Lloyds Bank plc

Report and Accounts
2019

Member of Lloyds Banking Group

Contents

Registered Office: 25 Gresham Street, London EC2V 7HN. Registered in England no 2065

Strategic report

Principal activities

Lloyds Bank plc (the Bank) and its subsidiary undertakings (the Group) provide a wide range of banking and financial services through branches and offices in the UK and in certain locations overseas.

The Group's revenue is earned through interest and fees on a broad range of financial services products including current accounts, savings, mortgages, credit cards, motor finance and unsecured loans to personal and business banking customers; and lending, transactional banking, working capital management, risk management and debt capital markets services to commercial customers.

Business review

As a result of the requirements of the ring-fencing regulations, the Bank sold its subsidiary, Scottish Widows Group Limited, to its ultimate holding company during 2018. Whilst this was an internal reorganisation within the Lloyds Banking Group, it was an external transaction for Lloyds Bank Group; due to the significance of the Scottish Widows entities they have been classified as discontinued operations for the purposes of the Bank's consolidated statutory reporting. In addition during 2018, the Bank and its subsidiary, Bank of Scotland plc, sold the element of their overseas and commercial banking businesses required to be transferred in order to ensure compliance with the ring-fencing legislation to Lloyds Bank Corporate Markets plc, a fellow Lloyds Banking Group undertaking.

During the year ended 31 December 2019, the Lloyds Bank Group recorded a profit before tax of £3,474 million, a reduction of £1,455 million, or 30 per cent, compared with £4,929 million from its continuing operations in 2018. The Lloyds Bank Group profit before tax for the year ended 31 December 2019 included a profit before tax of £1,181 million from its Retail division, a 61 per cent decrease on the Retail division's profit of £3,011 million in 2018, and a profit before tax of £1,429 million from its Commercial Banking division, a 33 per cent decrease from the Commercial Banking division's profit of £2,126 million in 2018.

Total income decreased by £366 million, or 2 per cent, to £16,608 million in 2019 compared with £16,974 million in 2018, comprising a £168 million increase in other income more than offset by a decrease of £534 million in net interest income.

Net interest income was £12,220 million in 2019, a decrease of £534 million, or 4 per cent compared to £12,754 million in 2018. Average interest earning assets decreased by £9,318 million, or 2 per cent, to £554,251 million in 2019 compared to £563,569 million in 2018 as increased holdings of reverse repurchase agreement balances and growth in targeted segments have been more than offset by lower balances in the closed mortgage book and the impact of the sale of the Irish mortgage portfolio and the transfers to Lloyds Bank Corporate Markets plc during 2018. The net interest margin decreased, with the benefit of lower deposit costs, higher Retail current account balances and a benefit from aligning credit card terms, more than offset by continued pressure on asset margins, particularly in the mortgage market.

Other income was £168 million, or 4 per cent, higher at £4,388 million in 2019 compared to £4,220 million in 2018.

Fee and commission income was £134 million, or 5 per cent, lower at £2,363 million compared to £2,497 million in 2018 as a result of decreases in commercial and private banking and asset management fees, in part due to the transfer of some activities to Lloyds Bank Corporate Markets plc part way through 2018 and also the transfer of business into the Lloyds Banking Group's new wealth management joint venture. Fee and commission expense decreased by £201 million, or 16 per cent, to £1,027 million compared with £1,228 million in 2018. Other operating income was £149 million, or 6 per cent, higher at £2,692 million in 2019 compared to £2,543 million in 2018, due mainly to an increased level of recharges to other Lloyds Banking Group entities, following the restructurings part way through 2018.

Operating expenses increased by £653 million, or 6 per cent to £11,772 million in 2019 compared with £11,119 million in 2018 reflecting an increase of £1,532 million in charges for redress payments to customers in respect of PPI and other conduct related matters from £1,307 million in 2018 to £2,839 million in 2019. Excluding these charges from both years, operating expenses were £879 million, or 9 per cent, lower at £8,933 million in 2019 compared to £9,812 million in 2018 as a decrease in restructuring costs was coupled with operating cost savings driven by increased efficiency from digitalisation and process improvements. Staff costs were £588 million, or 13 per cent, lower at £3,985 million in 2019 compared with £4,573 million in 2018; as a result of decreased pension charges and redundancy costs. Premises and equipment costs were £233 million lower at £446 million in 2019 compared with £679 million in 2018 following the implementation of IFRS 16. Other expenses were £311 million, or 14 per cent, lower at £1,900 million in 2019 compared with £2,211 million in 2018. Depreciation and amortisation costs were £253 million, or 11 per cent, higher at £2,602 million in 2019 compared to £2,349 million in 2018 due to the charge for depreciation of the right-of-use asset following implementation of IFRS 16.

Impairment losses increased by £436 million, or 47 per cent, to £1,362 million in 2019 compared with £926 million in 2018. Impairment losses in respect of loans and advances to customers were £329 million, or 33 per cent, higher at £1,340 million in 2019 compared with £1,011 million in 2018; this increase is primarily driven by two material corporate cases in Commercial Banking, along with some weakening in used car prices.

In 2019, the Lloyds Bank Group recorded a tax expense of £1,241 million compared to a tax expense of £1,423 million in 2018. The effective tax rate was 35.7 per cent, compared to the standard UK corporation tax rate of 19.0 per cent. The higher rate was principally as a result of the banking surcharge and the increase in non-deductible conduct provision charges in relation to PPI, partially offset by the release of a deferred tax liability.

The Lloyds Bank Group's post-tax return on average total assets reduced to 0.38 per cent compared to 0.76 per cent in the year ended 31 December 2018.

Total assets were £12,118 million, or 2 per cent, lower at £581,368 million at 31 December 2019 compared to £593,486 million at 31 December 2018. Loans and advances to customers increased in the year by £10,426 million to £474,470 million, compared to £464,044 million at 31 December 2018, as a result of a £15,745 million increase in holdings of reverse repurchase agreement balances, as part of a rebalancing of the Lloyds Bank Group's liquid asset portfolio. Adjusting for this, loans and advances to customers were £5,319 million, or 1 per cent, lower at £422,846 million compared to £428,165 million at 31 December 2018; an increase of £3,465 million from the acquisition of the Tesco Bank mortgage portfolio and continued growth in targeted segments such as SME and motor finance was more than offset by reductions in the closed mortgage book and in Commercial Banking following a balance sheet optimisation initiative. Property, plant and equipment was £952 million higher at £9,467 million compared to £8,515 million at 31 December 2018 as a result of the right-of-use asset recognised on transition to IFRS 16. Financial assets held at fair value through profit or loss decreased by £20,972 million and derivative assets were £2,799 million lower, both as a result of the reduction in trading activities following ring-fencing.

Total liabilities were £10,664 million, or 2 per cent, lower at £542,469 million compared to £553,133 million at 31 December 2018. Customer deposits were £5,588 million, or 1 per cent, higher at £396,839 million at 31 December 2019 compared to £391,251 million at 31 December 2018 as a £7,712 million increase in repurchase agreement balances and growth in retail current account balances has been partly offset by lower levels of retail savings products and commercial deposits. Debt securities in issue were £11,898 million higher at £76,431 million at 31 December 2019 compared to £64,533 million at 31 December 2018 following new issuances to maintain funding levels and to ensure that the Group is well positioned to satisfy Minimum Requirement for own funds and Eligible Liabilities (MREL). Amounts due to fellow Lloyds Banking Group undertakings were £14,770 million lower at £4,893 million compared to £19,663 million at 31 December 2018 following a restructuring of positions with the ultimate holding company, Lloyds Banking Group plc. Financial liabilities at fair value through profit or loss were £10,028 million lower at £7,702 million at 31 December 2019 compared to £17,730 million at 31 December 2018 following reductions in trading book repurchase agreements, in line with the lower levels of trading activity.

Total equity has decreased by £1,454 million, or 4 per cent, from £40,353 million at 31 December 2018 to £38,899 million at 31 December 2019 as a result of the effect of the defined benefit pension scheme revaluation and retained profits being more than offset by dividends paid and distributions on other equity instruments.

The Group's common equity tier 1 capital ratio reduced to 14.3 per cent, compared to 14.9 per cent at 31 December 2018, largely as a result of the interim dividend paid during the year, additional pension contributions and increases in the deductions for intangible assets and excess expected losses, partially offset by profits generated during the year and the reduction in risk-weighted assets. The tier 1 capital ratio remained at 18.3 per cent with the reduction in common equity tier 1 capital offset by the reduction in risk-weighted assets and the net increase in additional tier 1 capital following the issuance of new AT1 capital instruments. The total capital ratio reduced to 22.1 per cent (31 December 2018: 22.4 per cent), largely reflecting the overall reduction in tier 1 capital and a reduction in eligible provisions, partially offset by the reduction in risk-weighted assets.

Risk-weighted assets reduced by £2,451 million, or 1 per cent, to £171,940 million at 31 December 2019, compared to £174,391 million at 31 December 2018, reflecting significant portfolio optimisation activity in the Commercial Banking division, including capital efficient securitisation activity, partially offset by the acquisition of the Tesco mortgage portfolio, the introduction of IFRS 16 and other model updates.

The Group's UK leverage ratio increased to 5.1 per cent, largely reflecting the increase in tier 1 capital on a fully loaded basis and the reduction in balance sheet assets and off-balance sheet items.

Capital position at 31 December 2019

The Group's capital position as at 31 December 2019, applying CRD IV transitional rules and IFRS 9 transitional arrangements, is set out in the following section.

Future developments

Information about the future developments is provided with the Principal risks and uncertainties section below.

Table 1.1: Capital resources (audited)

Capital resources (transitional)	At 31 December 2019 £m	At 31 December 2018 £m
Common equity tier 1		
Shareholders' equity per balance sheet	**33,973**	37,063
Adjustment to retained earnings for foreseeable dividends	**–**	(2,100)
Adjustment for own credit	**26**	(280)
Cash flow hedging reserve	**(1,556)**	(1,110)
Other adjustments	**397**	468
	32,840	34,041
Less: deductions from common equity tier 1		
Goodwill and other intangible assets	**(4,050)**	(3,628)
Prudent valuation adjustment	**(220)**	(253)
Excess of expected losses over impairment provisions and value adjustments	**(195)**	–
Removal of defined benefit pension surplus	**(531)**	(994)
Deferred tax assets	**(3,207)**	(3,106)
Common equity tier 1 capital	**24,637**	26,060
Additional tier 1		
Additional tier 1 instruments	**6,905**	5,937
Total tier 1 capital	**31,542**	31,997
Tier 2		
Tier 2 instruments	**6,914**	7,096
Other adjustments	**(480)**	(9)
Total tier 2 capital	**6,434**	7,087
Total capital resources	**37,976**	39,084
Risk-weighted assets (unaudited)	**171,940**	174,391
Common equity tier 1 capital ratio[1]	**14.3%**	14.9%
Tier 1 capital ratio[1]	**18.3%**	18.3%
Total capital ratio[1]	**22.1%**	22.4%

1 Reflecting the full impact of IFRS 9 at 31 December 2019, without the application of transitional arrangements, the Group's common equity tier 1 capital ratio would be 14.0 per cent, the tier 1 capital ratio would be 18.0 per cent and the total capital ratio would be 22.1 per cent.

Table 1.2: Risk-weighted assets (unaudited)

	At 31 December 2019 £m	At 31 December 2018 £m
Risk-weighted assets		
Foundation Internal Ratings Based (IRB) Approach	**46,500**	52,268
Retail IRB Approach	**63,192**	59,500
Other IRB Approach	**11,722**	9,609
IRB Approach	**121,414**	121,377
Standardised Approach	**22,074**	23,274
Credit risk	**143,488**	144,651
Counterparty credit risk	**1,830**	2,965
Credit valuation adjustment risk	**271**	305
Operational risk	**24,413**	24,558
Market risk	**171**	470
Underlying risk-weighted assets	**170,173**	172,949
Threshold risk-weighted assets	**1,767**	1,442
Total risk-weighted assets	**171,940**	174,391

Table 1.3: Leverage

	Fully Loaded	
	At 31 December 2019 £m	At 31 December 2018 £m
Leverage ratio		
Total tier 1 capital for leverage ratio		
Common equity tier 1 capital	**24,637**	26,060
Additional tier 1 capital	**4,865**	3,217
Total tier 1 capital	**29,502**	29,277
Exposure measure		
Statutory balance sheet assets		
Derivative financial instruments	**8,494**	11,293
Securities financing transactions (SFTs)	**52,032**	53,467
Loans and advances and other assets	**520,842**	528,726
Total assets	**581,368**	593,486
Qualifying central bank claims	**(33,408)**	(35,512)
Deconsolidation adjustments and intragroup exemptions		
Derivative financial instruments	**32**	(2,557)
Securities financing transactions (SFTs)	**–**	(1,434)
Loans and advances and other assets	**(1,326)**	(1,921)
Total deconsolidation adjustments and intragroup exemptions	**(1,294)**	(5,912)
Derivatives adjustments		
Adjustments for regulatory netting	**(2,430)**	(2,994)
Adjustments for cash collateral	**(6,869)**	(6,018)
Net written credit protection	**148**	–
Regulatory potential future exposure	**8,186**	8,956
Total derivatives adjustments	**(965)**	(56)
SFT adjustments	**689**	(606)
Off-balance sheet items	**44,172**	47,863
Regulatory deductions and other adjustments	**(7,641)**	(7,872)
Total exposure measure	**582,921**	591,391
Average exposure measure	**590,393**	
UK leverage ratio[1]	**5.1%**	5.0%
Average UK leverage ratio	**4.8%**	
CRD IV leverage exposure measure	**616,329**	626,903
CRD IV leverage ratio	**4.8%**	4.7%

1 Reflecting the full impact of IFRS 9 at 31 December 2019, without the application of transitional arrangements, the Group's UK leverage ratio would be 5.0 per cent.

Section 172(1) Statement and Statement of Engagement with Employees and Other Stakeholders
In accordance with the Companies Act 2006 (the 'Act') (as amended by the Companies (Miscellaneous Reporting) Regulations 2018), the Directors provide this statement on pages 7 to 11 describing how they have had regard to the matters set out in section 172(1) of the Act, when performing their duty to promote the success of the Bank, under section 172. Further details on key actions in this regard are also contained within the Corporate Governance Statement on pages 20 to 21 and the Directors' Report on pages 20 to 23.

In accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018), this statement also provides details of how the Directors have engaged with and had regard to the interest of key stakeholders.

The Bank is a subsidiary of Lloyds Banking Group plc, and as such follows many of the processes and practices of this company, which are further referenced in this statement where relevant.

Engagement with all stakeholders
Engaging, consulting and acting on the needs of different stakeholders is critical for the development of a culture and strategy that achieves long-term sustainable success. The Board has a comprehensive stakeholder engagement programme and always aims to act in the best interest of the Bank and to be fair and balanced in its approach. The needs of different stakeholders are always considered as well as the consequences of any decision in the long-term and the importance of a reputation for high standards of business conduct. It may not always be possible to provide a positive outcome for all stakeholders and the Board frequently has to make difficult decisions based on competing priorities. However, comprehensive engagement enables informed decision making taking into account the consequences for different stakeholders.

To enable and ensure stakeholder considerations are at the heart of all corporate decision making, a wide range of papers relating to different stakeholder groups are presented and discussed regularly by the Board. In addition all papers submitted to the Board are required to consider the impact of proposals on key stakeholder groups. This section outlines the Board's key stakeholder groups, how the Board interacts with them and how they inform strategic decision making. It also provides examples of key strategic decisions made during the year and the Board engagement involved.

Customers
As a retail and commercial financial services provider it is understood that long-term success is only possible with a customer-centric business model and therefore customer impact is critical to all Board decisions. With a large number of customers, the Bank strives to treat them fairly, making it easy for them to find, understand and access products that are right for them, whatever their circumstances.

Direct engagement
The Board takes advantage of all available opportunities to engage with customers. In 2019, these included a series of branch / office visits and customer events. Customer contact enables direct feedback and informs strategic decision making. In July 2019, Lloyds Banking Group launched the reconnecting with customers pilot programme, in which the Bank participated, specifically designed to bring senior leaders across the organisation closer to customers and customer facing teams. The Chairman and a number of Non-Executive Directors also attended customer insights sessions monthly across the UK to hear directly from customers about their lives and what is important to them.

Earning and retaining the trust of customers is a priority for the Board with regular updates received. The Bank remains committed to doing whatever is necessary to ensure all customers impacted by past conduct failures receive fair recompense. Having identified the need to upgrade the skills of small businesses in technology, productivity and export opportunities, Lloyds Banking Group has been engaging with government and other organisations to provide additional support.

Indirect engagement
The Board reviews the customer dashboard, which provides a detailed insight into the Bank's performance in respect of delivering on customer related ambitions, and agreed improvements in the dashboard's construct during the course of the year. The Board also approves the annual customer plans, which set out the customer related priorities for the coming year. The Chairman, Chief Executive and other Board members regularly review customer complaints to understand areas for improvement, and review how we respond to complaints. The Board also looks to benchmark performance among customers and uses insight from a range of internal and external research, including net promoter scores and other customer indices, to improve services.

The Board received regular updates and reports on progress of the strategy, including the development of the next strategic phase, ensuring the customer remains at the heart of strategic investment. The Board receives insight and guidance in relation to the competitive environment and market shares, providing strategic insight and generating good discussion among the Board, resulting in either actions or key learnings taken in the Bank. The focus on customers is not just evidenced by the regularity of presentations to Board, but also by the existence of the Group Customer First Committee. The Committee is composed of members of senior management and regularly reports to the Board. The Committee acts as the custodian of organisation wide customer experience and has responsibility for monitoring, reviewing and challenging the divisions to make changes to support the delivery of the Bank's aim and customer-centric culture.

More information on the wider Lloyds Banking Group approach to customers, which includes the approach of the Bank, can be found on pages 16 to 18 and pages 27 to 34 in the Lloyds Banking Group annual report and accounts for 2019, available on the Lloyds Banking Group website.

Shareholders
The Bank is a wholly owned subsidiary of Lloyds Banking Group. The Directors ensure that the strategy, priorities, processes and practices of the Bank are fully aligned where required to those of Lloyds Banking Group, ensuring that the interests of Lloyds Banking Group as the Bank's sole shareholder are duly acknowledged. Further information in respect of the relationship of Lloyds Banking Group with its shareholders is included within the Strategic Report within the Lloyds Banking Group Annual Report and Accounts for 2019, available on the Lloyds Banking Group website.

Colleagues
The Bank has a large number of colleagues, who take pride in working for an inclusive and diverse organisation and, with their support, the Bank in conjunction with Lloyds Banking Group is building a culture in which everyone feels included, empowered and inspired to do the right thing for customers. As part of a related Lloyds Banking Group initiative, the Bank is making the biggest ever investment in colleagues to ensure that we continue to attract, develop and retain these skills and capabilities. Related priorities have included working to create a customer and value led culture, investment in colleague training and IT, and creating a compelling colleague proposition including an attractive reward structure.

Direct engagement
The Bank works to maintain an open dialogue with colleagues. During the year the Board communicated directly with colleagues through videos, webcasts and the Lloyds Banking Group intranet, detailing Lloyds Banking Group performance, including that of the Bank, changes in the economic and regulatory environment and updates on key strategic initiatives. Regular Ask Me Anything sessions were also hosted, providing the opportunity for colleagues and contingent workers to

ask questions and receive real time responses directly from members of the Board. The Board places great importance on opportunities to engage directly with colleagues. The Board visited office locations throughout the UK, taking the opportunity to hear directly from colleagues about their work and their successes, passion, drive and commitment to improve the business for the benefit of customers. The Chairman also held a number of Town Hall sessions in locations across the country, meeting with colleagues and answering their questions about the organisation and its business, in addition to regular and informal lunches and breakfasts with members of the senior leadership team to discuss business issues. The Board also participated in the transforming ways of working labs, providing them with the opportunity to see first-hand the activity underway in support of improving the customer and colleague experience.

Lloyds Banking Group held its biggest signature annual event, Helping Britain Prosper LIVE, which was attended by over 5,000 colleagues, including colleagues of the Bank, and was broadcast live to all Lloyds Banking Group colleagues. This event, hosted by the Group Chief Executive with support from key members of the executive leadership team, provided the opportunity for colleagues to hear and see first-hand how Lloyds Banking Group is progressing its strategy and Helping Britain Prosper every day.

Indirect engagement
The Bank as part of Lloyds Banking Group held meetings throughout the year with recognised unions, attended by the Chair of the Lloyds Banking Group and Bank Remuneration Committee and the Group Chief Executive. Key topics included the Living Wage, which applies to the whole workforce. In 2019, the Board agreed how they would engage with the workforce. The definition of workforce was agreed by the Board as permanent colleagues, contingent workers and third-party suppliers that work on the organisation's premises delivering services to customers and supporting key business operations.

A workplan was discussed and agreed in February 2019 and as a result, the Board now receives a quarterly Workforce Engagement report which comprises two component parts including a summary of the Board's engagement activity with colleagues, and key themes raised by colleagues and trends on people matters including for example absence and attrition.

The Board considers that the above arrangements are invaluable in giving them an understanding of the views of the workforce and encouraging meaningful dialogue between the Board and the workforce. The Board are committed to improving the transparency of workforce disclosure, with Lloyds Banking Group and the Bank participating in the Workforce Disclosure Initiative.

In June 2019, the Lloyds Banking Group People and Productivity Director presented to the Board on people and transforming ways of working, providing them with an update on the Lloyds Banking Group people strategy, including that of the Bank, which is discussed further on page 19 of the Lloyds Banking Group annual report and accounts for 2019. The Board also receives regular updates on culture, which are discussed in more detail on page 74 of the Lloyds Banking Group annual report and accounts for 2019. The Bank believes that a diverse workforce is critical to performance and regular progress updates are provided to the Board.

As well as its own engagement survey, the Bank as part of Lloyds Banking Group takes part in the Banking Standards Board assessment on a yearly basis, which provides member firms with the evidence, support and challenge to help them achieve and maintain high standards of behaviour and competence both individually and collectively. There are five parts to the assessment; an online employee survey, a set of Board questions, interviews with Executive and Non-Executive Directors and employee focus groups.

Key Board decision – Changing our remuneration policy
The Remuneration Policy of the Bank is aligned to that of Lloyds Banking Group, which was last approved by shareholders at Lloyds Banking Group's AGM in 2017, and has been in operation for the last three years. Lloyds Banking Group has published its proposed revised Remuneration Policy within the Directors' Remuneration Report, on pages 98 to 123 of their annual report and accounts for 2019.

Careful thought was given to the purpose of remuneration, and the benefits of a simplified reward package that provides greater alignment with the Bank's and Lloyds Banking Group's strategy and the experience of customers, colleagues and shareholders. The proposed policy comprises a significant reduction in executive pension contributions, the introduction of a new long term (restricted) share plan and continued simplification of the balanced scorecard.

The engagement process in relation to the proposed policy took place throughout 2019 with key stakeholders including shareholders, colleagues and the regulator to understand some of the drivers for change. The Chairman of the Lloyds Banking Group and Bank Remuneration Committee (the 'Remuneration Committee') consulted with shareholders representing over 30 per cent of Lloyds Banking Group's issued share capital on initial proposals and continued the dialogue as the policy evolved. Consultations with recognised unions took place to discuss key changes to colleague pension provisions. Management have been focused on ensuring key proposed changes in variable reward structures are fit for purpose for colleagues across the organisation, including those of the Bank, as part of a fair and consistent reward package. Please see page 99 and 101 of the Lloyds Banking Group annual report and accounts for 2019 for further information on key areas of focus with stakeholders.

Our decision process
The engagement that has taken place in 2019 has heavily influenced the decisions made by the Remuneration Committee. The Remuneration Committee has been mindful of the trend towards pay simplification across UK organisations. Shareholders have previously voiced that Lloyds Banking Group's current construct is overly complex. The new proposed Remuneration Policy has been designed to deliver a simplified variable reward approach.

In addition to wholesale change of some reward structures, such as the introduction of the Long Term Share Plan, the Remuneration Committee also decided to maintain some existing components considered important parts of the overall package. It was agreed to maintain the existing Balanced Scorecard structure which is considered a transparent and effective tool to drive and assess performance. To provide further understanding for shareholders, an explanation alongside the Policy as to why the measures included in the scorecard provide good strategic alignment is provided within the Directors' Remuneration Report within the Lloyds Banking Group report and accounts for 2019.

Long-term implications
We believe the revised reward structure will incentivise long-term stewardship and promote good governance through a simple alignment with shareholders. Reductions in fixed pay and potential variable reward payouts will support reducing the gap between colleague and executive remuneration. Lloyds Banking Group, including the Bank, offers a competitive and fair reward package. Colleagues are also eligible to participate in Lloyds Banking Group's HMRC approved share plans which promote share ownership by giving colleagues an opportunity to invest in Lloyds Banking Group shares. Further information can be found on page 116 in the Directors' Remuneration Report in the Lloyds Banking Group report and accounts for 2019.

Communities and the environment
As part of the largest retail and commercial financial services provider in the UK, the Bank has a presence in a large number of communities. Lloyds Banking Group, including the Bank, specifically invest in local communities across Britain to help them prosper economically and build social cohesion by tackling disadvantage. Community and environmental priorities during the year have included helping the transition to a sustainable low carbon economy, helping Britain get a home, helping people save for the future, helping businesses start up and grow and building capability and digital skills.

Direct engagement
The Board continued to support the work of Lloyds Banking Group's four charitable Foundations and during Small Charities Week, campaigns were run with each Foundation showcasing the work they do for small but vital charities including those tackling domestic abuse and mental health. This demonstrated the alignment between support for vulnerable customers and the work done by charities to support related social issues. Sara Weller, Chair of the Lloyds Banking Group Responsible Business Committee, is a Lloyds Banking Group appointed trustee of the Lloyds Bank Foundation, England and Wales. Members of the Board visited several charities in 2019, including the Manchester Digital Academy, Angel Eyes in Northern Ireland and the Cathedral Archer project in Sheffield.

Indirect engagement
Lloyds Banking Group's Helping Britain Prosper Plan, in which the Bank participates, is reviewed and approved annually by the Board to ensure it focuses on what matters most to people, businesses and communities in the UK. The Lloyds Banking Group Responsible Business Committee, a subcommittee of the Lloyds Banking Group Board, provides oversight and support for the Helping Britain Prosper Plan, and the plans for delivering the aspiration to be seen as a trusted and responsible business.

During 2019, the Board reviewed responses from the Responsible Business materiality study which outlined a wide range of views on Lloyds Banking Group, including the Bank. These responses then informed and guided responsible business strategy and reporting.

The Board undertook various related deep dives throughout 2019, including key areas of strategic focus such as ESG, cyber security and inclusion and diversity, with specific focus on BAME colleagues. This highlighted a number of strengths but also identified opportunities for further improvement in behaviours and approach. The Board supports 10 regional ambassadors that cover the home nations of Scotland, Wales and Northern Ireland, and the seven regions of England. This programme has established strong relationships with politicians, the media, local councils and other community institutions to offer Lloyds Banking Group's and the Bank's insight on the major economic and social debates the country faces.

Lloyds Banking Group and the Bank are eager to play a part in tackling climate change, by working with stakeholders to help reduce the carbon emissions which the Bank finances, and are developing longer-term broader social impact goals during 2020, as Lloyds Banking Group develops its thinking around the Society of the Future.

Key board decision – Tackling climate change
Across the globe, action to combat climate change is needed. Lloyds Banking Group and the Bank support the Government's Clean Growth Strategy and are supporting customers with a range of initiatives to help them become more sustainable and think about environmental impacts, including access to green finance. The transition to a low carbon economy impacts us all and subsequently is a fundamental element of the Bank's strategy and core to Helping Britain Prosper.

In 2018 following a detailed review by the Board, a new sustainability metric was introduced to the Helping Britain Prosper Plan, signalling our intent and commitment and in January 2020, Lloyds Banking Group announced an ambitious new goal to help reduce the carbon emissions it and its subsidiary companies, including the Bank, finances by more than 50 per cent by 2030. More information is provided about this ambitious goal and other related commitments on pages 28 to 31 of the Lloyds Banking Group annual report and accounts for 2019, or in an approach to ESG presentation online https://www.lloydsbankinggroup.com/investors/financial-performance/

In developing proposals, various stakeholder groups have been engaged including customers, colleagues, shareholders, suppliers, government and regulators. The annual responsible business materiality study specifically identified environmental sustainability and climate change as a critical issue and as a result further detailed analysis was undertaken by Lloyds Banking Group's sustainability teams. The Responsible Business Committee of Lloyds Banking Group provides direction and oversight, whilst at Executive level, the Group Executive Sustainability Committee, supported by divisional Governance Forums and working groups, provide oversight. The Board were briefed on key climate related issues by external industry experts and also engaged on a number of external fronts.

Long-term implications
The Board acknowledges a responsibility to help drive progress towards a sustainable and resilient UK economy, taking into consideration the needs of different stakeholders and risks to the business, and were comfortable endorsing ambitious plans, given the benefit to the Bank and future generations.

Regulators and government
The Bank and its Directors have a strong, open and transparent relationship with our regulators and other government authorities including HMRC. There is regular liaison to ensure the business is aligned to the evolving regulatory framework. Areas of discussion and consideration with the regulators have included ensuring firms have robust prudential standards and supervision in place, the fair treatment of customers, adapting to market changes and horizon scanning (including climate change and developments in data and technology), matters surrounding organisational culture, financial and operational resilience, risk management, recovery and resolution and preparations for EU withdrawal.

Direct engagement
During 2019 regular meetings were held with various regulators at different levels of the organisation from Board to senior management. The Board and senior management continue to engage with the regulators through proactive meetings to discuss various key themes, such as customer-centric culture, transformation and change, operational and financial resilience and credit risk. The Chairman has had extensive dialogue with both the FCA and PRA on all aspects of their regulatory agenda.

Indirect engagement
The Board Risk Committee of Lloyds Banking Group and the Bank receives monthly updates on regulatory interaction providing a view of key areas of focus, alongside progress made addressing regulatory actions, and current enforcement activity.

Response to regulator and government priorities
The Board are committed to complying with all relevant legislation, in particular that relating to prudential and conduct regulation. Appropriate regulation is considered in all Board decision making.

The Board continues to closely monitor the status of regulatory relationships, enhancing proactive engagement across key regulatory changes and areas of focus. In 2020, engagement strategy will continue to be adapted, ensuring alignment with emerging areas of focus and the regulators' business plans.

Key Board decision – EU Exit preparations
Given the Bank's UK focus, our performance is inextricably linked to the health of the UK economy and throughout 2019 the Bank continued to prepare for an EU exit. Given the importance of this topic for the Bank and the country, numerous stakeholders were engaged to inform our approach including customers, colleagues, shareholders, suppliers, regulators and government.

As part of this engagement process, the Chairman was an active member of CityUK's EU exit Steering Group, working with other major financial institutions to inform government decision making. The extended EU Exit Executive Forum was established, chaired by the Chief Financial Officer, with comprehensive cross-organisation representation, to provide an update to the Board on EU exit contingency planning. Additional updates from the EU Exit Forum were also submitted to the Board Risk Committee and the Executive level Group Risk Committee. Engagement was also undertaken with politicians, officials, media, trade and other bodies to reassure on commitments to Helping Britain Prosper.

Our decision process
The EU exit contingency plans continue to be monitored closely by the Board via specific regular updates, covering both operational status and external developments, a suite of early warning indicators and corresponding risk mitigation plans. When reviewing the possible impacts of the EU exit, the Board have given particular consideration to the Bank's strong UK focus and UK-centric strategy, with specific focus on the trading, financial, operational and reputational impacts for the Bank, as well as the cyber, physical security and fraud risks, and the continued support of customers. A programme was implemented to assess the legal impacts and risks of an EU exit (including a no deal outcome) and to identify appropriate mitigants, such as establishing EU entities to ensure continuity of certain business activities.

Long-term implications
Like all UK banks impacted by the EU exit, Lloyds Banking Group submitted contingency plans to the regulators both in the UK and elsewhere as to how we would manage potential EU exit scenarios and are well prepared to ensure continuity of our limited EU business activities at the end of transition period; new European entities have been established and are now operational. Given the vast majority of the Bank's business is in the UK, the direct impact on the Bank from leaving the EU is relatively modest.

Our approach to tax
The Bank's comprehensive and diligent approach to regulation is typified by our approach to tax, with HMRC being a key stakeholder for the Bank. As an organisation with the purpose to Help Britain Prosper, and with a significant percentage of our business subject to tax in the UK, we're proud to be a large contributor of UK tax revenues. In addition, the Bank is also a major tax collector, gathering significant sums on behalf of HMRC.

The Board recognises that tax is one of the ways in which the Bank contributes to society, therefore appropriate, prudent and transparent tax behaviour is a key component of Board responsibility. There is a clear tax policy which is part of the Board-approved risk management framework. This policy sets out clear actions for colleagues to manage tax risks. Like any business, the Bank's success rests on maintaining a good reputation, and it is understood that the way the Bank approaches its tax obligations has a powerful impact on this reputation, so finding the most responsible balance is vital. The Bank complies with the HMRC Code of Practice on Taxation for Banks and Confederation of British Industry's Statement of tax principles. Tax is also covered in our Code of Responsibility, a code that applies to every colleague, team and business in the organisation - day in, day out. The code makes tax a personal responsibility for every colleague in the Bank.

Read more about our tax strategy online https://www.lloydsbankinggroup.com/globalassets/our-group/responsible-business/reporting-centre/

Suppliers
Given the size of the organisation, there is reliance on external suppliers for a number of key services. As well as being important for future success, the Bank believes that dealing with suppliers in the right way is the right thing to do. Priorities in this regard have included ensuring that suppliers are being treated fairly and professionally during the sourcing process and have clear guidance about payment procedures. Working closely with suppliers to share expertise in developing innovative, high quality products and services and effectively managing risk is also central to the Bank's approach, as is engaging in ways that ensure the Bank achieves the best value for customers in terms of price, quality and social impact, whilst building strong, collaborative relationships and understanding the environment in which we operate so that they can meet our needs and our customers' needs. Supporting suppliers in meeting our requirements for cyber security in our supply chain has also been a key consideration.

Direct engagement
The Bank wants to improve the experience of suppliers and as such regularly seeks feedback on the on-site assurance process from suppliers in order to continually improve the process. Suppliers are encouraged to express their satisfaction or dissatisfaction to their points of contact within the Bank e.g. the supplier manager, the sourcing manager or the finance contacts. Suppliers also have access to the Speak Up line. The Bank collaborates with its suppliers on key issues, and held a supplier breakfast with a roundtable discussion on cyber, resilience and information security.

Indirect engagement
The Bank as part of Lloyds Banking Group works with a large number of suppliers of varying sizes, most in professional services sectors such as IT, cyber, operations, management consultancy, legal, HR, marketing and communication. All material contracts are subject to rigorous cost management governance and updates on key supplier risks are provided to the Board. The Board Risk Committee oversees detailed processes to assess the cybersecurity of suppliers and help them meet the Bank's security requirements.

Board approved governance has been established to ensure that the ordering processes for all expenditure allows challenge to be made in line with cost management processes, maximise the use of appropriately sourced third party suppliers and offer appropriate pre-commitment controls to minimise risks and unnecessary costs. Processes also give the opportunity to negotiate further savings with third party suppliers and facilitate such suppliers being paid in a timely manner, avoiding risk and costs associated with the use of non-approved channels.

Our response to supplier priorities
It is important that the Bank has the right framework to operate responsibly. The Sourcing and Supply Chain Management Policy of Lloyds Banking Group applies to all businesses, divisions, functions and legal entities across the organisation, including the Bank, whether based in the UK or overseas. This policy has been designed to assist in managing the inherent risk in outsourcing services, and dealing with third party suppliers.

The Bank requires suppliers to adhere to relevant policies and UK suppliers are additionally required to comply with Lloyds Banking Group's Code of Supplier Responsibility. This outlines expectations for responsible business behaviour, underpinning efforts to share and extend good practice. This policy can be found on the Lloyds Banking Group website https://www.lloydsbankinggroup.com/our-group/working-with-suppliers/

The Board has a zero tolerance attitude towards modern slavery in its supply chain, and enhancements continue to be made to address the risk of and provide specific training on human trafficking and modern slavery for specialist colleagues.

Responsible, sustainable and inclusive

As part of Lloyds Banking Group with a unique position at the heart of the British economy, the Bank embraces its responsibility to help address some of the economic, social and environmental challenges the UK faces. As part of Lloyds Banking Group the Bank has been Helping Britain Prosper for the past 250 years, by delivering for our customers and communities, as a responsible, sustainable and inclusive business.

Engaging with stakeholders

Engaging and responding to stakeholders is fundamental to being a responsible business. Each year Lloyds Banking Group gathers a wide range of views through formal materiality assessment with stakeholders, including those stakeholders of the Bank, which guides both strategy and reporting. A key response to their needs is the Helping Britain Prosper Plan which focuses on critical issues including environmental sustainability, digital skills, and support for homeowners, savers and businesses, which are discussed further on pages 28, 33 and 32 of the Lloyds Banking Group annual report and accounts for 2019. Further topics highlighted by stakeholders, and discussed below, include responsible governance and accountability, support for colleagues, customer privacy and data security, and support for vulnerable customers.

Responsible governance and accountability

Creating and sustaining a values-based culture with good governance is crucial to ensuring colleagues remain engaged, well informed and can effectively deliver the Bank's strategy. Rigorous internal governance and controls, comprising numerous policies and standards, ensure that the Bank treats all stakeholders fairly, while minimising risk. The Lloyds Banking Group board level Responsible Business Committee (RBC) oversees Lloyds Banking Group's performance, including that of the Bank, as a responsible business, and delivery of sustainability strategy. Both the Board and RBC are supported by the Group Executive Committee, which is in turn supported by a dedicated Sustainability Committee.

Helping colleagues to do the right thing

All colleagues must be equipped to make the right decisions. The Bank supports this by consistently promoting and embedding related policies, processes and training. Each year as part of mandatory training, colleagues review Lloyds Banking Group's Code of Responsibility, which outlines values and behaviours, and the Anti-Bribery Policy. If colleagues witness something inappropriate, they can report the matter to the colleague conduct management team, or make use of Lloyds Banking Group's independent and confidential whistleblowing service, Speak Up. In 2019 colleagues reported 451 concerns across Lloyds Banking Group, of which 216 were formally investigated following triage, with 39 per cent of those investigations substantiated, resulting in remedial action.

The Bank works to empower colleagues and one example of this is Lloyds Banking Group's award winning behavioural experiments initiative, where colleagues test new ways of working that can lead to permanent process and policy changes, including those that improve customer satisfaction.

The Bank understands that engagement is a two way process, so each year colleagues are asked to share their views via Lloyds Banking Group's independently run colleague survey, and participate in the annual Banking Standards Board Culture Assessment.

All Bank colleagues receive a competitive and fair reward package. To encourage ownership, colleagues are eligible to participate in HMRC approved Lloyds Banking Group share plans. Further information can be found on page 116 of the Lloyds Banking Group annual report and accounts for 2019.

Protecting our customers' finances and data

Customers trust the Bank to keep their money and data safe, and the Bank deploys sophisticated technology to protect both. In addition, the Bank as part of Lloyds Banking Group plays a significant role in the Joint Fraud Taskforce, a collaboration between Government and industry, and champions the Banking Protocol, which enables colleagues to request immediate police support for at-risk customers.

The Bank also works continuously to bolster defences against cyber-attacks, paying particular attention to reducing the risks that vulnerable people face. Lloyds Banking Group is a founding member of the Financial Services Cyber Collaboration Centre, working with the Government's National Cyber Crime Centre, and the Cross-Market Operational Resilience Group. Lloyds Banking Group also work closely with other banks, recognising the importance of collaboration when it comes to security, including being part of the Cyber Defence Alliance (CDA), and meets all of the requirements set out in the EU General Data Protection Regulation (GDPR). While there's much the Bank can do, customers play a significant role in keeping their accounts secure. Public awareness campaigns are therefore crucial, and Lloyds Banking Group supports the 'Take Five' campaign, while also training colleagues so that they can help protect customers.

Supporting vulnerable customers

Vulnerability for customers exists in many forms, from a specific life event to something long-term. That's why the Bank as part of Lloyds Banking Group is committed to raising awareness, fighting stigma and providing meaningful support across a range of challenging issues. Whether supporting customers' financial worries following a cancer diagnosis, with partners at Macmillan, or working with Hope for Justice to provide bank accounts for modern slavery survivors, the Bank continues to create innovative solutions for customers. Another example is the development of a domestic and financial abuse team, Lloyds Banking Group's contribution to a very complex issue that can impact a wide range of customers. Lloyds Banking Group has also signed up to the Financial Abuse Code of Practice, and signposts the free-to-download Bright Sky app, that provides comprehensive support to people affected by domestic abuse.

In 2019, Lloyds Banking Group was the first bank to sign up to the Mental Health Accessibility Standards, supporting customers with mental health problems. For customers at risk of gambling related harm, controls have been enabled on all of the Bank's credit and debit cards. Work was also undertaken building on internal controls to run a pilot in partnership with Gamban, that helps restrict access to gambling websites and applications worldwide to provide further assistance.

Our Helping Britain Prosper Plan

Addressing some of the social, economic and environmental challenges facing the UK is the foundation of Lloyds Banking Group's Helping Britain Prosper Plan, in which the Bank participates. The plan goes beyond business as usual, uniting the organisation behind an inspiring set of objectives. Launched in 2014 and reviewed annually, the plan focuses on the areas where Lloyds Banking Group believes it can make the biggest difference. In 2018, as part of its inclusion in the Lloyds Banking Group Balanced Scorecard, specific targets were set across seven areas of focus aligned to the organisations three year strategy, including environmental sustainability, and progress is outlined below. Read more online https://www.lloydsbankinggroup.com/our-group/responsible-business/prosper-plan/

The Principles for Responsible Business

In September 2019, Lloyds Banking Group became a founding signatory of the United Nations Environment Programme Finance Initiative (UNEP FI) Principles for Responsible Banking. This sets out a framework for a reformed banking system that will better meet the changing expectations of society. Through both responsible business activities and the Helping Britain Prosper Plan, Lloyds Banking Group is supporting the UN's broader sustainable development agenda, and contributing towards reaching the UN Sustainable Development Goals (SDGs).

Progress against the Helping Britain Prosper Plan for 2019 and related targets for 2020 can be found on page 27 of the Lloyds Banking Group annual report and accounts for 2019.

RISK OVERVIEW

EFFECTIVE RISK MANAGEMENT AND CONTROL

THE LLOYDS BANK GROUP'S APPROACH TO RISK

Lloyds Bank Group adopts the Lloyds Banking Group enterprise risk management framework supplemented by additional management and control activities to address the Lloyds Bank Group's specific requirements.

The Risk division's mission is to protect its customers, colleagues and Lloyds Bank Group, whilst enabling sustainable growth in targeted segments. This is achieved through informed risk decision-making and robust risk management, supported by a consistent risk-focused culture.

This risk overview provides a summary of risk management within the Lloyds Bank Group, with a prudent approach and rigorous controls to support sustainable business growth and minimise losses. Through a strong and independent risk function, a robust control framework is maintained to identify and escalate current and emerging risks, support sustainable growth within Lloyds Bank Group risk appetite, and to drive and inform good risk reward decisions.

RISK AS A STRATEGIC DIFFERENTIATOR

Risks are identified, managed, mitigated and monitored using Lloyds Banking Group's comprehensive enterprise risk management framework, and a well-articulated risk appetite provides a clear framework for decision-making. The principal risks Lloyds Bank Group face, which could significantly impact the delivery of Lloyds Bank Group's strategy, are discussed on pages 14 to 18.

Lloyds Bank Group believe effective risk management can be a strategic differentiator, in particular:

- **Prudent approach to risk**
  Being low risk is fundamental to Lloyds Bank Group's business model and drives its participation choices. Strategy and risk appetite are developed in tandem and together outline the parameters within which the Lloyds Bank Group operates.
- **Strong control framework**
  Lloyds Banking Group's enterprise risk management framework is the foundation for the delivery of effective risk control and ensures that the Lloyds Bank Group risk appetite is continually developed and controlled.

  The Board is responsible for approving the Lloyds Bank Group's risk appetite statement annually. Board-level metrics are cascaded into more detailed business appetite metrics and limits.
- **Business focus and accountability**
  Risk management is an integral feature of how the Lloyds Bank Group measure and manage performance – for individuals, businesses and the Lloyds Bank Group. In the first line of defence, business units are accountable for managing risk with oversight from a strong and independent second line of defence Risk division.
- **Effective risk analysis, management and reporting**
  Regular close monitoring and comprehensive reporting to all levels of management and the Board ensures appetite limits are maintained and subject to stress analysis at a risk type and portfolio level, as appropriate.

LLOYDS BANKING GROUP'S ENTERPRISE RISK MANAGEMENT FRAMEWORK

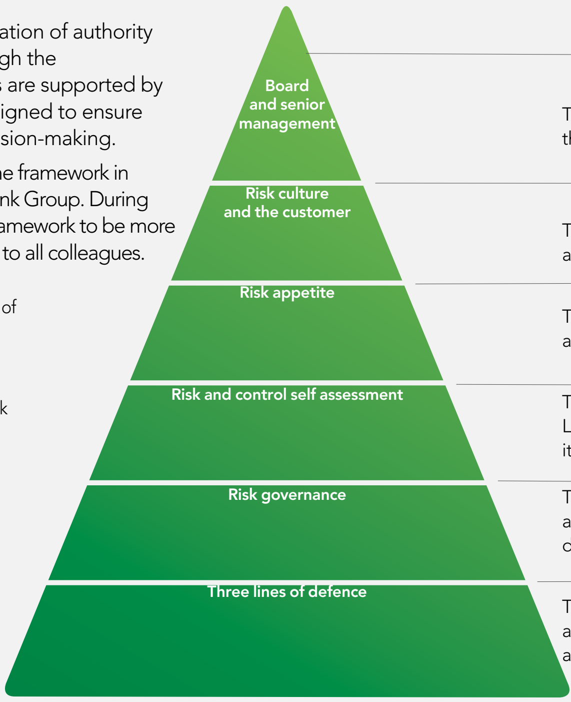
Lloyds Bank Group's risk appetite, principles, policies, procedures, controls and reporting are regularly reviewed and updated where needed to ensure they remain fully in line with regulations, law, corporate governance and industry good practice.

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

The risk management framework outlines the framework in place for risk management across Lloyds Bank Group. During 2019, Lloyds Banking Group updated this framework to be more succinct and to better ensure it is accessible to all colleagues.

A number of key components support the delivery of effective risk management, with four overarching objectives:

- Define a robust and consistent approach to risk governance to be applied across the Lloyds Bank Group;
- Articulate individual and collective accountabilities for risk appetite, oversight and assurance;
- Establish a common approach to categorise risks to support assessment, aggregation and reporting; and
- Provide colleagues and stakeholders with a single point of reference for risk management understanding, and supporting reference sources.



The Board delegate executive authorities to ensure there is effective oversight of risk management.

The appropriate culture ensures performance, risk and reward are aligned.

The framework ensures Lloyds Bank Group's risks are managed in line with its risk appetite.

The identification, measurement and control of Lloyds Bank Group's risks form an integral part of its Risk and Control Self Assessment.

The governance framework supports a consistent approach to enterprise-wide behaviour and decision-making.

The robust approach to monitoring, oversight and assurance ensures effective risk management across the Lloyds Bank Group.

RISK CULTURE AND THE CUSTOMER

The effectiveness of Lloyds Bank Group's risk management approach relies upon a culture of transparency and openness that is encouraged by both the Board and senior management.

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

Tone from the top

Senior leaders set a clear tone from the top and lead by example, reflecting the Lloyds Bank Group's values; putting customers first, keeping it simple, and making a difference together, encouraging a culture of intellectual curiosity and proactive risk management amongst all colleagues.

Accountability

Risk management is a team effort with all colleagues playing their part and taking full individual responsibility for their actions.

Effective communication and challenge

Lloyds Bank Group is open, honest and transparent with risk colleagues working in collaboration with business areas to:

- Support effective risk management;
- Understand root causes when things go wrong;
- Share lessons learned; and
- Provide constructive challenge.

Incentives

Remuneration, performance management and succession planning that support Lloyds Bank Group's core values and put customer at the heart of everything the Lloyds Bank Group do.

2019 THEMES

Lloyds Bank Group's priorities for risk management have continued to evolve, alongside progression of Lloyds Bank Group's strategy and development of external factors. Lloyds Bank Group's principal risks are outlined over the next few pages but some themes have been particularly prevalent in 2019.

Climate risk

Climate change is a key global risk, impacting customers, investors and Lloyds Bank Group in making the required transition towards a low carbon economy. Lloyds Bank Group is committed to delivering the Task Force for Climate-Related Financial Disclosures by 2022 and is taking steps to fully integrate climate risk into Lloyds Banking Group's existing enterprise risk management framework, including the Lloyds Bank Group's policies, risk appetite, controls and disclosures.

Lloyds Bank Group continues to invest in supporting this activity as part of the wider sustainability strategy, and is also an active participant in a number of external initiatives to help drive consistency across the industry.

EU exit

Given the vast majority of Lloyds Bank Group's business is in the UK, the direct impact on Lloyds Bank Group from leaving the EU is relatively small and Lloyds Bank Group has taken the necessary steps to ensure continuity of its limited EU business activities, where permitted.

Lloyds Bank Group's UK focus means its performance is inextricably linked to the health of the UK economy. Economic performance has remained resilient in recent years and whilst the near term outlook for the UK economy remains unclear given UK/EU trade agreement negotiations, Lloyds Bank Group continues to monitor closely. Lloyds Bank Group is also taking a prudent approach to its balance sheet, accelerating issuance where appropriate.

Lloyds Bank Group's customer focused strategy remains the right one. Guided by the overriding principle of Helping Britain Prosper, Lloyds Bank Group continues to focus on customer needs and support its personal and business customers. Lloyds Bank Group has delivered on its commitment to lend £18 billion to UK businesses in 2019, reaffirming support for the UK economy.

Change / Execution risk

Delivering change is a key part of how Lloyds Bank Group continues to serve its customers, fulfil its strategic objectives, and deliver its aim of Helping Britain Prosper.

During 2019, key change initiatives included digitising of the Lloyds Bank Group and transforming ways of working. There has also been significant delivery of regulatory change in order to adapt to the changing regulatory landscape.

The need to protect existing processes and minimise adverse impact on colleagues and clients will support the delivery of a leading customer experience.

Emerging risks
The Lloyds Banking Group considers the following to be risks that have the potential to increase in significance and affect the performance of the Lloyds Banking Group.

The rapid pace and scale of measures to contain a major health issue such as the Coronavirus pandemic demonstrate the potentially adverse impact of those measures on the economy. The potential adverse impact on the value and trading of stocks, bond yields, credit spreads and commodities can also be seen in significant market falls, reduced liquidity and rises in volatility. The government and regulators are taking significant action to address the economic impact, which may be temporary, but depending on the severity it could lead to a significant loss of output and recession in the UK. Any sector-specific or wider impact due to this could potentially impact the retail or corporate customers of the Lloyds Bank Group and as a result have a material adverse effect on the Lloyds Bank Group's results of operations, financial condition or prospects.

Following the UK's exit from the EU, significant negotiation is now required on the terms of the future trade agreement. As a result, the possibility of a limited or no deal at the end of the transition period remains and could manifest in prolonged business uncertainty across the UK, including in the financial services sector. This continued lack of clarity over the UK's relationship with the EU and other foreign countries, and ongoing challenges in the Eurozone, including weak growth, raise additional uncertainty for the UK's economic outlook. There also remains the possibility of a further referendum on Scottish independence.

Any adverse changes affecting the economies of the countries in which the Lloyds Bank Group has significant direct and indirect credit exposures and any further deterioration in global macroeconomic conditions, including as a result of geopolitical events, global health issues, acts of war or terrorism, could have a material adverse effect on the Lloyds Bank Group's results of operations, financial condition or prospects.

As a result of the global health issues, the potential for operational risks materialising increases, notably in the areas of cyber, fraud, people, technology, operational resilience and where there is reliance on third-party suppliers. In addition to the key operational risks, new risks are likely to arise as the business will need to change its ways of working whilst managing any site contamination to ensure continuity and support to colleagues and customers.

The Lloyds Bank Group also considers regulatory and legal, climate, cyber, competition, data, macroeconomic headwinds, geopolitical, financial services transformation impact on customers and transition from IBORs to alternative risk free reference rates risks to have the potential to increase in significance and affect the performance of the Lloyds Bank Group. More information can be found on pages 133 to 134 of the Lloyds Banking Group annual report and accounts for 2019, available on the Lloyds Banking Group website.

Lloyds Bank Group's Principal Risks
Principal risks and uncertainties are reported regularly to the Board Risk Committee. Change/execution, data and operational resilience have been elevated from existing risks to principal risks during 2019, and strategic added as a new principal risk.

CHANGE/EXECUTION
The risk that, in delivering our change agenda, we fail to ensure compliance with laws and regulation, maintain effective customer service and availability, and/or operate within our approved risk appetite.

Example
Ineffective change/execution risk management could lead to increased periods of time where we cannot serve our customers, and could lead to impacts associated with other risk types such as regulatory censure.

Risk Appetite
We have limited appetite for negative impacts on customers, colleagues, or Lloyds Bank Group as a result of change activity.

Mitigation
- Continued focus on strengthening the control environment, maturation of the change policy and associated policies and procedures, which set out the principles and key controls that apply across the business and are aligned to Lloyds Bank Group risk appetite. Senior Management continue to drive improvements to Change and Execution Risk metrics, in particular those affecting customers and colleagues
- Businesses assess the potential impacts of undertaking any change activity on their ability to execute effectively, and the potential consequences for the existing risk profiles

Alignment to strategic priorities and future focus
Delivering a leading customer experience
- We recognise the importance of delivering Lloyds Bank Group's strategic priorities and will continue to invest in the transformation of Lloyds Bank Group to deliver a leading customer experience

DATA
The risk that we fail to effectively govern, manage, and control our data (including data processed by third party suppliers) leading to unethical decisions, poor customer outcomes, loss of value and mistrust.

Example
The loss of trust from customers, colleagues, business partners or regulators arising from a failure to manage and control our data.

Risk Appetite
We have limited appetite for material events or losses that occur due to the inappropriate use of data.

Mitigation
- Significant investment has been made to enhance the maturity of data risk management in recent years
- In addition to the General Data Protection programme which delivered the necessary infrastructure to achieve compliance with the new regulations in May 2018, a number of other large investments have been made

Alignment to strategic priorities and future focus
Delivering a leading customer experience
- The quality of the data that Lloyds Bank Group holds and the choices we make in how it is used is a key strategic enabler to future business growth, delivering a leading customer experience and Helping Britain Prosper
- We recognise that lawful, fair and transparent collection and appropriate use of data, is critical to delivering a leading customer experience and maintaining trust across the wider industry

– Internal programmes ensure that data is used correctly, and the control environment is regularly assessed through both internal and third-party testing

OPERATIONAL RESILIENCE

The risk that we fail to design resilience into business operations, underlying infrastructure and controls (people, process, technology) so that it is able to withstand external or internal events which could impact the continuation of operations, and fails to respond in a way which meets customer and stakeholder expectations and needs when the continuity of operations is compromised.

Example

Ineffective risk management could lead to vital services not being available to customers and stakeholders.

Risk Appetite

We have a limited appetite for disruption to services to customers and stakeholders from significant unexpected events.

Mitigation

– Lloyds Bank Group has increased its focus on operational resilience and has updated its strategy to reflect changing priorities of both customers and regulators

Alignment to strategic priorities and future focus

Delivering a leading customer experience

– End-to-end resilience of our critical processes is a key strategic priority and Lloyds Bank Group operational resilience programmes continue to invest in improving our control environment and resilience. We continue to exercise, test and improve our resilience through scenario testing as well as learning from real events (those impacting ourselves but also those impacting others) through understanding the root cause
– We recognise the importance of Lloyds Bank Group's operational resilience to our customers, markets and the wider financial sector

STRATEGIC

The risks which result from strategic plans which do not adequately reflect trends in external factors, ineffective business strategy execution, or failure to respond in a timely manner to external environments or changes in stakeholder behaviours and expectations.

Example

– The financial services sector operates in evolving regulatory and competitive environments with an increased pace, scale and complexity of change which creates a risk to Lloyds Bank Group's strategic plans
– Shareholder expectations continue to evolve potentially impacting Lloyds Bank Group's role in society
– Greater competition for specialist skill sets (such as data science and engineering), alongside demographic challenges in the working population, may result in a skills shortage impacting delivery of key strategic initiatives

Risk Appetite

We have business plans that are responsive to internal and external factors including changes to the regulatory, macroeconomic and competitive environments.

Mitigation

– Continued digitisation of customer journeys, thereby enabling the delivery of market leading customer experiences that are seamless, accessible and personal
– Robust operating and contingency planning to ensure potential impacts of strategic initiatives and external drivers are mitigated

Alignment to strategic priorities and future focus

Delivering a leading customer experience

– Lloyds Bank Group's forward looking approach to managing strategic risk will help Lloyds Bank Group identify new risks and opportunities, and allow Lloyds Bank Group to be better prepared to respond to changes in the regulatory and competitive environments

CREDIT

The risk that parties with whom we have contracted fail to meet their financial obligations (both on or off balance sheet).

Example

Observed or anticipated changes in the economic environment could impact profitability due to an increase in delinquency, defaults, write-downs and/or expected credit losses.

Risk Appetite

We have a conservative and well balanced credit portfolio through the economic cycle, generating an appropriate return on equity, in line with our target return on equity in aggregate.

Mitigation

– Prudent, through the cycle credit principles, risk policies and appetite statements
– Robust models and controls

Alignment to strategic priorities and future focus

Maximising Group capabilities

– We seek to support sustainable growth in our targeted segments. We have a conservative and well-balanced credit portfolio, managed through the economic cycle and supported by strong credit portfolio management
– We are committed to better addressing our customers' banking needs through consistent, fair and responsible credit risk decisions, aligned to customers' circumstances, whilst staying within prudent risk appetite
– Portfolios have benefited from relatively favourable economic conditions and a prolonged period of low interest rates. Underlying impairments remain below long-term levels, but are expected to increase as impairments normalise

Key risk indicators

£1,362m

Impairment charge

2018: £926m

1.2%

Stage 3 loans and advances as a % of total

2018: 1.2%

REGULATORY AND LEGAL
The risk of financial penalties, regulatory censure, criminal or civil enforcement action or customer detriment as a result of failure to identify, assess, correctly interpret, comply with, or manage regulatory and/or legal requirements.

Example
Failure to deliver key regulatory changes or to comply with ongoing requirements.

Risk Appetite
We interpret and comply with all relevant regulation and all applicable laws (including codes of conduct which could have legal implications) and/or legal obligations.

