LLOYDS BANKING GROUP

BECOMING THE BEST BANK FOR CUSTOMERS

Lloyds Banking Group
Capital and Risk Management Pillar 3 Report

2015

CONTENTS

Forward looking statements

This document contains certain forward looking statements with respect to the business, strategy and plans of Lloyds Banking Group and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about Lloyds Banking Group's or its directors' and/or management's beliefs and expectations, are forward looking statements. Words such as 'believes', 'anticipates', 'estimates', 'expects', 'intends', 'aims', 'potential', 'will', 'would', 'could', 'considered', 'likely', 'estimate' and variations of these words and similar future or conditional expressions are intended to identify forward looking statements but are not the exclusive means of identifying 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.

Examples of such forward looking statements include, but are 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; statements of plans, objectives or goals of Lloyds Banking Group or its management including in respect of statements about the future business and economic environments in the United Kingdom (UK) and elsewhere including, but not limited to, future trends in interest rates, foreign exchange rates, credit and equity market levels and demographic developments; statements about competition, regulation, disposals and consolidation or technological developments in the financial services industry; and statements of assumptions underlying such statements.

Factors that could cause actual business, strategy, plans and/or results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward looking statements made by the Group or on its behalf include, but are not limited to: general economic and business conditions in the UK and internationally; market related trends and developments; fluctuations in exchange rates, stock markets and currencies; the ability to access sufficient sources of capital, liquidity and funding when required; changes to the Group's credit ratings; the ability to derive cost savings; changing customer behaviour including consumer spending, saving and borrowing habits; changes to borrower or counterparty credit quality; instability in the global financial markets, including Eurozone instability, the potential for one or more countries to exit the Eurozone or European Union (EU) (including the UK as a result of a referendum on its membership) and the impact of any sovereign credit rating downgrade or other sovereign financial issues; technological changes and risks to cyber security; natural, pandemic and other disasters, adverse weather and similar contingencies outside the Group's control; inadequate or failed internal or external processes or systems; acts of war, other acts of hostility, terrorist acts and responses to those acts, geopolitical, pandemic or other such events; changes in laws, regulations, accounting standards or taxation, including as a result of further Scottish devolution; changes to regulatory capital or liquidity requirements and similar contingencies outside the Group's control; the policies, decisions and actions of governmental or regulatory authorities or courts in the UK, the European Union (EU), the United States (US) or elsewhere including the implementation and interpretation of key legislation and regulation; the ability to attract and retain senior management and other employees; requirements or limitations imposed on the Group as a result of HM Treasury's investment in the Group; actions or omissions by the Group's directors, management or employees including industrial action; changes to the Group's post-retirement defined benefit scheme obligations; the provision of banking operations services to TSB Banking Group plc; the extent of any future impairment charges or write-downs caused by, but not limited to, depressed asset valuations, market disruptions and illiquid markets; the value and effectiveness of any credit protection purchased by the Group; the inability to hedge certain risks economically; the adequacy of loss reserves; the actions of competitors, including non-bank financial services and lending companies; and exposure to regulatory or competition scrutiny, legal, regulatory or competition proceedings, investigations or complaints. Please refer to the latest Annual Report on Form 20-F filed with the US Securities and Exchange Commission for a discussion of certain factors, together with examples of forward looking statements.

Lloyds Banking Group may also make or disclose written and/or oral forward looking statements in reports filed with or furnished to the US Securities and Exchange Commission, Lloyds Banking Group annual reviews, half-year announcements, proxy statements, offering circulars, prospectuses, press releases and other written materials and in oral statements made by the directors, officers or employees of Lloyds Banking Group 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 the date hereof, and Lloyds Banking Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements contained in this document to reflect any change in Lloyds Banking Group's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Summary analysis

Common equity tier 1 ratio (CET1) (2014: 12.8%)

12.8% (13.0% pro-forma)

Transitional total capital ratio (2014: 22.0%)

21.5%

Leverage ratio (2014: 4.9%)[1]

4.8%

Fully loaded total risk-weighted assets (2014: £239.7bn)

£222.7bn

[1] Calculated in accordance with the amended CRD IV rules on leverage.

COMMON EQUITY TIER 1

SUMMARY ANALYSIS

2015	12.8%
2014	12.8%

COMMENTARY

The CET1 ratio after dividends in respect of 2015 was unchanged at 12.8 per cent increasing to 13.0 per cent on a pro-forma basis upon recognition of the 2015 Insurance business dividend paid in February 2016, following the implementation of Solvency II.

LEVERAGE RATIO

2015	4.8%
2014	4.9%

COMMENTARY

The Group's leverage ratio, after taking account of dividends relating to 2015, reduced to 4.8 per cent (2014: 4.9 per cent) reflecting the reduction in tier 1 capital partially offset by the reduction in balance sheet assets arising, in part, from the sale of TSB.

RISK-WEIGHTED ASSETS

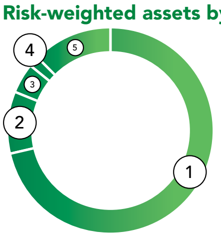
2015	£222.7bn
2014	£239.7bn

COMMENTARY

Risk-weighted assets reduced by 7 per cent, or £17.0bn to £222.7bn (2014: £239.7bn), primarily driven by the sale of TSB, other disposals in the run-off business and continued improvements in credit quality, partially offset by targeted lending growth.

SPLIT OF RISK-WEIGHTED ASSETS

Risk-weighted assets by risk type[1]



1. **Credit risk (IRB) £151.6bn** (2014: £160.6bn)
2. **Credit risk (Std) £20.9bn[2]** (2014: £26.0bn[2])
3. **CCR £9.7bn** (2014: £11.3bn)
4. **Market risk £3.8bn** (2014: £4.7bn)
5. **Operational risk £26.1bn** (2014: £26.3bn)

Risk-weighted assets by division[1]

1. **Retail £65.9bn** (2014: £67.6bn)
2. **Commercial Banking £102.5bn** (2014: £106.2bn)
3. **Consumer Finance £20.1bn** (2014: £20.9bn)
4. **Central Items £13.4bn** (2014: £12.2bn)
5. **Run-off £10.2bn** (2014: £16.8bn)
6. **TSB £nil** (2014: £5.2bn)

[1] Numbers do not include threshold risk-weighted assets.
[2] Credit risk-weighted assets includes contributions to the default fund of central counterparties and counterparty credit risk includes credit valuation adjustment risk.

RISK-WEIGHTED ASSETS AND PILLAR 1 CAPITAL REQUIREMENTS

RISK-WEIGHTED ASSET MOVEMENT BY KEY DRIVER	Credit risk[3] £m	Counterparty credit risk[3] £m	Market risk £m	Operational risk £m	Total £m
Risk-weighted assets at 31 December 2014	**186,562**	**11,323**	**4,746**	**26,279**	**228,910**
Management of the balance sheet	1,772	(474)	(838)	-	460
Disposals	(8,582)	(115)	-	-	(8,697)
External economic factors	(6,370)	(518)	80	-	(6,808)
Model and methodology changes	(888)	(551)	(213)	-	(1,652)
Other	-	-	-	(156)	(156)
Risk-weighted assets	**172,494**	**9,665**	**3,775**	**26,123**	**212,057**
Threshold risk-weighted assets[1]					10,788
Total risk-weighted assets at 31 December 2015					**222,845**
Movement to fully loaded risk-weighted assets[2]					(98)
Fully loaded risk-weighted assets					**222,747**

[1] Threshold risk-weighted assets reflect the element of significant investments and deferred tax assets that are permitted to be risk-weighted instead of deducted from CET1 capital. Significant investments primarily arise from investment in the Group's Insurance business.
[2] Differences may arise between transitional and fully loaded threshold risk-weighted assets where deferred tax assets reliant on future profitability and arising from temporary timing differences and significant investments exceed the fully loaded threshold limit, resulting in an increase in amounts deducted from CET1 capital rather than being risk-weighted. At 31 December 2014 the fully loaded threshold was not exceeded and therefore no further adjustment was applied to the transitional threshold risk-weighted assets.
[3] Credit risk includes movements in contributions to the default fund of central counterparties and counterparty credit risk includes the movements in credit valuation adjustment risk.

Key movements

Credit risk-weighted asset reductions of £14.1bn were driven by the following key movements:

- Management of the balance sheet includes risk-weighted asset movements arising from new lending and asset run-off. During 2015, credit risk-weighted assets increased by £1.8bn, primarily as a result of targeted net lending growth in core businesses, as well as an increase in risk-weighted assets for the Group's strategic equity investments.
- Disposals include risk-weighted asset reductions arising from the sale of assets, portfolios and businesses. Disposals reduced credit risk-weighted assets by £8.6bn, primarily driven by the completion of the sale of TSB as well as disposals in the run-off business.
- External economic factors capture movements driven by changes in the economic environment. The reduction in credit risk-weighted assets of £6.4bn is mainly due to improvements in credit quality, which primarily impacted the Retail and Consumer Finance businesses and favourable movements in house price index (HPI) that benefited retail mortgage portfolios.
- Model and methodology reductions of £0.9bn include the movement in credit risk-weighted assets arising from model refinements and changes in credit risk approach applied to certain portfolios.

Counterparty credit risk and CVA risk reductions of £1.7bn are principally driven by trading activity and compressions, hedging and yield curve movements.

Risk-weighted assets related to market risk reduced by £1.0bn primarily due to active portfolio management and model and methodology refinements.

SUMMARY OF CAPITAL RESOURCES

	Transitional		Fully loaded	
	2015 £m	2014[2] £m	2015 £m	2014[2] £m
Common equity tier 1				
Shareholders' equity per balance sheet	**41,234**	43,335	**41,234**	43,335
Adjustment to retained earnings for foreseeable dividends	**(1,427)**	(535)	**(1,427)**	(535)
Deconsolidation of insurance entities[1]	**(1,199)**	(623)	**(1,199)**	(623)
Adjustment for own credit	**67**	158	**67**	158
Cash flow hedging reserve	**(727)**	(1,139)	**(727)**	(1,139)
Other adjustments	**72**	132	**72**	132
	38,020	41,328	**38,020**	41,328
Deductions from common equity tier 1				
Goodwill and other intangible assets	**(1,719)**	(1,875)	**(1,719)**	(1,875)
Significant investments[1]	**(2,723)**	(2,546)	**(2,752)**	(2,546)
Deferred tax assets	**(3,874)**	(4,533)	**(3,884)**	(4,533)
Other Deductions	**(1,160)**	(1,685)	**(1,160)**	(1,685)
Common equity tier 1 capital	**28,544**	30,689	**28,505**	30,689
Additional tier 1 instruments	**9,177**	9,728	**5,355**	5,355
Deductions from tier 1	**(1,177)**	(859)	**-**	-
Total tier 1 capital	**36,544**	39,558	**33,860**	36,044
Tier 2 instruments and eligible provisions	**13,208**	14,530	**9,189**	11,169
Deductions from tier 2	**(1,756)**	(1,288)	**(2,933)**	(2,146)
Total Capital Resources	**47,996**	52,800	**40,116**	45,067

[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 and the remaining amount is risk weighted, forming part of the threshold risk-weighted assets.

[2] Other comprehensive income related to the Group's business defined benefit Insurance pension scheme has been reclassified from common equity tier 1 other adjustments to deconsolidation of insurance entities.

A detailed analysis of key movements in capital resources is provided on page 22.

Summary analysis continued

CREDIT RISK EXPOSURES

Total credit risk exposures (excluding thresholds) as at 31 December 2015 amounted to £686.7bn (2014: £700.2bn) on an exposure at default (EAD) basis, as defined on page 6. This comprises £568.0bn of exposures risk-weighted under the Internal Ratings Based (IRB) Approach (2014: £580.1bn) and £118.5bn of exposures risk-weighted under the Standardised Approach (2014: £120.0bn). A summary analysis of credit risk exposures is provided in the table below.

	2015 Credit risk exposure £m	2015 Risk-weighted assets £m	2015 Average risk weight %	2014 Credit risk exposure £m	2014 Risk-weighted assets £m	2014 Average risk weight %
Corporates	**113,486**	**66,213**	**58%**	116,906	69,198	59%
of which: corporate main	**80,629**	**43,005**	**53%**	80,496	43,735	54%
of which: corporate SME	**12,964**	**8,814**	**68%**	13,979	9,637	69%
of which: corporate specialised lending	**19,893**	**14,394**	**72%**	22,431	15,826	71%
Central governments and central banks	**15,716**	**1,347**	**9%**	15,714	1,618	10%
Institutions	**7,364**	**1,430**	**19%**	7,970	1,577	20%
Retail	**395,774**	**63,912**	**16%**	412,948	72,886	18%
of which: residential mortgages (SME)	**10,517**	**3,214**	**31%**	11,114	3,174	29%
of which: residential mortgages (non-SME)	**331,290**	**35,038**	**11%**	348,212	39,949	11%
of which: qualifying revolving retail exposures	**36,975**	**12,501**	**34%**	36,287	14,061	39%
of which: other SME	**2,661**	**1,807**	**68%**	2,736	1,982	72%
of which: other non-SME	**14,331**	**11,352**	**79%**	14,599	13,720	94%
Equities	**4,335**	**9,893**	**228%**	3,750	7,904	211%
Securitisation positions	**22,125**	**3,266**	**15%**	14,351	2,373	17%
Non-credit obligation assets	**9,228**	**5,502**	**60%**	8,441	5,047	60%
Total – IRB approach	**568,028**	**151,563**	**27%**	580,080	160,603	28%
Central governments and central banks	**88,415**	**-**	**-**	83,617	11	-
Corporates	**14,463**	**11,921**	**82%**	15,490	13,646	88%
Retail	**4,438**	**2,880**	**65%**	4,316	2,946	68%
Secured by mortgages on immovable property	**5,840**	**2,109**	**36%**	9,575	3,408	36%
Other[1]	**5,379**	**3,533**	**66%**	6,958	5,433	78%
Total – standardised approach	**118,535**	**20,443**	**17%**	119,956	25,444	21%
Contributions to the default fund of a central counterparty	**150**	**488**	**325%**	143	515	360%
Total – credit risk	**686,713**	**172,494**	**25%**	700,179	186,562	27%
Threshold – significant investments	**3,127**	**7,817**	**250%**	3,324	8,309	250%
Threshold – deferred tax	**1,188**	**2,971**	**250%**	1,006	2,515	250%
Total	**691,028**	**183,282**	**27%**	704,509	197,386	28%

[1] Other exposures include exposures to regional governments and local authorities, public sector entities, multilateral development banks, institutions, exposures in default, exposures associated with particularly high risk and other items.

A detailed analysis of the key movements in exposures and risk-weighted assets is provided on pages 50 to 52.

Introduction

This document presents the consolidated Pillar 3 disclosures of Lloyds Banking Group plc ('the Group') as at 31 December 2015.

Pillar 3 requirements are set out under the Capital Requirements Directive & Regulation (CRD IV) and are designed to promote market discipline through the disclosure of key information around capital, risk exposures and risk management. The Group's year end disclosures comply with the requirements of CRD IV and associated European Banking Authority (EBA) guidelines and technical standards in force at 31 December 2015.

In satisfaction of certain disclosure requirements, reference has been made to the 2015 Lloyds Banking Group plc Annual Report and Accounts. As such, this document should be read in conjunction with the Annual Report and Accounts, as highlighted throughout the rest of the document.

The main changes made to the presentation of the Group's Pillar 3 disclosures in comparison to the previous year are as follows:

- Greater use of cross referencing to the Group's Annual Report and Accounts and removal of unnecessary duplication
- Limited early adoption of the Basel Committee on Banking Supervision's (BCBS) revised Pillar 3 framework, including the credit risk and counterparty credit risk standardised approach disclosure templates
- Additional disclosures around the Group's leverage ratio (Appendix 1) and for the significant subsidiary leverage ratios (Appendices 2 and 3) in accordance with new EBA requirements
- Inclusion of a CRD IV roadmap in Appendix 5, detailing how each Pillar 3 disclosure requirement has been met and their location

During the course of 2015 the Group continued to be actively involved in industry discussions with the Prudential Regulatory Authority (PRA) in response to the UK Financial Policy Committee's (FPC) recommendation that UK banks should work with the PRA and the British Bankers' Association (BBA) to achieve, over time, greater consistency and comparability between their Pillar 3 disclosures. In considering new disclosure requirements, discussions have primarily centred around the EBA's Pillar 3 guidelines on materiality, proprietary and confidentiality and on disclosure frequency and the work of the BCBS in revising the Pillar 3 framework. Further details are included in the 'Future Regulatory Developments' section on pages 17 and 18.

RISK STATEMENT

A statement from the Board is included within the Governance section of the 2015 Lloyds Banking Group plc Annual Report and Accounts (page 71) that describes the Group's risk management arrangements as being sufficiently adequate with regard to the Group's profile and strategy. It states that the Audit Committee, in conjunction with the Board Risk Committee, concluded that the Group's risk management systems and internal controls were effective and adequate having regard to the Group's risk profile and strategy, and recommended that the Board approve them accordingly. A risk statement approved by the management body is included within the Risk Overview section of the Annual Report and Accounts (pages 28 to 33).

G-SIB DISCLOSURE

Although the Group is not currently classified as a Global Systemically Important Bank (G-SIB), by virtue of its leverage exposure exceeding €200bn, the Group is required to report G-SIB metrics to the PRA. The Group's metrics used within the 2015 Basel G-SIBs annual exercise will be disclosed from April 2016, and the results are expected to be made available by the Basel Committee later this year.

Disclosure policy

The following sets out a summary of the disclosure policy applied to the Lloyds Banking Group plc Pillar 3 disclosures, including the basis of preparation, frequency, media and location, verification and risk profile disclosure.

BASIS OF PREPARATION

This document contains the consolidated Pillar 3 disclosures of Lloyds Banking Group plc as at 31 December 2015, prepared in accordance with the requirements of Capital Requirements Regulation (CRR) Part 8 (Disclosure by Institutions). A CRD IV roadmap has been included in Appendix 5, which details how the Group has complied with each article under Part 8.

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 prudential requirements, which prevent direct comparison in a number of areas. Of particular note are the differences surrounding scope of consolidation, the definition of credit risk exposure and the recognition, classification and valuation of capital securities.

Details on the scope of consolidation applied to the disclosures presented within this document are provided within the Scope of Consolidation section of the document on pages 7 to 12.

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 (£180m exposure, £78m 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 as permitted by Article 432 and in accordance with related EBA guidelines.

The implementation of CRD IV is subject to transitional arrangements, with full implementation in the UK required by 1 January 2022 as per PRA policy statement PS7/13. Consequently, the Group's capital position is shown by applying both the transitional arrangements as implemented in the UK by PS7/13 (PRA transitional rules) and the end-point rules under PS7/13 (the 'fully loaded' basis). The minimum Pillar 1 capital requirements referred to in this document are calculated as 8 per cent of aggregated risk-weighted assets.

Throughout this document, unless otherwise specified, credit risk exposures are defined as the exposure at default (EAD), prior to the application of credit risk mitigation (CRM). EAD is defined as the aggregate of drawn (on balance sheet) exposures, undrawn (off balance sheet) commitments and contingent liabilities, after application of credit conversion factors (CCF), and other relevant regulatory adjustments. Notable exceptions to this definition include securitisation positions, counterparty credit risk exposures and past due and impaired exposures. A summary, noting the definitions applied, is provided below.

Exposure type	Definition applied
Credit risk exposures (excluding securitisation positions)	EAD pre CRM[1]
Counterparty credit risk exposures	EAD post CRM
Securitisation positions	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.
Past due and impaired exposures	Accounting balance, defined in accordance with IFRS

[1] For credit risk exposures risk-weighted under the Standardised Approach, the EAD pre CRM value is stated net of specific credit risk adjustments (SCRAs). SCRAs relating to credit risk exposures risk-weighted under a relevant IRB Approach methodology are netted against expected losses as described on page 46.

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-performance/lloyds-banking-group).

Final guidelines were issued by the EBA on Pillar 3 disclosure frequency, which are described in more detail in the future regulatory developments section.

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, Audit Committee and the Board following the receipt of attestations in respect of both the quantitative and qualitative disclosures from Risk and Finance Directors at Divisional and Group level.

RISK PROFILE DISCLOSURE

In accordance with the requirements of CRR Part 8 (Disclosure by Institutions), 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.

In this respect, the 2015 Lloyds Banking Group plc Annual Report and Accounts provides an in depth analysis of the principal risks and emerging risks to which the Group is exposed, together with further detail on the Group's key risk drivers.

The Group's Pillar 3 disclosures focus primarily on capital risk and the key risk drivers behind the Group's Pillar 1 capital requirements (credit, counterparty credit, market and operational risks), providing granular information and analysis in addition to that presented within the 2015 Lloyds Banking Group plc Annual Report and Accounts.

The relevant analysis is presented in the following sections of the 2015 Lloyds Banking Group plc Annual Report and Accounts:
– Risk overview, pages 28 to 33;
– Emerging risks, page 114;
– Risk drivers, page 120

Scope of consolidation

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

INTRODUCTION

As a banking conglomerate, Lloyds Banking Group is required to calculate consolidated capital requirements and consolidated capital resources based on the regulatory consolidation provisions applicable to banks under CRR (Part One, Title II, Chapter 2).

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 accounting consolidation are also included within the scope of regulatory consolidation. There are, however, a number of differences in the methods by which certain undertakings are consolidated for regulatory purposes.

Subsidiary undertakings included within 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.

Undertakings in which the Group or its subsidiaries hold a 'participation', where it is deemed that the Group exerts significant influence over the undertaking, are generally consolidated within the regulatory calculations on a proportional (pro-rata) basis. This follows line-by-line (accounting) consolidation based on the ownership share in the particular undertaking. Such undertakings may include joint ventures and associates, as defined under IFRS accounting standards, and specified venture capital investments. In certain circumstances, participations are 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 CRD IV that determine the extent to which the investments are deducted from capital with remaining amounts risk-weighted in accordance with the rules. The regulatory consolidation group diagram presented on page 8 highlights the key insurance undertakings of the Group that are excluded from the scope of regulatory consolidation.

Insurance undertakings are themselves required to maintain capital adequacy under the General Prudential Sourcebook (GENPRU) and the Prudential Sourcebook for Insurers (INSPRU). As at 31 December 2015 there were no such undertakings where actual capital resources were less than the regulatory minimum required. From January 2016, the Insurance Group will be subject to Solvency II requirements.

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.

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 legal and regulatory structure of the Group provides a capability for the prompt transfer of surplus capital resources over and above regulatory requirements or repayment of liabilities when due throughout the Group. There are no current or foreseeable material, practical or legal impediments to such transfers or repayments, other than the constraints imposed over the available capital resources of the Group's life assurance businesses.

SUBSIDIARY GROUP DISCLOSURES

Additional disclosures surrounding the consolidated capital resources, leverage exposures and capital requirements of Lloyds Bank plc ('Lloyds Bank Group') and Bank of Scotland plc ('BOS Group') have been provided within the appendices to this document together with analysis of their credit risk exposures, credit risk mitigation and impairments. These disclosures are provided in fulfilment of the significant subsidiary disclosure requirements under CRR Article 13 (Application of disclosure requirements on a consolidated basis).

SOLO CONSOLIDATION

The Group makes use of the solo consolidation provisions set out under CRR (Part One Title II Chapter 1). This allows the capital resources and capital requirements of certain specified subsidiary undertakings of Lloyds Bank plc and Bank of Scotland plc to be included within the respective bank's individual capital resources and capital requirements calculations.

The application of solo consolidation provisions is subject to PRA approval and is performed in line with the terms established by the PRA for each individual bank.

Scope of consolidation continued

REGULATORY CONSOLIDATION GROUP

A summarised diagrammatical representation (as at 31 December 2015) of the regulatory consolidation group upon which the disclosures presented within this document are based is provided below.

The Group completed the sale of TSB to Banco de Sabadell, S.A. in 2015. On 31 December 2015 the Group completed the restructure of its Insurance Group that resulted in the transfer of all UK life insurance contracts and related assets and liabilities into Clerical Medical Investment Group Limited which was subsequently renamed Scottish Widows Limited. The transfer was undertaken in accordance with Part VII of the Financial Services and Markets Act (FSMA) 2000.

Further details on the disposal of TSB and the Insurance Part VII transfer are provided on pages 278 and 165 of the 2015 Lloyds Banking Group plc Annual Report and Accounts.

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 2015 on an accounting consolidation basis (as presented on pages 181 and 182 of the 2015 Lloyds Banking Group plc Annual Report and Accounts) to the Group's consolidated balance sheet under the regulatory scope of consolidation.

Table 1: Consolidated regulatory balance sheet

Balance sheet category	Consolidated accounting balance sheet £m	Deconsolidated entities (insurance/ other)[1] £m	Regulatory reallocations[2] £m	Consolidated regulatory balance sheet £m
Assets				
Cash and balances at central banks	58,417	-	(1,193)	57,224
Items in the course of collection from banks	697	-	(697)	-
Trading and other financial assets at fair value through profit or loss	140,536	(88,347)	566	52,755
Derivative financial instruments	29,467	(1,510)	-	27,957
Loans and advances to banks	25,117	(21,708)	1,193	4,602
Loans and advances to customers	455,175	(10,407)	18	444,786
Debt securities	4,191	104	-	4,295
Available-for-sale financial assets	33,032	4,258	-	37,290
Held to maturity investments	19,808	-	-	19,808
Investment in group undertakings	-	5,872	-	5,872
Goodwill	2,016	(1,822)	-	194
Value of in-force business	4,596	(4,596)	-	-
Other intangible assets	1,838	(156)	-	1,682
Property, plant and equipment	12,979	(4,272)	-	8,707
Current tax recoverable	44	(42)	-	2
Deferred tax assets	4,010	(369)	978	4,619
Retirement benefit assets	901	-	-	901
Other assets	13,864	(11,941)	897	2,820
Total assets	806,688	(134,936)	1,762	673,514

Scope of consolidation continued

Balance sheet category	Consolidated accounting balance sheet £m	Deconsolidated entities (insurance/ other)[1] £m	Regulatory reallocations[2] £m	Consolidated regulatory balance sheet £m
Liabilities				
Deposits from banks	16,925	(1,387)	(15,538)	-
Customer deposits	418,326	1,939	15,290	435,555
Items in course of transmission to banks	717	-	(717)	-
Trading and other financial liabilities at fair value through profit or loss	51,863	-	-	51,863
Derivative financial instruments	26,301	(1,217)	-	25,084
Notes in circulation	1,112	-	(1,112)	-
Debt securities in issue	82,056	(2,225)	53	79,884
Liabilities arising from insurance contracts and participating investment contracts	80,294	(80,317)	23	-
Liabilities arising from non-participating investment contracts	22,777	(22,777)	-	-
Other liabilities	29,661	(24,722)	2,092	7,031
Retirement benefit obligations	365	(38)	-	327
Current tax liabilities	279	(125)	-	154
Deferred tax liabilities	33	(1,012)	979	-
Other provisions	5,687	(191)	-	5,496
Subordinated liabilities	23,312	(1,665)	203	21,850
Total Liabilities	759,708	(133,737)	1,273	627,244
Share capital	7,146	-	1	7,147
Share premium account	17,412	-	(1)	17,411
Other reserves	12,260	(2,248)	-	10,012
Retained profits	4,416	1,049	489	5,954
Shareholders' equity[3]	41,234	(1,199)	489	40,524
Other equity instruments	5,355	-	-	5,355
Total equity excluding non-controlling interests	46,589	(1,199)	489	45,879
Non-controlling interests	391	-	-	391
Total equity	46,980	(1,199)	489	46,270
Total equity and liabilities	806,688	(134,936)	1,762	673,514

[1] As insurance undertakings are excluded from the scope of the Group's regulatory consolidation, assets and liabilities relating to the Group's Insurance operations require to be removed from the regulatory balance sheet. Such undertakings are referred to as 'deconsolidated entities' and principally relate to the insurance operations of Scottish Widows Group (headed by Scottish Widows plc) whose principal activity is the undertaking of ordinary long-term insurance and savings business and associated investment activities. Investments in insurance undertakings are deducted from capital resources.

[2] Regulatory reallocations are made in accordance with regulatory reporting requirements that require certain balances to be re-categorised for example, analysis of deposits between banks and customers.

[3] A reconciliation of shareholders' equity to CET1 capital is provided on page 21.

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

A reconciliation of consolidated regulatory balance sheet assets to EAD is presented in tables 2 and 3.

Table 2: Regulatory balance sheet assets reconciliation to gross drawn credit risk exposures

Regulatory balance sheet category	Consolidated regulatory balance sheet assets £m	Assets deducted from own funds[1] £m	Assets linked to market risk/ counterparty credit risk[2] £m	Other regulatory adjustments[3] £m	Gross drawn credit risk exposures £m
Cash and balances at central banks	57,224	-	-	376	57,600
Trading and other financial assets at fair value through profit or loss	52,755	(1,974)	(43,467)	(749)	6,565
Derivative financial instruments	27,957	-	(27,957)	-	-
Loans and receivables	453,683	(959)	(3,689)	1,481	450,516
Available-for-sale financial assets	37,290	-	-	(5,522)	31,768
Held to maturity investments	19,808	-	-	(10)	19,798
Investment in group undertakings	5,872	(5,872)	-	3,127	3,127
Goodwill	194	(194)	-	-	-
Other intangible assets	1,682	(1,682)	-	-	-
Property, plant and equipment	8,707	-	-	(7)	8,700
Current tax recoverable	2	-	-	-	2
Deferred tax assets	4,619	(4,619)	-	1,188	1,188
Retirement benefit assets	901	(901)	-	-	-
Other assets	2,820	-	-	(725)	2,095
Total	673,514	(16,201)	(75,113)	(841)	581,359

[1] Assets that are ultimately deducted from own funds, subsequent to regulatory adjustments applied and which are therefore not risk weighted. See table 71 (Items extracted from the consolidated regulatory balance sheet and reconciliation of own funds to audited financial statements).

[2] Assets, the underlying transactions of which are subject to market risk or counterparty credit risk capital calculations.

[3] Other regulatory adjustments primarily consist of adjustments to reflect specific regulatory treatments and valuation methodologies.

Scope of consolidation continued

Table 3: Gross drawn credit risk exposure reconciliation to exposure at default

	Gross drawn credit risk exposure £m	Off balance sheet items[1] £m	Specific regulatory adjustments[2] £m	Exposure at default (pre-CRM) £m
Exposures subject to the IRB approach				
Foundation IRB approach				
Corporate – main	44,377	36,383	(131)	80,629
Corporate – SME	10,920	2,044	-	12,964
Corporate – specialised lending	5	1	-	6
Central governments and central banks	15,716	-	-	15,716
Institutions	5,621	1,702	41	7,364
Retail IRB approach				
Retail mortgages	316,133	10,752	14,922	341,807
of which: residential mortgages (SME)	9,760	755	2	10,517
of which: residential mortgages (non-SME)	306,373	9,997	14,920	331,290
Qualifying revolving retail exposures	11,204	25,763	8	36,975
Other SME	1,826	835	-	2,661
Other non-SME	14,221	7	103	14,331
Other IRB approaches				
Corporate – specialised lending	17,481	2,406	-	19,887
Equities	4,120	215	-	4,335
Securitisation positions	10,295	11,830	-	22,125
Non-credit obligation assets	9,228	-	-	9,228
Total – IRB approach	461,147	91,938	14,943	568,028
Exposures subject to the standardised approach				
Central governments and central banks	88,292	33	90	88,415
Regional governments or local authorities	1	-	-	1
Public sector entities	2	-	-	2
International organisations	-	-	-	-
Multilateral development banks	997	-	-	997
Institutions	103	67	-	170
Corporates	11,656	2,869	(62)	14,463
Retail	4,307	156	(25)	4,438
Secured by mortgages on immovable property	5,851	6	(17)	5,840
of which: residential property	5,820	6	(17)	5,809
of which: commercial property	31	-	-	31
Exposures in default	1,334	67	(396)	1,005
Exposures associated with particularly high risk	-	-	-	-
Covered bonds	-	-	-	-
Securitisation positions	-	-	-	-
Short-term claims on institutions and corporates	-	-	-	-
Collective investment undertakings (CIUs)	-	-	-	-
Equity exposures	-	-	-	-
Other items	3,204	-	-	3,204
Total – standardised approach	115,747	3,198	(410)	118,535
Contributions to the default fund of a central counterparty	150	-	-	150
Total credit risk	577,044	95,136	14,533	686,713
Threshold – significant investments	3,127	-	-	3,127
Threshold – deferred tax	1,188	-	-	1,188
Total	581,359	95,136	14,533	691,028

[1] Off balance sheet items after the application of credit conversion factors captures items that are off balance sheet but within the scope of credit risk calculations. Off balance sheet items primarily consist of undrawn credit facilities, including facilities that may be cancelled unconditionally at any time without notice.

[2] Specific regulatory adjustments applied to Retail IRB exposures primarily represent the uplift from gross exposure to modelled exposure at default. Within standardised asset classes, the reduction primarily reflects the application of specific credit risk adjustments.

Risk management

THE GROUP'S APPROACH TO RISK

The Group operates a prudent approach to risk with rigorous management controls to support sustainable business growth and minimise losses. Through a strong and independent risk function (Risk Division) a robust control framework is maintained to identify and escalate emerging risks to support sustainable business growth within risk appetite and through good risk reward decision making.

Risk culture

The Board ensures that senior management implements risk policies and risk appetites that either limit or, where appropriate, prohibit activities, relationships and situations that could be detrimental to the Group's risk profile.

As part of a conservative business model that embodies a risk culture founded on a prudent approach to managing risk, the Group refreshed its Codes of Business and Personal Responsibility in 2015 reinforcing its approach where colleagues are accountable for the risks they take and where the needs of customers are paramount.

The focus remains on building and sustaining long-term relationships with customers cognisant of the economic climate.

Risk as a strategic differentiator

Group strategy and risk appetite are developed together to ensure one informs the other and creates a strategy that delivers on becoming the best bank for our customers whilst helping Britain prosper and creating sustainable growth over time. Risks are identified, managed and mitigated using our Risk Management Framework. The principal risks we face, which could significantly impact the delivery of our strategy, are discussed in detail in the risk management section of the 2015 Lloyds Banking Group plc Annual Report and Accounts (pages 111 to 169).

The Group believes effective risk management can be a strategic differentiator, in particular:

- **Sustainable growth:** Embedding a risk culture ensures that proactive support and constructive challenge takes place across the business in order to deliver sustainable growth.
- **Prudent approach to risk:** Implementing a prudent approach to risk appetite across the Group, aligned to the embedding of a strong risk culture, driven both from the top and across the wider business, ensures we operate within risk appetite.
- **Strong control framework:** The Group's Risk Management Framework acts as the foundation for the delivery of effective risk control and ensures that the Group risk appetite is adhered to.
- **Effective risk analysis, management and reporting**: Close monitoring and stringent reporting to all levels of management and the Board ensures appetite limits are maintained and are subject to stressed analysis at a risk type and portfolio level.
- **Business focus and accountability:** Effective risk management is a key focus and is included in key performance measures against which individual business units are assessed. The business areas in the first line are accountable for risk but with oversight from a strong, and importantly, independent Second line Risk Division.

Risk appetite

- Defined as 'the amount and type of risk that the Group is prepared to seek, accept or tolerate.'
- The Group's strategy operates in tandem with its high level risk appetite which is supported by more detailed metrics and limits. An updated Risk Appetite Statement was approved by the Board in 2015. This incorporated challenge and recommendations from the Board Risk Committee and is fully aligned with Group strategy.
- Risk appetite is embedded within principles, policies, authorities and limits across the Group and continues to evolve to reflect external market developments and composition of the Group.
- Performance is optimised by allowing business units to operate within approved risk appetite and limits.

Governance and control

- The Group's approach to risk is founded 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 down to individuals through the management hierarchy. Senior executives are supported 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 regulations, 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 management is directly accountable for identifying and managing risks in their individual businesses, ensuring that business decisions strike an appropriate balance between risk and reward consistent with the Group's risk appetite.
- Clear responsibilities and accountabilities for risk are defined across the Group through a Three Lines of Defence model which ensures effective independent oversight and assurance in respect of key decisions.

Risk decision making and reporting

- Taking risks which are well understood, consistent with strategy and with appropriate return is a key driver of shareholder value.
- Risk analysis and reporting supports the identification of opportunities as well as risks.
- An aggregate view of the Group's overall risk profile, key risks and management actions, and performance against risk appetite, is reported to and discussed monthly at the Group Risk Committee (and a subset at the Group Asset and Liability 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 (BRC) of the aggregate risk profile and as a member of the Board, has direct access to the Chairman and members of BRC.

The most significant risks the Group faces which could impact delivery of its strategy together with key mitigating actions, in line with the Risk Management framework, are outlined in the Risk Review section of the 2015 Lloyds Banking Group plc Annual Report and Accounts, pages 30 to 33.

Details of the Group's application of stress testing, the methodologies applied, use of reverse stress testing and governance are presented in the Risk Management section of the 2015 Lloyds Banking Group plc Annual Report and Accounts, page 115.

Further details on the Group's risk governance are presented in the Risk Management section of the 2015 Lloyds Banking Group plc Annual Report and Accounts, pages 118 and 119.

Further details on the Group's risk management processes in relation to the key risk drivers that do not fall under the scope of the Group's Pillar 3 disclosures are presented in the Risk Management section of the 2015 Lloyds Banking Group plc Annual Report and Accounts, as follows:

Conduct risk page 143; Funding and liquidity risk, pages 153 to 159; Capital risk, pages 160 to 165; Regulatory and legal risk, page 166; Insurance risk, page 166 and 167; People risk, page 167 and 168; Financial reporting risk, page 168; and Governance risk, page 169.

The regulatory capital framework

The Group's regulatory capital framework is defined by CRD IV as implemented in the UK by the PRA policy statement PS7/13.

REGULATORY CAPITAL

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

Common equity tier 1 capital (CET1)

This represents the strongest form of capital consisting of shareholders' equity (ordinary share capital and reserves) after a number of regulatory adjustments and deductions are applied. Of these, the most significant for the Group are the deduction of part of the Group's equity investment in its Insurance business and a large part of the Group's deferred tax assets. Other significant deductions consist of the elimination of the cash flow hedging reserve and deductions applied for goodwill, other intangible assets and defined benefit pension surpluses.

CET1 capital can be supplemented by certain subordinated debt liabilities and other capital securities classified as Additional tier 1 (AT1) or tier 2 capital (T2).

Additional tier 1 capital (AT1)

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 the CRD IV transitional rules, securities that do not qualify in their own right as AT1 but were issued and eligible as tier 1 capital prior to CRD IV can be partially included within AT1, until they are phased out altogether in 2022. To the extent that these securities do not qualify as AT1 they may nevertheless still qualify as tier 2 capital.

Also under CRD IV transitional rules, a portion of the subordinated debt issued by the Group's Insurance business and held by the Group is deducted from AT1 capital. The remaining portion is deducted from T2 capital.

Tier 2 capital (T2)

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.

Again, CRD IV transitional rules operate allowing securities that do not qualify in their own right as T2 but which were issued and eligible as T2 capital prior to CRD IV to be partially included as T2 capital, until they are phased out altogether in 2022.

There are two further adjustments: any excess of IRB loan loss provisions over the corresponding expected losses is added back to T2 capital; and a deduction is made for part of the subordinated debt issued by the Group's Insurance business that is not deducted from AT1 capital.

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 regulatory minimum amount of total capital is determined as 8 per cent of the aggregate risk-weighted assets and the Pillar 1 capital requirements referenced in this document are calculated using this regulatory minimum value. At least 4.5 per cent of risk-weighted assets must be covered by CET1 capital.

A range of approaches, varying in sophistication, are available under the CRD IV framework to use in measuring risk-weighted assets to determine the minimum level of capital required. Within the Group, risk-weighted assets are predominantly calculated using internal models that are prudently calibrated based on internal 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 is disclosed on page 15, with further detail provided in each of the sections as indicated.

Further details on the Group's application of the IRB Approach (credit and counterparty credit risks) and the Internal Models Approach (market risk) are provided on pages 37 and 38 and 92 to 93, respectively.

Regulatory expected losses under the Foundation and Advanced IRB approaches are calculated by multiplying regulatory EAD by probability of default (PD) and loss given default (LGD), which are determined for each Approach as outlined on page15, with the exception of defaulted exposures on the Advanced IRB Approach where the best estimate of expected loss (BEEL) is used. For exposures on the Supervisory Slotting and Equity Simple Risk Weight approaches, regulatory expected losses are determined by prescribed percentages from the regulator.

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 CRD IV, either directly, or derived from a formula. There are two key approaches under CRD IV: **Standardised Approach** This is the most basic approach which applies a specified set of risk weights to exposures. Under this approach banks can utilise external credit ratings to determine risk weights for rated counterparties. **IRB Approach** There are two main approaches for commercial exposures – Foundation IRB and Advanced IRB. For Retail exposures, Retail IRB is available. A prescribed regulatory formula is used to calculate risk-weighted assets which incorporates PD, LGD and EAD in addition to other variables such as maturity and correlation. Under CRD IV there are also adjustments applied to the calculation of risk-weighted assets in respect of an uplift for Financial Institutions Interconnectedness (FII) and a reduction for exposure to SMEs. *Foundation IRB Approach (FIRB)* 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 (AIRB)* The AIRB Approach uses internal assessments of PD, EAD and LGD (subject to certain floors). The Retail IRB Aproach is equivalent in use of PD, EAD and LGD to AIRB for 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 areas such as equity exposures, securitisation positions and contributions to the default fund of a central counterparty.	The Group applies the Standardised Approach to a small number of portfolios. These portfolios are mostly portfolios awaiting roll-out under the Group's IRB roll-out plan and portfolios permanently exempt from the IRB Approach which includes the majority of the Group's central government and central bank exposures. For the Group's commercial portfolios, the FIRB Approach is used for the majority of exposures as the Group does not currently have permission to utilise the AIRB Approach. The Group applies the Retail IRB Approach for the vast majority of its retail exposures. The Group applies the Supervisory Slotting Approach to certain corporate specialised lending exposures comprising mainly its commercial real estate exposures. The Simple Risk Weight Method is applied to the Group's equity exposures. Securitisation positions are predominantly risk-weighted under the Ratings Based Approach (RBA), with limited use made of the Internal Assessment Approach (IAA).
Counterparty credit risk	There are three approaches to measuring exposure for counterparty credit risk, as below, which when combined with an appropriate PD and LGD feeds into the relevant IRB approach or alternatively capital requirements are calculated under the Standardised Approach. **Standardised Method** The exposure value is calculated by applying a multiplier to the market value, dependent on the type of contract. **Mark-to-Market Method** Under this method, an add-on for potential future exposure (PFE) is applied to the balance sheet value of the instrument to give the overall exposure. **Internal Models Method (IMM)** Under the IMM approach, the fair value on the balance sheet is replaced by an exposure value calculated using internal models.	The Group's counterparty credit risk exposures are first measured under the Mark-to-Market Method, prior to being risk weighted under the Standardised or IRB Approach.
Market risk	The two key approaches for Market Risk are as follows: **Standardised Approach** 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** Following PRA approval, involves the use of internal Value at Risk (VaR) 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 3 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. **The Standardised Approach (TSA)** A medium risk sensitivity approach where the capital requirement is derived from the three year average of the aggregate risk weighted relevant indicators of the underlying business. **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 currently measures its operational risk requirement using TSA.

The regulatory capital framework continued

PILLAR 2 – SUPERVISORY REVIEW PROCESS

The minimum requirement for capital is supplemented by firm specific Individual Capital Guidance (ICG) and a framework of regulatory capital buffers.

INDIVIDUAL CAPITAL GUIDANCE

Under Pillar 2A, additional minimum requirements are set by the PRA by the issuance of bank specific ICG. This reflects a point-in-time (PIT) estimate by the PRA, which may change over time, of the total amount of capital that is needed by the bank. It includes the assessment of 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 pensions and interest rate risk.

During 2015 the PRA increased the Group's Pillar 2A ICG, such that at 31 December 2015 it represented 4.6 per cent of risk-weighted assets of which 2.6 per cent had to be covered by CET1 capital. The Group believes that the increase reflects the impact of market and economic factors and the reduction in risk-weighted assets rather than any fundamental changes to the nature of the underlying risks. However the Group is not permitted by the PRA to give any further details of the quantum of the individual components.

A key input into the PRA's ICG setting process is a bank's own assessment of the amount of capital it needs, a process known as the Internal Capital Adequacy Assessment Process (ICAAP). The LBG ICAAP supplements the Pillar 1 capital requirements for credit risk, counterparty credit risk, operational risk and traded market risk by assessments of the material risks not covered or not fully captured under Pillar 1. This not only has the advantage of consistency with Pillar 1 but also allows the Group to leverage the considerable investment it has made in developing the component Pillar 1 models. This includes a detailed internal review of the models, their embedding in business use and an external review of these models by the PRA.

Some of the key risks assessed within the ICAAP include:

Risks not fully captured under Pillar 1

- 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. This assessment includes consideration of conduct risk but, for credit risk, excludes the risk arising as a result of loan default correlation which is covered by the concentration risk assessment.

Risks not covered at all by Pillar 1

- Pension obligation risk – the potential for additional unplanned costs 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 widening of the spread between Bank Base Rate and LIBOR rates.

The detailed ICAAP document is subject to a robust review process, approved by the Board and submitted to the PRA for consideration when setting ICG.

REGULATORY CAPITAL BUFFERS

The Group is also required to maintain 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. The Group is not currently categorised as a G-SIB for which the Financial Stability Board (FSB) has set buffer rates. The FPC has recently issued a consultation on the UK systemic risk buffer requirement for ring-fenced banks and large building societies proposing a rate of up to 2.5 per cent. The requirements will come into force from 2019 and the Group awaits finalisation of these later in 2016.

Capital conservation buffer

The capital conservation buffer (CCB) is a general buffer of 2.5 per cent of risk-weighted assets designed to provide for losses in the event of stress and is being phased in from 1 January 2016 to 1 January 2019.

Countercyclical capital buffer and sectoral capital requirements

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 set by the FPC for the individual countries where the Group has credit risk exposures.

The buffer is currently set at zero for the UK, however, non-zero rates for Norway and Sweden were in place at 31 December 2015. Given that the Group has minimal exposures to these jurisdictions, the overall requirement is negligible as outlined below.

COUNTERCYCLICAL CAPITAL BUFFER

Country	Capital requirement weighting[1]	Countercyclical capital buffer rate[2]	Institution specific countercyclical capital buffer rate
Norway	0.10%	1.00%	0.0010%
Sweden	0.02%	1.00%	0.0002%
Total			0.0012%
Institution specific countercyclical capital buffer requirement at 31 December 2015			£2.8m

[1] Capital requirements across all relevant country-level credit exposures as a function of the Group's total capital requirement across all relevant Group-wide credit exposures. Relevant credit exposures are those defined under the CCYB framework.

[2] The CCYB rates applied are recognised or set by the FPC. The rates for Norway and Sweden were implemented in October 2015 and will both increase to 1.5 per cent in June 2016. A rate of 0.625 per cent for Hong Kong was implemented in January 2016.

The FPC has noted that they expect to set a UK CCYB in the region of 1 per cent of risk-weighted assets when risks are judged to be neither subdued nor elevated.

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 UK.

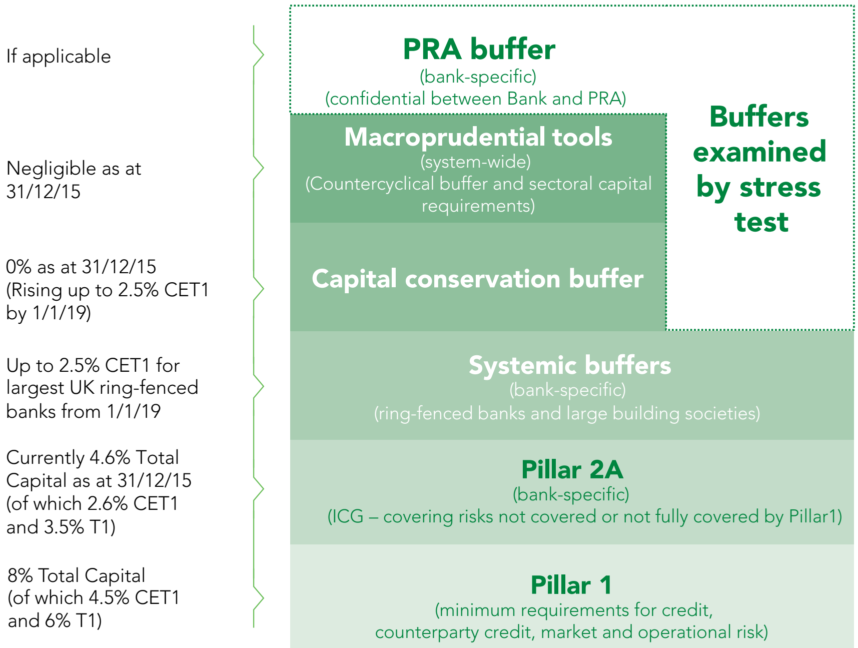
PRA buffer

As part of the capital planning process, forecast capital positions are subjected to extensive stress analyses to determine the adequacy of the Group's capital resources against the minimum requirements, including ICG. The PRA uses the outputs from some of these stress analyses to inform the setting of a minimum level of capital buffer for the Group. Prior to 2016 this was known as the Capital Planning Buffer but has now been replaced by the PRA Buffer which is set taking account of the CCB, CCYB and any sectoral capital requirements that already apply to the Group. The PRA requires the PRA Buffer to remain confidential between the Group and the PRA.

Further details on the Group's stress testing processes and the 2015 PRA stress testing results are included on page 115 of the 2015 Lloyds Banking Group plc Annual Report and Accounts.

All buffers

All buffers are required to be met with CET1 capital. A breach of the PRA buffer would trigger a dialogue between a bank and the PRA to agree what action is required whereas a breach of the CCB, CCYB or sectoral capital requirements would give rise to automatic constraints upon any discretionary capital distributions by the bank.



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 credit risk exposures.

The Basel III framework sets out the minimum disclosures required under Pillar 3. Together with additional minimum disclosure requirements imposed through amendments to the original CRD, these form the basis of the disclosures the Group is required to make under the relevant CRR provisions (Part 8 – Disclosure by institutions).

LEVERAGE FRAMEWORK

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

The minimum leverage ratio is 3 per cent, in line with current Basel Committee proposals. In addition the UK framework requires two buffers to be maintained: The Additional Leverage Ratio Buffer (ALRB), which it is proposed should be up to 0.9 per cent, and a time-varying Countercyclical Leverage Buffer (CCLB) of up to 0.9 per cent (currently negligible for the Group).

At least 75 per cent of the minimum 3 per cent requirement and the entirety of any buffers that may apply must be met by CET1 capital. The ALRB applies from 1 January 2016 but only for G-SIBs and as the Group is not categorised as a G-SIB it is not currently subject to the ALRB. Final rules are awaited on the wider application of the ALRB to ring-fenced banks and large building societies within the UK from 2019.

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

In addition both the Basel Committee and the European Commission are separately to review and consider leverage ratio calibration with final recommendations expected by 2017. The Basel Committee intends for the leverage ratio to become a Pillar 1 requirement from 1 January 2018.

FUTURE REGULATORY DEVELOPMENTS

Introduction

The Group's 2015 year end disclosures comply with all relevant CRD IV requirements and associated EBA guidelines and technical standards in force at 31 December 2015. It is important to note that specific aspects of the CRD IV text remain dependent upon the issuance of final EBA technical standards, guidelines and Q&As as well as PRA policy and standards in relation to areas of national discretion.

The Group continues to closely monitor regulatory developments at global, European and UK levels in order to best position the Group to adapt to any changes arising.

In December 2015, the FPC published a document alongside its Financial Stability Report in which it expressed its views on the overall calibration of the capital requirements framework for the UK banking system together with a description of how it expected the framework to transition from its current state to its end point in 2019 as well as ongoing work to refine capital requirements during that transitional period.

Some of the key areas of development are discussed further below:

Disclosure requirements

- **BCBS Pillar 3 framework** – In January 2015 the Basel Committee published revised Pillar 3 disclosure requirements with the aim of improving the comparability and consistency of disclosures between banks and within the various disclosures made by individual banks. Implementation of the revised Pillar 3 framework will result in considerable change to the presentation of the Group's Pillar 3 disclosures in future reporting periods, with implementation of the new requirements expected to apply from 31 December 2016.
- **EBA guidelines on disclosure frequency** – The PRA formally adopted the final EBA guidelines on Pillar 3 disclosure frequency in October 2015. The guidelines require additional disclosures on capital resources, risk-weighted assets, credit risk exposures and leverage to be published at the interim quarter ends with further detail to be provided as part of the half year results. As a result, the additional disclosures required will be included as part of the Group's Interim Management Statements, commencing with the March 2016 interim results, and on a quarterly basis thereafter.

Changes to capital requirements

- **Standardised credit risk framework** – The Basel Committee released a second consultation on revisions to the Standardised credit risk framework in December 2015. The proposed revisions are designed to increase the risk sensitivity of the framework and to better align with IRB approaches and are expected to be finalised by the end of 2016.
- **Capital floors** – The Basel Committee proposes to design a new capital floors framework based on the revised Standardised frameworks

The regulatory capital framework continued

to improve comparability and to constrain variation in model-derived RWAs. A second consultation with final proposals is expected to be issued during 2016, with the calibration of the floors also expected to be issued by the end of 2016 in line with the finalisation of the revised Standardised frameworks.

- **Standardised operational risk framework** – The Basel Committee are proposing revisions to the Standardised operational risk framework in order to enhance the current standardised approaches. A second consultation has been published with the revisions expected to be finalised by the end of 2016.
- **Standardised counterparty credit risk framework (SA-CCR)** – The Basel Committee issued its final revisions to the Standardised counterparty credit risk framework in March 2014. The new requirements will impact upon the calculation of CCR exposures under the Standardised approach and are expected to be implemented by 2017 at the earliest.
- **Credit valuation adjustments (CVA)** – The EBA has recommended the removal of exemptions from the current CVA framework over the medium term ahead of the implementation of final Basel Committee proposals on revisions to the CVA framework following completion of the fundamental review of the trading book (FRTB). In the short term the EBA has proposed additional measures under Pillar 2A.
- **Market risk** – The Basel Committee issued its final standards on the FRTB in January 2016. The standard includes a move away from VaR based metrics under the internal models approach to a new expected shortfall measure of risk under stress, a revised standardised approach for calculating market risk capital to a more risk-sensitive approach, incorporation of the risk of market illiquidity and a revised boundary between the banking book and the trading book. Application of the new framework is currently expected to be implemented at a national level by January 2019 with first reporting from the end of 2019.
- **Securitisations** – The Basel Committee issued final rules in December 2014 on introducing new risk weight methodologies for securitisation positions that have implications for the minimum risk weights applied. The new framework is expected to be implemented by the end of 2018.
- **Sovereigns** – The Basel Committee has initiated a review of the regulatory treatment of sovereign risk and is expected to consult on this in 2016. In addition the EU is expected to issue a consultation in 2016 on the Standardised approach risk weight treatment of EU sovereign exposures.
- **Interest rate risk in the banking book (IRRBB)** – The Basel Committee issued a consultation paper in June 2015 on the capital treatment of IRRBB. This included proposals for a standard approach with capital requirements determined under either an enhanced Pillar 2A approach or a new Pillar 1 approach. The Basel Committee is expected to announce a decision on this during 2016.

Other

- **Minimum requirement for own funds and eligible liabilities (MREL)** – The Bank of England has published a consultation paper on its approach for setting MREL in line with EU Bank Restriction and Recovery Directive requirements. The purpose of MREL is to require firms to maintain sufficient equity and liabilities that are capable of credibly bearing losses in resolution. MREL can be satisfied by a combination of regulatory capital and certain unsecured debt resources (which must be subordinate to a firm's operating liabilities). The consultation runs until March 2016 and the Bank of England have established that they intend to provide firms with an indication of prospective 2020 MREL during 2016 which will transition in up to 1 January 2020.

Capital management

This section details Lloyds Banking Group's approach to capital management, focusing on measures including Common Equity Tier 1 (CET1), Additional Tier 1 (AT1), Tier 2 (T2) and the Leverage Ratio.

CET1 ratio of 12.8% (13.0% pro forma)
Transitional T1 capital ratio of 16.4%
Transitional Total capital ratio of 21.5%
Leverage ratio of 4.8%.

- The Group has a capital management framework that is designed to ensure that it operates within its risk appetite, uses its capital resources efficiently and continues to comply with regulatory requirements.
- CET1 capital resources reduced by £2.1bn in the year largely as a result of dividends paid out during the year and the accrual of the full year ordinary dividend and special dividend, representing returns to ordinary shareholders following strong underlying profit generation, net of payment protection insurance product (PPI) and other conduct charges.
- AT1 capital resources have reduced by £0.9bn in the year, primarily reflecting the annual reduction in the transitional limit applied to grandfathered AT1 capital instruments and an increase in the significant investments deduction.
- Tier 2 capital resources reduced by £1.8bn in the year, largely reflecting calls and redemptions, amortisation of dated instruments, foreign exchange movements and an increase in the significant investments deduction, partly offset by the issuance of new tier 2 instruments.
- A description of the main features of CET1, AT1 and Tier 2 instruments issued by the Group and its significant subsidiaries are included in a separate document on the Group's website. Summary information on movements and the underlying terms and conditions of capital securities is presented in the Notes to the Consolidated Financial Statements of the 2015 Lloyds Banking Group plc Annual Report and Accounts.
- The Group's fully loaded leverage ratio reduced by 0.1 per cent to 4.8 per cent reflecting the impact of the reduction in tier 1 capital offset by the £28.5bn reduction in the exposure measure, the latter largely reflecting the reduction in balance sheet assets arising, in part, from the disposal of TSB.

Capital management continued

THE GROUP'S APPROACH TO CAPITAL RISK

Definition

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

Risk appetite

Capital risk appetite is set by the Group Board, reflecting the Group's strategic plans, regulatory capital constraints and market expectations. It is defined by a number of minimum capital ratios, a minimum leverage ratio and a minimum buffer over regulatory solvency requirements for the Insurance business set by the Insurance Board. The Group monitors its actual and forecast capital positions aiming to remain within its appetite at all times.

