	**(2,915)**	**(66)**	**(1,762)**	**(341)**	**378,045**	**7,559**

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

		31 Dec 2021														
		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			Accumulated partial write-off	On performing exposures	On non-performing exposures
			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			
		£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**	74,101	74,101	—	—	—	—	—	—	—	—	—	—	—	—	—
010	**Loans and advances**	**506,459**	**465,356**	**39,313**	**10,644**	**2,215**	**8,428**	**(2,005)**	**(916)**	**(1,089)**	**(1,816)**	**(99)**	**(1,717)**	**(316)**	**370,677**	**6,188**
020	Central banks	1,311	1,311	—	—	—	—	—	—	—	—	—	—	—	—	—
030	General governments	696	667	—	—	—	—	—	—	—	—	—	—	—	651	—
040	Credit institutions	10,223	10,223	—	—	—	—	—	—	—	—	—	—	—	—	—
050	Other financial	72,929	71,708	42	33	2	31	(8)	(6)	(2)	(10)	—	(10)	—	458	2
060	Non-financial corporations	71,089	63,407	7,334	3,742	173	3,570	(489)	(226)	(263)	(975)	—	(975)	(316)	45,150	636
070	Of which SMEs	38,359	34,274	4,086	1,688	173	1,516	(218)	(76)	(142)	(111)	—	(111)	—	27,753	572
080	Households	350,210	318,039	31,937	6,868	2,039	4,828	(1,508)	(684)	(824)	(831)	(99)	(732)	—	324,417	5,550
090	**Debt securities**	**36,756**	**34,277**	**9**	**972**	**—**	**2**	**(4)**	**(3)**	**—**	**(743)**	**—**	**(2)**	**—**	**—**	**—**
110	General governments	15,911	15,893	—	—	—	—	(2)	(2)	—	—	—	—	—	—	—
120	Credit institutions	14,992	14,992	—	—	—	—	—	—	—	—	—	—	—	—	—
130	Other financial	4,307	2,982	9	—	—	—	(2)	(1)	—	—	—	—	—	—	—
140	Non-financial corporations	1,546	410	—	972	—	2	—	—	—	(743)	—	(2)	—	—	—
150	**Off-balance-sheet**	**142,776**	**138,545**	**4,231**	**519**	**353**	**166**	**(193)**	**(109)**	**(84)**	**(6)**	**(1)**	**(5)**		**8,371**	**2**
170	General governments	375	374	1	—	—	—	—	—	—	—	—	—		43	—
180	Credit institutions	995	995	—	—	—	—	—	—	—	—	—	—		417	—
190	Other financial	19,694	19,691	2	4	4	1	(4)	(4)	—	—	—	—		761	—
200	Non-financial corporations	38,041	36,623	1,417	292	217	76	(84)	(45)	(38)	(5)	—	(5)		7,150	2
210	Households	83,672	80,861	2,811	222	132	90	(106)	(60)	(46)	(1)	(1)	—		—	—
220	**Total**	**760,092**	**712,279**	**43,553**	**12,134**	**2,567**	**8,596**	**(2,202)**	**(1,028)**	**(1,173)**	**(2,565)**	**(100)**	**(1,724)**	**(316)**	**379,048**	**6,190**

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 quality (continued)

CR1-A: Maturity of exposures

		31 Dec 2022					
		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	23,975	73,871	84,761	329,681	202	512,490
2	Debt securities	17	3,099	20,304	11,453	—	34,873
3	**Total**	**23,992**	**76,970**	**105,065**	**341,134**	**202**	**547,363**

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 2021**	**10,644**
020	Inflows to non-performing portfolios	5,230
030	**Outflows from non-performing portfolios**	**(4,682)**
040	Outflows due to write-offs	(928)
050	Outflow due to other situations	(3,753)
060	**Final stock of non-performing loans and advances at 31 December 2022**	**11,192**

Credit risk quality (continued)

CQ1: Credit quality of forborne exposures

		31 Dec 2022							
		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			On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with
				Of which defaulted	Of which impaired				
		£m	£m	£m	£m	£m	£m	£m	£m
010	**Loans and advances**	**2,020**	**5,922**	**5,710**	**5,719**	**(51)**	**(1,404)**	**4,489**	**3,178**
050	Other financial corporations	20	38	15	24	—	(5)	7	7
060	Non-financial corporations	547	2,888	2,869	2,869	(4)	(1,054)	887	826
070	Households	1,453	2,996	2,826	2,826	(47)	(345)	3,595	2,345
080	**Debt Securities**	—	—	—	—	—	—	—	—
090	**Loan commitments given**	**290**	**181**	**82**	**82**	**(5)**	**(6)**	—	—
100	**Total**	**2,310**	**6,103**	**5,792**	**5,801**	**(56)**	**(1,410)**	**4,489**	**3,178**
		31 Dec 2021							
010	**Loans and advances**	**2,573**	**7,085**	**4,864**	**5,749**	**(44)**	**(1,314)**	**5,792**	**3,639**
050	Other financial corporations	20	32	32	31	—	(10)	8	2
060	Non-financial corporations	696	3,314	3,283	3,283	(4)	(939)	1,105	599
070	Households	1,857	3,739	1,549	2,435	(40)	(365)	4,679	3,038
080	**Debt Securities**	—	**2**	**2**	**2**	—	**(2)**	—	—
090	**Loan commitments given**	**304**	**376**	**223**	**95**	**(2)**	**(5)**	**4**	**2**
100	**Total**	**2,877**	**7,463**	**5,089**	**5,845**	**(46)**	**(1,321)**	**5,796**	**3,641**

Key movements

– Increase in non-performing forborne defaulted exposures is mainly due to the change in the definition of default for residential mortgages on 1 January 2022.

Credit risk quality (continued)

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

		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**	**89,421**	**89,421**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
010	**Loans and advances**	**505,830**	**504,127**	**1,703**	**11,192**	**5,426**	**1,947**	**858**	**894**	**1,804**	**137**	**126**	**10,462**
020	Central banks	**1,285**	1,285	—	**—**	—	—	—	—	—	—	—	—
030	General governments	**1,283**	1,283	—	**—**	—	—	—	—	—	—	—	—
040	Credit institutions	**13,943**	13,943	—	**—**	—	—	—	—	—	—	—	—
050	Other financial corporations	**67,830**	67,830	1	**41**	34	5	—	—	2	—	—	15
060	Non-financial corporations	**65,852**	65,552	300	**3,564**	1,644	790	5	3	1,110	11	—	3,382
070	Of which SMEs	**33,861**	33,726	135	**1,802**	1,053	744	4	1	1	—	—	1,623
080	Households	**355,637**	354,234	1,402	**7,587**	3,748	1,152	853	891	692	126	126	7,065
090	**Debt securities**	**34,549**	**34,549**	**—**	**1,209**	**1,207**	**—**	**—**	**—**	**—**	**—**	**2**	**2**
110	General governments	**12,150**	12,150	—	**—**	—	—	—	—	—	—	—	—
120	Credit institutions	**14,160**	14,160	—	**—**	—	—	—	—	—	—	—	—
130	Other financial corporations	**6,661**	6,661	—	**—**	—	—	—	—	—	—	—	—
140	Non-financial corporations	**1,578**	1,578	—	**1,209**	1,207	—	—	—	—	—	2	2
150	**Off-balance-sheet exposures**	**145,193**			**369**								125
170	General governments	**282**			**—**								—
180	Credit institutions	**690**			**—**								—
190	Other financial corporations	**23,161**			**2**								—
200	Non-financial corporations	**39,271**			**99**								47
210	Households	**81,789**			**268**								78
220	**Total**	**774,993**	**628,097**	**1,703**	**12,770**	**6,633**	**1,947**	**858**	**894**	**1,804**	**137**	**128**	**10,589**

Key movements

– Increase in non-performing forborne defaulted exposures is mainly due to the change in the definition of default for residential mortgages on 1 January 2022.

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

		31 Dec 2021											
		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**	**74,101**	**74,101**	—	**—**	—	—	—	—	—	—	—	—
010	**Loans and advances**	**506,459**	**504,749**	**1,710**	**10,644**	**4,546**	**1,757**	**968**	**1,060**	**1,944**	**212**	**156**	**7,547**
020	Central banks	**1,311**	1,311	—	**—**	—	—	—	—	—	—	—	—
030	General governments	**696**	696	—	**—**	—	—	—	—	—	—	—	—
040	Credit institutions	**10,223**	10,223	—	**—**	—	—	—	—	—	—	—	—
050	Other financial corporations	**72,929**	72,928	1	**33**	24	6	—	—	4	—	—	33
060	Non-financial corporations	**71,089**	70,779	310	**3,742**	2,008	679	3	9	1,034	9	—	3,712
070	Of which SMEs	**38,359**	38,245	115	**1,688**	1,053	628	2	—	1	3	—	1,685
080	Households	**350,210**	348,811	1,400	**6,868**	2,514	1,071	966	1,052	906	203	156	3,801
090	**Debt securities**	**36,756**	**36,744**	**12**	**972**	**970**	**—**	**—**	**—**	**—**	**—**	**2**	**2**
110	General governments	**15,911**	15,911	—	**—**	—	—	—	—	—	—	—	—
120	Credit institutions	**14,992**	14,992	—	**—**	—	—	—	—	—	—	—	—
130	Other financial corporations	**4,307**	4,307	—	**—**	—	—	—	—	—	—	—	—
140	Non-financial corporations	**1,546**	1,534	12	**972**	970	—	—	—	—	—	2	2
150	**Off-balance-sheet exposures**	**142,776**			**519**								**290**
170	General governments	**375**			**—**								—
180	Credit institutions	**995**			**—**								—
190	Other financial corporations	**19,694**			**4**								4
200	Non-financial corporations	**38,041**			**292**								287
210	Households	**83,672**			**222**								—
220	**Total**	**760,092**	**615,594**	**1,722**	**12,134**	**5,516**	**1,757**	**968**	**1,060**	**1,944**	**212**	**158**	**7,839**

Credit risk quality (continued)

CQ4: Quality of non-performing exposures by geography

		31 Dec 2022				
		Gross carrying/nominal amount		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
		Total performing and non-performing	Of which defaulted			
		£m	£m	£m	£m	£m
010	**On-balance-sheet exposures**	**552,780**	**10,463**	**(4,549)**		**(868)**
030	Luxembourg	6,489	—	(7)		—
040	Netherlands	13,125	23	(22)		—
050	United Kingdom	486,199	9,229	(3,664)		(868)
060	United States	17,390	7	(33)		—
070	Other countries	29,577	1,204	(823)		—
080	**Off-balance-sheet exposures**	**145,562**	**126**		**(323)**	
100	Luxembourg	1,615	—		(2)	
110	Netherlands	2,200	3		(5)	
120	United Kingdom	124,105	123		(291)	
130	United States	9,546	—		(16)	
140	Other countries	8,096	—		(9)	
150	**Total**	**698,342**	**10,589**	**(4,549)**	**(323)**	**(868)**

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

		31 Dec 2022			
		Gross carrying amount		Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			Of which defaulted		
		£m	£m	£m	£m
010	Agriculture, forestry and fishing	7,588	192	(54)	—
020	Mining and quarrying	757	39	(12)	—
030	Manufacturing	4,254	117	(57)	—
040	Electricity, gas, steam and air conditioning supply	2,242	20	(11)	—
050	Water supply	728	5	(5)	—
060	Construction	4,276	416	(145)	—
070	Wholesale and retail trade	7,900	269	(119)	—
080	Transport and storage	2,825	98	(45)	—
090	Accommodation and food service activities	3,538	1,275	(787)	—
100	Information and communication	2,825	54	(44)	—
110	Financial and insurance activities				
120	Real estate activities	20,826	345	(228)	—
130	Professional, scientific and technical activities	2,794	84	(30)	—
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	3,433	69	(38)	—
180	Arts, entertainment and recreation	523	32	(10)	—
190	Other services	1,192	377	(17)	—
200	**Total**	**69,416**	**3,545**	**(1,669)**	**—**

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 premises, 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. 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.

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.

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.

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.
- Further details on the application within the Group are included within the Counterparty credit risk section on page 96.

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 mitigation techniques

CR3: CRM techniques – Overview

	31 Dec 2022				
	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	135,199	377,291	368,224	9,067	15
Debt securities	34,873	—	—	—	
Total	**170,072**	**377,291**	**368,224**	**9,067**	**15**
Of which non-performing exposures	1,992	7,504	6,486	1,018	—
Of which defaulted	344	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 2022			31 Dec-2021		
	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	10,431	525	5 %	8,019	486	6 %
Institutions	12,192	1,623	13 %	9,037	1,030	11 %
Corporates	81,665	44,353	54 %	80,819	45,739	57 %
of which: Specialised lending	12,640	9,021	71 %	12,642	9,048	72 %
of which: SMEs	8,008	5,163	64 %	9,130	5,698	62 %
Retail	416,086	81,091	19 %	412,448	65,451	16 %
Secured by real estate property	357,345	53,900	15 %	351,201	39,492	11 %
SMEs	5,105	1,125	22 %	5,956	1,257	21 %
Non-SMEs	352,240	52,775	15 %	345,245	38,235	11 %
Qualifying revolving	36,934	11,495	31 %	39,521	10,547	27 %
Other retail	21,808	15,695	72 %	21,727	15,412	71 %
SMEs	1,603	1,037	65 %	1,962	1,257	64 %
Non-SMEs	20,205	14,658	73 %	19,765	14,154	72 %
Equity	5,824	13,672	235 %	6,680	15,314	229 %
Non-credit obligation assets	8,780	6,092	69 %	10,701	7,258	68 %
Total IRB approach	**534,977**	**147,355**	**28 %**	**527,704**	**135,278**	**26 %**
Central governments or central banks	103,946	2,722	3 %	96,967	2,775	3 %
Regional governments or local authorities	442	28	6 %	535	28	5 %
Public sector entities	2,687	—	— %	4,155	—	— %
Multilateral development banks	9,297	—	— %	9,768	—	— %
International organisations	12	—	— %	—	—	— %
Institutions	408	63	15 %	795	66	8 %
Corporates	6,670	5,834	87 %	6,346	5,454	86 %
of which: SMEs	2,422	1,939	80 %	2,459	1,965	80 %
Retail	10,583	7,735	73 %	10,044	7,317	73 %
of which: SMEs	1,139	651	57 %	1,213	694	57 %
Secured by mortgages on immovable	5,783	2,148	37 %	6,591	2,480	38 %
of which: SMEs	323	237	73 %	344	256	74 %
Exposures in default	946	1,098	116 %	1,095	1,240	113 %
Claims on institutions and corporates with a short- term credit assessment	129	63	49 %	—	—	— %
Collective investments undertakings	1,686	1,356	80 %	709	142	20 %
Other exposures	2,515	2,072	82 %	2,548	2,126	83 %
Total standardised approach	**145,104**	**23,119**	**16 %**	**139,553**	**21,628**	**15 %**
Total	**680,081**	**170,474**	**25 %**	**667,257**	**156,906**	**24 %**

Credit risk exposures (continued)

Exposures subject to the IRB approach – key movements

Institutions

- Exposures and risk-weighted assets increased by £3.2 billion and £0.6 billion respectively due to net balance sheet growth and foreign exchange movements.

Corporates

- Corporate exposure, including Specialised Lending and Corporate SME, increased by £0.8 billion due net growth in exposures, partially offset by optimisation activity including securitisation activity reducing exposures to Corporate SMEs.
- Risk-weighted assets reduced by £1.4 billion mainly as a result of lower risk new lending and ongoing optimisation activity.

Retail – Secured by real estate property non-SME

- Exposures increased by £7.0 billion due to balance sheet growth mainly in H1 2022.
- Risk-weighted assets increased by £14.5 billion predominantly reflecting the anticipated impact of the implementation (via the application of temporary model adjustments on 1 January 2022) of new CRD IV models to meet revised regulatory standards for modelled outputs, partially offset by model reductions reflecting resilient underlying credit performance.

Retail – Qualifying revolving

- Exposures decreased by £2.6 billion due to the impact of EAD model calibrations partially offset by balance sheet growth.
- Risk-weighted assets increased by £0.9 billion reflecting the anticipated impact of the implementation (via the application of temporary model adjustments on 1 January 2022) of new CRD IV models to meet revised regulatory standards for modelled outputs, balance sheet growth and PD model calibrations offset by the impact of EAD model calibrations.

Retail – Other SME

- Exposure decreased by £0.4 billion and risk-weighted assets reduced by £0.2 billion due to a reduction in lending volumes and the impact of securitisation activity

Retail – Other non-SME

- Exposures increased by £0.4 billion and risk-weighted assets increased by £0.5 billion due to balance sheet growth and the anticipated impact of the implementation (via the application of temporary model adjustments on 1 January 2022) of new CRD IV models to meet revised regulatory standards for modelled outputs.

Equity

- Exposures and risk-weighted assets reduced by £0.9 billion and £1.6 billion respectively due to the reclassification of certain equity positions as Collective Investment Units under the Standardised Approach on 1 January 2022.

Exposures subject to the Standardised approach – key movements

Central governments and central banks

- Exposures increased by £7.0 billion due to increased deposits placed with the Deutsche Bundesbank.

Public sector entities

- Exposure reduced by £1.5 billion due to changes in the portfolio mix of the Group's liquidity portfolio.

Collective investment undertakings

- Exposures increased by £1.0 billion and risk-weighted assets increased by £1.2 billion due to the reclassification of equity positions as Collective Investment Units under the Standardised Approach on 1 January 2022.

Secured by mortgages on immovable property

- Exposures and risk-weighted assets decreased by £0.8bn and £0.3bn due to lower lending balances.

Credit risk standardised approach

UK CRD: Qualitative disclosure requirements related to standardised model

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 67 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 2022					
		Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWAs density	
		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	94,986	277	103,587	359	2,722	3 %
2	Regional government or local authorities	442	—	442	—	28	6 %
3	Public sector entities	2,687	—	2,687	—	—	—%
4	Multilateral development banks	9,297	—	9,297	—	—	—%
6	Institutions	198	1	199	209	63	15 %
7	Corporates	4,824	6,201	4,669	2,001	5,834	87 %
8	Retail	10,957	23,127	10,345	239	7,735	73 %
9	Secured by mortgages on immovable	5,763	40	5,762	22	2,148	37 %
10	Exposures in default	1,085	49	922	23	1,098	116 %
13	Institutions and corporates with a short-term credit assessment	—	83	—	129	63	49 %
14	Collective investment undertakings	1,663	23	1,663	23	1,356	80 %
16	Other items	2,515	—	2,515	—	2,072	82 %
17	**Total**	**134,428**	**29,801**	**142,099**	**3,005**	**23,119**	**16 %**
		31 Dec 2021					
1	Central governments or central banks[1]	85,402	401	96,431	536	2,775	3%
2	Regional government or local authorities	535	—	535	—	28	5%
3	Public sector entities	4,155	—	4,155	—	—	—%
4	Multilateral development banks	9,768	—	9,768	—	—	—%
6	Institutions	177	30	186	608	66	8%
7	Corporates	4,677	5,965	4,529	1,817	5,454	86%
8	Retail	10,687	23,830	9,831	213	7,317	73%
9	Secured by mortgages on immovable	6,571	51	6,569	22	2,480	38%
10	Exposures in default	1,157	99	1,058	36	1,240	113%
13	Institutions and corporates with a short-term credit assessment	—	—	—	—	—	—%
14	Collective investment undertakings	709	—	709	—	142	20%
16	Other items	2,474	148	2,474	74	2,126	83%
17	**Total**	**126,312**	**30,524**	**136,247**	**3,306**	**21,628**	**15%**

1 Restated in accordance with revised template requirements to include threshold exposure and risk-weighted asset balances.