Mitigation
- Lloyds Banking Group policies and procedures set out the principles and key controls that should apply across the business which are aligned to Lloyds Bank Group risk appetite
- Business units identify, assess and implement policy and regulatory requirements and establish local controls, processes, procedures and resources to ensure appropriate governance and compliance

Alignment to strategic priorities and future focus
Delivering a leading customer experience
- We are committed to operating sustainably and responsibly, and commit significant resource and expense to ensure we meet our legal and regulatory obligations
- We respond as appropriate to impending legislation, regulation and associated consultations and participate in industry bodies. We continue to be proactive in responding to significant ongoing and new legislation, regulation and court proceedings

CONDUCT
The risk of customer detriment across the customer lifecycle including: failures in product management, distribution and servicing activities; from other risks materialising, or other activities which could undermine the integrity of the market or distort competition, leading to unfair customer outcomes, regulatory censure, reputational damage or financial loss.

Example
The most significant conduct cost in recent years has been PPI mis-selling.

Risk Appetite
We deliver fair outcomes for our customers.

Mitigation
- Simplified and enhanced conduct policies and procedures in place to ensure appropriate controls and processes that deliver fair customer outcomes, and support market integrity and competition requirements
- Active engagement with regulatory bodies and other stakeholders to develop understanding of concerns related to customer treatment, effective competition and market integrity, to ensure that Lloyds Bank Group's strategic conduct focus continues to meet evolving stakeholder expectations

Alignment to strategic priorities and future focus
Delivering a leading customer experience
- As we transform our business, minimising conduct risk is critical to achieving our strategic goals and meeting regulatory standards
- We have senior committees that ensure our focus on embedding a customer-centric culture and delivering fair outcomes. Our conduct risk framework continues to support this through robust and effective management. This supports the delivery of a leading customer experience through effective root cause analysis and learning from customer feedback

OPERATIONAL
The risk of loss from inadequate or failed internal processes, people and systems, or from external events.

Example
Ineffective risk management could lead to adverse customer impact, reputational damage and financial loss, across all of our principal risks.

Risk Appetite
We have robust controls in place to manage operational losses, reputational events and regulatory breaches. We identify and assess emerging risks and act to mitigate these.

Mitigation
- Lloyds Bank Group continues to review and invest in its control environment to ensure it addresses the inherent risks faced
- Lloyds Bank Group employs a range of risk management strategies, including: avoidance, mitigation, transfer (including insurance) and acceptance

Alignment to strategic priorities and future focus
Delivering a leading customer experience
- Lloyds Bank Group continues to manage operational risk within the appetite articulated by the Board and in compliance with legal and regulatory requirements to ensure a robust control environment and a positive customer experience

PEOPLE
The risk that we fail to provide an appropriate colleague and customer-centric culture, supported by robust reward and wellbeing policies and processes; effective leadership to manage colleague resources; effective talent and succession management; and robust control to ensure all colleague-related requirements are met.

Example
Inability to attract or retain colleagues with key skills could impact the achievement of business objectives.

Risk Appetite
We lead responsibly and proficiently, manage people resource effectively, support and develop colleague talent, and meet legal and regulatory obligations related to our people.

Mitigation

- Focusing on leadership and colleague engagement, through delivery of strategies to attract, retain and develop high calibre people together with implementation of rigorous succession planning
- Continued focus on Lloyds Bank Group's culture by developing and delivering initiatives that reinforce the appropriate behaviours which generate the best possible long-term outcomes for customers and colleagues

Alignment to strategic priorities and future focus
Transforming ways of working

- Regulatory requirements relating to personal accountability and remuneration rules could affect our ability to attract and retain the calibre of colleagues required to meet changing customer needs. We recognise the challenges in delivering Lloyds Bank Group's strategic priorities and we will continue to invest in the development of colleague capabilities and agile working practices. This investment will deliver a leading customer experience and allow Lloyds Bank Group to respond quickly to customers' rapidly changing decision-making in a digital era

Capital
The risk that we have a sub-optimal quantity or quality of capital or that capital is inefficiently deployed across Lloyds Bank Group.

Example

- A worsening macroeconomic environment could lead to adverse financial performance, which could deplete capital resources and/ or increase capital requirements due to a deterioration in customers' creditworthiness
- Alternatively a shortage of capital could arise from an increase in the amount of capital that needs to be held

Risk Appetite
We maintain capital levels commensurate with a prudent level of solvency.

Mitigation

- The Lloyds Bank Group capital management framework is part of a comprehensive capital management framework within Lloyds Banking Group that includes the setting of capital risk appetite
- Lloyds Banking Group maintains a recovery plan which sets out a range of potential mitigating actions that Lloyds Bank Group could take in response to a stress

Alignment to strategic priorities and future focus.
Maximising Group capabilities

- Ensuring we hold an appropriate level of capital to maintain financial resilience and market confidence underpins our strategic objectives of supporting the UK economy, and growth in targeted segments through the cycle

Key risk indicators
14.3%
CET1 ratio
2018: 14.9%

5.1%
UK leverage ratio
2018: 5.0%

FUNDING AND LIQUIDITY
Funding risk is the risk that we do not have sufficiently stable and diverse sources of funding or the funding structure is inefficient. Liquidity risk is the risk that we do not have sufficient financial resources to meet our commitments when they fall due, or can only secure them at excessive cost.

Example
A deterioration in either our or the UK's credit rating, or a sudden and significant withdrawal of customer deposits, would adversely impact our funding and liquidity position.

Risk Appetite
We maintain a prudent liquidity profile and a balance sheet structure that limits our reliance on potentially volatile sources of funding.

Mitigation

- Lloyds Bank Group manages and monitors liquidity risks and ensures that liquidity risk management systems and arrangements are adequate with regard to the internal risk appetite, Lloyds Bank Group strategy and regulatory requirements
- Lloyds Bank Group's funding and liquidity position is underpinned by its significant customer deposit base, and is supported by strong relationships across customer segments

Alignment to strategic priorities and future focus
Maximising Group capabilities

- We maintain a strong funding position in line with our low risk strategy, and the loan to deposit ratio remains within our target range
- Our funding position allows us to grow targeted business segments, and better address our customers' needs

Key risk indicators
£98.5bn 2019
LCR eligible assets
2018: £111bn

GOVERNANCE
The risk that our organisational infrastructure fails to provide robust oversight of decision making and the control mechanisms to ensure strategies and management instructions are implemented effectively.

Examples
- Inadequate or complex governance arrangements to address ring-fencing requirements and the potential impact of EU exit could result in a weaker control environment, delays in decision making and lack of clear accountability
- Non-compliance with, or breaches of SMCR requirements could result in lack of clear accountability, and legal and regulatory consequences

Risk Appetite
We have governance arrangements that support the effective long-term operation of the business, maximise shareholder value and meet regulatory and societal expectations.

Mitigation
- Defining individual and collective accountabilities for risk management, risk oversight and risk assurance through a three lines of defence model which supports the discharge of responsibilities to customers, shareholders and regulators
- Outlining governance arrangements which articulate the enterprise-wide approach to risk management

Alignment to strategic priorities and future focus
Delivering a leading customer experience
- Ring-fencing ensures that we are safer and continue to deliver a leading customer experience by providing further protection to core retail and SME deposits, increasing transparency of our operations and facilitating the options available in resolution
- Our governance framework and strong culture of ownership and accountability enabled effective, on time, compliance with the SMCR requirements and enable us to demonstrate clear accountability for decisions

MARKET
The risk that our capital or earnings profile is affected by adverse market rates, in particular interest rates and credit spreads in the banking business, and credit spreads in the Group's defined benefit pension schemes.

Examples
- Earnings are impacted by our ability to forecast and model customer behaviour accurately and establish appropriate hedging strategies
- Narrowing credit spreads will increase the cost of pension scheme benefits

Risk Appetite
We have robust controls in place to manage our inherent market risk and do not engage in any proprietary trading, reflecting the customer focused nature of Lloyds Bank Group's activities

Mitigation
- Structural hedge programmes implemented to manage liability margins and margin compression
- Equity and credit spread risks are closely monitored and, where appropriate, asset and liability matching is undertaken
- The Group's defined benefit pension schemes continue to monitor their credit allocation as well as the hedges in place against nominal rate and inflation movements

Alignment to strategic priorities and future focus
Maximising Group capabilities
- We actively manage our exposure to movements in market rates, to drive lower volatility earnings and offer a comprehensive customer proposition with hedging strategies to support strategic aims. Mitigating actions are implemented to reduce the impact of market movements, resulting in a more stable capital position
- Effective interest rate and inflation hedging has kept volatility in Lloyds Bank Group's defined benefit pension schemes low. This combined with improved market conditions has helped keep the schemes in IAS 19 surplus in 2019. This allows us to more efficiently utilise available capital resources

Key risk indicators
£550m
IAS 19 pension surplus
2018: £1,146m

MODEL
The risk of financial loss, regulatory censure, reputational damage or customer detriment, as a result of deficiencies in the development, application and ongoing operation of Models and Rating Systems.

Example
The consequences of inadequate models could include: inappropriate levels of capital or impairments; inappropriate credit or pricing decisions; and adverse impacts on funding or liquidity, or Lloyds Bank Group's earnings and profits.

Risk Appetite
Material models are performing in line with expectations.

Mitigation
- The model risk management framework, established by and with continued oversight from an independent team in the Risk division, provides the foundation for managing and mitigating model risk within Lloyds Bank Group

Alignment to strategic priorities and future focus
Digitising the Group
- Our models play a vital role in supporting Lloyds Bank Group strategy to ensure profitable growth in targeted segments and the drive toward automation and digital solutions to enhance customer outcomes. Model risk management helps ensure these models are implemented in a controlled and safe manner for both ourselves and customers.

Financial risk management objectives and policies
Information regarding the financial risk management objectives and policies of the Group, in relation to the use of financial instruments, is given in notes 43 and 46 to the accounts. The Group's approach to risk management including risk policies, risk appetite, measurement bases and sensitivities, in particular for credit risk, market risk and liquidity risk, is aligned to those of Lloyds Banking Group plc, the Bank's ultimate parent. Further information can be found in the Lloyds Banking Group plc annual report.

The Group maintains risk management systems and internal controls relating to the financial reporting processes designed to:
– ensure that accounting policies are appropriately and consistently applied;
– enable the calculation, preparation and reporting of financial outcomes in line with applicable standards; and
– ensure that disclosures are made on a timely basis in accordance with statutory and regulatory requirements.

The 2019 Strategic Report has been approved by the Board of Directors.

On behalf of the Board

Lord Blackwell
Lloyds Bank plc
23 March 2020

Results

The consolidated income statement on page 34 shows a statutory profit before tax from continuing operations for the year ended 31 December 2019 of £3,474 million (year ended 31 December 2018: £4,929 million).

Dividends

During the year the Bank paid interim dividends of £2,100 million and £2,000 million, a cumulative total of £4,100 million (2018: £11,022 million). The Directors have not recommended a final dividend for the year ended 31 December 2019 (2018: nil).

Post balance sheet events

Details of post balance sheet events are given in note 50.

Going concern

The going concern of the Bank and the Group is dependent on successfully funding their respective balance sheets and maintaining adequate levels of capital and liquidity. In order to satisfy themselves that the Bank and the Group have adequate resources to continue to operate for the foreseeable future, the Directors have considered the principal risks and uncertainties and capital and funding position set out in the Strategic Report on pages 2 to 19 and additionally have considered projections for the Bank's and the Group's capital and funding position. Accordingly, the Directors conclude that it is appropriate to continue to adopt the going concern basis in preparing the accounts over the next 12 months, from the date of approval of the financial statements.

Corporate Governance Statement

In accordance with the Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018) (the 'Regulations'), for the year ended 31 December 2019, the Bank has in its corporate governance arrangements applied the Wates Corporate Governance Principles for Large Private Companies (the 'Principles'), which are available at frc.org.uk. The following section explains the Bank's approach to corporate governance, and its application of the Principles.

Fundamental to the Bank's strategy are high standards of corporate governance. A Corporate Governance Framework is in place for Lloyds Banking Group, the Bank, Bank of Scotland plc and HBOS plc, with all four companies sharing a common approach to governance. The framework is designed to meet the specific needs of each company, setting the wider approach and applicable standards in respect of the Bank's corporate governance practices, including addressing the matters set out in the Principles and the governance requirements of the operation of the Bank as part of Lloyds Banking Group's Ring Fenced Bank.

This includes the matters reserved to the Board, and the matters the Board has chosen to delegate to management, including decision making on operational matters such as those relating to credit, liquidity and the day to day management of risk. Governance arrangements, including the Corporate Governance Framework, are reviewed at least annually to ensure they remain fit for purpose. The Corporate Governance Framework of the Bank further addresses the requirements of the Principles as follows.

Membership of the Board and its committees as at 31 December 2019 comprised:

Board and Committee Composition and Board Attendance in 2019[1]

Board Member[5]	Board meetings	Nomination Committee	Audit Committee	Board Risk Committee	Remuneration Committee
Lord Blackwell (C)	11/11	7/7 (C)	–	8/8	6/6
António Horta-Osório	11/11	–	–	–	–
William Chalmers[2]	3/3	–	–	–	–
Juan Colombás	11/11	–	–	–	–
George Culmer[2]	8/8	–	–	–	–
Sarah Bentley	11/11	–	–	8/8	6/6
Alan Dickinson	11/11	7/7	6/6	8/8 (C)	5/6[4]
Anita Frew	11/11	7/7	6/6	8/8	6/6
Brendan Gilligan	11/11	–	6/6	8/8	–
Simon Henry	10/11[4]	–	6/6 (C)	7/8[4]	–
Nigel Hinshelwood	11/11	7/7	6/6	8/8	6/6
Sarah Legg[3]	–	–	–	–	–
Lord Lupton	11/11	–	3/3	8/8	–
Amanda Mackenzie	11/11	–	–	8/8	3/3
Nick Prettejohn	11/11	5/5	6/6	8/8	–
Stuart Sinclair	11/11	–	–	8/8	6/6 (C)
Sara Weller	11/11	7/7	–	7/8[4]	6/6

C – Chairman

1 Where a Director is unable to attend a meeting s/he receives papers in advance and has the opportunity to provide comments to the Chairman of the Board or the relevant Committee Chairman.

2 George Culmer retired from, and William Chalmers was appointed to, the Board on 1 August 2019.

3 Sarah Legg joined the Board and respective Committees on 1 December 2019. There were no meetings in December 2019.

4 Unable to attend due to a scheduling clash with a prior business commitment.

5 Catherine Woods joined the Board and respective Committees on 1 March 2020.

The Board delegates further responsibilities to the Group Chief Executive, who is supported by the Group Executive Committee, the composition of which is detailed on pages 68 to 69 of the Lloyds Banking Group annual report and accounts for 2019.

Principle One – Purpose and Leadership
The Board is collectively responsible for the long term success of the Bank. It achieves this by agreeing the Bank's strategy, within the wider strategy of Lloyds Banking Group, and overseeing delivery against it. The Bank's strategy is discussed further in the Strategic Report on pages 2 to 19. The Board also assumes responsibilities for the management of the culture, values and wider standards of the Bank, within the equivalent standards set by Lloyds Banking Group.

Consideration of the needs of all stakeholders is fundamental to the way the Bank operates, as is maintaining the highest standards of business conduct, which along with ensuring delivery for customers is a vital part of the corporate culture. The Bank's approach is further influenced by the need to build a culture in which everyone feels included, empowered and inspired to do the right thing for customers. To this end, the Board plays a lead role in establishing, promoting and monitoring the Bank's corporate culture and values, with the Corporate Governance Framework ensuring such matters receive the level of prominence in Board and Executive decision making which they require. The Bank's corporate culture and values align to those of Lloyds Banking Group, which are discussed in more detail on pages 14 to 35 of the Lloyds Banking Group annual report and accounts for 2019.

Principle Two – Board Composition
The Bank is led by a Board comprising a Non-Executive Chairman, independent Non-Executive Directors and Executive Directors, further details of the Directors can be found on page 24. The Board considers its composition regularly, and is committed to ensuring it has the right balance of skills and experience. The Board considers its current size and composition is appropriate to the Bank's circumstances. The Board places great emphasis on ensuring its membership reflects diversity in its broadest sense. New appointments are made on merit, taking account of the specific skills and experience, independence and knowledge needed to ensure a rounded board and the diversity benefits each candidate can bring overall. There are a range of initiatives within Lloyds Banking Group more widely to help provide mentoring and development opportunities for female and BAME executives, and to ensure unbiased career progression opportunities. Progress on diversity objectives is monitored by the Board and built into its assessment of executive performance.

The Board is supported by its committees, the operation of which are discussed below, which make recommendations to the Board on matters delegated to them, in particular in relation to internal control, risk, financial reporting and remuneration matters. Each committee has written terms of reference setting out its delegated responsibilities. Each committee comprises Non-Executive Directors with appropriate skills and experiences and is chaired by an experienced chairman. The committee chairs report to the Board at the next Board meeting. The Board undertakes an annual review of its effectiveness, which provides an opportunity to consider ways of identifying greater efficiencies, ways to maximise strengths and highlights areas of further development. The effectiveness review is commissioned by the Board, assisted by the Company Secretary. In addition to considering the effectiveness of the Board, the effectiveness of the Board committees and individual Directors is also considered, with individual performance evaluation conducted for each of the members of the Board.

Principle Three – Director Responsibilities
The Directors assume ultimate responsibility for all matters, and along with senior management are committed to maintaining a robust control framework as the foundation for the delivery of good governance, including the effective management of delegation through the Corporate Governance Framework. Policies are also in place in relation to potential conflicts of interest which may arise.

The Board is supported by its committees which make recommendations on matters delegated to them under the Corporate Governance Framework. The management of all committees is in keeping with the basis on which meetings of the Board are managed, with open debate, and adequate time for members to consider proposals which are put forward. The Chairman of the Board and each Board committee assumes responsibility with support from the Company Secretary for the provision to each meeting of accurate and timely information.

Principle Four – Opportunity and Risk
The Board oversees the development and implementation of the Bank's strategy, within the context of the wider strategy of Lloyds Banking Group, which includes consideration of all strategic opportunities. The Board is also responsible for the long term sustainable success of the Bank, generating value for its shareholders and ensuring a positive contribution to society. The Board agrees the Bank's culture, purpose, values and strategy, within that of Lloyds Banking Group, and agrees the related standards of the Bank, again within the relevant standards of Lloyds Banking Group. Further specific aims and objectives of the Board are formalised within the Corporate Governance Framework.

Strong risk management is central to the strategy of the Bank, which along with a robust risk control framework acts as the foundation for the delivery of effective management of risk. The Board agrees the Bank's risk appetite and ensures the Bank manages risk effectively, delegating related authorities to individuals through the Corporate Governance Framework and the further management hierarchy. Board level engagement, coupled with the direct involvement of senior management in risk issues ensures that escalated issues are promptly addressed and remediation plans are initiated where required. The Bank's risk appetite, principles, policies, procedures, controls and reporting are managed in conjunction with those of Lloyds Banking Group, and as such are regularly reviewed to ensure they remain fully in line with regulations, law, corporate governance and industry best practice. The Bank's principal risks are discussed further on pages 14 to 18.

Principle Five – Remuneration
The Remuneration Committee of the Board, in conjunction with the Remuneration Committee of Lloyds Banking Group (the 'Remuneration Committees'), assume responsibility for the Bank's approach to remuneration. This includes reviewing and making recommendations on remuneration policy as relevant to the Bank, ranging from the remuneration of Directors and members of the Executive to that of all other colleagues employed by the Bank. This includes colleagues where the regulators require the Bank to implement a specific approach to their remuneration, such as Senior Managers and other material risk takers. The activities of the Remuneration Committees extend to matters of remuneration relevant to subsidiaries of the Bank, where such subsidiary does not have its own remuneration committee. Certain members of the Lloyds Banking Group Executive, including the Group People and Productivity Director, are authorised to act upon the decisions made by the Remuneration Committees, and to undertake such other duties relevant to remuneration as delegated to them.

Principle Six – Stakeholders
The Bank as part of Lloyds Banking Group operates under Lloyds Banking Group's wider Responsible Business approach, which acknowledges that the Bank has a responsibility to help address the economic, social and environmental challenges which the UK faces, and as part of this understand the needs of the Bank's external stakeholders, including in the development and implementation of strategy. Central to this is Lloyds Banking Group's Helping Britain Prosper plan, in which the Bank participates, which seeks to gather stakeholder views through a dedicated materiality study, as overseen by Lloyds Banking Group's board level Responsible Business Committee.

In 2019, the Responsible Business Committee determined that the Bank and Lloyds Banking Group continued to demonstrate responsibility as a key priority, including keeping customers' data safe, supporting vulnerable customers, lending responsibly, supporting businesses and working with suppliers. The approach of the Board in respect of its all stakeholders, including colleagues, is described further in a separate statement made in compliance with the Regulations on pages 7 to 11.

Directors' report

Directors

The names of the current Directors are shown on page 24. Changes to the composition of the Board since 1 January 2019 up to the date of this report are shown in the table below. Anita Frew will retire at the forthcoming Lloyds Banking Group AGM.

	Joined the Board	Retired from the Board
Sarah Bentley	1 January 2019	
Brendan Gilligan	1 January 2019	
Nigel Hinshelwood	1 January 2019	
William Chalmers	1 August 2019	
George Culmer		1 August 2019
Sarah Legg	1 December 2019	
Catherine Woods	1 March 2020	

Directors' indemnities

The Directors of the Bank, including the former Director who retired during the year, have entered/will enter into individual deeds of indemnity with Lloyds Banking Group plc which constitute 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The deeds indemnify the Directors to the maximum extent permitted by law and remain in force. The deeds were in force during the whole of the financial year or from/will be from the date of appointment in respect of the Directors appointed in 2019 and 2020. In addition, Lloyds Banking Group plc had appropriate Directors' and Officers' liability insurance cover in place throughout 2019. Deeds for existing Directors are available for inspection at the Bank's registered office.

Lloyds Banking Group plc has also granted deeds of indemnity by deed poll and by way of entering into individual deeds, which constitute 'qualifying third party indemnity provisions' to the Directors of the Group's subsidiary companies, including former Directors who retired during the year, and to colleagues subject to the provisions of the Senior Managers and Certification Regime. Such deeds were in force during the financial year ended 31 December 2019 and remain in force as at the date of this report. Qualifying pension scheme indemnities have also been granted to the Trustees of Lloyds Banking Group's Pension Schemes, including those schemes relevant to the Bank, which were in force for the whole of the financial year and remain in force as at the date of this report.

Information required under DTR 7.2

Certain information is incorporated into this report by reference. Information about internal control and risk management systems relating to the financial reporting process can be found on page 19.

Information about share capital is shown in note 33 on page 109. The Bank is a wholly owned subsidiary of Lloyds Banking Group plc, which holds all of the Bank's issued ordinary share capital.

The Directors manage the business of the Bank under the powers set out in the Companies Act 2006 and the Bank's articles of association, these power include those in relation to the issue or buy back of the Bank's shares.

The appointment and retirement of Directors is governed by the Bank's articles of association and the Companies Act 2006. The Bank's articles of association may only be amended by a special resolution of the shareholders in a general meeting.

Conflicts of interest

The Board has a comprehensive procedure for reviewing, and as permitted by the Companies Act 2006 and the Bank's articles of association, approving actual and potential conflicts of interest. Directors have a duty to notify the Chairman and Company Secretary as soon as they become aware of actual or potential conflict situations. Changes to commitments of all Directors are reported to the Board and a register of potential conflicts and time commitments is regularly reviewed and authorised by the Board to ensure the authorisation status remains appropriate.

Stuart Sinclair is a Senior Independent Director at QBE UK Limited, a general insurance and reinsurance company. Lord Lupton is a senior advisor to Greenhill Europe, an investment bank focused on providing financial advice on significant mergers, acquisitions, restructurings, financings and capital raising to corporations, partnerships, institutions and governments. The Board has recognised that potential conflicts may arise as a result of these positions. The Board has authorised the potential conflicts and requires Mr. Sinclair and Lord Lupton to recuse themselves from discussions, should the need arise.

Branches, future developments and financial risk management objectives and policies

The Bank provides a wide range of banking and financial services through branches and offices in the UK and overseas. Information regarding future developments and financial risk management objectives and policies of the Group in relation to the use of financial instruments that would otherwise be required to be disclosed in the Directors' report, and which is incorporated into this report by reference, can be found in the Strategic Report.

Share capital

Information about share capital is shown in note 33 on page 109. This information is incorporated into this report by reference. The Bank did not repurchase any of its shares during 2019 (2018: none). There are no restrictions on the transfer of shares in the Bank other than set out in the articles of association and certain restrictions which may from time to time be imposed by law and regulations.

Change of control

The Bank is not party to any significant agreements which take effect, alter or terminate upon a change of control of the Bank following a takeover bid. There are no agreements between the Bank and its Directors or employees providing compensation for loss of office or employment that occurs because of a takeover bid.

Research and development activities

During the ordinary course of business the Bank develops new products and services within the business units.

Supporting disability

As part of Lloyds Banking Group, the Bank is moving the debate on from accommodating disabilities, to developing talent and careers. In 2019, 2.8 per cent of Lloyds Banking Group colleagues, including those employed by the Bank, disclosed a disability and the Bank supports them in a range of ways. The Bank ensures full and fair consideration to applications from people with disabilities, and offers bespoke training, career development, promotions and adjustments for colleagues and applicants with disabilities, including those who became disabled while employed. Lloyds Banking Group holds a Business Disability Forum

(BDF) Gold Standard, and Disability Confident Leader status with the Department for Work and Pensions. In July, Lloyds Banking Group received the National Autistic Society's Autism Friendly Award, marking our commitment to become the UK's first autism friendly bank for customers.

Information incorporated by reference
The following additional information forms part of the Directors' Report, and is incorporated by reference.

Content		Pages
Disclosures required under the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008	Statement of employee engagement	7-8
	Statement of other stakeholder engagement	7-11

Significant contracts
Details of related party transactions are set out in note 40 on pages 116 to 119.

Statement of directors' responsibilities
The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the Bank and Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Bank and the Group and of the profit or loss of the Bank and the Group for that period. In preparing these financial statements, the Directors are required to: select suitable accounting policies and then apply them consistently; make judgements and accounting estimates that are reasonable and prudent; and state whether applicable IFRSs as adopted by the European Union have been followed.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Bank and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

A copy of the financial statements is placed on the website www.lloydsbankinggroup.com. The Directors are responsible for the maintenance and integrity in relation to the Bank on that website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the current Directors, who are in office as at the date of this report and whose names are shown on page 24 of this annual report, confirms that, to the best of his or her knowledge:

- the financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities and financial position and the profit or loss of the Bank and the Group; and
- the management report contained in the Strategic Report and the Directors' Report includes a fair review of the development and performance of the business and the position of the Bank and Group, together with a description of the principal risks and uncertainties that they face.

The Directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Bank's position and performance, business model and strategy. The Directors have also separately reviewed and approved the Strategic Report.

Independent auditor and audit information
Each person who is a Director at the date of approval of this report confirms that, so far as the Director is aware, there is no relevant audit information of which the Bank's auditor is unaware and each Director has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Bank's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of the Companies Act 2006.

A resolution will be proposed at the 2020 annual general meeting to re-appoint PricewaterhouseCoopers LLP as auditor. The Bank's Audit Committee is satisfied that the external auditor remains independent and effective.

Kate Cheetham

Kate Cheetham
Company Secretary
23 March 2020

Lloyds Bank plc
Registered in England & Wales
Company Number 2065

Directors

Lord Blackwell *Chairman*

António Horta-Osório *Executive Director and Group Chief Executive*

William Chalmers *Executive Director and Chief Financial Officer* (from 1 August 2019)

Juan Colombás *Executive Director and Chief Operating Officer*

Sarah Bentley (from 1 January 2019)

Alan Dickinson

Anita Frew

Brendan Gilligan (from 1 January 2019)

Simon Henry

Nigel Hinshelwood (from 1 January 2019)

Sarah Legg (from 1 December 2019)

Lord Lupton CBE

Amanda Mackenzie

Nick Prettejohn

Stuart Sinclair

Sara Weller CBE

Catherine Woods (from 1 March 2020)

Forward looking statements

This document contains certain forward looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934, as amended, and section 27A of the US Securities Act of 1933, as amended, with respect to the business, strategy, plans and/or results of Lloyds Bank plc together with its subsidiaries (the Lloyds Bank Group) and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about the Lloyds Bank Group's or its directors' and/or management's beliefs and expectations, are forward looking statements.

Words such as 'believes', 'anticipates', 'estimates', 'expects', 'intends', 'aims', 'potential', 'will', 'would', 'could', 'considered', 'likely', 'estimate' and variations of these words and similar future or conditional expressions are intended to identify forward looking statements but are not the exclusive means of identifying such statements.

Examples of such forward looking statements include, but are not limited to: projections or expectations of the Lloyds Bank Group's future financial position including profit attributable to shareholders, provisions, economic profit, dividends, capital structure, portfolios, net interest margin, capital ratios, liquidity, risk-weighted assets (RWAs), expenditures or any other financial items or ratios; litigation, regulatory and governmental investigations; the Lloyds Bank Group's future financial performance; the level and extent of future impairments and write-downs; statements of plans, objectives or goals of the Lloyds Bank Group or its management including in respect of statements about the future business and economic environments in the UK and elsewhere including, but not limited to, future trends in interest rates, foreign exchange rates, credit and equity market levels and demographic developments; statements about competition, regulation, disposals and consolidation or technological developments in the financial services industry; and statements of assumptions underlying such statements.

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 made by the Lloyds Bank Group or on its behalf include, but are not limited to: general economic and business conditions in the UK and internationally; market related trends and developments; fluctuations in interest rates, inflation, exchange rates, stock markets and currencies; any impact of the transition from IBORs to alternative reference rates; the ability to access sufficient sources of capital, liquidity and funding when required; changes to the Lloyds Bank Group's or Lloyds Banking Group plc's credit ratings; the ability to derive cost savings and other benefits including, but without limitation as a result of any acquisitions, disposals and other strategic transactions; the ability to achieve strategic objectives; changing customer behaviour including consumer spending, saving and borrowing habits; changes to borrower or counterparty credit quality; concentration of financial exposure; management and monitoring of conduct risk; instability in the global financial markets, including Eurozone instability, instability as a result of uncertainty surrounding the exit by the UK from the European Union (EU) and as a result of such exit and the potential for other countries to exit the EU or the Eurozone and the impact of any sovereign credit rating downgrade or other sovereign financial issues; political instability including as a result of any UK general election; 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 and other disasters, adverse weather and similar contingencies outside the Lloyds Bank Group's or Lloyds Banking Group plc's control; inadequate or failed internal or external processes or systems; acts of war, other acts of hostility, terrorist acts and responses to those acts, geopolitical, pandemic or other such events; risks relating to climate change; changes in laws, regulations, practices and accounting standards or taxation, including as a result of the exit by the UK from the EU, or a further possible referendum on Scottish independence; changes to regulatory capital or liquidity requirements and similar contingencies outside the Lloyds Bank Group's or Lloyds Banking Group plc's control; the policies, decisions and actions of governmental or regulatory authorities or courts in the UK, the EU, the US or elsewhere including the implementation and interpretation of key legislation and regulation together with any resulting impact on the future structure of the Lloyds Bank Group; the ability to attract and retain senior management and other employees and meet its diversity objectives; actions or omissions by the Lloyds Bank Group's directors, management or employees including industrial action; changes to the Lloyds Bank Group's post-retirement defined benefit scheme obligations; the extent of any future impairment charges or write-downs caused by, but not limited to, depressed asset valuations, market disruptions and illiquid markets; the value and effectiveness of any credit protection purchased by the Lloyds Bank Group; the inability to hedge certain risks economically; the adequacy of loss reserves; the actions of competitors, including non-bank financial services, lending companies and digital innovators and disruptive technologies; and exposure to regulatory or competition scrutiny, legal, regulatory or competition proceedings, investigations or complaints. Please refer to the latest Annual Report on Form 20-F filed by Lloyds Banking Group plc with the US Securities and Exchange Commission for a discussion of certain factors and risks together with examples of forward looking statements.

Lloyds Banking Group may also make or disclose written and/or oral forward looking statements in reports filed with or furnished to the US Securities and Exchange Commission, Lloyds Banking Group annual reviews, half-year announcements, proxy statements, offering circulars, prospectuses, press releases and other written materials and in oral statements made by the directors, officers or employees of Lloyds Banking Group to third parties, including financial analysts.

Except as required by any applicable law or regulation, the forward looking statements contained in this document are made as of today's date, and the Lloyds Bank Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements contained in this document to reflect any change in the Lloyds Bank Group's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LLOYDS BANK PLC

Report on the audit of the financial statements

Opinion

In our opinion, the financial statements of Lloyds Bank plc (the Group) and the Bank financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and of the Bank's affairs as at 31 December 2019 and of the Group's profit and the Group's and the Bank's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Bank's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Report and Accounts (the "Annual Report"), which comprise: the balance sheets at 31 December 2019; the consolidated income statement and the statements of comprehensive income for the year then ended; the statements of changes in equity for the year then ended; and the cash flow statements for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Bank.

Other than those disclosed in note 10 to the financial statements, we have provided no non-audit services to the Group or the Bank in the period from 1 January 2019 to 31 December 2019.

Our audit approach

Overview

- Overall Group materiality: £300 million (2018: £300 million), based on 5 per cent of profit before tax, adjusted to remove the effects of certain items which were considered to have a disproportionate impact.
- Overall Bank materiality: £300 million (2018: £300 million), based on 1 per cent of total assets but limited to the overall Group materiality.
- The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment, the financial significance of components and other qualitative factors (including history of misstatement through fraud or error).
- We performed audit procedures over components considered financially significant in the context of the Group (full scope audit) or in the context of individual primary statement account balances (audit of specific account balances). We performed other procedures including testing entity level controls, information technology general controls and analytical review procedures to address the risk of material misstatement in the residual components.

The key audit matters which in our professional judgement were of most significance in the audit and involved the greatest allocation of our efforts and resources:

- Allowance for Expected Credit Losses (ECL) (Group and Bank)
- Payment Protection Insurance (PPI) (Group and Bank)
- Defined benefit obligation (Group and Bank)
- Valuation of certain level 3 financial instruments (Group)
- Hedge accounting (Group and Bank)
- Privileged access to IT systems (Group and Bank)
- Potential impact of Coronavirus (Group and Bank)

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of banking laws and regulations such as, but not limited to, regulations relating to consumer credit and unethical and prohibited business practices, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006, Consumer Credit Act 1974 and Banking Reform Act 2013. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions. The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditors included:

- Discussions with management and those charged with governance including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Evaluation and testing of the operating effectiveness of management's entity level controls designed to prevent and detect irregularities, in particular their code of conduct and whistleblowing helpline;
- Assessment of matters reported on the Group's whistleblowing helpline and the results of management's investigation of such matters;

- Performing testing over period end adjustments;
- Incorporating unpredictability into the nature, timing and/or extent of our testing;
- Reviewing key correspondence with the FCA and PRA;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to the allowance for ECL; the provision for PPI; the defined benefit obligation; the valuation of certain level 3 financial instruments; and hedge accounting (see related key audit matters below); and
- Identifying and testing journal entries, in particular any manual journal entries posted by infrequent users or senior management, posted on unusual days, posted with descriptions indicating a higher level of risk, or posted late with a favourable impact on financial performance.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Allowance for Expected Credit Losses (ECL) **Group and Bank** *Refer to page 46 (Note 2: Accounting policies), page 52 (Note 3: Critical accounting judgements and estimates) and page 85 (Note 18: Allowance for impairment losses).* The determination of the allowance for ECL is a judgemental area. A number of judgements and assumptions are outlined in the financial statements, including the definition of significant increases in credit risk and the application of forward looking information. *Group economics* The Group's economics team develops future economic scenarios. The base case economic scenario is determined through the application of judgement, and the outer scenarios are generated and selected through the use of a statistical model. The four economic scenarios represent distinct parts of the loss distribution which is developed based on historical experience. The scenarios, together with their weightings, are provided to the Retail and Commercial Banking divisions for incorporation into the calculation of the allowance for ECL. *Retail* The allowance for ECL relating to loans and advances in the Retail division is determined on a collective basis, with the use of impairment models. These models use a number of key assumptions including probability of default, loss given default (including propensity for possession and forced sale discounts for mortgages) and valuation of recoveries. Management also apply overlays where they believe the model calculated assumptions and allowances are not appropriate, either due to emerging trends or the model limitations. An example of this is an overlay to the impairment model output for the UK mortgages portfolio relating to ECL on past term interest only exposures. Our work therefore focused on the appropriateness of modelling methodologies adopted and significant judgements made in determining overlays as well as the measurement of those overlays. *Commercial Banking* The allowance for ECL relating to credit impaired loans and advances (referred to herein also as being in Stage 3) in the Commercial Banking division is primarily estimated on an individual basis. Judgement is required to determine when a loan is considered to be credit impaired, and then to estimate the expected future cash flows related to that loan under multiple weighted scenario outcomes. An allowance for ECL is determined for Commercial Banking loans and advances which are not classified as being credit impaired at the reporting date (referred to as being in Stages 1 and 2) using impairment models based on key assumptions including probability of default and loss given default. Management apply overlays to the modelled output to address methodology and data limitations, or risks not captured by the model.	*Group economics* We understood management's process and tested key controls relating to the generation, selection and weighting of economic scenarios. We engaged our internal economic experts and actuarial modelling specialists to assist us as we considered: – The approach to the determination of the base case economic scenario; – The identification and use of appropriate external economic data; – The approach to the generation and selection of economic scenarios representing the upside, downside and severe downside; – The operation of the Group's internally developed statistical model; and – The review, challenge and approval of the economic scenarios by the Group's governance processes. We found the key controls were designed, implemented and operated effectively, and therefore determined that we could place reliance on these key controls for the purposes of our audit. We critically assessed the assumptions adopted in the base case economic scenario by comparing them to our independent view of the economic outlook and market consensus data. We investigated any economic variables outside of our thresholds. We also assessed the risk of bias in the forecasts, as well as the existence of contrary evidence. We independently re-performed the Group's model and performed testing to evaluate the level of non-linearity captured in the allowance for ECL. We also assessed the appropriateness of the weightings adopted. Based on the evidence obtained, we consider that the economic scenarios adopted reflect an unbiased, probability weighted view, that appropriately captures the impact of non-linearity. *Retail* We understood management's process and tested key controls around the determination of the allowance for ECL, including controls relating to: – Appropriateness of modelling methodologies and monitoring of model performance; – Periodic model review, validation and approval; – The identification of credit impairment events; and – The review, challenge and approval of the allowances for ECL, including the impairment model outputs, key management judgements and overlays applied. We found these key controls were designed, implemented and operated effectively, and therefore determined that we could place reliance on these key controls for the purposes of our audit.

We understood and assessed the appropriateness of the impairment models developed and used by management. This included assessing and challenging the appropriateness of key modelling judgements (e.g. criteria used to determine significant increase in credit risk) and quantifying the impact of the use of proxies and simplifications, assessing whether these were appropriate. For selected portfolios, we created our own independent models covering certain parts of the model calculation which enabled us to re-perform management's calculation and challenge their outputs.

We tested the completeness and accuracy of key data inputs, sourced from underlying systems that are applied in the calculation. We tested the reconciliation of loans and advances between underlying source systems and the ECL models.

We performed testing over the measurement of the overlays in place, focusing on the larger overlays and those which we considered to represent the greatest level of audit risk (e.g. overlays relating to past term interest-only exposures). We assessed the appropriateness of methodologies used to determine and quantify the overlays required and the reasonableness of key assumptions.

Based on our knowledge and understanding of the weaknesses and limitations in management's models and industry emerging risks, we critically assessed the completeness of the overlays proposed by management.

We used credit risk modelling specialists to support the audit team in the performance of these audit procedures.

Commercial Banking
We understood management's process and evaluated and tested key controls around the determination of the allowance for ECL.

For the Stage 1 and 2 allowance, we focused on:

– The identification and assessment of the completeness and accuracy of critical data applied in the ECL calculation;
– The governance over the ECL determination, including the validation of the ECL methodology, assumptions and inputs, and the annual model performance validation; and
– The review, challenge and approval processes in place to assess the overall reasonableness of the allowance for ECL.

For the Stage 3 allowance, we focused on:

– The controls in place for the identification of credit impaired loans and subsequent transfer of these cases to the credit loss assessment team; and
– The review, challenge and approval processes that are in place to assess the overall reasonableness of the allowance for ECL.

We found these key controls were designed, implemented and operated effectively, and therefore determined that we could place reliance on these key controls for the purposes of our audit.

We performed the following procedures over the Stage 1 and 2 allowance for ECL:

– We critically assessed whether the methodology applied in the calculation is compliant with IFRS 9;
– We tested the formulae applied within the calculation, including the appropriateness, and application of, the quantitative and qualitative criteria used to assess significant increases in credit risk;
– We tested the completeness and accuracy of key data inputs, sourced from underlying systems that are applied in the calculation;
– We tested the reconciliation of loans and advances between underlying source systems and the allowance models; and
– We critically assessed the impact of identified model limitations and the completeness of overlays applied by management.

We performed the following procedures to test the completeness of credit impaired assets requiring a Stage 3 allowance for ECL:

– We critically assessed the criteria for determining whether a credit impairment event had occurred; and

	– We tested a risk based sample of Stage 1 and 2 loans, utilising industry and insolvency specialists to support the audit team in identifying sectors or types of borrowers with an elevated risk of weaker financial performance or distress. For each risk based sample, as well as an additional haphazardly selected sample of Stage 1 and 2 loans, we independently assessed whether there was evidence indicating a credit impairment event (e.g. a customer experiencing financial difficulty or in breach of covenant) and therefore whether they were appropriately categorised. For a sample of Stage 3 credit impaired loans, we: – Evaluated the basis on which the allowance was determined, and the evidence supporting the analysis performed by management; – We independently challenged whether the key assumptions used, such as the recovery strategies, collateral rights and ranges of potential outcomes, were appropriate, given the borrower's circumstances; – Re-performed management's allowance calculation, assessing supporting evidence in relation to key inputs on a case by case basis, that included expected future cash flows, discount rates, valuations of collateral held, and the weightings applied to scenario outcomes; and – Where relevant, specifically considered whether valuations were up to date, and consistent with the strategy being followed in respect of the particular borrower and assessed the sensitivity to key assumptions used. Based on the evidence assessed, we found the methodologies, modelled assumptions and data used within the allowance for ECL assessment to be appropriate and in line with the requirements of IFRS 9.
Payment Protection Insurance (PPI) **Group and Bank** *Refer to page 46 (Note 2: Accounting policies), page 52 (Note 3: Critical accounting judgements and estimates) and page 105 (Note 31: Other provisions).* Provisions reflecting the Group's best estimate of present obligations relating to anticipated customer redress payments, operational costs and regulatory costs as a result of PPI continues to be significant and therefore represent a key audit matter. Determining the measurement of provisions requires a number of assumptions which are made using a significant degree of management judgement. Key assumptions include the conversion ratio of PPI information requests to complaints, related redress costs and operational costs.	Our work focused on the valuation of conduct provisions relating to PPI policies. We understood and tested the key controls around the appropriateness of the model calculation. We found that these key controls were designed, implemented and operated effectively, and therefore determined that we could place reliance on these key controls for the purposes of our audit. The provision is based on assumptions determined using management judgement with reference to historic experience. We understood and challenged the provisioning methodologies and underlying assumptions, including whether historic information was an appropriate indicator of future experience. For example, we challenged management on how many complaints eligible for redress would arise from the information requests which had been received. We independently recalculated the provision and compared our results to management's model output. We performed sensitivity analysis on the assumptions used within the model to inform our risk assessment of which were significant. We performed sample testing over the data used to inform the key assumptions within the model. We considered regulatory developments and reviewed the Group's correspondence with the FCA and PRA, discussing the content of any correspondence considered to be pertinent to our audit with management. We also met with each regulator. Given the inherent uncertainty in the estimation of the PPI provision and its judgemental nature, we evaluated the disclosures made in the financial statements. In particular, we focused on challenging management around whether the disclosures were sufficiently clear in highlighting significant uncertainties and the sensitivity of the provision to changes in the underlying assumptions. Based on the procedures performed and evidence obtained, we found management's assumptions to be appropriate.

Defined benefit obligation

Group and Bank

Refer to page 46 (Note 2: Accounting policies), page 52 (Note 3: Critical accounting judgements and estimates) and page 95 (Note 29: Retirement benefit obligations).

The valuation of the retirement benefit obligations in the Group are determined with reference to various actuarial assumptions including discount rate, rate of inflation and mortality rates. Due to the size of these schemes, small changes in these assumptions can have a material impact on the estimated defined benefit obligation.

We understood and tested key controls over the pensions process involving the use of member data, formulation of assumptions and the financial reporting process. We tested the controls for determining the actuarial assumptions and the approval of those assumptions by senior management.

We engaged our actuarial experts, met with management and communicated with their actuaries to understand the judgements made in determining key economic assumptions used in the calculation of the liability. We assessed the reasonableness of those assumptions by comparing to our own independently determined benchmarks and concluded that the assumptions used by management were appropriate.

We performed testing over the member data used in calculating the obligation through a combination of substantive testing and consideration of member-related controls at the administrators. Where material, we also considered the treatment of curtailments, settlements, past service costs, remeasurements, benefits paid and any other movement in obligations during the year.

From the evidence obtained, we found the data and assumptions used by management in the actuarial valuations for pension obligations to be appropriate.

We read and assessed the disclosures made in the financial statements, including disclosures of the assumptions, and found them to be appropriate.

Valuation of certain level 3 financial instruments

Group

Refer to page 46 (Note 2: Accounting policies), page 52 (Note 3: Critical accounting judgements and estimates) and page 121 (Note 43: Financial instruments).

Within its level 3 financial instruments, the Group holds £1.3 billion of loan notes which are a concentration of similar, non-traded assets. They are classified as level 3 instruments as their valuation is subjective and determined using bespoke models which rely on a range of unobservable inputs.

We understood management's process and evaluated and tested the key controls around the financial instrument's valuation processes including the independent price verification and valuation governance controls.

We found these key controls were designed, implemented and operated effectively, and therefore determined that we could place reliance on these key controls for the purposes of our audit.

With the support of our valuation's specialists, we performed the following further testing:

- Evaluated the appropriateness of management's valuation methodologies and tested their application;
- Evaluated key inputs and assumptions, with reference to matters including historic performance, market information and perspectives, servicer and trustee reports and investment prospectuses; and
- Assessed the reasonableness of the valuations and performed sensitivity analyses over them.

Based on the evidence obtained, we determined the methodologies, inputs and assumptions to be appropriate.

Hedge accounting

Group and Bank

Refer to page 46 (Note 2: Accounting policies) and page 146 (Note 46: Financial risk management).

The Group enters into derivative contracts in order to manage and economically hedge risks such as interest and foreign exchange rate risk. These arrangements create accounting mismatches which are addressed through designating instruments into fair value or cash flow hedge accounting relationships.

The Group's application of hedge accounting, including determining effectiveness, is largely manual in nature, which increases the risk of errors and hence the risk that financial reporting is not compliant with IFRS requirements.

We understood and tested key controls over the designation and ongoing management of hedge accounting relationships, including testing of hedge effectiveness as well as the hedging strategy and related documentation prior to the implementation of new hedges.

We found these key controls were designed, implemented and operated effectively, and therefore determined that we could place reliance on these key controls for the purposes of our audit.

Our testing included the following:

- Examining selected hedge documentation to assess whether it complies with the requirements of IFRS;
- Testing the key year-end reconciliations between underlying source systems and the models used to manage hedging relationships;
- Independently assessing whether management have captured and are monitoring all material sources of ineffectiveness, including any impact of reference rate reform;
- Re-performing a sample of hedge effectiveness calculations; and
- Testing a sample of manual adjustments posted to record ineffectiveness.

Based on the evidence obtained, we determined the application of hedge accounting to be appropriate and compliant with the requirements of IFRS.

Privileged access to IT systems **Group and Bank** The Group's financial reporting processes are reliant on automated processes, controls and data managed by IT systems. For the purposes of our audit, we validate the design, implementation and operating effectiveness of those automated and IT dependent controls that support the in-scope financial statement line items. We also review the supporting IT General Computer Controls (ITGCs) that provide assurance over the effective operation of these controls as well as those controls that manage the integrity of relevant data repositories for the full financial reporting period. As part of our audit work in prior periods, we identified control matters in relation to the management of IT privileged access to IT platforms supporting applications in-scope for financial reporting. While there is an ongoing programme of activities to address such control matters across the IT estate, the fact that these were open during the period meant there was a risk that automated functionality, reports and data from the systems were not reliable.	We tested the design and operating effectiveness of those key controls identified that manage IT privileged access across the in-scope IT platforms. Specifically, we tested controls over: – The completeness and accuracy of the Access Controls Lists from IT platforms that are used by downstream IT security processes; – The onboarding and management of IT privileged accounts through the privileged access break-glass tool (including static IT privileged accounts); – The monitoring of security events on IT platforms by the Security Operations Centre; and – Approval, recertification and timely removal of access from IT systems. As part of our review, we identified a number of IT privileged accounts that had not been onboarded to the privileged access restriction tool during the period. Consequently, we performed an assessment of each of the areas within our audit approach where we place reliance on automated functionality and data within IT systems. In each case we identified a combination of mitigating controls, performed additional audit procedures and assessed other mitigating factors in order to respond to the impact on our overall audit approach.
Potential impact of Coronavirus **Group and Bank** *Refer to page 197 (Note 50: Events since the balance sheet date).* Since the balance sheet date there has been a global pandemic of Coronavirus which has also taken hold in the UK. This has been disruptive to financial markets and normal patterns of human behaviour. This is anticipated to translate into an adverse impact on the UK economy. The UK government and Bank of England have announced measures designed to ameliorate resulting adverse impacts on the UK economy. Management have specifically considered the impact on the financial statements, including its impact on the going concern assessment and post balance sheet event disclosures. The directors have concluded that the matter is a non-adjusting post balance sheet event, the financial effect of which cannot be reliably estimated at this stage.	We critically assessed management's conclusion that the matter be treated as a non-adjusting post balance sheet event and that the directors consider the impact of which cannot be reliably estimated at this stage. We considered: – The timing of the development of the outbreak across the world and in the UK; – The timing and nature of UK government advice to UK citizens; and – How the financial statements might be impacted by the aforementioned disruption and the complexity in measuring such impacts. In forming our conclusions over going concern, we evaluated whether management's going concern assessment considered impacts arising from Coronavirus. Our procedures in respect of going concern included: – Evaluating the appropriateness of the stress scenarios used and their impact on the Group's and Bank's capital and liquidity positions; and – Substantiating the Group's and Bank's access to unencumbered collateral placed with, and liquidity facilities available from, the Bank of England. Based on the work performed, we are satisfied that the matter has been appropriately evaluated and reflected in the financial statements.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Bank, the accounting processes and controls, and the industry in which they operate.

The Group is structured into two segments being Retail and Commercial Banking. Each of the segments comprises a number of components. The consolidated financial statements are a consolidation of the components.

In establishing the overall approach to the Group audit, we determined the type of work that is required to be performed over the components by us, as the group engagement team, or auditors within PwC UK and from other PwC network firms operating under our instruction ('component auditors'). Almost all of our audit work is undertaken by PwC UK component auditors.

Where the work was performed by component auditors, we determined the level of involvement we needed to have in their audit work to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole. This included regular communication with the component auditors throughout the audit, the issuance of instructions, a review of the results of their work on significant and elevated risk areas and formal clearance meetings.

Any components which were considered individually financially significant in the context of the Group's consolidated financial statements (defined as components that represent more than or equal to 10% of the total assets of the consolidated Group) were considered full scope components. We considered the individual financial significance of other components in relation to primary statement account balances. We considered the presence of any significant audit risks and other qualitative factors (including history of misstatements through fraud or error). Any component which was not already included as a full scope component but was identified as being individually financially significant in respect of one or more account balances was subject to specific audit procedures over those account balances. Inconsequential components (defined as components which, in our judgement, did not present a reasonable possibility of a risk of material misstatement either individually or in aggregate) were eliminated from further consideration for specific audit procedures although they were subject to Group level analytical review procedures. All remaining components which were neither inconsequential nor individually financially significant were subject to procedures which addressed the risk of material misstatement including testing of entity level controls, information technology general controls and Group and component level analytical review procedures.

Certain account balances were audited centrally by the group engagement team.

Components within the scope of our audit contributed 98 per cent of Group total assets and 79 per cent of Group total income.

Materiality
The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Bank financial statements
Overall materiality	£300 million (2018: £300 million).	£300 million (2018: £300 million).
How we determined it	5 per cent of adjusted profit before tax. Profit was adjusted to remove the effects of certain items which were considered to have a disproportionate impact.	1 per cent of total assets but limited to the overall Group materiality.
Rationale for benchmark applied	Our starting point was 5 per cent of profit before tax, a generally accepted auditing practice. Profit before tax was adjusted to remove the disproportionate effect of regulatory provisions as they are considered not to reflect the long term performance of the Group.	We have selected total assets as an appropriate benchmark for Bank materiality. Profit based benchmarks are not considered the most appropriate for Bank materiality as the Group is not required to disclose a Bank income statement. Where the calculated Bank materiality from total assets exceeds the Group overall materiality level, the Bank overall materiality has been restricted to equal the Group overall materiality level.

For each component in the scope of the Group audit, we allocated a materiality that is less than the overall Group materiality. The range of materiality allocated across components was between £50 million and £100 million. Certain components were audited to a local statutory audit materiality that was also less than the allocated materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £15 million (Group and Bank audit) (2018: £15 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern
ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's and Bank's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Bank's ability to continue as a going concern.

Reporting on other information
The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic report and Directors' report
In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Bank and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit
Responsibilities of the directors for the financial statements
As explained more fully in the Statement of directors' responsibilities set out on page 23, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Bank or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report
This report, including the opinions, has been prepared for and only for the Bank's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting
Under the Companies Act 2006 we are required to report to you if, in our opinion:

– we have not received all the information and explanations we require for our audit; or
– adequate accounting records have not been kept by the Bank, or returns adequate for our audit have not been received from branches not visited by us; or
– certain disclosures of directors' remuneration specified by law are not made; or
– the Bank financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment
Following the recommendation of the Audit Committee, we were appointed by the members on 21 December 1995 to audit the financial statements for the year ended 31 December 1995 and subsequent financial periods. The period of total uninterrupted engagement is 25 years, covering the years ended 31 December 1995 to 31 December 2019. The audit was tendered in 2014 and we were re-appointed with effect from 1 January 2016. There will be a mandatory rotation for the 2021 audit and we will cease to be auditor of the Group.

Mark Hannam (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
23 March 2020

Consolidated income statement

for the year ended 31 December 2019

	Note	2019 £ million	2018[1] £ million	2017[1] £ million
Interest and similar income		**16,098**	16,216	15,853
Interest and similar expense		**(3,878)**	(3,462)	(3,489)
Net interest income	5	**12,220**	12,754	12,364
Fee and commission income		**2,363**	2,497	2,786
Fee and commission expense		**(1,027)**	(1,228)	(1,024)
Net fee and commission income	6	**1,336**	1,269	1,762
Net trading income	7	**360**	408	773
Other operating income	8	**2,692**	2,543	2,453
Other income		**4,388**	4,220	4,988
Total income		**16,608**	16,974	17,352
Regulatory provisions		**(2,839)**	(1,307)	(2,122)
Other operating expenses		**(8,933)**	(9,812)	(9,508)
Total operating expenses	9	**(11,772)**	(11,119)	(11,630)
Trading surplus		**4,836**	5,855	5,722
Impairment	11	**(1,362)**	(926)	(687)
Profit before tax – continuing operations		**3,474**	4,929	5,035
Tax expense	12	**(1,241)**	(1,423)	(1,528)
Profit after tax – continuing operations		**2,233**	3,506	3,507
Profit after tax – discontinued operations	13	**–**	1,314	796
Profit for the year		**2,233**	4,820	4,303
Profit attributable to ordinary shareholders		**1,912**	4,510	3,940
Profit attributable to other equity holders		**281**	275	273
Profit attributable to equity holders		**2,193**	4,785	4,213
Profit attributable to non-controlling interests		**40**	35	90
Profit for the year		**2,233**	4,820	4,303

1 Restated, see note 1.

The accompanying notes are an integral part of the financial statements.

Statements of comprehensive income

for the year ended 31 December 2019

The Group	**2019 £ million**	2018[1] £ million	2017[1] £ million
Profit for the year	**2,233**	4,820	4,303
Other comprehensive income			
Items that will not subsequently be reclassified to profit or loss:			
Post-retirement defined benefit scheme remeasurements[2]:			
Remeasurements before tax	**(1,433)**	167	628
Tax	**316**	(47)	(146)
	(1,117)	120	482
Movements in revaluation reserve in respect of equity shares held at fair value through other comprehensive income:			
Change in fair value	**–**	(98)	
Tax	**12**	22	
	12	(76)	
Gains and losses attributable to own credit risk:			
Gains (losses) before tax	**(419)**	533	(55)
Tax	**113**	(144)	15
	(306)	389	(40)
Share of other comprehensive income of associates and joint ventures	**–**	8	–
Items that may subsequently be reclassified to profit or loss:			
Movements in revaluation reserve in respect of debt securities held at fair value through other comprehensive income:			
Change in fair value	**(34)**	(31)	
Income statement transfers in respect of disposals	**(196)**	(268)	
Impairment recognised in the income statement	**(1)**	–	
Tax	**72**	115	
	(159)	(184)	
Movements in revaluation reserve in respect of available-for-sale financial assets:			
Change in fair value			294
Income statement transfers in respect of disposals			(464)
Income statement transfers in respect of impairment			6
Tax			64
			(100)
Movements in cash flow hedging reserve:			
Effective portion of changes in fair value taken to other comprehensive income	**1,166**	91	(271)
Net income statement transfers	**(580)**	(691)	(644)
Tax	**(140)**	137	264
	446	(463)	(651)
Movements in foreign currency translation reserve:			
Currency translation differences (tax: £nil)	**(2)**	(15)	(27)
Transfers to income statement (tax: £nil)	**–**	108	–
	(2)	93	(27)
Other comprehensive income for the year, net of tax	**(1,126)**	(113)	(336)
Total comprehensive income for the year	**1,107**	4,707	3,967
Total comprehensive income attributable to ordinary shareholders arising from continuing operations	**786**	3,053	2,755
Total comprehensive income attributable to ordinary shareholders arising from discontinued operations[2]	**–**	1,344	849
Total comprehensive income attributable to ordinary shareholders	**786**	4,397	3,604
Total comprehensive income attributable to other equity holders	**281**	275	273
Total comprehensive income attributable to equity holders	**1,067**	4,672	3,877
Total comprehensive income attributable to non-controlling interests	**40**	35	90
Total comprehensive income for the year	**1,107**	4,707	3,967

1 Restated, see note 1.

2 2018 included post-retirement defined benefit scheme remeasurements in the Group's discontinued operations of £37 million (£30 million after tax).

The accompanying notes are an integral part of the financial statements.