Exposures

A capital risk exposure arises where the Group has insufficient capital resources to support its strategic objectives and plans, and to meet 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. Alternatively a shortage of capital could arise from an increase in the amount of capital that is needed to be held. The Group's capital management approach is focused on maintaining sufficient capital resources to prevent such exposures while optimising value for shareholders.

Measurement

The Group measures the amount of capital it holds using the regulatory framework defined by CRD IV as implemented in the UK by the PRA. Full details of the Group's regulatory capital framework are on pages 14 to 18.

Mitigation

The Group has a capital management framework including policies and procedures that are designed to ensure that it operates within its risk appetite, uses its capital resources efficiently and continues to comply with regulatory requirements.

The Group is able to accumulate additional capital through the retention of profits over time, which can be enhanced through cutting costs and reducing or cancelling dividend payments, by raising new equity via, for example, a rights issue or debt exchange and by raising AT1 or T2 capital through issuing tier 1 instruments or subordinated liabilities. 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.

Additional measures to manage the Group's capital position include seeking to optimise the generation of capital demand within the Group's businesses to strike an appropriate balance of capital held within the Group's Insurance and banking subsidiaries and through improving the quality of its capital through liability management exercises.

Monitoring

The regulatory framework within which the Group operates continues to evolve, as outlined in further detail in 'Future Regulatory Developments' pages 17 to 18. The Group continues to monitor these developments very closely, analysing the potential capital impacts to ensure that, through organic capital generation, the Group continues to maintain a strong capital position that exceeds the minimum regulatory requirements and the Group's risk appetite and is consistent with market expectations.

Capital management in 2015

The continued strengthening of the Group's capital position during 2015, through a combination of increased underlying profits, net of PPI and other conduct charges, and a reduction in risk-weighted assets, provided the Group with the ability to pay both an interim dividend at half year and to recommend the payment of both a full year ordinary dividend and a special dividend whilst maintaining strong capital ratios.

– The CET1 ratio before dividends in respect of 2015 increased 0.9 percentage points from 12.8 per cent to 13.7 per cent.
– The CET1 ratio after dividends in respect of 2015 was unchanged at 12.8 per cent, increasing to 13.0 per cent on a pro-forma basis upon recognition of the dividend paid by the Insurance business in February 2016 in relation to its 2015 earnings.
– The leverage ratio after dividends in respect of 2015 reduced from 4.9 per cent to 4.8 per cent.
– The transitional total capital ratio after dividends in respect of 2015 reduced 0.5 percentage points from 22.0 per cent to 21.5 per cent.

Dividends

The Group has established a dividend policy that is both progressive and sustainable. We expect ordinary dividends to increase over the medium term to a dividend payout ratio of at least 50 per cent of sustainable earnings.

Further details on the Group's dividend policy can be found on page 161 of Lloyds Banking Group plc Annual Report and Accounts.

During 2014 and 2015 the Group has undertaken significant capital management actions in order to simplify the Group's internal capital structure and to ensure that profits generated by subsidiary entities can be more easily remitted to Lloyds Banking Group plc ("the Company"). These activities relate to a number of subsidiary entities, and include the court approved capital reductions by HBOS plc and Bank of Scotland plc, the part VII transfers within Insurance businesses and obtaining PRA approval for our internal model, which will support the Solvency II capital regime for the Insurance subsidiaries with effect from 1 January 2016.

The Group remains strongly capitalised, increasing its CET1 capital ratio from 12.8 per cent at 31 December 2014 to 13.7 per cent (pre 2015 dividends) at 31 December 2015. The interim and recommended final dividends totalling 2.25 pence per ordinary share and the special dividend of 0.5 pence per ordinary share reduce the Group's CET1 ratio to 12.8 per cent. Recognising the 2015 Insurance dividend, paid in February 2016 following the implementation of Solvency II, this rises to 13.0 per cent on a pro forma basis.

LLOYDS BANKING GROUP CAPITAL RESOURCES

The capital resources of the Group as at 31 December 2015 are presented in the table below.

Table 4: Capital resources

	Transitional		Fully loaded	
	2015 £m	2014[3] £m	2015 £m	2014[3] £m
Common equity tier 1				
Shareholders' equity per balance sheet	**41,234**	43,335	**41,234**	43,335
Adjustment to retained earnings for foreseeable dividends	**(1,427)**	(535)	**(1,427)**	(535)
Deconsolidation of insurance entities[1]	**(1,199)**	(623)	**(1,199)**	(623)
Adjustment for own credit	**67**	158	**67**	158
Cash flow hedging reserve	**(727)**	(1,139)	**(727)**	(1,139)
Other adjustments	**72**	132	**72**	132
	38,020	41,328	**38,020**	41,328
Less: deductions from common equity tier 1				
Goodwill and other intangible assets	**(1,719)**	(1,875)	**(1,719)**	(1,875)
Excess of expected losses over impairment provisions and value adjustments	**(270)**	(565)	**(270)**	(565)
Removal of defined benefit pension surplus	**(721)**	(909)	**(721)**	(909)
Securitisation deductions	**(169)**	(211)	**(169)**	(211)
Significant investments[1]	**(2,723)**	(2,546)	**(2,752)**	(2,546)
Deferred tax assets	**(3,874)**	(4,533)	**(3,884)**	(4,533)
Common equity tier 1 capital	**28,544**	30,689	**28,505**	30,689
Additional tier 1				
Other equity instruments	**5,355**	5,355	**5,355**	5,355
Preference shares and preferred securities[2]	**4,728**	4,910	**-**	-
Transitional limit and other adjustments	**(906)**	(537)	**-**	-
	9,177	9,728	**5,355**	5,355
Less: deductions from tier 1				
Significant investments[1]	**(1,177)**	(859)	**-**	-
Total tier 1 capital	**36,544**	39,558	**33,860**	36,044
Tier 2				
Other subordinated liabilities[2]	**18,584**	21,132	**18,584**	21,132
Deconsolidation of instruments issued by insurance entities[1]	**(1,665)**	(2,522)	**(1,665)**	(2,522)
Adjustments for non-eligible instruments	**(52)**	(675)	**(3,066)**	(1,857)
Amortisation and other adjustments	**(3,880)**	(3,738)	**(4,885)**	(5,917)
	12,987	14,197	**8,968**	10,836
Eligible provisions	**221**	333	**221**	333
Less: deductions from tier 2				
Significant investments[1]	**(1,756)**	(1,288)	**(2,933)**	(2,146)
Total Capital Resources	**47,996**	52,800	**40,116**	45,067
Risk-weighted assets	**222,845**	239,734	**222,747**	239,734
Common equity tier 1 capital ratio (%)	**12.8%**	12.8%	**12.8%**	12.8%
Tier 1 capital ratio (%)	**16.4%**	16.5%	**15.2%**	15.0%
Total capital ratio (%)	**21.5%**	22.0%	**18.0%**	18.8%

[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 (shown as '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 categorised as subordinated liabilities in the balance sheet.

[3] Other comprehensive income related to the Group's Insurance defined benefit pension scheme has been reclassified from common equity tier 1 other adjustments to deconsolidation of insurance entities.

The key differences between the transitional capital calculation as at 31 December 2015 and the fully loaded equivalent are as follows:

- Capital securities that previously qualified as T1 or T2 capital, but do not qualify under CRD IV, can be included in T1 or T2 capital (as applicable) up to specified limits which reduce by 10 per cent per annum until 2022.
- The significant investment deduction from AT1 will gradually transition to T2.

Capital management continued

MOVEMENTS IN CAPITAL

The movements in the transitional CET1, AT1, T2 and total capital positions in the period are provided below.

Table 5: Movements in capital

	Common equity tier 1 £m	Additional tier 1 £m	Tier 2 £m	Total capital £m
At 31 December 2014	30,689	8,869	13,242	52,800
Profit attributable to ordinary shareholders[1]	434	-	-	434
Eligible minority interest	(470)	-	-	(470)
Movement in foreseeable dividends	(892)	-	-	(892)
Dividends paid out on ordinary shares during the year[1]	(1,070)	-	-	(1,070)
Movement in treasury shares and employee share schemes	(537)	-	-	(537)
Pension movements:				
Removal of defined benefit pension surplus	188	-	-	188
Movement through other comprehensive income	(194)	-	-	(194)
Available-for-sale reserve	(371)	-	-	(371)
Deferred tax asset	659	-	-	659
Goodwill and other intangible assets	156	-	-	156
Excess of expected losses over impairment provisions and value adjustments	295	-	-	295
Significant investments	(177)	(318)	(468)	(963)
Eligible provisions	-	-	(112)	(112)
Movements in subordinated debt:				
Repurchases, redemptions and other	-	(551)	(2,516)	(3,067)
Issuances	-	-	1,306	1,306
Other movements	(166)	-	-	(166)
At 31 December 2015	**28,544**	**8,000**	**11,452**	**47,996**

[1] Under the regulatory framework profits made by Insurance are excluded from CET1 capital. However, when dividends are paid to the Group by Insurance these can be recognised as CET1 capital.

CET1 capital resources have reduced by £2,145m in the year largely as a result of dividends paid out during the year and the accrual of the full year ordinary dividend and special dividend, representing returns to ordinary shareholders following strong underlying profit generation. Other reductions to CET1 capital primarily reflected the removal of eligible minority interest related to TSB and movements in treasury shares, employee share schemes and the available for sale (AFS) reserve. These reductions in CET 1 capital were partially offset by reductions in both the deferred tax asset deduction and the excess of expected losses over impairment provisions and value adjustments.

AT1 capital resources have reduced by £869m in the year, primarily reflecting the annual reduction in the transitional limit applied to grandfathered AT1 capital instruments and an increase in significant investment deduction.

T2 capital resources have reduced by £1,790m in the period largely reflecting calls and redemptions, amortisation of dated instruments, foreign exchange movements and an increase in the significant investments deduction, partly offset by the issuance of new T2 instruments.

CAPITAL INSTRUMENTS

A description of the main features of CET1, AT1 and T2 instruments issued by the Group and its significant subsidiaries are included in a separate document on the Group's website located at www.lloydsbankinggroup.com/investors/financial-performance/lloyds-banking-group/

Summary information on movements in subordinated liabilities and share capital and the terms and conditions applying to these instruments is presented in the Notes to the Consolidated Financial Statements of the 2015 Lloyds Banking Group plc Annual Report and Accounts as follows:

Note 40 (Subordinated liabilities), 2015 Lloyds Banking Group plc Annual Report and Accounts.

Note 41 (Share capital), 2015 Lloyds Banking Group plc Annual Report and Accounts.

The full terms and conditions attached to capital instruments are also available on the Group's website at http://www.lloydsbankinggroup.com/investors/debt-investors

The recognition, classification and valuation of these instruments within the Group's regulatory capital resources were subject to the requirements of CRD IV. This can lead to a different treatment from the IFRS accounting approach upon which the disclosures within the 2015 Lloyds Banking Group plc Annual Report and Accounts are based. Not all subordinated liabilities qualify as regulatory capital, and for those that do, differences between the accounting and the regulatory value can arise in relation to fair value hedge accounting adjustments, accrued interest, the regulatory amortisation of dated securities, and the deduction of the enhanced capital notes (ECN) embedded derivative asset. In addition, instruments issued by the Group's insurance subsidiaries are excluded from the regulatory capital resources of the banking group.

Following determination by a unanimous decision by the Court of Appeal that a Capital Disqualification Event had occurred, as defined in the conditions of the ECNs, the Group announced the redemption of certain series of ECNs using the Regulatory Call Right. At the same time tender offers were launched for the remaining series of ECNs. Full details of the events surrounding these actions can be found in the 2015 Lloyds Banking Group plc Annual Report and Accounts on page 279.

OWN FUNDS DISCLOSURES

Additional disclosures on own funds, in accordance with the requirements of the EBA technical standard on Own Funds Disclosure, are provided in Appendix 1. These consist of a detailed analysis of the components of the Group's transitional own funds and a reconciliation of own funds items to the statutory balance sheet. Separate own funds disclosures are provided for the Group's significant subsidiaries and are located in Appendices 2 and 3.

Capital management continued

LEVERAGE RATIO

In January 2015 the existing CRD IV rules on the calculation of the leverage ratio were amended to align with the European Commission's interpretation of the revised Basel III leverage ratio framework. The Group's leverage ratio has been calculated in accordance with the amended CRD IV rules on leverage.

Table 6: Leverage ratio

	Fully loaded	
	2015 £m	2014[1] £m
Total tier 1 capital for leverage ratio		
Common equity tier 1 capital	28,505	30,689
Additional tier 1 capital	5,355	5,355
Total tier 1 capital	33,860	36,044
Exposure measure		
Statutory balance sheet assets		
Derivative financial instruments	29,467	36,128
Securities financing transactions (SFTs)	34,136	43,772
Loans and advances and other assets	743,085	774,996
Total assets	806,688	854,896
Deconsolidation adjustments[2]		
Derivatives financial instruments	(1,510)	(1,663)
Securities financing transactions (SFTs)	(441)	1,655
Loans and advances and other assets	(133,975)	(144,114)
Total deconsolidation adjustments	(135,926)	(144,122)
Derivatives adjustments		
Adjustment for regulatory netting	(16,419)	(24,187)
Adjustment to cash collateral	(6,464)	(1,024)
Net written credit protection	682	425
Regulatory potential future exposure	12,966	12,722
Total derivatives adjustments	(9,235)	(12,064)
Counterparty credit risk add-on for SFTs	3,361	1,364
Off-balance sheet items	56,424	50,980
Regulatory deductions and other adjustments	(9,112)	(10,362)
Total exposure	712,200	740,692
Leverage ratio (%)	4.8%	4.9%

[1] Restated to align with the amended CRD IV rules on leverage implemented in January 2015.

[2] Deconsolidation adjustments predominantly reflect the deconsolidation of assets related to Group subsidiaries that fall outside the scope of the Group's regulatory capital consolidation (primarily the Group's insurance entities).

Key movements

- The Group's fully loaded leverage ratio decreased by 0.1 per cent to 4.8 per cent reflecting the impact of the reduction in T1 capital offset by the £28.5bn reduction in the exposure measure, the latter largely reflecting the reduction in balance sheet assets arising, in part, from the disposal of TSB.
- The derivatives exposure measure, representing derivative financial instruments per the balance sheet net of deconsolidation and derivatives adjustments, reduced by £3.7bn reflecting a combination of market movements, trading activity and trade compressions and the recognition and subsequent deduction of receivables assets for eligible cash variation margin provided in derivatives transactions.
- The SFT exposure measure, representing SFTs per the balance sheet inclusive of deconsolidation adjustments and counterparty credit risk add-on, reduced by £9.7bn primarily reflecting active balance sheet management and reduced trading volumes.
- Off-balance sheet items increased by £5.4bn, primarily reflecting an increase in new corporate lending facilities and corporate customer limits and an increase in new residential mortgage offers placed.

Pillar 1 Capital requirements: Overview

LLOYDS BANKING GROUP RISK-WEIGHTED ASSETS AND PILLAR 1 CAPITAL REQUIREMENTS

The risk-weighted assets and Pillar 1 capital requirements of the Group as at 31 December 2015 are presented in the table below together with key drivers behind risk-weighted asset movements.

Table 7: Capital requirements

	2015 Risk-weighted assets	2015 Pillar 1 capital requirements	2014 Risk-weighted assets	2014 Pillar 1 capital requirements
CREDIT RISK				
Exposures subject to the IRB approach				
Foundation IRB approach				
Corporate – main	43,005	3,441	43,735	3,499
Corporate – SME	8,814	705	9,637	771
Corporate – specialised lending	8	1	5	-
Central governments and central banks	1,347	108	1,618	129
Institutions	1,430	114	1,577	126
Retail IRB approach				
Retail mortgages	38,252	3,060	43,123	3,450
of which: residential mortgages (SME)	3,214	257	3,174	254
of which: residential mortgages (non-SME)	35,038	2,803	39,949	3,196
Qualifying revolving retail exposures	12,501	1,000	14,061	1,125
Other SME	1,807	145	1,982	159
Other non-SME	11,352	908	13,720	1,098
Other IRB approaches[1]				
Corporate - specialised lending	14,386	1,151	15,821	1,266
Equities – exchange traded	2,837	227	1,976	158
Equities – private equity	5,664	453	5,727	458
Equities – other	1,392	111	201	16
Securitisation positions[2]	3,266	261	2,373	190
Non-credit obligation assets[3]	5,502	440	5,047	404
Total – IRB approach	151,563	12,125	160,603	12,849
Exposures subject to the standardised approach				
Central governments and central banks	-	-	11	1
Regional governments or local authorities	-	-	-	-
Public sector entities	2	-	9	1
International organisations	-	-	-	-
Multilateral development banks	-	-	-	-
Institutions	24	2	53	4
Corporates	11,921	954	13,646	1,092
Retail	2,880	230	2,946	236
Secured by mortgages on immovable property	2,109	168	3,408	273
of which: residential property	2,078	166	3,396	272
of which: commercial property	31	2	12	1
Exposures in default	1,198	96	1,573	126
Exposures associated with particularly high risk	-	-	1	-
Covered bonds	-	-	-	-
Securitisation positions	-	-	-	-
Short-term claims on institutions and corporates	-	-	-	-
Collective investment undertakings (CIUs)	-	-	-	-
Equity exposures	-	-	-	-
Other items[3]	2,309	185	3,797	304
Total – standardised approach	20,443	1,635	25,444	2,037
Contributions to the default fund of a central counterparty	488	39	515	41
Total credit risk	172,494	13,799	186,562	14,927
Threshold – significant investments	7,817	625	8,309	665
Threshold – deferred tax	2,971	238	2,515	201
Total credit risk (transitional)	183,282	14,663	197,386	15,793

Pillar 1 Capital requirements: Overview continued

	2015 Risk-weighted assets	2015 Pillar 1 capital requirements	2014 Risk-weighted assets	2014 Pillar 1 capital requirements
COUNTERPARTY CREDIT RISK				
IRB approach	7,328	586	8,638	691
Standardised approach	509	41	314	25
Central counterparties	144	12	145	12
Settlement risk	-	-	11	1
Total counterparty credit risk	7,981	639	9,108	729
Credit valuation adjustment				
Standardised method	1,684	135	2,215	177
Total credit valuation adjustment	1,684	135	2,215	177
MARKET RISK				
Internal models approach	3,224	258	3,108	249
Standardised approach				
Interest rate position risk requirement	477	38	1,566	125
of which: specific interest rate risk of securitisation positions	78	6	285	23
Equity position risk requirement	-	-	-	-
Foreign exchange position risk requirement	74	6	72	6
Commodity position risk requirement	-	-	-	-
Total market risk	3,775	302	4,746	380
OPERATIONAL RISK				
Standardised approach	26,123	2,090	26,279	2,102
Total operational risk	26,123	2,090	26,279	2,102
Total	222,845	17,827	239,734	19,181

[1] Credit risk exposures subject to other IRB approaches include corporate specialised lending exposures risk-weighted in accordance with supervisory slotting criteria, equity exposures risk-weighted in accordance with the Simple Risk Weight Method and securitisation positions risk-weighted in accordance with the IAA and the RBA.

[2] Securitisation positions exclude amounts allocated to the 1,250 per cent risk weight category. These amounts are deducted from capital after the application of SCRAs, rather than being risk-weighted.

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

RISK-WEIGHTED ASSETS MOVEMENT BY KEY DRIVER

Table 8: Risk-weighted assets movement by key driver

	Credit risk[3] £m	Counterparty credit risk[3] £m	Market risk £m	Operational risk £m	Total £m
Risk-weighted assets at 31 December 2014	186,562	11,323	4,746	26,279	228,910
Management of the balance sheet	1,772	(474)	(838)	-	460
Disposals	(8,582)	(115)	-	-	(8,697)
External economic factors	(6,370)	(518)	80	-	(6,808)
Model and methodology changes	(888)	(551)	(213)	-	(1,652)
Other	-	-	-	(156)	(156)
Risk-weighted assets	172,494	9,665	3,775	26,123	212,057
Threshold risk-weighted assets[1]					10,788
Total risk-weighted assets at 31 December 2015					222,845
Movement to fully loaded risk-weighted assets[2]					(98)
Fully loaded risk-weighted assets					222,747

[1] Threshold risk-weighted assets reflect the element of significant investments and deferred tax assets that are permitted to be risk-weighted instead of deducted from CET1 capital. Significant investments primarily arise from the investment in the Group's Insurance business.

[2] Differences may arise between transitional and fully loaded threshold risk-weighted assets where deferred tax assets reliant on future profitability and arising from temporary timing differences and significant investments exceed the fully loaded threshold limit, resulting in an increase in amounts deducted from CET1 capital rather than being risk-weighted. At 31 December 2014 the fully loaded threshold was not exceeded and therefore no further adjustment was applied to the transitional threshold risk-weighted assets.

[3] Credit risk includes movements in contributions to the default fund of central counterparties and counterparty credit risk includes the movements in credit valuation adjustments risk.

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

Credit risk-weighted assets reductions of £14.1bn were driven by the following key movements:

– Management of the balance sheet includes risk-weighted asset movements arising from new lending and asset run-off. During 2015, credit risk-weighted assets increased by £1.8bn, primarily as a result of targeted net lending growth in core businesses, as well as an increase in risk-weighted assets for the Group's strategic equity investments.

– Disposals include risk-weighted asset reductions arising from the sale of assets, portfolios and businesses. Disposals reduced credit risk-weighted assets by £8.6bn, primarily driven by the completion of the sale of TSB as well as disposals in the run-off business.

– External economic factors capture movements driven by changes in the economic environment. The reduction in credit risk-weighted assets of £6.4bn is mainly due to improvements in credit quality, which primarily impacted the Retail and Consumer Finance businesses and favourable movements in HPI that benefited retail mortgage portfolios.

– Model and methodology reductions of £0.9bn include the movement in credit risk-weighted assets arising from model refinements and changes in credit risk approach applied to certain portfolios.

Counterparty credit risk and CVA risk reductions of £1.7bn are principally driven by trading activity and compressions, hedging and yield curve movements.

Risk-weighted assets related to market risk reduced by £1.0bn primarily due to active portfolio management and model and methodology refinements.

Pillar 1 Capital requirements: Overview continued

DIVISIONAL RISK-WEIGHTED ASSETS

The risk-weighted assets of the divisions as at 31 December 2015 are presented in the table below.

Table 9: Divisional risk-weighted assets

	2015 Retail £m	2015 Commercial Banking £m	2015 Consumer Finance £m	2015 Central Items £m	2015 Run-off £m	2015 TSB £m	2015 Total £m
CREDIT RISK							
Exposures subject to the IRB approach							
Foundation IRB approach							
Corporate – main	-	39,297	2,907	5	796	-	43,005
Corporate – SME	27	8,569	16	-	202	-	8,814
Corporate – specialised lending	-	8	-	-	-	-	8
Central governments and central banks	-	-	-	1,347	-	-	1,347
Institutions	-	909	56	463	2	-	1,430
Retail IRB approach							
Retail mortgages	30,202	3,059	1,338	-	3,653	-	38,252
of which: residential mortgages (SME)	137	3,059	18	-	-	-	3,214
of which: residential mortgages (non-SME)	30,065	-	1,320	-	3,653	-	35,038
Qualifying revolving retail exposures	4,536	-	7,965	-	-	-	12,501
Other SME	633	1,077	97	-	-	-	1,807
Other non-SME	9,002	-	2,347	-	3	-	11,352
Other IRB approaches[1]							
Corporate – specialised lending	-	13,338	-	-	1,048	-	14,386
Equities – exchange traded	-	-	-	2,568	269	-	2,837
Equities – private equity	-	4,477	-	649	538	-	5,664
Equities – other	-	-	-	1,342	50	-	1,392
Securitisation positions[2]	-	2,052	-	181	1,033	-	3,266
Non-credit obligation assets[3]	114	73	1,392	3,912	12	-	5,502
Total – IRB approach	44,514	72,859	16,118	10,466	7,606	-	151,563
Exposures subject to the standardised approach							
Central governments and central banks	-	-	-	-	-	-	-
Public sector entities	-	2	-	-	-	-	2
Multilateral development banks	-	-	-	-	-	-	-
Institutions	1	3	19	-	1	-	24
Corporates	1,428	7,991	448	1,167	887	-	11,921
Retail	580	1,369	392	-	539	-	2,880
Secured by mortgages on immovable property	1,548	86	52	-	423	-	2,109
of which: residential property	1,545	58	52	-	423	-	2,078
of which: commercial property	3	28	-	-	-	-	31
Exposures in default	572	249	10	-	367	-	1,198
Exposures associated with particularly high risk	-	-	-	-	-	-	-
Covered bonds	-	-	-	-	-	-	-
Securitisation positions	-	-	-	-	-	-	-
Short-term Claims on institutions and corporates	-	-	-	-	-	-	-
Collective investment undertakings (CIUs)	-	-	-	-	-	-	-
Equity exposures	-	-	-	-	-	-	-
Other items[3]	154	361	574	1,099	121	-	2,309
Total – standardised approach	4,283	10,061	1,495	2,266	2,338	-	20,443

	2015 Retail £m	2015 Commercial Banking £m	2015 Consumer Finance £m	2015 Central Items £m	2015 Run-off £m	2015 TSB £m	2015 Total £m
Contributions to the default fund of a central counterparty	-	488	-	-	-	-	488
Total credit risk	48,797	83,408	17,613	12,732	9,944	-	172,494
Threshold – significant investments	-	-	-	7,817	-	-	7,817
Threshold – deferred tax	-	-	-	2,971	-	-	2,971
Total credit risk (transitional)	48,797	83,408	17,613	23,520	9,944	-	183,282
COUNTERPARTY CREDIT RISK							
IRB approach	-	7,152	-	176	-	-	7,328
Standardised approach	-	229	-	280	-	-	509
Central counterparties	-	144	-	-	-	-	144
Settlement risk	-	-	-	-	-	-	-
Total counterparty credit risk	-	7,525	-	456	-	-	7,981
Credit valuation adjustment							
Standardised method	-	1,594	-	90	-	-	1,684
Total credit valuation adjustment	-	1,594	-	90	-	-	1,684
MARKET RISK							
Internal models approach	-	3,224	-	-	-	-	3,224
Standardised approach							
Interest rate position risk requirement	-	477	-	-	-	-	477
of which: specific interest rate risk of securitisation positions	-	78	-	-	-	-	78
Equity position risk requirement	-	-	-	-	-	-	-
Foreign exchange position risk requirement	-	24	-	50	-	-	74
Commodity position risk requirement	-	-	-	-	-	-	-
Total market risk	-	3,725	-	50	-	-	3,775
OPERATIONAL RISK							
Standardised approach	17,147	6,263	2,463	-	250	-	26,123
Total operational risk	17,147	6,263	2,463	-	250	-	26,123
Total risk-weighted assets	65,944	102,516	20,076	24,116	10,194	-	222,845

Pillar 1 Capital requirements: Overview continued

	2014 Retail £m	2014 Commercial Banking £m	2014 Consumer Finance £m	2014 Central Items £m	2014 Run-off £m	2014 TSB £m	2014 Total £m
CREDIT RISK							
Exposures subject to the IRB approach							
Foundation IRB approach							
Corporate – main	3	39,134	2,678	73	1,847	–	43,735
Corporate – SME	2	9,188	17	–	430	–	9,637
Corporate – specialised lending	–	5	–	–	–	–	5
Central governments and central banks	–	388	–	1,230	–	–	1,618
Institutions	–	1,147	47	320	63	–	1,577
Retail IRB approach							
Retail mortgages	32,438	3,076	1,384	–	4,553	1,672	43,123
of which: residential mortgages (SME)	98	3,076	–	–	–	–	3,174
of which: residential mortgages (non-SME)	32,340	–	1,384	–	4,553	1,672	39,949
Qualifying revolving retail exposures	5,371	–	8,690	–	–	–	14,061
Other SME	713	1,269	–	–	–	–	1,982
Other non-SME	10,248	–	1,923	–	34	1,515	13,720
Other IRB approaches[1]							
Corporate – specialised lending	–	12,870	–	–	2,951	–	15,821
Equities – exchange traded	–	–	–	1,976	–	–	1,976
Equities – private equity	–	4,349	–	640	738	–	5,727
Equities – other	–	–	–	142	59	–	201
Securitisation positions[2]	–	1,052	–	64	1,257	–	2,373
Non-credit obligation assets[3]	78	130	1,229	3,605	5	–	5,047
Total – IRB approach	48,853	72,608	15,968	8,050	11,937	3,187	160,603
Exposures subject to the standardised approach							
Central governments and central banks	–	–	–	–	11	–	11
Public sector entities	–	1	–	–	8	–	9
Institutions	1	12	15	19	6	–	53
Corporates	1,221	8,695	641	1,525	1,562	2	13,646
Retail	535	862	254	–	608	687	2,946
Secured by mortgages on immovable property	1,780	87	61	–	493	987	3,408
of which: residential property	1,780	75	61	–	493	987	3,396
of which: commercial property	–	12	–	–	–	–	12
Exposures in default	807	184	11	–	538	33	1,573
Exposures associated with particularly high risk	–	1	–	–	–	–	1
Short-term claims on institutions and corporates	–	–	–	–	–	–	–
Collective investment undertakings (CIUs)	–	–	–	–	–	–	–
Other items[3]	199	401	383	2,266	277	271	3,797
Total – standardised approach	4,543	10,243	1,365	3,810	3,503	1,980	25,444
Contributions to the default fund of a central counterparty	–	515	–	–	–	–	515
Total credit risk	53,396	83,366	17,333	11,860	15,440	5,167	186,562
Threshold – significant investments	–	–	–	8,309	–	–	8,309
Threshold – deferred tax	–	–	–	2,515	–	–	2,515
Total credit risk	53,396	83,366	17,333	22,684	15,440	5,167	197,386

	2014 Retail £m	2014 Commercial Banking £m	2014 Consumer Finance £m	2014 Central Items £m	2014 Run-off £m	2014 TSB £m	2014 Total £m
COUNTERPARTY CREDIT RISK							
IRB approach	–	8,363	–	275	–	–	8,638
Standardised approach	–	298	–	16	–	–	314
Central counterparties	–	142	–	–	–	3	145
Settlement risk	–	11	–	–	–	–	11
Total counterparty credit risk	–	8,814	–	291	–	3	9,108
Credit valuation adjustment							
Standardised method	–	2,173	–	42	–	–	2,215
Total credit valuation adjustment	–	2,173	–	42	–	–	2,215
MARKET RISK							
Internal models approach	–	3,108	–	–	–	–	3,108
Standardised approach							
Interest rate position risk requirement	–	1,566	–	–	–	–	1,566
of which: specific interest rate risk of securitisation positions	–	285	–	–	–	–	285
Equity position risk requirement	–	–	–	–	–	–	–
Foreign exchange position risk requirement	–	72	–	–	–	–	72
Total market risk	–	4,746	–	–	–	–	4,746
OPERATIONAL RISK							
Standardised approach	14,270	7,086	3,549	–	1,374	–	26,279
Total operational risk	14,270	7,086	3,549	–	1,374	–	26,279
Total risk-weighted assets	67,666	106,185	20,882	23,017	16,814	5,170	239,734

[1] Credit risk exposures subject to other IRB approaches include corporate specialised lending exposures risk-weighted in accordance with supervisory slotting criteria, equity exposures risk-weighted in accordance with the Simple Risk Weight Method and securitisation positions risk-weighted in accordance with the IAA and the RBA.

[2] Securitisation positions exclude amounts allocated to the 1,250 per cent risk weight category. These amounts are deducted from capital, after the application of SCRAs, rather than being risk-weighted.

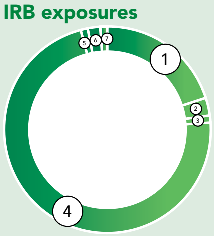
[3] Other items (Standardised approach) and non-credit obligation assets (IRB Approach) predominantly relate to other balance sheet assets that have no associated credit risk. These comprise various non-financial assets, including fixed assets, cash, items in the course of collection, prepayments and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

Pillar 1 Capital requirements: Credit risk

This section details Lloyds Banking Group's credit risk profile, focusing on regulatory measures such as exposure at default and risk-weighted assets.

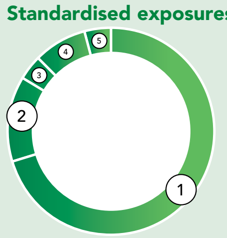
- The Group's strategy remains focused on the UK, which generates over 87% of credit risk exposures.
- Credit risk exposures (excluding thresholds) decreased by 1.9% to £686.7bn, largely driven by disposals, including TSB, and other reductions in the Run-off portfolio.
- Of the Group's credit risk exposures, 83% (£568.0bn) are risk-weighted under the IRB Approach, with the remainder (£118.7bn) risk-weighted using the Standardised Approach.
- Total credit risk risk-weighted assets (excluding thresholds) decreased by 7.5% to £172.5bn, primarily due to disposals, improvements in external economic factors and other reductions in the Run-off portfolio.
- The Group's average risk weight for credit risk exposures (excluding thresholds) decreased by 2 percentage points to 25 per cent overall, mainly driven by credit quality improvements in Retail exposures.
- During 2015 both expected losses and SCRAs have reduced by £2.2bn, largely as a result of disposals as part of the Group's de-risking strategy.
- The Group's models maintain a conservative approach, with the majority of predicted model outputs exceeding actual amounts observed in 2015.

IRB exposures



1. **Corporates 20%** (2014: 20%)
2. **Central governments and central banks 3%** (2014: 3%)
3. **Institutions 1%** (2014: 1%)
4. **Retail 70%** (2014: 72%)
5. **Equities 1%** (2014: 1%)
6. **Securitisation positions 4%** (2014: 2%)
7. **Non-credit obligation assets 1%** (2014: 1%)

Standardised exposures



1. **Central governments and central banks 75%** (2014: 69%)
2. **Corporates 12%** (2014: 13%)
3. **Retail 4%** (2014: 4%)
4. **Secured by mortgages on immovable property 5%** (2014: 8%)
5. **Other[1] 4%** (2014: 6%)

[1] Other includes regional governments or local authorities, public sector entities, multilateral development banks, institutions, exposures in default and other balance sheet assets that have no associated credit risk.

OVERVIEW

DEFINITION

Credit risk is defined as the risk that customers to whom we have lent money or other counterparties with whom we have contracted, fail to meet their financial obligations (both on and off balance sheet), resulting in loss to the Group.

RISK APPETITE

Credit risk appetite is described and reported on a monthly basis through a suite of Board metrics derived from a combination of accounting and credit portfolio performance measures. The Board metrics are supported by more detailed sub-Board appetite metrics at divisional and business level and by a comprehensive suite of credit risk appetite statements, credit policies, sector caps and product and country limits to manage concentration risk and exposures within the Group's approved risk appetite. The metrics cover but are not limited to geographic concentration, single name customer concentration, product exposure, Loan to Value ratios (LTVs), higher risk sector concentration, limit utilisation, leveraged exposure, equity exposure, affordability and the obligor quality of new-to-bank lending.

Credit risk appetite statements and credit policies are regularly reviewed to ensure that the metrics continue to reflect the Group's risk appetite appropriately.

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. Credit risk exposures categorised as 'retail' including retail mortgages, overdrafts on personal current accounts and credit cards (referred to a qualifying revolving retail exposures), some small and medium sized enterprises (SMEs), and unsecured personal lending and car financing (referred to as 'other retail non-SME' exposures), arise primarily in the Retail, Consumer Finance, Commercial Banking and Run-off Divisions. Credit risk exposure categorised as 'corporate', including larger SMEs and corporates as well as banks, financial institutions and sovereigns arise primarily in the Commercial Banking and Run-off Divisions and in Central Items.

In terms of loans and advances (for example loans and overdrafts) and contingent liabilities (for example credit instruments such as guarantees and standby, documentary and commercial letters of credit), credit risk arises both from amounts advanced, and commitments to extend credit to a customer or bank as required within documentation.

With respect to commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most retail commitments to extend credit can be cancelled without notice and the creditworthiness of customers is monitored regularly. Most commercial term commitments to extend credit are contingent upon customers maintaining specific credit standards, which are monitored regularly.

Credit risk also arises from debt securities and derivatives. The total notional principal amount of interest rate, exchange rate, credit derivative and other contracts outstanding at 31 December 2015 is shown on page 129 of the 2015 Lloyds Banking Group plc Annual Report and Accounts. The notional principal amount does not, however, represent the Group's credit risk exposure, which is limited to the current cost of replacing contracts with a positive value to the Group. Such amounts are reflected in note 53 on page 266 of the 2015 Lloyds Banking Group plc Annual Report and Accounts.

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

Further information on derivatives is provided in the Counterparty credit risk section on pages 83 to 89.

MEASUREMENT

In measuring the credit risk of loans and advances to customers and to banks at a counterparty level, the Group reflects three components:

(i) the PD by the counterparty on its contractual obligations;

(ii) current exposures to the counterparty and their likely future development, from which the Group derives the 'exposure at default'; and

(iii) the likely loss ratio on the defaulted obligations (the LGD).

For regulatory capital purposes the Group's credit risk exposures are primarily measured using internal-ratings based systems approach, with the remainder measured under the standardised approach. The Group's application of these approaches is explained in more detail on pages 37 and 38.

MONITORING

In conjunction with Risk Division, businesses identify and define portfolios of credit and related risk exposures and the key benchmarks, behaviours and characteristics by which those portfolios are managed and monitored in terms of credit risk exposure. This entails the production and analysis of regular portfolio monitoring reports for review by relevant governance committees and senior management. Risk Division in turn produces an aggregated review of credit risk throughout the Group, including various reports on significant credit exposures, which are presented to the Divisional Risk Committees, Group Risk Commitee and the Board Risk Committee.

The performance of all rating models is monitored on a regular basis, as outlined on pages 40 and 41.

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Further details are provided on page 124 of the Risk Management section of the 2015 Lloyds Banking Group plc Annual Report and Accounts.

Pillar 1 Capital requirements: Credit risk continued

CREDIT RISK MITIGATION

The Group uses a range of approaches to mitigate credit risk. For detailed information on approaches to mitigate credit risk, including details of the Group's policies and principles, see pages 122 and 123 of the 2015 Lloyds Banking Group plc Annual Report and Accounts.

EXPOSURES COVERED BY ELIGIBLE COLLATERAL, GUARANTEES AND CREDIT DERIVATIVES

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

Credit risk mitigation applied in regulatory capital calculations typically takes the form of one or more of the following:

COLLATERAL

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

Collateral held as security for financial assets other than loans and advances is determined by the nature of the underlying exposure. Debt securities (including Gilts, T-bills, treasury and other bills) are generally unsecured, with the exception of asset-backed securities (ABS) 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, except where 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. Further details on the application within the Group are included within the Counterparty credit risk section of the document on pages 83 to 89.

No collateral is held in respect of retail credit cards, overdrafts or unsecured personal lending. For non-mortgage retail lending to small businessess, collateral may include second charges over residential property and the assignment of life cover.

The Group uses a variety of lending criteria when assessing applications for mortgages, as well as certain criteria that are applicable for a mortgage on a property that is to be let by the applicant.

The additional mitigation for Retail and Consumer Finance and Commercial customers is explained in more detail on pages 122 and 123 of the 2015 Lloyds Banking Group plc Annual Report and Accounts.

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

Eligible financial collateral

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

Other eligible collateral

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

Collateral values are rigorously assessed at the time of loan origination. It is the Group's policy that collateral should always be realistically valued by an appropriately qualified source, independent of both the credit decision process and the customer, at the time of borrowing. Collateral values are reviewed on a regular basis and will vary according to the type of lending and collateral involved. For residential mortgages, the Group adjusts open market property values to take account of the costs of realisation and any discount associated with the realisation of the collateral. In order to minimise the credit loss, the Group may seek additional collateral from the counterparty as soon as early warning signs are identified for the relevant individual loans and advances. The Group has policies and appetite statements to ensure where collateral is taken it is appropriate and of sufficient mitigation relative to underlying facility and valuation movements.

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

Refer to page 123 of the Risk Management section and note 53 of the 2015 Lloyds Banking Group plc Annual Report and Accounts for further information on collateral.

OTHER CREDIT RISK TRANSFERS

The Group also undertakes credit derivative based transactions as a means of mitigating or reducing credit risk, 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 of the document on page 83.

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 institutions or corporates, as well as for collateralised guarantees from corporates where available.

APPLICATION OF CREDIT RISK MITIGATION

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

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

[1] Real estate collateral determines the exposure class as explained below.

[2] As per application under the PD 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.

For unfunded credit protection, for example where 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.

The use of credit derivatives and collateral in respect of securitisation and counterparty credit risk exposures are discussed further within the Securitisation and Counterparty credit risk section of the document.

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.

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, 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 AIRB approach, own estimates of LGD are used, taking into account eligible collateral among other factors.

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

Pillar 1 Capital requirements: Credit risk continued

ANALYSIS OF CREDIT RISK MITIGATION

The following tables provide an analysis of FIRB Approach, IRB Supervisory Slotting Approach and Standardised Approach credit risk exposures covered by eligible financial collateral, other eligible collateral, guarantees or credit derivatives.

The analysis excludes exposures covered by forms of credit risk mitigation that are not taken into consideration in the calculation of credit risk capital requirements.

Table 10: Eligible financial collateral and other eligible collateral

	2015 Exposures covered by eligible financial collateral £m	2015 Exposures covered by other eligible collateral £m	2015 Total £m	2014 Exposures covered by eligible financial collateral £m	2014 Exposures covered by other eligible collateral £m	2014 Total £m
Exposures subject to the IRB approach						
Foundation IRB approach						
Corporate – main	1,244	8,698	9,942	955	9,138	10,093
Corporate – SME	9	7,422	7,431	29	7,608	7,637
Institutions	536	-	536	567	-	567
Other IRB approach						
Corporate – specialised lending	837	-	837	718	-	718
Total – IRB approach	2,626	16,120	18,746	2,269	16,746	19,015
Exposures subject to the standardised approach						
Corporates	937	4	941	669	-	669
Institutions	62	-	62	-	-	-
Exposures in default	-	10	10	2	-	2
Total – standardised approach	999	14	1,013	671	-	671
Total	3,625	16,134	19,759	2,940	16,746	19,686

Unfunded credit protection: Guarantees and credit derivatives

Protection provider	2015 Credit protection provided in the form of guarantees £m	2015 Credit protection provided in the form of credit derivatives £m	2015 Total £m	2014 Credit protection provided in the form of guarantees £m	2014 Credit protection provided in the form of credit derivatives £m	2014 Total £m
Exposures subject to the IRB approach						
Corporate – main	220	-	220	333	-	333
Central governments and central banks	-	-	-	5	-	5
Institutions	-	34	34	100	48	148
Total – IRB approach	220	34	254	438	48	486
Exposures subject to the standardised approach						
Corporates	509	-	509	-	-	-
Central governments and central banks	90	-	90	188	83	271
Total – standardised approach	599	-	599	188	83	271
Total	819	34	853	626	131	757

Key movements

- As shown in the table above, the Group largely makes use of collateral as credit risk mitigation, primarily real estate collateral for corporate main and corporate SME exposures.
- The eligible collateral and unfunded credit protection used by the Group has remained broadly consistent between 2014 and 2015.
- The Group recognises relatively limited amounts of unfunded credit protection in its capital numbers, with there being a consistency of value from 2014 to 2015. Examples of the protection held by the Group include Export Credit Agency guarantees which are designed to support and encourage cross border trade, parental guarantees provided by PLC's to their subsidiaries, and bank guarantees provided on behalf of Corporates.

Further details on collateral held as security for financial assets, collateral pledged as security and collateral repossessed can be found in Note 53 (Financial risk management), Notes to the Consolidated Financial Statements, 2015 Lloyds Banking Group plc Annual Report and Accounts.

REGULATORY APPROACH TO CREDIT RISK

EXPOSURES SUBJECT TO THE STANDARDISED APPROACH

Under CRD IV, the Standardised Approach relies on the application of a prescribed set of risk weights to credit risk exposures, dependant 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 that the Group has against an exposure, before the relevant risk weight is applied to the adjusted exposure amount. Unlike exposures modelled using the Group's internal ratings, 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 including corporates, central governments and central banks and institutions. Where a credit assessment is used this must be provided by an eligible ECAI from the PRA's approved list. The appropriate risk weight to apply to the credit risk exposure is determined by assigning the exposure to the relevant credit quality step under CRD IV, based on the PRA's mapping of credit assessments to credit quality steps as detailed under policy statement PS07/13.

The Group makes limited use of ECAIs assessments for its Standardised exposures. This typically applies in the case of certain central government and central bank and institution exposures. The Group makes use of credit assessments provided by Standard & Poor's, Moody's and Fitch. Where there are no available credit assessments to utilise, risk weights are assigned to these exposures in accordance with CRD IV requirements for unrated exposures.

Within the Group, the Standardised Approach is applied to portfolios that are either on the Group's roll-out plan or are permanently exempt from the IRB approach under the terms of the Group's IRB Waiver permission. The most significant portfolio on permanent exemption relates to sovereign exposures within the UK and EU. The Group's permanent exemption list together with the IRB roll-out plan are reviewed on a regular basis internally and by the PRA.

Table 38 on page 67 indicates the respective risk weights applied to credit risk exposures subject to the Standardised Approach, by asset class, together with the associated exposure.

EXPOSURES SUBJECT TO THE INTERNAL RATINGS BASED APPROACH

There are two main approaches for commercial exposures: Foundation IRB and Advanced IRB. For Retail exposures, Retail IRB Approach is available.

Both the Foundation and Advanced IRB approaches require firms to use their own internal assessment of counterparty PDs. In addition, firms applying the AIRB and/or RIRB approaches are required to use internal assessments of EAD and LGD parameters. Firms applying the FIRB approach are required to use EAD and LGD parameters set by the regulator.

The PD, LGD and EAD of an exposure form the base inputs to the calculation used to derive the risk-weighted assets and Expected Loss (EL) of that exposure. Where EL exceeds SCRAs linked to the underlying credit risk exposures the resultant excess expected loss (EEL) is deducted from capital resources. Where SCRAs exceed ELs, a 'surplus provision' may be recognised in T2 capital subject to certain restrictions. Further information on the comparison of EL and SCRA, which form the calculation of Excess EL can be found on page 46.

Pillar 1 Capital requirements: Credit risk continued

SCOPE OF THE IRB PERMISSION

The Group has regulatory approval, subject to annual CRR attestations, 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 (for corporate exposures) and the RIRB Approach (for retail exposures).

The Group applies the Supervisory Slotting Approach to certain corporate specialised lending exposures (including the Group's commercial real estate exposures) and the Simple Risk Weight Method to equity exposures. Securitisation positions are predominantly risk-weighted under the RBA, with limited use made of the IAA.

Under the Group's IRB rating permission, the following rating systems (excluding portfolios on Supervisory Slotting and Simple Risk Weights) are deemed significant having risk-weighted assets in excess of £4bn during the year.

Approach	Basel asset class	Ratings system	Associated portfolio (risk-weighted assets)	Model type
FIRB	Corporate main, Corporate SME	Unquoted	>£15bn	PD
FIRB	Corporate main	Publicly quoted	£10bn – £15bn	PD
RIRB	Retail mortgages	Halifax mainstream mortgages	£10bn – £15bn	PD, EAD, LGD
FIRB/RIRB	Corporate main, Corporate SME, Retail SME and Retail mortgages	Business Dynamic Credit Scoring (BDCS)	£4bn – £10bn	PD, EAD, LGD
RIRB	Retail mortgages	Lloyds Bank mortgages	£4bn – £10bn	PD, EAD, LGD
RIRB	Retail other	Lloyds Bank personal loans	£4bn – £10bn	PD, EAD, LGD
RIRB	Retail mortgages	BOS Ireland mortgages	£4bn – £10bn[1]	PD, EAD, LGD
RIRB	Qualifying revolving retail exposure	HBOS credit cards	£4bn – £10bn	PD, EAD, LGD
RIRB	Qualifying revolving retail exposure	Lloyds Bank credit cards	£4bn – £10bn[1]	PD, EAD, LGD
RIRB	Retail mortgages	HBOS Buy-to-Let mortgages	£4bn – £10bn	PD, EAD, LGD

[1] The risk-weighted assets for BoS Ireland Mortgages and Lloyds Bank credit cards have recently fallen below £4bn, but were above that level during 2015.

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.

Main differences between models within each asset class

PD ratings can adhere to a variety of philosophies from 'Point-in-time' (PIT) to 'Through-the-cycle' (TTC).

A very long history of default data is available within the Group, allowing the most material Retail mortgage portfolios to be calibrated on a TTC basis. As is standard practice in the UK, all of the Group's unsecured product PD ratings are PIT. For all PIT PD ratings within Retail, a PD "buffer" is added to the pure PIT PD to cover potential underestimation of default risk between regular calibrations. Retail mortgages use a TTC approach where this is appropriate (large portfolios with a long data history) and a PIT approach otherwise. Corporate PD models are calibrated to a long-run of default experience, meaning the PD predictions are TTC in nature.

Key characteristics of material Group ratings systems

Data history:

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

– mortgage models are built on data dating back to 1987
– credit card models are built on data dating back to 2002
– personal loans models are built on data dating back to 2002
– unquoted companies models use data dating back to 2002
– publicly quoted companies model uses data dating back to 2004

In general the Group's PD models are built using logistic regression, but in the case of the publicly quoted model, a ratings replication approach has been taken.

Definition of Default:

The primary criteria used for the definition of default in the models are as follows:

– corporate lending: 90 days past due; satisfying our 'unlikeliness-to-pay' or 'distressed restructure' criteria.
– UK Retail mortgages: six cumulative missed payments; or property in repossession or personal insolvency of the borrower.
– retail other & qualifying revolving retail exposures: transferred to recoveries or ninety days in arrears or three cumulative missed payments; personal bankruptcy; entry into a repayment plan.

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

All of the Group's LGD and EAD models are calibrated on a downturn basis. Precise details vary by portfolio: UK mortgage models that incorporate internal data and regulatory guidance relating to the early 1990s recession; unsecured retail exposures include the lowest recovery rates observed in representative data; credit card EAD models consider observed headroom utilisation in representative data.

INTERNAL DEVELOPMENT AND MONITORING OF IRB MODELS

Risk models (including all IRB models), and subsequent changes, are generally developed using internal data and standard statistical techniques by the relevant business area modelling teams (the 'second line') on behalf of the business area (the 'first line'). The models are challenged, both technically and from a business usage perspective, by an independent 'second line' unit (Risk Model Approval 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 executive 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). MGC has delegated approval responsibility from GRC. MGC attendees include risk and business model owners responsible for the model under consideration.

Once a model has been approved, it is subject to ongoing monitoring and periodic validation requirements.

Where appropriate, where there is a regulatory requirement and where model weaknesses are observed, additional conservatism is applied to ensure capital adequacy. All new IRB models and all material model changes are subject to internal governance and external approval by the PRA before they are implemented. If a model or data weakness is identified that indicates the understatement of capital, the capital requirements are adjusted, on a temporary and immediate "post model adjustment" basis, until the model is remediated to correct for the underlying weakness. All such adjustments require senior management approval, and are subject to periodic oversight by the PRA.

Relationships between risk management function and internal audit function

Group Audit (the 'third line' of defence) check that appropriate controls and processes are in place and operating effectively, across all aspects of capital models. Group Audit are independent from the first and second lines of defence, reporting through to the Group Audit Director, a Group Executive Committee attendee.

A summary of how GRC, MGC and the three lines of defence (business area modelling teams; Risk Model Approval Team; and Group Audit) fit in the overall corporate governance framework is given in the 2015 Lloyds Banking Group plc Annual Report & Accounts on page 116.

Scope and main content of risk model reporting

A hierarchy of reporting exists for all risk models – detailed regular technical risk model performance (including rank ordering and predictive accuracy) is used to prioritise both model changes and corrective action for model underperformance. This is supplemented by more summarised quarterly reporting to MGC and half-yearly reporting to GRC. Risk model reporting is also provided to the PRA on a regular basis.

Given the overarching governance framework, which is applied to exposures under each asset class, the risk model management information produced, and the effective controls and processes in place, the Group is comfortable that risk model performance is sufficient to ensure Pillar 1 capital requirements adequately reflect the Group's risk exposure.

OTHER APPLICATION OF IRB MODEL OUTPUTS

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

Credit approval: IRB models are strongly linked with the credit approval process, although the precise nature differs between asset classes. For retail exposures, operational application and behavioural scorecards (primarily used to make retail credit approval and account management decisions) are key components of the PD. 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 pricing tools within the business to allow for risk-adjusted pricing and strategy decisions.

Calculating impairment: The calculation of impairment levels within each portfolio is subject to rigorous challenge and oversight from both Finance and Risk. In a limited number of instances IRB model outputs are used to inform the impairment provisioning process or as direct inputs to impairment models.

Pillar 1 Capital requirements: Credit risk continued

MODEL PERFORMANCE

This section provides an analysis of the performance of IRB models over 2013-2015.

The table below outlines the predicted and actual PD, LGD, and EAD ratio (ratio of predicted to actual) by exposure class. No LGD or EAD information is provided for exposures modelled under the FIRB Approach since these are determined by regulatory values.

The calculations for PD consider the portfolio of non-defaulted accounts at the start of the period and compare the default level experienced during the year to the default level predicted by the Group's IRB models at the start of the period.

The calculations for LGD consider the portfolio of defaulted accounts during the relevant period and compare the loss level experienced on these accounts with the amounts predicted by the Group's IRB models at the start of the period. For those assets where losses are not yet realised the determination of actual LGD includes estimates of future recoveries.

For the purposes of comparison, EAD weighting has been used throughout. This approach can be sensitive to small numbers of high value defaults.

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

Care should be taken in interpreting the predicted to actual ratios:

- 'Actual' (i.e. observed default and loss) outcome data is by its nature PIT and reflects 2015 experience, whereas some model 'predicted' outputs are 'through-the-cycle' or 'downturn'. The gap between 'predicted' and 'actual' outcomes will therefore narrow or widen to reflect the current position in the economic cycle.
- Changes in portfolio composition and client exposure can affect 'actual' observed defaults over the course of a year, but will not adjust the 'predicted' factors at the start of an outcome period.
- A number of key models are built on an 'account-weighted' (rather than 'exposure-weighted') basis meaning that comparisons across portfolios can be skewed.
- Data can also be impacted by small numbers of defaulted counterparties with relatively larger EAD values. This has been identified in a few portfolios over time.

MODEL PERFORMANCE DATA

Table 11: Model performance

	Probability of default		Loss given default of defaulted assets		EAD of defaulted assets
IRB Exposure Class	Predicted Dec 14 %	Actual Dec 15 %	Predicted Dec 14 %	Actual Dec 15 %	Ratio of predicted to actual %
Central governments and central banks	**0.02%**	**0.00%**			
Institutions	**0.17%**	**0.00%**			
Corporate – total	**0.82%**	**0.70%**			
Retail – mortgage total	**1.48%**	**0.86%**	**13.98%**	**5.46%**	**103%**
Retail – SME	**3.20%**	**2.01%**	**68.19%**	**60.06%**	**101%**
Retail – Qualifying revolving retail exposure (QRRE)	**1.96%**	**1.45%**	**80.26%**	**63.08%**	**112%**
Retail – other non-SME	**3.26%**	**2.46%**	**74.74%**	**62.29%**	**110%**

	Probability of default		Loss given default of defaulted assets		EAD of defaulted assets
IRB Exposure Class	Predicted Dec 13 %	Actual Dec 14 %	Predicted Dec 13 %	Actual Dec 14 %	Ratio of predicted to actual %
Central governments and central banks	0.02%	0.00%			
Institutions	0.21%	0.00%			
Corporate – total	0.99%	1.06%			
Retail – mortgage total	1.76%	1.04%	14.87%	7.42%	103%
Retail – SME	3.92%	2.69%	62.32%	58.35%	107%
Retail – Qualifying Revolving Retail Exposure (QRRE)	2.40%	1.85%	80.03%	68.08%[1]	113%
Retail – other non-SME	4.26%	3.45%	78.52%	66.64%	109%

[1] The approach to estimating the actual LGD for personal current accounts (including QRRE) that remain in default has been updated. To enable comparability, the 2014 figure has been estimated in the same way and has been revised from 65.20% to 68.08%.

IRB Exposure Class	Probability of default		Loss given default of defaulted assets		EAD of defaulted assets
	Predicted Dec 12 %	Actual Dec 13 %	Predicted Dec 12 %	Actual Dec 13 %	Ratio of predicted to actual %
Central governments and central banks	0.02%	0.00%			
Institutions	0.20%	0.02%			
Corporate – total	1.89%	1.88%			
Retail – mortgage total	2.12%	1.37%	15.85%	7.09%	103%
Retail – SME	4.17%	3.13%	63.13%	63.03%	104%
Retail – Qualifying revolving retail exposure (QRRE)	2.84%	2.60%	78.56%	68.88%	107%
Retail – other non-SME	4.91%	4.69%	81.56%	68.91%	109%

Model Performance Status

The Group seeks to develop models which maintain a conservative approach overall with all of the predicted PD, LGD and EAD values exceeding the actual amounts observed in 2015.

Key movements

- For all portfolios the predicted and actual default rates have fallen in 2015 – the only exceptions are where the actual default rates were already at 0%. This reflects an improvement in credit quality within the portfolios and generally favourable economic conditions; for the Corporate portfolio, overall credit quality has improved through ongoing portfolio management and the reduction of assets in the higher PD grades.
- Predicted PD values exceeded actual default rates for all portfolios in 2015 reflecting a mix of conservatism within the models and improving performance over the year.
- Predicted and actual LGD levels across exposure classes are broadly consistent with prior years. For Residential mortgages, actual LGDs have reduced further due to favourable movements in house prices. Actual LGDs remain well below Predicted LGDs due to the presence of a downturn calibration in the latter.
- EAD ratios are relatively consistent with 2014.

Pillar 1 Capital requirements: Credit risk continued

PAST DUE EXPOSURES, IMPAIRED EXPOSURES AND IMPAIRMENT PROVISIONS

DEFINITION

For accounting purposes, past due exposures, impaired exposures and impairment provisions are defined as follows:

– **Past due exposures:** An exposure is past due when a counterparty has failed to make a payment when contractually due.
– **Impaired exposures:** An exposure where the Group does not expect to collect all the contractual cash flows or to collect them when they are contractually due.
– **Impairment provisions:** Impairment provisions (also referred to as impairment allowances) are a provision held on the balance sheet as a result of the raising of a charge against profit for the incurred loss inherent in the lending book. An impairment provision may either be individually or collectively assessed.