Credit risk standardised approach (continued)

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

		31 Dec 2022																
		Risk weight															Total	Of which unrated
	Exposure classes	0% £m	2% £m	4% £m	10% £m	20% £m	35% £m	50% £m	70% £m	75% £m	100% £m	150% £m	250% £m	370% £m	1250% £m	Others £m	£m	£m
1	Central governments or central banks	102,847	—	—	—	—	—	—	—	—	16	—	1,082	—	—	—	**103,946**	103,796
2	Regional government or local authorities	303	—	—	—	138	—	—	—	—	—	—	—	—	—	—	**442**	—
3	Public sector entities	2,687	—	—	—	—	—	—	—	—	—	—	—	—	—	—	**2,687**	1,253
4	Multilateral development banks	9,297	—	—	—	—	—	—	—	—	—	—	—	—	—	—	**9,297**	9,297
5	International organisations	12	—	—	—	—	—	—	—	—	—	—	—	—	—	—	**12**	12
6	Institutions	—	—	210	—	183	—	9	—	—	6	1	—	—	1	—	**409**	226
7	Corporates	—	—	—	—	14	—	684	—	—	5,958	14	—	—	—	—	**6,670**	5,630
8	Retail exposures	—	—	—	—	—	—	—	—	10,583	—	—	—	—	—	—	**10,583**	10,583
9	Exposures secured by mortgages on immovable property	—	—	—	—	—	5,485	—	—	50	248	—	—	—	—	—	**5,783**	5,783
10	Exposures in default	—	—	—	—	—	—	—	—	—	642	304	—	—	—	—	**946**	946
13	Exposures to institutions and corporates with a short-term credit assessment	—	—	—	—	6	—	123	—	—	—	—	—	—	—	—	**129**	—
14	Units or shares in collective investment undertakings	144	—	—	—	659	—	12	—	—	194	654	—	—	1	23	**1,686**	1,027
16	Other items	43	—	—	—	500	—	—	—	—	1,972	—	—	—	—	—	**2,514**	2,507
17	**TOTAL**	**115,334**	**—**	**210**	**—**	**1,500**	**5,485**	**828**	**—**	**10,633**	**9,035**	**973**	**1,082**	**—**	**2**	**23**	**145,104**	**141,060**
		31 Dec 2021																
1	Central governments or central banks[1]	95,849	—	—	—	—	—	—	—	—	13	—	1,105	—	—	—	**96,967**	95,361
2	Regional government or local authorities	393	—	—	—	142	—	—	—	—	—	—	—	—	—	—	**535**	—
3	Public sector entities	4,155	—	—	—	—	—	—	—	—	—	—	—	—	—	—	**4,155**	2,637
4	Multilateral development banks	9,768	—	—	—	—	—	—	—	—	—	—	—	—	—	—	**9,768**	9,768
5	International organisations	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	**—**	—
6	Institutions	—	—	605	—	183	—	2	—	—	4	—	—	—	—	—	**795**	612
7	Corporates	—	—	—	—	19	—	799	—	—	5,527	—	—	—	1	—	**6,346**	5,301
8	Retail exposures	—	—	—	—	—	—	—	—	10,044	—	—	—	—	—	—	**10,044**	10,044
9	Exposures secured by mortgages on immovable property	—	—	—	—	—	6,210	—	—	60	321	—	—	—	—	—	**6,591**	6,591
10	Exposures in default	—	—	—	—	—	—	—	—	—	804	291	—	—	—	—	**1,095**	1,095
14	Units or shares in collective investment undertakings	—	—	—	—	709	—	—	—	—	—	—	—	—	—	—	**709**	—
16	Other items	60	—	—	—	431	—	—	—	—	2,057	—	—	—	—	—	**2,548**	2,548
17	**TOTAL**	**110,225**	**—**	**605**	**—**	**1,484**	**6,210**	**801**	**—**	**10,105**	**8,726**	**291**	**1,105**	**—**	**1**	**—**	**139,553**	**133,950**

1 Restated in accordance with revised template requirements to include threshold exposure balances.

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, equity exposures) and Standardised (not modelled) approaches across the different Basel asset classes. Securitisation exposure values are excluded. Exposures presented in the table below are in line with 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	—	10,431	—	103,946
Regional governments or local authorities	—	—	—	442
Public sector entities	—	—	—	2,687
Multilateral development banks	—	—	—	9,297
Institutions	—	12,192	—	409
Corporates[1]	—	69,025	12,640	6,670
Retail – Secured by property	357,345	—	—	5,783
Retail – Qualifying revolving	36,934	—	—	10,583
Retail – Other	21,808	—	—	
Other[2]	—	—	14,604	5,287
Total Exposure	**416,087**	**91,648**	**27,244**	**145,104**
% coverage	**62%**	**14%**	**2%**	**22%**

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

2 Other exposures include equity exposures and NCOs (both Other IRB), Standardised exposures in default, collective investment undertakings, 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;

- Entities outside UK jurisdiction - Corporate Assets
- Tesco Mortgages (closed portfolio)
- Sub Prime Mortgages
- UK Private Banking
- Certain asset types under UK Motor Finance

A number of other portfolios are on the IRB Roll-Out plan, totalling approximately £10bn RWA under the Standardised Approach. Most prominent among these are the following:

- MBNA Credit Cards
- Agricultural Mortgage Corporation
- 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), the Simple Risk Weight Method to equity exposures, while CIU exposures are treated under the Standardised Approach; hence no models are used for these three groups. 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 Banks.

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

Under the Group's IRB permission, the following list comprises the rating systems that are significant at a Group level, each having risk-weighted assets in excess of £2.5bn (as at end September 2022). The capital models listed are the same as those used in the PD back-testing analysis (later in this section) with the following exceptions: PELF rating system is excluded from PD back-testing due to the low level of defaults; HBOS Other Mortgages rating system (a closed book) is included in the back-testing, but has dropped below the threshold of £2.5bn RWA; UK Motor Finance (Commercial) is included in the back-testing but has very recently seen its RWA drop below £2.5bn. The rating systems listed include the overwhelming majority of obligors across the bank that are assessed under either the RIRB or FIRB approaches. Most excluded rating systems have low volumes of obligors, so the impact of their absence from the PD back-testing tables is low.

CRE: QUALITATIVE DISCLOSURE REQUIREMENTS RELATED TO IRB APPROACH (continued)

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

1. For these products, separate rating systems exist for Lloyds Bank and HBOS. However, as the risk profiles are sufficiently similar, they are grouped together in this table.
2. Lloyds Bank Mortgages comprise of three rating systems – Lloyds Mainstream mortgages, Lloyds Near-Mainstream mortgages and Lloyds Buy-to-Let mortgages.
3. The Group applies the Standardised Approach to the MBNA credit card portfolio.

Key characteristics of material Group rating systems

PD rating philosophy

PD ratings from the Group's existing models (pre-CRD IV) generally adhere to either 'Point-in-time' (PIT) or 'Through-the-cycle' (TTC) rating approaches.

– For Qualifying Revolving Retail Exposures (QRRE) and Retail – Other (non-SME), PD ratings are constructed on a PIT basis with a PD 'buffer' added to the PIT PD to cover potential underestimation of default risk between regular calibrations.

– Retail Mortgages use a TTC approach where this is available (the majority of Lloyds Bank and 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 commercial 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 severity of loss.

Data history

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

– Mortgage models are built on data dating back to 1987

– Credit card, Loans, Overdrafts, Unquoted and UK Motor Finance (Retail) models are built on data dating back to 2007

– Publicly Quoted model is built on data dating back to 2004

– BDCS, PELF and UK Motor Finance (Commercial) models use data dating back to 2008

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

CRE: QUALITATIVE DISCLOSURE REQUIREMENTS RELATED TO IRB APPROACH (continued)

Model development, validation and review

Risk models (including all 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 'second line' unit (the Model Risk and Validation team) which reports through an independent reporting line within the Risk division.

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

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

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

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 2022, there have been no material model changes impacting the CR9 backtesting 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 when changes are 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 is supplemented by half-yearly model monitoring which is presented to MGC. GRC is provided with an annual update on model performance. IRB model monitoring is also provided to the PRA on a quarterly basis and discussed at their request.

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

Where required, typically where there is a data or model weakness, an appropriate degree of conservatism is included in the estimated risk parameters to ensure capital adequacy. If a model or data weakness is identified that indicates the understatement of capital, the capital requirements are adjusted, on 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 its Pillar 1 capital requirements adequately reflect the Group's risk exposure.

Further information on model risk, including details on measurement, mitigation and monitoring can be found in the Risk Management section of the 2022 Lloyds Banking Group plc Annual Report and Accounts (page 191).

Relationships between risk management function and internal audit function

Group Internal Audit (the 'third line' of defence) undertake a program of internal audits to check that appropriate controls and processes are in place and operating effectively across all aspects of capital models. Group Internal Audit is independent from the first and second lines of defence, reporting to the Chief Internal Auditor, a Group Executive Committee 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 used as inputs to PD models. For corporate exposures, the PD model ascribes a credit risk grade to each customer, and their exposures and this grade is used as a key input into the credit approval process.

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

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

Calculating impairment: IRB component models are 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.

CRE: QUALITATIVE DISCLOSURE REQUIREMENTS RELATED TO IRB APPROACH (continued)

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 models used in the back-testing are based on existing (pre-CRD IV) models.

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 information is based on the significant rating systems noted earlier in the scope of the IRB permission section, with the exception of PELF (where inclusion of this model would have limited value due to the low level of defaults in the portfolio) and with the addition of the HBOS Other Mortgages and UK Motor Finance (Commercial) rating systems.

With the exception of borrowers who only have borrowings under the UK Government's Bounce Back Loan Scheme, the proportion of total IRB RWA covered within each exposure class is as follows:

- Corporate Other: 63%
- Corporate SME: 78%
- Retail Mortgages (SME): 100%
- Retail SME: 100%
- Retail Other (non-SME): 100%
- QRRE: 100%
- Retail Mortgages (non-SME): 98%

The figures for Corporate SME and Corporate Other predominantly reflect the absence of those 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 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 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 divided by the number of obligors at the start of the year.
- 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.
  - Mortgages 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 Commercial Banking (including BDCS) and UK Motor Finance (Commercial) definition is legal entity by source system (obligors reside on different source systems according to the nature of the lending). This means that one legal entity might be represented by one or more obligors in the data if that entity has borrowing across one or more businesses (source systems).

    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 the equivalent S&P rating.

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

Exposure Class	Rating Systems Included
Corporate Other	Publicly Quoted, Unquoted, UK Motor Finance (Commercial)
Corporate SME	Unquoted, Publicly Quoted, BDCS
Retail Mortgages (non-SME)	HBOS Mainstream mortgages, Lloyds Bank mortgages, HBOS Buy-to-Let mortgages, HBOS Other mortgages
Retail Mortgages (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 2022					
	Number of obligors in the end of previous year					
PD range	No.	Of which number of obligors which defaulted in the year No.	Observed average default rate %	Exposure weighted average PD %	Average PD %	Average historical annual default rate %
0.00 to <0.15	204	—	—%	0.08%	0.08%	0.10%
0.00 to <0.10	95	—	—%	0.05%	0.05%	0.10%
0.10 to <0.15	109	—	—%	0.11%	0.11%	0.11%
0.15 to <0.25	669	—	—%	0.18%	0.19%	0.09%
0.25 to <0.50	2,088	—	—%	0.34%	0.36%	0.23%
0.50 to <0.75	1,723	6	0.35%	0.61%	0.58%	0.40%
0.75 to <2.50	3,783	28	0.74%	1.24%	1.12%	0.85%
0.75 to <1.75	3,413	18	0.53%	1.24%	1.04%	0.74%
1.75 to <2.5	370	10	2.70%	1.90%	1.91%	1.66%
2.50 to <10.00	1,711	31	1.81%	4.16%	3.91%	2.83%
2.5 to <5	1,539	26	1.69%	3.22%	3.57%	2.27%
5 to <10	172	5	2.91%	6.39%	6.96%	6.11%
10.00 to <100.00	104	10	9.62%	20.64%	22.58%	11.59%
10 to <20	42	3	7.14%	12.00%	12.43%	10.54%
20 to <30	12	—	—%	20.00%	20.00%	0.63%
30.00 to <100.00	50	7	14.00%	30.99%	31.73%	14.43%
100.00 (Default)	290	N/A	N/A	100.00%	100.00%	N/A

	31 Dec 2021					
	Number of obligors in the end of previous year					
PD range	No.	Of which number of obligors which defaulted in the year No.	Observed average default rate %	Exposure weighted average PD %	Average PD %	Average historical annual default rate %
0.00 to <0.15	245	—	—%	0.08%	0.07%	0.10%
0.00 to <0.10	133	—	—%	0.04%	0.04%	0.10%
0.10 to <0.15	112	—	—%	0.11%	0.11%	0.11%
0.15 to <0.25	579	—	—%	0.18%	0.19%	0.11%
0.25 to <0.50	2,026	3	0.15%	0.34%	0.37%	0.28%
0.50 to <0.75	1,791	5	0.28%	0.61%	0.59%	0.44%
0.75 to <2.50	4,411	23	0.52%	1.22%	1.17%	0.87%
0.75 to <1.75	3,888	18	0.46%	1.21%	1.08%	0.78%
1.75 to <2.5	523	5	0.96%	1.90%	1.91%	1.44%
2.50 to <10.00	3,274	44	1.34%	4.33%	3.95%	3.05%
2.5 to <5	2,929	24	0.82%	3.22%	3.58%	2.36%
5 to <10	345	20	5.80%	7.05%	7.05%	7.02%
10.00 to <100.00	197	23	11.68%	21.26%	22.56%	12.98%
10 to <20	80	9	11.25%	12.01%	12.40%	11.84%
20 to <30	14	0	—%	20.00%	20.00%	0.63%
30.00 to <100.00	103	14	13.59%	30.97%	30.80%	16.86%
100.00 (Default)	466	N/A	N/A	100.00%	100.00%	N/A

Key observations

- Over 80% 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.
- Enhancements to the identification of Corporate SME eligible exposures in Q3 2021 contributes to a reduction in obligors in Corporate Other compared to the prior period.
- Relatively low default volumes lead to year-on-year volatility in default rates within a given PD range, as observed in PD range 1.75% -2.50%. At an overall level, default rates remain low and continue to track below average PD.
- The average historical default rate remains either within or below the respective PD band.
- The PD distribution has remained relatively stable compared to the 2021 return, apart from a noticeable migration out of the PD range 2.5% - 5.0%, which reflects the unwinding of a policy process error that is now impacting fewer customers. An automated policy process was not updated in time to reflect government extensions to the submission dates for filing financials with Companies House during the COVID pandemic, leading to an increase in obligors in the 2.5% - 5.0% band in the prior period.
- A regulatory default reporting error was identified in 2020 for the UK Motor Finance (Commercial) rating system, whereby certain 90 days-past-due defaults have been under-reported. This is mitigated through a temporary model adjustment pending completion of a full investigation and remediation.

Model Performance (continued)

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

	31 Dec 2022					
	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	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	—	—%	0.11%	0.11%	—%
0.15 to <0.25	47	—	—%	0.18%	0.18%	0.15%
0.25 to <0.50	1,104	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	2,642	109	4.13%	4.10%	4.28%	3.12%
2.5 to <5	1,567	28	1.79%	2.96%	2.94%	1.45%
5 to <10	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 to <20	234	23	9.83%	11.90%	12.63%	6.75%
20 to <30	—	—	—%	—%	—%	0.87%
30.00 to <100.00	169	38	22.49%	35.60%	40.64%	15.17%
100.00 (Default)	615	N/A	N/A	100.00%	100.00%	N/A

	31 Dec 2021					
	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	30	—	—%	0.04%	0.08%	—%
0.00 to <0.10	12	—	—%	0.03%	0.05%	—%
0.10 to <0.15	18	—	—%	0.11%	0.11%	—%
0.15 to <0.25	40	—	—%	0.18%	0.18%	0.15%
0.25 to <0.50	638	1	0.16%	0.38%	0.38%	0.21%
0.50 to <0.75	2,788	7	0.25%	0.57%	0.55%	0.32%
0.75 to <2.50	5,133	38	0.74%	1.24%	1.20%	0.78%
0.75 to <1.75	5,133	38	0.74%	1.24%	1.20%	0.78%
2.50 to <10.00	2,703	64	2.37%	4.09%	4.15%	2.77%
2.5 to <5	1,561	19	1.22%	2.94%	2.85%	1.33%
5 to <10	1,142	45	3.94%	6.07%	5.93%	4.73%
10.00 to <100.00	563	42	7.46%	22.69%	20.62%	8.04%
10 to <20	326	17	5.21%	12.30%	12.52%	7.42%
20 to <30	107	1	0.93%	20.00%	20.00%	0.87%
30.00 to <100.00	130	24	18.46%	39.14%	41.46%	14.01%
100.00 (Default)	253	N/A	N/A	100.00%	100.00%	N/A

Key observations

- This exposure class reports obligors on the BDCS, Unquoted, Publicly Quoted rating systems, with the majority (65% by volume) being BDCS.
- Enhancements to the identification of Corporate SME eligible exposures in Q3 2021 contributes to an increase in obligors compared to the last return. This is particularly noticeable in the lower risk PD bands.
- Default rates have risen during 2022. However, at the exposure class level, the latest observed default rate remains below the predicted default rate. Within a given PD band there is sometimes an under prediction driven by relatively low default volumes.
- The current high default rate in the '0.00 to <0.10' is driven by a single default event. There are no other defaults in this PD band contributing to the 'Average historical annual default rate'.

Model Performance (continued)

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

	31 Dec 2022					
	Number of obligors in the end of previous year					
PD range	No.	Of which number of obligors which defaulted in the year No.	Observed average default rate %	Exposure weighted average PD %	Average PD %	Average historical annual default rate %
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%
2.5 to <5	8,700	490	5.63%	2.62%	2.62%	2.70%
5 to <10	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 to <20	4,601	986	21.43%	12.91%	13.03%	11.17%
20 to <30	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

	31 Dec 2021					
	Number of obligors in the end of previous year					
PD range	No.	Of which number of obligors which defaulted in the year No.	Observed average default rate %	Exposure weighted average PD %	Average PD %	Average historical annual default rate %
0.50 to <0.75	44,380	73	0.16%	0.54%	0.54%	0.18%
0.75 to <2.50	45,678	209	0.46%	1.16%	1.17%	0.82%
0.75 to <1.75	45,678	209	0.46%	1.16%	1.17%	0.82%
2.50 to <10.00	29,371	449	1.53%	4.31%	4.34%	3.17%
2.5 to <5	12,910	126	0.98%	2.62%	2.62%	2.15%
5 to <10	16,461	323	1.96%	5.79%	5.70%	4.13%
10.00 to <100.00	32,931	1,784	5.42%	24.80%	25.95%	6.92%
10 to <20	11,622	589	5.07%	12.79%	13.10%	8.01%
20 to <30	14,749	116	0.79%	20.00%	20.00%	1.73%
30.00 to <100.00	6,560	1,079	16.45%	57.88%	62.09%	26.08%
100.00 (Default)	8,455	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.
- Cross-defaults arising from government support schemes have led to an increase in observed default rates during 2022 across the BDCS rating system. In particular, the very high default rate in the '20 to <30' PD band relates to obligors with an average IRB exposure of less than £100, with the majority of defaults occurring on the obligor's Bounce Back Loan which cross-defaults any Bank debt.
- Mitigating action has been taken for 2022 year-end reporting to ensure PD estimates remain appropriate in this portfolio, in line with an approach agreed with the regulator in the event that observed default rates exceed predictions. This action creates a buffer, increasing capital pending a recalibration, and is applied at the BDCS rating system level.

Model Performance (continued)

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

	31 Dec 2022					
	Number of obligors in the end of previous year					
PD range	No.	Of which number of obligors which defaulted in the year No.	Observed average default rate %	Exposure weighted average PD %	Average PD %	Average historical annual default rate %
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 <2.5	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%
2.5 to <5	284,947	8,600	3.02%	3.41%	3.44%	4.04%
5 to <10	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 to <20	37,376	5,376	14.38%	12.41%	12.82%	15.09%
20 to <30	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

	31 Dec 2021					
	Number of obligors in the end of previous year					
PD range	No.	Of which number of obligors which defaulted in the year No.	Observed average default rate %	Exposure weighted average PD %	Average PD %	Average historical annual default rate %
0.00 to <0.15	29,024	40	0.14%	0.08%	0.08%	0.16%
0.00 to <0.10	27,726	34	0.12%	0.08%	0.08%	0.15%
0.10 to <0.15	1,298	6	0.46%	0.14%	0.14%	0.31%
0.15 to <0.25	17,741	90	0.51%	0.22%	0.22%	0.36%
0.25 to <0.50	503,687	3,872	0.77%	0.37%	0.37%	0.87%
0.50 to <0.75	265,021	2,204	0.83%	0.71%	0.69%	1.04%
0.75 to <2.50	682,601	8,624	1.26%	1.54%	1.51%	1.46%
0.75 to <1.75	522,991	5,864	1.12%	1.39%	1.34%	1.35%
1.75 to <2.5	159,610	2,760	1.73%	2.10%	2.10%	1.82%
2.50 to <10.00	393,766	20,744	5.27%	4.42%	4.52%	5.62%
2.5 to <5	266,321	10,140	3.81%	3.40%	3.44%	4.16%
5 to <10	127,445	10,604	8.32%	6.57%	6.68%	8.90%
10.00 to <100.00	89,404	25,157	28.14%	28.80%	29.39%	29.24%
10 to <20	37,520	5,797	15.45%	12.25%	12.74%	14.68%
20 to <30	20,149	3,433	17.04%	21.47%	21.96%	19.09%
30.00 to <100.00	31,735	15,927	50.19%	49.63%	52.92%	49.44%
100.00 (Default)	75,741	N/A	N/A	100.00%	100.00%	N/A

Key observations

- Overall the average historical annual default rate has reduced in 2022, primarily driven by the strong performance of the used car market on the Motor Finance portfolio.
- Where default rates are under-predicted, these are primarily driven by the Motor Finance definition of default which includes a number of non-credit related termination events in recent years. 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 2022					
	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	8,198,910	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 <2.5	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%
2.5 to <5	1,260,770	55,666	4.42%	3.52%	3.52%	4.34%
5 to <10	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 to <20	215,039	30,356	14.12%	13.55%	13.92%	13.01%
20 to <30	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

	31 Dec 2021					
	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	9,106,690	2,719	0.03%	0.09%	0.09%	0.03%
0.00 to <0.10	5,768,592	1,342	0.02%	0.07%	0.07%	0.02%
0.10 to <0.15	3,338,098	1,377	0.04%	0.13%	0.13%	0.04%
0.15 to <0.25	4,371,067	3,482	0.08%	0.20%	0.20%	0.07%
0.25 to <0.50	5,716,960	10,735	0.19%	0.36%	0.36%	0.18%
0.50 to <0.75	3,125,438	12,341	0.39%	0.62%	0.63%	0.37%
0.75 to <2.50	5,260,248	67,250	1.28%	1.35%	1.28%	1.27%
0.75 to <1.75	4,303,846	43,301	1.01%	1.15%	1.10%	1.00%
1.75 to <2.5	956,402	23,949	2.50%	2.10%	2.09%	2.34%
2.50 to <10.00	1,585,944	91,193	5.75%	4.54%	4.45%	5.31%
2.5 to <5	1,137,355	50,877	4.47%	3.49%	3.50%	4.17%
5 to <10	448,589	40,316	8.99%	6.86%	6.89%	7.86%
10.00 to <100.00	503,560	121,553	24.14%	30.64%	29.87%	23.14%
10 to <20	198,195	27,010	13.63%	13.64%	13.89%	12.81%
20 to <30	93,383	18,443	19.75%	24.58%	24.78%	20.50%
30.00 to <100.00	211,982	76,100	35.90%	51.74%	47.06%	37.77%
100.00 (Default)	328,626	N/A	N/A	100.00%	100.00%	N/A

Key observations

- Overall, the average historical annual default rate has remained broadly stable through 2022 and is comparable with 2021.
- 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 default rates due to the presence of a PD buffer.