Statements of comprehensive income

for the year ended 31 December 2019

The Bank	2019 £ million	2018[1] £ million	2017[1] £ million
Profit for the year	**2,157**	6,430	5,353
Other comprehensive income:			
Items that will not subsequently be reclassified to profit or loss:			
Post-retirement defined benefit scheme remeasurements:			
Remeasurements before tax	**(776)**	(206)	442
Tax	**200**	44	(110)
	(576)	(162)	332
Movements in revaluation reserve in respect of equity shares held at fair value through other comprehensive income:			
Change in fair value	**–**	(102)	
Tax	**12**	–	
	12	(102)	
Gains and losses attributable to own credit risk:			
Gains (losses) before tax	**(419)**	533	(55)
Tax	**113**	(144)	15
	(306)	389	(40)
Items that may subsequently be reclassified to profit or loss:			
Movements in revaluation reserve in respect of debt securities held at fair value through other comprehensive income:			
Change in fair value	**(50)**	(58)	
Income statement transfers in respect of disposals	**(201)**	(258)	
Impairment recognised in the income statement	**(1)**	–	
Tax	**74**	114	
	(178)	(202)	
Movements in revaluation reserve in respect of available-for-sale financial assets:			
Change in fair value			231
Income statement transfers in respect of disposals			(333)
Tax			46
			(56)
Movements in cash flow hedging reserve:			
Effective portion of changes in fair value taken to other comprehensive income	**892**	255	15
Net income statement transfers	**(448)**	(628)	(436)
Tax	**(105)**	87	130
	339	(286)	(291)
Movements in foreign currency translation reserve:			
Currency translation differences (tax: £nil)	**6**	2	(5)
Transfers to income statement (tax: £nil)	**–**	(84)	–
	6	(82)	(5)
Other comprehensive income for the year, net of tax	**(703)**	(445)	(60)
Total comprehensive income for the year	**1,454**	5,985	5,293
Total comprehensive income attributable to ordinary shareholders	**1,173**	5,710	5,020
Total comprehensive income attributable to other equity holders	**281**	275	273
Total comprehensive income for the year	**1,454**	5,985	5,293

1 Restated, see note 1.

The accompanying notes are an integral part of the financial statements.

Balance sheets

at 31 December 2019

	Note	The Group 2019 £ million	The Group 2018 £ million	The Bank 2019 £ million	The Bank 2018 £ million
Assets					
Cash and balances at central banks		**38,880**	40,213	**35,741**	37,632
Items in the course of collection from banks		**292**	645	**252**	464
Financial assets at fair value through profit or loss	14	**2,284**	23,256	**703**	20,843
Derivative financial instruments	15	**8,494**	11,293	**13,638**	15,431
Loans and advances to banks	16	**4,852**	3,692	**4,453**	3,153
Loans and advances to customers	16	**474,470**	464,044	**177,569**	172,315
Debt securities	16	**5,325**	5,095	**5,241**	4,960
Due from fellow Lloyds Banking Group undertakings	16	**1,854**	1,878	**202,277**	153,585
Financial assets at amortised cost		**486,501**	474,709	**389,540**	334,013
Financial assets at fair value through other comprehensive income	19	**24,617**	24,368	**22,160**	23,208
Goodwill	20	**474**	474	**–**	–
Other intangible assets	21	**3,781**	3,322	**2,618**	2,062
Property, plant and equipment	22	**9,467**	8,515	**3,594**	2,940
Current tax recoverable		**4**	1	**7**	–
Deferred tax assets	30	**3,366**	3,216	**2,029**	1,980
Investment in subsidiary undertakings	23	**–**	–	**34,084**	32,656
Retirement benefit assets	29	**681**	1,267	**386**	704
Other assets	24	**2,527**	2,207	**998**	849
Total assets		**581,368**	593,486	**505,750**	472,782

The accompanying notes are an integral part of the financial statements.

Balance sheets

at 31 December 2019

		The Group		The Bank	
Equity and liabilities	Note	**2019 £ million**	2018 £ million	**2019 £ million**	2018 £ million
Liabilities					
Deposits from banks		**23,593**	26,263	**7,122**	5,320
Customer deposits		**396,839**	391,251	**239,762**	229,402
Due to fellow Lloyds Banking Group undertakings		**4,893**	19,663	**109,771**	88,383
Items in course of transmission to banks		**354**	615	**198**	341
Financial liabilities at fair value through profit or loss	25	**7,702**	17,730	**7,697**	17,719
Derivative financial instruments	15	**9,831**	10,911	**14,211**	14,546
Notes in circulation		**1,079**	1,104	**–**	–
Debt securities in issue	26	**76,431**	64,533	**61,509**	49,787
Other liabilities	28	**5,600**	4,335	**2,792**	3,522
Retirement benefit obligations	29	**257**	245	**124**	121
Current tax liabilities		**166**	394	**–**	231
Other provisions	31	**3,138**	3,344	**1,436**	1,608
Subordinated liabilities	32	**12,586**	12,745	**9,909**	9,528
Total liabilities		**542,469**	553,133	**454,531**	420,508
Equity					
Share capital	33	**1,574**	1,574	**1,574**	1,574
Share premium account	34	**600**	600	**600**	600
Other reserves	35	**7,250**	6,965	**1,710**	1,543
Retained profits[1]	36	**24,549**	27,924	**42,470**	45,340
Shareholders' equity		**33,973**	37,063	**46,354**	49,057
Other equity instruments	37	**4,865**	3,217	**4,865**	3,217
Total equity excluding non-controlling interests		**38,838**	40,280	**51,219**	52,274
Non-controlling interests		**61**	73	**–**	–
Total equity		**38,899**	40,353	**51,219**	52,274
Total equity and liabilities		**581,368**	593,486	**505,750**	472,782

1 The Bank recorded a profit after tax for the year of £2,157 milion (2018: £6,430 million).

The accompanying notes are an integral part of the financial statements.

The directors approved the financial statements on 23 March 2020.

Lord Blackwell
Chairman

António Horta-Osório
Chief Executive

William Chalmers
Chief Financial Officer

Statements of changes in equity

for the year ended 31 December 2019

The Group	Attributable to equity shareholders: Share capital and premium £ million	Attributable to equity shareholders: Other reserves £ million	Attributable to equity shareholders: Retained profits £ million	Attributable to equity shareholders: Total £ million	Other equity instruments £ million	Non-controlling interests £ million	Total £ million
Balance at 1 January 2019	2,174	6,965	27,924	37,063	3,217	73	40,353
Comprehensive income							
Profit for the year	–	–	2,193	2,193	–	40	2,233
Other comprehensive income							
Post-retirement defined benefit scheme remeasurements, net of tax	–	–	(1,117)	(1,117)	–	–	(1,117)
Movements in revaluation reserve in respect of financial assets held at fair value through other comprehensive income, net of tax:							
Debt securities	–	(159)	–	(159)	–	–	(159)
Equity shares	–	12	–	12	–	–	12
Gains and losses attributable to own credit risk, net of tax	–	–	(306)	(306)	–	–	(306)
Movements in cash flow hedging reserve, net of tax	–	446	–	446	–	–	446
Currency translation differences (tax: nil)	–	(2)	–	(2)	–	–	(2)
Total other comprehensive income	–	297	(1,423)	(1,126)	–	–	(1,126)
Total comprehensive income	–	297	770	1,067	–	40	1,107
Transactions with owners							
Dividends (note 38)	–	–	(4,100)	(4,100)	–	(38)	(4,138)
Distributions on other equity instruments	–	–	(281)	(281)	–	–	(281)
Issue of other equity instruments (note 37)	–	–	–	–	1,648	–	1,648
Capital contribution received	–	–	229	229	–	–	229
Return of capital contributions	–	–	(5)	(5)	–	–	(5)
Changes in non-controlling interests	–	–	–	–	–	(14)	(14)
Total transactions with owners	–	–	(4,157)	(4,157)	1,648	(52)	(2,561)
Realised gains and losses on equity shares held at fair value through other comprehensive income	–	(12)	12	–	–	–	–
Balance at 31 December 2019	2,174	7,250	24,549	33,973	4,865	61	38,899

Further details of movements in the Group's share capital and reserves are provided in notes 33, 34, 35, 36 and 37.

The accompanying notes are an integral part of the financial statements.

Statements of changes in equity

for the year ended 31 December 2019

	Attributable to equity shareholders						
The Group	**Share capital and premium £ million**	**Other reserves £ million**	**Retained profits £ million**	**Total £ million**	**Other equity instruments £ million**	**Non-controlling interests £ million**	**Total £ million**
Balance at 31 December 2017	2,174	7,706	37,718	47,598	3,217	379	51,194
Adjustment on adoption IFRS 9 and IFRS 15	–	(222)	(969)	(1,191)	–	–	(1,191)
Balance at 1 January 2018	2,174	7,484	36,749	46,407	3,217	379	50,003
Comprehensive income							
Profit for the year[1]	–	–	4,785	4,785	–	35	4,820
Other comprehensive income							
Post-retirement defined benefit scheme remeasurements, net of tax	–	–	120	120	–	–	120
Share of other comprehensive income of associates and joint ventures	–	–	8	8	–	–	8
Movements in revaluation reserve in respect of financial assets held at fair value through other comprehensive income, net of tax:							
Debt securities	–	(184)	–	(184)	–	–	(184)
Equity shares	–	(76)	–	(76)	–	–	(76)
Gains and losses attributable to own credit risk, net of tax	–	–	389	389	–	–	389
Movements in cash flow hedging reserve, net of tax	–	(463)	–	(463)	–	–	(463)
Currency translation differences (tax: nil)	–	93	–	93	–	–	93
Total other comprehensive income	–	(630)	517	(113)	–	–	(113)
Total comprehensive income	–	(630)	5,302	4,672	–	35	4,707
Transactions with owners							
Dividends (note 38)	–	–	(11,022)	(11,022)	–	(36)	(11,058)
Distributions on other equity instruments[1]	–	–	(275)	(275)	–	–	(275)
Capital repayment to parent	–	–	(2,975)	(2,975)	–	–	(2,975)
Capital contribution received	–	–	265	265	–	–	265
Return of capital contributions	–	–	(9)	(9)	–	–	(9)
Changes in non-controlling interests	–	–	–	–	–	(305)	(305)
Total transactions with owners	–	–	(14,016)	(14,016)	–	(341)	(14,357)
Realised gains and losses on equity shares held at fair value through other comprehensive income	–	111	(111)	–	–	–	–
Balance at 31 December 2018	2,174	6,965	27,924	37,063	3,217	73	40,353

1 Restated, see note 1.

Statements of changes in equity

for the year ended 31 December 2019

The Group	Attributable to equity shareholders: Share capital and premium £ million	Other reserves £ million	Retained profits £ million	Total £ million	Other equity instruments £ million	Non-controlling interests £ million	Total £ million
Balance at 1 January 2017	1,574	8,484	36,231	46,289	3,217	745	50,251
Comprehensive income							
Profit for the year[1]	–	–	4,213	4,213	–	90	4,303
Other comprehensive income							
Post-retirement defined benefit scheme remeasurements, net of tax	–	–	482	482	–	–	482
Movements in revaluation reserve in respect of available-for-sale financial assets, net of tax	–	(100)	–	(100)	–	–	(100)
Gains and losses attributable to own credit risk, net of tax	–	–	(40)	(40)	–	–	(40)
Movements in cash flow hedging reserve, net of tax	–	(651)	–	(651)	–	–	(651)
Currency translation differences (tax: nil)	–	(27)	–	(27)	–	–	(27)
Total other comprehensive income	–	(778)	442	(336)	–	–	(336)
Total comprehensive income	–	(778)	4,655	3,877	–	90	3,967
Transactions with owners							
Dividends (note 38)	–	–	(2,650)	(2,650)	–	(69)	(2,719)
Distributions on other equity instruments[1]	–	–	(273)	(273)	–	–	(273)
Redemption of preference shares	600	–	(600)	–	–	–	–
Capital contribution received	–	–	432	432	–	–	432
Return of capital contributions	–	–	(77)	(77)	–	–	(77)
Changes in non-controlling interests	–	–	–	–	–	(387)	(387)
Total transactions with owners	600	–	(3,168)	(2,568)	–	(456)	(3,024)
Balance at 31 December 2017	2,174	7,706	37,718	47,598	3,217	379	51,194

1 Restated, see note 1.

Statements of changes in equity

for the year ended 31 December 2019

The Bank	Attributable to equity shareholders: Share capital and premium £ million	Other reserves £ million	Retained profits £ million	Total £ million	Other equity instruments £ million	Total £ million
Balance at 1 January 2019	**2,174**	**1,543**	**45,340**	**49,057**	**3,217**	**52,274**
Comprehensive income						
Profit for the year	–	–	2,157	2,157	–	2,157
Other comprehensive income						
Post-retirement defined benefit scheme remeasurements, net of tax	–	–	(576)	(576)	–	(576)
Movements in revaluation reserve in respect of financial assets held at fair value through other comprehensive income, net of tax:						
Debt securities	–	(178)	–	(178)	–	(178)
Equity shares	–	12	–	12	–	12
Gains and losses attributable to own credit risk, net of tax	–	–	(306)	(306)	–	(306)
Movements in cash flow hedging reserve, net of tax	–	339	–	339	–	339
Currency translation differences (tax: nil)	–	6	–	6	–	6
Total other comprehensive income	–	179	(882)	(703)	–	(703)
Total comprehensive income	–	179	1,275	1,454	–	1,454
Transactions with owners						
Dividends (note 38)	–	–	(4,100)	(4,100)	–	(4,100)
Distributions on other equity instruments	–	–	(281)	(281)	–	(281)
Issue of other equity instruments (note 37)	–	–	–	–	1,648	1,648
Capital contribution received	–	–	229	229	–	229
Return of capital contributions	–	–	(5)	(5)	–	(5)
Total transactions with owners	–	–	(4,157)	(4,157)	1,648	(2,509)
Realised gains and losses on equity shares held at fair value through other comprehensive income	–	(12)	12	–	–	–
Balance at 31 December 2019	**2,174**	**1,710**	**42,470**	**46,354**	**4,865**	**51,219**

The accompanying notes are an integral part of the financial statements.

Statements of changes in equity

for the year ended 31 December 2019

The Bank	Attributable to equity shareholders: Share capital and premium £ million	Other reserves £ million	Retained profits £ million	Total £ million	Other equity instruments £ million	Total £ million
Balance at 1 January 2017	1,574	2,593	50,390	54,557	3,217	57,774
Comprehensive income						
Profit for the year[1]	–	–	5,353	5,353	–	5,353
Other comprehensive income						
Post-retirement defined benefit scheme remeasurements, net of tax	–	–	332	332	–	332
Movements in revaluation reserve in respect of available-for-sale financial assets, net of tax	–	(56)	–	(56)	–	(56)
Gains and losses attributable to own credit risk, net of tax	–	–	(40)	(40)	–	(40)
Movements in cash flow hedging reserve, net of tax	–	(291)	–	(291)	–	(291)
Currency translation differences (tax: nil)	–	(5)	–	(5)	–	(5)
Total other comprehensive income	–	(352)	292	(60)	–	(60)
Total comprehensive income	–	(352)	5,645	5,293	–	5,293
Transactions with owners						
Dividends (note 38)	–	–	(2,650)	(2,650)	–	(2,650)
Distributions on other equity instruments[1]	–	–	(273)	(273)	–	(273)
Redemption of preference shares (note 34)	600	–	(600)	–	–	–
Capital contributions received	–	–	432	432	–	432
Return of capital contributions	–	–	(77)	(77)	–	(77)
Total transactions with owners	600	–	(3,168)	(2,568)	–	(2,568)
Adjustment on vesting of businesses	–	–	278	278	–	278
Balance at 31 December 2017	2,174	2,241	53,145	57,560	3,217	60,777
Adjustment on adoption of IFRS 9 and IFRS 15	–	(170)	(302)	(472)	–	(472)
Balance at 1 January 2018	2,174	2,071	52,843	57,088	3,217	60,305
Comprehensive income						
Profit for the year[1]	–	–	6,430	6,430	–	6,430
Other comprehensive income						
Post-retirement defined benefit scheme remeasurements, net of tax	–	–	(162)	(162)	–	(162)
Movements in revaluation reserve in respect of financial assets held at fair value through other comprehensive income, net of tax:						
Debt securities	–	(202)	–	(202)	–	(202)
Equity shares	–	(102)	–	(102)	–	(102)
Gains and losses attributable to own credit risk, net of tax	–	–	389	389	–	389
Movements in cash flow hedging reserve, net of tax	–	(286)	–	(286)	–	(286)
Currency translation differences (tax: nil)	–	(82)	–	(82)	–	(82)
Total other comprehensive income	–	(672)	227	(445)	–	(445)
Total comprehensive income	–	(672)	6,657	5,985	–	5,985
Transactions with owners						
Dividends (note 38)	–	–	(11,022)	(11,022)	–	(11,022)
Distributions on other equity instruments[1]	–	–	(275)	(275)	–	(275)
Capital repayment to parent	–	–	(2,975)	(2,975)	–	(2,975)
Capital contribution received	–	–	265	265	–	265
Return of capital contributions	–	–	(9)	(9)	–	(9)
Total transactions with owners	–	–	(14,016)	(14,016)	–	(14,016)
Realised gains and losses on equity shares held at fair value through other comprehensive income	–	144	(144)	–	–	–
Balance at 31 December 2018	2,174	1,543	45,340	49,057	3,217	52,274

1 Restated, see note 1.

The accompanying notes are an integral part of the financial statements.

Cash flow statements

for the year ended 31 December 2019

		The Group			The Bank		
	Note	**2019 £ million**	2018 £ million	2017 £ million	**2019 £ million**	2018 £ million	2017 £ million
Profit before tax[1]		**3,474**	6,309	5,978	**2,780**	7,209	5,808
Adjustments for:							
Change in operating assets	48(a)	**12,872**	34,216	(15,733)	**(31,543)**	46,534	(11,165)
Change in operating liabilities	48(b)	**(5,630)**	(61,433)	(13,379)	**39,301**	(76,719)	3,463
Non-cash and other items	48(c)	**2,150**	(1,424)	12,297	**(639)**	(3,921)	(1,973)
Tax (paid) received		**(1,232)**	(1,616)	(682)	**(596)**	(393)	437
Net cash provided by (used in) operating activities		**11,634**	(23,948)	(11,519)	**9,303**	(27,290)	(3,430)
Cash flows from investing activities							
Purchase of financial assets		**(9,108)**	(12,309)	(7,857)	**(7,748)**	(11,699)	(7,550)
Proceeds from sale and maturity of financial assets		**8,847**	26,863	18,667	**8,664**	25,927	16,480
Purchase of fixed assets		**(3,552)**	(3,450)	(3,655)	**(1,638)**	(1,486)	(1,155)
Proceeds from sale of fixed assets		**1,258**	1,262	1,444	**91**	113	85
Additional capital injections to subsidiaries		**–**	–	–	**(1,766)**	(13)	(34)
Dividends received from subsidiaries		**–**	–	–	**1,331**	4,867	4,378
Distributions on other equity instruments received		**–**	–	–	**103**	101	101
Capital repayments and redemptions		**–**	–	–	**212**	210	–
Acquisition of businesses, net of cash acquired	48(e)	**–**	(26)	(1,913)	**–**	(98)	(2,026)
Disposal of businesses, net of cash disposed	48(f)	**107**	8,604	984	**20**	7,704	592
Net cash (used in) provided by investing activities		**(2,448)**	20,944	7,670	**(731)**	25,626	10,871
Cash flows from financing activities							
Dividends paid to ordinary shareholders		**(4,100)**	(11,022)	(2,650)	**(4,100)**	(11,022)	(2,650)
Distributions on other equity instruments		**(281)**	(275)	(273)	**(281)**	(275)	(273)
Dividends paid to non-controlling interests		**(38)**	(36)	(69)	**–**	–	–
Return of capital contribution		**(5)**	(9)	(77)	**(5)**	(9)	(77)
Interest paid on subordinated liabilities		**(906)**	(1,022)	(1,157)	**(674)**	(659)	(668)
Proceeds from issue of subordinated liabilities		**780**	201	–	**780**	–	–
Proceeds from issue of other equity instruments		**1,648**	–	–	**1,648**	–	–
Return of capital to parent company		**–**	(2,975)	–	**–**	(2,975)	–
Repayment of subordinated liabilities		**(762)**	(2,256)	(1,608)	**(184)**	–	(675)
Borrowings from parent company		**916**	9,860	8,476	**916**	9,860	8,476
Repayments to parent company		**(7,357)**	(10,354)	(475)	**(7,357)**	(10,354)	(475)
Interest paid on borrowing from parent company		**(187)**	(370)	(244)	**(187)**	(370)	(244)
Net cash (used in) provided by financing activities		**(10,292)**	(18,258)	1,923	**(9,444)**	(15,804)	3,414
Effect of exchange rate changes on cash and cash equivalents		**(3)**	3	–	**–**	2	(1)
Change in cash and cash equivalents		**(1,109)**	(21,259)	(1,926)	**(872)**	(17,466)	10,854
Cash and cash equivalents at beginning of year		**39,723**	60,982	62,908	**38,654**	56,120	45,266
Cash and cash equivalents at end of year	48(d)	**38,614**	39,723	60,982	**37,782**	38,654	56,120
Adjustment on adoption of IFRS 9				(2,274)			
Cash and cash equivalents at 1 January 2018				58,708			

1 Group profit before tax in 2018 comprised £4,929 million in respect of continuing operations and £1,380 million in respect of discontinued operations (2017: £5,035 million in respect of continuing operations and £943 million in respect of discontinued operations).

The accompanying notes are an integral part of the financial statements.

Notes to the accounts

1 Basis of preparation

The financial statements of Lloyds Bank plc have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) as applied in accordance with the provisions of the Companies Act 2006. IFRS comprises accounting standards prefixed IFRS issued by the International Accounting Standards Board (IASB) and those prefixed IAS issued by the IASB's predecessor body as well as interpretations issued by the IFRS Interpretations Committee (IFRS IC) and its predecessor body. On adoption of IFRS 9 in 2018 the Group (Lloyds Bank plc and its subsidiary undertakings) elected to continue applying hedge accounting under IAS 39. The EU endorsed version of IAS 39 Financial Instruments: Recognition and Measurement relaxes some of the hedge accounting requirements; the Group has not taken advantage of this relaxation, and therefore there is no difference in application to the Group between IFRS as adopted by the EU and IFRS as issued by the IASB.

The financial information has been prepared under the historical cost convention, as modified by the revaluation of investment properties, financial assets measured at fair value through other comprehensive income, trading securities and certain other financial assets and liabilities at fair value through profit or loss and all derivative contracts.

To improve transparency and ease of reference, the capital resources disclosure required under IFRS has been included within the Strategic Report on page 4. This disclosure is covered by the Audit opinion (included on pages 26 to 33) and referenced as audited.

The going concern of the Bank and the Group is dependent on successfully funding their respective balance sheets and maintaining adequate levels of capital. In order to satisfy themselves that the Bank and the Group have adequate resources to continue to operate for the foreseeable future, the directors have considered a number of key dependencies which are set out in the Principal risks and uncertainties section under Funding and liquidity on page 17 and additionally have considered projections for the Group's capital and funding position. Taking all of these factors into account, the directors consider that it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

The Group adopted IFRS 16 *Leases* from 1 January 2019. IFRS 16 replaces IAS 17 *Leases* and addresses the classification and measurement of all leases. The Group's accounting as a lessor under IFRS 16 is substantially unchanged from its approach under IAS 17; however for lessee accounting there is no longer a distinction between the accounting for finance and operating leases. For all assets the lessee recognises a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use. Assets and liabilities arising from a lease are initially measured on a present value basis. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the lessee's incremental borrowing rate. Lease payments are allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Payments associated with leases with a lease term of 12 months or less and leases of low-value assets are recognised as an expense in profit or loss on a straight-line basis. The Group elected to apply the standard retrospectively with the cumulative effect of initial application being recognised at 1 January 2019, comparatives have therefore not been restated. There was no impact on shareholders' equity. Further details of the impact of adoption of IFRS 16 are provided in note 49.

The Group has also implemented the amendments to IAS 12 *Income Taxes* with effect from 1 January 2019 and as a result tax relief on distributions on other equity instruments, previously taken directly to retained profits, is now reported within tax expense in the income statement. Comparatives have been restated. Adoption of these amendments to IAS 12 has resulted in a reduction in tax expense and an increase in Group and Bank profit for the year in 2019 of £76 million (2018: £74 million; 2017: £74 million). There is no impact on shareholders' equity.

The Group has early adopted the hedge accounting amendments *Interest Rate Benchmark Reform*, issued by the IASB as a response to issues arising from the planned replacement of interest rate benchmarks in a number of jurisdictions. The amendments confirm that entities applying hedge accounting can continue to assume that the interest rate benchmark on which the hedged cash flows and cash flows of the hedging instrument are based is not altered as a result of the uncertainties of the interest rate benchmark reform. Comparatives have not been restated. Further details are provided in note 46.

Certain of the Bank's balances due to and from fellow Lloyds Banking Group undertakings previously reported net are presented on a gross basis as at 31 December 2019. The Bank does not intend to settle these balances on a net basis going forward.

Details of those IFRS pronouncements which will be relevant to the Group but which were not effective at 31 December 2019 and which have not been applied in preparing these financial statements are given in note 51.

2 Accounting policies

The accounting policies are set out below. These accounting policies have been applied consistently.

a Consolidation

The assets, liabilities and results of Group undertakings (including structured entities) are included in the financial statements on the basis of accounts made up to the reporting date. Group undertakings include subsidiaries, associates and joint ventures. Details of the Group's subsidiaries and related undertakings are given on pages 198 to 202.

(1) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it has power over the entity, 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 its power. This generally accompanies a shareholding of more than one half of the voting rights although in certain circumstances a holding of less than one half of the voting rights may still result in the ability of the Group to exercise control. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to any of the above elements. Subsidiaries are fully consolidated from the date on which control is transferred to the Group; they are de-consolidated from the date that control ceases.

The Group consolidates collective investment vehicles if its beneficial ownership interests give it substantive rights to remove the external fund manager over the investment activities of the fund. Where a subsidiary of the Group is the fund manager of a collective investment vehicle, the Group considers a number of factors in determining whether it acts as principal, and therefore controls the collective investment vehicle, including: an assessment of the scope of the Group's decision making authority over the investment vehicle; the rights held by other parties including substantive removal rights without cause over the Group acting as fund manager; the remuneration to which the Group is entitled in its capacity as decision maker; and the Group's exposure to variable returns from the beneficial interest it holds in the investment vehicle. Consolidation may be appropriate in circumstances where the Group has less than a majority beneficial interest. Where a collective investment vehicle is consolidated the interests of parties other than the Group are reported in other liabilities and the movements in these interests in interest expense.

Structured entities are entities that are designed so that their activities are not governed by way of voting rights. In assessing whether the Group has power over such entities in which it has an interest, the Group considers factors such as the purpose and design of the entity; its practical ability to direct the relevant activities of the entity; the nature of the relationship with the entity; and the size of its exposure to the variability of returns of the entity.

The treatment of transactions with non-controlling interests depends on whether, as a result of the transaction, the Group loses control of the subsidiary. Changes in the parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions; any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the parent entity. Where the Group loses control of the subsidiary, at the date when control is lost the amount of any non-controlling interest in that former subsidiary is derecognised and any investment retained in the former subsidiary is remeasured to its fair value; the gain or loss that is recognised in profit or loss on the partial disposal of the subsidiary includes the gain or loss on the remeasurement of the retained interest.

Intercompany transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated.

The acquisition method of accounting is used to account for business combinations by the Group. The consideration for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are expensed as incurred except those relating to the issuance of debt instruments (see 2e(5)) or share capital (see 2o). Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair value at the acquisition date.

(2) Joint ventures and associates

Joint ventures are joint arrangements over which the Group has joint control with other parties and has rights to the net assets of the arrangements. Joint control is the contractually agreed sharing of control of an arrangement and only exists when decisions about the relevant activities require the unanimous consent of the parties sharing control. Associates are entities over which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is the power to participate in the financial and operating policy decisions of the entity but is not control or joint control of those policies and is generally achieved through holding between 20 per cent and 50 per cent of the voting share capital of the entity.

The Group utilises the venture capital exemption for investments where significant influence or joint control is present and the business unit operates as a venture capital business. These investments are designated at initial recognition at fair value through profit or loss. Otherwise, the Group's investments in joint ventures and associates are accounted for by the equity method of accounting.

b Goodwill

Goodwill arises on business combinations and represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired. Where the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities of the acquired entity is greater than the cost of acquisition, the excess is recognised immediately in the income statement.

Goodwill is recognised as an asset at cost and is tested at least annually for impairment. If an impairment is identified the carrying value of the goodwill is written down immediately through the income statement and is not subsequently reversed. At the date of disposal of a subsidiary, the carrying value of attributable goodwill is included in the calculation of the profit or loss on disposal.

2 Accounting policies (continued)

c Other intangible assets
Intangible assets which have been determined to have a finite useful life are amortised on a straight line basis over their estimated useful life as follows: up to 7 years for capitalised software; 10 to 15 years for brands and other intangibles.

Intangible assets with finite useful lives are reviewed at each reporting date to assess whether there is any indication that they are impaired. If any such indication exists the recoverable amount of the asset is determined and in the event that the asset's carrying amount is greater than its recoverable amount, it is written down immediately. Certain brands have been determined to have an indefinite useful life and are not amortised. Such intangible assets are reassessed annually to reconfirm that an indefinite useful life remains appropriate. In the event that an indefinite life is inappropriate a finite life is determined and an impairment review is performed on the asset.

d Revenue recognition
(1) Net interest income
Interest income and expense are recognised in the income statement for all interest-bearing financial instruments using the effective interest method, except for those classified at fair value through profit or loss. The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the expected life of the financial instrument. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument to the gross carrying amount of the financial asset (before adjusting for expected credit losses) or to the amortised cost of the financial liability, including early redemption fees, and related penalties, and premiums and discounts that are an integral part of the overall return. Direct incremental transaction costs related to the acquisition, issue or disposal of a financial instrument are also taken into account. Interest income from non-credit impaired financial assets is recognised by applying the effective interest rate to the gross carrying amount of the asset; for credit impaired financial assets, the effective interest rate is applied to the net carrying amount after deducting the allowance for expected credit losses. Impairment policies are set out in (h) below.

(2) Fee and commission income and expense
Fees and commissions receivable which are not an integral part of the effective interest rate are recognised as income as the Group fulfils its performance obligations. The Group's principal performance obligations arising from contracts with customers are in respect of value added current accounts, credit cards and debit cards. These fees are received, and the Group's provides the service, monthly; the fees are recognised in income on this basis. The Group also receives certain fees in respect of its asset finance business where the performance obligations are typically fulfilled towards the end of the customer contract; these fees are recognised in income on this basis. Where it is unlikely that the loan commitments will be drawn, loan commitment fees are recognised in fee and commission income over the life of the facility, rather than as an adjustment to the effective interest rate for loans expected to be drawn. Incremental costs incurred to generate fee and commission income are charged to fees and commissions expense as they are incurred.

(3) Other
Dividend income is recognised when the right to receive payment is established.

Revenue recognition policies specific to trading income are set out in (e)(3) below; those relating to leases are set out in (j)(1) below.

e Financial assets and liabilities
On initial recognition, financial assets are classified as measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss, depending on the Group's business model for managing the financial assets and whether the cash flows represent solely payments of principal and interest. The Group assesses its business models at a portfolio level based on its objectives for the relevant portfolio, how the performance of the portfolio is managed and reported, and the frequency of asset sales. Financial assets with embedded derivatives are considered in their entirety when considering their cash flow characteristics. The Group reclassifies financial assets when and only when its business model for managing those assets changes. A reclassification will only take place when the change is significant to the Group's operations and will occur at a portfolio level and not for individual instruments; reclassifications are expected to be rare. Equity investments are measured at fair value through profit or loss unless the Group elects at initial recognition to account for the instruments at fair value through other comprehensive income. For these instruments, principally strategic investments, dividends are recognised in profit or loss but fair value gains and losses are not subsequently reclassified to profit or loss following derecognition of the investment.

The Group initially recognises loans and advances, deposits, debt securities in issue and subordinated liabilities when the Group becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of securities and other financial assets and trading liabilities are recognised on trade date, being the date that the Group is committed to purchase or sell an asset.

Financial assets are derecognised when the contractual right to receive cash flows from those assets has expired or when the Group has transferred its contractual right to receive the cash flows from the assets and either: substantially all of the risks and rewards of ownership have been transferred; or the Group has neither retained nor transferred substantially all of the risks and rewards, but has transferred control.

Financial liabilities are derecognised when the obligation is discharged, cancelled or expires.

(1) Financial instruments measured at amortised cost
Financial assets that are held to collect contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A basic lending arrangement results in contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. Where the contractual cash flows introduce exposure to risks or volatility unrelated to a basic lending arrangement such as changes in equity prices or commodity prices, the payments do not comprise solely principal and interest. Financial assets measured at amortised cost are predominantly loans and advances to customers and banks together with certain debt securities used by the Group to manage its liquidity. Loans and advances are initially recognised when cash is advanced to the borrower at fair value inclusive of transaction costs. Interest income is accounted for using the effective interest method (see (d) above).

Financial liabilities are measured at amortised cost, except for trading liabilities and other financial liabilities designated at fair value through profit or loss on initial recognition which are held at fair value.

(2) Financial assets measured at fair value through other comprehensive income
Financial assets that are held to collect contractual cash flows and for subsequent sale, where the assets' cash flows represent solely payments of principal and interest, are recognised in the balance sheet at their fair value, inclusive of transaction costs. Interest calculated using the effective interest method and foreign exchange gains and losses on assets denominated in foreign currencies are recognised in the income statement. All other gains and losses arising from changes in fair value are recognised directly in other comprehensive income, until the financial asset is either sold or matures, at which time the cumulative gain or loss

2 Accounting policies (continued)

previously recognised in other comprehensive income is recognised in the income statement other than in respect of equity shares, for which the cumulative revaluation amount is transferred directly to retained profits. The Group recognises a charge for expected credit losses in the income statement (see (h) below). As the asset is measured at fair value, the charge does not adjust the carrying value of the asset, it is reflected in other comprehensive income.

(3) Financial instruments measured at fair value through profit or loss
Financial assets are classified at fair value through profit or loss where they do not meet the criteria to be measured at amortised cost or fair value through other comprehensive income or where they are designated at fair value through profit or loss to reduce an accounting mismatch. All derivatives are carried at fair value through profit or loss.

Trading securities, which are debt securities and equity shares acquired principally for the purpose of selling in the short term or which are part of a portfolio which is managed for short-term gains, do not meet these criteria and are also measured at fair value through profit or loss. Financial assets measured at fair value through profit or loss are recognised in the balance sheet at their fair value. Fair value gains and losses together with interest coupons and dividend income are recognised in the income statement within net trading income.

Financial liabilities are measured at fair value through profit or loss where they are trading liabilities or where they are designated at fair value through profit or loss in order to reduce an accounting mismatch; where the liabilities are part of a group of liabilities (or assets and liabilities) which is managed, and its performance evaluated, on a fair value basis; or where the liabilities contain one or more embedded derivatives that significantly modify the cash flows arising under the contract and would otherwise need to be separately accounted for. Financial liabilities measured at fair value through profit or loss are recognised in the balance sheet at their fair value. Fair value gains and losses are recognised in the income statement within net trading income in the period in which they occur, except that gains and losses attributable to changes in own credit risk are recognised in other comprehensive income.

The fair values of assets and liabilities traded in active markets are based on current bid and offer prices respectively. If the market is not active the Group establishes a fair value by using valuation techniques. The fair values of derivative financial instruments are adjusted where appropriate to reflect credit risk (via credit valuation adjustments (CVAs), debit valuation adjustments (DVAs) and funding valuation adjustments (FVAs)), market liquidity and other risks.

(4) Borrowings
Borrowings (which include deposits from banks, customer deposits, debt securities in issue and subordinated liabilities) are recognised initially at fair value, being their issue proceeds net of transaction costs incurred. These instruments are subsequently stated at amortised cost using the effective interest method.

Preference shares and other instruments which carry a mandatory coupon or are redeemable on a specific date are classified as financial liabilities. The coupon on these instruments is recognised in the income statement as interest expense. Securities which carry a discretionary coupon and have no fixed maturity or redemption date are classified as other equity instruments. Interest payments on these securities are recognised, net of tax, as distributions from equity in the period in which they are paid. An exchange of financial liabilities on substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the carrying amount of a financial liability extinguished and the new financial liability is recognised in profit or loss together with any related costs or fees incurred.

When a financial liability is exchanged for an equity instrument, the new equity instrument is recognised at fair value and any difference between the carrying value of the liability and the fair value of the new equity is recognised in profit or loss.

(5) Sale and repurchase agreements (including securities lending and borrowing)
Securities sold subject to repurchase agreements (repos) continue to be recognised on the balance sheet where substantially all of the risks and rewards are retained. Funds received under these arrangements are included in deposits from banks, customer deposits, or trading liabilities. Conversely, securities purchased under agreements to resell (reverse repos), where the Group does not acquire substantially all of the risks and rewards of ownership, are recorded as loans and advances measured at amortised cost or trading securities. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

Securities borrowing and lending transactions are typically secured; collateral takes the form of securities or cash advanced or received. Securities lent to counterparties are retained on the balance sheet. Securities borrowed are not recognised on the balance sheet, unless these are sold to third parties, in which case the obligation to return them is recorded at fair value as a trading liability. Cash collateral given or received is treated as a loan and advance measured at amortised cost or customer deposit.

f Derivative financial instruments and hedge accounting
As permitted by IFRS 9, the Group continues to apply the requirements of IAS 39 to its hedging relationships. All derivatives are recognised at their fair value. Derivatives are carried on the balance sheet as assets when their fair value is positive and as liabilities when their fair value is negative. Refer to note 43(3) (Financial instruments: Financial assets and liabilities carried at fair value) for details of valuation techniques and significant inputs to valuation models.

Changes in the fair value of all derivative instruments, other than those in effective cash flow and net investment hedging relationships, are recognised immediately in the income statement. As noted in (2) and (3) below, the change in fair value of a derivative in an effective cash flow or net investment hedging relationship is allocated between the income statement and other comprehensive income.

Derivatives embedded in a financial asset are not considered separately; the financial asset is considered in its entirety when determining whether its cash flows are solely payments of principal and interest. Derivatives embedded in financial liabilities are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

Hedge accounting allows one financial instrument, generally a derivative such as a swap, to be designated as a hedge of another financial instrument such as a loan or deposit or a portfolio of such instruments. At the inception of the hedge relationship, formal documentation is drawn up specifying the hedging strategy, the hedged item, the hedging instrument and the methodology that will be used to measure the effectiveness of the hedge relationship in offsetting changes in the fair value or cash flow of the hedged risk. The effectiveness of the hedging relationship is tested both at inception and throughout its life and if at any point it is concluded that it is no longer highly effective in achieving its documented objective, hedge accounting is discontinued. Note 15 provides details of the types of derivatives held by the Group and presents separately those designated in hedge relationships. In respect of interest rate benchmark reform, the Group assumes that the interest rate benchmark on which the hedged cash flows and/or the hedged risk are based, or the interest rate benchmark on which the cash flows of the hedging instrument are based, are not altered as a result of interest rate benchmark reform. The Group does not discontinue a hedging relationship during the period of uncertainty arising from the interest rate benchmark reform solely because the actual results of the hedge are not highly effective.

2 Accounting policies (continued)

(1) Fair value hedges
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk; this also applies if the hedged asset is classified as a financial asset at fair value through other comprehensive income. If the hedge no longer meets the criteria for hedge accounting, changes in the fair value of the hedged item attributable to the hedged risk are no longer recognised in the income statement. The cumulative adjustment that has been made to the carrying amount of the hedged item is amortised to the income statement using the effective interest method over the period to maturity.

(2) Cash flow hedges
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income in the cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are reclassified to the income statement in the periods in which the hedged item affects profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the income statement when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(3) Net investment hedges
Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income, the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of. The hedging instrument used in net investment hedges may include non-derivative liabilities as well as derivative financial instruments.

g Offset
Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right of set-off and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. Cash collateral on exchange traded derivative transactions is presented gross unless the collateral cash flows are always settled net with the derivative cash flows. In certain situations, even though master netting agreements exist, the lack of management intention to settle on a net basis results in the financial assets and liabilities being reported gross on the balance sheet.

h Impairment of financial assets
The impairment charge in the income statement includes the change in expected credit losses and certain fraud costs. Expected credit losses are recognised for loans and advances to customers and banks, other financial assets held at amortised cost, financial assets measured at fair value through other comprehensive income, and certain loan commitments and financial guarantee contracts. Expected credit losses are calculated as an unbiased and probability-weighted estimate using an appropriate probability of default, adjusted to take into account a range of possible future economic scenarios, and applying this to the estimated exposure of the Group at the point of default after taking into account the value of any collateral held, repayments, or other mitigants of loss and including the impact of discounting using the effective interest rate.

At initial recognition, allowance (or provision in the case of some loan commitments and financial guarantees) is made for expected credit losses resulting from default events that are possible within the next 12 months (12-month expected credit losses). In the event of a significant increase in credit risk since origination, allowance (or provision) is made for expected credit losses resulting from all possible default events over the expected life of the financial instrument (lifetime expected credit losses). Financial assets where 12-month expected credit losses are recognised are considered to be Stage 1; financial assets which are considered to have experienced a significant increase in credit risk since initial recognition are in Stage 2; and financial assets which have defaulted or are otherwise considered to be credit impaired are allocated to Stage 3. Some Stage 3 assets, mainly in Commercial Banking, are subject to individual rather than collective assessment. Such cases are subject to a risk-based impairment sanctioning process, and these are reviewed and updated at least quarterly, or more frequently if there is a significant change in the credit profile.

An assessment of whether credit risk has increased significantly since initial recognition considers the change in the risk of default occurring over the remaining expected life of the financial instrument. The assessment is unbiased, probability-weighted and uses forward-looking information consistent with that used in the measurement of expected credit losses. In determining whether there has been a significant increase in credit risk, the Group uses quantitative tests based on relative and absolute probability of default (PD) movements linked to internal credit ratings together with qualitative indicators such as watchlists and other indicators of historical delinquency, credit weakness or financial difficulty. However, unless identified at an earlier stage, the credit risk of financial assets is deemed to have increased significantly when more than 30 days past due. Where the credit risk subsequently improves such that it no longer represents a significant increase in credit risk since initial recognition, the asset is transferred back to Stage 1.

Assets are transferred to Stage 3 when they have defaulted or are otherwise considered to be credit impaired. Default is considered to have occurred when there is evidence that the customer is experiencing financial difficulty which is likely to affect significantly the ability to repay the amount due. IFRS 9 contains a rebuttable presumption that default occurs no later than when a payment is 90 days past due. The Group uses this 90 day backstop for all its products except for UK mortgages. For UK mortgages, the Group uses a backstop of 180 days past due as mortgage exposures more than 90 days past due, but less than 180 days, typically show high cure rates and this aligns with the Group's risk management practices.

In certain circumstances, the Group will renegotiate the original terms of a customer's loan, either as part of an ongoing customer relationship or in response to adverse changes in the circumstances of the borrower. In the latter circumstances, the loan will remain classified as either Stage 2 or Stage 3 until the credit risk has improved such that it no longer represents a significant increase since origination (for a return to Stage 1), or the loan is no longer credit impaired (for a return to Stage 2). Renegotiation may also lead to the loan and associated allowance being derecognised and a new loan being recognised initially at fair value.

Purchased or originated credit-impaired financial assets (POCI) include financial assets that are purchased or originated at a deep discount that reflects incurred credit losses. At initial recognition, POCI assets do not carry an impairment allowance; instead, lifetime expected credit losses are incorporated into the calculation of the effective interest rate. All changes in lifetime expected credit losses subsequent to the assets' initial recognition are recognised as an impairment charge.

A loan or advance is normally written off, either partially or in full, against the related allowance when the proceeds from realising any available security have been received or there is no realistic prospect of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the income statement. For both secured and unsecured retail balances, the write-off takes place only once an extensive set of collections processes has been completed, or the status of the account reaches a point where policy dictates that continuing attempts to recover are no longer appropriate. For commercial lending, a write-off occurs if the loan facility with the customer is restructured, the asset is under

2 Accounting policies (continued)

administration and the only monies that can be received are the amounts estimated by the administrator, the underlying assets are disposed and a decision is made that no further settlement monies will be received, or external evidence (for example, third party valuations) is available that there has been an irreversible decline in expected cash flows.

i Property, plant and equipment
Property, plant and equipment (other than investment property) is included at cost less accumulated depreciation. The value of land (included in premises) is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate the difference between the cost and the residual value over their estimated useful lives, as follows: the shorter of 50 years and the remaining period of the lease for freehold/long and short leasehold premises; the shorter of 10 years and, if lease renewal is not likely, the remaining period of the lease for leasehold improvements; 10 to 20 years for fixtures and furnishings; and 2 to 8 years for other equipment and motor vehicles.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In the event that an asset's carrying amount is determined to be greater than its recoverable amount it is written down immediately. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

Investment property comprises freehold and long leasehold land and buildings that are held either to earn rental income or for capital accretion or both. In accordance with the guidance published by the Royal Institution of Chartered Surveyors, investment property is carried at fair value based on current prices for similar properties, adjusted for the specific characteristics of the property (such as location or condition). If this information is not available, the Group uses alternative valuation methods such as discounted cash flow projections or recent prices in less active markets. These valuations are reviewed at least annually by independent professionally qualified valuers. Investment property being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be valued at fair value.

j Leases
Under IFRS 16, a lessor is required to determine whether a lease is a finance or operating lease. A lessee is not required to make this determination.

(1) As lessor
Assets leased to customers are classified as finance leases if the lease agreements transfer substantially all the risks and rewards of ownership to the lessee but not necessarily legal title. All other leases are classified as operating leases. When assets are subject to finance leases, the present value of the lease payments, together with any unguaranteed residual value, is recognised as a receivable, net of allowances for expected credit losses, within loans and advances to banks and customers. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance lease income. Finance lease income is recognised in interest income over the term of the lease using the net investment method (before tax) so as to give a constant rate of return on the net investment in the leases. Unguaranteed residual values are reviewed regularly to identify any impairment.

Operating lease assets are included within property, plant and equipment at cost and depreciated over their estimated useful lives, which equates to the lives of the leases, after taking into account anticipated residual values. Operating lease rental income is recognised on a straight-line basis over the life of the lease.

The Group evaluates non-lease arrangements such as outsourcing and similar contracts to determine if they contain a lease which is then accounted for separately.

(2) As lessee
Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Assets and liabilities arising from a lease are initially measured on a present value basis. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Group's incremental borrowing rate appropriate for the right-of-use asset arising from the lease.

Lease payments are allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of twelve months or less. Low-value assets comprise IT equipment and small items of office furniture.

k Employee benefits
Short-term employee benefits, such as salaries, paid absences, performance-based cash awards and social security costs are recognised over the period in which the employees provide the related services.

(1) Pension schemes
The Group operates a number of post-retirement benefit schemes for its employees including both defined benefit and defined contribution pension plans. A defined benefit scheme is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, dependent on one or more factors such as age, years of service and salary. A defined contribution plan is a pension plan into which the Group pays fixed contributions; there is no legal or constructive obligation to pay further contributions.

Scheme assets are included at their fair value and scheme liabilities are measured on an actuarial basis using the projected unit credit method. The defined benefit scheme liabilities are discounted using rates equivalent to the market yields at the balance sheet date on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

The Group's income statement charge includes the current service cost of providing pension benefits, past service costs, net interest expense (income), and plan administration costs that are not deducted from the return on plan assets. Past service costs, which represents the change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment, are recognised when the plan amendment or curtailment occurs. Net interest expense (income) is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

Remeasurements, comprising actuarial gains and losses, the return on plan assets (excluding amounts included in net interest expense (income) and net of the cost of managing the plan assets), and the effect of changes to the asset ceiling (if applicable) are reflected immediately in the balance sheet with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurements recognised in other comprehensive income are reflected immediately in retained profits and will not subsequently be reclassified to profit or loss.

2 Accounting policies (continued)

The Group's balance sheet includes the net surplus or deficit, being the difference between the fair value of scheme assets and the discounted value of scheme liabilities at the balance sheet date. Surpluses are only recognised to the extent that they are recoverable through reduced contributions in the future or through refunds from the schemes. In assessing whether a surplus is recoverable, the Group considers its current right to obtain a refund or a reduction in future contributions and does not anticipate any future acts by other parties that could change the amount of the surplus that may ultimately be recovered.

The costs of the Group's defined contribution plans are charged to the income statement in the period in which they fall due.

(2) Share-based compensation
Lloyds Banking Group operates a number of equity-settled, share-based compensation plans in respect of services received from certain of its employees. The value of the employee services received in exchange for equity instruments granted under these plans is recognised as an expense over the vesting period of the instruments with a corresponding increase in equity. This expense is determined by reference to the fair value of the number of equity instruments that are expected to vest. The fair value of equity instruments granted is based on market prices, if available, at the date of grant. In the absence of market prices, the fair value of the instruments at the date of grant is estimated using an appropriate valuation technique, such as a Black-Scholes option pricing model or a Monte Carlo simulation. The determination of fair values excludes the impact of any non-market vesting conditions, which are included in the assumptions used to estimate the number of options that are expected to vest. At each balance sheet date, this estimate is reassessed and if necessary revised. Any revision of the original estimate is recognised in the income statement together with a corresponding adjustment to equity. Cancellations by employees of contributions to the Group's Save As You Earn plans are treated as non-vesting conditions and the Group recognises, in the year of cancellation, the amount of the expense that would have otherwise been recognised over the remainder of the vesting period. Modifications are assessed at the date of modification and any incremental charges are charged to the income statement.

l Taxation
Tax expense comprises current and deferred tax. Current and deferred tax are charged or credited in the income statement except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different period, outside the income statement (either in other comprehensive income, directly in equity, or through a business combination), in which case the tax appears in the same statement as the transaction that gave rise to it. The tax consequences of the Group's dividend payments (including distributions on other equity instruments), if any, are charged or credited to the statement in which the profit distributed originally arose.

Current tax is the amount of corporate income taxes expected to be payable or recoverable based on the profit for the period as adjusted for items that are not taxable or not deductible, and is calculated using tax rates and laws that were enacted or substantively enacted at the balance sheet date.

Current tax includes amounts provided in respect of uncertain tax positions when management expects that, upon examination of the uncertainty by Her Majesty's Revenue and Customs (HMRC) or other relevant tax authority, it is more likely than not that an economic outflow will occur. Provisions reflect management's best estimate of the ultimate liability based on their interpretation of tax law, precedent and guidance, informed by external tax advice as necessary. Changes in facts and circumstances underlying these provisions are reassessed at each balance sheet date, and the provisions are re-measured as required to reflect current information.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the balance sheet. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the balance sheet date, and which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax liabilities are generally recognised for all taxable temporary differences but not recognised for taxable temporary differences arising on investments in subsidiaries where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future. Deferred tax liabilities are not recognised on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets are recognised to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilised, and are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognised in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination. Deferred tax is not discounted.

m Foreign currency translation
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). Foreign currency transactions are translated into the appropriate functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when recognised in other comprehensive income as qualifying cash flow or net investment hedges. Non-monetary assets that are measured at fair value are translated using the exchange rate at the date that the fair value was determined. Translation differences on equities and similar non-monetary items held at fair value through profit and loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets measured at fair value through other comprehensive income, such as equity shares, are included in the fair value reserve in equity unless the asset is a hedged item in a fair value hedge.

The results and financial position of all Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows: the assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on the acquisition of a foreign entity, are translated into sterling at foreign exchange rates ruling at the balance sheet date; and the income and expenses of foreign operations are translated into sterling at average exchange rates unless these do not approximate to the foreign exchange rates ruling at the dates of the transactions in which case income and expenses are translated at the dates of the transactions.

Foreign exchange differences arising on the translation of a foreign operation are recognised in other comprehensive income and accumulated in a separate component of equity together with exchange differences arising from the translation of borrowings and other currency instruments designated as hedges of such investments (see f(3) above). On disposal or liquidation of a foreign operation, the cumulative amount of exchange differences relating to that foreign operation are reclassified from equity and included in determining the profit or loss arising on disposal or liquidation.

n Provisions and contingent liabilities
Provisions are recognised in respect of present obligations arising from past events where it is probable that outflows of resources will be required to settle the obligations and they can be reliably estimated.

2 Accounting policies (continued)

Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or those present obligations where the outflows of resources are uncertain or cannot be measured reliably. Contingent liabilities are not recognised in the financial statements but are disclosed unless they are remote.

Provision is made for expected credit losses in respect of irrevocable undrawn loan commitments and financial guarantee contracts (see (h) above).

o Share capital
Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds. Dividends paid on the Group's ordinary shares are recognised as a reduction in equity in the period in which they are paid.

p Cash and cash equivalents
For the purposes of the cash flow statement, cash and cash equivalents comprise cash and non-mandatory balances with central banks and amounts due from banks with a maturity of less than three months.

q Investment in subsidiaries
Investments in subsidiaries are carried at historical cost, less any provisions for impairment.

r Discontinued operations
A discontinued operation is a cash generating unit or a group of cash generating units that has been disposed of, or is classified as held for sale, and (a) represents a separate major line of business or geographical area of operations, (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or (c) is a subsidiary acquired exclusively with a view to resale. The results after tax of discontinued operations are shown as a single line item on the face of the income statement.

3 Critical accounting judgements and estimates

The preparation of the Group's financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions in applying the accounting policies that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates. Estimates, judgements and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty in these financial statements, which together are deemed critical to the Group's results and financial position, are as follows:

Allowance for expected credit losses
The Group recognises an allowance for expected credit losses for loans and advances to customers and banks, other financial assets held at amortised cost, financial assets measured at fair value through other comprehensive income and certain loan commitment and financial guarantee contracts. At 31 December 2019 the Group's expected credit loss allowance was £3,380 million (31 December 2018: £3,213 million), of which £3,207 million (31 December 2018: £3,023 million) was in respect of drawn balances; and the Bank's expected credit loss allowance was £1,336 million (31 December 2018: £1,656 million), of which £1,246 million (31 December 2018: £1,580 million) was in respect of drawn balances.

The calculation of the Group's expected credit loss (ECL) allowances and provisions against loan commitments and guarantees under IFRS 9 requires the Group to make a number of judgements, assumptions and estimates. The most significant are set out below.

Definition of default
The probability of default (PD) of an exposure, both over a 12 month period and over its lifetime, is a key input to the measurement of the ECL allowance. Default has occurred when there is evidence that the customer is experiencing significant financial difficulty which is likely to affect the ability to repay amounts due. The definition of default adopted by the Group is described in note 2(h) Impairment of financial assets. The Group has rebutted the presumption in IFRS 9 that default occurs no later than when a payment is 90 days past due for UK mortgages. As a result, at 31 December 2019, approximately £0.6 billion of UK mortgages (31 December 2018: £0.6 billion) were classified as Stage 2 rather than Stage 3; the impact the Group's ECL allowance was not material.

Lifetime of an exposure
The PD of a financial asset is dependent on its expected life. A range of approaches, segmented by product type, has been adopted by the Group to estimate a product's expected life. These include using the full contractual life and taking into account behavioural factors such as early repayments and refinancing. For non-revolving retail assets, the Group has assumed the expected life for each product to be the time taken for all significant losses to be observed. For retail revolving products, the Group has considered the losses beyond the contractual term over which the Group is exposed to credit risk. For commercial overdraft facilities, the average behavioural life has been used. Changes to the assumed expected lives of the Group's assets could impact the ECL allowance recognised by the Group.

Significant increase in credit risk
Performing assets are classified as either Stage 1 or Stage 2. An ECL allowance equivalent to 12 months expected losses is established against assets in Stage 1; assets classified as Stage 2 carry an ECL allowance equivalent to lifetime expected losses. Assets are transferred from Stage 1 to Stage 2 when there has been a significant increase in credit risk (SICR) since initial recognition.

The Group uses a quantitative test together with qualitative indicators to determine whether there has been a SICR for an asset. For retail, a deterioration in the Retail Master Scale of four grades for credit cards, personal loans or overdrafts, three grades for personal mortgages, or two grades for UK motor finance accounts is treated as a SICR. For Commercial a doubling of PD with a minimum increase in PD of 1 per cent and a resulting change in the underlying grade is treated as a SICR. All financial assets are assumed to have suffered a SICR if they are more than 30 days past due.

The setting of precise trigger points combined with risk indicators requires judgement. The use of different trigger points may have a material impact upon the size of the ECL allowance. The Group monitors the effectiveness of SICR criteria on an ongoing basis.

3 Critical accounting judgements and estimates (continued)

Post-model adjustments

Limitations in the Group's impairment models or input data may be identified through the on-going assessment and validation of the output of the models. In these circumstances, management make appropriate adjustments to the Group's allowance for impairment losses to ensure the overall provision adequately reflects all material risks. These adjustments are generally determined taking into account the particular attributes of the exposure which have not been adequately captured by the primary impairment models.

At 31 December 2019, significant post-model adjustments included within the allowance for expected credit losses amounted to £161 million (2018: £195 million), less than 5 percent of overall provisions. This comprises increases for the additional end of term risk on interest only mortgages of £132 million (2018: £114 million); mortgage accounts in long term default of £33 million (2018: £47 million); the extension of modelled lifetime on Retail revolving products of £36 million (2018: £34 million); and a decrease from the temporary effects of bureau data changes which artificially inflate PDs, and the resulting ECL, of £40 million; (2018: Nil) .

Forward looking information

The measurement of expected credit losses is required to reflect an unbiased probability-weighted range of possible future outcomes. In order to do this, the Group has developed an economic model to project a wide range of key impairment drivers using information derived mainly from external sources. These drivers include factors such as the unemployment rate, the house price index, commercial property prices and corporate credit spreads. The model generated economic scenarios for the six years beyond 2019 are mapped to industry-wide historical loss data by portfolio. Combined losses across portfolios are used to rank the scenarios by severity of loss. Alongside a defined central scenario three further scenarios are generated by averaging a group of individual scenarios around specified points along the loss distribution to reflect the range of outcomes. The central scenario reflects the Group's base case assumptions used for medium-term planning purposes, an upside and a downside scenario are also produced together with a severe downside scenario.

Rare occurrences of adverse economic events can lead to relatively large credit losses which means that typically the most likely outcome is less than the probability-weighted outcome of the range of possible future events. To allow for this a relatively unlikely severe downside scenario is therefore included. At 31 December 2018 and 2019, the base case, upside and downside scenarios each carry a 30 per cent weighting; the severe downside scenario is weighted at 10 per cent. The choice of alternative scenarios and scenario weights is a combination of quantitative analysis and judgemental assessment to ensure that the full range of possible outcomes and material non-linearity of losses are captured. A committee under the chairmanship of the Chief Economist meets quarterly, to review and, if appropriate, recommend changes to the economic scenarios to the Chief Financial Officer and Chief Risk Officer. Findings dealing with all aspects of the expected credit loss calculation are presented to the Group Audit Committee.

For each major product grouping models have been developed which utilise historical credit loss data to produce PDs for each scenario; an overall weighted average PD is used to assist in determining the staging of financial assets and related ECL.

