Lloyds Banking Group plc

2021 Year-end
Pillar 3 Disclosures
31 December 2021

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FORWARD LOOKING STATEMENTS

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

Executive summary

COMMON EQUITY TIER 1 (CET1) RATIO

The Group’s CET1 capital ratio has increased to 17.3 per cent (31 December 2020: 16.2 per cent) reflecting banking business profits, with the impairment credit for the year more than offset by a release of IFRS 9 transitional relief, and a reduction in risk-weighted assets, offset in part by the full year ordinary dividend, pension contributions made to the defined benefit pensions schemes and other movements including the impact of the equity provided to the Group's Insurance business to fund the acquisition of Embark. The pro forma CET1 capital ratio as at 31 December 2021 was 16.3 per cent reflecting the final dividend received from the Insurance business in February 2022 and the accrual for the announced ordinary share buyback programme.

TOTAL CAPITAL RATIO

During 2021, the transitional total capital ratio increased to 23.6 per cent (31 December 2020: 23.3 per cent) largely reflecting the increase in CET1 capital, the issuance of a new tier 2 capital instrument and the reduction in risk-weighted assets. This was offset in part by the reduction in transitional limits applied to legacy tier 1 and tier 2 capital instruments, the impact of movements in rates and regulatory amortisation and the net outcome of the revised regulatory classification and exchange and tender offer exercises applied to the Group's legacy preference shares.

MREL RATIO

The Group's transitional minimum requirement for own funds and eligible liabilities (MREL) ratio increased to 37.2 per cent (31 December 2020: 36.4 per cent), largely reflecting the reduction in risk-weighted assets, offset in part by a reduction in other eligible liabilities.

UK LEVERAGE RATIO

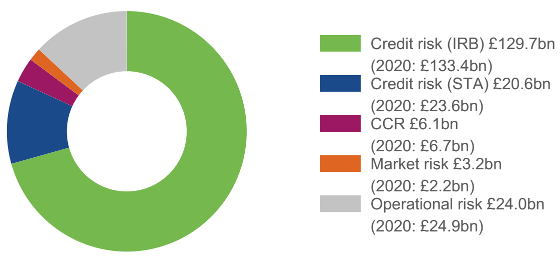
The UK leverage ratio remained at 5.8 per cent (31 December 2020: 5.8 per cent) as the reduction in the fully loaded total tier 1 capital position was offset by the reduction in the leverage exposure measure, the latter primarily reflecting movements in securities financing transactions and off-balance sheet items, net of increased balance sheet lending.

RISK-WEIGHTED ASSETS

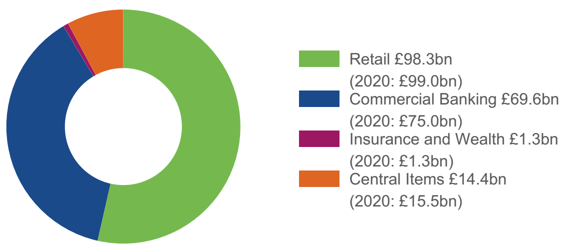
Risk-weighted assets at £196.0 billion reduced by £6.7 billion during the year. This was driven primarily by optimisation activity undertaken in Commercial Banking, partially offset by balance sheet growth in the business. Credit migrations have had a limited impact on the risk-weighted asset position, in part due to the increase in house prices.

SPLIT OF RISK WEIGHTED ASSETS

Risk-weighted assets by risk type[1,2,3]



Split of Risk-weighted assets by division[1]



1 Numbers do not include threshold risk-weighted assets.
2 Descriptions of credit risk approaches are detailed on page 15.
3 Counterparty credit risk (CCR) includes contributions to the default fund of central counterparties and credit valuation adjustment risk.

KEY METRICS

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

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

		31 Dec 2021	30 Sep 2021	30 Jun 2021	31 Mar 2021	31 Dec 2020
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1) (£m)	**33,815**	34,419	33,525	33,240	32,822
2	CET1 capital as if IFRS 9 transitional arrangements had not been applied (£m)	**33,033**	33,187	31,855	31,339	30,341
3	Tier 1 (£m)	**39,145**	39,749	38,855	38,534	38,666
4	Tier 1 capital as if IFRS 9 transitional arrangements had not been applied (£m)	**38,363**	38,517	37,185	36,633	36,185
5	Total capital (£m)	**46,334**	47,365	46,481	45,697	47,168
6	Total capital as if IFRS 9 transitional arrangements had not been applied (£m)	**46,336**	47,355	46,153	45,106	46,052
	Risk-weighted assets (amounts)					
7	Total risk-weighted assets (£m)	**195,967**	200,678	200,858	198,894	202,747
8	Total risk-weighted assets as if IFRS 9 transitional arrangements had not been applied (£m)	**195,874**	200,483	200,234	198,381	201,800
	Risk-based capital ratios as a percentage of RWA					
9	Common Equity Tier 1 ratio (%)	**17.3%**	17.2%	16.7%	16.7%	16.2%
10	CET1 ratio as if IFRS 9 transitional arrangements had not been applied (%)	**16.9%**	16.6%	15.9%	15.8%	15.0%
11	Tier 1 ratio (%)	**20.0%**	19.8%	19.3%	19.4%	19.1%
12	Tier 1 ratio as if IFRS 9 transitional arrangements had not been applied (%)	**19.6%**	19.2%	18.6%	18.5%	17.9%
13	Total capital ratio (%)	**23.6%**	23.6%	23.1%	23.0%	23.3%
14	Total capital ratio as if IFRS 9 transitional arrangements had not been applied (%)	**23.7%**	23.6%	23.0%	22.7%	22.8%
	Additional CET1 buffer requirements as a percentage of RWA					
	Capital conservation buffer requirement	**2.500%**	2.500%	2.500%	2.500%	2.500%
	Countercyclical buffer requirement	**0.005%**	0.007%	0.003%	0.003%	0.002%
	Bank G-SIB and/or D-SIB additional requirements[2]	**—**	—	—	—	—
	Total of bank CET1 specific buffer requirements	**2.505%**	2.507%	2.503%	2.503%	2.502%
	CET1 available after meeting the bank's minimum capital requirements	**12.8%**	12.7%	12.2%	12.2%	11.7%
	UK leverage ratio[3]					
15	UK leverage ratio exposure measure (£m)	**664,362**	671,527	658,689	655,443	666,070
16	UK leverage ratio	**5.8%**	5.8%	5.8%	6.0%	5.8%
17	UK leverage ratio as if IFRS 9 transitional arrangements had not been applied	**5.7%**	5.7%	5.6%	5.7%	5.5%
	Average Liquidity Coverage Ratio (weighted) (LCR)					
	Total High Quality Liquid Assets (HQLA) (£m)	**140,222**	137,134	139,108	142,700	141,747
	Total net cash outflow (£m)	**104,201**	105,095	105,824	106,442	104,553
	LCR ratio (%)	**135%**	130%	131%	134%	136%

1 The Group applies the full extent of the IFRS9 transitional arrangements for capital as set out under CRR Article 473a (as amended via the CRR 'Quick Fix' revisions published in June 2020). Specifically, the Group has opted to apply both paragraphs 2 and 4 of CRR Article 473a (static and dynamic relief) and in addition to apply a 100% risk weight to the consequential Standardised credit risk exposure add-back as permitted under paragraph 7a of the revisions. As at 31 December 2021, static relief under the transitional arrangements amounted to £353 million (31 December 2020: £616 million) and dynamic relief under the transitional arrangements amounted to £428 million (31 December 2020: £1,865 million) through CET1 capital.

2 Although the Group does not have an Other Systemically Important Institution (OSII) buffer (previously referred to as the Systemic Risk Buffer), it is required to hold additional CET1 capital to meet its Ring-Fenced Bank's OSII buffer of 2.0 per cent, which equates to 1.7 per cent of Group risk-weighted assets.

3 The CRD IV leverage ratio at 31 December 2021 is 5.2 per cent (31 December 2020 5.3 per cent).

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

KM2: Key Metrics – TLAC requirements

		31 December 2021 Resolution Group [1] £m	30 September 2021 Resolution Group [1] £m	30 June 2021 Resolution Group [1] £m	31 March 2021 Resolution Group [1] £m	31 December 2020 Resolution Group [1] £m
1	Total loss absorbing capacity (TLAC) available	**72,954**	74,130	72,846	71,832	73,726
1a	Fully loaded ECL accounting model TLAC available	**72,956**	74,120	72,519	71,241	72,610
2	Total RWA at the level of the resolution group	**195,967**	200,678	200,858	198,894	202,747
3	TLAC as a percentage of RWA	**37.2%**	36.9%	36.3%	36.1%	36.4%
3a	Fully loaded ECL accounting model TLAC as a percentage of fully loaded ECL accounting model RWA	**37.2%**	37.0%	36.2%	35.9%	36.0%
4	UK leverage ratio exposure measure at the level of the resolution group	**664,362**	671,527	658,689	655,443	666,070
5	TLAC as a percentage of UK leverage ratio exposure measure	**11.0%**	11.0%	11.1%	11.0%	11.1%
5a	Fully loaded ECL accounting model TLAC as a percentage of fully loaded ECL accounting model UK leverage ratio exposure measure	**11.0 %**	11.1%	11.0%	10.9%	10.9%
6a	Does the subordination exemption in the antepenultimate paragraph of Section 11 of the FSB TLAC Term Sheet apply?	**No**	No	No	No	No
6b	Does the subordination exemption in the penultimate paragraph of Section 11 of the FSB TLAC Term Sheet apply?	**No**	No	No	No	No
6c	If the capped subordination exemption applies, the amount of funding issued that ranks pari passu with excluded liabilities and that is recognised as external TLAC, divided by funding issued that ranks pari passu with excluded liabilities and that would be recognised as external TLAC if no cap was applied (%)	**N/a**	N/a	N/a	N/a	N/a

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

Introduction

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

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

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

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

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

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

INTERNAL CONTROL

The effectiveness of the risk management and internal control systems is reviewed regularly by the Board and the Audit Committee, which also receives reports of reviews undertaken by the Risk Division and Group Internal Audit. A statement from the Board is included within the Governance section of the 2021 Lloyds Banking Group plc Annual Report and Accounts (page 86) confirming that the Board concluded that the Group's risk management arrangements were adequate to provide assurance that the risk management systems put in place are suitable with regard to the Group's profile and strategy.

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

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

RING-FENCED BANK SUB-GROUP PILLAR 3 DISCLOSURE

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

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

LARGE SUBSIDIARY DISCLOSURES (CRR II ARTICLE 13)

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

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

The Group is not currently classified as a Global Systemically Important Bank (G-SIB), however, by virtue of the Group's leverage exposure measure exceeding €200 billion the Group is required to report G-SIB indicator metrics to the PRA. The Group's indicator metrics used within the 2021 Basel G-SIBs annual exercise will be disclosed from April 2022 and the results are expected to be made available by the Basel Committee later this year.

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

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

Disclosure policy

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

BASIS OF PREPARATION

This document contains the consolidated Pillar 3 disclosures of Lloyds Banking Group plc as at 31 December 2021. A CRR mapping table has been included in Appendix 6, which details how the Group has complied with each of the articles that cover the Pillar 3 disclosure requirements.

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

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

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

Article 432 of the CRR on non-material, proprietary or confidential information permits institutions to omit one or more disclosures if the information provided by such a disclosure is not regarded as material. As the Group's portfolio of trading book securitisation positions is relatively small (£14m exposure, £2m 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.

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

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

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

BASIS OF CREDIT RISK EXPOSURES

To ensure compliance with both CRR requirements and subsequent EBA guidelines, credit risk exposures are presented on different bases throughout the document. Information on the exposure basis is given either in column headings or supporting narrative within the Pillar 3 Credit Risk section (pages 29 to 84).

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

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

FREQUENCY, MEDIA AND LOCATION

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

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

VERIFICATION

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

RISK PROFILE DISCLOSURE

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

In this respect, the 2021 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 categories behind the Group's Pillar 1 capital requirements (credit, counterparty credit, market and operational risks), providing granular information and analysis in addition to that presented within the 2021 Lloyds Banking Group plc Annual Report and Accounts.

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

- Risk overview, pages 37 to 42;
- Emerging risks, page 141;
- Risk categories, page 143.

Scope of consolidation

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

INTRODUCTION

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

REGULATORY CONSOLIDATION

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

Subsidiary undertakings included within the scope of the regulatory consolidation are fully consolidated, with capital resources determined on a line-by-line (accounting) consolidation basis. Capital requirements are determined either on a line-by-line (accounting) consolidation basis or by aggregating individual subsidiaries' risk capital requirements. Other undertakings in which the Group holds a 'participation', or where it is otherwise deemed that the Group exerts significant influence over the undertaking, are generally consolidated on a proportional (pro-rata) basis where those undertakings fall under the scope of the regulatory consolidation. This follows line-by-line (accounting) consolidation based on the ownership share in the particular undertaking. Such undertakings may include joint ventures and associates, as defined under IFRS accounting standards. In certain circumstances, a holding in a participation or an undertaking over which the Group otherwise exerts significant influence is deducted from capital rather than proportionally consolidated.

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

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

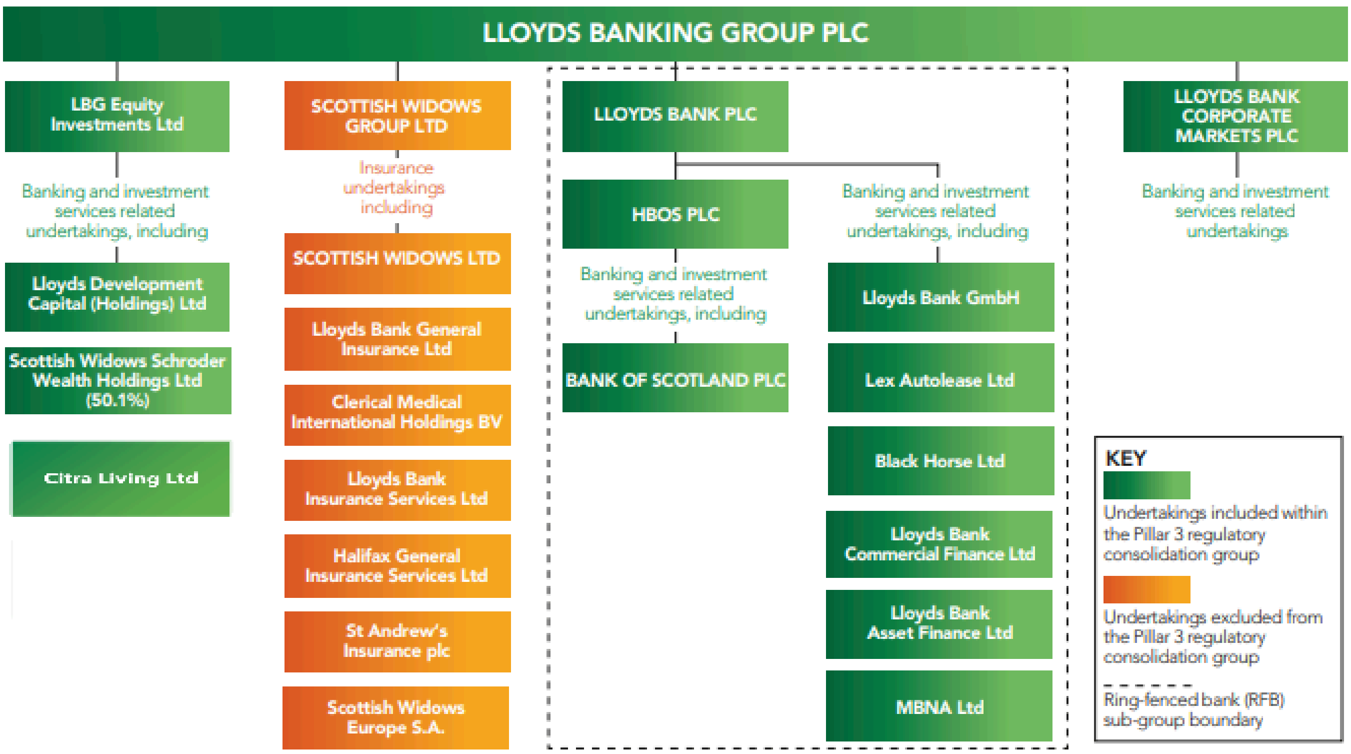
The full list of undertakings where the regulatory method of consolidation or treatment differs from the accounting method of consolidation or treatment is provided in Appendix 4, LI3.

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

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

REGULATORY CONSOLIDATION GROUP

A summarised diagrammatical representation as at 31 December 2021 of the regulatory consolidation group upon which the disclosures presented within this document are based is provided below. On 31 January 2022 Scottish Widows acquired Embark Group Limited, an investment firm group that will fall within the scope of the regulatory consolidation going forward.



Scope of consolidation continued

CONSOLIDATED BALANCE SHEET UNDER THE REGULATORY SCOPE OF CONSOLIDATION

The following table provides a reconciliation of the Group's consolidated balance sheet as at 31 December 2021 on an accounting consolidation basis (as presented on pages 208 and 209 of the 2021 Lloyds Banking Group plc Annual Report and Accounts) to the Group's consolidated balance sheet under the regulatory scope of consolidation. It also breaks down how carrying values under the scope of regulatory consolidation are allocated to the different risk frameworks laid out in Part Three of the CRR.

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

	31 Dec 2021						
			Carrying values of items:				
	Carrying values as reported in published financial statements	Carrying values under regulatory scope of consolidation	subject to credit risk framework	subject to counterparty credit risk framework	subject to securitisation framework	subject to market risk framework	not subject to capital requirements or subject to deduction from capital
	£m	£m	£m	£m	£m	£m	£m
Assets							
Cash and balances at central banks	76,420	75,518	75,518	—	—	—	—
Items in the course of collection fro	147	147	147	—	—	—	—
Financial assets at fair value through profit or loss	206,771	28,185	4,893	14,945	—	21,760	963
Derivative financial instruments	22,051	21,884	2	21,882	—	17,874	—
Financial assets at amortised cost	517,156	517,744	441,029	55,619	21,097	—	—
Loans and advances to banks	7,001	11,527	9,022	2,505	—	—	—
Loans and advances to customers	448,567	445,084	423,054	1,259	20,772	—	—
Reverse repurchase agreements	54,753	54,753	2,898	51,855	—	—	—
Debt securities	6,835	6,380	6,055	—	325	—	—
Financial assets at fair value through other comprehensive income	28,137	28,137	27,943	—	—	—	194
Investment in group undertakings	352	9,420	3,839	—	—	—	5,581
Value of in-force business	5,514						
Goodwill	2,320	540	—	—	—	—	540
Other intangible assets	4,196	4,230	1,254	—	—	—	2,976
Current tax recoverable	363	334	334	—	—	—	—
Deferred tax assets	3,118	4,249	1,144	—	—	—	3,105
Retirement benefit assets	4,531	4,531	—	—	—	—	4,531
Other assets	15,449	10,147	10,147	—	—	—	—
Total Assets	886,525	705,066	566,250	92,446	21,097	39,634	17,890

	31 Dec 2021						
			Carrying values of items:				
	Carrying values as reported in published financial statements	Carrying values under regulatory scope of consolidation	subject to credit risk framework	subject to counterparty credit risk framework	subject to securitisation framework	subject to market risk framework	not subject to capital requirements or subject to deduction from capital
	£m	£m	£m	£m	£m	£m	£m
Liabilities							
Deposits from banks	7,647	7,647	—	—	—	—	7,647
Customer deposits	476,344	477,094	—	5,663	—	—	471,431
Repurchase agreements at amortised cost	31,125	31,125	—	31,125	—	—	—
Items in course of transmission to banks	316	316	—	—	—	—	316
Financial assets at fair value through profit or loss	23,123	23,119	—	14,962	—	16,582	—
Derivative financial instruments	18,060	18,227	—	16,509	—	12,959	—
Notes in circulation	1,321	1,321	—	—	—	—	1,321
Debt securities in issue	71,552	70,482	—	—	—	—	70,482
Liabilities arising from insurance contracts and participating investment contracts	123,423	—	—	—	—	—	—
Liabilities arising from non-participating investment contracts	45,040	—	—	—	—	—	—
Other liabilities	19,947	6,473	—	—	—	—	6,473
Retirement benefit obligations	230	229	—	—	—	—	229
Current tax liabilities	6	6	—	—	—	—	6
Deferred tax liabilities	39	39	—	—	—	—	39
Other provisions	2,092	1,928	—	—	—	—	1,928
Subordinated liabilities	13,108	11,426	—	—	—	—	11,426
Total Liabilities	833,373	649,432	—	68,259	—	29,541	571,297

Differences between accounting and regulatory scopes of consolidation: Insurance undertakings are included in the published financial statements but excluded from the scope of the Group's regulatory consolidation. Therefore, assets and liabilities relating to the Group's insurance undertakings require to be removed from the regulatory balance sheet. The regulatory consolidation group diagram on page 9 highlights the key undertakings of the Group that are excluded from the scope of regulatory consolidation.

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

Market risk framework: Refer to Market risk linkages to the balance sheet.

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

Scope of consolidation continued

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

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

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

	Items subject to:		
	Credit risk framework	CCR framework	Securitisation framework
	£m	£m	£m
Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	566,250	92,446	21,097
Off balance sheet amounts	88,019	132,668	7,462
Differences due to specific regulatory adjustments	9,628	—	(203)
Differences due to consideration of provisions	3,432	—	—
Differences due to consideration of collateral, haircuts and netting	—	(199,506)	—
Regulatory Potential Future Exposures	—	10,544	—
Exposure amounts considered for regulatory purposes	667,329	36,152	28,356

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

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

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

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

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

Risk Management

THE GROUP'S APPROACH TO RISK

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

To meet ring-fencing requirements, core UK retail and commercial financial services and ancillary retail activities are ring-fenced from other activities of the Group. The Group's enterprise risk management framework (ERMF) and Group risk appetite apply across the Group and are supplemented by risk management frameworks and risk appetites for the sub-groups to meet sub-group specific needs. In each case these operate within the Group parameters. The Group's Corporate Governance Framework applies across Lloyds Banking Group plc, Lloyds Bank plc, Bank of Scotland plc and HBOS plc. It is tailored where needed to meet the entity-specific needs of Lloyds Bank plc and Bank of Scotland plc, and supplementary corporate governance frameworks are in place to address sub-group specific requirements of the other sub-groups (Lloyds Bank Corporate Markets, Insurance and Equity Investments).

Risk culture

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

Risk appetite

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

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

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

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

Governance and control

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

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

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

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

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

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

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

Risk decision making and reporting

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

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

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

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

The most significant risks the Group faces which could impact delivery of its strategy together with key mitigating actions, in line with the Risk Management framework, are outlined in the Risk Overview section of the 2021 Lloyds Banking Group plc Annual Report and Accounts, pages 37 to 42.

Details of the Group's application of stress testing, the methodologies applied, use of reverse stress testing and governance are presented in the Risk Management section of the 2021 Lloyds Banking Group plc Annual Report and Accounts, page 140.

Further details on the Group's risk governance are presented in the Risk Management section of the 2021 Lloyds Banking Group plc Annual Report and Accounts, pages 138 to 140.

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

Climate risk management can be found in the 2021 Lloyds Banking Group plc 2021 Climate Report, a supplement to the 2021 Lloyds Banking Group plc Annual Report and Accounts, which enables the Group to provide comprehensive reporting of our climate strategy and risk management activities.

Funding and liquidity risk, page 171, Insurance underwriting risk, page 185; Change / execution risk page 186; Conduct Risk page 186; Data Risk page 187 ; People risk, page 188; Operational resilience risk page 188; Regulatory & Legal risk page 191 and Strategic risk page 192.

THE REGULATORY CAPITAL FRAMEWORK

The Group's regulatory capital framework is defined by CRD IV, as amended by revisions to the Capital Requirements Directive implemented in December 2020 (CRD V) and by those provisions of the revised Capital Requirements Regulation (CRR II) that came into force in June 2019 and December 2020. The requirements are implemented in the UK by the PRA and supplemented through additional regulation under the PRA Rulebook and associated statements of policy, supervisory statements and other guidance.

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

The framework consists of various classifications of capital resources – Common Equity Tier 1 (CET1), Additional Tier 1 (AT1) and Tier 2 (T2) – to meet a stack of regulatory capital requirements and buffers, over and above which the Board maintains a management buffer to provide capacity for growth, meet current and future regulatory requirements and cover uncertainties.

REGULATORY CAPITAL RESOURCES

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

Common equity tier 1 capital

This represents the strongest form of capital consisting of shareholders' equity (ordinary share capital and reserves) after a number of regulatory adjustments and deductions have been applied. The most significant of these for the Group are the deduction of part of the Group's equity investment in its Insurance business and the deductions applied for goodwill and other intangible assets and a large part of the Group's deferred tax assets. Other significant deductions and adjustments consist of the deconsolidation of Insurance reserves, the elimination of the cash flow hedging reserve and the removal of defined benefit pension scheme surpluses. In addition reserves are adjusted to reflect the application of the IFRS 9 transitional arrangements for capital and accruals for foreseeable dividends and other forms of shareholder distributions.

Additional tier 1 capital

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

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

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

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

Tier 2 capital

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

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

Following revisions to eligibility criteria for capital instruments under CRR II, a single legacy T2 capital instrument of the Group will cease to qualify as regulatory capital after June 2025 in accordance with the revised transitional rules.

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

Any excess of IFRS 9 expected credit losses over regulatory expected losses in respect of the Group's IRB portfolios is added to T2 capital ('eligible provisions'), subject to a percentage cap based on IRB risk-weighted assets. However, as a consequence of applying the IFRS 9 transitional arrangements for capital, eligible provisions may be partially or fully reduced, with any resultant surplus adjustment under the arrangements subsequently deducted from tier 2 capital.

T1 and T2 together form Total Capital.

REGULATORY CAPITAL REQUIREMENTS AND BUFFERS

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

PILLAR 1 – MINIMUM CAPITAL REQUIREMENTS

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

The minimum amount of total capital, under Pillar 1 of the regulatory framework, is set at 8 per cent of total risk-weighted assets. At least 4.5 per cent of risk-weighted assets are required to be covered by CET1 capital and at least 6 per cent of risk-weighted assets are required to be covered by Tier 1 capital. These minimum Pillar 1 requirements are supplemented by additional minimum requirements under Pillar 2A of the regulatory framework, the aggregate of which is referred to as the Group's Total Capital Requirement (TCR), and a number of regulatory capital buffers as described on pages 17 and 18.

A range of approaches, varying in sophistication, are available under the regulatory framework to use in measuring risk-weighted assets and thereby determine the minimum level of capital required under Pillar 1. The Group's risk-weighted assets are predominantly calculated using internal models that are prudently calibrated based on loss experience and are subject to a number of internal controls and external approval from the PRA. A brief summary of the different approaches for the different risk types and their application by the Group as at 31 December 2021 is disclosed on pages 15 and 16, with further detail provided in each of the sections as indicated.

PILLAR 1 CAPITAL REQUIREMENTS

Risk type	Approaches	Application within the Group
Credit risk	Credit risk risk-weighted assets represent a measure of on and off-balance sheet exposures weighted according to risk as specified under the rules. There are two approaches available:	
	Standardised Approach (STA) This is the simpler approach which relies on the application of a prescribed set of risk weights to credit risk exposures, dependent on a number of factors including the applicable asset class and underlying credit quality. The Standardised Approach takes account of credit risk mitigation and specific credit risk adjustments (SCRAs) that the Group has applied against an exposure, before the relevant risk weight is applied to the adjusted exposure amount. Unlike exposures modelled under the IRB approach, there is no distinction made between expected and unexpected losses for exposures on the Standardised Approach. Under this approach banks can utilise risk assessments from External Credit Assessment Institutions (ECAIs) for a number of exposure classes that cover rated counterparties, including corporates, central governments or central banks and institutions. The Group uses ratings published by Standard & Poor's, Moody's and Fitch to determine risk-weights for rated counterparties under this approach.	The Group applies the Standardised Approach to the MBNA credit card portfolio, acquired residential mortgage portfolio and a small number of other portfolios across the Group. A number of these portfolios are either awaiting roll-out under the Group's IRB roll-out plan (including the MBNA credit card portfolio) or are permanently exempt from the IRB Approach, including the majority of the Group's central government and central bank exposures.
	IRB Approach (IRB) There are two main variations for commercial exposures – Foundation IRB (FIRB) and Advanced IRB (AIRB). For retail exposures, Retail IRB (RIRB) is available (a variation of AIRB). In each case a prescribed regulatory formula is used to calculate risk-weighted assets which incorporates probability of default (PD), loss given default (LGD) and exposure at default (EAD) in addition to other variables such as maturity and correlation. Regulatory expected losses (EL) under the FIRB, AIRB and RIRB approaches are calculated by multiplying regulatory EAD by PD and LGD, with the exception of defaulted exposures on the AIRB and RIRB where the best estimate of expected loss (BEEL) is used. Scaling factors are applied to the calculation of risk-weighted assets with an uplift applied for Financial Institutions Interconnectedness (FII) and a reduction for exposures to SMEs. *Foundation IRB Approach* The FIRB Approach uses internal assessments of a counterparty's PD (subject to certain floors) together with regulatory defined assessments for LGD and EAD. *Advanced IRB Approach* The AIRB Approach uses internal assessments of PD, EAD and LGD (subject to certain floors). *Retail IRB Approach* The Retail IRB Approach is a version of the AIRB Approach tailored to retail exposures.	Information on the comparison of EL and SCRAs, which form the basis of the calculation of Excess EL can be found on page 78. The FIRB Approach is used for the majority of the Group's commercial exposures as the Group does not have permission to utilise the AIRB Approach for these portfolios. The Group has permission to utilise the AIRB Approach for retail portfolios only and it therefore applies the Retail IRB Approach for its modelled retail exposures. For more information on IRB models refer to the Model Performance section on pages 39 to 47.
	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. For more detail on the application of the Supervisory Slotting Approach refer to page 61. A number of alternative methodologies exist for other exposures such as equity exposures and securitisation positions. For exposures on the Supervisory Slotting Approach and Equity Simple Risk Weight method, regulatory expected losses are determined by applying prescribed percentages.	The Group applies the Supervisory Slotting Approach to certain corporate specialised lending exposures that comprise mainly of commercial real estate portfolios. The Simple Risk Weight Method is applied to the Group's equity exposures. Securitisation positions are risk weighted under the Securitisation External Ratings Based Approach (SEC-ERBA), the Securitisation Internal Ratings Based Approach (SEC-IRBA) or the Securitisation Standardised Approach (SEC-SA).

Risk type	Approaches	Application within the Group
Counterparty credit risk	There are several approaches for measuring exposures to counterparty credit risk, as set out below. The resultant exposures are risk-weighted under either the Standardised Approach or the relevant IRB Approach, as appropriate, to determine the capital requirement. **Standardised Approach** The exposure value is calculated by applying a multiplier to the market value, dependent on the type of contract. **Original Exposure Method** The exposure value is calculated by multiplying the notional amount of the instrument by set percentages prescribed depending on maturity. **Mark-to-Market Method** An add-on for potential future exposure (PFE) is applied to the mark-to-market value of the instrument to give the overall exposure. **SFT Comprehensive Approach** Volatility adjustments are applied to the market value of collateral to take account of price volatility. **Internal Models Method (IMM)** The fair value on the balance sheet is replaced by an exposure value calculated using internal models. Exposures to central counterparties (CCPs), comprising trades, default fund contributions and initial margin are subject to specific measurement and risk weight requirements. Credit valuation adjustment (CVA) risk is calculated under either the Advanced Method (via the use of internal models) or the Standardised Method.	The Group's derivative and SFT counterparty credit risk exposures are measured under the Mark-to-Market Method and SFT Comprehensive Approach respectively, prior to being risk weighted under the Standardised Approach, FIRB Approach or Supervisory Slotting Approach as appropriate. From 1 January 2022 the Group's derivative counterparty credit risk exposures will be measured under the new Standard Approach (SA-CCR). The Group applies the Standardised Method for calculating CVA risk.
Market risk	The two key approaches for Market Risks are as follows **Standardised Approach (STA)** This requires the calculation of position risk requirements (PRR) for each type of market risk in the trading book in accordance with standard rules set by the PRA. **Internal Models Approach (IMA)** Involves the use of internal Value at Risk (VaR) and other models to determine appropriate capital requirements based on the market risks in the trading book.	The majority of the Group's trading book positions are assigned a capital requirement under the Internal Models Approach with the remainder following the Standardised Approach.
Operational risk	There are three approaches for Operational Risk: **Basic Indicator Approach (BIA)** A low risk sensitivity approach which calculates the capital requirement as a percentage of average net interest and non-interest income. **Standardised Approach (TSA)** A medium risk sensitivity approach where the capital requirement is derived from regulatory prescribed factors applied to the three year average income from various business lines. **Advanced Measurement Approach (AMA)** A high risk sensitivity approach where, following PRA approval, the capital requirement is determined through the use of an internal operational risk measurement model.	The Group measures its operational risk requirement using the Standardised Approach.

PILLAR 2 – SUPERVISORY REVIEW PROCESS

The Pillar 1 minimum requirement for capital is supplemented by a Pillar 2A capital requirement and a framework of regulatory capital buffers.

The aggregate of the Pillar 1 and Pillar 2A capital requirements are referred to as the Total Capital Requirement (TCR).

INDIVIDUAL CAPITAL REQUIREMENT

Additional minimum requirements under Pillar 2A are set by the PRA as a firm-specific Individual Capital Requirement (ICR) reflecting a point in time estimate, which may change over time, of the minimum amount of capital to cover risks that are not fully covered by Pillar 1, such as credit concentration and operational risk, and those risks not covered at all by Pillar 1, such as pensions and interest rate risk in the banking book (IRRBB). During the year the PRA reduced the Group's nominal Pillar 2A capital requirement, which was the equivalent of around 3.7 per cent of risk-weighted assets as at 31 December 2021, of which the minimum amount to be met by CET1 capital was the equivalent of around 2.1 per cent of risk-weighted assets. During 2022, the PRA will revert to setting a variable amount for the Group's Pillar 2A capital requirement (being a set percentage of risk-weighted assets), with fixed add-ons for certain risk types.

In line with PRA policy, the Group's Pillar 2A capital requirement includes a reduction linked to the setting of a 2 per cent UK countercyclical capital buffer (CCyB) rate under normal conditions, as defined by the Bank of England's Financial Policy Committee (FPC). This reduction is currently fully offset by other regulatory capital buffers at the CET1 capital level, whilst the UK CCyB rate remains at nil and will be expected to unwind going forward as and when the UK CCyB rate increases to 2 per cent.

The Group is not permitted by the PRA to disclose any details on the individual components of Pillar 2A.

A key input into the PRA's ICR 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 Group's ICAAP supplements the Pillar 1 capital requirements for credit risk, counterparty credit risk, operational risk and traded market risk by assessing 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.

The regulatory capital framework continued

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. The operational risk assessment includes consideration of conduct risk.
- Residual value risk – the risk that the value of assets being returned are less than the customer balance, with resultant loss to the Group.

Risks not covered at all by Pillar 1

- Pension obligation risk – the potential for losses that the Group would incur in the event of a significant deterioration in the funding position of the Group's defined benefit pension schemes.
- Interest rate risk in the banking book – the potential losses in the non-trading book resulting from interest rate changes or changes in spreads between different rates.

The detailed ICAAP document is subject to a robust review process, approved by the Board and submitted to the PRA for their consideration ahead of setting the ICR.

REGULATORY CAPITAL BUFFERS

The Group is also required to hold a number of regulatory capital buffers, which are required to be met with CET1 capital.

Systemic buffers

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

The O-SII buffer applies to the Group's RFB sub-group and is currently set at 2.0 per cent of the RFB sub-group's risk-weighted assets. The size of the buffer applied to the RFB sub-group is dependent upon the level of its total assets. The O-SII buffer equates to 1.7 per cent of risk-weighted assets at Group level, with the difference reflecting the risk-weighted assets of the Group that are not in the RFB sub-group and for which the O-SII buffer does not therefore apply. It is the PRA's policy to include this in the Group's PRA Buffer. The next review of the RFB sub-group's O-SII buffer will take place in December 2023, based upon end-2022 financial results, with any changes applying from 1 January 2025. The FPC is proposing to amend the O-SII buffer framework in order to change the metric for determining the buffer rate from total assets to the UK leverage exposure measure.

Capital conservation buffer

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

Countercyclical capital buffer

The countercyclical capital buffer (CCyB) is time-varying and is designed to require banks to hold additional capital to remove or reduce the build-up of systemic risk in times of credit boom, providing additional loss absorbing capacity and acting as an incentive for banks to constrain further credit growth. The amount of the buffer is determined by reference to buffer rates applied by the FPC for the individual countries where the Group has relevant credit exposures. The CCyB rate for the UK is currently set at 0 per cent as a result of the measures introduced by UK regulators during the first half of 2020 in response to COVID-19. In December 2021 the FPC announced that the UK CCyB rate will increase to 1 per cent in December 2022, with an expectation that it will increase to 2 per cent in Q2 2023 if the economy continues to recover broadly in line with the Bank of England's central projections and upon the assumption there is no significant change to the financial stability outlook.

Given the Group's UK focused business model, the Group's CCyB at 31 December 2021 was around 0 per cent of risk-weighted assets. The FPC announcement on the future increases in the UK CCyB rate would represent an equivalent increase in the Group's CCyB to 0.9 per cent in December 2022 and 1.8 per cent in Q2 2023, based upon the position of the Group at 31 December 2021.

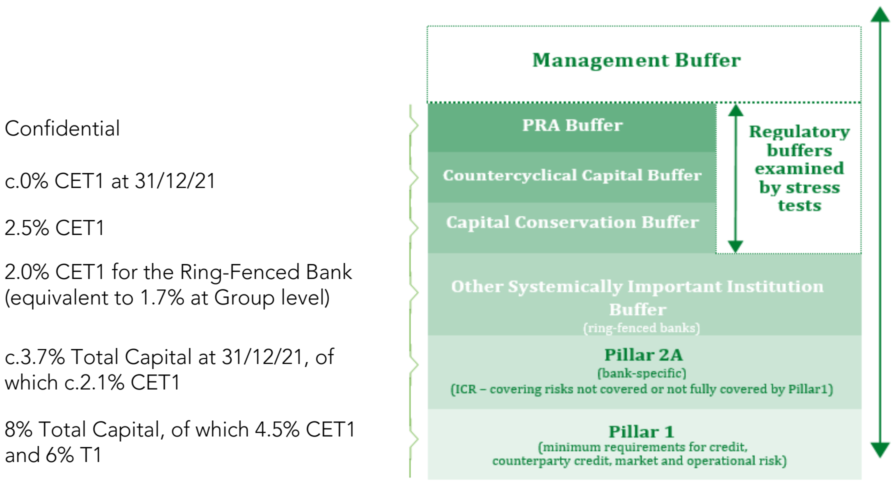
Additional disclosures around the geographical distribution of credit exposures relevant to the calculation of the countercyclical capital buffer have been included in Appendix 1.

PRA buffer

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

Under previous Bank of England stress tests, the BoE has taken action to avoid an unwarranted de facto increase in capital requirements that could result from the interaction of IFRS 9. The stress hurdle rates for banks participating in past exercises were adjusted to recognise the additional resilience provided by the earlier provisions taken under IFRS 9. A similar approach was applied for the 2021 solvency stress test. The Bank is continuing to work on a more enduring treatment of IFRS 9 for the purposes of future stress tests and collected additional data during the 2021 solvency stress test which could help inform a future approach.

Further details on the Group's stress testing processes are included on page 140 of the 2021 Lloyds Banking Group plc Annual Report and Accounts.



The Group's Pillar 2A CET1 capital requirement reduced in nominal terms during the year but remained the equivalent of 2.1 per cent of RWAs. The countercyclical capital buffer is currently around 0 percent but the FPC has announced that the UK countercyclical capital buffer rate will increase to 1 per cent in December 2022 with an expectation that it will increase to 2 per cent in Q2 2023.The Board's view of the current level of CET1 capital required is c.12.5 per cent, plus a management buffer of c.1 per cent.

The regulatory capital framework continued

All buffers

All buffers are required to be met with CET1 capital. Usage of the PRA Buffer would trigger a dialogue between the Group and the PRA to agree what action is required whereas a breach of the combined buffer (all other regulatory buffers, as referenced above) would give rise to mandatory restrictions upon any discretionary capital distributions. The PRA has previously communicated its expectation that banks' capital and liquidity buffers can be drawn down as necessary to support the real economy through a shock and that sufficient time would be made available to restore buffers in a gradual manner.

Sectoral capital requirements

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

PILLAR 3 – MARKET DISCIPLINE

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

The Group's Pillar 3 disclosures comply with all relevant regulatory requirements, associated guidelines and technical standards in force at 31 December 2020 as referenced in Appendices 5 and 6.

As of 1 January 2022, UK Pillar 3 disclosure requirements are now set out under the new Disclosure Part of the PRA Rulebook. This includes revised disclosure requirements that apply from the same date and which reflect the UK implementation of the remaining provisions of CRR II.

LEVERAGE FRAMEWORK

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

The minimum leverage ratio requirement under the UK Leverage Ratio Framework is 3.25 per cent. This is supplemented by a time-varying countercyclical leverage buffer (CCLB) which is determined by multiplying the leverage exposure measure by 35 per cent of the countercyclical capital buffer (CCYB) rate. As at 31 December 2021 the CCLB for the Group was 0 per cent. Following the FPC's announcements on the planned increase of the UK CCyB rate, the Group's CCLB would be expected to increase to 0.3 per cent in December 2022 and 0.6 per cent in Q2 2023, based upon the position of the Group at 31 December 2021. An additional leverage ratio buffer (ALRB) of 0.7 per cent applies to the RFB sub-group and is determined by multiplying the RFB sub-group leverage exposure measure by 35 per cent of the O-SII buffer. This equates to 0.6 per cent of the total leverage exposure measure at Group level.