Model Performance (continued)

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

PD range	31 Dec 2022 Number of obligors in the end of previous year No.	Of which number of obligors which defaulted in the year No.	Observed average default rate %	Exposure weighted average PD %	Average PD %	Average historical annual default rate %
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 <2.5	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%
2.5 to <5	16,923	521	3.08%	15.73%	15.50%	3.39%
5 to <10	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 to <20	6,313	723	11.45%	39.32%	39.19%	13.65%
20 to <30	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

PD range	31 Dec 2021 Number of obligors in the end of previous year No.	Of which number of obligors which defaulted in the year No.	Observed average default rate %	Exposure weighted average PD %	Average PD %	Average historical annual default rate %
0.00 to <0.15	1,984,756	884	0.04%	0.33%	0.30%	0.05%
0.00 to <0.10	1,683,355	548	0.03%	0.29%	0.25%	0.04%
0.10 to <0.15	301,401	336	0.11%	0.62%	0.55%	0.12%
0.15 to <0.25	193,081	352	0.18%	0.94%	0.86%	0.20%
0.25 to <0.50	140,973	421	0.30%	1.50%	1.46%	0.38%
0.50 to <0.75	42,161	240	0.57%	2.57%	2.57%	0.71%
0.75 to <2.50	43,267	529	1.22%	4.87%	4.85%	1.37%
0.75 to <1.75	34,461	373	1.08%	4.17%	4.16%	1.20%
1.75 to <2.5	8,806	156	1.77%	7.44%	7.56%	1.78%
2.50 to <10.00	37,483	1,362	3.63%	15.76%	15.76%	5.05%
2.5 to <5	24,100	543	2.25%	12.57%	12.50%	3.54%
5 to <10	13,383	819	6.12%	21.74%	21.62%	7.56%
10.00 to <100.00	22,476	6,102	27.15%	50.27%	51.14%	30.69%
10 to <20	9,326	1,147	12.30%	32.90%	33.16%	14.37%
20 to <30	4,916	1,150	23.39%	51.50%	51.43%	25.54%
30.00 to <100.00	8,234	3,805	46.21%	70.10%	71.34%	50.17%
100.00 (Default)	22,976	N/A	N/A	100.00%	100.00%	N/A

Key observations

- The values shown represent the current 180 days past due definition of default. In line with CRD IV, a temporary model adjustment is in place to reflect the impact of the CRD IV definition of default of 90 days past due.
- Obligors are allocated to grades based on PIT PDs, so the weighted and arithmetic average PDs are above the range due to the use of more conservative TTC PDs.
- Most obligors are rated on a TTC basis, which is conservative relative to average historic default rates. Whilst default rates have reduced, the application of the Variable Scalar adjustment changes the PD distribution which leads to increased PDs.

Model Performance (continued)

CR9: Back-testing of PD per portfolio – Retail - Mortgages SME

	31 Dec 2022					
	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	**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%**
2.5 to <5	**2,329**	**37**	**1.59%**	**2.62%**	**2.62%**	**1.43%**
5 to <10	**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 to <20	**862**	**88**	**10.21%**	**12.90%**	**12.82%**	**7.53%**
20 to <30	**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**

	31 Dec 2021					
	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	19,337	33	0.17%	0.54%	0.54%	0.19%
0.75 to <2.50	18,339	80	0.44%	1.16%	1.15%	0.62%
0.75 to <1.75	18,339	80	0.44%	1.16%	1.15%	0.62%
2.50 to <10.00	7,545	154	2.04%	4.15%	4.12%	2.61%
2.5 to <5	3,871	42	1.08%	2.62%	2.62%	1.37%
5 to <10	3,674	112	3.05%	5.74%	5.71%	3.86%
10.00 to <100.00	2,928	203	6.93%	24.11%	24.25%	10.34%
10 to <20	1,861	83	4.46%	12.99%	13.01%	7.27%
20 to <30	228	3	1.32%	20.00%	20.00%	1.30%
30.00 to <100.00	839	117	13.95%	49.35%	50.33%	23.20%
100.00 (Default)	1,050	N/A	N/A	100.00%	100.00%	N/A

Key observations

- This table relates solely to the BDCS rating system.
- Cross-defaults arising from government support schemes have led to an increase in observed default rates during 2022 across the BDCS rating system. Mitigating action has been taken for 2022 year-end reporting to ensure PD estimates remain appropriate, in line with an approach agreed with the regulator in the event that observed default rates exceed predictions. This action creates a buffer, increasing capital pending a recalibration, and is applied at the BDCS rating system level.

Model Performance (continued)

CR9: Back-testing of PD per portfolio – Retail Total

PD range	31 Dec 2022					
	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
	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 <2.5	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%
2.5 to <5	1,573,669	65,314	4.15%	6.88%	3.63%	4.25%
5 to <10	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 to <20	264,191	37,529	14.21%	25.78%	14.35%	13.15%
20 to <30	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

PD range	31 Dec 2021					
	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
	No.	No.	%	%	%	%
0.00 to <0.15	11,120,470	3,643	0.03%	0.32%	0.13%	0.03%
0.00 to <0.10	7,479,673	1,924	0.03%	0.28%	0.11%	0.02%
0.10 to <0.15	3,640,797	1,719	0.05%	0.57%	0.16%	0.05%
0.15 to <0.25	4,581,889	3,924	0.09%	0.78%	0.23%	0.08%
0.25 to <0.50	6,361,620	15,028	0.24%	0.97%	0.39%	0.23%
0.50 to <0.75	3,496,337	14,891	0.43%	1.16%	0.65%	0.43%
0.75 to <2.50	6,050,133	76,692	1.27%	2.10%	1.33%	1.28%
0.75 to <1.75	4,925,315	49,827	1.01%	1.77%	1.15%	1.04%
1.75 to <2.5	1,124,818	26,865	2.39%	3.83%	2.13%	2.26%
2.50 to <10.00	2,054,109	113,902	5.55%	7.50%	4.67%	5.32%
2.5 to <5	1,444,557	61,728	4.27%	5.82%	3.63%	4.13%
5 to <10	609,552	52,174	8.56%	10.59%	7.13%	7.89%
10.00 to <100.00	651,299	154,799	23.77%	38.88%	30.32%	23.35%
10 to <20	258,524	34,626	13.39%	21.35%	14.37%	12.84%
20 to <30	133,425	23,145	17.35%	40.70%	24.80%	18.76%
30.00 to <100.00	259,350	97,028	37.41%	60.68%	48.94%	39.52%
100.00 (Default)	436,848	N/A	N/A	100.00%	100.00%	N/A

Model Performance (continued)

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

	31 Dec 2022					
	Number of obligors in the end of previous year					
PD range	No.	Of which number of obligors which defaulted in the year No.	Observed average default rate %	Exposure weighted average PD %	Average PD %	Average historical annual default rate %
0.00 to <0.15	246	1	0.41%	0.08%	0.08%	0.17%
0.00 to <0.10	127	1	0.79%	0.05%	0.05%	0.25%
0.10 to <0.15	119	—	—%	0.11%	0.11%	0.10%
0.15 to <0.25	716	—	—%	0.18%	0.19%	0.10%
0.25 to <0.50	3,192	1	0.03%	0.34%	0.37%	0.23%
0.50 to <0.75	5,706	25	0.44%	0.60%	0.56%	0.36%
0.75 to <2.50	9,267	96	1.04%	1.25%	1.16%	0.87%
0.75 to <1.75	8,897	86	0.97%	1.24%	1.13%	0.83%
1.75 to <2.5	370	10	2.70%	1.90%	1.91%	1.66%
2.50 to <10.00	4,353	140	3.22%	4.14%	4.14%	2.99%
2.5 to <5	3,106	54	1.74%	3.14%	3.25%	1.89%
5 to <10	1,247	86	6.90%	6.33%	6.33%	5.63%
10.00 to <100.00	507	71	14.00%	21.08%	24.01%	9.42%
10 to <20	276	26	9.42%	11.96%	12.60%	7.43%
20 to <30	12	—	—%	20.00%	20.00%	0.70%
30.00 to <100.00	219	45	20.55%	32.65%	38.61%	15.56%
100.00 (Default)	905	N/A	N/A	100.00%	100.00%	N/A

	31 Dec 2021					
	Number of obligors in the end of previous year					
PD range	No.	Of which number of obligors which defaulted in the year No.	Observed average default rate %	Exposure weighted average PD %	Average PD %	Average historical annual default rate %
0.00 to <0.15	275	—	—%	0.08%	0.07%	0.09%
0.00 to <0.10	145	—	—%	0.04%	0.04%	0.09%
0.10 to <0.15	130	—	—%	0.11%	0.11%	0.10%
0.15 to <0.25	619	—	—%	0.18%	0.19%	0.11%
0.25 to <0.50	2,664	4	0.15%	0.34%	0.38%	0.26%
0.50 to <0.75	4,579	12	0.26%	0.60%	0.57%	0.37%
0.75 to <2.50	9,544	61	0.64%	1.23%	1.19%	0.82%
0.75 to <1.75	9,021	56	0.62%	1.22%	1.15%	0.78%
1.75 to <2.5	523	5	0.96%	1.90%	1.91%	1.44%
2.50 to <10.00	5,977	108	1.81%	4.24%	4.04%	2.88%
2.5 to <5	4,490	43	0.96%	3.12%	3.33%	1.89%
5 to <10	1,487	65	4.37%	6.63%	6.19%	5.28%
10.00 to <100.00	760	65	8.55%	22.00%	21.12%	9.49%
10 to <20	406	26	6.40%	12.17%	12.50%	8.20%
20 to <30	121	1	0.83%	20.00%	20.00%	0.70%
30.00 to <100.00	233	38	16.31%	34.74%	36.74%	15.73%
100.00 (Default)	719	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 2022

PD range	External rating equivalent	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
		No.	No.	%	%	%
0.015 - 0.025%	AAA to AA	2	—	—%	0.02%	—%
0.025 - 0.035%	AA-	5	—	—%	0.03%	—%
0.035 - 0.05%	A+	5	—	—%	0.04%	—%
0.05 - 0.08%	A	8	—	—%	0.06%	—%
0.08 - 0.14%	A-	20	—	—%	0.11%	—%
0.14 - 0.22%	BBB+	26	—	—%	0.18%	0.40%
0.22 - 0.34%	BBB	61	—	—%	0.28%	—%
0.34 - 0.5%	BBB-	48	—	—%	0.42%	0.62%
0.5 - 0.76%	BB+	26	—	—%	0.63%	1.19%
0.76 - 1.24%	BB	23	—	—%	1.00%	0.77%
1.24 - 2%	BB-	28	—	—%	1.62%	0.87%
2 - 3.2%	B+	15	—	—%	2.60%	4.16%
3.2 - 5.2%	B+	7	—	—%	4.20%	1.54%
5.2 - 7.2%	B	4	—	—%	6.20%	10.56%
7.2 - 10.2%	B-	5	1	20.00%	8.70%	4.00%
10.2 - 13.8%	B-	4	—	—%	12.00%	15.00%
13.8 - 99.99%	CCC to C	4	1	25.00%	31.00%	15.67%
100.00 (Default)		9	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 the annual historical annual default rate.

IRB Approach to 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 - year to 31 Dec 2022

		Total RWA quarter to 31 Dec 2022 £m	Total RWA YTD 31 Dec 2022 £m
1	**Risk weighted exposure amount as at the end of the previous reporting period**	**127,198**	**112,706**
2	Asset size (+/-)	475	1,800
3	Asset quality (+/-)	(61)	(3,344)
5	Methodology and policy (+/-)	329	14,800
7	Foreign exchange movements (+/-)	(350)	1,629
9	**Risk weighted exposure amount at the end of the reporting period**	**127,591**	**127,591**

Key movements quarter to 31 December 2022

– Asset size increase driven by growth in Commercial Banking lending.

– Methodology & Policy increase reflects implementation of a new risk weight floor in our Dutch mortgage portfolio offset by optimisation activity in Commercial Banking.

– Foreign exchange movements, principally driven by movement in the US Dollar and Euro.

Key movements year to date 31 December 2022

– Asset size increase driven by net new lending offset by optimisation activity.

– Asset quality movement mainly driven by reductions from Retail models reflecting resilient underlying credit performance.

– Methodology and policy increases reflect the anticipated impact of the implementation (via the application of temporary model adjustments on 1.1.22) of new CRD IV models to meet revised regulatory standards for modelled outputs, partly offset by other optimisation activity.

– Foreign exchange movements, principally driven by movements in the US Dollar and Euro.

Credit risk IRB approach - CR6

The Group's CRD IV models are not yet approved by the PRA and therefore risk metrics (PD, LGD and EAD) and default classifications in the CR6 tables reflect existing (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 adjustments to reported Risk Weighted Exposure Amounts and Expected Loss amounts in the CR6 tables below.

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	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	**10,447**	**276**	**75.00%**	**10,430**	**0.01%**	**23**	**45.00%**	**1.4**	**521**	**5.00%**	**1**	**—**
0.00 to <0.10	10,447	276	75.00%	10,430	0.01%	23	45.00%	1.4	521	5.00%	1	—
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	**42**	**92**	**75.00%**	**1**	**6.20%**	**3**	**45.00%**	**2.9**	**4**	**418.88%**	**—**	**—**
2.5 to <5	—	91	—%	—	—%	1	—%	—	—	—%	—	—
5 to <10	42	1	75.00%	1	6.20%	2	45.00%	2.9	4	418.88%	—	—
10.00 to <100.00	**46**	**—**	**—%**	**—**	**—%**	**1**	**—%**	**—**	**—**	**—%**	**—**	**—**
10 to <20	46	—	—%	—	—%	1	—%	—	—	—%	—	—
Subtotal	**10,633**	**369**	**75.00%**	**10,431**	**0.01%**	**29**	**45.00%**	**1.4**	**525**	**5.03%**	**1**	**—**
	31 Dec 2021											
0.00 to <0.15	8,068	171	75.00%	8,006	0.01%	21	45.00%	1.7	462	5.77%	—	
0.15 to <0.25	9	—	—%	—	—%	—	—%	—	—	—%	—	
0.25 to <0.50	—	—	75.00%	—	0.42%	1	45.00%	2.4	—	66.99%	—	
0.75 to <2.50	104	—	—%	—	—%	1	—%	—	—	—%	—	
2.50 to <10.00	—	211	75.00%	13	4.26%	3	45.00%	5.0	24	182.45%	—	
Subtotal	**8,181**	**382**	**75.00%**	**8,019**	**0.02%**	**25**	**45.00%**	**1.7**	**486**	**6.06%**	**—**	**—**

Credit risk IRB approach - CR6 (continued)

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	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	**11,004**	**1,984**	**36.10%**	**11,735**	**0.05%**	**898**	**35.54%**	**1.1**	**1,397**	**11.90%**	**2**	**1**
0.00 to <0.10	9,399	1,399	39.69%	9,988	0.04%	751	35.40%	1.2	1,086	10.87%	1	1
0.10 to <0.15	1,605	585	26.42%	1,747	0.11%	147	36.32%	1.0	311	17.79%	1	—
0.15 to <0.25	**201**	**76**	**37.45%**	**229**	**0.18%**	**38**	**44.79%**	**0.9**	**75**	**32.74%**	**—**	**—**
0.25 to <0.50	**8**	**116**	**78.56%**	**100**	**0.41%**	**58**	**18.09%**	**1.4**	**24**	**24.46%**	**—**	**—**
0.50 to <0.75	**8**	**5**	**72.11%**	**11**	**0.63%**	**48**	**43.38%**	**2.4**	**12**	**106.18%**	**—**	**—**
0.75 to <2.50	**112**	**26**	**1.13%**	**112**	**1.00%**	**53**	**44.00%**	**1.4**	**109**	**96.85%**	**1**	**3**
0.75 to <1.75	112	26	1.13%	112	1.00%	50	44.00%	1.4	109	96.94%	1	3
1.75 to <2.5	—	—	—%	—	1.90%	3	40.00%	1.5	—	118.44%	—	—
2.50 to <10.00	**5**	**—**	**75.00%**	**5**	**2.78%**	**29**	**44.98%**	**0.4**	**6**	**130.16%**	**—**	**—**
2.5 to <5	5	—	75.00%	5	2.70%	19	44.97%	0.4	6	128.14%	—	—
5 to <10	—	—	—%	—	6.20%	10	45.00%	1.0	—	219.12%	—	—
10.00 to <100.00	**—**	**—**	**—%**	**—**	**24.50%**	**10**	**45.00%**	**1.0**	**—**	**265.03%**	**—**	**—**
10 to <20	—	—	—%	—	12.00%	3	45.00%	1.0	—	240.31%	—	—
30.00 to <100.00	—	—	—%	—	31.00%	7	45.00%	1.0	—	277.89%	—	—
100.00 (Default)	**—**	**—**	**—%**	**—**	**100.00%**	**4**	**45.00%**	**1.1**	**—**	**—%**	**—**	**—**
Subtotal	**11,338**	**2,207**	**38.03%**	**12,192**	**0.07%**	**1,138**	**35.66%**	**1.1**	**1,623**	**13.31%**	**3**	**4**
	31 Dec 2021											
0.00 to <0.15	7,623	2,566	44.21%	8,770	0.05%	955	34.25%	0.9	875	9.98%	2	
0.15 to <0.25	37	43	82.55%	72	0.18%	54	41.59%	2.2	31	42.89%	—	
0.25 to <0.50	8	133	61.75%	90	0.39%	63	18.31%	1.0	21	22.98%	—	
0.50 to <0.75	2	3	51.88%	4	0.63%	32	44.90%	1.0	3	73.77%	—	
0.75 to <2.50	72	32	74.72%	96	1.01%	60	43.51%	1.6	94	97.94%	—	
2.50 to <10.00	1	4	75.00%	4	3.88%	25	44.96%	1.0	5	137.36%	—	
10.00 to <100.00	—	—	75.00%	—	21.05%	9	45.00%	1.0	1	251.25%	—	
100.00 (Default)	—	—	—%	—	100.00%	3	45.00%	2.8	—	—%	—	
Subtotal	**7,743**	**2,782**	**46.04%**	**9,037**	**0.07%**	**1,201**	**34.26%**	**0.9**	**1,030**	**11.40%**	**2**	**—**

Key movements

– Growth in lending drives and foreign exchange movements increase on balance sheet gross exposure and exposure at default.

– Reduction in CCF due to a change in the mix of the portfolio.

Credit risk IRB approach - CR6 (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 2022											
Corporate SME	£m	£m	%	£m	%	No.	%	No.	£m	%	£m	£m
0.00 to <0.15	**712**	**844**	**37.78%**	**1,032**	**0.07%**	**264**	**35.71%**	**3.6**	**234**	**22.70%**	**—**	**—**
0.00 to <0.10	541	603	26.58%	702	0.05%	203	40.54%	4.0	163	23.28%	—	—
0.10 to <0.15	171	241	65.78%	330	0.11%	61	25.47%	2.7	71	21.48%	—	—
0.15 to <0.25	**139**	**166**	**70.08%**	**250**	**0.19%**	**222**	**42.63%**	**3.5**	**103**	**41.17%**	**—**	**—**
0.25 to <0.50	**754**	**408**	**36.15%**	**823**	**0.39%**	**1,417**	**39.44%**	**3.3**	**424**	**51.46%**	**1**	**2**
0.50 to <0.75	**1,148**	**475**	**15.25%**	**1,091**	**0.57%**	**19,687**	**39.42%**	**3.7**	**610**	**55.87%**	**3**	**3**
0.75 to <2.50	**2,772**	**826**	**20.46%**	**2,683**	**1.30%**	**13,585**	**39.93%**	**3.3**	**1,931**	**71.99%**	**16**	**15**
0.75 to <1.75	2,420	787	21.00%	2,357	1.17%	11,088	40.15%	3.2	1,681	71.33%	13	12
1.75 to <2.5	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%**	**6,081**	**39.03%**	**2.9**	**1,393**	**94.49%**	**30**	**37**
2.5 to <5	996	308	24.94%	953	3.29%	3,372	39.17%	2.9	824	86.38%	14	19
5 to <10	573	77	18.40%	521	7.07%	2,708	38.78%	3.0	569	109.36%	16	18
10.00 to <100.00	**328**	**48**	**30.68%**	**311**	**22.53%**	**1,830**	**40.16%**	**2.4**	**468**	**150.70%**	**31**	**25**
10 to <20	175	26	16.33%	167	13.28%	1,318	39.06%	2.1	221	132.34%	10	7
20 to <30	23	1	52.62%	20	23.79%	153	38.06%	3.8	29	147.41%	2	2
30.00 to <100.00	130	21	46.67%	124	34.84%	359	41.99%	2.6	218	176.56%	19	16
100.00 (Default)	**377**	**21**	**18.09%**	**344**	**100.00%**	**764**	**40.36%**	**2.4**	**—**	**—%**	**139**	**72**
Subtotal	**7,799**	**3,173**	**29.42%**	**8,008**	**6.59%**	**43,850**	**39.21%**	**3.2**	**5,163**	**64.47%**	**220**	**154**
	31 Dec 2021											
0.00 to <0.15	782	736	73.16%	1,320	0.06%	261	39.04%	3.9	314	23.81%	—	
0.15 to <0.25	148	127	70.85%	231	0.19%	229	42.63%	3.4	84	36.45%	—	
0.25 to <0.50	815	376	39.50%	846	0.38%	1,366	41.49%	3.5	449	53.08%	1	
0.50 to <0.75	1,417	336	19.42%	1,324	0.57%	4,575	41.17%	4.0	770	58.17%	3	
0.75 to <2.50	2,904	936	24.28%	2,705	1.27%	7,188	40.38%	3.3	1,901	70.28%	15	
2.50 to <10.00	1,982	402	23.02%	1,846	4.04%	4,416	40.21%	2.8	1,645	89.14%	31	
10.00 to <100.00	367	59	46.82%	373	19.18%	973	41.19%	2.4	534	143.24%	29	
100.00 (Default)	508	120	29.51%	486	100.00%	918	40.76%	2.4	—	—%	198	
Subtotal	**8,922**	**3,093**	**39.91%**	**9,130**	**7.43%**	**19,926**	**40.48%**	**3.3**	**5,698**	**62.41%**	**277**	**161**

Key movements

- Average CCF reduction due to optimisation activity.
- Exposure at default and risk-weighted assets decreased by £1.1 billion and £0.5 billion respectively due to securitisation activity, other optimisation activity, repayments & run offs.
- Average PD reduced from 7.43% to 6.59% due to a reduction in defaulted exposure.
- Increase in obligor due to an enhancement in the mapping of certain low value exposures to customer groups.