The key UK economic assumptions made by the Group averaged over a five-year period are shown below:

	At 31 December 2019				At 31 December 2018			
Economic assumptions	**Base case %**	**Upside %**	**Downside %**	**Severe downside %**	Base case %	Upside %	Downside %	Severe downside %
Interest rate	**1.25**	**2.04**	**0.49**	**0.11**	1.25	2.34	1.30	0.71
Unemployment rate	**4.3**	**3.9**	**5.8**	**7.2**	4.5	3.9	5.3	6.9
House price growth	**1.3**	**5.0**	**(2.6)**	**(7.1)**	2.5	6.1	(4.8)	(7.5)
Commercial real estate price growth	**(0.2)**	**1.8**	**(3.8)**	**(7.1)**	0.4	5.3	(4.7)	(6.4)

The Group's base-case economic scenario has changed little over the year and reflects a broadly stable outlook for the economy. Although there remains considerable uncertainty about the economic consequences of the UK's exit from the European Union, the Group considers that at this stage the range of possible economic outcomes is adequately reflected in its choice and weighting of scenarios. The averages shown above do not fully reflect the peak to trough changes in the stated assumptions over the period. The tables below illustrate the variability of the assumptions from the start of the scenario period to the peak and trough.

	At 31 December 2019				At 31 December 2018			
Economic assumptions – start to peak	**Base case %**	**Upside %**	**Downside %**	**Severe downside %**	Base case %	Upside %	Downside %	Severe downside %
Interest rate	**1.75**	**2.56**	**0.75**	**0.75**	1.75	4.00	1.75	1.25
Unemployment rate	**4.6**	**4.6**	**6.9**	**8.3**	4.8	4.3	6.3	8.6
House price growth	**6.0**	**26.3**	**(1.9)**	**(2.3)**	13.7	34.9	0.6	(1.6)
Commercial real estate price growth	**0.1**	**10.4**	**(0.6)**	**(1.1)**	0.1	26.9	(0.5)	(0.5)

	At 31 December 2019				At 31 December 2018			
Economic assumptions – start to trough	**Base case %**	**Upside %**	**Downside %**	**Severe downside %**	Base case %	Upside %	Downside %	Severe downside %
Interest rate	**0.75**	**0.75**	**0.35**	**0.01**	0.75	0.75	0.75	0.25
Unemployment rate	**3.8**	**3.4**	**3.9**	**3.9**	4.1	3.5	4.3	4.2
House price growth	**(1.9)**	**(0.8)**	**(14.8)**	**(33.1)**	0.4	2.3	(26.5)	(33.5)
Commercial real estate price growth	**(0.9)**	**0.3**	**(17.5)**	**(30.9)**	(0.1)	0.0	(23.8)	(33.8)

3 Critical accounting judgements and estimates (continued)

The table below shows the extent to which a higher ECL allowance has been recognised to take account of forward looking information from the weighted multiple economic scenarios. The most significant difference between these bases arises on UK mortgages as the probability weighted ECL includes the impact of house price movements on the loss given default. For other portfolios adjustment is made only for the probability of default. All non-modelled provisions, including post model adjustments, are based on the probability weighted modelled ECL across all scenarios.

	At 31 December 2019			At 31 December 2018		
Impact of multiple economic scenarios	**Base case £m**	**Probability weighted £m**	**Difference £m**	Base case £m	Probability weighted £m	Difference £m
	3,189	**3,380**	**191**	2,951	3,213	262

The table below shows the Group's ECL for the upside and downside scenarios using a 100 per cent weighting, with stage allocation based on each specific scenario.

	At 31 December 2019		At 31 December 2018	
	Upside £m	**Downside £m**	Upside £m	Downside £m
ECL allowance	**2,926**	**3,602**	2,626	3,424

The impact of changes in the UK unemployment rate and House Price Index (HPI) have also been assessed. Although such changes would not be observed in isolation, as economic indicators tend to be correlated in a coherent scenario, this gives insight into the sensitivity of the Group's ECL to changes in these two critical economic factors. The assessment has been made against the base case with the reported staging unchanged. The changes to HPI and the unemployment rate have been phased in to the forward-looking economic outlook over three years.

The table below shows the impact on the Group's ECL resulting from a decrease/increase in Loss Given Default for a 10 percentage point (pp) increase/decrease in the UK House Price Index (HPI).

	At 31 December 2019		At 31 December 2018	
	10pp increase in HPI	**10pp decrease in HPI**	10pp increase in HPI	10pp decrease in HPI
ECL impact, £m	**(110)**	**147**	(114)	154

The table below shows the impact on the Group's ECL resulting from a decrease/increase for a 1 percentage point (pp) increase/decrease in the UK unemployment rate.

	At 31 December 2019		At 31 December 2018	
	1pp increase in unemployment	**1pp decrease in unemployment**	1pp increase in unemployment	1pp decrease in unemployment
ECL impact, £m	**141**	**(143)**	172	(155)

Defined benefit pension scheme obligations
The net asset recognised in the balance sheet at 31 December 2019 in respect of the Group's defined benefit pension scheme obligations was £550 million (comprising an asset of £681 million and a liability of £131 million) (2018: a net asset of £1,146 million comprising an asset of £1,267 million and a liability of £121 million); and for the Bank was £347 million (comprising an asset of £386 million and a liability of £39 million) (2018: a net asset of £667 million comprising an asset of £704 million and liability of £37 million). The Group's accounting policy for its defined benefit pension scheme obligations is set out in note 2(k).

The accounting valuation of the Group's defined benefit pension schemes' liabilities requires management to make a number of assumptions. The key areas of estimation uncertainty are the discount rate applied to future cash flows and the expected lifetime of the schemes' members. The discount rate is required to be set with reference to market yields at the end of the reporting period on high quality corporate bonds in the currency and with a term consistent with the defined benefit pension schemes' obligations. The average duration of the schemes' obligations is approximately 18 years. The market for bonds with a similar duration is illiquid and, as a result, significant management judgement is required to determine an appropriate yield curve on which to base the discount rate. The cost of the benefits payable by the schemes will also depend upon the life expectancy of the members. The Group considers latest market practice and actual experience in determining the appropriate assumptions for both current mortality expectations and the rate of future mortality improvement. It is uncertain whether this rate of improvement will be sustained going forward and, as a result, actual experience may differ from current expectations. The effect on the net accounting surplus or deficit and on the pension charge in the Group's income statement of changes to the principal actuarial assumptions is set out in part (v) of note 29.

Recoverability of deferred tax assets
At 31 December 2019 the Group carried deferred tax assets on its balance sheet of £3,366 million (2018: £3,216 million) and the Bank carried deferred tax assets of £2,029 million (2018: £1,980 million) principally relating to tax losses carried forward. Further information on the Group's deferred tax assets and uncertain tax positions is provided in notes 30 and 41 respectively.

Estimation of income taxes includes the assessment of recoverability of deferred tax assets. Deferred tax assets are only recognised to the extent they are considered more likely than not to be recoverable based on existing tax laws and forecasts of future taxable profits against which the underlying tax deductions can be utilised. The Group has recognised a deferred tax asset of £3,600 million (2018: £3,777 million), and the Bank £2,198 million (2018: £2,280 million), in respect of UK trading losses carried forward. Substantially all of these losses have arisen in Bank of Scotland plc and Lloyds Bank plc, and they will be utilised as taxable profits arise in those legal entities in future periods. The Group's expectations as to the level of future taxable profits take into account the Group's long-term financial and strategic plans, and anticipated future tax-adjusting items. In making this assessment, account is taken of business plans, the Board-approved operating plan and the expected future economic outlook as set out in the strategic report, as well as the risks associated with future regulatory change. Under current law there is no expiry date for UK trading losses not yet utilised, although (since Finance Act 2016) banking losses that arose before 1 April 2015 can only be used against

3 Critical accounting judgements and estimates (continued)

25 per cent of taxable profits arising after 1 April 2016, and they cannot be used to reduce the surcharge on banking profits. This restriction in utilisation means that the value of the deferred tax asset is only expected to be fully recovered by 2039. It is possible that future tax law changes could materially affect the value of these losses ultimately realised by the Group. As disclosed in note 30, deferred tax assets totalling £237 million (2018: £255 million) for the Group and £96 million (2018: £112 million) for the Bank have not been recognised in respect of certain capital and trading losses carried forward, unrelieved foreign tax credits and other tax deductions, as there are currently no expected future taxable profits against which these assets can be utilised.

Regulatory provisions
At 31 December 2019, the Group carried provisions of £2,269 million (2018: £2,227 million) and the Bank £783 million (2018: £861 million) against the cost of making redress payments to customers and the related administration costs in connection with historical regulatory breaches.

Determining the amount of the provisions, which represent management's best estimate of the cost of settling these issues, requires the exercise of significant judgement and estimate. It will often be necessary to form a view on matters which are inherently uncertain, such as the scope of reviews required by regulators, and to estimate the number of future complaints, the extent to which they will be upheld, the average cost of redress and the impact of legal decisions that may be relevant to claims received. Consequently the continued appropriateness of the underlying assumptions is reviewed on a regular basis against actual experience and other relevant evidence and adjustments made to the provisions where appropriate.

More detail on the nature of the assumptions that have been made and key sensitivities is set out in note 31.

Fair value of financial instruments
At 31 December 2019, the carrying value of the Group's financial instrument assets held at fair value was £35,395 million (2018: £58,917 million), and its financial instrument liabilities held at fair value was £17,533 million (2018: £28,641 million). The carrying value of the Bank's financial instrument assets held at fair value was £36,501 million (2018: £59,482 million) and financial liabilities was £21,908 million (2018: £32,265 million).

In accordance with IFRS 13 Fair Value Measurement, the Group categorises financial instruments carried on the balance sheet at fair value using a three level hierarchy. Financial instruments categorised as level 1 are valued using quoted market prices and therefore minimal estimates are made in determining fair value. The fair value of financial instruments categorised as level 2 and, in particular, level 3 is determined using valuation techniques including discounted cash flow analysis and valuation models.

The valuation techniques for level 2 and level 3 financial instruments involve management judgement and estimates the extent of which depends on the complexity of the instrument and the availability of market observable information. In addition, in line with market practice, the Group applies credit, debit and funding valuation adjustments in determining the fair value of its uncollateralised derivative positions. A description of these adjustments is set out in note 43. Further details of the Group's level 3 financial instruments and the sensitivity of their valuation including the effect of applying reasonably possible alternative assumptions in determining their fair value are also set out in note 43.

4 Segmental analysis

The Group provides a wide range of banking and financial services in the UK and in certain locations overseas. The Group Executive Committee (GEC) of the Lloyds Banking Group has been determined to be the chief operating decision maker for the Group. Following the transfer of HBOS to the Group on 1 January 2010, all of the trading activities of the Lloyds Banking Group are carried out within the Group and, as a result, the chief operating decision maker reviewed the Group's performance by considering that of the Lloyds Banking Group. However, following the sale of the Group's insurance business and certain other businesses as a result of the ring-fencing legislation this is no longer the case. Accordingly, the chief operating decision maker now reviews the results of the Group's businesses separately.

The Group's activities are organised into two financial reporting segments: Retail and Commercial Banking.

During 2019, the Group transferred Cardnet, its card payment acceptance service, from Retail into Commercial Banking and also transferred certain equity business from Commercial Banking into Other; comparative figures have been restated accordingly.

Retail offers a broad range of financial service products, including current accounts, savings, mortgages, motor finance and unsecured consumer lending to personal and small business customers.

Commercial Banking provides a range of products and services such as lending, transactional banking, working capital management, risk management and debt capital markets services to SMEs, corporates and financial institutions.

Other includes certain assets previously reported as outside of the Group's risk appetite and income and expenditure not attributed to divisions, including the costs of certain central and head office functions.

Inter-segment services are generally recharged at cost, although some attract a margin. Inter-segment lending and deposits are generally entered into at market rates, except that non-interest bearing balances are priced at a rate that reflects the external yield that could be earned on such funds.

For the majority of those derivative contracts entered into by business units for risk management purposes, the business unit recognises the net interest income or expense on an accrual accounting basis and transfers the remainder of the movement in the fair value of the derivative to the central function where the resulting accounting volatility is managed where possible through the establishment of hedge accounting relationships. Any change in fair value of the hedged instrument attributable to the hedged risk is also recorded within the central function. This allocation of the fair value of the derivative and change in fair value of the hedged instrument attributable to the hedged risk avoids accounting asymmetry in segmental results and leads to accounting volatility, which is managed centrally and reported within Other.

4 Segmental analysis (continued)

	Retail £m	Commercial Banking £m	Other £m	Group £m
Year ended 31 December 2019				
Net interest income	8,753	2,692	775	12,220
Other income	2,020	875	1,493	4,388
Total income	10,773	3,567	2,268	16,608
Costs	(8,554)	(1,825)	(1,393)	(11,772)
Trading surplus	2,219	1,742	875	4,836
Impairment (charge) credit	(1,038)	(313)	(11)	(1,362)
Profit before tax	1,181	1,429	864	3,474
External income	13,038	1,655	1,915	16,608
Inter-segment income	(2,265)	1,912	353	–
Segment income	10,773	3,567	2,268	16,608
Segment external assets	350,521	89,895	140,952	581,368
Segment external liabilities	259,946	126,313	156,210	542,469
Analysis of segment other income:				
Current accounts	518	133	5	656
Credit and debit card fees	634	327	–	961
Commercial banking fees	–	166	–	166
Private banking and asset management	–	–	38	38
Factoring	–	103	–	103
Other fees and commissions	63	224	152	439
Fees and commissions receivable	1,215	953	195	2,363
Fees and commissions payable	(571)	(299)	(157)	(1,027)
Net fee and commission income	644	654	38	1,336
Operating lease income	1,225	22	–	1,247
Gains and losses on disposal of financial assets at fair value through other comprehensive income	–	(5)	201	196
Other income	151	204	1,254	1,609
Segment other income	2,020	875	1,493	4,388
Other segment items reflected in income statement above:				
Depreciation and amortisation	1,712	315	575	2,602
Defined benefit scheme charges	108	43	94	245
Other segment items:				
Additions to fixed assets	2,208	247	1,097	3,552
Investments in joint ventures and associates at end of year	3	–	–	3

4 Segmental analysis (continued)

	Retail £m	Commercial Banking £m	Other £m	Continuing operations £m
Year ended 31 December 2018[1]				
Net interest income	9,008	2,921	825	12,754
Other income	1,917	1,452	851	4,220
Total income	10,925	4,373	1,676	16,974
Costs	(7,053)	(2,167)	(1,899)	(11,119)
Trading surplus	3,872	2,206	(223)	5,855
Impairment (charge) credit	(861)	(80)	15	(926)
Profit before tax	3,011	2,126	(208)	4,929
External income	12,893	4,157	(76)	16,974
Inter-segment income	(1,968)	216	1,752	–
Segment income	10,925	4,373	1,676	16,974
Segment external assets	349,342	115,819	128,325	593,486
Segment external liabilities	259,778	138,210	155,145	553,133
Analysis of segment other income:				
Current accounts	503	139	5	647
Credit and debit card fees	646	328	–	974
Commercial banking fees	–	271	–	271
Private banking and asset management	–	2	92	94
Factoring	–	83	–	83
Other fees and commissions	52	253	123	428
Fees and commissions receivable	1,201	1,076	220	2,497
Fees and commissions payable	(757)	(310)	(161)	(1,228)
Net fee and commission income	444	766	59	1,269
Operating lease income	1,305	36	–	1,341
Gains and losses on disposal of financial assets at fair value through other comprehensive income	–	–	268	268
Other income	168	650	524	1,342
Segment other income	1,917	1,452	851	4,220
Other segment items reflected in income statement above:				
Depreciation and amortisation	1,573	278	498	2,349
Defined benefit scheme charges	121	48	231	400
Other segment items:				
Additions to fixed assets	2,092	208	1,078	3,378
Investments in joint ventures and associates at end of year	4	–	1	5

1 Restated, see page 55.

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4 Segmental analysis (continued)

	Retail £m	Commercial Banking £m	Other £m	Continuing operations £m
Year ended 31 December 2017[1]				
Net interest income	8,680	3,062	622	12,364
Other income	2,165	2,031	792	4,988
Total income	10,845	5,093	1,414	17,352
Costs	(8,128)	(2,530)	(972)	(11,630)
Trading surplus	2,717	2,563	442	5,722
Impairment (charge) credit	(625)	(95)	33	(687)
Profit (loss) before tax	2,092	2,468	475	5,035
External income	12,783	3,425	1,144	17,352
Inter-segment income	(1,938)	1,668	270	–
Segment income	10,845	5,093	1,414	17,352
Segment external assets	350,154	177,832	140,817	668,803
Segment external liabilities	258,469	224,939	141,910	625,318
Analysis of segment other income:				
Current accounts	572	135	5	712
Credit and debit card fees	637	312	–	949
Commercial banking fees	–	321	–	321
Private banking and asset management	–	5	93	98
Factoring	–	91	–	91
Other fees and commissions	95	273	247	615
Fees and commissions receivable	1,304	1,137	345	2,786
Fees and commissions payable	(636)	(287)	(101)	(1,024)
Net fee and commission income	668	850	244	1,762
Operating lease income	1,281	63	–	1,344
Rental income from investment properties	–	1	–	1
Gains and losses on disposal of available-for-sale financial assets	–	5	459	464
Other income	216	1,112	89	1,417
Segment other income	2,165	2,031	792	4,988
Other segment items reflected in income statement above:				
Depreciation and amortisation	1,547	322	423	2,292
Defined benefit scheme charges	149	52	140	341
Other segment items:				
Additions to fixed assets	2,431	130	862	3,423
Investments in joint ventures and associates at end of year	9	–	–	9

1 Restated, see page 55.

Following the reduction in the Group's non-UK activities, an analysis between UK and non-UK activities is no longer provided.

The Group's discontinued operations were previously in its Insurance segment (see note 13).

5 Net interest income

	Weighted average effective interest rate					
	2019 %	2018 %	2017 %	**2019 £m**	2018 £m	2017 £m
Interest and similar income:						
Loans and advances to customers	**3.21**	3.23	3.18	**15,281**	15,049	14,554
Loans and advances to banks	**0.57**	0.76	0.41	**269**	462	253
Debt securities held at amortised cost	**2.26**	1.61	1.98	**118**	66	66
Interest receivable on financial assets held at amortised cost	**2.97**	2.93	2.84	**15,668**	15,577	14,873
Financial assets at fair value through other comprehensive income	**1.64**	1.98		**430**	639	
Available-for-sale financial assets			1.96			980
Total interest and similar income[1]	**2.90**	2.88	2.77	**16,098**	16,216	15,853
Interest and similar expense:						
Deposits from banks, excluding liabilities under sale and repurchase agreements	**1.39**	1.36	1.18	**(87)**	(81)	(80)
Customer deposits, excluding liabilities under sale and repurchase agreements	**0.65**	0.60	0.56	**(2,054)**	(1,997)	(1,936)
Debt securities in issue[2]	**0.71**	0.10	0.18	**(476)**	(66)	(120)
Subordinated liabilities	**9.89**	10.18	10.03	**(921)**	(1,072)	(1,242)
Lease liabilities	**2.41**	2.44	2.38	**(39)**	(1)	(1)
Liabilities under sale and repurchase agreements	**1.08**	0.87	0.54	**(301)**	(245)	(110)
Total interest and similar expense[3]	**0.91**	0.78	0.77	**(3,878)**	(3,462)	(3,489)
Net interest income				**12,220**	12,754	12,364

1 Includes £26 million (2018: £31 million; 2017: £12 million) of interest income on liabilities with negative interest rates and £39 million (2018: £45 million; 2017: £49 million) in respect of interest income on finance leases.

2 The impact of the Group's hedging arrangements is included on this line; excluding this impact the weighted average effective interest rate in respect of debt securities in issue would be 2.25 per cent (2018: 2.74 per cent; 2017: 2.43 per cent).

3 Includes £119 million (2018: £10 million; 2017: £50 million) of interest expense on assets with negative interest rates.

Included within interest and similar income is £196 million (2018: £222 million; 2017: £179 million) in respect of credit-impaired financial assets. Net interest income also includes a credit of £580 million (2018: credit of £691 million; 2017: credit of £644 million) transferred from the cash flow hedging reserve (see note 35).

6 Net fee and commission income

	2019 £m	2018 £m	2017 £m
Fee and commission income:			
Current accounts	**656**	647	712
Credit and debit card fees	**961**	974	949
Commercial banking fees	**166**	271	321
Private banking and asset management	**38**	94	98
Factoring	**103**	83	91
Other fees and commissions	**439**	428	615
Total fee and commission income	**2,363**	2,497	2,786
Fee and commission expense	**(1,027)**	(1,228)	(1,024)
Net fee and commission income	**1,336**	1,269	1,762

Fees and commissions which are an integral part of the effective interest rate form part of net interest income shown in note 5. Fees and commissions relating to instruments that are held at fair value through profit or loss are included within net trading income shown in note 7.

At 31 December 2019, the Group held on its balance sheet £105 million (31 December 2018: £98 million) in respect of services provided to customers and £120 million (31 December 2018: £140 million) in respect of amounts received from customers for services to be provided after the balance sheet date. Current unsatisfied performance obligations amount to £250 million (31 December 2018: £285 million); the Group expects to receive substantially all of this revenue by 2022.

6 Net fee and commission income (continued)

Income recognised during the year ended 31 December 2019 included £54 million in respect of amounts included in the contract liability balance at 31 December 2018 and £9 million in respect of amounts from performance obligations satisfied in previous years.

The most significant performance obligations undertaken by the Group are in respect of current accounts, the provision of other banking services for commercial customers and credit and debit card services.

In respect of current accounts, the Group receives fees for the provision of bank account and transaction services such as ATM services, fund transfers, overdraft facilities and other value-added offerings.

For commercial customers, alongside its provision of current accounts, the Group provides other corporate banking services including factoring and commitments to provide loan financing. Loan commitment fees are included in fees and commissions where the loan is not expected to be drawn down by the customer.

The Group receives interchange and merchant fees, together with fees for overseas use and cash advances, for provision of card services to cardholders and merchants.

7 Net trading income

	2019 £m	2018 £m	2017 £m
Foreign exchange translation (losses) gains	**(203)**	132	(151)
Gains on foreign exchange trading transactions	**336**	235	517
Total foreign exchange	**133**	367	366
Investment property losses	**(8)**	–	–
Securities and other gains (see below)	**235**	41	407
Net trading income	**360**	408	773

Securities and other gains comprise net gains and losses arising on assets and liabilities held at fair value through profit or loss as follows:

	2019 £m	2018 £m	2017 £m
Net income arising on assets and liabilities mandatorily held at fair value through profit or loss:			
Financial instruments held for trading	**427**	127	180
Other financial instruments mandatorily held at fair value through profit or loss:			
Debt securities, loans and advances	**25**	11	132
Equity shares	**(3)**	86	239
	449	224	551
Net expense arising on assets and liabilities designated at fair value through profit or loss	**(214)**	(183)	(144)
Securities and other gains	**235**	41	407

8 Other operating income

	2019 £m	2018 £m	2017 £m
Operating lease rental income	**1,247**	1,341	1,344
Rental income from investment properties (note 22)	**–**	–	1
Gains less losses on disposal of financial assets at fair value through other comprehensive income (2017: available-for-sale financial assets) (note 19)	**196**	268	464
Share of results of joint ventures and associates	**–**	5	2
Other income	**1,249**	929	642
Total other operating income	**2,692**	2,543	2,453

9 Operating expenses

	2019 £m	2018 £m	2017 £m
Staff costs:			
Salaries	**2,370**	2,379	2,540
Performance-based compensation	**340**	485	464
Social security costs	**308**	330	343
Pensions and other post-retirement benefit schemes (note 29)	**518**	688	583
Restructuring costs	**89**	247	22
Other staff costs	**360**	444	466
	3,985	4,573	4,418
Premises and equipment:			
Rent and rates	**114**	364	364
Repairs and maintenance	**182**	189	231
Other	**150**	126	95
	446	679	690
Other expenses:			
Communications and data processing	**1,022**	1,116	880
Advertising and promotion	**173**	192	207
Professional fees	**144**	230	312
Other	**561**	673	701
	1,900	2,211	2,100
Depreciation and amortisation:			
Depreciation of property, plant and equipment (note 22)	**2,040**	1,849	1,939
Amortisation of other intangible assets (note 21)	**562**	500	353
	2,602	2,349	2,292
Impairment of goodwill	**–**	–	8
Total operating expenses, excluding regulatory provisions	**8,933**	9,812	9,508
Regulatory provisions			
Payment protection insurance provision (note 31)	**2,444**	746	1,300
Other regulatory provisions (note 31)	**395**	561	822
	2,839	1,307	2,122
Total operating expenses	**11,772**	11,119	11,630

The average number of persons on a headcount basis employed by the Group during the year was as follows:

	2019	2018	2017
UK	**69,321**	71,017	72,644
Overseas	**762**	769	794
Total	**70,083**	71,786	73,438

10 Auditors' remuneration

Fees payable to the Bank's auditors
During the year the auditors earned the following fees:

	2019 £m	2018 £m	2017 £m
Fees payable for the audit of the Bank's current year annual report	**4.2**	3.8	3.5
Fees payable for other services:			
Audit of the Bank's subsidiaries pursuant to legislation	**8.6**	10.2	9.9
Other services supplied pursuant to legislation	**1.3**	1.5	2.3
Other services – audit-related fees	**0.2**	–	–
All other services	**0.3**	0.1	1.4
Total fees payable to the Bank's auditors	**14.6**	15.6	17.1

The following types of services are included in the categories listed above:

Audit fees: This category includes fees in respect of the audit of the Group's annual financial statements and other services in connection with regulatory filings. Other services supplied pursuant to legislation relate primarily to costs incurred in connection with client asset assurance and with the Sarbanes-Oxley Act requirements associated with the audit of the financial statements of Lloyds Banking Group filed on Form 20-F.

Audit related fees: This category includes fees in respect of services for assurance and related services that are reasonably related to the performance of the audit or review of the financial statements, for example acting as reporting accountants in respect of debt prospectuses required by the listing rules.

Other non-audit fees: This category includes due diligence relating to corporate finance, including venture capital transactions and other assurance and advisory services. The auditors are not engaged to provide tax services.

It is the Group's policy to use the auditors on assignments in cases where their knowledge of the Group means that it is neither efficient nor cost effective to employ another firm of accountants.

Lloyds Banking Group has procedures that are designed to ensure auditor independence for Lloyds Banking Group plc and all of its subsidiaries, including prohibiting certain non-audit services. All audit and non-audit assignments must be pre-approved by the Lloyds Banking Group audit committee (the Audit Committee) on an individual engagement basis; for certain types of non-audit engagements where the fee is 'de minimis' the Audit Committee has pre-approved all assignments subject to confirmation by management. On a quarterly basis, the Audit Committee receives and reviews a report detailing all pre-approved services and amounts paid to the auditors for such pre approved services.

During the year the auditors also earned fees payable by entities outside the consolidated Lloyds Bank Group in respect of the following:

	2019 £m	2018 £m	2017 £m
Audits of the Group pension schemes	**0.1**	0.1	0.1
Audits of unconsolidated Open Ended Investment Companies managed by the Group	**–**	0.1	0.3
Reviews of the financial position of corporate and other borrowers	**–**	0.4	0.2
Acquisition due diligence and other work performed in respect of potential venture capital investments	**–**	–	0.1

11 Impairment

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Purchased or originated credit-impaired £m	Total £m
Year ended 31 December 2019					
Impact of transfers between stages	**(17)**	**89**	**532**	**–**	**604**
Other changes in credit quality	**6**	**2**	**939**	**(106)**	**841**
Additions (repayments)	**93**	**(41)**	**(60)**	**(87)**	**(95)**
Methodology, model and assumption changes	**33**	**(27)**	**8**	**–**	**14**
Other items	**(5)**	**–**	**3**	**–**	**(2)**
	127	**(66)**	**890**	**(193)**	**758**
Total impairment	**110**	**23**	**1,422**	**(193)**	**1,362**
In respect of:					
Loans and advances to banks	**–**	**–**	**–**	**–**	**–**
Loans and advances to customers	**141**	**10**	**1,382**	**(193)**	**1,340**
Due from fellow Lloyds Banking Group undertakings	**(1)**	**–**	**41**	**–**	**40**
Financial assets at amortised cost	**140**	**10**	**1,423**	**(193)**	**1,380**
Other assets	**–**	**–**	**–**	**–**	**–**
Impairment charge on drawn balances	**140**	**10**	**1,423**	**(193)**	**1,380**
Loan commitments and financial guarantees	**(29)**	**13**	**(1)**	**–**	**(17)**
Financial assets at fair value through other comprehensive income	**(1)**	**–**	**–**	**–**	**(1)**
Total impairment	**110**	**23**	**1,422**	**(193)**	**1,362**

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Purchased or originated credit-impaired £m	Total £m
Year ended 31 December 2018					
Impact of transfers between stages	(10)	18	445	–	453
Other changes in credit quality	(23)	(14)	545	69	577
Additions (repayments)	19	(84)	27	(69)	(107)
Methodology, model and assumption changes	(71)	(21)	72	–	(20)
Other items	(13)	–	36	–	23
	(88)	(119)	680	–	473
Total impairment	(98)	(101)	1,125	–	926
In respect of:					
Loans and advances to banks	1	–	–	–	1
Loans and advances to customers	(65)	(53)	1,129	–	1,011
Impairment charge on drawn balances	(64)	(53)	1,129	–	1,012
Loan commitments and financial guarantees	(20)	(48)	(4)	–	(72)
Financial assets at fair value through other comprehensive income	(14)	–	–	–	(14)
Total impairment	(98)	(101)	1,125	–	926

The Group’s impairment charge comprises the following items:

Transfers between stages
The net impact on the impairment charge of transfers between stages.

Other changes in credit quality
Changes in loss allowance as a result of movements in risk parameters that reflect changes in customer quality, but which have not resulted in a transfer to a different stage. This also contains the impact on the impairment charge as a result of write-offs and recoveries, where the related loss allowances are reassessed to reflect ultimate realisable or recoverable value.

Additions (repayments)
Expected loss allowances are recognised on origination of new loans or further drawdowns of existing facilities. Repayments relate to the reduction of loss allowances as a result of repayments of outstanding balances.

11 Impairment (continued)

Methodology, model and assumption changes
Increase or decrease in impairment charge as a result of adjustments to the models used for expected credit loss calculations; as either changes to the model inputs or to the underlying assumptions, as well as the impact of changing the models used.

	2017 £m
Impairment losses on loans and receivables:	
Loans and advances to customers	696
Debt securities classified as loans and receivables	(6)
Total impairment losses on loans and receivables	690
Impairment of available-for-sale financial assets	6
Other credit risk provisions	(9)
Total impairment charged to the income statement	687

Movements in the Group's impairment allowances are shown in note 18.

12 Tax expense

a Analysis of tax expense for the year

	2019 £m	2018[1] £m	2017[1] £m
UK corporation tax:			
Current tax on profit for the year	**(1,239)**	(1,148)	(1,029)
Adjustments in respect of prior years	**98**	(10)	119
	(1,141)	(1,158)	(910)
Foreign tax:			
Current tax on profit for the year	**(58)**	(24)	(40)
Adjustments in respect of prior years	**4**	–	11
	(54)	(24)	(29)
Current tax expense	**(1,195)**	(1,182)	(939)
Deferred tax (note 30):			
Current year	**(104)**	(240)	(511)
Adjustments in respect of prior years	**58**	(1)	(78)
	(46)	(241)	(589)
Tax expense	**(1,241)**	(1,423)	(1,528)

1 Restated, see note 1.

12 Tax expense (continued)

b Factors affecting the tax expense for the year

The UK corporation tax rate for the year was 19.0 per cent (2018: 19.0 per cent; 2017: 19.25 per cent). An explanation of the relationship between tax expense and accounting profit is set out below:

	2019 £m	2018[1] £m	2017[1] £m
Profit before tax from continuing operations	**3,474**	4,929	5,035
UK corporation tax thereon	**(660)**	(937)	(969)
Impact of surcharge on banking profits	**(367)**	(398)	(430)
Remeasurement of deferred tax due to rate changes	**(25)**	18	(21)
Non-deductible costs: conduct charges	**(370)**	(101)	(287)
Other non-deductible costs	**(77)**	(74)	(50)
Non-taxable income	**36**	25	28
Tax relief on coupons on other equity instruments	**53**	52	52
Tax-exempt gains on disposals	**25**	11	109
Losses not recognised	**(7)**	(9)	–
Differences in overseas tax rates	**(9)**	1	(11)
Adjustments in respect of prior years	**160**	(11)	52
Tax effect of share of results of joint ventures	**–**	–	(1)
Tax expense on profit from continuing operations	**(1,241)**	(1,423)	(1,528)

1 Restated, see note 1.

13 Discontinued operations

The Group completed the sale of the Scottish Widows Group to its ultimate holding company, Lloyds Banking Group plc, in May 2018. Scottish Widows represented the entirety of the Group's insurance business and consequently these operations were classified as discontinued and the profit after tax from these activities reported as a single line on the Group's income statement.

In order to fairly reflect the results and financial position of the Group's continuing operations and its discontinued operations, transactions that the continuing operations had with the discontinued operations were reported on the relevant line in the Group's income statement, with the matching transaction similarly reported in the discontinued operations income statement. All such transactions fully eliminated within the Group's statutory consolidation and there was no net impact on profit before tax.

The results of the discontinued operations in 2017 and 2018 were as follows:

	2018 £m	2017 £m
Interest and similar income	14	228
Interest and similar expense	(3)	(1,541)
Net interest income	11	(1,313)
Fee and commission income	106	373
Fee and commission expense	(180)	(553)
Net fee and commission income	(74)	(180)
Net trading income (see (a) below)	(790)	10,977
Insurance premium income (see (b) below)	2,714	7,930
Other operating income	205	102
Other income	2,055	18,829
Total income	2,066	17,516
Insurance claims (see (c) below)	(1,363)	(15,578)
Total income, net of insurance claims	703	1,938
Operating expenses	(333)	(995)
Trading surplus	370	943
Profit on disposal of the discontinued operations	1,010	–
Profit before tax	1,380	943
Taxation	(66)	(147)
Profit after tax from discontinued operations	1,314	796

(a) Net trading income

	2018 £m	2017 £m
Foreign exchange translation gains	31	130
Gains on foreign exchange trading transactions	–	–
Total foreign exchange	31	130
Investment property gains	45	231
Securities and other gains (see below)	(866)	10,616
Net trading income	(790)	10,977

Securities and other gains comprise net gains arising on assets and liabilities held at fair value through profit or loss and for trading as follows:

	2018 £m	2017 £m
Net income arising on assets designated at fair value through profit or loss:		
Debt securities, loans and advances	(426)	990
Equity shares	(535)	9,556
Total net gains arising on assets designated at fair value through profit or loss	(961)	10,546
Net gains on financial instruments held for trading	95	70
Securities and other gains	(866)	10,616

13 Discontinued operations (continued)

(b) Insurance premium income

	2018 £m	2017 £m
Life insurance		
Gross premiums:		
Life and pensions	2,198	6,273
Annuities	366	1,082
	2,564	7,355
Ceded reinsurance premiums	(73)	(168)
Net earned premiums	2,491	7,187
Non-life insurance		
Net earned premiums	223	743
Total net earned premiums	2,714	7,930

(c) Insurance claims

Insurance claims comprise:	2018 £m	2017 £m
Life insurance and participating investment contracts		
Claims and surrenders	(2,788)	(8,898)
Change in insurance and participating investment contracts	1,533	(9,067)
Change in non-participating investment contracts	(73)	2,836
	(1,328)	(15,129)
Reinsurers' share	86	35
	(1,242)	(15,094)
Change in unallocated surplus	14	(147)
Total life insurance and participating investment contracts	(1,228)	(15,241)
Non-life insurance		
Total non-life insurance claims, net of reinsurance	(135)	(337)
Total insurance claims	(1,363)	(15,578)
Life insurance and participating investment contracts gross claims and surrenders can also be analysed as follows:		
Deaths	(267)	(675)
Maturities	(393)	(1,280)
Surrenders	(1,734)	(5,674)
Annuities	(336)	(985)
Other	(58)	(284)
Total life insurance gross claims and surrenders	(2,788)	(8,898)

The impact of the discontinued operations on the Group's Cash flow statements was as follows:

	2018[1] £m	2017 £m
Net cash used in operating activities	(1,715)	(12,244)
Net cash from investing activities	60	208
Net cash used in financing activities	(682)	(115)
Change in cash and cash equivalents	(2,337)	(12,151)

1 Presentation amended for revised amounts.

14 Financial assets at fair value through profit or loss

	The Group		The Bank	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Trading assets	**290**	19,462	**290**	19,420
Other financial assets mandatorily at fair value through profit or loss	**1,994**	3,794	**413**	1,423
Total	**2,284**	23,256	**703**	20,843

These assets are comprised as follows:

	The Group				The Bank			
	2019		2018		**2019**		2018	
	Trading assets £m	**Other financial assets mandatorily at fair value through profit or loss £m**	Trading assets £m	Other financial assets mandatorily at fair value through profit or loss £m	**Trading assets £m**	**Other financial assets mandatorily at fair value through profit or loss £m**	Trading assets £m	Other financial assets mandatorily at fair value through profit or loss £m
Loans and advances to customers	**–**	**1,782**	16,891	3,120	**–**	**362**	16,891	899
Loans and advances to banks	**–**	**–**	236	–	**–**	**–**	236	–
Debt securities:								
Government securities	**290**	**–**	2,293	–	**290**	**–**	2,293	–
Asset-backed securities	**–**	**–**	20	–	**–**	**–**	–	–
Corporate and other debt securities	**–**	**47**	22	518	**–**	**47**	–	518
	290	**47**	2,335	518	**290**	**47**	2,293	518
Equity shares	**–**	**165**	–	156	**–**	**4**	–	6
Total	**290**	**1,994**	19,462	3,794	**290**	**413**	19,420	1,423

At 31 December 2019 £1,943 million (2018: £4,248 million) of trading and other financial assets at fair value through profit or loss of the Group and £665 million (2018: £3,030 million) of the Bank had a contractual residual maturity of greater than one year.

For amounts included above which are subject to repurchase and reverse repurchase agreements see note 46.

15 Derivative financial instruments

The fair values and notional amounts of derivative instruments are set out in the following table:

The Group	2019 Contract/ notional amount £m	2019 Fair value assets £m	2019 Fair value liabilities £m	2018 Contract/ notional amount £m	2018 Fair value assets £m	2018 Fair value liabilities £m
Trading						
Exchange rate contracts:						
Spot, forwards and futures	**11,066**	**272**	**142**	22,422	797	710
Currency swaps	**156,224**	**1,184**	**2,492**	155,993	2,419	1,401
Options purchased	**681**	**9**	**–**	2,596	64	–
Options written	**681**	**–**	**9**	2,590	–	64
	168,652	**1,465**	**2,643**	183,601	3,280	2,175
Interest rate contracts:						
Interest rate swaps	**1,822,407**	**5,779**	**5,685**	1,903,166	6,311	7,071
Forward rate agreements	**30,192**	**1**	**2**	97,140	4	5
Options purchased	**4,124**	**77**	**–**	7,982	124	–
Options written	**3,682**	**–**	**78**	6,847	–	141
	1,860,405	**5,857**	**5,765**	2,015,135	6,439	7,217
Credit derivatives	**7,546**	**39**	**99**	3,330	22	31
Equity and other contracts	**338**	**16**	**295**	1,563	69	381
Total derivative assets/liabilities held for trading	**2,036,941**	**7,377**	**8,802**	2,203,629	9,810	9,804
Hedging						
Derivatives designated as fair value hedges:						
Cross currency swaps	**34**	**8**	**–**	490	3	29
Interest rate swaps (including swap options)	**160,942**	**696**	**229**	150,971	947	187
	160,976	**704**	**229**	151,461	950	216
Derivatives designated as cash flow hedges:						
Cross currency swaps	**7,593**	**70**	**64**	8,024	175	47
Interest rate swaps	**417,718**	**343**	**736**	556,945	358	844
	425,311	**413**	**800**	564,969	533	891
Total derivative assets/liabilities held for hedging	**586,287**	**1,117**	**1,029**	716,430	1,483	1,107
Total recognised derivative assets/liabilities	**2,623,228**	**8,494**	**9,831**	2,920,059	11,293	10,911

The notional amount of the contract does not represent the Group's exposure to credit risk which is limited to the current cost of replacing contracts with a positive value to the Group should the counterparty default. To reduce credit risk the Group uses a variety of credit enhancement techniques such as netting and collateralisation, where security is provided against the exposure; a large proportion of the Group's derivatives are held through exchanges such as London Clearing House and are collateralised through those exchanges. Further details are provided in note 46 Credit risk.

15 Derivative financial instruments (continued)

The Group holds derivatives as part of the following strategies:

– Customer driven, where derivatives are held as part of the provision of risk management products to Group customers;
– To manage and hedge the Group's interest rate and foreign exchange risk arising from normal banking business. The hedge accounting strategy adopted by the Group is to utilise a combination of fair value and cash flow hedge approaches as described in note 46; and
– Derivatives held in policyholders funds as permitted by the investment strategies of those funds.

The principal derivatives used by the Group are as follows:

– Interest rate related contracts include interest rate swaps, forward rate agreements and options. An interest rate swap is an agreement between two parties to exchange fixed and floating interest payments, based upon interest rates defined in the contract, without the exchange of the underlying principal amounts. Forward rate agreements are contracts for the payment of the difference between a specified rate of interest and a reference rate, applied to a notional principal amount at a specific date in the future. An interest rate option gives the buyer, on payment of a premium, the right, but not the obligation, to fix the rate of interest on a future loan or deposit, for a specified period and commencing on a specified future date.
– Exchange rate related contracts include forward foreign exchange contracts, currency swaps and options. A forward foreign exchange contract is an agreement to buy or sell a specified amount of foreign currency on a specified future date at an agreed rate. Currency swaps generally involve the exchange of interest payment obligations denominated in different currencies; the exchange of principal can be notional or actual. A currency option gives the buyer, on payment of a premium, the right, but not the obligation, to sell specified amounts of currency at agreed rates of exchange on or before a specified future date.
– Credit derivatives, principally credit default swaps, are used by the Group as part of its trading activity and to manage its own exposure to credit risk. A credit default swap is a swap in which one counterparty receives a premium at pre-set intervals in consideration for guaranteeing to make a specific payment should a negative credit event take place.
– Equity derivatives are also used by the Group as part of its equity-based retail product activity to eliminate the Group's exposure to fluctuations in various international stock exchange indices. Index-linked equity options are purchased which give the Group the right, but not the obligation, to buy or sell a specified amount of equities, or basket of equities, in the form of published indices on or before a specified future date.

Details of the Group's hedging instruments are set out below:

	Maturity					
The Group – 31 December 2019	**Up to 1 month £m**	**1-3 months £m**	**3-12 months £m**	**1-5 years £m**	**Over 5 years £m**	**Total £m**
Fair value hedges						
Interest rate						
Cross currency swap						
Notional	–	–	–	–	**34**	**34**
Average fixed interest rate	–	–	–	–	**1.28%**	
Average EUR/GBP exchange rate	–	–	–	–	**1.38**	
Average USD/GBP exchange rate	–	–	–	–	–	
Average NOK/GBP exchange rate	–	–	–	–	–	
Interest rate swap						
Notional	**331**	**9,305**	**37,948**	**91,535**	**21,823**	**160,942**
Average fixed interest rate	**2.58%**	**1.74%**	**1.22%**	**1.78%**	**2.72%**	
Cash flow hedges						
Foreign exchange						
Currency swap						
Notional	–	**364**	**390**	**1,766**	**5,073**	**7,593**
Average EUR/GBP exchange rate	–	–	**1.21**	**1.10**	–	
Average USD/GBP exchange rate	–	**1.33**	**1.36**	**1.30**	**1.30**	
Interest rate						
Interest rate swap						
Notional	**9,395**	**23,424**	**57,950**	**205,603**	**121,346**	**417,718**
Average fixed interest rate	**1.06%**	**1.23%**	**1.29%**	**1.48%**	**2.43%**	

15 Derivative financial instruments (continued)

The Group – 31 December 2018	Maturity Up to 1 month £m	1-3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
Fair value hedges						
Interest rate						
Cross currency swap						
Notional	–	36	–	283	171	490
Average fixed interest rate	–	4.82%	–	5.88%	4.44%	
Average EUR/USD exchange rate	–	–	–	1.13	–	
Average USD/GBP exchange rate	–	–	–	1.30	–	
Average NOK/GBP exchange rate	–	9.22	–	9.19	9.03	
Interest rate swap						
Notional	393	417	32,876	86,451	30,834	150,971
Average fixed interest rate	1.38%	2.06%	1.65%	1.75%	2.98%	
Cash flow hedges						
Foreign exchange						
Currency swap						
Notional	67	–	642	1,412	5,903	8,024
Average USD/EUR exchange rate	1.15	–	1.14	1.10	0.00	
Average USD/GBP exchange rate	–	–	1.28	1.21	1.28	
Interest rate						
Interest rate swap						
Notional	4,874	11,204	66,312	292,712	181,843	556,945
Average fixed interest rate	1.47%	1.03%	0.99%	1.46%	1.85%	

The carrying amounts of the Group's hedging instruments are as follows:

The Group – 31 December 2019	**Carrying amount of the hedging instrument** **Contract/notional amount £m**	**Assets £m**	**Liabilities £m**	**Changes in fair value used for calculating hedge ineffectiveness (YTD) £m**
Fair value hedges				
Interest rate				
Currency swaps	**34**	**8**	**–**	**2**
Interest rate swaps	**160,942**	**696**	**229**	**351**
Cash flow hedges				
Foreign exchange				
Currency swaps	**7,593**	**70**	**64**	**(141)**
Interest rate				
Interest rate swaps	**417,718**	**343**	**736**	**920**

15 Derivative financial instruments (continued)

The Group – 31 December 2018	Carrying amount of the hedging instrument: Contract/notional amount £m	Assets £m	Liabilities £m	Changes in fair value used for calculating hedge ineffectiveness (YTD) £m
Fair value hedges				
Interest rate				
Currency swaps	490	3	29	(10)
Interest rate swaps	150,971	947	187	135
Cash flow hedges				
Foreign exchange				
Currency swaps	8,024	175	47	104
Interest rate				
Interest rate swaps	556,945	358	844	(789)

All amounts are held within derivative financial instruments.

The Group's hedged items are as follows:

	Carrying amount of the hedged item		Accumulated amount of fair value adjustment on the hedged item		Change in fair value of hedged item for ineffectiveness assessment (YTD)	Cash flow hedge reserve	
The Group – 31 December 2019	**Assets £m**	**Liabilities £m**	**Assets £m**	**Liabilities £m**	**£m**	**Continuing hedges £m**	**Discontinued hedges £m**
Fair value hedges							
Interest rate							
Fixed rate mortgages[1]	**83,818**	**–**	**154**	**–**	**(73)**		
Fixed rate issuance[2]	**–**	**47,689**	**–**	**1,590**	**(326)**		
Fixed rate borrowings[3]	**–**	**1,272**	**–**	**136**	**(206)**		
Fixed rate bonds[4]	**21,354**	**–**	**660**	**–**	**405**		
Cash flow hedges							
Foreign exchange							
Foreign currency issuance[2]					**28**	**(20)**	**90**
Customer deposits[5]					**116**	**18**	**(48)**
Interest rate							
Customer loans[1]					**(657)**	**1,226**	**531**
Central bank balances[6]					**(220)**	**85**	**163**
Customer deposits[5]					**(1)**	**(40)**	**6**

15 Derivative financial instruments (continued)

The Group – 31 December 2018	Carrying amount of the hedged item Assets £m	Carrying amount of the hedged item Liabilities £m	Accumulated amount of fair value adjustment on the hedged item Assets £m	Accumulated amount of fair value adjustment on the hedged item Liabilities £m	Change in fair value of hedged item for ineffectiveness assessment (YTD) £m	Cash flow hedge reserve Continuing hedges £m	Cash flow hedge reserve Discontinued hedges £m
Fair value hedges							
Interest rate							
Fixed rate mortgages[1]	53,136	–	(45)	–	(173)		
Fixed rate issuance[2]	–	44,009	–	1,545	750		
Fixed rate borrowings[3]	–	6,528	–	(103)	12		
Fixed rate bonds[4]	23,285	–	232	–	(666)		
Cash flow hedges							
Foreign exchange							
Foreign currency issuance[2]					(40)	12	266
Customer deposits[5]					(62)	70	(78)
Interest rate							
Customer loans[1]					478	860	259
Central bank balances[6]					(16)	30	20
Customer deposits[5]					(131)	(8)	(7)

1 Included within loans and advances to customers.

2 Included within debt securities in issue.

3 Included within amounts due to fellow Lloyds Banking Group undertakings.

4 Included within financial assets at fair value through other comprehensive income.

5 Included within customer deposits.

6 Included within cash and balances at central banks.

The accumulated amount of fair value hedge adjustments remaining in the balance sheet for hedged items that have ceased to be adjusted for hedging gains and losses is a liability of £315 million (2018: liability of £158 million).

15 Derivative financial instruments (continued)

Gains and losses arising from hedge accounting are summarised as follows:

			Amounts reclassified from reserves to income statement as:		
The Group – 31 December 2019	**Gain (loss) recognised in other comprehensive income £m**	**Hedge ineffectiveness recognised in the income statement[1] £m**	**Hedged cashflows will no longer occur £m**	**Hedged item affected income statement £m**	**Income statement line item that includes reclassified amount**
Fair value hedges					
Interest rate					
Fixed rate mortgages		**186**			
Fixed rate issuance		**(28)**			
Fixed rate borrowings		**6**			
Fixed rate bonds		**(11)**			
Cash flow hedges					
Foreign exchange					
Foreign currency issuance	**(202)**	**–**	**(101)**	**(73)**	Interest expense
Customer deposits	**(22)**	**–**	**–**	**6**	Interest expense
Interest rate					
Customer loans	**616**	**99**	**–**	**(367)**	Interest income
Central bank balances	**194**	**32**	**–**	**(52)**	Interest income
Customer deposits	**–**	**–**	**–**	**7**	Interest expense

			Amounts reclassified from reserves to income statement as:	
The Group – 31 December 2018	Gain (loss) recognised in other comprehensive income £m	Hedge ineffectiveness recognised in the income statement[1] £m	Hedged item affected income statement £m	Income statement line item that includes reclassified amount
Fair value hedges				
Interest rate				
Fixed rate mortgages		106		
Fixed rate issuance		(33)		
Fixed rate borrowings		2		
Fixed rate bonds		(27)		
Cash flow hedges				
Foreign exchange				
Foreign currency issuance	(31)	–	(71)	Interest expense
Customer deposits	(22)	(2)	(32)	Interest expense
Interest rate				
Customer loans	(435)	(17)	(467)	Interest income
Central bank balances	(63)	(5)	(52)	Interest income
Customer deposits	(49)	(1)	(69)	Interest expense

1 Hedge ineffectiveness is included in the income statement within net trading income.

There was a gain of £101 million (2018: £nil) reclassified from the cash flow hedging reserve for which hedge accounting had previously been used but for which the hedged future cash flows are no longer expected to occur.

At 31 December 2019 £7,569 million of total recognised derivative assets of the Group and £9,213 million of total recognised derivative liabilities of the Group (2018: £9,861 million of assets and £9,665 million of liabilities) had a contractual residual maturity of greater than one year.

15 Derivative financial instruments (continued)

The Bank	2019 Contract/ notional amount £m	2019 Fair value assets £m	2019 Fair value liabilities £m	2018 Contract/ notional amount £m	2018 Fair value assets £m	2018 Fair value liabilities £m
Trading						
Exchange rate contracts:						
Spot, forwards and futures	**8,564**	**154**	**123**	19,965	573	706
Currency swaps	**183,675**	**1,401**	**2,748**	186,701	3,003	2,068
Options purchased	**682**	**9**	**–**	2,596	64	–
Options written	**682**	**–**	**9**	2,590	–	64
	193,603	**1,564**	**2,880**	211,852	3,640	2,838
Interest rate contracts:						
Interest rate swaps	**2,370,877**	**11,714**	**10,776**	2,463,556	11,062	10,123
Forward rate agreements	**30,192**	**1**	**2**	103,654	5	6
Options purchased	**4,176**	**78**	**–**	8,224	125	–
Options written	**3,697**	**–**	**89**	6,856	–	152
	2,408,942	**11,793**	**10,867**	2,582,290	11,192	10,281
Credit derivatives	**4,618**	**59**	**182**	6,775	99	55
Equity and other contracts	**368**	**15**	**15**	1,471	68	57
Total derivative assets/liabilities held for trading	**2,607,531**	**13,431**	**13,944**	2,802,388	14,999	13,231
Hedging						
Derivatives designated as fair value hedges:						
Cross currency swaps	**34**	**8**	**–**	490	3	29
Interest rate swaps (including swap options)	**66,833**	**153**	**213**	153,223	385	1,256
	66,867	**161**	**213**	153,713	388	1,285
Derivatives designated as cash flow hedges:						
Currency swaps	**1,101**	**37**	**19**	541	15	1
Interest rate swaps	**130,477**	**9**	**35**	146,018	29	29
	131,578	**46**	**54**	146,559	44	30
Total derivative assets/liabilities held for hedging	**198,445**	**207**	**267**	300,272	432	1,315
Total recognised derivative assets/liabilities	**2,805,976**	**13,638**	**14,211**	3,102,660	15,431	14,546

15 Derivative financial instruments (continued)

Details of the Bank's hedging instruments are set out below:

The Bank – 31 December 2019	Maturity Up to 1 month £m	1-3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
Fair value hedges						
Interest rate						
Cross currency swap						
Notional	–	–	–	–	34	34
Average fixed interest rate					1.28%	
Average EUR/GBP exchange rate	–	–	–	–	1.38	
Average USD/GBP exchange rate	–	–	–	–	–	
Average NOK/GBP exchange rate	–	–	–	–	–	
Interest rate swap						
Notional	331	1,445	8,378	34,930	21,749	66,833
Average fixed interest rate	2.58%	2.39%	1.49%	1.82%	2.24%	
Cash flow hedges						
Foreign exchange						
Currency swap						
Notional	53	210	539	299	–	1,101
Average EUR/GBP exchange rate	–	–	1.15	1.11	–	
Average USD/GBP exchange rate	1.37	1.38	1.36	1.36	–	
Interest rate						
Interest rate swap						
Notional	3,473	6,771	22,444	66,892	30,897	130,477
Average fixed interest rate	1.10%	1.58%	1.57%	1.41%	1.93%	

The Bank – 31 December 2018	Maturity Up to 1 month £m	1-3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
Fair value hedges						
Interest rate						
Cross currency swap						
Notional	–	36	–	283	171	490
Average fixed interest rate	–	4.82%	–	5.88%	4.44%	
Average EUR/USD exchange rate	–	–	–	1.13	–	
Average USD/GBP exchange rate	–	–	–	1.30	–	
Average NOK/GBP exchange rate	–	9.22	–	9.19	9.03	
Interest rate swap						
Notional	458	421	33,667	87,350	31,327	153,223
Average fixed interest rate	1.33%	2.09%	1.72%	1.78%	2.97%	
Cash flow hedges						
Foreign exchange						
Currency swap						
Notional	–	–	280	261	–	541
Average USD/EUR exchange rate	–	–	1.12	1.10	–	
Average USD/GBP exchange rate	–	–	–	1.42	–	
Interest rate						
Interest rate swap						
Notional	1,199	4,170	16,653	75,609	48,387	146,018
Average fixed interest rate	1.33%	1.52%	1.57%	1.69%	2.15%	

The carrying amounts of the Bank's hedging instruments are as follows:

15 Derivative financial instruments (continued)

The Bank – 31 December 2019	**Carrying amount of the hedging instrument**			
	Contract/notional amount £m	**Assets £m**	**Liabilities £m**	**Changes in fair value used for calculating hedge ineffectiveness (YTD) £m**
Fair value hedges				
Interest rate				
Currency swaps	**34**	**8**	**–**	**2**
Interest rate swaps	**66,833**	**153**	**213**	**118**
Cash flow hedges				
Foreign exchange				
Currency swaps	**1,101**	**37**	**19**	**(31)**
Interest rate				
Interest rate swaps	**130,477**	**9**	**35**	**777**

The Bank – 31 December 2018	Carrying amount of the hedging instrument			
	Contract/notional amount £m	Assets £m	Liabilities £m	Changes in fair value used for calculating hedge ineffectiveness (YTD) £m
Fair value hedges				
Interest rate				
Currency swaps	490	3	29	(10)
Interest rate swaps	153,223	385	1,256	272
Cash flow hedges				
Foreign exchange				
Currency swaps	541	15	1	41
Interest rate				
Interest rate swaps	146,018	29	29	(389)

All amounts are held within derivative financial instruments.

15 Derivative financial instruments (continued)

The Bank's hedged items are as follows:

The Bank – 31 December 2019	Carrying amount of the hedged item		Accumulated amount of fair value adjustment on the hedged item		Change in fair value of hedged item for ineffectiveness assessment (YTD)	Cash flow hedge reserve	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m	£m	Continuing hedges £m	Discontinued hedges £m
Fair value hedges							
Interest rate							
Fixed rate mortgages[1]	–	–	–	–	–		
Fixed rate issuance[2]	–	40,557	–	565	(357)		
Fixed rate borrowings	–	1,272	–	136	(206)		
Fixed rate bonds[3]	20,632	–	655	–	400		
Cash flow hedges							
Foreign exchange							
Foreign currency issuance[2]					31	(38)	7
Customer deposits[4]							
Interest rate							
Customer loans[1]					(344)	1,037	881
Central bank balances[5]					(388)	–	441
Customer deposits[4]					(1)	(126)	(58)

The Bank – 31 December 2018	Carrying amount of the hedged item		Accumulated amount of fair value adjustment on the hedged item		Change in fair value of hedged item for ineffectiveness assessment (YTD)	Cash flow hedge reserve	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m	£m	Continuing hedges £m	Discontinued hedges £m
Fair value hedges							
Interest rate							
Fixed rate issuance[1]	–	34,881	–	791	334		
Fixed rate borrowings[2]	–	6,528	–	(103)	12		
Fixed rate bonds[3]	23,105	–	232	–	(666)		
Cash flow hedges							
Foreign exchange							
Foreign currency issuance[1]					(41)	11	26
Interest rate							
Customer loans[4]					376	982	620
Central bank balances[5]					(107)	83	–
Customer deposits[6]					(7)	(14)	(9)

1 Included within debt securities in issue.

2 Included within amounts due to fellow Lloyds Banking Group undertakings.

3 Included within financial assets at fair value through other comprehensive income.

4 Included within loans and advances to customers.

5 Included within cash and balances at central banks.

6 Included within customer deposits.

The accumulated amount of fair value hedge adjustments remaining in the balance sheet for hedged items that have ceased to be adjusted for hedging gains and losses is an asset of £54 million (2018: asset of £54 million).