ACCOUNTING POLICY

References to the Group's accounting policy in respect of impaired exposures ('financial assets') and impairment provisions raised in respect of loans and receivables are provided below.

Impairment of financial assets, Note 2 (Accounting policies), Notes to the Consolidated Financial Statements, 2015 Lloyds Banking Group plc Annual Report and Accounts:

– (1) Assets accounted for at amortised cost, pages 191 and 192
– (2) Available-for-sale financial assets, pages 192 and 193

MANAGING IMPAIRED EXPOSURES AND IMPAIRMENT PROVISIONS

Provisioning policy

The high level principles and policies of the Group in respect of the management of impaired exposures, the setting of impairment provisions and the write-off of impaired exposures are contained within the Group Credit Policies, which are reviewed and approved on an annual basis.

The policy for the treatment of impaired assets has been developed and is maintained by Risk Division.

Adequacy reviews

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

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

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

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

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

Reporting

The Credit Risk Committees and Risk Division monitor impairment provisions on a continuous basis throughout the year. All significant new impaired asset exposures are reported by their respective Group business area as soon as they arise.

On a regular basis, an analysis of significant impaired exposures (including levels and trends in impaired exposures) or potential risks not identified within the model are provided to the Divisional Credit Risk Committees, Group Risk Committee, Board Risk Committee and the Audit Committee.

A consolidated risk report is produced on a monthly basis for the Group Risk Committee. This report includes comparison of actual performance against budget for the main balance sheet and income statement metrics, including asset balances, impaired assets, income statement impairment charges and balance sheet provisions.

In addition, comprehensive monthly reporting packs are produced by Risk Division, which actively manages distressed commercial assets and by Collections and Recoveries units within Retail Division.

MANAGEMENT OF CUSTOMERS EXPERIENCING FINANCIAL DISTRESS

Information and analysis on the measures adopted by the Group to support retail and commercial customers experiencing financial distress is provided in the following locations:

Intensive care of customers in financial difficulty, Risk Management, 2015 Lloyds Banking Group plc Annual Report and Accounts:

– Retail and Consumer Finance customers, pages 124 and 125;
– Commercial customers pages 125 and 126;

Treatment of customers experiencing financial distress, Note 53 (Financial risk management), Notes to the Consolidated Financial Statements, 2015 Lloyds Banking Group plc Annual Report and Accounts.

ANALYSIS OF PAST DUE AND IMPAIRED LOANS AND ADVANCES TO CUSTOMERS

The analysis provided within this section has been presented on an accounting consolidation basis rather than a regulatory consolidation basis.

As at 31 December 2015, past due but not impaired exposures in respect of loans and advances to customers amounted to £9.1bn (2014: £11.5bn). Impaired exposures in respect of loans and advances to customers amounted to £9.6bn (2014: £14.3bn), of which £2.5bn (2014: £2.4bn) were classified as 'impaired – no provision required' and the remaining £7.1bn (2014: £11.9bn) as 'impaired – provision held'.

Analysis by industry

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

Table 12: Past due but not impaired and impaired loans and advances analysed by major industrial sector

	Past due but not impaired		Impaired		Past due but not impaired		Impaired	
	2015		2015		2014		2014	
	£m	As a % of credit risk exposure	£m	As a % of credit risk exposure	£m	As a % of credit risk exposure	£m	As a % of credit risk exposure
Agriculture, forestry and fishing	97	1.30%	123	1.65%	123	1.74%	100	1.41%
Energy and water supply	2	0.04%	134	2.35%	3	0.06%	145	2.80%
Manufacturing	31	0.20%	122	0.78%	3	0.02%	201	1.27%
Construction	39	0.84%	283	6.07%	261	5.05%	840	16.24%
Transport, distribution and hotels	131	0.59%	511	2.31%	116	0.51%	1,681	7.34%
Postal and communications	1	0.02%	296	6.49%	-	-	353	10.66%
Property companies	189	0.57%	2,065	6.26%	56	0.15%	3,769	10.38%
Financial, business and other services	62	0.03%	985	0.54%	204	0.12%	1,381	0.80%
Personal: mortgages	8,233	2.43%	4,001	1.18%	10,311	2.87%	4,344	1.21%
Personal: other	227	0.48%	980	2.09%	312	0.65%	1,418	2.96%
Lease financing	-	-	13	0.38%	4	0.11%	1	0.03%
Hire purchase	77	0.82%	77	0.82%	80	1.10%	75	1.03%
Total	**9,089**	**1.32%**	**9,590**	**1.40%**	11,473	1.64%	14,308	2.04%

Analysis by geography

An analysis of past due but not impaired loans and advances to customers and impaired loans and advances to customers as at 31 December 2015, by geographical region, based on the country of residence of the customer, is provided in the table below.

Table 13: Past due but not impaired and impaired loans and advances analysed by geographical region

	Past due but not impaired		Impaired		Past due but not impaired		Impaired	
	2015		2015		2014		2014	
	£m	As a % of credit risk exposure	£m	As a % of credit risk exposure	£m	As a % of credit risk exposure	£m	As a % of credit risk exposure
United Kingdom	8,761	1.49%	9,021	1.53%	10,891	1.79%	10,402	1.71%
Rest of Europe	299	0.73%	303	0.74%	540	1.40%	3,595	9.32%
United States of America	-	-	108	0.30%	-	-	82	0.26%
Asia-Pacific	28	1.40%	93	4.63%	41	1.77%	137	5.90%
Other	1	0.02%	65	1.25%	1	0.02%	92	1.88%
Total	**9,089**	**1.32%**	**9,590**	**1.40%**	11,473	1.64%	14,308	2.04%

Pillar 1 Capital requirements: Credit risk continued

ANALYSIS OF SPECIFIC CREDIT RISK ADJUSTMENTS (SCRA) IN RESPECT OF LOANS AND ADVANCES TO CUSTOMERS

SCRAs include accounting impairment provisions and certain acquisition related fair value adjustments. These acquisition related fair value adjustments are offset against EEL, in relation to Retail IRB residential mortgages.

The analysis provided within this section has been presented on an accounting consolidation basis rather than a regulatory consolidation basis.

The movement in impairment provisions, from 1 January 2015 to 31 December 2015, in respect of loans and advances to customers, banks and debt securities is provided below.

Table 14: Movement in impairment provisions

	2015			2014		
	Loans and advances to customers £m	Debt securities £m	Total £m	Loans and advances to customers £m	Debt securities £m	Total £m
At 1 January	6,414	126	6,540	11,966	125	12,091
Exchange and other adjustments	(246)	-	(246)	(410)	9	(401)
Disposal of businesses	(82)	-	(82)	-	-	-
Advances written off	(4,204)	(31)	(4,235)	(6,432)	(10)	(6,442)
Recoveries of advances written off in previous years	764	4	768	681	-	681
Unwinding of discount	(56)	-	(56)	(126)	-	(126)
Charge (release) to the income statement	443	(2)	441	735	2	737
At 31 December	**3,033**	**97**	**3,130**	**6,414**	**126**	**6,540**

The movement in acquisition related fair value adjustments, from 1 January 2015 to 31 December 2015, in respect of loans and advances to customers within portfolios applying the IRB approach is provided below.

Table 15: Movement in acquisition related fair value adjustments (loans and advances to customers)

	2015 £m	2014 £m
At 1 January	393	668
Fair value unwind[1]:		
in respect of impairment losses	(95)	(245)
other, including market liquidity	(22)	(30)
At 31 December	**276**	**393**

[1] The fair value adjustments relating to loans and advances were those required to reflect the HBOS assets in the Group's consolidated financial records at their fair value and took into account both the ELs and market liquidity at the date of acquisition. The unwind relating to future impairment losses requires significant management judgement to determine its timing which includes an assessment of whether the losses incurred in the current period were expected at the date of acquisition and assessing whether the remaining losses expected at the date of acquisition will still be incurred. The element related to market liquidity unwinds to the income statement over the estimated expected lives of the related assets although if an asset is written-off or suffers previously unexpected impairment then this element of the fair value will no longer be considered a timing difference (liquidity) but permanent (impairment). The fair value unwind in respect of impairment losses incurred for loans and advances to customers within portfolios applying the IRB Approach was £95m for the period ended 31 December 2015.

Analysis by industry

An analysis of closing impairment provisions, the net charge to the income statement and acquisition related fair value adjustments in respect of loans and advances to customers, by major industrial sector, is provided in the table below.

Table 16: Impairment provisions, net charge and acquisition related fair value adjustments analysed by major industrial sector

	2015 Impairment provisions[1] £m	2015 Net charge[1] £m	2015 Acquisition related fair value adjustments[2] £m	2014 Impairment provisions[1] £m	2014 Net charge[1] £m	2014 Acquisition related fair value adjustments[2] £m
Agriculture, forestry and fishing	15	1	-	18	2	-
Energy and water supply	20	35	-	61	28	-
Manufacturing	70	23	-	179	(4)	-
Construction	165	13	-	158	(81)	-
Transport, distribution and hotels	219	(88)	-	1,051	198	-
Postal and communications	4	(2)	-	17	6	-
Property companies	790	(140)	-	2,553	40	-
Financial, business and other services	811	77	-	1,225	179	-
Personal: mortgages	479	33	276	460	(138)	393
Personal: other	388	437	-	607	536	-
Lease financing	-	31	-	1	(1)	-
Hire purchase	72	23	-	84	(30)	-
Total	3,033	443	276	6,414	735	393

[1] Impairment provisions and net charge information presented above extracted from the 'Summary of Loan Loss Experience' analysis presented on pages 82 to 88 of the 2015 Form 20-F.

[2] The acquisition related fair value adjustments represent SCRAs recognised in the calculation of EEL amounts for exposures subject to the IRB Approach (as presented on page 47).

Analysis by geography

An analysis of closing impairment provisions, the net charge to the income statement and acquisition related fair value adjustments in respect of loans and advances to customers, by geographical region, based on the country of residence of the customer, is provided in the table below.

Table 17: Impairment provisions, net charges and acquisition related fair value adjustments analysed by geographical region

	2015 Impairment provisions £m	2015 Net charge £m	2015 Acquisition related fair value adjustments[2] £m	2014 Impairment provisions £m	2014 Net charge £m	2014 Acquisition related fair value adjustments[2] £m
United Kingdom	3,726	706	276	4,575	842	393
Rest of Europe	323	43	-	2,848	329	-
United States of America	74	(18)	-	87	5	-
Asia-Pacific	19	(4)	-	52	4	-
Other	30	(87)	-	90	3	-
	4,172	640	276	7,652	1,183	393
Fair value and other adjustments[1]	(1,139)	(197)		(1,238)	(448)	
Total	3,033	443	276	6,414	735	393

[1] Analysis of closing impairment provisions and the net charge to the income statement in respect of loans and advances to customers, by geographical region, has been presented prior to the application of fair value and other adjustments. Further details on the fair value and other adjustments applied in respect of impairment provisions can be found on page 267 of the 2015 Lloyds Banking Group plc Annual Report and Accounts.

[2] The acquisition related fair value adjustments represent SCRAs recognised in the calculation of EEL amounts on IRB portfolios (as presented on page 47).

Pillar 1 Capital requirements: Credit risk continued

FACTORS IMPACTING LOSS EXPERIENCE

The impairment charge was £0.6bn, 48 per cent lower than in 2014 as a result of the significant reduction in run-off business and improvements in all divisions.

Impaired loans as a percentage of closing loans and advances reduced to 2.1 per cent at 31 December 2015, from 2.9 per cent at 31 December 2014 driven by reductions within both the continuing and run-off portfolios, including the impact of the sale of Irish commercial loans in the third quarter.

COMPARISON OF EXPECTED LOSSES TO SPECIFIC CREDIT RISK ADJUSTMENTS

The table on page 47 provides a comparison of regulatory ELs to SCRAs on loans and receivables (impairment provisions and acquisition related fair value adjustments), in respect of credit risk exposures subject to the IRB Approach. The Group does not recognise any general credit risk adjustments (GCRAs) as defined by the EBA.

The definition, calculation and treatment of regulatory ELs are covered on page 37.

In comparing regulatory ELs to accounting measures of impairment, significant differences in the calculation and scope of each must be taken into account. IRB models are developed to meet precise regulatory requirements and as such the ELs generated by these models are not directly comparable to impairment losses or allowances derived under current IFRS accounting standards. In particular:

– SCRAs seek to measure loss on the basis of economic conditions at the balance sheet date. However, regulatory EL calculations are predicated on loss estimates that are based on economic downturn conditions;
– Regular detailed analysis of modelled SCRAs outputs is undertaken to ensure that the models adequately capture all incurred losses. Where this is considered not to be the case, additional SCRAs allowances are applied to capture the risk;
– Regulatory EL calculations forecast potential losses arising from all accounts including those that currently exhibit no indication of impairment;
– Regulatory ELs in relation to portfolios that are based on TTC or hybrid PD estimates utilise historic default experience, whereas accounting impairment losses and allowances are based on the losses that have been incurred at the balance sheet date;
– Regulatory EL calculations anticipate additional drawings made by customers who are yet to default (EAD estimate). Accounting impairment losses reflect drawn balances and conditions at the balance sheet date; and
– Regulatory ELs generated under the Foundation IRB Approach make use of LGD parameters and CCF (applied in the calculation of EAD) that are set by the regulator. The assumptions inherent within these regulatory measures may differ significantly to the assumptions applied when estimating future cash flows for use in accounting impairment loss calculations.

In addition, regulatory ELs in relation to credit portfolios that have rolled out onto IRB models during the year will not be reflected in the ELs total at the start of the year as these portfolios were, at the time, subject to the Standardised Approach. Accounting impairment losses for the year will reflect losses in relation to all portfolios that were subject to the IRB Approach during the year.

In comparing regulatory ELs to the accounting allowance for impairment losses, consideration of the above should be taken into account.

Table 18: Regulatory expected losses and specific credit risk adjustments

	Regulatory expected losses 2015 £m	Specific credit risk adjustments 2015 £m	Excess expected losses 2015 £m	Regulatory expected losses 2014 £m	Specific credit risk adjustments 2014 £m	Excess expected losses 2014 £m	Regulatory expected losses 2013 £m	Specific credit risk adjustments 2013 £m	Excess expected losses 2013 £m
CREDIT RISK									
Foundation IRB approach									
Corporates	**1,103**	**1,060**	**43**	1,420	1,368	52	4,336	3,823	513
Central governments and central banks	**1**	**-**	**1**	1	-	1	1	-	1
Institutions	**12**	**17**	**(5)**	11	21	(10)	8	-	8
Retail IRB approach									
Residential mortgages	**1,094**	**1,465**	**(371)**	1,259	1,518	(259)	1,967	2,123	(156)
QRRE	**611**	**244**	**367**	711	269	442	911	379	532
Other SME	**77**	**14**	**63**	91	22	69	90	26	64
Other non-SME	**332**	**180**	**152**	465	238	227	638	371	267
Other IRB approaches									
Corporate – specialised lending	**941**	**654**	**287**	2,288	2,237	51	5,805	6,132	(327)
Equities	**41**	**-**	**41**	31	-	31	25	-	25
Counterparty credit risk	**80**	**-**	**80**	229	-	229	488	-	488
	4,292	**3,634**	**658**	6,506	5,673	833	14,269	12,854	1,415
Fair value adjustments[1]		**276**			393			668	
Total prior to additional adjustments	**4,292**	**3,910**	**382**	6,506	6,066	440	14,269	13,522	747
Other adjustments[2]			**(112)**			125			-
Total excess expected losses			**270**			565			747

Reconciliation of SCRAs to statutory consolidated balance sheet allowance for impairment losses on loans and receivables

	2015	2014	2013
Total SCRAs applied against expected losses	**3,910**	6,066	13,522
SCRAs (excluding fair value adjustments) applied to Standardised Approach and other exposures[3]	**359**	1,712	2,329
Additional fair value and other adjustments	**(1,139)**	(1,238)	(3,760)
Total per statutory consolidated balance sheet	**3,130**	6,540	12,091

[1] The calculation of EEL amounts, where regulatory ELs are netted against SCRAs on IRB portfolios, is subject to the application of acquisition related fair value adjustments.

[2] Other adjustments include an increase for SCRAs in excess of EL on defaulted exposures which, under CRD IV, may not be offset against non-defaulted EEL, and prudent valuation adjustments (PVAs).

[3] SCRAs applied to Standardised Approach exposures and other adjustments including allowances for impairment losses on debt securities.

Further details on the fair value and other adjustments applied in respect of impairment losses charged to the income statement and allowances for impairment losses on loans and receivables can be found on pages 128 and 267, respectively, of the 2015 Lloyds Banking Group plc Annual Report and Accounts.

Pillar 1 Capital requirements: Credit risk continued

Key movements (2015)

FIRB Corporates
– FIRB Corporate ELs and SCRAs both reduced by £0.3bn to £1.1bn, primarily driven by asset reductions in the Run-off portfolio and targeted portfolio management in 2015.

Retail IRB Residential Mortgages
– The 2015 reduction in Residential Mortgages IRB ELs from £1.3bn to £1.1bn is primarily driven by improvements in credit quality and favourable movements in external economic factors, primarily HPI.
– The Group continues to maintain a prudent provisioning policy over Residential Mortgage portfolios. This has resulted in SCRAs exceeding regulatory ELs for Retail IRB Residential Mortgage portfolios across the last three years, despite the majority of ELs being calculated using a TTC PD model.

Other Retail IRB
– The Group's Other Retail IRB portfolios are based on model methodologies where the impact of model conservatism results in regulatory ELs being in excess of SCRAs. Continued improvement in credit quality and favourable credit environment in 2015 has driven reductions in both regulatory ELs and SCRAs for these portfolios.

Specialised Lending
– In 2015, the expected loss reduction from £2.3bn to £0.9bn, and SCRA reduction from £2.2bn to £0.7bn for Corporate Specialised Lending exposures is primarily driven by disposals of defaulted exposures in the Irish commercial property portfolio and other exits in the run-off business.
– The disposals of the highly provided for Irish exposures have resulted in an increase in EEL from £0.1bn to £0.3bn.

Fair value adjustments
– Fair value adjustments applied within the EEL calculation have reduced from £0.4bn to £0.3bn due to the fair value unwind over the course of the year, as outlined in table 15 on page 44.

Other adjustments
– Other adjustments consist of SCRAs in excess of expected loss on defaulted exposures (which, under CRD IV may not be offset against non-defaulted EEL) as well as PVAs linked to IRB portfolios. These adjustments were recognised for the first time in 2014 in line with CRD IV requirements.
– Total other adjustments have reduced in 2015 from £0.1bn to £(0.1)bn due to lower surplus SCRAs driven by continued disposals of defaulted exposures in Ireland as well as refinements to the PVA.

Key movements (2014)

FIRB Corporates
– FIRB Corporate exposures reduced in 2014 due to disposals and other reductions in the Run-off business and active portfolio management in the core book. These factors resulted in improvements in the quality of the portfolio therefore regulatory expected loss reduced from £4.3bn to £1.4bn and SCRAs reduced from £3.8bn to £1.4bn for similar reasons.
– Under the FIRB approach a constrained regulatory LGD is applied resulting in a conservative expected loss, particularly for defaulted exposures. The reduction in the defaulted exposures in 2014 therefore contributed to the reduction in EEL.

Retail IRB Residential Mortgages
– The reduction in Residential mortgage IRB ELs in 2014 from £2.0bn to £1.3bn was mainly due to the disposal of loans in the Irish mortgage portfolio, which also drove the reduction in SCRAs.

Specialised Lending
– The Corporate Specialised Lending portfolio ELs reduced from £5.8bn to £2.3bn in 2014 and SCRA reduced from £6.1bn to £2.2bn driven by disposals, write offs and portfolio management.
– These disposals, especially the Irish portfolio which was highly provided for, resulted in a reduction from the surplus SCRA of £0.3bn to an EEL of £0.1bn.

ANALYSIS OF CREDIT RISK EXPOSURES BY ASSET CLASS

CREDIT RISK EXPOSURES

The main exposures under the IRB approach outlined in this document can be classified and defined as follows:

Corporate exposures

In general, this relates to exposures generated through lending and corporate financing activities in respect of servicing the needs of corporate and commercial clients ('Main') and small and medium enterprises (SME). Exposures also arise in relation to business conducted through specialised lending. The PRA requires that specialised lending exposures arising through the Group's business streams are separately identified from general corporate exposures.

There are four sub-classes of specialised lending recognised by the PRA. These are project finance, object finance, commodities finance and income-producing real estate. Each of these sub-classes is defined under the CRR provisions.

Specialised lending exposures are those possessing all the following characteristics, either in legal form or economic substance:

- the exposure is typically to an entity, often a structured entity (SE), which was created specifically to finance and/or operate physical assets;
- the terms of the obligation give the lender a substantial degree of control over the asset(s) and the income that it generates; and
- as a result of the preceding factors, the primary source of repayment of the obligation is the income generated by the asset(s), rather than the independent capacity of a broader commercial enterprise.

The Group's specialised lending exposures predominantly comprise property investment and development portfolios, major asset financing transactions such as shipping and aircraft (object finance) and energy and infrastructure financing transactions (project finance).

Central government and central banks exposures

In addition to exposures to central governments and central banks, certain public sector entities and Multilateral Development Banks are also included within this exposure class where they meet the relevant criteria under the CRR provisions.

Institution exposures

These primarily relate to exposures to other banking and financial institutions. It also includes exposures to certain domestic public sector entities and Multilateral Development Banks that do not meet the criteria for recognition as exposures to central governments and central banks, but are considered to be equivalent to an exposure to an institution.

Retail exposures

There are five key categories of retail exposure under CRD IV:

- Retail exposures secured by real estate collateral. These are principally residential mortgages split between retail (non-SME) and SME customers.
- Qualifying revolving retail exposures (QRRE). These relate to overdrafts on personal current accounts and credit cards.
- Other retail exposures (non-SME) represent unsecured personal lending and car financing, while Retail SME exposures relate to the provision of business banking to sole traders, small partnerships and small businesses that do not meet the regulatory threshold for recognition as corporate SME exposures.

As at 31 December 2015 the total credit risk exposures (excluding thresholds) of the Group amounted to £686.7bn (2014: £700.2bn).

Credit risk exposures by exposure class are provided in the table below, together with the associated risk-weighted asset, average risk weight and average credit risk exposure.

Pillar 1 Capital requirements: Credit risk continued

Table 19: Credit risk exposures

Exposure class	2015 Credit risk exposure £m	2015 Risk-weighted assets £m	2015 Average risk weight %	2015 Average credit risk exposure[4] £m
Exposures subject to the IRB approach				
Foundation IRB approach				
Corporate – main	80,629	43,005	53%	79,610
Corporate – SME	12,964	8,814	68%	13,350
Corporate – specialised lending	6	8	120%	60
Central governments and central banks	15,716	1,347	9%	21,395
Institutions	7,364	1,430	19%	7,421
Retail IRB approach				
Retail mortgages	341,807	38,252	11%	347,021
of which: residential mortgages (SME)	10,517	3,214	31%	10,867
of which: residential mortgages (non-SME)	331,290	35,038	11%	336,155
Qualifying revolving retail exposures	36,975	12,501	34%	37,400
Other SME	2,661	1,807	68%	2,618
Other non-SME	14,331	11,352	79%	14,373
Other IRB approaches[1]				
Corporate – specialised lending	19,887	14,386	72%	21,293
Equities – exchange traded	978	2,837	290%	904
Equities – private equity	2,981	5,664	190%	3,068
Equities – other	376	1,392	370%	102
Securitisation positions[2]	22,125	3,266	15%	18,162
Non-credit obligation assets[3]	9,228	5,502	60%	8,624
Total – IRB approach	568,028	151,563	27%	575,401
Exposures subject to the standardised approach				
Central governments and central banks	88,415	-	-	96,082
Regional governments or local authorities	1	-	20%	-
Public sector entities	2	2	100%	8
Multilateral development banks	997	-	-	77
Institutions	170	24	14%	175
Corporates	14,463	11,921	82%	14,147
Retail	4,438	2,880	65%	3,837
Secured by mortgages on immovable property	5,840	2,109	36%	7,098
of which: residential property	5,809	2,078	36%	7,075
of which: commercial property	31	31	100%	23
Exposures in default	1,005	1,198	119%	1,120
Exposures associated with particularly high risk	-	-	-	-
Short term claims on institutions and corporates	-	-	-	-
Collective investment undertakings (CIUs)	-	-	-	-
Other items[3]	3,204	2,309	72%	4,500
Total – standardised approach	118,535	20,443	17%	127,044
Contributions to the default fund of a central counterparty	150	488	325%	119
Total credit risk	686,713	172,494	25%	702,564
Threshold – significant investments	3,127	7,817	250%	3,342
Threshold – deferred tax	1,188	2,971	250%	938
Total credit risk	691,028	183,282	27%	706,844

Exposure class	2014 Credit risk exposure £m	2014 Risk-weighted assets £m	2014 Average risk weight %	2014 Average credit risk exposure[4] £m
Exposures subject to the IRB approach				
Foundation IRB approach				
Corporate – main	80,496	43,735	54%	83,802
Corporate – SME	13,979	9,637	69%	14,472
Corporate – specialised lending	11	5	42%	87
Central governments and central banks	15,714	1,618	10%	21,393
Institutions	7,970	1,577	20%	6,651
Retail IRB approach				
Retail mortgages	359,326	43,123	12%	362,647
of which: residential mortgages (SME)	11,114	3,174	29%	11,170
of which: residential mortgages (non-SME)	348,212	39,949	11%	351,477
Qualifying revolving retail exposures	36,287	14,061	39%	37,551
Other SME	2,736	1,982	72%	2,827
Other non-SME	14,599	13,720	94%	13,681
Other IRB approaches[1]				
Corporate – specialised lending	22,420	15,821	71%	28,266
Equities – exchange traded	682	1,976	290%	563
Equities – private equity	3,014	5,727	190%	2,930
Equities – other	54	201	370%	96
Securitisation positions[2]	14,351	2,373	17%	13,794
Non-credit obligation assets[3]	8,441	5,047	60%	1,677
Total – IRB approach	580,080	160,603	28%	590,437
Exposures subject to the standardised approach				
Central governments and central banks	83,617	11	-	79,221
Regional governments or local authorities	-	-	-	7
Public sector entities	9	9	100%	10
Multilateral development banks	-	-	-	-
Institutions	205	53	26%	790
Corporates	15,490	13,646	88%	16,797
Retail	4,316	2,946	68%	4,555
Secured by mortgages on immovable property	9,575	3,408	36%	8,476
of which: residential property	9,563	3,396	36%	8,426
of which: commercial property	12	12	100%	50
Exposures in default	1,339	1,573	117%	2,117
Exposures associated with particularly high risk	1	1	150%	1
Short term claims on institutions and corporates	-	-	-	259
Collective investment undertakings (CIUs)	-	-	-	14
Other items[3]	5,404	3,797	70%	7,735
Total – standardised approach	119,956	25,444	21%	119,982
Contributions to the default fund of a central counterparty	143	515	360%	101
Total credit risk	700,179	186,562	27%	710,520
Threshold – significant investments	3,324	8,309	250%	3,191
Threshold – deferred tax	1,006	2,515	250%	1,346
Total credit risk	704, 509	197,386	28%	715,057

[1] Credit risk exposures subject to other IRB approaches include corporate specialised lending exposures risk-weighted in accordance with supervisory slotting criteria, equity exposures risk-weighted in accordance with the Simple Risk Weight Method and securitisation positions risk-weighted in accordance with the IAA and the RBA.

[2] Securitisation positions exclude amounts allocated to the 1,250 per cent risk weight category. These amounts are deducted from capital, after the application of SCRAs, rather than being risk-weighted at 1,250 per cent.

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

[4] Average credit risk exposure represents the average exposure across the year to 31 December.

Pillar 1 Capital requirements: Credit risk continued

Exposures subject to the IRB approach
FIRB Corporate Main
- FIRB Corporate Main exposures increased by £0.1bn during the year to £80.6bn mainly due to targetted new lending, partially offset by an increase in securitised assets and asset reductions in the Run-off portfolio.
- Risk- weighted assets reduced by £0.7bn mainly due to improved credit quality and portfolio optimisation which has resulted in a slight improvement in the average risk weight.

Corporate SME
- FIRB Corporate SME exposures reduced by £1.0bn during the year to £13.0bn, and risk-weighted assets reduced by £0.8bn to £8.8bn, driven by active portfolio management.

Central governments and central banks
- FIRB Central governments and central banks exposures are in-line with December 14 at £15.7bn. However the average risk weight has decreased from 10% to 9%, largely as a result of a reduction in average maturity, leading to risk-weighted assets decreasing by £0.3bn to £1.3bn.

Institutions
- FIRB Institutions exposures decreased by £0.6bn to £7.4bn, primarily due to active portfolio management.
- The average risk weight reduced marginally from 20% to 19% due to a reduction in average maturity, leading to a £0.1bn reduction in risk-weighted assets to £1.4bn.

Retail IRB Residential mortgages
- Retail IRB residential mortgage exposures decreased by £17.5bn to £341.8bn largely due to the disposal of TSB.
- Risk-weighted assets reduced by £4.9bn to £38.3bn partially due to the disposal of TSB, as well as improvements in credit quality reflecting effective portfolio management and the impact of macro economic factors, such as favourable movements in UK house prices.

Retail Qualifying revolving
- Retail IRB Qualifying revolving retail exposures increased by £0.7bn to £37.0bn, largely due to the net impact of model calibrations.
- The average risk weight decreased from 39% to 34% due to changes in credit quality and reflecting improved portfolio composition. These changes resulted in a reduction in risk-weighted assets of £1.6bn to £12.5bn.

Retail Other non-SME
- Retail other (non-SME) exposures have reduced by £0.3bn to £14.3bn, as a result of the disposal of TSB partially offset by new lending in Asset Finance.
- Risk-weighted assets have decreased by £2.4bn to £11.4bn, and average risk weights have reduced from 94% to 79%, reflecting credit quality improvements and the disposal of TSB.

Other IRB Approaches
Specialised lending
- Specialised lending exposures reduced by £2.5bn to £19.9bn, with a decrease in risk-weighted assets of £1.4bn to £14.4bn. The decreases are primarily driven by disposals in the Run-off portfolio, primarily Ireland. The average risk weight increased from 71% to 72% as the exposure reduction is predominately in the defaulted category which carries a 0% risk weight.

Securitisation positions
- Securitisation exposures increased by £7.8bn to £22.1bn, following the origination of new capital efficient commercial asset backed securitisation transactions and an increase in both sponsored and invested positions, partially offset by sales and maturities. Risk-weighted assets have increased from £2.4bn to £3.3bn mainly due to holding retained positions in the new originated securitisations in the period.

Exposures subject to the Standardised approach
Central governments and central banks
- Standardised central governments and central banks' exposures increased by £4.8bn primarily due to placement of funds with European sovereigns.

Corporates
- Standardised corporate exposures reduced by £1.0bn during the year to £14.5bn, and risk-weighted assets reduced by £1.7bn to £11.9bn, driven by exits, repayments, and refinements to asset classifications.

Secured by mortgages on immovable property
- Standardised exposures secured by mortgages on immovable property decreased by £3.7bn to £5.8bn, with risk-weighted assets decreasing by £1.3bn to £2.1bn, primarily due to the disposal of TSB.

Exposures in default
- Standardised exposures in default decreased by £0.3bn to £1.0bn, with risk-weighted assets decreasing by £0.4bn to £1.2bn. The decrease is primarily driven by disposals in the Run-off portfolio.

Other exposures
- Other standardised exposures have decreased by £2.2bn to £3.2bn, with risk-weighted assets decreasing by £1.5bn to £2.3bn. The decrease is primarily due to reductions in sundry debtors relating to disposals in Run-off portfolio.

An analysis of total credit risk exposures by division is provided below.

Table 20: Divisional credit risk exposures

Division	Risk Weight approach	2015 Credit risk exposure £m	2015 Risk-weighted assets £m	2015 Average risk weight %	2014 Credit risk exposure £m	2014 Risk-weighted assets £m	2014 Average risk weight %
Retail	IRB	348,158	44,514	13%	348,861	48,853	14%
	Standardised	7,511	4,283	57%	8,152	4,543	56%
Commercial Banking	IRB	138,408	72,859	53%	140,242	72,608	52%
	Standardised	12,555	10,061	80%	48,401	10,243	21%
Consumer Finance	IRB	40,468	16,118	40%	35,756	15,968	45%
	Standardised	2,026	1,495	74%	1,856	1,365	74%
Central Items	IRB	29,458	10,466	36%	18,969	8,050	42%
	Standardised	92,701	2,266	2%	47,868	3,810	8%
Run-off	IRB	11,536	7,606	66%	17,328	11,937	69%
	Standardised	3,742	2,338	62%	4,758	3,503	74%
TSB	IRB	-	-	-	18,924	3,187	17%
	Standardised	-	-	-	8,921	1,980	22%
Total		686,563	172,006	25%	700,036	186,047	27%
Contributions to the default fund of a central counterparty		150	488	325%	143	515	360%
Total		686,713	172,494	25%	700,179	186,562	27%

Key movements

Retail credit risk-weighted assets reduced by £4.6bn mainly driven by an improvement in the credit quality of assets.

Commercial Banking credit risk-weighted assets remained flat despite an increase in lending, driven by continued portfolio optimisation initiatives and improved credit quality. An internal transfer of balances held with central banks, to Central Items, increased the average risk weighting of Commercial Banking's standardised portfolio from 21% to 80%.

Consumer Finance credit risk-weighted assets increased by £0.3bn driven by an increase in higher quality new lending which has also contributed to a reduction in average risk weight.

Central Items – the internal transfer of balances held with central banks to Central items from Commercial Banking reduced the average risk weighting of Central items standardised portfolio from 8% to 2%.

Run-Off credit risk-weighted assets reduced by £5.5bn during the year mainly driven by disposals.

Pillar 1 Capital requirements: Credit risk continued

INTERNAL RATING SCALES

Within the Group, PD internal rating scales are used in assessing the credit quality of the FIRB and Retail IRB portfolios. Two separate scales exist within the business – a Corporate Master Scale which covers all relevant corporate, central government and central bank and institution portfolios and a Retail Master Scale which covers all relevant retail portfolios.

PD master scales

Table 21: Corporate master scale

In commercial portfolios the PD models segment counterparties into a number of rating grades, with each grade representing a defined range of default probabilities, and there are a number of different model rating scales. Counterparties/exposures migrate between rating grades if the assessment of the PD changes. The modelled PDs 'map' through local scales to a single Corporate (non-retail) master scale comprising of 19 non-default ratings. Together with four default ratings the Corporate master scale forms the basis on which internal reporting is completed. These ratings scales can also be mapped to External Ratings as shown below.

	Range			
PD Grades	Lower	Mid	Upper	External S&P Rating (Approximate Equivalent)
1-4	0.000%	0.018%	0.035%	AAA to AA-
5	0.036%	0.043%	0.050%	A+
6	0.051%	0.060%	0.080%	A
7	0.081%	0.110%	0.140%	A-
8	0.141%	0.180%	0.220%	BBB+
9	0.221%	0.280%	0.340%	BBB
10	0.341%	0.420%	0.500%	BBB-
11	0.501%	0.630%	0.760%	BB+
12	0.761%	1.000%	1.240%	BB
13	1.241%	1.620%	2.000%	BB-
14	2.001%	2.600%	3.200%	B+
15	3.201%	4.200%	5.200%	B+
16	5.201%	6.200%	7.200%	B
17	7.201%	8.700%	10.200%	B-
18	10.201%	12.000%	13.800%	B-
19	13.801%	31.000%	99.999%	CCC to C
20 – 23 (Default)	100.000%	100.000%	100.000%	Default

Table 22: Retail master scale

In the principal retail portfolios, EAD and loss given default models are also in use. For reporting purposes, customers are segmented into a number of rating grades, each representing a defined range of default probabilities and exposures migrate between rating grades if the assessment of the counterparty PD changes. The Retail master scale comprises 13 non-default ratings and 1 default rating.

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

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

ANALYSIS OF CREDIT RISK EXPOSURES SUBJECT TO THE FOUNDATION IRB APPROACH

This section provides a detailed analysis, by PD Grade, of credit risk exposures subject to the FIRB Approach.

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

As at 31 December 2015, corporate exposures subject to the FIRB Approach totalled £93.6bn (2014: £94.5bn).

Table 23: Corporate main exposures by PD grade

PD Grades	2015 Credit risk exposure £m	2015 Exposure weighted average PD %	2015 Average risk weight %	2014 Credit risk exposure £m	2014 Exposure weighted average PD %	2014 Average risk weight %
1 – 4	9,675	0.03%	22.93%	10,294	0.03%	21.98%
5	2,872	0.04%	28.29%	2,872	0.04%	23.32%
6	5,879	0.06%	22.61%	6,446	0.06%	25.25%
7	11,489	0.11%	32.37%	11,823	0.11%	31.62%
8	12,507	0.18%	42.08%	9,111	0.18%	46.03%
9	10,342	0.28%	55.17%	9,902	0.28%	56.06%
10	9,714	0.42%	65.34%	9,795	0.42%	66.91%
11	5,396	0.63%	78.40%	5,035	0.63%	75.70%
12	4,753	1.00%	92.06%	5,075	1.00%	94.93%
13	2,864	1.63%	110.86%	3,669	1.61%	103.11%
14	2,567	2.60%	127.72%	2,334	2.60%	130.72%
15	677	4.14%	134.21%	1,391	4.20%	133.63%
16	293	6.20%	155.32%	905	6.20%	146.85%
17	424	8.73%	176.91%	76	8.78%	191.47%
18	36	11.72%	230.78%	28	11.75%	193.62%
19	155	19.94%	227.16%	116	26.75%	247.67%
20 – 23 (Default)	986	100.00%	-	1,624	100.00%	-
Total	80,629	1.75%	53.34%	80,496	2.59%	54.33%

Key movements

– Exposures increased by £0.1bn during the year to £80.6bn mainly due to targeted new lending partially offset by a new securitisation in the year and asset reductions in the Run-off portfolio.

– The average PD has decreased by 0.84% to 1.75% from 2.59% driven by improvements in credit quality and portfolio optimisation.

– The improvement in credit quality has resulted in a reduction in the average risk weight to 53.34%, and a reduction in risk-weighted assets by £0.7bn to £43.0bn.

Pillar 1 Capital requirements: Credit risk continued

Table 24: Corporate SME exposures by PD grade

PD Grades	2015 Credit risk exposure £m	2015 Exposure weighted average PD %	2015 Average risk weight %	2014 Credit risk exposure £m	2014 Exposure weighted average PD %	2014 Average risk weight %
1 – 4	142	0.03%	20.79%	307	0.03%	20.01%
5	157	0.04%	26.06%	271	0.04%	21.88%
6	284	0.06%	22.29%	364	0.06%	23.42%
7	393	0.11%	26.30%	210	0.11%	28.86%
8	299	0.18%	36.03%	300	0.18%	30.51%
9	565	0.28%	46.75%	500	0.28%	42.71%
10	782	0.43%	49.38%	1,041	0.44%	47.88%
11	2,535	0.63%	59.29%	2,685	0.61%	62.94%
12	2,089	1.06%	70.80%	2,103	1.06%	72.58%
13	1,327	1.66%	81.23%	1,423	1.65%	83.59%
14	1,600	2.60%	95.23%	1,619	2.62%	91.53%
15	389	4.23%	96.34%	505	4.16%	95.37%
16	808	6.02%	124.66%	650	5.90%	113.50%
17	265	8.61%	127.48%	247	8.59%	122.28%
18	220	10.73%	129.01%	417	11.27%	143.89%
19	148	24.88%	157.35%	296	29.52%	188.35%
20 – 23 (Default)	961	100.00%	-	1,041	100.00%	-
Total	12,964	9.39%	67.99%	13,979	9.78%	68.94%

Key movements

– Exposures reduced by £1.0bn during the year to £13.0bn driven by active portfolio management.
– There was a reduction in average PD to 9.39% largely as a result of improvements in credit quality of new lending.
– These credit quality improvements have also reduced the average risk weight by 0.95% to 67.99%.

Table 25: Corporate specialised lending exposures by PD grade

PD Grades	2015 Credit risk exposure £m	2015 Exposure weighted average PD %	2015 Average risk weight %	2014 Credit risk exposure £m	2014 Exposure weighted average PD %	2014 Average risk weight %
1 – 4	-	-	-	-	-	-
5	-	-	-	-	-	-
6	-	-	-	-	-	-
7	-	-	-	-	-	-
8	-	-	-	10	0.20%	31.83%
9	-	-	-	-	-	-
10	-	-	-	-	-	-
11	2	0.67%	90.65%	1	0.67%	113.06%
12	2	0.99%	128.23%	-	-	-
13	2	1.39%	136.80%	-	-	-
14	-	-	-	-	-	-
15	-	-	-	-	-	-
16	-	-	-	-	-	-
17	-	-	-	-	-	-
18	-	-	-	-	-	-
19	-	-	-	-	-	-
20 – 23 (Default)	-	-	-	-	-	-
Total	6	1.61%	119.98%	11	1.11%	42.04%

Central government and central bank exposures

Table 26: Central government and central bank exposures by PD grade

PD Grades	2015 Credit risk exposure £m	2015 Exposure weighted average PD %	2015 Average risk weight %	2014 Credit risk exposure £m	2014 Exposure weighted average PD %	2014 Average risk weight %
1 – 4	15,716	0.01%	8.57%	15,714	0.01%	10.30%
5	-	-	-	-	-	-
6	-	-	-	-	-	-
7	-	-	-	-	-	-
8	-	-	-	-	-	-
9	-	-	-	-	-	-
10	-	-	-	-	-	-
11	-	-	-	-	-	-
12	-	-	-	-	-	-
13	-	-	-	-	-	-
14	-	-	-	-	-	-
15	-	-	-	-	-	-
16	-	-	-	-	-	-
17	-	-	-	-	-	-
18	-	-	-	-	-	-
19	-	-	-	-	-	-
20 – 23 (Default)	-	-	-	-	-	-
Total	15,716	0.01%	8.57%	15,714	0.01%	10.30%

Institution exposures

Table 27: Institution exposures by PD grade

PD Grades	2015 Credit risk exposure £m	2015 Exposure weighted average PD %	2015 Average risk weight %	2014 Credit risk exposure £m	2014 Exposure weighted average PD %	2014 Average risk weight %
1 – 4	2,781	0.03%	11.25%	5,579	0.03%	8.30%
5	954	0.04%	9.23%	192	0.04%	19.57%
6	2,179	0.06%	10.40%	591	0.06%	19.20%
7	387	0.11%	21.98%	285	0.11%	21.94%
8	242	0.18%	43.38%	466	0.18%	30.96%
9	214	0.28%	62.82%	178	0.28%	62.71%
10	218	0.43%	65.24%	156	0.45%	69.73%
11	290	0.73%	75.00%	251	0.75%	97.86%
12	43	1.01%	93.53%	175	1.00%	88.24%
13	7	1.69%	110.81%	72	1.62%	169.05%
14	1	2.20%	132.33%	1	2.34%	165.57%
15	7	4.24%	157.47%	5	4.18%	152.99%
16	-	-	-	1	5.84%	192.72%
17	-	-	-	1	8.00%	177.41%
18	-	-	-	-	-	-
19	24	14.50%	247.44%	-	-	-
20 – 23 (Default)	17	100.00%	0.00%	17	100.00%	-
Total	7,364	0.39%	19.42%	7,970	0.33%	19.78%

Pillar 1 Capital requirements: Credit risk continued

ANALYSIS OF CREDIT RISK EXPOSURES SUBJECT TO THE RETAIL IRB APPROACH

This section provides a detailed analysis, by PD Grade, of credit risk exposures subject to the Retail IRB Approach.

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

As at 31 December 2015, retail exposures subject to the Retail IRB Approach totalled £395.8bn (2014: £412.9bn).

Table 28: Residential mortgages (SME) exposures by PD grade

PD Grade	2015 Credit risk exposure £m	2015 Exposure weighted average PD %	2015 Exposure weighted average LGD %	2015 Average risk weight %	2015 Undrawn commitments (gross) £m	2015 Undrawn commitments (after CCF) £m
0	-	-	-	-	-	-
1	-	-	-	-	-	-
2	4,523	0.62%	16.46%	12.28%	475	464
3	2,257	1.12%	17.94%	20.04%	146	142
4	1,054	1.67%	18.48%	26.79%	58	56
5	934	2.62%	18.93%	36.01%	39	38
6	616	5.67%	19.32%	56.39%	27	27
7	72	8.04%	20.70%	72.77%	1	1
8	398	10.61%	20.13%	76.77%	16	15
9	198	18.02%	20.84%	93.75%	5	5
10	-	-	-	-	-	-
11	70	34.10%	20.19%	98.73%	1	1
12	20	78.18%	21.92%	45.43%	-	-
Default	375	100.00%	7.91%	164.85%	5	5
Total	10,517	5.98%	17.35%	30.56%	773	754

PD Grade	2014 Credit risk exposure £m	2014 Exposure weighted average PD %	2014 Exposure weighted average LGD %	2014 Average risk weight %	2014 Undrawn commitments (gross) £m	2014 Undrawn commitments (after CCF) £m
0	–	–	–	–	–	–
1	–	–	–	–	–	–
2	4,387	0.62%	12.55%	11.41%	481	468
3	2,335	1.12%	13.60%	18.34%	153	149
4	1,121	1.67%	14.14%	24.75%	70	68
5	1,116	2.62%	14.80%	32.29%	50	49
6	781	5.67%	15.31%	46.65%	34	34
7	75	8.04%	21.29%	75.01%	2	2
8	519	10.61%	16.81%	68.40%	22	21
9	264	18.02%	18.62%	92.15%	8	8
10	–	–	–	–	–	–
11	108	34.10%	17.81%	99.95%	2	2
12	33	78.18%	20.08%	53.06%	–	–
Default	375	100.00%	6.27%	123.48%	8	8
Total	11,114	6.22%	13.61%	28.56%	830	809

Table 29: Residential mortgages (non-SME) exposures by PD grade

PD Grade	2015 Credit risk exposure £m	2015 Exposure weighted average PD %	2015 Exposure weighted average LGD[1] %	2015 Average risk weight %	2015 Undrawn commitments (gross)[2] £m	2015 Undrawn commitments (after CCF) £m
0	187,636	0.10%	9.34%	2.50%	8,287	7,759
1	94,669	0.47%	10.96%	9.49%	2,038	1,931
2	17,081	1.39%	13.29%	22.32%	155	150
3	7,299	2.27%	14.43%	31.55%	106	106
4	8,954	3.85%	16.44%	45.81%	181	43
5	3,671	7.27%	18.42%	69.99%	6	5
6	2,981	13.49%	14.76%	74.82%	-	-
7	455	19.15%	19.34%	109.26%	-	-
8	1,066	25.06%	13.68%	84.77%	-	-
9	988	31.89%	12.54%	81.54%	-	-
10	938	43.64%	12.84%	78.48%	-	-
11	830	56.80%	12.93%	67.77%	2	2
12	703	73.07%	14.07%	51.99%	1	-
Default	4,019	100.00%	14.46%	61.54%	-	-
Total	331,290	2.46%	10.59%	10.58%	10,776	9,996

PD Grade	2014 Credit risk exposure £m	2014 Exposure weighted average PD %	2014 Exposure weighted average LGD[1] %	2014 Average risk weight %	2014 Undrawn commitments (gross)[2] £m	2014 Undrawn commitments (after CCF) £m
0	157,542	0.09%	8.96%	2.17%	6,755	6,225
1	120,287	0.36%	10.52%	6.90%	2,489	2,315
2	29,697	1.00%	12.89%	17.33%	300	288
3	7,836	2.09%	13.99%	28.51%	43	40
4	11,787	3.46%	16.08%	41.68%	172	52
5	5,585	6.51%	17.75%	63.76%	8	7
6	3,413	11.58%	16.18%	75.87%	1	1
7	1,734	16.66%	13.55%	75.23%	–	–
8	1,201	22.70%	15.56%	91.67%	–	–
9	1,204	29.22%	14.58%	89.90%	–	–
10	1,334	40.73%	14.21%	85.09%	–	–
11	1,112	54.47%	14.37%	75.54%	1	1
12	1,093	72.40%	15.82%	55.83%	4	4
Default	4,387	100.00%	15.02%	84.55%	1	–
Total	348,212	2.71%	10.60%	11.47%	9,774	8,933

[1] The 10 per cent LGD floor that applies to residential mortgage exposures is applied at portfolio level rather than at account level. This means that LGD per cent for a given grade can be less than 10 per cent but that for the relevant portfolio cannot.

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

Key movements

– Migration from PD grades 1 and 2 to PD grade 0 has occurred in 2015 primarily as a result of a fall in default rates and a reduction in arrears reflecting strong portfolio management and a favourable credit environment.

Pillar 1 Capital requirements: Credit risk continued

Table 30: Residential mortgage exposures by major portfolio

Major portfolio	2015 Credit risk exposure £m	2015 Exposure weighted average PD %	2015 Exposure weighted average LGD[1] %	2015 Average risk weight %	2015 Undrawn commitments (gross)[2] £m	2015 Undrawn commitments (after CCF) £m
UK mainstream	251,473	2.28%	9.76%	8.82%	8,211	7,832
UK buy-to-let	53,709	1.54%	11.32%	9.54%	1,855	1,841
UK self certified	18,107	6.50%	9.89%	15.24%	521	268
Irish mortgages	3,306	9.08%	45.31%	110.48%	-	-
Dutch mortgages	4,677	2.18%	24.93%	28.04%	190	56
Other mortgages	10,535	5.99%	17.32%	30.51%	773	755
Total	341,807	2.57%	10.80%	11.19%	11,550	10,752

Major portfolio	2014 Credit risk exposure £m	2014 Exposure weighted average PD %	2014 Exposure weighted average LGD[1] %	2014 Average risk weight %	2014 Undrawn commitments (gross)[2] £m	2014 Undrawn commitments (after CCF) £m
UK mainstream	266,746	2.50%	9.68%	9.64%	7,633	7,150
UK buy-to-let	53,155	1.82%	11.85%	9.33%	1,517	1,507
UK self certified	19,814	6.70%	10.41%	16.92%	479	246
Irish mortgages	3,666	9.15%	46.68%	124.20%	–	–
Dutch mortgages	4,811	2.86%	21.40%	28.59%	145	30
Other mortgages	11,134	6.24%	13.66%	28.59%	830	809
Total	359,326	2.82%	10.70%	12.00%	10,604	9,742

[1] The 10 per cent LGD floor that applies to residential mortgage exposures is applied at portfolio level rather than at account level. This means that LDG per cent for a given grade can be less than 10 per cent but that for the relevant portfolio cannot.

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

Key movements

- UK mainstream exposures have decreased by £15.3bn, primarily as a result of the disposal of TSB. The reduction in PD and average risk weight primarily reflects strong portfolio management and a favourable credit environment with low unemployment, increasing house prices and continued low interest rates.
- Buy-to-let exposures have increased reflecting new lending.
- Self certified exposures have reduced in 2015, reflecting run off of the portfolio which has also led to a reduction in the average risk weight.
- The year-on-year reduction in average LGDs for buy-to-let and self certified principally reflects the impact of HPI.
- Irish mortgages average risk weight has fallen in the year by 13.8% primarily due to partial disposal of the book in the year.
- Dutch mortgages increase in average LGD is mainly due to model calibrations in the year, however, average PD has reduced reflecting improvements in credit quality leading to a lower average risk weight.
- Other mortgages predominantly comprise Commercial Banking loans secured by mortgages on residential property for SMEs. There has been an increase in LGD and average risk weight driven by model calibrations in the year.

Table 31: Qualifying revolving retail exposures by PD grade

PD Grade	2015 Credit risk exposure £m	2015 Exposure weighted average PD %	2015 Exposure weighted average LGD %	2015 Average risk weight %	2015 Undrawn commitments (gross) £m	2015 Undrawn commitments (after CCF)[1] £m
0	10,807	0.05%	76.00%	2.71%	14,803	10,238
1	9,869	0.22%	76.10%	9.21%	13,656	8,271
2	4,220	0.57%	78.41%	20.64%	4,583	2,715
3	2,290	0.99%	79.13%	31.89%	1,901	1,198
4	3,571	1.75%	79.46%	48.80%	2,196	1,544
5	2,345	3.33%	79.58%	77.57%	973	774
6	1,675	6.03%	80.59%	116.86%	788	563
7	722	8.31%	79.99%	141.84%	166	255
8	401	11.47%	80.29%	170.88%	74	91
9	234	16.39%	80.45%	204.68%	36	52
10	148	24.14%	80.05%	237.07%	18	30
11	85	36.15%	79.90%	257.23%	10	15
12	108	67.90%	80.82%	188.61%	7	17
Default	500	100.00%	33.37%	243.96%	38	-
Total	36,975	2.97%	76.88%	33.81%	39,249	25,763

PD grade	2014 Credit risk exposure £m	2014 Exposure weighted average PD %	2014 Exposure weighted average LGD %	2014 Average risk weight %	2014 Undrawn commitments (gross) £m	2014 Undrawn commitments (after CCF)[1] £m
0	10,082	0.05%	76.81%	2.76%	14,035	9,622
1	9,258	0.22%	76.58%	9.28%	13,173	7,860
2	4,004	0.58%	78.65%	20.83%	4,570	2,741
3	2,094	0.99%	79.56%	32.07%	1,858	1,200
4	3,632	1.76%	79.63%	49.20%	2,497	1,688
5	2,459	3.38%	79.77%	78.58%	1,150	868
6	1,916	6.03%	79.94%	115.82%	1,035	692
7	822	8.64%	79.82%	144.78%	207	272
8	550	11.61%	79.83%	171.02%	116	123
9	349	16.40%	80.01%	203.61%	61	74
10	196	24.11%	80.15%	237.32%	27	41
11	123	36.04%	79.86%	256.98%	16	23
12	133	66.73%	80.14%	191.20%	10	19
Default	669	100.00%	28.14%	239.98%	41	–
Total	36,287	3.78%	77.05%	38.75%	38,796	25,223

[1] Undrawn commitments post credit conversion can exceed the gross undrawn equivalents where there is an assumption that future drawings will be higher than the current limit.

Key movements

– Exposures increased by £0.7bn to £37.0bn largely due to model calibration.
– The average PD decreased from 3.78% to 2.97% driven by improved credit quality, as a result of new lending and favourable credit environment.
– These factors have also contributed to a reduction in the average risk weight from 38.75% to 33.81%.

Pillar 1 Capital requirements: Credit risk continued

Table 32: Other SME exposures by PD grade

PD Grade	2015 Credit risk exposure £m	2015 Exposure weighted average PD %	2015 Exposure weighted average LGD %	2015 Average risk weight %	2015 Undrawn commitments (gross) £m	2015 Undrawn commitments (after CCF) £m
0	-	-	-	-	-	-
1	-	-	-	-	-	-
2	990	0.61%	75.29%	48.52%	517	517
3	480	1.12%	75.07%	65.46%	148	148
4	249	1.67%	75.94%	76.44%	60	60
5	332	2.62%	75.63%	85.21%	49	49
6	165	5.67%	76.75%	94.24%	30	30
7	72	8.04%	70.76%	106.61%	5	5
8	104	10.61%	80.64%	113.06%	17	17
9	37	18.02%	80.78%	141.22%	4	4
10	-	-	-	-	-	-
11	15	34.10%	81.21%	174.25%	1	1
12	8	78.18%	86.66%	119.12%	1	1
Default	209	100.00%	11.21%	48.63%	3	3
Total	**2,661**	**10.43%**	**70.63%**	**67.91%**	**835**	**835**

PD grade	2014 Credit risk exposure £m	2014 Exposure weighted average PD %	2014 Exposure weighted average LGD %	2014 Average risk weight %	2014 Undrawn commitments (gross) £m	2014 Undrawn commitments (after CCF) £m
0	–	–	–	–	–	–
1	–	–	–	–	–	–
2	923	0.61%	63.93%	47.92%	497	497
3	444	1.12%	65.47%	67.18%	148	148
4	253	1.67%	65.86%	79.04%	63	63
5	340	2.62%	67.60%	87.81%	57	57
6	179	5.67%	68.16%	98.53%	36	36
7	79	8.04%	64.89%	114.07%	6	6
8	115	10.61%	71.05%	116.17%	21	21
9	50	18.02%	74.44%	152.49%	6	6
10	–	–	–	–	–	–
11	21	34.10%	75.91%	193.41%	1	1
12	11	78.18%	73.51%	111.43%	2	2
Default	321	100.00%	6.29%	66.33%	4	4
Total	2,736	14.57%	58.98%	72.42%	841	841

Key movements

– The average PD for Other SME exposures fell by 4.14% to 10.43% as a result of active portfolio management.

– The average LGD has increased by 11.65% to 70.63% largely due to internal model recalibrations though this did not affect risk-weighted assets as a risk-weighted asset adjustment was already included in the 2014 figures..

– The average risk weight has decreased from 72.42% to 67.91%, largely reflecting the impact of the improved portfolio composition.