Credit risk IRB approach - CR6 (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 2022											
Corporate Main	£m	£m	%	£m	%	No.	%	No.	£m	%	£m	£m
0.00 to <0.15	**14,127**	**19,882**	**61.41%**	**26,562**	**0.09%**	**590**	**43.01%**	**2.4**	**7,481**	**28.16%**	**11**	**31**
0.00 to <0.10	2,955	9,361	59.31%	8,641	0.05%	274	42.56%	2.9	2,104	24.35%	2	8
0.10 to <0.15	11,172	10,521	63.28%	17,921	0.11%	316	43.22%	2.2	5,377	30.00%	9	23
0.15 to <0.25	**5,394**	**5,529**	**63.80%**	**8,889**	**0.18%**	**2,716**	**44.12%**	**2.2**	**3,675**	**41.34%**	**7**	**17**
0.25 to <0.50	**6,990**	**9,942**	**62.89%**	**13,082**	**0.34%**	**4,158**	**38.99%**	**2.1**	**6,904**	**52.77%**	**18**	**57**
0.50 to <0.75	**2,063**	**2,217**	**53.31%**	**3,019**	**0.62%**	**5,803**	**42.59%**	**2.2**	**2,389**	**79.14%**	**9**	**15**
0.75 to <2.50	**3,582**	**4,026**	**55.47%**	**5,229**	**1.20%**	**7,435**	**33.48%**	**2.4**	**4,176**	**79.87%**	**24**	**48**
0.75 to <1.75	3,488	4,015	55.63%	5,136	1.18%	6,084	33.28%	2.4	4,078	79.41%	23	48
1.75 to <2.5	94	11	—%	93	1.97%	1,351	44.35%	1.4	98	105.17%	1	—
2.50 to <10.00	**2,627**	**1,894**	**51.92%**	**3,352**	**4.04%**	**3,470**	**42.38%**	**2.5**	**4,885**	**145.70%**	**62**	**118**
2.5 to <5	1,786	1,517	52.51%	2,516	3.18%	2,707	42.54%	2.7	3,515	139.72%	37	76
5 to <10	841	377	49.68%	836	6.66%	762	41.90%	1.9	1,369	163.70%	25	42
10.00 to <100.00	**174**	**181**	**58.71%**	**279**	**18.87%**	**243**	**43.64%**	**1.6**	**658**	**236.10%**	**25**	**36**
10 to <20	87	163	57.43%	179	12.07%	160	43.35%	1.1	399	222.90%	11	20
20 to <30	1	—	—%	1	24.68%	20	36.40%	0.8	1	239.21%	—	—
30.00 to <100.00	86	18	69.98%	99	31.08%	63	44.15%	2.6	258	259.66%	14	16
100.00 (Default)	**549**	**69**	**81.05%**	**605**	**100.00%**	**589**	**41.85%**	**2.1**	**—**	**—%**	**253**	**151**
Subtotal	**35,506**	**43,740**	**60.74%**	**61,017**	**1.57%**	**25,003**	**41.43%**	**2.3**	**30,168**	**49.44%**	**409**	**473**
	31 Dec 2021											
0.00 to <0.15	13,188	17,138	72.45%	25,748	0.09%	575	42.68%	2.3	6,920	26.87%	11	
0.15 to <0.25	3,893	5,566	62.43%	7,322	0.18%	2,695	44.48%	2.4	3,364	45.94%	7	
0.25 to <0.50	6,995	8,568	62.10%	11,993	0.34%	4,172	38.68%	2.1	6,289	52.44%	18	
0.50 to <0.75	2,344	2,567	63.52%	3,816	0.62%	5,762	43.19%	2.6	3,128	81.97%	11	
0.75 to <2.50	3,965	3,283	57.27%	5,331	1.28%	7,951	42.20%	2.0	5,139	96.40%	32	
2.50 to <10.00	2,841	2,174	64.45%	3,951	4.28%	4,163	42.60%	2.3	5,666	143.43%	76	
10.00 to <100.00	145	153	65.51%	245	16.81%	241	40.92%	1.3	485	198.03%	16	
100.00 (Default)	575	102	64.98%	640	100.00%	832	43.16%	1.9	—	—%	276	
Subtotal	**33,947**	**39,551**	**66.55%**	**59,046**	**1.73%**	**26,391**	**42.07%**	**2.2**	**30,992**	**52.49%**	**446**	**316**

Key movements

- Reduction in CCF due to the optimisation activity.
- An increase in low risk weight new lending drives the increase in on and off balance sheet gross exposure, and the increase in exposure at default while reducing the average risk weight.
- Average PD reduced from 1.73% to 1.57% due to a change in mix in the portfolio and a small reduction in defaulted exposure.

Credit risk IRB approach - CR6 (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 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 <2.5	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**
2.5 to <5	296	16	97.94%	307	3.64%	1,630	17.75%	126	41.06%	2	7
5 to <10	287	13	97.43%	295	7.56%	1,554	17.73%	175	59.30%	4	12
10.00 to <100.00	**160**	**7**	**97.07%**	**164**	**24.82%**	**1,131**	**18.82%**	**134**	**82.11%**	**8**	**13**
10 to <20	76	5	97.50%	79	14.29%	653	18.39%	62	78.56%	2	5
20 to <30	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**	**415**	**97.70%**	**5,106**	**4.65%**	**30,148**	**17.76%**	**1,125**	**22.04%**	**44**	**120**
	31 Dec 2021										
0.50 to <0.75	2,504	242	99.75%	2,746	0.54%	18,206	18.14%	361	13.15%	3	
0.75 to <2.50	2,006	196	99.79%	2,201	1.12%	11,220	16.27%	428	19.42%	4	
2.50 to <10.00	665	40	99.81%	705	4.11%	3,327	16.88%	312	44.26%	5	
10.00 to <100.00	163	6	99.82%	169	22.17%	1,027	17.85%	132	77.88%	7	
100.00 (Default)	130	5	99.68%	135	100.00%	497	19.42%	24	18.16%	27	
Subtotal	**5,469**	**488**	**99.77%**	**5,956**	**4.04%**	**34,277**	**17.32%**	**1,257**	**21.10%**	**46**	**131**

Key movements

- Exposures decreased by £0.8 billion and risk-weighted assets decreased by £0.1 billion due to lower lending volumes.
- RWA reduction in this exposure class partially offset by mitigating action under the BDCS rating model to ensure PD estimates remain appropriate, in line with an approach agreed with the regulator in the event that observed default rates exceed predictions. This action creates a buffer, increasing capital pending a recalibration, and is applied at the BDCS rating system level.

Credit risk IRB approach - CR6 (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[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
	31 Dec 2022										
Residential mortgages (non-SME)	£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	**2,035**	**—**	**69.06%**	**2,085**	**55.40%**	**16,632**	**8.61%**	**2,263**	**108.49%**	**269**	**60**
10 to <20	841	—	100.00%	868	40.34%	6,851	8.58%	996	114.74%	63	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%	807	96.56%	163	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**
	31 Dec 2021										
0.00 to <0.15	255,780	16,818	101.52%	284,268	0.37%	2,056,654	10.22%	22,967	8.08%	141	
0.15 to <0.25	24,394	218	65.79%	25,520	1.01%	194,210	9.61%	3,638	14.25%	32	
0.25 to <0.50	17,050	725	76.37%	18,317	1.53%	140,948	9.12%	3,358	18.33%	33	
0.50 to <0.75	3,843	18	56.43%	4,020	2.80%	35,102	8.51%	1,069	26.59%	13	
0.75 to <2.50	4,803	23	81.50%	5,032	6.24%	43,694	8.47%	1,928	38.32%	34	
2.50 to <10.00	3,164	5	61.64%	3,298	18.46%	26,887	8.49%	2,068	62.69%	68	
10.00 to <100.00	1,882	—	—%	1,929	54.59%	16,715	8.12%	1,139	59.04%	123	
100.00 (Default)	2,860	—	—%	2,860	100.00%	21,177	9.86%	2,069	72.34%	392	
Subtotal	**313,777**	**17,807**	**99.98%**	**345,244**	**1.90%**	**2,535,387**	**10.04%**	**38,235**	**11.07%**	**836**	**1,212**

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

Key movements

- Risk-weighted assets and expected loss increased by £14.5 billion and £0.2 billion respectively due to the anticipated impact of new regulatory CRD IV changes on 1 January 2022, partially offset by underlying model reductions during the year.
- An increase in mortgage lending drives £7.0 billion increase in exposure at default.
- Average PD decreased from 1.90% to 1.71% partly due to reduction in defaulted assets.

Credit risk IRB approach - CR6 (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 2022										
Qualifying revolving retail exposures	£m	£m	%	£m	%	No.	%	£m	%	£m	£m
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 <2.5	966	1,119	65.78%	1,703	2.11%	1,207,981	76.90%	986	57.89%	30	46
2.50 to <10.00	**2,618**	**1,402**	**70.92%**	**3,614**	**4.71%**	**2,104,767**	**78.41%**	**3,657**	**101.17%**	**145**	**220**
2.5 to <5	1,600	1,083	69.64%	2,355	3.54%	1,455,785	78.13%	1,991	84.53%	71	109
5 to <10	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%**	**2,109**	**213.68%**	**240**	**173**
10 to <20	413	86	92.56%	494	13.66%	302,723	79.03%	959	194.32%	58	72
20 to <30	117	34	78.49%	146	24.44%	118,224	76.87%	354	242.14%	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**	**115**
Subtotal	**10,012**	**42,635**	**63.10%**	**36,934**	**2.32%**	**31,594,136**	**66.72%**	**11,495**	**31.12%**	**645**	**764**
	31 Dec 2021										
0.00 to <0.15	704	15,167	69.99%	11,320	0.09%	8,424,521	56.94%	394	3.48%	6	
0.15 to <0.25	495	7,204	70.38%	5,564	0.20%	4,520,434	60.24%	390	7.01%	7	
0.25 to <0.50	1,027	9,511	67.92%	7,488	0.36%	5,770,068	62.77%	881	11.77%	17	
0.50 to <0.75	797	4,024	70.36%	3,629	0.62%	3,243,515	69.38%	721	19.87%	16	
0.75 to <2.50	2,986	5,868	73.54%	7,302	1.35%	6,067,529	75.33%	2,855	39.10%	77	
2.50 to <10.00	2,266	1,138	79.23%	3,169	4.62%	1,810,431	77.96%	3,082	97.25%	119	
10.00 to <100.00	659	144	89.00%	802	29.30%	550,486	77.63%	1,735	216.33%	193	
100.00 (Default)	247	—	—%	247	99.83%	289,341	71.00%	489	197.98%	136	
Subtotal	**9,181**	**43,056**	**70.42%**	**39,521**	**2.02%**	**30,676,325**	**65.24%**	**10,547**	**26.69%**	**571**	**503**

Key movements

- Balance sheet lending growth drives increase in on balance sheet exposure.
- Model calibrations drive reduction in average CCF.
- Risk-weighted assets increased by £0.9 billion reflecting the anticipated impact of the implementation (via the application of temporary model adjustments on 1.1.22) of new CRD IV models to meet revised regulatory standards for modelled outputs, balance sheet growth, PD model calibrations offset by the impact of EAD model calibrations.

Credit risk IRB approach - CR6 (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 2022										
Retail Other SME	£m	£m	%	£m	%	No.	%	£m	%	£m	£m
0.50 to <0.75	**2,211**	**323**	**90.85 %**	**548**	**0.54 %**	**58,080**	**77.10 %**	**258**	**47.08 %**	**2**	**17**
0.75 to <2.50	**2,137**	**236**	**94.37 %**	**516**	**1.32 %**	**51,704**	**76.44 %**	**345**	**66.81 %**	**6**	**7**
0.75 to <1.75	1,535	180	94.31 %	373	0.94 %	36,651	76.22 %	227	60.73 %	3	6
1.75 to <2.5	602	56	94.55 %	143	2.30 %	15,053	77.00 %	118	82.75 %	3	1
2.50 to <10.00	**804**	**63**	**94.42 %**	**205**	**5.66 %**	**25,305**	**78.92 %**	**196**	**95.65 %**	**9**	**8**
2.5 to <5	393	35	94.66 %	100	3.64 %	12,160	79.95 %	93	92.96 %	3	4
5 to <10	411	28	94.10 %	105	7.59 %	13,145	77.95 %	103	98.31 %	6	4
10.00 to <100.00	**343**	**16**	**92.39 %**	**93**	**31.79 %**	**33,157**	**84.29 %**	**134**	**144.86 %**	**27**	**5**
10 to <20	145	10	93.55 %	39	14.67 %	25,249	84.29 %	54	138.08 %	6	2
20 to <30	74	3	91.90 %	20	23.79 %	3,070	83.79 %	33	161.19 %	4	1
30.00 to <100.00	124	3	89.45 %	34	56.33 %	4,838	83.85 %	47	141.34 %	17	2
100.00 (Default)	**799**	**4**	**88.86 %**	**241**	**100.00 %**	**116,560**	**10.31 %**	**104**	**43.03 %**	**24**	**17**
Subtotal	**6,294**	**642**	**92.52 %**	**1,603**	**18.20 %**	**284,806**	**67.50 %**	**1,037**	**64.70 %**	**68**	**54**
	31 Dec 2021										
0.50 to <0.75	3,268	490	99.28%	758	0.54%	112,599	80.44%	381	50.22%	3	
0.75 to <2.50	2,734	307	99.44%	623	1.13%	76,600	77.89%	421	67.49%	6	
2.50 to <10.00	1,180	84	99.60%	257	4.18%	32,090	77.77%	239	93.11%	8	
10.00 to <100.00	403	14	99.29%	85	27.76%	33,821	81.30%	109	128.44%	20	
100.00 (Default)	1,055	5	98.36%	239	100.00%	57,366	9.68%	107	45.02%	23	
Subtotal	**8,640**	**900**	**99.36%**	**1,962**	**14.48%**	**312,476**	**70.70%**	**1,257**	**64.08%**	**60**	**61**

Key movements

– Gross Exposure (pre CCF and CRM) reflects the majority of the Group's lending under the UK Government's Bounce Back Loan Scheme. Elevated levels of defaulted exposure at this level mainly reflects outstanding customer balances under the scheme prior to the receipt of relevant guarantee claims.

– Decrease in obligor numbers is mainly due to an enhancement in the mapping of certain low value exposures to customer groups leading to accounts re-mapped to the Corporate SME asset class.

– Exposure to borrowers under the UK Government's Bounce Back Loan Scheme is substituted to Standardised Central Governments under the Group's CRM approach resulting in a much smaller EAD value in this exposure class.

– Post substitution, EAD and RWA's decreased by £0.4 billion and £0.2 billion respectively due to securitisation activity, repayments and run-offs.

– RWA reduction in this exposure class partially offset by mitigating action under the BDCS rating model to ensure PD estimates remain appropriate, in line with an approach agreed with the regulator in the event that observed default rates exceed predictions. This action creates a buffer, increasing capital pending a recalibration, and is applied at the BDCS rating system level.

Credit risk IRB approach - CR6 (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
	30 Jun 2022										
Retail Other non-SME	£m	£m	%	£m	%	No.	%	£m	%	£m	£m
0.00 to <0.15	**469**	**—**	**30.00%**	**469**	**0.08%**	**27,975**	**37.91%**	**45**	**9.66%**	**—**	**2**
0.00 to <0.10	463	—	30.00%	463	0.08%	26,242	37.46%	44	9.46%	—	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	**4,863**	**5**	**30.00%**	**4,872**	**0.37%**	**414,473**	**37.93%**	**1,327**	**27.23%**	**9**	**39**
0.50 to <0.75	**3,199**	**5**	**30.00%**	**3,208**	**0.72%**	**240,457**	**43.24%**	**1,403**	**43.72%**	**12**	**37**
0.75 to <2.50	**6,256**	**19**	**30.00%**	**6,294**	**1.57%**	**619,064**	**64.30%**	**5,389**	**85.63%**	**70**	**148**
0.75 to <1.75	4,870	13	30.00%	4,895	1.42%	463,503	59.32%	3,738	76.37%	44	100
1.75 to <2.5	1,386	6	30.00%	1,399	2.11%	155,561	81.71%	1,651	118.04%	26	48
2.50 to <10.00	**4,187**	**15**	**30.00%**	**4,217**	**4.59%**	**444,652**	**69.58%**	**4,794**	**113.70%**	**144**	**144**
2.5 to <5	2,765	9	30.00%	2,783	3.42%	288,390	70.64%	3,120	112.12%	73	91
5 to <10	1,422	6	30.00%	1,434	6.84%	156,262	67.52%	1,674	116.78%	71	53
10.00 to <100.00	**772**	**4**	**30.00%**	**780**	**27.20%**	**97,216**	**61.28%**	**1,128**	**144.64%**	**135**	**60**
10 to <20	334	2	30.00%	338	12.66%	48,095	72.53%	507	149.93%	34	17
20 to <30	160	1	30.00%	162	21.82%	17,675	50.82%	221	136.53%	19	13
30.00 to <100.00	278	1	30.00%	280	47.91%	31,446	53.75%	400	143.00%	82	30
100.00 (Default)	**300**	**—**	**—%**	**300**	**100.00%**	**60,234**	**55.54%**	**549**	**183.10%**	**126**	**153**
Subtotal	**20,109**	**49**	**30.00%**	**20,205**	**4.19%**	**1,919,094**	**54.87%**	**14,658**	**72.55%**	**496**	**584**
	31 Dec 2021										
0.00 to <0.15	355	—	30.00%	355	0.08%	21,272	36.74%	36	10.27%	—	
0.15 to <0.25	37	1	30.00%	38	0.22%	8,780	75.12%	13	33.92%	—	
0.25 to <0.50	5,302	5	30.00%	5,312	0.37%	449,178	36.15%	1,496	28.17%	12	
0.50 to <0.75	2,997	5	30.00%	3,007	0.72%	238,486	42.24%	1,359	45.19%	13	
0.75 to <2.50	5,891	21	30.00%	5,934	1.58%	623,301	64.29%	5,019	84.58%	64	
2.50 to <10.00	4,028	16	30.00%	4,059	4.59%	449,405	69.82%	4,515	111.22%	131	
10.00 to <100.00	695	3	30.00%	701	27.16%	89,104	59.55%	987	140.75%	112	
100.00 (Default)	357	—	—%	357	100.00%	69,796	53.01%	729	204.01%	149	
Subtotal	**19,662**	**51**	**30.00%**	**19,765**	**4.40%**	**1,949,322**	**53.66%**	**14,154**	**71.61%**	**482**	**514**

Key movements

- Increase in gross exposure and EAD due to lending growth.
- Average PD decreased from 4.40% to 4.19% due to reduction in defaulted exposure.
- Risk weighted assets increased by £0.5billion due to lending growth and the anticipated impact of new CRD IV models to meet revised regulatory standards for modelled outputs.

Credit risk IRB approach (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).

		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
		(a)	(b)	(c)	(d)	(e)
		£m	£m	%	%	%
1	**Central governments or central banks**	**10,886**	**115,166**	**90.61%**	**9.40%**	**—%**
1.1	Of which Regional governments or local authorities	—	—	—%	—%	—%
1.2	Of which Public sector entities	—	—	—%	—%	—%
2	**Institutions**	**12,173**	**15,363**	**21.66%**	**78.30%**	**—%**
3	**Corporates**	**83,956**	**85,452**	**8.50%**	**88.80%**	**2.7%**
3.1	Of which Corporates - Specialised lending, excluding slotting approach		—		—%	
3.2	Of which Corporates - Specialised lending under slotting approach	13,206	12,516		100.00%	
4	**Retail**	**421,464**	**387,181**	**2.50%**	**94.90%**	**2.6%**
4.1	of which Retail – Secured by real estate SMEs	5,198	5,066	1.10%	93.60%	5.3%
4.2	of which Retail – Secured by real estate non-SMEs	352,240	328,735	1.70%	98.30%	—%
4.3	of which Retail – Qualifying revolving	36,934	21,870	0.10%	62.30%	37.6%
4.4	of which Retail – Other SMEs	6,888	8,120	10.70%	78.20%	11.1%
4.5	of which Retail – Other non-SMEs	20,205	22,984	12.40%	85.00%	2.6%
5	**Equity**	**5,824**	**5,824**	**—%**	**100.00%**	**—%**
6	**Other non-credit obligation assets**	**8,780**	**11,105**	**22.60%**	**77.40%**	**—%**
7	**Total**	**543,082**	**620,090**	**20.50%**	**77.50%**	**2.0%**

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. Standardised Collective Investment Units have been allocated to Corporates.

Credit risk IRB approach (continued)

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

		31 Dec 2022													
			Credit risk Mitigation techniques											Credit risk Mitigation methods in the calculation of RWAs	
			Funded credit Protection (FCP)									Unfunded credit Protection (UFCP)[2]			
		Total exposure 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	RWA without substitution effects (reduction effects only)	RWA with substitution effects (both reduction and substitution effects)
A-IRB		£m	%	%	%	%	%	%	%	%	%	%	%	£m	£m
4	Retail	416,086	—%	80.06%	80.06%	—%	—%	—%	—%	—%	—%	—%	—%		81,091
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	20,205	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%		14,658
5	**Total**	**416,086**	**—%**	**80.06%**	**80.06%**	**—%**	**—%**	**—%**	**—%**	**—%**	**—%**	**—%**	**—%**		**81,091**
F-IRB															
1	Central governments and central banks	10,431	—%	—%	—%	—%	—%	—%				5.90%	—%		525
2	Institutions	12,191	34.69%	0.78%	—%	—%	0.78%	—%				—%	0.38%		1,623
3	Corporates	81,665	5.02%	15.94%	12.54%	2.12%	1.28%	—%				2.41%	0.41%		44,353
3.1	Of which Corporates – SMEs	8,008	3.35%	59.90%	45.71%	14.16%	0.03%	—%				9.05%	—%		5,163
3.2	Of which Corporates – Specialised lending	12,640	—%	—%	—%	—%	—%	—%				—%	—%		9,021
3.3	Of which Corporates – Other	61,017	6.28%	13.46%	10.78%	0.97%	1.71%	—%				2.04%	0.54%		30,168
4	**Total**	**104,287**	**7.99%**	**12.57%**	**9.82%**	**1.66%**	**1.09%**	**—%**				**2.48%**	**0.36%**		**46,500**

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 240%. 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.