15 Derivative financial instruments (continued)

Gains and losses arising from hedge accounting are summarised as follows:

			Amounts reclassified from reserves to income statement as:		
The Bank – 31 December 2019	**Gain (loss) recognised in other comprehensive income £m**	**Hedge ineffectiveness recognised in the income statement[1] £m**	**Hedged cashflows will no longer occur £m**	**Hedged item affected income statement £m**	**Income statement line item that includes reclassified amount**
Fair value hedges					
Interest rate					
Fixed rate mortgages		**(15)**			
Fixed rate issuance		**(38)**			
Fixed rate bonds		**4**			
Fixed rate borrowings		**6**			
Cash flow hedges					
Foreign exchange					
Foreign currency issuance	**(67)**	**–**	**(25)**	**(11)**	Interest expense
Customer deposits	**–**	**–**	**–**	**–**	Interest expense
Interest rate					
Customer loans	**125**	**27**	**–**	**(363)**	Interest income
Central bank balances	**361**	**35**	**–**	**(84)**	Interest income
Customer deposits	**25**	**–**	**–**	**35**	Interest expense

			Amounts reclassified from reserves to income statement as:	
The Bank – 31 December 2018	Gain (loss) recognised in other comprehensive income £m	Hedge ineffectiveness recognised in the income statement[1] £m	Hedged item affected income statement £m	Income statement line item that includes reclassified amount
Fair value hedges				
Interest rate				
Fixed rate issuance		(33)		
Fixed rate borrowings		2		
Fixed rate bonds		(27)		
Cash flow hedges				
Foreign exchange				
Foreign currency issuance	40	–	(1)	Interest expense
Interest rate				
Customer loans	(504)	(37)	(567)	Interest income
Central bank balances	83	15	(67)	Interest income
Customer deposits	8	1	7	Interest expense

1 Hedge ineffectiveness is included in the income statement within net interest income.

There was a gain of £25 million (2018: £nil) reclassified from the cash flow hedging reserve for which hedge accounting had previously been used but for which the hedged future cash flows are no longer expected to occur.

At 31 December 2019 £4,256 million of total recognised derivative assets of the Bank and £5,101 million of total recognised derivative liabilities of the Bank (2018: £13,936 million of assets and £13,203 million of liabilities) had a contractual residual maturity of greater than one year.

16 Financial assets at amortised cost

1) The Group

Loans and advances to banks	Stage 1 £m	Stage 2 £m	–Stage 3 £m	Purchased or originated credit-impaired £m	Total £m
At 1 January 2019	3,691	2	–	–	3,693
Exchange and other adjustments[1]	(125)	–	–	–	(125)
Additions (repayments)	1,286	(2)	–	–	1,284
At 31 December 2019	4,852	–	–	–	4,852
Allowance for impairment losses	–	–	–	–	–
Total loans and advances to banks	4,852	–	–	–	4,852

Loans and advances to customers	Stage 1 £m	Stage 2 £m	Stage 3 £m	Purchased or originated credit-impaired £m	Total £m
At 1 January 2019	420,968	25,308	5,397	15,391	467,064
Exchange and other adjustments[1]	(312)	(44)	26	283	(47)
Additions (repayments)	13,690	(2,520)	(857)	(1,934)	8,379
Transfers to Stage 1	6,318	(6,286)	(32)		–
Transfers to Stage 2	(13,052)	13,484	(432)		–
Transfers to Stage 3	(1,539)	(1,437)	2,976		–
	(8,273)	5,761	2,512	–	–
Recoveries	–	–	396	28	424
Acquisition of portfolios[2]	3,694	–	–	–	3,694
Financial assets that have been written off during the year	–	–	(1,827)	(54)	(1,881)
At 31 December 2019	429,767	28,505	5,647	13,714	477,633
Allowance for impairment losses	(669)	(993)	(1,359)	(142)	(3,163)
Total loans and advances to customers	429,098	27,512	4,288	13,572	474,470

Debt securities	Stage 1 £m	Stage 2 £m	Stage 3 £m	Purchased or originated credit-impaired £m	Total £m
At 1 January 2019	5,095	–	2	–	5,097
Exchange and other adjustments[1]	(90)	–	(1)	–	(91)
Additions (repayments)	320	–	–	–	320
At 31 December 2019	5,325	–	1	–	5,326
Allowance for impairment losses	–	–	(1)	–	(1)
Total debt securities	5,325	–	–	–	5,325

Due from fellow Lloyds Banking Group undertakings	1,854	–	43	–	1,897
Allowance for impairment losses	–	–	(43)	–	(43)
Due from fellow Lloyds Banking Group undertakings, net of impairment allowances	1,854	–	–	–	1,854
Total financial assets at amortised cost	441,129	27,512	4,288	13,572	486,501

1 Exchange and other adjustments includes certain adjustments, prescribed by IFRS 9, in respect of purchased or originated credit-impaired financial assets.

2 Acquisition of portfolios in 2019 relates to the purchase, completed in September 2019, of Tesco Bank's UK residential mortgage portfolio.

16 Financial assets at amortised cost (continued)

Loans and advances to banks	Stage 1 £m	Stage 2 £m	Stage 3 £m	Purchased or originated credit-impaired £m	Total £m
At 1 January 2018	4,182	2	–	–	4,184
Exchange and other adjustments	58	–	–	–	58
Additions (repayments)	1,503	–	–	–	1,503
Disposal of businesses	(2,052)	–	–	–	(2,052)
At 31 December 2018	3,691	2	–	–	3,693
Allowance for impairment losses	(1)	–	–	–	(1)
Total loans and advances to banks	3,690	2	–	–	3,692

Loans and advances to customers					
At 1 January 2018	403,881	37,245	5,073	17,973	464,172
Exchange and other adjustments	787	(12)	65	–	840
Additions (repayments)	28,156	(2,128)	(1,746)	(2,609)	21,673
Transfers to Stage 1	19,521	(19,498)	(23)		–
Transfers to Stage 2	(15,736)	15,989	(253)		–
Transfers to Stage 3	(1,971)	(2,220)	4,191		–
	1,814	(5,729)	3,915		–
Recoveries	–	–	552	27	579
Disposal of businesses	(13,670)	(4,068)	(884)	–	(18,622)
Financial assets that have been written off during the year			(1,578)	–	(1,578)
At 31 December 2018	420,968	25,308	5,397	15,391	467,064
Allowance for impairment losses	(518)	(992)	(1,432)	(78)	(3,020)
Total loans and advances to customers	420,450	24,316	3,965	15,313	464,044

Stage 2 balances showed a large reduction in 2018 largely as a result of the refinements to the transfer criteria approach in mortgages. There was also a reduction from the disposal of the Irish mortgage portfolio and the transfer of assets to Lloyds Bank Corporate Markets plc together with improvements in credit quality.

Debt securities					
At 1 January 2018	3,305	–	3	–	3,308
Exchange and other adjustments	(103)	–	–	–	(103)
Additions (repayments)	1,897	–	–	–	1,897
Financial assets that have been written off during the year	–	–	(1)	–	(1)
Disposal of businesses	(4)	–	–	–	(4)
At 31 December 2018	5,095	–	2	–	5,097
Allowance for impairment losses	–	–	(2)	–	(2)
Total debt securities	5,095	–	–	–	5,095
Due from fellow Lloyds Banking Group undertakings	1,878	–	–	–	1,878
Total financial assets at amortised cost	431,113	24,318	3,965	15,313	474,709

Transfers of assets between stages are deemed to take place at the start of the year. All other movements in the value of the asset are deemed to take place within the Stage under which that asset is reported at the end of the year.

16 Financial assets at amortised cost (continued)

2) The Bank

Year ended 31 December 2019 Loans and advances to banks	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 1 January 2019	3,154	–	–	3,154
Exchange and other adjustments	(105)	–	–	(105)
Additions (repayments)	1,404	–	–	1,404
At 31 December 2019	4,453	–	–	4,453
Allowance for impairment losses	–	–	–	–
Total loans and advances to banks	4,453	–	–	4,453

Loans and advances to customers				
At 1 January 2019	160,379	11,006	2,464	173,849
Exchange and other adjustments	(325)	(14)	–	(339)
Additions (repayments)	7,702	(1,424)	(287)	5,991
Transfers to Stage 1[1]	2,805	(2,782)	(23)	–
Transfers to Stage 2	(4,236)	4,455	(219)	–
Transfers to Stage 3	(649)	(560)	1,209	–
	(2,080)	1,113	967	–
Recoveries	–	–	152	152
Financial assets that have been written off during the year			(911)	(911)
At 31 December 2019	165,676	10,681	2,385	178,742
Allowance for impairment losses	(238)	(435)	(500)	(1,173)
Total loans and advances to customers	165,438	10,246	1,885	177,569

Debt securities				
At 1 January 2019	4,960	–	–	4,960
Exchange and other adjustments	(91)	–	–	(91)
Additions (repayments)	372	–	–	372
At 31 December 2019	5,241	–	–	5,241
Allowance for impairment losses	–	–	–	–
Total debt securities	5,241	–	–	5,241

Due from fellow Lloyds Banking Group undertakings	202,295	–	55	202,350
Allowance for impairment losses	(18)	–	(55)	(73)
Due from fellow Lloyds Banking Group undertakings, net of impairment allowances	202,277	–	–	202,277
Total financial assets at amortised cost	377,409	10,246	1,885	389,540

Notes to the accounts

16 Financial assets at amortised cost (continued)

Year ended 31 December 2018

Loans and advances to banks	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 1 January 2018	3,526	–	–	3,526
Exchange and other adjustments	48	–	–	48
Additions (repayments)	1,569	–	–	1,569
Disposal of businesses	(1,989)	–	–	(1,989)
At 31 December 2018	3,154	–	–	3,154
Allowance for impairment losses	(1)	–	–	(1)
Total loans and advances to banks	3,153	–	–	3,153

Loans and advances to customers				
At 1 January 2018	156,827	12,150	2,712	171,689
Exchange and other adjustments	679	–	–	679
Additions (repayments)	15,676	(1,159)	(900)	13,617
Transfers to Stage 1[1]	7,763	(7,751)	(12)	–
Transfers to Stage 2	(8,239)	8,458	(219)	–
Transfers to Stage 3	(1,103)	(678)	1,781	–
	(1,579)	29	1,550	–
Recoveries			197	197
Disposal of businesses	(11,224)	(14)	(290)	(11,528)
Financial assets that have been written off during the year			(805)	(805)
At 31 December 2018	160,379	11,006	2,464	173,849
Allowance for impairment losses	(209)	(502)	(823)	(1,534)
Total loans and advances to customers	160,170	10,504	1,641	172,315

1 Includes the effect of the change in transfer criteria approach for mortgages.

Debt securities				
At 1 January 2018	3,182	–	–	3,182
Exchange and other adjustments	(251)	–	–	(251)
Additions (repayments)	2,029	–	–	2,029
At 31 December 2018	4,960	–	–	4,960
Allowance for impairment losses	–	–	–	–
Total debt securities	4,960	–	–	4,960
Due from fellow Lloyds Banking Group undertakings	153,585	–	–	153,585
Total financial assets at amortised cost	321,868	10,504	1,641	334,013

Transfers between stages are deemed to have taken place at the start of the reporting period, with all other movements shown in the stage in which the asset is held at 31 December, with the exception of those held within Purchased or originated credit-impaired, which are not transferrable.

Additions (repayments) comprise new loans originated and repayments of outstanding balances throughout the reporting period. Loans which are written off in the period are first transferred to Stage 3 before acquiring a full allowance and subsequent write-off.

At 31 December 2019 £378,457 million (2018: £377,152 million) of loans and advances to customers of the Group and £103,042 million (2018: £109,015 million) of the Bank had a contractual residual maturity of greater than one year.

At 31 December 2019 £1,498 million (2018: £860 million) of loans and advances to banks of the Group and £1,231 million (2018: £547 million) of the Bank had a contractual residual maturity of greater than one year.

At 31 December 2019 £5,314 million (2018: £4,567 million) of debt securities of the Group and £5,241 million (2018: £4,439 million) of the Bank had a contractual residual maturity of greater than one year.

For amounts included above which are subject to reverse repurchase agreements see note 46.

17 Finance lease receivables

The Group's finance lease receivables are classified as loans and advances to customers and accounted for at amortised cost. The balance is analysed as follows:

	The Group		The Bank	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Gross investment in finance leases, receivable:				
Not later than 1 year	**484**	460	**70**	121
Later than 1 year and not later than 2 years	**340**	516	**6**	52
Later than 2 years and not later than 3 years	**174**	455	**6**	39
Later than 3 years and not later than 4 years	**138**	199	**6**	20
Later than 4 years and not later than 5 years	**201**	177	**5**	17
Later than 5 years	**695**	877	**–**	–
	2,032	2,684	**93**	249
Unearned future finance income on finance leases	**(478)**	(976)	**–**	(6)
Rentals received in advance	**(18)**	(22)	**–**	(49)
Net investment in finance leases	**1,536**	1,686	**93**	194

	The Group		The Bank	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Not later than 1 year	**404**	306	**70**	93
Later than 1 year and not later than 2 years	**322**	408	**6**	41
Later than 2 years and not later than 3 years	**126**	353	**6**	30
Later than 3 years and not later than 4 years	**98**	152	**6**	14
Later than 4 years and not later than 5 years	**166**	129	**5**	16
Later than 5 years	**420**	338	**–**	–
Net investment in finance leases	**1,536**	1,686	**93**	194

Equipment leased to customers under finance leases primarily relates to structured financing transactions to fund the purchase of aircraft, ships and other large individual value items. There was an allowance for uncollectable finance lease receivables included in the allowance for impairment losses for the Group of £12 million (2018: £1 million).

18 Allowance for impairment losses

Analysis of movement in the allowance for impairment losses by Stage.

The Group **Year ended 31 December 2019**	**Stage 1** **£m**	**Stage 2** **£m**	**Stage 3** **£m**	**Purchased or originated credit-impaired** **£m**	**Total** **£m**
In respect of drawn balances					
At 1 January 2019	519	992	1,434	78	3,023
Exchange and other adjustments	10	(9)	29	283	313
Transfers to Stage 1	229	(222)	(7)	–	–
Transfers to Stage 2	(53)	92	(39)	–	–
Transfers to Stage 3	(15)	(140)	155	–	–
Impact of transfers between stages	(175)	353	420	–	598
	(14)	83	529	–	598
Other items charged to the income statement	154	(73)	894	(193)	782
Charge to the income statement (note 11)	140	10	1,423	(193)	1,380
Advances written off			(1,827)	(54)	(1,881)
Recoveries of advances written off in previous years			396	28	424
Discount unwind			(52)	–	(52)
At 31 December 2019	669	993	1,403	142	3,207
In respect of undrawn balances					
At January 2019	121	63	6	–	190
Exchange and other adjustments	(1)	1	–	–	–
Transfers to Stage 1	19	(19)	–		–
Transfers to Stage 2	(4)	4	–		–
Transfers to Stage 3	(1)	(3)	4		–
Impact of transfers between stages	(17)	24	(1)		6
	(3)	6	3	–	6
Other items charged to the income statement	(26)	7	(4)	–	(23)
Charge to the income statement (note 11)	(29)	13	(1)	–	(17)
At 31 December 2019	91	77	5	–	173
Total at 31 December 2019	760	1,070	1,408	142	3,380
In respect of:					
Loans and advances to banks	–	–	–	–	–
Loans and advances to customers	669	993	1,359	142	3,163
Debt securities	–	–	1	–	1
Due from fellow Lloyds Banking Group undertakings	–	–	43	–	43
Financial assets at amortised cost	669	993	1,403	142	3,207
Provisions in relation to loan commitments and financial guarantees	91	77	5	–	173
Total	760	1,070	1,408	142	3,380
Expected credit loss in respect of financial assets at fair value through other comprehensive income (memorandum item)	–	–	–	–	–

Exchange and other adjustments include certain adjustments, prescribed by IFRS 9, in respect of purchased or originated credit-impaired financial assets.

18 Allowance for impairment losses (continued)

The Group Year ended 31 December 2018	Stage 1 £m	Stage 2 £m	Stage 3 £m	Purchased or originated credit-impaired £m	Total £m
In respect of drawn balances					
Balance at 1 January 2018	590	1,147	1,455	32	3,224
Exchange and other adjustments	1	–	118	–	119
Transfers to Stage 1	304	(299)	(5)		–
Transfers to Stage 2	(46)	85	(39)		–
Transfers to Stage 3	(32)	(131)	163		–
Impact of transfers between stages	(231)	368	324		461
	(5)	23	443		461
Other items charged to the income statement	(59)	(76)	686	–	551
Charge to the income statement (note 11)	(64)	(53)	1,129	–	1,012
Advances written off			(1,579)	–	(1,579)
Disposal of businesses[1]	(8)	(102)	(183)	–	(293)
Recoveries of advances written off in previous years			552	27	579
Discount unwind			(58)	19	(39)
At 31 December 2018	519	992	1,434	78	3,023
In respect of undrawn balances					
Balance at 1 January 2018	147	126	–	–	273
Exchange and other adjustments	(6)	(15)	10	–	(11)
Transfers to Stage 1	28	(28)	–		–
Transfers to Stage 2	(6)	6	–		–
Transfers to Stage 3	(2)	(5)	7		–
Impact of transfers between stages	(25)	22	(5)		(8)
	(5)	(5)	2		(8)
Other items charged to the income statement	(15)	(43)	(6)	–	(64)
Charge to the income statement	(20)	(48)	(4)	–	(72)
At 31 December 2018	121	63	6	–	190
Total	640	1,055	1,440	78	3,213
In respect of:					
Loans and advances to banks	1	–	–	–	1
Loans and advances to customers	518	992	1,432	78	3,020
Debt securities	–	–	2	–	2
Financial assets at amortised cost	519	992	1,434	78	3,023
Provisions in relation to loan commitments and financial guarantees	121	63	6	–	190
Total at 31 December 2018	640	1,055	1,440	78	3,213
Expected credit loss in respect of financial assets at fair value through other comprehensive income (memorandum item)	1	–	–	–	1

1 Reflected the transfer of assets to Lloyds Bank Corporate Markets plc and the sale of the Group's Irish mortgage portfolio.

The Group income statement charge comprises:

	2019 £m	2018 £m
Drawn balances	**1,380**	1,012
Undrawn balances	**(17)**	(72)
Financial assets at fair value through other comprehensive income	**(1)**	(14)
Total	**1,362**	926

18 Allowance for impairment losses (continued)

The Bank Year ended 31 December 2019	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
In respect of drawn balances				
At 1 January 2019	255	502	823	1,580
Exchange and other adjustments	–	–	(33)	(33)
Transfers to Stage 1	113	(109)	(4)	–
Transfers to Stage 2	(17)	33	(16)	–
Transfers to Stage 3	(7)	(68)	75	–
Impact of transfers between stages	(96)	127	227	258
	(7)	(17)	282	258
Other items charged to the income statement	8	(50)	274	232
Charge to the income statement	1	(67)	556	490
Advances written off			(911)	(911)
Recoveries of advances written off in previous years			152	152
Discount unwind			(32)	(32)
At 31 December 2019	256	435	555	1,246
In respect of undrawn balances				
At January 2019	41	32	3	76
Exchange and other adjustments	–	–	–	–
Transfers to Stage 1	8	(8)	–	–
Transfers to Stage 2	(2)	2	–	–
Transfers to Stage 3	–	(2)	2	–
Impact of transfers between stages	(7)	15	(1)	7
	(1)	7	1	7
Other items charged to the income statement	4	3	–	7
Charge to the income statement	3	10	1	14
At 31 December 2019	44	42	4	90
Total at 31 December 2019	300	477	559	1,336
In respect of:				
Loans and advances to banks	–	–	–	–
Loans and advances to customers	238	435	500	1,173
Debt securities	–	–	–	–
Due from fellow Lloyds Banking Group undertakings	18	–	55	73
Financial assets at amortised cost	256	435	555	1,246
Provisions in relation to loan commitments and financial guarantees	44	42	4	90
Total	300	477	559	1,336
Expected credit loss in respect of financial assets at fair value through other comprehensive income (memorandum item)	–	–	–	–

18 Allowance for impairment losses (continued)

The Bank Year ended 31 December 2018	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
In respect of drawn balances				
Balance at 1 January 2018	326	541	761	1,628
Exchange and other adjustments	8	–	42	50
Transfers to Stage 1	138	(136)	(2)	–
Transfers to Stage 2	(22)	43	(21)	–
Transfers to Stage 3	(19)	(74)	93	–
Impact of transfers between stages	(116)	172	156	212
	(19)	5	226	212
Other items charged to the income statement	(54)	(44)	439	341
Charge to the income statement	(73)	(39)	665	553
Advances written off			(805)	(805)
Disposal of businesses[1]	(6)	–	(4)	(10)
Recoveries of advances written off in previous years			197	197
Discount unwind			(33)	(33)
At 31 December 2018	255	502	823	1,580
In respect of undrawn balances				
Balance at 1 January 2018	70	54	–	124
Exchange and other adjustments	1	(9)	6	(2)
Transfers to Stage 1	12	(12)	–	–
Transfers to Stage 2	(3)	3	–	–
Transfers to Stage 3	(1)	(2)	3	–
Impact of transfers between stages	(11)	10	(3)	(4)
	(3)	(1)	–	(4)
Other items charged to the income statement	(27)	(12)	(3)	(42)
Charge to the income statement	(30)	(13)	(3)	(46)
At 31 December 2018	41	32	3	76
Total at 31 December 2018	296	534	826	1,656
In respect of:				
Loans and advances to banks	1	–	–	1
Loans and advances to customers	209	502	823	1,534
Due from fellow Lloyds Banking Group undertakings	45	–	–	45
Financial assets at amortised cost	255	502	823	1,580
Provisions in relation to loan commitments and financial guarantees	41	32	3	76
Total	296	534	826	1,656
Expected credit loss in respect of financial assets at fair value through other comprehensive income (memorandum item)	1	–	–	1

1 Reflects the transfer of assets to Lloyds Bank Corporate Markets plc.

Transfers between stages are deemed to have taken place at the start of the reporting period, with all other movements shown in the stage in which the asset is held at 31 December, with the exception of those held within Purchased or originated credit-impaired, which are not transferrable. As assets are transferred between stages, the resulting change in expected credit loss of £598 million for the Group and £258 million for the Bank (2018: £461 million for the Group and £212 million for the Bank) for drawn balances, and £6 million for the Group and £7 million for the Bank (2018: £8 million for the Group and £4 million for the Bank) for undrawn balances, is presented separately as Impacts of transfers between stages, in the stage in which the expected credit loss is recognised at the end of the reporting period.

Other items charged to the income statement include the movements in the expected credit loss as a result of new loans originated and repayments of outstanding balances throughout the reporting period. Loans which are written off in the period are first transferred to Stage 3 before acquiring a full allowance and subsequent write-off. Consequently, recoveries on assets previously written-off also occur in Stage 3 only.

19 Financial assets at fair value through other comprehensive income

	The Group		The Bank	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Debt securities:				
Government securities	**13,082**	18,971	**12,938**	18,831
Asset-backed securities	**60**	57	**–**	5
Corporate and other debt securities	**11,036**	5,119	**8,783**	4,151
	24,178	24,147	**21,721**	22,987
Treasury and other bills	**439**	221	**439**	221
Total financial assets at fair value through other comprehensive income	**24,617**	24,368	**22,160**	23,208

At 31 December 2019 £23,385 million (2018: £21,247 million) of financial assets at fair value through other comprehensive income of the Group and £21,052 million (2018: £20,196 million) of the Bank had a contractual residual maturity of greater than one year.

All assets were assessed at Stage 1 at 31 December 2018 and 2019.

20 Goodwill of the Group

	2019 £m	2018 £m
At 1 January and 31 December	**474**	474
Cost[1]	**814**	828
Accumulated impairment losses	**(340)**	(354)
At 31 December	**474**	474

1 For acquisitions made prior to 1 January 2004, the date of transition to IFRS, cost is included net of amounts amortised up to 31 December 2003.

The goodwill held in the Group's balance sheet is tested at least annually for impairment. For the purposes of impairment testing the goodwill is allocated to the appropriate cash generating unit; of the total balance of £474 million (2018: £474 million), £302 million, or 64 per cent of the total (2018: £302 million, 64 per cent of the total) has been allocated to Cards and £170 million, or 36 per cent of the total (2018: £170 million, 36 per cent of the total) has been allocated to Motor Finance, both in the Group's Retail division.

The recoverable amount of the goodwill relating to Motor Finance has also been based on a value in use calculation using pre-tax cash flow projections based on financial budgets and plans approved by management covering a four-year period and a discount rate of 14 per cent. The cash flows beyond the four-year period are extrapolated using a growth rate of 0.5 per cent which does not exceed the long-term average growth rates for the markets in which Motor Finance participates. Management believes that any reasonably possible change in the key assumptions above would not cause the recoverable amount of Motor Finance to fall below its balance sheet carrying value.

The recoverable amount of the goodwill relating to the Cards business has been based on a value-in-use calculation using pre-tax cash flow projections based on financial budgets and plans approved by management covering a five-year period and a discount rate of 10 per cent. The cash flows beyond the five year period assume no growth. Management believes that any reasonably possible change in the key assumptions above would not cause the recoverable amount of the Cards business to fall below the balance sheet carrying value.

21 Other intangible assets

	The Group						The Bank
	Brands £m	**Core deposit intangibles £m**	**Purchased credit card relation-ships £m**	**Customer related intangibles £m**	**Capitalised software enhance-ments £m**	**Total £m**	**Capitalised software enhance-ments £m**
Cost:							
At 1 January 2018	596	2,770	1,017	471	2,661	7,515	2,331
Transfers in	–	–	–	–	324	324	–
Additions	–	–	–	–	1,020	1,020	977
Disposals and write-offs	–	–	(15)	–	(52)	(67)	(2)
Disposal of business	(12)	–	–	(421)	(46)	(479)	–
At 31 December 2018	584	2,770	1,002	50	3,907	8,313	3,306
Additions	**–**	**–**	**–**	**–**	**1,029**	**1,029**	**978**
Disposals and write-offs	**–**	**–**	**–**	**–**	**(10)**	**(10)**	**(4)**
At 31 December 2019	**584**	**2,770**	**1,002**	**50**	**4,926**	**9,332**	**4,280**
Accumulated amortisation:							
At 1 January 2018	193	2,770	355	452	1,079	4,849	916
Transfers in	–	–	–	–	117	117	–
Charge for the year	23	–	71	12	394	500	328
Disposals and write-offs	–	–	(15)	–	(34)	(49)	–
Disposal of business	(12)	–	–	(414)	–	(426)	–
At 31 December 2018	204	2,770	411	50	1,556	4,991	1,244
Charge for the year (note 9)	**–**	**–**	**70**	**–**	**492**	**562**	**420**
Disposals and write-offs	**–**	**–**	**–**	**–**	**(2)**	**(2)**	**(2)**
At 31 December 2019	**204**	**2,770**	**481**	**50**	**2,046**	**5,551**	**1,662**
Balance sheet amount at 31 December 2019	**380**	**–**	**521**	**–**	**2,880**	**3,781**	**2,618**
Balance sheet amount at 31 December 2018	380	–	591	–	2,351	3,322	2,062

Brands of £380 million (2018: £380 million) that have been determined to have indefinite useful lives and are not amortised. These brands use the Bank of Scotland name which has been in existence for over 300 years. These brands are well established financial services brands and there are no indications that they should not have an indefinite useful life.

The purchased credit card relationships represent the benefit of recurring income generated from portfolios of credit cards purchased. The balance sheet amount at 31 December 2019 is expected to be amortised over its remaining useful life of eight years.

22 Property, plant and equipment

	The Group						The Bank				
	Investment properties £m	**Premises £m**	**Equipment £m**	**Operating lease assets £m**	**Right-of-use asset[1] £m**	**Total £m**	**Premises £m**	**Equipment £m**	**Operating lease assets £m**	**Right-of-use asset[1] £m**	**Total £m**
Cost or valuation:											
At 1 January 2018	50	1,763	5,055	6,528		13,396	1,626	6,172	130		7,928
Exchange and other adjustments	–	–	–	9		9	14	(6)	4		12
Additions	–	71	516	1,754		2,341	57	452	–		509
Expenditure on investment properties (see below)	17	–	–	–		17	–	–	–		–
Disposals	(32)	(643)	(571)	(1,538)		(2,784)	(422)	(351)	(134)		(907)
Disposal of business	–	(11)	(34)	(111)		(156)	–	–	–		–
At 31 December 2018	35	1,180	4,966	6,642		12,823	1,275	6,267	–		7,542
Adjustment on adoption of IFRS 16 (note 49)	–	–	–	–	1,655	1,655	–	–	–	883	883
Balance at 1 January 2019	**35**	**1,180**	**4,966**	**6,642**	**1,655**	**14,478**	**1,275**	**6,267**	**–**	**883**	**8,425**
Exchange and other adjustments	**–**	**3**	**4**	**–**	**–**	**7**	**21**	**–**	**–**	**–**	**21**
Additions	**–**	**118**	**518**	**1,693**	**183**	**2,512**	**62**	**484**	**–**	**114**	**660**
Expenditure on investment properties (see below)	**11**	**–**	**–**	**–**	**–**	**11**	**–**	**–**	**–**	**–**	**–**
Change in fair value of investment properties	**(8)**	**–**	**–**	**–**	**–**	**(8)**	**–**	**–**	**–**	**–**	**–**
Disposals	**(23)**	**(243)**	**(231)**	**(1,681)**	**(25)**	**(2,203)**	**(271)**	**(210)**	**–**	**(16)**	**(497)**
At 31 December 2019	**15**	**1,058**	**5,257**	**6,654**	**1,813**	**14,797**	**1,087**	**6,541**	**–**	**981**	**8,609**
Accumulated depreciation and impairment:											
At 1 January 2018	–	711	2,117	1,506		4,334	1,023	3,632	21		4,676
Exchange and other adjustments	–	–	–	4		4	5	(4)	–		1
Depreciation charge for the year	–	121	713	1,015		1,849	62	639	2		703
Disposals	–	(628)	(534)	(595)		(1,757)	(403)	(352)	(23)		(778)
Disposal of business	–	(5)	(26)	(91)		(122)	–	–	–		–
At 31 December 2018	–	199	2,270	1,839		4,308	687	3,915	–		4,602
Exchange and other adjustments	**–**	**–**	**(1)**	**(33)**	**1**	**(33)**	**8**	**–**	**–**	**3**	**11**
Depreciation charge for the year (note 9)	**–**	**121**	**710**	**1,006**	**203**	**2,040**	**67**	**648**	**–**	**110**	**825**
Disposals	**–**	**(225)**	**(176)**	**(584)**	**–**	**(985)**	**(257)**	**(166)**	**–**	**–**	**(423)**
At 31 December 2019	**–**	**95**	**2,803**	**2,228**	**204**	**5,330**	**505**	**4,397**	**–**	**113**	**5,015**
Balance sheet amount at 31 December 2019	**15**	**963**	**2,454**	**4,426**	**1,609**	**9,467**	**582**	**2,144**	**–**	**868**	**3,594**
Balance sheet amount at 31 December 2018	35	981	2,696	4,803	–	8,515	588	2,352	–	–	2,940

1 Primarily premises.

Expenditure on investment properties is comprised as follows:

	2019 £m	2018 £m
Acquisitions of new properties	**11**	17
Additional expenditure on existing properties	**–**	–
	11	17

The table above analyses movements in investment properties, all of which are categorised as level 3. See note 43 for details of levels in the fair value hierarchy.

22 Property, plant and equipment (continued)

At 31 December the future minimum rentals receivable by the Group under non-cancellable operating leases were as follows:

	2019 £m	2018 £m
Receivable within 1 year	**977**	1,095
1 to 2 years	**620**	681
2 to 3 years	**312**	332
3 to 4 years	**102**	113
4 to 5 years	**12**	30
Over 5 years	**2**	6
Total future minimum rentals receivable	**2,025**	2,257

Equipment leased to customers under operating leases primarily relates to vehicle contract hire arrangements.

23 Investment in subsidiary undertakings of the Bank

	2019 £m	2018 £m
At 1 January	**32,656**	32,878
Additions and capital injections	**1,766**	110
Capital contributions	**53**	73
Capital repayments	**(212)**	(210)
Disposals	**(20)**	(103)
Impairment[1]	**(159)**	(92)
At 31 December	**34,084**	32,656

1 During the year ended 31 December 2019 the Bank wrote-down the carrying value of its investments in certain subsidiaries, following a review of their financial position and anticipated future acitivities.

Details of the subsidiaries and related undertakings are given on pages 198 to 202 and are incorporated by reference.

Certain subsidiary companies currently have insufficient distributable reserves to make dividend payments, however, there were no further significant restrictions on any of the Company's subsidiaries in paying dividends or repaying loans and advances. All regulated banking subsidiaries are required to maintain capital at levels agreed with the regulators; this may impact those subsidiaries' ability to make distributions.

24 Other assets

	The Group		The Bank	
	2019 £m	2018 £m	2019 £m	2018 £m
Settlement balances	**490**	223	**437**	150
Investments in joint ventures and associates	**3**	5	**5**	5
Other assets and prepayments	**2,034**	1,979	**556**	694
Total other assets	**2,527**	2,207	**998**	849

25 Financial liabilities at fair value through profit or loss

	The Group		The Bank	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Liabilities designated at fair value through profit or loss: debt securities in issue	**7,531**	7,085	**7,484**	7,032
Trading liabilities:				
Liabilities in respect of securities sold under repurchase agreements	**–**	10,258	**–**	10,258
Other deposits	**98**	270	**140**	362
Short positions in securities	**73**	117	**73**	67
	171	10,645	**213**	10,687
Financial liabilities at fair value through profit or loss	**7,702**	17,730	**7,697**	17,719

At 31 December 2019, the Group had £7,376 million (2018: £7,097 million) and the Bank had £7,328 million (2018: £7,036 million) of trading and other liabilities at fair value through profit or loss with a contractual residual maturity of greater than one year.

Liabilities designated at fair value through profit or loss primarily represent debt securities in issue which either contain substantive embedded derivatives which would otherwise need to be recognised and measured at fair value separately from the related debt securities, or which are accounted for at fair value to significantly reduce an accounting mismatch.

The amount contractually payable on maturity of the debt securities held at fair value through profit or loss at 31 December 2019 was £14,365 million (2018: £15,435 million), which was £6,834 million higher than the balance sheet carrying value (2018: £8,350 million higher). At 31 December 2019 there was a cumulative £33 million increase (2018: £386 million decrease) in the fair value of these liabilities attributable to changes in credit spread risk; this is determined by reference to the quoted credit spreads of the Bank. Of the cumulative amount, an increase of £419 million arose in 2019 and a decrease of £533 million arose in 2018.

For the fair value of collateral pledged in respect of repurchase agreements see note 46.

26 Debt securities in issue

	The Group		The Bank	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Medium-term notes issued	**26,628**	17,314	**25,603**	16,221
Covered bonds (note 27)	**29,818**	28,194	**25,359**	22,351
Certificates of deposit issued	**4,925**	6,667	**4,925**	6,667
Securitisation notes (note 27)	**7,329**	5,480	**–**	–
Commercial paper	**7,731**	6,878	**5,622**	4,548
Total debt securities in issue	**76,431**	64,533	**61,509**	49,787

At 31 December 2019 £41,762 million (2018: £44,749 million) of debt securities in issue of the Group and £32,152 million (2018: £32,923 million) of the Bank had a contractual residual maturity of greater than one year.

27 Securitisations and covered bonds

Securitisation programmes

The Group's balance sheet includes loans securitised under the Group's securitisation programmes, the majority of which have been sold by Group companies to bankruptcy remote structured entities. As the structured entities are funded by the issue of debt on terms whereby the majority of risks and rewards of the portfolio are retained by the Group company, the structured entities are consolidated fully and all of these loans are retained on the Group's balance sheet, with the related notes in issue included within debt securities in issue.

Covered bond programmes

Certain loans and advances to customers have been assigned to bankruptcy remote limited liability partnerships to provide security for issues of covered bonds by the Group. The Group retains all of the risks and rewards associated with these loans and the partnerships are consolidated fully with the loans retained on the Group's balance sheet, and the related covered bonds in issue included within debt securities in issue.

The Group's principal securitisation and covered bonds programmes, together with the balances of the advances subject to these arrangements and the carrying value of the notes in issue at 31 December, are listed below. The notes in issue are reported in note 26.

	2019		2018	
	Loans and advances securitised £m	**Notes in issue £m**	Loans and advances securitised £m	Notes in issue £m
Securitisation programmes				
UK residential mortgages	**25,815**	**23,505**	25,018	22,485
Commercial loans	**5,116**	**6,038**	5,746	6,577
Credit card receivables	**8,164**	**5,767**	8,060	5,263
Motor vehicle finance	**3,450**	**3,462**	2,850	2,855
	42,545	**38,772**	41,674	37,180
Less held by the Group		**(31,396)**		(31,647)
Total securitisation programmes (notes 25 and 26)[1]		**7,376**		5,533
Covered bond programmes				
Residential mortgage-backed	**37,579**	**29,318**	34,963	27,694
Social housing loan-backed	**1,552**	**600**	1,839	1,200
	39,131	**29,918**	36,802	28,894
Less held by the Group		**(100)**		(700)
Total covered bond programmes (note 26)		**29,818**		28,194
Total securitisation and covered bond programmes		**37,194**		33,727

1 Includes £47 million (2018: £53 million) of securitisation notes held at fair value through profit or loss.

Cash deposits of £4,703 million (2018: £4,102 million) which support the debt securities issued by the structured entities, the term advances related to covered bonds and other legal obligations are held by the Group. Additionally, the Group had certain contractual arrangements to provide liquidity facilities to some of these structured entities. At 31 December 2019 these obligations had not been triggered and the maximum exposure under these facilities was £56 million (2018: £88 million).

The Group has a number of covered bond programmes, for which limited liability partnerships have been established to ring-fence asset pools and guarantee the covered bonds issued by the Group. At the reporting date the Group had over-collateralised these programmes as set out in the table above to meet the terms of the programmes, to secure the rating of the covered bonds and to provide operational flexibility. From time-to-time, the obligations of the Group to provide collateral may increase due to the formal requirements of the programmes. The Group may also voluntarily contribute collateral to support the ratings of the covered bonds.

The Group recognises the full liabilities associated with its securitisation and covered bond programmes within debt securities in issue, although the obligations of the Group in respect of its securitisation issuances are limited to the cash flows generated from the underlying assets. The Group could be required to provide additional support to a number of the securitisation programmes to support the credit ratings of the debt securities issued, in the form of increased cash reserves and the holding of subordinated notes. Further, certain programmes contain contractual obligations that require the Group to repurchase assets should they become credit impaired.

The Group has not provided financial or other support by voluntarily offering to repurchase assets from any of its public securitisation programmes during 2019 (2018: none).

28 Other liabilities

	The Group		The Bank	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Settlement balances	**274**	30	**9**	32
Lease liabilities	**1,755**	46	**975**	46
Other creditors and accruals	**3,571**	4,259	**1,808**	3,444
	5,600	4,335	**2,792**	3,522

The maturity of the lease liabilities was as follows

	The Group		The Bank	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Not later than 1 year	**238**	10	**132**	10
Later than 1 year and not later than 2 years	**220**	9	**124**	9
Later than 2 years and not later than 3 years	**192**	7	**106**	7
Later than 3 years and not later than 4 years	**156**	6	**84**	6
Later than 4 years and not later than 5 years	**156**	2	**84**	2
Later than 5 years	**793**	12	**445**	12
	1,755	46	**975**	46

The Group adopted IFRS 16 *Leases* from 1 January 2019, see note 1.

29 Retirement benefit obligations

	2019 £m	2018 £m	2017 £m
Charge to the Group income statement			
Defined benefit pension schemes	**241**	396	334
Other post-retirement benefit schemes	**4**	4	7
Total defined benefit schemes	**245**	400	341
Defined contribution pension schemes	**273**	288	242
Total charge to the income statement – continuing operations (note 9)	**518**	688	583

In addition, in 2018 there was a charge of £8 million (2017: £42 million) within discontinued operations (see note 13).

	The Group		The Bank	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Amounts recognised in the balance sheet				
Retirement benefit assets	**681**	1,267	**386**	704
Retirement benefit obligations	**(257)**	(245)	**(124)**	(121)
Total amounts recognised in the balance sheet	**424**	1,022	**262**	583

The total amount recognised in the balance sheet relates to:

	The Group		The Bank	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Defined benefit pension schemes	**550**	1,146	**347**	667
Other post-retirement benefit schemes	**(126)**	(124)	**(85)**	(84)
Total amounts recognised in the balance sheet	**424**	1,022	**262**	583

Pension schemes

Defined benefit schemes

(i) Characteristics of and risks associated with the Group's schemes

The Group has established a number of defined benefit pension schemes in the UK and overseas. All significant schemes are based in the UK, with the three most significant being the main section of the Lloyds Bank Pension Scheme No. 1, the Lloyd's Bank Pension Scheme No. 2 and the HBOS Final Salary Pension Scheme. At 31 December 2019, these schemes represented 94 per cent of the Group's total gross defined benefit pension assets (2018: 94 per cent). These schemes provide retirement benefits calculated as a percentage of final pensionable salary depending upon the length of service; the minimum retirement age under the rules of the schemes at 31 December 2019 is generally 55 although certain categories of member are deemed to have a contractual right to retire at 50.

29 Retirement benefit obligations (continued)

The Group operates both funded and unfunded pension arrangements; the majority, including the three most significant schemes, are funded schemes in the UK. All of these UK funded schemes are operated as separate legal entities under trust law, are in compliance with the Pensions Act 2004 and are managed by a Trustee Board (the Trustee) whose role is to ensure that their Scheme is administered in accordance with the Scheme rules and relevant legislation, and to safeguard the assets in the best interests of all members and beneficiaries. The Trustee is solely responsible for setting investment policy and for agreeing funding requirements with the employer through the funding valuation process. The Board of Trustees must be composed of representatives of the Company and plan participants in accordance with the Scheme's regulations.

A valuation to determine the funding status of each scheme is carried out at least every three years, whereby scheme assets are measured at market value and liabilities (technical provisions) are measured using prudent assumptions. If a deficit is identified a recovery plan is agreed between the employer and the scheme Trustee and sent to the Pensions Regulator for review. The Group has not provided for these deficit contributions as the future economic benefits arising from these contributions are expected to be available to the Group. The Group's overseas defined benefit pension schemes are subject to local regulatory arrangements.

The most recent triennial funding valuation of the Group's three main schemes, based on the position as at 31 December 2016, showed an aggregate funding deficit of £7.3 billion (a funding level of 85.6 per cent) compared to a £5.2 billion deficit (a funding level of 85.9 per cent) for the previous valuation as at 30 June 2014. In the light of this funding deficit, and in contemplation of the changes that the Group had made as a result of its Structural Reform Programme, the Group agreed a recovery plan with the trustees. Under the plan, deficit contributions of £618 million were paid during 2019, and these will rise to £798 million in 2020, £1,287 million in 2021 and £1,305 million per annum from 2022 to 2024. Contributions in the later years will be subject to review and renegotiation at subsequent funding valuations. The next funding valuation is due to be completed by March 2021 with an effective date of 31 December 2019. The deficit contributions are in addition to the regular contributions to meet benefits accruing over the year, and to cover the expenses of running the scheme. The Group currently expects to pay contributions of approximately £1,200 million to its defined benefit schemes in 2020.

During 2009, the Group made one-off contributions to the Lloyds Bank Pension Scheme No 1 and Lloyds Bank Pension Scheme No 2 in the form of interests in limited liability partnerships for each of the two schemes which hold assets to provide security for the Group's obligations to the two schemes. At 31 December 2019, the limited liability partnerships held assets of approximately £6.7 billion. The limited liability partnerships are consolidated fully in the Group's balance sheet.

The Group has also established three private limited companies which hold assets to provide security for the Group's obligations to the HBOS Final Salary Pension Scheme, a section of the Lloyds Bank Pension Scheme No 1 and the Lloyds Bank Offshore Pension Scheme. At 31 December 2019 these held assets of approximately £4.8 billion in aggregate. The private limited companies are consolidated fully in the Group's balance sheet. The terms of these arrangements require the Group to maintain assets in these vehicles to agreed minimum values in order to secure obligations owed to the relevant Group pension schemes. The Group has satisfied this requirement during 2019.

The last funding valuations of other Group schemes were carried out on a number of different dates. In order to report the position under IAS 19 as at 31 December 2019 the most recent valuation results for all schemes have been updated by qualified independent actuaries. The funding valuations use a more prudent approach to setting the discount rate and more conservative longevity assumptions than the IAS 19 valuations.

In July 2018 a decision was sought from the High Court in respect of the requirement to equalise the Guaranteed Minimum Pension (GMP) benefits accrued between 1990 and 1997 from contracting out of the State Earnings Related Pension Scheme. In its judgment handed down on 26 October 2018 the High Court confirmed the requirement to treat men and women equally with respect to these benefits and a range of methods that the Trustee is entitled to adopt to achieve equalisation. The Group recognised a past service cost of £108 million in respect of equalisation in 2018 and, following agreement of the detailed implementation approach with the Trustee, a further £33 million has been recognised in 2019.

29 Retirement benefit obligations (continued)

(ii) Amounts in the financial statements

	The Group		The Bank	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Amount included in the balance sheet				
Present value of funded obligations	**(45,241)**	(41,092)	**(28,072)**	(25,198)
Fair value of scheme assets	**45,791**	42,238	**28,419**	25,865
Net amount recognised in the balance sheet	**550**	1,146	**347**	667

	The Group		The Bank	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Net amount recognised in the balance sheet				
At 1 January	**1,146**	586	**667**	633
Net defined benefit pension charge	**(241)**	(396)	**(129)**	(193)
Actuarial gains (losses) on defined benefit obligation	**(4,958)**	1,641	**(3,473)**	760
Return on plan assets	**3,531**	(1,529)	**2,700**	(983)
Employer contributions	**1,062**	827	**558**	451
Transfer of subsidiary[1]	**–**	(9)	**–**	–
Exchange and other adjustments	**10**	26	**24**	(1)
At 31 December	**550**	1,146	**347**	667

1 Prior to the disposal of the Scottish Widows Group in 2018, its subsidiary Scottish Widows Services Limited transferred to the direct ownership of the Bank; this subsidiary is the participating employer in the Scottish Widows Retirement Benefits Scheme.

	The Group		The Bank	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Movements in the defined benefit obligation				
At 1 January	**(41,092)**	(43,136)	**(25,198)**	(27,041)
Current service cost	**(201)**	(257)	**(98)**	(119)
Interest expense	**(1,172)**	(1,119)	**(737)**	(689)
Remeasurements:				
Actuarial losses – experience	**(29)**	(439)	**35**	(333)
Actuarial (losses) gains – demographic assumptions	**471**	(201)	**304**	(188)
Actuarial gains (losses) – financial assumptions	**(5,400)**	2,281	**(3,812)**	1,281
Benefits paid	**2,174**	3,036	**1,436**	1,965
Past service cost	**(44)**	(108)	**(33)**	(66)
Settlements	**17**	17	**–**	–
Curtailments	**–**	(12)	**–**	(4)
Transfer of subsidiary	**–**	(1,154)	**–**	–
Exchange and other adjustments	**35**	–	**31**	(4)
At 31 December	**(45,241)**	(41,092)	**(28,072)**	(25,198)

29 Retirement benefit obligations (continued)

	The Group		The Bank	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Analysis of the defined benefit obligation:				
Active members	**(6,413)**	(6,448)	**(3,433)**	(3,487)
Deferred members	**(16,058)**	(14,208)	**(9,679)**	(8,608)
Pensioners	**(21,032)**	(18,885)	**(13,714)**	(11,971)
Dependants	**(1,738)**	(1,551)	**(1,246)**	(1,132)
	(45,241)	(41,092)	**(28,072)**	(25,198)

	The Group		The Bank	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Changes in the fair value of scheme assets				
At 1 January	**42,238**	43,722	**25,865**	27,674
Return on plan assets excluding amounts included in interest income	**3,531**	(1,529)	**2,700**	(983)
Interest income	**1,220**	1,141	**765**	710
Employer contributions	**1,062**	827	**558**	451
Benefits paid	**(2,174)**	(3,036)	**(1,436)**	(1,965)
Settlements	**(18)**	(18)	**–**	–
Administrative costs paid	**(43)**	(40)	**(26)**	(25)
Transfer of subsidiary	**–**	1,145	**–**	–
Exchange and other adjustments	**(25)**	26	**(7)**	3
At 31 December	**45,791**	42,238	**28,419**	25,865

The expense recognised in the income statement for the year ended 31 December comprises:

	The Group	
	2019 £m	2018 £m
Current service cost	**201**	257
Net interest amount	**(48)**	(22)
Past service credits and curtailments	**–**	12
Settlements	**1**	1
Past service cost – plan amendments	**44**	108
Plan administration costs incurred during the year	**43**	40
Total defined benefit pension expense	**241**	396

29 Retirement benefit obligations (continued)

(iii) Composition of scheme assets:

The Group	2019 Quoted £m	2019 Unquoted £m	2019 Total £m	2018 Quoted £m	2018 Unquoted £m	2018 Total £m
Equity instruments	**555**	**39**	**594**	637	222	859
Debt instruments[1]:						
Fixed interest government bonds	**8,893**	**–**	**8,893**	7,449	–	7,449
Index-linked government bonds	**18,207**	**–**	**18,207**	16,477	–	16,477
Corporate and other debt securities	**10,588**	**–**	**10,588**	8,813	–	8,813
Asset-backed securities	**–**	**–**	**–**	138	–	138
	37,688	**–**	**37,688**	32,877	–	32,877
Property	**–**	**158**	**158**	–	556	556
Pooled investment vehicles	**4,773**	**10,585**	**15,358**	4,578	10,494	15,072
Money market instruments, derivatives, cash and other assets and liabilities	**204**	**(8,211)**	**(8,007)**	(283)	(6,843)	(7,126)
At 31 December	**43,220**	**2,571**	**45,791**	37,809	4,429	42,238

1 Of the total debt instruments, £33,134 million (31 December 2018: £29,033 million) were investment grade (credit ratings equal to or better than 'BBB').

The Bank	2019 Quoted £m	2019 Unquoted £m	2019 Total £m	2018 Quoted £m	2018 Unquoted £m	2018 Total £m
Equity instruments	**385**	**26**	**411**	299	215	514
Debt instruments[1]:						
Fixed interest government bonds	**3,198**	**–**	**3,198**	2,570	–	2,570
Index-linked government bonds	**11,254**	**–**	**11,254**	10,236	–	10,236
Corporate and other debt securities	**6,791**	**–**	**6,791**	5,987	–	5,987
	21,243	**–**	**21,243**	18,793	–	18,793
Pooled investment vehicles	**2,527**	**7,203**	**9,730**	2,405	7,192	9,597
Money market instruments, derivatives, cash and other assets and liabilities	**(145)**	**(2,820)**	**(2,965)**	(589)	(2,450)	(3,039)
At 31 December	**24,010**	**4,409**	**28,419**	20,908	4,957	25,865

1 Of the total debt instruments, £18,724 million (31 December 2018: £16,472 million) were investment grade (credit ratings equal to or better than 'BBB').

The assets of all the funded plans are held independently of the Group's assets in separate trustee administered funds.

The pension schemes' pooled investment vehicles comprise:

	The Group 2019 £m	The Group 2018 £m	The Bank 2019 £m	The Bank 2018 £m
Equity funds	**2,429**	2,329	**1,706**	1,705
Hedge and mutual funds	**2,886**	2,487	**1,818**	1,488
Liquidity funds	**1,126**	2,329	**980**	1,336
Bond and debt funds	**971**	313	**211**	–
Other	**7,946**	7,614	**5,015**	5,068
At 31 December	**15,358**	15,072	**9,730**	9,597

The Trustee's approach to investment is focused on acting in the members' best financial interests, with the integration of ESG (*Environmental, Social and Governance*) considerations into investment management processes and practices. This policy is reviewed annually (or more frequently as required) and has been shared with the schemes' investment managers for implementation.

29 Retirement benefit obligations (continued)

(iv) Assumptions

The principal actuarial and financial assumptions used in valuations of the defined benefit pension schemes were as follows:

	2019 %	2018 %
Discount rate	**2.05**	2.90
Rate of inflation:		
Retail Prices Index	**2.94**	3.20
Consumer Price Index	**1.99**	2.15
Rate of salary increases	**0.00**	0.00
Weighted-average rate of increase for pensions in payment	**2.57**	2.73
	2019 Years	2018 Years
Life expectancy for member aged 60, on the valuation date:		
Men	**27.5**	27.8
Women	**29.2**	29.4
Life expectancy for member aged 60, 15 years after the valuation date:		
Men	**28.5**	28.8
Women	**30.3**	30.6

The mortality assumptions used in the UK scheme valuations are based on standard tables published by the Institute and Faculty of Actuaries which were adjusted in line with the actual experience of the relevant schemes. The table shows that a member retiring at age 60 at 31 December 2019 is assumed to live for, on average, 27.5 years for a male and 29.2 years for a female. In practice there will be much variation between individual members but these assumptions are expected to be appropriate across all members. It is assumed that younger members will live longer in retirement than those retiring now. This reflects the expectation that mortality rates will continue to fall over time as medical science and standards of living improve. To illustrate the degree of improvement assumed the table also shows the life expectancy for members aged 45 now, when they retire in 15 years' time at age 60.

(v) Amount timing and uncertainty of future cash flows

Risk exposure of the defined benefit schemes

Whilst the Group is not exposed to any unusual, entity specific or scheme specific risks in its defined benefit pension schemes, it is exposed to a number of significant risks, detailed below:

Inflation rate risk: the majority of the plans' benefit obligations are linked to inflation both in deferment and once in payment. Higher inflation will lead to higher liabilities although this will be materially offset by holdings of inflation-linked gilts and, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation.

Interest rate risk: The defined benefit obligation is determined using a discount rate derived from yields on AA-rated corporate bonds. A decrease in corporate bond yields will increase plan liabilities although this will be materially offset by an increase in the value of bond holdings and through the use of derivatives.

Longevity risk: The majority of the schemes obligations are to provide benefits for the life of the members so increases in life expectancy will result in an increase in the plans' liabilities.

Investment risk: Scheme assets are invested in a diversified portfolio of debt securities, equities and other return-seeking assets. If the assets underperform the discount rate used to calculate the defined benefit obligation, it will reduce the surplus or increase the deficit. Volatility in asset values and the discount rate will lead to volatility in the net pension asset on the Group's balance sheet and in other comprehensive income. To a lesser extent this will also lead to volatility in the pension expense in the Group's income statement.

The ultimate cost of the defined benefit obligations to the Group will depend upon actual future events rather than the assumptions made. The assumptions made are unlikely to be borne out in practice and as such the cost may be higher or lower than expected.

29 Retirement benefit obligations (continued)

Sensitivity analysis

The effect of reasonably possible changes in key assumptions on the value of scheme liabilities and the resulting pension charge in the Group's income statement and on the net defined benefit pension scheme asset, for the Group's three most significant schemes is set out below. The sensitivities provided assume that all other assumptions and the value of the schemes' assets remain unchanged, and are not intended to represent changes that are at the extremes of possibility. The calculations are approximate in nature and full detailed calculations could lead to a different result. It is unlikely that isolated changes to individual assumptions will be experienced in practice. Due to the correlation of assumptions, aggregating the effects of these isolated changes may not be a reasonable estimate of the actual effect of simultaneous changes in multiple assumptions.

	Effect of reasonably possible alternative assumptions			
	Increase (decrease) in the income statement charge		**(Increase) decrease in the net defined benefit pension scheme surplus**	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Inflation (including pension increases):[1]				
Increase of 0.1 per cent	**12**	14	**467**	410
Decrease of 0.1 per cent	**(12)**	(14)	**(460)**	(395)
Discount rate:[2]				
Increase of 0.1 per cent	**(20)**	(27)	**(763)**	(670)
Decrease of 0.1 per cent	**21**	25	**784**	686
Expected life expectancy of members:				
Increase of one year	**40**	43	**1,636**	1,299
Decrease of one year	**(39)**	(42)	**(1,575)**	(1,257)

1 At 31 December 2019, the assumed rate of RPI inflation is 2.94 per cent and CPI inflation 1.99 per cent (2018: RPI 3.20 per cent and CPI 2.15 per cent).

2 At 31 December 2019, the assumed discount rate is 2.05 per cent (2018: 2.90 per cent).

Sensitivity analysis method and assumptions

The sensitivity analysis above reflects the impact on the liabilities of the Group's three most significant schemes which account for over 90 per cent of the Group's defined benefit obligations. Whilst differences in the underlying liability profiles for the remainder of the Group's pension arrangements mean they may exhibit slightly different sensitivities to variations in these assumptions, the sensitivities provided above are indicative of the impact across the Group as a whole.

The inflation assumption sensitivity applies to both the assumed rate of increase in the Consumer Prices Index (CPI) and the Retail Prices Index (RPI), and include the impact on the rate of increases to pensions, both before and after retirement. These pension increases are linked to inflation (either CPI or RPI) subject to certain minimum and maximum limits.

The sensitivity analysis (including the inflation sensitivity) does not include the impact of any change in the rate of salary increases as pensionable salaries have been frozen since 2 April 2014.

The life expectancy assumption has been applied by allowing for an increase/decrease in life expectation from age 60 of one year, based upon the approximate weighted average age for each scheme. Whilst this is an approximate approach and will not give the same result as a one year increase in life expectancy at every age, it provides an appropriate indication of the potential impact on the schemes from changes in life expectancy.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from the prior year.

Asset-liability matching strategies

The main schemes' assets are invested in a diversified portfolio, consisting primarily of debt securities. The investment strategy is not static and will evolve to reflect the structure of liabilities within the schemes. Specific asset-liability matching strategies for each pension plan are independently determined by the responsible governance body for each scheme and in consultation with the employer.

A significant goal of the asset-liability matching strategies adopted by Group schemes is to reduce volatility caused by changes in market expectations of interest rates and inflation. In the main schemes, this is achieved by investing scheme assets in bonds, primarily fixed interest gilts and index linked gilts, and by entering into interest rate and inflation swap arrangements. These investments are structured to take into account the profile of scheme liabilities, and actively managed to reflect both changing market conditions and changes to the liability profile.

On 28 January 2020, the main schemes entered into a £10 billion longevity insurance arrangement to hedge around 20 per cent of the schemes' exposure to unexpected increases in life expectancy. This arrangement will form part of the schemes' investment portfolio and will provide income to the schemes in the event that pensions are paid out for longer than expected. The transaction is structured as a pass-through with Scottish Widows as the insurer, and onwards reinsurance to Pacific Life Re Limited.

At 31 December 2019 the asset-liability matching strategy mitigated 106 per cent of the liability sensitivity to interest rate movements and 103 per cent of the liability sensitivity to inflation movements. In addition a small amount of interest rate sensitivity arises through holdings of corporate and other debt securities.

29 Retirement benefit obligations (continued)

Maturity profile of defined benefit obligation

The following table provides information on the weighted average duration of the defined benefit pension obligations and the distribution and timing of benefit payments:

	The Group		The Bank	
	2019 Years	2018 Years	**2019 Years**	2018 Years
Duration of the defined benefit obligation	**18**	18	**16**	17

	The Group		The Bank	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Maturity analysis of benefits expected to be paid:				
Within 12 months	**1,274**	1,225	**892**	839
Between 1 and 2 years	**1,373**	1,299	**963**	900
Between 2 and 5 years	**4,455**	4,303	**3,086**	2,952
Between 5 and 10 years	**8,426**	8,305	**5,673**	5,543
Between 10 and 15 years	**9,229**	9,416	**5,962**	6,044
Between 15 and 25 years	**17,400**	18,417	**10,603**	11,052
Between 25 and 35 years	**13,999**	15,631	**8,044**	8,834
Between 35 and 45 years	**8,291**	9,924	**4,266**	5,074
In more than 45 years	**3,160**	4,270	**1,208**	1,661

Maturity analysis method and assumptions

The projected benefit payments are based on the assumptions underlying the assessment of the obligations, including allowance for expected future inflation. They are shown in their undiscounted form and therefore appear large relative to the discounted assessment of the defined benefit obligations recognised in the Group's balance sheet. They are in respect of benefits that have been accrued prior to the respective year-end date only and make no allowance for any benefits that may have been accrued subsequently.