Table 33: Other non-SME exposures by PD grade

PD Grade	2015 Credit risk exposure £m	2015 Exposure weighted average PD %	2015 Exposure weighted average LGD %	2015 Average risk weight %	2015 Undrawn commitments (gross) £m	2015 Undrawn commitments (after CCF) £m
0	232	0.08%	34.93%	7.84%	-	-
1	2,832	0.35%	42.14%	24.40%	4	1
2	2,237	0.68%	58.00%	50.61%	7	1
3	1,122	1.00%	86.69%	93.11%	5	1
4	4,526	1.70%	66.36%	86.41%	9	2
5	1,728	3.30%	76.52%	114.30%	6	1
6	688	5.82%	76.19%	120.98%	3	1
7	174	8.82%	80.60%	137.67%	1	-
8	128	11.35%	75.27%	140.95%	1	-
9	84	17.94%	91.48%	205.90%	1	-
10	66	22.00%	55.27%	136.61%	-	-
11	98	34.91%	43.77%	121.90%	-	-
12	75	71.81%	80.23%	148.34%	-	-
Default	341	100.00%	28.29%	236.37%	-	-
Total	14,331	4.87%	62.41%	79.22%	37	7

PD grade	2014 Credit risk exposure £m	2014 Exposure weighted average PD %	2014 Exposure weighted average LGD %	2014 Average risk weight %	2014 Undrawn commitments (gross) £m	2014 Undrawn commitments (after CCF) £m
0	124	0.08%	35.78%	8.03%	–	–
1	1,559	0.35%	45.88%	27.47%	5	2
2	1,979	0.68%	57.97%	50.80%	10	4
3	1,169	1.01%	85.82%	92.65%	8	4
4	4,680	1.72%	68.83%	90.02%	16	7
5	2,461	3.26%	80.36%	119.83%	10	4
6	1,222	5.86%	81.81%	130.15%	8	3
7	291	8.61%	86.53%	147.27%	2	1
8	227	11.34%	80.16%	149.70%	1	1
9	109	16.98%	91.07%	200.23%	1	–
10	90	22.50%	63.76%	158.80%	–	–
11	103	35.23%	49.74%	138.67%	–	–
12	102	71.55%	81.65%	155.54%	2	1
Default	483	100.00%	38.87%	208.86%	–	–
Total	14,599	6.47%	68.64%	93.97%	63	27

Key movements

- Exposures reduced by £0.3bn to £14.3bn, reflecting the impact of the TSB disposal partially offset by new lending.
- The average PD has reduced by 1.60% to 4.87% reflecting active portfolio management in Consumer Finance.
- The average LGD has fallen by 6.23% to 62.41% as result of increased collateral on new lending in Consumer Finance.
- The average risk weight fell from 93.97% to 79.22% reflecting credit quality improvement from new lending and calibration impacts, and the disposal of TSB.

Pillar 1 Capital requirements: Credit risk continued

ANALYSIS OF CREDIT RISK EXPOSURES SUBJECT TO OTHER IRB APPROACHES

Corporate specialised lending exposures subject to supervisory slotting

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

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

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

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

As at 31 December 2015, corporate specialised lending exposures subject to supervisory slotting amounted to £19.9bn (2014: £22.4bn). Risk-weighted assets arising from this amounted to £14.4bn (2014: £15.8bn) as analysed in the table below.

Table 34: Corporate specialised lending exposures subject to supervisory slotting

	Remaining maturity <2.5 years		Remaining maturity >2.5 years		Remaining maturity <2.5 years		Remaining maturity >2.5 years	
Grade	2015 Exposure £m	2015 Risk-weighted assets £m	2015 Exposure £m	2015 Risk-weighted assets £m	2014 Exposure £m	2014 Risk-weighted assets £m	2014 Exposure £m	2014 Risk-weighted assets £m
1) Strong[1]	1,597	798	6,260	3,864	2,076	1,035	4,787	2,852
2) Good	2,799	1,955	4,942	4,358	2,128	1,489	4,602	4,137
3) Satisfactory	912	1,045	1,596	1,822	1,650	1,894	2,381	2,724
4) Weak	5	13	214	531	189	472	488	1,218
5) Default[2]	1,099	-	463	-	1,753	-	2,366	-
Total	6,412	3,811	13,475	10,575	7,796	4,890	14,624	10,931

[1] The average risk weight % in the Strong slotting grade is below the specified regulatory value as a result of exposures to customers which are classed as Strong, typically in the shipping industry, having facilities which have been structured such that the Group also benefits from additional financial collateral from third parties which is not ordinarily part of the security package for Slotting transactions. As a result, recognition of the collateral is applied outside the standard Slotting risk weights, in line with the IRB approach.

[2] Exposures categorised as 'default' do not attract a risk weighting but instead are treated as EL deductions at a rate of 50 per cent of the exposure value.

Key movements

– Specialised lending exposures decreased by £2.5bn during the year to £19.9bn, predominantly driven by exits in the run-off portfolio, offset by new lending at strong and good grades.

ANALYSIS OF EQUITY EXPOSURES

NON-TRADING BOOK EXPOSURES IN EQUITIES

Non-trading book exposures in equities held by the Group primarily arise within Commercial Banking and Central Items through a combination of individual transactions in the private equity market, debt for equity swaps and strategic equity investments.

The Group's strategic equity investments predominantly arise as a result of management actions undertaken by the Group resulting in equity holdings.

Private equity investments are generally medium term investments, held for gain and include limited partnership stakes and listed and unlisted equity shares. Private equity investments are managed, and evaluated, in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.

The accounting techniques and valuation methodologies applied are set out within the Group's accounting policies, references to which are provided below.

Available-for-sale financial assets, Note 2 (Accounting policies), Notes to the Consolidated Financial Statements, 2015 Lloyds Banking Group plc Annual Report and Accounts.

Equity investments (including venture capital), Note 50 (Financial instruments), Notes to the Consolidated Financial Statements, 2015 Lloyds Banking Group plc Annual Report and Accounts.

A reference to the Group's accounting policies in relation to the recognition of impairment losses on available-for-sale financial assets is provided on page 42.

The balance sheet value of non-trading book exposures in equities, as at 31 December 2015, is presented in the table below. There was no difference between the balance sheet value and the fair value of these exposures.

Table 35: Analysis of non-trading book exposures in equities

Equity grouping	2015 Balance sheet value £m	2014 Balance sheet value £m
Publicly quoted equities	475	679
Privately held equities	1,630	1,271
Total	2,105	1,950

There were no realised gains recognised in the year to 31 December 2015 in respect of the sale and liquidation of non-trading book exposures in equities.

As at 31 December 2015, net unrealised gains on available-for-sale equity investments amounted to £82m (2014: £69m).

EQUITY EXPOSURES SUBJECT TO THE SIMPLE RISK WEIGHT METHOD

An analysis of equity exposures categorised and risk-weighted under the Simple Risk Weight Method is provided in the table below.

As at 31 December 2015, total credit risk exposures in respect of equities subject to the Simple Risk Weight Method amounted to £4.3bn (2014: £3.8bn). Risk-weighted assets arising from this amounted to £9.9bn (2014: £7.9bn).

Table 36: Equity exposures subject to the simple risk weight method

	2015 Credit risk exposure £m	2015 Risk-weighted asset £m	2014 Credit risk exposure £m	2014 Risk-weighted asset £m
Privately traded equity exposures – 190%[1]	2,981	5,664	3,014	5,727
Publicly traded equity exposures – 290%	978	2,837	682	1,976
Other equity exposures – 370%	376	1,392	54	201
Total	4,335	9,893	3,750	7,904

[1] Where privately traded equity exposures are in sufficiently diversified portfolios.

Key movements

– The increase in equity exposures of £0.6bn and risk-weighted assets of £2.0bn is primarily attributable to an increase in the Group's strategic equity investments as a result of management actions undertaken in 2015 and the revaluation of existing holdings.

Pillar 1 Capital requirements: Credit risk continued

ANALYSIS OF CREDIT RISK EXPOSURES SUBJECT TO THE STANDARDISED APPROACH

Standardised exposures in tables 37 and 38 have been stated on two different basis (before CCF and CRM and after CCF and CRM). This is different to how all other credit risk exposures (excluding securitisations) have been treated in the document which have been presented before CRM but after CCF. The differences lie in only two asset classes, Institutions and Corporates, and are £62m and £937m respectively as detailed in Table 10.

As at 31 December 2015, credit risk exposures risk-weighted under the Standardised Approach after CCF and CRM, amounted to £117.5bn (2014: £119.6bn), generating risk-weighted assets of £20.4bn (2014: £25.4bn).

Table 37: Standardised credit risk exposures

	2015 Exposures before CCF and CRM		2015 Exposures after CCF and CRM		2015	
	On balance sheet amount £m	Off balance sheet amount £m	On balance sheet amount £m	Off balance sheet amount £m	Risk-weighted assets £m	Risk-weighted asset density %
Central governments and central banks	88,292	163	88,292	123	-	-
Regional governments or local authorities	1	-	1	-	-	20%
Public sector entities	2	-	2	-	2	100%
International organisations	-	-	-	-	-	-
Multilateral development banks	997	-	997	-	-	-
Institutions	103	318	103	5	24	22%
Corporates	11,597	6,369	10,853	2,673	11,921	88%
Retail	4,282	904	4,282	156	2,880	65%
Secured by mortgages on immovable property	5,834	11	5,834	6	2,109	36%
of which: residential property	5,803	11	5,803	6	2,078	36%
of which: commercial property	31	-	31	-	31	100%
Equity	-	-	-	-	-	-
Exposures in default	939	93	939	66	1,198	119%
Exposures associated with particularly high risk	-	-	-	-	-	-
Other assets	3,204	-	3,204	-	2,309	72%
Total	115,251	7,858	114,507	3,029	20,443	17%

	2014 Exposures before CCF and CRM		2014 Exposures after CCF and CRM		2014	
	On balance sheet amount £m	Off balance sheet amount sheet amount £m	On balance sheet amount £m	Off balance sheet amount sheet amount £m	Risk-weighted assets £m	Risk-weighted asset density %
Central governments and central banks	83,346	3	83,430	187	11	-
Regional governments or local authorities	-	-	-	-	-	-
Public sector entities	9	-	9	-	9	100%
International organisations	-	-	-	-	-	-
Institutions	146	298	145	60	53	26%
Corporates	129,332	5,674	12,644	2,451	13,646	90%
Retail	4,216	4,204	4,217	99	2,946	68%
Secured by mortgages on immovable property	9,565	21	9,565	10	3,408	36%
of which: residential property	9,553	21	9,553	10	3,396	36%
of which: commercial property	12	-	12	-	12	100%
Equity	-	-	-	-	-	-
Exposures in default	1,302	89	1,300	37	1,573	117%
Exposures associated with particularly high risk	1	-	1	-	1	150%
Other assets	5,391	33	5,391	13	3,797	70%
Total	116,908	10,322	116,702	2,857	25,444	21%

Table 38: Standardised credit risk exposures by asset class and risk weight

Risk weight / Asset class	2015									
	0% £m	10% £m	20% £m	35% £m	50% £m	75% £m	100% £m	150% £m	Other £m	Total credit risk exposures[1] £m
Central governments and central banks	88,415	-	-	-	-	-	-	-	-	88,415
Regional governments or local authorities	-	-	1	-	-	-	-	-	-	1
Public sector entities	-	-	-	-	-	-	2	-	-	2
International organisations	-	-	-	-	-	-	-	-	-	-
Multilateral development banks	997	-	-	-	-	-	-	-	-	997
Institutions	-	-	99	-	9	-	-	-	-	108
Corporates	-	-	336	-	1,967	-	11,223	-	-	13,526
Retail	-	-	-	-	-	4,432	6	-	-	4,438
Secured by mortgages on immovable property	-	-	-	5,544	248	13	35	-	-	5,840
of which: residential property	-	-	-	5,544	248	13	4	-	-	5,809
of which: commercial property	-	-	-	-	-	-	31	-	-	31
Equity	-	-	-	-	-	-	-	-	-	-
Exposures in default	-	-	-	-	-	-	620	385	-	1,005
Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	-
Other assets	263	-	790	-	-	-	2,151	-	-	3,204
Total	89,675	-	1,226	5,544	2,224	4,445	14,037	385	-	117,536

[1] Total credit risk exposures (after CCF and CRM).

Risk weight / Asset class	2014									
	0% £m	10% £m	20% £m	35% £m	50% £m	75% £m	100% £m	150% £m	Other £m	Total credit risk exposures[1] £m
Central governments and central banks	83,606	–	–	–	–	–	11	–	–	83,617
Regional governments or local authorities	–	–	–	–	–	–	–	–	–	–
Public sector entities	–	–	–	–	–	–	9	–	–	9
International organisations	–	–	–	–	–	–	–	–	–	–
Institutions	–	–	167	–	38	–	–	–	–	205
Corporates	–	–	241	–	1,495	–	13,355	4	–	15,095
Retail	–	–	–	–	–	4,316	–	–	–	4,316
Secured by mortgages on immovable property	–	–	–	9,265	293	–	17	–	–	9,575
of which: residential property	–	–	–	9,265	293	–	5	–	–	9,563
of which: commercial property	–	–	–	–	–	–	12	–	–	12
Equity	–	–	–	–	–	–	–	–	–	–
Exposures in default	–	–	–	–	–	–	866	471	–	1,337
Exposures associated with particularly high risk	–	–	–	–	–	–	–	1	–	1
Other assets	580	–	1,283	–	–	–	3,541	–	–	5,404
Total	84,186	–	1,691	9,265	1,826	4,316	17,799	476	–	119,559

[1] Total credit risk exposures (after CCF and CRM).

Pillar 1 Capital requirements: Credit risk continued

ANALYSIS OF CREDIT RISK EXPOSURES BY INDUSTRY

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

Table 39: Credit risk exposures analysed by major industrial sector

	2015 Agriculture, forestry and fishing £m	2015 Energy and water supply £m	2015 Manufacturing £m	2015 Construction £m	2015 Transport, distribution and hotels £m	2015 Postal and comms £m	2015 Property companies £m	2015 Financial, business and other services £m	2015 Personal: mortgages £m	2015 Personal: other £m	2015 Lease financing £m	2015 Hire purchase £m	2015 Total £m
Exposures subject to the IRB approach													
Foundation IRB approach													
Corporate – main	219	4,050	11,291	2,835	12,347	3,743	9,697	31,944	-	3	2,235	2,265	80,629
Corporate – SME	1,383	53	1,672	450	2,919	40	1,902	4,197	-	-	43	305	12,964
Corporate – specialised lending	-	-	-	-	-	-	4	2	-	-	-	-	6
Central governments and central banks	-	-	-	-	-	-	-	15,716	-	-	-	-	15,716
Institutions	-	3	-	8	-	-	-	7,268	-	-	53	32	7,364
Retail IRB approach													
Retail mortgages	1,500	7	359	350	1,827	34	4,440	1,998	331,290	2	-	-	341,807
of which: residential mortgages (SME)	1,500	7	359	350	1,827	34	4,440	1,998	-	2	-	-	10,517
of which: residential mortgages (non-SME)	-	-	-	-	-	-	-	-	331,290	-	-	-	331,290
Qualifying revolving retail exposures	-	-	-	-	-	-	-	-	-	36,975	-	-	36,975
Other SME	241	2	190	303	595	16	441	870	-	3	-	-	2,661
Other non-SME	-	-	-	-	-	-	-	-	-	7,890	-	6,441	14,331
Other IRB approaches													
Corporate – specialised lending	-	1,298	345	346	1,039	167	14,861	1,127	-	-	704	-	19,887
Equities – exchange traded	-	-	-	-	-	-	92	886	-	-	-	-	978
Equities – private equity	-	102	296	136	430	547	87	1,383	-	-	-	-	2,981
Equities – other	-	-	-	-	-	-	-	376	-	-	-	-	376
Securitisation positions	-	-	-	-	-	-	-	22,125	-	-	-	-	22,125
Total – IRB approach	3,343	5,515	14,153	4,428	19,157	4,547	31,524	87,892	331,290	44,873	3,035	9,043	558,800
Exposures subject to the standardised approach													
Central governments and central banks	-	-	-	-	-	-	-	88,415	-	-	-	-	88,415
Regional governments or local authorities	-	-	-	-	-	-	-	1	-	-	-	-	1
Public sector entities	-	-	-	-	-	-	-	2	-	-	-	-	2
International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-	-	997	-	-	-	-	997
Institutions	-	-	-	-	-	-	-	165	-	-	5	-	170
Corporates	2,293	190	1,419	139	2,701	11	1,163	5,091	98	956	360	42	14,463
Retail	1,795	2	22	23	146	2	203	171	862	894	-	318	4,438
Secured by mortgages on immovable property	-	-	1	-	-	-	6	163	5,669	1	-	-	5,840
of which: residential property	-	-	1	-	-	-	6	135	5,666	1	-	-	5,809
of which: commercial property	-	-	-	-	-	-	-	28	3	-	-	-	31
Exposures in default	15	-	7	70	130	-	73	159	446	102	2	1	1,005
Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	-	-	-
Covered bonds	-	-	-	-	-	-	-	-	-	-	-	-	-
Securitisation positions	-	-	-	-	-	-	-	-	-	-	-	-	-
Short term claims on institutions and corporates	-	-	-	-	-	-	-	-	-	-	-	-	-
Collective investment undertakings (CIUs)	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity Exposures	-	-	-	-	-	-	-	-	-	-	-	-	-
Total – standardised approach	4,103	192	1,449	232	2,977	13	1,445	95,164	7,075	1,953	367	361	115,331
Total	7,446	5,707	15,602	4,660	22,134	4,560	32,969	183,056	338,365	46,826	3,402	9,404	674,131
Other items													3,204
Non-credit obligation assets													9,228
Contributions to the default fund of a central counterparty													150
Total credit risk exposure													686,713

	2014 Agriculture, forestry and fishing £m	2014 Energy and water supply £m	2014 Manufacturing £m	2014 Construction £m	2014 Transport, distribution and hotels £m	2014 Postal and comms £m	2014 Property companies £m	2014 Financial business and other services £m	2014 Personal: mortgages £m	2014 Personal: other £m	2014 Lease financing £m	2014 Hire purchase £m	2014 Total £m
Exposures subject to the IRB approach													
Foundation IRB approach													
Corporate – main	172	3,761	11,921	2,949	12,396	2,511	10,764	31,467	–	3	2,617	1,935	80,496
Corporate – SME	1,237	20	1,458	491	3,018	46	3,053	4,356	–	–	1	299	13,979
Corporate – specialised lending	–	–	–	–	10	–	1	–	–	–	–	–	11
Central governments and central banks	–	–	–	–	–	–	–	15,714	–	–	–	–	15,714
Institutions	–	10	–	8	–	–	–	7,770	–	–	142	40	7,970
Retail IRB approach													
Retail mortgages	1,544	6	358	377	1,953	38	4,820	2,016	348,212	2	–	–	359,326
of which: residential mortgages (SME)	1,544	6	358	377	1,953	38	4,820	2,016	–	2	–	–	11,114
of which: residential mortgages (non-SME)	–	–	–	–	–	–	–	–	348,212	–	–	–	348,212
Qualifying revolving retail exposures	–	–	–	–	–	–	–	–	–	36,287	–	–	36,287
Other SME	227	3	208	313	638	17	416	910	–	4	–	–	2,736
Other non-SME	–	–	–	–	–	–	–	–	–	9,846	–	4,753	14,599
Other IRB approaches													
Corporate – specialised lending	2	902	333	591	1,574	8	14,793	3,604	–	–	613	–	22,420
Equities – exchange traded	–	–	–	–	–	–	–	682	–	–	–	–	682
Equities – private equity	–	92	333	150	420	597	390	1,032	–	–	–	–	3,014
Equities – other	–	–	–	–	–	–	–	54	–	–	–	–	54
Securitisation positions	–	–	–	–	–	–	–	14,351	–	–	–	–	14,351
Total – IRB approach	3,182	4,794	14,611	4,879	20,009	3,217	34,237	81,956	348,212	46,142	3,373	7,027	571,639
Exposures subject to the standardised approach													
Central governments and central banks	–	–	–	–	–	–	–	83,616	–	–	–	1	83,617
Public sector entities	–	–	–	–	–	–	–	9	–	–	–	–	9
International organisations	–	–	–	–	–	–	–	–	–	–	–	–	–
Multilateral development banks	–	–	–	–	–	–	–	–	–	–	–	–	–
Institutions	–	–	–	–	–	–	–	159	41	–	5	–	205
Corporates	2,370	389	1,153	229	2,651	96	1,664	6,229	3	337	313	56	15,490
Retail	1,515	–	5	26	61	–	68	84	942	1,420	–	195	4,316
Secured by mortgages on immovable property	4	–	1	5	13	–	24	191	9,336	1	–	–	9,575
of which: residential property	4	–	1	5	13	–	24	179	9,336	1	–	–	9,563
of which: commercial property	–	–	–	–	–	–	–	12	–	–	–	–	12
Exposures in default	11	1	28	33	160	–	310	201	521	68	3	3	1,339
Exposures associated with particularly high risk	–	–	–	–	–	–	1	–	–	–	–	–	1
Short term claims on institutions and corporates	–	–	–	–	–	–	–	–	–	–	–	–	–
Collective investment undertakings (CIUs)	–	–	–	–	–	–	–	–	–	–	–	–	–
Total – standardised approach	3,900	390	1,187	293	2,885	96	2,067	90,489	10,843	1,826	321	255	114,552
Total	7,082	5,184	15,798	5,172	22,894	3,313	36,304	172,445	359,055	47,968	3,694	7,282	686,191
Other items													5,404
Non-credit obligation assets													8,441
Contributions to the default fund of a central counterparty													143
Total credit risk exposure													700,179

Pillar 1 Capital requirements: Credit risk continued

ANALYSIS OF CREDIT RISK EXPOSURES BY GEOGRAPHY

Credit risk exposures as at 31 December 2015, analysed by geographical region, based on the country of residence/incorporation of the customer, are provided in the table below.

Table 40: Credit risk exposures analysed by geographical region

	2015 United Kingdom £m	2015 Rest of Europe £m	2015 United States of America £m	2015 Asia-Pacific £m	2015 Other £m	2015 Total £m
Exposures subject to the IRB approach						
Foundation IRB approach						
Corporate – main	57,356	8,518	11,603	703	2,449	80,629
Corporate – SME	12,936	18	-	-	10	12,964
Corporate – specialised lending	6	-	-	-	-	6
Central governments and central banks	-	27	15,552	-	137	15,716
Institutions	1,896	3,139	1,362	139	828	7,364
Retail IRB approach						
Retail mortgages	333,799	8,003	-	1	4	341,807
of which: residential mortgages (SME)	10,508	4	-	1	4	10,517
of which: residential mortgages (non-SME)	323,291	7,999	-	-	-	331,290
Qualifying revolving retail exposures	36,975	-	-	-	-	36,975
Other SME	2,661	-	-	-	-	2,661
Other non-SME	14,248	83	-	-	-	14,331
Other IRB approaches						
Corporate – specialised lending	14,855	3,327	646	209	850	19,887
Equities – exchange traded	876	102	-	-	-	978
Equities – private equity	2,759	81	82	17	42	2,981
Equities – other	370	6	-	-	-	376
Securitisation positions[1]	16,946	423	4,730	-	26	22,125
Total – IRB approach	495,683	23,727	33,975	1,069	4,346	558,800
Exposures subject to the standardised approach						
Central governments and central banks	75,315	13,100	-	-	-	88,415
Regional governments or local authorities	1	-	-	-	-	1
Public sector entities	2	-	-	-	-	2
Multilateral development banks	-	426	571	-	-	997
Institutions	18	88	61	3	-	170
Corporates	9,216	2,355	1,838	389	665	14,463
Retail	3,485	935	2	6	10	4,438
Secured by mortgages on immovable property	4,776	286	92	526	160	5,840
of which: residential property	4,772	259	92	526	160	5,809
of which: commercial property	3	28	-	-	-	31
Exposures in default	845	108	5	14	33	1,005
Exposures associated with particularly high risk	-	-	-	-	-	-
Covered bonds	-	-	-	-	-	-
Securitisation positions	-	-	-	-	-	-
Short term claims on institutions and corporates	-	-	-	-	-	-
Collective investment undertakings (CIUs)	-	-	-	-	-	-
Equity exposures	-	-	-	-	-	-
Total – standardised approach	93,658	17,298	2,569	938	868	115,331
Total	589,341	41,025	36,544	2,007	5,214	674,131
Other items						3,204
Non-credit obligation assets						9,228
Contributions to the default fund of a central counterparty						150
Total credit risk exposure						686,713

[1] Securitisation positions (IRB Approach) have been analysed on a country of risk basis as this better reflects the profile of exposures held.

	2014 United Kingdom £m	2014 Rest of Europe £m	2014 United States of America £m	2014 Asia-Pacific £m	2014 Other £m	2014 Total £m
Exposures subject to the IRB approach						
Foundation IRB approach						
Corporate – main	60,028	9,359	8,620	690	1,799	80,496
Corporate – SME	13,912	27	-	22	18	13,979
Corporate – specialised lending	1	-	-	-	10	11
Central governments and central banks	-	2	15,629	-	83	15,714
Institutions	2,442	3,567	989	262	710	7,970
Retail IRB approach						
Retail mortgages	350,823	8,498	-	1	4	359,326
of which: residential mortgages (SME)	11,105	4	-	1	4	11,114
of which: residential mortgages (non-SME)	339,718	8,494	-	-	-	348,212
Qualifying revolving retail exposures	36,287	-	-	-	-	36,287
Other SME	2,735	-	-	-	1	2,736
Other non-SME	14,519	80	-	-	-	14,599
Other IRB approaches						
Corporate – specialised lending	15,730	5,003	484	238	965	22,420
Equities – exchange traded	570	112	-	-	-	682
Equities – private equity	2,765	102	89	17	41	3,014
Equities – other	45	9	-	-	-	54
Securitisation positions[1]	9,973	807	3,571	-	-	14,351
Total – IRB approach	509,830	27,566	29,382	1,230	3,631	571,639
Exposures subject to the standardised approach						
Central governments and central banks	76,458	6,925	211	14	9	83,617
Regional governments or local authorities	-	-	-	-	-	-
Public sector entities	9	-	-	-	-	9
Multilateral development banks	-	-	-	-	-	-
Institutions	50	71	58	26	-	205
Corporates	10,254	2,436	1,367	403	1,030	15,490
Retail	3,419	889	1	5	2	4,316
Secured by mortgages on immovable property	8,348	312	109	620	186	9,575
of which: residential property	8,348	300	109	620	186	9,563
of which: commercial property	-	12	-	-	-	12
Exposures in default	894	366	21	24	34	1,339
Exposures associated with particularly high risk	1	-	-	-	-	1
Covered bonds	-	-	-	-	-	-
Securitisation positions	-	-	-	-	-	-
Short term claims on institutions and corporates	-	-	-	-	-	-
Collective investment undertakings (CIUs)	-	-	-	-	-	-
Equity exposures	-	-	-	-	-	-
Total – standardised approach	99,433	10,999	1,767	1,092	1,261	114,552
Total	609,263	38,565	31,149	2,322	4,892	686,191
Other items						5,404
Non-credit obligation assets						8,441
Contributions to the default fund of a central counterparty						143
Total credit risk exposure						700,179

[1] Securitisation positions (IRB Approach) have been analysed on a country of risk basis as this better reflects the profile of exposures held.

Pillar 1 Capital requirements: Credit risk continued

Table 41: Exposures subject to the IRB approach analysed by geographical region

	2015 United Kingdom			2015 Rest of Europe			2015 United States of America			2015 Asia-Pacific			2015 Other			2015 Total		
	EAD £m	LGD %	PD %	EAD £m	LGD %	PD %	EAD £m	LGD %	PD %	EAD £m	LGD %	PD %	EAD £m	LGD %	PD %	EAD £m	LGD %	PD %
Exposures subject to the IRB approach																		
Foundation IRB approach																		
Corporate – main	57,356		2.31%	8,518		0.64%	11,603		0.21%	703		0.23%	2,449		0.20%	80,629		1.75%
Corporate – SME	12,936		9.39%	18		13.82%	-		-	-		-	10		4.73%	12,964		9.39%
Corporate – specialised lending	6		1.61%	-		-	-		-	-		-	-		-	6		1.61%
Central governments and central banks	-		-	27		0.01%	15,552		0.01%	-		-	137		0.01%	15,716		0.01%
Institutions	1,896		1.02%	3,139		0.11%	1,362		0.05%	139		0.18%	828		0.57%	7,364		0.39%
Total – Foundation IRB approach	72,194		3.55%	11,702		0.51%	28,517		0.09%	842		0.22%	3,424		0.29%	116,679		2.28%
Retail IRB approach																		
Retail mortgages	333,799	10.26%	2.51%	8,003	33.37%	5.03%	-	-	-	1	11.56%	0.78%	4	13.42%	1.20%	341,807	10.80%	2.57%
of which: residential mortgages (SME)	10,508	17.35%	5.98%	4	12.18%	1.45%	-	-	-	1	11.56%	0.78%	4	13.42%	1.20%	10,517	17.35%	5.98%
of which: residential mortgages (non-SME)	323,291	10.03%	2.39%	7,999	33.38%	5.04%	-	-	-	-	-	-	-	-	-	331,290	10.59%	2.46%
Qualifying revolving retail exposures	36,975	76.88%	2.97%	-	-	-	-	-	-	-	-	-	-	-	-	36,975	76.88%	2.97%
Other SME	2,661	70.63%	10.43%	-	-	-	-	-	-	-	-	-	-	-	-	2,661	70.63%	10.43%
Other non-SME	14,248	62.43%	4.89%	83	59.85%	2.19%	-	-	-	-	-	-	-	-	-	14,331	62.41%	4.87%
Total – Retail IRB approach	387,683	18.94%	2.69%	8,086	33.64%	5.00%	-	-	-	1	11.56%	0.78%	4	13.42%	1.20%	395,774	19.24%	2.74%

	2014 United Kingdom			2014 Rest of Europe			2014 United States of America			2014 Asia-Pacific			2014 Other			2014 Total		
	EAD £m	LGD %	PD %	EAD £m	LGD %	PD %	EAD £m	LGD %	PD %	EAD £m	LGD %	PD %	EAD £m	LGD %	PD %	EAD £m	LGD %	PD %
Exposures subject to the IRB approach																		
Foundation IRB approach																		
Corporate – main	60,028		3.30%	9,359		0.84%	8,620		0.23%	690		0.39%	1,799		0.28%	80,496		2.59%
Corporate – SME	13,912		9.82%	27		3.97%	–		–	22		1.00%	18		4.25%	13,979		9.78%
Corporate – specialised lending	1		7.17%	–		–	–		–	–		–	10		0.20%	11		1.11%
Central governments and central banks	–		–	2		0.01%	15,629		0.01%	–		–	83		0.02%	15,714		0.01%
Institutions	2,442		0.82%	3,567		0.12%	989		0.06%	262		0.13%	710		0.13%	7,970		0.33%
Total – Foundation IRB approach	76,383		4.41%	12,955		0.65%	25,238		0.09%	974		0.33%	2,620		0.26%	118,172		2.95%
Retail IRB approach																		
Retail mortgages	350,823	10.17%	2.75%	8,498	32.34%	5.57%	–	–	–	1	6.73%	1.35%	4	17.18%	2.26%	359,326	10.70%	2.82%
of which: residential mortgages (SME)	11,105	13.61%	6.23%	4	8.34%	1.74%	–	–	–	1	6.73%	1.35%	4	17.18%	2.26%	11,114	13.61%	6.22%
of which: residential mortgages (Non-SME)	339,718	10.06%	2.64%	8,494	32.35%	5.57%	–	–	–	–	–	–	–	–	–	348,212	10.60%	2.71%
Qualifying revolving retail exposures	36,287	77.05%	3.78%	–	–	–	–	–	–	–	–	–	–	–	–	36,287	77.05%	3.78%
Other SME	2,735	58.98%	14.57%	–	–	–	–	–	–	–	–	–	1	57.20%	5.95%	2,736	58.98%	14.57%
Other non-SME	14,519	68.69%	6.49%	80	59.91%	2.55%	–	–	–	–	–	–	–	–	–	14,599	68.64%	6.47%
Total – Retail IRB approach	404,364	18.61%	3.06%	8,578	32.59%	5.54%	–	–	–	1	6.73%	1.35%	5	26.40%	4.11%	412,948	18.90%	3.11%

ANALYSIS OF CREDIT RISK EXPOSURES BY RESIDUAL MATURITY

Credit risk exposures as at 31 December 2015, analysed by residual contractual maturity, are provided in the table below.

Table 42: Credit risk exposures analysed by residual contractual maturity

	2015 On demand £m	2015 Repayable in 3 months or less £m	2015 Repayable between 3 months and 1 year £m	2015 Repayable between 1 and 5 years £m	2015 Repayable over 5 years or undated £m	2015 Total £m
Exposures subject to the IRB approach						
Foundation IRB approach						
Corporate – main	6,110	4,555	16,343	42,504	11,117	80,629
Corporate – SME	888	546	3,357	3,104	5,069	12,964
Corporate – specialised lending	1	-	-	-	5	6
Central governments and central banks	-	8,549	99	3,252	3,816	15,716
Institutions	181	1,345	1,394	3,364	1,080	7,364
Retail IRB approach						
Retail mortgages	1,171	1,171	12,719	19,393	307,353	341,807
of which: residential mortgages (SME)	242	551	983	1,329	7,412	10,517
of which: residential mortgages (non-SME)	929	620	11,736	18,064	299,941	331,290
Qualifying revolving retail exposures	36,975	-	-	-	-	36,975
Other SME	110	341	780	356	1,074	2,661
Other non-SME	26	250	1,184	11,950	921	14,331
Other IRB approaches						
Corporate – specialised lending	238	924	1,755	8,476	8,494	19,887
Equities – exchange traded	-	-	-	-	978	978
Equities – private equity	-	-	-	-	2,981	2,981
Equities – other	-	-	-	-	376	376
Securitisation positions	-	1,195	4,685	8,766	7,479	22,125
Total – IRB approach	45,700	18,876	42,316	101,165	350,743	558,800
Exposures subject to the standardised approach						
Central governments and central banks	35,304	11,602	374	5,785	35,350	88,415
Regional governments or local authorities	-	-	-	-	1	1
Public sector entities	-	-	-	-	2	2
Multilateral development banks	-	-	27	608	362	997
Institutions	11	90	62	1	6	170
Corporates	1,020	880	1,621	4,106	6,836	14,463
Retail	232	44	108	1,050	3,004	4,438
Secured by mortgages on immovable property	559	34	134	598	4,515	5,840
of which: residential property	558	34	134	570	4,513	5,809
of which: commercial property	1	-	-	28	2	31
Exposures in default	83	18	136	111	657	1,005
Exposures associated with particularly high risk	-	-	-	-	-	-
Covered bonds	-	-	-	-	-	-
Securitisation positions	-	-	-	-	-	-
Short term claims on institutions and corporates	-	-	-	-	-	-
Collective investment undertakings (CIUs)	-	-	-	-	-	-
Equity exposures	-	-	-	-	-	-
Total – standardised approach	37,209	12,668	2,462	12,259	50,733	115,331
Total	82,909	31,544	44,778	113,424	401,476	674,131
Other items						3,204
Non-credit obligation assets						9,228
Contributions to the default fund of a central counterparty						150
Total credit risk exposure						686,713

Pillar 1 Capital requirements: Credit risk continued

	2014 On demand £m	2014 Repayable in 3 months or less £m	2014 Repayable between 3 months and 1 year £m	2014 Repayable between 1 and 5 years £m	2014 Repayable over 5 years or undated £m	2014 Total £m
Exposures subject to the IRB approach						
Foundation IRB approach						
Corporate – main	5,738	5,001	16,684	40,977	12,096	80,496
Corporate – SME	1,030	636	3,475	3,264	5,574	13,979
Corporate – specialised lending	10	–	–	–	1	11
Central governments and central banks	–	8,638	909	951	5,216	15,714
Institutions	243	725	1,950	3,200	1,852	7,970
Retail IRB approach						
Retail mortgages	1,147	1,203	11,191	21,172	324,613	359,326
of which: residential mortgages (SME)	317	549	965	1,463	7,820	11,114
of which: residential mortgages (non-SME)	830	654	10,226	19,709	316,793	348,212
Qualifying revolving retail exposures	36,287	–	–	–	–	36,287
Other SME	142	352	759	378	1,105	2,736
Other non-SME	74	265	1,260	11,727	1,273	14,599
Other IRB approaches						
Corporate – specialised lending	361	1,177	2,091	10,098	8,693	22,420
Equities – exchange traded	–	–	–	–	682	682
Equities – private equity	–	112	398	2,167	337	3,014
Equities – other	–	–	2	7	45	54
Securitisation positions	–	1,019	8,007	1,609	3,716	14,351
Total – IRB approach	45,032	19,128	46,726	95,550	365,203	571,639
Exposures subject to the standardised approach						
Central governments and central banks	34,382	5,999	54	3,812	39,370	83,617
Regional governments or local authorities	–	–	–	–	–	–
Public sector entities	–	–	–	8	1	9
Multilateral development banks	–	–	–	–	–	–
Institutions	38	104	59	4	–	205
Corporates	1,190	375	1,627	3,962	8,336	15,490
Retail	1,055	24	97	703	2,437	4,316
Secured by mortgages on immovable property	680	44	129	835	7,887	9,575
of which: residential property	680	44	129	823	7,887	9,563
of which: commercial property	–	–	–	12	–	12
Exposures in default	238	42	91	251	717	1,339
Exposures associated with particularly high risk	–	–	–	1	–	1
Covered bonds	–	–	–	–	–	–
Securitisation positions	–	–	–	–	–	–
Short term claims on institutions and corporates	–	–	–	–	–	–
Collective investment undertakings (CIUs)	–	–	–	–	–	–
Equity exposures	–	–	–	–	–	–
Total – standardised approach	37,583	6,588	2,057	9,576	58,748	114,552
Total	82,615	25,716	48,783	105,126	423,951	686,191
Other items						5,404
Non-credit obligation assets						8,441
Contributions to the default fund of a central counterparty						143
Total credit risk exposure						700,179

Pillar 1 Capital requirements: Credit risk – securitisation

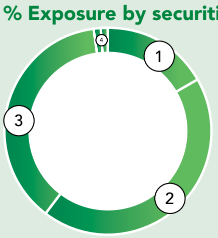
This section details Lloyds Banking Group's securitisation profile.

- The Group operates in the securitisation market in the following capacity:

  As an originator, sponsor of an asset-backed commercial paper conduit and as an arranger of and an investor in third party securitisations. It also holds a small portfolio of non-correlation trading book securitisation positions.

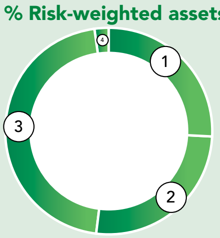
  Provides liquidity and funding facilities to own originated and sponsored positions as well as to third parties.
- Securitisations represent a small proportion (1.5%) (2014: 1.0%) of the Group's total risk-weighted assets
- Banking book securitisation exposures increased by 54% to £22.1bn following the origination of new capital efficient commercial asset backed securitisation transactions and an increase in sponsored and invested positions
- Banking book risk-weighted assets increased by 38% to £3.3bn mainly due to holding retained positions in the new originated securitisations in the period.

% Exposure by securitisation type



1. Originated 17%	(2014: 13%)
2. Sponsored 44%	(2014: 49%)
3. Invested 38%	(2014: 34%)
4. Trading Book 1%	(2014: 4%)

% Risk-weighted assets by securitisation type



1. Originated 26%	(2014: 11%)
2. Sponsored 26%	(2014: 27%)
3. Invested 46%	(2014: 51%)
4. Trading Book 2%	(2014: 11%)

Pillar 1 Capital requirements: Credit risk – securitisation continued

The Group is an active participant in the securitisation market, operating as an originator, a sponsor of an asset-backed commercial paper (ABCP) conduit and as an arranger of and an investor in third party securitisations. The Group also provides liquidity and funding facilities to both own originated and sponsored securitisations as well as to third parties. In addition, the Group also holds a small portfolio of non-correlation trading book securitisation positions.

Summary analysis

An analysis of securitisation exposures by book, type and risk weight approach, together with the associated capital requirement, is provided in the table below. In addition, the table provides an analysis of securitisation positions that have been deducted from capital.

Table 43: Summary of securitisation exposures and capital requirements

Securitisation type and risk weight approach	2015 Exposure value[1] £m	2015 Risk-weighted assets[2] £m	2015 Capital requirement £m	2015 Deduction from capital[3,5] £m	2014 Exposure value[1] £m	2014 Risk-weighted assets[2] £m	2014 Capital requirement £m	2014 Deduction from capital[3,5] £m
Originated:								
Ratings based approach (RBA)	**3,850**	**856**	**68**	**-**	1,974	284	23	13
Sponsored and invested:								
Internal assessment approach (IAA)	**9,710**	**887**	**71**	**-**	7,351	725	58	-
Ratings based approach	**8,565**	**1,523**	**122**	**3**	5,026	1,364	109	56
Total banking book[4]	**22,125**	**3,266**	**261**	**3**	14,351	2,373	190	69
Trading book – specific interest rate market risk	**180**	**78**	**6**	**-**	505	285	23	-
Total trading book	**180**	**78**	**6**	**-**	505	285	23	-

[1] Banking book exposure value is defined as the aggregate of the Group's gross retained or purchased positions, excluding those positions rated below BB- or that are unrated and therefore deducted from capital. Trading book exposure value is defined as the sum of the net long and net short positions as per CRD IV rules.

[2] Risk-weighted assets are stated net of SCRAs where applicable. These adjustments represent a combination of impairment writedowns, acquisition related fair value adjustments and other fair value adjustments.

[3] Retained or purchased positions rated below BB- or that are unrated are deducted from capital. The amount deducted is stated net of SCRAs.

[4] Excludes counterparty credit risk securitisation positions, further information on which can be found on page 85.

[5] An additional £166m (2014: £142m) of positions relating to counterparty credit risk securitisation positions were deducted from capital.

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 through the use of synthetic loan securitisations which involve the use of credit derivatives.

Traditional originated securitisation transactions typically involve the sale of a group or portfolio of ring fenced loans to a structured entity (SE). An SE is a purposely created company within a group of companies where the ultimate holding company of the group is unrelated to the originator and is usually held by a trust. This means the Group does not legally own the SE. The Group does, however, administer the SE and the originating Group company receives fees from the SE for continuing to service the loans. 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 securitised assets.

Synthetic originated securitisations work in a similar way to the traditional version except that the economic risk of the assets is transferred using credit derivatives. In certain cases the Group will retain the risk on the senior tranches.

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 around the Group's retail and commercial lending portfolios.

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

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

As an investor the Group invests directly in third party ABS and provides liquidity facilities to other third party securitisations. Invested securitisation positions are risk-weighted using the RBA.

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 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.

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 (£180m exposure, £78m 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 as permitted by CRR Article 432 and in accordance with related EBA guidelines.

Securitisation programmes and activity

The Group's securitisation programmes are predominantly funding transactions, including all of the residential mortgage programmes. The Group's principal originated securitisation programmes, together with the balances of the advances subject to securitisation and the carrying value of the notes in issue at 31 December, are outlined in note 19 in the 2015 Lloyds Banking Group plc Annual Report and Accounts.

No securitisation transactions undertaken during the year were recognised as sales (2014: nil).

Re-securitisation

Re-securitisation transactions involve securitisations where the risk associated with the underlying pool of assets is tranched and at least one of the underlying assets is a securitisation position. The Group has no originated re-securitisation positions in either its banking or trading book and has minimal exposure through the invested portfolio in the banking book.

Risks inherent in banking book securitised assets

Where the Group acts as originator its securitisation programmes primarily include residential mortgage portfolios, credit card portfolios and commercial loan portfolios. In each case credit risk is the primary risk driver attached to the underlying asset pool. Assets securitised are predominantly originated from the Group's UK operations, other than for the Group's Dutch residential mortgage securitisation programmes and various assets within the Group's commercial securitisations, including certain Private Finance Initiatives (PFI)/Public Private Partnerships (PPP) portfolios which are internationally diverse.

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 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, changes in tax laws, interest rates, inflation, the availability of financing, yields on alternative investments, political developments and government policies or in the health of a particular geographic zone that represents a concentration in the securitised assets, could also affect the cashflows from the underlying asset pool.

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

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

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

Monitoring changes in the credit risk of securitised exposures

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

Monitoring changes in the credit risk of ABS portfolios

ABS exposures reside primarily in the residual non-core portfolio managed by Commercial Banking Client Asset Management. The Group also holds some small ABS exposures for liquidity coverage ratio (LCR) purposes which are managed by the liquid asset portfolio team. Each team is therefore responsible for the monitoring of changes in the credit risk of ABS within its portfolio.

The credit process is the same across portfolios: credit reviews are produced at least annually for a particular sector or for a specific bond (or both) 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.

Pillar 1 Capital requirements: Credit risk – securitisation continued

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

Furthermore, additional monitoring measures are applied: monthly watch list meetings (including a review of downgraded bonds), quarterly preparation of IAS 39 attestations, stress testing of portfolios and in the case of the liquid asset portfolio a quarterly risk review forum is also conducted.

Similar processes are used to monitor changes in the credit risk associated with re-securitisation positions.

Banking and trading book securitisation analysis

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

Table 44: Value of exposures of retained and purchased positions in the banking and trading book by exposure type

	2015						2014					
	Banking book				Trading book		Banking book				Trading book	
Exposure type	Originator £m	Sponsor £m	Investor £m	Total £m	Investor £m	Total £m	Originator £m	Sponsor £m	Investor £m	Total £m	Investor £m	Total £m
Retail (total) of which	-	5,912	5,423	11,335	29	29	-	4,036	1,798	5,834	130	130
residential mortgage	-	661	5,191	5,852	5	5	-	184	1,549	1,733	91	91
credit card	-	350	-	350	24	24	-	288	-	288	39	39
leases and receivables	-	3,838	-	3,838	-	-	-	3,045	-	3,045	-	-
other retail	-	1,063	232	1,295	-	-	-	519	249	768	-	-
Commercial (total) of which	3,850	3,798	3,142	10,790	151	151	1,974	3,315	3,228	8,517	375	375
loans to corporates	2,342	1,563	1,004	4,909	5	5	466	1,505	1,267	3,238	2	2
Social housing associations	1,508	-	-	1,508	-	-	1,508	-	-	1,508	-	-
commercial mortgage	-	-	1,436	1,436	5	5	-	-	1,463	1,463	4	4
leases and receivables	-	2,235	577	2,812	19	19	-	1,810	316	2,126	84	84
other commercial	-	-	109	109	122	122	-	-	149	149	285	285
re-securitisation	-	-	16	16	-	-	-	-	33	33	-	-

All trading book securitisations are traditional securitisations.

Key movements

Banking book

– Originator: the increase during the year is a result of the origination of new capital efficient commercial asset backed securitisation transactions offset by the maturity of the originated PFI/PPP and project finance securitisations (see table 45).

– Sponsor: the increase reflects an increase in liquidity facilities provided to the ABCP conduit during the year, following the purchase of additional client receivables.

– Investor: the increase is due to the provisions of new and additional investment grade facilities to third party clients during the year (see table 48).

Trading book

– The reduction in the trading book during the year is due to significant de-risking activities over 2015.

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 significant risk transfer tests when securitised. Meeting this test allows the retained positions in the securitisations to be included within regulatory calculations, and the risk-weighted assets on the assets underlying the securitisation to be removed. Where the minimum requirements for recognition of SRT are not met, the underlying assets remain part of the relevant exposure class and are risk-weighted accordingly.

Capital requirements in relation to originated securitisation positions are determined under the RBA. Where appropriate, the Group utilises the ratings services of several ECAIs, including Standard & Poor's, Moody's and Fitch, to rate securitisation transactions and retained or purchased positions for risk weight allocation purposes under the RBA.

On a regulatory basis, the gross securitised exposures in relation to originated securitisations where significant risk transfer has been achieved amounted to £4.2bn (2014: £2.2bn) comprising synthetic originated securitisations. An analysis is provided in table 45 together with the amount of impaired exposures, past due but not impaired exposures and value adjustments applied.

Table 45: Analysis of gross securitised exposures on a regulatory basis

	2015				2014			
	Gross securitised exposure				Gross securitised exposure			
	Synthetic £m	Impaired exposures £m	Past due but not impaired exposures £m	SCRAs £m	Synthetic £m	Impaired exposures £m	Past due but not impaired exposures £m	SCRAs £m
PFI / PPP and project finance loans	-	-	-	-	612	52	-	16
Commerical								
social housing associations	1,562	-	-	-	1,562	-	-	-
loans to corporates	2,611	-	-	-	-	-	-	-
Total	**4,173**	-	-	-	2,174	52	-	16

The net charge to the income statement for the year to 31 December 2015 in respect of losses attributed to the gross securitised exposures noted above amounted to £nil (2014: £6m).

Originated securitisations subject to the RBA

The RBA utilises a set of defined risk weights prescribed by CRD IV rules. The appropriate risk weight is dependent on the rating of the position, its classification as a securitisation position or a re-securitisation position, the maturity and the seniority of the position and the granularity of the asset pool backing the position. As at 31 December 2015, securitisation positions arising from origination activities and risk-weighted under the RBA amounted to £3.9bn (2014: £2.0bn), generating a capital requirement of £68m (2014: £23m). An analysis of these positions, by risk weight category, is provided in the table below.

Table 46: Analysis of originated positions by risk weight category

		Securitisation positions				Total 2015		Total 2014	
		Senior		Non-Senior					
S&P Equivalent Rating and RBA Risk Weight[1]		Exposure £m	Cap req £m	Exposure £m	Cap req £m	Exposure £m	Cap req £m	Exposure £m	Cap req £m
AAA	(7%, 12%)	2,625	15	167	2	2,792	17	1,254	8
AA	(8%, 15%)	-	-	371	5	371	5	78	1
A+	(10%, 18%)	-	-	257	4	257	4	187	3
A	(12%, 20%)	-	-	64	1	64	1	355	4
A-	(20%, 35%)	-	-	41	1	41	1	-	-
BBB+	(35%, 50%)	-	-	110	4	110	4	39	2
BBB	(60%, 75%)	-	-	31	5	31	5	56	3
BBB-	(100%, 100%)	-	-	81	4	81	4	-	-
BB+	(250%, 250%)	-	-	81	17	81	17	-	-
BB	(425%, 425%)	-	-	13	5	13	5	5	2
BB-	(650%, 650%)	-	-	9	5	9	5	-	-
Below BB- or unrated	Deduction	-	-	-	-	-	-	29	-
Total		**2,625**	**15**	**1,225**	**53**	**3,850**	**68**	2,003	23
SCRAs taken to reserves[2]						-	-	(16)	-
Deduction from capital						-	-	(13)	-
Total credit risk exposure/capital requirement[3]		**2,625**	**15**	**1,225**	**53**	**3,850**	**68**	1,974	23

[1] The RBA risk weights for each rating are listed in the following order: senior securitisation positions, non-senior securitisation positions. Positions rated below BB- or that are unrated are deducted from capital, net of SCRAs applied.

[2] SCRAs taken to reserves refer to impairment writedowns, acquisition related fair value adjustments and other fair value adjustments applied against gross positions rated below BB- or that are unrated. The net result is deducted from capital.

[3] Total credit risk exposure is defined as the aggregate of the Group's gross retained or purchased positions, excluding those positions rated below BB- or that are unrated and therefore deducted from capital. Capital requirements are stated net of SCRAs, where applicable. All retained positions are held on-balance sheet.

Pillar 1 Capital requirements: Credit risk – securitisation continued

Accounting treatment

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

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

Where the transfer of the Group assets to an SE that it controls fails the 'derecognition' accounting tests under International Accounting Standard (IAS) 39, the transferred assets remain on the Group's balance sheet for accounting purposes. These assets are classified as loans and receivables on the balance sheet and the notes issued (excluding those held by the Group) classified as debt securities in issue. The assets and notes issued are held at amortised cost.

Securitised assets are only derecognised where the following conditions are met:

- 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; or
- a fully proportional share of all or of specifically identified cash flows have been transferred, in which case that proportion of the assets are derecognised.

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 mortgage assets are not derecognised because the Group retains substantially all the risks and rewards associated with the underlying portfolios of assets. In addition securitised commercial banking loans are not derecognised because the Group has not transferred the contractual rights to receive the cash flows from those loans nor has it assumed a contractual obligation to pay the cash flows from those loans to a third party.

Synthetic securitisations, where credit derivatives 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 derivatives accounted for under the requirements of IAS 39.

Liquidity lines provided to the conduits are accounted for in accordance with the accounting policies set out in the 2015 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 pages 188 to 190 (Financial Assets and Liabilities) of the 2015 Lloyds Banking Group plc Annual Report and Accounts.

For those positions measured at fair value, further details on the valuation methodologies applied are outlined on page 251 (Fair Value Measurement) of the 2015 Lloyds Banking Group plc Annual Report and Accounts.

Use of credit derivatives and guarantees

Synthetic securitisations, covering social housing associations and other corporate loans, involve the provision of protection to the Group through a combination of financial guarantees and credit protection agreements with the SPE established under the transactions that results in a net protected position of a junior tranche of the securitised portfolio. The SPE issues CLNs to pass on the risk associated with the net protected position to third party investors who primarily include other institutions and professional investors.

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

Assets awaiting securitisation

In 2012 the Group established a warehousing facility for a third party client with facility commitments amounting to £350m (2014: £200m). As at 31 December 2015, £120m of the facility had been drawn down (2014: £41m).

The Group is currently participating in the UK Government Help to Buy Scheme. Under this scheme HM Treasury guarantee to cover a proportion of any loss made by the lender arising from a higher LTV mortgage being made. In accordance with the regulatory treatment proposed by the PRA, the benefit of the scheme may require a securitisation treatment and it is therefore anticipated that amounts extended under this scheme may be securitised. As at 31 December 2015, £3,133m (2014: £1,950m) had been extended under the scheme. Further details on the scheme are provided on page 245 of the 2015 Lloyds Banking Group plc Annual Report & Accounts.

SPONSORED AND INVESTED SECURITISATIONS

Cancara – summary of activity

Cancara	
General description	Cancara was established in 2002 by Lloyds Bank. It provides financing facilities to the Group's core corporate and financial institution clients, funded by ABCP.
Programme limit/CP outstanding as at 31 December 2015	$20.0bn/$8.2bn (£13.5bn/£7.4bn)
Conduit structure	Fully supported multi-seller
Credit enhancement	Full support liquidity
Liquidity provider	Lloyds Bank Plc and Bank of Scotland Plc

Structure and liquidity facilities

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

Assets purchased relate to pools of third party receivables.

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

For each new asset purchase, Cancara enters into a liquidity facility with the Group, to cover any shortfall in repaying the ABCP notes. In the absence of market disruption the conduit will usually look to fund through issuing ABCP and therefore, the liquidity facility should not require to be drawn down upon under normal circumstances.

Cancara Assets

All the external assets in the conduit are consolidated for accounting purposes in the Group's financial statements, following similar accounting policies to those established for originated securitisations. The total consolidated assets in the conduits are set out in note 20 of the 2015 Lloyds Banking Group plc Annual Report and Accounts.

Capital assessment

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

The Group's IAA model is a proprietary credit rating system. This model generates a rating equivalent to an external rating. This rating then feeds the Ratings Based Approach 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 Conduit Team monitors rating agency updates and undertakes regular reviews of the model 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 will determine 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 and 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 Rating Model Validation Framework, the Group undertakes an Annual Credit Rating Model Validation exercise to ensure that the model remains compliant with the requirements of CRR (Article 259) which establishes the criteria that must be met in order to apply the IAA to exposures relating to programmes such as liquidity facilities. A Risk Model Decision Forum ensures that re-approval of the model is conducted systematically, with appropriate peer challenge and review. Re-approval documentation is subject to the internal model approval processes in place within the Group.

An analysis of the total credit risk exposure and associated capital requirement by risk weight category under the ABCP IAA is provided in the table below.

Table 47: Analysis of sponsored positions by risk weight category

S&P equivalent rating and IAA risk weight	2015 Exposure £m	2015 Capital requirement £m	2014 Exposure £m	2014 Capital requirement £m
AAA: 7%	**4,554**	**27**	3,652	22
AA: 8%	**2,848**	**19**	1,792	13
A+: 10%	**295**	**3**	334	3
A: 12%	**1,984**	**20**	1,479	15
A-: 20%	**-**	**-**	65	4
BBB: 60%	**29**	**2**	29	1
Total credit risk exposure/capital requirement	**9,710**	**71**	7,351	58

Direct investments and liquidity facilities

In addition to sponsoring an ABCP conduit, the Group has invested directly in third party ABS and is a provider of liquidity facilities to other third party securitisation. Investments in ABS are primarily part of the Group's residual non-core portfolio.

The majority of these direct investments are accounted for as loans and receivables on the balance sheet and held at amortised cost, with the remainder held as AFS or at fair value through profit and loss. Further details on the Group's holding of ABS are presented on pages 269 and 270 of the 2015 Lloyds Banking Group plc Annual Report and Accounts.

Pillar 1 Capital requirements: Credit risk – securitisation continued

Invested securitisations subject to the RBA

As at 31 December 2015, securitisation positions relating to the Group's direct investments in third party ABS and the provision of liquidity facilities to third party securitisations, risk weighted under the RBA, amounted to £8.6bn (2014:£5.1bn), generating a capital requirement of £122m (2014:£109m). An analysis of these positions, by risk weight category, is provided in the table below.

Table 48: Analysis of invested positions by risk weight category

		Securitisation positions 2015						Re-Securitisation positions 2015				2015		2014	
		Senior		Non-senior		Tranches backed by non granular pools		Senior		Non-Senior		Total		Total	
S&P Equivalent Rating and RBA Risk Weight[1]		Exposure £m	Cap req £m	Exposure £m	Cap req £m	Exposure £m	Cap req £m	Exposure £m	Cap req £m	Exposure £m	Cap req £m	Exposure £m	Cap req £m	Exposure £m	Cap req £m
On Balance Sheet															
AAA	(7%, 12%, 20%, 20%)	4,582	27	-	-	1	-	-	-	-	-	4,583	27	1,157	6
AA	(8%, 15%, 25%, 25%)	429	2	267	3	370	7	16	-	-	-	1,082	12	1,067	13
A+	(10%, 18%, 35%, 35%)	69	1	10	-	34	1	-	-	-	-	113	2	107	3
A	(12%, 20%, 35%, 40%)	157	1	116	2	18	1	-	-	-	-	291	4	52	1
A-	(20%, 35%, 35%, 60%)	172	3	41	2	-	-	-	-	-	-	213	5	260	4
BBB+	(35%, 50%, 50%, 100%)	-	-	-	-	38	2	-	-	-	-	38	2	-	-
BBB	(60%, 75%, 75%, 150%)	62	3	30	2	-	-	-	-	-	-	92	5	143	7
BBB-	(100%, 100%, 100%, 200%)	29	3	-	-	-	-	-	-	-	-	29	3	111	6
BB+	(250%, 250%, 250%, 300%)	3	1	-	-	-	-	-	-	-	-	3	1	1	-
BB	(425%, 425%, 425%, 500%)	-	-	-	-	2	1	-	-	-	-	2	1	7	2
BB-	(650%, 650%, 650%, 750%)	-	-	-	-	-	-	-	-	-	-	-	-	39	-
Below BB- or unrated	Deduction	-	-	-	-	2	-	-	-	-	-	2	-	4	-
Off Balance Sheet															
AAA	(7%, 12%, 20%, 20%)	22	-	-	-	570	10	-	-	-	-	592	10	517	9
AA	(8%, 15%, 25%, 25%)	483	3	-	-	204	4	-	-	-	-	687	7	554	6
A+	(10%, 18%, 35%, 35%)	-	-	-	-	148	4	-	-	-	-	148	4	148	4
A	(12%, 20%, 35%, 40%)	62	1	-	-	304	9	-	-	-	-	366	10	366	10
A-	(20%, 35%, 35%, 60%)	-	-	-	-	190	6	-	-	-	-	190	6	245	7
BBB+	(35%, 50%, 50%, 100%)	19	1	-	-	-	-	-	-	-	-	19	1	102	4
BBB	(60%, 75%, 75%, 150%)	-	-	-	-	29	2	-	-	-	-	29	2	58	3
BBB-	(100%, 100%, 100%, 200%)	-	-	-	-	24	2	-	-	-	-	24	2	19	2
BB+	(250%, 250%, 250%, 300%)	-	-	-	-	26	5	-	-	-	-	26	5	30	6
BB	(425%, 425%, 425%, 500%)	29	10	-	-	9	3	-	-	-	-	38	13	39	14
BB-	(650%, 650%, 650%, 750%)	-	-	-	-	-	-	-	-	-	-	-	-	4	2
Below BB- or unrated	Deduction	-	-	-	-	1	-	-	-	-	-	1	-	52	-
Total		6,118	56	464	9	1,970	57	16	-	-	-	8,568	122	5,082	109
Deduction from capital												(3)	-	(56)	-
Total credit risk exposure/ capital requirement[2]												8,565	122	5,026	109

[1] The RBA risk weights for each rating are listed in the following order: senior securitisation positions, non-senior securitisation positions, tranches backed by non-granular pools, senior re-securitisation positions. Positions rated below BB- or that are unrated are deducted from capital, net of SCRA's applied.