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

The calculation of the Group's leverage ratio under the UK Leverage Ratio Framework differs from the CRD IV equivalent in that it permanently excludes qualifying central bank claims from the leverage exposure measure.

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

RING-FENCING

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

IFRS 9 TRANSITIONAL ARRANGEMENTS

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

As part of the response to the impact of the coronavirus pandemic, supportive revisions were made to the IFRS 9 transitional arrangements for capital, which the Group has applied in full. Since June 2020, these arrangements have provided some stability in capital requirements against the volatility and provisioning connected to the impact of IFRS 9.

The revised arrangements published in June 2020 via the CRR 'Quick Fix' revisions include the following:

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

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

REGULATORY UPDATES

Changes effective from 1 January 2022

A number of policy statements, regulatory technical standards and guidelines issued over recent years came into effect on 1 January 2022 in the UK. The following changes are of most relevance to the Group:

- IRB Mortgage models – change in the definition of default from 180 days to 90 days and other definitional changes linked to the EBA IRB Repair Programme including changes to PD and downturn LGD calculations. Further PRA specific rules on a 'hybrid' PD approach and peak to trough HPI assumptions in downturn LGD estimation have also been introduced.
- Other IRB models – these portfolios are also impacted by changes linked to the EBA IRB Repair Programme.
- UK Mortgage floors – introduction of a 10 per cent aggregate risk weight floor for UK mortgages.
- Standardised counterparty credit risk framework (SA-CCR) – a new standardised approach for measuring counterparty credit risk derivative exposures and a revised framework for calculating exposures to central counterparties prior to risk weighting. The approach is more risk sensitive than the current exposure method (CEM) and introduces differentiation between margined and unmargined netting sets in addition to an alpha factor of 1.4.

The regulatory capital framework continued

- Net stable funding ratio (NSFR) – the introduction of NSFR is expressed as a percentage, calculated as the ratio of an institution's amount of available stable funding to its required stable funding over a one year horizon, with a minimum requirement of 100 per cent on a continual basis. In the UK, disclosure of the metric does not commence until 2023 as the PRA have adopted disclosures based on averaging the prior 12 month of actuals.
- Software assets – re-instating the requirement to deduct all intangible assets from CET1 capital with no exception for software assets, reversing the more beneficial treatment of software assets that originally came into force in December 2020.
- Large Exposures – changes to measuring and controlling large exposures, with the objective of protecting firms from losses as a result of a sudden default of a counterparty or group of connected counterparties.
- Leverage ratio – revisions to the UK leverage ratio framework which include the implementation of CRR II, resulting in the introduction of modified SA-CCR rules for the measurement of derivative exposures.
- Pillar 3 – new disclosure templates for SA-CCR, NSFR and interest rate risk in the banking book (IRRBB) amongst other changes to reflect the new prudential requirements under the Disclosure Part of the PRA Rulebook.

Final Basel III reforms

The Basel Committee published its final reforms on Basel III in December 2017 with the original intention that these be implemented by 1 January 2022. However, in response to the impact of the coronavirus pandemic, the Basel Committee has now proposed that the final reforms should be implemented by 1 January 2023. However, final implementation is the responsibility of local regulators.

The purpose of the reforms is to restore credibility in the calculation of risk-weighted assets and to improve comparability between banks'capital ratios through the following measures:

- improving the granularity and risk sensitivity of the standardised credit risk framework;
- addressing shortcomings related to the use of the IRB credit risk framework, including excessive complexity, lack of comparability and lack of robustness in modelling certain asset classes, by removing the option to apply the Advanced IRB Approach for low default portfolios, adopting input floors for PDs, LGDs and EADs to ensure a degree of conservatism is maintained in modelled outputs and providing greater specification of parameter estimation practices to reduce variability in risk-weighted assets.
- replacing the existing approaches under the operational risk framework with a single risk sensitive standardised approach (the Standardised Measurement Approach) that combines a measure of a bank's income with a measure of its historic operational risk losses.
- revisions to the credit valuation adjustment (CVA) risk framework designed to enhance its risk sensitivity, strengthen its robustness and improve its consistency.
- replacing the current Basel II capital floors (output) requirement with a new version based on the revised Basel III standardised approaches.

The purpose of the new floors requirement is to act as a backstop that limits the extent to which banks can reduce their risk-weighted assets under modelled approaches relative to the standardised equivalents. The risk-weighted assets for a bank applying modelled approaches will therefore require to be the higher of (i) the total risk-weighted assets as calculated under the approaches applied by the bank and (ii) 72.5 per cent of the total risk-weighted assets calculated when applying revised standardised approaches only across all relevant risk categories. The floor would be phased in over a 5 year period.

The final reforms also include revisions to the Basel III leverage ratio framework, introducing a leverage buffer requirement for G-SIBs and refining the definition of the leverage ratio exposure measure. The latter includes the ability for local regulators to exempt central bank reserves from the exposure measure on a temporary basis during periods of exceptional macroeconomic circumstances, subject to a recalibration of the minimum leverage ratio requirement to compensate for the impact of excluding the associated balances. The UK leverage ratio framework already includes such an exemption and recalibration, but on a permanent basis.

The Basel Committee originally issued final standards for market risk on the Fundamental Review of the Trading Book (FRTB) in January 2019. 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.

During 2021 the European Commission published proposals to implement the final Basel III reforms originally published in December 2017, on 1 January 2025 with some amendments for the specific features of the EU's banking sector including application of the output floor at the highest consolidation level only and retaining the CVA corporate exemption and SME scalar.

It is expected that UK regulators will consult on the implementation of the final reforms during the second half of 2022 and it is uncertain as to whether the UK will follow the EU in amending some of the requirements.

Minimum requirement for own funds and eligible liabilities (MREL)

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

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

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

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

Applying the MREL SoP to minimum capital requirements at 31 December 2021, the Group's transitional MREL, excluding regulatory capital and leverage buffers, is the higher of 2 times Pillar 1 plus Pillar 2A, equivalent to 19.7 per cent of risk-weighted assets, or 6.5 per cent of the UK leverage ratio exposure measure.

On 1 January 2022 the Group's MREL, excluding regulatory capital and leverage buffers, increased to the higher of 2 times Pillar 1 plus 2 times Pillar 2A, equivalent to 23.5 per cent of risk-weighted assets as based upon minimum capital requirements at 31 December 2021, or 6.5 per cent of the UK leverage ratio exposure measure.

In addition, CET1 capital cannot be used to meet both MREL and capital or leverage buffers.

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

Internal MREL also apply to the Group's material sub-groups and entities, including the RFB sub-group, Lloyds Bank plc, Bank of Scotland plc and Lloyds Bank Corporate Markets plc.

CAPITAL MANAGEMENT

THE GROUP'S APPROACH TO CAPITAL RISK

DEFINITION

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

EXPOSURES

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

MEASUREMENT

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

Further information on the Group's approach to measuring both capital requirements and the amount of capital resources it holds to meet those requirements can be found on pages 14 to 19 (*The Regulatory Capital Framework*).

MITIGATION

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

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

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

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

MONITORING

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

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

The Group continues to monitor prudential developments very closely, analysing the potential capital impacts to ensure that, through organic capital generation and management actions, the Group continues to maintain a strong capital position that exceeds both minimum regulatory requirements and the Group's risk appetite and is consistent with market expectations.

TARGET CAPITAL RATIOS

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

This takes into account, amongst other things:

- The minimum Pillar 1 CET1 capital requirement of 4.5 per cent of risk-weighted assets
- The Group's Pillar 2A capital requirement set by the PRA. During the year the PRA reduced the Group's nominal Pillar 2A capital requirement, of which the minimum amount to be met by CET1 capital was the equivalent of around 2.1 per cent of risk-weighted assets as at 31 December 2021
- The Group's current CCyB requirement which is around 0 per cent of risk-weighted assets
- The CCB requirement of 2.5 per cent of risk-weighted assets
- The RFB sub-group's O-SII buffer of 2.0 per cent of risk-weighted assets, which equates to 1.7 per cent of risk-weighted assets at Group level
- The Group's PRA Buffer
- The desire to maintain a progressive and sustainable ordinary dividend policy in the context of year to year earnings movements

Capital management continued

ANALYSIS OF CAPITAL POSITION

The Group's CET1 capital ratio increased to 17.3 per cent (31 December 2020: 16.2 per cent), reflecting a strong capital build for the year, partly offset by 77 basis points in respect of the full year ordinary dividend and a further 10 basis points for variable pension contributions made to the Group's main defined benefit pensions schemes in December.

The capital build included the following:

- Banking profitability (pre-underlying impairment credit) of 210 basis points, with a limited impairment offset of 19 basis points, being the net impact of IFRS 9 transitional relief reduction (including 5 basis points for the phased reduction of static relief) and the impairment credit for the year
- A reduction in risk-weighted assets generating an increase equivalent to 58 basis points
- Offset by fixed pension contributions made to the defined benefit pension schemes of 41 basis points and other movements of 14 basis points which includes around 30 basis points for the impact of the equity provided to Insurance to fund the acquisition of Embark

Including the Insurance dividend received in February 2022 and the impact of the announced ordinary share buyback programme, the Group's pro forma CET1 capital ratio at 31 December 2021 was 16.3 per cent (31 December 2020: 16.2 per cent).

The capital impact of 77 basis points for the full year ordinary dividend of £1,420 million reflects both the interim ordinary dividend of 0.67 pence per share paid in September 2021 and an accrual for foreseeable ordinary dividends representing the recommended final ordinary dividend for 2021 of 1.33 pence per share.

The announced ordinary share buyback programme of up to £2 billion is equivalent to 2.82 pence per share and a reduction of 108 basis points. The buyback will commence as soon as is practicable and the full impact will be accrued for through the Group's actual capital position upon announcement.

The Group continues to apply the revised IFRS 9 transitional arrangements for capital which provide for temporary capital relief for the increase in accounting impairment provisions following the initial implementation of IFRS 9 ('static' relief) and subsequent relief for any increases in Stage 1 and Stage 2 expected credit losses since 1 January 2020 ('dynamic' relief). The transitional arrangements do not cover Stage 3 expected credit losses. The total CET1 capital relief recognised at 31 December 2021 amounted to 40 basis points.

On 1 January 2022, the pro forma CET1 capital ratio reduced by around 230 basis points to 14.0 per cent, reflecting the following:

- An increase in risk-weighted assets to £212 billion on a pro forma basis, in addition to other related modelled impacts on CET1 capital, following the implementation of new CRD IV mortgage, retail unsecured and commercial banking models to meet revised regulatory standards for modelled outputs and the UK implementation of the remainder of CRR 2 which includes a new standardised approach for measuring counterparty credit risk (SA-CCR). These were partially offset by the removal of risk-weighted assets linked to the reversal of the revised treatment that had previously been applied to intangible software assets and other movements. The new CRD IV models are subject to finalisation and approval by the PRA and therefore uncertainty over the final impact remains
- An increase in intangible software assets deducted from CET1 capital following the reversal of the revised treatment
- A reduction in IFRS 9 relief reflecting both phasing under the transitional arrangements and the impact of the new CRD IV models. The remaining relief on 1 January 2022 amounted to around 10 basis points

During 2021, the transitional total capital ratio increased to 23.6 per cent (31 December 2020: 23.3 per cent) largely reflecting the increase in CET1 capital, the issuance of a new tier 2 capital instrument and the reduction in risk-weighted assets. This was offset in part by the reduction in transitional limits applied to legacy tier 1 and tier 2 capital instruments, the impact of movements in rates and regulatory amortisation and the net outcome of the revised regulatory classification and exchange and tender offer exercises applied to the Group's legacy preference shares.

The Group's transitional minimum requirement for own funds and eligible liabilities (MREL) ratio increased to 37.2 per cent (31 December 2020: 36.4 per cent), largely reflecting the reduction in risk-weighted assets, offset in part by a reduction in other eligible liabilities.

The UK leverage ratio remained at 5.8 per cent (31 December 2020: 5.8 per cent) as the reduction in the fully loaded total tier 1 capital position was offset by the reduction in the leverage exposure measure, the latter primarily reflecting movements in securities financing transactions and off-balance sheet items, net of increased balance sheet lending.

TOTAL CAPITAL REQUIREMENT

The Group's total capital requirement (TCR) as at 31 December 2021, being the aggregate of the Group's Pillar 1 and current Pillar 2A capital requirements, was £22,986 million (31 December 2020: £23,918 million).

CAPITAL RESOURCES

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

Capital management continued

CAPITAL RESOURCES

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

Capital resources

	Transitional		Fully loaded	
	2021	2020	2021	2020
	£m	£m	£m	£m
Common equity tier 1				
Shareholders' equity per balance sheet	47,011	43,278	47,011	43,278
Adjustment to retained earnings for foreseeable dividends	(947)	(404)	(947)	(404)
Deconsolidation adjustments[1]	2,486	2,333	2,486	2,333
Adjustment for own credit	133	81	133	81
Cash flow hedging reserve	457	(1,629)	457	(1,629)
Other adjustments[2]	414	1,721	414	1,721
	49,554	45,380	49,554	45,380
Less: deductions from common equity tier 1				
Goodwill and other intangible assets	(3,026)	(3,120)	(3,026)	(3,120)
Prudent valuation adjustment	(457)	(445)	(457)	(445)
Removal of defined benefit pension surplus	(3,200)	(1,322)	(3,200)	(1,322)
Significant investments[1]	(4,573)	(4,109)	(4,573)	(4,109)
Deferred tax assets	(4,483)	(3,562)	(4,483)	(3,562)
Common equity tier 1 capital	33,815	32,822	33,815	32,822
Additional tier 1				
Other equity instruments	5,879	5,881	5,879	5,881
Preference shares and preferred securities[3]	2,149	2,705	—	—
Transitional limit and other adjustments	(1,598)	(1,604)	—	—
	6,430	6,982	5,879	5,881
Less: deductions from tier 1				
Significant investments[1]	(1,100)	(1,138)	(1,100)	—
Total tier 1 capital	39,145	(38,666)	38,594	38,703
Tier 2				
Other subordinated liabilities[3]	10,959	11,556	10,959	11,556
Deconsolidation of instruments issued by insurance entities[1]	(1,753)	(1,892)	(1,753)	(1,892)
Adjustments for transitional limit and non-eligible instruments	735	1,474	(722)	(1,346)
Amortisation and other adjustments	(1,791)	(1,694)	(1,791)	(1,694)
	8,150	9,444	6,693	6,624
Less: deductions from tier 2				
Significant investments[1]	(961)	(942)	(961)	(2,080)
Total capital resources	46,334	47,168	44,326	43,247
Risk-weighted assets	195,967	202,747	195,967	202,747
Common equity tier 1 capital ratio (%)	17.3%	16.2%	17.3%	16.2%
Tier 1 capital ratio (%)	20.0%	19.1%	19.7%	19.1%
Total capital ratio (%)	23.6%	23.3%	22.6%	21.3%

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

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

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

Capital management continued

Movements in capital resources

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

Following a debt restructure by the Insurance business during the year, the Group's previous holdings in certain legacy capital instruments issued by Scottish Widows Group Limited have been replaced with new instruments that are fully eligible under Solvency II requirements. These include the issue of Restricted Tier 1 (RT1) and tier 2 capital instruments to the Group which are subsequently deducted from the Group's tier 1 and tier 2 capital positions respectively on both a transitional and fully loaded basis.

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

Movements in capital resources

	Common equity tier 1 £m	Additional tier 1 £m	Tier 2 £m	Total capital £m
At 31 December 2020	**32,822**	**5,844**	**8,502**	**47,168**
Banking business profits[1]	5,919	—	—	5,919
Foreseeable dividend accrual[2]	(947)	—	—	(947)
Interim dividend paid out on ordinary shares during the year	(473)	—	—	(473)
IFRS 9 transitional adjustment to retained earnings	(1,340)	—	—	(1,340)
Movement in treasury shares and employee share schemes	169	—	—	169
Pension contributions	(944)	—	—	(944)
Fair value through other comprehensive income reserve	164	—	—	164
Deferred tax asset	(921)	—	—	(921)
Goodwill and other intangible assets	94	—	—	94
Significant investments	(464)	38	(19)	(445)
Movements in other equity, subordinated liabilities, other tier 2 items and related adjustments	—	(552)	(1,294)	(1,846)
Distributions on other equity instruments	(429)	—	—	(429)
Other equity reserve and other movements[3]	165	—	—	165
At 31 December 2021	**33,815**	**5,330**	**7,189**	**46,334**

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

2 Reflects the accrual for the final 2021 ordinary dividend. Excludes the reversal of the brought forward accrual for the 2020 full year ordinary dividend which was paid out during the year.

3 Includes other pension movements.

CET1 capital resources have increased by £993 million over the year, primarily reflecting underlying banking business profits, with the impairment credit more than offset by the partial unwind of IFRS 9 transitional relief. Further offsets comprised of the following:

- the interim ordinary dividend paid out in September 2021 and the accrual for the final 2021 ordinary dividend
- distributions on other equity instruments
- pension contributions made to the defined benefit pension schemes
- an increase in significant investments deducted from capital reflecting the equity provided to Insurance to fund the acquisition of Embark Group
- an increase in deferred tax assets deducted from capital which primarily reflects the remeasurement of deferred tax assets following the announced increase in the UK corporation tax rate from 1 April 2023. The remeasurement has a limited overall capital benefit as the tax credit through banking profits is largely offset by the increase in the deferred tax asset deduction

AT1 capital resources have reduced by £514 million over the year, primarily reflecting the annual reduction in the transitional limit applied to legacy AT1 capital instruments.

Tier 2 capital resources have reduced by £1,313 million over the year, largely reflecting the application of the reduced transitional limit applied to legacy tier 2 capital instruments, the impact of movements in rates and regulatory amortisation and the net outcome of the revised regulatory classification and exchange and tender offer exercises applied to the Group's legacy preference shares.

Capital management continued

Minimum requirement for own funds and eligible liabilities

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

	Transitional[1]	
	31 Dec 2021	At 31 Dec 2020
	£m	£m
Total capital resources (transitional basis)	46,334	47,168
Ineligible AT1 and tier 2 instruments[2]	(163)	(582)
Amortised portion of eligible tier 2 instruments issued by Lloyds Banking Group plc	713	194
Other eligible liabilities issued by Lloyds Banking Group plc[3]	26,070	26,946
Total MREL resources[1]	72,954	73,726
Risk-weighted assets	195,967	202,747
MREL ratio	37.2%	36.4%
Leverage exposure measure	664,362	666,070
MREL leverage ratio	11.0%	11.1%

1 Until 2022, externally issued regulatory capital in operating entities can count towards the Group's MREL resources to the extent that such capital would count towards the Group's consolidated capital resources.

2 Instruments with less than or equal to one year to maturity or governed under non-UK law without a contractual bail-in clause.

3 Includes senior unsecured debt.

Total MREL resources reduced by £772 million, driven by a reduction in other eligible liabilities, partly offset by net tier 2 adjustments. The reduction in other eligible liabilities reflected movements in rates and the removal of a senior unsecured debt instrument with less than one year to maturity, partially offset by the issuance of new senior unsecured debt.

CAPITAL INSTRUMENTS AND ELIGIBLE MREL LIABILITIES

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-downloads. In addition, the report identifies and provides a description of the main features of those instruments that are recognised as eligible MREL in accordance with the Bank of England's MREL framework.

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 2021 Lloyds Banking Group plc Annual Report and Accounts on page 329.

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

The recognition, classification and valuation of these instruments within the Group's regulatory capital resources are subject to the requirements of the current capital regulations. This can lead to a different treatment from the IFRS accounting approach upon which the disclosures within the 2021 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 and regulatory amortisation.

Capital management continued

LEVERAGE RATIO

Leverage ratio

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

	Fully loaded	
	At 31 Dec 2021	At 31 Dec 2020
	£m	£m
Total tier 1 capital for leverage ratio		
Common equity tier 1 capital	33,815	32,822
Additional tier 1 capital	4,779	5,881
Total tier 1 capital	38,594	38,703
Exposure measure		
Statutory balance sheet assets		
Derivative financial instruments	22,051	29,613
Securities financing transactions	69,673	74,322
Loans and advances and other assets	794,801	767,334
Total assets	886,525	871,269
Qualifying central bank claims	(72,741)	(67,093)
Deconsolidation adjustments[1]		
Derivatives financial instruments	(166)	(1,549)
Securities financing transactions	—	—
Loans and advances and other assets	(186,965)	(171,183)
Total deconsolidation adjustments	(187,131)	(172,732)
Derivatives adjustments		
Adjustment for regulatory netting	(9,605)	(12,444)
Adjustment for cash collateral	(4,713)	(12,679)
Net written credit protection	268	455
Regulatory potential future exposure	10,544	12,535
Total derivatives adjustments	(3,506)	(12,133)
Securities financing transactions adjustments	1,946	1,713
Off-balance sheet items	57,496	60,882
Regulatory deductions and other adjustments[2]	(18,227)	(15,836)
Total exposure measure[4]	664,362	666,070
Average leverage exposure measure[3]	675,412	
UK leverage ratio[4]	5.8%	5.8%
Average UK leverage ratio[3]	5.8%	
CRD IV leverage exposure measure[5]	737,103	733,163
CRD IV leverage ratio[5]	5.2%	5.3%

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

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

3 The average UK leverage ratio is based on the average of the month end tier 1 capital position and average exposure measure over the quarter (1 October 2021 to 31 December 2021). The average of 5.8 per cent compares to 5.8 per cent at the start and 5.8 per cent at the end of the quarter.

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

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

Key movements

- The Group's fully loaded UK leverage ratio has remained at 5.8 per cent, with the impact of the reduction in the fully loaded total tier 1 capital position offset by the £1.7 billion reduction in the exposure measure which largely reflected movements in securities financing transactions and off-balance sheet items, net of increased balance sheet lending.
- Following a direction received from the PRA during 2020 the Group is permitted to exclude lending under the UK Government's Bounce Back Loan Scheme (BBLS) from the leverage exposure measure.
- The derivatives exposure measure, representing derivative financial instruments per the balance sheet net of deconsolidation and derivatives adjustments, increased by £2.4 billion during the year, largely reflecting lower cash collateral adjustments, partially offset by reductions in both the replacement cost (reflecting market movements) and the regulatory potential future exposure (reflecting trade compressions through central counterparties).
- The securities financing transactions (SFT) exposure measure, representing SFT assets per the balance sheet net of deconsolidation and other SFT adjustments, reduced by £4.4 billion during the year, reflecting a reduction in volumes.
- Off-balance sheet items reduced by £3.4 billion during the year, reflecting net reductions in both corporate facilities and residential mortgage offers placed and other optimisation activity.
- The average UK leverage ratio was 5.8 per cent over the quarter, consistent with the positions at the start and end of the quarter. This reflected a higher average exposure measure which was broadly offset by the average fully loaded total tier 1 capital position.

PILLAR 1 CAPITAL REQUIREMENTS: OVERVIEW OF RISK WEIGHTED ASSETS

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

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

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

	Credit Risk IRB £m	Credit Risk STA £m	Credit Risk Total[1] £m	Counterparty Credit Risk[2] £m	Market Risk £m	Operational Risk £m	Total £m
Total risk-weighted assets as at 30 September 2021							**200,678**
Less: total threshold risk-weighted assets[3]							**12,441**
Risk-weighted assets at 30 September 2021	**133,404**	**21,497**	**154,901**	**6,025**	**2,738**	**24,573**	**188,237**
Asset size	**(340)**	**48**	**(292)**	**(31)**	**—**	**—**	**(323)**
Asset quality	**(1,441)**	**(98)**	**(1,539)**	**55**	**—**	**—**	**(1,484)**
Model updates	**—**	**—**	**—**	**—**	**192**	**—**	**192**
Methodology and policy	**(1,820)**	**(789)**	**(2,609)**	**—**	**—**	**—**	**(2,609)**
Movement in risk levels (Market risk only)	**—**	**—**	**—**	**—**	**223**	**—**	**223**
Foreign exchange movements	**(76)**	**(19)**	**(95)**	**15**	**—**	**—**	**(80)**
Other	**—**	**—**	**—**	**—**	**—**	**(548)**	**(548)**
Risk-weighted assets at 31 December 2021	**129,727**	**20,639**	**150,366**	**6,064**	**3,153**	**24,025**	**183,608**
Threshold risk-weighted assets[3]							**12,359**
Total risk-weighted assets as at 31 December 2021							**195,967**

1 Credit risk includes securitisation risk-weighted assets.

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

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

Key movements

Credit risk, risk weighted assets:

- Asset size reduction of £0.3 billion reflects continued optimisation in Commercial Banking and the disposal of equity investments.
- Asset quality reduction of £1.5 billion mainly reflects the reversal of a temporary model calibration uplift at Q3 2021.
- Methodology and policy changes of £2.6 billion include reduction in risk-weighted assets through securitisation and other optimisation activity.

Market risk, risk-weighted assets: increased by £0.4 billion driven by an increase in IBOR transition related Risks Not in VaR (RNIVs) and increased market volatility in the fourth quarter resulting in backtesting overshoots.

Operational risk, risk weighted assets reduced by £0.5bn due to a reduction in 3 year average income levels.

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

	Credit Risk IRB £m	Credit Risk STA £m	Credit Risk Total[1] £m	Counterparty Credit Risk[2] £m	Market Risk £m	Operational Risk £m	Total £m
Total risk-weighted assets at 31 December 2020							**202,747**
Less: total threshold risk-weighted assets[3]							**(11,927)**
Risk-weighted assets at 31 December 2020	**133,407**	**23,596**	**157,003**	**6,745**	**2,207**	**24,865**	**190,820**
Asset size	**(3,258)**	**(737)**	**(3,995)**	**(380)**	**—**	**—**	**(4,375)**
Asset quality	**841**	**(242)**	**599**	**(124)**	**—**	**—**	**475**
Model updates	**—**	**—**	**—**	**—**	**483**	**—**	**483**
Methodology and policy	**(1,109)**	**(1,919)**	**(3,028)**	**—**	**(1)**	**—**	**(3,029)**
Movement in risk levels (Market risk only)	**—**	**—**	**—**	**—**	**464**	**—**	**464**
Foreign exchange movements	**(154)**	**(59)**	**(213)**	**(177)**	**—**	**—**	**(390)**
Other	**—**	**—**	**—**	**—**	**—**	**(840)**	**(840)**
Risk-weighted assets as at 31 December 2021	**129,727**	**20,639**	**150,366**	**6,064**	**3,153**	**24,025**	**183,608**
Threshold risk-weighted assets[3]							**12,359**
Total risk-weighted assets as at 31 December 2021							**195,967**

1 Credit risk includes securitisation risk-weighted assets.

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

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

Key movements

Credit risk, risk-weighted assets:

- Asset size reduction of £4.0 billion predominantly reflects increased levels of optimisation in Commercial Banking and lower unsecured balances, partially offset by increased mortgage lending
- Asset quality increase of £0.6 billion reflects the impact of retail model calibrations with limited credit migration in part due to the benefit of House Price Index increases
- Methodology and policy changes of £3.0 billion include reductions in risk-weighted assets through securitisation activity, other optimisation activity and enhanced identification of SME exposures

Counterparty credit risk, risk-weighted assets: reduced by £0.7 billion predominantly due to movements in market rates during the period.

Market risk, risk-weighted assets: increased by £1.0 billion driven by an increase in IBOR transition related Risks Not in VaR (RNIVs), capital multiplier increases due to IBOR related activities and increased market volatility in the fourth quarter resulting in backtesting overshoots.

Operational risk, risk-weighted assets: reduced by £0.8 billion due to a reduction in 3 year average income levels.

OV1: Overview of risk-weighted assets

		31 Dec 2021 RWA £m	31 Dec 2020 RWA £m	31 Dec 2021 Minimum capital Requirements £m	31 Dec 2020 Minimum capital Requirements £m
1	**Credit risk (excluding counterparty credit risk)**	144,546	151,330	11,564	12,106
2	of which: standardised approach	18,866	22,248	1,509	1,780
3	of which: the foundation rating-based (FIRB) approach	38,207	41,200	3,057	3,296
4	of which: the retail IRB (RIRB) approach	65,450	65,225	5,236	5,218
	of which: corporates – specialised lending	9,048	9,235	724	739
	of which: non-credit obligation assets[1]	7,258	7,881	581	630
5	of which: equity IRB under the simple risk-weight	5,717	5,541	457	443
6	**Counterparty credit risk**	6,064	6,745	485	540
7	of which: marked to market	4,526	5,064	362	405
	of which: comprehensive approach for credit risk mitigation (for SFTs)	338	372	27	30
11	of which: exposures to central counterparties (including trades, default fund contributions and initial margin)	522	630	42	50
12	of which: credit valuation adjustment (CVA)	678	679	54	54
14	**Securitisation exposures in banking book[2]**	5,820	5,673	466	454
	of which: internal ratings based approach	2,188	1,951	175	156
	of which: standardised approach	1,773	1,348	142	108
	of which: external ratings based approach	1,859	2,374	149	190
19	**Market risk**	3,153	2,207	252	177
20	of which: standardised approach	353	252	28	20
21	of which: internal model approaches	2,800	1,955	224	156
23	**Operational risk**	24,025	24,865	1,922	1,989
25	of which: standardised approach	24,025	24,865	1,922	1,989
27	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	12,359	11,927	989	954
	of which: Significant investment	9,597	9,233	768	739
	of which: Deferred tax asset	2,762	2,694	221	216
28	**Floor adjustment**	—	—	—	—
29	**Total**	195,967	202,747	15,677	16,220
	Pillar 2A capital requirement[3]			7,308	7,698
	Total capital requirement			22,985	23,918

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

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

3 As at 31 December 2021, the Pillar 2A capital requirement was c.3.7 per cent of aggregated risk-weighted assets, of which c.2.1 per cent was to be met with CET1 capital.

PILLAR 1 CAPITAL REQUIREMENTS: CREDIT RISK

OVERVIEW

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

		Credit Risk IRB RWA amount Total	Credit Risk IRB Capital requirements Total	Credit Risk STA RWA amount Total	Credit Risk STA Capital requirements Total
		£m	£m	£m	£m
1	**Risk-weighted assets at 31 December 2020[1]**	**133,407**	**10,673**	**23,596**	**1,888**
2	Asset size	(3,258)	(261)	(737)	(59)
3	Asset quality	841	67	(242)	(19)
4	Model updates	—	—	—	—
5	Methodology and policy	(1,109)	(89)	(1,919)	(154)
6	Acquisitions and disposals	—	—	—	—
7	Foreign exchange movements	(154)	(12)	(59)	(5)
8	Other	—	—	—	—
9	**Risk-weighted assets at 31 December 2021[1]**	**129,727**	**10,378**	**20,639**	**1,651**

1 Credit risk, risk-weighted assets and capital requirements are inclusive of securitisations. At 31 December 2021 IRB securitisation risk-weighted assets were £4,047m (2020: £4,325m) and standardised securitisation risk-weighted assets were £1,773m (2020: £1,348m).

DEFINITION

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

EXPOSURES

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

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

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

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

An analysis of total credit risk exposures and risk-weighted assets by division is provided below.

Pillar 1 Capital requirements: Credit risk continued

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

Division	Risk Weight approach	2021 EAD pre CRM post CCF £m	2021 Risk-weighted assets £m	2021 Average risk weight %	2020 EAD pre CRM post CCF £m	2020 Risk-weighted assets[1] £m	2020 Average risk weight %
Retail	IRB	**421,152**	**69,790**	**17 %**	410,570	69,190	17 %
	Standardised	**15,936**	**9,782**	**61 %**	17,265	10,463	61 %
Commercial Banking	IRB	**94,238**	**44,451**	**47 %**	97,064	48,014	49 %
	Standardised	**9,385**	**6,646**	**71 %**	13,323	9,180	69 %
Insurance and Wealth	IRB	**5**	**5**	**100 %**	6	6	100 %
	Standardised	**1,215**	**892**	**73 %**	1,127	864	77 %
Central Items	IRB	**19,361**	**11,435**	**59 %**	20,188	11,872	59 %
	Standardised	**101,129**	**1,547**	**2 %**	93,239	1,741	2 %
Total		**662,421**	**144,547**	**22 %**	652,782	151,330	23 %
	Total IRB	**534,755**	**125,681**	**24 %**	527,828	129,081	24 %
	Total Standardised	**127,665**	**18,866**	**15 %**	124,954	22,248	18 %

1 Excludes securitisation.

Key movements

Retail IRB exposure increased due to growth in mortgage lending. Credit risk-weighted assets decreased by £0.1 billion mainly due to the benefit of House Price Index movements and lower unsecured exposure more than offsetting the impact of model calibrations and the growth in mortgage lending.

Commercial Banking exposure decreased by £6.8 billion due to optimisation in the corporate book which together with certain methodology and policy changes resulted in a material reduction in risk-weighted assets of £6.1 billion.

Central Items exposure increased by £7.1 billion due to increase deposits with central banks. Risk-weighted assets decreased by £0.6 billion due to the disposal of equity investments and reductions in other assets.

MEASUREMENT

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

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

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

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

For regulatory capital purposes the Group's credit risk exposures are measured as risk-weighted assets, primarily calculated using Internal Ratings Based approach, with the remainder calculated under the Standardised approach. The Group's application of these approaches is explained in more detail on pages 15 and 16.

MONITORING

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

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

The performance of all rating models is monitored on a regular basis, as outlined on pages 39 to 47.

Further details are provided on page 135 of the Risk Management section of the 2021 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 135 to 137 of the 2021 Lloyds Banking Group plc Annual Report and Accounts.

Collateral

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

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

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

The additional mitigation for Retail and Commercial customers is explained in more detail on pages 150 to 151 of the 2021 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 financial collateral to its corporate (IRB and Standardised) and institutions (IRB) exposures.

Other eligible collateral

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

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

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

Refer to page 135 of the Risk Management section and Note 51 (Financial Risk Management) of the 2021 Lloyds Banking Group plc Annual Report and Accounts for further information on collateral.

Other credit risk transfers

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

– Credit derivatives are a method of transferring credit risk from one counterparty (the protection buyer) to another (the protection seller). Capital relief under regulatory requirements is restricted to the following types of credit derivative: credit default swaps (CDS); total return swaps; and credit linked notes (CLN) (to the extent of their cash funding).
– The Group makes limited use of credit derivatives as credit risk mitigation from a capital perspective.
– Further details on the application within the Group are included within the Counterparty credit risk section on page 100.

Guarantees

– In addition, guarantees from eligible protection providers including governments, institutions and corporates, can also provide regulatory capital relief, although there are minimum operational and legal requirements which must be met before reflecting the risk mitigating effect. On the basis that these requirements are met, alternative forms of protection, for example indemnities, may be classified as a guarantee for regulatory capital purposes. Export Credit agencies can provide risk mitigation in the form of a guarantee (typically up to 85% – 95% of a contract value) providing cover and guarantee of payment in relation to commercial and political risk.
– Regulatory capital relief is taken for guarantees provided by appropriate sovereigns, institutions or corporates, as well as for collateralised guarantees from corporates where available. This includes COVID-19 government lending schemes.

Pillar 1 Capital requirements: Credit risk continued

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		✓		✓	
Non collateralised guarantees[2]		✓			✓

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

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

Application under the Standardised Approach

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

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

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

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

Application under the IRB Approach

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

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

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

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

Application between the IRB and Standardised Approaches

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

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

ANALYSIS OF CREDIT RISK MITIGATION

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

CR3: CRM techniques – Overview

	31 Dec 2021				
	Exposures unsecured – carrying amount £m	Exposures to be secured[1] £m	Exposures secured by collateral[2] £m	Exposures secured by financial guarantees £m	Exposures secured by credit derivatives £m
Exposures subject to the IRB approach					
Central governments or central banks	8,042	521	—	521	—
Institutions[3]	7,088	3,436	3,389	—	47
Corporates	62,001	36,743	34,033	2,185	525
of which: Specialised lending	—	13,707	13,707	—	—
of which: SMEs	5,170	6,684	5,608	1,076	—
Retail	61,618	354,993	347,423	7,571	—
Secured by real estate property	16	336,182	336,182	—	—
SMEs	16	5,810	5,810	—	—
Non-SMEs	—	330,372	330,372	—	—
Qualifying revolving	51,735	—	—	—	—
Other retail	9,867	18,812	11,241	7,571	—
SMEs	1,895	7,584	13	7,571	—
Non-SMEs	7,971	11,228	11,228	—	—
Equity	2,839	—	—	—	—
Non-credit obligation assets	10,301	—	—	—	—
Total – IRB approach	151,890	395,694	384,845	10,277	572
Exposures subject to the standardised approach					
Central governments and central banks	84,609	88	—	88	—
Regional governments or local authorities	535	—	—	—	—
Public sector entities	4,155	—	—	—	—
Multilateral development banks	9,768	—	—	—	—
International organisations	—	—	—	—	—
Institutions	207	—	—	—	—
Corporates	9,555	1,087	732	281	75
Retail	33,310	1,207	352	855	—
Secured by mortgages on immovable property	31	6,592	6,590	2	—
Exposures in default	809	447	349	99	—
Collective investment undertakings (CIUs)	709	—	—	—	—
Other exposures	2,622	—	—	—	—
Total – standardised approach	146,310	9,421	8,022	1,324	75
Total exposures	298,200	405,115	392,867	11,602	646
of which: defaulted (IRB and STA)	2,820	3,490	3,392	99	—

CR3: CRM techniques – Overview (continued)

	31 Dec 2020				
	Exposures unsecured – carrying amount	Exposures to be secured[1]	Exposures secured by collateral[2]	Exposures secured by financial guarantees[4]	Exposures secured by credit derivatives
	£m	£m	£m	£m	£m
Exposures subject to the IRB approach					
Central governments or central banks	7,919	647	—	737	—
Institutions[3]	6,271	3,443	3,406	—	42
Corporates	61,548	37,711	35,234	2,255	706
of which: Specialised Lending	—	13,257	13,257	—	—
of which: SME	3,851	7,438	6,441	996	—
Retail	62,763	344,741	336,462	7,550	—
Secured by real estate property	93	325,026	324,835	267	—
SME	93	7,564	7,374	267	—
Non-SME	—	317,462	317,462	—	—
Qualifying Revolving	52,941	—	—	—	—
Other Retail	9,729	19,715	11,627	7,283	—
SME	1,783	8,097	9	7,283	—
Non-SME	7,946	11,618	11,618	—	—
Equity	2,772	—	—	—	—
Non-credit obligation assets	10,698	—	—	—	—
Total – IRB approach	151,971	386,542	375,102	10,542	748
Exposures subject to the standardised approach					
Central governments and central banks	78,692	—	—	—	—
Regional governments or local authorities	425	1	—	1	—
Public sector entities	4,274	—	—	—	—
Multilateral development banks	7,158	—	—	—	—
International organisations	—	—	—	—	—
Institutions	108	—	—	—	—
Corporates	12,312	922	413	463	22
Retail	33,411	1,193	270	923	—
Secured by mortgages on immovable property	13	6,984	6,984	—	—
Exposures in default	771	358	356	2	—
Collective investment undertakings (CIUs)	582	—	—	—	—
Other exposures	3,034	—	—	—	—
Total – standardised approach	140,781	9,457	8,023	1,387	22
Total exposures	292,752	395,999	383,125	11,929	770
of which: defaulted (IRB and STA)	2,348	3,857	3,855	2	—

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

2 At Dec 2021 the value of exposures secured by eligible financial collateral is £3.7bn (Dec 2020: £3.9bn) and the value of exposures secured by other eligible collateral is £389.2bn (Dec 2020: £379.2bn).

3 Exposures to Institutions secured by collateral includes £2,047m (Dec 2020: £2,395m) of exposures in the form of covered bonds.

4 Restated at 30 June 2021.

Pillar 1 Capital requirements: Credit risk continued

INTERNAL RATING SCALES

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

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

Internal Corporate master scale

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

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

Internal Retail master scale

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

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

Pillar 1 Capital requirements: Credit risk continued

DISTRIBUTION OF EXPOSURES BY APPROACH

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

	RIRB £m	FIRB £m	Other IRB £m	Standardised £m
Central governments or central banks	—	8,019	—	95,862
Regional governments or local authorities	—	—	—	535
Public sector entities	—	—	—	4,155
Multilateral development banks	—	—	—	9,768
Institutions	—	9,037	—	795
Corporates[1]	—	68,177	12,642	6,346
Retail – Secured by property	351,201	—	—	6,591
Retail – Qualifying revolving	39,521	—	—	6,201
Retail – Other	21,727	—	—	3,843
Other[2]	—	—	13,540	4,352
Total	**412,449**	**85,233**	**26,182**	**138,448**
% coverage	62%	13%	4%	21%

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

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

SCOPE OF THE IRB PERMISSION

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

The Group applies the Supervisory Slotting Approach to certain corporate specialised lending exposures (including the Group's income-producing real estate exposures) and the Simple Risk Weight Method to equity exposures; hence no models are used for these two groups. Capital Requirements in relation to securitisation positions are primarily determined under the SEC-IRBA, the SEC-SA and the SEC-ERBA approaches.