Specialised lending

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

		31 Dec 2022					
Regulatory categories	Remaining maturity	On-balance sheet exposure £m	Off-balance sheet exposure £m	Risk weight	Exposure value £m	Risk weighted exposure amount £m	Expected loss amount £m
1) Strong	Less than 2.5 years	542	387	50%	847	423	—
	Equal to or more than 2.5 years	1,652	805	70%	2,258	1,581	9
2) Good	Less than 2.5 years	—	9	70%	7	5	—
	Equal to or more than 2.5 years	415	201	90%	622	559	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**	**697**	**411**		**1,021**	**584**	**20**
	Equal to or more than 2.5 years	**2,207**	**1,021**		**3,032**	**2,293**	**29**

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

		31 Dec 2022					
Regulatory categories	Remaining maturity	On-balance sheet exposure £m	Off-balance sheet exposure £m	Risk weight	Exposure value £m	Risk weighted exposure amount £m	Expected loss amount £m
1) Strong	Less than 2.5 years	2,423	361	50%	2,618	1,310	—
	Equal to or more than 2.5 years	896	259	70%	1,081	754	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	202	2		202	—	101
	Equal to or more than 2.5 years	21	—		21	—	11
Total	**Less than 2.5 years**	**5,028**	**583**		**5,376**	**3,417**	**126**
	Equal to or more than 2.5 years	**2,895**	**317**		**3,123**	**2,648**	**36**

Specialised lending (continued)

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

Regulatory categories	Remaining maturity	31 Dec 2022 On-balance sheet exposure £m	Off-balance sheet exposure £m	Risk weight	Exposure value £m	Risk weighted exposure amount £m	Expected loss amount £m
1) Strong	Less than 2.5 years	—	—	50%	—	—	—
	Equal to or more than 2.5 years	—	—	70%	—	—	—
2) Good	Less than 2.5 years	—	—	70%	—	—	—
	Equal to or more than 2.5 years	88	—	90%	88	79	1
3) Satisfactory	Less than 2.5 years	—	—	115%	—	—	—
	Equal to or more than 2.5 years	—	—	115%	—	—	—
4) Weak	Less than 2.5 years	—	—	250%	—	—	—
	Equal to or more than 2.5 years	—	—	250%	—	—	—
5) Default	Less than 2.5 years	—	—		—	—	—
	Equal to or more than 2.5 years	—	—		—	—	—
Total	**Less than 2.5 years**	**—**	**—**		**—**	**—**	**—**
	Equal to or more than 2.5 years	**88**	**—**		**88**	**79**	**1**

CR10.5: Equity exposures subject to the simple risk weight method1

Categories	On-balance sheet exposure £m	Off-balance sheet exposure £m	Risk weight	Exposure value £m	Risk weighted exposure amount £m	Expected loss amount £m
	31 Dec 2022					
Private equity exposures	1,917	11	190%	1,928	3,663	15
Exchange-traded equity exposures	—	—	290%	—	—	—
Other equity exposures	225	—	370%	225	831	5
Total	**2,142**	**11**		**2,153**	**4,494**	**20**
	31 Dec 2021					
Private equity exposures	2,583	78	190%	2,660	5,055	
Exchange-traded equity exposures	—	—	290%	—	—	
Other equity exposures	179	—	370%	179	662	
Total	**2,762**	**78**		**2,839**	**5,717**	

1 Excludes threshold risk weighted assets (2022 £9,177m / 2021 £9,597m)

Key movements

– Decreases in exposure at default of £0.7 billion and risk-weighted assets of £1.2 billion are due to regulatory changes on 1 January 2022 with some equity positions re-classified as collective investment undertakings under the Standardised Approach to credit risk.

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 mark-to-market 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 product and reflect documentation held for netting or collateral management purposes. Outstanding exposures are calculated on a PFE basis, based upon the transaction characteristics and documentation.

SECURING COLLATERAL AND ESTABLISHING CREDIT RESERVES

Use is made of collateral and risk mitigation techniques to reduce credit risks in various portfolios. These include the use of collateral (principally cash 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) to International Swaps and Derivative Association (ISDA) Master Agreements). It is policy that appropriate documentation is put in place for all clients prior to trading, any exceptions being subject to specific approval from the appropriate Credit Sanctioner. Policy also defines minimum acceptable requirements for the negotiation of ISDA and CSA documentation.

Derivative transactions with financial counterparties are typically collateralised under a Credit Support Annex (CSA) in conjunction with the International Swaps and Derivatives Association (ISDA) Master Agreement. Derivative transactions with non-financial customers are not usually supported by a CSA.

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

Collateral received is reviewed daily to ensure quality is maintained and concentrations are avoided as necessary.

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.

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.

Counterparty credit risk

CCR1: Analysis of CCR exposure by approach

		31 Dec 2022							
		Replacement cost (RC) £m	Potential future exposure (PFE) £m	EEPE £m	Alpha used for computing regulatory exposure value	Exposure value pre-CRM £m	Exposure value post-CRM £m	Exposure value £m	RWA £m
UK1	Original Exposure Method (for derivatives)	—	—	—	1.4	—	—	—	—
UK2	Simplified SA-CCR (for derivatives)	—	—	—	1.4	—	—	—	—
1	SA-CCR (for derivatives)	4,725	4,215	—	1.4	28,071	12,516	12,254	5,488
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)					151,347	18,426	18,426	327
5	VaR for SFTs					—	—	—	—
6	**Total**					**179,418**	**30,942**	**30,680**	**5,815**

Counterparty credit risk (continued)

CCR2: Credit valuation adjustment (CVA) capital charge

		31 Dec 2022		31 Dec 2021	
		Exposure value	RWA	Exposure value	RWA
		£m	£m	£m	£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	3,757	621	2,493	678
UK4	Transactions subject to the Alternative approach (Based on the Original Exposure Method)	—	—	—	—
5	**Total transactions subject to own funds requirements for CVA risk**	**3,757**	**621**	**2,493**	**678**

Key movements

– The £1.2 billion EAD increase is predominately driven by the adoption of the Standardised approach for counterparty credit risk on 1 January 2022. The decrease in CVA RWA is attributable to portfolio optimisation during the year.

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

		31 Dec 2022											
		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	15,755	—	—	—	4	—	—	—	—	—	—	**15,759**
3	Public sector entities	13	—	—	—	—	—	—	—	—	—	—	**13**
4	Multilateral development banks	167	—	—	—	—	—	—	—	—	—	—	**167**
5	International organisations	372	—	—	—	—	—	—	—	—	—	—	**372**
6	Institutions	—	988	611	—	—	—	—	—	—	—	—	**1,598**
7	Corporates	—	—	—	—	8	175	—	—	433	—	—	**616**
11	**Total exposure value**	**16,307**	**988**	**611**	**—**	**12**	**175**	**—**	**—**	**433**	**—**	**—**	**18,526**
		31 Dec 2021											
1	Central governments or central banks	16,724	—	—	—	—	—	—	—	—	—	—	**16,724**
3	Public sector entities	1	—	—	—	2	—	—	—	—	—	—	**3**
5	International organisations	8	—	—	—	—	—	—	—	—	—	—	**8**
6	Institutions	—	6,936	664	—	3	4	—	—	—	—	—	**7,607**
7	Corporates	—	—	—	—	1	135	—	—	100	—	—	**236**
11	**Total exposure value**	**16,732**	**6,936**	**664**	**—**	**6**	**139**	**—**	**—**	**100**	**—**	**1**	**24,578**

Key movements

– The overall EAD decrease of £6.1 billion is mainly driven by the adoption of the Standardised approach for counterparty credit risk mostly impacting the centrally cleared trades.

Counterparty credit risk (continued)

CCR4: IRB – CCR exposure by portfolio and PD scale

	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 2022						
	Corporate	£m	%	No.	%	No.	£m	%
1	0.00 to <0.15	4,453	0.09%	880	45.0%	2.0	1,159	26.0%
2	0.15 to <0.25	1,987	0.18%	221	45.0%	3.5	1,070	53.9%
3	0.25 to <0.50	1,116	0.32%	757	45.0%	1.3	517	46.3%
4	0.50 to <0.75	368	0.63%	165	45.5%	1.2	239	65.0%
5	0.75 to <2.50	273	1.40%	238	45.0%	1.3	250	91.7%
6	2.50 to <10.00	146	3.77%	109	45.0%	1.2	184	125.9%
7	10.00 to <100.00	8	14.11%	17	45.0%	1.0	16	205.6%
8	100.00 (Default)	1	100.00%	7	45.0%	1.2	0	—%
	Sub-total	**8,352**	**0.29%**	**2,394**	**45.0%**	**2.2**	**3,435**	**41.1%**
		31 Dec 2021						
1	0.00 to <0.15	2,721	0.09%	862	43.7%	3.2	885	32.5%
2	0.15 to <0.25	1,446	0.18%	247	45.0%	3.7	806	55.8%
3	0.25 to <0.50	568	0.30%	853	45.0%	1.6	281	49.5%
4	0.50 to <0.75	304	0.63%	140	44.0%	1.5	202	66.4%
5	0.75 to <2.50	188	1.50%	154	45.0%	2.0	196	104.3%
6	2.50 to <10.00	91	3.77%	112	45.0%	2.0	125	137.7%
7	10.00 to <100.00	1	13.93%	7	45.0%	1.7	2	213.2%
8	100.00 (Default)	0	100.00%	8	45.0%	0.0	0	—%
	Sub-total	**5,319**	**0.29%**	**2,383**	**44.3%**	**3.0**	**2,497**	**46.9%**

Key movements

- The £3.0 billion EAD and £0.9 billion RWA overall increase is mainly driven by the adoption of the Standardised approach for counterparty credit risk.

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 2022						
	Central governments or central banks	£m	%	No.	%	No.	£m	%
1	0.00 to <0.15	720	0.05%	10	45.0%	0.0	48	6.7%
5	0.75 to <2.50	116	1.62%	2	45.0%	0.1	94	81.5%
	Sub-total	**836**	**0.27%**	**12**	**45.0%**	**0.0**	**142**	**17.0%**
		31 Dec 2021						
	Central governments or central banks	£m	%	No.	%	No.	£m	%
1	0.00 to <0.15	932	0.04%	13	45.0%	0.0	49	5.3%
5	0.75 to <2.50	78	1.63%	2	45.2%	—	64	81.3%
	Sub-total	**1,010**	**0.17%**	**15**	**45.0%**	**0.0**	**112**	**11.1%**

	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 2022						
	Institutions	£m	%	No.	%	No.	£m	%
1	0.00 to <0.15	2,926	0.05%	173	45.0%	1.5	527	18.0%
2	0.15 to <0.25	73	0.18%	12	45.0%	0.9	27	37.6%
3	0.25 to <0.50	17	0.32%	32	45.0%	0.9	8	45.6%
4	0.50 to <0.75	5	0.63%	8	45.0%	1.0	3	64.2%
5	0.75 to <2.50	6	1.43%	12	45.0%	1.0	7	105.4%
6	2.50 to <10.00	—	—%	—	—%	0.0	—	—%
	Sub-total	**3,026**	**0.05%**	**237**	**45.0%**	**1.5**	**572**	**18.9%**
		31 Dec 2021						
	Institutions	£m	%	No.	%	No.	£m	%
1	0.00 to <0.15	2,915	0.06%	201	45.0%	2.2	723	24.8%
2	0.15 to <0.25	80	0.18%	19	45.0%	1.4	35	43.7%
3	0.25 to <0.50	10	0.38%	25	45.0%	3.2	9	84.5%
4	0.50 to <0.75	4	0.63%	10	45.0%	1.5	3	71.4%
5	0.75 to <2.50	2	1.24%	10	45.0%	1.8	2	103.3%
6	2.50 to <10.00	1	2.60%	1	45.0%	5.0	1	164.1%
	Sub-total	**3,011**	**0.05%**	**266**	**45.0%**	**2.2**	**773**	**25.7%**

Counterparty credit risk (continued)

CCR Corporate exposures subject to supervisory slotting

		31 Dec 2022 Specialised Slotting Specialised lending				
Regulatory categories	Remaining maturity	On-balance sheet exposure £m	Off-balance sheet exposure £m	Risk weight %	Exposure value £m	Risk weighted exposure amount £m
1) Strong	Less than 2.5 years	49	—	50%	48	24
	Equal to or more than 2.5 years	1,370	—	70%	1,232	863
2) Good	Less than 2.5 years	2	—	70%	2	1
	Equal to or more than 2.5 years	129	—	90%	112	101
3) Satisfactory	Less than 2.5 years	—	—	115%	—	—
	Equal to or more than 2.5 years	147	—	115%	136	156
5) Default	Less than 2.5 years	1	—	0%	1	—
	Equal to or more than 2.5 years	16	—	0%	9	—
Total	**Less than 2.5 years**	**51**	**—**		**50**	**25**
	Equal to or more than 2.5 years	**1,663**	**—**		**1,489**	**1,120**
		31 Dec 2021 Specialised lending				
1) Strong	Less than 2.5 years	79	—	50%	79	39
	Equal to or more than 2.5 years	1,705	—	70%	1,409	986
2) Good	Less than 2.5 years	14	—	70%	13	9
	Equal to or more than 2.5 years	99	—	90%	55	49
3) Satisfactory	Less than 2.5 years	—	—	115%	—	—
	Equal to or more than 2.5 years	86	—	115%	86	99
5) Default	Less than 2.5 years	—	—	0%	—	—
	Equal to or more than 2.5 years	14	—	0%	11	—
Total	**Less than 2.5 years**	**93**	**—**		**92**	**48**
	Equal to or more than 2.5 years	**1,905**	**—**		**1,560**	**1,134**

CCR5: Composition of collateral for exposures to CCR

		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
	Collateral type	Segregated £m	Unsegregated £m	Segregated £m	Unsegregated £m	£m	£m
1	Cash	60	5,170	60	7,429	91,115	89,681
2	Debt	331	5,696	1,275	3,086	98,597	65,990
3	Equity	—	—	—	—	—	—
4	Other	—	—	—	—	860	53,114
5	**Total**	**391**	**10,866**	**1,335**	**10,515**	**190,572**	**208,785**

Counterparty credit risk (continued)

CCR6: Credit derivatives exposures

	31 Dec 2022		31 Dec 2021	
	Protection bought £m	Protection sold £m	Protection bought £m	Protection sold £m
Notionals				
1 Single-name credit default swaps	1,947	166	2,432	26
2 Index credit default swaps	911	275	871	69
3 Total return swaps	6,192	1,011	793	8,392
4 Credit options	—	5,443	—	—
5 Other credit derivatives	—	—	—	4,863
6 Total notionals	**9,050**	**6,895**	**4,096**	**13,350**
Fair values				
7 Positive fair value (asset)	1,858	81	14	107
8 Negative fair value (liability)	(60)	(79)	(111)	(384)

Key movements

– The movements in notionals and fair values are driven by changes in market rates and re-mapping of products following the implementation of the Standardised approach for counterparty credit risk.

CCR8: Exposures to CCPs

		31 Dec 2022		31 Dec 2021	
		Exposure value £m	RWA £m	Exposure value £m	RWA £m
1	**Exposures to QCCPs (total)**		**94**		**523**
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	1,260	35	7,375	161
3	(i) OTC derivatives	571	11	6,093	122
4	(ii) Exchange-traded derivatives	534	21	1,247	38
5	(iii) SFTs	155	3	35	1
6	(iv) Netting sets where cross-product netting has been approved				
8	Non-segregated initial margin	339	8	225	5
9	Prefunded default fund contributions[1]	205	51	460	357
11	**Exposures to non-QCCPs (total)**		**—**		**—**

1 Updated post IMS publication.

Key movements

– The EAD decrease in relation to OTC and Exchange-traded derivatives amounting to £6.2 billion is mainly driven by the adoption of the Standardised approach for counterparty credit risk.

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 also 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 through the use of synthetic loan securitisations which involve the issuance of Credit Linked Notes.

Traditional originated securitisation transactions typically involve the sale of a group or portfolio of ring fenced loans to a 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 are typically funding driven transactions where the most junior tranches are retained by the Group meaning there is effectively no significant risk transfer of credit risk away from the Group. Instead, the vehicle serves as a diverse source of funding for the Group.

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

In 2021 the Group established the Lloyds Bank Synthetic Securitisation Note Programme. 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) is required. Passing the test allows the capital required on the underlying exposures to be replaced by the lower capital requirements of the retained positions in the securitisation.

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

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

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.

Trading book securitisation strategy and roles

The Group's ABS trading book consists primarily of investments in third party securitisation positions and to a lesser extent, in the Group's sponsored securitisations.

The main objectives of the ABS trading book are:

– to create a secondary market through normal market making activity for the Group's related issuance where the underlying loans or receivables are originated by the Group;

– to support the development of a third party securitisation debt capital market business that generates fees for the Group by normal market making activities; and

– to carry out normal market making activities in support of the Group's clients.

The trading desk does not undertake origination activities and does not structure transactions, nor does it re-structure or re-securitise securitisations for the purposes of holding them on the trading book.

As the Group's portfolio of trading book securitisation positions is relatively small in the context of both the overall trading book and the Group's banking book securitisation positions, the Group has elected to provide only limited disclosure around its trading book securitisation positions as permitted by CRR Article 432 and in accordance with related EBA guidelines.

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 and commercial loan portfolios. In each case credit risk is the primary risk driver attached to the underlying asset pool. Assets securitised are originated from the Group's UK operations.

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

SECA: Qualitative disclosure requirements related to securitisation exposures (continued)

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. 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.

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, 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.

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 2022 the Group had a small number of STS positions in its role as an Investor and Sponsor.

SECA: Qualitative disclosure requirements related to securitisation exposures (continued)

SSPEs which acquire exposures originated by LBG

SSPE	Asset Type
Salisbury Securities 2015 Ltd	SME CRE
Salisbury II Securities 2016 Ltd	SME
Salisbury II-A Securities 2017 Ltd	SME
Fontwell Securities 2016 Ltd	AMC
Wetherby II Securities 2018 DAC	Large Corp CRE
Salisbury III Securities 2019 DAC	SME
HART 2019 DAC	Social Housing
Wetherby III Securities 2019 DAC	Large Corp CRE
Fontwell II Securities 2020 DAC	AMC

The above can also be seen on table LI3.

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

Lloyds Bank plc: SALIS 2021-1 *(aka Salisbury IV)*	SME
Lloyds Bank plc: SALIS 2022-1 *(aka Salisbury V)*	SME

Sponsored by LBG

LBG sponsors through Cancara. Please see table LI3 for the full list.

Other legal entities for which LBG provide securitisation-related services

There are no SSPEs or legal entities in which we have a stake where LBG has provided securitisation-related services.

SSPEs included in LBG's regulatory scope of consolidation

Please see table LI3

Legal entities that LBG has provided support in accordance with Chapter 5 of Title II of Part Three CRR (Article 449(e) CRR)

LBG does not provide implicit support.

A list of legal entities affiliated with LBG and that invest in securitisations originated by the institutions (Article 449(f) CRR)

No affiliated entities

A summary of accounting policies for securitisation activity (Article 449(g) CRR)

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

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

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

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

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

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

All the external assets in Cancara are consolidated for accounting purposes in the Group's financial statements, following similar accounting policies to those established for originated securitisations. The total consolidated assets in the conduits are set out in Note 48 (Structured entities) of the 2022 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 2022 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 2022 Lloyds Banking Group plc Annual Report and Accounts.

The majority of the direct third party ABS and notes investments are accounted for as loans and receivables on the balance sheet and held at amortised cost, with the remainder held at fair value through other comprehensive income or at fair value through profit or loss. Further details on the Group's holding of ABS are presented on in Note 52(C) (Financial Risk Management: Credit Quality of Assets) of the 2022 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 2022 Lloyds Banking Group plc Annual Report and Accounts.

SECA: Qualitative disclosure requirements related to securitisation exposures (continued)

The names of the ECAIs used for securitisations and the types of exposure for which each agency is used (Article 449(h) CRR)

ECAI	Type of exposure
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 Agency	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

A description of the Internal Assessment Approach (Article 449(i) CRR)

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

SEC1: Securitisation exposures in the non-trading book

		31 Dec 2022														
		Institution acts as originator							Institution acts as sponsor				Institution acts as investor			
		Traditional				Synthetic		Sub-total	Traditional		Synthetic	Sub-total	Traditional		Synthetic	Sub-total
		STS		Non-STS			of which SRT		STS	Non-STS			STS	Non-STS		
			of which SRT		of which SRT											
		£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**	**3,898**	**—**	**4,991**	**4,713**	**11,208**	**—**	**15,921**
2	**Retail (total)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**885**	**3,102**	**—**	**3,987**	**4,552**	**8,137**	**—**	**12,689**
3	Residential mortgage	—	—	—	—	—	—	**—**	—	339	—	**339**	791	4,397	—	**5,188**
4	Credit card	—	—	—	—	—	—	**—**	—	—	—	**—**	—	645	—	**645**
5	Other retail exposures	—	—	—	—	—	—	**—**	885	2,763	—	**3,648**	3,761	3,095	—	**6,856**
7	**Wholesale (total)**	**—**	**—**	**—**	**—**	**11,617**	**11,617**	**11,617**	**208**	**796**	**—**	**1,004**	**161**	**3,071**	**—**	**3,232**
8	Loans to corporates	—	—	—	—	6,795	6,795	**6,795**	—	—	—	**—**	—	461	—	**461**
9	Commercial mortgage	—	—	—	—	1,929	1,929	**1,929**	—	—	—	**—**	—	1,021	—	**1,021**
10	Lease and receivables	—	—	—	—	—	—	**—**	208	687	—	**895**	—	1,143	—	**1,143**
11	Other wholesale	—	—	—	—	2,893	2,893	**2,893**	—	109	—	**109**	161	446	—	**607**
		31 Dec 2021														
1	**Total exposures**	**—**	**—**	**—**	**—**	**12,669**	**12,669**	**12,669**	**993**	**3,414**	**—**	**4,407**	**2,358**	**8,922**	**—**	**11,280**
2	**Retail (total)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**796**	**2,684**	**—**	**3,480**	**2,255**	**6,282**	**—**	**8,537**
3	Residential mortgage	—	—	—	—	—	—	**—**	—	306	—	**306**	—	2,678	—	**2,678**
4	Credit card	—	—	—	—	—	—	**—**	—	—	—	**—**	—	390	—	**390**
5	Other retail exposures	—	—	—	—	—	—	**—**	796	2,378	—	**3,174**	2,255	3,214	—	**5,469**
7	**Wholesale (total)**	**—**	**—**	**—**	**—**	**12,669**	**12,669**	**12,669**	**197**	**730**	**—**	**927**	**103**	**2,640**	**—**	**2,743**
8	Loans to corporates	—	—	—	—	7,652	7,652	**7,652**	—	—	—	**—**	—	494	—	**494**
9	Commercial mortgage	—	—	—	—	2,122	2,122	**2,122**	—	—	—	**—**	—	1,025	—	**1,025**
10	Lease and receivables	—	—	—	—	—	—	**—**	197	644	—	**841**	—	677	—	**677**
11	Other wholesale	—	—	—	—	2,895	2,895	**2,895**	—	86	—	**86**	103	444	—	**547**

Key movements

Originator - The decrease of £1.1bn in the year is mainly driven by SRT deals in run-off, partially offset by the issuance of a new SRT, Salisbury V, during the year.