[2] Total credit risk exposure is defined as the aggregate of the Group's gross retained or purchased positions, excluding those positions rated below BB- or that are unrated and therefore deducted from capital. Capital requirements are stated net of SCRA's, where applicable.

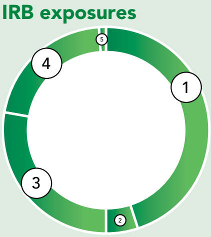
The underlying securitisation positions in connection to the re-securitisation positions held by the Group relate to senior positions in collateralised loan obligators (CLO) transactions and commercial real estate collateralised debt obligation (CDO) transactions.

Pillar 1 Capital requirements: Counterparty credit risk

This section details Lloyds Banking Group's counterparty credit risk profile, focussing on regulatory measures such as exposure at default and risk-weighted assets.

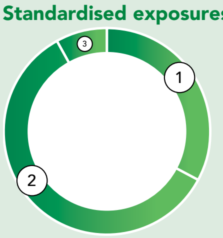
- The Group's counterparty credit risk strategy is to use collateral agreements and other risk management techniques, such as central clearing, to mitigate risk exposure.
- Counterparty credit risk (including CVA) represents a small proportion (4.3%) (2014: 4.7%) of the Group's total risk-weighted assets.
- Counterparty credit risk exposure decreased by 18% to £28.0bn due to balance sheet optimization, reduced securities financing activity with governments and central banks, trade compression and yield curve movements.
- Risk-weighted assets decreased by 15% to £9.7bn primarily due to reduced trading activity and compressions, CVA hedging and yield curve movements.

IRB exposures



1. Corporate – main 45%	(2014: 35%)
2. Central governments and central banks 5%	(2014: 1%)
3. Institutions 28%	(2014: 39%)
4. Corporate – specialised lending 21%	(2014: 22%)
5. Securitisation positions 1%	(2014: 3%)

Standardised exposures



1. Central governments and central banks 33%	(2014: 53%)
2. Institutions 59%	(2014: 44%)
3. Corporates 8%	(2014: 3%)

Pillar 1 Capital requirements: Counterparty credit risk continued

DEFINITION

Counterparty credit risk is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. Such transactions relate to contracts for financial instruments derivatives and repo contracts.

INTERNAL CAPITAL AND CREDIT LIMITS

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

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

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

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

SECURING COLLATERAL AND ESTABLISHING CREDIT RESERVES

Use is made of collateral and risk mitigation techniques to reduce credit risks in various portfolios. These include the use of collateral (principally cash, government securities and guarantees), break clauses and netting. The majority 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.

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.

Where it is appropriate and likely to be effective, the Group seeks to enter into master netting agreements. Although 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, they do reduce the credit risk to the extent that, if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis.

The Group applies master netting agreements predominantly to the IRB corporate main and corporate SME asset classes.

Where a credit risk exposure is subject to a master netting agreement the EAD value is adjusted accordingly.

COLLATERAL REQUIREMENTS IN THE EVENT OF A DOWNGRADE IN CREDIT RATING

Internal stress testing results at 31 December 2015 showed that the Banking business had liquidity resources representing 163 per cent of modelled outflows from all wholesale funding sources, retail and corporate deposits, intra-day requirements and rating dependent contracts under the Group's most severe liquidity stress scenario (the three month PRA combined scenario).

The liquidity stress testing assumes that further credit rating downgrades may reduce investor appetite for some of the Group's liability classes and therefore funding capacity. A hypothetical idiosyncratic two notch downgrade of the Group's current long-term debt rating and accompanying short-term downgrade implemented instantaneously by all major rating agencies, could result in an outflow of £1.5bn of cash over a period of up to one year, £2.1bn of collateral posting related to customer financial contracts and £5.6bn of collateral posting associated with secured funding. The Group's internal liquidity risk appetite includes such a stress scenario. The stress scenario modelling demonstrates the Group has available liquidity resources to manage such an event.

CORRELATION (WRONG WAY) RISK

Credit policies are in place to avoid correlation or wrong way risk. Under the repo policies, the issuer of the collateral and the repo counterparty should be neither the same nor connected. The same rule applies for derivatives under collateral policies. 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- and above may be considered to have no adverse correlation between the counterparty domiciled in the country and that country of risk (issuer of securities).

DERIVATIVE VALUATION ADJUSTMENTS

Details on the application of derivative valuation adjustments, including Credit and Debit Valuation Adjustments (CVA and DVA), are provided in the 2015 Lloyds Banking Group plc Annual Report and Accounts as referenced below.

Derivative valuation adjustments, Note 50 (Financial instruments), Notes to the Consolidated Financial Statements, 2015 Lloyds Banking Group plc Annual Report and Accounts.

COUNTERPARTY CREDIT RISK EXPOSURES: ANALYSIS BY MEASUREMENT APPROACH

The credit risk exposure value in respect of counterparty credit risk as at 31 December 2015 was £28.0bn (2014: £34.2bn). An analysis by measurement approach is presented in the table below.

Table 49: CCR: analysis by measurement approach

	2015 Credit risk exposure[1] £m	2014 Credit risk exposure[1] £m
CCR standardised approach	-	-
CCR mark-to-market method	13,757	15,687
CCR internal model method	-	-
SFT comprehensive approach	7,016	11,310
CCR central counterparty	7,189	7,180
Total	27,962	34,177

[1] Counterparty credit risk exposures are stated on an EAD post CRM basis throughout this section.

Key movements

– SFT credit risk exposure reduced by £4.3bn due to lower volumes of securities financing activity with central banks and government entities.

COUNTERPARTY CREDIT RISK EXPOSURES: ANALYSIS BY EXPOSURE CLASS

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

Table 50: CCR: analysis by exposure class

	2015 Credit risk exposure £m	2014 Credit risk exposure £m
Foundation IRB approach		
Corporate – main	7,079	6,308
Central governments and central banks	761	226
Institutions	4,359	7,016
Other IRB approach		
Corporate – specialised lending[1]	3,230	3,983
Securitisation positions[2]	317	528
Total IRB approach	15,746	18,061
Exposures subject to the standardised approach		
Central governments and central banks	4,047	8,482
Multilateral development banks	37	-
Institutions	7,202	7,182
Corporates	930	452
Total standardised approach	12,216	16,116
Total	27,962	34,177

[1] Exposures subject to the IRB Supervisory Slotting Approach.

[2] Securitisation positions in 2015 include £166m of net exposure deducted from capital, (2014: £142m).

Key movements

– IRB credit risk exposures decreased by £2.3bn primarily due to reduced trading activity with financial institutions.

– Standardised credit risk exposures reduced by £3.9bn primarily as a result of lower levels of securities financing activity with central banks and government entities.

Pillar 1 Capital requirements: Counterparty credit risk continued

COUNTERPARTY CREDIT RISK EXPOSURES: ANALYSIS BY RISK WEIGHT APPROACH

An analysis of counterparty credit risk exposures and risk-weighted assets as at 31 December 2015, by risk weight approach, is presented in the table below.

Table 51: CCR: analysis by risk weight approach

	2015 Credit risk exposure £m	2015 Risk-weighted assets £m	2014 Credit risk exposure £m	2014 Risk-weighted assets £m
Foundation and Other IRB approaches	15,746	7,328	18,061	8,638
Standardised approach	5,027	509	8,936	325
Central counterparty	7,189	144	7,180	145
Total	27,962	7,981	34,177	9,108
Credit valuation adjustment[1]	-	1,684	-	2,215
Total	27,962	9,665	34,177	11,323

[1] CVA risk-weighted assets are calculated and incorporated within the Group's numbers in accordance with CRD IV requirements which include an exemption for corporate exposures..

Key movements

– Counterparty credit risk risk-weighted assets, decreased from £11.3bn to £9.7bn, reflecting reduced trading with financial institutions, trade compressions and CVA hedging.

COUNTERPARTY CREDIT RISK EXPOSURES: FURTHER ANALYSIS OF IRB EXPOSURES

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

Table 52: CCR corporate main exposures by PD grade

PD Grade	2015 Credit Risk Exposure £m	2015 Exposure Weighted Average PD %	2015 Average Risk Weight %	2014 Credit Risk Exposure £m	2014 Exposure Weighted Average PD %	2014 Average Risk Weight %
1 – 4	2,135	0.03%	18.64%	1,661	0.03%	20.24%
5	244	0.05%	17.11%	101	0.05%	19.56%
6	1,100	0.06%	25.71%	856	0.07%	21.11%
7	992	0.11%	36.55%	770	0.11%	38.69%
8	612	0.18%	51.13%	615	0.18%	51.73%
9	795	0.28%	52.18%	894	0.28%	53.71%
10	692	0.42%	61.25%	506	0.42%	74.26%
11	115	0.63%	83.31%	208	0.63%	83.56%
12	116	1.00%	98.23%	169	1.00%	95.18%
13	138	1.62%	125.14%	170	1.62%	124.24%
14	79	2.60%	138.52%	79	2.61%	139.83%
15	28	4.20%	176.25%	45	4.20%	168.03%
16	7	6.20%	161.44%	10	6.08%	176.15%
17	3	8.70%	203.02%	-	-	-
18	-	-	-	31	12.06%	231.90%
19	16	31.00%	276.10%	68	31.00%	282.81%
20 – 23 (Default)	7	100.00%	-	125	100.00%	-
Total	7,079	0.40%	40.09%	6,308	2.66%	47.91%

Key movements

– The reduction in average PD from 2.66% to 0.40% is a result of active balance sheet management in 2015, including a reduction in defaulted exposures. This has led to a reduction in the average risk weight.

Table 53: CCR central government and central bank exposures by PD grade

PD Grade	2015 Credit Risk Exposure £m	2015 Exposure Weighted Average PD %	2015 Average Risk Weight %	2014 Credit Risk Exposure £m	2014 Exposure Weighted Average PD %	2014 Average Risk Weight %
1 – 4	303	0.02%	2.33%	167	0.02%	1.87%
5	-	-	-	-	-	-
6	458	0.06%	8.20%	56	0.07%	9.34%
7	-	-	-	-	-	-
8	-	-	-	-	-	-
9	-	-	-	-	-	-
10	-	-	-	-	-	-
11	-	-	-	-	-	-
12	-	-	-	-	-	-
13	-	-	-	2	1.87%	99.16%
14	-	-	-	-	-	-
15	-	-	-	-	-	-
16	-	-	-	-	-	-
17	-	-	-	-	-	-
18	-	-	-	-	-	-
19	-	-	-	1	28.60%	249.81%
20 – 23 (Default)	-	-	-	-	-	-
Total	761	0.05%	5.86%	226	0.14%	5.41%

Table 54: CCR institution exposures by PD grade

PD Grade	2015 Credit Risk Exposure £m	2015 Exposure Weighted Average PD %	2015 Average Risk Weight %	2014 Credit Risk Exposure £m	2014 Exposure Weighted Average PD %	2014 Average Risk Weight %
1 – 4	1,079	0.03%	27.95%	2,357	0.03%	27.09%
5	787	0.04%	26.86%	823	0.04%	22.11%
6	1,589	0.06%	38.39%	2,782	0.06%	32.36%
7	556	0.11%	62.68%	533	0.11%	54.08%
8	69	0.18%	57.55%	64	0.18%	41.34%
9	133	0.28%	82.43%	312	0.28%	83.53%
10	42	0.41%	82.22%	86	0.42%	86.00%
11	39	0.74%	84.75%	9	0.75%	97.33%
12	1	1.00%	83.65%	29	1.00%	91.38%
13	-	-	-	4	1.62%	99.42%
14	59	2.40%	155.85%	10	3.07%	137.42%
15	1	4.20%	219.89%	-	-	-
16	-	-	-	-	-	-
17	4	8.00%	186.91%	7	8.00%	200.85%
18	-	-	-	-	-	-
19	-	-	-	-	-	-
20 – 23 (Default)	-	-	-	-	-	-
Total	4,359	0.11%	41.07%	7,016	0.08%	34.73%

Key movements

– Lower levels of inter-bank activity reduced aggregate amounts of credit risk exposure with higher rated counterparties leading to a small increase in the overall portfolio average risk weight.

Pillar 1 Capital requirements: Counterparty credit risk continued

Table 55: CCR corporate exposures subject to supervisory slotting

	Remaining maturity <2.5 years		Remaining maturity >2.5 years		Remaining maturity <2.5 years		Remaining maturity >2.5 years	
Exposure	2015 Exposure £m	2015 Risk-weighted assets £m	2015 Exposure £m	2015 Risk-weighted assets £m	2014 Exposure £m	2014 Risk-weighted assets £m	2014 Exposure £m	2014 Risk-weighted assets £m
1) Strong	102	51	2,203	1,542	107	60	2,662	1,852
2) Good	37	26	390	351	64	46	341	305
3) Satisfactory	29	33	350	403	79	90	440	506
4) Weak	-	-	42	104	5	13	55	137
5) Default[1]	3	-	74	-	3	-	227	-
Total	171	110	3,059	2,400	258	209	3,725	2,800

[1] Exposures categorised as 'default' do not attract a risk weighting but instead are treated as expected loss deductions at a rate of 50 per cent of the exposure value.

Table 56: CCR standardised exposures by regulatory portfolio and risk weights

2015 Risk weight Asset class	0% £m	2% £m	10% £m	20% £m	50% £m	75% £m	100% £m	150% £m	Other £m	Total credit risk exposures £m
Corporates	-	-	-	136	629	-	165	-	-	930
Central governments and central banks	4,047	-	-	-	-	-	-	-	-	4,047
Multilateral development banks	37	-	-	-	-	-	-	-	-	37
Institutions	-	7,189	-	13	-	-	-	-	-	7,202
Total	4,084	7,189	-	149	629	-	165	-	-	12,216

2014 Risk weight Asset class	0% £m	2% £m	10% £m	20% £m	50% £m	75% £m	100% £m	150% £m	Other £m	Total credit risk exposures £m
Corporates	-	-	-	134	63	-	255	-	-	452
Central governments and central banks	8,482	-	-	-	-	-	-	-	-	8,482
Multilateral development banks	-	-	-	-	-	-	-	-	-	-
Institutions	-	7,180	-	2	-	-	-	-	-	7,182
Total	8,482	7,180	-	136	63	-	255	-	-	16,116

Key movements

– The large reduction in 0% risk weight exposure reflects lower levels of securities financing activity with central governments and central banks.

COUNTERPARTY CREDIT RISK EXPOSURES: ANALYSIS BY CONTRACT TYPE

An analysis of counterparty credit risk exposures as at 31 December 2015, by contract type, is presented in the table below.

Table 57: CCR: analysis by contract type

	2015 Credit risk exposure £m	2014 Credit risk exposure £m
Interest rate and inflation contracts	14,868	15,593
Foreign exchange contracts	4,201	3,794
Equity contracts	243	252
Credit derivatives	381	835
Commodity contracts	442	373
Securities financing transactions	7,827	13,330
Total	27,962	34,177
Of which central counterparty	7,189	7,180

NET DERIVATIVES CREDIT EXPOSURE

The gross positive fair value of contracts, netting benefits, netted current credit exposure, net potential future credit exposure (PFE), collateral held and resultant 'net derivatives credit exposure', as at 31 December 2015, are presented separately in the table below.

Table 58: Net derivatives credit exposure

	2015 £m	2014 £m
Gross positive fair value of contracts	60,723	69,655
Netting benefits	(49,614)	(57,359)
Netted current credit exposure	11,109	12,296
Net potential future credit exposure	12,601	12,260
Collateral held[1]	(3,575)	(3,709)
Total net derivatives credit exposure	**20,135**	**20,847**
of which CCP	6,377	5,359
Securities financing transactions	7,827	13,330
Total counterparty credit risk exposure	**27,962**	**34,177**
of which CCP	7,189	7,180

[1] Collateral held primarily relates to cash and government securities.

An analysis of derivative notional balances, indicating amounts traded on recognised exchanges and amounts traded over-the-counter (OTC) (further subanalysed by those settled by central counterparties and those not settled by central counterparties) is provided on page 129 of the 2015 Lloyds Banking Group plc Annual Report and Accounts.

NOTIONAL VALUE OF CREDIT DERIVATIVE TRANSACTIONS

The notional value of credit derivative transactions outstanding at 31 December 2015 was £20.9bn (2014: £24.6bn), an analysis of which is presented in the table below. These transactions relate to CDS's, total return swaps and other credit derivatives. All total return swaps are classified as credit products.

Table 59: Notional value of credit derivative transactions

	2015 Notional value £m	2014 Notional value £m
Own credit portfolio – protection bought[1]	5,438	9,581
Own credit portfolio – protection sold[2]	15,451	14,993
Total	**20,889**	**24,574**

[1] Own credit portfolio (protection bought) comprises £2,095m (2014: £9,042m) of CDS's and £3,343m (2014: £539m) of total return swaps.

[2] Own credit portfolio (protection sold) comprises £1,385m (2014: £8,439m) of CDS's, £8,623m (2014: £6,554m) of total return swaps and £5,443m (2014: nil) of other credit derivatives.

Pillar 1 Capital requirements: Market risk

This section details Lloyds Banking Group's market risk profile, focussing in particular on the Group's internally modelled market risk measures.

- Board Risk Appetite for market risk is set at group level covering market risk across all divisions and is reviewed and approved annually.
- Market risk represents a small proportion (1.7%) (2014: 2.0%) of the Group's total risk-weighted assets.
- Risk-weighted assets reduced by 20% to £3.8bn mainly due to active portfolio management and model changes.
- There were a number of backtesting overshoots during 2015 as a result of increased interest rate volatility, which the VaR model took some time to reflect fully. The Group continues to review and improve the VaR model.
- Details of market value sensitivity and net interest income sensitivity measures provided in respect of banking activities (non-trading book) can be found in the 2015 Lloyds Banking Group plc Annual Report and Accounts on pages 144 to 150.

DEFINITION

Market risk is defined as the risk that unfavourable market moves (including changes in and increased volatility of interest rates, market-implied inflation rates, credit spreads and bond prices, foreign exchange rates, equity, property and commodity prices and other instruments), lead to reductions in earnings and/or value. Details of risk appetite, measurement, mitigation and monitoring can be found in the Risk Management section of the 2015 Lloyds Banking Group plc Annual Report and Accounts (pages 144 to 150).

EXPOSURES

Market risk balance sheet linkages

The information provided in the table below aims to facilitate the understanding of linkages between balance sheet items and the positions disclosed in the Group's market risk disclosures. This breakdown of financial instruments included and not included in trading book VaR provides a linkage with the market risk measures reported later on in the market risk section. It is important to highlight that this table does not reflect how the Group manages market risk, since it does not discriminate between assets and liabilities in its VaR model.

The table below shows relevant balance sheet items relating to banking and trading activities. The trading book VaR sensitivity inputs are separately identified.

As Insurance undertakings are excluded from the scope of the Group's regulatory consolidation, market risks in respect of the assets and liabilities relating to the Group's insurance operations are covered in more detail in the Market Risk section of the 2015 Lloyds Banking Group plc Annual Report and Accounts.

Table 60: Market risk linkage to the balance sheet

		Banking			
31 December 2015	Balance sheet total £m	Trading book only £m	Non-trading £m	Insurance £m	Primary risk factor
Assets					
Cash and balances at central banks	58,417	-	58,417	-	Interest rate
Items in the course of collection from banks	697	-	697	-	Interest rate
Trading and other financial assets at fair value through profit or loss	140,536	42,661	2,181	95,694	Interest rate, foreign exchange, credit spread
Derivative financial instruments	29,467	25,305	2,570	1,592	Interest rate, foreign exchange, credit spread
Loans and receivables:					
Loans and advances to bank	25,117	-	3,385	21,732	Interest rate
Loans and advances to customers	455,175	-	455,175	-	Interest rate
Debt securities	4,191	-	4,191	-	Interest rate, credit spread
	484,483	-	462,751	21,732	
Available-for-sale financial assets	33,032	-	33,030	2	Interest rate, credit spread, foreign exchange
Held-to-maturity investments	19,808	-	19,808	-	
Value of in-force business	4,596	-		4,596	Equity
Other assets	35,652	-	16,656	18,996	Interest rate
Total assets	806,688	67,966	596,110	142,612	
Liabilities					
Deposits from banks	16,925	-	16,925	-	Interest rate
Customer deposits	418,326	-	418,326	-	Interest rate
Items in course of transmission to banks	717	-	717	-	Interest rate
Trading and other financial liabilities at fair value through profit or loss	51,863	43,984	7,879	-	Interest rate, foreign exchange
Derivative financial instruments	26,301	22,124	2,413	1,764	Interest rate, foreign exchange, credit spread
Debt securities in issue	82,056	-	82,056	-	Interest rate
Liabilities arising from insurance and investment contracts	103,071	-	-	103,071	Credit spread
Subordinated liabilities	23,312	-	21,638	1,674	Interest rate, foreign exchange
Other liabilities	37,137	-	7,103	30,034	Interest rate
Total liabilities	759,708	66,108	557,057	136,543	

Pillar 1 Capital requirements: Market risk continued

The Group's trading book assets and liabilities are originated by Financial Markets within the Commercial Banking division. Within the Group's balance sheet these fall under the trading assets and liabilities and derivative financial instruments. The assets and liabilities are classified as trading book if they have been acquired or incurred for the purpose of selling or repurchasing in the near future. These consist of government, corporate and financial institution bonds and loans/deposits and repos.

Derivative assets and liabilities are held for three main purposes; to provide risk management solutions for clients, to manage portfolio risks arising from client business and to manage and hedge the Group's own risks. The majority of derivatives exposure arises within Financial Markets.

The Group ensures that it has adequate cash and balances at central banks and stocks of high-quality liquid assets (e.g. Gilts or US Treasury Securities) that can be converted easily into cash to meet liquidity requirements. The majority of these assets are held as AFS with the remainder held as financial assets at fair value through profit and loss. Further information on these balances can be found under the Risk Management section – Funding and Liquidity Risk, pages 153 to 159 of the Lloyds Banking Group plc Annual Report and Accounts.

The majority of debt issuance originates from the Issuance, Capital Vehicles and Medium Term Notes desks and the IRR of the debt issued is hedged by swapping them into a floating rate.

Trading portfolios

The Group's trading activity is small relative to its peers and the Group does not have a programme of proprietary trading activities. The Group's trading activity is undertaken solely 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 the Group's regulatory trading books and they include daily VaR (table 63), sensitivity based measures, and stress testing calculations.

Banking activities

The Group's banking activities expose it to the risk of adverse movements in interest rates, credit spreads, exchange rates and equity prices, with little or no exposure to commodity risk. The volatility of market values can be affected by both the transparency of prices and the amount of liquidity in the market for the relevant asset or liability.

Further details of the Group's risks in the banking book, including market value sensitivity and net interest income sensitivity measures provided in respect of banking activities (non-trading book) are presented in the Risk Management section of the 2015 Lloyds Banking Group plc Annual Report and Accounts.

Table 61: Key market risks for the Group by individual business activity (profit before tax impact measured against Group single stress scenarios)

	Risk type					
	Interest rate	Basis risk	FX	Credit spread	Equity	Inflation
Banking activities	◉	◐	□	◉	◉	□
Defined benefit pension scheme	◐		□	▣	◐	□
Insurance portfolios	○		○	●	●	○
Trading portfolios	□		□	○		□
Key						
Profit before tax:	Loss	Gain				
>£500m	●	■				
£250m – £500m	◉	▣				
<£250m	◐	◧				
<£50m	○	□				

For further information on the key market risks by defined benefit pension schemes and Insurance portfolios refer to pages 148 and 149 of the 2015 Lloyds Banking Group plc Annual Report and Accounts.

Review of internal models

The Group's internal market risk model permission allows it to calculate Pillar 1 market risk capital requirements for the trading book using internal models. The Lloyds Banking Group model permission covers general interest rate and foreign exchange risk across both Lloyds Bank and HBOS 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 IRR and the capital charge incorporates specific IRR through VaR and Stressed VaR. This is complemented by an Incremental Risk Charge (IRC) for the trading book.

The Group uses an 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. 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 across all portfolios. A 1-day 95th percentile VaR is used for internal management purposes, and the 10-day 99th percentile VaR and Stressed VaR is applied for regulatory capital calculation for the Group's trading book positions which are calculated under the Internal Models Approach. 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.

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 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.

The IRC measures the risks arising from both default and loss-inducing rating migrations in the trading book. The charge is computed over a one year capital horizon with the 99.9th percentile worst loss taken as the value of the charge. 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 calculation uses a multi-factor Gaussian Copula model. A one year liquidity horizon is applied for all positions within this portfolio.

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). For example where there is limited historical market data or limited variability in the market data. Identification of risks is performed at least quarterly and through the new product review process to ensure any additional risks outside of VaR and IRC models are captured as RNIV's.

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 over time should the portfolio change over time. Model performance, including backtesting analysis, is regularly reviewed by the Model Governance Committee.

Key characteristics of market risk models

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: (£30m)	Historical simulation to create a distribution of potential daily P&Ls from market moves	300 daily P&Ls	Regulatory VaR is computed with 10 day holding period and 99% confidence level
SVaR	1Model: (£92m)	Same as VaR model	250 day period of significant stress, updated quarterly	Regulatory SVaR is computed with 10 day holding period and 99% confidence level
IRC	1Model: (£41m)	Monte Carlo approach is used to simulate the profit and loss changes arising from rating migration and default	Credit Ratings data (1981 – current), CDS bond basis data (2007- current), LGD data (1991-current)	IRC is computed with a 1 year holding period and 99.9% confidence level

Pillar 1 Capital requirements: Market risk continued

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 Lehmans default, possible economic events such as what might happen if the Euro breaks up and also regulator provided scenarios such as the EBA 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 produce stress testing daily and these are reviewed by Financial 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.

Backtesting of VaR models

The Group compares both hypothetical and clean profit or loss with the VaR calculated at a 1-day 99 per cent confidence level on a daily basis. The purpose of this analysis is to provide an indication of how well the VaR model's output, a VaR forecast, 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. Clean 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.

A backtesting overshooting is generated when loss is greater than the 1-day 99 per cent VaR for a given day. The number of backtesting overshoots during 2015 was higher than in 2014 mainly as a result of elevated interest rate volatility. Please see commentary below Table 62 for information on backtesting performance.

Each individual entity is required to have sufficient capital to meet their solo capital requirements. Hence VaR model performance monitoring needs to be performed separately across Lloyds Bank and HBOS heritage portfolios. The Group manages its market risk at a consolidated basis and this is reflected in a single Internal Model Approval Market Risk Permission. Hence backtesting is also done at a consolidated basis to monitor VaR model performance at a consolidated Group level. Below the entity level there is backtesting performed at business area level. The number of overshootings in these portfolios at business area level do not necessarily add up to the number of overshootings in the consolidated portfolio.

Charts comparing VaR to the hypothetical profit and loss on a daily basis, at both entity level and by business area, are provided on pages 97 to 99.

Table 62: Backtesting results (VaR models)

2015 backtesting results	Multiplier[1]	Number of reported overshootings	
		Hypothetical	Clean
Entity Level			
Lloyds Bank	3.85	9	5
HBOS	3.00	3	4
LBG	3.65	7	5
Major Business Area			
Rates product		6	5
FX product		3	6
Credit product		2	2
Repo product		1	1

[1] The increase in the number of backtesting overshoots outstanding over the last 250 business days has resulted in the VaR multiplier used for internal model capital requirements increasing for Lloyds Bank and LBG from 3.0 to 3.85 and 3.65 respectively as at 31 December 2015.

Key movements

- Statistically the Group would expect to see losses in excess of VaR two to three times over a one-year period.
- There were a number of backtesting overshoots during 2015, mainly during the first half of 2015 as a result of increased interest rate volatility, which the VaR model took some time to reflect fully. There was a significant backtesting overshoot on the 15 January 2015 at Lloyds Bank and at the overall Group level following the Swiss National Bank's announcement removing the minimum exchange rate of Swiss franc per euro. The realised loss on the 15 January 2015 was incurred on the back of the extreme and immediate appreciation in Swiss franc which generated the loss in foreign exchange positions.
- The Group continues to review and improve its VaR model to better capture all relevant risks in its trading portfolio. All significant P&L events are investigated as part of normal business. In addition all backtesting results are reported to senior management, internal auditors and the PRA.

Valuation principles

Trading securities, other financial assets and liabilities at fair value through profit or loss, derivatives and AFS financial assets are stated at fair value. The fair value of these financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is a measure 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 held by the Group. Where quoted 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 key elements of the control framework for the valuation of financial instruments include model validation, product implementation review and independent price verification. Where models are used, the assumptions, methodologies, mathematics and software implementation are assessed and challenged by suitably qualified parties independent of the development process.

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 life cycle. 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 CVA reserve.

Full details on the use of valuation models and related adjustments are provided in Note 50 (Financial instruments), Notes to the Consolidated Financial Statements, of the 2015 Lloyds Banking Group plc Annual Report and Accounts.

Trading portfolios

The Group internally uses VaR as the primary risk measure for all trading book positions.

The table on page 96 shows some relevant statistics for the Group's 1-day 95 per cent confidence level VaR that are based on 300 historical consecutive business days to year end 2015 and year end 2014.

The risk of loss measured by the VaR model is the minimum expected loss in earnings given the 95 per cent confidence. The total and average trading VaR numbers reported below have been obtained after the application of the diversification benefits across the five risk types. The maximum and minimum VaR reported for each risk category did not necessarily occur on the same day as the maximum and minimum VaR reported at Group level.

The average 95 per cent 1 day trading VaR (diversified across risk factors) was £1.4m for year end 2015 (2014: £3.0m). This decrease was due to the significant de-risking activities that took place at the portfolio level.

Pillar 1 Capital requirements: Market risk continued

Table 63: Trading portfolios: VaR (1-day 95 per cent confidence level)

VaR measures	2015 Close £m	2015 Average £m	2015 Maximum £m	2015 Minimum £m	2014 Close £m	2014 Average £m	2014 Maximum £m	2014 Minimum £m
At 31 December								
Interest rate risk	**0.8**	**1.4**	**3.5**	**0.8**	1.7	2.8	4.8	1.3
Foreign exchange risk	**0.2**	**0.3**	**0.8**	**0.1**	0.2	0.4	1.3	-
Equity risk	**-**	**-**	**-**	**-**	-	-	-	-
Credit spread risk	**0.2**	**0.4**	**1.0**	**0.2**	0.6	0.7	1.1	0.5
Inflation risk	**0.1**	**0.3**	**1.6**	**0.1**	0.4	0.3	0.8	0.2
Sum of risk factors	**1.3**	**2.3**	**6.2**	**1.3**	2.8	4.3	6.4	2.5
Portfolio diversification	**(0.4)**	**(0.9)**			(0.9)	(1.3)		
Total VaR[1]	**0.9**	**1.4**	**3.1**	**0.8**	1.9	3.0	4.6	1.6

[1] VaR over 2015 is based on diversified VaR across risk factors following the PRA granting the Group Permission to calculate VaR on a diversified basis. We have applied the same diversification approach for 2014.

The market risk for the trading book continues to be low with respect to the size of the Group and compared to our peers. This reflects the fact that the Group's trading operations are customer-centric and focused on hedging and recycling client risks.

Although it is an important market standard measure of risk, the VaR model has limitations. One of them is the use of limited historical data sample which influences the output by the implicit assumption that future market behaviour will not differ greatly from the historically observed period. Another known limitation is the use of defined holding periods which assumes that the risk can be liquidated or hedged within that holding period. Also calculating the VaR at the chosen confidence interval does not give enough information about potential losses which may occur if this level is exceeded. The Group fully recognises these limitations and supplements the use of VaR with a variety of other measurements which reflect the nature of the business activity. These include detailed sensitivity analysis, position reporting and a stress testing programme.

Trading risk appetite is monitored daily with 1-day 95 per cent VaR and Stress Testing limits. These limits are complemented with position level action triggers and profit and loss referrals. Risk and position limits are set and managed at both desk and overall trading book levels. They are reviewed at least annually and can be changed as required within the overall Group risk appetite framework.

The Group's Stressed VaR (based on a 10-day 99 per cent confidence level) and IRC measures presented on a similar basis to the VaR measures above are detailed in the table below.

Table 64: Trading portfolios: Stressed VaR (10-day 99 per cent confidence level) and incremental risk charge

Stressed VaR/IRC Measures	2015 Close £m	2015 Average £m	2015 Maximum £m	2015 Minimum £m	2014 Close £m	2014 Average £m	2014 Maximum £m	2014 Minimum £m
Interest rate risk	**22.9**	**25.1**	**50.3**	**11.9**	45.1	40.5	78.7	14.2
Foreign exchange risk	**1.5**	**2.6**	**11.3**	**0.2**	40.5	17.6	44.4	1.0
Credit spread risk	**7.9**	**8.4**	**16.8**	**1.8**	10.2	17.7	26.8	10.2
Inflation	**3.6**	**4.4**	**9.9**	**0.1**	-	-	-	-
Sum of risk factors	**35.9**	**40.5**	**67.6**	**23.3**	95.8	75.8	124.6	33.2
Portfolio diversification	**(13.0)**	**(13.5)**	**-**	**-**	(35.0)	(30.8)		
Total stressed VaR[1]	**22.9**	**27.0**	**55.5**	**10.5**	60.8	45.0	105.6	13.9
Incremental risk charge	**41.2**	**39.3**	**124.1**	**17.6**	54.9	69.9	139.6	41.8

[1] VaR over 2015 is based on diversified VaR across risk factors following the PRA granting the Group Permission to calculate VaR on a diversified basis. We have applied the same diversification approach for 2014.

Key movements

– The maximum and minimum Stressed VaR reported for each risk category did not necessarily occur on the same day as the maximum and minimum Stressed VaR reported as a whole.

– Stressed VaR and incremental risk charge decreased over 2015 due to a reduction in exposures within the trading book.

– The incremental risk charge reduced over the year primarily due to a reduction in exposure within the credit products desk.

Market risk capital requirement

As at 31 December 2015 the capital requirement in respect of market risk in the trading book amounted to £302m (2014: £380m).

Table 65: Analysis of market risk capital requirement

Approach/risk	2015 Capital Requirement £m	2014 Capital Requirement £m
Internal models approach		
VaR	**30**	23
Stressed VaR	**92**	121
RNIV	**95**	50
Incremental risk charge	**41**	55
Standardised approach		
Interest rate position risk requirement	**38**	125
Of which: Specific interest rate risk of Securitisation positions[1]	**6**	23
Foreign currency position risk requirement	**6**	6
Equity position risk requirement	**-**	-
Commodity position risk requirement	-	-
Total	**302**	380

[1] Further details of the specific interest rate risk of securitisation positions are provided on table 43.

Key movements

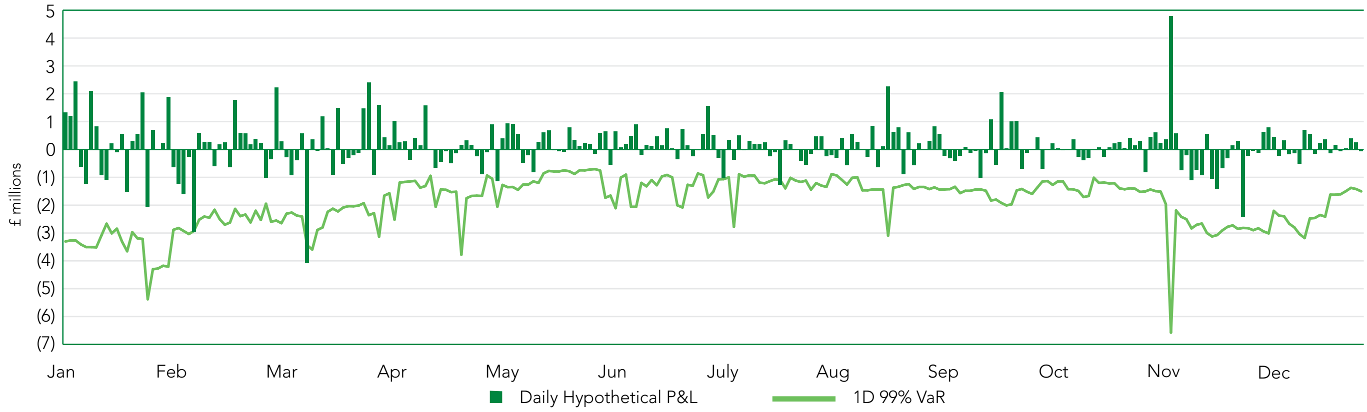
– The majority of the Group's trading book positions are assigned a capital requirement under the Internal Models Approach. Where positions in the Group's trading book are not currently included within internal model capital calculations, the market risk capital requirement for these positions is calculated using the PRA standard market risk rules.
– SVaR and IRC market risk capital requirements decreased during 2015, primarily as a result of a reduction in exposures within the trading books.
– Capital from RNIVs increased over 2015 as the quarterly review of risks identified new risks which needed to be capitalised as RNIVs to ensure the internal model captures all material risks.
– Standardised approach interest rate risk requirement decreased primarily due to moving linear inflation products into the internal model following changes to the Group's Internal Model Approval Permission in December 2014.
– No positions within the Group's trading book are subject to the All Price Risk Measure.

Comparison of VaR to hypothetical profit and loss

The following charts provide, by entity, a comparison of VaR (1-day 99 per cent confidence level) to the hypothetical profit and loss on a daily basis over the course of 2015. Backtesting overshootings that arose during period have been identified, with further description provided on page 94.

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 Financial Markets.

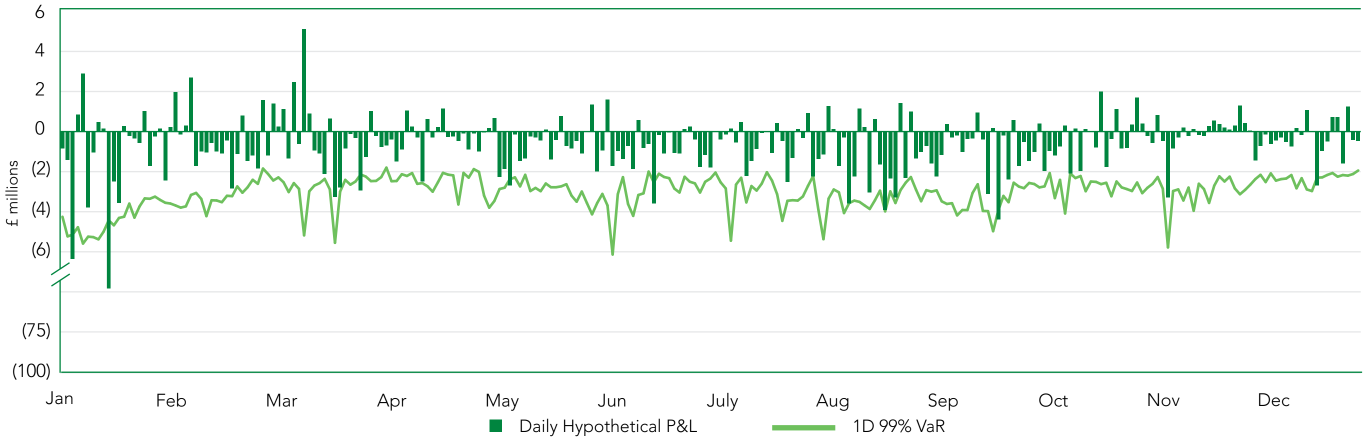
HBOS



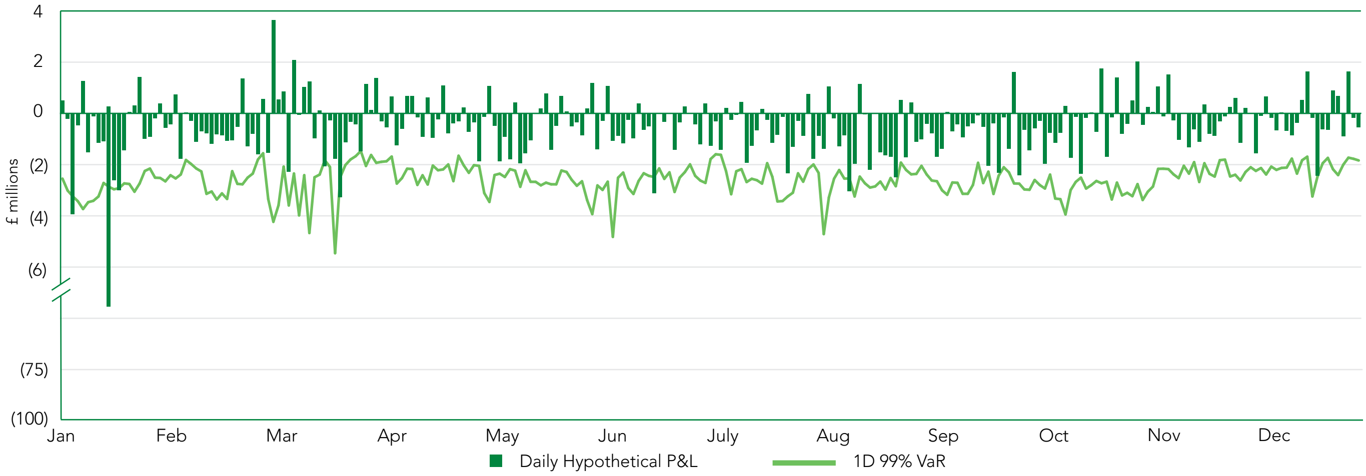
The large VaR in November 2015 was caused by an internal transaction with HBOS which was hedged externally through Lloyds Bank and this created a large offsetting exposure between the two solo entities. On the 6 November 2015 there was a significant rise in interest rates on the back of very strong payroll data in the US and this caused a large profit in HBOS and a loss with the offsetting hedge in Lloyds Bank. An internal transfer balancing the risk between the two solo entities was performed the following day reducing the offsetting exposures and hence the VaR for HBOS and Lloyds Bank.

Pillar 1 Capital requirements: Market risk continued

LLOYDS BANK

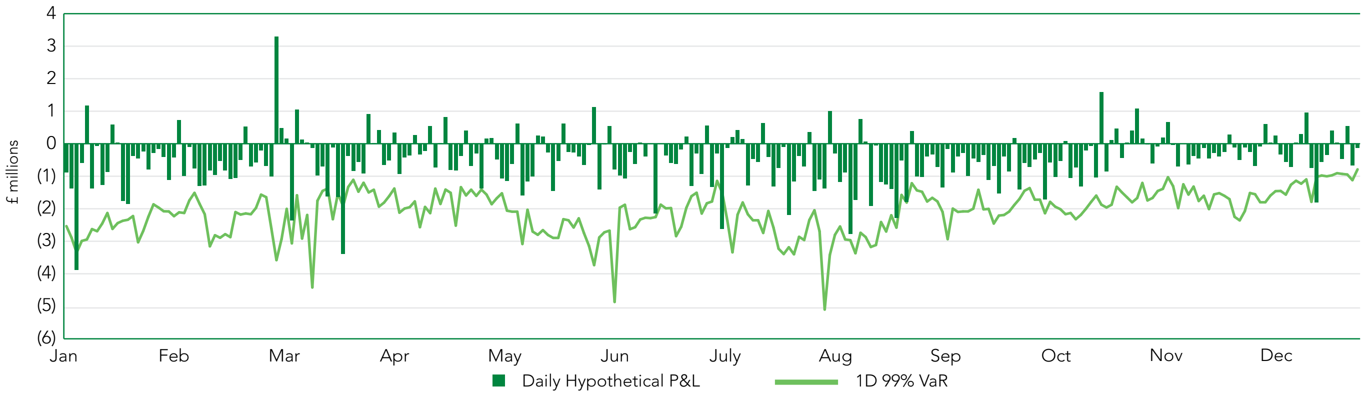


LLOYDS BANKING GROUP

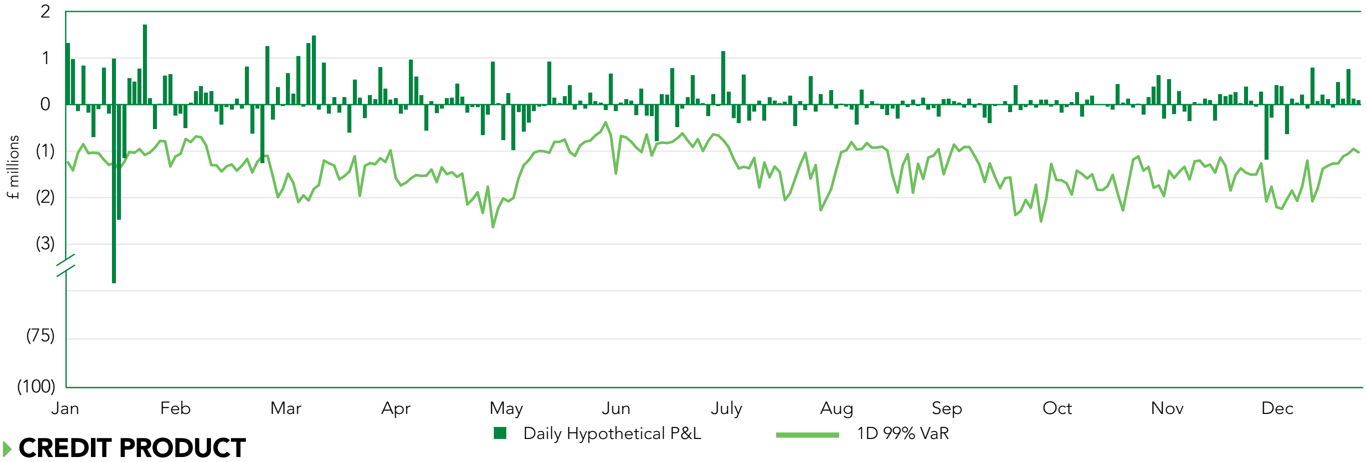


The following charts provide, by major business area, a comparison of VaR (1-day 99 per cent confidence level) to the hypothetical profit and loss on a daily basis over the course of 2015. Backtesting overshootings that arose during period have been identified, with further analysis provided on page 94.

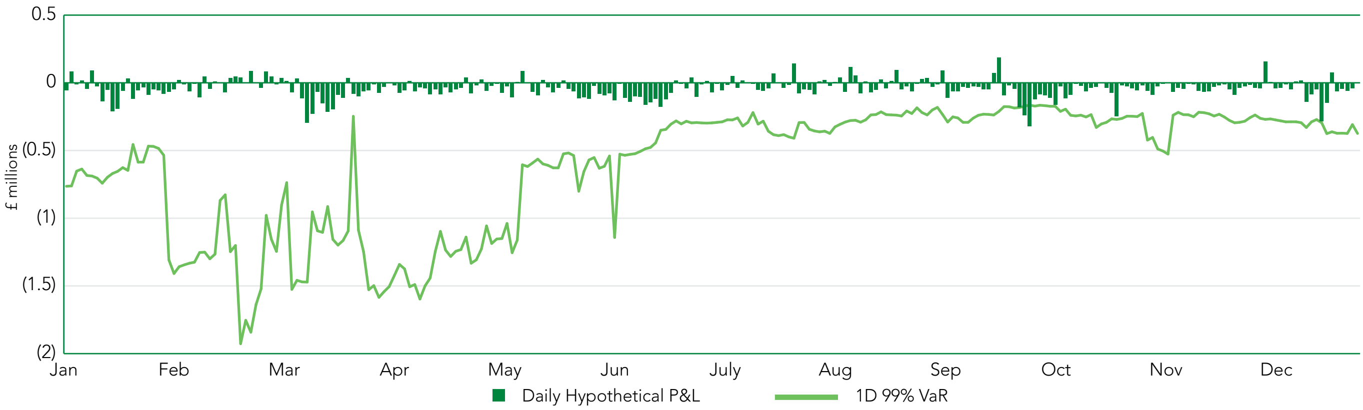
RATES PRODUCT



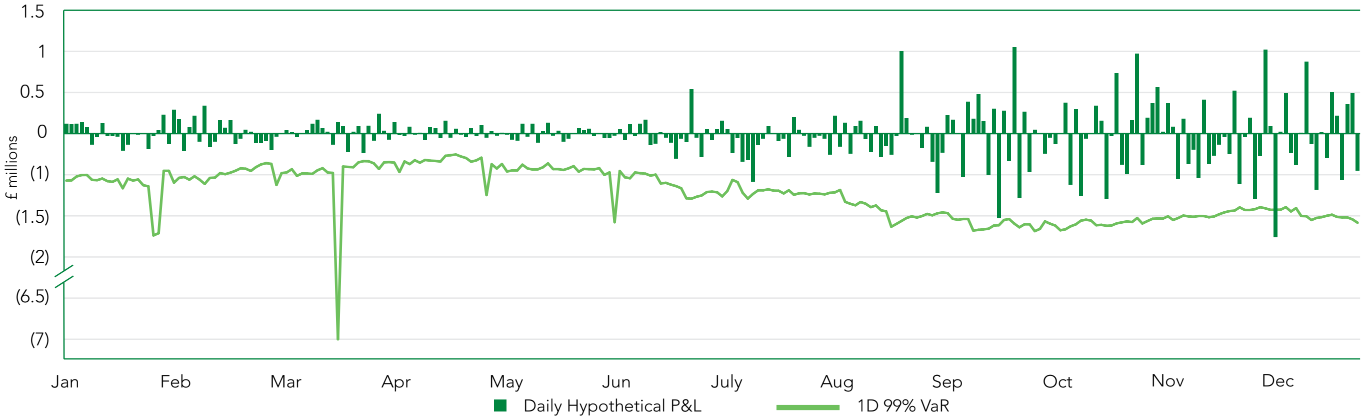
FX PRODUCT



CREDIT PRODUCT



REPO PRODUCT



The large VaR for Repo Product on 17 March 2015 was as a result of the VaR being calculated before the other side of a matching transaction was completed.

Pillar 1 Capital requirements: Operational risk

This section details Lloyds Banking Group's operational risk profile, with capital requirements determined under the Standardised Approach.

- The aim of operational risk management is to manage operational risks in line with defined appetites, and to protect both customers and the Group whilst delivering sustainable growth.
- Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
- The Group Operational Risk Management Framework is the method by which operational risks are managed in terms of setting risk appetite, evaluating key exposures, measuring risk, mitigating risk, and monitoring risks on an ongoing basis.
- The Group calculates its operational risk capital requirements using the Standardised Approach. As at 31 December 2015, the capital requirement in respect of operational risk amounted to £2,090m (2014: £2,102m).
- In addition, operational risk scenarios and actual losses are used by the Group to calculate the appropriate holding of operational risk regulatory capital under the Internal Capital Adequacy Assessment Process.
- Details of the Group's Operational Risk Management Framework can be found in the Risk Management section of the 2015 Lloyds Banking Group plc Annual Report and Accounts (pages 151 and 152).

Remuneration disclosures

This section provides an analysis of remuneration awards made by the Group to its Material Risk Takers, together with an explanation of the Group's remuneration policies, structure and governance.

- The Group has a robust governance framework, with the Remuneration Committee reviewing all compensation decisions for Executive Directors, Senior Management, Senior Risk and Compliance Officers, High Earners and any other Material Risk Takers.
- The following groups of individuals have been identified as meeting the criteria for Material Risk Takers being those who have a material impact on the Group's risk profile:
  - Senior Management, Executive Board Directors, members of the Group Executive Committee (GEC) and their respective direct reports;
  - Non-Executive Directors;
  - Approved Persons performing Significant Influence Functions; and
  - Other highly remunerated individuals whose activities could have an impact on the Group's risk profile.
- The overall total of Material Risk Takers increased from 213 to 266 during 2015, primarily as a consequence of internal restructuring and reporting line changes, resulting in more staff being identified as 'senior management' under the European Banking Authority Regulatory Technical Standard criteria.
- The Group's Remuneration Policy embeds a performance-driven and meritocratic culture, encouraging effective risk disciplines and is in line with relevant regulations and codes of best practice.

Remuneration disclosures continued

REMUNERATION DISCLOSURES

This section discloses the remuneration awards made by the Group to Material Risk Takers in respect of the 2015 performance year. Additional information summarising the Group's decision-making policies for remuneration is also provided. These disclosures deliver the requirements of CRR Article 450, to the extent applicable to the 2015 performance year and should be read in conjunction with the disclosures for Executive Directors contained in the Directors' Remuneration Report, within the 2015 Lloyds Banking Group plc Annual Report and Accounts.

Aggregate remuneration expenditure (Material Risk Takers)

Table 66: Analysis of aggregate remuneration expenditure by division

	2015 Retail £m	2015 Commercial Banking £m	2015 Consumer Finance £m	2015 Insurance £m	2015 Group Operations £m	2015 Group Functions £m	2015 Digital £m	2015 Customer Products & Marketing[1] £m	2015 Total £m
Aggregate remuneration expenditure	**8.2**	**50.7**	**4.8**	**1.9**	**9.0**	**64.6**	**3.7**	**6.2**	**149.1**

	2014 Retail £m	2014 Commercial Banking £m	2014 Consumer Finance £m	2014 Insurance £m	2014 Group Operations £m	2014 Group Functions £m	2014 Digital & Marketing £m	2014 Customer Products & Marketing £m	2014 Total £m
Aggregate remuneration expenditure	7.7	46.7	5.7	1.4	9.2	58.3	3.8	-	132.8

[1] Customer Products and Marketing division was formed at the start of 2015.

Fixed and Variable Remuneration

Table 67: Analysis of remuneration between fixed and variable amounts

	2015 Total	2015 Management Body[1]	2015 Senior Management[2]	2015 Others	2014 Total	2014 Management Body[1]	2014 Senior Management[2]	2014 Others
Number of Material Risk Takers	**266**	**14**	**124**	**128**	213	15	76	122
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Fixed:								
Cash based	**66.6**	**2.5**	**34.4**	**29.7**	55.6	2.5	25.6	27.5
Share based	**12.2**	**1.9**	**7.1**	**3.2**	11.0	1.9	6.3	2.8
Total fixed pay	**78.8**	**4.4**	**41.5**	**32.9**	66.6	4.4	31.9	30.3
Variable:								
Cash	**0.4**	**-**	**0.2**	**0.2**	0.3	-	0.1	0.2
Retained shares[3]	**22.8**	**-**	**10.3**	**12.5**	21.1	-	8.6	12.5
Deferred shares	**21.9**	**1.8**	**10.7**	**9.4**	19.3	1.8	9.3	8.2
Total variable pay	**45.1**	**1.8**	**21.2**	**22.1**	40.7	1.8	18.0	20.9
LTIP[4]	**25.1**	**3.8**	**16.1**	**5.2**	25.5	3.8	15.6	6.1

[1] Management Body is defined as the three Group Executive Directors and the Group Non Executive Directors.

[2] Senior Management are defined as Group Executive Committee (GEC) members/attendees (excluding Group Executive Directors and Non Executive Directors) and their direct reports (excluding those direct reports who do not materially influence the risk profile of any in-scope group firm).

[3] Shares subject to retention period.

[4] Based on fair value at grant.

Deferred remuneration

Table 68: Analysis of deferred remuneration

	2015 Material Risk Takers £m	2015 Management Body £m	2015 Senior Management £m	2015 Others £m	2014 Material Risk Takers £m	2014 Management Body £m	2014 Senior Management £m	2014 Others £m
Deferred remuneration at 31 December								
Outstanding, vested	-	-	-	-	-	-	-	-
Outstanding, unvested	194.9	31.9	117.5	45.5	228.2	40.2	128.2	59.8
Awarded during the financial year	98.3	8.9	55.1	34.3	91.5	10.6	48.8	32.1
Paid out	118.8	15.6	66.1	37.1	68.0	5.2	31.8	31.0
Reduced through performance adjustment[1]	5.1	0.6	4.3	0.2	1.9	-	-	1.9

[1] This figure does not include the adjusted value of awards which were forfeited by colleagues upon leaving the Group. In addition, the Remuneration Committee has recommended to the Board that it should again exercise its discretion to adjust the value of certain bonus awards, on a basis equivalent to that applied in the previous year. Any adjustments in this respect will be made in 2016.

High earners by band

Table 69: Analysis of high earners by band

Number of material risk takers paid €1 million[1,2] or more	2015 Material Risk Takers[3]	2014 Material Risk Takers
€1.0m – €1.5m	38	27
€1.5m – €2.0m	10	9
€2.0m – €2.5m	4	-
€2.5m – €3.0m	4	7
€3.0m – €3.5m	5	1
€3.5m – €4.0m	1	4
€4.0m – €4.5m	3	-
€4.5m – €5.0m	-	-
€5.0m – €5.5m	-	-
€5.5m – €6.0m	-	-
€6.0m – €6.5m	-	1
€6.5m - €7.0m	-	-
€7.0m - €7.5m	1	-

[1] Converted to Euros using the exchange rate €1 = £0.7029 (average exchange rate 1 December 2015 – 31 December 2015, based on the European Commission Budget exchange rates).