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

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

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

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

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

Pillar 1 Capital requirements: Credit risk continued

KEY CHARACTERISTICS OF MATERIAL GROUP RATINGS SYSTEMS

PD rating philosophy

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

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

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

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

EAD and LGD modelling approach

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

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

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

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

Data history

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

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

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

INTERNAL DEVELOPMENT AND MONITORING OF IRB MODELS

Model development, validation and review

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

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

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

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

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

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

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

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

Pillar 1 Capital requirements: Credit risk continued

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

Further information on model risk, including details on measurement, mitigation and monitoring can be found in the Risk Management section of the 2021 Lloyds Banking Group plc Annual Report and Accounts (page 191).

Relationships between risk management function and internal audit function

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

OTHER APPLICATIONS OF IRB MODEL OUTPUTS

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

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

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

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

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

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

Pillar 1 Capital requirements: Credit risk continued

MODEL PERFORMANCE

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

Backtesting of PD models

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

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

- The PD ranges match those in the respective retail and commercial internal master scales.
- The external rating equivalent is the equivalent S&P rating described on page 35.
- The weighted average PD is calculated using the regulatory PD weighted by the EAD at the start of the period.
- The arithmetic average PD is calculated using the regulatory PD at the start of the period. This PD is volume weighted.
- The number of obligors is shown at the beginning and end of the period. This represents the full book position at both points, with new obligors (opened during the period) included in the end of year position (if still on book). Obligors that left during the year are not included in the end of year position. Various definitions of obligor operate within the bank, reflecting how the exposures are managed within each area. This translates as follows:
  - **Cards, Loans and Overdrafts** aggregate at customer level within brand and product.
  - **Mortgages and UK Motor Finance (Retail)** treat each account as a unique obligor. An obligor with two accounts would have two PDs.
  - The Commercial Banking (including BDCS) and **UK Motor Finance (Commercial)** definition is legal entity by source system (obligors reside on different source systems according to the nature of the lending). This means that one legal entity might be represented by one or more obligors in the data if that entity has borrowing across one or more businesses (source systems).

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

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

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

Summary of Performance

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

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

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

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

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

Pillar 1 Capital requirements: Credit risk continued

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

RWA coverage: 99%+

31 Dec 2021

PD Range	Weighted average PD	Arithmetic average PD by obligors	Number of obligors: End of previous year	Number of obligors: End of the year	Defaulted obligors in the year	of which: new defaulted obligors in the year	Average historical annual default rate
0.00 - 0.10%	**0.29%**	**0.25%**	**1,683,355**	**1,748,672**	**548**	**N/a**	**0.04%**
0.10 - 0.40%	**0.85%**	**0.79%**	**601,595**	**526,540**	**961**	**N/a**	**0.20%**
0.40 - 0.80%	**1.81%**	**1.86%**	**104,689**	**100,683**	**456**	**N/a**	**0.56%**
0.80 - 1.20%	**2.91%**	**3.21%**	**28,356**	**24,908**	**249**	**N/a**	**0.98%**
1.20 - 2.50%	**4.93%**	**5.41%**	**23,919**	**24,076**	**325**	**N/a**	**1.52%**
2.50 - 4.50%	**9.98%**	**10.35%**	**24,824**	**16,107**	**451**	**N/a**	**2.91%**
4.40 - 7.50%	**14.69%**	**15.71%**	**16,015**	**11,137**	**719**	**N/a**	**5.65%**
7.50 - 10.00%	**27.26%**	**27.04%**	**4,189**	**3,799**	**346**	**N/a**	**8.89%**
10.00 - 14.00%	**27.15%**	**27.59%**	**7,185**	**4,636**	**788**	**N/a**	**10.39%**
14.00 - 20.00%	**32.92%**	**33.04%**	**4,230**	**2,782**	**445**	**N/a**	**16.07%**
20.00 - 30.00%	**51.50%**	**51.43%**	**4,916**	**3,503**	**1,150**	**N/a**	**25.50%**
30.00 - 45.00%	**57.11%**	**58.90%**	**4,243**	**3,062**	**1,244**	**N/a**	**35.76%**
45.00 - 99.99%	**77.44%**	**78.62%**	**4,830**	**3,278**	**2,678**	**N/a**	**59.68%**
In Default	**100.00%**	**100.00%**	**24,026**	**21,938**	**N/a**	**N/a**	**N/a**
New to Book	**N/a**	**N/a**	**N/A**	**270,114**	**N/a**	**12**	**N/a**

31 Dec 2020

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

Key observations

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

Pillar 1 Capital requirements: Credit risk continued

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

RWA coverage: 100%

31 Dec 2021							
			Number of obligors				
PD Range	Weighted average PD	Arithmetic average PD by obligors	End of previous year	End of the year	Defaulted obligors in the year	of which: new defaulted obligors in the year	Average historical annual default rate
0.00 - 0.10%	**0.07%**	**0.07%**	**5,768,592**	**4,912,877**	**1,342**	**N/a**	**0.02%**
0.10 - 0.40%	**0.22%**	**0.22%**	**11,803,726**	**11,880,244**	**11,399**	**N/a**	**0.09%**
0.40 - 0.80%	**0.58%**	**0.59%**	**5,241,828**	**5,561,653**	**18,829**	**N/a**	**0.34%**
0.80 - 1.20%	**0.98%**	**0.97%**	**2,426,222**	**2,779,912**	**19,012**	**N/a**	**0.78%**
1.20 - 2.50%	**1.72%**	**1.71%**	**2,340,035**	**2,710,894**	**45,945**	**N/a**	**1.76%**
2.50 - 4.50%	**3.30%**	**3.28%**	**976,035**	**1,080,754**	**42,684**	**N/a**	**4.03%**
4.40 - 7.50%	**5.67%**	**5.63%**	**464,576**	**513,963**	**32,993**	**N/a**	**6.40%**
7.50 - 10.00%	**8.57%**	**8.59%**	**145,333**	**154,331**	**15,516**	**N/a**	**9.32%**
10.00 - 14.00%	**11.71%**	**11.75%**	**112,589**	**120,629**	**14,092**	**N/a**	**11.42%**
14.00 - 20.00%	**16.59%**	**16.70%**	**85,606**	**94,410**	**12,918**	**N/a**	**14.58%**
20.00 - 30.00%	**24.58%**	**24.78%**	**93,383**	**105,946**	**18,443**	**N/a**	**20.41%**
30.00 - 45.00%	**37.28%**	**37.02%**	**118,781**	**127,064**	**32,493**	**N/a**	**28.67%**
45.00 - 99.99%	**62.34%**	**59.87%**	**93,201**	**78,563**	**43,607**	**N/a**	**47.81%**
In Default	**100.00%**	**100.00%**	**328,626**	**316,327**	**N/a**	**N/a**	**N/a**
New to Book	**N/a**	**N/a**	**N/a**	**1,923,241**	**N/a**	**12,108**	**N/a**

31 Dec 2020							
			Number of obligors				
PD Range	Weighted average PD	Arithmetic average PD by obligors	End of previous year	End of the year	Defaulted obligors in the year	of which: new defaulted obligors in the year	Average historical annual default rate
0.00 - 0.10%	0.07%	0.07%	5,906,346	5,768,592	933	N/a	0.02%
0.10 - 0.40%	0.22%	0.22%	11,181,057	11,803,726	9,277	N/a	0.10%
0.40 - 0.80%	0.58%	0.58%	5,628,122	5,241,828	21,863	N/a	0.35%
0.80 - 1.20%	0.98%	0.98%	2,157,844	2,426,222	20,466	N/a	0.79%
1.20 - 2.50%	1.73%	1.72%	2,363,264	2,340,035	47,800	N/a	1.67%
2.50 - 4.50%	3.33%	3.29%	986,888	976,035	42,897	N/a	3.72%
4.40 - 7.50%	5.69%	5.64%	496,659	464,576	32,593	N/a	5.88%
7.50 - 10.00%	8.63%	8.64%	147,760	145,333	14,245	N/a	8.46%
10.00 - 14.00%	11.71%	11.79%	119,924	112,589	13,629	N/a	11.00%
14.00 - 20.00%	16.62%	16.73%	100,820	85,606	15,053	N/a	14.62%
20.00 - 30.00%	24.58%	24.78%	110,902	93,383	21,541	N/a	20.99%
30.00 - 45.00%	37.06%	36.79%	112,932	118,781	29,304	N/a	29.91%
45.00 - 99.99%	62.83%	61.43%	101,643	93,201	47,192	N/a	50.06%
In Default	100.00%	100.00%	1,100,814	328,626	N/a	N/a	N/a
New to Book	N/a	N/a	N/a	1,520,627	N/a	11,962	N/a

Key observations

- Overall the average historical annual default rate has remained broadly stable through 2021 and is comparable with 2020.
- There is a degree of under-prediction in some mid-range PD bands, which accounts for < 15% of the population, as a result of the calibration methodology. At an overall level, the PDs remain above the default rates due to the presence of a PD buffer.

Pillar 1 Capital requirements: Credit risk continued

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

RWA coverage: 100%

31 Dec 2021

PD Range	Weighted average PD	Arithmetic average PD by obligors	Number of obligors: End of previous year	Number of obligors: End of the year	Defaulted obligors in the year	of which: new defaulted obligors in the year	Average historical annual default rate
0.00 - 0.10%	0.08%	0.08%	27,726	23,536	34	N/a	0.15%
0.10 - 0.40%	0.36%	0.36%	480,963	430,642	3,781	N/a	0.89%
0.40 - 0.80%	0.70%	0.67%	326,491	298,938	2,488	N/a	0.91%
0.80 - 1.20%	1.00%	1.00%	163,881	140,795	1,164	N/a	0.68%
1.20 - 2.50%	1.70%	1.71%	499,013	491,909	7,363	N/a	1.75%
2.50 - 4.50%	3.28%	3.30%	240,735	256,196	8,545	N/a	3.96%
4.40 - 7.50%	5.90%	5.85%	123,231	132,910	8,862	N/a	7.92%
7.50 - 10.00%	8.77%	8.61%	29,800	32,659	3,337	N/a	10.76%
10.00 - 14.00%	11.16%	11.35%	27,477	26,719	3,879	N/a	14.04%
14.00 - 20.00%	16.48%	16.51%	10,043	10,657	1,918	N/a	16.22%
20.00 - 30.00%	21.47%	21.96%	20,149	14,393	3,433	N/a	19.09%
30.00 - 45.00%	35.23%	35.54%	15,483	13,929	5,304	N/a	33.06%
45.00 - 99.99%	70.10%	69.52%	16,252	12,759	10,623	N/a	64.61%
In Default	100.00%	100.00%	75,741	70,748	N/a	N/a	N/a
New to Book	N/a	N/a	N/a	508,695	N/a	2,305	N/a

31 Dec 2020

PD Range	Weighted average PD	Arithmetic average PD by obligors	Number of obligors: End of previous year	Number of obligors: End of the year	Defaulted obligors in the year	of which: new defaulted obligors in the year	Average historical annual default rate
0.00 - 0.10%	0.08%	0.08%	27,879	27,726	86	N/a	0.14%
0.10 - 0.40%	0.36%	0.36%	477,725	480,963	6,479	N/a	0.82%
0.40 - 0.80%	0.70%	0.67%	343,588	326,491	4,451	N/a	0.90%
0.80 - 1.20%	1.01%	1.01%	171,444	163,881	1,242	N/a	0.68%
1.20 - 2.50%	1.70%	1.72%	524,366	499,014	11,402	N/a	1.72%
2.50 - 4.50%	3.29%	3.32%	264,208	240,735	11,967	N/a	3.80%
4.40 - 7.50%	5.91%	5.87%	134,882	123,232	11,680	N/a	7.56%
7.50 - 10.00%	8.93%	8.69%	33,917	29,800	3,773	N/a	10.12%
10.00 - 14.00%	11.24%	11.38%	26,517	27,478	3,989	N/a	13.21%
14.00 - 20.00%	16.36%	16.43%	11,120	10,044	1,873	N/a	14.50%
20.0 0 - 30.00%	21.66%	22.11%	17,473	20,155	3,756	N/a	19.09%
30.00 - 45.00%	35.06%	35.28%	17,029	15,520	6,391	N/a	32.66%
45.00 - 99.99%	71.69%	71.79%	19,921	16,908	12,517	N/a	64.47%
In Default	100.00%	100.00%	136,403	75,038	N/a	N/a	N/a
New to Book	N/a	N/a	N/a	498,495	N/a	2,906	N/a

Key observations

– Overall the average historical annual default rate has shown a small decrease in 2021.

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

Pillar 1 Capital requirements: Credit risk continued

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

RWA coverage: 100%

31 Dec 2021

PD Range	Weighted average PD	Arithmetic average PD by obligors	Number of obligors: End of previous year	Number of obligors: End of the year	Defaulted obligors in the year	of which: new defaulted obligors in the year	Average historical annual default rate
0.00 - 0.10%	—	—	—	—	—	N/a	—
0.10 - 0.40%	—	—	—	—	—	N/a	—
0.40 - 0.80%	0.61%	0.60%	59,445	74,529	126	N/a	0.26%
0.80 - 1.20%	1.12%	1.12%	16,312	14,538	63	N/a	0.71%
1.20 - 2.50%	1.67%	1.67%	14,301	11,422	93	N/a	1.36%
2.50 - 4.50%	2.62%	2.62%	12,910	8,937	126	N/a	2.15%
4.40 - 7.50%	5.67%	5.67%	16,269	8,709	316	N/a	4.20%
7.50 - 10.00%	8.04%	8.04%	192	55	7	N/a	2.90%
10.00 - 14.00%	10.61%	10.61%	7,723	3,286	333	N/a	6.54%
14.00 - 20.00%	18.07%	19.59%	18,648	20,239	372	N/a	6.51%
20.00 - 30.00%	—	—	—	—	—	N/a	—
30.00 - 45.00%	34.10%	34.10%	2,394	960	275	N/a	22.58%
45.00 - 99.99%	78.18%	78.18%	4,166	1,735	804	N/a	28.53%
In Default	100.00%	100.00%	8,455	9,774	N/a	N/a	N/a
New to Book	N/a	N/a	N/a	N/a	N/a	N/a	N/a

31 Dec 2020

PD Range	Weighted average PD	Arithmetic average PD by obligors	Number of obligors: End of previous year	Number of obligors: End of the year	Defaulted obligors in the year	of which: new defaulted obligors in the year	Average historical annual default rate
0.00 - 0.10%	—	—	—	—	—	N/a	—
0.10 - 0.40%	—	—	—	—	—	N/a	—
0.40 - 0.80%	0.61%	0.60%	59,435	60,330	151	N/a	0.27%
0.80 - 1.20%	1.12%	1.12%	16,866	18,044	117	N/a	0.78%
1.20 - 2.50%	1.67%	1.67%	14,045	15,414	184	N/a	1.48%
2.50 - 4.50%	2.76%	2.62%	12,041	13,022	267	N/a	2.40%
4.40 - 7.50%	5.67%	5.67%	15,274	15,354	587	N/a	4.61%
7.50 - 10.00%	8.04%	8.04%	348	430	8	N/a	2.45%
10.00 - 14.00%	10.61%	10.61%	6,512	6,525	477	N/a	6.40%
14.00 - 20.00%	18.12%	19.73%	22,097	16,159	667	N/a	9.33%
20.00 - 30.00%	—	—	—	—	—	N/a	—
30.00 - 45.00%	34.10%	34.10%	1,878	1,850	374	N/a	25.88%
45.00 - 99.99%	78.18%	78.18%	2,997	3,427	750	N/a	30.61%
In Default	100.00%	100.00%	8,297	8,295	N/a	N/a	N/a
New to Book	N/a	N/a	N/a	N/a	N/a	N/a	N/a

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

Key observations

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

Pillar 1 Capital requirements: Credit risk continued

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

RWA coverage: 70-75%

	31 Dec 2021							
				Number of obligors				
PD Range	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	End of previous year	End of the year	Defaulted obligors in the year	of which: new defaulted obligors in the year	Average historical annual default rate
0.00 - 0.035%	AAA to AA–	0.03%	0.03%	53	25	—	N/a	0.00%
0.035 - 0.050%	A+	0.04%	0.04%	38	58	—	N/a	0.49%
0.050 - 0.080%	A	0.06%	0.06%	42	43	—	N/a	0.00%
0.080 - 0.140%	A–	0.11%	0.11%	112	112	—	N/a	0.11%
0.140 - 0.220%	BBB+	0.18%	0.19%	579	692	—	N/a	0.11%
0.220 - 0.340%	BBB	0.28%	0.27%	546	730	—	N/a	0.28%
0.340 - 0.500%	BBB–	0.43%	0.43%	1,811	2,109	3	N/a	0.24%
0.500 - 0.760%	BB+	0.63%	0.66%	2,268	2,487	7	N/a	0.47%
0.760 - 1.240%	BB	1.01%	1.00%	2,053	2,060	9	N/a	0.73%
1.240 - 2.000%	BB–	1.62%	1.63%	1,550	1,448	12	N/a	1.27%
2.000 - 3.200%	B+	2.60%	2.60%	499	518	6	N/a	2.12%
3.200 - 5.200%	B+	4.02%	3.78%	2,430	1,359	18	N/a	2.47%
5.200 - 7.200%	B	6.20%	6.11%	217	233	8	N/a	7.90%
7.200 - 10.200%	B–	8.70%	8.65%	129	101	12	N/a	5.95%
10.200 - 13.800%	B–	12.00%	11.80%	71	57	7	N/a	11.27%
13.800 - 99.99%	CCC to C	30.76%	28.77%	125	113	16	N/a	13.65%
In Default	Default	100.00%	100.00%	466	358	N/A	N/a	N/a
New to Book	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a

	31 Dec 2020							
				Number of obligors				
PD Range	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	End of previous year	End of the year	Defaulted obligors in the year	of which: new defaulted obligors in the year	Average historical annual default rate
0.00 - 0.035%	AAA to AA-	0.03%	0.03%	57	53	—	N/a	0.00%
0.035 - 0.050%	A+	0.04%	0.04%	47	36	—	N/a	0.49%
0.050 - 0.080%	A	0.06%	0.06%	58	44	—	N/a	0.00%
0.080 - 0.140%	A-	0.11%	0.11%	178	105	1	N/a	0.11%
0.140 - 0.220%	BBB+	0.18%	0.19%	830	579	3	N/a	0.12%
0.220 - 0.340%	BBB	0.28%	0.27%	738	542	3	N/a	0.31%
0.340 - 0.500%	BBB-	0.42%	0.43%	2,449	1,802	9	N/a	0.25%
0.500 - 0.760%	BB+	0.63%	0.66%	2,794	2,262	17	N/a	0.50%
0.760 - 1.240%	BB	1.00%	1.00%	2,288	2,046	14	N/a	0.75%
1.240 - 2.000%	BB-	1.63%	1.63%	1,841	1,568	39	N/a	1.32%
2.000 - 3.200%	B+	2.60%	2.60%	538	496	12	N/a	2.60%
3.200 - 5.200%	B+	4.05%	3.82%	1,109	2,449	44	N/a	2.87%
5.200 - 7.200%	B	6.20%	6.13%	228	221	24	N/a	7.96%
7.200 - 10.200%	B-	8.69%	8.65%	117	136	8	N/a	4.80%
10.200 - 13.800%	B-	12.00%	11.87%	63	64	11	N/a	11.91%
13.800 - 99.99%	CCC to C	30.02%	29.17%	141	116	20	N/a	12.83%
In Default	Default	100.00%	100.00%	357	462	N/a	N/a	N/a
New to Book	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a

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

Key observations

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

Pillar 1 Capital requirements: Credit risk continued

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

RWA coverage: 80-85%

31 Dec 2021

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

31 Dec 2020

PD Range	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	Number of obligors: End of previous year	Number of obligors: End of the year	Defaulted obligors in the year	of which: new defaulted obligors in the year	Average historical annual default rate
0.00 - 0.035%	AAA to AA-	0.03%	0.03%	4	5	—	N/a	0.00%
0.035 - 0.050%	A+	0.04%	0.04%	2	1	—	N/a	0.00%
0.050 - 0.080%	A	0.06%	0.06%	6	5	—	N/a	0.00%
0.080 - 0.140%	A-	0.11%	0.11%	24	17	—	N/a	0.00%
0.140 - 0.220%	BBB+	0.18%	0.18%	40	43	—	N/a	0.15%
0.220 - 0.340%	BBB	0.28%	0.28%	180	167	—	N/a	0.26%
0.340 - 0.500%	BBB-	0.42%	0.42%	515	484	3	N/a	0.12%
0.500 - 0.760%	BB+	0.62%	0.61%	4,309	4,163	20	N/a	0.44%
0.760 - 1.240%	BB	1.06%	1.09%	2,040	2,094	17	N/a	0.71%
1.240 - 2.000%	BB-	1.65%	1.65%	1,474	1,781	14	N/a	1.01%
2.000 - 3.200%	B+	2.61%	2.61%	1,167	1,404	20	N/a	1.57%
3.200 - 5.200%	B+	4.20%	4.20%	203	240	1	N/a	1.52%
5.200 - 7.200%	B	5.82%	5.77%	917	1,083	52	N/a	5.25%
7.200 - 10.200%	B-	8.26%	8.30%	158	75	6	N/a	2.08%
10.200 - 13.800%	B-	11.10%	10.86%	252	243	23	N/a	7.18%
13.800 - 99.99%	CCC to C	30.59%	27.05%	283	276	22	N/a	12.60%
In Default	Default	100.00%	100.00%	203	260	N/a	N/a	N/a
New to Book	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a

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

Key observations

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

Pillar 1 Capital requirements: Credit risk continued

Performance summary of EAD and LGD models

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

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

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

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

Model performance

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

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

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

Pillar 1 Capital requirements: Credit risk continued

Key observations

Retail Mortgages:

- Predicted LGD and EAD continue to exceed actual LGD and EAD.
- LGDs have decreased due in large part to sustained house price increases.
- The government's introduction of a moratorium on possessions until June 2021 has reduced write-offs observed during the outcome window.

Retail SME:

- This asset class relates exclusively to the BDCS rating system and the latest performance measures are from an observation point of July 2020.
- The take up of Covid related lending, particularly the Bounce Back Loan Scheme, was high in this segment. Exposures backed by a government guarantee are treated as Standardised for capital reporting purposes and are therefore not included here. However, due to the pace at which the schemes were launched, the collateral allocation process within the IRB LGD model could not be updated immediately and so the LGD estimates as at July 2020 are artificially low as they include a misallocation of government guarantees. For capital purposes, this underestimation of LGD was mitigated by a Post Model Adjustment at that time, which was released when the operational process was updated.
- For this reason, the LGD predictions for 2021 appear significantly lower than previous years. Furthermore, actual loss rates also appear lower due to the limited number of fully resolved recoveries during the Covid impacted outcome period, leading to the reported loss rate being driven largely by PIT model estimates.
- The increased liquidity afforded by government loan schemes has reduced drawn balances, leading to a higher EAD over-prediction in the latest period.

Retail – Qualifying revolving:

- Predicted LGD and EAD continue to exceed actual LGD and EAD.
- An increase in the EAD ratio is driven by larger reductions in actual EAD over the disclosure period compared with predicted EAD as a result of payment holidays allowing customers to reduce debt.
- Predicted and actual LGDs have decreased over the year with the latter driven by the positive impact of collections strategy changes.

Retail – Other (non-SME):

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

Pillar 1 Capital requirements: Credit risk continued

ANALYSIS OF CREDIT RISK EXPOSURES BY ASSET CLASS CREDIT

RISK EXPOSURES

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

CRB-B: Total and average net amount of exposures

		31 Dec 2021					
		EAD pre CRM and post CCF £m	EAD post CRM and post CCF £m	Average credit risk exposure £m	Risk-weighted assets £m	Minimum capital requirements £m	Average risk weight %
1	Central governments or central banks	8,420	8,019	8,734	486	39	6%
2	Institutions	9,019	9,037	8,745	1,030	82	11%
3	Corporates	83,755	80,819	84,990	45,739	3,659	57%
4	of which: Specialised lending	13,169	12,642	13,115	9,048	724	72%
5	of which: SMEs	10,165	9,130	10,605	5,698	456	62%
6	Retail	420,021	412,448	414,946	65,451	5,236	16%
7	Secured by real estate property	351,201	351,201	346,077	39,492	3,159	11%
8	*SMEs*	5,956	5,956	6,827	1,257	101	21%
9	*Non-SMEs*	345,245	345,245	339,251	38,235	3,059	11%
10	Qualifying revolving	39,521	39,521	40,018	10,547	844	27%
11	Other retail	29,299	21,727	28,851	15,412	1,233	71%
12	*SMEs*	9,534	1,962	8,687	1,257	101	64%
13	*Non-SMEs*	19,765	19,765	20,163	14,154	1,132	72%
14	Equity	2,839	2,839	2,733	5,717	457	201%
	Non-credit obligation assets[1]	10,701	10,701	10,955	7,258	581	68%
15	**Total IRB approach**	534,755	523,865	531,104	125,680	10,054	24%
16	Central governments or central banks	84,415	95,862	80,617	13	1	—%
17	Regional governments or local authorities	535	535	503	28	2	5%
18	Public sector entities	4,155	4,155	4,459	—	—	—%
19	Multilateral development banks	9,768	9,768	8,031	—	—	—%
20	International organisations	—	—	6	—	—	—%
21	Institutions	189	795	129	66	5	8%
22	Corporates	6,658	6,346	7,983	5,454	436	86%
23	of which: SMEs	2,506	2,459	2,817	1,965	157	80%
24	Retail	10,900	10,044	12,564	7,317	585	73%
25	of which: SMEs	2,070	1,213	3,299	694	56	57%
26	Secured by mortgages on immovable property	6,593	6,591	6,772	2,479	198	38%
27	of which: SMEs	345	344	164	256	20	74%
28	Exposures in default	1,194	1,095	1,216	1,240	99	113%
31	Claims on institutions and corporates with a short-term credit assessment	—	—	7	—	—	100%
32	Collective investments undertakings	709	709	632	142	11	20%
34	Other exposures[1]	2,548	2,548	2,839	2,126	170	83%
35	**Total standardised approach**	127,665	138,448	125,758	18,866	1,509	14%
36	**Total**	662,421	662,313	656,862	144,546	11,564	22%

Pillar 1 Capital requirements: Credit risk continued

		31 Dec 2020					
		EAD pre CRM and post CCF £m	EAD post CRM and post CCF £m	Average credit risk exposure £m	Risk-weighted assets £m	Minimum capital requirements £	Average risk weight %
1	Central governments or central banks	8,353	7,826	10,860	501	40	6%
2	Institutions	8,636	8,653	9,246	1,070	86	12%
3	Corporates	86,012	84,009	90,826	48,865	3,909	58%
4	of which: Specialised lending	12,978	12,640	12,928	9,235	739	73%
5	of which: SMEs	10,841	9,847	10,542	5,983	479	61%
6	Retail	410,956	403,498	395,550	65,225	5,218	16%
7	Secured by real estate property	339,724	339,547	328,948	38,427	3,074	11%
8	*SMEs*	7,746	7,568	8,020	1,713	137	23%
9	*Non-SMEs*	331,978	331,978	320,928	36,714	2,937	11%
10	Qualifying revolving	40,745	40,745	40,550	10,631	850	26%
11	Other retail	30,488	23,206	26,052	16,167	1,293	70%
12	*SMEs*	9,998	2,716	5,232	1,734	139	64%
13	*Non-SMEs*	20,490	20,490	20,820	14,433	1,155	70%
14	Equity	2,772	2,772	3,024	5,541	443	200%
	Non-credit obligation assets[1]	11,098	11,098	10,477	7,881	630	71%
15	**Total IRB approach**	527,828	517,856	519,983	129,081	10,326	25%
16	Central governments or central banks	78,691	90,024	76,595	—	—	—%
17	Regional governments or local authorities	426	425	462	29	2	7%
18	Public sector entities	4,274	4,274	4,164	1	—	—%
19	Multilateral development banks	7,158	7,158	6,874	—	—	—%
20	International organisations	—	—	—	—	—	—%
21	Institutions	116	834	117	52	4	6%
22	Corporates	10,898	9,361	9,731	8,170	654	87%
23	of which: SMEs	3,675	3,633	3,832	3,047	244	84%
24	Retail	11,727	10,805	11,888	7,725	618	71%
25	of which: SMEs	2,179	2,179	2,663	1,256	100	58%
26	Secured by mortgages on immovable property	6,980	6,980	7,278	2,443	195	35%
27	of which: SMEs	8	8	9	3	—	39%
28	Exposures in default	1,067	1,066	1,087	1,189	95	112%
31	Claims on institutions and corporates with a short-term credit assessment	—	—	—	—	—	—%
32	Collective investments undertakings	582	582	602	116	9	20%
34	Other exposures[1]	3,034	3,034	3,283	2,523	202	83%
35	**Total standardised approach**	124,954	134,543	122,083	22,248	1,780	17%
36	**Total**	652,782	652,399	642,066	151,329	12,106	23%

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

Pillar 1 Capital requirements: Credit risk continued

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

Exposures subject to the IRB approach – key movements

Corporates

- Corporate exposure, including Specialised Lending and Corporate SME, reduced by £3.2 billion reflecting optimisation activity partially offset by a £3.0 billion increase due to a refined approach to netting of exposures.
- Risk-weighted assets reduced by £3.1 billion, as a result of optimisation activity including securitisation activity, increased recognition of 0% CCF on relevant undrawn facilities and enhanced identification of SMEs.

Retail – Secured by real estate property non-SME

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

Retail – Secured by real estate property SME

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

Retail – Qualifying revolving

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

Retail – Other SME

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

Retail – Other non-SME

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

Exposures subject to the Standardised approach – key movements

Central governments and central banks

- Exposures increased by £5.8 billion due to increased deposits placed with the Bank of England.

Multilateral development banks

- Increase of £2.6 billion due to higher bond exposures as part of liquidity management.

Corporates

- Exposures reduced by £3.0 billion and risk-weighted assets decreased by £2.7 billion including the impact of securitisation activity and increased recognition of 0% CCF on relevant undrawn facilities.

Retail

- Exposures and risk-weighted assets decreased by £0.8bn and £0.3bn due to lower unsecured lending balances and increased recognition of 0% CCF on relevant undrawn facilities.

Pillar 1 Capital requirements: Credit risk continued

ANALYSIS OF CREDIT RISK EXPOSURES SUBJECT TO THE FOUNDATION IRB APPROACH

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

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

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

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

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

	31 Dec 2021											
	Original on-balance sheet gross exposure	Off balance sheet exposures pre CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of Obligors	Average LGD	Average Maturity (years)	RWA	RWA density	EL	Value adjustments and provisions
PD Scale	£m	£m	%	£m	%		%		£m	%	£m	£m
0.00 to <0.15	8,068	171	75.00%	8,006	0.01%	21	45.00%	1.7	462	5.77%	—	
0.15 to <0.25	9	—	— %	—	—%	—	— %	—	—	— %	—	
0.25 to <0.50	—	—	75.00 %	—	0.42%	1	45.00%	2.4	—	66.99%	—	
0.75 to <2.50	104	—	— %	—	—%	1	— %	—	—	— %	—	
2.50 to <10.00	—	211	75.00 %	13	4.26%	3	45.00%	5.0	24	182.45%	—	
Sub-total	8,181	382	75.00%	8,019	0.02%	25	45.00%	1.7	486	6.06%	—	—

	31 Dec 2020											
	Original on-balance sheet gross exposure	Off balance sheet exposures pre CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of Obligors	Average LGD	Average Maturity (years)	RWA	RWA density	EL	Value adjustments and provisions
PD Scale	£m	£m	%	£m	%		%		£m	%	£m	£m
0.00 to <0.15	8,105	462	75.00%	7,825	0.01%	11	45.00%	2.0	499	6.38%	—	
0.15 to <0.25	—	—	— %	—	— %	—	— %	—	—	— %	—	
0.25 to <0.50	—	—	— %	—	— %	—	— %	—	—	— %	—	
0.75 to <2.50	—	—	— %	—	— %	—	— %	—	—	— %	—	
2.50 to <10.00	—	—	— %	1	6.20%	2	45.00%	4.9	1	201.66%	—	
Sub-total	8,105	462	75.00%	7,826	0.01%	13	45.00%	2.0	501	6.40%	—	1

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

	31 Dec 2021											
	Original on-balance sheet gross exposure	Off balance sheet exposures pre CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of Obligors	Average LGD	Average Maturity (years)	RWA	RWA density	EL	Value adjustments and provisions
PD Scale	£m	£m	%	£m	%		%		£m	%	£m	£m
0.00 to <0.15	**7,623**	**2,566**	**44.21%**	**8,770**	**0.05%**	**955**	**34.25%**	**0.9**	**875**	**9.98%**	**2**	
0.15 to <0.25	**37**	**43**	**82.55%**	**72**	**0.18%**	**54**	**41.59%**	**2.2**	**31**	**42.89%**	**—**	
0.25 to <0.50	**8**	**133**	**61.75%**	**90**	**0.39%**	**63**	**18.31%**	**1.0**	**21**	**22.98%**	**—**	
0.50 to <0.75	**2**	**3**	**51.88%**	**4**	**0.63%**	**32**	**44.90%**	**1.0**	**3**	**73.77%**	**—**	
0.75 to <2.50	**72**	**32**	**74.72%**	**96**	**1.01%**	**60**	**43.51%**	**1.6**	**94**	**97.94%**	**—**	
2.50 to <10.00	**1**	**4**	**75.00%**	**4**	**3.88%**	**25**	**44.96%**	**1.0**	**5**	**137.36%**	**—**	
10.00 to <100.00	**—**	**—**	**75.00%**	**—**	**21.05%**	**9**	**45.00%**	**1.0**	**1**	**251.25%**	**—**	
100.00 (Default)	**—**	**—**	**—%**	**—**	**100.00%**	**3**	**45.00%**	**2.8**	**—**	**—%**	**—**	
Sub-total	**7,743**	**2,782**	**46.04%**	**9,037**	**0.07%**	**1,201**	**34.26%**	**0.9**	**1,030**	**11.40%**	**2**	**—**

	31 Dec 2020											
	Original on-balance sheet gross exposure	Off balance sheet exposures pre CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of Obligors	Average LGD	Average Maturity (years)	RWA	RWA density	EL	Value adjustments and provisions
PD Scale	£m	£m	%	£m	%		%		£m	%	£m	£m
0.00 to <0.15	7,760	1,376	63.78%	8,189	0.06%	975	33.73%	1.1	820	10.01%	2	
0.15 to <0.25	159	49	65.43%	192	0.18%	39	43.59%	1.1	65	34.11%	—	
0.25 to <0.50	4	157	82.08%	131	0.34%	52	26.31%	1.1	32	24.68%	—	
0.50 to <0.75	2	9	71.44%	8	0.63%	34	44.94%	1.0	7	79.09%	—	
0.75 to <2.50	88	84	19.23%	105	1.37%	61	43.93%	0.8	107	101.67%	1	
2.50 to <10.00	24	3	80.48%	26	3.43%	36	44.92%	0.3	36	135.44%	—	
10.00 to <100.00	1	—	—%	1	28.70%	8	45.00%	0.9	3	246.81%	—	
100.00 (Default)	—	—	—%	—	100.00%	3	45.00%	1.6	—	—%	—	
Sub-total	8,038	1,678	63.17%	8,653	0.09%	1,208	34.01%	1.1	1,070	12.36%	3	2

Key movements

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

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

31 Dec 2021

PD Scale	Original on-balance sheet gross exposure £m	Off balance sheet exposures pre CCF £m	Average CCF %	EAD post CRM and post CCF £m	Average PD %	Number of Obligors	Average LGD %	Average Maturity (years)	RWA £m	RWA density %	EL £m	Value adjustments and provisions £m
0.00 to <0.15	13,188	17,138	72.45%	25,748	0.09%	575	42.68%	2.3	6,920	26.87%	11	
0.15 to <0.25	3,893	5,566	62.43%	7,322	0.18%	2,695	44.48%	2.4	3,364	45.94%	7	
0.25 to <0.50	6,995	8,568	62.10%	11,993	0.34%	4,172	38.68%	2.1	6,289	52.44%	18	
0.50 to <0.75	2,344	2,567	63.52%	3,816	0.62%	5,762	43.19%	2.6	3,128	81.97%	11	
0.75 to <2.50	3,965	3,283	57.27%	5,331	1.28%	7,951	42.20%	2.0	5,139	96.40%	32	
2.50 to <10.00	2,841	2,174	64.45%	3,951	4.28%	4,163	42.60%	2.3	5,666	143.43%	76	
10.00 to <100.00	145	153	65.51%	245	16.81%	241	40.92%	1.3	485	198.03%	16	
100.00 (Default)	575	102	64.98%	640	100.00%	832	43.16%	1.9	—	—%	276	
Sub-total	33,947	39,551	66.55%	59,046	1.73%	26,391	42.07%	2.2	30,992	52.49%	446	316

31 Dec 2020

PD Scale	Original on-balance sheet gross exposure £m	Off balance sheet exposures pre CCF £m	Average CCF %	EAD post CRM and post CCF £m	Average PD %	Number of Obligors	Average LGD %	Average Maturity (years)	RWA £m	RWA density %	EL £m	Value adjustments and provisions £m
0.00 to <0.15	11,824	18,108	75.46%	25,382	0.08%	1,222	42.73%	2.3	6,468	25.48%	10	
0.15 to <0.25	3,985	5,657	72.92%	7,694	0.18%	2,378	44.60%	2.0	3,192	41.48%	7	
0.25 to <0.50	6,085	8,396	72.92%	10,789	0.34%	4,342	43.30%	2.2	6,274	58.15%	18	
0.50 to <0.75	2,600	2,410	67.57%	3,760	0.62%	6,197	43.57%	2.2	2,906	77.29%	11	
0.75 to <2.50	4,361	4,413	70.37%	7,154	1.29%	10,111	43.35%	2.0	6,959	97.28%	44	
2.50 to <10.00	3,643	1,889	72.61%	4,626	4.55%	6,584	43.56%	2.0	6,807	147.15%	98	
10.00 to <100.00	293	223	73.11%	439	23.81%	412	44.44%	1.8	1,041	237.06%	45	
100.00 (Default)	1,434	326	79.71%	1,677	100.00%	1,255	42.63%	1.6	—	—%	715	
Sub-total	34,224	41,422	73.51%	61,522	3.54%	32,500	43.26%	2.2	33,647	54.69%	948	934

Key movements

- Exposure at default and RWA decreased by £2.5 billion and £2.7 billion respectively mainly due to optimisation activity (including the increases recognition of 0% CCFs on certain undrawn facilities) and enhancements in the identification of SMEs, partially offset by a refined approach to the netting.
- Average PD decreased from 3.54% to 1.73% largely due to a reduction in defaulted assets.
- A data enhancement in the mapping of customer groups and identification of SMEs has contributed to the reduction in the number of obligors.

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

	31 Dec 2021											
PD Scale	Original on-balance sheet gross exposure £m	Off balance sheet exposures pre CCF £m	Average CCF %	EAD post CRM and post CCF £m	Average PD %	Number of Obligors	Average LGD %	Average Maturity (years)	RWA £m	RWA density %	EL £m	Value adjustments and provisions £m
0.00 to <0.15	782	736	73.16%	1,320	0.06%	261	39.04%	3.9	314	23.81%	—	
0.15 to <0.25	148	127	70.85%	231	0.19%	229	42.63%	3.4	84	36.45%	—	
0.25 to <0.50	815	376	39.50%	846	0.38%	1,366	41.49%	3.5	449	53.08%	1	
0.50 to <0.75	1,417	336	19.42%	1,324	0.57%	4,575	41.17%	4.0	770	58.17%	3	
0.75 to <2.50	2,904	936	24.28%	2,705	1.27%	7,188	40.38%	3.3	1,901	70.28%	15	
2.50 to <10.00	1,982	402	23.02%	1,846	4.04%	4,416	40.21%	2.8	1,645	89.14%	31	
10.00 to <100.00	367	59	46.82%	373	19.18%	973	41.19%	2.4	534	143.24%	29	
100.00 (Default)	508	120	29.51%	486	100.00%	918	40.76%	2.4	—	—%	198	
Sub-total	8,922	3,093	39.91%	9,130	7.43%	19,926	40.48%	3.3	5,698	62.41%	277	161

	31 Dec 2020											
PD Scale	Original on-balance sheet gross exposure £m	Off balance sheet exposures pre CCF £m	Average CCF %	EAD post CRM and post CCF £m	Average PD %	Number of Obligors	Average LGD %	Average Maturity (years)	RWA £m	RWA density %	EL £m	Value adjustments and provisions £m
0.00 to <0.15	608	242	78.90%	728	0.08%	1,015	42.06%	3.3	151	20.72%	—	
0.15 to <0.25	195	197	74.67%	342	0.18%	477	39.78%	3.0	111	32.49%	—	
0.25 to <0.50	502	410	73.30%	720	0.36%	1,086	40.90%	2.2	291	40.45%	1	
0.50 to <0.75	1,655	437	69.26%	1,794	0.57%	4,344	38.81%	3.4	946	52.71%	4	
0.75 to <2.50	2,951	897	73.82%	3,202	1.26%	7,831	38.70%	3.1	2,096	65.45%	16	
2.50 to <10.00	2,232	489	78.26%	2,391	4.18%	4,663	38.84%	2.9	2,094	87.62%	39	
10.00 to <100.00	235	36	72.73%	238	20.47%	1,101	37.42%	2.5	294	123.16%	18	
100.00 (Default)	407	53	71.52%	432	100.00%	742	38.71%	2.3	—	—%	167	
Sub-total	8,784	2,760	74.26%	9,847	6.45%	21,259	39.17%	3.0	5,983	60.76%	247	256

Key movements

- Exposure at default and RWA decreased £0.7 billion and £0.3 billion respectively mainly due to securitisation activity and increased recognition of 0% CCFs on certain undrawn facilities partially offset by enhancements in the identification of SMEs.
- Average PD increased from 6.45% to 7.43% due to a small increase in defaulted exposures.
- A data enhancement in the mapping of customer groups has contributed to the decrease in the number of obligors.