Defined contribution schemes

The Group operates a number of defined contribution pension schemes in the UK and overseas, principally Your Tomorrow and the defined contribution sections of the Lloyds Bank Pension Scheme No. 1.

During the year ended 31 December 2019 the charge to the continuing operations income statement in respect of defined contribution schemes was £273 million (2018: £288 million; 2017: £242 million), representing the contributions payable by the employer in accordance with each scheme's rules. In addition, in 2018 £3 million (2017: £14 million) was charged within discontinued operations (see note 13).

Other post-retirement benefit schemes

The Group operates a number of schemes which provide post-retirement healthcare benefits to certain employees, retired employees and their dependants. The principal scheme relates to former Lloyds Bank staff and under this scheme the Group has undertaken to meet the cost of post-retirement healthcare for all eligible former employees (and their dependants) who retired prior to 1 January 1996. The Group has entered into an insurance contract to provide these benefits and a provision has been made for the estimated cost of future insurance premiums payable.

For the principal post-retirement healthcare scheme, the latest actuarial valuation of the liability was carried out at 31 December 2019 by qualified independent actuaries. The principal assumptions used were as set out above, except that the rate of increase in healthcare premiums has been assumed at 6.54 per cent (2018: 6.81 per cent).

Movements in the other post-retirement benefits obligation:

	The Group		The Bank	
	2019 £m	2018 £m	**2019 £m**	2018 £m
At 1 January	**(124)**	(144)	**(84)**	(103)
Actuarial gains	**(6)**	18	**(3)**	17
Insurance premiums paid	**7**	5	**5**	4
Charge for the year	**(4)**	(4)	**(2)**	(3)
Exchange and other adjustments	**1**	1	**(1)**	1
At 31 December	**(126)**	(124)	**(85)**	(84)

30 Deferred tax

The Group's and the Bank's deferred tax assets and liabilities are as follows:

	The Group		The Bank	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Statutory position				
Deferred tax assets	**3,366**	3,216	**2,029**	1,980
Deferred tax liabilities	**–**	–	**–**	–
Net deferred tax asset	**3,366**	3,216	**2,029**	1,980
Tax disclosure				
Deferred tax assets	**4,710**	4,732	**2,715**	2,728
Deferred tax liabilities	**(1,344)**	(1,516)	**(686)**	(748)
Net deferred tax asset	**3,366**	3,216	**2,029**	1,980

The statutory position reflects the deferred tax assets and liabilities as disclosed in the consolidated balance sheet and takes into account the ability of the Group and the Bank to net assets and liabilities where there is a legally enforceable right of offset. The tax disclosure of deferred tax assets and liabilities ties to the amounts outlined in the tables below which splits the deferred tax assets and liabilities by type, before such netting.

As a result of legislation enacted in 2016, the UK corporation tax rate was due to reduce from 19 per cent to 17 per cent on 1 April 2020. The Group measures its deferred tax assets and liabilities at the value expected to be recoverable or payable in future periods, and re-measures them at each reporting date based on the most recent estimates of utilisation or settlement, including the impact of bank surcharge where appropriate. The deferred tax impact of this re-measurement in 2019 is a charge of £25 million in the income statement and a credit of £8 million in other comprehensive income.

Within the March 2020 budget, the UK government stated its intention to maintain the corporation tax rate at 19 per cent on 1 April 2020. Had this rate change been substantively enacted at 31 December 2019, the effect would have been to increase net deferred tax assets by £397 million.

On 29 October 2018, the UK government announced its intention to restrict the use of capital tax losses to 50 per cent of any future gains arising. Had this restriction been substantively enacted at 31 December 2019, the effect would have been to reduce net deferred tax assets by £10 million for the Group and £nil for the Bank.

Movements in deferred tax liabilities and assets (before taking into consideration the offsetting of balances within the same taxing jurisdiction) can be summarised as follows:

The Group **Deferred tax assets**	Tax losses £m	Property, plant and equipment £m	Pension liabilities £m	Provisions £m	Share-based payments £m	Derivatives £m	Other temporary differences £m	Total £m
At 1 January 2018	4,011	715	79	355	35	–	11	5,206
(Charge) credit to the income statement	(234)	(69)	92	(21)	(2)	–	(5)	(239)
Credit to other comprehensive income	–	–	(92)	(138)	–	–	–	(230)
Impact of acquisitions and disposals	–	–	–	–	(5)	–	–	(5)
At 31 December 2018	3,777	646	79	196	28	–	6	4,732
(Charge) credit to the income statement	**(177)**	**3**	**(100)**	**(87)**	**4**	**19**	**126**	**(212)**
Credit to other comprehensive income	**–**	**–**	**74**	**116**	**–**	**–**	**–**	**190**
At 31 December 2019	**3,600**	**649**	**53**	**225**	**32**	**19**	**132**	**4,710**

Deferred tax liabilities	Acquisition fair value £m	Pension assets £m	Derivatives £m	Asset revaluations[1] £m	Other temporary differences £m	Total £m
At 1 January 2018	(832)	(181)	(492)	(201)	(94)	(1,800)
(Charge) credit to the income statement	134	(67)	(33)	(37)	1	(2)
(Charge) credit to other comprehensive income	–	(25)	137	137	–	249
Impact of acquisitions and disposals	–	–	–	–	34	34
Exchange and other adjustments	–	–	–	–	3	3
At 31 December 2018	(698)	(273)	(388)	(101)	(56)	(1,516)
(Charge) credit to the income statement	**215**	**59**	**(34)**	**(21)**	**(53)**	**166**
(Charge) credit to other comprehensive income	**–**	**64**	**(140)**	**84**	**–**	**8**
Exchange and other adjustments	**–**	**–**	**–**	**–**	**(2)**	**(2)**
At 31 December 2019	**(483)**	**(150)**	**(562)**	**(38)**	**(111)**	**(1,344)**

1 Financial assets at fair value through other comprehensive income.

30 Deferred tax (continued)

The Bank **Deferred tax assets**	Tax losses £m	Property, plant and equipment £m	Pension liabilities £m	Provisions £m	Share-based payments £m	Other temporary differences £m	Total £m
At 1 January 2018	2,433	404	40	198	25	5	3,105
(Charge) credit to the income statement	(153)	(60)	60	(7)	(5)	(4)	(169)
Credit to other comprehensive income	–	–	(70)	(138)	–	–	(208)
At 31 December 2018	2,280	344	30	53	20	1	2,728
(Charge) credit to the income statement	**(82)**	**(20)**	**(57)**	**(41)**	**(1)**	**12**	**(189)**
Charge to other comprehensive income	**–**	**–**	**60**	**116**	**–**	**–**	**176**
At 31 December 2019	**2,198**	**324**	**33**	**128**	**19**	**13**	**2,715**

Deferred tax liabilities	Pension assets £m	Derivatives £m	Asset revaluations[1] £m	Other temporary differences £m	Total £m
At 1 January 2018	(175)	(518)	(203)	(63)	(959)
(Charge) credit to the income statement	(45)	–	(14)	32	(27)
(Charge) credit to other comprehensive income	44	87	114	–	245
Exchange and other adjustments	–	–	–	(7)	(7)
At 31 December 2018	(176)	(431)	(103)	(38)	(748)
(Charge) credit to the income statement	**59**	**–**	**(19)**	**17**	**57**
Credit to other comprehensive income	**20**	**(105)**	**86**	**(1)**	**–**
Exchange and other adjustments	**–**	**–**	**–**	**5**	**5**
At 31 December 2019	**(97)**	**(536)**	**(36)**	**(17)**	**(686)**

1 Financial assets at fair value through other comprehensive income.

Deferred tax not recognised

No deferred tax has been recognised in respect of foreign trade losses where it is not more likely than not that we will be able to utilise them in future periods. Of the asset not recognised, £35 million for the Group and £nil for the Bank (2018: £36 million for the Group and £nil for the Bank) relates to losses that will expire if not used within 20 years, and £45 million for the Group and £5 million for the Bank (2018: £52 million for the Group and £7 million for the Bank) relates to losses with no expiry date.

Deferred tax assets of approximately £111 million (2018: £121 million) for the Group and £84 million (2018: £98 million) for the Bank have not been recognised in respect of £650 million for the Group and £497 million for the Bank of UK tax losses and other temporary differences which can only be used to offset future capital gains. UK capital losses can be carried forward indefinitely.

In addition, no deferred tax asset is recognised in respect of unrelieved foreign tax credits of £46 million (2018: £46 million) for the Group and £7 million (2018: £7 million) for the Bank, as there are no expected future taxable profits against which the credits can be utilised. These credits can be carried forward indefinitely.

As a result of parent company exemptions on dividends from subsidiaries and on capital gains on disposal there are no significant taxable temporary differences associated with investments in subsidiaries, branches, associates and joint arrangements.

31 Other provisions

The Group	Provisions for financial commitments and guarantees £m	Payment protection insurance £m	Other regulatory provisions £m	Other £m	Total £m
At 31 December 2018	190	1,520	707	927	3,344
Adjustment on adoption of IFRS 16 (note 49)				(97)	(97)
Balance at 1 January 2019				**830**	**3,247**
Exchange and other adjustments	**–**	**367**	**–**	**(5)**	**362**
Provisions applied	**–**	**(2,457)**	**(707)**	**(445)**	**(3,609)**
Charge for the year	**(17)**	**2,444**	**395**	**316**	**3,138**
At 31 December 2019	**173**	**1,874**	**395**	**696**	**3,138**

The Bank	Provisions for financial commitments and guarantees £m	Payment protection insurance £m	Other regulatory provisions £m	Other £m	Total £m
At 31 December 2018	76	608	253	671	1,608
Adjustment on adoption of IFRS 16 (note 49)				(67)	(67)
Balance at 1 January 2019				**604**	**1,541**
Exchange and other adjustments	**–**	**–**	**–**	**2**	**2**
Provisions applied	**–**	**(1,156)**	**(229)**	**(303)**	**(1,688)**
Charge for the year	**14**	**1,170**	**137**	**260**	**1,581**
At 31 December 2019	**90**	**622**	**161**	**563**	**1,436**

Provisions for financial commitments and guarantees
Provisions are recognised for expected credit losses on undrawn loan commitments and financial guarantees. See also note 18.

Payment protection insurance (excluding MBNA)
The Lloyds Bank Group increased the provision for PPI costs by a further £2,444 million in the year ended 31 December 2019, bringing the total amount provided to £21,821 million.

The charge in 2019 was largely due to the significant increase in PPI information requests (PIRs) leading up to the deadline for submission of claims on 29 August 2019, and also reflects costs relating to complaints received from the Official Receiver as well as administration costs. An initial review of around 60 per cent of the five million PIRs received in the run-up to the PPI deadline has been undertaken, with the conversion rate remaining low, and consistent with the provision assumption of around 10 per cent. The Lloyds Banking Group has reached final agreement with the Official Receiver.

At 31 December 2019, a provision of £1,572 million remained unutilised relating to complaints and associated administration costs excluding amounts relating to MBNA. Total cash payments were £2,197 million during the year ended to 31 December 2019.

Sensitivities
The total amount provided for PPI represents the Lloyds Bank Group's best estimate of the likely future cost. A number of risks and uncertainties remain including processing the remaining PIRs and outstanding complaints. The cost could differ from the Lloyds Bank Group's estimates and the assumptions underpinning them, and could result in a further provision being required. These may also be impacted by any further regulatory changes and potential additional remediation arising from the continuous improvement of the Lloyds Bank Group's operational practices.

For every one per cent increase in PIR conversion rate on the stock as at the industry deadline, the Lloyds Bank Group would expect an additional charge of approximately £100 million.

Payment protection insurance (MBNA)
MBNA increased its PPI provision by £367 million in the year ended 31 December 2019 but the Lloyds Bank Group's exposure continues to remain capped at £240 million under the terms of the sale and purchase agreement.

Other provisions for legal actions and regulatory matters
In the course of its business, the Lloyds Bank Group is engaged in discussions with the PRA, FCA and other UK and overseas regulators and other governmental authorities on a range of matters. The Lloyds Bank Group also receives complaints in connection with its past conduct and claims brought by or on behalf of current and former employees, customers, investors and other third parties and is subject to legal proceedings and other legal actions. Where significant, provisions are held against the costs expected to be incurred in relation to these matters and matters arising from related internal reviews. During the year ended 31 December 2019 the Lloyds Bank Group charged a further £395 million in respect of legal actions and other regulatory matters, and the unutilised balance at 31 December 2019 was £395 million (31 December 2018: £707 million). The most significant items are as follows.

Arrears handling related activities
The Lloyds Bank Group has provided an additional £188 million in the year ended 31 December 2019 for the costs of identifying and rectifying certain arrears management fees and activities, taking the total provided to date to £981 million. The Lloyds Bank Group has put in place a number of actions to improve its handling of customers in these areas and has made good progress in reimbursing arrears fees to impacted customers.

31 Other provisions (continued)

Packaged bank accounts
The Lloyds Bank Group had provided a total of £795 million up to 31 December 2018 in respect of complaints relating to alleged mis-selling of packaged bank accounts, with no further amounts provided during the year ended 31 December 2019. A number of risks and uncertainties remain, particularly with respect to future volumes.

HBOS Reading – customer review
The Lloyds Bank Group has now completed its compensation assessment for all 71 business customers within the customer review, with more than 98 per cent of these offers to individuals accepted. In total, more than £100 million in compensation has been offered to victims of the HBOS Reading fraud prior to the publication of Sir Ross Cranston's independent quality assurance review of the customer review, of which £94 million has so far been accepted, in addition to £9 million for ex-gratia payments and £6 million for the re-imbursements of legal fees. Sir Ross's review was concluded on 10 December 2019 and made a number of recommendations, including a re-assessment of direct and consequential losses by an independent panel. The Lloyds Bank Group has committed to implementing Sir Ross's recommendations in full. In addition, further ex gratia payments of £35,000 have been made to 200 individuals in recognition of the additional delay which will be caused whilst the Lloyds Bank Group takes steps to implement Sir Ross's recommendations. It is not possible to estimate at this stage what the financial impact will be.

HBOS Reading – FCA investigation
The FCA's investigation into the events surrounding the discovery of misconduct within the Reading-based Impaired Assets team of HBOS has concluded. The Lloyds Banking Group has settled the matter with the FCA and paid a fine of £45.5 million, as per the FCA's final notice dated 21 June 2019.

Other
Following the sale of TSB Banking Group plc, the Lloyds Bank Group raised a provision of £665 million in relation to various ongoing commitments; £117 million of this provision remained unutilised at 31 December 2019.

Provisions are made for staff and other costs related to Lloyds Bank Group restructuring initiatives at the point at which the Lloyds Bank Group becomes committed to the expenditure. At 31 December 2019 provisions of £114 million (31 December 2018: £179 million) were held.

The Lloyds Bank Group carries provisions of £118 million (2018: £122 million) for indemnities and other matters relating to legacy business disposals in prior years.

32 Subordinated liabilities

The movement in subordinated liabilities during the year was as follows:

The Group	Preferred securities £m	Undated subordinated liabilities £m	Dated subordinated liabilities £m	Total £m
At 1 January 2018	3,721	504	10,557	14,782
Issued during the year:				
Floating Rate Subordinated Callable Notes 2028	–	–	201	201
Repurchases and redemptions during the year[1]:				
6.461% Guaranteed Non-voting Non-cumulative Perpetual Preferred Securities	(600)	–	–	(600)
Undated Perpetual Preferred Securities	(14)	–	–	(14)
10.5% Subordinated Bonds callable 2018	–	–	(150)	(150)
6.75% Subordinated Fixed Rate Notes callable 2018	–	–	(1,492)	(1,492)
	(614)	–	(1,642)	(2,256)
Foreign exchange movements	108	20	247	375
Other movements (all non-cash)	(5)	5	(357)	(357)
At 31 December 2018	3,210	529	9,006	12,745
Issued during the year:				
4.1378% Dated Subordinated Notes due 2026	**–**	**–**	**492**	**492**
2.68229% Dated Subordinated Notes due 2038	**–**	**–**	**70**	**70**
2.0367% Dated Subordinated Notes due 2028	**–**	**–**	**218**	**218**
	–	**–**	**780**	**780**
Repurchases and redemptions during the year[1]:				
13% Step-up Perpetual Capital Securities callable 2019	**(49)**	**–**	**–**	**(49)**
10.375% Subordinated Fixed to Fixed Rate Notes 2024 callable 2019	**–**	**–**	**(135)**	**(135)**
9.375% Subordinated Bonds 2021	**–**	**–**	**(328)**	**(328)**
6.375% Subordinated Instruments 2019	**–**	**–**	**(250)**	**(250)**
	(49)	**–**	**(713)**	**(762)**
Foreign exchange movements	**(83)**	**(36)**	**(276)**	**(395)**
Other movements (all non-cash)	**189**	**23**	**6**	**218**
At 31 December 2019	**3,267**	**516**	**8,803**	**12,586**

1 The repurchases and redemptions in the year resulted in cash outflows of £762 million (2018: £2,256 million).

32 Subordinated liabilities (continued)

The Bank	Preferred securities £m	Undated subordinated liabilities £m	Dated subordinated liabilities £m	Total £m
At 1 January 2018	2,251	418	6,672	9,341
Foreign exchange movements	88	19	203	310
Other movements (all non-cash)	(27)	–	(96)	(123)
At 31 December 2018	2,312	437	6,779	9,528
Issued in the year:				
4.1378% Dated Subordinated Notes due 2026	**–**	**–**	**492**	**492**
2.68229% Dated Subordinated Notes due 2038	**–**	**–**	**70**	**70**
2.0367% Dated Subordinated Notes due 2028	**–**	**–**	**218**	**218**
	–	**–**	**780**	**780**
Repurchases and redemptions during the year[1]:				
13% Step-up Perpetual Capital Securities callable 2019	**(49)**	**–**	**–**	**(49)**
10.375% Subordinated Fixed to Fixed Rate Notes 2024 callable 2019	**–**	**–**	**(135)**	**(135)**
	(49)	**–**	**(135)**	**(184)**
Foreign exchange movements	**(57)**	**(12)**	**(206)**	**(275)**
Other movements (all non-cash)	**28**	**–**	**32**	**60**
At 31 December 2019	**2,234**	**425**	**7,250**	**9,909**

1 The repurchases and redemptions in 2019 resulted in cash outflows of £184 million.

These securities will, in the event of the winding-up of the issuer, be subordinated to the claims of the depositors and all other creditors of the issuer, other than creditors whose claims rank equally with, or are junior to, the claims of the holders of the subordinated liabilities. The subordination of the specific subordinated liabilities is determined in respect of the issuer and any guarantors of that liability. The claims of holders of preference shares and preferred securities are generally junior to those of the holders of undated subordinated liabilities, which in turn are junior to the claims of the holders of the dated subordinated liabilities. Neither the Group nor the Bank has had any defaults of principal, interest or other breaches with respect to its subordinated liabilities during the year (2018: none).

33 Share capital

(1) Authorised share capital

	Group and Bank		
	2019 £m	2018 £m	2017 £m
Sterling			
1,650 million ordinary shares of £1 each	**1,650**	1,650	1,650
1 cumulative floating rate Preference share of £1	**–**	–	–
100 6 per cent Non-Cumulative Redeemable Preference shares of £1 each	**–**	–	–
175 million Preference shares of 25p each	**44**	44	44
	1,694	1,694	1,694
US dollars	**US$m**	US$m	US$m
160 million Preference shares of 25 cents each	**40**	40	40
Euro	**€m**	€m	€m
160 million Preference shares of 25 cents each	**40**	40	40
Japanese yen	**¥m**	¥m	¥m
50 million Preference shares of ¥25 each	**1,250**	1,250	1,250

(2) Issued and fully paid ordinary shares

	2019 Number of shares	2018 Number of shares	2017 Number of shares	**2019 £m**	2018 £m	2017 £m
Sterling						
Ordinary shares of £1 each						
At 1 January and 31 December	1,574,285,751	1,574,285,751	1,574,285,751	**1,574**	1,574	1,574

Share capital and control
There are no limitations on voting rights or restrictions on the transfer of shares in the Bank other than as set out in the articles of association, and certain restrictions which may from time to time be imposed by law and regulations (for example, insider trading laws).

Ordinary shares
The holders of ordinary shares, who held 100 per cent of the total ordinary share capital at 31 December 2019, are entitled to receive the Bank's report and accounts, attend, speak and vote at general meetings and appoint proxies to exercise voting rights. Holders of ordinary shares may also receive a dividend (subject to the provisions of the Bank's articles of association) and on a winding up may share in the assets of the Bank.

Issued and fully paid preference shares
The Bank has in issue various classes of preference shares which are all classified as liabilities under accounting standards.

34 Share premium account

	Group and Bank		
	2019 £m	2018 £m	2017 £m
At 1 January	**600**	600	–
Redemption of preference shares[1]	**–**	–	600
At 31 December	**600**	600	600

1 During the year ended 31 December 2017, the Bank redeemed all of its outstanding 6.369% Fixed/Floating Rate Non-Cumulative Preference Shares Callable 2015 which had been accounted for as subordinated liabilities. On redemption an amount of £600 million was transferred from retained profits to the share premium account.

35 Other reserves

	The Group			The Bank		
	2019 £m	2018 £m	2017 £m	**2019 £m**	2018 £m	2017 £m
Other reserves comprise:						
Merger reserve	**6,348**	6,348	6,348	**–**	–	–
Revaluation reserve in respect of debt securities held at fair value through other comprehensive income	**(538)**	(379)		**103**	281	
Revaluation reserve in respect of equity shares held at fair value through other comprehensive income	**–**	–		**–**	–	
Revaluation reserve in respect of available-for-sale financial assets			(8)			611
Cash flow hedging reserve	**1,556**	1,110	1,573	**1,607**	1,268	1,554
Foreign currency translation reserve	**(116)**	(114)	(207)	**–**	(6)	76
At 31 December	**7,250**	6,965	7,706	**1,710**	1,543	2,241

Movements in other reserves were as follows:

	The Group			The Bank		
	2019 £m	2018 £m	2017 £m	**2019 £m**	2018 £m	2017 £m
Merger reserve						
At 1 January and 31 December	**6,348**	6,348	6,348	**–**	–	–

	The Group		The Bank	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Revaluation reserve in respect of debt securities held at fair value through other comprehensive income				
At 1 January	**(379)**	(195)	**281**	483
Change in fair value	**(34)**	(31)	**(50)**	(58)
Deferred tax	**11**	31	**13**	34
	(23)	–	**(37)**	(24)
Income statement transfers in respect of disposals (note 8)	**(196)**	(268)	**(201)**	(258)
Deferred tax	**61**	84	**61**	80
	(135)	(184)	**(140)**	(178)
Impairment recognised in the income statement	**(1)**	–	**(1)**	–
At 31 December	**(538)**	(379)	**103**	281

35 Other reserves (continued)

	The Group		The Bank	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Revaluation reserve in respect of equity shares held at fair value through other comprehensive income				
At 1 January	**–**	(35)	**–**	(42)
Change in fair value	**–**	(98)	**–**	(102)
Deferred tax	**12**	22	**12**	–
Current tax	**–**	–	**–**	–
	12	(76)	**12**	(102)
Realised gains and losses transferred to retained profits				
Disposals	**–**	132	**–**	144
Deferred tax	**(12)**	(21)	**(12)**	–
Current tax	**–**	–	**–**	–
	(12)	111	**(12)**	144
At 31 December	**–**	–	**–**	–

	The Group 2017 £m	The Bank 2017 £m
Revaluation reserve in respect of available-for-sale financial assets		
At 1 January 2017	92	667
Change in fair value of available-for-sale financial assets	294	231
Deferred tax	(25)	(39)
Current tax	(4)	–
	265	192
Income statement transfers:		
Disposals (note 8)	(464)	(333)
Deferred tax	93	85
Current tax	–	–
	(371)	(248)
Impairment	6	–
Deferred tax	–	–
	6	–
At 31 December 2017	(8)	611

	The Group			The Bank		
	2019 £m	2018 £m	2017 £m	**2019 £m**	2018 £m	2017 £m
Cash flow hedging reserve						
At 1 January	**1,110**	1,573	2,224	**1,268**	1,554	1,845
Change in fair value of hedging derivatives	**1,166**	91	(271)	**892**	255	15
Deferred tax	**(290)**	(43)	103	**(217)**	(72)	21
	876	48	(168)	**675**	183	36
Income statement transfers	**(580)**	(691)	(644)	**(448)**	(628)	(436)
Deferred tax	**150**	180	161	**112**	159	109
	(430)	(511)	(483)	**(336)**	(469)	(327)
At 31 December	**1,556**	1,110	1,573	**1,607**	1,268	1,554

35 Other reserves (continued)

	The Group			The Bank		
	2019 £m	2018 £m	2017 £m	**2019 £m**	2018 £m	2017 £m
Foreign currency translation reserve						
At 1 January	**(114)**	(207)	(180)	**(6)**	76	81
Currency translation differences arising in the year	**(2)**	(15)	(16)	**6**	2	2
Foreign currency losses on net investment hedges (tax: £nil)	**–**	–	(11)	**–**	–	(7)
Transfers to income statement	**–**	108	–	**–**	(84)	–
At 31 December	**(116)**	(114)	(207)	**–**	(6)	76

36 Retained profits

	The Group			The Bank		
	2019 £m	2018 £m	2017 £m	**2019 £m**	2018 £m	2017 £m
At 31 December 2017		37,718			53,145	
Adjustment on adoption of IFRS 9 and IFRS 15		(969)			(302)	
At 1 January	**27,924**	36,749	36,231	**45,340**	52,843	50,390
Profit for the year (see below for the Bank)[1]	**2,193**	4,785	4,213	**2,157**	6,430	5,353
Capital transactions with parent						
Dividends paid (note 38)	**(4,100)**	(11,022)	(2,650)	**(4,100)**	(11,022)	(2,650)
Capital repayments	**–**	(2,975)	–	**–**	(2,975)	–
Capital contributions received	**229**	265	432	**229**	265	432
Return of capital contributions	**(5)**	(9)	(77)	**(5)**	(9)	(77)
	(3,876)	(13,741)	(2,295)	**(3,876)**	(13,741)	(2,295)
Distributions on other equity instruments[1]	**(281)**	(275)	(273)	**(281)**	(275)	(273)
Realised gains and losses on equity shares held at fair value through other comprehensive income	**12**	(111)		**12**	(144)	
Redemption of preference shares (note 34)	**–**	–	(600)		–	(600)
Post-retirement defined benefit scheme remeasurements	**(1,117)**	120	482	**(576)**	(162)	332
Share of other comprehensive income of associates and joint ventures	**–**	8	–	**–**	–	–
Gains and losses attributable to own credit risk (net of tax)[2]	**(306)**	389	(40)	**(306)**	389	(40)
Adjustment on vesting of businesses	**–**	–	–	**–**	–	278
At 31 December	**24,549**	27,924	37,718	**42,470**	45,340	53,145

1 Restated, see note 1.

2 During 2017 the Group and the Bank derecognised, on redemption, financial liabilities on which cumulative fair value movements relating to own credit of £3 million, net of tax, had been recognised directly in retained profits (2018 and 2019: £nil).

36 Retained profits (continued)

The profit after tax of the Bank was arrived at as follows:

	2019 £m	2018[1] £m	2017[1] £m
Net interest income	**5,684**	6,129	5,829
Net fee and commission income	**743**	839	969
Net trading income	**(121)**	456	(51)
Dividends received	**1,331**	4,848	4,378
Other operating income	**2,290**	1,933	2,346
Other income	**4,243**	8,076	7,642
Total income	**9,927**	14,205	13,471
Regulatory provisions	**(1,307)**	(628)	(1,123)
Other operating expenses	**(5,337)**	(5,864)	(6,078)
Total operating expenses	**(6,644)**	(6,492)	(7,201)
Trading surplus	**3,283**	7,713	6,270
Impairment	**(503)**	(504)	(462)
Profit before tax	**2,780**	7,209	5,808
Tax expense	**(623)**	(779)	(455)
Profit for the year	**2,157**	6,430	5,353

1 Restated, see note 1.

37 Other equity instruments

	The Group and Bank		
	2019 £m	2018 £m	2017 £m
At 1 January	**3,217**	3,217	3,217
Issued in the year:			
£500 million Fixed Rate Reset Additional Tier 1 Perpetual Subordinated Permanent Write-Down Securities	**496**	–	–
US$1,500 million Fixed Rate Reset Additional Tier 1 Perpetual Subordinated Permanent Write-Down Securities	**1,152**	–	–
	1,648	–	–
At 31 December	**4,865**	3,217	3,217

The Bank has in issue £4,865 million of Sterling, Dollar and Euro Additional Tier 1 (AT1) securities to Lloyds Banking Group plc. The AT1 securities are fixed rate resetting or floating rate Perpetual Subordinated Permanent Write-Down Securities with no fixed maturity or redemption date.

The principal terms of the AT1 securities are described below:

- The securities rank behind the claims against the Bank of unsubordinated creditors on a Winding-Up.
- The fixed rate reset securities bear a fixed rate of interest until the first call date. After the initial call date, in the event that they are not redeemed, the fixed rate reset AT1 securities will bear interest at rates fixed periodically in advance. The floating rate AT1 securities will be reset quarterly both prior to and following the first call date.
- Interest on the securities will be due and payable only at the sole discretion of the Bank and the Bank may at any time elect to cancel any Interest Payment (or any part thereof) which would otherwise be payable on any Interest Payment Date. There are also certain restrictions on the payment of interest as specified in the terms.
- The securities are undated and are repayable, at the option of the Bank, in whole at the first call date, or at any Interest Payment date thereafter. In addition, the AT1 securities are repayable, at the option of the Bank, in whole for certain regulatory or tax reasons. Any repayments require the prior consent of the Prudential Regulation Authority.
- The securities will be subject to a Permanent Write Down should the fully Loaded Common Equity Tier 1 ratio of the Bank fall below 7.0 per cent.

38 Dividends on ordinary shares

	2019 £m	2018 £m	2017 £m
Dividends paid in the year were as follows:			
Interim dividends	**4,100**	11,022	2,650

39 Share-based payments

During the year ended 31 December 2019 Lloyds Banking Group pic operated a number of share-based payment schemes for which employees of the Lloyds Bank Group were eligible and all of which are equity settled. Details of all schemes operated by Lloyds Banking Group are set out below; these are managed and operated on a Lloyds Banking Group-wide basis. The amount charged to the Group's income statement in respect of Lloyds Banking Group share-based payment schemes, and which is included within staff costs (note 9), was £337 million (2018: £417 million; 2017: £414 million) with a further £6 million in 2018 (2017: £23 million) included within discontinued operations (see note 13).

During the year ended 31 December 2019 the Lloyds Banking Group operated the following share-based payment schemes, all of which are equity settled.

Group Performance Share plan
The Group operates a Group Performance Share plan that is equity settled. Bonuses in respect of employee performance in 2019 have been recognised in the charge in line with the proportion of the deferral period completed.

Save-As-You-Earn schemes
Eligible employees may enter into contracts through the Save-As-You-Earn (SAYE) schemes to save up to £500 per month and, at the expiry of a fixed term of three years, have the option to use these savings within six months of the expiry of the fixed term to acquire shares in the Group at a discounted price of no less than 80 per cent of the market price at the start of the invitation.

Movements in the number of share options outstanding under the SAYE schemes are set out below:

	2019		2018	
	Number of options	Weighted average exercise price (pence)	Number of options	Weighted average exercise price (pence)
Outstanding at 1 January	**802,994,918**	**49.30**	860,867,088	51.34
Granted	**487,654,212**	**39.87**	188,866,162	47.92
Exercised	**(27,303,963)**	**51.23**	(135,721,404)	59.00
Forfeited	**(15,830,204)**	**48.69**	(22,909,999)	49.85
Cancelled	**(130,068,149)**	**49.03**	(78,073,042)	50.66
Expired	**(49,352,741)**	**58.74**	(10,033,887)	55.20
Outstanding at 31 December	**1,068,094,073**	**44.55**	802,994,918	49.30
Exercisable at 31 December	**227,139**	**60.70**	68,378	60.02

The weighted average share price at the time that the options were exercised during 2019 was £0.59 (2018: £0.67). The weighted average remaining contractual life of options outstanding at the end of the year was 2.22 years (2018: 2.16 years).

The weighted average fair value of SAYE options granted during 2019 was £0.10 (2018: £0.13). The fair values of the SAYE options have been determined using a standard Black-Scholes model.

Other share option plans

Lloyds Banking Group Executive Share Plan 2003
The Plan was adopted in December 2003 and under the Plan share options may be granted to senior employees. Options under this plan have been granted specifically to facilitate recruitment (to compensate new recruits for any lost share awards), and also to make grants to key individuals for retention purposes. In some instances, grants may be made subject to individual performance conditions.

Participants are not entitled to any dividends paid during the vesting period.

39 Share-based payments (continued)

	2019		2018	
	Number of options	Weighted average exercise price (pence)	Number of options	Weighted average exercise price (pence)
Outstanding at 1 January	**10,263,028**	**Nil**	14,523,989	Nil
Granted	**2,336,171**	**Nil**	3,914,599	Nil
Exercised	**(4,455,481)**	**Nil**	(6,854,043)	Nil
Vested	**(69,005)**	**Nil**	(148,109)	Nil
Forfeited	**(39,250)**	**Nil**	(662,985)	Nil
Lapsed	**(400,825)**	**Nil**	(510,423)	Nil
Outstanding at 31 December	**7,634,638**	**Nil**	10,263,028	Nil
Exercisable at 31 December	**2,683,267**	**Nil**	3,305,442	Nil

The weighted average fair value of options granted in the year was £0.59 (2018: £0.55). The fair values of options granted have been determined using a standard Black-Scholes model. The weighted average share price at the time that the options were exercised during 2019 was £0.60 (2018: £0.65). The weighted average remaining contractual life of options outstanding at the end of the year was 3.8 years (2018: 5.2 years).

Other share plans

Lloyds Banking Group Executive Share Ownership Plan

The plan, introduced in 2006, is aimed at delivering shareholder value by linking the receipt of shares to an improvement in the performance of the Group over a three year period. Awards are made within limits set by the rules of the plan, with the limits determining the maximum number of shares that can be awarded equating to three times annual salary. In exceptional circumstances this may increase to four times annual salary.

At the end of the performance period for the 2016 grant, the targets had not been fully met and therefore these awards vested in 2019 at a rate of 68.7 per cent.

	2019 Number of shares	2018 Number of shares
Outstanding at 1 January	**417,385,636**	370,804,915
Granted	**174,490,843**	160,586,201
Vested	**(88,318,950)**	(73,270,301)
Forfeited	**(55,029,439)**	(48,108,870)
Dividend award	**11,376,655**	7,373,691
Outstanding at 31 December	**459,904,745**	417,385,636

Awards in respect of the 2017 grant vested in 2020 at a rate of 49.7 per cent. For the 2017 grant, participants are entitled to any dividends paid during the vesting period. An amount equal in value to any dividends paid between the award date and the date the Remuneration Committee determine that the performance conditions were met, will be paid, based on the number of shares that vest. The Remuneration Committee can determine if any dividends are to be paid in cash or in shares. Details of the performance conditions for the plan are provided in the Directors' remuneration report.

The weighted average fair value of awards granted in the year was £0.45 (2018: £0.48).

CFO Buyout

William Chalmers joined the Group on 3 June 2019 and was appointed as Chief Financial Officer on 1 August 2019 on the retirement of George Culmer. He was granted deferred share awards over 4,086,632 shares, to replace unvested awards from his former employer, Morgan Stanley, that were forfeited as a result of him joining the Group.

	2019 Number of shares
Outstanding at 1 January	–
Granted	**4,086,632**
Exercised	**(818,172)**
Outstanding at 31 December	**3,268,460**

The weighted average fair value of awards granted in the year was £0.55.

The fair value calculations at 31 December 2019 for grants made in the year, using Black-Scholes models and Monte Carlo simulation, are based on the following assumptions:

	Save-As-You-Earn	Executive Share Plan 2003	LTIP	CFO Buyout
Weighted average risk-free interest rate	**0.36%**	**0.62%**	**0.83%**	**0.64%**
Weighted average expected life	**3.2 years**	**1.3 years**	**3.7 years**	**1.4 years**
Weighted average expected volatility	**20%**	**23%**	**27%**	**19%**
Weighted average expected dividend yield	**4.0%**	**4.0%**	**4.0%**	**4.0%**
Weighted average share price	**£0.53**	**£0.62**	**£0.63**	**£0.58**
Weighted average exercise price	**£0.40**	**Nil**	**Nil**	**Nil**

39 Share-based payments (continued)

Expected volatility is a measure of the amount by which the Group's shares are expected to fluctuate during the life of an option. The expected volatility is estimated based on the historical volatility of the closing daily share price over the most recent period that is commensurate with the expected life of the option. The historical volatility is compared to the implied volatility generated from market traded options in the Group's shares to assess the reasonableness of the historical volatility and adjustments made where appropriate.

Share Incentive Plan

Free Shares
An award of shares may be made annually to employees up to a maximum of £3,600. The shares awarded are held in trust for a mandatory period of three years on the employee's behalf, during which period the employee is entitled to any dividends paid on such shares. The award is subject to a non-market based condition. If an employee leaves the Group within this three year period for other than a 'good' reason, all of the shares awarded will be forfeited.

On 9 May 2019, the Group made an award of £200 (2018: £200) of shares to all eligible employees. The number of shares awarded was 22,422,337 (2018: 21,513,300), with an average fair value of £0.62 (2018: £0.67) based on the market price at the date of award.

Matching shares
The Group undertakes to match shares purchased by employees up to the value of £45 per month; these matching shares are held in trust for a mandatory period of three years on the employee's behalf, during which period the employee is entitled to any dividends paid on such shares. The award is subject to a non-market based condition: if an employee leaves within this three year period for other than a 'good' reason, all of the matching shares are forfeited. Similarly if the employees sell their purchased shares within three years, their matching shares are forfeited.

The number of shares awarded relating to matching shares in 2019 was 37,346,812 (2018: 34,174,161), with an average fair value of £0.56 (2018: £0.63), based on market prices at the date of award.

Fixed share awards
Fixed share awards were introduced in 2014 in order to ensure that total fixed remuneration is commensurate with role and to provide a competitive reward package for certain Lloyds Banking Group employees, with an appropriate balance of fixed and variable remuneration, in line with regulatory requirements. The fixed share awards are delivered in Lloyds Banking Group shares, released over five years with 20 per cent being released each year following the year of award. The number of shares purchased in 2019 was 8,239,332 (2018: 8,965,562).

The fixed share award is not subject to any performance conditions, performance adjustment or clawback. On an employee leaving the Group, there is no change to the timeline for which shares will become unrestricted.

40 Related party transactions

Key management personnel
Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of an entity; the Group's key management personnel are the members of the Lloyds Banking Group plc Group Executive Committee together with its Non-Executive Directors.

The table below details, on an aggregated basis, key management personnel compensation:

	2019 £m	2018 £m	2017 £m
Compensation			
Salaries and other short-term benefits	**14**	13	13
Post-employment benefits	**–**	–	–
Share-based payments	**14**	17	22
Total compensation	**28**	30	35

The aggregate of the emoluments of the directors was £11.7 million (2018: £12.2 million; 2017: £14.0 million).

Aggregate company contributions in respect of key management personnel to defined contribution pension schemes were £nil (2018: £nil; 2017: £0.05 million).

40 Related party transactions (continued)

The total for the highest paid director (António Horta-Osório) was £4,078,000 (2018: (António Horta-Osório): £5,472,000; 2017: (António Horta-Osório) £6,469,000); this did not include any gain on exercise of Lloyds Banking Group plc shares in any year.

	2019 million	2018 million	2017 million
Share options over Lloyds Banking Group plc shares			
At 1 January	**–**	1	3
Granted, including certain adjustments (includes entitlements of appointed key management personnel)	**–**	–	–
Exercised/lapsed (includes entitlements of former key management personnel)	**–**	(1)	(2)
At 31 December	**–**	–	1

	2019 million	2018 million	2017 million
Share plans settled in Lloyds Banking Group plc shares			
At 1 January	**84**	82	65
Granted, including certain adjustments (includes entitlements of appointed key management personnel)	**46**	39	37
Exercised/lapsed (includes entitlements of former key management personnel)	**(29)**	(37)	(20)
At 31 December	**101**	84	82

The tables below detail, on an aggregated basis, balances outstanding at the year end and related income and expense, together with information relating to other transactions between the Group and its key management personnel:

	2019 million	2018 million	2017 million
Loans			
At 1 January	**2**	2	4
Advanced (includes loans of appointed key management personnel)	**1**	1	1
Repayments (includes loans of former key management personnel)	**(1)**	(1)	(3)
At 31 December	**2**	2	2

The loans are on both a secured and unsecured basis and are expected to be settled in cash. The loans attracted interest rates of between 6.45 per cent and 24.20 per cent in 2019 (2018: 6.70 per cent and 24.20 per cent; 2017: 6.45 per cent and 23.95 per cent).

No provisions have been recognised in respect of loans given to key management personnel (2018 and 2017: £nil).

	2019 million	2018 million	2017 million
Deposits			
At 1 January	**20**	20	12
Placed (includes deposits of appointed key management personnel)	**44**	33	41
Withdrawn (includes deposits of former key management personnel)	**(41)**	(33)	(33)
At 31 December	**23**	20	20

Deposits placed by key management personnel attracted interest rates of up to 3.0 per cent (2018: 3.5 per cent; 2017: 4.0 per cent).

At 31 December 2019, the Group did not provide any guarantees in respect of key management personnel (2018 and 2017: none).

At 31 December 2019, transactions, arrangements and agreements entered into by the Group and its banking subsidiaries with directors and connected persons included amounts outstanding in respect of loans and credit card transactions of £0.6 million with five directors and two connected persons (2018: £0.5 million with three directors and three connected persons; 2017: £0.01 million with three directors and two connected persons).

Balances and transactions with fellow Lloyds Banking Group undertakings

Balances and transactions between members of the Lloyds Bank Group

In accordance with IFRS10 *Consolidated financial statements*, transactions and balances between the Bank and its subsidiary undertakings, and between those subsidiary undertakings, have all been eliminated on consolidation and thus are not reported as related party transactions of the Group.

40 Related party transactions (continued)

The Bank, as a result of its position as parent of a banking group, has a large number of transactions with various of its subsidiary undertakings; these are included on the balance sheet of the Bank as follows:

	2019 £m	2018 £m
Assets, included within:		
Derivative financial instruments	**8,546**	7,385
Financial assets at fair value through profit or loss	**–**	8
Financial assets at amortised cost: due from fellow Lloyds Banking Group undertakings	**200,696**	152,592
	209,242	159,985
Liabilities, included within:		
Due to fellow Lloyds Banking Group undertakings	**105,075**	71,696
Financial liabilities at fair value through profit or loss	**43**	142
Derivative financial instruments	**7,102**	6,335
Debt securities in issue	**–**	124
Subordinated liabilities	**–**	58
	112,220	78,355

Due to the size and volume of transactions passing through these accounts, it is neither practical nor meaningful to disclose information on gross inflows and outflows. During 2019 the Bank earned interest income on the above asset balances of £2,491 million (2018: £2,305 million; 2017: £2,002 million . Adjusted to align with balance sheet presentation.) and incurred interest expense on the above liability balances of £655 million (2018: £545 million; 2017: £649 million . Adjusted to align with balance sheet presentation.).

In addition, the Bank raised recharges of £1,461 million (2018: £1,315 million; 2017: £1,287 million) on its subsidiaries in respect of costs incurred and also received fees of £62 million (2018: £146 million; 2017: £147 million), and paid fees of £57 million (2018: £151 million; 2017: £116 million), for various services provided between the Bank and its subsidiaries.

Details of contingent liabilities and commitments entered into on behalf of fellow Lloyds Banking Group undertakings are given in note 41.

Balances and transactions with Lloyds Banking Group plc and fellow subsidiaries of the Bank
The Bank and its subsidiaries have balances due to and from the Bank's parent company, Lloyds Banking Group plc and fellow subsidiaries of the Bank. These are included on the balance sheet as follows:

	The Group		The Bank	
	2019 £m	2018 £m	2019 £m	2018 £m
Assets, included within:				
Financial assets at amortised cost: due from fellow Lloyds Banking Group undertakings	**1,854**	1,878	**1,581**	993
Financial assets at fair value through profit or loss	**–**	1,062	**–**	1,062
Derivative financial instruments	**591**	2,589	**591**	2,558
	2,445	5,529	**2,172**	4,613
Liabilities, included within:				
Due to fellow Lloyds Banking Group undertakings	**4,893**	19,663	**4,696**	16,687
Financial liabilities at fair value through profit or loss	**1**	137	**1**	137
Derivative financial instruments	**1,986**	2,693	**1,547**	2,184
Debt securities in issue	**11,181**	193	**11,136**	7
Subordinated liabilities	**3,663**	2,985	**3,641**	2,900
	21,724	25,671	**21,021**	21,915

These balances include Lloyds Banking Group plc's banking arrangements and, due to the size and volume of transactions passing through these accounts, it is neither practical nor meaningful to disclose information on gross inflows and outflows. During 2019 the Group earned £20 million and the Bank earned £20 million interest income on the above asset balances (2018: Group £166 million, Bank £142 million; 2017: Group £62 million, Bank £20 million); the Group incurred £520 million and the Bank incurred £509 million interest expense on the above liability balances (2018: Group £370 million, Bank £334 million; 2017: Group £255 million, Bank £207 million).

During the year ended 31 December 2019 the Bank realised a profit of £107 million on the sale of certain wealth management businesses to a fellow Lloyds Banking Group subsidiary and also incurred a charge of £70 million in relation to an onerous contract for the ongoing servicing of the wealth management business transferred.

Other related party transactions
Pension funds
The Group provides banking services to certain of its pension funds. At 31 December 2019, customer deposits of £169 million (2018: £225 million) related to the Group's pension funds.

40 Related party transactions (continued)

Joint ventures and associates
At 31 December 2019 there were loans and advances to customers of £75 million (2018: £57 million) outstanding and balances within customer deposits of £5 million (2018: £2 million) relating to joint ventures and associates.

41 Contingent liabilities, commitments and guarantees

Interchange fees
With respect to multi-lateral interchange fees (MIFs), the Lloyds Banking Group is not involved in the ongoing litigation (as described below) which involves card schemes such as Visa and Mastercard. However, the Lloyds Bank Group is a member/licensee of Visa and Mastercard and other card schemes. The litigation in question is as follows:

– litigation brought by retailers against both Visa and Mastercard continues in the English Courts (and includes appeals heard by the Supreme Court, judgment awaited); and
– litigation brought on behalf of UK consumers in the English Courts against Mastercard.

Any impact on the Lloyds Bank Group of the litigation against Visa and Mastercard remains uncertain at this time. Insofar as Visa is required to pay damages to retailers for interchange fees set prior to June 2016, contractual arrangements to allocate liability have been agreed between various UK banks (including the Lloyds Banking Group) and Visa Inc, as part of Visa Inc's acquisition of Visa Europe in 2016. These arrangements cap the maximum amount of liability to which the Lloyds Banking Group may be subject, and this cap is set at the cash consideration received by the Lloyds Banking Group for the sale of its stake in Visa Europe to Visa Inc in 2016.

LIBOR and other trading rates
In July 2014, the Lloyds Banking Group announced that it had reached settlements totalling £217 million (at 30 June 2014 exchange rates) to resolve with UK and US federal authorities legacy issues regarding the manipulation several years ago of Lloyds Banking Group companies' submissions to the British Bankers' Association (BBA) London Interbank Offered Rate (LIBOR) and Sterling Repo Rate. The Swiss Competition Commission concluded its investigation against Lloyds Bank plc in June 2019. The Lloyds Banking Group continues to cooperate with various other government and regulatory authorities, including a number of US State Attorneys General, in conjunction with their investigations into submissions made by panel members to the bodies that set LIBOR and various other interbank offered rates.

Certain Lloyds Banking Group companies, together with other panel banks, have also been named as defendants in private lawsuits, including purported class action suits, in the US in connection with their roles as panel banks contributing to the setting of US Dollar, Japanese Yen and Sterling LIBOR and the Australian BBSW Reference Rate. Certain of the plaintiffs' claims have been dismissed by the US Federal Court for Southern District of New York (subject to appeals).

Certain Lloyds Banking Group companies are also named as defendants in (i) UK based claims; and (ii) two Dutch class actions, raising LIBOR manipulation allegations. A number of the claims against the Lloyds Banking Group in relation to the alleged mis-sale of interest rate hedging products also include allegations of LIBOR manipulation.

It is currently not possible to predict the scope and ultimate outcome on the Lloyds Banking Group of the various outstanding regulatory investigations not encompassed by the settlements, any private lawsuits or any related challenges to the interpretation or validity of any of the Lloyds Banking Group's contractual arrangements, including their timing and scale.

Tax authorities
The Lloyds Banking Group has an open matter in relation to a claim for group relief of losses incurred in its former Irish banking subsidiary, which ceased trading on 31 December 2010. In 2013 HMRC informed the Lloyds Banking Group that their interpretation of the UK rules which allow the offset of such losses denies the claim for group relief of losses. If HMRC's position is found to be correct, management estimate that this would result in an increase in current tax liabilities of approximately £700 million (including interest) and a reduction in deferred tax assets of approximately £250 million. The Lloyds Banking Group does not agree with HMRC's position and, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due. There are a number of other open matters on which the Lloyds Bank Group is in discussion with HMRC (including the tax treatment of certain costs arising from the divestment of TSB Banking Group plc), none of which is expected to have a material impact on the financial position of the Lloyds Bank Group.

Mortgage arrears handling activities – FCA investigation
On 26 May 2016, the Lloyds Banking Group was informed that an enforcement team at the FCA had commenced an investigation in connection with the Lloyds Banking Group's mortgage arrears handling activities. It is not currently possible to make a reliable assessment of any liability resulting from the investigation including any financial penalty.

Other legal actions and regulatory matters
In addition, during the ordinary course of business the Lloyds Bank Group is subject to other complaints and threatened or actual legal proceedings (including class or group action claims) brought by or on behalf of current or former employees, customers, investors or other third parties, as well as legal and regulatory reviews, challenges, investigations and enforcement actions, both in the UK and overseas. All such material matters are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of the Lloyds Bank Group incurring a liability. In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established to management's best estimate of the amount required at the relevant balance sheet date. In some cases it will not be possible to form a view, for example because the facts are unclear or because further time is needed properly to assess the merits of the case, and no provisions are held in relation to such matters. In these circumstances, specific disclosure in relation to a contingent liability will be made where material. However the Lloyds Bank Group does not currently expect the final outcome of any such case to have a material adverse effect on its financial position, operations or cash flows.

41 Contingent liabilities and commitments (continued)

Contingent liabilities, commitments and guarantees arising from the banking business

	The Group		The Bank	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Contingent liabilities				
Acceptances and endorsements	**17**	32	**16**	31
Other:				
Other items serving as direct credit substitutes	**279**	485	**259**	449
Performance bonds and other transaction-related contingencies	**2,274**	2,270	**2,014**	2,012
	2,553	2,755	**2,273**	2,461
Total contingent liabilities	**2,570**	2,787	**2,289**	2,492

	The Bank	
	2019 £m	2018 £m
Incurred on behalf of fellow Lloyds Banking Group undertakings	**1**	–

The contingent liabilities of the Group and the Bank arise in the normal course of banking business and it is not practicable to quantify their future financial effect.

	The Group		The Bank	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Commitments and guarantees				
Documentary credits and other short-term trade-related transactions	**–**	1	**–**	–
Forward asset purchases and forward deposits placed	**171**	731	**157**	684
Undrawn formal standby facilities, credit lines and other commitments to lend:				
Less than 1 year original maturity:				
Mortgage offers made	**12,647**	11,573	**1,120**	1,514
Other commitments and guarantees	**78,306**	77,995	**29,608**	31,255
	90,953	89,568	**30,728**	32,769
1 year or over original maturity	**25,310**	28,214	**21,664**	24,444
Total commitments and guarantees	**116,434**	118,514	**52,549**	57,897

	The Bank	
	2019 £m	2018 £m
Incurred on behalf of fellow Lloyds Banking Group undertakings	**4,647**	5,452

Of the amounts shown above in respect of undrawn formal standby facilities, credit lines and other commitments to lend £46,629 million (2018: £48,455 million) for the Group and £27,672 million (2018: £30,420 million) for the Bank were irrevocable.

Capital commitments
Excluding commitments of the Group in respect of investment property (note 22), capital expenditure contracted but not provided for at 31 December 2019 amounted to £405 million (2018: £370 million) for the Group and £2 million (2018: £1 million) for the Bank. Of this amount for the Group, £400 million (2018: £369 million) relates to assets to be leased to customers under operating leases. The Group's management is confident that future net revenues and funding will be sufficient to cover these commitments.

42 Structured entities

The Group's interests in structured entities are consolidated. Details of the Group's interests in these structured entities are set out in note 27 for securitisations and covered bond vehicles, note 29 for structured entities associated with the Group's pension schemes, and below.

Asset-backed conduits
In addition to the structured entities discussed in note 27, which are used for securitisation and covered bond programmes, the Group sponsors an active asset-backed conduit, Cancara, which invests in client receivables and debt securities. The total consolidated exposure of Cancara at 31 December 2019 was £3,735 million (2018: £5,122 million), comprising £3,670 million of loans and advances (2018: £5,012 million) and £65 million of debt securities (2018: £110 million).

All lending assets and debt securities held by the Group in Cancara are restricted in use, as they are held by the collateral agent for the benefit of the commercial paper investors and the liquidity providers only. The Group provides liquidity facilities to Cancara under terms that are usual and customary for standard lending

42 Structured entities (continued)

activities in the normal course of the Group's banking activities. During 2019 there have continued to be planned drawdowns on certain liquidity facilities for balance sheet management purposes, supporting the programme to provide funding alongside the proceeds of the asset-backed commercial paper issuance. The Group could be asked to provide support under the contractual terms of these arrangements including, for example, if Cancara experienced a shortfall in external funding, which may occur in the event of market disruption.

The external assets in Cancara are consolidated in the Group's financial statements.

43 Financial instruments

(1) Measurement basis of financial assets and liabilities

The accounting policies in note 2 describe how different classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following tables analyse the carrying amounts of the financial assets and liabilities by category and by balance sheet heading.

		Mandatorily held at fair value through profit or loss					
The Group	**Derivatives designated as hedging instruments £m**	**Held for trading £m**	**Other £m**	**Designated at fair value through profit or loss £m**	**At fair value through other comprehensive income £m**	**Held at amortised cost £m**	**Total £m**
At 31 December 2019							
Financial assets							
Cash and balances at central banks	–	–	–	–	–	38,880	38,880
Items in the course of collection from banks	–	–	–	–	–	292	292
Financial assets at fair value through profit or loss	–	290	1,994	–	–	–	2,284
Derivative financial instruments	1,117	7,377	–	–	–	–	8,494
Loans and advances to banks	–	–	–	–	–	4,852	4,852
Loans and advances to customers	–	–	–	–	–	474,470	474,470
Debt securities	–	–	–	–	–	5,325	5,325
Due from fellow Lloyds Banking Group undertakings	–	–	–	–	–	1,854	1,854
Financial assets at amortised cost	–	–	–	–	–	486,501	486,501
Financial assets at fair value through other comprehensive income	–	–	–	–	24,617	–	24,617
Total financial assets	1,117	7,667	1,994	–	24,617	525,673	561,068
Financial liabilities							
Deposits from banks	–	–	–	–	–	23,593	23,593
Customer deposits	–	–	–	–	–	396,839	396,839
Due to fellow Lloyds Banking Group undertakings	–	–	–	–	–	4,893	4,893
Items in course of transmission to banks	–	–	–	–	–	354	354
Financial liabilities at fair value through profit or loss	–	171	–	7,531	–	–	7,702
Derivative financial instruments	1,029	8,802	–	–	–	–	9,831
Notes in circulation	–	–	–	–	–	1,079	1,079
Debt securities in issue	–	–	–	–	–	76,431	76,431
Other liabilities	–	–	–	–	–	1,755	1,755
Subordinated liabilities	–	–	–	–	–	12,586	12,586
Total financial liabilities	1,029	8,973	–	7,531	–	517,530	535,063

43 Financial instruments (continued)

The Group	Derivatives designated as hedging instruments £m	Mandatorily held at fair value through profit or loss: Held for trading £m	Mandatorily held at fair value through profit or loss: Other £m	Designated at fair value through profit or loss £m	At fair value through other comprehensive income £m	Held at amortised cost £m	Total £m
At 31 December 2018							
Financial assets							
Cash and balances at central banks	–	–	–	–	–	40,213	40,213
Items in the course of collection from banks	–	–	–	–	–	645	645
Financial assets at fair value through profit or loss	–	19,462	3,794	–	–	–	23,256
Derivative financial instruments	1,483	9,810	–	–	–	–	11,293
Loans and advances to banks	–	–	–	–	–	3,692	3,692
Loans and advances to customers	–	–	–	–	–	464,044	464,044
Debt securities	–	–	–	–	–	5,095	5,095
Due from fellow Lloyds Banking Group undertakings	–	–	–	–	–	1,878	1,878
Financial assets at amortised cost	–	–	–	–	–	474,709	474,709
Financial assets at fair value through other comprehensive income	–	–	–	–	24,368	–	24,368
Total financial assets	1,483	29,272	3,794	–	24,368	515,567	574,484
Financial liabilities							
Deposits from banks	–	–	–	–	–	26,263	26,263
Customer deposits	–	–	–	–	–	391,251	391,251
Due to fellow Lloyds Banking Group undertakings	–	–	–	–	–	19,663	19,663
Items in course of transmission to banks	–	–	–	–	–	615	615
Financial liabilities at fair value through profit or loss	–	10,543	–	7,187	–	–	17,730
Derivative financial instruments	1,107	9,804	–	–	–	–	10,911
Notes in circulation	–	–	–	–	–	1,104	1,104
Debt securities in issue	–	–	–	–	–	64,533	64,533
Subordinated liabilities	–	–	–	–	–	12,745	12,745
Total financial liabilities	1,107	20,347	–	7,187	–	516,174	544,815

43 Financial instruments (continued)

The Bank	Derivatives designated as hedging instruments £m	Mandatorily held at fair value through profit or loss: Held for trading £m	Mandatorily held at fair value through profit or loss: Other £m	Designated at fair value through profit or loss £m	At fair value through other comprehensive income £m	Held at amortised cost £m	Total £m
At 31 December 2019							
Financial assets							
Cash and balances at central banks	–	–	–	–	–	35,741	35,741
Items in the course of collection from banks	–	–	–	–	–	252	252
Financial assets at fair value through profit or loss	–	290	413	–	–	–	703
Derivative financial instruments	207	13,431	–	–	–	–	13,638
Loans and advances to banks	–	–	–	–	–	4,453	4,453
Loans and advances to customers	–	–	–	–	–	177,569	177,569
Debt securities	–	–	–	–	–	5,241	5,241
Due from fellow Lloyds Banking Group undertakings	–	–	–	–	–	202,277	202,277
Financial assets at amortised cost	–	–	–	–	–	389,540	389,540
Financial assets at fair value through other comprehensive income	–	–	–	–	22,160	–	22,160
Total financial assets	207	13,721	413	–	22,160	425,533	462,034
Financial liabilities							
Deposits from banks	–	–	–	–	–	7,122	7,122
Customer deposits	–	–	–	–	–	239,762	239,762
Due to fellow Lloyds Banking Group undertakings	–	–	–	–	–	109,771	109,771
Items in course of transmission to banks	–	–	–	–	–	198	198
Financial liabilities at fair value through profit or loss	–	213	–	7,484	–	–	7,697
Derivative financial instruments	267	13,944	–	–	–	–	14,211
Debt securities in issue	–	–	–	–	–	61,509	61,509
Other liabilities	–	–	–	–	–	975	975
Subordinated liabilities	–	–	–	–	–	9,909	9,909
Total financial liabilities	267	14,157	–	7,484	–	429,246	451,154

43 Financial instruments (continued)

The Bank	Derivatives designated as hedging instruments £m	Mandatorily held at fair value through profit or loss: Held for trading £m	Mandatorily held at fair value through profit or loss: Other £m	Designated at fair value through profit or loss £m	At fair value through other comprehensive income £m	Held at amortised cost £m	Total £m
At 31 December 2018							
Financial assets							
Cash and balances at central banks	–	–	–	–	–	37,632	37,632
Items in the course of collection from banks	–	–	–	–	–	464	464
Financial assets at fair value through profit or loss	–	19,420	1,423	–	–	–	20,843
Derivative financial instruments	432	14,999	–	–	–	–	15,431
Loans and advances to banks	–	–	–	–	–	3,153	3,153
Loans and advances to customers	–	–	–	–	–	172,315	172,315
Debt securities	–	–	–	–	–	4,960	4,960
Due from fellow Lloyds Banking Group undertakings	–	–	–	–	–	153,585	153,585
Financial assets at amortised cost	–	–	–	–	–	334,013	334,013
Financial assets at fair value through other comprehensive income	–	–	–	–	23,208	–	23,208
Total financial assets	432	34,419	1,423	–	23,208	372,109	431,591
Financial liabilities							
Deposits from banks	–	–	–	–	–	5,320	5,320
Customer deposits	–	–	–	–	–	229,402	229,402
Due to fellow Lloyds Banking Group undertakings	–	–	–	–	–	88,383	88,383
Items in course of transmission to banks	–	–	–	–	–	341	341
Financial liabilities at fair value through profit or loss	–	10,687	–	7,032	–	–	17,719
Derivative financial instruments	1,315	13,231	–	–	–	–	14,546
Debt securities in issue	–	–	–	–	–	49,787	49,787
Subordinated liabilities	–	–	–	–	–	9,528	9,528
Total financial liabilities	1,315	23,918	–	7,032	–	382,761	415,026

43 Financial instruments (continued)

(2) Fair value measurement

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 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 Group measures valuation adjustments for its derivative exposures on the same basis as the derivatives are managed.