Sponsor - The increase of £0.6bn in the year is primarily due to a net increase in liquidity facilities provided to the Cancara conduit.

Investor - The increase of £4.6bn in the year is primarily due to net new positions and net limit increases in Retail Residential mortgage and Other 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 2022																
		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**	**10,091**	**4,655**	**1,798**	**64**	**—**	**9,688**	**5,128**	**1,792**	**—**	**2,176**	**1,146**	**655**	**—**	**174**	**92**	**52**	**—**
2	**Traditional transactions**	**4,129**	**594**	**268**	**—**	**—**	**—**	**4,991**	**—**	**—**	**—**	**942**	**—**	**—**	**—**	**76**	**—**	**—**
3	Securitisation	4,129	594	268	—	—	—	4,991	—	—	—	942	—	—	—	76	—	—
4	Retail underlying	3,648	339	—	—	—	—	3,987	—	—	—	671	—	—	—	54	—	—
5	Of which STS	885	—	—	—	—	—	885	—	—	—	88	—	—	—	7	—	—
6	Wholesale	481	255	268	—	—	—	1,004	—	—	—	271	—	—	—	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	—
		31 Dec 2021																
1	**Total exposures**	**10,724**	**5,330**	**958**	**64**	**—**	**10,547**	**5,090**	**1,440**	**—**	**2,188**	**1,425**	**424**	**—**	**175**	**114**	**34**	**—**
2	**Traditional transactions**	**3,608**	**459**	**340**	**—**	**—**	**—**	**4,408**	**—**	**—**	**—**	**858**	**—**	**—**	**—**	**69**	**—**	**—**
3	Securitisation	3,608	459	340	—	—	—	4,408	—	—	—	858	—	—	—	69	—	—
4	Retail underlying	3,175	306	—	—	—	—	3,481	—	—	—	574	—	—	—	46	—	—
5	Of which STS	796	—	—	—	—	—	796	—	—	—	80	—	—	—	6	—	—
6	Wholesale	433	153	340	—	—	—	927	—	—	—	284	—	—	—	23	—	—
7	Of which STS	197	—	—	—	—	—	197	—	—	—	20	—	—	—	2	—	—
9	**Synthetic transactions**	**7,116**	**4,871**	**618**	**64**	**—**	**10,547**	**682**	**1,440**	**—**	**2,188**	**567**	**424**	**—**	**175**	**45**	**34**	**—**
10	Securitisation	7,116	4,871	618	64	—	10,547	682	1,440	—	2,188	567	424	—	175	45	34	—
12	Wholesale	7,116	4,871	618	64	—	10,547	682	1,440	—	2,188	567	424	—	175	45	34	—

Securitisation (continued)

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

	31 Dec 2022																
	Exposure values (by RW bands/deductions)					Exposure values (by regulatory				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	**15,319**	**406**	**55**	**141**	**—**	**—**	**2,275**	**13,645**	**—**	**—**	**512**	**1,909**	**—**	**—**	**41**	**153**	**—**
2 Traditional transactions	**15,319**	**406**	**55**	**141**	**—**	**—**	**2,275**	**13,645**	**—**	**—**	**512**	**1,909**	**—**	**—**	**41**	**153**	**—**
3 Securitisation	15,319	406	55	141	—	—	2,275	13,645	—	—	512	1,909	—	—	41	153	—
4 Retail underlying	12,282	406	—	—	—	—	2,077	10,610	—	—	280	1,450	—	—	22	116	—
5 Of which STS	4,551	—	—	—	—	—	1,172	3,380	—	—	117	349	—	—	9	28	—
6 Wholesale	3,037	—	55	141	—	—	198	3,035	—	—	232	459	—	—	19	37	—
7 Of which STS	161	—	—	—	—	—	1	160	—	—	—	16	—	—	—	1	—
9 Synthetic transactions	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
	31 Dec 2021																
1 Total exposures	**10,463**	**606**	**86**	**124**	**—**	**—**	**2,260**	**9,019**	**—**	**—**	**553**	**1,355**	**—**	**—**	**44**	**108**	**—**
2 Traditional transactions	**10,463**	**606**	**86**	**124**	**—**	**—**	**2,260**	**9,019**	**—**	**—**	**553**	**1,355**	**—**	**—**	**44**	**108**	**—**
3 Securitisation	10,463	606	86	124	—	—	2,260	9,019	—	—	553	1,355	—	—	44	108	—
4 Retail underlying	8,005	531	—	—	—	—	2,044	6,492	—	—	286	962	—	—	23	77	—
5 Of which STS	2,255	—	—	—	—	—	1,076	1,179	—	—	108	127	—	—	9	10	—
6 Wholesale	2,458	75	86	124	—	—	216	2,527	—	—	267	393	—	—	21	31	—
7 Of which STS	103	—	—	—	—	—	1	102	—	—	—	10	—	—	—	1	—
9 Synthetic transactions	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**

Key movements

– Growth driven by new positions and net limit increases in Retail exposures under the SEC-SA approach.

Securitisation (continued)

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

		31 Dec 2022			31 Dec 2021		
		Exposures securitised by the institution - Institution acts as originator or as sponsor			Exposures securitised by the institution - Institution acts as originator or as sponsor		
		Total outstanding nominal amount	Of which exposures in default	Total amount of specific credit risk adjustments made during the period	Total outstanding nominal amount	Of which exposures in default	Total amount of specific credit risk adjustments made during the period
		£m	£m	£m	£m	£m	£m
1	**Total exposures**	**13,114**	**31**	**—**	**14,092**	**67**	**(22)**
2	**Retail (total)**	—	—	—	**—**	**—**	**—**
7	**Wholesale (total)**	**13,114**	**31**	**—**	**14,092**	**67**	**(22)**
8	Loans to corporates	7,915	13	—	8,698	63	(22)
9	Commercial mortgage	2,201	18	—	2,394	4	—
11	Other wholesale	2,998	—	—	3,000	—	—

Market Risk

Market risk is defined as the risk that the Group's capital or earnings profile is affected by adverse market rates or prices, in particular interest rates, credit spreads and equity prices.Details of risk appetite, measurement, mitigation and monitoring can be found in the Risk Management section of the 2022 Lloyds Banking Group plc Annual Report and Accounts (Market Risk section, pages 186 to 190).

MR2-B: Risk-weighted assets flow statements of market risk exposures under an IMA

The table below summarises the movements of risk-weighted assets for market risk exposures under the Internal Models Approach (IMA).

		VaR	SVaR	IRC	Comprehensive risk measure	Other	Total RWA	Total own funds requirements
		£m	£m	£m	£m	£m	£m	£m
1	**RWAs at 31 Dec 2021**	**322**	**1,268**	**181**	**—**	**1,029**	**2,800**	**224**
1a	Regulatory adjustment	(218)	(1,022)	—	—	—	**(1,240)**	**(99)**
1b	**RWAs at end of day 31 Dec 2021[1]**	**104**	**246**	**181**	**—**	**1,029**	**1,560**	**125**
2	Movement in risk levels	62	(39)	65	—	(318)	**(230)**	(18)
3	Model updates/changes	—	—	—	—	64	**64**	5
8a	**RWAs at end of day 30 Sep 2022[1]**	**166**	**208**	**246**	**—**	**775**	**1,394**	**112**
8b	Regulatory adjustment	536	633	—	—	—	**1,169**	**93**
8	**RWAs at 30 Sep 2022**	**702**	**841**	**246**	**—**	**775**	**2,563**	**205**
1a	Regulatory adjustment	(536)	(633)	—	—	—	**(1,169)**	**(93)**
1b	**RWAs at end of day 30 Sep 2022[1]**	**166**	**208**	**246**	**—**	**775**	**1,394**	**112**
2	Movement in risk levels	(53)	(39)	(154)	—	427	**181**	15
3	Model updates/changes	—	—	—	—	(82)	**(82)**	(7)
8a	**RWAs at end of day 31 Dec 2022[1]**	**113**	**169**	**92**	**—**	**1,120**	**1,494**	**120**
8b	Regulatory adjustment	920	565	32	—	—	**1,517**	**121**
8	**RWAs at 31 Dec 2022**	**1,033**	**734**	**124**	**—**	**1,120**	**3,011**	**241**

[1] End of day represents spot position

Key movements to 31st December 2022

- The market risk for the trading book continues to be low with respect to the size of the Group.
- The decrease in SVaR RWAs is driven by reduced SVaR levels during 2022 compared to 2021, where high values were linked to IBOR cessation activities.
- The increase in average VaR RWAs was mainly driven by the increased market volatility in Q4 2022 which lead to heightened VaR levels.

Market Risk (continued)

MRA: Qualitative disclosure requirements related to market risk

Trading portfolios

Exposures

The Group's trading activity is small relative to its peers. The Group's trading activity is undertaken primarily to meet the financial requirements of commercial and retail customers for foreign exchange, credit and interest rate products. These activities support customer flow and market making activities.

All trading activities are performed within the Commercial Banking division. While the trading positions taken are generally small, any extreme moves in the main risk factors and other related risk factors could cause significant losses in the trading book depending on the positions at the time.

Trading market risk measures are applied to all of the Group's regulatory trading books and they include daily VaR , sensitivity-based measures, and stress testing calculations.

A number of processes are in place to identify all the risk factors that the LBG portfolio has exposure to and ensure that these are captured and treated as per the regulation.

The identification processes are also covering the existing risk factors and can result in the requirement to update their categorisation or treatment.

Banking activities

The Group's banking activities expose it to the risk of adverse movements in market rates or prices, predominantly interest rates, credit spreads, exchange rates and equity prices. The volatility of market rates or prices can be affected by both the transparency of prices and the amount of liquidity in the market for the relevant asset, liability or instrument.

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 that would result from an instantaneous 25, 100 and 200 basis points parallel rise or fall in the yield curve. Sterling interest rates are modelled with a floor below zero per cent, with negative rate floors also modelled for non-Sterling currencies where appropriate (product-specific floors apply). The market value sensitivities are calculated on a static balance sheet using principal cash flows excluding interest, commercial margins and other spread components and are therefore discounted at the risk-free rate.

Interest income sensitivity: this measures the impact on future net interest income arising from various economic scenarios. These include instantaneous 25, 100 and 200 basis point parallel shifts in all yield curves and the Group economic scenarios. Sterling interest rates are modelled with a floor below zero per cent, with negative rate floors also modelled for non-Sterling currencies where appropriate (product-specific floors apply). 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.

For further information on the key market risks by defined benefit pension schemes and Insurance portfolios refer to pages 189 and 190 of the 2022 Lloyds Banking Group Plc Annual Report and Accounts.

Structure and organisation

Market risk follows the Group's Risk Management Framework. For further information refer to 'The Group's Approach to Risk' section on pages 139 to 141 of the 2022 Lloyds Banking Group plc Annual Report and Accounts.

The Group Board's responsibilities include approving the Group's Board Risk Appetite; approving the Group's ERMF; monitoring the Group's aggregate risk exposure. The Group Board Risk Committee's (BRC) responsibilities include overseeing and challenging the development and implementation of the Group's overall risk management framework and its risk appetite.

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 market risk policy is owned by Group Corporate Treasury (GCT) and refreshed annually. The policy is underpinned by supplementary market risk procedures, which define specific market risk management and oversight requirements.

GALCO and GMRC regularly review high level market risk exposure as part of the wider risk management framework. They also make recommendations to the Board concerning overall market risk appetite and market risk policy. Exposures at lower levels of delegation are monitored at various intervals according to their volatility, from daily in the case of trading portfolios to monthly or quarterly in the case of less volatile portfolios. Levels of exposures compared to approved limits and triggers are monitored by Risk and appropriate escalation procedures are in place.

The Group has an integrated Asset and Liability Management (ALM) system which supports non-traded asset and liability management of the Group. The risk of loss measured by the VaR model is the minimum expected loss in earnings given the 95 per cent confidence.

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.

Market Risk (continued)

MRB: Qualitative disclosure requirements for institutions using the internal Market Risk Models

Trading Book Designation

Group Market Risk Committee reviews and approves a detailed framework for assessing the classification of books between Trading and Banking on an annual basis. The framework takes into account current Regulatory Rules but also considers future or imminent changes in Regulatory rules. The objective of this framework is to articulate the process for the assessment of the classification of books between Banking Book and Trading Book. The book designation is reviewed and approved at the following points:

- At inception of the business activity
- Where there is a significant change in the activity undertaken
- Where there is a designation change between banking book and trading book.

The framework is designed to be applied against information provided by the desks including policies, procedures, frameworks, or strategy documents. A decision tree is used to help guide the book owner to determine the classification however it is not a replacement for the regulation themselves. The proposal must be documented and presented at GMRC for approval. To ensure they remain appropriate, the procedures for management of the trading book are reviewed and taken to GALCO for approval on an annual basis.

Prudent Valuation

Trading securities, other financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income and derivatives are stated at fair value. Fair value is the price that would be received on sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is a measure as at a specific date and may be significantly different from the amount which will actually be paid or received on maturity or settlement date.

Wherever possible, fair values have been calculated using unadjusted quoted market prices in active markets for identical instruments to those held by the Group. Where quoted market prices are not available, or are unreliable because of poor liquidity, fair values have been determined using valuation techniques which, to the extent possible, use market observable inputs, but in some cases use non-market observable inputs. Valuation techniques used include discounted cash flow analysis and pricing models and, where appropriate, comparison to instruments with characteristics similar to those of the instruments held by the Group. The Group measures valuation adjustments for its derivative exposures on the same basis as the derivatives are managed.

The key elements of the control framework for the valuation of financial instruments include model validation, product implementation review and independent price verification. These functions are carried out by appropriately skilled risk and finance teams, independent of the business area responsible for the products.

Model validation covers both qualitative and quantitative elements relating to new models. In respect of new products, a product implementation review is conducted pre and post-trading. Pre-trade testing ensures that the new model is integrated into the Group's systems and that the profit and loss and risk reporting are consistent throughout the trade lifecycle. Post-trade testing examines the explanatory power of the implemented model, actively monitoring model parameters and comparing in-house pricing to external sources. Independent price verification procedures cover financial instruments carried at fair value. The frequency of the review is matched to the availability of independent data, monthly being the minimum. Valuation differences in breach of established thresholds are escalated to senior management. The results from independent pricing and valuation reserves are reviewed monthly by senior management.

Formal committees, consisting of senior risk, finance and business management, meet at least quarterly to discuss and approve valuations in more judgemental areas, in particular for unquoted equities, structured credit, over-the-counter options and the credit valuation adjustment (CVA), funding valuation adjustment (FVA) and other valuation adjustments.

Full details on the use of valuation models and related adjustments are provided in Note 49 (Financial Instruments) of the 2022 Lloyds Banking Group Plc Annual Report and Accounts.

Internal Model Review

The Group's internal market risk model permissions allow it to calculate Pillar 1 market risk capital requirements for the trading book using internal models. The Lloyds Banking Group model permissions cover general interest rate, specific interest rate risk and foreign exchange risk across Lloyds Bank Group (the RFB sub-group), Lloyds Bank Plc, BoS Plc and Lloyds Bank Corporate Markets Plc (LBCM) portfolios. The capital charge is based on the 10-day 99 per cent VaR and Stressed VaR calculated by the models. The Stressed VaR is the measure of VaR using a continuous one-year window based on a period of market stress. In addition, the model permission covers specific Interest Rate Risk (IRR) and the capital charge incorporates specific IRR through VaR and Stressed VaR. The VaR model allows diversification across the different risk factors. The internal model Pillar 1 market risk capital requirements also include an Incremental Risk Charge (IRC) for the trading book.

The Group uses a historical simulation methodology to calculate VaR for the trading book. This methodology consists of calculating historical daily price movements for a full range of market risk factors, either proportional or absolute shifts depending on the risk factor. The historical daily price movements are applied to positions to create a distribution of hypothetical daily profit and loss scenarios. The hypothetical daily changes in portfolio value are ranked, and the 95th and 99th percentile worst losses are identified. The same VaR model is applied for both management purposes and regulatory purposes. A 1-day 95th percentile VaR is used for internal management purposes, and a 10-day 99th percentile VaR and Stressed VaR is applied for regulatory capital calculation purposes. The 10-day VaR uses a rolling 10-day history and this is updated daily. The VaR and Stressed VaR are also integrated into the risk management process for efficient capital management and to highlight potentially significant exposures based on previous market volatility.

Any material risk factors that fall within the scope of the trading books using internal models and are insufficiently captured by the VaR model are identified and measured as a Risk Not in VaR (RNIV). Identification of risks is performed at least quarterly and through the new product review process to ensure any material risks outside of the VaR model are captured as RNIV's. Where risk factors are incorporated into the RNIV framework they are quantified either through a VaR-based RNIV approach or a stress test approach. RNIVs can arise for a number of reasons such as where there is limited historical market data, event risks not captured in the current historical data or limited variability in the market data or risks not captured elsewhere such as cross risks, basis risks and higher-order risks.

Validation of the risk models uses a number of methods including but not limited to stress tests, sensitivity analyses and scenarios analyses. The risk models, including the RNIVs, are reviewed independently of the development team and model adequacy and conservatism is re-assessed should the portfolio change over time. Model performance, including back-testing analysis, is regularly reviewed by the Model Governance Committee.

Market Risk (continued)

MRB: Qualitative disclosure requirements for institutions using the internal Market Risk Models (continued)

Component modelled	Significant models and associated capital requirement	Model description and methodology	Number of days of market data	Applicable regulatory thresholds for the industry
VaR	1Model: (£83m) 34% of total IMA capital requirements	Historical simulation to create a distribution of daily P&Ls from market moves. P&Ls are Calculated using partial revaluation. Diversified VaR is calculated based on aggregated total PnLs from IL, FX, General and Specific Interest Rate Risks	300 daily P&Ls, no weighting.	Regulatory VaR is computed with 10 day holding period and 99% confidence level. The 10-day VaR is based on rolling 10-day periods.
SVaR	1Model: (£59m) 24% of total IMA capital requirements	Same as VaR model. Historical simulation to create a distribution of daily P&Ls from market moves. P&Ls are calculated using partial revaluation.	250 day period of significant stress. No weighting. SVaR calibration is updated at least quarterly.	Same as VaR model. Regulatory VaR is computed with 10 day holding period and 99% confidence level. The 10-day VaR is based on rolling 10-day periods.

Stressed VaR uses historical market data from a continuous one-year period of significant financial stress which is relevant to the trading book positions. The one-year dataset is taken from any period since the beginning of 2007 (excluding the VaR period) and therefore potentially includes the market movements experienced during the financial crisis. Stressed VaR is calibrated at least quarterly to the period of stress which generates the highest Stressed VaR with the current exposures in the Group's trading books.

Stress Testing

The Group has a comprehensive trading book stress testing programme. Economic scenarios representing extreme but plausible stressed market events are applied to the trading book. These scenarios stress numerous risk factors including interest rates, interest rate spreads, interest rate volatilities, inflation swap rates, inflation volatilities, FX rates, FX volatilities and credit spreads.

There are two sets of stress-testing applied to the trading book: macro-economic and asset class specific. The macro-economic scenarios apply a set of historical events such as the Lehman's default, possible economic events such as what might happen if the Euro breaks up and also regulator provided scenarios such as the PRA stress tests. The macro-economic scenarios are intended to be severe but holistic and plausible. The asset class specific scenarios, also known as desk specific, are intended to apply extreme events to individual risk factors with stresses being applied in groups and to identify points of weakness at both asset class and trading book level.

The market risk function produces stress testing daily and these are reviewed by CB Markets businesses weekly to facilitate the management of the market risk within their businesses. Limits and triggers apply to stress testing as part of the market risk limit framework. If any of the daily reports show stress testing concerns these are raised with the business immediately.

The stress testing programme is reviewed monthly and new stress tests are introduced when deemed necessary.

Back-testing of the VaR models

The Group compares both hypothetical and actual profit or loss with the VaR calculated at a 1-day 99 per cent confidence level daily for regulatory back-testing.

The purpose of this analysis is to provide an indication of how well the VaR model's output, has described the corresponding trading outcome. Analysis is performed at the aggregate trading book level, and the business unit level. Hypothetical profit or loss is the change in the valuation of the portfolio due to market moves that would have resulted assuming that the portfolio remains unchanged. Actual profit or loss is hypothetical profit or loss with the additional profit or loss from the change in the portfolio's value due to time and any profit or loss arising from intraday activity. Fees and commissions do not feed into either profit and loss measure.

A back-testing overshoot is generated when loss is greater than the 1-day 99 per cent VaR for a given day. Please see commentary below Table Back-testing results (VaR models) for information on back-testing performance.

Each individual entity is also required to have sufficient capital to meet their solo capital requirements. Hence VaR model performance monitoring needs to be performed separately across the RFB sub-group, Lloyds Bank Plc, BoS Plc and LBCM portfolios. The Group manages its market risk separately across the RFB sub-group and LBCM and this is reflected in the Internal Model Approach Market Risk Permissions. Hence back-testing is also done at a consolidated basis for the RFB sub-group and separately for Lloyds Bank Plc, BoS Plc and LBCM to monitor VaR model performance at an Internal Model Approach Market Risk Permission level. Below the entity level there is back-testing performed at business area level.