[2] Values for LTIP awards based on an expected value of 50 per cent of maximum value.

[3] Total number of Material Risk Takers earning more than €1m has increased from 49 in 2014 to 66 in 2015. This is due to the strengthening of sterling against the Euro.

There were no sign-on awards or severance payments made to Material Risk Takers during 2015 (2014: nil).

Remuneration disclosures continued

Decision making process for remuneration policy

The Group has a strong belief in aligning the pay delivered to the Group's executives with the successful performance of the business and, through this, the return of value to the Group's shareholders. It has continued to seek the views of shareholders and other key stakeholders with regard to remuneration policy and seeks to motivate, incentivise and retain talent while being mindful of the economic outlook. An essential component of the Group's approach to remuneration is the governance process that underpins it. This ensures that the policy is robustly applied and risk is managed appropriately.

The overarching purpose of the Remuneration Committee is to consider, agree and recommend to the Board an overall remuneration policy and philosophy for the Group that is defined by, supports and is closely aligned to its long-term business strategy, business objectives, risk appetite and values and recognises the interests of relevant stakeholders. The Group has a conservative business model characterised by a risk culture founded on prudence and accountability. The remuneration policy and philosophy covers the whole Group, but the Committee pays particular attention to the top management population, including the highest paid employees in each division, those colleagues who perform significant influence functions for the Group and those who could have a material impact on the Group's risk profile.

The Group has a robust governance framework, with the Remuneration Committee reviewing all compensation decisions for Executive Directors, Senior management, senior risk and compliance officers, high earners and any other Material Risk Takers. This approach to governance is cascaded through the Group with the Executive Compensation Committee having oversight for all other employees. Divisional Remuneration Committees, which include independent representation from control functions, provide an additional layer of governance. Control function employees themselves are assessed and their remuneration determined by the appropriate Control Function Director, and oversight is provided by a Functional Remuneration Committee.

The Group's Remuneration Policy is based on principles which are applicable to all employees within the Group and in particular the principle that the reward package should support the delivery of our strategic goal to be the 'Best Bank for Customers'. It embeds a performance-driven and meritocratic culture, encourages effective risk disciplines and is in line with relevant regulations and codes of best practice. There is no significant difference between the policy for Executive Directors and that for other senior employees. If a significant difference for any individual were proposed, this would be subject to approval by the Remuneration Committee (within regulatory requirements).

The Group continues to maintain an open and transparent dialogue with shareholders. This valuable engagement is something the Group will seek to continue into 2016, given the responsibilities it has to the providers of the equity capital in setting fair and appropriate remuneration policies.

The Group continues to place great importance on ensuring that there is a clear link between remuneration and the Group's business strategy.

Composition of the Remuneration Committee

The members of the Committee during 2015 were Anthony Watson (chairman until 30/09/15), Anita Frew (chairman from 01/10/15), Lord Blackwell, Sara Weller, Carolyn Fairbairn (until 31/10/15), Alan Dickinson (from 17/07/15) and Dyfrig John.

For further information about meetings and principal matters considered, as well as advice to the Committee please refer to the Directors' Remuneration Report within the 2015 Lloyds Banking Group plc Annual Report and Accounts, pages 82 to 110.

Role of the relevant stakeholders

During 2015, the Committee has consulted extensively with a number of shareholders and key stakeholders, such as the Group's main regulators, the Financial Conduct Authority UK (FCA) and the PRA. Formal consultation on the remuneration of Executive Directors is not undertaken with employees. We conduct colleague surveys every six months to measure engagement and culture. The engagement survey includes specific questions relating to reward and discussions on the Group's remuneration approach takes place with union representatives during the annual pay review cycle and on relevant employee reward matters.

Link between pay and performance

The Group's approach to reward is intended to provide a clear link between remuneration and delivery of its key strategic objectives, supporting the aim of becoming the best bank for customers, and through that, for shareholders. To this end, the performance management process has been developed, with the close participation of the Group's Risk team, to embed performance measures across the Group's reward structure which are challenging and reflect Group and divisional achievement in addition to personal contribution.

The use of a balanced scorecard approach to measure long-term 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 continues to support the business values and strategy, based on building long-term relationships with customers and employees and managing the financial consequences of business decisions across the entire economic cycle.

The policy is intended to ensure that the Group's remuneration proposition is both cost effective and enables us to attract and retain Executive Directors and senior management of the highest calibre, motivating them to perform to the highest standards. The objective is to align individual reward with the Group's performance, the interests of its shareholders, and a prudent approach to risk management. In this way, the requirements of the Group's various stakeholders – its customers, shareholders, employees and regulators – are balanced. This approach is in line with the Investment Association's principles on remuneration, the PRA Rulebook and the FCA Remuneration Code, as the policy seeks to reward long-term value creation whilst not encouraging excessive risk-taking.

Long-term incentives are based on stretching performance objectives and targets in the Group Balanced Scorecard. This Balanced Scorecard is derived from the Grouup's operating plan which defines the financial and non-financial targets within the agreed risk appetite over a three year period.

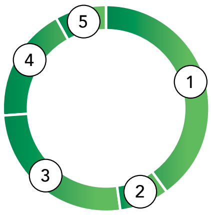
Annual incentives are based on stretching financial targets and objectives in divisional/functional balanced scorecards which are aligned to the Group's strategy.

In determining the payout under any component of variable pay, the adopted policy is the use of judgement to assess the extent to which performance has been achieved rather than applying a formulaic approach.

Design and structure of remuneration

Reward is delivered via a combination of fixed and variable pay. 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 Material Risk Takers, whilst maintaining an appropriate balance between the fixed and variable elements.

The approximate make-up of the main components of the package for Executive Directors on an expected value basis is shown below:



1. Long-term incentive (variable) 40%
2. Short-term incentive (variable) 8%
3. Salary (fixed) 26%
4. Share award (fixed) 18%
5. Pension and benefits (fixed) 8%

The overall policy objective is met by a focus on the particular aspects detailed below.

Base salary

All Material Risk Takers receive either salaries or fees (Non-Executive Directors). Base salaries are reviewed annually, taking into account individual performance and market information.

Fixed share award

The fixed share award, made annually, delivers Lloyds Banking Group shares over a period of five years. It ensures that total fixed remuneration is commensurate with the role and to provide a competitive reward package, with an appropriate balance of fixed and variable remuneration, in line with regulatory requirements

Annual bonus

All Material Risk Takers, excluding Non-Executive Directors, are eligible to be considered for an annual bonus. The annual bonus plan is designed to reflect specific goals linked to the performance of the business.

Awards are based upon individual contribution, overall Group results and divisional/functional Balanced Scorecard ratings. Opportunity is driven by Group performance based on underlying profit, together with divisional/functional achievement and individual performance. Stretching objectives relevant to improving overall business performance and aligned with the Group's strategy are contained in Balanced Scorecards and are grouped under the following headings: Customer, People, Risk, Building the Business and Financial.

The Remuneration Committee reviewed performance in depth to determine ratings for the Group and each division, including consideration of risk matters arising in 2015. The overall rating for the Group was 'Strong'. Collective performance adjustment consideration was given to items not factored into the Group Underlying Profit or divisional/functional Balanced Scorecards. These included the provisions for legacy conduct-related matters and regulatory settlements in relation to PPI handling. It also considered positive factors, such as sale of the remaining holding in TSB (at a premium of c.£200m) and CDS rates that indicate that markets view the Group as among the best in the banking sector worldwide.

As a result of these items, the Remuneration Committee approved an overall adjustment of approximately 26 per cent, resulting in a final bonus outcome of £353.7m.

To ensure fairness for our shareholders, the total bonus outcome is subject to a limit of 10 per cent of pre-bonus underlying profit. For 2015, the bonus outcome of £353.7m is significantly below the limit of £835m.

The Remuneration Committee believes that the structure of the annual bonus – in particular the use of risk-adjusted and non-financial measures – has been highly successful in promoting a long-term focus within the senior management team.

Deferral and vesting

To ensure that the interests of Lloyds Banking Group and its employees are aligned with those of the shareholders, and that the approach to risk management supports the interests of all stakeholders, a proportion of bonus above certain thresholds is deferred into Lloyds Banking Group Shares. The 2015 annual bonus for Executive Directors is deferred in shares until at least March 2018 and is in excess of deferral rates required by the PRA Rulebook. For all other Material Risk Takers, bonus is deferred in line with the regulatory requirements. This deferred amount is subject to performance adjustment (malus) in accordance with the Group's Performance Adjustment Policy. Further information on the application of performance adjustment can be found in the Directors' Remuneration Report within the 2015 Lloyds Banking Group plc Annual Report and Accounts.

Clawback of variable remuneration came into effect on 1 January 2015, covering all Material Risk Takers, in line with PRA requirements. Vested variable remuneration can be recovered from employees up to seven years after the date of award in the case of a material or severe risk event. The option is used alongside other performance adjustment processes.

The Committee reserves the right to exercise its discretion in reducing any payment that otherwise would have been earned, if they deem this appropriate.

Long-term incentives

The Long Term Incentive Plan (LTIP) remains a core part of the reward strategy and is an important tool for aligning the Group's reward strategy to the performance of the business. Through the application of carefully considered, stretching target measures, the Group can ensure that awards are forfeited or restricted where performance does not meet the desired level. This directly connects the financial reward for the executive and senior management team with the growth and prosperity of the Company and motivates them to demonstrate appropriate behaviours across all areas of the business.

The LTIP pays out in shares based on performance against Group financial and other non-financial strategic targets over a three year period.

Remuneration disclosures continued

Long-term incentive performance measures

During 2015 the Committee consulted widely with various shareholders on the topic of performance measures and sharing the growth in the Company appropriately between shareholders and management. In addition to the financial measures of Economic Profit, Total Shareholder Return and Cost:Income ratio, the performance conditions for the 2016 LTIP will comprise measures linked to the Group's strategic targets that reflect the wider Group objectives. These measures are customer satisfaction, active digital customer growth and colleague engagement.

The performance conditions for the LTIP are included in the Directors' Remuneration Report within the 2015 Lloyds Banking Group plc Annual Report and Accounts.

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 provided with appropriate incentives and reward to encourage them to enhance the performance of the Group and that they are recognised for their individual contribution to the success of the organisation, whilst ensuring that there is no reward for excessive risk taking. The Remuneration Committee works closely with the Risk Committee in ensuring the bonus pool is moderated. The two Committees determine whether the proposed bonus pool 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. These terms are reviewed each year to ensure compliance with the remuneration regulations and were last updated in July 2015.

Further details on directors' remuneration and Board Governance can be found in the Governance section of the 2015 Lloyds Banking Group plc Annual Report and Accounts on pages 82 to 110.

Appendix 1: Lloyds Banking Group

OWN FUNDS DISCLOSURE TEMPLATE

Table 70: Lloyds Banking Group own funds template

	Transitional rules		Fully loaded rules	
	At 31 Dec 2015 £m	At 31 Dec 2014 £m	**At 31 Dec 2015 £m**	At 31 Dec 2014 £m
Common equity tier 1 (CET1) capital: instruments and reserves				
Capital instruments and related share premium accounts	**24,558**	24,427	**24,558**	24,427
of which: called up share capital	**7,146**	7,146	**7,146**	7,146
of which: share premium	**17,412**	17,281	**17,412**	17,281
Retained earnings	**5,978**	6,951	**5,978**	6,951
Accumulated other comprehensive income and other reserves (including unrealised gains and losses)	**10,182**	11,474	**10,182**	11,474
Minority interests (amount allowed in consolidated CET1)	**-**	470	**-**	470
Foreseeable dividend	**(1,427)**	(535)	**(1,427)**	(535)
Common equity tier 1 (CET1) capital before regulatory adjustments	**39,291**	42,787	**39,291**	42,787
Common equity tier 1 (CET1) capital: regulatory adjustments				
Additional value adjustments	**(372)**	(329)	**(372)**	(329)
Intangible assets (net of related tax liability)	**(1,719)**	(1,875)	**(1,719)**	(1,875)
Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) of the CRR are met)[1]	**(3,874)**	(4,533)	**(3,884)**	(4,533)
Fair value reserves related to gains or losses on cash flow hedges	**(727)**	(1,139)	**(727)**	(1,139)
Negative amounts resulting from the calculation of expected loss amounts	**(270)**	(565)	**(270)**	(565)
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	**5**	73	**5**	73
Defined benefit pension fund assets	**(721)**	(909)	**(721)**	(909)
Direct and indirect holdings by the Group of own CET1 instruments	**(177)**	(64)	**(177)**	(64)
Direct, indirect and synthetic holdings by the Group of the CET1 instruments of financial sector entities where the Group has a significant investment in those entities (amount above 10% threshold and net of eligible short positions)[1]	**(2,723)**	(2,546)	**(2,752)**	(2,546)
Exposure amount of the following items which qualify for a risk weight of 1,250%, where the Group has opted for the deduction alternative	**(169)**	(211)	**(169)**	(211)
of which: securitisation positions	**(169)**	(211)	**(169)**	(211)
Total regulatory adjustments applied to common equity tier 1 (CET1)[1]	**(10,747)**	(12,098)	**(10,786)**	(12,098)
Common equity tier 1 (CET1) capital[1]	**28,544**	30,689	**28,505**	30,689
Additional tier 1 (AT1) capital: instruments				
Capital instruments and related share premium accounts	**5,355**	5,355	**5,355**	5,355
of which: classified as equity under applicable accounting standards	**5,355**	5,355	**5,355**	5,355
Amount of qualifying items referred to in Article 484 (4) of the CRR and the related share premium accounts subject to phase out from AT1	**818**	997	**-**	-
Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in CET1) issued by subsidiaries and held by third parties	**3,004**	3,376	**-**	-
of which: instruments issued by subsidiaries subject to phase out	**3,004**	3,376	**-**	-
Additional tier 1 (AT1) capital before regulatory adjustments	**9,177**	9,728	**5,355**	5,355
Additional tier 1 (AT1) capital: regulatory adjustments				
Residual amounts deducted from AT1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to Article 475 of the CRR	**(1,177)**	(859)	**-**	-
of which: significant investments in Tier 2 instruments of other financial sector entities	**(1,177)**	(859)	**-**	-
Total regulatory adjustments applied to additional tier 1 (AT1) capital	**(1,177)**	(859)	**-**	-
Additional tier 1 (AT1) capital	**8,000**	8,869	**5,355**	5,355
Tier 1 capital	**36,544**	39,558	**33,860**	36,044

Appendix 1: Lloyds Banking Group continued

	Transitional rules		Fully loaded rules	
	At 31 Dec 2015 £m	At 31 Dec 2014 £m	**At 31 Dec 2015 £m**	At 31 Dec 2014 £m
Tier 2 (T2) capital: Instruments and provisions				
Capital instruments and related share premium accounts	**2,134**	716	**2,952**	1,713
Amount of qualifying items referred to in Article 484 (5) of the CRR and the related share premium accounts subject to phase out from T2	**10**	10	**-**	-
Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in CET1 or AT1) issued by subsidiaries and held by third parties	**10,843**	13,471	**6,016**	9,123
of which: instruments issued by subsidiaries subject to phase out	**4,763**	4,523	**-**	-
Credit risk adjustments	**221**	333	**221**	333
Tier 2 (T2) capital before regulatory adjustments	**13,208**	14,530	**9,189**	11,169
Tier (T2) capital: regulatory adjustments				
Direct and indirect holdings by the Group of the T2 instruments and subordinated loans of financial sector entities where the Group has a significant investment in those entities (net of eligible short positions)	**(1,756)**	(1,288)	**(2,933)**	(2,146)
Total regulatory adjustments applied to tier 2 (T2) capital	**(1,756)**	(1,288)	**(2,933)**	(2,146)
Tier 2 (T2) capital	**11,452**	13,242	**6,256**	9,023
Total capital	**47,996**	52,800	**40,116**	45,067
Total risk weighted assets	**222,845**	239,734	**222,747**	239,734
Capital ratios and buffers[2]				
Common Equity Tier 1 (as a percentage of risk exposure amount)	**12.8%**	12.8%	**12.8%**	12.8%
Tier 1 (as a percentage of risk exposure amount)	**16.4%**	16.5%	**15.2%**	15.0%
Total capital (as a percentage of risk exposure amount)	**21.5%**	22.0%	**18.0%**	18.8%
Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)[3]	**8.3%**	8.8%	**8.3%**	8.3%
Amounts below the threshold for deduction (before risk weighting)				
Direct and indirect holdings of the capital of financial sector entities where the Group does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	**1,552**	1,092	**1,552**	1,092
Direct and indirect holdings by the Group of the CET1 instruments of financial sector entities where the Group has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	**3,127**	3,324	**3,127**	3,324
Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in 38 (3) are met)	**1,188**	1,006	**1,188**	1,006
Applicable caps on the inclusion of provisions in Tier 2				
Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	**221**	333	**221**	333
Cap on inclusion of credit risk adjustments in T2 under internal ratings-based approach	**953**	1,064	**953**	1,064
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)				
Current cap on AT1 instruments subject to phase out arrangements	**3,856**	4,407	**-**	-
Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	**671**	316	**-**	-
Current cap on T2 instruments subject to phase out arrangements	**10,034**	9,448	**-**	-

[1] Deferred tax assets that rely on future profitability (excluding those arising from temporary differences) and holdings by the Group of the CET1 instruments of financial sector entities where the Group has a significant investment in those entities include amounts exceeding the 15 per cent threshold on a fully loaded rules basis. As at 31 December 2015 this amounted to £39 million (2014: nil).

[2] The Group's countercyclical capital buffer requirement at 31 December 2015 (expressed as a percentage of risk exposure amount) was 0.0012 per cent (2014: nil).

[3] Excluding CET1 required to meet Pillar 2A requirements.

OWN FUNDS RECONCILIATION

The following table presents certain items from the Group's consolidated regulatory balance sheet (as presented on pages 9 and 10), for the year ended 31 December 2015, that are used to calculate own funds. Where necessary, the balance sheet components under the regulatory scope of consolidation have been expanded such that the components of the transitional own funds disclosure template appear separately.

Table 71: Lloyds Banking Group items extracted from the consolidated regulatory balance sheet and reconciliation of own funds to audited financial statements

			Adjustments						
Lloyds Banking Group balance sheet category	Own funds description	Items extracted from the consolidated regulatory balance sheet(1) £m	Deferred tax £m	Threshold adjustments £m	Non-eligible instruments (12) £m	Amounts excluded from AT1 due to Cap (12) £m	Regulatory and other adjustments £m	Transitional own funds £m	Notes
	Common Equity Tier 1 (CET1) capital: instruments and reserves								
	Capital instruments and related share premium accounts								
Share capital	of which: called up share capital	7,147	-	-	-	-	(1)	7,146	
Share premium	of which: share premium	17,411	-	-	-	-	1	17,412	
Retained profits	Retained earnings	5,954	-	-	-	-	24	5,978	2
Other reserves	Accumulated other comprehensive income and other reserves (including unrealised gains and losses)	10,012	-	-	-	-	170	10,182	2
	Common equity tier 1 (CET1) capital: regulatory adjustments								
	Additional value adjustments	-	-	-	-	-	(372)	(372)	3
Goodwill and other intangible assets	Intangible assets (net of related tax liability)	(1,876)	157	-	-	-	-	(1,719)	4
Deferred tax assets	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability where conditions in Article 38(3) of the CRR are met)	(4,619)	(346)	1,188	-	-	(97)	(3,874)	5
	Fair value reserves related to gains or losses on cash flow hedges	-	-	-	-	-	(727)	(727)	6
	Negative amounts resulting from the calculation of expected loss amounts	-	-	-	-	-	(270)	(270)	7
	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-	-	-	-	-	5	5	8
Retirement benefit assets	Defined benefit pension fund assets	(901)	189	-	-	-	(9)	(721)	5
	Direct and indirect holdings by the Group of own CET1 instruments	-	-	-	-	-	(177)	(177)	9
Investment in group undertakings	Direct and indirect holdings by the Group of CET1 instruments in financial sector entities where the Group has a significant investment in those entities (amounts above 10% threshold and net of eligible short positions)	(5,872)	-	3,127	-	-	22	(2,723)	10
	Exposures amount of the following items which qualify for a risk weight of 1,250%, where the Group has opted for the deduction alternative (securitisation positions)	-	-	-	-	-	(169)	(169)	11
	Foreseeable dividend	-	-	-	-	-	(1,427)	(1,427)	12
	Common Equity Tier 1 (CET1) capital	**27,256**	**-**	**4,315**	**-**	**-**	**(3,027)**	**28,544**	
	Additional Tier 1 (AT1) capital: instruments								
Other equity instruments	Capital instruments and the related share premium accounts	5,355	-	-	-	-	-	5,355	
Subordinated liabilities	Amount of qualifying items referred to in Article 484 (4) of the CRR and the related share premium accounts subject to phase out from AT1	980	-	-	-	(142)	(20)	818	13
Subordinated liabilities	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in CET1) issued by subsidiaries and held by third parties	3,748	-	-	(96)	(529)	(119)	3,004	13
	Additional Tier 1 (AT1) capital: regulatory adjustments								
Trading and other financial assets at fair value through profit or loss	Residual amounts deducted from from AT1 capital with regard to deduction from T2 capital during the transitional period pursuant to article 475 of the CRR (significant investments)	(1,974)	-	-	-	-	797	(1,177)	14
	Additional Tier 1 (AT1) capital	**8,109**	**-**	**-**	**(96)**	**(671)**	**658**	**8,000**	
	Tier 1 capital	**35,365**	**-**	**4,315**	**(96)**	**(671)**	**(2,369)**	**36,544**	
	Tier 2 (T2) capital: instruments and provisions								
Subordinated liabilities	Capital instruments and related share premium accounts	2,067	-	-	-	142	(75)	2,134	13
Subordinated liabilities	Amount of qualifying items referred to in Article 484 (5) of the CRR and the related share premium accounts subject to phase out from T2	10	-	-	-	-	-	10	13
Subordinated liabilities	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in CET1 or AT1) issued by subsidiaries and held by third parties	15,045	-	-	(723)	529	(4,008)	10,843	13
	Credit risk adjustments	-	-	-	-	-	221	221	15
	Tier 2 (T2) capital: regulatory adjustments								
Loans and receivables	Direct and indirect holdings by the Group of the T2 instruments and subordinated loans of financial sector entities where the Group has a significant investment in those entities (net of eligible short positions)	(959)	-	-	-	-	-	(959)	
Trading and other financial assets at fair value through profit or loss	Direct and indirect holdings by the Group of the T2 instruments and subordinated loans of financial sector entities where the Group has a significant investment in those entities (net of eligible short positions)	-	-	-	-	-	(797)	(797)	14
	Tier 2 (T2) capital	**16,163**	**-**	**-**	**(723)**	**671**	**(4,659)**	**11,452**	
	Total capital	**51,528**	**-**	**4,315**	**(819)**	**-**	**(7,028)**	**47,996**	

Appendix 1: Lloyds Banking Group continued

1. Assets on the regulatory balance sheet are presented as negative amounts, liabilities and equity are presented as positive amounts.
2. The regulatory definition of eligible items for inclusion in retained earnings differs from the statutory reporting definition. The aggregate of retained earnings and accumulated other comprehensive income and other reserves is comparable on both bases but the allocation between categories differs.
3. The additional value adjustments of £372m reflect the prudent valuation adjustment for all assets measured at fair value in accordance with Articles 34 and 105 of the CRR.
4. Own funds intangible assets of £1,876m extracted from the consolidated regulatory balance sheet comprise £194m of goodwill and £1,682m of intangible assets. CRD IV rules require the amount to be deducted from own funds to be reduced by the amount of the associated deferred tax liabilities.
5. The own funds deduction of £3,874m for deferred tax excludes the deferred tax balances relating to intangible assets and the defined benefit pension fund asset. Additionally, only the deferred tax amounts that rely on future profitability are required to be deducted from CET1, and may be reduced by associated deferred tax liabilities where conditions specified in Article 38 of CRR are met. £1,188m of the deferred tax assets relate to temporary differences that may be risk weighted instead of deducted from capital as presented in the threshold adjustments column and form part of the Group's gross drawn credit risk exposures as presented on page 11.
6. Cash flow hedge reserve forms part of other reserves in the consolidated regulatory balance sheet. Please refer to note 43 other reserves in the 2015 Lloyds Banking Group plc Annual Report and Accounts.
7. In accordance with Articles 36, 62, 158 and 159 of the CRR the excess of expected losses over specific credit risk adjustments (SCRAs) and additional value adjustments in relation to risk-weighted exposure amounts calculated using the Internal Ratings Based approach, of £270m, are deducted from CET1. A comparison of regulatory expected losses to SCRAs on loans and receivables, in respect of credit risk exposures subject to the IRB Approach is presented on pages 47 and 48.
8. CRD IV requires the removal of the impact of any gains or losses recorded on liabilities held at fair value through profit or loss or derivative liabilities due to changes in the credit spreads of Lloyds Bank plc.
9. The £177m deduction of holdings by the Group of its own CET1 instruments represents the regulatory adjustment required to remove the Group's investment in its own shares, excluding holdings through Open Ended Investment Companies (OEICs) as these shareholdings are held for third party investors through the Group's Insurance operations.
10. The investment in group undertakings of £5,872m extracted from the consolidated regulatory balance sheet represents the Group's total equity investment in Insurance subsidiaries as well as joint ventures and associates. The majority of the investment relates to the Group's investment in its Insurance operations (headed by Scottish Widows Group). The own funds deduction of £2,723m reflects the regulatory requirement to deduct a portion of the Group's significant investments from CET1, above certain thresholds. In accordance with the CRD IV rules the cost of the Group's investment in the equity of the Insurance business is risk-weighted up to a limit based on the size of the Group's CET1 (included in the gross drawn credit risk exposures on page 11 and presented in the threshold adjustments column), with the remainder deducted from CET1.
11. The £169m deduction for securitisation positions reflects those positions that were rated below BB- or that are unrated.
12. The £1,427m foreseeable dividend is that recommended by the Board of Directors in respect of 2015 earnings.
13. A reconciliation of subordinated liabilities from the consolidated regulatory balance sheet to the amount recognised against each own funds description is presented in the table below.

Own funds description	Consolidated regulatory balance sheet total £m
Amount of qualifying items referred to in Article 484 (4) of the CRR and the related share premium accounts subject to phase out from AT1	980
Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in CET1) issued by subsidiaries and held by third parties	3,748
Capital instruments and related share premium accounts	2,067
Amount of qualifying items referred to in Article 484 (5) of the CRR and the related share premium accounts subject to phase out from T2	10
Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in CET1 or AT1) issued by subsidiaries and held by third parties	15,045
Total subordinated liabilities as presented on the consolidated regulatory balance sheet, page 10	21,850

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

The non-eligible instruments column on the reconciliation represents instruments on the balance sheet that are not eligible for inclusion in regulatory capital.

Additional Tier 1 instruments presented in own funds reflect instruments issued by either Lloyds Banking Group plc or its subsidiaries and held by third parties that qualified as Tier 1 under regulation that preceded CRD IV, subject to certain restrictions, including a cap set at 70 per cent of the value of such instruments that were in issue at 31 December 2012 and net of interest. Any excess over the cap is included in Tier 2 instruments which have been issued in the same manner as Additional Tier 1 instruments and are net of interest and in some instances amortisation and associated derivatives.

14. The £1,974m extracted from the regulatory consolidated balance sheet reflects the Group's investment in the subordinated debt of Scottish Widows held at fair value through profit or loss. The Group's full investment in the subordinated debt of Scottish Widows is deducted from capital across AT1 and T2 in accordance with the transitional CRD IV rules. For 2015, 60% of the total investment is deducted equally from AT1 and T2, with the remainder deducted directly from AT1 or T2 in line with the classification of the underlying debt instrument.
15. Credit risk adjustments of £221m reflect the surplus provisions resulting from the calculation of excess expected loss amounts in accordance with Articles 158 and 159 of the CRR, subject to certain limits. A comparison of regulatory expected losses to SCRAs on loans and receivables, in respect of credit risk exposures subject to the IRB Approach is presented on pages 47 and 48.

LEVERAGE DISCLOSURE TEMPLATE

Table 72: Lloyds Banking Group leverage ratio common disclosure

	At 31 Dec 2015 Fully loaded £m
On-balance sheet exposures (excluding derivatives and SFTs)	
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	609,110
Asset amounts deducted in determining Tier 1 capital	(9,112)
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	599,998
Derivative exposures	
Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	6,392
Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	12,966
Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	2,371
Deductions of receivables assets for cash variation margin provided in derivatives transactions	(3,689)
Adjusted effective notional amount of written credit derivatives	813
Adjusted effective notional offsets and add-on deductions for written credit derivatives	(131)
Total derivative exposures	18,722
Securities financing transaction exposures	
Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	39,604
Netted amounts of cash payables and cash receivables of gross SFT assets	(5,909)
Counterparty credit risk exposure for SFT assets	3,361
Total securities financing transaction exposures	37,056
Other off-balance sheet exposures	
Off-balance sheet exposures at gross notional amount	129,491
Adjustments for conversion to credit equivalent amounts	(73,067)
Other off-balance sheet exposures	56,424
Capital and total exposure measure	
Tier 1 capital	33,860
Leverage ratio total exposure measure	712,200
Leverage ratio	
Leverage ratio	4.8%

A description of the factors that had an impact on the leverage ratio during the year is discussed on page 24.

Appendix 1: Lloyds Banking Group continued

Table 73: Lloyds Banking Group summary reconciliation of accounting assets and leverage ratio exposures

	At 31 Dec 2015 Fully loaded £m
Total assets as per published financial statements	806,688
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	(135,926)
Adjustments for derivative financial instruments	(9,235)
Adjustments for securities financing transactions (SFTs)	3,361
Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	56,424
Other adjustments	(9,112)
Leverage ratio total exposure measure	**712,200**

Table 74: Lloyds Banking Group split-up of on balance sheet exposures (excluding derivatives, SFTS and exempted exposures)

	At 31 Dec 2015 Fully loaded £m
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	609,110
Trading book exposures	9,488
Banking book exposures, of which:	599,622
Covered bonds	3,944
Exposures treated as sovereigns	106,196
Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	2
Institutions	1,776
Secured by mortgages of immovable properties	332,496
Retail exposures	30,591
Corporate	80,031
Exposures in default	9,995
Other exposures (eg equity, securitisations, and other non-credit obligation assets)	34,591

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 a range of 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 Asset and Liability Committee, the Group Executive Committee, the Group Risk Committee, 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 in the Capital Risk section of the 2015 Lloyds Banking Group plc Annual Report and Accounts (pages 160 to 165).

Appendix 2: Lloyds Bank Group

OWN FUNDS DISCLOSURE TEMPLATE

Table 75: Lloyds Bank Group own funds template

	Transitional rules		Fully loaded rules	
	At 31 Dec 2015 £m	At 31 Dec 2014 £m	At 31 Dec 2015 £m	At 31 Dec 2014 £m
Common equity tier 1 (CET1) capital: instruments and reserves				
Capital instruments and related share premium accounts	**37,107**	37,107	**37,107**	37,107
of which: called up share capital	**1,574**	1,574	**1,574**	1,574
of which: share premium	**35,533**	35,533	**35,533**	35,533
Retained earnings	**4,332**	5,676	**4,332**	5,676
Accumulated other comprehensive income and other reserves (including unrealised gains and losses)	**4,325**	5,478	**4,325**	5,478
Minority interests (amount allowed in consolidated CET1)	**-**	470	**-**	470
Foreseeable dividend	**(1,427)**	(540)	**(1,427)**	(540)
Common equity tier 1 (CET1) capital before regulatory adjustments	**44,337**	48,191	**44,337**	48,191
Common equity tier 1 (CET1) capital: regulatory adjustments				
Additional value adjustments	**(372)**	(329)	**(372)**	(329)
Intangible assets (net of related tax liability)	**(1,719)**	(1,875)	**(1,719)**	(1,875)
Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) of the CRR are met)	**(3,911)**	(4,533)	**(3,911)**	(4,533)
Fair value reserves related to gains or losses on cash flow hedges	**(915)**	(1,357)	**(915)**	(1,357)
Negative amounts resulting from the calculation of expected loss amounts	**(270)**	(565)	**(270)**	(565)
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	**5**	73	**5**	73
Defined benefit pension fund assets	**(721)**	(909)	**(721)**	(909)
Direct, indirect and synthetic holdings by the Group of the CET1 instruments of financial sector entities where the Group has a significant investment in those entities (amount above 10% threshold and net of eligible short positions)	**(2,224)**	(2,021)	**(2,224)**	(2,021)
Exposure amount of the following items which qualify for a risk weight of 1,250%, where the Group has opted for the deduction alternative	**(169)**	(211)	**(169)**	(211)
of which: securitisation positions	**(169)**	(211)	**(169)**	(211)
Total regulatory adjustments applied to common equity tier 1 (CET1)	**(10,296)**	(11,727)	**(10,296)**	(11,727)
Common equity tier 1 (CET1) capital	**34,041**	36,464	**34,041**	36,464
Additional tier 1 (AT1) capital: instruments				
Amount of qualifying items referred to in Article 484 (4) of the CRR and the related share premium accounts subject to phase out from AT1	**3,483**	3,990	**-**	-
Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in CET1) issued by subsidiaries and held by third parties	**1,278**	1,452	**-**	-
of which: instruments issued by subsidiaries subject to phase out	1,278	1,452	**-**	-
Additional tier 1 (AT1) capital before regulatory adjustments	**4,761**	5,442	**-**	-
Additional tier 1 (AT1) capital: regulatory adjustments				
Residual amounts deducted from AT1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to Article 475 of the CRR	**(1,177)**	(859)	**-**	-
of which: significant investments in Tier 2 instruments of other financial sector entities	**(1,177)**	(859)	**-**	-
Total regulatory adjustments applied to additional tier 1 (AT1) capital	**(1,177)**	(859)	**-**	-
Additional tier 1 (AT1) capital	**3,584**	4,583	**-**	-
Tier 1 capital	**37,625**	41,047	**34,041**	36,464

Appendix 2: Lloyds Bank Group continued

	Transitional rules		Fully loaded rules	
	At 31 Dec 2015 £m	At 31 Dec 2014 £m	At 31 Dec 2015 £m	At 31 Dec 2014 £m
Tier 2 (T2) capital: Instruments and provisions				
Capital instruments and related share premium accounts	**9,410**	11,525	**11,057**	13,700
Amount of qualifying items referred to in Article 484 (5) of the CRR and the related share premium accounts subject to phase out from T2	**1,368**	1,470	**-**	-
Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in CET1 or AT1) issued by subsidiaries and held by third parties	**2,784**	3,161	**706**	1,840
of which: instruments issued by subsidiaries subject to phase out	**1,978**	1,451	**-**	-
Credit risk adjustments	**221**	333	**221**	333
Tier 2 (T2) capital before regulatory adjustments	**13,783**	16,489	**11,984**	15,873
Tier (T2) capital: regulatory adjustments				
Direct and indirect holdings by the Group of the T2 instruments and subordinated loans of financial sector entities where the Group has a significant investment in those entities (net of eligible short positions)	**(1,756)**	(1,288)	**(2,933)**	(2,146)
Total regulatory adjustments applied to tier 2 (T2) capital	**(1,756)**	(1,288)	**(2,933)**	(2,146)
Tier 2 (T2) capital	**12,027**	15,201	**9,051**	13,727
Total capital	**49,652**	56,248	**43,092**	50,191
Total risk weighted assets	**224,020**	241,046	**224,020**	241,046
Capital ratios and buffers[1]				
Common Equity Tier 1 (as a percentage of risk exposure amount)	**15.2%**	15.1%	**15.2%**	15.1%
Tier 1 (as a percentage of risk exposure amount)	**16.8%**	17.0%	**15.2%**	15.1%
Total capital (as a percentage of risk exposure amount)	**22.2%**	23.3%	**19.2%**	20.8%
Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)[2]	**10.7%**	11.1%	**10.7%**	10.6%
Amounts below the threshold for deduction (before risk weighting)				
Direct and indirect holdings of the capital of financial sector entities where the Group does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	**1,552**	1,212	**1,552**	1,212
Direct and indirect holdings by the Group of the CET1 instruments of financial sector entities where the Group has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	**3,626**	3,848	**3,626**	3,848
Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in 38 (3) of the CRR are met)	**1,159**	1,006	**1,159**	1,006
Applicable caps on the inclusion of provisions in Tier 2				
Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	**221**	333	**221**	333
Cap on inclusion of credit risk adjustments in T2 under internal ratings-based approach	**953**	1,064	**953**	1,064
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)				
Current cap on AT1 instruments subject to phase out arrangements	**4,761**	5,442	**-**	-
Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	**692**	646	**-**	-
Current cap on T2 instruments subject to phase out arrangements	**4,636**	3,279	**-**	-

[1] The Group's countercyclical capital buffer requirement at 31 December 2015 (expressed as percentage of risk exposure amount) was 0.0012 per cent (2014: nil).

[2] Excluding CET1 required to meet Pillar 2A requirements.

OWN FUNDS RECONCILIATION

The following table presents certain items from the Lloyds Bank Group consolidated balance sheet on an accounting consolidation basis for the year ended 31 December 2015, that are used to calculate own funds. Where necessary, the balance sheet components have been expanded such that the components of the transitional own funds disclosure template appear separately.

Table 76: Lloyds Bank Group items extracted from the consolidated balance sheet on an accounting consolidation basis and reconciliation of own funds items to audited financial statements

			Adjustments							
Balance sheet category	Own funds description	Items extracted from the consolidated accounting balance sheet (1) £m	Deconsolidation and other adjustments(3) £m	Deferred tax £m	Threshold adjustments £m	Non-eligible instruments £m	Amounts excluded from AT1 due to Cap £m	Regulatory and other adjustments £m	Transitional own funds £m	Notes
	Common Equity Tier 1 (CET1) capital: instruments and reserves									
	Capital instruments and related share premium accounts									
Share capital	of which: called up share capital	1,574	-	-	-	-	-	-	1,574	
Share premium	of which: share premium	35,533	-	-	-	-	-	-	35,533	
Retained profits	Retained earnings	3,868	1,049	-	-	-	-	(585)	4,332	2
Other reserves	Accumulated other comprehensive income and other reserves (including unrealised gains and losses)	5,987	(2,248)	-	-	-	-	586	4,325	2
	Common equity tier 1 (CET1) capital: regulatory adjustments									
	Additional value adjustments	-	-	-	-	-	-	(372)	(372)	4
Goodwill and other intangible assets	Intangible assets (net of related tax liability)	(3,854)	1,978	157	-	-	-	-	(1,719)	5
Deferred tax assets	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability where conditions in Article 38(3) of the CRR are met	(4,018)	(610)	(346)	1,159	-	-	(96)	(3,911)	6
	Fair value reserves related to gains or losses on cash flow hedges	-	-	-	-	-	-	(915)	(915)	7
	Negative amounts resulting from the calculation of expected loss amounts	-	-	-	-	-	-	(270)	(270)	8
	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-	-	-	-	-	-	5	5	9
Retirement benefit assets	Defined benefit pension fund assets	(901)	-	189	-	-	-	(9)	(721)	6
Investment in group undertakings	Direct and indirect holdings by the Group of CET1 instruments in financial sector entities where the Group has a significant investment in those entities (amounts above 10% threshold and net of eligible short positions)	-	(5,872)	-	3,626	-	-	22	(2,224)	10
	Exposures amount of the following items which qualify for a risk weight of 1,250%, where the Group has opted for the deduction alternative (securitisation positions)	-	-	-	-	-	-	(169)	(169)	11
	Foreseeable dividend	-	-	-	-	-	-	(1,427)	(1,427)	12
	Common Equity Tier 1 (CET1) capital	38,189	(5,703)	-	4,785	-	-	(3,230)	34,041	
	Additional Tier 1 (AT1) capital: instruments									
Subordinated liabilities	Amount of qualifying items referred to in Article 484 (4) of the CRR and the related share premium accounts subject to phase out from AT1	4,131	(1)	-	-	-	(506)	(141)	3,483	13
Subordinated liabilities	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in CET1) issued by subsidiaries and held by third parties	1,541	29	-	-	(96)	(186)	(10)	1,278	13
	Additional Tier 1 (AT1) capital: regulatory adjustments									
Trading and other financial assets at fair value through profit or loss	Residual amounts deducted from from AT1 capital with regard to deduction from T2 capital during the transitional period pursuant to Article 475 of the CRR: (significant investments)	(141,149)	138,216	-	-	-	-	1,756	(1,177)	14
	Additional Tier 1 (AT1) capital	(135,477)	138,244	-	-	(96)	(692)	1,605	3,584	
	Tier 1 capital	(97,288)	132,541	-	4,785	(96)	(692)	(1,625)	37,625	
	Tier 2 (T2) capital: instruments and provisions									
Subordinated liabilities	Capital instruments and related share premium accounts	13,848	41	-	-	(657)	239	(4,061)	9,410	13
Subordinated liabilities	Amount of qualifying items referred to in Article 484 (5) of the CRR and the related share premium accounts subject to phase out from T2	1,071	41	-	-	-	267	(11)	1,368	13
Subordinated liabilities	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in CET1 or AT1) issued by subsidiaries and held by third parties	7,014	(2,139)	-	-	(238)	186	(2,039)	2,784	13
	Credit risk adjustments	-	-	-	-	-	-	221	221	15
	Tier 2 (T2) capital: regulatory adjustments									
Trading and other financial assets at fair value through profit or loss	Direct and indirect holdings by the Group of the T2 instruments and subordinated loans of financial sector entities where the Group has a significant investment in those entities (net of eligible short positions)	-	-	-	-	-	-	(1,756)	(1,756)	14
	Tier 2 (T2) capital	21,933	(2,057)	-	-	(895)	692	(7,646)	12,027	
	Total capital	(75,355)	130,484	-	4,785	(991)	-	(9,271)	49,652	

Appendix 2: Lloyds Bank Group continued

1. Assets extracted from the consolidated accounting balance sheet are presented as negative amounts, liabilities and equity are presented as positive amounts.
2. The regulatory definition of eligible items for inclusion in retained earnings differs from the statutory reporting definition. The aggregate of retained earnings and accumulated other comprehensive income and other reserves is comparable on both bases but the allocation between categories differs.
3. Deconsolidation and other adjustments primarily represent the removal of balances related to entities outside the regulatory scope of consolidation and the removal of assets subject to capital requirement rules.
4. The additional value adjustments of £372m reflect the prudent valuation adjustment for all assets measured at fair value in accordance with Articles 34 and 105 of the CRR.
5. Own funds intangible assets of £3,854m extracted from the consolidated accounting balance sheet representing £2,016m of goodwill and £1,838m of other intangible assets are adjusted for amounts outside the regulatory scope of consolidation and are net of the amount of associated deferred tax liabilities as required by CRD IV rules.
6. The own funds deduction of £3,911m for deferred tax excludes the deferred tax balances relating to intangible assets and the defined benefit pension fund asset. Additionally, only the deferred tax amounts that rely on future profitability are required to be deducted from CET1, and may be reduced by associated deferred tax liabilities where conditions specified in Article 38 of CRR are met. £1,159m of the deferred tax asset relating to temporary differences may be risk weighted instead of deducted from capital as presented in the threshold adjustments column and form part of the Group's credit risk exposures on page 123.
7. Cash flow hedge reserve forms part of other reserves in the consolidated regulatory balance sheet.
8. In accordance with Articles 36, 62, 158 and 159 of the CRR the excess of expected losses over specific credit risk adjustments (SCRAs) and additional value adjustments in relation to risk-weighted exposure amounts calculated using the Internal Ratings Based approach, of £270m, are deducted from CET1.
9. CRD IV requires the removal of the impact of any gains or losses recorded on liabilities held at fair value through profit or loss or derivative liabilities due to changes in the credit spreads of Lloyds Bank plc.
10. The investment in group undertakings of £5,872m pre threshold and other adjustments represents the Group's total equity investment in Insurance subsidiaries as well as joint ventures and associates. The majority of the investment relates to the Group's investment in its Insurance operations (headed by Scottish Widows Group). The own funds deduction of £2,224m reflects the regulatory requirement to deduct a portion of Lloyds Bank Group's significant investments from CET1, above certain thresholds. In accordance with the CRD IV rules the cost of Lloyds Bank Group's investment in the equity of the Insurance business is risk-weighted up to a limit based on the size of Lloyds Bank Group CET1 with the remainder deducted from CET1.
11. The £169m deduction for securitisation positions reflects those positions that were rated below BB- or that are unrated.
12. The £1,427m foreseeable dividend is that recommended by the Board of Directors in respect of 2015 earnings.
13. A reconciliation of subordinated liabilities from the Lloyds Bank Group consolidated balance sheet to the amount recognised against each own funds description is presented in the table below.

Own funds description	Consolidated accounting balance sheet total £m
Amount of qualifying items referred to in Article 484 (4) of the CRR and the related share premium accounts subject to phase out from AT1	4,131
Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in CET1) issued by subsidiaries and held by third parties	1,541
Capital instruments and related share premium accounts	13,848
Amount of qualifying items referred to in Article 484 (5) of the CRR and the related share premium accounts subject to phase out from T2	1,071
Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in CET1 or AT1) issued by subsidiaries and held by third parties	7,014
Total subordinated liabilities as presented on the Lloyds Bank Group consolidated balance sheet	27,605

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

The non-eligible instruments column on the reconciliation represents instruments on the balance sheet that are not eligible for inclusion in regulatory capital.

Additional Tier 1 instruments presented in own funds reflect instruments issued by either Lloyds Bank Group plc or its subsidiaries and held by third parties that qualified as Tier 1 under regulation that preceded CRD IV, subject to certain restrictions, including a cap set at 70% of the value of such instruments that were in issue at 31 December 2012 and net of interest. Any excess over the cap is included in Tier 2 instruments which have been issued in the same manner as Additional Tier 1 instruments and are net of interest and in some instances amortisation and associated derivatives.

14. The £141,149m extracted from the consolidated accounting balance sheet is adjusted for deconsolidation and other adjustments, primarily to remove balances to entities outside the regulatory scope of consolidation. The remaining balance represents the Group's investment in the subordinated debt of Scottish Widows. The Group's full investment in the subordinated debt of Scottish Widows is deducted from capital across AT1 and T2 in accordance with the transitional CRD IV rules. For 2015, 60% of the total investment is deducted equally from AT1 and T2, with the remainder deducted directly from AT1 or T2 in line with the classification of the underlying debt instrument.
15. Credit risk adjustments of £221m reflect the surplus provisions resulting from the calculation of excess expected loss amounts in accordance with Articles 158 and 159 of the CRR, subject to certain limits.

LEVERAGE DISCLOSURE TEMPLATE

Table 77: Lloyds Bank Group leverage ratio common disclosure

	At 31 Dec 2015 Fully loaded £m
On-balance sheet exposures (excluding derivatives and SFTs)	
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	621,928
Asset amounts deducted in determining Tier 1 capital	(9,338)
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	612,590
Derivative exposures	
Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	5,846
Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	12,678
Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	2,371
Deductions of receivables assets for cash variation margin provided in derivatives transactions	(3,689)
Adjusted effective notional amount of written credit derivatives	813
Adjusted effective notional offsets and add-on deductions for written credit derivatives	(131)
Total derivative exposures	17,888
Securities financing transaction exposures	
Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	39,604
Netted amounts of cash payables and cash receivables of gross SFT assets	(5,909)
Counterparty credit risk exposure for SFT assets	3,361
Total securities financing transaction exposures	37,056
Other off-balance sheet exposures	
Off-balance sheet exposures at gross notional amount	129,491
Adjustments for conversion to credit equivalent amounts	(73,067)
Other off-balance sheet exposures	56,424
Exempted exposures in accordance with CRR Article 429 (7) (on and off balance sheet)	
Intragroup exposures exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet)[1]	(11,054)
Capital and total exposure measure	
Tier 1 capital	34,041
Leverage ratio total exposure measure	712,904
Leverage ratio	
Leverage ratio	4.8%

[1] Relates to exempted intragroup loans and receivables.

Table 78: Lloyds Bank Group summary reconciliation of accounting assets and leverage ratio exposures

	At 31 Dec 2015 Fully loaded £m
Total assets as per the financial statements	817,904
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	(134,869)
Adjustments for derivative financial instruments	(9,524)
Adjustments for securities financing transactions (SFTs)	3,361
Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	56,424
Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013	(11,054)
Other adjustments	(9,338)
Leverage ratio total exposure measure	**712,904**

Appendix 2: Lloyds Bank Group continued

CAPITAL REQUIREMENTS

LLOYDS BANK GROUP RISK WEIGHTED ASSETS AND PILLAR 1 CAPITAL REQUIREMENTS

The risk-weighted assets and Pillar 1 capital requirements of Lloyds Bank Group as at 31 December 2015 are £224,020m (2014: £241,046m) and £17,922m (2014: £19,284m) respectively. Presented in the table below are the credit risk-weighted assets and associated Pillar 1 capital requirements.

Table 79: Lloyds Bank Group capital requirements

	2015 Risk-weighted assets £m	2015 Pillar 1 capital requirements £m	2014 Risk-weighted assets £m	2014 Pillar 1 capital requirements £m
CREDIT RISK				
Exposures subject to the IRB approach				
Foundation IRB approach				
Corporate – main	43,005	3,441	43,736	3,499
Corporate – SME	8,814	705	9,637	771
Corporate – specialised lending	8	1	5	-
Central governments and central banks	1,347	108	1,618	129
Institutions	1,430	114	1,577	126
Retail IRB approach				
Retail mortgages	38,252	3,060	43,123	3,450
of which: residential mortgages (SME)	3,214	257	3,174	254
of which: residential mortgages (non-SME)	35,038	2,803	39,949	3,196
Qualifying revolving retail exposures	12,501	1,000	14,061	1,125
Other SME	1,807	145	1,982	159
Other non-SME	11,352	908	13,720	1,098
Other IRB approaches				
Corporate – specialised lending	14,386	1,151	15,821	1,266
Equities – exchange traded	2,837	227	1,976	158
Equities – private equity	5,664	453	5,727	458
Equities – other	1,392	111	201	16
Securitisation positions	3,266	261	2,373	190
Non-credit obligation assets	5,502	440	5,047	404
Total – IRB approach	151,563	12,125	160,603	12,849
Exposures subject to the standardised approach				
Central governments and central banks	-	-	11	1
Public sector entities	2	-	9	1
Multilateral development banks	-	-	-	-
Institutions	24	2	53	4
Corporates	11,921	954	13,646	1,092
Retail	2,880	230	2,946	236
Secured by mortgages on immovable property	2,109	168	3,408	273
of which: residential property	2,078	166	3,396	272
of which: commercial property	31	2	12	1
Exposures in default	1,198	96	1,573	126
Exposures associated with particularly high risk	-	-	1	-
Other items	2,309	185	3,797	304
Total – standardised approach	20,443	1,635	25,444	2,037
Contributions to the default fund of a central counterparty	488	39	515	41
Total credit risk	172,494	13,799	186,562	14,927
Threshold – significant investments	9,066	725	9,623	770
Threshold – deferred tax	2,897	232	2,515	201
Total credit risk	184,457	14,756	198,700	15,898

ANALYSIS OF CREDIT RISK MITIGATION

The following table provides an analysis of credit risk exposures covered by eligible financial collateral, other eligible collateral, guarantees or credit derivatives.

The analysis excludes exposures covered by forms of credit risk mitigation that are not taken into consideration in the calculation of credit risk capital requirements.

Table 80: Lloyds Bank Group eligible financial collateral and other eligible collateral

	2015 Exposures covered by eligible financial collateral £m	2015 Exposures covered by other eligible collateral £m	2015 Total £m	2014 Exposures covered by eligible financial collateral £m	2014 Exposures covered by other eligible collateral £m	2014 Total £m
Exposures subject to the IRB approach						
Foundation IRB approach						
Corporate – main	1,244	8,698	9,942	955	9,138	10,093
Corporate – SME	9	7,422	7,431	29	7,608	7,637
Institutions	536	-	536	567	-	567
Other IRB approach						
Corporate – specialised lending	837	-	837	718	-	718
Total – IRB approach	2,626	16,120	18,746	2,269	16,746	19,015
Exposures subject to the standardised approach						
Corporates	937	4	941	669	-	669
Institutions	62	-	62	-	-	-
Exposures in default	-	10	10	2	-	2
Total – standardised approach	999	14	1,013	671	-	671
Total	3,625	16,134	19,759	2,940	16,746	19,686

Unfunded credit protection: Guarantees and credit derivatives

Protection provider	2015 Credit protection provided in the form of guarantees £m	2015 Credit protection provided in the form of credit derivatives £m	2015 Total £m	2014 Credit protection provided in the form of guarantees £m	2014 Credit protection provided in the form of credit derivatives £m	2014 Total £m
Exposures subject to the IRB approach						
Corporate - main	220	-	220	333	-	333
Central governments and central banks	-	-	-	5	-	5
Institutions	-	34	34	100	48	148
Total – IRB approach	220	34	254	438	48	486
Exposures subject to the standardised approach						
Corporates	509	-	509	-	-	-
Central governments and central banks	90	-	90	188	83	271
Total – standardised approach	599	-	599	188	83	271
Total	819	34	853	626	131	757

Appendix 2: Lloyds Bank Group continued

ANALYSIS OF PAST DUE AND IMPAIRED LOANS AND ADVANCES TO CUSTOMERS

The analysis provided within this section has been presented on an accounting consolidation basis rather than a regulatory consolidation basis.

Analysis by industry

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

Table 81: Lloyds Bank Group past due but not impaired and impaired loans and advances analysed by major industrial sector

	Past due but not impaired		Impaired		Past due but not impaired		Impaired	
	2015		2015		2014		2014	
	£m	As a % of credit risk exposure	£m	As a % of credit risk exposure	£m	As a % of credit risk exposure	£m	As a % of credit risk exposure
Agriculture, forestry and fishing	97	1.30%	123	1.65%	123	1.74%	100	1.41%
Energy and water supply	2	0.04%	134	2.35%	3	0.06%	145	2.80%
Manufacturing	31	0.20%	122	0.78%	3	0.02%	201	1.27%
Construction	39	0.84%	283	6.07%	261	5.05%	840	16.24%
Transport, distribution and hotels	131	0.59%	511	2.31%	116	0.51%	1,681	7.34%
Postal and communications	1	0.02%	296	6.49%	-	-	353	10.65%
Property companies	189	0.57%	2,065	6.26%	56	0.15%	3,769	10.38%
Financial, business and other services	62	0.03%	985	0.51%	204	0.11%	1,381	0.75%
Personal: mortgages	8,233	2.43%	4,001	1.18%	10,311	2.87%	4,344	1.21%
Personal: other	227	0.48%	980	2.09%	312	0.65%	1,418	2.96%
Lease financing	-	-	13	0.38%	4	0.11%	1	0.03%
Hire purchase	77	0.82%	77	0.82%	80	1.10%	75	1.03%
Total	9,089	1.30%	9,590	1.37%	11,473	1.61%	14,308	2.01%

Analysis by geography

An analysis of past due but not impaired loans and advances to customers and impaired loans and advances to customers as at 31 December 2015, by geographical region, based on the country of residence of the customer, is provided in the table below.

Table 82: Lloyds Bank Group past due but not impaired and impaired loans and advances analysed by geographical region

	Past due but not impaired		Impaired		Past due but not impaired		Impaired	
	2015		2015		2014		2014	
	£m	As a % of credit risk exposure	£m	As a % of credit risk exposure	£m	As a % of credit risk exposure	£m	As a % of credit risk exposure
United Kingdom	8,761	1.46%	9,021	1.50%	10,891	1.75%	10,402	1.68%
Rest of Europe	299	0.73%	303	0.74%	540	1.40%	3,595	9.32%
United States of America	-	-	108	0.30%	-	-	82	0.26%
Asia-Pacific	28	1.40%	93	4.63%	41	1.77%	137	5.90%
Other	1	0.02%	65	1.25%	1	0.02%	92	1.88%
Total	9,089	1.30%	9,590	1.37%	11,473	1.61%	14,308	2.01%

ANALYSIS OF SPECIFIC CREDIT RISK ADJUSTMENTS IN RESPECT OF LOANS AND ADVANCES TO CUSTOMERS

The analysis provided within this section has been presented on an accounting consolidation basis rather than a regulatory consolidation basis.

The movement in impairment provisions, from 1 January 2015 to 31 December 2015, in respect of loans and advances to customers is provided below.

Table 83: Lloyds Bank Group movement in impairment provisions (loans and advances to customers)

	2015 £m	2014 £m
At 1 January	6,414	11,966
Exchange and other adjustments	(246)	(410)
Disposal of businesses	(82)	-
Advances written off	(4,204)	(6,432)
Recoveries of advances written off in previous years	764	681
Unwinding of discount	(56)	(126)
Charge (release) to the income statement	443	735
At 31 December	3,033	6,414

Table 84: Lloyds Bank Group movement in acquisition related fair value adjustments (loans and advances to customers)

	2015 £m	2014 £m
At 1 January	393	668
Fair value unwind[1]:		
in respect of impairment losses	(95)	(245)
other, including market liquidity	(22)	(30)
At 31 December	276	393

[1] The fair value adjustments relating to loans and advances were those required to reflect the HBOS assets in the Group's consolidated financial records at their fair value and took into account both the ELs and market liquidity at the date of acquisition. The unwind relating to future impairment losses requires significant management judgement to determine its timing which includes an assessment of whether the losses incurred in the current period were expected at the date of acquisition and assessing whether the remaining losses expected at the date of acquisition will still be incurred. The element related to market liquidity unwinds to the income statement over the estimated expected lives of the related assets although if an asset is written-off or suffers previously unexpected impairment then this element of the fair value will no longer be considered a timing difference (liquidity) but permanent (impairment). The fair value unwind in respect of impairment losses incurred for loans and advances to customers within portfolios applying the IRB Approach was £95m for the period ended 31 December 2015.