The carrying amount of the following financial instruments is a reasonable approximation of fair value: cash and balances at central banks, items in the course of collection from banks, items in course of transmission to banks and notes in circulation.

Because a variety of estimation techniques are employed and significant estimates made, comparisons of fair values between financial institutions may not be meaningful. Readers of these financial statements are thus advised to use caution when using this data to evaluate the Group's financial position.

Fair value information is not provided for items that are not financial instruments or for other assets and liabilities which are not carried at fair value in the Group's consolidated balance sheet. These items include intangible assets, such as the value of the Group's branch network, the long-term relationships with depositors and credit card relationships; premises and equipment; and shareholders' equity. These items are material and accordingly the Group believes that the fair value information presented does not represent the underlying value of the Group.

Valuation control framework

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.

Valuation of financial assets and liabilities

Assets and liabilities carried at fair value or for which fair values are disclosed have been classified into three levels according to the quality and reliability of information used to determine the fair values.

Level 1

Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 predominantly comprise equity shares, treasury bills and other government securities.

Level 2

Level 2 valuations are those where quoted market prices are not available, for example where the instrument is traded in a market that is not considered to be active or valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data. Examples of such financial instruments include most over-the-counter derivatives, financial institution issued securities, certificates of deposit and certain asset-backed securities.

Level 3

Level 3 portfolios are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include the Group's venture capital and unlisted equity investments which are valued using various valuation techniques that require significant management judgement in determining appropriate assumptions, including earnings multiples and estimated future cash flows. Certain of the Group's asset-backed securities and derivatives, principally where there is no trading activity in such securities, are also classified as level 3.

Transfers out of the level 3 portfolio arise when inputs that could have a significant impact on the instrument's valuation become market observable after previously having been non-market observable. In the case of asset-backed securities this can arise if more than one consistent independent source of data becomes available. Conversely transfers into the portfolio arise when consistent sources of data cease to be available.

43 Financial instruments (continued)

(3) Financial assets and liabilities carried at fair value
(A) Financial assets, excluding derivatives
Valuation hierarchy
At 31 December 2019, the Group's financial assets carried at fair value, excluding derivatives, totalled £26,901 million (31 December 2018: £47,624 million). The table below analyses these financial assets by balance sheet classification, asset type and valuation methodology (level 1, 2 or 3, as described on page 125). The fair value measurement approach is recurring in nature. There were no significant transfers between level 1 and 2 during the year.

Valuation hierarchy

The Group	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 31 December 2019				
Financial assets at fair value through profit or loss				
Loans and advances to customers	–	–	1,782	1,782
Debt securities:				
Government securities	290	–	–	290
Corporate and other debt securities	–	–	47	47
	290	–	47	337
Equity shares	161	4	–	165
Total financial assets at fair value through profit or loss	451	4	1,829	2,284
Financial assets at fair value through other comprehensive income				
Debt securities:				
Government securities	12,844	238	–	13,082
Asset-backed securities	–	–	60	60
Corporate and other debt securities	–	11,036	–	11,036
	12,844	11,274	60	24,178
Treasury and other bills	439	–	–	439
Total financial assets at fair value through other comprehensive income	13,283	11,274	60	24,617
Total financial assets carried at fair value, excluding derivatives	13,734	11,278	1,889	26,901

Notes to the accounts

43 Financial instruments (continued)

The Group	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 31 December 2018				
Financial assets at fair value through profit or loss				
Loans and advances to customers	–	17,290	2,721	20,011
Loans and advances to banks	–	236	–	236
Debt securities:				
Government securities	2,293	–	–	2,293
Asset-backed securities	–	20	–	20
Corporate and other debt securities	–	540	–	540
	2,293	560	–	2,853
Equity shares	150	6	–	156
Total financial assets at fair value through profit or loss	2,443	18,092	2,721	23,256
Financial assets at fair value through other comprehensive income				
Debt securities:				
Government securities	18,847	124	–	18,971
Asset-backed securities	–	4	53	57
Corporate and other debt securities	–	5,119	–	5,119
	18,847	5,247	53	24,147
Treasury and other bills	221	–	–	221
Total financial assets at fair value through other comprehensive income	19,068	5,247	53	24,368
Total financial assets carried at fair value, excluding derivatives	21,511	23,339	2,774	47,624

43 Financial instruments (continued)

Valuation hierarchy

The Bank	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
At 31 December 2019				
Financial assets at fair value through profit or loss				
Loans and advances to customers	–	–	362	362
Debt securities:				
Government securities	290	–	–	290
Corporate and other debt securities	–	–	47	47
	290	–	47	337
Equity shares	–	4	–	4
Total financial assets at fair value through profit or loss	290	4	409	703
Financial assets at fair value through other comprehensive income				
Debt securities:				
Government securities	12,700	238	–	12,938
Corporate and other debt securities	–	8,783	–	8,783
	12,700	9,021	–	21,721
Treasury and other bills	439	–	–	439
Total financial assets at fair value through other comprehensive income	13,139	9,021	–	22,160
Total financial assets carried at fair value, excluding derivatives	13,429	9,025	409	22,863

43 Financial instruments (continued)

Valuation hierarchy

The Bank	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 31 December 2018				
Financial assets at fair value through profit or loss				
Loans and advances to customers	–	16,900	890	17,790
Loans and advances to banks	–	236	–	236
Debt securities:				
Government securities	2,293	–	–	2,293
Corporate and other debt securities	–	518	–	518
	2,293	518	–	2,811
Equity shares	–	6	–	6
Total financial assets at fair value through profit or loss	2,293	17,660	890	20,843
Financial assets at fair value through other comprehensive income				
Debt securities:				
Government securities	18,707	124	–	18,831
Asset-backed securities	–	5	–	5
Corporate and other debt securities	–	4,151	–	4,151
	18,707	4,280	–	22,987
Treasury and other bills	221	–	–	221
Total financial assets at fair value through comprehensive income	18,928	4,280	–	23,208
Total financial assets carried at fair value, excluding derivatives	21,221	21,940	890	44,051

43 Financial instruments (continued)

Movements in level 3 portfolio

The table below analyses movements in level 3 financial assets, excluding derivatives, carried at fair value (recurring measurement):

The Group – Continuing operations	2019 Financial assets at fair value through profit or loss £m	2019 Financial assets at fair value through other comprehensive income £m	2019 Total level 3 assets carried at fair value, excluding derivatives (recurring basis) £m	2018 Financial assets at fair value through profit or loss £m	2018 Financial assets at fair value through other comprehensive income £m	2018 Total level 3 assets carried at fair value, excluding derivatives (recurring basis) £m
At 1 January	**2,721**	**53**	**2,774**	3,328	302	3,630
Exchange and other adjustments	**(74)**	**(3)**	**(77)**	82	(2)	80
Gains recognised in the income statement within other income	**4**	**–**	**4**	72	–	72
(Losses) gains recognised in other comprehensive income within the revaluation reserve in respect of financial assets at fair value through other comprehensive income	**–**	**11**	**11**	–	(5)	(5)
Purchases	**686**	**–**	**686**	1,002	2	1,004
Sales	**(1,956)**	**(1)**	**(1,957)**	(2,060)	(305)	(2,365)
Transfers into the level 3 portfolio	**448**	**–**	**448**	297	345	642
Transfers out of the level 3 portfolio	**–**	**–**	**–**	–	(284)	(284)
At 31 December	**1,829**	**60**	**1,889**	2,721	53	2,774
Gains recognised in the income statement, within other income, relating to the change in fair value of those assets held at 31 December	**(76)**	**–**	**(76)**	–	–	–

The Group – Discontinued operations	Trading and other financial assets at fair value through profit or loss 2018 £m
At 1 January	8,501
Exchange and other adjustments	(17)
Gains recognised in the income statement within other income	27
Purchases	97
Sales	(270)
Transfers into the level 3 portfolio	230
Transfers out of the level 3 portfolio	(168)
Disposal of business	(8,400)
At 31 December	–

43 Financial instruments (continued)

The Bank	2019 Financial assets at fair value through profit or loss £m	2019 Financial assets at fair value through other comprehensive income £m	2019 Total level 3 assets carried at fair value, excluding derivatives (recurring basis) £m	2018 Financial assets at fair value through profit or loss £m	2018 Financial assets at fair value through other comprehensive income £m	2018 Total level 3 assets carried at fair value, excluding derivatives (recurring basis) £m
At 1 January	**890**	**–**	**890**	1,659	202	1,861
Exchange and other adjustments	**(28)**	**–**	**(28)**	79	–	79
Gains recognised in the income statement within other income	**–**	**–**	**–**	67	–	67
(Losses) gains recognised in other comprehensive income within the revaluation reserve in respect of financial assets at fair value through other comprehensive income	**–**	**–**	**–**	–	1	1
Purchases	**101**	**–**	**101**	247	–	247
Sales	**(603)**	**–**	**(603)**	(1,355)	(9)	(1,364)
Transfers into the level 3 portfolio	**49**	**–**	**49**	193	–	193
Transfers out of the level 3 portfolio	**–**	**–**	**–**	–	(194)	(194)
At 31 December	**409**	**–**	**409**	890	–	890
Gains recognised in the income statement, within other income, relating to the change in fair value of those assets held at 31 December	**(28)**	**–**	**(28)**	–	–	–

Valuation methodology for financial assets, excluding derivatives

Loans and advances to customers and banks

The fair value of these assets is determined using discounted cash flow techniques. The discount rates are derived from market observable interest rates, a risk margin that reflects loan credit ratings and an incremental illiquidity premium based on historical spreads at origination on similar loans.

Debt securities

Debt securities measured at fair value and classified as level 2 are valued by discounting expected cash flows using an observable credit spread applicable to the particular instrument.

Where there is limited trading activity in debt securities, the Group uses valuation models, consensus pricing information from third party pricing services and broker or lead manager quotes to determine an appropriate valuation. Debt securities are classified as level 3 if there is a significant valuation input that cannot be corroborated through market sources or where there are materially inconsistent values for an input. Asset classes classified as level 3 mainly comprise certain collateralised loan obligations and collateralised debt obligations.

Equity investments

Unlisted equity and fund investments are valued using different techniques in accordance with the Group's valuation policy and International Private Equity and Venture Capital Guidelines.

Depending on the business sector and the circumstances of the investment, unlisted equity valuations are based on earnings multiples, net asset values or discounted cash flows.

– A number of earnings multiples are used in valuing the portfolio including price earnings, earnings before interest and tax and earnings before interest, tax, depreciation and amortisation. The particular multiple selected being appropriate for the type of business being valued and is derived by reference to the current market-based multiple. Consideration is given to the risk attributes, growth prospects and financial gearing of comparable businesses when selecting an appropriate multiple.
– Discounted cash flow valuations use estimated future cash flows, usually based on management forecasts, with the application of appropriate exit yields or terminal multiples and discounted using rates appropriate to the specific investment, business sector or recent economic rates of return. Recent transactions involving the sale of similar businesses may sometimes be used as a frame of reference in deriving an appropriate multiple.
– For fund investments the most recent capital account value calculated by the fund manager is used as the basis for the valuation and adjusted, if necessary, to align valuation techniques with the Group's valuation policy.

Unlisted equity investments and investments in property partnerships held in the life assurance funds are valued using third party valuations. Management take account of any pertinent information, such as recent transactions and information received on particular investments, to adjust the third party valuations where necessary.

43 Financial instruments (continued)

(B) Financial liabilities, excluding derivatives

Valuation hierarchy

At 31 December 2019, the Group's financial liabilities carried at fair value, excluding derivatives, comprised its financial liabilities at fair value through profit or loss and totalled £7,702 million (31 December 2018: £17,730 million). The table below analyses these financial liabilities by balance sheet classification and valuation methodology (level 1, 2 or 3, as described on page 125). The fair value measurement approach is recurring in nature. There were no significant transfers between level 1 and 2 during the year.

The Group	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
At 31 December 2019				
Financial liabilities at fair value through profit or loss	**–**	**7,484**	**47**	**7,531**
Liabilities designated at fair value through profit or loss				
Trading liabilities:				
Deposits	**–**	**98**	**–**	**98**
Short positions in securities	**73**	**–**	**–**	**73**
	73	**98**	**–**	**171**
Total financial liabilities carried at fair value, excluding derivatives	**73**	**7,582**	**47**	**7,702**

The Group	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 31 December 2018				
Financial liabilities at fair value through profit or loss				
Liabilities designated at fair value through profit or loss	–	7,085	–	7,085
Trading liabilities:				
Liabilities in respect of securities sold under repurchase agreements	–	10,258	–	10,258
Other deposits	–	270	–	270
Short positions in securities	67	50	–	117
	67	10,578	–	10,645
Total financial liabilities carried at fair value, excluding derivatives	67	17,663	–	17,730

43 Financial instruments (continued)

The Bank	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
At 31 December 2019				
Financial liabilities at fair value through profit or loss	**–**	**7,484**	**–**	**7,484**
Liabilities designated at fair value through profit or loss				
Trading liabilities:				
Deposits	**–**	**140**	**–**	**140**
Short positions in securities	**73**	**–**	**–**	**73**
	73	**140**	**–**	**213**
Total financial liabilities carried at fair value, excluding derivatives	**73**	**7,624**	**–**	**7,697**

The Bank	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 31 December 2018				
Financial liabilities at fair value through profit or loss				
Liabilities designated at fair value through profit or loss	–	7,032	–	7,032
Trading liabilities:				
Liabilities in respect of securities sold under repurchase agreements	–	10,258	–	10,258
Other deposits	–	362	–	362
Short positions in securities	67	–	–	67
	67	10,620	–	10,687
Total financial liabilities carried at fair value, excluding derivatives	67	17,652	–	17,719

The table below analyses movements in level 3 financial liabilities excluding derivatives.

The Group	**2019 £m**	2018 £m
At 1 January	**–**	–
Losses recognised in the income statement within other income	**1**	–
Redemptions	**(5)**	–
Transfers into the level 3 portfolio	**51**	–
Transfers out of the level 3 portfolio	**–**	–
At 31 December	**47**	–
Losses recognised in the income statement, within other income, relating to the change in fair value of those liabilities held at 31 December	**–**	–

43 Financial instruments (continued)

Valuation methodology for financial liabilities, excluding derivatives

Liabilities held at fair value through profit or loss

These principally comprise debt securities in issue which are classified as level 2 and their fair value is determined using techniques whose inputs are based on observable market data. The carrying amount of the securities is adjusted to reflect the effect of changes in own credit spreads and the resulting gain or loss is recognised in other comprehensive income.

At 31 December 2019, the own credit adjustment arising from the fair valuation of £7,531 million (2018: £7,085 million) of the Group's debt securities in issue designated at fair value through profit or loss resulted in a loss of £419 million, recognised in other comprehensive income (2018: gain of £533 million), before tax, recognised in other comprehensive income.

Trading liabilities in respect of securities sold under repurchase agreements

The fair value of these liabilities is determined using discounted cash flow techniques. The discount rates are derived from observable repo curves specific to the type of security sold under the repurchase agreement.

(C) Derivatives

All of the Group's derivative assets and liabilities are carried at fair value. At 31 December 2019, such assets totalled £8,494 million for the Group and £13,638 million for the Bank (31 December 2018: £11,293 million for the Group and £15,431 million for the Bank) and liabilities totalled £9,831 million for the Group and £14,211 million for the Bank (31 December 2018: £10,911 million for the Group and £14,546 million for the Bank). The table below analyses these derivative balances by valuation methodology (level 1, 2 or 3, as described on page 125). The fair value measurement approach is recurring in nature. There were no significant transfers between level 1 and level 2 during the year.

	2019				2018			
The Group	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Derivative assets	**–**	**8,494**	**–**	**8,494**	–	11,288	5	11,293
Derivative liabilities	**–**	**(9,534)**	**(297)**	**(9,831)**	–	(10,903)	(8)	(10,911)

	2019				2018			
The Bank	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Derivative assets	**–**	**13,638**	**–**	**13,638**	–	15,426	5	15,431
Derivative liabilities	**–**	**(14,211)**	**–**	**(14,211)**	–	(14,538)	(8)	(14,546)

Where the Group's derivative assets and liabilities are not traded on an exchange, they are valued using valuation techniques, including discounted cash flow and options pricing models, as appropriate. The types of derivatives classified as level 2 and the valuation techniques used include:

- Interest rate swaps which are valued using discounted cash flow models; the most significant inputs into those models are interest rate yield curves which are developed from publicly quoted rates.
- Foreign exchange derivatives that do not contain options which are priced using rates available from publicly quoted sources.
- Credit derivatives which are valued using standard models with observable inputs, except for the items classified as level 3, which are valued using publicly available yield and credit default swap (CDS) curves.
- Less complex interest rate and foreign exchange option products which are valued using volatility surfaces developed from publicly available interest rate cap, interest rate swaption and other option volatilities; option volatility skew information is derived from a market standard consensus pricing service. For more complex option products, the Group calibrates its models using observable at-the-money data; where necessary, the Group adjusts for out-of-the-money positions using a market standard consensus pricing service.

Complex interest rate and foreign exchange products where there is significant dispersion of consensus pricing or where implied funding costs are material and unobservable are classified as level 3.

Where credit protection, usually in the form of credit default swaps, has been purchased or written on asset-backed securities, the security is referred to as a negative basis asset-backed security and the resulting derivative assets or liabilities have been classified as either level 2 or level 3 according to the classification of the underlying asset-backed security.

Certain unobservable inputs used to calculate CVA, FVA, and own credit adjustments, are not significant in determining the classification of the derivative and debt instruments. Consequently, these inputs do not form part of the Level 3 sensitivities presented.

43 Financial instruments (continued)

The table below analyses movements in level 3 derivative assets and liabilities carried at fair value.

	2019		2018	
The Group	**Derivative assets £m**	**Derivative liabilities £m**	Derivative assets £m	Derivative liabilities £m
At 1 January	**5**	**(8)**	1,056	(804)
Exchange and other adjustments	**–**	**–**	7	(5)
(Losses) gains recognised in the income statement within other income	**–**	**–**	(84)	49
(Sales) redemptions	**–**	**47**	(974)	752
Transfers into the level 3 portfolio	**–**	**(344)**	–	–
Transfers out of the level 3 portfolio	**(5)**	**8**	–	–
At 31 December	**–**	**(297)**	5	(8)
(Losses) gains recognised in the income statement, within other income, relating to the change in fair value of those assets or liabilities held at 31 December	**–**	**–**	(424)	82

	2019		2018	
The Bank	**Derivative assets £m**	**Derivative liabilities £m**	Derivative assets £m	Derivative liabilities £m
At 1 January	**5**	**(8)**	636	(750)
Exchange and other adjustments	**–**	**–**	3	(4)
(Losses) gains recognised in the income statement within other income	**–**	**–**	(70)	43
(Sales) redemptions	**–**	**–**	(564)	703
Transfers out of the level 3 portfolio	**(5)**	**8**	–	–
At 31 December	**–**	**–**	5	(8)
(Losses) gains recognised in the income statement, within other income, relating to the change in fair value of those assets or liabilities held at 31 December	**–**	**–**	(402)	57

Derivative valuation adjustments

Derivative financial instruments which are carried in the balance sheet at fair value are adjusted where appropriate to reflect credit risk, market liquidity and other risks.

(i) Uncollateralised derivative valuation adjustments, excluding monoline counterparties

The following table summarises the movement on this valuation adjustment account for the Group during 2018 and 2019.

	2019 £m	2018 £m
At 1 January	**272**	521
Income statement (credit) charge	**(56)**	(243)
Transfers	**(2)**	(6)
At 31 December	**214**	272

Represented by:

	2019 £m	2018 £m
Credit Valuation Adjustment	**141**	192
Debit Valuation Adjustment	**(5)**	(16)
Funding Valuation Adjustment	**78**	96
	214	272

Credit and Debit Valuation Adjustments (CVA and DVA) are applied to the Group's over-the-counter derivative exposures with counterparties that are not subject to standard interbank collateral arrangements. These exposures largely relate to the provision of risk management solutions for corporate customers within the Commercial Banking division.

A CVA is taken where the Group has a positive future uncollateralised exposure (asset). A DVA is taken where the Group has a negative future uncollateralised exposure (liability). These adjustments reflect interest rates and expectations of counterparty creditworthiness and the Group's own credit spread respectively.

43 Financial instruments (continued)

The CVA is sensitive to:

- the current size of the mark-to-market position on the uncollateralised asset;
- expectations of future market volatility of the underlying asset; and
- expectations of counterparty creditworthiness.

In circumstances where exposures to a counterparty become impaired, any associated derivative valuation adjustment is transferred and assessed for specific loss alongside other non-derivative assets and liabilities that the counterparty may have with the Group.

Market Credit Default Swap (CDS) spreads are used to develop the probability of default for quoted counterparties. For unquoted counterparties, internal credit ratings and market sector CDS curves and recovery rates are used. The Loss Given Default (LGD) is based on market recovery rates and internal credit assessments.

The combination of a one notch deterioration in the credit rating of derivative counterparties and a ten per cent increase in LGD increases the CVA by £32 million. Current market value is used to estimate the projected exposure for products not supported by the model, which are principally complex interest rate options that are traded in very low volumes. For these, the CVA is calculated on an add-on basis (although no such adjustment was required at 31 December 2019).

The DVA is sensitive to:

- the current size of the mark-to-market position on the uncollateralised liability;
- expectations of future market volatility of the underlying liability; and
- the Group's own CDS spread.

A one per cent rise in the CDS spread would lead to an increase in the DVA of £14 million to £19 million.

The risk exposures that are used for the CVA and DVA calculations are strongly influenced by interest rates. Due to the nature of the Group's business the CVA/DVA exposures tend to be on average the same way around such that the valuation adjustments fall when interest rates rise. A one per cent rise in interest rates would lead to a £52 million fall in the overall valuation adjustment to £84 million. The CVA model used by the Group does not assume any correlation between the level of interest rates and default rates.

The Group has also recognised a Funding Valuation Adjustment to adjust for the net cost of funding uncollateralised derivative positions. This adjustment is calculated on the expected future exposure discounted at a suitable cost of funds. A ten basis points increase in the cost of funds will increase the funding valuation adjustment by approximately £11 million.

(ii) Market liquidity
The Group includes mid to bid-offer valuation adjustments against the expected cost of closing out the net market risk in the Group's trading positions within a timeframe that is consistent with historical trading activity and spreads that the trading desks have accessed historically during the ordinary course of business in normal market conditions.

At 31 December 2019, the Group's derivative trading business held mid to bid-offer valuation adjustments of £20 million (2018: £21 million).

43 Financial instruments (continued)

(D) Sensitivity of level 3 valuations

			At 31 December 2019			At 31 December 2018		
				Effect of reasonably possible alternative assumptions[2]			Effect of reasonably possible alternative assumptions	
	Valuation basis/technique	Significant unobservable inputs[1]	Carrying value £m	Favourable changes £m	Unfavourable changes £m	Carrying value £m	Favourable changes £m	Unfavourable changes £m
Financial assets at fair value through profit or loss:								
Loans and advances to customers	Discounted cash flows	Interest rate spreads (bps) (50 bps/102 bps)	**1,782**	**36**	**(39)**	2,721	35	(35)
Debt securities	Discounted cash flows	Credit spreads (+/- 3%)	**47**	**–**	**–**	–	–	–
			1,829			2,721		
Financial assets at fair value through other comprehensive income								
Asset-backed securities	Lead manager or broker quote/consensus pricing	n/a	**60**	**4**	**(4)**	53	–	(1)
			60			53		
Derivative financial assets								
Interest rate derivatives	Option pricing model	n/a	**–**	**–**	**–**	5	–	–
			–			5		
Level 3 financial assets carried at fair value			**1,889**			2,779		
Financial liabilities at fair value through profit or loss	Discounted cash flows	Interest rate spreads (+/- 50bps)	**47**	**1**	**(1)**	–	–	–
Derivative financial liabilities								
Interest rate derivatives	Market values – property valuation	HPI (+/- 5%)	**297**	**17**	**(17)**	8	–	–
			297			8		
Level 3 financial liabilities carried at fair value			**344**			8		

1 Ranges are shown where appropriate and represent the highest and lowest inputs used in the level 3 valuations.

2 Where the exposure to an unobservable input is managed on a net basis, only the net impact is shown in the table.

43 Financial instruments (continued)

Unobservable inputs

Significant unobservable inputs affecting the valuation of debt securities, unlisted equity investments and derivatives are as follows:

- Interest rates and inflation rates are referenced in some derivatives where the payoff that the holder of the derivative receives depends on the behaviour of those underlying references through time.
- Credit spreads represent the premium above the benchmark reference instrument required to compensate for lower credit quality; higher spreads lead to a lower fair value.
- Volatility parameters represent key attributes of option behaviour; higher volatilities typically denote a wider range of possible outcomes.
- Earnings multiples are used to value certain unlisted equity investments; a higher earnings multiple will result in a higher fair value.

Reasonably possible alternative assumptions

Valuation techniques applied to many of the Group's level 3 instruments often involve the use of two or more inputs whose relationship is interdependent. The calculation of the effect of reasonably possible alternative assumptions included in the table above reflects such relationships.

Debt securities

Reasonably possible alternative assumptions have been determined in respect of the Group's structured credit investment by flexing credit spreads.

Derivatives

Reasonably possible alternative assumptions have been determined in respect of swaptions in the Group's derivative portfolios which are priced using industry standard option pricing models. Such models require interest rate volatilities which may be unobservable at longer maturities. To derive reasonably possible alternative valuations these volatilities have been flexed within a range.

Unlisted equity, venture capital investments and investments in property partnerships

The valuation techniques used for unlisted equity and venture capital investments vary depending on the nature of the investment. Reasonably possible alternative valuations for these investments have been calculated by reference to the approach taken, as appropriate to the business sector and investment circumstances and as such the following inputs have been considered:

- for valuations derived from earnings multiples, consideration is given to the risk attributes, growth prospects and financial gearing of comparable businesses when selecting an appropriate multiple;
- the discount rates used in discounted cash flow valuations; and
- in line with International Private Equity and Venture Capital Guidelines, the values of underlying investments in fund investments portfolios.

43 Financial instruments (continued)

(4) Financial assets and liabilities carried at amortised cost
(A) Financial assets

Valuation hierarchy
The table below analyses the fair values of the financial assets of the Group which are carried at amortised cost by valuation methodology (level 1, 2 or 3, as described on page 125). Financial assets carried at amortised cost are mainly classified as level 3 due to significant unobservable inputs used in the valuation models. Where inputs are observable, debt securities are classified as level 1 or 2.

			Valuation hierarchy		
The Group	**Carrying value £m**	**Fair value £m**	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**
At 31 December 2019					
Loans and advances to customers	**474,470**	**475,128**	**–**	**51,624**	**423,504**
Loans and advances to banks	**4,852**	**4,849**	**–**	**408**	**4,441**
Debt securities	**5,325**	**5,317**	**–**	**5,317**	**–**
Due from fellow Lloyds Banking Group undertakings	**1,854**	**1,854**	**–**	**–**	**1,854**
Reverse repos included in above amounts:					
Loans and advances to customers	**51,624**	**51,624**	**–**	**51,624**	**–**
Loans and advances to banks	**408**	**408**	**–**	**408**	**–**
At 31 December 2018					
Loans and advances to customers	464,044	463,796	–	35,879	427,917
Loans and advances to banks	3,692	3,655	–	461	3,194
Debt securities	5,095	5,107	–	5,107	–
Due from fellow Lloyds Banking Group undertakings	1,878	1,878	–	–	1,878
Reverse repos included in above amounts:					
Loans and advances to customers	35,879	35,879	–	35,879	–
Loans and advances to banks	461	461	–	461	–

43 Financial instruments (continued)

The Bank	Carrying value £m	Fair value £m	Valuation hierarchy Level 1 £m	Level 2 £m	Level 3 £m
At 31 December 2019					
Loans and advances to customers	**177,569**	**175,200**	**–**	**51,624**	**123,576**
Loans and advances to banks	**4,453**	**4,450**	**–**	**408**	**4,042**
Debt securities	**5,241**	**5,242**	**–**	**5,242**	**–**
Due from fellow Lloyds Banking Group undertakings	**202,277**	**202,277**	**–**	**–**	**202,277**
Reverse repos included in above amounts:					
Loans and advances to customers	**51,624**	**51,624**	**–**	**51,624**	**–**
Loans and advances to banks	**408**	**408**	**–**	**408**	**–**
At 31 December 2018					
Loans and advances to customers	172,315	169,819	–	35,879	133,940
Loans and advances to banks	3,153	3,153	–	461	2,692
Debt securities	4,960	4,980	–	4,980	–
Due from fellow Lloyds Banking Group undertakings	153,585	153,585	–	–	153,585
Reverse repos included in above amounts:					
Loans and advances to customers	35,879	35,879	–	35,879	–
Loans and advances to banks	461	461	–	461	–

Valuation methodology

Loans and advances to customers

The Group provides loans and advances to commercial, corporate and personal customers at both fixed and variable rates. Due to their short-term nature, the carrying value of the variable rate loans and those relating to lease financing is assumed to be their fair value.

To determine the fair value of loans and advances to customers, loans are segregated into portfolios of similar characteristics. A number of techniques are used to estimate the fair value of fixed rate lending; these take account of expected credit losses based on historic trends, prevailing market interest rates and expected future cash flows. For retail exposures, fair value is usually estimated by discounting anticipated cash flows (including interest at contractual rates) at market rates for similar loans offered by the Group and other financial institutions. Certain loans secured on residential properties are made at a fixed rate for a limited period, typically two to five years, after which the loans revert to the relevant variable rate. The fair value of such loans is estimated by reference to the market rates for similar loans of maturity equal to the remaining fixed interest rate period. The fair value of commercial loans is estimated by discounting anticipated cash flows at a rate which reflects the effects of interest rate changes, adjusted for changes in credit risk.

Loans and advances to banks

The carrying value of short dated loans and advances to banks is assumed to be their fair value. The fair value of loans and advances to banks is estimated by discounting the anticipated cash flows at a market discount rate adjusted for the credit spread of the obligor or, where not observable, the credit spread of borrowers of similar credit quality.

Debt securities

The fair values of debt securities are determined predominantly from lead manager quotes and, where these are not available, by alternative techniques including reference to credit spreads on similar assets with the same obligor, market standard consensus pricing services, broker quotes and other research data.

Reverse repurchase agreements

The carrying amount is deemed a reasonable approximation of fair value given the short-term nature of these instruments.

43 Financial instruments (continued)

(B) Financial liabilities

Valuation hierarchy
The table below analyses the fair values of the financial liabilities of the Group which are carried at amortised cost by valuation methodology (level 1, 2 or 3, as described on page 125).

			Valuation hierarchy		
The Group	**Carrying value £m**	**Fair value £m**	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**
At 31 December 2019					
Deposits from banks	**23,593**	**23,497**	**–**	**23,497**	**–**
Customer deposits	**396,839**	**397,222**	**–**	**391,987**	**5,235**
Due to fellow Lloyds Banking Group undertakings	**4,893**	**4,893**	**–**	**4,893**	**–**
Debt securities in issue	**76,431**	**78,632**	**–**	**78,632**	**–**
Subordinated liabilities	**12,586**	**14,542**	**–**	**14,542**	**–**
Repos included in above amounts:					
Deposits from banks	**18,105**	**18,105**	**–**	**18,105**	**–**
Customer deposits	**9,530**	**9,530**	**–**	**9,530**	**–**
Due to fellow Lloyds Banking Group undertakings	**–**	**–**	**–**	**–**	**–**
At 31 December 2018					
Deposits from banks	26,263	26,245	–	26,245	–
Customer deposits	391,251	391,524	–	385,357	6,167
Due to fellow Lloyds Banking Group undertakings	19,663	19,663	–	19,663	–
Debt securities in issue	64,533	66,379	–	66,379	–
Subordinated liabilities	12,745	14,460	–	14,460	–
Repos included in above amounts:					
Deposits from banks	21,170	21,170	–	21,170	–
Customer deposits	1,818	1,818	–	1,818	–
Due to fellow Lloyds Banking Group undertakings	2,801	2,801	–	2,801	–

43 Financial instruments (continued)

The Bank	Carrying value £m	Fair value £m	Valuation hierarchy Level 1 £m	Level 2 £m	Level 3 £m
At 31 December 2019					
Deposits from banks	**7,122**	**7,025**	**–**	**7,025**	**–**
Customer deposits	**239,762**	**239,952**	**–**	**239,952**	**–**
Due to fellow Lloyds Banking Group undertakings	**109,771**	**109,771**	**–**	**109,771**	**–**
Debt securities in issue	**61,509**	**63,483**	**–**	**63,483**	**–**
Subordinated liabilities	**9,909**	**10,974**	**–**	**10,974**	**–**
Repos included in above amounts:					
Deposits from banks	**2,645**	**2,645**	**–**	**2,645**	**–**
Customer deposits	**9,530**	**9,530**	**–**	**9,530**	**–**
Due to fellow Lloyds Banking Group undertakings	**–**	**–**	**–**	**–**	**–**
At 31 December 2018					
Deposits from banks	5,320	5,300	–	5,300	–
Customer deposits	229,402	229,593	–	229,593	–
Due to fellow Lloyds Banking Group undertakings	88,383	88,383	–	88,383	–
Debt securities in issue	49,787	51,501	–	51,501	–
Subordinated liabilities	9,528	10,558	–	10,558	–
Repos included in above amounts:					
Deposits from banks	1,193	1,193	–	1,193	–
Customer deposits	1,818	1,818	–	1,818	–
Due to fellow Lloyds Banking Group undertakings	2,801	2,801	–	2,801	–

Valuation methodology

Deposits from banks and customer deposits

The fair value of bank and customer deposits repayable on demand is assumed to be equal to their carrying value.

The fair value for all other deposits is estimated using discounted cash flows applying either market rates, where applicable, or current rates for deposits of similar remaining maturities.

Debt securities in issue

The fair value of short-term debt securities in issue is approximately equal to their carrying value. Fair value for other debt securities is calculated based on quoted market prices where available. Where quoted market prices are not available, fair value is estimated using discounted cash flow techniques at a rate which reflects market rates of interest and the Group's own credit spread.

Subordinated liabilities

The fair value of subordinated liabilities is determined by reference to quoted market prices where available or by reference to quoted market prices of similar instruments. Subordinated liabilities are classified as level 2, since the inputs used to determine their fair value are largely observable.

Repurchase agreements

The carrying amount is deemed a reasonable approximation of fair value given the short-term nature of these instruments.

(5) Reclassifications of financial assets

Other than the reclassifications on adoption of IFRS 9 on 1 January 2018, there have been no reclassifications of financial assets in 2018 or 2019.

44 Transfers of financial assets

There were no significant transferred financial assets which were derecognised in their entirety, but with ongoing exposure. Details of transferred financial assets that continue to be recognised in full are as follows.

The Group and the Bank enter into repurchase and securities lending transactions in the normal course of business that do not result in derecognition of the financial assets covered as substantially all of the risks and rewards, including credit, interest rate, prepayment and other price risks are retained by the Group. In all cases, the transferee has the right to sell or repledge the assets concerned.

As set out in note 27, included within financial assets measured at amortised cost are loans transferred under the Group's securitisation and covered bond programmes. As the Group retains all of a majority of the risks and rewards associated with these loans, including credit, interest rate, prepayment and liquidity risk, they remain on the Group's balance sheet. Assets transferred into the Group's securitisation and covered bond programmes are not available to be used by the Group whilst the assets are within the programmes. However, the Group retains the right to remove loans from the covered bond programmes where they are in excess of the programme's requirements. In addition, where the Group has retained some of the notes issued by securitisation and covered bond programmes, the Group has the ability to sell or pledge these retained notes.

The table below sets out the carrying values of the transferred assets and the associated liabilities. For repurchase and securities lending transactions, the associated liabilities represent the Group's obligation to repurchase the transferred assets. For securitisation programmes, the associated liabilities represent the external notes in issue (note 27). Except as otherwise noted below, none of the liabilities shown in the table below have recourse only to the transferred assets.

	The Group		**The Bank**	
	Carrying value of transferred assets £m	**Carrying value of associated liabilities £m**	**Carrying value of transferred assets £m**	**Carrying value of associated liabilities £m**
At 31 December 2019				
Repurchase and securities lending transactions				
Financial assets at fair value through profit or loss	**3,123**	**2,668**	**655**	**21**
Financial assets at fair value through other comprehensive income	**5,436**	**4,560**	**7,552**	**6,065**
Securitisation programmes				
Financial assets at amortised cost:				
Loans and advances to customers[1,2]	**42,545**	**7,376**	**6,433**	**–**

	The Group		The Bank	
	Carrying value of transferred assets £m	Carrying value of associated liabilities £m	Carrying value of transferred assets £m	Carrying value of associated liabilities £m
At 31 December 2018				
Repurchase and securities lending transactions				
Financial assets at fair value through profit or loss	997	269	989	269
Available-for-sale financial assets	5,691	4,645	5,397	4,645
Securitisation programmes				
Financial assets at amortised cost:				
Loans and advances to customers[1,2]	41,674	5,533	11,760	–

1 The carrying value of associated liabilities for the Group excludes securitisation notes held by the Group of £31,396 million (31 December 2018: £31,647 million).

2 The carrying value of transferred assets for the Bank includes amounts relating to assets transferred to structured entities which are fully consolidated into the Group. The liabilities associated with such assets are issued by the structured entities.

45 Offsetting of financial assets and liabilities

The following information relates to financial assets and liabilities which have been offset in the balance sheet and those which have not been offset but for which the Group has enforceable master netting agreements or collateral arrangements in place with counterparties.

				Related amounts where set off in the balance sheet not permitted[3]		
At 31 December 2019	Gross amounts of assets and liabilities[1] £m	Amounts offset in the balance sheet[2] £m	Net amounts presented in the balance sheet £m	Cash collateral received/ pledged £m	Non-cash collateral received/ pledged £m	Potential net amounts if offset of related amounts permitted £m
Financial assets						
Financial assets at fair value through profit or loss:						
Excluding reverse repos	2,284	–	2,284	–	(21)	2,263
Reverse repos	–	–	–	–	–	–
	2,284	–	2,284	–	(21)	2,263
Derivative financial instruments	61,860	(53,366)	8,494	(2,186)	(4,177)	2,131
Loans and advances to banks:						
Excluding reverse repos	4,444	–	4,444	(1,288)	(2,792)	364
Reverse repos	408	–	408	–	(408)	–
	4,852	–	4,852	(1,288)	(3,200)	364
Loans and advances to customers:						
Excluding reverse repos	422,846	–	422,846	(879)	–	421,967
Reverse repos	56,089	(4,465)	51,624	–	(51,624)	–
	478,935	(4,465)	474,470	(879)	(51,624)	421,967
Debt securities	5,325	–	5,325	–	(211)	5,114
Financial assets at fair value through other comprehensive income	24,617	–	24,617	–	(5,948)	18,669
Financial liabilities						
Deposits from banks:						
Excluding repos	5,488	–	5,488	(1,684)	–	3,804
Repos	18,105	–	18,105	–	(18,105)	–
	23,593	–	23,593	(1,684)	(18,105)	3,804
Customer deposits:						
Excluding repos	389,178	(1,869)	387,309	(501)	(2,792)	384,016
Repos	9,530	–	9,530	–	(9,530)	–
	398,708	(1,869)	396,839	(501)	(12,322)	384,016
Financial liabilities at fair value through profit or loss:						
Excluding repos	7,702	–	7,702	–	–	7,702
Repos	4,465	(4,465)	–	–	–	–
	12,167	(4,465)	7,702	–	–	7,702
Derivative financial instruments	61,328	(51,497)	9,831	(2,168)	(5,020)	2,643

45 Offsetting of financial assets and liabilities (continued)

At 31 December 2018	Gross amounts of assets and liabilities[1] £m	Amounts offset in the balance sheet[2] £m	Net amounts presented in the balance sheet £m	Related amounts where set off in the balance sheet not permitted[3] Cash collateral received/ pledged £m	Non-cash collateral received/ pledged £m	Potential net amounts if offset of related amounts permitted £m
Financial assets						
Financial assets at fair value through profit or loss:						
Excluding reverse repos	6,129	–	6,129	–	(274)	5,855
Reverse repos	17,890	(763)	17,127	–	(17,127)	–
	24,019	(763)	23,256	–	(17,401)	5,855
Derivative financial instruments	52,981	(41,688)	11,293	(1,693)	(4,837)	4,763
Loans and advances to banks:						
Excluding reverse repos	3,231	–	3,231	(1,496)	–	1,735
Reverse repos	461	–	461	–	(461)	–
	3,692	–	3,692	(1,496)	(461)	1,735
Loans and advances to customers:						
Excluding reverse repos	428,165	–	428,165	(863)	(3,241)	424,061
Reverse repos	37,890	(2,011)	35,879	–	(35,879)	–
	466,055	(2,011)	464,044	(863)	(39,120)	424,061
Debt securities	5,095	–	5,095	–	–	5,095
Financial assets at fair value through other comprehensive income	24,368	–	24,368	–	(4,666)	19,702
Financial liabilities						
Deposits from banks:						
Excluding repos	5,093	–	5,093	(1,400)	–	3,693
Repos	21,170	–	21,170	–	(21,170)	–
	26,263	–	26,263	(1,400)	(21,170)	3,693
Customer deposits:						
Excluding repos	390,724	(1,291)	389,433	(293)	(3,241)	385,899
Repos	1,818	–	1,818	–	(1,818)	–
	392,542	(1,291)	391,251	(293)	(5,059)	385,899
Financial liabilities at fair value through profit or loss:						
Excluding repos	7,473	–	7,473	–	–	7,473
Repos	13,030	(2,773)	10,257	–	(10,257)	–
	20,503	(2,773)	17,730	–	(10,257)	7,473
Derivative financial instruments	51,309	(40,398)	10,911	(2,359)	(5,770)	2,782

1 After impairment allowance.

2 The amounts set off in the balance sheet as shown above represent derivatives and repurchase agreements with central clearing houses which meet the criteria for offsetting under IAS 32.

3 The Group enters into derivatives and repurchase and reverse repurchase agreements with various counterparties which are governed by industry standard master netting agreements. The Group holds and provides cash and securities collateral in respective of derivative transactions covered by these agreements. The right to set off balances under these master netting agreements or to set off cash and securities collateral only arises in the event of non-payment or default and, as a result, these arrangements do not qualify for offsetting under IAS 32.

The effects of over-collateralisation have not been taken into account in the above table.

46 Financial risk management

Financial instruments are fundamental to the Group's activities and, as a consequence, the risks associated with financial instruments represent a significant component of the risks faced by the Group.

Disclosures in this note exclude the Group's discontinued operations.

The primary risks affecting the Group through its use of financial instruments are: credit risk; market risk, which includes interest rate risk, currency risk and liquidity risk. Information about the Group's management of these risks is given below.

(1) Credit risk

The Group's credit risk exposure arises in respect of the instruments below and predominantly in the United Kingdom. Credit risk appetite is set at Board level and is described and reported through a suite of metrics devised from a combination of accounting and credit portfolio performance measures, which include the use of various credit risk rating systems as inputs and measure the credit risk of loans and advances to customers and banks at a counterparty level using three components: (i) the probability of default by the counterparty on its contractual obligations; (ii) the current exposures to the counterparty and their likely future development, from which the Group derives the exposure at default; and (iii) the likely loss ratio on the defaulted obligations, the loss given default. The Group uses a range of approaches to mitigate credit risk, including internal control policies, obtaining collateral, using master netting agreements and other credit risk transfers, such as asset sales and credit derivative based transactions.

A. Maximum credit exposure

The maximum credit risk exposure of the Group and the Bank in the event of other parties failing to perform their obligations is detailed below. No account is taken of any collateral held and the maximum exposure to loss, which includes amounts held to cover unit-linked and With-Profit funds liabilities, is considered to be the balance sheet carrying amount or, for non-derivative off-balance sheet transactions and financial guarantees, their contractual nominal amounts.

	2019			2018		
The Group	**Maximum exposure £m**	**Offset[2] £m**	**Net exposure £m**	Maximum exposure £m	Offset[2] £m	Net exposure £m
Loans and advances to banks, net[1]	**4,852**	**–**	**4,852**	3,692	–	3,692
Loans and advances to customers, net[1]	**474,470**	**(2,792)**	**471,678**	464,044	(3,241)	460,803
Debt securities, net[1]	**5,325**	**–**	**5,325**	5,095	–	5,095
Financial assets as amortised cost	**484,647**	**(2,792)**	**481,855**	472,831	(3,241)	469,590
Financial assets at fair value through other comprehensive income[3]	**24,617**	**–**	**24,617**	24,368	–	24,368
Financial assets at fair value through profit or loss[3]:						
Loans and advances	**1,782**	**–**	**1,782**	20,247	–	20,247
Debt securities, treasury and other bills	**337**	**–**	**337**	2,853	–	2,853
	2,119	**–**	**2,119**	23,100	–	23,100
Derivative assets	**8,494**	**(4,177)**	**4,317**	11,293	(4,524)	6,769
Off-balance sheet items:						
Acceptances and endorsements	**17**	**–**	**17**	32	–	32
Other items serving as direct credit substitutes	**279**	**–**	**279**	485	–	485
Performance bonds and other transaction-related contingencies	**2,274**	**–**	**2,274**	2,270	–	2,270
Irrevocable commitments and guarantees	**46,629**	**–**	**46,629**	48,455	–	48,455
	49,199	**–**	**49,199**	51,242	–	51,242
	569,076	**(6,969)**	**562,107**	582,834	(7,765)	575,069

46 Financial risk management (continued)

The Bank	2019 Maximum exposure £m	2019 Offset[2] £m	2019 Net exposure £m	2018 Maximum exposure £m	2018 Offset[2] £m	2018 Net exposure £m
Loans and advances to banks, net[1]	**4,453**	**–**	**4,453**	3,153	–	3,153
Loans and advances to customers, net[1]	**177,569**	**(2,123)**	**175,446**	172,315	(2,399)	169,916
Debt securities, net[1]	**5,241**	**–**	**5,241**	4,960	–	4,960
Financial assets at amortised cost	**187,263**	**(2,123)**	**185,140**	180,428	(2,399)	178,029
Financial assets at fair value through other comprehensive income[3]	**22,160**	**–**	**22,160**	23,208	–	23,208
Financial assets at fair value through profit or loss[3]						
Loans and advances	**362**	**–**	**362**	18,026	–	18,026
Debt securities, treasury and other bills	**337**	**–**	**337**	2,811	–	2,811
	699	**–**	**699**	20,837	–	20,837
Derivative assets	**13,638**	**(3,312)**	**10,326**	15,431	(3,406)	12,025
Off-balance sheet items:						
Acceptances and endorsements	**16**	**–**	**16**	31	–	31
Other items serving as direct credit substitutes	**259**	**–**	**259**	449	–	449
Performance bonds and other transaction-related contingencies	**2,014**	**–**	**2,014**	2,012	–	2,012
Irrevocable commitments and guarantees	**27,672**	**–**	**27,672**	30,420	–	30,420
	29,961	**–**	**29,961**	32,912	–	32,912
	253,721	**(5,435)**	**248,286**	272,816	(5,805)	267,011

1 Amounts shown net of related impairment allowances.

2 Offset items comprise deposit amounts available for offset, and amounts available for offset under master netting arrangements, that do not meet the criteria under IAS 32 to enable loans and advances and derivative assets respectively to be presented net of these balances in the financial statements.

3 Excluding equity shares.

46 Financial risk management (continued)

B. Concentrations of exposure

The Group's management of concentration risk includes single name, industry sector and country limits as well as controls over the Group's overall exposure to certain products.

At 31 December 2019 the most significant concentrations of exposure were in mortgages (comprising 62 per cent of total loans and advances to customers) and to financial, business and other services (comprising 15 per cent of the total).

Loans and advances to customers

	The Group		The Bank	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Agriculture, forestry and fishing	**7,557**	7,308	**2,949**	3,020
Energy and water supply	**1,423**	1,356	**1,328**	1,243
Manufacturing	**4,869**	6,696	**3,811**	5,725
Construction	**4,190**	4,468	**3,255**	3,108
Transport, distribution and hotels	**12,657**	13,932	**8,350**	9,943
Postal and telecommunications	**1,679**	2,395	**1,130**	1,646
Property companies	**26,736**	27,207	**22,982**	23,087
Financial, business and other services	**73,087**	61,256	**68,461**	55,407
Personal:				
Mortgages[1]	**298,294**	296,790	**52,341**	55,022
Other	**29,165**	28,617	**10,060**	9,680
Lease financing	**1,536**	1,686	**93**	194
Hire purchase	**16,440**	15,353	**3,982**	5,774
Total loans and advances to customers before allowance for impairment losses	**477,633**	467,064	**178,742**	173,849
Allowance for impairment losses (note 18)	**(3,163)**	(3,020)	**(1,173)**	(1,534)
Total loans and advances to customers	**474,470**	464,044	**177,569**	172,315

1 Includes both UK and overseas mortgage balances.

Following the continuing reduction in the Group's non-UK activities, an analysis of credit risk exposures by geographical region has not been provided.

C. Credit quality of assets

Loans and advances

The analysis of lending has been prepared based on the division in which the asset is held; with the business segment in which the exposure is recorded reflected in the ratings system applied. The internal credit ratings systems used by the Group differ between Retail and Commercial, reflecting the characteristics of these exposures and the way that they are managed internally; these credit ratings are set out below. All probabilities of default (PDs) include forward-looking information and are based on 12 month values, with the exception of credit impaired.

46 Financial risk management (continued)

Stage 3 assets of the Group include balances of £205 million (2018: £250 million) (with outstanding amounts due of approximately £1,700 million (2018: £2,200 million)) which have been subject to a partial write-off and where the Group continues to enforce recovery action.

Stage 2 and Stage 3 assets of the Group with a carrying amount of £219 million (2018: £1,000 million) were modified during the year. No material gain or loss was recognised by the Group.