ANALYSIS OF CREDIT RISK EXPOSURES SUBJECT TO THE RETAIL IRB APPROACH

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

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

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

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

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

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

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

Key movements

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

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

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

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

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

Key movements

– Significant increase in mortgage lending drives £13.3 billion increase in exposure at default.
– Average PD decreased from 2.11% to 1.9% partly due to reduction in defaulted assets.
– House Price Index increases drives the reduction in average LGD from 10.65% to 10.04%.
– EL reduction from £1.0 billion to £0.8 billion due to reduction defaulted exposure and reductions in average PD and average LGD.

Pillar 1 Capital requirements: Credit risk continued

Residential mortgage exposures by major portfolio

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

Major Portfolio	2021 EAD pre CRM and post CCF £m	2021 Exposure weighted average PD %	2021 Exposure weighted average LGD[1] %	2021 Average risk weight %	2021 Undrawn commitments (pre CCF)[2] £m	2021 Undrawn commitments (post CCF) £m
UK mainstream	269,896	1.86%	10.06%	10.39%	14,991	15,260
UK buy-to-let	54,682	1.28%	10.23%	15.55%	1,757	1,787
UK self certified	9,184	7.93%	6.74%	11.71%	378	192
Dutch mortgages	10,124	0.42%	11.44%	5.47%	681	564
Other mortgages	7,315	3.82%	16.59%	18.17%	488	487
Total	351,201	1.98%	10.13%	11.24%	18,295	18,290

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

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

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

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

	31 Dec 2021											
PD Scale	**Original on-balance sheet gross exposure £m**	**Off balance sheet exposures pre CCF £m**	**Average CCF %**	**EAD post CRM and post CCF £m**	**Average PD %**	**Number of Obligors**	**Average LGD %**	**RWA £m**	**RWA density %**	**EL £m**	**Value adjustments and Provisions £m**	**Undrawn commitments (post CCF) £m**
0.00 to <0.15	704	15,167	69.99%	11,320	0.09%	8,424,521	56.94%	394	3.48%	6		10,615
0.15 to <0.25	495	7,204	70.38%	5,564	0.20%	4,520,434	60.24%	390	7.01%	7		5,070
0.25 to <0.50	1,027	9,511	67.92%	7,488	0.36%	5,770,068	62.77%	881	11.77%	17		6,460
0.50 to <0.75	797	4,024	70.36%	3,629	0.62%	3,243,515	69.38%	721	19.87%	16		2,831
0.75 to <2.50	2,986	5,868	73.54%	7,302	1.35%	6,067,529	75.33%	2,855	39.10%	77		4,315
2.50 to <10.00	2,266	1,138	79.23%	3,169	4.62%	1,810,431	77.96%	3,082	97.25%	119		902
10.00 to <100.00	659	144	89.00%	802	29.30%	550,486	77.63%	1,735	216.33%	193		128
100.00 (Default)	247	—	—%	247	99.83%	289,341	71.00%	489	197.98%	136		—
Sub-total	9,181	43,056	70.42%	39,521	2.02%	30,676,325	65.24%	10,547	26.69%	571	503	30,321

	31 Dec 2020											
PD Scale	Original on-balance sheet gross exposure £m	Off balance sheet exposures pre CCF £m	Average CCF %	EAD post CRM and post CCF £m	Average PD %	Number of Obligors	Average LGD %	RWA £m	RWA density %	EL £m	Value adjustments and Provisions £m	Undrawn commitments (post CCF) £m
0.00 to <0.15	756	17,784	69.26%	13,073	0.09%	9,172,244	54.10%	450	3.44%	7		12,317
0.15 to <0.25	517	7,798	69.76%	5,957	0.20%	4,424,429	57.48%	420	7.05%	7		5,440
0.25 to <0.50	1,100	9,243	68.98%	7,476	0.36%	5,774,965	61.53%	901	12.05%	18		6,376
0.50 to <0.75	897	3,745	71.00%	3,556	0.62%	3,150,988	68.63%	736	20.70%	16		2,659
0.75 to <2.50	2,967	4,748	76.39%	6,595	1.35%	5,330,245	73.82%	2,681	40.65%	72		3,627
2.50 to <10.00	2,037	1,216	85.74%	3,081	5.38%	1,587,290	76.35%	3,033	98.44%	136		1,043
10.00 to <100.00	593	118	95.83%	721	30.50%	493,611	75.65%	1,662	230.51%	188		113
100.00 (Default)	286	—	—%	286	100.00%	311,836	71.13%	748	261.54%	178		—
Sub-total	9,153	44,652	70.71%	40,745	2.04%	30,245,608	62.60%	10,631	26.09%	622	866	31,575

Key movements

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

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

	31 Dec 2021											
	Original on-balance sheet gross exposure	Off balance sheet exposures pre CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of Obligors	Average LGD	RWA	RWA density	EL	Value adjustments and provisions	Undrawn commitments (post CCF)
PD Scale	£m	£m	%	£m	%		%	£m	%	£m	£m	£m
0.50 to <0.75	3,268	490	99.28%	758	0.54%	112,599	80.44%	381	50.22%	3		487
0.75 to <2.50	2,734	307	99.44%	623	1.13%	76,600	77.89%	421	67.49%	6		305
2.50 to <10.00	1,180	84	99.60%	257	4.18%	32,090	77.77%	239	93.11%	8		83
10.00 to <100.00	403	14	99.29%	85	27.76%	33,821	81.30%	109	128.44%	20		14
100.00 (Default)	1,055	5	98.36%	239	100.00%	57,366	9.68%	107	45.02%	23		5
Sub-total	8,640	900	99.36%	1,962	14.48%	312,476	70.70%	1,257	64.08%	60	61	894

	31 Dec 2020											
	Original on-balance sheet gross exposure	Off balance sheet exposures pre CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of Obligors	Average LGD	RWA	RWA density	EL	Value adjustments and provisions	Undrawn commitments (post CCF)
PD Scale	£m	£m	%	£m	%		%	£m	%	£m	£m	£m
0.50 to <0.75	1,677	411	99.61%	806	0.54%	63,060	76.85%	380	47.13%	3		409
0.75 to <2.50	3,257	422	99.42%	1,060	1.15%	64,568	76.25%	690	65.15%	9		420
2.50 to <10.00	2,439	171	99.28%	518	4.20%	34,043	72.10%	429	82.80%	16		169
10.00 to <100.00	1,383	35	99.17%	157	23.19%	29,338	70.96%	172	109.55%	26		35
100.00 (Default)	203	5	99.84%	177	100.00%	9,633	7.95%	63	35.85%	14		5
Sub-total	8,959	1,044	99.47%	2,716	9.24%	200,642	70.89%	1,734	63.82%	68	123	1,038

Key movements

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

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

	31 Dec 2021											
PD Scale	Original on-balance sheet gross exposure £m	Off balance sheet exposures pre CCF £m	Average CCF %	EAD post CRM and post CCF £m	Average PD %	Number of Obligors	Average LGD %	RWA £m	RWA density %	EL £m	Value adjustments and provisions £m	Undrawn commitments (post CCF) £m
0.00 to <0.15	355	—	30.00%	355	0.08%	21,272	36.74%	36	10.27%	—		—
0.15 to <0.25	37	1	30.00%	38	0.22%	8,780	75.12%	13	33.92%	—		—
0.25 to <0.50	5,302	5	30.00%	5,312	0.37%	449,178	36.15%	1,496	28.17%	12		1
0.50 to <0.75	2,997	5	30.00%	3,007	0.72%	238,486	42.24%	1,359	45.19%	13		1
0.75 to <2.50	5,891	21	30.00%	5,934	1.58%	623,301	64.29%	5,019	84.58%	64		6
2.50 to <10.00	4,028	16	30.00%	4,059	4.59%	449,405	69.82%	4,515	111.22%	131		5
10.00 to <100.00	695	3	30.00%	701	27.16%	89,104	59.55%	987	140.75%	112		1
100.00 (Default)	357	—	—%	357	100.00%	69,796	53.01%	729	204.01%	149		—
Sub-total	19,662	51	30.00%	19,765	4.40%	1,949,322	53.66%	14,154	71.61%	482	514	15

	31 Dec 2020											
PD Scale	Original on-balance sheet gross exposure £m	Off balance sheet exposures pre CCF £m	Average CCF %	EAD post CRM and post CCF £m	Average PD %	Number of Obligors	Average LGD %	RWA £m	RWA density %	EL £m	Value adjustments and provisions £m	Undrawn commitments (post CCF) £m
0.00 to <0.15	385	—	30.00%	386	0.08%	24,841	34.85%	40	10.43%	—		—
0.15 to <0.25	71	2	30.00%	74	0.22%	17,321	74.68%	25	33.91%	—		—
0.25 to <0.50	5,695	6	30.00%	5,708	0.37%	501,027	36.71%	1,717	30.07%	19		2
0.50 to <0.75	3,194	5	30.00%	3,206	0.72%	263,981	43.56%	1,537	47.95%	17		2
0.75 to <2.50	6,338	21	30.00%	6,384	1.54%	676,882	64.77%	5,455	85.45%	73		6
2.50 to <10.00	3,559	12	30.00%	3,586	4.43%	400,790	67.02%	3,900	108.74%	112		4
10.00 to <100.00	749	3	30.00%	755	29.30%	89,269	54.23%	1,032	136.72%	127		1
100.00 (Default)	392	—	—%	392	100.00%	75,637	55.20%	728	185.66%	176		—
Sub-total	20,383	49	30.00%	20,490	4.47%	2,049,748	52.93%	14,433	70.44%	523	868	15

ANALYSIS OF CREDIT RISK EXPOSURES SUBJECT TO OTHER IRB APPROACHES

Corporate specialised lending exposures subject to supervisory slotting

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

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

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

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

As at 31 December 2021, corporate specialised lending exposures subject to supervisory slotting amounted to £12.6 billion (2020: £12.6 billion). Risk-weighted assets arising from this amounted to £9.0 billion (2020: £9.2 billion) as analysed in the table below.

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

CR10: IRB – Specialised lending

		31 Dec 2021					
		Specialised lending					
		On-balance sheet amount	Off-balance sheet amount	RW	Exposure amount	RWA	Expected losses
Regulatory Categories	Remaining maturity	£m	£m	%	£m	£m	£m
1) Strong	Less than 2.5 years	2,703	858	50%	3,328	1,657	—
	Equal to or more than 2.5 years	2,469	863	70%	3,126	2,186	12
2) Good	Less than 2.5 years	1,986	202	70%	2,118	1,483	8
	Equal to or more than 2.5 years	3,039	535	90%	2,943	2,649	24
3) Satisfactory	Less than 2.5 years	343	27	115%	364	418	10
	Equal to or more than 2.5 years	318	13	115%	330	379	9
4) Weak	Less than 2.5 years	13	—	250%	13	33	1
	Equal to or more than 2.5 years	89	1	250%	98	243	8
5) Default	Less than 2.5 years	183	3	0%	259	—	130
	Equal to or more than 2.5 years	63	1	0%	63	—	32
Total	Less than 2.5 years	5,228	1,090		6,082	3,591	149
	Equal to or more than 2.5 years	5,978	1,413		6,560	5,457	85

		31 Dec 2020					
		Specialised lending					
		On-balance sheet amount	Off-balance sheet amount	RW	Exposure amount	RWA	Expected losses
Regulatory Categories	Remaining maturity	£m	£m	%	£m	£m	£m
1) Strong	Less than 2.5 years	2,111	695	50%	2,670	1,335	—
	Equal to or more than 2.5 years	2,559	1,361	70%	3,310	2,316	13
2) Good	Less than 2.5 years	1,923	516	70%	2,356	1,647	9
	Equal to or more than 2.5 years	2,964	223	90%	3,236	2,911	26
3) Satisfactory	Less than 2.5 years	168	12	115%	190	216	5
	Equal to or more than 2.5 years	400	41	115%	468	535	13
4) Weak	Less than 2.5 years	27	1	250%	33	82	3
	Equal to or more than 2.5 years	60	—	250%	77	193	6
5) Default	Less than 2.5 years	136	38	0%	272	—	136
	Equal to or more than 2.5 years	20	1	0%	29	—	15
Total	Less than 2.5 years	4,365	1,262		5,521	3,280	153
	Equal to or more than 2.5 years	6,003	1,626		7,120	5,955	73

ANALYSIS OF EQUITY EXPOSURES

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

CR10: Equity exposures subject to the simple risk weight method

31 Dec 2021

Equities under the simple risk-weight approach

	On-balance sheet amount	Off-balance sheet amount	RW	EAD post CRM and post CCF	RWA	Capital requirements
Categories	£m	£m	%	£m	£m	£m
Private equity exposures	2,583	78	190%	2,660	5,055	404
Other equity exposures	179	—	370%	179	662	53
Total	2,762	78		2,839	5,717	457

31 Dec 2020

Equities under the simple risk-weight approach

	On-balance sheet amount	Off-balance sheet amount	RW	EAD post CRM and post CC	RWA	Capital requirements
Categories	£m	£m	%	£m	£m	£m
Private equity exposures	2,504	117	190%	2,621	4,980	398
Other equity exposures	152	—	370%	152	561	45
Total	2,656	117		2,773	5,541	443

Non-trading book exposures in equities

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

Private equity investments are generally medium term investments, held for gain and include limited partnership stakes and listed and unlisted equity shares.

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

- Financial assets at fair value through other comprehensive income, Note 2 (Accounting Policies) of the 2021 Lloyds Banking Group plc Annual Report and Accounts.
- Equity investments (including venture capital), Note 48 (Financial Instruments) of the 2021 Lloyds Banking Group plc Annual Report and Accounts.

The balance sheet value of non-trading book exposures in equities, as at 31 December 2021, is presented in the table below. There was no difference between the balance sheet value and the fair value of these exposures.

Analysis of non-trading book exposures in equities

Equity grouping	2021 Balance sheet value £m	2020 Balance sheet value £m
Publicly quoted equities	1	1
Privately held equities	2,171	1,738
Total	2,172	1,739

There were £0m realised gain (2020: £2.5m) recognised in the year to 31 December 2021 in respect of the sale and liquidation of non-trading book exposures in equities (assets at fair value through other comprehensive income).

As at 31 December 2021, there were £8.6m of unrealised gains on equity investments at fair value through other comprehensive income (2020: £50.1m unrealised loss).

ANALYSIS OF CREDIT RISK EXPOSURES SUBJECT TO THE STANDARDISED APPROACH

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

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

	31 Dec 2021					
	Exposures before CCF and CRM		Exposures post CCF and CRM		RWA and RWA density	
	On-balance sheet amount £m	Off-balance sheet amount £m	On-balance sheet amount £m	Off-balance sheet amount £m	RWA £m	RWA density[1] %
1 Central governments or central banks	84,297	401	95,326	536	13	—%
2 Regional governments or local authorities	535	—	535	—	28	5%
3 Public sector entities	4,155	—	4,155	—	—	—%
4 Multilateral development banks	9,768	—	9,768	—	—	—%
5 International organisations	—	—	—	—	—	—%
6 Institutions	177	30	186	608	66	8%
7 Corporates	4,677	5,965	4,529	1,817	5,454	86%
8 Retail	10,687	23,830	9,831	213	7,317	73%
9 Secured by mortgages on immovable property	6,571	51	6,569	22	2,480	38%
of which: residential property	6,204	31	6,204	10	2,177	35%
of which: commercial property	367	20	365	12	303	80%
1 Exposures in default	1,157	99	1,058	36	1,240	113%
1 Collective investment undertakings (CIUs)	709	—	709	—	142	20%
1 Other items	2,474	148	2,474	74	2,126	83%
1 **Total**	**125,207**	**30,524**	**135,142**	**3,306**	**18,866**	**14%**

	31 Dec 2020					
	Exposures before CCF and CRM		Exposures post CCF and CRM		RWA and RWA density	
	On-balance sheet amount £m	Off-balance sheet amount £m	On-balance sheet amount £m	Off-balance sheet amount £m	RWA £m	RWA density[1] %
1 Central governments or central banks	78,691	—	89,294	730	—	—%
2 Regional governments or local authorities	426	—	425	—	29	7%
3 Public sector entities	4,274	—	4,274	—	1	—%
4 Multilateral development banks	7,158	—	7,158	—	—	—%
5 International organisations	—	—	—	—	—	—%
6 Institutions	103	5	104	730	52	6%
7 Corporates	7,708	5,526	7,361	2,000	8,170	87%
8 Retail	11,422	23,182	10,499	305	7,725	72%
9 Secured by mortgages on immovable property	6,973	24	6,973	7	2,444	35%
of which: residential property	6,972	24	6,972	7	2,443	35%
of which: commercial property	1	—	1	—	1	100%
1 Exposures in default	1,042	87	1,039	26	1,189	112%
1 Collective investment undertakings (CIUs)	582	—	582	—	116	20%
1 Other items	3,034	—	3,034	—	2,523	83%
1 **Total**	121,413	28,825	130,744	3,800	22,248	17%

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

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

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

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

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

	31 Dec 2021																
	Risk Weight																
Exposure Classes	0 % £m	2 % £m	4 % £m	10 % £m	20 % £m	35 % £m	50 % £m	70 % £m	75 % £m	100 % £m	150 % £m	250 % £m	370 % £m	1250 % £m	Others £m	Total £m	Of which: Unrated £m
Central governments or central banks	95,849	—	—	—	—	—	—	—	—	13	—	—	—	—	—	95,862	95,361
Regional government or local authorities	393	—	—	—	142	—	—	—	—	—	—	—	—	—	—	535	–
Public sector entities	4,155	—	—	—	—	—	—	—	—	—	—	—	—	—	—	4,155	2,637
Multilateral development banks	9,768	—	—	—	—	—	—	—	—	—	—	—	—	—	—	9,768	9,768
International organisations	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	–
Institutions	—	—	605	—	183	—	2	—	—	4	—	—	—	—	—	795	612
Corporates[1]	—	—	—	—	19	—	799	—	—	5,527	—	—	—	1	—	6,346	5,301
Retail	—	—	—	—	—	—	—	—	10,044	—	—	—	—	—	—	10,044	10,044
Secured by mortgages on immovable property	—	—	—	—	—	6,210	—	—	60	321	—	—	—	—	—	6,591	6,591
of which: residential property	—	—	—	—	—	6,210	—	—	—	4	—	—	—	—	—	6,214	6,214
of which: commercial property	—	—	—	—	—	—	—	—	60	317	—	—	—	—	—	377	377
Exposures in default	—	—	—	—	—	—	—	—	—	804	291	—	—	—	—	1,095	1,095
Collective investment undertakings	—	—	—	—	709	—	—	—	—	—	—	—	—	—	—	709	–
Other items	60	—	—	—	431	—	—	—	—	2,057	—	—	—	—	—	2,548	2,548
Total	110,225	—	605	—	1,484	6,210	801	—	10,105	8,636	291	—	—	1	90	138,448	133,950

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

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

		31 Dec 2020																
		Risk Weight																
		0 %	2 %	4 %	10 %	20 %	35 %	50 %	70 %	75 %	100 %	150 %	250 %	370 %	1250 %	Others	Total	Of which: Unrated
	Exposure Classes	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
1	Central governments or central banks	90,024	—	—	—	—	—	—	—	—	—	—	—	—	—	—	90,024	89,810
2	Regional government or local authorities	278	—	—	—	147	—	—	—	—	—	—	—	—	—	—	425	1
3	Public sector entities	4,273	—	—	—	—	—	—	—	—	1	—	—	—	—	—	4,274	3,144
4	Multilateral development banks	7,158	—	—	—	—	—	—	—	—	—	—	—	—	—	—	7,158	7,158
5	International organisations	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
6	Institutions	—	—	729	—	101	—	5	—	—	—	—	—	—	—	—	834	729
7	Corporates	—	—	—	—	—	—	1,235	—	—	8,101	26	—	—	—	—	9,361	8,101
8	Retail	—	—	—	—	—	—	—	—	10,805	—	—	—	—	—	—	10,805	10,804
9	Secured by mortgages on immovable property	—	—	—	—	—	6,979	—	—	—	1	—	—	—	—	—	6,980	6,980
	of which: residential property	—	—	—	—	—	6,979	—	—	—	—	—	—	—	—	—	6,979	6,979
	of which: commercial property	—	—	—	—	—	—	—	—	—	1	—	—	—	—	—	1	1
10	Exposures in default	—	—	—	—	—	—	—	—	—	820	246	—	—	—	—	1,066	1,066
14	Collective investment undertakings	—	—	—	—	582	—	—	—	—	—	—	—	—	—	—	582	—
16	Other items	132	—	—	—	474	—	—	—	—	2,429	—	—	—	—	—	3,034	3,034
17	Total	101,866	—	729	—	1,303	6,979	1,239	—	10,805	11,351	271	—	—	—	—	134,543	130,827

Pillar 1 Capital requirements: Credit risk continued

ANALYSIS OF CREDIT RISK EXPOSURES BY GEOGRAPHY

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

CRB-C: Geographical breakdown of exposures

	31 Dec 2021					
	United Kingdom £m	Rest of Europe £m	United States of America £m	Asia-Pacific £m	Other £m	Total £m
Central governments or central banks	—	269	7,640	45	466	8,420
Institutions	2,770	1,283	488	1,463	3,016	9,019
Corporates	61,991	8,952	9,700	884	2,227	83,755
of which: Specialised lending	10,923	1,968	17	14	248	13,169
of which: SMEs	9,950	209	—	—	6	10,165
Retail	409,827	10,192	1	—	1	420,021
Secured by real estate property	341,071	10,129	—	—	—	351,201
SMEs	5,950	5	—	—	—	5,956
Non-SMEs	335,120	10,124	—	—	—	345,244
Qualifying revolving	39,521	—	—	—	—	39,521
Other retail	29,235	63	1	—	1	29,299
SMEs	9,531	2	1	—	1	9,535
Non-SMEs	19,704	61	—	—	—	19,765
Equity	2,642	62	135	—	—	2,839
Non-credit obligation assets	10,658	43	—	—	—	10,701
Total IRB approach	487,888	20,802	17,963	2,393	5,710	534,755
Central governments or central banks	74,734	9,601	—	—	80	84,415
Regional governments or local authorities	—	393	—	—	142	535
Public sector entities	—	4,155	—	—	—	4,155
Multilateral development banks	—	—	—	—	9,768	9,768
International organisations	—	—	—	—	—	—
Institutions	111	34	22	19	4	189
Corporates	4,342	1,206	640	333	137	6,658
Retail	10,074	817	2	4	4	10,900
Secured by mortgages on immovable property	4,837	1,351	42	224	139	6,593
Exposures in default	713	37	6	17	422	1,194
Items associated with particularly high risk	—	—	—	—	—	—
Covered bonds	—	—	—	—	—	—
Claims on institutions and corporates with a short-term credit assessment	—	—	—	—	—	—
Collective investments undertakings	709	—	—	—	—	709
Equity exposures	—	—	—	—	—	—
Other exposures	2,407	45	74	5	17	2,548
Total standardised approach	97,928	17,638	787	601	10,711	127,665
Total	585,815	38,440	18,750	2,994	16,421	662,421

	31 Dec 2020					
	United Kingdom	Rest of Europe	United States of America	Asia-Pacific	Other	Total
	£m	£m	£m	£m	£m	£m
Central governments or central banks	—	60	7,597	22	674	8,353
Institutions	3,409	1,235	456	1,498	2,038	8,636
Corporates	66,752	9,577	6,752	94	2,836	86,012
of which: Specialised lending	10,958	1,465	46	1	508	12,978
of which: SMEs	10,774	24	—	—	42	10,841
Retail	401,570	9,383	—	1	2	410,956
Secured by real estate property	330,401	9,320	—	—	2	339,724
SMEs	7,740	2	—	—	2	7,746
Non-SMEs	322,660	9,318	—	—	—	331,978
Qualifying revolving	40,745	—	—	—	—	40,745
Other retail	30,425	62	—	—	—	30,488
SMEs	9,997	—	—	—	—	9,998
Non-SMEs	20,428	62	—	—	—	20,490
Equity	2,574	65	133	—	—	2,772
Non-credit obligation assets	11,052	46	—	—	—	11,098
Total IRB approach	485,358	20,366	14,939	1,615	5,550	527,828
Central governments or central banks	66,684	12,007	—	—	—	78,691
Regional governments or local authorities	1	278	—	—	146	426
Public sector entities	1	4,273	—	—	—	4,274
Multilateral development banks	—	—	—	—	7,159	7,158
International organisations	—	—	—	—	—	—
Institutions	76	31	8	—	—	116
Corporates	7,433	1,559	816	391	699	10,898
Retail	10,922	793	2	5	4	11,727
Secured by mortgages on immovable property	6,397	177	55	272	79	6,980
Exposures in default	584	40	23	17	403	1,067
Items associated with particularly high risk	—	—	—	—	—	—
Covered bonds	—	—	—	—	—	—
Claims on institutions and corporates with a short-term credit assessment	—	—	—	—	—	—
Collective investments undertakings	582	—	—	—	—	582
Equity exposures	—	—	—	—	—	—
Other exposures	2,943	39	—	5	48	3,034
Total standardised approach	95,623	19,199	904	690	8,538	124,954
Total	580,981	39,565	15,843	2,305	14,088	652,782

Key movements

– The increase in UK exposure of £4.8 billion is due to increased amounts deposited with the Bank of England and an increase in mortgage lending.

Pillar 1 Capital requirements: Credit risk continued

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

Exposures subject to the IRB approach analysed by geographical region

	31 Dec 2021																	
	United Kingdom			Rest of Europe			United States of America			Asia-Pacific			Other			Total		
	EAD pre CRM and post CCF	LGD	PD	EAD pre CRM and post CCF	LGD	PD	EAD pre CRM and post CCF	LGD	PD	EAD pre CRM and post CCF	LGD	PD	EAD pre CRM and post CCF	LGD	PD	EAD pre CRM and post CCF	LGD	PD
	£m	%	%	£m	%	%	£m	%	%	£m	%	%	£m	%	%	£m	%	%
Exposures subject to the IRB approach																		
Foundation IRB approach																		
Central governments or central banks	—		0.02%	269		0.33%	7,640		0.01%	45		0.01%	466		0.05%	8,420		0.02%
Institutions	2,770		0.08%	1,283		0.07%	488		0.08%	1,463		0.06%	3,016		0.07%	9,020		0.07%
Corporate – main	41,118		2.32%	6,776		0.65%	9,683		0.43%	870		0.13%	1,974		0.22%	60,421		1.73%
Corporate – SME	9,950		7.44%	209		7.19%	—		—	—		100.00	6		0.67	10,165		7.43%
Total – Foundation IRB approach	**53,838**		**3.08%**	**8,537**		**0.71%**	**17,811**		**0.23%**	**2,378**		**0.08%**	**5,462**		**0.13%**	**88,026**		**2.00%**
Retail IRB approach																		
Retail mortgages	341,071	10.13%	1.98%	10,129	11.44%	0.43%	—	—	—	—	18.04%	1.55%	—	12.78%	2.27%	351,200	10.17%	1.93%
of which: residential mortgages (SME)	5,950	17.32%	4.04%	5	16.40%	2.82%	—	—	—	—	18.04%	1.55%	—	12.78%	2.27%	5,955	17.32%	4.04%
of which: residential mortgages (non–	335,120	10.00%	1.94%	10,124	11.44%	0.42%	—	—	—	—	—	—	—	—	—	345,244	10.04%	1.90%
Qualifying revolving retail exposures	39,521	65.24%	2.02%	—	—	—	—	—	—	—	—	—	—	—	—	39,521	65.24%	2.02%
Other SME[1]	9,531	70.77%	14.50%	2	30.39%	8.27%	1	11.64%	0.55%	—	86.44%	2.61%	1	49.62%	0.84%	9,535	70.70%	14.48%
Other non–SME	19,704	53.71%	4.41%	61	37.93%	0.90%	—	—	—	—	—	—	—	—	—	19,765	53.66%	4.40%
Total – Retail IRB approach	**409,827**	**17.97%**	**2.16%**	**10,192**	**11.60%**	**0.43%**	**1**	**11.64%**	**0.55%**	**—**	**25.05%**	**1.66%**	**1**	**38.51%**	**1.27%**	**420,020**	**17.82%**	**2.12%**

31 Dec 2020	United Kingdom			Rest of Europe			United States of America			Asia-Pacific			Other			Total		
	EAD pre CRM and post CCF	LGD	PD	EAD pre CRM and post CCF	LGD	PD	EAD pre CRM and post CCF	LGD	PD	EAD pre CRM and post CCF	LGD	PD %	EAD pre CRM and post CCF	LGD %	PD %	EAD pre CRM and post CCF	LGD %	PD %
	£m	%	%	£m	%	%	£m	%	%	£m	%	%	£m	%	%	£m	%	%
Exposures subject to the IRB approach																		
Foundation IRB approach																		
Central governments or central banks	—		—	60		0.03 %	7,597		0.01%	22		0.01%	674		0.06%	8,353		0.01%
Institutions	3,409		0.09%	1,235		0.07%	456		0.10%	1,498		0.06%	2,038		0.15%	8,636		0.09%
Corporate – main	45,021		4.39%	8,089		2.32%	6,706		0.39%	93		0.25%	2,286		0.59%	62,195		3.54%
Corporate – SME	10,774		6.49%	24		0.77%	—		—	—		—	42		0.49	10,840		6.45%
Total – Foundation IRB approach	59,204		4.49%	9,408		2.00%	14,759		0.19%	1,613		0.07%	5,040		0.36%	90,024		3.21%
Retail IRB approach																		
Retail mortgages	330,401	10.71%	2.20%	9,320	14.26%	0.75%	—	—	—	—	12.65%	1.11%	2	14.43%	1.90%	339,723	10.81%	2.16%
of which: residential mortgages (SME)	7,740	17.85%	4.12%	2	12.49%	2.25%	—	—	—	—	12.65%	1.11%	2	14.43%	1.90%	7,744	17.85%	4.11%
of which: residential mortgages (non–	322,660	10.54%	2.15%	9,318	14.26%	0.75%	—	—	—	—	—	—	—	—	—	331,978	10.65%	2.11%
Qualifying revolving retail exposures	40,745	62.60%	2.04%	—	—	—	—	—	—	—	—	—	—	—	—	40,745	62.60%	2.04%
Other SME	9,997	70.89%	9.25%	—	73.63%	4.75%	—	86.78 %	1.17 %	—	38.28%	2.92%	—	80.69%	1.38%	9,997	70.89%	9.24%
Other non–SME	20,428	52.98%	4.48%	62	37.90%	1.27%	—	—	—	—	—	—	—	—	—	20,490	52.93%	4.47%
Total – Retail IRB approach	401,571	18.68%	2.35%	9,382	14.42%	0.75%	—	86.78 %	1.17 %	—	22.12%	1.78%	2	14.74%	1.90%	410,954	18.58%	2.31%

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

Key movements

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

Pillar 1 Capital requirements: Credit risk continued

ANALYSIS OF CREDIT RISK EXPOSURES BY INDUSTRY

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

CRB-D: Concentration of exposures by industry

	31 Dec 2021												
	Agriculture, forestry and fishing £m	Energy and water supply £m	Manufacturing £m	Construction £m	Transport, distribution and hotels £m	Postal and comms £m	Property companies £m	Financial, business and other service £m	Personal: mortgages £m	Personal: other £m	Lease financing £m	Hire purchase £m	Total £m
Central governments or central banks	—	—	—	—	—	—	—	8,420	—	—	—	—	**8,420**
Institutions	—	—	—	—	—	—	—	8,932	—	—	42	45	**9,019**
Corporates	986	4,441	8,774	4,320	12,680	2,839	16,621	28,927	—	—	1,371	2,796	**83,755**
of which: Specialised lending	—	1,667	80	1,005	953	326	8,591	465	—	—	83	—	**13,169**
of which: SMEs	899	118	927	533	2,198	79	1,752	3,322	—	—	4	332	**10,165**
Retail	1,377	59	801	2,039	3,908	292	2,863	4,133	345,244	47,820	—	11,484	**420,021**
Secured by real estate property	1,012	11	201	262	999	22	2,125	1,324	345,244	1	—	—	**351,201**
SMEs	1,012	11	201	262	999	22	2,125	1,324	—	1	—	—	**5,956**
Non-SMEs	—	—	—	—	—	—	—	—	345,244	—	—	—	**345,244**
Qualifying revolving	—	—	—	—	—	—	—	—	—	39,521	—	—	**39,521**
Other retail	365	48	600	1,777	2,909	270	738	2,809	—	8,298	—	11,484	**29,299**
SMEs	365	48	600	1,777	2,909	270	738	2,809	—	18	—	—	**9,535**
Non-SMEs	—	—	—	—	—	—	—	—	—	8,281	—	11,484	**19,765**
Equity	—	28	162	2	383	430	75	1,759	—	—	—	—	**2,839**
Non-credit obligation assets													**10,701**
Total IRB approach	**2,363**	**4,529**	**9,736**	**6,361**	**16,970**	**3,562**	**19,559**	**52,171**	**345,244**	**47,820**	**1,413**	**14,325**	**534,755**
Central governments or central banks	—	—	—	—	—	—	—	84,399	—	—	17	—	**84,416**
Regional governments or local authorities	—	—	—	—	—	—	—	535	—	—	—	—	**535**
Public sector entities[1]	—	—	—	—	—	—	—	4,155	—	—	—	—	**4,155**
Multilateral development banks	—	—	—	—	—	—	—	9,768	—	—	—	—	**9,768**
Institutions	—	—	—	—	—	—	—	180	—	—	9	—	**189**
Corporates	1,480	108	433	30	1,448	213	506	1,790	—	292	208	150	**6,658**
Retail	351	10	118	213	497	38	312	501	236	7,452	231	944	**10,900**
Secured by mortgages on immovable property	191	—	13	6	110	—	54	27	6,191	—	—	—	**6,593**
Exposures in default	56	1	35	30	491	3	39	85	318	128	1	7	**1,194**
Collective investments undertakings	—	—	—	—	—	—	—	709	—	—	—	—	**709**
Other exposures													**2,548**
Total standardised approach	**2,077**	**119**	**599**	**279**	**2,547**	**255**	**911**	**102,150**	**6,744**	**7,872**	**465**	**1,101**	**127,666**
Total	**4,441**	**4,648**	**10,335**	**6,639**	**19,517**	**3,816**	**20,470**	**154,321**	**351,989**	**55,692**	**1,877**	**15,426**	**662,421**

Pillar 1 Capital requirements: Credit risk continued

	31 Dec 2020												
	Agriculture, forestry and fishing £m	Energy and water supply £m	Manufacturing £m	Construction £m	Transport, distribution and hotels £m	Postal and comms £m	Property companies £m	Financial, business and other service £m	Personal: mortgages £m	Personal: other £m	Lease financing £m	Hire purchase £m	Total £m
Central governments or central banks	—	—	—	—	—	—	—	8,353	—	—	—	—	8,353
Institutions	—	—	—	—	—	—	—	8,554	—	—	44	37	8,636
Corporates	1,281	3,496	9,647	3,793	13,596	898	18,906	29,988	—	7	1,466	2,936	86,012
of which: Specialised lending	—	1,183	126	263	944	198	9,559	705	—	—	—	—	12,978
of which: SMEs	1,161	69	1,176	493	2,240	81	1,227	4,041	—	—	2	348	10,841
Retail	1,662	9	926	1,873	4,343	118	3,842	4,952	331,978	49,199	—	12,055	410,956
Secured by real estate property	1,226	3	276	232	1,272	18	2,893	1,824	331,978	1	—	—	339,724
SMEs	1,226	3	276	232	1,272	18	2,893	1,824	—	1	—	—	7,746
Non-SMEs	—	—	—	—	—	—	—	—	331,978	—	—	—	331,978
Qualifying revolving	—	—	—	—	—	—	—	—	—	40,745	—	—	40,745
Other retail	436	6	650	1,641	3,071	99	949	3,128	—	8,453	—	12,055	30,488
SMEs	436	6	650	1,641	3,071	99	949	3,128	—	18	—	—	9,998
Non-SMEs	—	—	—	—	—	—	—	—	—	8,435	—	12,055	20,490
Equity	—	36	398	118	369	500	74	1,278	—	—	—	—	2,772
Non-credit obligation assets													11,098
Total IRB approach	2,944	3,541	10,971	5,784	18,308	1,516	22,822	53,124	331,978	49,205	1,510	15,027	527,828
Central governments or central banks	—	—	—	—	—	—	—	78,665	—	—	26	—	78,691
Regional governments or local authorities	—	—	—	—	—	—	—	426	—	—	—	—	426
Public sector entities[1]	—	—	—	—	—	—	—	4,274	—	—	—	—	4,274
Multilateral development banks	—	—	—	—	—	—	—	7,158	—	—	—	—	7,158
Institutions	—	—	—	—	—	—	—	104	—	—	12	—	116
Corporates	2,528	165	746	115	1,546	23	904	3,820	4	257	206	584	10,898
Retail	1,512	5	31	45	174	2	201	1,131	223	7,853	210	339	11,727
Secured by mortgages on immovable property	—	—	—	—	—	—	1	2	6,976	—	—	—	6,980
Exposures in default	67	—	28	4	438	—	12	9	352	148	1	8	1,067
Collective investments undertakings	—	—	—	—	—	—	—	582	—	—	—	—	582
Other exposures													3,034
Total standardised approach	4,108	170	805	165	2,158	25	1,117	96,172	7,555	8,259	455	931	124,954
Total	7,051	3,711	11,776	5,948	20,466	1,541	23,939	149,297	339,533	57,464	1,965	15,958	652,782

Pillar 1 Capital requirements: Credit risk continued

ANALYSIS OF CREDIT RISK EXPOSURES BY RESIDUAL MATURITY

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

CRB-E: Maturity of exposures

	31 Dec 2021					
	Net exposure value					
	On demand £m	<= 1 year £m	> 1 year <= 5 years £m	> 5 years £m	No stated maturity £m	Total £m
Central governments or central banks	45	5,795	1,972	608	—	8,420
Institutions	6	6,848	1,953	212	—	9,019
Corporates	2,590	24,226	46,749	10,190	—	83,755
of which: Specialised lending	31	2,210	8,154	2,774	—	13,169
of which: SMEs	124	2,138	4,215	3,688	—	10,165
Retail	42,454	23,497	37,846	316,224	—	420,021
Secured by real estate property	2,206	19,980	16,692	312,322	—	351,201
SMEs	27	846	631	4,452	—	5,956
Non-SMEs	2,179	19,134	16,062	307,871	—	345,244
Qualifying revolving	39,521	—	—	—	—	39,521
Other retail	727	3,517	21,154	3,901	—	29,299
SMEs	683	1,038	5,079	2,735	—	9,535
Non-SMEs	44	2,479	16,076	1,166	—	19,765
Equity	—	—	—	—	2,839	2,839
Non-credit obligation assets	1,447	993	1,713	106	6,443	10,701
Total IRB approach	46,542	61,359	90,232	327,340	9,282	534,755
Central governments or central banks	56,809	12,538	1,210	13,859	—	84,415
Regional governments or local authorities	—	116	350	68	—	535
Public sector entities	—	847	2,731	577	—	4,155
Multilateral development banks	—	398	7,100	2,270	—	9,768
Institutions	72	60	57	0	—	189
Corporates	368	1,700	2,342	2,248	—	6,658
Retail	6,153	213	2,897	1,637	—	10,900
Secured by mortgages on immovable property	133	242	585	5,633	—	6,593
Exposures in default	238	378	259	318	—	1,194
Collective investments undertakings	—	—	—	—	709	709
Other exposures	300	—	369	774	1,105	2,548
Total standardised approach	64,073	16,493	17,900	27,384	1,814	127,665
Total	110,616	77,852	108,132	354,724	11,097	662,421

Pillar 1 Capital requirements: Credit risk continued

	31 Dec 2020					
	Net exposure value					
	On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
	£m	£m	£m	£m	£m	£m
Central governments or central banks	22	5,450	980	1,901	—	8,353
Institutions	715	5,398	2,049	473	—	8,636
Corporates	5,352	23,387	43,991	13,282	—	86,012
of which: Specialised lending	215	2,187	7,327	3,249	—	12,978
of which: SMEs	656	2,917	2,428	4,840	—	10,841
Retail	42,866	26,113	34,330	307,647	—	410,956
Secured by real estate property	1,969	22,599	17,260	297,896	—	339,724
SMEs	143	999	688	5,915	—	7,746
Non-SMEs	1,826	21,600	16,572	291,980	—	331,978
Qualifying revolving	40,745	—	—	—	—	40,745
Other retail	153	3,513	17,070	9,752	—	30,488
SMEs	116	1,112	241	8,529	—	9,998
Non-SMEs	37	2,402	16,829	1,222	—	20,490
Equity	—	—	—	—	2,772	2,772
Non-credit obligation assets	1,340	950	1,561	66	7,181	11,098
Total IRB approach	50,296	61,298	82,912	323,369	9,953	527,828
Central governments or central banks	51,611	13,706	4,300	8,554	519	78,691
Regional governments or local authorities	—	34	244	148	—	426
Public sector entities	—	731	3,093	450	—	4,274
Multilateral development banks	—	358	5,108	1,692	—	7,158
Institutions	43	26	42	5	—	116
Corporates	444	2,334	4,012	4,108	—	10,898
Retail	6,666	336	1,599	3,125	—	11,727
Secured by mortgages on immovable property	142	170	549	6,119	—	6,980
Exposures in default	97	404	188	378	—	1,067
Collective investments undertakings	—	—	—	—	582	582
Other exposures	164	71	368	337	2,093	3,034
Total standardised approach	59,167	18,172	19,503	24,917	3,194	124,954
Total	109,463	79,470	102,415	348,286	13,147	652,782

IMPAIRMENT AND CREDIT QUALITY OF EXPOSURES

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

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

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

	31 Dec 2021				
	Gross carrying values of				
	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment[1]	Credit risk adjustment charges in the period[1]	Net values
	£m	£m	£m	£m	£m
Central governments or central banks	—	8,563	—	(1)	8,563
Institutions	—	10,524	—	(2)	10,524
Corporates	1,633	97,723	611	(758)	98,745
of which: Specialised lending	329	13,514	134	(182)	13,709
of which: SMEs	628	11,387	161	(99)	11,853
Retail	4,659	414,373	2,421	(360)	416,611
Secured by real estate property	2,995	334,546	1,343	(306)	336,198
SMEs	135	5,822	131	(43)	5,826
Non-SMEs	2,860	328,724	1,212	(263)	330,372
Qualifying revolving	247	51,991	503	131	51,735
Other retail	1,417	27,836	575	(185)	28,678
SMEs	1,060	8,480	61	(62)	9,479
Non-SMEs	357	19,355	514	(123)	19,199
Equity	—	2,839	—	—	2,839
Non-credit obligation assets	—	10,701	—	—	10,701
Total IRB approach	6,292	544,724	3,033	(1,121)	547,984
Central governments or central banks		84,697	—	—	84,697
Regional governments or local authorities		535	—	—	535
Public sector entities		4,155	—	—	4,155
Multilateral development banks		9,768	—	—	9,768
International organisations		—	—	—	—
Institutions		207	—	—	207
Corporates		10,686	44	(71)	10,642
of which: SMEs		2,678	7	(11)	2,672
Retail		34,716	199	(18)	34,517
of which: SMEs		2,491	7	(14)	2,484
Secured by mortgages on immovable property		6,659	37	(4)	6,622
of which: SMEs		358	1	—	357
Exposures in default[2]	2,036		780	32	1,256
Collective investments undertakings		709	—	—	709
Other exposures		2,622	—	—	2,622
Total standardised approach	2,036	154,756	1,061	(61)	155,731
Total	8,329	699,480	4,094	(1,182)	703,715
of which: Loans	8,074	427,893	3,891	(925)	432,076
of which: Debt securities	2	6,056	3	—	6,055
of which: Off-balance sheet exposures	252	140,911	200	(257)	140,964

Pillar 1 Capital requirements: Credit risk continued

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

	31 Dec 2020				
	Gross carrying values of				
	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment[1]	Credit risk adjustment charges in the period[1]	Net values
	£m	£m	£m	£m	£m
Central governments or central banks	—	8,567	1	1	8,566
Institutions	—	9,716	2	3	9,714
Corporates	2,526	98,238	1,507	1,092	99,258
of which: Specialised lending	306	13,267	316	249	13,257
of which: SMEs	460	11,085	256	140	11,289
Retail	4,210	406,842	3,548	1,906	407,504
Secured by real estate property	3,324	323,486	1,691	539	325,119
SMEs	167	7,663	173	89	7,657
Non-SMEs	3,157	315,823	1,519	450	317,462
Qualifying revolving	286	53,520	866	674	52,941
Other retail	600	29,836	991	693	29,444
SMEs	208	9,796	123	114	9,880
Non-SMEs	392	20,040	868	579	19,564
Equity	—	2,772	—	—	2,772
Non-credit obligation assets	—	11,098	—	—	11,098
Total IRB approach	6,736	537,235	5,058	3,001	538,913
Central governments or central banks		78,692	—	—	78,692
Regional governments or local authorities		426	—	—	426
Public sector entities		4,274	—	—	4,274
Multilateral development banks		7,158	—	—	7,158
International organisations		—	—	—	—
Institutions		109	1	1	108
Corporates		13,361	127	122	13,234
of which: SMEs		4,041	17	12	4,024
Retail		34,977	373	261	34,604
of which: SMEs		3,343	19	6	3,324
Secured by mortgages on immovable property		7,033	37	8	6,997
of which: SMEs		8	—	—	8
Exposures in default[2]	1,896		767	330	1,129
Collective investments undertakings		582	—	—	582
Other exposures		3,034	—	—	3,034
Total standardised approach	1,896	149,646	1,304	721	150,238
Total	8,632	686,881	6,362	3,722	689,151
of which: Loans	8,110	420,539	5,870	3,432	422,578
of which: Debt securities	3	4,545	3	1	4,548
of which: Off-balance-sheet exposures	519	144,181	489	289	144,211

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

2 The breakdown of 'exposures in default' by the exposure class that corresponds to the exposure before default, comprises Corporate £1,391m (2020: £1,259m) and Retail £645m (2020: £636m).