Analysis by industry

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

Table 85: Lloyds Bank Group impairment provisions, net charge and acquisition related fair value adjustments analysed by major industrial sector

	2015 Impairment provisions £m	2015 Net charge £m	2015 Acquisition related fair value adjustments £m	2014 Impairment provisions £m	2014 Net charge £m	2014 Acquisition related fair value adjustments £m
Agriculture, forestry and fishing	15	1	-	18	2	-
Energy and water supply	20	35	-	61	28	-
Manufacturing	70	23	-	179	(4)	-
Construction	165	13	-	158	(81)	-
Transport, distribution and hotels	219	(88)	-	1,051	198	-
Postal and communications	4	(2)	-	17	6	-
Property companies	790	(140)	-	2,553	40	-
Financial, business and other services	811	77	-	1,225	179	-
Personal: mortgages	479	33	276	460	(138)	393
Personal: other	388	437	-	607	536	-
Lease financing	-	31	-	1	(1)	-
Hire purchase	72	23	-	84	(30)	-
Total	3,033	443	276	6,414	735	393

Appendix 2: Lloyds Bank Group continued

Analysis by geography

An analysis of closing impairment provisions, the net charge to the income statement and advances written off in respect of loans and advances to customers, by geographical region, based on the country of residence of the customer, is provided in the table below.

Table 86: Lloyds Bank Group impairment provisions, net charge and acquisition related fair value adjustments analysed by geographical region

	2015			2014		
	Impairment provisions £m	Net charge £m	Acquisition related fair value adjustments £m	Impairment provisions £m	Net charge £m	Acquisition related fair value adjustments £m
United Kingdom	3,726	706	276	4,575	842	393
Rest of Europe	323	43	-	2,848	329	-
United States of America	74	(18)	-	87	5	-
Asia-Pacific	19	(4)	-	52	4	-
Other	30	(87)	-	90	3	-
Total	4,172	640	276	7,652	1,183	393
Fair value and other adjustments[1]	(1,139)	(197)		(1,238)	(448)	
Total	3,033	443	276	6,414	735	393

[1] Analysis of closing impairment provisions, the net charge to the income statement and advances written off in respect of loans and advances to customers, by geographical region, has been presented prior to the application of fair value and other adjustments. Such adjustments are not analysed on a geographical basis within the business.

ANALYSIS OF CREDIT RISK EXPOSURES

Table 87: Lloyds Bank Group credit risk exposures

Exposure class	2015 Credit risk exposure £m	2015 Risk-weighted assets £m	2015 Average risk weight %	2015 Average credit risk exposure £m
Exposures subject to the IRB approach				
Foundation IRB approach				
Corporate – main	80,629	43,005	53%	79,610
Corporate – SME	12,964	8,814	68%	13,350
Corporate – specialised lending	6	8	120%	60
Central governments and central banks	15,716	1,347	9%	21,395
Institutions	7,364	1,430	19%	7,421
Retail IRB approach				
Retail mortgages	341,807	38,252	11%	347,021
of which: residential mortgages (SME)	10,517	3,214	31%	10,867
of which: residential mortgages (non-SME)	331,290	35,038	11%	336,155
Qualifying revolving retail exposures	36,975	12,501	34%	37,400
Other SME	2,661	1,807	68%	2,618
Other non-SME	14,331	11,352	79%	14,373
Other IRB approaches				
Corporate – specialised lending	19,887	14,386	72%	21,293
Equities – exchange traded	978	2,837	290%	904
Equities – private equity	2,981	5,664	190%	3,068
Equities – other	376	1,392	370%	102
Securitisation positions	22,125	3,266	15%	18,162
Non-credit obligation assets	9,228	5,502	60%	8,624
Total – IRB approach	568,028	151,563	27%	575,401
Exposures subject to the standardised approach				
Central governments and central banks	88,415	-	-	96,082
Regional governments or local authorities	1	-	20%	-
Public sector entities	2	2	100%	8
Multilateral development banks	997	-	-	77
Institutions	170	24	14%	175
Corporates	25,517	11,921	47%	26,493
Retail	4,438	2,880	65%	3,837
Secured by mortgages on immovable property	5,840	2,109	36%	7,098
of which: residential property	5,809	2,078	36%	7,075
of which: commercial property	31	31	100%	23
Exposures in default	1,005	1,198	119%	1,120
Exposures associated with particularly high risk	-	-	-	-
Short term claims on institutions and corporates	-	-	-	-
Collective investment undertakings (CIUs)	-	-	-	-
Other items	3,204	2,309	72%	4,500
Total – standardised approach	129,589	20,443	16%	139,390
Contributions to the default fund of a central counterparty	150	488	325%	119
Total credit risk	697,767	172,494	25%	714,910
Threshold – significant investments	3,626	9,066	250%	3,808
Threshold – deferred tax	1,159	2,897	250%	938
Total credit risk	702,552	184,457	26%	719,656

Appendix 2: Lloyds Bank Group continued

Exposure class	2014 Credit risk exposure £m	2014 Risk-weighted assets £m	2014 Average risk weight %	2014 Average credit risk exposure £m
Exposures subject to the IRB approach				
Foundation IRB approach				
Corporate – main	80,496	43,735	54%	83,802
Corporate – SME	13,979	9,637	69%	14,472
Corporate – specialised lending	11	5	42%	87
Central governments and central banks	15,714	1,618	10%	21,393
Institutions	7,970	1,577	20%	6,651
Retail IRB approach				
Retail mortgages	359,326	43,123	12%	362,647
of which: residential mortgages (SME)	11,114	3,174	29%	11,170
of which: residential mortgages (non-SME)	348,212	39,949	11%	351,477
Qualifying revolving retail exposures	36,287	14,061	39%	37,551
Other SME	2,736	1,982	72%	2,827
Other non-SME	14,599	13,720	94%	13,681
Other IRB approaches				
Corporate – specialised lending	22,420	15,821	71%	28,266
Equities – exchange traded	682	1,976	290%	563
Equities – private equity	3,014	5,727	190%	2,930
Equities – other	54	201	370%	96
Securitisation positions	14,351	2,373	17%	13,794
Non-credit obligation assets	8,441	5,047	60%	1,677
Total – IRB approach	580,080	160,603	28%	590,437
Exposures subject to the standardised approach				
Central governments and central banks	83,617	11	-	79,221
Regional governments or local authorities	-	-	-	7
Public sector entities	9	9	100%	10
Multilateral development banks	-	-	-	-
Institutions	205	53	26%	790
Corporates	26,976	13,646	51%	32,369
Retail	4,316	2,946	68%	4,555
Secured by mortgages on immovable property	9,575	3,408	36%	8,476
of which: residential property	9,563	3,396	36%	8,426
of which: commercial property	12	12	100%	50
Exposures in default	1,339	1,573	117%	2,117
Exposures associated with particularly high risk	1	1	150%	1
Short term claims on institutions and corporates	-	-	-	259
Collective investment undertakings (CIUs)	-	-	-	14
Other items	5,404	3,797	70%	7,735
Total – standardised approach	131,442	25,444	19%	135,554
Contributions to the default fund of a central counterparty	143	515	360%	101
Total credit risk	711,665	186,562	26%	726,092
Threshold – significant investments	3,849	9,623	250%	3,766
Threshold – deferred tax	1,006	2,515	250%	1,184
Total credit risk	716,520	198,700	28%	731,042

ANALYSIS OF CREDIT RISK EXPOSURES BY INDUSTRY

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

Table 88: Lloyds Bank Group credit risk exposures analysed by major industrial sector

	2015 Agriculture, forestry and fishing £m	2015 Energy and water supply £m	2015 Manufacturing £m	2015 Construction £m	2015 Transport, distribution and hotels £m	2015 Postal and comms £m	2015 Property companies £m	2015 Financial, business and other services £m	2015 Personal: mortgages £m	2015 Personal: other £m	2015 Lease financing £m	2015 Hire purchase £m	2015 Total £m
Exposures subject to the IRB approach													
Foundation IRB approach													
Corporate – main	219	4,050	11,291	2,835	12,347	3,743	9,697	31,944	-	3	2,235	2,265	80,629
Corporate – SME	1,383	53	1,672	450	2,919	40	1,902	4,197	-	-	43	305	12,964
Corporate – specialised lending	-	-	-	-	-	-	4	2	-	-	-	-	6
Central governments and central banks	-	-	-	-	-	-	-	15,716	-	-	-	-	15,716
Institutions	-	3	-	8	-	-	-	7,268	-	-	53	32	7,364
Retail IRB approach													
Retail mortgages	1,500	7	359	350	1,827	34	4,440	1,998	331,290	2	-	-	341,807
of which: residential mortgages (SME)	1,500	7	359	350	1,827	34	4,440	1,998	-	2	-	-	10,517
of which: residential mortgages (non-SME)	-	-	-	-	-	-	-	-	331,290	-	-	-	331,290
Qualifying revolving retail exposures	-	-	-	-	-	-	-	-	-	36,975	-	-	36,975
Other SME	241	2	190	303	595	16	441	870	-	3	-	-	2,661
Other non-SME	-	-	-	-	-	-	-	-	-	7,890	-	6,441	14,331
Other IRB approaches													
Corporate – specialised lending	-	1,298	345	346	1,039	167	14,861	1,127	-	-	704	-	19,887
Equities – exchange traded	-	-	-	-	-	-	92	886	-	-	-	-	978
Equities – private equity	-	102	296	136	430	547	87	1,383	-	-	-	-	2,981
Equities – other	-	-	-	-	-	-	-	376	-	-	-	-	376
Securitisation positions	-	-	-	-	-	-	-	22,125	-	-	-	-	22,125
Total – IRB approach	3,343	5,515	14,153	4,428	19,157	4,547	31,524	87,892	331,290	44,873	3,035	9,043	558,800
Exposures subject to the standardised approach													
Central governments and central banks	-	-	-	-	-	-	-	88,415	-	-	-	-	88,415
Regional governments or local authorities	-	-	-	-	-	-	-	1	-	-	-	-	1
Public sector entities	-	-	-	-	-	-	-	2	-	-	-	-	2
Multilateral development banks	-	-	-	-	-	-	-	997	-	-	-	-	997
International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions	-	-	-	-	-	-	-	165	-	-	5	-	170
Corporates	2,293	190	1,419	139	2,701	11	1,163	16,144	98	956	360	42	25,517
Retail	1,795	2	22	23	146	2	203	171	862	894	-	318	4,438
Secured by mortgages on immovable property	-	-	1	-	-	-	6	163	5,669	1	-	-	5,840
of which: residential property	-	-	1	-	-	-	6	135	5,666	1	-	-	5,809
of which: commercial property	-	-	-	-	-	-	-	28	3	-	-	-	31
Exposures in default	15	-	7	70	130	-	73	159	446	102	2	1	1,005
Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	-	-	-
Covered bonds	-	-	-	-	-	-	-	-	-	-	-	-	-
Securitisation positions	-	-	-	-	-	-	-	-	-	-	-	-	-
Short term claims on institutions and corporates	-	-	-	-	-	-	-	-	-	-	-	-	-
Collective investment undertakings (CIUs)	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity Exposures	-	-	-	-	-	-	-	-	-	-	-	-	-
Total – standardised approach	4,103	192	1,449	232	2,977	13	1,445	106,217	7,075	1,953	367	361	126,384
Total	7,446	5,707	15,602	4,660	22,134	4,560	32,969	194,109	338,365	46,826	3,402	9,404	685,184
Other items													3,204
Non-credit obligation assets													9,228
Contributions to the default fund of a central counterparty													150
Total credit risk exposure													697,767

Appendix 2: Lloyds Bank Group continued

	2014 Agriculture, forestry and fishing £m	2014 Energy and water supply £m	2014 Manufacturing £m	2014 Construction £m	2014 Transport, distribution and hotels £m	2014 Postal and comms £m	2014 Property companies £m	2014 Financial, business and other services £m	2014 Personal: mortgages £m	2014 Personal: other £m	2014 Lease financing £m	2014 Hire purchase £m	2014 Total £m
Exposures subject to the IRB approach													
Foundation IRB approach													
Corporate – main	172	3,761	11,921	2,949	12,396	2,511	10,764	31,467	-	3	2,617	1,935	80,496
Corporate – SME	1,237	20	1,458	491	3,018	46	3,053	4,356	-	-	1	299	13,979
Corporate – specialised lending	-	-	-	-	10	-	1	-	-	-	-	-	11
Central governments and central banks	-	-	-	-	-	-	-	15,714	-	-	-	-	15,714
Institutions	-	10	-	8	-	-	-	7,770	-	-	142	40	7,970
Retail IRB approach													
Retail mortgages	1,544	6	358	377	1,953	38	4,820	2,016	348,212	2	-	-	359,326
of which: residential mortgages (SME)	1,544	6	358	377	1,953	38	4,820	2,016	-	2	-	-	11,114
of which: residential mortgages (non-SME)	-	-	-	-	-	-	-	-	348,212	-	-	-	348,212
Qualifying revolving retail exposures	-	-	-	-	-	-	-	-	-	36,287	-	-	36,287
Other SME	227	3	208	313	638	17	416	910	-	4	-	-	2,736
Other non-SME	-	-	-	-	-	-	-	-	-	9,846	-	4,753	14,599
Other IRB approaches													
Corporate – specialised lending	2	902	333	591	1,574	8	14,793	3,604	-	-	613	-	22,420
Equities – exchange traded	-	-	-	-	-	-	-	682	-	-	-	-	682
Equities – private equity	-	92	333	150	420	597	390	1,032	-	-	-	-	3,014
Equities – other	-	-	-	-	-	-	-	54	-	-	-	-	54
Securitisation positions	-	-	-	-	-	-	-	14,351	-	-	-	-	14,351
Total – IRB approach	3,182	4,794	14,611	4,879	20,009	3,217	34,237	81,956	348,212	46,142	3,373	7,027	571,639
Exposures subject to the standardised approach													
Central governments and central banks	-	-	-	-	-	-	-	83,616	-	-	-	1	83,617
Regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	-	-	-
Public sector entities	-	-	-	-	-	-	-	9	-	-	-	-	9
Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-	-
International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions	-	-	-	-	-	-	-	159	41	-	5	-	205
Corporates	2,370	389	1,153	229	2,651	96	1,664	17,715	3	337	313	56	26,976
Retail	1,515	-	5	26	61	-	68	84	942	1,420	-	195	4,316
Secured by mortgages on immovable property	4	-	1	5	13	-	24	191	9,336	1	-	-	9,575
of which: residential property	4	-	1	5	13	-	24	179	9,336	1	-	-	9,563
of which: commercial property	-	-	-	-	-	-	-	12	-	-	-	-	12
Exposures in default	11	1	28	33	160	-	310	201	521	68	3	3	1,339
Exposures associated with particularly high risk	-	-	-	-	-	-	1	-	-	-	-	-	1
Covered bonds	-	-	-	-	-	-	-	-	-	-	-	-	-
Securitisation positions	-	-	-	-	-	-	-	-	-	-	-	-	-
Short term claims on institutions and corporates	-	-	-	-	-	-	-	-	-	-	-	-	-
Collective investment undertakings (CIUs)	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity Exposures	-	-	-	-	-	-	-	-	-	-	-	-	-
Total – standardised approach	3,900	390	1,187	293	2,885	96	2,067	101,975	10,843	1,826	321	255	126,038
Total	7,082	5,184	15,798	5,172	22,894	3,313	36,304	183,931	359,055	47,968	3,694	7,282	697,677
Other items													5,404
Non-credit obligation assets													8,441
Contributions to the default fund of a central counterparty													143
Total credit risk exposure													711,665

ANALYSIS OF CREDIT RISK EXPOSURES BY GEOGRAPHY

Credit risk exposures as at 31 December 2015, analysed by major geographical region, based on the country of residence/incorporation of the customer, are provided in the table below.

Table 89: Lloyds Bank Group credit risk exposures analysed by geographical region

	2015 United Kingdom £m	2015 Rest of Europe £m	2015 United States of America £m	2015 Asia-Pacific £m	2015 Other £m	2015 Total £m
Exposures subject to the IRB approach						
Foundation IRB approach						
Corporate – main	57,356	8,518	11,603	703	2,449	80,629
Corporate – SME	12,936	18	-	-	10	12,964
Corporate – specialised lending	6	-	-	-	-	6
Central governments and central banks	-	27	15,552	-	137	15,716
Institutions	1,896	3,139	1,362	139	828	7,364
Retail IRB approach						
Retail mortgages	333,799	8,003	-	1	4	341,807
of which: residential mortgages (SME)	10,508	4	-	1	4	10,517
of which: residential mortgages (non-SME)	323,291	7,999	-	-	-	331,290
Qualifying revolving retail exposures	36,975	-	-	-	-	36,975
Other SME	2,661	-	-	-	-	2,661
Other non-SME	14,248	83	-	-	-	14,331
Other IRB approaches						
Corporate – specialised lending	14,855	3,327	646	209	850	19,887
Equities – exchange traded	876	102	-	-	-	978
Equities – private equity	2,759	81	82	17	42	2,981
Equities – other	370	6	-	-	-	376
Securitisation positions[1]	16,946	423	4,730	-	26	22,125
Total – IRB approach	495,683	23,727	33,975	1,069	4,346	558,800
Exposures subject to the standardised approach						
Central governments and central banks	75,315	13,100	-	-	-	88,415
Regional governments or local authorities	1	-	-	-	-	1
Public sector entities	2	-	-	-	-	2
Multilateral development banks	-	426	571	-	-	997
Institutions	18	88	61	3	-	170
Corporates	20,270	2,355	1,838	389	665	25,517
Retail	3,485	935	2	6	10	4,438
Secured by mortgages on immovable property	4,776	286	92	526	160	5,840
of which: residential property	4,772	259	92	526	160	5,809
of which: commercial property	3	28	-	-	-	31
Exposures in default	845	108	5	14	33	1,005
Exposures associated with particularly high risk	-	-	-	-	-	-
Covered bonds	-	-	-	-	-	-
Securitisation positions	-	-	-	-	-	-
Short term claims on institutions and corporates	-	-	-	-	-	-
Collective investment undertakings (CIUs)	-	-	-	-	-	-
Equity exposures	-	-	-	-	-	-
Total – standardised approach	104,712	17,298	2,569	938	868	126,384
Total	600,395	41,025	36,544	2,007	5,214	685,184
Other items						3,204
Non-credit obligation assets						9,228
Contributions to the default fund of a central counterparty						150
Total credit risk exposure						697,767

Appendix 2: Lloyds Bank Group continued

	2014 United Kingdom £m	2014 Rest of Europe £m	2014 United States of America £m	2014 Asia-Pacific £m	2014 Other £m	2014 Total £m
Exposures subject to the IRB approach						
Foundation IRB approach						
Corporate – main	60,028	9,359	8,620	690	1,799	80,496
Corporate – SME	13,912	27	-	22	18	13,979
Corporate – specialised lending	1	-	-	-	10	11
Central governments and central banks	-	2	15,629	-	83	15,714
Institutions	2,442	3,567	989	262	710	7,970
Retail IRB approach						
Retail mortgages	350,823	8,498	-	1	4	359,326
of which: residential mortgages (SME)	11,105	4	-	1	4	11,114
of which: residential mortgages (non-SME)	339,718	8,494	-	-	-	348,212
Qualifying revolving retail exposures	36,287	-	-	-	-	36,287
Other SME	2,735	-	-	-	1	2,736
Other non-SME	14,519	80	-	-	-	14,599
Other IRB approaches						
Corporate – specialised lending	15,730	5,003	484	238	965	22,420
Equities – exchange traded	570	112	-	-	-	682
Equities – private equity	2,765	102	89	17	41	3,014
Equities – other	45	9	-	-	-	54
Securitisation positions[1]	9,973	807	3,571	-	-	14,351
Total – IRB approach	509,830	27,566	29,382	1,230	3,631	571,639
Exposures subject to the standardised approach						
Central governments and central banks	76,458	6,925	211	14	9	83,617
Regional governments or local authorities	-	-	-	-	-	-
Public sector entities	9	-	-	-	-	9
Multilateral development banks	-	-	-	-	-	-
Institutions	50	71	58	26	-	205
Corporates	21,740	2,436	1,367	403	1,030	26,976
Retail	3,419	889	1	5	2	4,316
Secured by mortgages on immovable property	8,348	312	109	620	186	9,575
of which: residential property	8,348	300	109	620	186	9,563
of which: commercial property	-	12	-	-	-	12
Exposures in default	894	366	21	24	34	1,339
Exposures associated with particularly high risk	1	-	-	-	-	1
Covered bonds	-	-	-	-	-	-
Securitisation positions	-	-	-	-	-	-
Short term claims on institutions and corporates	-	-	-	-	-	-
Collective investment undertakings (CIUs)	-	-	-	-	-	-
Equity exposures	-	-	-	-	-	-
Total – standardised approach	110,919	10,999	1,767	1,092	1,261	126,038
Total	620,749	38,565	31,149	2,322	4,892	697,677
Other items						5,404
Non-credit obligation assets						8,441
Contributions to the default fund of a central counterparty						143
Total credit risk exposure						711,665

ANALYSIS OF CREDIT RISK EXPOSURES BY RESIDUAL MATURITY

Credit risk exposures as at 31 December 2015, analysed by residual contractual maturity, are provided in the table below.

Table 90: Lloyds Bank Group credit risk exposures analysed by residual contractual maturity

	2015 On demand £m	2015 Repayable in 3 months or less £m	2015 Repayable between 3 months and 1 year £m	2015 Repayable between 1 and 5 years £m	2015 Repayable over 5 years or undated £m	2015 Total £m
Exposures subject to the IRB approach						
Foundation IRB approach						
Corporate – main	6,110	4,555	16,343	42,504	11,117	80,629
Corporate – SME	888	546	3,357	3,104	5,069	12,964
Corporate – specialised lending	1	-	-	-	5	6
Central governments and central banks	-	8,549	99	3,252	3,816	15,716
Institutions	181	1,345	1,394	3,364	1,080	7,364
Retail IRB approach						
Retail mortgages	1,171	1,171	12,719	19,393	307,353	341,807
of which: residential mortgages (SME)	242	551	983	1,329	7,412	10,517
of which: residential mortgages (non-SME)	929	620	11,736	18,064	299,941	331,290
Qualifying revolving retail exposures	36,975	-	-	-	-	36,975
Other SME	110	341	780	356	1,074	2,661
Other non-SME	26	250	1,184	11,950	921	14,331
Other IRB approaches						
Corporate – specialised lending	238	924	1,755	8,476	8,494	19,887
Equities – exchange traded	-	-	-	-	978	978
Equities – private equity	-	-	-	-	2,981	2,981
Equities – other	-	-	-	-	376	376
Securitisation positions	-	1,195	4,685	8,766	7,479	22,125
Total – IRB approach	45,700	18,876	42,316	101,165	350,743	558,800
Exposures subject to the standardised approach						
Central governments and central banks	35,304	11,602	374	5,785	35,350	88,415
Regional governments or local authorities	-	-	-	-	1	1
Public sector entities	-	-	-	-	2	2
Multilateral development banks	-	-	27	608	362	997
Institutions	11	90	62	1	6	170
Corporates	1,020	880	1,621	4,106	17,890	25,517
Retail	232	44	108	1,050	3,004	4,438
Secured by mortgages on immovable property	559	34	134	598	4,515	5,840
of which: residential property	558	34	134	570	4,513	5,809
of which: commercial property	1	-	-	28	2	31
Exposures in default	83	18	136	111	657	1,005
Exposures associated with particularly high risk	-	-	-	-	-	-
Covered bonds	-	-	-	-	-	-
Securitisation positions	-	-	-	-	-	-
Short term claims on institutions and corporates	-	-	-	-	-	-
Collective investment undertakings (CIUs)	-	-	-	-	-	-
Equity exposures	-	-	-	-	-	-
Total – standardised approach	37,209	12,668	2,462	12,259	61,787	126,384
Total	82,909	31,544	44,778	113,424	412,529	685,184
Other items						3,204
Non-credit obligation assets						9,228
Contributions to the default fund of a central counterparty						150
Total credit risk exposure						697,767

Appendix 2: Lloyds Bank Group continued

	2014 On demand £m	2014 Repayable in 3 months or less £m	2014 Repayable between 3 months and 1 year £m	2014 Repayable between 1 and 5 years £m	2014 Repayable over 5 years or undated £m	2014 Total £m
Exposures subject to the IRB approach						
Foundation IRB approach						
Corporate – main	5,738	5,001	16,684	40,977	12,096	80,496
Corporate – SME	1,030	636	3,475	3,264	5,574	13,979
Corporate – specialised lending	10	-	-	-	1	11
Central governments and central banks	-	8,638	909	951	5,216	15,714
Institutions	243	725	1,950	3,200	1,852	7,970
Retail IRB approach						
Retail mortgages	1,147	1,203	11,191	21,172	324,613	359,326
of which: residential mortgages (SME)	317	549	965	1,463	7,820	11,114
of which: residential mortgages (non-SME)	830	654	10,226	19,709	316,793	348,212
Qualifying revolving retail exposures	36,287	-	-	-	-	36,287
Other SME	142	352	759	378	1,105	2,736
Other non-SME	74	265	1,260	11,727	1,273	14,599
Other IRB approaches						
Corporate – specialised lending	361	1,177	2,091	10,098	8,693	22,420
Equities – exchange traded	-	-	-	-	682	682
Equities – private equity	-	112	398	2,167	337	3,014
Equities – other	-	-	2	7	45	54
Securitisation positions	-	1,019	8,007	1,609	3,716	14,351
Total – IRB approach	45,032	19,128	46,726	95,550	365,203	571,639
Exposures subject to the standardised approach						
Central governments and central banks	34,382	5,999	54	3,812	39,370	83,617
Regional governments or local authorities	-	-	-	-	-	-
Public sector entities	-	-	-	8	1	9
Multilateral development banks	-	-	-	-	-	-
Institutions	38	104	59	4	-	205
Corporates	1,190	375	1,627	3,962	19,822	26,976
Retail	1,055	24	97	703	2,437	4,316
Secured by mortgages on immovable property	680	44	129	835	7,887	9,575
of which: residential property	680	44	129	823	7,887	9,563
of which: commercial property	-	-	-	12	-	12
Exposures in default	238	42	91	251	717	1,339
Exposures associated with particularly high risk	-	-	-	1	-	1
Covered bonds	-	-	-	-	-	-
Securitisation positions	-	-	-	-	-	-
Short term claims on institutions and corporates	-	-	-	-	-	-
Collective investment undertakings (CIUs)	-	-	-	-	-	-
Equity exposures	-	-	-	-	-	-
Total – standardised approach	37,583	6,588	2,057	9,576	70,234	126,038
Total	82,615	25,716	48,783	105,126	435,437	697,677
Other items						5,404
Non-credit obligation assets						8,441
Contributions to the default fund of a central counterparty						143
Total credit risk exposure						711,665

Appendix 3: Bank of Scotland Group

OWN FUNDS DISCLOSURE TEMPLATE

Table 91: Bank of Scotland Group own funds template

	Transitional rules		Fully loaded rules	
	At 31 Dec 2015 £m	At 31 Dec 2014[1] £m	At 31 Dec 2015 £m	At 31 Dec 2014[1] £m
Common equity tier 1 (CET1) capital: instruments and reserves				
Capital instruments and related share premium accounts	**5,847**	5,847	**5,847**	5,847
of which: called up share capital	**5,847**	5,847	**5,847**	5,847
Retained earnings	**5,496**	12,983	**5,496**	12,983
Accumulated other comprehensive income and other reserves (including unrealised gains and losses)	**2,268**	2,505	**2,268**	2,505
Foreseeable dividend	**(2,000)**	(5,000)	**(2,000)**	(5,000)
Common equity tier 1 (CET1) capital before regulatory adjustments	**11,611**	16,335	**11,611**	16,335
Common equity tier 1 (CET1) capital: regulatory adjustments				
Additional value adjustments	**(63)**	(123)	**(63)**	(123)
Intangible assets (net of related tax liability)	**(425)**	(423)	**(425)**	(423)
Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) of the CRR are met)	**(1,569)**	(2,050)	**(1,569)**	(2,050)
Fair value reserves related to gains or losses on cash flow hedges	**(170)**	(484)	**(170)**	(484)
Negative amounts resulting from the calculation of expected loss amounts	**(175)**	(314)	**(175)**	(314)
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	**(8)**	-	**(8)**	-
Exposure amount of the following items which qualify for a risk weight of 1,250%, where the Group has opted for the deduction alternative	**(166)**	(181)	**(166)**	(181)
of which: securitisation positions	**(166)**	(181)	**(166)**	(181)
Regulatory adjustments relating to unrealised gains and losses pursuant to articles 467 and 468 of the CRR	**-**	(134)	**-**	-
of which: filter for unrealised gains	**-**	(134)	**-**	-
Total regulatory adjustments applied to common equity tier 1 (CET1)	**(2,576)**	(3,709)	**(2,576)**	(3,575)
Common equity tier 1 (CET1) capital	**9,035**	12,626	**9,035**	12,760
Additional tier 1 (AT1) capital: instruments				
Capital instruments and related share premium accounts	**1,500**	-	**1,500**	-
of which: classified as equity under applicable accounting standards	**1,500**	-	**1,500**	-
Amount of qualifying items referred to in Article 484 (4) of the CRR and the related share premium accounts subject to phase out from AT1	**316**	253	**-**	-
Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in CET1) issued by subsidiaries and held by third parties	**150**	316	**-**	-
of which: instruments issued by subsidiaries subject to phase out	**150**	316	**-**	-
Additional tier 1 (AT1) capital	**1,966**	569	**1,500**	-
Tier 1 capital	**11,001**	13,195	**10,535**	12,760
Tier 2 (T2) capital: Instruments and provisions				
Capital instruments and related share premium accounts	**3,332**	5,546	**3,332**	5,546
Amount of qualifying items referred to in Article 484 (5) of the CRR and the related share premium accounts subject to phase out from T2	**2,381**	1,230	**-**	-
Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in CET1 or AT1) issued by subsidiaries and held by third parties	**-**	84	**-**	-
of which: instruments issued by subsidiaries subject to phase out	**-**	84	**-**	-
Credit risk adjustments	**307**	354	**307**	354
Tier 2 (T2) capital	**6,020**	7,214	**3,639**	5,900
Total capital	**17,021**	20,409	**14,174**	18,660
Total risk weighted assets	**76,054**	90,547	**76,054**	90,547

Appendix 3: Bank of Scotland Group continued

	Transitional rules		Fully loaded rules	
	At 31 Dec 2015 £m	At 31 Dec 2014 £m	At 31 Dec 2015 £m	At 31 Dec 2014 £m
Capital ratios and buffers[2]				
Common Equity Tier 1 (as a percentage of risk exposure amount)	**11.9%**	13.9%	**11.9%**	14.1%
Tier 1 (as a percentage of risk exposure amount)	**14.5%**	14.6%	**13.9%**	14.1%
Total capital (as a percentage of risk exposure amount)	**22.4%**	22.5%	**18.6%**	20.6%
Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)[3]	**7.4%**	9.9%	**7.4%**	9.6%
Amounts below the threshold for deduction (before risk-weighting)				
Direct and indirect holdings of the capital of financial sector entities where the Group does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	**56**	49	**56**	49
Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in 38 (3) of the CRR are met)	**455**	290	**455**	290
Applicable caps on the inclusion of provisions in Tier 2				
Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	**383**	475	**383**	475
Cap on inclusion of credit risk adjustments in T2 under internal ratings-based approach	**307**	354	**307**	354
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)				
Current cap on AT1 instruments subject to phase out arrangements	**498**	569	**-**	-
Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	**-**	151	**-**	-
Current cap on T2 instruments subject to phase out arrangements	**6,202**	5,399	**-**	-

[1] During 2015, the Company identified an error in its accounting for an intra-group hedging transaction and has applied the correcting entries retrospectively. The effect on the Group has been to increase CET1 by 0.65 per cent as at 31 December 2014.

[2] The Group's countercyclical capital buffer requirement at 31 December 2015 (expressed as percentage of risk exposure amount) was 0.0005 per cent (2014: nil).

[3] Excluding CET1 required to meet Pillar 2A requirements.

OWN FUNDS RECONCILIATION

The following table presents certain items from the Bank of Scotland Group consolidated balance sheet on an accounting consolidation basis for the year ended 31 December 2015, that are used to calculate own funds. Where necessary, the balance sheet components have been expanded such that the components of the transitional own funds disclosure template appear separately.

Table 92: Bank of Scotland Group items extracted from the consolidated balance sheet on an accounting consolidation basis and reconciliation of own funds items to audited financial statements

			Adjustments						
Balance sheet category	Own funds description	Items extracted from the consolidated regulatory balance sheet (1) £m	Deferred tax £m	Threshold adjustments £m	Non-eligible instruments £m	Amounts excluded from AT1 due to Cap £m	Regulatory and other adjustments £m	Transitional own funds £m	£m
	Common Equity Tier 1 (CET1) capital: instruments and reserves								
	Capital instruments and related share premium accounts								
Share capital	of which: called up share capital	5,847	-	-	-	-	-	5,847	
Retained profits	Retained earnings	5,496	-	-	-	-	-	5,496	
Other reserves	Accumulated other comprehensive income and other reserves (including unrealised gains and losses)	2,268	-	-	-	-	-	2,268	
	Common equity tier 1 (CET1) capital: regulatory adjustments								
	Additional value adjustments and gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-	-	-	-	-	(71)	(71)	2
Goodwill and other intangible assets	Intangible assets (net of related tax liability)	(427)	2	-	-	-	-	(425)	3
Deferred tax assets	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability where conditions in Article 38(3) of the CRR are met)	(2,022)	(2)	455	-	-	-	(1,569)	4
	Fair value reserves related to gains or losses on cash flow hedges	-	-	-	-	-	(170)	(170)	5
	Negative amounts resulting from the calculation of expected loss amounts	-	-	-	-	-	(175)	(175)	6
	Exposures amount of the following items which qualify for a risk weight of 1,250%, where the Group has opted for the deduction alternative (securitisation positions)	-	-	-	-	-	(166)	(166)	7
	Foreseeable dividend	-	-	-	-	-	(2,000)	(2,000)	8
	Common Equity Tier 1 (CET1) capital	11,162	-	455	-	-	(2,582)	9,035	
	Additional Tier 1 (AT1) capital: instruments								
Subordinated liabilities	Capital instruments and the related share premium accounts	1,500	-	-	-	-	-	1,500	
Subordinated liabilities	Amount of qualifying items referred to in Article 484 (4) of the CRR and the related share premium accounts subject to phase out from AT1	318	-	-	-	-	(2)	316	9
Subordinated liabilities	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in CET1) issued by subsidiaries and held by third parties	151	-	-	-	-	(1)	150	9
	Additional Tier 1 (AT1) capital	1,969	-	-	-	-	(3)	1,966	
	Tier 1 capital	13,131	-	455	-	-	(2,585)	11,001	
	Tier 2 (T2) capital: instruments and provisions								
Subordinated liabilities	Capital instruments and related share premium accounts	3,549	-	-	-	-	(217)	3,332	9
Subordinated liabilities	Amount of qualifying items referred to in Article 484 (5) of the CRR and the related share premium accounts subject to phase out from T2	3,342	-	-	(35)	-	(926)	2,381	9
	Credit risk adjustments	-	-	-	-	-	307	307	10
	Tier 2 (T2) capital	6,891	-	-	(35)	-	(836)	6,020	
	Total capital	20,022	-	455	(35)	-	(3,421)	17,021	

Appendix 3: Bank of Scotland Group continued

1. Assets extracted from the consolidated accounting balance sheet are presented as negative amounts, liabilities and equity are presented as positive amounts.
2. The adjustments of £71m reflect £63m for the prudent valuation adjustment for all assets measured at fair value in accordance with Articles 34 and 105 of the CRR and £8m for gains or losses on liabilities measured at fair value resulting from changes in own credit standing.
3. Own funds intangible assets of £427m extracted from the consolidated balance sheet comprise £325m of goodwill and £102m of other intangible assets. CRD IV rules require the amount to be deducted from own funds to be reduced by the amount of the associated deferred tax liabilities.
4. The own funds deduction of £1,569m for deferred tax excludes the deferred tax balances relating to intangible assets. Additionally, only the deferred tax amounts that rely on future profitability are required to be deducted from CET1, and may be reduced by associated deferred tax liabilities where conditions specified in Article 38 of CRR are met. £455m of the deferred tax asset relating to the temporary differences may be risk weighted instead of deducted from capital as presented in the threshold adjustments column and form part of the Group's credit risk exposures on page 140.
5. Cash flow hedge reserve forms part of other reserves in the consolidated regulatory balance sheet.
6. In accordance with Articles 36, 62, 158 and 159 of the CRR the excess of expected losses over specific credit risk adjustments (SCRAs) and additional value adjustments in relation to risk-weighted exposure amounts calculated using the Internal Ratings Based approach, of £175m, are deducted from CET1.
7. The £166m deduction for securitisation positions reflects those positions that were rated below BB- or that are unrated.
8. The £2,000m foreseeable dividend is that recommended by the Board of Directors in respect of 2015 earnings.
9. A reconciliation of subordinated liabilities from the Bank of Scotland Group's consolidated balance sheet to the amount recognised against each own funds description is presented in the table below.

Own funds description	Consolidated accounting balance sheet total £m
Amount of qualifying items referred to in Article 484 (4) of the CRR and the related share premium accounts subject to phase out from AT1	318
Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in CET1) issued by subsidiaries and held by third parties	151
Capital instruments and related share premium accounts	3,549
Amount of qualifying items referred to in Article 484 (5) of the CRR and the related share premium accounts subject to phase out from T2	3,342
Total subordinated liabilities as presented on the Bank of Scotland Group's consolidated balance sheet.	7,360

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

The non-eligible instruments column on the reconciliation represents instruments on the balance sheet that are not eligible for inclusion in regulatory capital.

Additional Tier 1 instruments presented in own funds reflect instruments issued by either Bank of Scotland Group plc or its subsidiaries and held by third parties that qualified as Tier 1 under regulation that preceded CRD IV, subject to certain restrictions, including a cap set at 70% of the value of such instruments that were in issue at 31 December 2012 and net of interest. Any excess over the cap is included in Tier 2 instruments which have been issued in the same manner as Additional Tier 1 instruments and are net of interest and in some instances amortisation and associated derivatives.

10. Credit risk adjustments of £307m reflect the surplus provisions resulting from the calculation of excess expected loss amounts in accordance with Articles 158 and 159 of the CRR, subject to certain limits.

LEVERAGE DISCLOSURE TEMPLATE

Table 93: Bank of Scotland Group leverage ratio common disclosure

	At 31 Dec 2015 Fully loaded £m
On-balance sheet exposures (excluding derivatives and SFTs)	
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	322,175
Asset amounts deducted in determining Tier 1 capital	(2,577)
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	319,598
Derivative exposures[1]	
Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	2,016
Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	492
Deductions of receivables assets for cash variation margin provided in derivatives transactions	(413)
Total derivative exposures	2,095
Securities financing transaction exposures[2]	
Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-
Netted amounts of cash payables and cash receivables of gross SFT assets	-
Counterparty credit risk exposure for SFT assets	5
Total securities financing transaction exposures	5
Other off-balance sheet exposures	
Off-balance sheet exposures at gross notional amount	37,380
Adjustments for conversion to credit equivalent amounts	(20,641)
Other off-balance sheet exposures	16,739
Exempted exposures in accordance with CRR Article 429 (7) (on and off balance sheet)	
Intragroup exposures exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet)[3]	(38,023)
Capital and total exposure measure	
Tier 1 capital	10,535
Leverage ratio total total exxposure measure	300,414
Leverage ratio	
Leverage ratio	3.5%

[1] Excludes intragroup derivative assets amounting to £9,178m exempted in accordance with CRR Article 429(7).

[2] Excludes intragroup SFT assets amounting to £4,233m exempted in accordance with CRR Article 429(7).

[3] Relates to exempted intragroup loans and receivables. Total intragroup exposures exempted in accordance with CRR Article 429(7), including derivatives and SFTs, amounted to £51,434m.

Table 94: Bank of Scotland Group summary reconciliation of accounting assets and leverage ratio exposures

	At 31 Dec 2015 Fully loaded £m
Total assets as per the financial statements	341,333
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-
Adjustments for derivative financial instruments	(3,652)
Adjustments for securities financing transactions (SFTs)	5
Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	16,739
Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013	(51,434)
Other adjustments	(2,577)
Leverage ratio total exposure measure	300,414

Appendix 3: Bank of Scotland Group continued

CAPITAL REQUIREMENTS

BANK OF SCOTLAND GROUP RISK WEIGHTED ASSETS AND PILLAR 1 CAPITAL REQUIREMENTS

The risk-weighted assets and Pillar 1 capital requirements of BOS Group as at 31 December 2015 are £76,054m (2014: £90,547m) and £6,084m (2014: £7,244m) respectively. Presented in the table below are the credit risk-weighted assets and associated Pillar 1 capital requirements.

Table 95: Bank of Scotland Group capital requirements

	2015 Risk-weighted assets £m	2015 Pillar 1 capital requirements £m	2014 Risk-weighted assets £m	2014 Pillar 1 capital requirements £m
CREDIT RISK				
Exposures subject to the IRB approach				
Foundation IRB approach				
Corporate – main	3,834	307	5,252	420
Corporate – SME	2,140	171	2,105	168
Corporate – specialised lending	-	-	3	-
Central governments and central banks	-	-	130	10
Institutions	455	36	335	27
Retail IRB approach				
Retail mortgages	28,269	2,261	31,006	2,480
of which: residential mortgages (SME)	-	-	-	-
of which: residential mortgages (non-SME)	28,269	2,261	31,006	2,480
Qualifying revolving retail exposures	6,323	506	6,967	557
Other SME	-	-	-	-
Other non-SME	3,034	243	3,403	272
Other IRB approaches				
Corporate – specialised lending	4,028	322	6,883	551
Equities – exchange traded	269	22	-	-
Equities – private equity	1,285	103	1,487	119
Equities – other	165	13	59	5
Securitisation positions	395	32	434	35
Non-credit obligation assets	1,013	81	1,076	86
Total – IRB approach	51,210	4,097	59,140	4,730
Exposures subject to the standardised approach				
Central governments and central banks	-	-	-	-
Public sector entities	2	-	9	1
Multilateral development banks	-	-	-	-
Institutions	27	2	20	2
Corporates	4,171	334	6,270	502
Retail	1,697	136	1,151	92
Secured by mortgages on immovable property	1,345	107	1,499	120
of which: residential property	1,317	105	1,488	119
of which: commercial property	28	2	11	1
Exposures in default	895	72	1,172	94
Exposures associated with particularly high risk	-	-	1	-
Other items	514	41	2,000	160
Total – standardised approach	8,651	692	12,122	971
Contributions to the default fund of a central counterparty	1	-	1	-
Total credit risk	59,862	4,789	71,263	5,701
Threshold – significant investments	-	-	-	-
Threshold – deferred tax	1,136	91	725	58
Total credit risk	60,998	4,880	71,988	5,759

ANALYSIS OF CREDIT RISK MITIGATION

The following table provides an analysis of credit risk exposures covered by eligible financial collateral and other eligible collateral.

The analysis excludes exposures covered by forms of credit risk mitigation that are not taken into consideration in the calculation of credit risk capital requirements.

Table 96: Bank of Scotland Group eligible financial collateral and other eligible collateral

	2015			2014		
	Exposures covered by eligible financial collateral £m	Exposures covered by other eligible collateral £m	Total £m	Exposures covered by eligible financial collateral £m	Exposures covered by other eligible collateral £m	Total £m
Exposures subject to the IRB approach						
Foundation IRB approach						
Corporate – main	3	3,140	3,143	5	3,508	3,513
Corporate – SME	9	1,738	1,747	29	2,112	2,141
Total - IRB approach	12	4,878	4,890	34	5,620	5,654
Exposures subject to the standardised approach						
Corporates	765	-	765	500	-	500
Institutions	1	-	1	-	-	-
Exposures in default	-	10	10	1	-	1
Total - Standardised approach	766	10	776	501	-	501
Total	778	4,888	5,666	535	5,620	6,155

ANALYSIS OF PAST DUE AND IMPAIRED LOANS AND ADVANCES TO CUSTOMERS

The analysis provided within this section has been presented on an accounting consolidation basis rather than a regulatory consolidation basis.

Analysis by industry

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

Table 97: Bank of Scotland Group past due but not impaired and impaired loans and advances analysed by major industrial sector

	Past due but not impaired 2015		Impaired 2015		Past due but not impaired 2014		Impaired 2014	
	£m	As a % of credit risk exposure	£m	As a % of credit risk exposure	£m	As a % of credit risk exposure	£m	As a % of credit risk exposure
Agriculture, forestry and fishing	23	3.51%	19	2.90%	15	2.37%	18	2.84%
Energy and water supply	1	0.31%	32	9.88%	4	0.90%	110	24.83%
Manufacturing	10	0.84%	22	1.85%	2	0.15%	124	9.23%
Construction	17	1.31%	130	10.04%	24	1.40%	255	14.91%
Transport, distribution and hotels	28	0.68%	209	5.11%	37	0.63%	1,245	21.09%
Postal and communications	-	-	1	3.33%	2	5.71%	26	74.29%
Property companies	47	0.57%	1,246	14.98%	50	0.40%	3,071	24.44%
Financial, business and other services	43	0.08%	438	0.85%	36	0.05%	692	0.96%
Personal: mortgages	7,021	2.64%	3,522	1.32%	8,479	3.26%	3,672	1.41%
Personal: other	110	0.45%	433	1.79%	135	0.64%	618	2.91%
Lease financing	-	-	-	-	-	-	1	3.45%
Hire purchase	-	-	-	-	-	-	-	-
Total	7,300	2.02%	6,052	1.67%	8,784	2.30%	9,832	2.57%

Appendix 3: Bank of Scotland Group continued

Analysis by geography

An analysis of past due but not impaired loans and advances to customers and impaired loans and advances to customers as at 31 December 2015, by geographical region, based on the country of residence of the customer, is provided in the table below.

Table 98: Bank of Scotland Group past due but not impaired and impaired loans and advances analysed by geographical region

	Past due but not impaired		Impaired		Past due but not impaired		Impaired	
	2015		2015		2014		2014	
	£m	As a % of credit risk exposure	£m	As a % of credit risk exposure	£m	As a % of credit risk exposure	£m	As a % of credit risk exposure
United Kingdom	7,003	2.05%	5,601	1.64%	8,246	2.34%	6,438	1.83%
Rest of Europe	296	2.27%	360	2.77%	535	3.20%	3,250	19.43%
United States of America	-	-	72	2.86%	-	-	82	1.57%
Asia-Pacific	-	-	-	-	2	1.42%	8	5.67%
Other	1	0.07%	19	1.42%	1	0.05%	54	2.90%
Total	7,300	2.02%	6,052	1.67%	8,784	2.30%	9,832	2.57%

ANALYSIS OF SPECIFIC CREDIT RISK ADJUSTMENTS IN RESPECT OF LOANS AND ADVANCES TO CUSTOMERS

The analysis provided within this section has been presented on an accounting consolidation basis rather than a regulatory consolidation basis.

The movement in impairment provisions, from 1 January 2015 to 31 December 2015, in respect of loans and advances to customers is provided below.

Table 99: Bank of Scotland Group movement in impairment provisions (loans and advances to customers)

	2015 £m	2014 £m
At 1 January	5,683	12,874
Exchange and other adjustments	(214)	(382)
Disposal of businesses	-	-
Advances written off	(3,517)	(7,361)
Recoveries of advances written off in previous years	622	112
Unwinding of discount	19	(29)
Charge (release) to the income statement	217	469
At 31 December	2,810	5,683

Analysis by industry

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

Table 100: Bank of Scotland Group impairment provisions and net charge analysed by major industrial sector

	2015		2014	
	Impairment provisions £m	Net charge £m	Impairment provisions £m	Net charge £m
Agriculture, forestry and fishing	5	1	10	–
Energy and water supply	7	25	41	24
Manufacturing	21	-	97	(19)
Construction	89	2	107	(94)
Transport, distribution and hotels	94	(80)	810	163
Postal and communications	1	-	11	4
Property companies	533	(125)	2,219	(32)
Financial, business and other services	389	73	598	83
Personal: mortgages	1,479	170	1,483	74
Personal: other	192	151	306	269
Lease financing	-	-	1	(1)
Hire purchase	-	-	-	(2)
Total	2,810	217	5,683	469

Analysis by geography

An analysis of closing impairment provisions, the net charge to the income statement and advances written off in respect of loans and advances to customers, by geographical region, based on the country of residence of the customer, is provided in the table below.

Table 101: Bank of Scotland Group impairment provisions and net charges analysed by geographical region

	2015		2014	
	Impairment provisions £m	Net charge £m	Impairment provisions £m	Net charge £m
United Kingdom	2,548	354	2,927	396
Rest of Europe	231	(11)	2,640	88
United States of America	20	(29)	41	(11)
Asia-Pacific	2	(6)	12	(1)
Other	9	(91)	63	(3)
Total	2,810	217	5,683	469

Appendix 3: Bank of Scotland Group continued

ANALYSIS OF CREDIT RISK EXPOSURES

Table 102: Bank of Scotland Group credit risk exposures

Exposure class	2015 Credit risk exposure £m	2015 Risk-weighted assets £m	2015 Average risk weight %	2015 Average credit risk exposure £m
Exposures subject to the IRB approach				
Foundation IRB approach				
Corporate – main	6,793	3,834	56%	7,584
Corporate – SME	3,152	2,140	68%	3,236
Corporate – specialised lending	-	-	-	2
Central governments and central banks	-	-	-	1,740
Institutions	4,149	455	11%	4,087
Retail IRB approach				
Retail mortgages	261,093	28,269	11%	257,003
of which: residential mortgages (SME)	-	-	-	-
of which: residential mortgages (non-SME)	261,093	28,269	11%	257,003
Qualifying revolving retail exposures	19,585	6,323	32%	18,776
Other SME	-	-	-	-
Other non-SME	2,774	3,034	109%	2,889
Other IRB approaches				
Corporate – specialised lending	5,269	4,028	76%	7,641
Equities – exchange traded	93	269	290%	49
Equities – private equity	676	1,285	190%	725
Equities – other	45	165	370%	39
Securitisation positions	3,653	395	11%	3,870
Non-credit obligation assets	3,391	1,013	30%	3,312
Total – IRB approach	310,673	51,210	16%	310,953
Exposures subject to the standardised approach				
Central governments and central banks	168	-	-	313
Regional governments or local authorities	1	-	20%	-
Public sector entities	2	2	100%	8
Multilateral development banks	52	-	-	10
Institutions	30,255	27	-	39,525
Corporates	13,162	4,171	32%	13,697
Retail	2,444	1,697	69%	1,673
Secured by mortgages on immovable property	3,791	1,345	35%	4,011
of which: residential property	3,763	1,317	35%	3,990
of which: commercial property	28	28	100%	21
Exposures in default	747	895	120%	886
Exposures associated with particularly high risk	-	-	-	-
Short term claims on institutions and corporates	-	-	-	-
Collective investment undertakings (CIUs)	-	-	-	-
Other items	800	514	64%	1,594
Total – standardised approach	51,422	8,651	17%	61,717
Contributions to the default fund of a central counterparty	2	1	42%	2
Total credit risk	362,097	59,862	17%	372,672
Threshold – significant investments	-	-	-	-
Threshold – deferred tax	455	1,136	250%	381
Total credit risk	362,552	60,998	17%	373,053

Exposure class	2014 Credit risk exposure £m	2014 Risk-weighted assets £m	2014 Average risk weight %	2014 Average credit risk exposure £m
Exposures subject to the IRB approach				
Foundation IRB approach				
Corporate – main	8,535	5,252	62%	11,003
Corporate – SME	3,618	2,105	58%	4,515
Corporate – specialised lending	10	3	30%	10
Central governments and central banks	2,623	130	5%	3,110
Institutions	4,241	335	8%	3,182
Retail IRB approach				
Retail mortgages	254,088	31,006	12%	253,634
of which: residential mortgages (SME)	-	-	-	-
of which: residential mortgages (non-SME)	254,088	31,006	12%	253,634
Qualifying revolving retail exposures	17,589	6,967	40%	17,444
Other SME	-	-	-	-
Other non-SME	2,819	3,403	121%	2,765
Other IRB approaches				
Corporate – specialised lending	9,488	6,883	73%	14,879
Equities – exchange traded	-	-	-	-
Equities – private equity	782	1,487	190%	866
Equities – other	16	59	370%	61
Securitisation positions	4,419	434	10%	4,675
Non-credit obligation assets	3,383	1,076	32%	1,214
Total – IRB approach	311,611	59,140	19%	317,358
Exposures subject to the standardised approach				
Central governments and central banks	255	-	-	1,005
Regional governments or local authorities	-	-	-	7
Public sector entities	9	9	100%	10
Multilateral development banks	-	-	-	-
Institutions	46,457	20	-	80,480
Corporates	13,999	6,270	45%	24,507
Retail	1,532	1,151	75%	1,809
Secured by mortgages on immovable property	4,263	1,499	35%	4,440
of which: residential property	4,251	1,488	35%	4,391
of which: commercial property	12	11	100%	49
Exposures in default	1,042	1,172	112%	1,772
Exposures associated with particularly high risk	1	1	150%	1
Short term claims on institutions and corporates	-	-	-	259
Collective investment undertakings (CIUs)	-	-	-	-
Equity exposures	-	-	-	1
Other items	2,668	2,000	75%	4,701
Total – standardised approach	70,226	12,122	17%	118,992
Contributions to the default fund of a central counterparty	2	1	49%	1
Total credit risk	381,839	71,263	19%	436,351
Threshold – significant investments	-	-	-	-
Threshold – deferred tax	290	725	250%	398
Total credit risk	382,129	71,988	19%	436,749

Appendix 3: Bank of Scotland Group continued

ANALYSIS OF CREDIT RISK EXPOSURES BY INDUSTRY

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

Table 103: Bank of Scotland Group credit risk exposure analysed by major industrial sector

	2015 Agriculture, forestry and fishing £m	2015 Energy and water supply £m	2015 Manufacturing £m	2015 Construction £m	2015 Transport, distribution and hotels £m	2015 Postal and comms £m	2015 Property companies £m	2015 Financial, business and other services £m	2015 Personal: mortgages £m	2015 Personal: other £m	2015 Lease financing £m	2015 Hire purchase £m	2015 Total £m
Exposures subject to the IRB approach													
Foundation IRB approach													
Corporate – main	11	111	499	971	1,017	21	2,200	1,960	-	3	-	-	6,793
Corporate – SME	17	10	437	125	880	1	945	737	-	-	-	-	3,152
Corporate – specialised lending	-	-	-	-	-	-	-	-	-	-	-	-	-
Central governments and central banks	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions	-	-	-	-	-	-	-	4,149	-	-	-	-	4,149
Retail IRB approach													
Retail mortgages	-	-	-	-	-	-	-	-	261,093	-	-	-	261,093
of which: residential mortgages (SME)	-	-	-	-	-	-	-	-	-	-	-	-	-
of which: residential mortgages (non-SME)	-	-	-	-	-	-	-	-	261,093	-	-	-	261,093
Qualifying revolving retail exposures	-	-	-	-	-	-	-	-	-	19,585	-	-	19,585
Other SME	-	-	-	-	-	-	-	-	-	-	-	-	-
Other non-SME	-	-	-	-	-	-	-	-	-	2,774	-	-	2,774
Other IRB approaches													
Corporate – specialised lending	-	191	63	77	322	-	4,345	270	-	-	-	-	5,269
Equities – exchange traded	-	-	-	-	-	-	93	-	-	-	-	-	93
Equities – private equity	-	-	-	-	31	-	79	566	-	-	-	-	676
Equities – other	-	-	-	-	-	-	-	45	-	-	-	-	45
Securitisation positions	-	-	-	-	-	-	-	3,653	-	-	-	-	3,653
Total – IRB approach	28	312	999	1,173	2,250	22	7,662	11,380	261,093	22,362	-	-	307,282
Exposures subject to the standardised approach													
Central governments and central banks	-	-	-	-	-	-	-	168	-	-	-	-	168
Regional governments or local authorities	-	-	-	-	-	-	-	1	-	-	-	-	1
Public sector entities	-	-	-	-	-	-	-	2	-	-	-	-	2
Multilateral development banks	-	-	-	-	-	-	-	52	-	-	-	-	52
International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions	-	-	-	-	-	-	-	30,255	-	-	-	-	30,255
Corporates	357	10	160	85	1,565	5	396	9,538	82	949	7	8	13,162
Retail	257	2	22	23	146	2	202	168	789	795	-	38	2,444
Secured by mortgages on immovable property	-	-	-	-	-	-	-	28	3,763	-	-	-	3,791
of which: residential property	-	-	-	-	-	-	-	-	3,763	-	-	-	3,763
of which: commercial property	-	-	-	-	-	-	-	28	-	-	-	-	28
Exposures in default	13	-	6	14	128	-	56	27	399	102	1	1	747
Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	-	-	-
Covered bonds	-	-	-	-	-	-	-	-	-	-	-	-	-
Securitisation positions	-	-	-	-	-	-	-	-	-	-	-	-	-
Short term claims on institutions and corporates	-	-	-	-	-	-	-	-	-	-	-	-	-
Collective investment undertakings (CIUs)	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity Exposures	-	-	-	-	-	-	-	-	-	-	-	-	-
Total – standardised approach	627	12	188	122	1,839	7	654	40,239	5,033	1,846	8	47	50,622
Total	655	324	1,187	1,295	4,089	29	8,316	51,619	266,126	24,208	8	47	357,904
Other items													800
Non-credit obligation assets													3,391
Contributions to the default fund of a central counterparty													2
Total credit risk exposure													362,097

	2014 Agriculture, forestry and fishing £m	2014 Energy and water supply £m	2014 Manufacturing £m	2014 Construction £m	2014 Transport, distribution and hotels £m	2014 Postal and comms £m	2014 Property companies £m	2014 Financial, business and other services £m	2014 Personal: mortgages £m	2014 Personal: other £m	2014 Lease financing £m	2014 Hire purchase £m	2014 Total £m
Exposures subject to the IRB approach													
Foundation IRB approach													
Corporate – main	4	117	807	1,066	2,069	13	2,569	1,887	-	3	-	-	8,535
Corporate – SME	25	5	188	181	958	11	1,564	686	-	-	-	-	3,618
Corporate – specialised lending	-	-	-	-	10	-	-	-	-	-	-	-	10
Central governments and central banks	-	-	-	-	-	-	-	2,623	-	-	-	-	2,623
Institutions	-	-	-	-	-	-	-	4,241	-	-	-	-	4,241
Retail IRB approach													
Retail mortgages	-	-	-	-	-	-	-	-	254,088	-	-	-	254,088
of which: residential mortgages (SME)	-	-	-	-	-	-	-	-	-	-	-	-	-
of which: residential mortgages (non-SME)	-	-	-	-	-	-	-	-	254,088	-	-	-	254,088
Qualifying revolving retail exposures	-	-	-	-	-	-	-	-	-	17,589	-	-	17,589
Other SME	-	-	-	-	-	-	-	-	-	-	-	-	-
Other non-SME	-	-	-	-	-	-	-	-	-	2,819	-	-	2,819
Other IRB approaches													
Corporate – specialised lending	1	308	101	288	761	3	6,713	1,313	-	-	-	-	9,488
Equities – exchange traded	-	-	-	-	-	-	-	-	-	-	-	-	–
Equities – private equity	-	-	-	-	34	-	383	365	-	-	-	-	782
Equities – other	-	-	-	-	-	-	-	16	-	-	-	-	16
Securitisation positions	-	-	-	-	-	-	-	4,419	-	-	-	-	4,419
Total – IRB approach	30	430	1,096	1,535	3,832	27	11,229	15,550	254,088	20,411	-	-	308,228
Exposures subject to the standardised approach													
Central governments and central banks	-	-	-	-	-	-	-	255	-	-	-	-	255
Regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	-	-	-
Public sector entities	-	-	-	-	-	-	-	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-	-	9	-	-	-	-	9
International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions	-	-	-	-	-	-	-	46,416	41	-	-	-	46,457
Corporates	594	12	228	154	1,915	8	1,143	9,677	-	210	27	31	13,999
Retail	-	-	-	-	-	-	10	56	883	583	-	-	1,532
Secured by mortgages on immovable property	-	-	-	-	-	-	-	12	4,251	-	-	-	4,263
of which: residential property	-	-	-	-	-	-	-	-	4,251	-	-	-	4,251
of which: commercial property	-	-	-	-	-	-	-	12	-	-	-	-	12
Exposures in default	9	1	20	21	156	-	185	124	472	50	2	2	1,042
Exposures associated with particularly high risk	-	-	-	-	-	-	1	-	-	-	-	-	1
Covered bonds	-	-	-	-	-	-	-	-	-	-	-	-	-
Securitisation positions	-	-	-	-	-	-	-	-	-	-	-	-	-
Short term claims on institutions and corporates	-	-	-	-	-	-	-	-	-	-	-	-	-
Collective investment undertakings (CIUs)	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity Exposures	-	-	-	-	-	-	-	-	-	-	-	-	-
Total – standardised approach	603	13	248	175	2,071	8	1,339	56,549	5,647	843	29	33	67,558
Total	633	443	1,344	1,710	5,903	35	12,568	72,099	259,735	21,254	29	33	375,786
Other items													2,668
Non-credit obligation assets													3,383
Contributions to the default fund of a central counterparty													2
Total credit risk exposure													381,839

Appendix 3: Bank of Scotland Group continued

ANALYSIS OF CREDIT RISK EXPOSURES BY GEOGRAPHY

Credit risk exposures as at 31 December 2015, analysed by major geographical region, based on the country of residence/incorporation of the customer, are provided in the table below.