Back-testing results (VaR model)

2022 back-testing result		Number of reported overshoots	
	Multiplier	Hypothetic	Actual
Entity Level			
Lloyds Bank	4.00	6	5
BoS	4.50	11	9
RFB sub-group	4.00	6	6
LBCM	3.90	5	5

Statistically the Group would expect to see losses in excess of VaR two to three times over a one-year period. Details of loss overshoots within the Group for the RFB sub-group and LBCM are provided in the back-testing charts comparing VaR to hypothetical and actual profit and loss (MR4: Comparison of VaR estimates with gains/losses).

All significant profit and loss events are investigated as part of normal business. In addition, all back-testing overshoots are reported to senior management, internal auditors and the PRA.

During 2022 several regulatory back-testing overshoots were observed across LBCM and RFB entities, which were mainly driven by the increased market volatility observed in Q4 2021. In addition, LBG works on enhancements to their internal market risk model. A regulatory add-on of 0.5 remains in place until full closure of model related remedial actions.

Market Risk (continued)

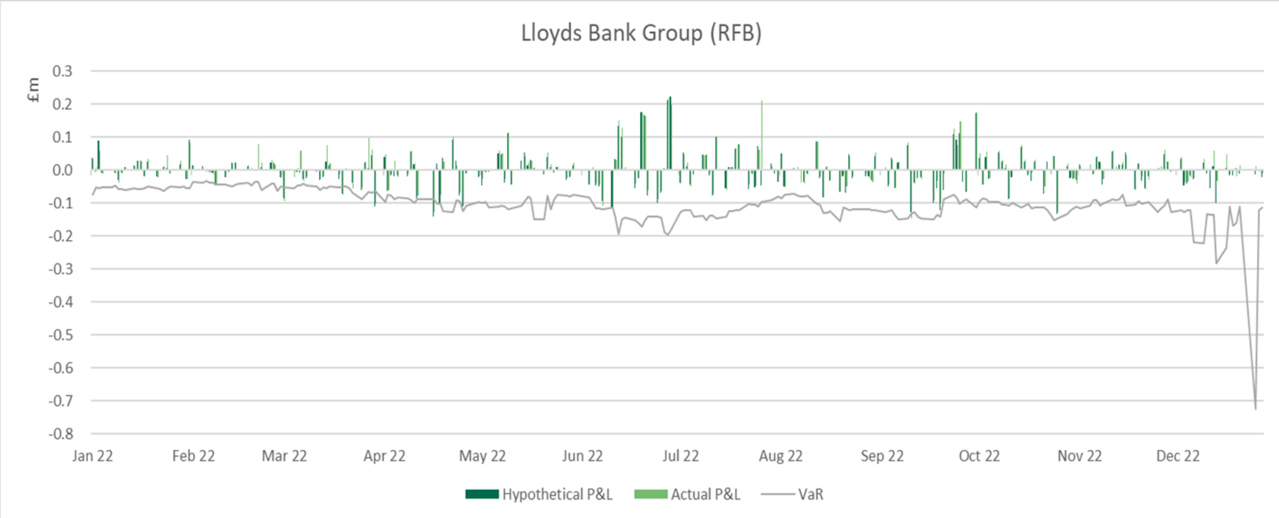
The following charts provide comparisons of VaR (1-day 99 percent confidence level) to the hypothetical and actual profit and loss daily over the twelve months to Dec 2022 for Lloyds Bank Group (RFB) and Lloyds Bank Corporate Markets (LBCM).

Note that the profit and loss used in back-testing represents gains and losses based on the change in valuation of the portfolio due to market moves and is not reflective of the total profit and loss from the business.

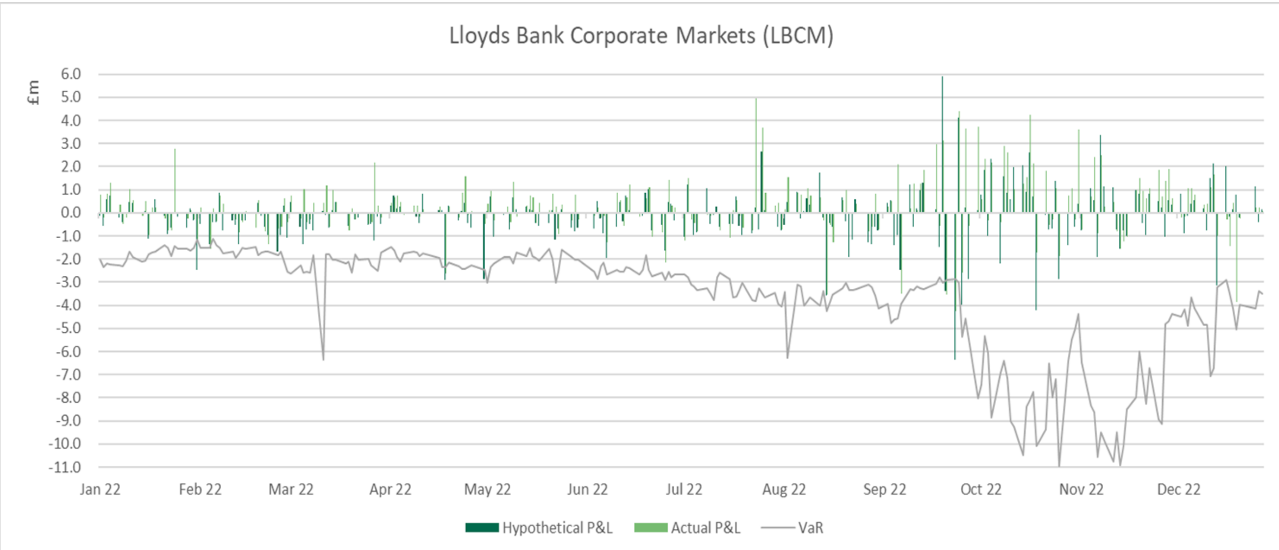
There were reported overshoots for the twelve months to Dec 2022 for all LBG entities.

MR4: Comparison of VaR estimates with gains/losses

LLOYDS BANK GROUP (RFB)



LLOYDS BANK CORPORATE MARKETS (LBCM)



MRB: Qualitative disclosure requirements for institutions using the internal Market Risk Models (continued)

Incremental default and migration risk (IRC)

Component modelled	Significant models and associated capital requirement	Model description and methodology	Number of days of market data	Applicable regulatory thresholds for the industry
IRC	1Model: (£10m) 4% of total IMA capital requirements	Monte Carlo approach is used to simulate the profit and loss changes arising from rating migration and default.	Credit Ratings data (1983 – current), CDS long term average data (2006 – current), CDS bond basis data (2006 – current), LGD data (1990 – current).	IRC is computed with a 1 year holding period and 99.9% confidence level.

Market Risk (continued)

MRB: Qualitative disclosure requirements for institutions using the internal Market Risk Models (continued)

The IRC measures the risks arising from both default and rating migrations in the trading book of each solo entity. In practice, the entirety of the IRC is attracted by the LBCM sub-portfolio.

The IRC simulates the impact of ratings transitions by estimating the improvement or deterioration in credit spreads resulting from these transitions. The ratings transition matrices are calibrated separately for corporate and sovereign issuers, based on historical transitions collated over many decades. A Monte Carlo approach is used to simulate the profit and loss changes arising from migration and default for each portfolio position in turn. The profit and loss changes from each position contribute to the overall loss distribution. The asset returns for obligors are computed using a multi-factor Gaussian copula model framework. Correlations between obligors are based on an existing LBG factor model, which consists of industry sectors and geographical regions. The model also allows for idiosyncratic behaviour at obligor level.

Both economic downturn and upturn scenarios are captured for every calculation, by using alternative recovery rate parameters. A sensitivity test using alternative asset return distributions is completed on a quarterly basis. The annual validation of the IRC model includes further stress and scenario testing – including studying the effect of issuer concentrations, alternative sector/ region factor correlations, and alternative sector/region factor loadings. The annual validation also includes benchmarking against an independent implementation of the model.

The group ensures that the IRC model is consistent with the EBA guidelines for computing capital for incremental risk in the trading book, and the soundness standards comparable to that of the internal-ratings based (IRB) approach for credit risk. The Lloyds IRC model employs a confidence interval of 99.9% and a one-year risk horizon, using a constant position assumption. The annual validation of the IRC model ensures that the soundness standard comparable to IRB is maintained.

Market Risk (continued)

MR3: IMA values for trading portfolios

The table below provides relevant statistics for the Group's 10-day 99 per cent confidence level VaR that are based on 300 historical consecutive business days to year end 2022 and year end 2021. Also included are statistics for the Incremental Risk Change for 2022 and 2021.

The risk of loss measured by the VaR model is the minimum expected loss in earnings given a 99 per cent confidence. The total and average trading VaR numbers reported below have been obtained after the application of the diversification benefits across the different risk types: interest rate, foreign exchange, credit spread and inflation risk, but does not reflect any diversification between Lloyds Bank Corporate Markets and any other entities.

		Lloyds Bank Group Plc		Lloyds Bank Corporate Markets Plc	
		31 Dec 2022 £m	31 Dec 2021 £m	31 Dec 2022 £m	31 Dec 2021 £m
VaR (10 day 99%)					
1	Maximum value	0.9	1.4	35.1	27.8
2	Average value	0.3	0.5	12.3	8.0
3	Minimum value	0.1	0.1	4.3	2.1
4	Period end	0.2	0.2	8.9	7.2
SVaR (10 day 99%)					
5	Maximum value	1.2	4.7	38.3	139.8
6	Average value	0.7	2.8	14.4	38.9
7	Minimum value	0.4	1.6	8.6	11.7
8	Period end	0.9	1.9	12.6	11.7
IRC (99.9%)					
9	Maximum value	—	—	19.7	20.5
10	Average value	—	—	8.2	11.4
11	Minimum value	—	—	4.0	5.0
12	Period end	—	—	7.3	14.5
Comprehensive risk measure (99.9%)					
13	Maximum value	—	—	—	—
14	Average value	—	—	—	—
15	Minimum value	—	—	—	—
16	Period end	—	—	—	—

Key movements

- The market risk for the trading book continues to be low with respect to the size of the Group.
- The decrease in maximum and average value SVaR for LBCM (10 day 99%) was as a result of a decrease in SVaR post IBOR cessation activities in 2021 linked to increased SVaR values during 2021.
- The increase in average VaR for LBCM was mainly driven by the increased market volatility in Q4 2022 which lead to heightened VaR levels.

MR1: Market risk under standardised approach

		31 Dec 2022 RWAs £m	31 Dec 2021 RWAs £m
	Outright products		
1	Interest rate risk (general and specific)	165	211
3	Foreign exchange risk[1]	—	117
4	Commodity risk	23	10
	Options		
6	Delta-plus approach	13	13
8	Securitisation (specific risk)	3	2
9	**Total**	**204**	**353**

1 From 1 January 2022. as permitted by the CRR, the Group has elected to set this to zero, with exposure below the 2% De Minimis threshold of own funds.

Market Risk (continued)

MR2-A: Market risk under internal models approach

		Lloyds Bank Group Plc				Lloyds Bank Corporate Markets Plc			
		31 Dec-22		31 Dec-21		31 Dec-22		31 Dec-21	
		RWAs	Own funds requirements	RWAs	Own funds requirements	RWAs	Own funds requirements	RWAs	Own funds requirements
		£m	£m	£m	£m	£m	£m	£m	£m
1	**VaR (higher of values a and b)**	15	1	10	1	1,018	81	312	25
(a)	Previous day's VaR (VaRt-1)		—		—		9		8
(b)	Multiplication factor (mc) x average of previous 60 working days (VaRavg)		1		1		81		25
2	**SVaR (higher of values a and b)**	29	3	98	8	705	56	1,171	94
(a)	Latest available SVaR (SVaRt-1))		1		2		13		12
(b)	Multiplication factor (ms) x average of previous 60 working days (sVaRavg)		3		8		56		94
3	**IRC (higher of values a and b)**	—	—			124	10	181	14
(a)	Most recent IRC measure		—				7		14
(b)	12 weeks average IRC measure		—				10		10
4	**Comprehensive risk measure (higher of values a, b and c)**	—	—			—	—		
(a)	Most recent risk measure of comprehensive risk measure		—				—		
(b)	12 weeks average of comprehensive risk measure		—				—		
(c)	Comprehensive risk measure Floor		—				—		
5	**Other**	38	3	19	1	1,082	87	1,010	81
6	**Total**	82	7	126	10	2,929	234	2,674	214

Key movements

- The increase in VaR for LBCM was mainly driven by the increased market volatility in Q4 2022 which lead to heightened VaR levels.
- Decrease in SVaR RWAs over the year, post IBOR cessation activities in 2021 which drove higher SVaR levels in 2021.

Operational Risk

ORA: Qualitative information on operational risk

Definition

Operational risk is defined as the risk of loss resulting 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 are:

- 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

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 Group policies. The operational risk 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 191 of the 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 One Risk and Control Self-Assessment, in 2022 the highest frequency of events occurred in external fraud (83 per cent) and execution, delivery and process management (11 per cent). Clients, products and business practices accounted for 16 per cent of losses by value, driven by legacy issues where impacts materialised in 2022 (excluding PPI).

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 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 oversight. The Group employs a range of risk management strategies, including: avoidance, mitigation, transfer (including insurance) and acceptance within appetite / tolerance. Where there is a reliance on third-party suppliers to provide services, 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 principles and 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 the internal and external fraud risks it faces, reflecting the current and emerging fraud risks within the market. Fraud risk appetite metrics holistically cover the impacts of fraud in terms of losses to the Group, costs of fraud systems and operations, and customer experience of actual and attempted fraud. Oversight of the appropriateness and performance of these metrics is undertaken regularly through business area and Group-level committees. This approach drives a continual programme of prioritised enhancements to the Group's technology, process and people-related controls; with an emphasis on preventative controls supported by real time detective controls wherever feasible. Group-wide policies and operational control frameworks are maintained and designed to provide customer confidence, protect the Group's commercial interests and reputation, comply with legal requirements and meet regulatory requirements. The Group's fraud awareness programme remains a key component of its fraud control environment, and awareness of fraud risk is supported by mandatory training for all colleagues. This is further strengthened by material annual investment into both technology and the personal development needs of colleagues. The Group also plays an active role with other financial institutions, industry bodies and law enforcement agencies in identifying and combatting fraud
- The Group adopts a risk-based approach to mitigate cyber risks 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 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 management of rigorous succession planning
- 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 effective remuneration arrangements 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 related to SM&CR, 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 material events are identified, captured and escalated. 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 and improve efficiency.

The insurance programme is 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 2022.

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 2022				
		Relevant indicator			Own funds requirements	Risk weighted exposure amount
		2020	2021	2022		
	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	14,022	15,021	16,559	1,939	24,241
3	Subject to TSA:	14,022	15,021	16,559		
4	Subject to ASA:	—	—	—		
5	Banking activities subject to advanced measurement approaches AMA	—	—	—	—	—

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 the Risk Division. Overseas branches and subsidiaries of the Group may also be required to meet the liquidity requirements of the entity's domestic country. Management of liquidity requirements is performed by the overseas branch or subsidiary in line with Group policy. Liquidity risk of the Insurance business is actively managed and monitored within the Insurance business. The Group plans funding requirements over its planning period, combining business as usual and stressed conditions.

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 has consistently observed that in aggregate the retail deposit base provides a stable source of funding. 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 Board's responsibilities include approving the Group's Board Risk Appetite; approving the Group's Enterprise Risk Management Framework (ERMF); and monitoring the Group's aggregate risk exposure. The Group's ERMF is designed to ensure a robust and consistent approach for managing risk across the Group. 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.

The Group Board Risk Committee's (BRC) responsibilities include overseeing and challenging the development and implementation of the Group's overall risk management framework and its risk appetite.

Group Asset and Liability Committee (GALCO) is responsible for ensuring adherence to the Board Risk Appetite statement and determining the appropriate allocation of liquidity resources.

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

Group Corporate Treasury (GCT) is responsible for the Group's and the Ring-fenced Bank Sub-group's (RFB-SG) liquidity risk management. Lloyds Bank Corporate Markets ("BCM") Treasury team with support from GCT through a shared service model are responsible for the liquidity management of the Group's non-ring fenced bank entity.

Scope and nature of liquidity risk reporting and measurement systems.

The Group monitors a range of market and internal early warning indicators on a daily basis for early signs of liquidity risk in the market or specific to the Group. This captures regulatory metrics as well as metrics the Group considers relevant for its liquidity profile.

The Group has its own in-house Liquidity Reporting System which processes data for Liquidity Reporting, management and monitoring of regulatory metrics as well as internal metrics.

A number of Liquidity metrics including LCR that are reported to Group, RFB and LBCM BRC's and ALCOs are in the scope, and subject to the governance, of BCBS-239. The Group continues to ensure BCBS-239 is fully adhered to.

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.

Liquidity is managed on a liquidity group basis, with the RFB-SG and LBCM holding diversified, high quality liquid assets on behalf of the Group. In addition, the Group's Holding Company (Holdco) also hold a liquid asset portfolio which consists of a combination of cash and highly liquid securities. The Group has procedures in place to ensure assets held are liquid in nature and able to be monetised in a stress.

An outline of the bank`s contingency funding plans

The Group maintains a Contingency Liquidity 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 more serious crisis developing. The 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's liquidity risk management framework as defined by the ERMF ensures that the Group's Funding and Liquidity Principle is met and is adequate for managing a prudent funding and liquidity profile in line with the business strategy.

A concise liquidity risk statement approved by the management body

The Group's liquidity risk management framework aims to ensure that at all times the Group maintains liquidity resources within the entities 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.

Internal liquidity stress testing results at 31 December 2022 (calculated as an average of month end observations over the previous 12 months) showed that the Banking business had liquidity resources representing 147 per cent of modelled outflows over a three month period from all wholesale funding sources, retail and corporate deposits, intraday requirements and rating-dependent contracts under the Group's most severe liquidity stress scenario.

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.

Liquidity (continued)

LIQ1: Liquidity Coverage Ratio

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.

		Total unweighted value (average)				Total weighted value (average)			
		31 Dec 2022	30 Sep 2022	30 Jun 2022	31 Mar 2022	31 Dec 2022	30 Sep 2022	30 Jun 2022	31 Mar 2022
	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)					144,682	148,545	145,894	144,247
CASH - OUTFLOWS (£m)									
2	Retail deposits and deposits from small business customers, of which:	350,186	349,156	346,821	343,328	24,004	23,934	23,735	23,433
3	Stable deposits	262,815	262,305	261,291	259,849	13,141	13,115	13,065	12,992
4	Less stable deposits	87,371	86,851	85,530	83,479	10,863	10,819	10,670	10,441
5	Unsecured wholesale funding	105,347	106,022	105,554	104,700	51,218	51,540	51,176	50,821
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	36,854	37,013	36,307	35,013	9,214	9,253	9,077	8,753
7	Non-operational deposits (all counterparties)	62,764	63,577	64,514	65,657	36,275	36,854	37,366	38,037
8	Unsecured debt	5,729	5,432	4,733	4,031	5,729	5,433	4,733	4,031
9	Secured wholesale funding					54	40	63	99
10	Additional requirements	71,764	70,867	72,383	73,703	33,381	33,096	34,572	35,734
11	Outflows related to derivative exposures and other collateral	21,838	21,795	23,544	24,589	21,837	21,793	23,538	24,584
12	Outflows related to loss of funding on debt products	1,076	1,049	954	936	1,076	1,049	954	936
13	Credit and liquidity facilities	48,850	48,023	47,885	48,178	10,468	10,254	10,080	10,214
14	Other contractual funding obligations	1,197	1,171	995	811	828	806	632	448
15	Other contingent funding obligations	96,934	96,016	94,843	94,369	5,072	5,123	5,120	5,100
16	TOTAL CASH OUTFLOWS					114,557	114,539	115,298	115,635
CASH - INFLOWS (£m)									
17	Secured lending (e.g. reverse repos)	35,215	33,610	31,896	31,614	422	411	353	342
18	Inflows from fully performing exposures	5,514	5,243	4,917	4,752	3,708	3,539	3,301	3,198
19	Other cash inflows	10,573	9,268	9,142	8,147	10,145	8,846	8,733	7,748
20	TOTAL CASH INFLOWS	51,302	48,121	45,955	44,513	14,275	12,796	12,387	11,288
UK-20c	Inflows subject to 75% cap	47,561	43,847	41,534	40,083	14,275	12,796	12,387	11,288
TOTAL ADJUSTED VALUE									
UK-21	LIQUIDITY BUFFER (£m)					144,682	148,545	145,894	144,247
22	TOTAL NET CASH OUTFLOWS (£m)					100,282	101,743	102,911	104,347
23	LIQUIDITY COVERAGE RATIO (%)					144 %	146 %	142 %	138 %

Liquidity (continued)

LIQB: Qualitative information on LCR

The Group's LCR (calculated as the simple average of month end observations over the 12 months preceding the end of each quarter) was 144% as of 31 December 2022. The 2% decrease from 146% for the prior quarter is due to a decrease in liquid assets, primarily from an increase in lending and a decrease in commercial customer deposits. Net cash outflows also decreased, primarily from outflows related to derivative exposures from market volatility at the onset of COVID no longer being included in the LCR's Historical Look-Back approach (HLBA).

Group derivative exposures and other collateral requirements outflows primarily include outflows due to a deterioration in credit rating and outflows from the impact of an adverse market scenario on derivatives transactions. Also included are outflows on derivative contracts that have offsetting inflows recorded in 'other cash inflows'.

For the 2022 calendar year, the increase in the LCR is explained primarily by an increase in liquid assets from the Bank of England TFSME drawdowns during 2021.

Liquidity (continued)

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. 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: IIRRBB 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 margin compression in low rate environments, its exposure to pipeline and prepayment risk are not considered material and are hedged 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 quarterly 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, this is largely driven by margin compression. 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 1.8 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 9.0 years.

		ΔEVE		ΔNII		Tier 1 capital	
		31 Dec 2022	30 Jun 2022	31 Dec 2022	30 Jun 2022	31 Dec 2022	30 Jun 2022
		£m	£m	£m	£m	£m	£m
010	Parallel shock up	(2,653)	(3,986)	1,387	1,474		
020	Parallel shock down	824	1,591	(2,717)	(2,053)		
030	Steepener shock	281	124				
040	Flattener shock	(878)	(789)				
050	Short rates shock up	(1,620)	(1,997)				
060	Short rates shock down	773	974				
070	**Maximum**	**(2,653)**	(3,986)	**(2,717)**	(2,053)		
080	**Tier 1 capital**					**36,036**	35,101

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 2021 to 31 Dec 2022.