Pillar 1 Capital requirements: Credit risk continued

CR1-B: Credit quality of exposures by industry types

31 Dec 2021	Gross carrying values of				
	Defaulted exposures £m	Non-defaulted exposures £m	Specific credit risk adjustment[1] £m	Credit risk adjustment charges in the period[1] £m	Net values £m
Agriculture, forestry and fishing	225	4,585	24	(62)	4,786
Energy and water supply	27	5,409	8	10	5,428
Manufacturing	274	13,837	58	(168)	14,053
Construction	559	7,060	97	(116)	7,522
Transport, distribution and hotels	1,803	22,864	754	(200)	23,913
Postal and communications	33	4,481	21	9	4,493
Property companies	432	22,111	146	(214)	22,398
Financial, business and other services	825	172,144	371	(141)	172,598
Personal: mortgages	3,236	335,283	1,311	(279)	337,208
Personal: other	660	91,549	1,020	155	91,189
Lease financing	7	4,798	1	15	4,804
Hire purchase	247	15,359	282	(188)	15,324
Total	8,329	699,480	4,094	(1,182)	703,715

31 Dec 2020	Gross carrying values of				
	Defaulted exposures £m	Non-defaulted exposures £m	Specific credit risk adjustment[1] £m	Credit risk adjustment charges in the period[1] £m	Net values £m
Agriculture, forestry and fishing	231	7,134	83	82	7,282
Energy and water supply	1	4,707	12	33	4,696
Manufacturing	500	14,304	220	140	14,584
Construction	352	6,417	218	47	6,551
Transport, distribution and hotels	1,866	22,065	953	490	22,979
Postal and communications	4	1,714	12	19	1,706
Property companies	528	25,157	420	282	25,265
Financial, business and other services	532	168,719	581	457	168,670
Personal: mortgages	3,578	323,170	1,636	465	325,112
Personal: other	765	92,948	1,734	1,477	91,979
Lease financing	11	4,640	6	30	4,645
Hire purchase	263	15,905	488	199	15,681
Total	8,632	686,881	6,362	3,722	689,151

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

Pillar 1 Capital requirements: Credit risk continued

CR1-C: Credit quality of exposures by geography

31 Dec 2021	Gross carrying values of Defaulted exposures	Gross carrying values of Non-defaulted exposures	Specific credit risk adjustment[1]	Credit risk adjustment charges in the period[1]	Net value
	£m	£m	£m	£m	£m
United Kingdom	7,035	615,609	3,332	(1,219)	**619,312**
Rest of Europe	247	41,281	120	(40)	**41,408**
United States of America	8	22,205	36	(25)	**22,177**
Asia-Pacific	21	3,918	7	(26)	**3,932**
Other	1,018	16,467	599	128	**16,886**
Total	**8,329**	**699,480**	**4,094**	**(1,182)**	**703,715**

31 Dec 2020	Gross carrying values of Defaulted exposures	Gross carrying values of Non-defaulted exposures	Specific credit risk adjustment[1]	Credit risk adjustment charges in the period[1]	Net value
	£m	£m	£m	£m	£m
United Kingdom	7,255	609,938	5,548	3,273	611,645
Rest of Europe	358	42,312	188	161	42,482
United States of America	38	18,209	35	51	18,212
Asia-Pacific	22	2,562	10	3	2,574
Other	959	13,859	581	234	14,237
Total	8,632	686,880	6,362	3,722	689,150

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

Pillar 1 Capital requirements: Credit risk continued

COMPARISON OF EXPECTED LOSSES TO SPECIFIC CREDIT RISK ADJUSTMENTS

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

The treatment of regulatory ELs is covered on page 13.

Further details on accounting expected credit losses (ECLs) can be found in the 2021 Lloyds Banking Group plc Annual Report and Accounts: Note 2(H) on page 218 and Note 3 on page 223.

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

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

Regulatory expected losses and specific credit risk adjustments

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

	2021	2021	2021	2020	2020	2020
	Regulatory expected losses £m	Specific credit risk adjustments £m	Excess expected losses £m	Regulatory expected losses £m	Specific credit risk adjustments £m	Excess expected losses £m
CREDIT RISK						
Foundation IRB approach						
Central governments or central banks	1	—	1	—	—	—
Institutions	2	—	2	3	2	1
Corporates	723	477	246	1,195	1,190	5
Retail IRB approach						
Residential mortgages	882	1,343	(461)	1,050	1,692	(642)
QRRE	571	503	68	622	866	(244)
Other SME	60	61	(1)	68	123	(55)
Other non-SME	482	514	(32)	523	868	(345)
Other IRB approaches						
Corporate – specialised lending	234	134	100	226	316	(90)
Other						
Counterparty credit risk	22	—	22	34	—	34
Central impairment adjustment		400	(400)		400	(400)
Other adjustments[1]			(53)			(45)
Total	2,977	3,432	(508)	3,721	5,457	(1,781)

Reconciliation of SCRAs to statutory consolidated balance sheet allowance for impairment losses on loans and receivables	2021	2020
Total SCRAs applied against expected losses	3,432	5,457
SCRAs applied to Standardised Approach exposures	1,060	1,304
Acquisition related and other adjustments[2]	(450)	(514)
Total per statutory consolidated balance sheet	4,042	6,247

1 Expected losses arising on equity exposures subject to the simple risk weight method are fully offset against equity related prudent valuation adjustments.

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

Pillar 1 Capital requirements: Credit risk continued

Key movements (2021)

SCRAs:

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

Expected losses:

FIRB Corporates

– The £0.5 billion reduction in EL is predominantly due to the £1.0 billion reduction in defaulted EAD.

Retail IRB Residential Mortgages

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

QRRE

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

Retail Other – Non SME

– Decrease driven by small reduction in defaulted exposure.

Pillar 1 Capital requirements: Credit risk continued

ANALYSIS OF PERFORMING, NON-PERFORMING AND FORBORNE EXPOSURES

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

CQ1: Credit quality of forborne exposures

	31 Dec 2021								31 Dec 2020							
	Gross carrying amount/nominal amount of exposures with forbearance measures £m				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions £m		Collateral received and financial guarantees received on forborne exposures £m		Gross carrying amount/nominal amount of exposures with forbearance measures £m				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions £m		Collateral received and financial guarantees received on forborne exposures £m	
	Performing Forborne	Non-performing	Of Which: Defaulted	Of Which: Impaired	On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures	Performing Forborne	Non-performing	Of Which: Defaulted	Of Which: Impaired	On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
1 Loans and advances	2,573	7,085	4,864	5,749	(44)	(1,314)	5,792	3,639	2,594	7,990	5,625	6,320	(134)	(1,821)	5,893	3,808
5 Other financial corporations	20	32	32	31	—	(10)	8	2	27	37	37	13	(13)	(9)	34	2
6 Non-financial corporations	696	3,314	3,283	3,283	(4)	(939)	1,105	599	543	3,791	3,774	3,601	(38)	(1,282)	805	544
7 Households	1,857	3,739	1,549	2,435	(40)	(365)	4,679	3,038	2,024	4,162	1,813	2,706	(84)	(530)	5,054	3,261
8 Debt Securities	—	2	2	2	—	(2)	—	—	—	2	2	2	—	(2)	—	—
9 Loans Commitments Given	304	376	223	95	(2)	(5)	4	2	168	393	178	260	(2)	(24)	21	11
10 Total	**2,877**	**7,463**	**5,089**	**5,845**	**(46)**	**(1,321)**	**5,796**	**3,641**	**2,761**	**8,384**	**5,804**	**6,582**	**(136)**	**(1,847)**	**5,914**	**3,819**

Pillar 1 Capital requirements: Credit risk continued

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

		31 Dec 2021											
		Gross carrying amount/nominal amount											
		Performing Exposures			Non-performing Exposures								
			Not past due or Past due <= 30 days	Past due > 30 days <= 90 days		Unlikely to pay that are not past-due or past-due <= 90 days	Past due > 90 days <= 180 days	Past due > 180 days <= 1 year	Past due > 1 year <= 2 years	Past due > 2 years <= 5 years	Past due > 5 years <= 7 years	Past due > 7 years	Of which: defaulted
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
1	**Loans and advances**	**506,459**	**504,749**	**1,710**	**10,644**	**4,546**	**1,757**	**968**	**1,060**	**1,944**	**212**	**156**	**7,547**
2	Central banks	**1,311**	1,311	—	—	—	—	—	—	—	—	—	—
3	General governments	**696**	696	—	—	—	—	—	—	—	—	—	—
4	Credit institutions	**10,223**	10,223	—	—	—	—	—	—	—	—	—	—
5	Other financial corporations	**72,929**	72,928	1	**33**	24	6	—	—	4	—	—	33
6	Non-financial corporations	**71,089**	70,779	310	**3,742**	2,008	679	3	9	1,034	9	—	3,712
7	Of which: SMEs	**38,359**	38,245	115	**1,688**	1,053	628	2	—	1	3	—	1,685
8	Households	**350,210**	348,811	1,400	**6,868**	2,514	1,071	966	1,052	906	203	156	3,801
9	**Debt securities**	**36,756**	**36,744**	**12**	**972**	**970**	**—**	**—**	**—**	**—**	**—**	**2**	**2**
11	General governments	**15,911**	15,911	—	—	—	—	—	—	—	—	—	—
12	Credit institutions	**14,992**	14,992	—	—	—	—	—	—	—	—	—	—
13	Other financial corporations	**4,307**	4,307	—	—	—	—	—	—	—	—	—	—
14	Non-financial corporations	**1,546**	1,534	12	**972**	970	—	—	—	—	—	2	2
15	**Off-balance-sheet exposures**	**142,776**			**519**								290
17	General governments	**375**			—								—
18	Credit institutions	**995**			—								—
19	Other financial corporations	**19,694**			**4**								4
20	Non-financial corporations	**38,041**			**292**								287
21	Households	**83,672**			**222**								—
22	**Total**	**685,991**	**541,493**	**1,722**	**12,134**	**5,516**	**1,757**	**968**	**1,060**	**1,944**	**212**	**158**	**7,839**

Pillar 1 Capital requirements: Credit risk continued

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

		31 Dec 2020											
		Gross carrying amount/nominal amount											
		Performing Exposures			Non-performing Exposures								
			Not past due or Past due <= 30 days	Past due > 30 days <= 90 days		Unlikely to pay that are not past-due or past-due <= 90 days	Past due > 90 days <= 180 days	Past due > 180 days <= 1 year	Past due > 1 year <= 2 years	Past due > 2 years <= 5 years	Past due > 5 years <= 7 years	Past due > 7 years	Of which: defaulted
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
1	**Loans and advances**	506,302	504,071	2,232	11,492	5,148	1,792	1,153	1,231	1,818	217	133	8,339
2	Central banks	1,372	1,372	—	—	—	—	—	—	—	—	—	—
3	General governments	640	632	8	—	—	—	—	—	—	—	—	—
4	Credit institutions	10,156	10,152	4	—	—	—	—	—	—	—	—	—
5	Other financial corporations	78,333	78,327	5	38	26	—	—	—	4	—	7	38
6	Non-financial corporations	77,589	77,286	303	3,853	2,394	478	2	2	972	4	—	3,836
7	Of which: SMEs	42,033	42,025	8	939	568	367	1	1	—	3	—	927
8	Households	338,211	336,301	1,911	7,602	2,728	1,313	1,151	1,229	843	213	126	4,465
9	**Debt securities**	35,469	35,469	—	865	864	—	—	—	—	—	2	2
11	General governments	15,088	15,088	—	—	—	—	—	—	—	—	—	—
12	Credit institutions	11,637	11,637	—	—	—	—	—	—	—	—	—	—
13	Other financial corporations	6,588	6,588	—	—	—	—	—	—	—	—	—	—
14	Non-financial corporations	2,156	2,156	—	865	864	—	—	—	—	—	2	2
15	**Off-balance-sheet exposures**	149,256			636								366
17	General governments	226			—								—
18	Credit institutions	47			—								—
19	Other financial corporations	21,059			5								5
20	Non-financial corporations	41,165			363								361
21	Households	86,760			268								—
22	**Total**	691,027	539,539	2,232	12,994	6,011	1,792	1,153	1,231	1,818	217	135	8,706

Pillar 1 Capital requirements: Credit risk continued

CR1: Performing and non-performing exposures and related provisions

		31 Dec 2021														
		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					
			Of which stage 1	Of which stage 2		Of which stage2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		On performing exposures	On non-performing exposures
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
1	**Loans and advances**	**506,459**	**465,356**	**39,313**	**10,644**	**2,215**	**8,428**	**(2,005)**	**(916)**	**(1,089)**	**(1,816)**	**(99)**	**(1,717)**	**(316)**	**370,677**	**6,188**
2	Central banks	**1,311**	1,311	—	**—**	—	—	**—**	—	—	**—**	—	—	—	—	—
3	General governments	**696**	667	—	**—**	—	—	**—**	—	—	**—**	—	—	—	651	—
4	Credit institutions	**10,223**	10,223	—	**—**	—	—	**—**	—	—	**—**	—	—	—	—	—
5	Other financial corporations	**72,929**	71,708	42	**33**	2	31	**(8)**	(6)	(2)	**(10)**	—	(10)	—	458	2
6	Non-financial corporations	**71,089**	63,407	7,334	**3,742**	173	3,570	**(489)**	(226)	(263)	**(975)**	—	(975)	(316)	45,150	636
7	Of which: SMEs	**38,359**	34,274	4,086	**1,688**	173	1,516	**(218)**	(76)	(142)	**(111)**	—	(111)	—	27,753	572
8	Households	**350,210**	318,039	31,937	**6,868**	2,039	4,828	**(1,508)**	(684)	(824)	**(831)**	(99)	(732)	—	324,417	5,550
9	**Debt securities**	**36,756**	**34,277**	**9**	**972**	**—**	**2**	**(4)**	**(3)**	**—**	**(743)**	**—**	**(2)**	**—**	**—**	**—**
11	General governments	**15,911**	15,893	—	**—**	—	—	**(2)**	(2)	—	**—**	—	—	—	—	—
12	Credit institutions	**14,992**	14,992	—	**—**	—	—	**—**	—	—	**—**	—	—	—	—	—
13	Other financial corporations	**4,307**	2,982	9	**—**	—	—	**(2)**	(1)	—	**—**	—	—	—	—	—
14	Non-financial corporations	**1,546**	410	—	**972**	—	2	**—**	—	—	**(743)**	—	(2)	—	—	—
15	**Off-balance-sheet exposures**	**142,776**	**138,545**	**4,231**	**519**	**353**	**166**	**(193)**	**(109)**	**(84)**	**(6)**	**(1)**	**(5)**		**8,371**	**2**
17	General governments	**375**	374	1	**—**	—	—	**—**	—	—	**—**	—	—		43	—
18	Credit institutions	**995**	995	—	**—**	—	—	**—**	—	—	**—**	—	—		417	—
19	Other financial corporations	**19,694**	19,691	2	**4**	4	1	**(4)**	(4)	—	**—**	—	—		761	—
20	Non-financial corporations	**38,041**	36,623	1,417	**292**	217	76	**(84)**	(45)	(38)	**(5)**	—	(5)		7,150	2
21	Households	**83,672**	80,861	2,811	**222**	132	90	**(106)**	(60)	(46)	**(1)**	(1)	—		—	—
22	**Total**	**685,991**	**638,178**	**43,553**	**12,134**	**2,567**	**8,596**	**(2,202)**	**(1,028)**	**(1,173)**	**(2,565)**	**(100)**	**(1,724)**	**(316)**	**379,048**	**6,190**

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

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

Pillar 1 Capital requirements: Credit risk continued

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

		31 Dec 2020														
		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
			Of which stage 1	Of which stage 2		Of which stage2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
1	Loans and advances	506,302	447,433	57,521	11,492	2,736	8,755	(3,401)	(1,384)	(2,017)	(2,370)	(210)	(2,160)	(374)	362,210	6,586
2	Central banks	1,372	1,372	—	—	—	—	—	—	—	—	—	—	—	—	—
3	General governments	640	614	—	—	—	—	—	—	—	—	—	—	—	462	—
4	Credit institutions	10,156	10,155	—	—	—	—	(11)	(11)	—	—	—	—	—	7	—
5	Other financial corporations	78,333	76,887	624	38	24	13	(113)	(36)	(77)	(9)	—	(9)	(94)	764	2
6	Non-financial corporations	77,589	63,187	14,253	3,853	252	3,601	(1,134)	(471)	(663)	(1,315)	—	(1,315)	(280)	49,837	551
7	Of which: SMEs	42,033	36,602	5,431	939	101	838	(459)	(157)	(303)	(147)	—	(147)	—	32,840	471
8	Households	338,211	295,218	42,644	7,602	2,460	5,141	(2,142)	(865)	(1,277)	(1,046)	(210)	(836)	—	311,139	6,033
9	Debt securities	35,469	33,300	—	865	—	2	(6)	(6)	—	(583)	—	(2)	—	—	—
11	General governments	15,088	15,070	—	—	—	—	(1)	(1)	—	—	—	—	—	—	—
12	Credit institutions	11,637	11,637	—	—	—	—	—	—	—	—	—	—	—	—	—
13	Other financial corporations	6,588	5,712	—	—	—	—	(5)	(5)	—	—	—	—	—	—	—
14	Non-financial corporations	2,156	882	—	865	—	2	—	—	—	(583)	—	(2)	—	—	—
15	Off-balance-sheet exposures	149,256	141,140	8,116	636	352	285	(432)	(211)	(221)	(27)	(14)	(13)	—	10,581	11
17	General governments	226	226	—	—	—	—	—	—	—	—	—	—	—	4	—
18	Credit institutions	47	47	—	—	—	—	—	—	—	—	—	—	—	42	—
19	Other financial corporations	21,059	21,015	44	5	5	—	(21)	(18)	(3)	—	—	—	—	1,225	—
20	Non-financial corporations	41,165	37,496	3,668	363	167	196	(187)	(82)	(105)	(18)	(5)	(13)	—	9,306	11
21	Households	86,760	82,356	4,404	268	180	88	(224)	(111)	(113)	(9)	(9)	—	—	5	—
22	Total	691,027	621,873	65,638	12,994	3,088	9,041	(3,839)	(1,601)	(2,238)	(2,980)	(224)	(2,175)	(374)	372,791	6,597

COVID 1: Information on loans and advances subject to legislative and non-legislative moratoria

		31 Dec 2021														
		Gross carrying amount							Accumulated impairment, accumulated negative changes in fair value due to credit risk							Gross carrying amount
			Performing			Non performing				Performing			Non performing			Inflows to non-performing exposures
				Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)		Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days			Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)		Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days	
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
1	Loans and advances subject to moratorium	6	4	—	—	2	2	2	—	—	—	—	—	—	—	2
2	of which: Households	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
3	of which: Collateralised by residential immovable property	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
4	of which: Non-financial corporations	5	3	—	—	2	2	2	—	—	—	—	—	—	—	2
5	of which: Small and Medium-sized Enterprises	5	3	—	—	2	2	2	—	—	—	—	—	—	—	2
6	of which: Collateralised by commercial immovable property	3	1	—	—	2	2	2	—	—	—	—	—	—	—	—

COVID 1: Information on loans and advances subject to legislative and non-legislative moratoria (continued)

		31 Dec 2020														
		Gross carrying amount							Accumulated impairment, accumulated negative changes in fair value due to credit risk							Gross carrying amount
			Performing			Non performing				Performing			Non performing			Inflows to non-performing exposures
				Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)		Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days			Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)		Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days	
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
1	Loans and advances subject to moratorium	7,308	6,953	94	1,884	355	274	151	172	133	7	71	37	25	14	801
2	of which: Households	5,475	5,254	78	1,555	220	139	16	121	94	6	69	27	15	4	727
3	of which: Collateralised by residential immovable property	4,699	4,498	68	1,342	201	129	10	52	34	4	28	18	11	1	528
4	of which: Non-financial corporations	1,797	1,670	16	325	127	127	127	46	38	1	2	5	5	5	74
5	of which: Small and Medium-sized Enterprises	1,621	1,527	16	290	94	94	94	44	38	1	2	4	4	4	50
6	of which: Collateralised by commercial immovable property	649	600	11	126	49	49	49	17	17	1	—	—	—	—	23

Payment holidays had been granted across a range of retail products including mortgages, personal loans, credit cards and motor finance. Capital and interest payments were typically suspended for the duration of the holiday, but interest continues to accrue. For the purposes of this reporting the end of the payment holiday is defined as the first date on which payment is due after the payment holiday period ends. Capital repayment holidays in Commercial Banking are defined as periods during which customers are not required to make repayments of capital against drawn term loan facilities. Customers were required to continue making interest payments, and the capital repayment holiday is reflected in an extension to the term of the facility.

COVID 2: Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria

31 Dec 2021

		Number of obligors	Gross carrying amount							
				Of which: legislative moratoria	Of which: expired	Residual maturity of moratoria				
						<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
			£m	£m	£m	£m	£m	£m	£m	£m
1	Loans and advances for which moratorium was offered	1,327,969	81,911							
2	Loans and advances subject to moratorium (granted)	1,327,969	81,911	—	81,905	6	—	—	—	—
3	of which: Households		74,485	—	74,485	—	—	—	—	—
4	of which: Collateralised by residential immovable property		67,467	—	67,467	—	—	—	—	—
5	of which: Non-financial corporations		7,083	—	7,078	5	—	—	—	—
6	of which: Small and Medium-sized Enterprises		5,769	—	5,764	5	—	—	—	—
7	of which: Collateralised by commercial immovable property		3,713	—	3,710	3	—	—	—	—

31 Dec 2020

		Number of obligors	Gross carrying amount							
				Of which: legislative moratoria	Of which: expired	Residual maturity of moratoria				
						<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
			£m	£m	£m	£m	£m	£m	£m	£m
1	Loans and advances for which moratorium was offered	1,259,670	77,868							
2	Loans and advances subject to moratorium (granted)	1,259,670	77,868	—	70,560	6,454	831	24	—	—
3	of which: Households		70,511	—	65,037	5,090	385	—	—	—
4	of which: Collateralised by residential immovable property		64,904	—	60,205	4,335	364	—	—	—
5	of which: Non-financial corporations		7,244	—	5,447	1,343	430	24	—	—
6	of which: Small and Medium-sized Enterprises		5,707	—	4,086	1,211	403	7	—	—
7	of which: Collateralised by commercial immovable property		2,495	—	1,845	547	99	4	—	—

Payment holidays of up to three months have been granted to retail customers, with further extensions of up to three months available on request. For commercial customers mid-term Capital Repayment Holidays have been granted, typically of up to 6 months although in a very small number of cases longer payment holidays have been granted. Further extensions of up to 3 months may be granted subject to eligibility criteria being met.

COVID 3: Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to COVID-19 crisis

		31 Dec 2021				31 Dec 2020			
		Gross carrying amount		Maximum amount of the guarantee that can be considered	Gross carrying amount	Gross carrying amount		Maximum amount of the guarantee that can be considered	Gross carrying amount
			of which: forborne	Public guarantees received	Inflows to non-performing		of which: forborne	Public guarantees received	Inflows to non-performing exposures
		£m	£m	£m	£m	£m	£m	£m	£m
1	Newly originated loans and advances subject to public guarantee schemes	10,325	556	9,844	56	11,030	116	10,568	37
4	of which: Non-financial corporations	10,293	554	9,839	54	10,992	116	10,538	37
5	of which: Small and Medium-sized Enterprises	9,985			50	10,752			28
6	of which: Collateralised by commercial immovable property	78			7	69			1

Bounce Back Loan's (BBLs)range from £2,000 to £50,000 in value (average facility size c.£30,200) with lending for ten years although customers can repay early without any fees. Over 80 per cent of the lending is across the following main sectors: Wholesale & Retail Trade And Repair; Construction; Professional, Scientific & Technical Activities; Accommodation & Food Service Activities; Real Estate Activities; Admin & Support Service Activities; Manufacturing; and Transportation & Storage.

Coronavirus Business Interruption Loan's (CBILS) range from £10,000 to £5,000,000 in value (average facility size c.£252,000). Main sectors facilities cover being: Wholesale & Retail Trade And Repair; Manufacturing; Construction; Professional, Scientific & Technical Activities; Admin & Support Service Activities and Accommodation & Food Service.

Coronavirus Large Business Interruption Loan's (CBILS) range from £250,000 to £25,000,000 in value (average facility size c£11,400,000). Main sectors facilities cover being: Wholesale & Retail Trade And Repair and Construction.

PILLAR 1 CAPITAL REQUIREMENTS - SECURITISATION

Role

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

Banking book securitisation strategy and roles

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

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

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

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

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

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

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

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

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

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

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 (£13.8 million exposure, £2.2 million 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 or collateral creation transactions, including all of the residential mortgage programmes. The Group's principal originated securitisation programmes, together with the balances of the advances subject to securitisation and the carrying value of the notes in issue as at 31 December, are outlined in Note 29 (Securitisations and covered bonds) of the 2021 Lloyds Banking Group plc Annual Report and Accounts.

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

During the year, two SRTs were issued:

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

Pillar 1 Capital requirements: Securitisation continued

Simple, transparent and standardised (STS) securitisations

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

Risks inherent in banking book securitised assets

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

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

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

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

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

Monitoring changes in the credit risk of securitised exposures

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

Monitoring changes in the credit risk of ABS portfolios

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

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.

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

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

Pillar 1 Capital requirements: Securitisation continued

Securitisation

The tables in this section include an amount of CCR exposure at default (£122 million - SEC-ERBA £82 million, SEC-SA £40 million) and RWAs (£125 million - SEC-ERBA £119 million, SEC-SA £6 million).

Banking and trading book securitisation analysis

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

SEC1: Securitisation exposures in the non-trading book

	31 Dec 2021														
	Institution acts as originator							Institution acts as sponsor				Institution acts as investor			
	Traditional				Synthetic		Sub-total	Traditional		Synthetic	Sub-total	Traditional		Synthetic	Sub-total
	STS		Non-STS			of which SRT		STS	Non-STS			STS	Non-STS		
		of which SRT		of which SRT											
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
1 **Total exposures**	—	—	—	—	12,669	12,669	12,669	993	3,414	—	4,407	2,358	8,922	—	11,280
2 Retail (total)	—	—	—	—	—	—	—	796	2,684	—	3,480	2,255	6,282	—	8,537
3 residential mortgage	—	—	—	—	—	—	—	—	306	—	306	—	2,678	—	2,678
4 credit card	—	—	—	—	—	—	—	—	—	—	—	—	390	—	390
5 other retail exposures	—	—	—	—	—	—	—	796	2,378	—	3,174	2,255	3,214	—	5,469
7 Wholesale (total)	—	—	—	—	12,669	12,669	12,669	197	730	—	927	103	2,640	—	2,743
8 loans to corporates	—	—	—	—	7,652	7,652	7,652	—	—	—	—	—	494	—	494
9 commercial mortgage	—	—	—	—	2,122	2,122	2,122	—	—	—	—	—	1,025	—	1,025
10 lease and receivables	—	—	—	—	—	—	—	197	644	—	841	—	677	—	677
11 other wholesale	—	—	—	—	2,895	2,895	2,895	—	86	—	86	103	444	—	547

Pillar 1 Capital requirements: Securitisation continued

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

	31 Dec 2020														
	Institution acts as originator							Institution acts as sponsor				Institution acts as investor			
	Traditional				Synthetic		Sub-total	Traditional		Synthetic	Sub-total	Traditional		Synthetic	Sub-total
	STS	of which SRT	Non-STS	of which SRT		of which SRT		STS	Non-STS			STS	Non-STS		
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
1 Total exposures	—	—	—	—	10,950	10,950	10,950	815	4,947	—	5,762	2,309	8,563	—	10,872
2 Retail (total)	—	—	—	—	—	—	—	811	2,935	—	3,746	2,189	5,803	—	7,992
3 residential mortgage	—	—	—	—	—	—	—	—	306	—	306	—	2,787	—	2,787
4 credit card	—	—	—	—	—	—	—	—	—	—	—	—	568	—	568
5 other retail exposures	—	—	—	—	—	—	—	811	2,629	—	3,440	2,189	2,448	—	4,637
7 Wholesale (total)	—	—	—	—	10,950	10,950	10,950	4	2,012	—	2,016	120	2,760	—	2,880
8 loans to corporates	—	—	—	—	7,329	7,329	7,329	—	—	—	—	—	533	—	533
9 commercial mortgage	—	—	—	—	726	726	726	—	—	—	—	—	1,039	—	1,039
10 lease and receivables	—	—	—	—	—	—	—	—	1,506	—	1,506	—	300	—	300
11 other wholesale	—	—	—	—	2,895	2,895	2,895	4	506	—	510	120	888	—	1,008

Key movements:

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

Sponsor - The decrease of £1.4bn in the year is primarily due to a net decrease in liquidity facilities provided to the Cancara conduit. This is a result of reduced and matured positions partially offset by new and increased client transactions.

Pillar 1 Capital requirements: Securitisation continued

ORIGINATED SECURITISATIONS

Regulatory treatment

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

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

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

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

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

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

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

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

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

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

Accounting treatment

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

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

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

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

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

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

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

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

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

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

For those positions measured at fair value, further details on the valuation methodologies applied are outlined in Note 48(2) (Financial Instruments: Fair Value measurement) of the 2021 Lloyds Banking Group plc Annual Report and Accounts.

Pillar 1 Capital requirements: Securitisation continued

Use of financial guarantees

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

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

SPONSORED SECURITISATIONS

Cancara – summary of activity

Cancara

General description	Cancara was established in 2002 by Lloyds Bank. It provides financing facilities to the Group's core corporate and financial institution clients, funded by ABCP.
Programme limit/CP outstanding as at 31 December 2021	\$20bn/\$2.16bn (£14.8bn/£1.6bn)
Conduit structure	Fully supported multi-seller
Credit enhancement	Full support liquidity
Liquidity provider	Lloyds Bank Plc and Bank of Scotland Plc

Structure and liquidity facilities

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

Assets purchased relate to pools of third party receivables.

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

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

Cancara Assets

All the external assets in the conduit are consolidated for accounting purposes in the Group's financial statements, following similar accounting policies to those established for originated securitisations. The total consolidated assets in the conduits are set out in Note 47 (Structured entities) of the 2021 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 SEC-ERBA in order to calculate the capital requirement.

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

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

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

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

Pillar 1 Capital requirements: Securitisation continued

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

31 Dec 2021

	Exposure values (by RW bands/deductions)					Exposure values (by regulatory approach)				RWEA (by regulatory approach)				Capital charge after cap			
	≤20% RW	>20% to 50% RW	>50% to 100% RW	>100% to <1250% RW	1250% RW/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250%/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250%/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250%/ deductions
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
1 Total exposures	**10,724**	**5,330**	**958**	**64**	**—**	**10,547**	**5,090**	**1,440**	**—**	**2,188**	**1,425**	**424**	**—**	**175**	**114**	**34**	**—**
2 Traditional transactions	**3,608**	**459**	**340**	**—**	**—**	**—**	**4,408**	**—**	**—**	**—**	**858**	**—**	**—**	**—**	**69**	**—**	**—**
3 Securitisation	**3,608**	**459**	**340**	**—**	**—**	**—**	**4,408**	**—**	**—**	**—**	**858**	**—**	**—**	**—**	**69**	**—**	**—**
4 Retail underlying	3,175	306	—	—	—	—	3,481	—	—	—	574	—	—	—	46	—	—
5 Of which STS	796	—	—	—	—	—	796	—	—	—	80	—	—	—	6	—	—
6 Wholesale	433	153	340	—	—	—	927	—	—	—	284	—	—	—	23	—	—
7 Of which STS	197	—	—	—	—	—	197	—	—	—	20	—	—	—	2	—	—
9 Synthetic transactions	**7,116**	**4,871**	**618**	**64**	**—**	**10,547**	**682**	**1,440**	**—**	**2,188**	**567**	**424**	**—**	**175**	**45**	**34**	**—**
10 Securitisation	**7,116**	**4,871**	**618**	**64**	**—**	**10,547**	**682**	**1,440**	**—**	**2,188**	**567**	**424**	**—**	**175**	**45**	**34**	**—**
11 Retail underlying	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
12 Wholesale	7,116	4,871	618	64	—	10,547	682	1,440	—	2,188	567	424	—	175	45	34	—

Pillar 1 Capital requirements: Securitisation continued

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

31 Dec 2020

	Exposure values (by RW bands/deductions)					Exposure values (by regulatory approach)				RWEA (by regulatory approach)				Capital charge after cap			
	≤20% RW	>20% to 50% RW	>50% to 100% RW	>100% to <1250% RW	1250% RW/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250%/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250%/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250%/ deductions
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
1 Total exposures	12,195	3,411	1,065	41	—	10,224	5,976	512	—	1,951	1,765	151	—	156	142	12	—
2 Traditional transactions	3,748	1,174	799	41	—	—	5,762	—	—	—	1,571	—	—	—	126	—	—
3 Securitisation	3,748	1,174	799	41	—	—	5,762	—	—	—	1,571	—	—	—	126	—	—
4 Retail underlying	3,216	530	—	—	—	—	3,746	—	—	—	643	—	—	—	51	—	—
5 Of which STS	811	—	—	—	—	—	811	—	—	—	81	—	—	—	6	—	—
6 Wholesale	532	644	799	41	—	—	2,016	—	—	—	928	—	—	—	74	—	—
7 Of which STS	4	—	—	—	—	—	4	—	—	—	—	—	—	—	—	—	—
9 Synthetic transactions	8,447	2,237	266	—	—	10,224	214	512	—	1,951	194	151	—	156	16	12	—
10 Securitisation	8,447	2,237	266	—	—	10,224	214	512	—	1,951	194	151	—	156	16	12	—
12 Wholesale	8,447	2,237	266	—	—	10,224	214	512	—	1,951	194	151	—	156	16	12	—

Pillar 1 Capital requirements: Securitisation continued

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

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

Pillar 1 Capital requirements: Securitisation continued

INVESTED SECURITISATIONS

Direct investments and liquidity facilities

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

The majority of these direct investments are accounted for as loans and receivables on the balance sheet and held at amortised cost, with the remainder held at fair value through other comprehensive income or at fair value through profit or loss. Further details on the Group's holding of ABS are presented on in Note 51(c) (Financial Risk Management: Credit Quality of Assets) of the 2021 Lloyds Banking Group plc Annual Report and Accounts.

Invested securitisations

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

As at 31 December 2021, securitisation positions relating to the Group's direct investments in third party ABS and notes and the provision of liquidity facilities to third party securitisations risk weighted under the SEC-SA, amounted to £9.0 billion (2020: £8.3 billion) and under the SEC-ERBA amounted to £2.3bn (2020: £2.5 billion). This includes £2.4 billion (2020: £2.3 billion) exposure (capital requirement £20m (2020: £18m)) related to STS positions.