Table 104: Bank of Scotland Group credit risk exposures analysed by geographical region

	2015 United Kingdom £m	2015 Rest of Europe £m	2015 United States of America £m	2015 Asia-Pacific £m	2015 Other £m	2015 Total £m
Exposures subject to the IRB approach						
Foundation IRB approach						
Corporate – main	5,541	86	1,011	-	155	6,793
Corporate – SME	3,135	10	-	-	7	3,152
Corporate – specialised lending	-	-	-	-	-	-
Central governments and central banks	-	-	-	-	-	-
Institutions	1,322	2,385	15	-	427	4,149
Retail IRB approach						
Retail mortgages	253,109	7,984	-	-	-	261,093
of which: residential mortgages (SME)	-	-	-	-	-	-
of which: residential mortgages (non-SME)	253,109	7,984	-	-	-	261,093
Qualifying revolving retail exposures	19,585	-	-	-	-	19,585
Other SME	-	-	-	-	-	-
Other non-SME	2,774	-	-	-	-	2,774
Other IRB approaches						
Corporate – specialised lending	4,268	724	56	40	181	5,269
Equities – exchange traded	93	-	-	-	-	93
Equities – private equity	525	54	50	5	42	676
Equities – other	39	6	-	-	-	45
Securitisation positions[1]	2,286	150	1,217	-	-	3,653
Total – IRB approach	292,677	11,399	2,349	45	812	307,282
Exposures subject to the standardised approach						
Central governments and central banks	70	98	-	-	-	168
Regional governments or local authorities	1	-	-	-	-	1
Public sector entities	2	-	-	-	-	2
Multilateral development banks	-	52	-	-	-	52
Institutions	30,167	88	-	-	-	30,255
Corporates	12,197	248	170	31	516	13,162
Retail	1,523	912	1	-	8	2,444
Secured by mortgages on immovable property	3,613	178	-	-	-	3,791
of which: residential property	3,613	150	-	-	-	3,763
of which: commercial property	-	28	-	-	-	28
Exposures in default	705	42	-	-	-	747
Exposures associated with particularly high risk	-	-	-	-	-	-
Covered bonds	-	-	-	-	-	-
Securitisation positions	-	-	-	-	-	-
Short term claims on institutions and corporates	-	-	-	-	-	-
Collective investment undertakings (CIUs)	-	-	-	-	-	-
Equity exposures	-	-	-	-	-	-
Total – standardised approach	48,278	1,618	171	31	524	50,622
Total	340,955	13,017	2,520	76	1,336	357,904
Other items						800
Non-credit obligation assets						3,391
Contributions to the default fund of a central counterparty						2
Total credit risk exposure						362,097

	2014 United Kingdom £m	2014 Rest of Europe £m	2014 United States of America £m	2014 Asia-Pacific £m	2014 Other £m	2014 Total £m
Exposures subject to the IRB approach						
Foundation IRB approach						
Corporate – main	7,246	143	850	18	278	8,535
Corporate – SME	3,567	17	-	22	12	3,618
Corporate – specialised lending	-	-	-	-	10	10
Central governments and central banks	-	-	2,623	-	-	2,623
Institutions	1,356	2,398	87	-	400	4,241
Retail IRB approach						
Retail mortgages	245,611	8,477	-	-	-	254,088
of which: residential mortgages (SME)	-	-	-	-	-	-
of which: residential mortgages (non-SME)	245,611	8,477	-	-	-	254,088
Qualifying revolving retail exposures	17,589	-	-	-	-	17,589
Other SME	-	-	-	-	-	-
Other non-SME	2,819	-	-	-	-	2,819
Other IRB approaches						
Corporate – specialised lending	6,250	2,696	177	61	304	9,488
Equities – exchange traded	-	-	-	-	-	-
Equities – private equity	585	79	66	11	41	782
Equities – other	7	9	-	-	-	16
Securitisation positions	2,550	691	1,178	-	-	4,419
Total – IRB approach	287,580	14,510	4,981	112	1,045	308,228
Exposures subject to the standardised approach						
Central governments and central banks	70	185	-	-	-	255
Regional governments or local authorities	-	-	-	-	-	-
Public sector entities	9	-	-	-	-	9
Multilateral development banks	-	-	-	-	-	-
Institutions	46,386	71	-	-	-	46,457
Corporates	12,392	550	228	11	818	13,999
Retail	666	866	-	-	-	1,532
Secured by mortgages on immovable property	4,078	185	-	-	-	4,263
of which: residential property	4,078	173	-	-	-	4,251
of which: commercial property	-	12	-	-	-	12
Exposures in default	660	356	7	18	1	1,042
Exposures associated with particularly high risk	1	-	-	-	-	1
Covered bonds	-	-	-	-	-	-
Securitisation positions	-	-	-	-	-	-
Short term claims on institutions and corporates	-	-	-	-	-	-
Collective investment undertakings (CIUs)	-	-	-	-	-	-
Equity exposures	-	-	-	-	-	-
Total – standardised approach	64,262	2,213	235	29	819	67,558
Total	351,842	16,723	5,216	141	1,864	375,786
Other items						2,668
Non-credit obligation assets						3,383
Contributions to the default fund of a central counterparty						2
Total credit risk exposure						381,839

Appendix 3: Bank of Scotland Group continued

ANALYSIS OF CREDIT RISK EXPOSURES BY RESIDUAL MATURITY

Credit risk exposures as at 31 December 2015, analysed by residual contractual maturity, are provided in the table below.

Table 105: Bank of Scotland Group credit risk exposures analysed by residual contractual maturity

	2015 On demand £m	2015 Repayable in 3 months or less £m	2015 Repayable between 3 months and 1 year £m	2015 Repayable between 1 and 5 years £m	2015 Repayable over 5 years or undated £m	2015 Total £m
Exposures subject to the IRB approach						
Foundation IRB approach						
Corporate – main	70	232	1,528	2,549	2,414	6,793
Corporate – SME	20	122	752	1,185	1,073	3,152
Corporate – specialised lending	-	-	-	-	-	-
Central governments and central banks	-	-	-	-	-	-
Institutions	-	60	308	2,702	1,079	4,149
Retail IRB approach						
Retail mortgages	736	471	10,410	12,808	236,668	261,093
of which: residential mortgages (SME)	-	-	-	-	-	-
of which: residential mortgages (non-SME)	736	471	10,410	12,808	236,668	261,093
Qualifying revolving retail exposures	19,585	-	-	-	-	19,585
Other SME	-	-	-	-	-	-
Other non-SME	-	50	282	2,122	320	2,774
Other IRB approaches						
Corporate – specialised lending	24	317	544	1,831	2,553	5,269
Equities – exchange traded	-	-	-	-	93	93
Equities – private equity	-	-	-	-	676	676
Equities – other	-	-	-	-	45	45
Securitisation positions	-	237	917	2,091	408	3,653
Total – IRB approach	20,435	1,489	14,741	25,288	245,329	307,282
Exposures subject to the standardised approach						
Central governments and central banks	97	-	-	-	71	168
Regional governments or local authorities	-	-	-	-	1	1
Public sector entities	-	-	-	-	2	2
Multilateral development banks	-	-	-	-	52	52
Institutions	5	83	-	-	30,167	30,255
Corporates	-	95	719	726	11,622	13,162
Retail	93	32	60	538	1,721	2,444
Secured by mortgages on immovable property	16	29	107	405	3,234	3,791
of which: residential property	16	29	107	377	3,234	3,763
of which: commercial property	-	-	-	28	-	28
Exposures in default	41	18	39	90	559	747
Exposures associated with particularly high risk	-	-	-	-	-	-
Covered bonds	-	-	-	-	-	-
Securitisation positions	-	-	-	-	-	-
Short term claims on institutions and corporates	-	-	-	-	-	-
Collective investment undertakings (CIUs)	-	-	-	-	-	-
Equity exposures	-	-	-	-	-	-
Total – standardised approach	252	257	925	1,759	47,429	50,622
Total	20,687	1,746	15,666	27,047	292,758	357,904
Other items						800
Non-credit obligation assets						3,391
Contributions to the default fund of a central counterparty						2
Total credit risk exposure						362,097

	2014 On demand £m	2014 Repayable in 3 months or less £m	2014 Repayable between 3 months and 1 year £m	2014 Repayable between 1 and 5 years £m	2014 Repayable over 5 years or undated £m	2014 Total £m
Exposures subject to the IRB approach						
Foundation IRB approach						
Corporate – main	192	676	1,872	3,226	2,569	8,535
Corporate – SME	19	297	494	1,341	1,467	3,618
Corporate – specialised lending	10	-	-	-	-	10
Central governments and central banks	-	2,567	-	-	56	2,623
Institutions	-	146	131	2,262	1,702	4,241
Retail IRB approach						
Retail mortgages	645	403	8,657	13,118	231,265	254,088
of which: residential mortgages (SME)	-	-	-	-	-	-
of which: residential mortgages (non-SME)	645	403	8,657	13,118	231,265	254,088
Qualifying revolving retail exposures	17,589	-	-	-	-	17,589
Other SME	-	-	-	-	-	-
Other non-SME	42	51	288	2,122	316	2,819
Other IRB approaches						
Corporate – specialised lending	40	457	812	4,265	3,914	9,488
Equities – exchange traded	-	-	-	-	-	-
Equities – private equity	-	-	63	383	336	782
Equities – other	-	-	2	7	7	16
Securitisation positions	-	156	2,780	779	704	4,419
Total – IRB approach	18,537	4,753	15,099	27,503	242,336	308,228
Exposures subject to the standardised approach						
Central governments and central banks	132	-	-	-	123	255
Regional governments or local authorities	-	-	-	-	-	-
Public sector entities	-	-	-	8	1	9
Multilateral development banks	-	-	-	-	-	-
Institutions	30	41	-	-	46,386	46,457
Corporates	22	183	914	978	11,902	13,999
Retail	166	12	47	221	1,086	1,532
Secured by mortgages on immovable property	120	29	72	405	3,637	4,263
of which: residential property	120	29	72	393	3,637	4,251
of which: commercial property	-	-	-	12	-	12
Exposures in default	13	29	89	240	671	1,042
Exposures associated with particularly high risk	-	-	-	1	-	1
Covered bonds	-	-	-	-	-	-
Securitisation positions	-	-	-	-	-	-
Short term claims on institutions and corporates	-	-	-	-	-	-
Collective investment undertakings (CIUs)	-	-	-	-	-	-
Equity exposures	-	-	-	-	-	-
Total – standardised approach	483	294	1,122	1,853	63,806	67,558
Total	19,020	5,047	16,221	29,356	306,142	375,786
Other items						2,668
Non-credit obligation assets						3,383
Contributions to the default fund of a central counterparty						2
Total credit risk exposure						381,839

Appendix 4: Asset encumbrance

Table 106: Asset encumbrance

	2015 Carrying amount of encumbered assets £m	2015 Fair value of encumbered assets £m	2015 Carrying amount of unencumbered assets £m	2015 Fair value of unencumbered assets £m	2014 Carrying amount of encumbered assets £m	2014 Fair value of encumbered assets £m	2014 Carrying amount of unencumbered assets £m	2014 Fair value of unencumbered assets £m
Assets[1]								
Total assets	**143,482**		**543,626**		146,147		568,241	
Equity instruments	**-**	**-**	**1,950**	**1,950**	-	-	1,950	1,950
Debt securities[2]	**23,379**	**23,379**	**56,982**	**56,720**	23,121	23,121	57,692	57,692
Other assets[3]	**122,927**		**482,153**		123,026		508,599	

Encumbered assets/collateral received and associated liabilities

	2015 Matching liabilities, contingent liabilities or securities lent £m	2015 Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered £m	2014 Matching liabilities, contingent liabilities or securities lent £m	2014 Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered £m
Carrying amount of selected financial liabilities[1]	**131,680**	**150,534**	134,953	150,534

[1]Values reported for 2015 represent the median of the values reported to the regulator via supervisory returns over the period 31 December 2014 to 31 December 2015. Values reported for 2014 represent the values as at 31 December 2014.

[2]Includes debt securities accounted for as trading and other financial assets at fair value through profit or loss, loans and receivables and AFS financial assets.

[3]All remaining regulatory balance sheet assets.

In accordance with the threshold criteria under PRA supervisory statement SS11/14 (CRD IV: Compliance with the EBA's Guidelines on the disclosure of encumbered and unencumbered assets) the Group is not required to report on the fair value of encumbered and unencumbered collateral received.

Monitoring and measurement of asset encumbrance

The Board and Group Asset & Liability Committee monitor and manage total balance sheet encumbrance via a number of risk appetite metrics. The amount of encumbered assets has been broadly stable over 2015. The vast majority of assets encumbered are in the UK banking entities, with the Group primarily encumbering mortgages, unsecured lending and credit card receivables through the issuance programmes (covered bonds and securitisation) and tradable securities through securities financing activity (repo and stock lending). The encumbered assets/collateral received and associated liabilities section demonstrates that in some transactions (i.e. covered bonds and securitisations) the Group will encumber assets in excess of the matching liabilities to provide greater security for investors. The Group also assesses what unencumbered assets are available to encumber and meet any future possible funding requirements, see the 2015 Lloyds Banking Group plc Annual Report and Accounts for further details.

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 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 majority of repo/reverse repo and stock lending/stock borrowing transactions are short-term, having a residual maturity of less than three months.

Appendix 5: CRD IV Roadmap

CRR ref	High-level summary	Compliance reference
Scope of disclosure requirements		
431 (1)	Requirement to publish Pillar 3 disclosures.	LBG publishes Pillar 3 disclosures.
431 (2)	Firms with permission to use specific operational risk methodologies must disclose operational risk information.	2015 ARA pages 151 to 152 (Operational Risk). The Group's operational risk systems, mitigation and approach to capital requirements are disclosed in ARA Risk Management section.
431 (3)	Institution must have a policy covering frequency of disclosures, their verification, comprehensiveness and appropriateness. Institution must also have policies for assessing whether their disclosures convey their risk profile comprehensively to market participants.	LBG has a Pillar 3 policy. Page 6 (Disclosure Policy). Page 5 (Risk Statement).
431 (4)	Explanation of ratings decision upon request.	Not applicable
Non-material, proprietary or confidential information		
432 (1)	Institutions may omit information that is not material if certain conditions are respected.	LBG complies with all relevant disclosure requirements. Limited disclosure on Trading Book given its relative materiality.
432 (2)	Institutions may omit information that is proprietary or confidential if certain conditions are respected	Not applicable
432 (3)	Where 432 (2) applies this must be stated in the disclosures, and more general information must be disclosed.	Not applicable
432 (4)	Use of 432 (1), (2) or (3) is without prejudice to scope of liability for failure to disclose material information.	Not applicable
Frequency of disclosure		
433	Disclosures must be published once a year at a minimum and more frequently if necessary	Page 6 (Disclosure Policy)
Means of disclosure		
434 (1)	To include all disclosures in one appropriate medium, or provide clear cross-references.	Most disclosures are contained within this document.
434 (2)	Disclosures made under other requirements (e.g. accounting) can be used to satisfy Pillar 3 if appropriate.	Any cross-references to accounting or other disclosures are clearly signposted in this document, where appropriate.
Risk management objectives and policies		
435 (1) 435 (1) (a)	Disclose information on: The strategies and processes to manage risks	Risk Management section of the 2015 ARA pages 111 to 169.
435 (1) (b)	Structure and organisation of risk management function	Risk Management section of the 2015 ARA pages 111 to 119.
435 (1) (c)	Risk reporting and measurement systems	Risk management section of the 2015 ARA pages 111 to 169.
435 (1) (d)	Hedging and mitigating risk – policies and processes	Risk Management section of the 2015 ARA pages 111 to 169.
435 (1) (e)	A declaration of adequacy of risk management arrangements approved by the Board	Report of the Board Risk Committee in 2015 ARA, pages 78 to 80. Reference to this made on page 5 of the Pillar 3 disclosures.
435 (1) (f)	Concise risk statement approved by the Board.	As for 435 (1) (e)
435 (2)	Information on governance arrangements, including information on Board composition and recruitment and risk committees.	See pages 118 and 119 of the 2015 ARA for a description of the risk committees. 2015 ARA page 66 contains information on Board composition, experience and recruitment.
435 (2) (a)	Number of directorships held by Board members	2015 ARA pages 56 and 57.
435 (2) (b)	Recruitment policy for selection of Board members, their actual knowledge, skills and expertise.	2015 ARA pages 56 to 57 and 66.
435 (2) (c)	Policy on diversity of Board membership and results against targets.	2015 ARA page 66.
435 (2) (d)	Disclosure of whether a dedicated risk committee is in place, and number of meeting in the year.	2015 ARA page 78.
435 (2) (e)	Description of information flow on risk to Board	2015 ARA page 64.

Appendix 5: CRD IV Roadmap continued

CRR ref	High-level summary	Compliance reference
Scope of application		
436 (a)	Name of institution.	Page 5 Introduction.
436 (b)	Difference in basis of consolidation for accounting and prudential purposes, describing entities that are:	Page 7 (Scope of Consolidation).
436 (b) (i)	Fully consolidated;	
436 (b) (ii)	Proportionally consolidated;	Page 7 (Scope of Consolidation).
436 (b) (iii)	Deducted from own funds;	
436 (b) (iv)	Neither consolidated nor deducted.	
436 (c)	Impediments to transfer of own funds between parent and subsidiaries.	There are no such impediments.
436 (d)	Capital shortfalls in any subsidiaries outside the scope of consolidation.	Entities outside the scope of consolidation are appropriately capitalised.
436 (e)	Making use of articles on derogations from a) prudential requirements or b) liquidity requirements for individual subsidiaries/entities.	LBG makes use of these provisions according to its waiver from the PRA. See page 7 (Scope of Consolidation)
Own funds		
437 (1)	Disclose the following information regarding own funds:	
437 (1) (a)	a full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and filters and deductions applied pursuant to Articles 32 to 35, 36, 56, 66 and 79 to own funds of the institution and the balance sheet in the audited financial statements of the institution;	LBG table 71, Lloyds Bank Group table 76, BoS Group table 92
437 (1) (b)	a description of the main features of the Common Equity Tier 1 and Additional Tier 1 instruments and Tier 2 instruments issued by the institution;	Pillar 3 Capital Instruments Disclosure separately disclosed on Group website
437 (1) (c)	the full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments;	Separately disclosed on Group website
437 (1) (d)	disclosure of the nature and amounts of the following:	
437 (1) (d) (i)	each prudential filter applied pursuant to Articles 32 to 35;	LBG table 70, Lloyds Bank Group table 75, BoS Group table 91
437 (1) (d) (ii)	each deduction made pursuant to Articles 36, 56 and 66;	
437 (1) (d) (iii)	items not deducted in accordance with Articles 47, 48, 56, 66 and 79;	
437 (1) (e)	a description of all restrictions applied to the calculation of own funds in accordance with this Regulation and the instruments, prudential filters and deductions to which those restrictions apply;	As per (a) and (d) above
437 (1) (f)	where institutions disclose capital ratios calculated using elements of own funds determined on a different basis	Not applicable
Capital requirements		
438 (a)	Summary of institution's approach to assessing adequacy of capital levels.	Page 20 (The Group's approach to Capital Risk)
438 (b)	Result of ICAAP on demand from authorities.	Not applicable
438 (c)	Capital requirements for each Standardised approach credit risk exposure class.	Table 7 and various other tables contain capital requirements throughout the report.
438 (d)	Capital requirements for each Internal Ratings Based Approach credit risk exposure class.	Table 7 and various other tables contain capital requirements throughout the report.
438 (e)	Capital requirements for market risk or settlement risk.	Table 7 and various other tables contain capital requirements throughout the report.
438 (f)	Capital requirements for operational risk, separately for the Basic Indicator Approach, the Standardised Approach, and the Advanced Measurement Approaches as applicable.	Table 7 and various other tables contain capital requirements throughout the report.
438 (endnote)	Requirement to disclose specialised lending exposures and equity exposures in the banking book falling under the simple risk weight approach.	Table 34: Corporate specialised lending exposures subject to supervisory slotting. Table 36: Equity exposures subject to the simple risk weight method.
Exposure to counterparty credit risk (CCR)		
439 (a)	Description of process to assign internal capital and credit limits to CCR exposures.	Page 84
439 (b)	Discussion of policies for securing collateral and establishing credit reserves.	Page 84

CRR ref	High-level summary	Compliance reference
439 (c)	Discussion of management of wrong-way risk exposures.	Page 84
439 (d)	Disclosure of collateral to be provided (outflows) in the event of a ratings downgrade.	Page 84
439 (e)	Derivation of net derivative credit exposure.	Table 58
439 (f)	Exposure values for mark-to-market, original exposure, standardised and internal model methods.	Table 49
439 (g)	Notional value of credit derivative hedges and current credit exposure by type of exposure.	Table 59
439 (h)	Notional amounts of credit derivative transactions.	Table 59
439 (i)	Estimate of alpha, if applicable.	Not applicable
Capital buffers		
440 (1) (a)	Geographical distribution of relevant credit exposures for calculation of countercyclical capital buffer.	Not applicable: applies end 2016. Refer to page 16.
440 (1) (b)	Amount of the institution specific countercyclical capital buffer.	Refer to page 16.
Indicators of global systemic importance		
441 (1)	Disclosure of the indicators of global systemic importance.	The Group's G-SIB metrics are separately disclosed on the Group's website. http://www.lloydsbankinggroup.com/investors/financial-performance/lloyds-banking-group/
Credit risk adjustments		
442 (a)	Disclosure of bank's definitions of past due and impaired.	Page 42
442 (b)	Approaches for calculating specific and general credit risk adjustments.	Pages 42 to 46
442 (c)	Disclosure of pre-CRM EAD by exposure class.	Table 19
442 (d)	Disclosure of pre-CRM EAD by geography and exposure class	Table 40
442 (e)	Disclosure of pre-CRM EAD by industry and exposure class.	Table 39
442 (f)	Disclosure of pre-CRM EAD by residual maturity and exposure class.	Table 42
442 (g) (i), (ii), (iii)	Breakdown of impaired, past due, specific and general credit risk adjustments, and impairment charges for the period, by industry.	Pages 43 to 45
442 (h)	Impaired, past due exposures, by geographical area, and amounts of specific and general impairment for each geography.	Pages 43 to 45
442 (i), (ii), (iii), (iv), (v)	Reconciliation of changes in specific and general credit risk adjustments for impaired exposures.	Table 14 and 15
442 (endnote)	Specific credit risk adjustments recorded to income statement are disclosed separately.	Table 14 and 15
Unencumbered assets		
443	Disclosures on unencumbered assets.	Appendix 4
Use of ECAIs		
444 (a)	Names of the ECAIs used in the calculation of Standardised approach risk-weighted assets and reasons for any changes.	Page 37
444 (b)	Exposure classes associated with each ECAI.	Page 37
444 (c)	Description of the process used to transfer credit assessments to non-trading book items.	Page 37
444 (d)	Mapping of external rating to CQS.	The Group complies with the standard association published on the EBA website.
444 (e)	Exposure value pre and post-credit risk mitigation, by CQS.	Tables 37 and 38
Exposure to market risk		
445	Disclosure of position risk, large exposures exceeding limits, FX, settlement and commodities risk.	Pages 90 to 99
Operational risk		
446	Scope of approaches used to calculate operational risk.	Page 15

Appendix 5: CRD IV Roadmap continued

CRR ref	High-level summary	Compliance reference
Exposure in equities not included in the trading book		
447 (a)	Differentiation of exposures based on objectives and an overview of accounting techniques and valuation methodologies.	Page 65
447 (b)	The balance sheet value, the fair value and, for those exchange-traded, a comparison to the market price where it is materially different from the fair value.	Table 35
447 (c)	The types, nature and amounts of exchange-traded exposures, private equity exposures in sufficiently diversified portfolios, and other exposures.	Page 65
447 (d)	Realised gains or losses arising from sales and liquidations in the period.	Page 65
447 (e)	Total unrealised gains or losses, the total latent revaluation gains or losses, and any of these amounts included in the original or additional own funds.	Page 65
Exposure to interest rate risk on positions not included in the trading book		
448 (a)	Nature of the interest rate risk and the key assumptions, and frequency of measurement of the interest rate risk.	Page 92
448 (b)	Variation in earnings, economic value or other relevant measure used by the bank for upward and downward rate shocks according to the banks method for measuring the interest rate risk, broken down by currency.	Page 92
Exposure to securitisation positions		
449 (a)	Objectives in relation to securitisation activity.	Page 76
449 (b)	Nature of other risks in securitised assets, including liquidity.	Page 77
449 (c)	Risks in re-securitisation activity stemming from seniority of underlying securitisations and ultimate underlying assets.	Page 77
449 (d)	The roles played by the institution in the securitisation process.	Pages 76 and 77
449 (e)	Indication of the extent of involvement in roles.	Table 43
449 (f)	Processes in place to monitor changes in credit and market risks of securitisation exposures, and how the processes differ for re-securitisation exposures.	Page 77
449 (g)	Description of the institution's policies with respect to hedging and unfunded protection, and identification of material hedge counterparties.	Page 80
449 (h)	Approaches to the calculation of risk-weighted assets for securitisations mapped to types of exposures.	Table 43
449 (i)	Types of SSPEs used to securitise third-party exposures as a sponsor.	Pages 80 and 81
449 (j) (i-vi)	Summary of accounting policies for securitisations	Page 80
449 (k)	Names of ECAIs used for securitisations and type	Pages 77, 78 and 81
449 (l)	Full description of Internal Assessment Approach.	Page 81
449 (m)	Explanation of significant changes in quantitative disclosures.	Key movements explained where applicable under relevant tables.
449 (n)	As appropriate, separately for the Banking and trading book securitisation exposures:	
449 (n) (i)	Amount of outstanding exposures securitised.	Table 43
449 (n) (ii)	On balance sheet securitisation retained or purchased, and off balance sheet exposures;	Banking book – Tables 46, 47 and 48
449 (n) (iii)	Amount of assets awaiting securitisation;	Page 80
449 (n) (iv)	Early amortisation treatment; aggregate drawn exposures, capital requirements;	Not applicable
449 (n) (v)	Deducted or 1,250%-weighted securitisation positions;	Table 43
449 (n) (vi)	Securitisation activity including the amount of exposures securitised and recognised gains or losses on sales.	Page 77
449 (o)	Banking and trading book securitisations	Banking book – Tables 46, 47 and 48
449 (o) (i)	Retained and purchased positions and associated capital requirements, broken down by risk-weight bands;	Banking book – Tables 46, 47 and 48

CRR ref	High-level summary	Compliance reference
449 (o) (ii)	Retained and purchased re-securitisation positions before and after hedging and insurance; exposure to financial guarantors broken down by guarantor credit worthiness.	Not applicable
449 (p)	Impaired assets and recognised losses related to banking book securitisations, by exposure type.	Table 45
449 (q)	Exposure and capital requirements for trading book securitisations, separated into traditional and synthetic.	Table 44
449 (r)	Whether the institution has provided non-contractual financial support to securitisation vehicles.	Not applicable
Remuneration disclosure		
450	Remuneration disclosures (Material Risk Takers).	Pages 101-106 contain the remuneration awards made to the Group's Material Risk Takers. Refer to the Directors' Remuneration Report of the 2015 LBG ARA for other remuneration disclosures (pages 82 to 110).
Leverage		
451 (1) (a) 451 (1) (b) 451 (1) (c)	Leverage ratio, and breakdown of total exposure measure, including reconciliation to financial statements, and derecognised fiduciary items.	Tables 6, 72 to 74 for LBG. Tables 77 to 78 for Lloyds Bank Group Tables 93 to 94 for BoS Group
451 (1) (d) 451 (1) (e)	Description of the processes used to manage the risk of excessive leverage, and factors that impacted the leverage ratio during the year.	
Use of the IRB approach to credit risk		
452 (a)	Permission for use of the IRB approach from the competent authority.	Page 38
452 (b)	Explanation of:	
452 (b) (i)	Internal rating scales, mapped to external ratings;	Table 21
452 (b) (ii)	Use of internal ratings for purposes other than capital requirement calculations;	Page 39
452 (b) (iii)	Management and recognition of credit risk mitigation;	Pages 34 to 36
452 (b) (iv)	Controls around ratings systems.	Page 39
452 (c) (i)-(v)	Description of ratings processes for each IRB asset class, provided separately.	Pages 38 and 39
452 (d)	Exposure values by IRB exposure class, separately for Advanced and Foundation IRB.	Table 19 and shown in other tables throughout the document
452 (e)-(f)	For each exposure class, disclosed separately by obligor grade: Total exposure, separating loans and undrawn exposures where applicable, and exposure-weighted average risk weight.	Pages 55 to 63 (including Tables 23 to 29 and Tables 31 to 33)
452 (g)	Actual specific risk adjustments for the period and explanation of changes.	Table 18
452 (h)	Commentary on drivers of losses in preceding period.	Page 46
452 (i)	Estimates against actual losses for sufficient period, and historical analysis to help assess the performance of the rating system over a sufficient period.	Table 11
452 (j)	For all IRB exposure classes:	
452 (j) (i)-(ii)	Where applicable, PD and LGD by each country where the bank operates.	Table 41
Use of credit risk mitigation techniques		
453 (a)	Use of on and off-balance sheet netting.	Pages 34 and 35. Please note additional information with regards to balance sheet netting and derivatives is included in Counterparty Credit Risk section (page 84).
453 (b)	How collateral valuation is managed.	Page 34
453 (c)	Description of types of collateral used by the institution	Page 34
453 (d)	Main types of guarantor and credit derivative counterparty, creditworthiness	Pages 34 and 35
453 (e)	Market or credit risk concentrations within risk mitigation exposures.	2015 ARA pages 122 to 124

Appendix 5: CRD IV Roadmap continued

453 (f)	Standardised or Foundation IRB Approach, exposure value covered by eligible collateral.	Table 10
453 (g)	Exposures covered by guarantees or credit derivatives.	Table 10
Use of the Advanced Measurement Approaches to Operational Risk		
454	Description of the use of insurance or other risk transfer mechanisms to mitigate operational risk.	Not applicable
Use of Internal Market Risk Models		
455 (a) (i)	Disclosure of the characteristics of the market risk models.	Page 93
455 (a) (ii)	Disclosure of the methodologies used to measure incremental default and migration risk.	Page 93
455 (a) (iii)	Descriptions of stress tests applied to the portfolios.	Page 94
455 (a) (iv)	Methodology for back-testing and validating the models.	Page 94
455 (b)	Scope of permission for use of the models.	Page 93
455 (c)	Policies and processes to determine trading book classification, and to comply with prudential valuation requirements.	Page 95
455 (d) (i)-(iii)	High/Low/Mean values over the year of VaR, SVaR and incremental risk charge.	Tables 63 and 64
455 (e)	The elements of the own fund calculation.	Table 65
455 (f)	Weighted average liquidity horizons of portfolios covered by models.	Page 93
455 (g)	Comparison of end-of-day VaR measures compared with one-day changes in the portfolio's value.	Pages 97 to 99

Abbreviations

Abbreviation	Brief description
A	
ABCP	Asset-backed commercial paper
ABS	Asset-backed securities
AFS	Available-for-sale
AIRB	Advanced Internal Ratings-Based Approach
ALRB	Additional Leverage Ratio Buffer
AMA	Advanced Measurement Approach
AT1	Additional Tier 1 capital
B	
BCBS	Basel Committee on Banking Supervision
BEEL	Best estimate of expected losses
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
CDO	Collateralised debt obligation
CDS	Credit default swap
CET1	Common equity tier 1 capital
CIU	Collective investment undertaking
CLN	Credit linked notes
CLO	Collateralised loan obligation
CMBS	Commercial mortgage-backed security
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
ECNs	Enhanced capital notes
EEL	Excess expected loss
EL	Expected loss
EU	European Union
F	
FCA	Financial Conduct Authority (UK)
FCCM	Financial Collateral Comprehensive Method
FII	Financial Institutions Interconnectedness
FIRB	Foundation Internal Ratings-Based Approach
Fitch	Fitch Group
FPC	Financial Policy Committee (UK)
FRTB	Fundamental review of the trading book (BCBS)
FSB	Financial Stability Board
G	
GALCO	Group Asset and Liability Committee
GEC	Group Executive Committee
GENPRU	The PRA's rules, as set out in the General Prudential Sourcebook
GRC	Group Risk Committee
Group	Lloyds Banking Group plc together with its subsidiary undertakings on a consolidated basis
G-SIB	Globally Systemically Important Bank
H	
HPI	House price index
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
LTIP	Long-term incentive plan
LTV	Loan-to-value
M	
MGC	Model Governance Committee
Moody's	Moody's Investor Service
MTM	Mark-to-market
O	
OTC	Over-the-counter

Abbreviations continued

P	
PD	Probability of default
PFE	Potential future exposure
PFI	Private finance initiative
PIT	Point-in-time
PPI	Payment protection insurance product
PPP	Public-private partnership
PRA	Prudential Regulation Authority (UK)
PRR	Position risk requirement
PVA	Prudent valuation adjustment
Q	
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 rating agency
SCRA	Specific credit risk adjustment
SE	Structured entity
SFTs	Securities financing transactions
SME	Small and medium-sized enterprise
SRT	Significant risk transfer
T	
TSA	The Standardised Approach
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

Glossary

Additional Tier 1 Capital (AT1)	Additional tier 1 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.
Asset-Backed Commercial Paper (ABCP)	See **Commercial paper**
Asset-Backed Securities (ABS)	Asset-Backed Securities are securities that represent an interest in an underlying pool of referenced assets. The referenced pool can comprise any assets which attract a set of associated cash flows but are commonly pools of residential or commercial mortgages but could also include leases, credit card receivables, motor vehicles and student loans.
Backtesting	Application of an analytical method where historical data is used to determine how accurately the model has predicted actual results.
Basel III	The capital reforms and introduction of a global liquidity standard proposed by the Basel Committee on Banking Supervision in 2010 that are being phased in through CRD IV.
Basel III Leverage Ratio	A capital leverage measure, introduced under the Basel III reforms, that is defined as the ratio of tier 1 capital to total exposures, where total exposures equal the adjusted sum of all on balance sheet assets and off-balance sheet items not deducted in determining tier 1 capital. The leverage ratio is intended to reinforce risk based capital requirements with a simple, non-risk based 'backstop' measure.
Basis point	One hundredth of a per cent (0.01 per cent). 100 basis points is 1 per cent. Used in quoting movements in interest rates or yields on securities.
Buy-to-let mortgages	Buy-to-let mortgages are those mortgages offered to customers purchasing residential property as a retail investment.
Capital resources	Eligible capital held by the Group in order to satisfy its capital requirements.
Central Counterparty (CCP)	An institution mediating between the buyer and seller in a financial transaction, such as a derivative contract or repurchase agreement. Where a CCP is used, a single bilateral contract between the buyer and the seller is replaced with two contracts, one between the buyer and the CCP and one between the CCP seller.
Collateralised Debt Obligations (CDO)	A security issued by a third party which references ABSs or other assets purchased by the issuer. Lloyds Banking Group has invested in instruments issued by other banking groups, including Collateralised Loan Obligations and Commercial Real Estate CDOs.
Collateralised Loan Obligations (CLO)	A security backed by the repayments from a pool of commercial loans. CLOs are usually structured products with different tranches whereby senior classes of holder receive repayment before other tranches are repaid.
Collectively assessed loan impairment provision	A provision established following an impairment assessment on a collective basis for homogeneous groups of loans, such as credit card receivables and personal loans, that are not considered individually significant and for loan losses that have been incurred but not separately identified at the balance sheet date.
Commercial Mortgage-Backed Securities (CMBS)	Commercial Mortgage-Backed Securities are securities that represent interests in a pool of commercial mortgages. Investors in these securities have the right to cash received from mortgage repayments of interest and principal.
Commercial paper (CP)	Commercial paper is an unsecured promissory note issued to finance short-term credit needs. It specifies the face amount paid to investors on the maturity date. Commercial paper can be issued as an unsecured obligation of the Group or, for example when issued by the Group's conduits, as an asset-backed obligation (in such case it is referred to as **Asset-Backed Commercial Paper**). Commercial paper is usually issued for periods from as little as a week up to nine months.
Commercial real estate	Commercial real estate includes office buildings, industrial properties, medical centres, hotels, malls, retail stores, shopping centres, farm land, multifamily housing buildings, warehouses, garages, and industrial properties.
Common equity tier 1 capital (CET1)	The highest quality form of regulatory capital under CRD IV that comprises common shares issued and related share premium, retained earnings and other reserves excluding the cash flow hedging reserve, less specified regulatory adjustments.
Conduits	A financial vehicle that holds asset-backed securities which are financed with short-term deposits (generally **commercial paper**) that use the asset backed securities as collateral. The conduit will often have a liquidity line provided by a bank that it can draw down on in the event that it is unable to issue funding to the market.
Contractual maturities	Contractual maturity refers to the final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal will be repaid and interest is due to be paid.
Counterparty credit risk	Counterparty credit risk is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. Such transactions relate to contracts for financial instruments and may include derivative contracts and repo contracts.

Glossary continued

CRD IV	On 27 June 2013, the European Commission published, through the Official Journal of the European Union, its legislation for a Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR), which together form the CRD IV package. Amendments published on 30 November 2013 were made to the Regulation. The package implements the Basel III reforms in addition to the inclusion of new proposals on sanctions for non-compliance with prudential rules, corporate governance and remuneration. CRD IV rules apply from 1 January 2014 onwards, with certain requirements phased in over time.
Credit quality step	A step in the PRA's credit quality assessment scale which is based on the credit ratings applied by ECAIs. The scale is used to assign risk weights to exposures under the Standardised Approach.
Credit Conversion Factor (CCF)	Credit conversion factors (CCF) are used in determining the exposure at default (EAD) in relation to a credit risk exposure. The CCF is an estimate of the proportion of undrawn commitments expected to be drawn down at the point of default.
Credit Default Swaps (CDS)	A credit default swap is a type of credit derivative. It is an arrangement whereby the credit risk of an asset (the reference asset) is transferred from the buyer to the seller of protection. The entity selling protection receives premium or interest-related payments in return for contracting to make payments to the protection buyer upon a defined credit event. Credit events normally include bankruptcy, payment default on a reference asset or assets, or downgrades by a rating agency.
Credit derivatives	A credit derivative is a financial instrument that derives its value from the credit rating of an underlying instrument carrying the credit risk of the issuing entity. The principal type of credit derivatives are credit default swaps, which are used by the Group as part of its trading activity and to manage its own exposure to credit risk.
Credit Linked Note (CLN)	A credit linked note is a type of credit derivative. It is an arrangement whereby the protection buyer will issue a bond or note which is linked to the creditworthiness of an obligor and backed by certain collateral. The bond or note is purchased by the protection seller and the investor will receive a coupon on the bond or note (market rate and spread). If a credit event occurs in either the obligor or the collateral, the bond or note is redeemed by the protection buyer with the recovery being the redemption amount. If no credit event occurs, the bond or note will be redeemed at par by the protection buyer.
Credit risk	The risk that parties with whom the Group has contracted fail to meet their obligations (both on and off-balance sheet).
Credit risk mitigation	A technique used to reduce the credit risk associated with an exposure (which continues to be held) by application of credit risk mitigants such as collateral, guarantees and credit protection.
Credit risk spread (or credit spread)	The credit spread is the yield spread between securities with the same currency and maturity structure but with different associated credit risks, with the yield spread rising as the credit rating worsens. It is the premium over the benchmark or risk-free rate required by the market to take on a lower credit quality.
Credit Valuation Adjustments (CVA)	These are adjustments to the fair values of derivative assets to reflect the creditworthiness of the counterparty.
CVA capital charge	A capital charge for CVA is applied under CRD IV requirements. The charge is based on the mid-market valuation of the portfolio of transactions with a counterparty and reflects the current market value of the credit risk of the counterparty to the institution, but does not reflect the current market value of the credit risk of the institution to the counterparty.
Debit Valuation Adjustment (DVA)	An adjustment to the measurement of derivative liabilities to reflect default risk of the entity.
Debt restructuring	This is when the terms and provisions of outstanding debt agreements are changed. This is often done in order to improve cash flow and the ability of the borrower to repay the debt. It can involve altering the repayment schedule as well as reducing the debt or interest charged on the loan.
Debt securities	Debt securities are assets held by the Group representing certificates of indebtedness of credit institutions, public bodies or other undertakings, excluding those issued by Central Banks.
Debt securities in issue	These are unsubordinated debt securities issued by the Group. They include commercial paper, certificates of deposit, bonds and medium-term notes.
Default fund contributions (CCPs)	Contributions to the default fund of a central counterparty (CCP) are made by clearing members to protect the CCP and its members in the event that losses incurred by the CCP, following the default of a member, are greater than the other defences employed by the CCP.
Enhanced Capital Notes (ECNs)	The Group's ECNs are subordinated notes issued by the Group that contain an embedded equity conversion feature.
Equity risk	The financial risk involved in holding equity in a particular investment.
Expected Loss (EL)	This is the amount of loss that can be expected by the Group calculated in accordance with PRA rules. In broad terms it is calculated by multiplying the **Probability of Default** by the **Loss Given Default** by the **Exposure at Default**.

Export Credit Agencies	These agencies are defined as state or government sponsored, owned or controlled organisations or multi-lateral agencies that promote a country's exports of goods and services by enabling the exporter or the importer to obtain financing on terms that would not be otherwise available commercially. Such agencies can provide risk mitigation in the form of a guarantee (typically up to 85 per cent – 95 per cent of a contract value) providing cover and guarantee of payment in relation to commercial and political risk, thereby enabling lenders to support customers by offering financing on terms and for periods which might otherwise not be available in certain jurisdictions.
Exposure	An asset, off-balance sheet item or position which carries a risk of financial loss.
Exposure at default (EAD)	An estimate of the amount expected to be owed by a customer at the time of the customer's default.
External Credit Assessment Institutions (ECAI)	External Credit Assessment Institutions (ECAIs) include external credit rating agencies such as Standard & Poor's, Moody's and Fitch.
Fair value adjustment	Fair value adjustments arise on acquisition when assets and liabilities are acquired at fair values that are different from the carrying values in the acquired company. In respect of the Group's acquisition of HBOS the principal adjustments were write-downs in respect of loans and advances to customers and debt issued.
Financial Institutions Interconnectedness (FII)	Loans to other financial sector entities (FSEs) may require additional capital to be held through an adjustment to risk-weighted assets. In particular this additional capital applies to large FSEs and unregulated FSEs and is reflective of the additional risk created through the correlation of interbank lending.
Forbearance	Forbearance takes place when a concession is made on the contractual terms of a loan in response to an obligor's financial difficulties.
Foundation Internal Ratings Based (FIRB) Approach	Application of the Foundation Internal Ratings Based (FIRB) Approach allows internal estimates of PD to be used by the Group in determining credit risk capital requirements for wholesale portfolios. However, LGD and EAD under the Foundation IRB Approach are determined in accordance with standard parameters set by the regulator rather than on the basis of internal estimates. The FIRB Approach cannot be applied to retail portfolios.
Guaranteed mortgages	Mortgages for which there is a guarantor to provide the lender a certain level of financial security in the event of default of the borrower.
Guarantees	A guarantee is a contract whereby a third party guarantor promises to recompense the lender in the event of failure by a customer to meet their obligations.
Impaired loans	Impaired loans are loans where the Group does not expect to collect all the contractual cash flows or to collect them when they are contractually due.
Impairment allowances	Impairment allowances are a provision held on the balance sheet as a result of the raising of a charge against profit for the incurred loss inherent in the lending book. An impairment allowance may either be individual or collective.
Impairment losses	An impairment loss is the reduction in value that arises following an impairment review of an asset that determines that the asset's value is lower than it's carrying value. For impaired financial assets measured at amortised cost, impairment losses are the difference between the carrying value and the present value of estimated future cash flows, discounted at the asset's original effective interest rate.
Individually/collectively assessed	Impairment is measured individually for assets that are individually significant, and collectively where a portfolio comprises homogenous assets and where appropriate statistical techniques are available.
Individually assessed loan impairment provisions	Impairment loss provisions for individually significant impaired loans are assessed on a case-by-case basis, taking into account the financial condition of the counterparty, any guarantor and the realisable value of any collateral held.
Interest rate risk (IRR)	Interest rate risk in arises from the different repricing characteristics of the Group's non-trading assets, liabilities and off-balance sheet positions of the Group. IRR arises predominantly from the mismatch between interest rate sensitive assets and liabilities, but also to the investment term of capital and reserves, and the need to minimise income volatility.
Internal Assessment Approach (IAA)	The Internal Assessment Approach is an IRB approach for securitisations whereby a firm applies its internal assessment of the credit quality of the positions in the risk-weighted asset calculations. A firm must apply to the PRA for permission to use this approach and must satisfy the PRA of its internal assessment processes. The IAA may only be applied to exposures arising from asset backed commercial paper programmes.
Internal Capital Adequacy Assessment Process (ICAAP)	The Group's own assessment, based on CRD IV and PRA requirements, of the levels of capital that it needs to hold in respect of its regulatory capital requirements (for credit, market and operational risks) and for other risks including stress events as they apply on a solo level and on a consolidated level.
Internal Model Method (IMM)	The Internal Model Method is one of three methods available to calculate exposure values for counterparty credit risk. A firm must only apply the IMM if it has counterparty credit risk IMM permission from the PRA.
Investment grade	This refers to the highest range of credit ratings, from 'AAA' to 'BBB' as measured by external credit rating agencies.
International Swaps and Derivatives Association master agreement (ISDA)	A standardised contract developed by ISDA which is used as an umbrella contract for bilateral derivative contracts.

Glossary continued

Loan-to-value Ratio (LTV)	The loan-to-value ratio is a mathematical calculation which expresses the amount of a mortgage balance outstanding as a percentage of the total appraised value of the property.
Loans past due	Loans are past due when a counterparty has failed to make a payment when contractually due.
Loss Given Default (LGD)	The estimated loss that will arise if a customer defaults. It is calculated after taking account of credit risk mitigation and includes the cost of recovery.
Mark-to-Market (MTM) Approach	The Mark-to-Market Approach is one of three methods available to calculate exposure values for counterparty credit risk. The method adjusts daily to account for profits and losses in the value of related assets and liabilities.
Market risk	The risk that unfavourable market moves (including changes in and increased volatility of interest rates, market-implied inflation rates, credit spreads and bond prices, foreign exchange rates, equity, property and commodity prices and other instruments) lead to reductions in earnings and/or value.
Master netting agreement	An agreement between two counterparties that have multiple derivative contracts with each other that provides for the net settlement of all contracts through a single payment, in a single currency, in the event of default on, or termination of, any one contract.
Minimum capital requirement	The minimum regulatory capital that must be held in accordance with Pillar 1 requirements for credit, market and operational risk.
Model validation	The process of assessing and providing evidence that the bank's models perform as planned and adequately reflect the risk profile of the business, and that there are no material misstatements of the capital requirement. See also Backtesting.
Mortgage related assets	Assets which are referenced to underlying mortgages.
Multilateral Development Banks	Institutions created by groups of countries to provide finance and professional advice for development.
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
Over-the-counter derivatives (OTC)	Over-the-counter derivatives are derivatives for which the terms and conditions can be freely negotiated by the counterparties involved, unlike exchange traded derivatives which have standardised terms.
Past due items	An exposure class under the Standardised Approach that recognises exposures that are more than 90 days past due.
Pillar 1	The first pillar of the Basel III framework sets out the minimum regulatory capital requirements for credit, operational and market risks.
Pillar 2	The second pillar of the Basel III framework is known as the Supervisory Review Process, and sets out the review process for a banks capital adequacy; the process under which the supervisors evaluate how well financial institutions are assessing their risks and the actions taken as a result of these assessments.
Pillar 3	The third pillar of the Basel III framework aims to encourage market discipline by setting out disclosure requirements for bank's on their capital, risk exposures and risk assessment processes. These disclosures are aimed at improving the information made available to the market.
Potential Future Exposure (PFE)	A regulatory add-on for the potential future credit exposure on derivatives contracts as calculated under the Mark-to-Market Approach.
Prime mortgages	Prime mortgages are those granted to the most creditworthy category of borrower.
Private equity investments	Private equity is equity securities in operating companies not quoted on a public exchange. Investment in private equity often involves the investment of capital in private companies or the acquisition of a public company that results in the delisting of public equity. Capital for private equity investment is raised by retail or institutional investors and used to fund investment strategies such as leveraged buyouts, venture capital, growth capital, distressed investments and mezzanine capital.
Prudent Valuation Adjustment (PVA)	A regulatory deduction applied to CRD IV common equity tier 1 capital based upon the difference between the prudent value of trading book assets or other financial assets measured at fair value with the fair values recognised for these assets in the financial statements.
Point-in-Time (PIT)	Estimates of PD (or other measures) made on a Point-in-Time basis generally cover a short time horizon (usually a 12 month period) and are sensitive to changes in the economic cycle. This differs from a Through-the-Cycle (TTC) basis which uses long run average economic and risk data to reduce such sensitivity.
Probability of Default (PD)	The likelihood that a customer will default on their obligation within the next year.
Qualifying Revolving Retail Exposure (QRRE)	Qualifying Revolving Retail Exposures relate to revolving, unsecured retail exposures that, to the extent they are not drawn, are immediately and unconditionally cancellable. Such exposures include credit cards and overdraft facilities.
Ratings Based Approach (RBA)	The Ratings Based Approach is an IRB approach for securitisations applied to rated securitisation and re-securitisation positions. The approach applies risk weightings to positions based on a combination of ECAI ratings, the granularity of the underlying pool, the seniority of the position and whether the position is a re-securitisation position.

Regulatory capital	The amount of capital that the Group holds, determined in accordance with rules established by the PRA for the consolidated Group and by local regulators for individual Group companies.
Re-securitisations	A securitisation where the risk associated with an underlying pool of exposures is tranched and at least one of the underlying exposures is a securitisation position.
Renegotiated loans	Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case renegotiation can result in an extension of the due date of payment or repayment plans under which the Group offers a concessionary rate of interest to genuinely distressed borrowers. This will result in the asset continuing to be overdue and will be impaired where the renegotiated payments of interest and principal will not recover the original carrying amount of the asset. In other cases, renegotiation will lead to a new agreement, which is treated as a new loan.
Repurchase agreements or 'repos'	Short-term funding agreements which allow a borrower to sell a financial asset, such as ABS or Government bonds as collateral for cash. As part of the agreement the borrower agrees to repurchase the security at some later date, usually less than 30 days, repaying the proceeds of the loan.
Residential Mortgaged-Backed Securities (RMBS)	Residential Mortgage-Backed Securities are a category of ABS. They are securities that represent interests in a group of residential mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and/or principal).
Residual maturity	The length of time remaining from present date until the maturity of the exposure.
Retail Internal Ratings Based (Retail IRB) Approach	The Retail Internal Ratings Based (Retail IRB) Approach allows internal estimates of PD, LGD and EAD to be used in determining credit risk capital requirements for retail portfolios.
Retail loans	Money loaned to individuals rather than institutions. These include both secured and unsecured loans such as mortgages and credit card balances.
Risk appetite	The amount and type of risk that the Group is prepared to seek, accept or tolerate.
Risk-weighted assets (RWAs)	A measure of a bank's assets adjusted for their associated risks. Risk weightings are established in accordance with CRD IV requirements.
Securities financing transactions (SFTs)	Securities financing transactions are repurchase and reverse repurchase agreements, buy/sell backs and securities lending. For the lender (seller) of the securities it is usually a way to raise funds to finance the securities positions. For the borrower (buyer) of the securities it is a way to invest short–term funds or to cover short (bond) positions.
Securitisation	Securitisation is a process by which a group of assets, usually loans, are aggregated into a pool, which is used to back the issuance of new securities. Securitisation is the process by which ABS are created. A company sells assets to a structured entity which then issues securities backed by the assets. This allows the credit quality of the assets to be separated from the credit rating of the original company and transfers risk to external investors. Assets used in securitisations include mortgages to create mortgage-backed securities or Residential Mortgage-Backed Securities (RMBS) as well as Commercial Mortgage Backed Securities (CMBS). The Group has established several securitisation structures as part of its funding and capital management activities. These generally use mortgages, corporate loans and credit cards as asset pools.
Securitisation position	A retained or purchased position (exposure) in the securities issued by a securitisation.
SME Scalar	A reducing scalar is applied to the risk-weighted assets for eligible small and medium sized enterprises (SMEs). This is designed to minimise the impact of the overall increase in capital requirements through CRD IV on the SME sector. This requirement is due to be reviewed in 2016.
Sovereign exposures	Exposures to central governments and central government departments, central banks and entities owned or guaranteed by the aforementioned.
Specific credit risk adjustment (SCRAs)	Specific credit risk adjustments comprise of accounting impairment provisions and fair value adjustments that reflect losses exclusively related to credit risk. The criteria for recognition and applications under CRD IV are governed by the EBA Regulatory Technical Standard on the calculation of specific and general credit risk adjustments.
Standardised Approach	The Standardised Approach to calculating credit risk capital requirements requires the use of a standard set of risk weights prescribed by the regulator. Use may be made of external credit ratings supplied by ECAIs to assign risk weights to exposures. Standardised approaches, following prescribed methodologies, also exist for calculating market risk and operational risk capital requirements.
Stressed VaR (SVaR)	Stressed VaR is a one year forward looking measure of VaR where certain parameters of the portfolio are calculated under a period of stress.
Stress testing	Stress and scenario testing is the term used to describe techniques where plausible events are considered as vulnerabilities to ascertain how this will impact the capital resources which are required to be held.
Structured entities (SEs)	SEs are entities that have been designed so that voting or similar rights are not the dominant factor in determining who controls the entity, such as when voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. SEs often have specific restrictions around their ongoing activities and are created to accomplish a narrow and well-defined objective.

Glossary continued

Subordinated liabilities	Liabilities which, in the event of insolvency or liquidation of the issuer, are subordinated to the claims of depositors and other creditors of the issuer.
The Standardised Approach (TSA)	A standardised measure for calculating operational risk capital requirements based on the three year average of the aggregate risk-weighted relevant indicators of the underlying business. The relevant indicators are derived from total income.
Through-the-cycle (TTC)	See Point-in-time (PIT)
Tier 1 capital ratio	Tier 1 capital as a percentage of risk-weighted assets.
Tier 2 capital	A component of regulatory capital defined by the PRA, mainly comprising qualifying subordinated loan capital, certain non-controlling interests and eligible collective impairment allowances.
Total Return Swap	A credit linked note is a type of credit derivative. It is an arrangement whereby the protection buyer will pass on to the seller all payments it receives in return for an interest related payment (market rate and spread), plus any decrease in the market value of the credit obligation. Where net payments received from the swap are recorded as net income but any offsetting deterioration in the value of the asset that is protected is not recorded (either through reductions in fair value or by an addition to reserves), the credit protection must not be recognised as eligible.
Trading book	Positions in financial instruments and commodities held for trading purposes or to hedge other elements of the trading book.
Value-at-Risk (VaR)	Value-at-Risk is an estimate of the potential loss in earnings which might arise from market movements under normal market conditions, if the current positions were to be held unchanged for one business day. It is measured to specified level of confidence, often 95 per cent or 99 per cent.
Write downs	The depreciation or lowering of the value of an asset in the books to reflect a decline in their value, or expected cash flows.
Write-off	The reduction of the value of an asset to zero, reflecting the inability to recover any residual value.
Wrong way risk	The risk that arises from the correlation between a counterparty exposure and the credit quality of the counterparty. It is therefore the risk that the probability of default of the counterparty increases with the exposure.

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