		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	103,085	23,622			626,771	96,579		
030	Equity instruments	—	—	—	—	2,204	—	2,204	—
040	Debt securities[1]	14,524	14,273	14,524	14,273	22,706	16,157	22,706	16,157
050	of which: covered bonds	11	11	11	11	2,633	2,616	2,633	2,616
060	of which: securitisations	—	—	—	—	3,838	1,435	3,838	1,435
070	of which: issued by general governments	11,847	11,700	11,847	11,700	1,545	1,545	1,545	1,545
080	of which: issued by financial corporations	2,526	2,430	2,526	2,430	18,993	12,160	18,993	12,160
090	of which: issued by non-financial corporations	1	1	1	1	1,899	494	1,899	494
120	**Other assets**	**89,287**	**9,977**			**600,631**	**81,138**		

		31 Dec 2021							
		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	77,788	21,552			624,069	92,121		
030	Equity instruments	—	—	—	—	2,064	—	2,064	—
040	Debt securities[1]	13,085	12,186	13,085	12,186	26,760	21,270	26,760	21,270
050	of which: covered bonds	6	6	6	6	2,112	2,102	2,112	2,102
060	of which: securitisations	1,225	—	1,225	—	182	—	182	—
070	of which: issued by general governments	11,275	11,126	11,275	11,126	8,180	8,180	8,180	8,180
080	of which: issued by financial corporations	1,927	628	1,927	628	16,463	12,299	16,463	12,299
090	of which: issued by non-financial corporations	14	14	14	14	2,096	790	2,096	790
120	**Other assets**	**65,102**	**9,194**			**596,551**	**69,277**		

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 2022				31 Dec 2021			
		Fair value of encumbered collateral received or own debt securities issued		Unencumbered		Fair value of encumbered collateral received or own debt securities issued		Unencumbered	
				Fair value of collateral received or own debt securities issued available for encumbrance				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	61,173	61,000	46,928	46,228	51,725	51,666	56,138	55,137
160	Debt securities[1]	61,173	61,000	46,928	46,228	51,725	51,666	56,138	55,137
170	of which: covered bonds	124	124	1,244	1,191	66	66	570	570
180	of which: securitisations	178	178	685	685	—	—	510	510
190	of which: issued by general governments	59,254	59,254	42,788	42,570	51,560	51,552	53,260	52,744
200	of which: issued by financial corporations	1,317	1,312	3,461	3,027	346	295	2,120	1,889
210	of which: issued by non-financial corporations	498	454	2,190	2,145	2	1	159	138
241	Own covered bonds and asset-backed securities issued and not yet pledged			5,110	—			6,511	—
250	**Total assets, collateral received and own debt securities issued**	**164,258**	**85,767**			**129,748**	**73,628**		

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 2022		31 Dec 2021	
		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]**	**112,584**	**146,361**	86,842	109,908

1.Consists of derivatives, deposits and debt securities issued.

Asset Encumbrance (continued)

UK AE4: Accompanying narrative information

The reported values represent the median of the values reported to the regulator via quarterly supervisory returns over the period 31 Dec 2021 to 31 Dec 2022.

The encumbrance ratio calculated on a median basis has increased in 2022, predominately due to the participation in the Bank of England Term Funding Scheme with additional incentive for SMEs ('TFSME') in Q4 2021.

There are no differences between the regulatory consolidation scope used for the purposes of the disclosures on asset encumbrance and that used for liquidity requirements.

There are no transactions which are deemed to lead to a pledge or transfer of assets but which are not considered as encumbered.

The Board and Group Asset and Liability Committee monitor and manage total balance sheet encumbrance via a number of risk appetite metrics. The Group primarily encumbers mortgages and credit card receivables through the issuance programmes (covered bonds and securitisation), participation in TFSME and tradable securities through securities financing activity (repo and stock lending). The vast majority of assets encumbered are in the UK banking entities with no significant intragroup encumbrance. In some transactions (i.e. 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. For securities accepted as collateral, mandates are asset class and credit rating driven with appropriate notional limits per rating, asset and individual bond concentration. The vast majority of collateral the Group uses in repo/reverse repo and stock lending/stock borrowing transactions is investment grade government issued, primarily UK Government debt.

The Group separately identifies unencumbered assets which are available to meet any future possible funding requirements, further details are included on pages 179 and 184 of the 2022 Lloyds Banking Group plc Annual Report and Accounts.

As of 31 December 2022, the Group has retained approximately £28bn of covered bonds, RMBS and ABS of which approximately £17bn is encumbered.

Row 120 of Template UK AE1 includes loans and advances, where mortgages and credit card receivables may be primarily encumbered through the issuance programmes (securitisation and covered bonds) and TFSME. 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.

Remuneration (REMA)

This section discloses the remuneration awards made by the Group to Material Risk Takers (MRTs) in respect of the 2022 performance year and provides additional information with respect to the Group's remuneration, policies, structure and governance. These disclosures comply with the Disclosure Part of the Prudential Regulation Authority (PRA) Rulebook and reflect the requirements of Article 450 of the onshored and amended version Capital Requirements Regulation (EU) No. 575/2013 (CRR).

The remuneration principles and practices detailed in the Directors' Remuneration Report (DRR) in the 2022 Lloyds Banking Group Annual Reports and Accounts on pages 105 to 133 apply to MRTs and non-MRTs in the same way as to Executive Directors (other than where stated in this disclosure).

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

DECISION MAKING PROCESS FOR REMUNERATION POLICY

The Group has a strong belief in aligning the remuneration delivered to the Group's executives with the successful performance of the business and, through this, the delivery of long-term, superior and sustainable returns to shareholders. Over the course of 2022, the Remuneration Committee performed a thorough review of the Directors' Remuneration Policy (DRP) to inform changes for 2023, in order to incentivise and retain talent while being mindful of the economic outlook. Input was sought from a range of key stakeholders, including institutional shareholders.

The overarching purpose of the Remuneration Committee is to oversee the design of, and recommend to the Board an overall remuneration policy and philosophy for the Group that is defined by, supports and is closely aligned to its long-term business strategy, business objectives, risk appetite and values and recognises the interests of relevant stakeholders. The remuneration policy governs all aspects of remuneration and applies in its entirety firm-wide to all entities and subsidiaries in the Group, including wholly owned overseas businesses and all colleagues, contractors, seconded and temporary staff The Committee reviews the policy annually and approves all compensation for Executive Directors, GEC members and attendees, senior risk and compliance officers, high earners and any other MRTs. The policy was updated during the year to reflect the addition of the role based allowances for certain MRTs and a review to ensure alignment with the new Consumer Duty rules. During 2022 the Committee had 6 scheduled meetings.

Over the course of 2022, independent advice was provided to the Remuneration Committee by Mercer and PwC. Mercer was appointed by the Committee following a competitive tender process in 2016 and was retained for part of 2022. The Committee commenced a competitive tender process during the year and appointed PriceWaterhouseCoopers (PwC) as independent adviser to the Committee in May 2022. PwC also provided professional services to the Group in the ordinary course of business including tax, assurance and advisory services. Mercer and PwC have no other connections with the Group's Directors that may impair their independence as advisers to the Committee. PwC are members of the Remuneration Consultants Group and signatories of its Code of Conduct and the Committee is therefore satisfied that the advice they provided was objective and independent.

The Group has a robust governance framework in place, which is cascaded through the Group. The Group People Committee (GPC) was responsible for supporting the Remuneration Policy Owner (the then Group People and Property Director) in overseeing the development and monitoring of adherence to the Group's Remuneration Policy for all employees until its decommissioning in September 2022. Following the GPC's decommission remuneration policy matters are discussed at the People and Places Executive Committee, with escalation to the GEC as appropriate.

GOVERNANCE AND RISK MANAGEMENT

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

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

LINK BETWEEN PAY AND PERFORMANCE

The Group's approach to reward is intended to provide a clear link between remuneration and delivery of its key strategic objectives, supporting the delivery of the Group's purpose of Helping Britain Prosper and the aim of becoming the best bank for customers, whilst delivering long-term superior and sustainable returns to shareholders. To this end, the performance management process has been developed, with the close participation from Group Risk, to ensure there is a clear alignment between award outcomes and individual contribution, performance, behaviours and growth.

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

DESIGN AND STRUCTURE OF REMUNERATION

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

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

Remuneration (REMA) (continued)

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 2022 performance year.

Base salary

Base salaries are reviewed annually, taking into account individual performance and market information. Further information on base salaries can be found on pages 108 and 120 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 131 of the DRR.

Applies to:

– Non-Executive Directors

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.

The Chair fees includes benefits of 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 page 131 of the DRR.

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

Group Performance Share

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

– Group balanced scorecard performance
– Collective and discretionary adjustments to reflect risk matters and/or other factors.

The Group applies deferral arrangements to GPS and variable pay awards made to colleagues. GPS awards for MRTs are subject to deferral and a holding period in line with regulatory requirements and market practice. Further information on the GPS plan, including information on the performance measures, can be found on page 120 and 122 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

Long Term Share Plan

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

Awards are made in the form of conditional shares and award levels are set at the time of grant, in compliance with regulatory requirements, and may be subject to a discount in determining total variable remuneration under the rules set by the PRA. The number of shares to be awarded may be calculated using a fair value or based on a discount to market value, as appropriate. Vesting of awards will be subject to an assessment of underpin thresholds being maintained measured over a period of three years, or such longer period, as determined by the Committee. Awards for MRTs are subject to deferral and a holding period in line with regulatory requirements and market practice. Further detail on the LTSP, including the applicable performance measures and underpins, can be found on page 121 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

Remuneration (REMA) (continued)

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 128 of the DRP.

De Minimis

Lloyds Banking Group

In 2022, the Group, Lloyds Bank Corporate Markets ("LBCM") and 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 (£)
Group	55	[11,913,010]	[296,536]	[12,209,546]
Ring Fenced Bank	40	[8,206,471]	[258,250]	[8,464,721]

Guaranteed variable remuneration

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

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

Applies to:

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

Shareholding requirement

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. From 2023 Executive Directors will have five years from appointment to achieve the shareholding requirement.

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

Applies to:

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

Termination payments

It is the Group's policy that where compensation on termination is due to Executive Directors and GEC members, it should be paid on a phased basis, mitigated in the event that alternative employment is secured. See pages 132 to 133 of the DRP. 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
- Approved Persons performing SIFs and/or 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	10	2	21	269
	Total fixed remuneration	£2,370,252	£3,880,682	£17,717,989	£84,133,539
	Of which: cash-based	£2,370,252	£1,955,195	£12,490,663	£70,567,829
	Of which: shares or equivalent ownership interests[1]	—	£1,554,000	£2,886,600	£1,813,517
	Of which: share-linked instruments or equivalent non-cash instruments	—	—	—	—
	Of which: other instruments	—	—	—	—
	Of which: other forms	—	£371,487	£2,340,726	£12,342,893
Variable remuneration	Number of identified staff	—	2	19	237
	Total variable remuneration	—	£4,957,756	£14,508,582	£62,331,324
	Of which: cash-based	—	£1,012,481	£3,052,335	£20,394,769
	Of which: deferred	—	£607,489	£1,645,920	£5,389,337
	Of which: shares or equivalent ownership interests[3]	—	£3,945,275	£11,456,247	£41,063,849
	Of which: deferred	—	£3,540,282	£10,049,826	£27,794,862
	Of which: share-linked instruments or equivalent non-cash instruments	—	—	—	£872,706
	Of which: deferred	—	—	—	£486,834
	Of which: other instruments	—	—	—	—
	Of which: deferred	—	—	—	—
	Of which: other forms	—	—	—	—
	Of which: deferred	—	—	—	—
Total remuneration		**£2,370,252**	**£8,838,438**	**£32,226,571**	**£146,464,863**

1 Released over a three-year period.

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

3 Values for Long Term Share Plan awards are based on face value at grant. An EBA discount factor has not been applied to awards made in 2023 in respect of performance year 2022.

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	—	—	—	3
Guaranteed variable remuneration awards -Total amount	—	—	—	£704,000
Of which guaranteed variable remuneration awards paid during the financial year, that are not taken into account in the bonus cap	—	—	—	—
Severance payments awarded in previous periods, that have been paid out during the financial year				
Severance payments awarded in previous periods, that have been paid out during the financial year - Number of identified staff	—	—	1	4
Severance payments awarded in previous periods, that have been paid out during the financial year - Total amount	—	—	£132,678	£863,791
Severance payments awarded during the financial year				
Severance payments awarded during the financial year - Number of identified staff	—	—	3	5
Severance payments awarded during the financial year - Total amount	—	—	—	£1,393,640
Of which paid during the financial year	—	—	—	£435,708
Of which deferred	—	—	£126,378	£957,931
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	—	—	£100,000	£321,251

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	£315,982	—	£315,982	—	—	—	—	—
Shares or equivalent ownership interests	£9,044,543	£126,918	£8,917,625	—	—	—	£9,525	£126,918
Share-linked instruments or equivalent non-cash instruments	—	—	—	—	—	—	—	—
Other instruments	—	—	—	—	—	—	—	—
Other forms	—	—	—	—	—	—	—	—
Other senior management	—	—	—	—	—	—	—	—
Cash-based	£1,232,552	—	£1,232,552	—	—	—	—	—
Shares or equivalent ownership interests	£38,811,116	£1,448,472	£37,362,644	—	—	—	£470,170	£1,448,472
Share-linked instruments or equivalent non-cash instruments	—	—	—	—	—	—	—	—
Other instruments	—	—	—	—	—	—	—	—
Other forms	—	—	—	—	—	—	—	—
Other identified staff	—	—	—	—	—	—	—	—
Cash-based	£4,103,610	—	£4,103,610	—	—	—	—	—
Shares or equivalent ownership interests	£74,170,066	£10,795,095	£63,929,689	£21,318	—	—	£2,071,776	£10,795,095
Share-linked instruments or equivalent non-cash instruments	£1,588,382	—	£1,588,382	—	—	—	—	—
Other instruments	—	—	—	—	—	—	—	—
Other forms	—	—	—	—	—	—	—	—
Total amount	**£129,266,251**	**£12,370,485**	**£117,450,484**	**£21,318**	**—**	**—**	**£2,551,471**	**£12,370,485**

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

Remuneration (continued)

REM4: Remuneration of 1 million EUR or more per year

EUR	Identified staff that are high earners as set out in Article 450(i) CRR
1 000 000 to below 1 500 000	23
1 500 000 to below 2 000 000	8
2 000 000 to below 2 500 000	10
2 500 000 to below 3 000 000	1
3 000 000 to below 3 500 000	1
3 500 000 to below 4 000 000	1
4 000 000 to below 4 500 000	—
4 500 000 to below 5 000 000	—
5 000 000 to below 6 000 000	—
6 000 000 to below 7 000 000	1
7 000 000 to below 8 000 000	—

1 Converted to Euros using £1: €1.15985 (the exchange used by the European Commission for financial programming for December 2022). The exchange rate used for 2021 was £1 = €1. 18227.

2 Values for Long Term Share Plan awards are based on face value at grant. An EBA discount factor has not been applied to awards made in 2023 in respect of performance year 2022.

3 Total number of Material Risk Takers earning more than €1m has increased from 21 in 2021 to 45 in 2022.

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										302
Of which: members of the MB	10	2	12							
Of which: other senior management				—	7	—	4	5	5	
Of which: other identified staff				35	70	—	51	46	67	
Total remuneration of identified staff	**£2,370,252**	**£8,838,438**	**£11,208,690**	**£24,472,967**	**£47,945,369**	**—**	**£34,826,287**	**£31,331,303**	**£40,115,509**	
Of which: variable remuneration	—	£4,957,756	£4,957,756	£11,080,203	£21,265,792	—	£16,054,352	£12,477,416	£15,962,143	
Of which: fixed remuneration	£2,370,252	£3,880,682	£6,250,934	£13,392,764	£26,679,577	—	£18,771,935	£18,853,887	£24,153,366	

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 of Lloyds Banking Group's (the "Board") 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% representation of men and women on the Board to match the 50% 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. The Group has also set a target of 13% 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% of senior roles held by women by 2025, and of 13% of senior roles held by Black, Asian and Minority Ethnic colleagues by 2025 (including a minimum of 3% 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

Robin Budenberg CBE Chairman

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

Skills, experience and contribution:

– Extensive financial services and investment banking experience

– Strong governance and strategic advisory skills to companies and government

– Regulatory, public policy and stakeholder management experience

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

External appointments: Chairman of The Crown Estate.

Charlie Nunn Executive Director and Group Chief Executive

Appointed: August 2021

Skills, experience and contribution:

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

– Strategic planning and implementation

– Extensive experience of digital transformation

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

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

External appointments: None

William Chalmers Executive Director and Chief Financial Officer

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

Skills, experience and contribution:

– Significant board level strategic and financial leadership experience

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

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

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

External appointments: None.

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

Alan Dickinson Deputy Chair and Senior Independent Director

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

Skills, experience and contribution:

– Highly regarded retail and commercial banker

– Strong strategic, risk 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.

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

Sarah Legg Non-Executive Director

Appointed: December 2019

Skills, experience and contribution:

– Strong financial leadership and regulatory reporting skills

– Significant audit and risk experience in financial leadership

– Strong transformation programme experience

Sarah has spent her entire executive career in financial services with almost 30 years at HSBC in finance leadership roles. She was the Group Financial Controller, a Group General Manager, and also Chief Financial Officer for HSBC's Asia Pacific region. She also spent 8 years as a Non-Executive Director on the board of Hang Seng Bank Limited, a Hong Kong listed bank.

External appointments: Non-Executive Director 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 Non-Executive Director and Chair of Lloyds Bank Corporate Markets plc

Appointed: June 2017

Skills, experience and contribution:

– Extensive international corporate experience, especially in financial markets

– Strong board governance experience, including investor relations

– 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 Non-Executive Director

Appointed: October 2018

Skills, experience and contribution:

– Extensive experience in ESG matters including responsible business and sustainability

– Considerable customer engagement experience

– Strong digital technology experience

– Significant marketing and brand background

Amanda was Chief Executive of Business in the Community, a British business-community outreach charity promoting responsible business and corporate responsibility and one of the Prince's Charities of King Charles III. Prior to that role, she was a member of Aviva's Group Executive for 7 years as Chief Marketing and Communications Officer and was seconded to help launch the United Nation's Sustainable Development Goals. She is also a former Director of British Airways AirMiles, BT, Hewlett Packard Inc and British Gas.

External appointments: Chair of The Queen's Reading Room and trustee of the charity Cumberland Lodge.

Catherine Woods Non-Executive Director

Appointed: March 2020

Skills, experience and contribution:

– Extensive executive experience of international financial institutions

– Deep experience of risk and transformation oversight

– Strong focus on culture and corporate governance

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

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

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

Harmeen Mehta Non-Executive Director

Appointed: November 2021

Skills, experience and contribution:

- Over 25 years' experience leading digital innovation 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 over 30 countries in 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; Non-Executive Director at Max Healthcare Institute Ltd.

Cathy Turner Non-Executive Director

Appointed: November 2022

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 where her responsibilities, over time, included human resources, executive compensation, investor relations, strategy and brand marketing, and at the Group, where she was responsible for the human resources, legal, audit, corporate brand and secretariat functions.

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 each of Rentokil Initial plc and Spectris plc. Partner on a part-time basis at Manchester Square Partners LLP.

Scott Wheway Non-Executive Director and Chair of Scottish Widows Group

Appointed: August 2022, September 2022 (Chair)

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.

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	Threshold for disclosure not met
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
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

Abbreviations

Abbreviation	Brief description
A	
ABCP	Asset-backed commercial paper
ABS	Asset-backed securities
AIRB	Advanced Internal Ratings-Based Approach
ALRB	Additional Leverage Ratio Buffer
AMA	Advanced Measurement Approach
ARA	Annual Report and Accounts
AT1	Additional Tier 1 capital
B	
BCBS	Basel Committee on Banking Supervision
BEEL	Best estimate of expected losses
BoE	Bank of England
BRC	Board Risk Committee
C	
CCB	Capital Conservation Buffer
CCF	Credit conversion factor
CCLB	Countercyclical Leverage Buffer
CCP	Central counterparty
CCR	Counterparty credit risk
CCyB	Countercyclical Capital Buffer
CDS	Credit default swap
CET1	Common equity tier 1 capital
CLN	Credit linked notes
CP	Commercial paper
CRD IV	Capital Requirements Directive & Regulation
CRM	Credit risk mitigation
CRR	Capital Requirements Regulation
CSA	Credit support annex
CVA	Credit valuation adjustment
D	
DVA	Debit valuation adjustment
E	
EAD	Exposure at default
EBA	European Banking Authority
ECAI	External Credit Assessment Institutions
EEL	Excess expected loss
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	
HPI	House price index
HQLA	High quality liquid assets
I	
IAA	Internal Assessment Approach
IAS	International Accounting Standard
ICAAP	Internal Capital Adequacy Assessment Process
ICG	Individual Capital Guidance
IFRS	International Financial Reporting Standards
IMM	Internal Model Method
IRB	Internal Ratings-Based Approach
IRRBB	Interest rate risk in the banking book
IRC	Incremental risk charge
ISDA	International Swaps and Derivatives Association
L	
LCR	Liquidity coverage ratio
LGD	Loss given default
LIBOR	London Interbank Offer Rate
LTV	Loan-to-value
M	
MGC	Model Governance Committee
Moody's	Moody's Investors Service
MTM	Mark-to-market
O	
OTC	Over-the-counter
P	
PD	Probability of default
PFE	Potential future exposure
PIT	Point-in-time
PRA	Prudential Regulation Authority (UK)
PRR	Position risk requirement
PVA	Prudent valuation adjustment
Q	
QCCP	Qualifying Central Counterparty
QRRE	Qualifying revolving retail exposure
R	
RBA	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

T	
TTC	Through-the-cycle
T1	Tier 1 capital
T2	Tier 2 capital

U	
UK	United Kingdom
US	United States of America

V	
VaR	Value-at-risk

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