Pillar 1 Capital requirements: Securitisation continued

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

31 Dec 2021

		Exposure values (by RW bands/deductions)					Exposure values (by regulatory approach)				RWEA (by regulatory approach)				Capital charge after cap			
		≤20% RW £m	>20% to 50% RW £m	>50% to 100% RW £m	>100% to <1250% RW £m	1250% RW/ deductions £m	SEC-IRBA £m	SEC-ERBA (including IAA) £m	SEC-SA £m	1250%/ deductions £m	SEC-IRBA £m	SEC-ERBA (including IAA) £m	SEC-SA £m	1250%/ deductions £m	SEC-IRBA £m	SEC-ERBA (including IAA) £m	SEC-SA £m	1250%/ deductions £m
1	**Total exposures**	**10,463**	**606**	**86**	**124**	**—**	**—**	**2,260**	**9,019**	**—**	**—**	**553**	**1,355**	**—**	**—**	**44**	**108**	**—**
2	Traditional securitisation	10,463	606	86	124	—	—	2,260	9,019	—	—	553	1,355	—	—	44	108	—
3	Securitisation	10,463	606	86	124	—	—	2,260	9,019	—	—	553	1,355	—	—	44	108	—
4	Retail underlying	8,005	531	—	—	—	—	2,044	6,492	—	—	286	962	—	—	23	77	—
5	Of which STS	2,255	—	—	—	—	—	1,076	1,179	—	—	108	127	—	—	9	10	—
6	Wholesale	2,458	75	86	124	—	—	216	2,527	—	—	267	393	—	—	21	31	—
7	Of which STS	103	—	—	—	—	—	1	102	—	—	—	10	—	—	—	1	—

31 Dec 2020

		Exposure values (by RW bands/deductions)					Exposure values (by regulatory approach)				RWEA (by regulatory approach)				Capital charge after cap			
		≤20% RW £m	>20% to 50% RW £m	>50% to 100% RW £m	>100% to <1250% RW £m	1250% RW/ deductions £m	SEC-IRBA £m	SEC-ERBA (including IAA) £m	SEC-SA £m	1250%/ deductions £m	SEC-IRBA £m	SEC-ERBA (including IAA) £m	SEC-SA £m	1250%/ deductions £m	SEC-IRBA £m	SEC-ERBA (including IAA) £m	SEC-SA £m	1250%/ deductions £m
1	Total exposures	9,993	484	225	171	—	—	2,524	8,347	—	—	753	1,217	—	—	60	98	—
2	Traditional securitisation	9,993	484	225	171	—	—	2,524	8,347	—	—	753	1,217	—	—	60	98	—
3	Securitisation	9,993	484	225	171	—	—	2,524	8,347	—	—	753	1,217	—	—	60	98	—
4	Retail underlying	7,614	378	—	—	—	—	2,092	5,899	—	—	310	847	—	—	25	68	—
5	Of which STS	2,189	—	—	—	—	—	1,137	1,051	—	—	114	105	—	—	9	8	—
6	Wholesale	2,379	106	225	171	—	—	432	2,448	—	—	443	370	—	—	35	30	—
7	Of which STS	120	—	—	—	—	—	6	114	—	—	1	11	—	—	—	1	—

PILLAR 1 CAPITAL REQUIREMENTS - COUNTERPARTY CREDIT RISK

DEFINITION

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

INTERNAL CAPITAL AND CREDIT LIMITS

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

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

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

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

SECURING COLLATERAL AND ESTABLISHING CREDIT RESERVES

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

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

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

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

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

MASTER NETTING AGREEMENTS

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

COLLATERAL REQUIREMENTS IN THE EVENT OF A DOWNGRADE IN CREDIT RATING

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

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

CORRELATION (WRONG WAY) RISK

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

DERIVATIVE VALUATION ADJUSTMENTS

Details on the application of derivative valuation adjustments, including Credit and Debit Valuation Adjustments (CVA and DVA), are provided in Note 48 (Financial Instruments) of the 2021 Lloyds Banking Group plc Annual Report and Accounts.

Pillar 1 Capital requirements: Counterparty credit risk continued

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

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

	RWA amount £m	Capital requirements £m
31 December 2020	**6,745**	**540**
Asset size	(380)	(30)
Asset quality	(124)	(10)
Model updates	—	—
Methodology and policy		
Acquisitions and disposals	—	—
Foreign exchange movements	(177)	(14)
Other	—	—
31 December 2021	**6,064**	**486**

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

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

Key movements

– Counterparty credit risk and CVA risk weighted assets decreased by £0.7bn primarily due to movements in market rates during the period.

COUNTERPARTY CREDIT RISK EXPOSURES: ANALYSIS BY MEASUREMENT APPROACH

The credit risk exposure value in respect of counterparty credit risk as at 31 December 2021 was £36.2bn (2020: £33.9bn). An analysis by measurement approach is presented in the table below.

CCR: analysis by measurement approach

	31 Dec 2021	31 Dec 2020
	EAD post CR	EAD post CR
	£m	£m
CCR mark-to-market method	8,568	9,702
SFT comprehensive approach	19,524	14,759
CCR central counterparty	7,600	8,992
Contributions to the default fund of a central counterparty	460	432
Total	**36,152**	33,885

Key movements

– SFT exposure increased by £4.8bn mainly due to trading under the Term Funding Scheme with additional incentives for SMEs (TFSME).

– CCR central counterparty exposure decreased by £1.4bn mainly due to trade optimisation.

Pillar 1 Capital requirements: Counterparty credit risk continued

CCR1: Analysis of CCR exposure by approach[1]

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

		31 Dec 2021						
		Notional	Replacement cost/current market value[2]	Potential future credit exposure[2]	Effective expected positive exposure (EEPE)	Multiplier	EAD Post CRM[3]	RWAs
		£m	£m	£m	£m	x	£m	£m
1	Mark to Market		5,582	3,580			8,568	4,526
9	Financial collateral comprehensive method (for SFTs)						19,524	338
11	**Total**	**—**	**5,582**	**3,580**	**—**	**—**	**28,092**	**4,864**

		31 Dec 2020						
		Notional	Replacement cost/current market value[1]	Potential future credit exposure[1]	Effective expected positive exposure (EEPE)	Multiplier	EAD Post CRM[2]	RWAs
		£m	£m	£m	£m	x	£m	£m
1	Mark to Market		6,386	3,985			9,702	5,064
9	Financial collateral comprehensive method (for SFTs)						14,759	372
11	Total	—	6,386	3,985	—	—	24,461	5,436

1 CCP exposures and charges are excluded from this table. For CCP balances please refer to CCR8: Exposures to CCPs

2 Replacement cost and PFE have been reported on a net basis where a netting agreement is in place (collateral is deducted from the RC)'

3 Exposure values of £2.5bn (2020: £2.7bn) subject to CVA are embedded in this section, the CVA risk-weighted assets are excluded from this table. For CVA risk-weighted assets please refer to CCR2: Credit valuation adjustment (CVA) capital charge

Key movements

– Financial collateral comprehensive method (for SFTs) increased by £4.8bn EAD mainly driven by exposure to the Term Funding Scheme with additional incentives for SMEs (TFSME) and also other smaller movements.

CCR8: Exposures to CCPs

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

		31 Dec 2021		31 Dec 2020	
		EAD post CRM	RWA	EAD post CRM	RWA
		£m	£m	£m	£m
1	**Exposures to QCCPs (total)**	**8,060**	**523**	9,425	630
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	7,375	161	8,741	189
3	(i) OTC derivatives	6,093	122	7,700	154
4	(ii) Exchange-traded derivatives	1,247	38	1,008	34
5	(iii) SFTs	35	1	33	1
8	Non-segregated initial margin	225	5	252	5
9	Prefunded default fund contributions	460	357	432	436
11	**Exposures to non-QCCPs (total)**	—	—	—	—

Key movements

- OTC derivatives exposure decrease of £1.6bn is driven mainly by trade optimisation.

Pillar 1 Capital requirements: Counterparty credit risk continued

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

		31 Dec 2021		31 Dec 2020	
		EAD post CRM	RWA	EAD post CRM	RWA
		£m	£m	£m	£m
4	All portfolios subject to the Standardised Method	2,493	678	2,658	679
5	**Total subject to the CVA capital charge**	**2,493**	**678**	**2,658**	**679**

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

COUNTERPARTY CREDIT RISK EXPOSURES: ANALYSIS BY EXPOSURE CLASS

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

CCR: analysis by exposure class

	31 Dec 2021		31 Dec 2020	
	EAD post CRM	RWA	EAD post CRM	RWA
	£m	£m	£m	£m
Foundation IRB approach				
Corporate – main	5,318	2,498	6,060	2,644
Corporate – SME	1	1	2	2
Central governments or central banks	1,010	112	2,084	125
Institutions	3,011	772	2,406	857
Other IRB approach				
Corporate – specialised lending[1]	1,652	1,184	1,959	1,381
Securitisation positions[2]	82	119	170	144
Total IRB approach	**11,074**	**4,686**	12,681	5,153
Exposures subject to the standardised approach				
Central governments or central banks	16,724	—	10,998	—
Public sector entities	3	—	44	—
Multilateral development banks	—	—	35	—
International organisations	8	—	177	—
Institutions	7,607	168	9,072	233
Corporates	236	168	313	224
Securitisation positions	40	6	133	19
Total standardised approach	**24,618**	**342**	20,772	476
Contributions to the default fund of a Central Counterparty	460	357	432	436
Credit valuation adjustment[3]		678		679
Total	**36,152**	**6,063**	33,885	6,744

1 Exposures subject to the IRB Supervisory Slotting Approach.
2 No positions relating to counterparty credit risk securitisation positions were deducted from capital (2020: £nil).
3 CVA exposure values of £2.5bn (2020: £2.7bn) are embedded in the exposure class analysis above.

Key movements

- Exposures to Central governments or central banks subject to the Standardised approach increased by £5.7bn EAD predominately attributable to trading under the Term Funding Scheme with additional incentives for SMEs (TFSME).
- Exposures to Institutions subject to the Standardised approach decreased by £1.5bn EAD mainly driven by trade optimisation with QCCPs.
- Exposures to Central governments or central banks subject to the IRB approach decreased by £1.1bn EAD driven by SFT trading with various counterparties.

Pillar 1 Capital requirements: Counterparty credit risk continued

COUNTERPARTY CREDIT RISK EXPOSURES: FURTHER ANALYSIS OF IRB EXPOSURES

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

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

CCR4: IRB – CCR exposure by portfolio and PD scale – Corporate Main

	31 Dec 2021						
PD Scale	EAD post CRM £m	Average PD %	Number of obligors	Average LGD %	Average Maturity (years)	RWA £m	RWA density %
0.00 to <0.15	2,721	0.1%	862	43.7%	3.2	885	32.5%
0.15 to <0.25	1,446	0.2%	247	45.0%	3.7	806	55.8%
0.25 to <0.50	568	0.3%	853	45.0%	1.6	281	49.5%
0.50 to <0.75	304	0.6%	140	44.0%	1.5	202	66.4%
0.75 to <2.50	188	1.5%	154	45.0%	2.0	196	104.3%
2.50 to <10.00	91	3.8%	112	45.0%	2.0	125	137.7%
10.00 to <100.00	1	13.9%	7	45.0%	1.7	2	213.2%
100.00 (Default)	0	100.0%	8	45.0%	0.0	0	—
Sub-total	**5,319**	**0.3%**	**2,383**	**44.3%**	**3.0**	**2,497**	**46.9%**

	31 Dec 2020						
PD Scale	EAD post CRM £m	Average PD %	Number of obligors	Average LGD %	Average Maturity (years)	RWA £m	RWA density %
0.00 to <0.15	3,526	0.1%	844	43.8%	3.0	1,087	30.8%
0.15 to <0.25	1,108	0.2%	284	45.0%	2.7	531	48.0%
0.25 to <0.50	814	0.3%	858	44.8%	1.6	423	51.9%
0.50 to <0.75	159	0.6%	138	45.0%	1.5	110	69.2%
0.75 to <2.50	311	1.4%	235	45.0%	2.4	335	107.7%
2.50 to <10.00	108	4.3%	121	45.0%	2.1	157	145.0%
10.00 to <100.00	0	24.8%	7	45.0%	1.3	1	236.8%
100.00 (Default)	34	100.0%	15	45.0%	1.1	0	—
Sub-total	6,060	0.9%	2,502	44.3%	2.7	2,644	43.6%

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

	31 Dec 2021						
PD Scale	EAD post CRM £m	Average PD %	Number of obligors	Average LGD %	Average Maturity (years)	RWA £m	RWA density %
0.00 to <0.15	932	0.04%	13	45.0%	0.0	49	5.3%
0.75 to <2.50	78	1.63%	2	45.2%	—	64	81.3%
Sub-total	**1,010**	**0.17%**	**15**	**45.0%**	**0.0**	**112**	**11.1%**

	31 Dec 2020						
PD Scale	EAD post CRM £m	Average PD %	Number of obligors	Average LGD %	Average Maturity (years)	RWA £m	RWA density %
0.00 to <0.15	2,081	0.05%	19	45.0%	—	122	5.9%
0.75 to <2.50	3	1.62%	1	45.0%	—	3	94.2%
Sub-total	2,084	0.05%	20	45.0%	—	125	6.0%

Key movements

- Exposures to Central governments or central banks subject to the IRB approach decreased by £1.1bn driven by SFT trading with various counterparties.

Pillar 1 Capital requirements: Counterparty credit risk continued

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

	31 Dec 2021						
	EAD post CRM	Average PD	Number of obligors	Average LGD	Average Maturity (years)	RWA	RWA density
PD Scale	£m	%		%		£m	%
0.00 to <0.15	2,915	0.06%	201	45.0%	2.2	723	24.8%
0.15 to <0.25	80	0.18%	19	45.0%	1.4	35	43.7%
0.25 to <0.50	10	0.38%	25	45.0%	3.2	9	84.5%
0.50 to <0.75	4	0.63%	10	45.0%	1.5	3	71.4%
0.75 to <2.50	2	1.24%	10	45.0%	1.8	2	103.3%
2.50 to <10.00	1	2.60%	1	45.0%	5.0	1	164.1%
10.00 to <100.00	—	—	—	—	—	—	—
Sub-total	**3,011**	**0.05%**	**266**	**45.0%**	**2.2**	**773**	**25.7%**

	31 Dec 2020						
	EAD post CRM	Average PD	Number of obligors	Average LGD	Average Maturity (years)	RWA	RWA density
PD Scale	£m	%		%		£m	%
0.00 to <0.15	2,092	0.05%	213	45.0%	2.9	616	29.4%
0.15 to <0.25	273	0.18%	25	45.0%	3.8	204	74.7%
0.25 to <0.50	27	0.31%	29	45.0%	3.4	22	84.2%
0.50 to <0.75	10	0.63%	13	45.0%	2.6	9	94.5%
0.75 to <2.50	3	1.21%	9	45.0%	2.5	3	104.4%
2.50 to <10.00	1	2.60%	3	45.0%	3.5	2	159.7%
10.00 to <100.00	—	31.00 %	1	45.0%	1.0	—	278.1%
Sub-total	2,406	0.07%	293	45.0%	3.0	856	35.6%

Pillar 1 Capital requirements: Counterparty credit risk continued

CCR corporate exposures subject to supervisory slotting

31 Dec 2021 Specialised lending						
Regulatory categories	Remaining maturity	On-balance sheet amount £m	Off-balance sheet amount £m	RW %	EAD post CRM £m	RWA £m
1) Strong	Less than 2.5 years	79	—	50%	79	39
	Equal to or more than 2.5 years	1,705	—	70%	1,409	986
2) Good	Less than 2.5 years	14	—	70%	13	9
	Equal to or more than 2.5 years	99	—	90%	55	49
3) Satisfactory	Less than 2.5 years	—	—	115%	—	—
	Equal to or more than 2.5 years	86	—	115%	86	99
4) Weak	Less than 2.5 years	—	—	250%	—	—
	Equal to or more than 2.5 years	—	—	250%	—	—
5) Default	Less than 2.5 years	—	—	0%	—	—
	Equal to or more than 2.5 years	14	—	0%	11	—
Total	**Less than 2.5 years**	**93**	**—**		**92**	**48**
	Equal to or more than 2.5 years	**1,905**	**—**		**1,560**	**1,134**

31 Dec 2020 Specialised lending						
Regulatory categories	Remaining maturity	On-balance sheet amount £m	Off-balance sheet amount £m	RW %	EAD post CRM £m	RWA £m
1) Strong	Less than 2.5 years	185	—	50%	184	92
	Equal to or more than 2.5 years	2,034	—	70%	1,580	1,106
2) Good	Less than 2.5 years	41	—	70%	39	27
	Equal to or more than 2.5 years	125	—	90%	91	82
3) Satisfactory	Less than 2.5 years	1	—	115%	1	1
	Equal to or more than 2.5 years	64	—	115%	64	73
4) Weak	Less than 2.5 years	—	—	250%	—	—
	Equal to or more than 2.5 years	—	—	250%	—	—
5) Default	Less than 2.5 years	—	—	0%	—	—
	Equal to or more than 2.5 years	—	—	0%	—	—
Total	Less than 2.5 years	227	—		224	120
	Equal to or more than 2.5 years	2,223	—		1,735	1,261

Pillar 1 Capital requirements: Counterparty credit risk continued

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

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

		31 Dec 2021												
		0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others	Total	Of which: Unrated
	Exposure Classes	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
1	Central governments or central banks	16,724	—	—	—	—	—	—	—	—	—	—	**16,724**	**16,710**
	Public sector entities	1	—	—	—	2	—	—	—	—	—	—	**3**	**1**
4	Multilateral development banks	—	—	—	—	—	—	—	—	—	—	—	**—**	**—**
5	International organisations	8	—	—	—	—	—	—	—	—	—	—	**8**	**8**
6	Institutions	—	6,936	664	—	3	4	—	—	—	—	—	**7,607**	**7,603**
7	Corporates	—	—	—	—	1	135	—	—	100	—	—	**236**	**100**
11	**Total – Standardised Approach**	**16,732**	**6,936**	**664**	**—**	**6**	**139**	**—**	**—**	**100**	**—**	**1**	**24,578**	**24,422**

		31 Dec 2020												
		0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others	Total	Of which: Unrated
	Exposure Classes	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
1	Central governments or central banks	10,998	—	—	—	—	—	—	—	—	—	—	10,998	10,993
	Public sector entities	44	—	—	—	—	—	—	—	—	—	—	44	44
4	Multilateral development banks	35	—	—	—	—	—	—	—	—	—	—	35	35
5	International organisations	177	—	—	—	—	—	—	—	—	—	—	177	177
6	Institutions	—	8,276	716	—	8	70	—	—	2	—	—	9,072	9,002
7	Corporates	—	—	—	—	4	171	—	—	138	—	—	313	138
11	**Total – Standardised Approach**	11,255	8,276	716	—	12	240	—	—	141	—	—	20,640	20,389

Key movements

- Exposures to Central governments or central banks subject to the Standardised approach increased by £5.7bn predominately attributable to trading under the Term Funding Scheme with additional incentives for SMEs (TFSME).
- Exposures to Institutions subject to the Standardised approach decreased by £1.5bn mainly driven by QCCP trading.

Pillar 1 Capital requirements: Counterparty credit risk continued

COUNTERPARTY CREDIT RISK EXPOSURES: ANALYSIS BY CONTRACT TYPE

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

CCR: analysis by contract type

	2021 EAD post CR £m	2020 EAD post CR £m
Interest rate and inflation contracts	12,387	14,433
Foreign exchange contracts	2,637	3,340
Equity contracts	—	—
Credit derivatives	377	420
Commodity contracts	488	216
Securities financing transactions	19,804	15,044
Contributions to the default fund of a Central Counterparty	460	432
Total	36,153	33,885
of which: central counterparty	7,600	8,992

Key movements

- SFT exposure increased by £4.8bn EAD mainly due to trading under the Term Funding Scheme with additional incentives for SMEs (TFSME).
- Interest rate and inflation contracts decreased by £2bn EAD mainly driven by decreased central counterparty exposure due to trade optimisation.

NET DERIVATIVES CREDIT EXPOSURE

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

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

		31 Dec 2021				
		Gross positive fair value exposure amount £m	Netting benefits credit £m	Netted current credit exposure £m	Collateral held[1] £m	Net Credit exposure[2] £m
1	Derivatives	51,813	39,534	12,279	7,006	5,273
2	SFTs	200,951	—	200,951	185,442	15,509
4	**Total**	252,764	39,534	213,230	192,448	20,782

		31 Dec 2020				
		Gross positive fair value exposure amount £m	Netting benefits credit £m	Netted current credit exposure £m	Collateral held[1] £m	Net Credit exposure[2] £m
1	Derivatives	87,066	71,459	15,607	9,326	6,281
2	SFTs	191,130	—	191,130	181,113	10,017
4	**Total**	278,196	71,459	206,737	190,439	16,298

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

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

Pillar 1 Capital requirements: Counterparty credit risk continued

CCR5-B: Composition of collateral for exposures to CCR

	31 Dec 2021				31 Dec 2020			
	Collateral Used in Derivatives		Collateral Used in SFTs		Collateral Used in Derivatives		Collateral Used in SFTs	
	Fair Value of Collateral Received £m	Fair Value of Collateral Posted £m	Fair Value of Collateral Received £m	Fair Value of Collateral Posted £m	Fair Value of Collateral Received £m	Fair Value of Collateral Posted £m	Fair Value of Collateral Received £m	Fair Value of Collateral Posted £m
Collateral Types								
Cash - Domestic currency	**2,186**	**2,404**	**70,523**	**90,190**	2,801	1,862	55,150	88,498
Cash - Other currencies	**4,559**	**1,695**	**5,538**	**6,671**	6,120	3,723	10,498	8,351
Domestic sovereign debt	**2,258**	**4,851**	**96,100**	**53,275**	2,092	6,049	96,406	55,759
Other sovereign debt	**107**	**232**	**11,686**	**5,574**	31	96	15,454	8,173
Corporate bonds	**39**	**4**	**1,206**	**16**	23	8	1,346	120
Other collateral	**109**	**60**	**787**	**49,519**	73	60	3,098	35,256
Total	**9,258**	**9,246**	**185,840**	**205,245**	11,140	11,798	181,952	196,157

NOTIONAL VALUE OF CREDIT DERIVATIVE TRANSACTIONS

The notional value of credit derivative transactions outstanding at 31 December 2021 was £17.4bn (2010: £19.3bn). These transactions relate to CDS, total return swaps and other credit derivatives. All total return swaps, including those with gilts underlying, are classified as credit products and are reported in the table below.

CCR6: Credit derivatives exposures

	31 Dec 2021			31 Dec 2020		
	Credit derivative hedges			Credit derivative hedges		
	Protection bought £m	Protection sold £m	Other credit derivatives £m	Protection bought £m	Protection sold £m	Other credit derivatives £m
Notionals						
Single-name credit default swaps	**2,432**	**26**	**—**	3,090	322	—
Index credit default swaps	**871**	**69**	**—**	909	20	—
Total return swaps	**793**	**8,392**	**—**	1,429	8,316	—
Other credit derivatives	**—**	**4,863**	**—**	—	5,252	—
Total notionals	**4,096**	**13,350**	**—**	5,428	13,910	—
Fair values						
Positive fair value (asset)	**14**	**107**	**—**	79	59	—
Negative fair value (liability)	**(111)**	**(384)**	**—**	(116)	(237)	—

PILLAR 1 CAPITAL REQUIREMENTS - MARKET RISK

DEFINITION

Market risk is defined as the risk that the Group's capital or earnings profile is affected by adverse market rates or prices, in particular interest rates and credit spreads in the Banking business, interest rates, equity prices and credit spreads in the Insurance business, and credit spreads in the Group's defined benefit pension schemes. Details of risk appetite, measurement, mitigation and monitoring can be found in the Risk Management section of the 2021 Lloyds Banking Group plc Annual Report and Accounts (Market Risk section, pages 144 to 148).

EXPOSURES

Market risk balance sheet linkages

The information provided in the table below aims to facilitate the understanding of linkages between banking, trading and insurance 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 trading book market risk, since it does not discriminate between assets and liabilities in its VaR model.

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 2021 Lloyds Banking Group plc Annual Report and Accounts.

Market risk linkages to the balance sheet

		Banking			
	Balance sheet total	Trading book only[1]	Non-trading	Insurance	
2021	£m	£m	£m	£m	Primary risk factor
Assets					
Cash and balances at central banks	76,420	—	76,420	—	Interest rate
Financial assets at fair value through profit or loss	206,771	21,760	5,023	179,988	Interest rate, foreign exchange, credit spread
Derivative financial instruments	22,051	17,874	2,876	1,301	Interest rate, foreign exchange, credit spread
Financial assets at amortised cost:					
Loans and advances to bank	7,001	—	6,917	84	Interest rate
Loans and advances to customers	448,567	—	448,567	—	Interest rate
Debt securities	6,835	—	6,835	—	Interest rate, credit spread
	517,156	—	517,072	84	
Financial assets at fair value through other comprehensive income	28,137	—	28,137	—	Interest rate, foreign exchange, credit spread
Value of in-force business	5,514	—	—	5,514	Equity
Other assets	30,476	—	22,442	8,034	Interest rate
Total assets	886,525	39,634	651,970	194,921	
Liabilities					
Deposits from banks	7,647	—	7,647	—	Interest rate
Customer deposits	476,344	—	476,344	—	Interest rate
Financial liabilities at fair value through profit or loss	23,123	16,582	6,536	5	Interest rate, foreign exchange
Derivative financial instruments	18,060	12,959	3,725	1,376	Interest rate, foreign exchange, credit spread
Debt securities in issue	71,552	—	71,552	—	Interest rate, credit spread
Liabilities arising from insurance and investment contracts	168,463	—	—	168,463	Credit spread
Subordinated liabilities	13,108	—	11,355	1,753	Interest rate, foreign exchange
Other liabilities	23,951	—	8,570	15,381	Interest rate
Total liabilities	833,373	29,541	616,854	186,978	

1 Assets and liabilities are classified as Trading book if they meet the requirements as set out in the Capital Requirements Regulation, article 104.

Pillar 1 Capital requirements: Market risk continued

The Group's trading book assets and liabilities are originated 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 meet the requirements as set out in the Capital Requirements Regulation, article 104.

Derivative assets and liabilities are held by the Group 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 CB 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 asset swapped and held at fair value through other comprehensive income. Further information on these balances can be found under funding and liquidity risk on page 171 of the Lloyds Banking Group plc Annual Report and Accounts.

The majority of debt issuance originates from the Group's capital and funding activities and the interest rate risk 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. 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 of the Group's regulatory trading books and they include daily VaR, sensitivity-based measures, and stress testing calculations.

Structure and organisation

Market risk follows the Group's Risk Management Framework. For further information refer to 'The Group's Approach to Risk' section on pages 135 to 137 of the 2021 Lloyds Banking Group plc Annual Report and Accounts.

Banking activities

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

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 Market Risk section of the 2021 Lloyds Banking Group plc Annual Report and Accounts.

For further information on the key market risks by defined benefit pension schemes and Insurance portfolios refer to pages 147 and 148 of the 2021 Lloyds Banking Group plc Annual Report and Accounts.

Market risk own funds requirements

	31 Dec 2021		31 Dec 2020	
	RWA	Capital Requirements	RWA	Capital Requirements
	£m	£m	£m	£m
Internal models approach	**2,800**	**224**	1,955	156
VaR	**322**	**26**	408	33
SVaR	**1,268**	**101**	989	79
Incremental risk charge	**181**	**15**	167	13
Risks not in VaR	**1,029**	**82**	391	31
Standardised approach	**353**	**28**	252	20
Interest rate risk (general and specific)	**224**	**18**	167	14
Foreign exchange risk	**117**	**9**	77	6
Commodity risk	**10**	**1**	6	—
Specific interest rate risk of securitisation position	**2**	**—**	2	—
Total	**3,153**	**253**	2,207	176

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

	VaR	SVaR	IRC	CRM	Other	Total RWA	Total Capital Requirements
	£m	£m	£m	£m	£m	£m	£m
1 Risk-weighted assets as at 31 December 2020	408	989	167	—	391	1,955	156
2 Movement in risk levels	(160)	(5)	14	—	515	364	29
3 Model updates/changes	73	284		—	125	482	39
4 Methodology and policy				—	(1)	(1)	—
7 Other						—	—
8 **Risk-weighted assets as at 31 December 2021**	**322**	**1,268**	**181**	**—**	**1,029**	**2,800**	**224**

1 The table above relates solely to movement in exposures under an IMA approach. Total Market risk risk-weighted assets are disclosed in table Risk-weighted assets movement by key driver. Note that the asset size driver disclosed therein is encompassed in movement in risk levels above.

Key movements

- Increase driven by the introduction of new RNIV's relating to IBOR transition and capital multiplier increases due to IBOR related activities and increased market volatility in Q4 driving up backtesting overshoots.

Pillar 1 Capital requirements: Market risk continued

Review of internal models

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

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

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 IRC model simulates the impact of ratings transitions by estimating the improvement or deterioration in credit spreads resulting from these transitions. The ratings transition matrices are comprised of historical transitions collated over many decades and are updated annually for both corporates and sovereigns. 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. Correlations between obligors are based on an existing LBG factor model, which consists of industry sectors and geographical regions. The model also allows for idiosyncratic behaviour at obligor level. The asset returns for obligors are computed using a multi-factor Gaussian Copula model framework for which the factor model provides the correlation basis.

LBG ensures that the IRC model is consistent with the soundness standard comparable to that of the internal-ratings based approach for credit risk. The Lloyds IRC model employs a confidence interval of 99.9% and both its liquidity and risk horizons are set to be one year. This is fully consistent with the EBA soundness standard for IRC models. The annual validation of the IRC model ensures that the soundness standard comparable to IRB is maintained.

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

Validation of the risk models uses a number of methods including but not limited to stress tests, sensitivity analyses and scenarios analyses. The risk models, including the RNIVs, are reviewed independently of the development team and model adequacy and conservatism is re-assessed should the portfolio change over time. Model performance, including 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: (£33m)	Historical simulation to create a distribution of potential daily P&Ls from market moves. P&Ls are calculated from a grid of full revaluation based sensitivities to approximate/ estimate full revaluation.	300 daily P&Ls, Simple weighting.	Regulatory VaR is computed with 10 day holding period and 99% confidence level. The 10-day VaR is based on rolling 10-day periods.
SVaR	1Model: (£79m)	Same as VaR model.	250 day period of significant stress. Simple weighting. VaR calibration updated quarterly.	Same as VaR model.
IRC	1Model: (£13m)	Monte Carlo approach is used to simulate the profit and loss changes arising from rating migration and default.	Credit Ratings data (1983 – current), CDS long term average data (2006 – current), CDS bond basis data (2006 – current), LGD data (1990 – current).	IRC is computed with a 1 year holding period and 99.9% confidence level.

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 PRA stress tests. The macro-economic scenarios are intended to be severe but holistic and plausible. The asset class specific scenarios, also known as desk specific, are intended to apply extreme events to individual risk factors with stresses being applied in groups and to identify points of weakness at both asset class and trading book level.

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

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

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 and any profit or loss arising from intraday activity. Fees and commissions do not feed into either profit and loss measure.

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

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

Backtesting results (VaR models)

2021 backtesting results		Number of reported overshoots	
	Multiplier	Hypothetical	Clean
Entity Level			
Lloyds Bank	3.50	3	3
BoS	3.50	4	3
RFB sub-group	3.50	2	3
LBCM	3.90	5	2

Key movements

- Statistically the Group would expect to see losses in excess of VaR two to three times over a one year period. Details of loss overshoots within the Group for the RFB sub-group and LBCM are provided in the backtesting charts comparing VaR to hypothetical and clean profit and loss (MR4: Comparison of VaR estimates with gains/losses LLOYDS).
- All significant profit and loss events are investigated as part of normal business. In addition, all backtesting overshoots are reported to senior management, internal auditors and the PRA.
- Several regulatory back-testing overshoots observed across LBCM and RFB entities largely driven by the increased market volatility observed in Q4 2021.

Pillar 1 Capital requirements: Market risk continued

COMPARISON OF VAR TO HYPOTHETICAL AND CLEAN PROFIT AND LOSS

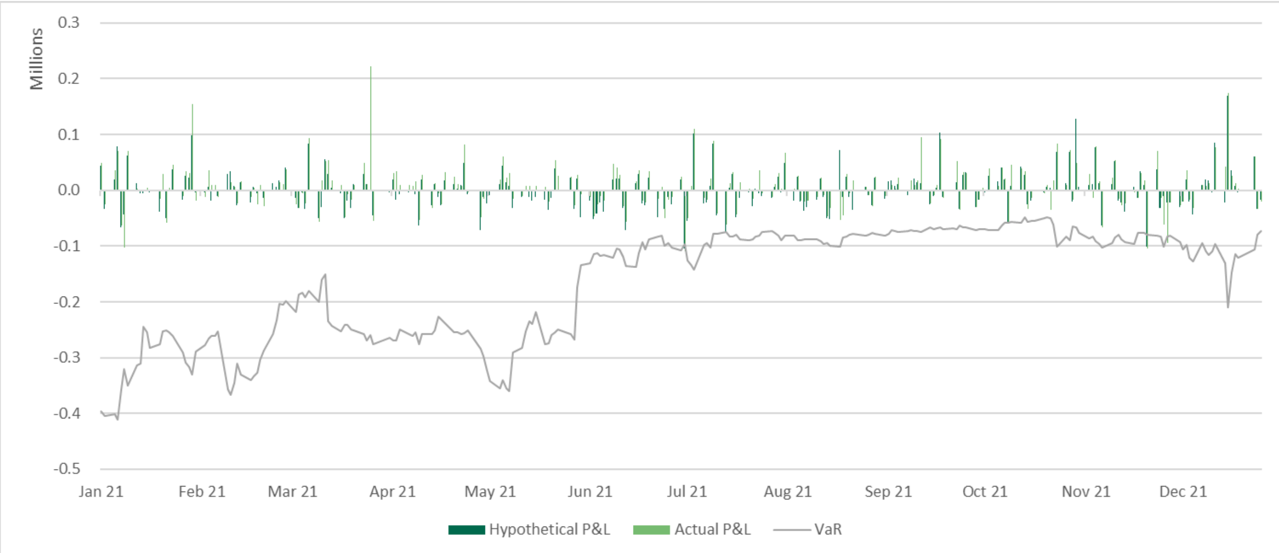
The following charts provide comparisons of VaR (1-day 99 percent confidence level) to the hypothetical and actual profit and loss on a daily basis over the twelve months to Dec 2021 for Lloyds Bank Group and Lloyds Bank Corporate Markets.

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

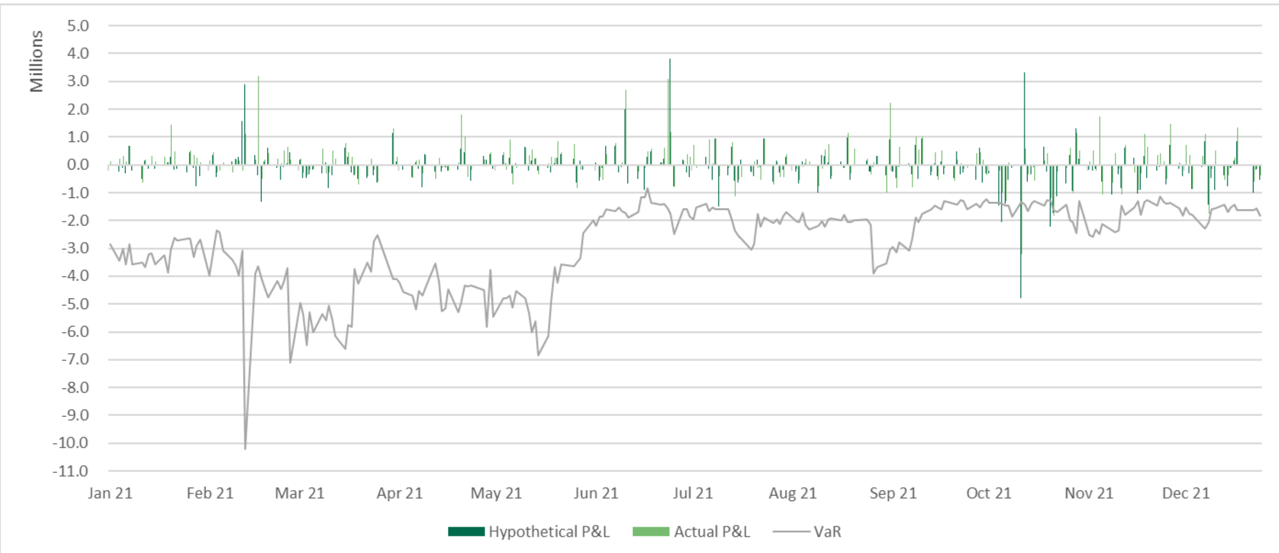
There were reported overshoots for the twelve months to Dec 2021 for all of the LBG entities.

MR4: Comparison of VaR estimates with gains/losses LLOYDS

LLOYDS BANK GROUP (RFB)



LLOYDS BANK CORPORATE MARKETS



Pillar 1 Capital requirements: Market risk continued

Valuation principles

Trading securities, other financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income and derivatives are stated at fair value. Fair value is the price that would be received 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 as at a specific date and may be significantly different from the amount which will actually be paid or received on maturity or settlement date.

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

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

Model validation covers both qualitative and quantitative elements relating to new models. In respect of new products, a product implementation review is conducted pre- and post-trading. Pre-trade testing ensures that the new model is integrated into the Group's systems and that the profit and loss and risk reporting are consistent throughout the trade 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 the Credit Valuation Adjustment (CVA) reserve.

Full details on the use of valuation models and related adjustments are provided in Note 48 (Financial Instruments) of the 2021 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 below provides relevant statistics for the Group's 10-day 99 per cent confidence level VaR that are based on 300 historical consecutive business days to year end 2021 and year end 2020. Also included are statistics for the Incremental Risk Change for 2021 and 2020.

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

MR3: IMA values for trading portfolios

	2021 £m	2020 £m
VaR (10 day 99%)		
Maximum value	**29.0**	18.1
Average value	**8.5**	7.8
Minimum value	**2.3**	2.7
Period end	**7.4**	15.5
Stressed VaR (10 day 99%)		
Maximum value	**142.0**	38.6
Average value	**41.7**	24.9
Minimum value	**13.6**	14.1
Period end	**13.6**	29.9
Incremental Risk Charge (99.9%)		
Maximum value	**20.5**	21.6
Average value	**11.4**	10.6
Minimum value	**5.0**	5.3
Period end	**14.5**	13.3
Comprehensive Risk capital charge (99.9%)		
Maximum value	**—**	—
Average value	**—**	—
Minimum value	**—**	—
Period end	**—**	—

Key movements
- The market risk for the trading book continues to be low with respect to the size of the Group.
- The increase in maximum and average value SVaR (10 day 99%) was as a result of the in-year increase in LBCM SVaR linked to the IBOR cessation activities and did not reflect additional risk taking by LBG.

Pillar 1 Capital requirements: Market risk continued

MR2-A: Market risk under internal models approach

		2021 RWA £m	2021 Capital requirements £m	2020 RWA £m	2020 Capital requirements £m
1	**VaR** (higher of values a and b)	**322**	**26**	408	33
(a)	Previous day's VaR (Article 365(1) (VaRt-1))		**8**		17
(b)	Average of the daily VaR (Article 365(1)) on each of the preceding sixty business days (VaRavg) x multiplication factor ((mc) in accordance with Article 366)		**26**		33
2	**SVaR** (higher of values a and b)	**1,268**	**101**	989	79
(a)	Latest SVaR (Article 365(2) (sVaRt-1))		**14**		31
(b)	Average of the SVaR (Article 365(2) during the preceding sixty business days (sVaRavg) x multiplication factor (ms) (Article 366))		**101**		79
3	Incremental risk charge – **IRC** (higher of values a and b)	**181**	**14**	167	13
(a)	Most recent IRC value (incremental default and migration risks section 3 calculated in accordance with Section 3 articles 370/371)		**14**		13
(b)	Average of the IRC number over the preceding 12 weeks		**10**		13
4	Comprehensive Risk Measure – **CRM** (higher of values a, b and c)	**—**	**—**	—	—
5	**RNIV**	**1,029**	**82**	391	31
6	**Total**	**2,800**	**223**	1,955	156

MR1: Market risk under standardised approach

	2021 Risk-weighted assets £m	2021 Capital requirements £m	2020 Risk-weighted assets £m	2020 Capital requirements £m
Outright Products				
Interest rate risk (general and specific)	**211**	**17**	156	13
Foreign exchange risk	**117**	**9**	77	6
Commodity Risk	**10**	**1**	6	—
Securitisation (specific risk)	**2**	**—**	2	—
Options				
Delta-plus method	**13**	**1**	11	1
Total	**353**	**28**	252	20

LIQUIDITY RISK

DEFINITION

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

EXPOSURE

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

MEASUREMENT

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

MITIGATION

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

MONITORING

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

LIQUIDITY COVERAGE RATIO (LCR)

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

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

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

Further details on the Group's liquidity portfolio can be found in the Risk Management section of the 2021 Lloyds Banking Group plc Annual Report and Accounts (Funding and Liquidity section, pages 171 to 175).

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

LIQ1: Liquidity Coverage Ratio

		Total unweighted value (average) £m				Total weighted value (average) £m			
		31 Mar 2021	30 Jun 2021	30 Sep 2021	31 Dec 2021	31 Mar 2021	30 Jun 2021	30 Sep 2021	31 Dec 2021
	High-quality liquid assets								
1	Total HQLA					142,700	139,108	137,134	140,222
	Cash outflows								
2	**Retail deposits and deposits from small business customers, of which:**	309,984	320,394	329,537	337,567	20,745	21,516	22,254	22,944
3	Stable deposits	241,124	247,875	253,006	257,170	12,056	12,394	12,650	12,859
4	Less stable deposits	68,861	72,519	76,531	80,396	8,689	9,122	9,603	10,086
5	**Unsecured wholesale funding:**	103,360	102,673	102,983	103,203	52,186	51,181	50,582	50,090
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	28,823	30,477	32,045	33,618	7,206	7,619	8,011	8,405
7	Non-operational deposits (all counterparties)	70,818	68,384	67,452	66,203	41,262	39,751	39,085	38,304
8	Unsecured debt	3,718	3,811	3,486	3,382	3,718	3,811	3,486	3,382
9	**Secured wholesale funding**					61	101	121	120
10	**Additional requirements:**	77,810	77,360	76,860	74,542	37,122	36,598	36,567	35,675
11	Outflows related to derivative exposures and other collateral requirements	24,907	24,471	24,634	24,191	24,907	24,471	24,631	24,186
12	Outflows related to loss of funding on debt products	1,045	1,012	1,023	944	1,045	1,012	1,023	944
13	Credit and liquidity facilities	51,858	51,878	51,202	49,407	11,170	11,115	10,913	10,546
14	**Other contractual funding obligations**	1,054	888	830	686	680	516	461	320
15	**Other contingent funding obligations**	90,292	92,409	93,405	93,633	4,807	5,074	5,159	5,079
16	**TOTAL CASH OUTFLOWS**					115,602	114,986	115,144	114,229
	Cash inflows								
17	**Secured lending (eg: reverse repos)**	32,274	30,856	29,909	30,752	184	227	267	307
18	**Inflows from fully performing exposures**	4,651	4,507	4,564	4,568	3,093	2,957	3,026	3,049
19	Other cash inflows	6,269	6,356	7,138	7,062	5,882	5,977	6,757	6,672
20	**TOTAL CASH INFLOWS**	43,194	41,720	41,611	42,382	9,160	9,162	10,049	10,028
EU-20c	**Inflows subject to 75% cap**	39,363	37,839	37,629	38,068	9,160	9,162	10,049	10,028
									Total adjusted value £m
21	**Liquidity buffer**					142,700	139,108	137,134	140,222
22	**Total net cash outflows**					106,442	105,824	105,095	104,201
23	**Liquidity Coverage Ratio (%)**					134%	131%	130%	135%

		Total unweighted value (average) £m				Total weighted value (average) £m			
		31 Mar 2020	30 Jun 2020	30 Sep 2020	31 Dec 2020	31 Mar 2020	30 Jun 2020	30 Sep 2020	31 Dec 2020
	High-quality liquid assets								
1	Total HQLA					131,079	136,961	138,512	141,747
	Cash outflows								
2	**Retail deposits and deposits from small business customers, of which:**	279,950	283,817	290,215	298,712	19,049	19,194	19,526	20,025
3	Stable deposits	216,019	219,836	225,528	232,462	10,801	10,992	11,276	11,623
4	Less stable deposits	63,931	63,982	64,687	66,250	8,248	8,202	8,250	8,402
5	**Unsecured wholesale funding:**	94,178	97,052	99,197	101,984	50,007	50,925	51,482	52,350
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	23,551	24,189	25,322	26,930	5,888	6,047	6,331	6,732
7	Non-operational deposits (all counterparties)	67,454	69,677	70,303	71,257	40,946	41,693	41,580	41,820
8	Unsecured debt	3,173	3,185	3,572	3,798	3,173	3,185	3,572	3,798
9	**Secured wholesale funding**					44	25	25	26
10	**Additional requirements:**	69,449	70,579	72,488	76,099	28,939	30,957	33,177	36,121
11	Outflows related to derivative exposures and other collateral requirements	17,258	19,068	21,124	23,773	17,258	19,138	21,191	23,839
12	Outflows related to loss of funding on debt products	1,152	1,169	1,172	1,267	1,152	1,169	1,172	1,267
13	Credit and liquidity facilities	51,039	50,343	50,193	50,969	10,528	10,650	10,815	11,016
14	**Other contractual funding obligations**	1,350	1,256	1,225	1,299	894	858	841	926
15	**Other contingent funding obligations**	85,214	85,698	86,370	88,719	4,251	4,218	4,245	4,626
16	**TOTAL CASH OUTFLOWS**					103,185	106,177	109,296	114,074
	Cash inflows								
17	**Secured lending (eg: reverse repos)**	32,631	33,372	32,848	32,249	220	224	234	169
18	**Inflows from fully performing exposures**	5,350	5,264	5,181	4,978	3,446	3,509	3,559	3,394
19	Other cash inflows	4,521	4,717	5,372	6,370	4,165	4,313	4,950	5,957
20	**TOTAL CASH INFLOWS**	42,502	43,353	43,401	43,597	7,831	8,046	8,743	9,520
EU-20c	**Inflows subject to 75% cap**	37,852	38,682	39,136	39,468	7,831	8,046	8,743	9,520
									Total adjusted value £m
21	**Liquidity buffer**					131,079	136,961	138,512	141,747
22	**Total net cash outflows**					95,354	98,131	100,553	104,553
23	**Liquidity Coverage Ratio (%)**[1]					138%	140%	138%	136%

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

OWN FUNDS DISCLOSURE

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

Following a debt restructure by the Insurance business during the year, the Group's previous holdings in certain legacy capital instruments issued by Scottish Widows Group Limited have been replaced with new instruments that are fully eligible under Solvency II requirements. These include the issue of Restricted Tier 1 (RT1) and tier 2 capital instruments to the Group which are subsequently deducted from the Group's tier 1 and tier 2 capital positions respectively on both a transitional and fully loaded basis.

CC1: Composition of regulatory own funds

	Transitional rules		Fully loaded rules	
	At 31 Dec 2021 £m	At 31 Dec 2020 £m	**At 31 Dec 2021 £m**	At 31 Dec 2020 £m
Common equity tier 1 (CET1) capital: instruments and reserves				
Capital instruments and related share premium accounts	**25,581**	24,947	**25,581**	24,947
of which: called up share capital	**7,102**	7,084	**7,102**	7,084
of which: share premium	**18,479**	17,863	**18,479**	17,863
Retained earnings	**15,502**	12,041	**15,502**	12,041
Accumulated other comprehensive income (and other reserves)	**8,856**	10,373	**8,856**	10,373
Foreseeable dividends	**(947)**	(404)	**(947)**	(404)
Common equity tier 1 (CET1) capital before regulatory adjustments	**48,992**	46,957	**48,992**	46,957
Common equity tier 1 (CET1) capital: regulatory adjustments				
Additional value adjustments	**(457)**	(445)	**(457)**	(445)
Intangible assets (net of related tax liability)	**(3,026)**	(3,120)	**(3,026)**	(3,120)
Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) of the CRR are met)	**(4,483)**	(3,562)	**(4,483)**	(3,562)
Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	**457**	(1,629)	**457**	(1,629)
Negative amounts resulting from the calculation of expected loss amounts	**—**	—	**—**	—
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	**116**	56	**116**	56
Defined benefit pension fund assets	**(3,200)**	(1,322)	**(3,200)**	(1,322)
Direct, indirect and synthetic holdings by the Group of own CET1 instruments	**(5)**	(4)	**(5)**	(4)
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)	**(4,573)**	(4,109)	**(4,573)**	(4,109)
Amount exceeding the 17.65% threshold	**—**	—	**—**	—
Other regulatory adjustments to CET1 capital	**(6)**	—	**(6)**	—
Total regulatory adjustments applied to common equity tier 1 (CET1)	**(15,177)**	(14,135)	**(15,177)**	(14,135)
Common equity tier 1 (CET1) capital	**33,815**	32,822	**33,815**	32,822

CC1: Composition of regulatory own funds (continued)

	Transitional rules		Fully loaded rules	
	At 31 Dec 2021 £m	At 31 Dec 2020 £m	At 31 Dec 2021 £m	At 31 Dec 2020 £m
Additional tier 1 (AT1) capital: instruments				
Capital instruments and related share premium accounts	5,879	5,881	5,879	5,881
of which: classified as equity under applicable accounting standards	5,879	5,881	5,879	5,881
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	126	392	—	—
Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in CET1) issued by subsidiaries and held by third parties	425	709	—	—
of which: instruments issued by subsidiaries subject to phase out	425	709	—	—
Additional tier 1 (AT1) capital before regulatory adjustments	6,430	6,982	5,879	5,881
Additional tier 1 (AT1) capital: regulatory adjustments				
Direct, indirect and synthetic holdings by the Group of the AT1 instruments of financial sector entities where the Group has a significant investment in those entities (net of eligible short positions)	(1,100)	(1,138)	(1,100)	—
Total regulatory adjustments applied to additional tier 1 (AT1) capital	(1,100)	(1,138)	(1,100)	—
Additional tier 1 (AT1) capital	5,330	5,844	4,779	5,881
Tier 1 capital	39,145	38,666	38,594	38,703
Tier 2 (T2) capital: Instruments and provisions				
Capital instruments and related share premium accounts	6,560	6,585	6,560	6,585
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]	231	551	—	—
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	1,635	2,868	408	599
of which: instruments issued by subsidiaries subject to phase out	1,177	2,219	—	—
Credit risk adjustments	—	—	—	—
Tier 2 (T2) capital before regulatory adjustments	8,426	10,004	6,969	7,184
Tier (T2) capital: regulatory adjustments				
Direct, indirect and synthetic 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)	(961)	(942)	(961)	(2,080)
IFRS 9 transitional adjustments	(276)	(560)	(276)	(560)
Total regulatory adjustments applied to tier 2 (T2) capital	(1,237)	(1,502)	(1,237)	(2,640)
Tier 2 (T2) capital	7,189	8,502	5,732	4,544
Total capital	46,334	47,168	44,326	43,247
Total risk exposure amount (risk-weighted assets)	195,967	202,747	195,967	202,747

CC1: Composition of regulatory own funds (continued)

	Transitional rules		Fully loaded rules	
	At 31 Dec 2021 £m	At 31 Dec 2020 £m	At 31 Dec 2021 £m	At 31 Dec 2020 £m
Capital ratios and buffers				
Common Equity Tier 1 (as a percentage of risk exposure amount)	**17.3%**	16.2%	**17.3%**	16.2%
Tier 1 (as a percentage of risk exposure amount)	**20.0%**	19.1%	**19.7%**	19.1%
Total capital (as a percentage of risk exposure amount)	**23.6%**	23.3%	**22.6%**	21.3%
Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)	**2.505%**	2.502%	**2.505%**	2.502%
of which: capital conservation buffer requirement	**2.500%**	2.500%	**2.500%**	2.500%
of which: countercyclical buffer requirement	**0.005%**	0.002%	**0.005%**	0.002%
Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)[1]	**12.8%**	11.7%	**12.8%**	8.2%
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)	**443**	769	**443**	769
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)	**3,839**	3,693	**3,839**	3,693
Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in 38 (3) are met)	**1,105**	1,077	**1,105**	1,077
Applicable caps on the inclusion of provisions in Tier 2				
Cap on inclusion of credit risk adjustments in T2 under internal ratings-based approach	**781**	805	**781**	805
Capital instruments subject to phase-out arrangements				
Current cap on AT1 instruments subject to phase out arrangements	**551**	1,102	**—**	—
Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	**1,536**	1,550	**—**	—
Current cap on T2 instruments subject to phase out arrangements	**1,433**	2,867	**—**	—
Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	**745**	—	**—**	—

1 Of which around 2.1 per cent is required to meet Pillar 2A requirements.

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

OWN FUNDS RECONCILIATION

The following table presents certain items from the Group's consolidated regulatory balance sheet (as presented on pages 10 and 11), for the year ended 31 December 2021, that are used to calculate own funds. Where necessary, the balance sheet components under the regulatory scope of consolidation have been expanded such that the components of the transitional own funds disclosure template appear separately.

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

			Adjustments								
Lloyds 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	Reversal of IFRS 9 Transitional arrangements £m	Transitional own funds (IFRS 9 full impact) (14) £m
	Common equity tier 1 (CET1) capital: instruments and reserves										
	Capital instruments and related share premium accounts	25,581						25,581			25,581
Share capital	of which: called up share capital	7,102						7,102			7,102
Share premium account	of which: share premium	18,479						18,479			18,479
Retained profits	Retained earnings	14,874					628	15,502	2	(618)	14,884
Other reserves	Accumulated other comprehensive income (and other reserves)	9,038					(182)	8,856	2		8,856
	Common equity tier 1 (CET1) capital: regulatory adjustments										
	Additional value adjustments						(457)	(457)	3		(457)
Goodwill and other intangible assets	Intangible assets (net of related tax liability)	(4,770)	489				1,255	(3,026)	4		(3,026)
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)	(4,249)	(2,151)	1,105			812	(4,483)	5	(36)	(4,519)
	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value						457	457	6		457
	Negative amounts resulting from the calculation of expected loss amounts						—	—	7		—
	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing						116	116	8		116
Retirement benefit assets	Defined benefit pension fund assets	(4,531)	1,331				—	(3,200)	5		(3,200)
	Direct, indirect and synthetic holdings by the Group of own CET1 instruments						(5)	(5)	9		(5)
Investment in group undertakings	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)	(9,420)		3,839			1,202	(4,379)	10	(65)	(4,444)
Financial assets held at FVOCI	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)	(194)						(194)			(194)
	Foreseeable dividend						(947)	(947)	11		(947)
	Amount exceeding the 17.65% threshold						—	—		(63)	(63)
	Other regulatory adjustments to CET1 capital						(6)	(6)			(6)
	Common Equity Tier 1 (CET1) capital	26,329	(331)	4,944			2,873	33,815		(782)	33,033

Appendix 1: Table 80 Continued

			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**	**Reversal of IFRS 9 Transitional arrangements £m**	**Transitional own funds (IFRS 9 full impact) (14) £m**
	Additional Tier 1 (AT1) capital: instruments										
Other equity instruments	Capital instruments and the related share premium accounts	5,906					(27)	5,879			5,879
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	488			—	(351)	(11)	126	12		126
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	1,661			—	(1,185)	(51)	425	12		425
	Additional Tier 1 (AT1) capital: regulatory adjustments										
	Direct, indirect and synthetic holdings by the Group of the AT1 instruments of financial sector entities where the Group has a significant investment in those entities (net of eligible short positions)						(1,100)	(1,100)	10		(1,100)
	Additional Tier 1 (AT1) capital	8,055			—	(1,536)	(1,189)	5,330			5,330
	Tier 1 capital	34,384	(331)	4,944	—	(1,536)	1,684	39,145		(782)	38,363
	Tier 2 (T2) capital: instruments and provisions										
Subordinated liabilities	Capital instruments and related share premium accounts	7,349			(10)		(779)	6,560	12		6,560
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					351	(120)	231	12		231
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	1,928			(46)	1,185	(1,432)	1,635	12		1,635
	Tier 2 (T2) capital: regulatory adjustments										
Financial assets at fair value through profit or loss	Direct, indirect and synthetic 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)	(961)					—	(961)	13		(961)
	IFRS 9 transitional arrangements						(276)	(276)		276	—
	Eligible provisions						—	—	14	508	508
	Tier 2 (T2) capital	8,316			(56)	1,536	(2,607)	7,189		784	7,973
	Total capital	42,700	(331)	4,944	(56)	—	(923)	46,334		2	46,336

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

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

2 The regulatory definition of eligible items for inclusion in retained earnings differs from the statutory reporting definition. The aggregate of retained earnings and accumulated other comprehensive income and other reserves is comparable on both bases but the allocation between categories differ. Retained earnings are further adjusted to reflect the application of the IFRS 9 transitional arrangements – refer to note 14.

3 The additional value adjustments of £457m reflect the prudent valuation adjustment for all assets measured at fair value in accordance with Articles 34 and 105 of the CRR. Table PV1 on page 126 provides a breakdown of the constituent elements of the Group's prudent valuation adjustment.

4 Own funds intangible assets of £4,770m extracted from the consolidated regulatory balance sheet representing £540m of goodwill and £4,230m of other intangible assets (£3,435m relating to intangible software assets). CRD IV rules require the amount to be deducted from own funds to be reduced by the amount of associated deferred tax liabilities and adjusted to reflect the prudential amortisation of intangible software assets in accordance with the revised capital treatment implemented in December 2020. Remaining unamortised 'available for use' intangible software assets are risk-weighted under the revised treatment rather than deducted from capital.

5 The own funds deduction of £4,483m for deferred tax excludes the deferred tax balances relating to intangible assets, cash flow hedge 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. £1,105m 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. Deferred tax assets are also adjusted to reflect the application of the IFRS 9 transitional arrangements.

6 Cash flow hedge reserve forms part of other reserves in the consolidated regulatory balance sheet. Please refer to Note 40 Other Reserves in the 2021 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 are 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 page 78.

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

9 The £5m deduction of holdings 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 (OEIC's) as these shareholdings are held for third party investors through the Group's Insurance operations.

10 The investment in group undertakings of £9,420m extracted from the consolidated regulatory balance sheet represents the Group's total investment in Insurance subsidiaries as well as joint ventures and associates. The majority of the investment relates to the Group's equity investment in its Insurance operations headed by Scottish Widows Group Limited. The remaining investment largely relates to other equity and debt investments in Insurance that are reallocated to additional tier 1 capital (£1,100m) as full deduction for capital purposes. The CET1 deduction of £4,379m reflects the requirement to deduct a portion of the equity investment in Scottish Widows Group Limited where this exceeds a threshold limit based upon the underlying CET1 capital base, with the remaining equity investment up to the limit becoming subject to risk weight (as presented in the threshold adjustments column).

11 The £947m foreseeable dividend is that recommended by the Board of Directors in respect of 2021 earnings.

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

Own funds description	Consolidated regulatory balance sheet total £m
Amount of qualifying items referred to in Article 484 (4) of the CRR and the related share premium accounts subject to phase out from AT1	488
Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in CET1) issued by subsidiaries and held by third parties	1,661
Capital instruments and related share premium accounts	7,349
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	1,928
Total subordinated liabilities as presented on the consolidated regulatory balance sheet, page 10	**11,426**

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

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

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

13 The £961m extracted from the regulatory consolidation reflects the Group's investment in the subordinated debt of Scottish Widows held at fair value through profit or loss.

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

- An increase in retained earnings of £618m reflecting the tax adjusted add-back (subject to the applicable factor) for the initial net increase in impairment provisions on 1 January 2018 ('static' relief) and the subsequent net increase in Stage 1 and Stage 2 ECLs from 1 January 2020 ('dynamic' relief)
- A resultant movement in threshold and DTA deductions of £164m
- A consequential adjustment to reduce tier 2 capital by £784m. Normally any excess of IFRS 9 expected credit losses over regulatory expected losses in respect of the Group's IRB portfolios is added to Tier 2 capital ('eligible provisions'), subject to a percentage cap based on IRB risk-weighted assets. However, as a consequence of applying the IFRS 9 transitional arrangements for capital, eligible provisions may be partially or fully reduced, with any resultant surplus adjustment under the arrangements subsequently deducted from tier 2 capital.

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

PRUDENT VALUATION ADJUSTMENTS

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

PV1: Prudent valuation adjustment

	31 Dec 2021							
	Equity £m	Interest rates £m	FX £m	Credit £m	Commodities £m	Total £m	of which: In the trading book £m	of which: In the banking book £m
Closeout uncertainty, of which:	287	204	2	70	—	563	208	355
Mid-market value	287	70	1	34	—	391	70	321
Closeout cost	—	131	1	9	—	141	134	7
Concentration	—	3	—	28	—	31	3	27
Model risk	—	27	2	21	—	49	28	21
Operational risk	29	20	—	14	—	63	20	43
Investing and funding costs	—	—	—	21	—	21	—	21
Unearned credit spreads	—	—	—	88	—	88	—	88
Future administrative costs	—	14	—	5	—	18	9	9
Other[1]	(143)	(114)	(2)	(86)	—	(345)	(116)	(229)
Total adjustment						457		

	31 Dec 2020							
	Equity £m	Interest rates £m	FX £m	Credit £m	Commodities £m	Total £m	of which: In the trading book £m	of which: In the banking book £m
Closeout uncertainty, of which:	366	294	2	82	—	744	291	453
Mid-market value	366	133	1	40	—	540	128	412
Closeout cost	—	159	1	8	—	168	161	7
Concentration	—	1	—	35	—	36	2	34
Model risk	—	29	2	27	—	59	37	21
Operational risk	37	29	—	17	—	84	29	55
Investing and funding costs	—	—	—	31	—	31	—	31
Unearned credit spreads	—	—	—	104	—	104	—	104
Future administrative costs	—	14	—	5	—	19	9	9
Other[1,2]	(242)	(212)	(3)	(139)	—	(596)	(216)	(380)
Total adjustment						445		

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

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

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

LEVERAGE DISCLOSURE (CRD IV)

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

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

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

The Group monitors its leverage position through a combination of actual and projected ratios, including those under stressed scenarios, ensuring that the ratio exceeds regulatory minimums and internal risk appetite and reports these on a regular basis to the Group Financial Risk Committee, the Group and Ring-Fenced Banks Asset and Liability Committees, the Group Executive Committee, the Group and Ring-Fenced Banks Risk Committees, the Board Risk Committee and the Board.

Further details on the process by which the Group manages its capital position in respect of both risk-based capital and leverage requirements is discussed on page 20.

LRCom: Leverage ratio common disclosure

	At 31 Dec 2021 Fully loaded £m	At 31 Dec 2020 Fully loaded £m
On-balance sheet exposures (excluding derivatives and SFTs)		
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)[1]	**599,933**	586,602
Asset amounts deducted in determining Tier 1 capital	**(10,323)**	(6,288)
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	**589,610**	580,314
Derivative exposures		
Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	**7,483**	6,462
Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	**10,544**	12,535
Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	**2,906**	1,580
Deductions of receivables assets for cash variation margin provided in derivatives transactions	**(2,823)**	(5,101)
Adjusted effective notional amount of written credit derivatives	**408**	639
Adjusted effective notional offsets and add-on deductions for written credit derivatives	**(141)**	(183)
Total derivative exposures	**18,377**	15,932
Securities financing transaction exposures		
Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	**98,308**	94,650
Netted amounts of cash payables and cash receivables of gross SFT assets	**(28,634)**	(20,328)
Counterparty credit risk exposure for SFT assets	**1,946**	1,713
Total securities financing transaction exposures	**71,620**	76,035
Other off-balance sheet exposures		
Off-balance sheet exposures at gross notional amount	**148,760**	152,273
Adjustments for conversion to credit equivalent amounts	**(91,264)**	(91,391)
Other off-balance sheet exposures	**57,496**	60,882
Capital and total exposure measure		
Tier 1 capital	**38,594**	38,703
Leverage ratio total exposure measure	**737,103**	733,163
Leverage ratio		
Leverage ratio	**5.2 %**	5.3 %

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

A description of the factors that had an impact on the leverage ratio during the year is discussed on page 25.

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

LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

	At 31 Dec 2021 Fully loaded £m	At 31 Dec 2020 Fully loaded £m
Total assets as per published financial statements	**886,525**	871,269
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	**(187,131)**	(172,732)
Adjustment for regular-way purchases and sales of financial assets subject to trade date accounting[1]	**(326)**	(828)
Adjustments for derivative financial instruments	**(3,506)**	(12,133)
Adjustments for securities financing transactions (SFTs)	**1,946**	1,713
Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	**57,496**	60,882
Other adjustments[2]	**(17,901)**	(15,008)
Leverage ratio total exposure measure	**737,103**	733,163

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

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

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

	At 31 Dec 2021 Fully loaded £m	At 31 Dec 2020 Fully loaded £m
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**599,933**	586,602
Trading book exposures	**6,841**	7,831
Banking book exposures, of which:	**593,092**	578,771
Covered bonds	**2,047**	2,395
Exposures treated as sovereigns	**106,500**	96,591
Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	**4,690**	4,699
Institutions	**5,889**	5,299
Secured by mortgages of immovable properties	**336,484**	322,359
Retail exposures	**39,005**	40,969
Corporates	**55,176**	55,127
Exposures in default	**6,373**	7,664
Other exposures (eg equity, securitisations, and other non-credit obligation assets)	**36,928**	43,668

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

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

	2021 General credit exposures[2,3]		2021 Trading book exposures[2]		2021 Securitisation exposures[3]	2021 Own funds requirements					
Breakdown by Country (£m)	Exposure Value for SA	Exposure Value for IRB	Sum of long and short positions of trading book exposures for SA	Value of trading book exposures for internal models	Exposure value for non-trading book	of which: General credit exposures[2,3]	of which: Trading book exposures[2]	of which: Securitisation exposures[3]	Total	2021 Own funds requirement weights	2021 Countercyclical capital buffer rate
Hong Kong	94	14	—	—	—	4	—	—	4	0.03%	1.00%
Norway	6	271	—	—	—	22	—	—	22	0.18%	1.00%
Czech Republic	—	—	—	—	—	—	—	—	—	0.00%	0.50%
Slovakia	—	—	—	—	—	—	—	—	—	0.00%	1.00%
Bulgaria	—	—	—	—	—	—	—	—	—	0.00%	0.50%
Luxembourg	30	2,970	—	—	64	73	—	1	74	0.60%	0.50 %
i) Total[1]	130	3,255	—	—	64	99	—	1	100	0.81%	
United Kingdom	22,157	480,948	2	30	22,192	10,621	8	384	11,013	89.72%	—
United States of America	703	9,834	3	46	4,738	380	12	75	467	3.81%	—
Netherlands	895	10,697	—	—	89	129	—	1	130	1.06%	—
ii) Total[1]	23,755	501,479	5	76	27,019	11,130	20	460	11,610	94.59%	
iii) Rest of the World[1]	3,685	9,506	2	32	1,273	541	9	15	565	4.60%	
Total	27,570	514,240	7	108	28,356	11,770	29	476	12,275	100.00%	

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

	2020 General credit exposures[2,3]		2020 Trading book exposures[2]		2020 Securitisation exposures[3]	2020 Own funds requirements					
Breakdown by Country (£m)	Exposure Value for SA	Exposure Value for IRB	Sum of long and short positions of trading book exposures for SA	Value of trading book exposures for internal models	Exposure value for non-trading book	of which: General credit exposures[2,3]	of which: Trading book exposures[2]	of which: Securitisation exposures[3]	Total	2020 Own funds requirement weights	2020 Countercyclical capital buffer rate
Hong Kong	117	—	—	—	—	4	—	—	4	0.03 %	1.00 %
Norway	6	80	—	—	—	6	—	—	6	0.04 %	1.00 %
Czech Republic	—	—	—	—	—	—	—	—	—	0.00 %	0.50 %
Slovakia	45	—	—	—	—	4	—	—	4	0.03 %	1.00 %
Bulgaria	—	—	—	—	—	—	—	—	—	0.00 %	0.50 %
Luxembourg	10	2,526	—	—	64	54	—	1	55	0.42 %	0.25 %
i) Total[1]	178	2,606	—	—	64	68	—	1	69	0.52 %	
United Kingdom	27,309	479,264	2	32	20,677	11,218	7	338	11,563	90.01 %	—
United States of America	917	7,736	1	23	5,218	317	5	101	424	3.30 %	—
Netherlands	961	10,904	—	—	313	169	—	3	172	1.34 %	—
ii) Total[1]	29,187	497,904	3	55	26,208	11,704	12	442	12,159	94.65 %	
iii) Rest of the World[1]	2,776	9,320	5	80	1,311	577	17	24	617	4.83 %	
Total	32,141	509,830	8	135	27,583	12,349	29	467	12,845	100.00 %	

Amount of institution specific countercyclical capital buffer	**2021**	2020
Total risk exposure amount	**£195,967m**	£202,747m
Institution specific countercyclical buffer rate	**0.005 %**	0.002 %
Institution specific countercyclical buffer requirement	**£10m**	£4m

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

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

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

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

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

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

Appendix 2: Asset encumbrance

Asset Encumbrance

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

	31 Dec 2021							
	Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
		of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
	£m	£m	£m	£m	£m	£m	£m	£m
Encumbered and unencumbered assets								
Total assets	77,788	21,552			624,069	92,121		
Equity instruments	—	—	—	—	2,064	—	2,064	—
Debt securities[1]	13,085	12,186	13,085	12,186	26,760	21,270	26,760	21,270
of which: covered bonds	6	6	6	6	2,112	2,102	2,112	2,102
of which: securitisation	1,225	—	1,225	—	182	—	182	—
of which: issued by general governments	11,275	11,126	11,275	11,126	8,180	8,180	8,180	8,180
of which: issued by financial corporations	1,927	628	1,927	628	16,463	12,299	16,463	12,299
of which: issued by non-financial corporations	14	14	14	14	2,096	790	2,096	790
Other assets[2]	65,102	9,194			596,551	69,277		

	31 Dec 2020							
	Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
		of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA
	£m	£m	£m	£m	£m	£m	£m	£m
Encumbered and unencumbered assets								
Total assets	95,076	22,310			614,750	94,938		
Equity instruments	—	—			1,987	—	1,987	—
Debt securities[1,3]	13,083	11,429	13,083	11,429	31,834	24,636	31,834	24,636
of which: covered bonds	27	27	27	27	2,817	2,808	2,817	2,808
of which: asset backed securities	1,469	—	1,469	—	544	9	544	9
of which: issued by general governments	10,825	10,674	10,825	10,674	11,767	11,767	11,767	11,767
of which: issued by financial corporations	2,350	698	2,350	698	17,177	11,865	17,177	11,865
of which: issued by non-financial corporations	—	—	—	—	2,514	848	2,514	848
Other assets[2]	81,855	10,839			581,929	70,132		

Collateral received and own debt securities issued	2021				2020			
	Fair value of encumbered collateral received or own debt securities issued		Unencumbered: Fair value of collateral received or own debt securities issued available for encumbrance		Fair value of encumbered collateral received or own debt securities issued		Fair value of collateral received or own debt securities available for encumbrance	
		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA
	£m	£m	£m	£m	£m	£m	£m	£m
Collateral received	**51,725**	**51,666**	**56,138**	**55,137**	57,344	57,327	57,943	55,132
Debt securities[1]	**51,725**	**51,666**	**56,138**	**55,137**	57,344	57,327	55,270	55,132
of which: covered bonds	**66**	**66**	**570**	**570**	58	58	931	923
of which: securitisations	**—**	**—**	**510**	**510**	—	—	534	534
of which: issued by general governments	**51,560**	**51,552**	**53,260**	**52,744**	56,826	56,812	53,406	53,406
of which: issued by financial corporations	**346**	**295**	**2,120**	**1,889**	279	230	1,745	1,537
of which: issued by non-financial corporations	**2**	**1**	**159**	**138**	6	4	347	317
Loans and advances other than loans on demand	**—**	**—**	**—**	**—**	—	—	2,903	—
Own covered bonds and asset-backed securities issued and not yet pledged			**6,511**	**—**			8,413	—
Total assets, collateral received and own debt securities issued	**129,748**	**73,628**			151,992	79,695		

Sources of Encumbrance	2021		2020	
	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and securitisations encumbered	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and securitisations encumbered
	£m	£m	£m	£m
Carrying amount of selected financial liabilities[3]	**86,842**	**109,908**	111,237	129,601

1 Includes debt securities accounted for as financial assets at fair value through profit or loss, financial assets at amortised cost and financial assets at fair value through other comprehensive income.
2 All remaining regulatory balance sheet assets, including loans on demand and other loans and advances. The carrying amount of other encumbered assets predominantly reflects other loans and advances.
3 Consists of derivatives, deposits and debt securities issued.

Asset encumbrance

The Board and Group Asset and Liability Committee monitor and manage total balance sheet encumbrance via a number of risk appetite metrics. The amount of encumbered assets has fallen during 2021. The vast majority of assets encumbered are in the UK banking entities, with the Group primarily encumbering mortgages and credit card receivables through the issuance programmes (covered bonds and securitisation) and tradable securities through securities financing activity (repo and stock lending). In some transactions (i.e. covered bonds and securitisations) the Group will encumber assets in excess of the matching liabilities to provide greater security for investors. The Group also separately identifies unencumbered assets which are available to meet any future possible funding requirements, further details are included on pages 174 and 175 of the 2021 Lloyds Banking Group plc Annual Report and Accounts.

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

Appendix 3: Total loss absorbing capacity

The following table is based on the Basel Committee Pillar 3 template "TLAC 1" and presents the composition of the Group's MREL resources as at 31 December 2021.

TLAC1: Total loss absorbing capital composition

		At 31 Dec 2021 Resolution Group £m	At 31 Dec 2020 Resolution Group £m
	Regulatory capital elements of TLAC and adjustments		
1	Common equity tier 1 (CET1) capital	**33,815**	32,822
2	Additional tier 1 (AT1) capital before TLAC adjustments	**5,330**	5,844
3	AT1 ineligible as TLAC as issued out of subsidiaries to third parties[1]	**—**	—
4	Other adjustments[2]	**—**	(60)
5	**AT1 instruments eligible under the TLAC framework**	**5,330**	5,784
6	Tier 2 (T2) capital before TLAC adjustments	**7,189**	8,502
7	Amortised portion of T2 instruments where remaining maturity > 1 year	**713**	194
8	T2 capital ineligible as TLAC as issued out of subsidiaries to third parties[1]	**—**	—
9	Other adjustments[2]	**(163)**	(522)
10	**Tier2 instruments eligible under the TLAC framework**	**7,739**	8,174
11	**TLAC arising from regulatory capital**	**46,884**	46,780
	Non-regulatory capital elements of TLAC		
12	External TLAC instruments issued directly by the bank and subordinated to excluded liabilities	**26,070**	26,946
17	**TLAC arising from non-regulatory capital instruments before adjustments**	**26,070**	26,946
	Non-regulatory capital elements of TLAC: adjustments		
18	**TLAC before deductions**	**72,954**	73,726
22	**TLAC after deductions**	**72,954**	73,726
	Risk-weighted assets (RWA) and leverage exposure measure for TLAC purposes		
23	Total RWA adjusted as permitted under the TLAC regime	**195,967**	202,747
24	UK leverage exposure measure	**664,362**	666,070
	TLAC ratios and buffers		
25	**TLAC (as a percentage of RWA adjusted as permitted under the TLAC regime)**	**37.2%**	36.4%
26	**TLAC (as a percentage of UK leverage exposure)**	**11.0%**	11.1%
27	**CET1 (as a percentage of RWA) available after meeting the resolution group's minimum total capital and TLAC requirements[3]**	**10.7%**	9.6 %
28	Institution-specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus higher loss absorbency requirement, expressed as a percentage of RWA)	**2.5 %**	2.5 %
29	Of which: capital conservation buffer requirement	**2.5 %**	2.5 %
30	Of which: bank specific countercyclical buffer requirement	**0.0 %**	0.0 %
31	Of which: higher loss absorbency requirement[4]	**—**	—

1 Until 1 January 2022, externally issued regulatory capital in operating entities can count towards the Group's MREL resources to the extent that such capital would count towards the Group's consolidated capital resources.

2 Instruments with less than or equal to one year to maturity or governed under non-UK law without a contractual bail-in clause.

3 Defined as CET1 remaining after meeting the total capital requirement i.e Pillar 1 and Pillar 2A CET1 capital requirements

4 Although the Group does not have an Other Systemically Important Institution (OSII) Buffer (previously referred to as the Systemic Risk Buffer), it is required to hold additional CET1 capital to meet its Ring-Fenced Bank's OSII Buffer of 2.0 per cent, which equates to 1.7 per cent of Group risk-weighted assets.

Appendix 3: Total loss absorbing capacity continued

The following disclosures, based on the Basel Committee Pillar 3 template "TLAC 2", provide information on the creditor hierarchy for each material entity within the resolution group, including Lloyds Bank plc, Bank of Scotland plc and Lloyds Bank Corporate Markets plc. The disclosures include information on the nominal value of all MREL eligible instruments and other liabilities to the extent that they are subordinate to or rank pari passu with the most senior MREL eligible claim. Where the instrument is denominated in foreign currency, the nominal value is converted into sterling using the rate as at 31 December 2021. For ordinary shares, this excludes the value of share premium and reserves attributable to ordinary shareholders.

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

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

Appendix 3: Total loss absorbing capacity continued

Bank of Scotland plc

		Creditor ranking					
		£m	£m	£m	£m	£m	£m
		(Most junior)					
1.	Is the resolution entity the creditor/investor?	N	N	N	N	N	
2.	Description of creditor ranking	Ordinary shares (£0.25 each)	Preference shares, preferred securities and AT1 equity instruments	Undated subordinated liabilities	Dated subordinated liabilities	Senior non-preferred liabilities	Total
3.	Total capital and liabilities net of credit risk mitigation	5,847	2,218	112	1,500	3,381	13,058
5.	Total capital and liabilities less excluded liabilities	5,847	2,218	112	1,500	3,381	13,058
6.	Subset of row 5 that are eligible as TLAC	5,847	2,218	112	1,500	3,381	13,058
7.	Subset of row 6 with 1 year ≤ residual maturity < 2 years	—	—	—	—	1,181	1,181
8.	Subset of row 6 with 2 years ≤ residual maturity < 5 years	—	—	—	—	2,200	2,200
9.	Subset of row 6 with 5 years ≤ residual maturity < 10 years	—	—	—	1,500	—	1,500
11.	Subset of row 6 that are perpetual securities	5,847	2,218	112	—	—	8,177

1 Undated subordinated liabilities issued by Bank of Scotland plc, and held by HBOS plc, were redeemed during 2021.

Lloyds Bank Corporate Markets plc

		Creditor ranking				
		£m	£m	£m	£m	£m
		(Most junior)				
1.	Is the resolution entity the creditor/investor?	Y	Y	Y	Y	
2.	Description of creditor ranking	Ordinary shares (£1.00 each)	AT1 equity instruments	Subordinated liabilities	Senior non-preferred liabilities	Total
3.	Total capital and liabilities net of credit risk mitigation	120	767	683	3,109	4,678
5.	Total capital and liabilities less excluded liabilities	120	767	683	3,109	4,678
6.	Subset of row 5 that are eligible as TLAC	120	767	683	1,317	2,887
8.	Subset of row 6 with 2 years ≤ residual maturity < 5 years	—	—	—	1,317	1,317
9.	Subset of row 6 with 5 years ≤ residual maturity < 10 years	—	—	557	—	557
10.	Subset of row 6 with residual maturity ≥ 10 years, but excluding perpetual securities	—	—	126	—	126
11.	Subset of row 6 that are perpetual securities	120	767	—	—	887

Appendix 3: Total loss absorbing capacity continued

Lloyds Bank plc	31 Dec 2020							
	Creditor ranking							
	£m	£m		£m	£m		£m	£m
	(Most junior)							
1. Is the resolution entity the creditor/investor?	Y	Y	N	N	Y	N	Y	
2. Description of creditor ranking	Ordinary shares (£1.00 each)	Preference shares, preferred securities and AT1 equity instruments		Undated subordinated liabilities	Dated subordinated liabilities		Senior non-preferred liabilities	Total
3. Total capital and liabilities net of credit risk mitigation	1,574	5,919	1,500	411	5,053	842	12,484	27,783
5. Total capital and liabilities less excluded liabilities	1,574	5,919	1,500	411	5,053	842	12,484	27,783
6. Subset of row 5 that are eligible as TLAC	1,574	5,919	1,500	411	5,053	842	12,484	27,783
8. Subset of row 6 with 2 years ≤ residual maturity < 5 years	—	—	—	—	—	842	11,911	12,753
9. Subset of row 6 with 5 years ≤ residual maturity < 10 years	—	—	—	—	1,969	—	532	2,501
10. Subset of row 6 with residual maturity ≥ 10 years, but excluding perpetual securities	—	—	—	—	3,083	—	41	3,124
11. Subset of row 6 that are perpetual securities	1,574	5,919	1,500	411	—	—	—	9,404

Bank of Scotland plc	Creditor ranking					
	£m	£m	£m	£m	£m	£m
	(Most junior)					
1. Is the resolution entity the creditor/investor?	N	N	N	N	N	
2. Description of creditor ranking	Ordinary shares (£0.25 each)	Preference shares, preferred securities and AT1 equity instruments	Undated subordinated liabilities	Dated subordinated liabilities	Senior non-preferred liabilities	Senior non-preferred liabilities
3. Total capital and liabilities net of credit risk mitigation	5,847	2,218	4,735	2,183	1,181	16,164
5. Total capital and liabilities less excluded liabilities	5,847	2,218	4,735	2,183	1,181	16,164
6. Subset of row 5 that are eligible as TLAC	5,847	2,218	890	1,000	1,181	11,136
8. Subset of row 6 with 2 years ≤ residual maturity < 5 years	—	—	—	—	1,181	1,181
10. Subset of row 6 with residual maturity ≥ 10 years, but excluding perpetual securities	—	—	—	1,000	—	1,000
11. Subset of row 6 that are perpetual securities	5,847	2,218	890	—	—	8,955

Appendix 3: Total loss absorbing capacity continued

	Lloyds Bank Corporate Markets plc	Creditor ranking				
		£m	£m	£m	£m	£m
		(Most junior)				
1.	Is the resolution entity the creditor/investor?	Y	Y	Y	Y	
2.	Description of creditor ranking	Ordinary shares (£1.00 each)	AT1 equity instruments	Subordinated liabilities	Senior non-preferred liabilities	Total
3.	Total capital and liabilities net of credit risk mitigation	120	775	685	3,636	5,216
5.	Total capital and liabilities less excluded liabilities	120	775	685	3,636	5,216
6.	Subset of row 5 that are eligible as TLAC	120	775	685	854	2,434
8.	Subset of row 6 with 2 years ≤ residual maturity < 5 years	—	—	—	854	854
9.	Subset of row 6 with 5 years ≤ residual maturity < 10 years	—	—	550	—	550
10.	Subset of row 6 with residual maturity ≥ 10 years, but excluding perpetual securities	—	—	135	—	135
11.	Subset of row 6 that are perpetual securities	120	775	—	—	895

Appendix 3: Total loss absorbing capacity continued

The following disclosure, based on the Basel Committee Pillar 3 template "TLAC 3", provides information on the creditor hierarchy for the resolution entity (Lloyds Banking Group plc).

The disclosure includes information on the nominal value of all MREL eligible instruments and other liabilities to the extent that they are subordinate to or rank pari passu with the most senior MREL eligible claim. Where the instrument is denominated in foreign currency, the nominal value is converted into sterling using the rate as at 31 December 2021.

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

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

	Lloyds Banking Group plc	31 Dec 2021					
		Creditor ranking					
		£m	£m	£m	£m	£m	£m
		(Most junior)					
1.	Description of creditor ranking	Ordinary shares (£0.10 each)	Preference shares and AT1 equity instruments	Undated subordinated liabilities	Dated subordinated liabilities	Senior liabilities	Total
2.	Total capital and liabilities net of credit risk mitigation	7,102	6,509	10	8,155	26,930	48,706
3.	Subset of row 2 that are excluded liabilities	—	—	—	—	202	202
4.	Total capital and liabilities less excluded liabilities	7,102	6,509	10	8,155	26,728	48,504
5.	Subset of row 4 that are potentially eligible as TLAC	7,102	6,509	10	8,155	25,614	47,390
6.	Subset of row 5 with 1 year ≤ residual maturity < 2 years	—	—	—	—	7,056	7,056
7.	Subset of row 5 with 2 years ≤ residual maturity < 5 years	—	—	—	2,860	11,949	14,809
8.	Subset of row 5 with 5 years ≤ residual maturity < 10 years	—	—	—	1,390	6,508	7,897
9.	Subset of row 5 with residual maturity ≥ 10 years, but excluding perpetual securities	—	—	—	3,906	102	4,007
10	Subset of row 5 that are perpetual securities	7,102	6,509	10	—	—	13,621

	Lloyds Banking Group plc	31 Dec 2020					
		Creditor ranking					
		£m	£m	£m	£m	£m	£m
		(Most junior)					
1.	Description of creditor ranking	Ordinary shares (£0.10 each)	Preference shares and AT1 equity instruments	Undated subordinated liabilities	Dated subordinated liabilities	Senior liabilities	Total
2.	Total capital and liabilities net of credit risk mitigation	7,084	7,118	10	6,790	28,253	49,255
3.	Subset of row 2 that are excluded liabilities	—	—	—	—	524	524
4.	Total capital and liabilities less excluded liabilities	7,084	7,118	10	6,790	27,729	48,731
5.	Subset of row 4 that are potentially eligible as TLAC	7,084	7,118	10	6,790	25,757	46,759
6.	Subset of row 5 with 1 year ≤ residual maturity < 2 years	—	—	—	—	1,100	1,100
7.	Subset of row 5 with 2 years ≤ residual maturity < 5 years	—	—	—	1,725	15,759	17,484
8.	Subset of row 5 with 5 years ≤ residual maturity < 10 years	—	—	—	2,052	8,786	10,838
9.	Subset of row 5 with residual maturity ≥ 10 years, but excluding perpetual securities	—	—	—	3,012	112	3,124
10	Subset of row 5 that are perpetual securities	7,084	7,118	10	—	—	14,212

Appendix 4: Differences in the accounting and regulatory scopes of consolidation

LI3: Outline of the differences between the accounting and regulatory scopes of consolidation[1,2]

		Method of regulatory consolidation				
Name of the entity	Method of accounting consolidation	Full consolidation	Proportional consolidation	Neither consolidation nor deducted	Deducted	Description of entity
	a	b	c	d	e	f
Associates[3]						
MOTABILITY OPERATIONS GROUP PLC	Equity				x	Rental and leasing activities
THOUGHT MACHINE GROUP LIMITED	Equity				x	Business and domestic software development
SCOTTISH WIDOWS SCHRODER PERSONAL WEALTH LIMITED	Equity		x			Financial management
SCOTTISH WIDOWS SCHRODER PERSONAL WEALTH (ACD) LIMITED	Equity		x			Financial intermediation not elsewhere classified
SCOTTISH WIDOWS SCHRODER WEALTH HOLDINGS LIMITED	Equity		x			Activities of financial services holding companies
Securitisation SPEs[4]						
CANCARA ASSET SECURITISATION LTD	Full Consolidation			x		Special Purpose Entity
CHELTENHAM SECURITIES 2017 LIMITED	Full Consolidation			x		Special Purpose Entity
FONTWELL II SECURITIES 2020 DAC	Full Consolidation			x		Special Purpose Entity
FONTWELL SECURITIES 2016 LIMITED	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 1) LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 3) LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 10) LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 11) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 12) LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 13) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 14) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 15) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 16) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 19) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 20) LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 21) LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 22) LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 23) LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 24) LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 25) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 26) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 27) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 28) LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 29) LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 30) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 31) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 32) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 33) UK LTD	Full Consolidation			x		Special Purpose Entity

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation: Full consolidation	Proportional consolidation	Neither consolidation nor deducted	Deducted	Description of entity
GRESHAM RECEIVABLES (NO. 34) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 35) LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 36) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 37) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 38) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 39) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 40) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 41) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 44) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 45) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 46) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 47) UK LIMITED	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 48) UK LIMITED	Full Consolidation			x		Special Purpose Entity
HOUSING ASSOCIATION RISK TRANSFER 2019 DAC	Full Consolidation			x		Special Purpose Entity
SALISBURY II SECURITIES 2016 LTD	Full Consolidation			x		Special Purpose Entity
SALISBURY II-A SECURITIES 2017 LIMITED	Full Consolidation			x		Special Purpose Entity
SALISBURY III Securities 2019 DAC	Full Consolidation			x		Special Purpose Entity
SALISBURY SECURITIES 2015 LTD	Full Consolidation			x		Special Purpose Entity
WETHERBY SECURITIES 2017 LIMITED	Full Consolidation			x		Special Purpose Entity
WETHERBY II SECURITIES 2018 DAC	Full Consolidation			x		Special Purpose Entity
WETHERBY III SECURITIES 2019 DAC	Full Consolidation			x		Special Purpose Entity
Insurance subsidiaries[5]						
SCOTTISH WIDOWS GROUP LTD	Full Consolidation				x	Activities of head offices; management consultancy activities
SCOTTISH WIDOWS LTD	Full Consolidation				x	Insurance, reinsurance and pension funding, except compulsory social security
CLERICAL MEDICAL INTERNATIONAL HOLDINGS B.V.	Full Consolidation				x	Insurance, reinsurance and pension funding, except compulsory social security
CLERICAL MEDICAL NON STERLING PROPERTY COMPANY SARL	Full Consolidation				x	Financial service activities, except insurance and pension funding
CM VENTURE INVESTMENTS LTD	Full Consolidation				x	Financial service activities, except insurance and pension funding
DALKEITH CORPORATION	Full Consolidation				x	Financial service activities, except insurance and pension funding
FRANCE INDUSTRIAL PREMISES HOLDING COMPANY	Full Consolidation				x	Financial service activities, except insurance and pension funding
HALIFAX GENERAL INSURANCE SERVICES LTD	Full Consolidation				x	Financial service activities, except insurance and pension funding
HALIFAX LIFE LTD	Full Consolidation				x	Insurance, reinsurance and pension funding, except compulsory social security
HBOS INTERNATIONAL FINANCIAL SERVICES HOLDINGS LTD	Full Consolidation				x	Activities of head offices; management consultancy activities
LLOYDS BANK GENERAL INSURANCE HOLDINGS LTD	Full Consolidation				x	Activities of head offices; management consultancy activities
LLOYDS BANK GENERAL INSURANCE LTD	Full Consolidation				x	Insurance, reinsurance and pension funding, except compulsory social security

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Description of entity
		Full consolidation	Proportional consolidation	Neither consolidation nor deducted	Deducted	
LLOYDS BANK INSURANCE SERVICES LTD	Full Consolidation				x	Insurance, reinsurance and pension funding, except compulsory social security
PENSIONS MANAGEMENT (S.W.F.) LTD	Full Consolidation				x	Insurance, reinsurance and pension funding, except compulsory social security
SAINT MICHEL HOLDING COMPANY NO1	Full Consolidation				x	Financial service activities, except insurance and pension funding
SAINT MICHEL INVESTMENT PROPERTY	Full Consolidation				x	Financial service activities, except insurance and pension funding
SAINT WITZ 2 HOLDING COMPANY NO1	Full Consolidation				x	Financial service activities, except insurance and pension funding
SAINT WITZ 2 INVESTMENT PROPERTY	Full Consolidation				x	Financial service activities, except insurance and pension funding
SCOTTISH WIDOWS ADMINISTRATION SERVICES (NOMINEES) LTD	Full Consolidation				x	Non-Trading Company
SCOTTISH WIDOWS AUTO ENROLMENT SERVICES LTD	Full Consolidation				x	Office administrative, office support and other business support activities
SCOTTISH WIDOWS EUROPE	Full Consolidation				x	Insurance, reinsurance and pension funding, except compulsory social security
SCOTTISH WIDOWS FINANCIAL SERVICES HOLDINGS	Full Consolidation				x	Activities of head offices; management consultancy activities
SCOTTISH WIDOWS' FUND AND LIFE ASSURANCE SOCIETY	Full Consolidation				x	Insurance, reinsurance and pension funding, except compulsory social security
SCOTTISH WIDOWS INDUSTRIAL PROPERTIES EUROPE B.V.	Full Consolidation				x	Real estate activities
SCOTTISH WIDOWS TRUSTEES LTD	Full Consolidation				x	Office administrative, office support and other business support activities
SCOTTISH WIDOWS PENSION TRUSTEES LTD	Full Consolidation				x	Office administrative, office support and other business support activities
SCOTTISH WIDOWS UNIT FUNDS LTD	Full Consolidation				x	Insurance, reinsurance and pension funding, except compulsory social security
ST ANDREW'S GROUP LTD	Full Consolidation				x	Financial service activities, except insurance and pension funding
ST ANDREW'S INSURANCE PLC	Full Consolidation				x	Insurance, reinsurance and pension funding, except compulsory social security
ST ANDREW'S LIFE ASSURANCE PLC	Full Consolidation				x	Insurance, reinsurance and pension funding, except compulsory social security
SW FUNDING PLC	Full Consolidation				x	Insurance, reinsurance and pension funding, except compulsory social security
SW NO.1 LTD	Full Consolidation				x	Financial service activities, except insurance and pension funding
WAVERLEY - FUND II INVESTOR LLC	Full Consolidation				x	Financial service activities, except insurance and pension funding
WAVERLEY - FUND III INVESTOR LLC	Full Consolidation				x	Financial service activities, except insurance and pension funding
CELSIUS EUROPEAN LUX 2 SARL	Full Consolidation				x	Special Purpose Entity
SARL HIRAM	Full Consolidation				x	Special Purpose Entity
SAS COMPAGNIE FONCIERE DE FRANCE	Full Consolidation				x	Special Purpose Entity
SCI ASTORIA INVEST	Full Consolidation				x	Special Purpose Entity
SCI DE L'HORLOGE	Full Consolidation				x	Special Purpose Entity
SCI RAMBUTEAU CFF	Full Consolidation				x	Special Purpose Entity
THISTLE INVESTMENTS (AMC) LTD	Full Consolidation				x	Special Purpose Entity
THISTLE INVESTMENTS (ERM) LTD	Full Consolidation				x	Special Purpose Entity

1 The regulatory treatment of all entities listed as subsidiaries in the 2021 Lloyds Banking Group plc Annual Report and Accounts, pages 337 to 338, follows the accounting treatment unless otherwise stated in the table above.

2 Collective Investment Vehicles, as listed in the 2021 Lloyds Banking Group plc Annual Report and Accounts, pages 341 to 342 are excluded from the regulatory scope of consolidation.

3 Associated undertakings, as listed in the 2021 Lloyds Banking Group plc Annual Report and Accounts, pages 339 to 340, are, unless otherwise stated in the list above, predominantly a mix of private equity investments, to which the venture capital exemption applies, and underlying investments through the Housing Growth Partnership (HGP). The private equity investments are accounted for at FVTPL for accounting purposes and are risk weighted for regulatory purposes. The HGP investments are equity accounted and are also risk weighted for regulatory purposes.

4 The Group's capital-efficient securitisations and conduit vehicles are fully consolidated for accounting purposes. The underlying assets of the capital-efficient securitisations have been de-recognised from the regulatory balance sheet and replaced with the retained securitisation positions, risk weighted in line with the securitisation framework. The conduit vehicles are deconsolidated for regulatory purposes and the corresponding liquidity lines are risk-weighted, as further described in the Securitisation section, pages 89 to 99.

5 All Insurance subsidiaries, other than those identified as investment firms or asset management companies, are excluded from the regulatory scope of consolidation and are classified as 'deducted', as they form part of the Insurance Group headed by Scottish Widows Group Limited. The debt and equity investments held by the Group in Scottish Widows Group Limited are deducted from capital, subject to thresholds, as described on page 125, Note 10.

Appendix 5: EBA and BCBS adopted templates

List of EBA and BCBS templates disclosed in Pillar 3 Report

Abbreviation	Template name
KM1	Key Metrics
KM2	Key Metrics - TLAC Requirements
LI1	Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories
LI2	Main sources of differences between regulatory exposure amounts and carrying values in financial statements
OV1	Overview of risk-weighted assets
CR8	Risk-weighted assets flow statements of credit risk exposures
CR3	CRM techniques – Overview
CR9	Backtesting of PD per portfolio
CRB-B	Total and average net amount of exposures
CR6	IRB – Credit risk exposures by portfolio and PD range
CR10	IRB - specialised lending and equities
CR4	Standardised approach – Credit risk exposure and Credit Mitigation (CRM) effects
CR5	Standardised approach - Exposure by asset class
CRB-C	Geographical breakdown of exposures
CRB-D	Concentration of exposures by industry
CRB-E	Maturity of exposures
CR1-A	Credit quality of exposures by exposure class and instrument
CR1-B	Credit quality of exposures by industry types
CR1-C	Credit quality of exposures by geography
CQ1	Credit quality of forborne exposures
CQ3	Credit quality of performing and non-performing exposures by past due days
CR1	Performing and non-performing exposures and related provisions
COVID1	Information on loans and advances subject to legislative and non-legislative moratoria
COVID2	Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria
COVID3	Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to COVID-19 crisis
SEC1	Securitisation exposures in the non-trading book
SEC3	Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as originator or as sponsor
SEC5	Exposures securitised by the institution - Exposures in default and specific credit risk adjustments
SEC4	Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as investor
CCR1	Analysis of CCR exposure by approach
CCR8	Exposures to CCPs
CCR2	Credit Valuation Adjustment (CVA) capital charge
CCR4	IRB – CCR exposure by portfolio and PD scale
CCR3	Standardised approach – CCR exposures by regulatory portfolio and risk
CCR5-A	Impact of netting and collateral held on exposure values
CCR5-B	Composition of collateral for exposures to CCR
CCR6	Credit derivatives exposures
MR4	Comparison of VaR estimates with gains/losses
MR3	IMA values for trading portfolios
MR2-A	Market risk under the Internal Models Approach
MR2-B	Risk-weighted assets flow statements of market risk exposures under an IMA
MR1	Market risk under standardised approach
LIQ1	Liquidity coverage ratio
CC1	Composition of regulatory own funds
PV1	Prudential valuation adjustment
TLAC1	Total loss absorbing capital composition
TLAC2	Material sub-group entity - creditor ranking at legal entity level
TLAC3	Resolution entity – creditor ranking at legal entity level
LI3	Outline of the differences in the scopes of consolidation (entity by entity)

Appendix 5: EBA and BCBS adopted templates

List of excluded EBA and BCBS templates

Abbreviation	Template name	Reasons for excluding
INS1	Non-deducted participations in insurance undertakings	Not applicable to the Group
CQ2	Quality of forbearance	Threshold for disclosure not met
CQ4	Quality of non-performing exposures by geography	Threshold for disclosure not met
CQ5	Credit quality of loans and advances by industry	Threshold for disclosure not met
CQ6	Collateral valuation – loans and advances	Threshold for disclosure not met
CR2	Changes in the stock of non-performing loans and advances	Threshold for disclosure not met
CQ7	Collateral obtained by taking possession and execution processes	No collateral taken into possession is recognised on the balance sheet
CQ8	Collateral obtained by taking possession and execution processes – vintage breakdown	Threshold for disclosure not met
CR2-A	Changes in the stock of general and specific credit risk adjustments	Equivalent disclosures are provided in the Lloyds Banking Group plc ARA
CR2-B	Changes in the stock of defaulted and impaired loans and debt securities	Equivalent disclosures are provided in the Lloyds Banking Group plc ARA
CR7	IRB – Effect on the RWAs of credit derivatives used as CRM techniques	Excluded on materiality basis
CCR7	RWA flow statements of CCR exposures under the IMM	Not applicable to the Group
CC2	Reconciliation of regulatory capital	Equivalent disclosure provided in the Own Funds Reconciliation (pages 123 to 125)
SEC2	Securitisation exposures in the trading book	Excluded on materiality basis
IRRBB1	Quantitative information on IRRBB	Equivalent disclosures are provided in the Lloyds Banking Group plc ARA
REM1	Remuneration awarded during the financial year	Equivalent disclosures are provided in the Lloyds Banking Group plc ARA
REM2	Special payments	Equivalent disclosures are provided in the Lloyds Banking Group plc ARA
REM3	Deferred remuneration	Equivalent disclosures are provided in the Lloyds Banking Group plc ARA

Appendix 6: CRR mapping

CRR ref	High-level summary	Pillar 3	ARA	Compliance reference
Scope of disclosure requirements				
431 (1)	Requirement to publish Pillar 3 disclosures.	x		Lloyds Banking Group publishes Pillar 3 disclosures.
431 (2)	Firms with permission to use specific operational risk methodologies must disclose operational risk information.		x	Pages 189 to 191 (Operational Risk) The Group's operational risk systems, mitigation and approach are disclosed in the 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.	x		Page 8 (Disclosure Policy) Lloyds Banking Group has a Pillar 3 Disclosure Policy. Page 13 (The Group's Approach to Risk)
431 (4)	Explanation of ratings decision upon request.			Not applicable
Non-material, proprietary or confidential information				
432 (1)	Institutions may omit information that is not material if certain conditions are respected.	x		Page 8 (Basis of Preparation) Limited disclosure on Trading Book securitisations are provided on the basis of 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.	x		Page 8 (Frequency, media and location)
Means of disclosure				
434 (1)	To include all disclosures in one appropriate medium, or provide clear cross-references.	x		Page 8 (Frequency, media and location) 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.	x		Any cross-references to accounting or other disclosures are clearly signposted in this document where appropriate.
Risk management objectives and policies				
435 (1)	Disclose information on:			
435 (1) (a)	The strategies and processes to manage risks.		x	Pages 135 to 193 (Risk Management section)
435 (1) (b)	Structure and organisation of risk management function.		x	Pages 138 to 140 (Risk Governance)
435 (1) (c)	Risk reporting and measurement systems.		x	Pages 135 to 193 (Risk Management section)
435 (1) (d)	Hedging and mitigating risk – policies and processes.		x	Pages 135 to 193 (Risk Management section)
435 (1) (e)	A declaration of adequacy of risk management arrangements approved by the Board.		x	Page 86 (Board Responsibility).
435 (1) (f)	Concise risk statement approved by the Board.		x	Page 37 to 42 (Risk overview)

Appendix 6: CRR mapping continued

CRR ref	High-level summary	Pillar 3	ARA	Compliance reference
435 (2)	Information on governance arrangements, including information on Board composition and recruitment and risk committees.		x	Pages 71 to 100 (Corporate Governance Report) Pages 138 to 140 (Risk Governance)
435 (2) (a)	Number of directorships held by Board members.		x	Pages 72 to 74 (Our Board)
435 (2) (b)	Recruitment policy for selection of Board members, their actual knowledge, skills and expertise.		x	Pages72 to 74 and 82 to 83 (Our Board) Page 87 to 89 (Nomination and Governance Committee report)
435 (2) (c)	Policy on diversity of Board membership and results against targets.		x	Page 89 (The Board diversity policy)
435 (2) (d)	Disclosure of whether a dedicated risk committee is in place, and number of meeting in the year.		x	Page 77 (Board and Committee composition and attendance at meetings in 2021) and pages 94 to 99 (Board Risk Committee Report)
435 (2) (e)	Description of information flow on risk to Board.		x	Pages 138 to 140 (Risk Governance)
Scope of application				
436 (a)	Name of institution.	x		Page 7 (Introduction)
436 (b)	Difference in basis of consolidation for accounting and prudential purposes, describing entities that are:			Page 9 (Scope of Consolidation)
436 (b) (i) 436 (b) (ii) 436(b) (iii) 436(b) (iv)	Fully consolidated; Proportionally consolidated; Deducted from own funds; Neither consolidated nor deducted	x		Details of the scope of consolidation applied to Lloyds Banking Group are outlined in the diagram referred to on page 9. Pages 139 to 142: Appendix 4: Differences in the accounting and regulatory scopes of consolidation.
436 (c)	Impediments to transfer of own funds between parent and subsidiaries.			Not applicable
436 (d)	Capital shortfalls in any subsidiaries outside the scope of consolidation.		x	Page 176 to 196 (Capital Risk) The Group actively manages the capital of its subsidiaries to ensure these remain appropriately capitalised.
436 (e)	Making use of articles on derogations from a) prudential requirements or b) liquidity requirements for individual subsidiaries/ entities.	x		Page 9 (Scope of Consolidation) LBG makes use of these provisions according to its waiver from the PRA.
Own funds				
437 (1)	Disclose the following information regarding own funds:			
437 (1) (a)	a full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and filters and deductions applied pursuant to Articles 32 to 35, 36, 56, 66 and 79 to own funds of the institution and the balance sheet in the audited financial statements of the institution;	x		Pages 123 to 125 (Own funds reconciliation)
437 (1) (b)	a description of the main features of the Common Equity Tier 1 and Additional Tier 1 instruments and Tier 2 instruments issued by the institution;			Separately disclosed on Group website http://www.lloydsbankinggroup.com/ investors/financial-downloads.
437 (1) (c)	the full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments;			Separately disclosed on Group website http://www.lloydsbankinggroup.com/ investors/financial-downloads.

Appendix 6: CRR mapping continued

CRR ref	High-level summary	Pillar 3	ARA	Compliance reference
437 (1) (d)	disclosure of the nature and amounts of the following:	x		Pages 123 to 125 (Own funds reconciliation)
437 (1) (d) (i)	each prudential filter applied pursuant to Articles 32 to 35.	x		
437 (1) (d) (ii)	each deduction made pursuant to Articles 36, 56 and 66;	x		
437 (1) (d) (iii)	items not deducted in accordance with	x		
	Articles 47, 48, 56, 66 and 79;	x		
437 (1) (e)	a description of all restrictions applied to the calculation of own funds in accordance with this Regulation and the instruments, prudential filters and deductions to which those restrictions apply;	x		
437 (1) (f)	where institutions disclose capital ratios calculated using elements of own funds determined on a different basis.			Explanations are provided where ratios are disclosed on a pro forma basis
Capital requirements				
438 (a)	Summary of institution's approach to assessing adequacy of capital levels.	x		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.	x		Page 48 (Total and average net amount of exposures – CRB-B)
438 (d)	Capital requirements for each Internal Ratings Based Approach credit risk exposure class.	x		
438 (e)	Capital requirements for market risk or settlement risk.	x		Page 111 (Market risk own funds requirements)
438 (f)	Capital requirements for operational risk, separately for the Basic Indicator Approach, the Standardised Approach, and the Advanced Measurement Approaches as applicable.	x		Page 28 (Overview of risk-weighted assets - OV1)
438 (endnote)	Requirement to disclose specialised lending exposures and equity exposures in the banking book falling under the simple risk weight approach.	x		Page 61 (IRB – Specialised lending (CR10)) and Page 62 (Equity exposures subject to the simple risk weight method (CR10))
Exposure to counterparty credit risk (CCR)				
439 (a)	Description of process to assign internal capital and credit limits to CCR exposures.	x		Page 100 (Internal capital and credit limits)
439 (b)	Discussion of policies for securing collateral and establishing credit reserves.	x		Page 100 (Securing collateral and establishing credit reserves)
439 (c)	Discussion of management of wrong-way risk exposures.	x		Page 100 (Correlation (Wrong Way) Risk)
439 (d)	Discussion of the impact of collateral to be provided in the event of a ratings downgrade.	x		Page 100 (Collateral requirements in the event of a downgrade in credit rating)
439 (e)	Derivation of net derivative credit exposure.	x		Page 108 (Net derivatives credit exposure, including: Impact of netting and collateral held on exposure value (CCR5-A))
439 (f)	Exposure values for mark-to-market, original exposure, standardised and internal model methods.	x		Page 102 (Analysis of CCR exposure by approach (CCR1))

Appendix 6: CRR mapping continued

CRR ref	High-level summary	Pillar 3	ARA	Compliance reference
439 (g)	Notional value of credit derivative hedges and current credit exposure by type of exposure.	x		Page 109 (Notional value of credit derivative transactions, including Table 69: Credit derivatives exposures (CCR6))
439 (h)	Notional amounts of credit derivative transactions.	x		
439 (i)	Estimate of alpha, if applicable.			Not applicable
Capital buffers				
440 (1) (a)	Geographical distribution of relevant credit exposures for calculation of countercyclical capital buffer.	x		Page 129 (Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer)
440 (1) (b)	Amount of the institution specific countercyclical capital buffer.	x		
Indicators of global systemic importance				
441 (1)	Disclosure of the indicators of global systemic importance.			The Group's G-SIB metrics are separately disclosed on the Group's website. http://www.lloydsbankinggroup.com/investors/financial-downloads.
Credit risk adjustments				
442 (a)	Disclosure of bank's definitions of past due and impaired.	x	x	Pillar 3: Page 81 (Analysis of performing, non-performing and forborne exposures) ARA: Pages 218 (Note 2 (H): Accounting policies, Impairment of Financial assets)
442 (b)	Approaches for calculating specific and general credit risk adjustments	x	x	Pillar 3: Page 78 (Comparison of expected losses to specific credit risk adjustments) ARA: Page 223 to 230 (Note 3: Critical accounting estimates, Allowance for expected credit losses)
442 (c)	Disclosure of pre-CRM EAD by exposure class.	x		Page 48 (Total and average net amount of exposures (CRB-B))
442 (d)	Disclosure of pre-CRM EAD by geography and exposure class.	x		Page 66 (Geographical breakdown of exposures (CRB-C))
442 (e)	Disclosure of pre-CRM EAD by industry and exposure class.	x		Page 70 (Concentration of exposures by industry (CRB-D))
442 (f)	Disclosure of pre-CRM EAD by residual maturity and exposure class.	x		Page 72 (Maturity of exposures (CRB-E))
442 (g) (i), (ii), (iii)	Breakdown of impaired, past due, specific and general credit risk adjustments, and impairment charges for the period, by industry.	x		Page 76 (Credit quality of exposures by industry types (CR1-B))
442 (h)	Impaired, past due exposures, by geographical area, and amounts of specific and general impairment for each geography.	x		Page 77 (Credit quality of exposures by geography (CR1-C)) Page 80 (Analysis of performing, non-performing and forborne exposures)
442 (i), (ii), (iii), (iv), (v)	Reconciliation of changes in specific and general credit risk adjustments for impaired exposures.		x	Page 252 to 256 (Note 18: Financial assets at amortised cost)
442 (endnote)	Specific credit risk adjustments recorded to income statement are disclosed separately	x		Page 76 (Credit quality of exposures by industry types (CR1-B))
Unencumbered assets				
443	Disclosures on unencumbered assets.	x		Page 131 (Appendix 2: Asset encumbrance)

Appendix 6: CRR mapping continued

CRR ref	High-level summary	Pillar 3	ARA	Compliance reference
Use of ECAIs				
444 (a)	Names of the ECAIs used in the calculation of Standardised approach risk-weighted assets and reasons for any changes.	x		Page 15: Capital framework: Standardised approach
444 (b)	Exposure classes associated with each ECAI.	x		Page 64 (Standardised approach – exposures by asset class (CR5))
444 (c)	Description of the process used to transfer credit assessments to non-trading book items.			Not applicable
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.	x		Page 63 (Standardised approach – credit risk exposures and Credit Risk Mitigation (CRM) effects (CR4)) Page 64 (Standardised approach – exposures by asset class (CR5))
Exposure to market risk				
445	Disclosure of position risk, large exposures exceeding limits, FX, settlement and commodities risk.	x		Pages 116 (Market risk under standardised approach (MR1))
Operational risk				
446	Scope of approaches used to calculate operational risk.	x		Page 16 (Pillar 1 Capital Requirements - operational risk)
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.	x		Page 62 (Non-trading book exposures in equities) The appropriate cross referencing to the ARA is outlined in this section.
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.	x		Page 62 (Analysis of non-trading book exposures in equities)
447 (c)	The types, nature and amounts of exchange-traded exposures, private equity exposures in sufficiently diversified portfolios, and other exposures.	x		Page 62 (Analysis of equity exposures) including: Equity exposures subject to the simple risk weight method (CR10)
447 (d)	Realised gains or losses arising from sales and liquidations in the period.	x		Page 62 (Analysis of non-trading book exposures in equities)
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.	x		
Exposure to interest rate risk on positions not included in the trading book				
448 (a)	Nature of the interest rate risk and the key assumptions, and frequency of measurement of the interest rate risk.		x	Pages 145 to 147 (Banking activities)
448 (b)	Variation in earnings, economic value or other relevant measure used by the bank for upward and downward rate shocks according to the banks method for measuring the interest rate risk, broken down by currency.		x	
Exposure to securitisation positions				
449 (a)	Objectives in relation to securitisation activity.	x		Page 89 (Banking book securitisation strategy and roles), (Trading book securitisation strategy and roles)

Appendix 6: CRR mapping continued

CRR ref	High-level summary	Pillar 3	ARA	Compliance reference
449 (b)	Nature of other risks in securitised assets, including liquidity.	x		Page 90 (Risks inherent in banking book securitised assets)
449 (c)	Risks in re-securitisation activity stemming from seniority of underlying securitisations and ultimate underlying assets.			Not applicable
449 (d)	The roles played by the institution in the securitisation process.	x		Page 89 (Banking book securitisation strategy and roles), (Trading book securitisation strategy and roles)
449 (e)	Indication of the extent of involvement in roles.	x		Page 95 (Securitisation exposures in the non-trading book and associated regulatory capital requirements – institution acting as originator or as sponsor (SEC3)) Page 99 (Securitisation exposures in the non-trading book and associated regulatory capital requirements – institution acting as investor (SEC4))
449 (f)	Processes in place to monitor changes in credit and market risks of securitisation exposures, and how the processes differ for re-securitisation exposures.	x		Page 90 (Monitoring changes in the credit risk of securitised exposures and Monitoring changes in the credit risk of ABS portfolios)
449 (g)	Description of the institution's policies with respect to hedging and unfunded protection, and identification of material hedge counterparties.	x		Page 94 (Use of financial guarantees)
449 (h)	Approaches to the calculation of risk-weighted assets for securitisations mapped to types of exposures.	x		Page 91 (Securitisation exposures in the non-trading book (SEC1))
449 (i)	Types of SSPEs used to securitise third-party exposures as a sponsor.	x		Page 89 (Banking book securitisation strategy and roles)
449 (j) (i-vi)	Summary of accounting policies for securitisations.	x		Page 93 (Accounting treatment)
449 (k)	Names of ECAIs used for securitisations and type.	x		Page 93 (Originated securitisations – regulatory treatment)
449 (l)	Full description of Internal Assessment Approach.	x		Page 94 (Capital assessment)
449 (m)	Explanation of significant changes in quantitative disclosures.	x		Key movements explained where applicable under relevant tables
449 (n)	As appropriate, separately for the Banking and trading book securitisation exposures:	x		Limited information on trading book exposures is provided on the grounds of materiality
449 (n) (i)	Amount of outstanding exposures securitised;	x		Page 91 (Securitisation exposures in the non-trading book (SEC1))
449 (n) (ii)	On balance sheet securitisation retained or purchased, and off balance sheet exposures;	x		Page 91 (Securitisation exposures in the non-trading book (SEC1))
449 (n) (iii)	Amount of assets awaiting securitisation;			Not applicable
449 (n) (iv)	Early amortisation treatment; aggregate drawn exposures, capital requirements.			Not applicable
449 (n) (v)	Deducted or 1,250%-weighted securitisation positions.	x		Page 95 (Securitisation exposures in the non-trading book and associated regulatory capital requirements – institution acting as originator or as sponsor (SEC3)) Page 99 (Securitisation exposures in the non-trading book and associated regulatory capital requirements – institution acting as investor (SEC4))

Appendix 6: CRR mapping continued

CRR ref	High-level summary	Pillar 3	ARA	Compliance reference
449 (n) (vi)	Securitisation activity including the amount of exposures securitised and recognised gains or losses on sales;	x		Page 89 (Securitisation programmes and activity)
449 (o) (i)	Retained and purchased positions and associated capital requirements, broken down by risk-weight bands.	x		Page 95 (Securitisation exposures in the non-trading book and associated regulatory capital requirements – institution acting as originator or as sponsor (SEC3)) Page 99 (Securitisation exposures in the non-trading book and associated regulatory capital requirements – institution acting as investor (SEC4))
449 (o) (ii)	Retained and purchased re-securitisation positions before and after hedging and insurance; exposure to financial guarantors broken down by guarantor credit worthiness.			Not applicable
449 (p)	Impaired assets and recognised losses related to banking book securitisations, by exposure type.	x		Page 97 (Exposures securitised by the institution – Exposures in default and specific credit risk adjustments (SEC5))
449 (q)	Exposure and capital requirements for trading book securitisations, separated into traditional and synthetic.			This information on trading book disclosures has not been provided on the grounds of materiality
449 (r)	Whether the institution has provided non-contractual financial support to securitisation vehicles.			Not applicable
Remuneration disclosure				
450	Remuneration disclosures (Material Risk Takers).		x	Pages 122 to 129 (2021 Other remuneration disclosures)
Leverage				
451 (1) (a) 451 (1) (b) 451 (1) (c)	Leverage ratio, and breakdown of total exposure measure, including reconciliation to financial statements, and derecognised fiduciary items.	x		Page 25 (Leverage ratio) Page 127 (Leverage ratio common disclosure) Page 128 (Summary reconciliation of accounting assets and leverage ratio exposures and Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures))
451 (1) (d) 451 (1) (e)	Description of the processes used to manage the risk of excessive leverage, and factors that impacted the leverage ratio	x		Page 127 (Description of the processes used to manage the risk of excessive leverage)
Use of the IRB approach to credit risk				
452 (a)	Permission for use of the IRB approach from the competent authority.	x		Page 36 (Scope of the IRB permission)
452 (b)	Explanation of:			
452 (b) (i)	Internal rating scales, mapped to external ratings;	x		Page 35 (Internal Ratings Scales)
452 (b) (ii)	Use of internal ratings for purposes other than capital requirement calculations;	x		Page 38 (Other application of IRB model outputs)
452 (b) (iii)	Management and recognition of credit risk mitigation;	x		Pages 31 to 32 (Credit risk mitigation)
452 (b) (iv)	Controls around ratings systems.	x		Page 37 (Internal development and monitoring of IRB models)
452 (c) (i)-(v)	Description of ratings processes for each IRB asset class, provided separately.	x		Page 36 (Scope of the IRB permission) and Page 37 (Internal development and monitoring of IRB models)

Appendix 6: CRR mapping continued

CRR ref	High-level summary	Pillar 3	ARA	Compliance reference
452 (d)	Exposure values by IRB exposure class, separately for Advanced and Foundation IRB.	x		Page 36 (Distribution of exposures by approach). Page 48 (Total and average net amount of exposures (CRB-B)). This is also 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.	x		Pages 51 to 54 (Analysis of Credit Risk Exposures subject to the Foundation IRB) Pages 55 to 60 (Analysis of Credit Risk Exposures subject to the Retail IRB approach) Page 61 (Analysis of Credit Risk Exposures subject to the other IRB approaches) Including (CR6)
452 (g)	Actual specific risk adjustments for the period and explanation of changes.	x		Page 78 (Regulatory expected losses and specific credit risk adjustments)
452 (h)	Commentary on drivers of losses in preceding period.	x		Page 78 (Regulatory expected losses and specific credit risk adjustments)
452 (i)	Estimates against actual losses for sufficient period, and historical analysis to help assess the performance of the rating system over a sufficient period.	x		Pages 39 to 47 (Model performance, including Model performance table (page 46) and (pages 40 to 45): Back-testing of PD per portfolio for different asset classes
452 (j) 452 (j) (i)-(ii)	For all IRB exposure classes: Where applicable, PD and LGD by each country where the bank operates.	x		Page 68 (Exposures subject to the IRB approach analysed by geographical region)
Use of credit risk mitigation techniques				
453 (a)	Use of on and off-balance sheet netting.	x		Pages 31 to 34 (Credit risk mitigation)
453 (b)	How collateral valuation is managed.	x		Please note additional information with regards to balance sheet netting and derivatives is included in Counterparty Credit Risk section of Pillar 3 (Pages 100 to 109)
453 (c)	Description of types of collateral used by the institution.	x		
453 (d)	Main types of guarantor and credit derivative counterparty, creditworthiness.	x		
453 (e)	Market or credit risk concentrations within risk mitigation exposures.		x	Page 149 (Credit Risk)
453 (f)	Standardised or Foundation IRB Approach, exposure value covered by eligible collateral.	x		Page 33 (CRM Techniques – Overview (CR3))
453 (g)	Exposures covered by guarantees or credit derivatives.	x		
Use of the Advanced Measurement Approaches to Operational Risk				
455 (a) (i)	Disclosure of the characteristics of the market risk models.	x		Page 112 (Key characteristics of market risk models)
Use of Internal Market Risk Models				
455 (a) (ii)	Disclosure of the methodologies used to measure incremental default and migration risk.	x		Page 112 (Review of internal models)
455 (a) (iii)	Descriptions of stress tests applied to the portfolios.	x		Page 113 (Stress Testing)
455 (a) (iv)	Methodology for back-testing and validating the models.	x		Page 113 (Back testing of VaR models, including: Backtesting results (VaR models))
455 (b)	Scope of permission for use of the models.	x		Page 112 (Review of internal models)
455 (c)	Policies and processes to determine trading book classification, and to comply with prudential valuation requirements.	x		Page 115 (Valuation principles)

Appendix 6: CRR mapping continued

CRR ref	High-level summary	Pillar 3	ARA	Compliance reference
455 (d) (i)-(iii)	High/Low/Mean values over the year of VaR, SVaR and incremental risk charge.	x	x	Annual Report: Page 148 Trading portfolios (Table: Trading portfolios: VaR (1-day 95 per cent confidence level)) Pillar 3: Page 115 (IMA values for trading portfolios (MR3))
455 (e)	The elements of the own fund calculation.	x		Page 111 (Market risk own funds requirements)
455 (f)	Weighted average liquidity horizons of portfolios covered by models.	x		Page 112 (Review of internal models)
455 (g)	Comparison of end-of-day VaR measures compared with one-day changes in the portfolio's value.	x		Page 114 (Comparison of VaR estimates to hypothetical and clean profit and loss)

Abbreviations

Abbreviation	Brief description
A	
ABCP	Asset-backed commercial paper
ABS	Asset-backed securities
AIRB	Advanced Internal Ratings-Based Approach
ALRB	Additional Leverage Ratio Buffer
AMA	Advanced Measurement Approach
ARA	Annual Report and Accounts
AT1	Additional Tier 1 capital
B	
BCBS	Basel Committee on Banking Supervision
BEEL	Best estimate of expected losses
BoE	Bank of England
BRC	Board Risk Committee
C	
CCB	Capital Conservation Buffer
CCF	Credit conversion factor
CCLB	Countercyclical Leverage Buffer
CCP	Central counterparty
CCR	Counterparty credit risk
CCyB	Countercyclical Capital Buffer
CDS	Credit default swap
CET1	Common equity tier 1 capital
CLN	Credit linked notes
CP	Commercial paper
CRD IV	Capital Requirements Directive & Regulation
CRM	Credit risk mitigation
CRR	Capital Requirements Regulation
CSA	Credit support annex
CVA	Credit valuation adjustment
D	
DVA	Debit valuation adjustment
E	
EAD	Exposure at default
EBA	European Banking Authority
ECAI	External Credit Assessment Institutions
EEL	Excess expected loss
EHQLA	Extremely high quality liquid assets
EL	Expected loss
EU	European Union
F	
FCCM	Financial Collateral Comprehensive Method
FII	Financial Institutions Interconnectedness
FIRB	Foundation Internal Ratings-Based Approach
Fitch	Fitch Ratings
FPC	Financial Policy Committee (UK)
FRTB	Fundamental review of the trading book (BCBS)

G	
GALCO	Group Asset and Liability Committee
GEC	Group Executive Committee
GRC	Group Risk Committee
Group	Lloyds Banking Group plc together with its subsidiary undertakings on a consolidated basis
G-SIB	Global Systemically Important Bank
H	
HPI	House price index
HQLA	High quality liquid assets
I	
IAA	Internal Assessment Approach
IAS	International Accounting Standard
ICAAP	Internal Capital Adequacy Assessment Process
ICG	Individual Capital Guidance
IFRS	International Financial Reporting Standards
IMM	Internal Model Method
IRB	Internal Ratings-Based Approach
IRRBB	Interest rate risk in the banking book
IRC	Incremental risk charge
ISDA	International Swaps and Derivatives Association
L	
LCR	Liquidity coverage ratio
LGD	Loss given default
LIBOR	London Interbank Offer Rate
LTV	Loan-to-value
M	
MGC	Model Governance Committee
Moody's	Moody's Investors Service
MTM	Mark-to-market
O	
OTC	Over-the-counter
P	
PD	Probability of default
PFE	Potential future exposure
PIT	Point-in-time
PRA	Prudential Regulation Authority (UK)
PRR	Position risk requirement
PVA	Prudent valuation adjustment
Q	
QCCP	Qualifying Central Counterparty
QRRE	Qualifying revolving retail exposure

R	
RBA	Ratings Based Approach
Retail IRB	Retail Internal Ratings Based Approach
RMBS	Residential mortgage-backed security
RNIV	Risks not in VaR

S	
STA	Standardised Approach
S&P	Standard and Poor's
SCRA	Specific credit risk adjustment
SE	Structured entity
SFTs	Securities financing transactions
SME	Small and medium-sized enterprise
SRB	Systemic risk buffer
SRT	Significant risk transfer

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

U	
UK	United Kingdom
US	United States of America

V	
VaR	Value-at-risk

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