The Group – Gross drawn exposures	PD range	Stage 1 £m	Stage 2 £m	Stage 3 £m	Purchased or originated credit-impaired £m	Total £m
At 31 December 2019						
Loans and advances to banks:						
CMS 1-10	0.00-0.50%	4,852	–	–	–	4,852
CMS 11-14	0.51-3.00%	–	–	–	–	–
CMS 15-18	3.01-20.00%	–	–	–	–	–
CMS 19	20.01-99.99%	–	–	–	–	–
CMS 20-23	100%	–	–	–	–	–
		4,852	–	–	–	4,852
Loans and advances to customers:						
Retail - mortgages						
RMS 1-6	0.00-4.50%	257,028	13,494	–	–	270,522
RMS 7-9	4.51-14.00%	15	2,052	–	–	2,067
RMS 10	14.01-20.00%	–	414	–	–	414
RMS 11-13	20.01-99.99%	–	975	–	–	975
RMS 14	100%	–	–	1,506	13,714	15,220
		257,043	16,935	1,506	13,714	289,198
Retail - unsecured						
RMS 1-6	0.00-4.50%	22,151	1,098	–	–	23,249
RMS 7-9	4.51-14.00%	2,676	919	–	–	3,595
RMS 10	14.01-20.00%	76	189	–	–	265
RMS 11-13	20.01-99.99%	18	606	–	–	624
RMS 14	100%	–	–	678	–	678
		24,921	2,812	678	–	28,411
Retail - UK Motor Finance						
RMS 1-6	0.00-4.50%	13,568	1,297	–	–	14,865
RMS 7-9	4.51-14.00%	314	368	–	–	682
RMS 10	14.01-20.00%	–	99	–	–	99
RMS 11-13	20.01-99.99%	2	178	–	–	180
RMS 14	100%	–	–	150	–	150
		13,884	1,942	150	–	15,976
Retail - Other						
RMS 1-6	0.00-4.50%	9,520	390	–	–	9,910
RMS 7-9	4.51-14.00%	–	409	–	–	409
RMS 10	14.01-20.00%	–	7	–	–	7
RMS 11-13	20.01-99.99%	134	23	–	–	157
RMS 14	100%	–	–	150	–	150
		9,654	829	150	–	10,633
Total Retail		305,502	22,518	2,484	13,714	344,218

46 Financial risk management (continued)

The Group – Gross drawn exposures (continued)	PD range	Stage 1 £m	Stage 2 £m	Stage 3 £m	Purchased or originated credit-impaired £m	Total £m
At 31 December 2019						
Commercial						
CMS 1-10	0.00-0.50%	43,276	356	–	–	43,632
CMS 11-14	0.51-3.00%	25,410	2,316	–	–	27,726
CMS 15-18	3.01-20.00%	1,801	3,101	–	–	4,902
CMS 19	20.01-99.99%	–	168	–	–	168
CMS 20-23	100%	–	–	3,135	–	3,135
		70,487	5,941	3,135	–	79,563
Other						
RMS 1-6	0.00-4.50%	754	46	–	–	800
RMS 7-9	4.51-14.00%	–	–	–	–	–
RMS 10	14.01-20.00%	–	–	–	–	–
RMS 11-13	20.01-99.99%	–	–	–	–	–
RMS 14	100%	–	–	28	–	28
		754	46	28	–	828
CMS 1-10	0.00-0.50%	53,024	–	–	–	53,024
CMS 11-14	0.51-3.00%	–	–	–	–	–
CMS 15-18	3.01-20.00%	–	–	–	–	–
CMS 19	20.01-99.99%	–	–	–	–	–
CMS 20-23	100%	–	–	–	–	–
		53,024	–	–	–	53,024
Total loans and advances to customers		429,767	28,505	5,647	13,714	477,633

In respect of:					
Retail	305,502	22,518	2,484	13,714	344,218
Commercial	70,487	5,941	3,135	–	79,563
Other	53,778	46	28	–	53,852
Total loans and advances to customers	429,767	28,505	5,647	13,714	477,633

46 Financial risk management (continued)

The Group – Expected credit losses in respect of drawn exposures	PD range	Stage 1 £m	Stage 2 £m	Stage 3 £m	Purchased or originated credit-impaired £m	Total £m
At 31 December 2019						
Loans and advances to banks:						
CMS 1-10	0.00-0.50%	–	–	–	–	–
CMS 11-14	0.51-3.00%	–	–	–	–	–
CMS 15-18	3.01-20.00%	–	–	–	–	–
CMS 19	20.01-99.99%	–	–	–	–	–
CMS 20-23	100%	–	–	–	–	–
		–	–	–	–	–
Loans and advances to customers:						
Retail - mortgages						
RMS 1-6	0.00-4.50%	23	183	–	–	206
RMS 7-9	4.51-14.00%	–	39	–	–	39
RMS 10	14.01-20.00%	–	13	–	–	13
RMS 11-13	20.01-99.99%	–	46	–	–	46
RMS 14	100%	–	–	122	142	264
		23	281	122	142	568
Retail - unsecured						
RMS 1-6	0.00-4.50%	188	42	–	–	230
RMS 7-9	4.51-14.00%	103	92	–	–	195
RMS 10	14.01-20.00%	7	34	–	–	41
RMS 11-13	20.01-99.99%	3	193	–	–	196
RMS 14	100%	–	–	233	–	233
		301	361	233	–	895
Retail - UK Motor Finance						
RMS 1-6	0.00-4.50%	203	30	–	–	233
RMS 7-9	4.51-14.00%	10	15	–	–	25
RMS 10	14.01-20.00%	–	10	–	–	10
RMS 11-13	20.01-99.99%	1	32	–	–	33
RMS 14	100%	–	–	84	–	84
		214	87	84	–	385
Retail - Other						
RMS 1-6	0.00-4.50%	25	9	–	–	34
RMS 7-9	4.51-14.00%	–	27	–	–	27
RMS 10	14.01-20.00%	–	–	–	–	–
RMS 11-13	20.01-99.99%	–	1	–	–	1
RMS 14	100%	–	–	51	–	51
		25	37	51	–	113
Total Retail		563	766	490	142	1,961

46 Financial risk management (continued)

The Group – Expected credit losses in respect of drawn exposures (continued)	PD range	Stage 1 £m	Stage 2 £m	Stage 3 £m	Purchased or originated credit-impaired £m	Total £m
At 31 December 2019						
Commercial						
CMS 1-10	0.00-0.50%	**27**	**2**	**–**	**–**	**29**
CMS 11-14	0.51-3.00%	**50**	**37**	**–**	**–**	**87**
CMS 15-18	3.01-20.00%	**13**	**171**	**–**	**–**	**184**
CMS 19	20.01-99.99%	**–**	**16**	**–**	**–**	**16**
CMS 20-23	100%	**–**	**–**	**859**	**–**	**859**
		90	**226**	**859**	**–**	**1,175**
Other						
RMS 1-6	0.00-4.50%	**16**	**1**	**–**	**–**	**17**
RMS 7-9	4.51-14.00%	**–**	**–**	**–**	**–**	**–**
RMS 10	14.01-20.00%	**–**	**–**	**–**	**–**	**–**
RMS 11-13	20.01-99.99%	**–**	**–**	**–**	**–**	**–**
RMS 14	100%	**–**	**–**	**10**	**–**	**10**
		16	**1**	**10**	**–**	**27**
CMS 1-10	0.00-0.50%	**–**	**–**	**–**	**–**	**–**
CMS 11-14	0.51-3.00%	**–**	**–**	**–**	**–**	**–**
CMS 15-18	3.01-20.00%	**–**	**–**	**–**	**–**	**–**
CMS 19	20.01-99.99%	**–**	**–**	**–**	**–**	**–**
CMS 20-23	100%	**–**	**–**	**–**	**–**	**–**
		–	**–**	**–**	**–**	**–**
Total loans and advances to customers		**669**	**993**	**1,359**	**142**	**3,163**

In respect of:					
Retail	**563**	**766**	**490**	**142**	**1,961**
Commercial	**90**	**226**	**859**	**–**	**1,175**
Other	**16**	**1**	**10**	**–**	**27**
Total loans and advances to customers	**669**	**993**	**1,359**	**142**	**3,163**

46 Financial risk management (continued)

The Group – Gross undrawn exposures	PD range	Stage 1 £m	Stage 2 £m	Stage 3 £m	Purchased or originated credit-impaired £m	Total £m
At 31 December 2019						
Loans and advances to customers:						
Retail - mortgages						
RMS 1-6	0.00-4.50%	12,242	62	–	–	12,304
RMS 7-9	4.51-14.00%	1	1	–	–	2
RMS 10	14.01-20.00%	–	–	–	–	–
RMS 11-13	20.01-99.99%	–	–	–	–	–
RMS 14	100%	–	–	8	79	87
		12,243	63	8	79	12,393
Retail - unsecured						
RMS 1-6	0.00-4.50%	60,653	1,986	–	–	62,639
RMS 7-9	4.51-14.00%	389	218	–	–	607
RMS 10	14.01-20.00%	5	39	–	–	44
RMS 11-13	20.01-99.99%	1	73	–	–	74
RMS 14	100%	–	–	83	–	83
		61,048	2,316	83	–	63,447
Retail - UK Motor Finance						
RMS 1-6	0.00-4.50%	1,181	–	–	–	1,181
RMS 7-9	4.51-14.00%	193	4	–	–	197
RMS 10	14.01-20.00%	–	–	–	–	–
RMS 11-13	20.01-99.99%	–	–	–	–	–
RMS 14	100%	–	–	–	–	–
		1,374	4	–	–	1,378
Retail - Other						
RMS 1-6	0.00-4.50%	1,240	–	–	–	1,240
RMS 7-9	4.51-14.00%	–	62	–	–	62
RMS 10	14.01-20.00%	–	–	–	–	–
RMS 11-13	20.01-99.99%	–	–	–	–	–
RMS 14	100%	–	–	2	–	2
		1,240	62	2	–	1,304
Total Retail		75,905	2,445	93	79	78,522

46 Financial risk management (continued)

The Group – Gross undrawn exposures (continued)	PD range	Stage 1 £m	Stage 2 £m	Stage 3 £m	Purchased or originated credit-impaired £m	Total £m
At 31 December 2019						
Commercial						
CMS 1-10	0.00-0.50%	31,014	76	–	–	31,090
CMS 11-14	0.51-3.00%	5,105	850	–	–	5,955
CMS 15-18	3.01-20.00%	258	326	–	–	584
CMS 19	20.01-99.99%	–	43	–	–	43
CMS 20-23	100%	–	–	5	–	5
		36,377	1,295	5	–	37,677
Other						
RMS 1-6	0.00-4.50%	235	–	–	–	235
RMS 7-9	4.51-14.00%	–	–	–	–	–
RMS 10	14.01-20.00%	–	–	–	–	–
RMS 11-13	20.01-99.99%	–	–	–	–	–
RMS 14	100%	–	–	–	–	–
		235	–	–	–	235
CMS 1-10	0.00-0.50%	–	–	–	–	–
CMS 11-14	0.51-3.00%	–	–	–	–	–
CMS 15-18	3.01-20.00%	–	–	–	–	–
CMS 19	20.01-99.99%	–	–	–	–	–
CMS 20-23	100%	–	–	–	–	–
		–	–	–	–	–
Total loans and advances to customers		112,517	3,740	98	79	116,434

In respect of:					
Retail	75,905	2,445	93	79	78,522
Commercial	36,377	1,295	5	–	37,677
Other	235	–	–	–	235
Total loans and advances to customers	112,517	3,740	98	79	116,434

46 Financial risk management (continued)

The Group – Expected credit losses in respect of undrawn exposures	PD range	Stage 1 £m	Stage 2 £m	Stage 3 £m	Purchased or originated credit-impaired £m	Total £m
At 31 December 2019						
Loans and advances to customers:						
Retail - mortgages						
RMS 1-6	0.00-4.50%	1	–	–	–	1
RMS 7-9	4.51-14.00%	–	–	–	–	–
RMS 10	14.01-20.00%	–	–	–	–	–
RMS 11-13	20.01-99.99%	–	–	–	–	–
RMS 14	100%	–	–	–	–	–
		1	–	–	–	1
Retail - unsecured						
RMS 1-6	0.00-4.50%	56	24	–	–	80
RMS 7-9	4.51-14.00%	6	8	–	–	14
RMS 10	14.01-20.00%	–	3	–	–	3
RMS 11-13	20.01-99.99%	–	15	–	–	15
RMS 14	100%	–	–	–	–	–
		62	50	–	–	112
Retail - UK Motor Finance						
RMS 1-6	0.00-4.50%	2	–	–	–	2
RMS 7-9	4.51-14.00%	–	–	–	–	–
RMS 10	14.01-20.00%	–	–	–	–	–
RMS 11-13	20.01-99.99%	–	–	–	–	–
RMS 14	100%	–	–	–	–	–
		2	–	–	–	2
Retail - Other						
RMS 1-6	0.00-4.50%	11	–	–	–	11
RMS 7-9	4.51-14.00%	–	3	–	–	3
RMS 10	14.01-20.00%	–	–	–	–	–
RMS 11-13	20.01-99.99%	–	–	–	–	–
RMS 14	100%	–	–	–	–	–
		11	3	–	–	14
Total Retail		76	53	–	–	129

46 Financial risk management (continued)

The Group – Expected credit losses in respect of undrawn exposures (continued)	PD range	Stage 1 £m	Stage 2 £m	Stage 3 £m	Purchased or originated credit-impaired £m	Total £m
At 31 December 2019						
Commercial						
CMS 1-10	0.00-0.50%	7	–	–	–	7
CMS 11-14	0.51-3.00%	7	9	–	–	16
CMS 15-18	3.01-20.00%	1	13	–	–	14
CMS 19	20.01-99.99%	–	2	–	–	2
CMS 20-23	100%	–	–	5	–	5
		15	24	5	–	44
Other						
RMS 1-6	0.00-4.50%	–	–	–	–	–
RMS 7-9	4.51-14.00%	–	–	–	–	–
RMS 10	14.01-20.00%	–	–	–	–	–
RMS 11-13	20.01-99.99%	–	–	–	–	–
RMS 14	100%	–	–	–	–	–
		–	–	–	–	–
CMS 1-10	0.00-0.50%	–	–	–	–	–
CMS 11-14	0.51-3.00%	–	–	–	–	–
CMS 15-18	3.01-20.00%	–	–	–	–	–
CMS 19	20.01-99.99%	–	–	–	–	–
CMS 20-23	100%	–	–	–	–	–
		–	–	–	–	–
Total loans and advances to customers		91	77	5	–	173

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Purchased or originated credit-impaired £m	Total £m
In respect of:					
Retail	76	53	–	–	129
Commercial	15	24	5	–	44
Other	–	–	–	–	–
Total loans and advances to customers	91	77	5	–	173

46 Financial risk management (continued)

The Group – Gross drawn exposures	PD range	Stage 1 £m	Stage 2 £m	Stage 3 £m	Purchased or originated credit-impaired £m	Total £m
At 31 December 2018						
Loans and advances to banks:						
CMS 1-10	0.00-0.50%	3,586	2	–	–	3,588
CMS 11-14	0.51-3.00%	105	–	–	–	105
CMS 15-18	3.01-20.00%	–	–	–	–	–
CMS 19	20.01-99.99%	–	–	–	–	–
CMS 20-23	100%	–	–	–	–	–
		3,691	2	–	–	3,693
Loans and advances to customers:						
Retail - mortgages						
RMS 1-6	0.00-4.50%	257,740	10,784	–	–	268,524
RMS 7-9	4.51-14.00%	57	1,709	–	–	1,766
RMS 10	14.01-20.00%	–	262	–	–	262
RMS 11-13	20.01-99.99%	–	899	–	–	899
RMS 14	100%	–	–	1,393	15,391	16,784
		257,797	13,654	1,393	15,391	288,235
Retail - unsecured						
RMS 1-6	0.00-4.50%	22,363	1,079	–	–	23,442
RMS 7-9	4.51-14.00%	2,071	774	–	–	2,845
RMS 10	14.01-20.00%	72	167	–	–	239
RMS 11-13	20.01-99.99%	199	687	–	–	886
RMS 14	100%	–	–	703	–	703
		24,705	2,707	703	–	28,115
Retail - UK Motor Finance						
RMS 1-6	0.00-4.50%	12,918	954	–	–	13,872
RMS 7-9	4.51-14.00%	301	318	–	–	619
RMS 10	14.01-20.00%	–	111	–	–	111
RMS 11-13	20.01-99.99%	5	197	–	–	202
RMS 14	100%	–	–	129	–	129
		13,224	1,580	129	–	14,933
Retail - Other						
RMS 1-6	0.00-4.50%	9,033	704	–	–	9,737
RMS 7-9	4.51-14.00%	190	66	–	–	256
RMS 10	14.01-20.00%	–	7	–	–	7
RMS 11-13	20.01-99.99%	211	23	–	–	234
RMS 14	100%	–	–	165	–	165
		9,434	800	165	–	10,399
Total Retail		305,160	18,741	2,390	15,391	341,682

46 Financial risk management (continued)

The Group – Gross drawn exposures (continued)	PD range	Stage 1 £m	Stage 2 £m	Stage 3 £m	Purchased or originated credit-impaired £m	Total £m
At 31 December 2018						
Commercial						
CMS 1-10	0.00-0.50%	50,143	100	–	–	50,243
CMS 11-14	0.51-3.00%	24,760	3,442	–	–	28,202
CMS 15-18	3.01-20.00%	1,287	2,962	–	–	4,249
CMS 19	20.01-99.99%	–	54	–	–	54
CMS 20-23	100%	–	–	2,958	–	2,958
		76,190	6,558	2,958	–	85,706
Other						
RMS 1-6	0.00-4.50%	804	6	–	–	810
RMS 7-9	4.51-14.00%	–	–	–	–	–
RMS 10	14.01-20.00%	–	–	–	–	–
RMS 11-13	20.01-99.99%	–	–	–	–	–
RMS 14	100%	–	–	49	–	49
		804	6	49	–	859
CMS 1-10	0.00-0.50%	38,814	–	–	–	38,814
CMS 11-14	0.51-3.00%	–	3	–	–	3
CMS 15-18	3.01-20.00%	–	–	–	–	–
CMS 19	20.01-99.99%	–	–	–	–	–
CMS 20-23	100%	–	–	–	–	–
		38,814	3	–	–	38,817
Total loans and advances to customers		420,968	25,308	5,397	15,391	467,064

In respect of:					
Retail	305,160	18,741	2,390	15,391	341,682
Commercial	76,190	6,558	2,958	–	85,706
Other	39,618	9	49	–	39,676
Total loans and advances to customers	420,968	25,308	5,397	15,391	467,064

46 Financial risk management (continued)

The Group – Expected credit losses in respect of drawn exposures	PD range	Stage 1 £m	Stage 2 £m	Stage 3 £m	Purchased or originated credit-impaired £m	Total £m
At 31 December 2018						
Loans and advances to banks:						
CMS 1-10	0.00-0.50%	1	–	–	–	1
CMS 11-14	0.51-3.00%	–	–	–	–	–
CMS 15-18	3.01-20.00%	–	–	–	–	–
CMS 19	20.01-99.99%	–	–	–	–	–
CMS 20-23	100%	–	–	–	–	–
		1	–	–	–	1
Loans and advances to customers:						
Retail - mortgages						
RMS 1-6	0.00-4.50%	37	141	–	–	178
RMS 7-9	4.51-14.00%	–	34	–	–	34
RMS 10	14.01-20.00%	–	9	–	–	9
RMS 11-13	20.01-99.99%	–	42	–	–	42
RMS 14	100%	–	–	118	78	196
		37	226	118	78	459
Retail - unsecured						
RMS 1-6	0.00-4.50%	135	45	–	–	180
RMS 7-9	4.51-14.00%	57	83	–	–	140
RMS 10	14.01-20.00%	4	29	–	–	33
RMS 11-13	20.01-99.99%	3	172	–	–	175
RMS 14	100%	–	–	228	–	228
		199	329	228	–	756
Retail - UK Motor Finance						
RMS 1-6	0.00-4.50%	114	19	–	–	133
RMS 7-9	4.51-14.00%	6	15	–	–	21
RMS 10	14.01-20.00%	–	11	–	–	11
RMS 11-13	20.01-99.99%	1	34	–	–	35
RMS 14	100%	–	–	78	–	78
		121	79	78	–	278
Retail - Other						
RMS 1-6	0.00-4.50%	30	25	–	–	55
RMS 7-9	4.51-14.00%	2	2	–	–	4
RMS 10	14.01-20.00%	–	–	–	–	–
RMS 11-13	20.01-99.99%	–	1	–	–	1
RMS 14	100%	–	–	60	–	60
		32	28	60	–	120
Total Retail		389	662	484	78	1,613

46 Financial risk management (continued)

The Group – Expected credit losses in respect of drawn exposures (continued)	PD range	Stage 1 £m	Stage 2 £m	Stage 3 £m	Purchased or originated credit-impaired £m	Total £m
At 31 December 2018						
Commercial						
CMS 1-10	0.00-0.50%	26	1	–	–	27
CMS 11-14	0.51-3.00%	49	86	–	–	135
CMS 15-18	3.01-20.00%	11	229	–	–	240
CMS 19	20.01-99.99%	–	7	–	–	7
CMS 20-23	100%	–	–	937	–	937
		86	323	937	–	1,346
Other						
RMS 1-6	0.00-4.50%	43	1	–	–	44
RMS 7-9	4.51-14.00%	–	–	–	–	–
RMS 10	14.01-20.00%	–	–	–	–	–
RMS 11-13	20.01-99.99%	–	–	–	–	–
RMS 14	100%	–	–	11	–	11
		43	1	11	–	55
CMS 1-10	0.00-0.50%	–	–	–	–	–
CMS 11-14	0.51-3.00%	–	6	–	–	6
CMS 15-18	3.01-20.00%	–	–	–	–	–
CMS 19	20.01-99.99%	–	–	–	–	–
CMS 20-23	100%	–	–	–	–	–
		–	6	–	–	6
Total loans and advances to customers		518	992	1,432	78	3,020

In respect of:					
Retail	389	662	484	78	1,613
Commercial	86	323	937	–	1,346
Other	43	7	11	–	61
Total loans and advances to customers	518	992	1,432	78	3,020

46 Financial risk management (continued)

The Group – Gross undrawn exposures	PD range	Stage 1 £m	Stage 2 £m	Stage 3 £m	Purchased or originated credit-impaired £m	Total £m
At 31 December 2018						
Loans and advances to customers:						
Retail - mortgages						
RMS 1-6	0.00-4.50%	12,024	19	–	–	12,043
RMS 7-9	4.51-14.00%	2	1	–	–	3
RMS 10	14.01-20.00%	–	–	–	–	–
RMS 11-13	20.01-99.99%	–	–	–	–	–
RMS 14	100%	–	–	5	90	95
		12,026	20	5	90	12,141
Retail - unsecured						
RMS 1-6	0.00-4.50%	57,433	1,811	–	–	59,244
RMS 7-9	4.51-14.00%	391	156	–	–	547
RMS 10	14.01-20.00%	10	27	–	–	37
RMS 11-13	20.01-99.99%	3	50	–	–	53
RMS 14	100%	–	–	36	–	36
		57,837	2,044	36	–	59,917
Retail - UK Motor Finance						
RMS 1-6	0.00-4.50%	1,565	–	–	–	1,565
RMS 7-9	4.51-14.00%	141	–	–	–	141
RMS 10	14.01-20.00%	–	–	–	–	–
RMS 11-13	20.01-99.99%	–	–	–	–	–
RMS 14	100%	–	–	–	–	–
		1,706	–	–	–	1,706
Retail - Other						
RMS 1-6	0.00-4.50%	1,381	47	–	–	1,428
RMS 7-9	4.51-14.00%	–	–	–	–	–
RMS 10	14.01-20.00%	–	–	–	–	–
RMS 11-13	20.01-99.99%	360	–	–	–	360
RMS 14	100%	–	–	3	–	3
		1,741	47	3	–	1,791
Total Retail		73,310	2,111	44	90	75,555

46 Financial risk management (continued)

The Group – Gross undrawn exposures (continued)	PD range	Stage 1 £m	Stage 2 £m	Stage 3 £m	Purchased or originated credit-impaired £m	Total £m
At 31 December 2018						
Commercial						
CMS 1-10	0.00-0.50%	35,610	–	–	–	35,610
CMS 11-14	0.51-3.00%	6,196	526	–	–	6,722
CMS 15-18	3.01-20.00%	70	269	–	–	339
CMS 19	20.01-99.99%	31	11	–	–	42
CMS 20-23	100%	–	–	–	–	–
		41,907	806	–	–	42,713
Other						
RMS 1-6	0.00-4.50%	246	–	–	–	246
RMS 7-9	4.51-14.00%	–	–	–	–	–
RMS 10	14.01-20.00%	–	–	–	–	–
RMS 11-13	20.01-99.99%	–	–	–	–	–
RMS 14	100%	–	–	–	–	–
		246	–	–	–	246
CMS 1-10	0.00-0.50%	–	–	–	–	–
CMS 11-14	0.51-3.00%	–	–	–	–	–
CMS 15-18	3.01-20.00%	–	–	–	–	–
CMS 19	20.01-99.99%	–	–	–	–	–
CMS 20-23	100%	–	–	–	–	–
		–	–	–	–	–
Total loans and advances to customers		115,463	2,917	44	90	118,514

In respect of:					
Retail	73,310	2,111	44	90	75,555
Commercial	41,907	806	–	–	42,713
Other	246	–	–	–	246
Total loans and advances to customers	115,463	2,917	44	90	118,514

46 Financial risk management (continued)

The Group – Expected credit losses in respect of undrawn exposures	PD range	Stage 1 £m	Stage 2 £m	Stage 3 £m	Purchased or originated credit-impaired £m	Total £m
At 31 December 2018						
Loans and advances to customers:						
Retail - mortgages						
RMS 1-6	0.00-4.50%	1	–	–	–	1
RMS 7-9	4.51-14.00%	–	–	–	–	–
RMS 10	14.01-20.00%	–	–	–	–	–
RMS 11-13	20.01-99.99%	–	–	–	–	–
RMS 14	100%	–	–	–	–	–
		1	–	–	–	1
Retail - unsecured						
RMS 1-6	0.00-4.50%	84	25	–	–	109
RMS 7-9	4.51-14.00%	5	10	–	–	15
RMS 10	14.01-20.00%	–	3	–	–	3
RMS 11-13	20.01-99.99%	–	10	–	–	10
RMS 14	100%	–	–	–	–	–
		89	48	–	–	137
Retail - UK Motor Finance						
RMS 1-6	0.00-4.50%	2	–	–	–	2
RMS 7-9	4.51-14.00%	–	–	–	–	–
RMS 10	14.01-20.00%	–	–	–	–	–
RMS 11-13	20.01-99.99%	–	–	–	–	–
RMS 14	100%	–	–	–	–	–
		2	–	–	–	2
Retail - Other						
RMS 1-6	0.00-4.50%	11	2	–	–	13
RMS 7-9	4.51-14.00%	–	–	–	–	–
RMS 10	14.01-20.00%	–	–	–	–	–
RMS 11-13	20.01-99.99%	–	–	–	–	–
RMS 14	100%	–	–	–	–	–
		11	2	–	–	13
Total Retail		103	50	–	–	153

46 Financial risk management (continued)

The Group – Expected credit losses in respect of undrawn exposures (continued)	PD range	Stage 1 £m	Stage 2 £m	Stage 3 £m	Purchased or originated credit-impaired £m	Total £m
At 31 December 2018						
Commercial						
CMS 1-10	0.00-0.50%	9	–	–	–	9
CMS 11-14	0.51-3.00%	7	7	–	–	14
CMS 15-18	3.01-20.00%	1	5	–	–	6
CMS 19	20.01-99.99%	1	1	–	–	2
CMS 20-23	100%	–	–	6	–	6
		18	13	6	–	37
Other						
RMS 1-6	0.00-4.50%	–	–	–	–	–
RMS 7-9	4.51-14.00%	–	–	–	–	–
RMS 10	14.01-20.00%	–	–	–	–	–
RMS 11-13	20.01-99.99%	–	–	–	–	–
RMS 14	100%	–	–	–	–	–
		–	–	–	–	–
CMS 1-10	0.00-0.50%	–	–	–	–	–
CMS 11-14	0.51-3.00%	–	–	–	–	–
CMS 15-18	3.01-20.00%	–	–	–	–	–
CMS 19	20.01-99.99%	–	–	–	–	–
CMS 20-23	100%	–	–	–	–	–
		–	–	–	–	–
Total loans and advances to customers		121	63	6	–	190

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Purchased or originated credit-impaired £m	Total £m
In respect of:					
Retail	103	50	–	–	153
Commercial	18	13	6	–	37
Other	–	–	–	–	–
Total loans and advances to customers	121	63	6	–	190

46 Financial risk management (continued)

The Bank – Gross drawn exposures	PD range	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 31 December 2019					
Loans and advances to banks:					
CMS 1-10	0.00-0.50%	4,453	–	–	4,453
CMS 11-14	0.51-3.00%	–	–	–	–
CMS 15-18	3.01-20.00%	–	–	–	–
CMS 19	20.01-99.99%	–	–	–	–
CMS 20-23	100%	–	–	–	–
		4,453	–	–	4,453
Loans and advances to customers:					
Retail - mortgages					
RMS 1-6	0.00-4.50%	46,904	2,972	–	49,876
RMS 7-9	4.51-14.00%	–	510	–	510
RMS 10	14.01-20.00%	–	116	–	116
RMS 11-13	20.01-99.99%	–	291	–	291
RMS 14	100%	–	–	558	558
		46,904	3,889	558	51,351
Retail - unsecured					
RMS 1-6	0.00-4.50%	7,586	298	–	7,884
RMS 7-9	4.51-14.00%	1,138	383	–	1,521
RMS 10	14.01-20.00%	38	89	–	127
RMS 11-13	20.01-99.99%	8	273	–	281
RMS 14	100%	–	–	260	260
		8,770	1,043	260	10,073
Retail - UK Motor Finance					
RMS 1-6	0.00-4.50%	1,076	135	–	1,211
RMS 7-9	4.51-14.00%	22	54	–	76
RMS 10	14.01-20.00%	–	17	–	17
RMS 11-13	20.01-99.99%	–	34	–	34
RMS 14	100%	–	–	60	60
		1,098	240	60	1,398
Retail - Other					
RMS 1-6	0.00-4.50%	1,746	151	–	1,897
RMS 7-9	4.51-14.00%	–	271	–	271
RMS 10	14.01-20.00%	–	–	–	–
RMS 11-13	20.01-99.99%	–	–	–	–
RMS 14	100%	–	–	105	105
		1,746	422	105	2,273
Total Retail		58,518	5,594	983	65,095

46 Financial risk management (continued)

The Bank – Gross drawn exposures (continued)	PD range	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 31 December 2019					
Commercial					
CMS 1-10	0.00-0.50%	**32,617**	**380**	**–**	**32,997**
CMS 11-14	0.51-3.00%	**20,200**	**2,034**	**–**	**22,234**
CMS 15-18	3.01-20.00%	**1,469**	**2,530**	**–**	**3,999**
CMS 19	20.01-99.99%	**–**	**111**	**–**	**111**
CMS 20-23	100%	**–**	**–**	**1,400**	**1,400**
		54,286	**5,055**	**1,400**	**60,741**
Other					
RMS 1-6	0.00-4.50%	**267**	**32**	**–**	**299**
RMS 7-9	4.51-14.00%	**–**	**–**	**–**	**–**
RMS 10	14.01-20.00%	**–**	**–**	**–**	**–**
RMS 11-13	20.01-99.99%	**–**	**–**	**–**	**–**
RMS 14	100%	**–**	**–**	**2**	**2**
		267	**32**	**2**	**301**
CMS 1-10	0.00-0.50%	**52,605**	**–**	**–**	**52,605**
CMS 11-14	0.51-3.00%	**–**	**–**	**–**	**–**
CMS 15-18	3.01-20.00%	**–**	**–**	**–**	**–**
CMS 19	20.01-99.99%	**–**	**–**	**–**	**–**
CMS 20-23	100%	**–**	**–**	**–**	**–**
		52,605	**–**	**–**	**52,605**
Total loans and advances to customers		**165,676**	**10,681**	**2,385**	**178,742**

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
In respect of:				
Retail	**58,518**	**5,594**	**983**	**65,095**
Commercial	**54,286**	**5,055**	**1,400**	**60,741**
Other	**52,872**	**32**	**2**	**52,906**
Total loans and advances to customers	**165,676**	**10,681**	**2,385**	**178,742**

46 Financial risk management (continued)

The Bank – Expected credit losses in respect of drawn exposures	PD range	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 31 December 2019					
Loans and advances to banks:					
CMS 1-10	0.00-0.50%	–	–	–	–
CMS 11-14	0.51-3.00%	–	–	–	–
CMS 15-18	3.01-20.00%	–	–	–	–
CMS 19	20.01-99.99%	–	–	–	–
CMS 20-23	100%	–	–	–	–
		–	–	–	–
Loans and advances to customers:					
Retail - mortgages					
RMS 1-6	0.00-4.50%	2	28	–	30
RMS 7-9	4.51-14.00%	–	7	–	7
RMS 10	14.01-20.00%	–	3	–	3
RMS 11-13	20.01-99.99%	–	9	–	9
RMS 14	100%	–	–	30	30
		2	47	30	79
Retail - unsecured					
RMS 1-6	0.00-4.50%	68	12	–	80
RMS 7-9	4.51-14.00%	47	41	–	88
RMS 10	14.01-20.00%	4	17	–	21
RMS 11-13	20.01-99.99%	2	89	–	91
RMS 14	100%	–	–	93	93
		121	159	93	373
Retail - UK Motor Finance					
RMS 1-6	0.00-4.50%	21	4	–	25
RMS 7-9	4.51-14.00%	1	3	–	4
RMS 10	14.01-20.00%	–	2	–	2
RMS 11-13	20.01-99.99%	–	7	–	7
RMS 14	100%	–	–	32	32
		22	16	32	70
Retail - Other					
RMS 1-6	0.00-4.50%	18	4	–	22
RMS 7-9	4.51-14.00%	–	20	–	20
RMS 10	14.01-20.00%	–	–	–	–
RMS 11-13	20.01-99.99%	–	–	–	–
RMS 14	100%	–	–	35	35
		18	24	35	77
Total Retail		163	246	190	599

46 Financial risk management (continued)

The Bank – Expected credit losses in respect of drawn exposures (continued)	PD range	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 31 December 2019					
Commercial					
CMS 1-10	0.00-0.50%	25	1	–	26
CMS 11-14	0.51-3.00%	40	33	–	73
CMS 15-18	3.01-20.00%	10	145	–	155
CMS 19	20.01-99.99%	–	10	–	10
CMS 20-23	100%	–	–	309	309
		75	189	309	573
Other					
RMS 1-6	0.00-4.50%	–	–	–	–
RMS 7-9	4.51-14.00%	–	–	–	–
RMS 10	14.01-20.00%	–	–	–	–
RMS 11-13	20.01-99.99%	–	–	–	–
RMS 14	100%	–	–	1	1
		–	–	1	1
CMS 1-10	0.00-0.50%	–	–	–	–
CMS 11-14	0.51-3.00%	–	–	–	–
CMS 15-18	3.01-20.00%	–	–	–	–
CMS 19	20.01-99.99%	–	–	–	–
CMS 20-23	100%	–	–	–	–
		–	–	–	–
Total loans and advances to customers		238	435	500	1,173

In respect of:				
Retail	163	246	190	599
Commercial	75	189	309	573
Other	–	–	1	1
Total loans and advances to customers	238	435	500	1,173

46 Financial risk management (continued)

The Bank – Gross undrawn exposures	PD range	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 31 December 2019					
Loans and advances to customers:					
Retail - mortgages					
RMS 1-6	0.00-4.50%	1,120	–	–	1,120
RMS 7-9	4.51-14.00%	–	–	–	–
RMS 10	14.01-20.00%	–	–	–	–
RMS 11-13	20.01-99.99%	–	–	–	–
RMS 14	100%	–	–	–	–
		1,120	–	–	1,120
Retail - unsecured					
RMS 1-6	0.00-4.50%	18,671	437	–	19,108
RMS 7-9	4.51-14.00%	155	91	–	246
RMS 10	14.01-20.00%	2	15	–	17
RMS 11-13	20.01-99.99%	–	28	–	28
RMS 14	100%	–	–	18	18
		18,828	571	18	19,417
Retail - UK Motor Finance					
RMS 1-6	0.00-4.50%	84	–	–	84
RMS 7-9	4.51-14.00%	13	4	–	17
RMS 10	14.01-20.00%	–	–	–	–
RMS 11-13	20.01-99.99%	–	–	–	–
RMS 14	100%	–	–	–	–
		97	4	–	101
Retail - Other					
RMS 1-6	0.00-4.50%	839	–	–	839
RMS 7-9	4.51-14.00%	–	54	–	54
RMS 10	14.01-20.00%	–	–	–	–
RMS 11-13	20.01-99.99%	–	–	–	–
RMS 14	100%	–	–	2	2
		839	54	2	895
Total Retail		20,884	629	20	21,533

46 Financial risk management (continued)

The Bank – Gross undrawn exposures (continued)	PD range	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 31 December 2019					
Commercial					
CMS 1-10	0.00-0.50%	25,847	44	–	25,891
CMS 11-14	0.51-3.00%	3,771	718	–	4,489
CMS 15-18	3.01-20.00%	197	206	–	403
CMS 19	20.01-99.99%	–	38	–	38
CMS 20-23	100%	–	–	4	4
		29,815	1,006	4	30,825
Other					
RMS 1-6	0.00-4.50%	191	–	–	191
RMS 7-9	4.51-14.00%	–	–	–	–
RMS 10	14.01-20.00%	–	–	–	–
RMS 11-13	20.01-99.99%	–	–	–	–
RMS 14	100%	–	–	–	–
		191	–	–	191
CMS 1-10	0.00-0.50%	–	–	–	–
CMS 11-14	0.51-3.00%	–	–	–	–
CMS 15-18	3.01-20.00%	–	–	–	–
CMS 19	20.01-99.99%	–	–	–	–
CMS 20-23	100%	–	–	–	–
		–	–	–	–
Total loans and advances to customers		50,890	1,635	24	52,549

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
In respect of:				
Retail	20,884	629	20	21,533
Commercial	29,815	1,006	4	30,825
Other	191	–	–	191
Total loans and advances to customers	50,890	1,635	24	52,549

46 Financial risk management (continued)

The Bank – Expected credit losses in respect of undrawn exposures	PD range	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 31 December 2019					
Loans and advances to customers:					
Retail - mortgages					
RMS 1-6	0.00-4.50%	–	–	–	–
RMS 7-9	4.51-14.00%	–	–	–	–
RMS 10	14.01-20.00%	–	–	–	–
RMS 11-13	20.01-99.99%	–	–	–	–
RMS 14	100%	–	–	–	–
		–	–	–	–
Retail - unsecured					
RMS 1-6	0.00-4.50%	**18**	**8**	–	**26**
RMS 7-9	4.51-14.00%	**3**	**4**	–	**7**
RMS 10	14.01-20.00%	–	**2**	–	**2**
RMS 11-13	20.01-99.99%	–	**9**	–	**9**
RMS 14	100%	–	–	–	–
		21	**23**	–	**44**
Retail - UK Motor Finance					
RMS 1-6	0.00-4.50%	–	–	–	–
RMS 7-9	4.51-14.00%	–	–	–	–
RMS 10	14.01-20.00%	–	–	–	–
RMS 11-13	20.01-99.99%	–	–	–	–
RMS 14	100%	–	–	–	–
		–	–	–	–
Retail - Other					
RMS 1-6	0.00-4.50%	**10**	–	–	**10**
RMS 7-9	4.51-14.00%	–	**3**	–	**3**
RMS 10	14.01-20.00%	–	–	–	–
RMS 11-13	20.01-99.99%	–	–	–	–
RMS 14	100%	–	–	–	–
		10	**3**	–	**13**
Total Retail		**31**	**26**	–	**57**

46 Financial risk management (continued)

The Bank – Expected credit losses in respect of undrawn exposures (continued)	PD range	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 31 December 2019					
Commercial					
CMS 1-10	0.00-0.50%	5	–	–	5
CMS 11-14	0.51-3.00%	7	5	–	12
CMS 15-18	3.01-20.00%	1	9	–	10
CMS 19	20.01-99.99%	–	2	–	2
CMS 20-23	100%	–	–	4	4
		13	16	4	33
Other					
RMS 1-6	0.00-4.50%	–	–	–	–
RMS 7-9	4.51-14.00%	–	–	–	–
RMS 10	14.01-20.00%	–	–	–	–
RMS 11-13	20.01-99.99%	–	–	–	–
RMS 14	100%	–	–	–	–
		–	–	–	–
CMS 1-10	0.00-0.50%	–	–	–	–
CMS 11-14	0.51-3.00%	–	–	–	–
CMS 15-18	3.01-20.00%	–	–	–	–
CMS 19	20.01-99.99%	–	–	–	–
CMS 20-23	100%	–	–	–	–
		–	–	–	–
Total loans and advances to customers		44	42	4	90

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
In respect of:				
Retail	31	26	–	57
Commercial	13	16	4	33
Other	–	–	–	–
Total loans and advances to customers	44	42	4	90

46 Financial risk management (continued)

The Bank – Gross drawn exposures	PD range	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 31 December 2018					
Loans and advances to banks:					
CMS 1-10	0.00-0.50%	3,049	–	–	3,049
CMS 11-14	0.51-3.00%	105	–	–	105
CMS 15-18	3.01-20.00%	–	–	–	–
CMS 19	20.01-99.99%	–	–	–	–
CMS 20-23	100%	–	–	–	–
		3,154	–	–	3,154
Loans and advances to customers:					
Retail - mortgages					
RMS 1-6	0.00-4.50%	49,298	3,159	–	52,457
RMS 7-9	4.51-14.00%	1	490	–	491
RMS 10	14.01-20.00%	–	74	–	74
RMS 11-13	20.01-99.99%	–	325	–	325
RMS 14	100%	–	–	644	644
		49,299	4,048	644	53,991
Retail - unsecured					
RMS 1-6	0.00-4.50%	7,799	359	–	8,158
RMS 7-9	4.51-14.00%	591	284	–	875
RMS 10	14.01-20.00%	14	63	–	77
RMS 11-13	20.01-99.99%	5	228	–	233
RMS 14	100%	–	–	282	282
		8,409	934	282	9,625
Retail - UK Motor Finance					
RMS 1-6	0.00-4.50%	2,697	365	–	3,062
RMS 7-9	4.51-14.00%	40	130	–	170
RMS 10	14.01-20.00%	–	50	–	50
RMS 11-13	20.01-99.99%	1	79	–	80
RMS 14	100%	–	–	75	75
		2,738	624	75	3,437
Retail - Other					
RMS 1-6	0.00-4.50%	2,272	375	–	2,647
RMS 7-9	4.51-14.00%	–	–	–	–
RMS 10	14.01-20.00%	–	–	–	–
RMS 11-13	20.01-99.99%	–	–	–	–
RMS 14	100%	–	–	104	104
		2,272	375	104	2,751
Total Retail		62,718	5,981	1,105	69,804

46 Financial risk management (continued)

The Bank – Gross drawn exposures (continued)	PD range	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 31 December 2018					
Commercial					
CMS 1-10	0.00-0.50%	41,279	23	–	41,302
CMS 11-14	0.51-3.00%	16,563	2,259	–	18,822
CMS 15-18	3.01-20.00%	936	2,711	–	3,647
CMS 19	20.01-99.99%	–	30	–	30
CMS 20-23	100%	–	–	1,356	1,356
		58,778	5,023	1,356	65,157
Other					
RMS 1-6	0.00-4.50%	208	2	–	210
RMS 7-9	4.51-14.00%	–	–	–	–
RMS 10	14.01-20.00%	–	–	–	–
RMS 11-13	20.01-99.99%	–	–	–	–
RMS 14	100%	–	–	3	3
		208	2	3	213
CMS 1-10	0.00-0.50%	38,675	–	–	38,675
CMS 11-14	0.51-3.00%	–	–	–	–
CMS 15-18	3.01-20.00%	–	–	–	–
CMS 19	20.01-99.99%	–	–	–	–
CMS 20-23	100%	–	–	–	–
		38,675	–	–	38,675
Total loans and advances to customers		160,379	11,006	2,464	173,849

In respect of:				
Retail	62,718	5,981	1,105	69,804
Commercial	58,778	5,023	1,356	65,157
Other	38,883	2	3	38,888
Total loans and advances to customers	160,379	11,006	2,464	173,849

46 Financial risk management (continued)

The Bank – Expected credit losses in respect of drawn exposures	PD range	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 31 December 2018					
Loans and advances to banks:					
CMS 1-10	0.00-0.50%	1	–	–	1
CMS 11-14	0.51-3.00%	–	–	–	–
CMS 15-18	3.01-20.00%	–	–	–	–
CMS 19	20.01-99.99%	–	–	–	–
CMS 20-23	100%	–	–	–	–
		1	–	–	1
Loans and advances to customers:					
Retail - mortgages					
RMS 1-6	0.00-4.50%	3	21	–	24
RMS 7-9	4.51-14.00%	–	7	–	7
RMS 10	14.01-20.00%	–	2	–	2
RMS 11-13	20.01-99.99%	–	11	–	11
RMS 14	100%	–	–	41	41
		3	41	41	85
Retail - unsecured					
RMS 1-6	0.00-4.50%	69	14	–	83
RMS 7-9	4.51-14.00%	24	35	–	59
RMS 10	14.01-20.00%	1	14	–	15
RMS 11-13	20.01-99.99%	1	86	–	87
RMS 14	100%	–	–	92	92
		95	149	92	336
Retail - UK Motor Finance					
RMS 1-6	0.00-4.50%	23	7	–	30
RMS 7-9	4.51-14.00%	1	6	–	7
RMS 10	14.01-20.00%	–	5	–	5
RMS 11-13	20.01-99.99%	–	13	–	13
RMS 14	100%	–	–	45	45
		24	31	45	100
Retail - Other					
RMS 1-6	0.00-4.50%	19	19	–	38
RMS 7-9	4.51-14.00%	–	–	–	–
RMS 10	14.01-20.00%	–	–	–	–
RMS 11-13	20.01-99.99%	–	–	–	–
RMS 14	100%	–	–	35	35
		19	19	35	73
Total Retail		141	240	213	594

46 Financial risk management (continued)

The Bank – Expected credit losses in respect of drawn exposures (continued)	PD range	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 31 December 2018					
Commercial					
CMS 1-10	0.00-0.50%	24	–	–	24
CMS 11-14	0.51-3.00%	38	52	–	90
CMS 15-18	3.01-20.00%	6	205	–	211
CMS 19	20.01-99.99%	–	5	–	5
CMS 20-23	100%	–	–	608	608
		68	262	608	938
Other					
RMS 1-6	0.00-4.50%	–	–	–	–
RMS 7-9	4.51-14.00%	–	–	–	–
RMS 10	14.01-20.00%	–	–	–	–
RMS 11-13	20.01-99.99%	–	–	–	–
RMS 14	100%	–	–	2	2
		–	–	2	2
CMS 1-10	0.00-0.50%	–	–	–	–
CMS 11-14	0.51-3.00%	–	–	–	–
CMS 15-18	3.01-20.00%	–	–	–	–
CMS 19	20.01-99.99%	–	–	–	–
CMS 20-23	100%	–	–	–	–
		–	–	–	–
Total loans and advances to customers		209	502	823	1,534

In respect of:				
Retail	141	240	213	594
Commercial	68	262	608	938
Other	–	–	2	2
Total loans and advances to customers	209	502	823	1,534

46 Financial risk management (continued)

The Bank – Gross undrawn exposures	PD range	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 31 December 2018					
Loans and advances to customers:					
Retail - mortgages					
RMS 1-6	0.00-4.50%	753	–	–	753
RMS 7-9	4.51-14.00%	–	–	–	–
RMS 10	14.01-20.00%	–	–	–	–
RMS 11-13	20.01-99.99%	–	–	–	–
RMS 14	100%	–	–	–	–
		753	–	–	753
Retail - unsecured					
RMS 1-6	0.00-4.50%	18,913	446	–	19,359
RMS 7-9	4.51-14.00%	81	70	–	151
RMS 10	14.01-20.00%	1	12	–	13
RMS 11-13	20.01-99.99%	–	22	–	22
RMS 14	100%	–	–	15	15
		18,995	550	15	19,560
Retail - UK Motor Finance					
RMS 1-6	0.00-4.50%	346	–	–	346
RMS 7-9	4.51-14.00%	25	–	–	25
RMS 10	14.01-20.00%	–	–	–	–
RMS 11-13	20.01-99.99%	–	–	–	–
RMS 14	100%	–	–	–	–
		371	–	–	371
Retail - Other					
RMS 1-6	0.00-4.50%	1,103	42	–	1,145
RMS 7-9	4.51-14.00%	–	–	–	–
RMS 10	14.01-20.00%	–	–	–	–
RMS 11-13	20.01-99.99%	–	–	–	–
RMS 14	100%	–	–	3	3
		1,103	42	3	1,148
Total Retail		21,222	592	18	21,832

46 Financial risk management (continued)

The Bank – Gross undrawn exposures (continued)	PD range	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 31 December 2018					
Commercial					
CMS 1-10	0.00-0.50%	31,474	–	–	31,474
CMS 11-14	0.51-3.00%	3,858	383	–	4,241
CMS 15-18	3.01-20.00%	53	213	–	266
CMS 19	20.01-99.99%	31	3	–	34
CMS 20-23	100%	–	–	–	–
		35,416	599	–	36,015
Other					
RMS 1-6	0.00-4.50%	50	–	–	50
RMS 7-9	4.51-14.00%	–	–	–	–
RMS 10	14.01-20.00%	–	–	–	–
RMS 11-13	20.01-99.99%	–	–	–	–
RMS 14	100%	–	–	–	–
		50	–	–	50
CMS 1-10	0.00-0.50%	–	–	–	–
CMS 11-14	0.51-3.00%	–	–	–	–
CMS 15-18	3.01-20.00%	–	–	–	–
CMS 19	20.01-99.99%	–	–	–	–
CMS 20-23	100%	–	–	–	–
		–	–	–	–
Total loans and advances to customers		56,688	1,191	18	57,897

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
In respect of:				
Retail	21,222	592	18	21,832
Commercial	35,416	599	–	36,015
Other	50	–	–	50
Total loans and advances to customers	56,688	1,191	18	57,897

46 Financial risk management (continued)

The Bank – Expected credit losses in respect of undrawn exposures	PD range	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 31 December 2018					
Loans and advances to customers:					
Retail - mortgages					
RMS 1-6	0.00-4.50%	–	–	–	–
RMS 7-9	4.51-14.00%	–	–	–	–
RMS 10	14.01-20.00%	–	–	–	–
RMS 11-13	20.01-99.99%	–	–	–	–
RMS 14	100%	–	–	–	–
		–	–	–	–
Retail - unsecured					
RMS 1-6	0.00-4.50%	15	8	–	23
RMS 7-9	4.51-14.00%	2	5	–	7
RMS 10	14.01-20.00%	–	2	–	2
RMS 11-13	20.01-99.99%	–	6	–	6
RMS 14	100%	–	–	–	–
		17	21	–	38
Retail - UK Motor Finance					
RMS 1-6	0.00-4.50%	1	–	–	1
RMS 7-9	4.51-14.00%	–	–	–	–
RMS 10	14.01-20.00%	–	–	–	–
RMS 11-13	20.01-99.99%	–	–	–	–
RMS 14	100%	–	–	–	–
		1	–	–	1
Retail - Other					
RMS 1-6	0.00-4.50%	10	2	–	12
RMS 7-9	4.51-14.00%	–	–	–	–
RMS 10	14.01-20.00%	–	–	–	–
RMS 11-13	20.01-99.99%	–	–	–	–
RMS 14	100%	–	–	–	–
		10	2	–	12
Total Retail		28	23	–	51

46 Financial risk management (continued)

The Bank – Expected credit losses in respect of undrawn exposures (continued)	PD range	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 31 December 2018					
Commercial					
CMS 1-10	0.00-0.50%	12	–	–	12
CMS 11-14	0.51-3.00%	1	8	–	9
CMS 15-18	3.01-20.00%	–	1	–	1
CMS 19	20.01-99.99%	–	–	–	–
CMS 20-23	100%	–	–	3	3
		13	9	3	25
Other					
RMS 1-6	0.00-4.50%	–	–	–	–
RMS 7-9	4.51-14.00%	–	–	–	–
RMS 10	14.01-20.00%	–	–	–	–
RMS 11-13	20.01-99.99%	–	–	–	–
RMS 14	100%	–	–	–	–
		–	–	–	–
CMS 1-10	0.00-0.50%	–	–	–	–
CMS 11-14	0.51-3.00%	–	–	–	–
CMS 15-18	3.01-20.00%	–	–	–	–
CMS 19	20.01-99.99%	–	–	–	–
CMS 20-23	100%	–	–	–	–
		–	–	–	–
Total loans and advances to customers		41	32	3	76

In respect of:				
Retail	28	23	–	51
Commercial	13	9	3	25
Other	–	–	–	–
Total loans and advances to customers	41	32	3	76

46 Financial risk management (continued)

Debt securities held at amortised cost
An analysis by credit rating of debt securities held at amortised cost is provided below:

	2019			2018		
The Group	**Investment grade[1] £m**	**Other[2] £m**	**Total £m**	Investment grade[1] £m	Other[2] £m	Total £m
Asset-backed securities:						
Mortgage-backed securities	**2,934**	**–**	**2,934**	3,262	9	3,271
Other asset-backed securities	**874**	**–**	**874**	631	17	648
	3,808	**–**	**3,808**	3,893	26	3,919
Corporate and other debt securities	**1,517**	**1**	**1,518**	1,176	2	1,178
Gross exposure	**5,325**	**1**	**5,326**	5,069	28	5,097
Allowance for impairment losses			**(1)**			(2)
Total debt securities held at amortised cost			**5,325**			5,095
The Bank						
Asset-backed securities:						
Mortgage-backed securities	**2,926**	**–**	**2,926**	3,263	–	3,263
Other asset-backed securities	**798**	**–**	**798**	521	–	521
	3,724	**–**	**3,724**	3,784	–	3,784
Corporate and other debt securities	**1,517**	**–**	**1,517**	1,176	–	1,176
Gross exposure	**5,241**	**–**	**5,241**	4,960	–	4,960
Allowance for impairment losses			**–**			–
Total debt securities held at amortised cost			**5,241**			4,960

1 Credit ratings equal to or better than 'BBB'.

2 Other comprises sub-investment grade (2019: £nil for the Group and £nil for the Bank; 2018: £6 million for the Group and £nil for the Bank) and not rated (2019: £1 million for the Group and £nil for the Bank; 2018: £22 million for the Group and £nil for the Bank).

46 Financial risk management (continued)

Financial assets at fair value through other comprehensive income (excluding equity shares)
An analysis of financial assets at fair value through other comprehensive income is included in note 19. The credit quality of financial assets at fair value through other comprehensive income (excluding equity shares) is set out below:

The Group	2019 Investment grade[1] £m	2019 Other[2] £m	2019 Total £m	2018 Investment grade[1] £m	2018 Other[2] £m	2018 Total £m
Debt securities						
Government securities	**13,082**	**–**	**13,082**	18,971	–	18,971
Asset-backed securities	**–**	**60**	**60**	–	57	57
Corporate and other debt securities	**11,036**	**–**	**11,036**	4,934	185	5,119
Total debt securities	**24,118**	**60**	**24,178**	23,905	242	24,147
Treasury and other bills	**439**	**–**	**439**	221	–	221
Total financial assets at fair value through other comprehensive income	**24,557**	**60**	**24,617**	24,126	242	24,368

1 Credit ratings equal to or better than 'BBB'.

2 Other comprises sub-investment grade (2019: £60 million; 2018: £52 million) and not rated (2019: £nil; 2018: £190 million).

The Bank	2019 Investment grade[1] £m	2019 Other[2] £m	2019 Total £m	2018 Investment grade[1] £m	2018 Other[2] £m	2018 Total £m
Debt securities						
Government securities	**12,938**	**–**	**12,938**	18,831	–	18,831
Asset-backed securities	**–**	**–**	**–**	–	5	5
Corporate and other debt securities	**8,783**	**–**	**8,783**	4,151	–	4,151
Total debt securities	**21,721**	**–**	**21,721**	22,982	5	22,987
Treasury and other bills	**439**	**–**	**439**	221	–	221
	22,160	**–**	**22,160**	23,203	5	23,208
Due from fellow Lloyds Banking Group undertakings:						
Corporate and other debt securities			**–**			–
Total financial assets at fair value through other comprehensive income			**22,160**			23,208

1 Credit ratings equal to or better than 'BBB'.

2 Other comprises sub-investment grade (2019: £nil; 2018: £nil) and not rated (2019: £nil; 2018: £5 million).

46 Financial risk management (continued)

Debt securities, treasury and other bills held at fair value through profit or loss

An analysis of financial assets at fair value through profit or loss is included in note 14. The credit quality of debt securities, treasury and other bills held at fair value through profit or loss is set out below.

	2019			2018		
The Group	**Investment grade[1] £m**	**Other[2] £m**	**Total £m**	Investment grade[1] £m	Other[2] £m	Total £m
Trading assets						
Government securities	**290**	**–**	**290**	2,293	–	2,293
Asset-backed securities	**–**	**–**	**–**	20	–	20
Corporate and other debt securities	**–**	**–**	**–**	22	–	22
Total held as trading assets	**290**	**–**	**290**	2,335	–	2,335
Other assets mandatorily at fair value through profit or loss						
Corporate and other debt securities	**47**	**–**	**47**	518	–	518
Total other assets mandatorily at fair value through profit or loss	**47**	**–**	**47**	518	–	518
	337	**–**	**337**	2,853	–	2,853
Due from fellow Lloyds Banking Group undertakings:						
Corporate and other debt securities			**–**			–
Total held at fair value through profit or loss			**337**			2,853

1 Credit ratings equal to or better than 'BBB'.

2 Other comprises sub-investment grade (2019: £nil; 2018: £nil) and not rated (2019: £nil; 2018: £nil).

46 Financial risk management (continued)

The Bank	2019 Investment grade[1] £m	2019 Other[2] £m	2019 Total £m	2018 Investment grade[1] £m	2018 Other[2] £m	2018 Total £m
Trading assets						
Government securities	**290**	**–**	**290**	2,293	–	2,293
Total held as trading assets	**290**	**–**	**290**	2,293	–	2,293
Other assets mandatorily at fair value through profit or loss						
Corporate and other debt securities	**47**	**–**	**47**	518	–	518
Total other assets mandatorily at fair value through profit or loss	**47**	**–**	**47**	518	–	518
	337	**–**	**337**	2,811	–	2,811
Due from fellow Lloyds Banking Group undertakings:						
Corporate and other debt securities			**–**			–
Total held at fair value through profit or loss			**337**			2,811

1 Credit ratings equal to or better than 'BBB'.

2 Other comprises sub-investment grade (2019: £nil; 2018: £nil) and not rated (2019: £nil; 2018: £nil).

Derivative assets

An analysis of derivative assets is given in note 15. The Group reduces exposure to credit risk by using master netting agreements and by obtaining collateral in the form of cash or highly liquid securities. In respect of the net credit risk relating to derivative assets of £4,317 million for the Group and £10,326 million for the Bank (2018: £6,769 million for the Group and £12,025 million for the Bank), cash collateral of £2,186 million for the Group and £786 million for the Bank (2018: £1,693 million for the Group and £857 million for the Bank) was held and a further £120 million for the Group and £66 million for the Bank (2018: £94 million for the Group and £32 million for the Bank) was due from OECD banks.

The Group	2019 Investment grade[1] £m	2019 Other[2] £m	2019 Total £m	2018 Investment grade[1] £m	2018 Other[2] £m	2018 Total £m
Trading and other	**5,531**	**1,267**	**6,798**	5,901	1,320	7,221
Hedging	**1,047**	**58**	**1,105**	1,467	16	1,483
	6,578	**1,325**	**7,903**	7,368	1,336	8,704
Due from fellow Lloyds Banking Group undertakings			**591**			2,589
Total derivative financial instruments			**8,494**			11,293
The Bank						
Trading and other	**4,113**	**209**	**4,322**	4,563	525	5,088
Hedging	**178**	**1**	**179**	385	15	400
	4,291	**210**	**4,501**	4,948	540	5,488
Due from fellow Lloyds Banking Group undertakings			**9,137**			9,943
Total derivative financial instruments			**13,638**			15,431

1 Credit ratings equal to or better than 'BBB'.

2 Other comprises sub-investment grade (2019: £953 million for the Group and £135 million for the Bank; 2018: £1,282 million for the Group and £488 million for the Bank) and not rated (2019: £372 million for the Group and £75 million for the Bank; 2018: £54 million for the Group and £52 million for the Bank).

46 Financial risk management (continued)

Financial guarantees and irrevocable loan commitments
Financial guarantees represent undertakings that the Group will meet a customer's obligation to third parties if the customer fails to do so. Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. The Group is theoretically exposed to loss in an amount equal to the total guarantees or unused commitments, however, the likely amount of loss is expected to be significantly less; most commitments to extend credit are contingent upon customers maintaining specific credit standards.

D. Collateral held as security for financial assets
The Group holds collateral against loans and advances and irrevocable loan commitments; qualitative and, where appropriate, quantitative information is provided in respect of this collateral below. Collateral held as security for financial assets at fair value through profit or loss and for derivative assets is also shown below.

The Group holds collateral in respect of loans and advances to banks and customers as set out below. The Group does not hold collateral against debt securities, comprising asset-backed securities and corporate and other debt securities, which are classified as financial assets held at amortised cost.

Loans and advances to banks
There were reverse repurchase agreements which are accounted for as collateralised loans within loans and advances to banks with a carrying value of £408 million for the Group and the Bank (2018: £461 million for the Group and the Bank), against which the Group and the Bank held collateral with a fair value of £388 million (2018: £481 million for the Group and the Bank).

These transactions were generally conducted under terms that are usual and customary for standard secured lending activities.

Loans and advances to customers
Retail lending
Mortgages
An analysis by loan-to-value ratio of the Group's and the Bank's residential mortgage lending is provided below. The value of collateral used in determining the loan-to-value ratios has been estimated based upon the last actual valuation, adjusted to take into account subsequent movements in house prices, after making allowances for indexation error and dilapidations.

In some circumstances, where the discounted value of the estimated net proceeds from the liquidation of collateral (i.e. net of costs, expected haircuts and anticipated changes in the value of the collateral to the point of sale) is greater than the estimated exposure at default, no credit losses are expected and no ECL allowance is recognised.

The Group	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Purchased or originated credit-impaired £m**	**Total gross £m**
At 31 December 2019					
Less than 70 per cent	**179,566**	**13,147**	**1,174**	**10,728**	**204,615**
70 per cent to 80 per cent	**44,384**	**2,343**	**181**	**1,751**	**48,659**
80 per cent to 90 per cent	**27,056**	**1,057**	**86**	**677**	**28,876**
90 per cent to 100 per cent	**5,663**	**199**	**34**	**207**	**6,103**
Greater than 100 per cent	**374**	**189**	**31**	**351**	**945**
Total	**257,043**	**16,935**	**1,506**	**13,714**	**289,198**

The Group	Stage 1 £m	Stage 2 £m	Stage 3 £m	Purchased or originated credit-impaired £m	Total gross £m
At 31 December 2018					
Less than 70 per cent	185,556	10,728	1,035	11,846	209,165
70 per cent to 80 per cent	41,827	1,802	190	1,884	45,703
80 per cent to 90 per cent	24,854	832	95	1,032	26,813
90 per cent to 100 per cent	4,957	164	39	302	5,462
Greater than 100 per cent	603	128	34	327	1,092
Total	257,797	13,654	1,393	15,391	288,235

The Bank	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total gross £m**
At 31 December 2019				
Less than 70 per cent	**39,054**	**3,004**	**424**	**42,482**
70 per cent to 80 per cent	**4,848**	**529**	**68**	**5,445**
80 per cent to 90 per cent	**2,428**	**264**	**38**	**2,730**
90 per cent to 100 per cent	**516**	**49**	**18**	**583**
Greater than 100 per cent	**58**	**43**	**10**	**111**
Total	**46,904**	**3,889**	**558**	**51,351**

46 Financial risk management (continued)

The Bank	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total gross £m
At 31 December 2018				
Less than 70 per cent	41,695	3,193	485	45,373
70 per cent to 80 per cent	4,668	483	75	5,226
80 per cent to 90 per cent	2,333	247	43	2,623
90 per cent to 100 per cent	527	68	21	616
Greater than 100 per cent	76	57	20	153
Total	49,299	4,048	644	53,991

Other
The majority of non-mortgage retail lending is unsecured. At 31 December 2019, Stage 3 non-mortgage lending amounted to £610 million, net of an impairment allowance of £368 million (2018: £631 million, net of an impairment allowance of £366 million).

Stage 1 and Stage 2 non-mortgage retail lending amounted to £54,042 million (2018: £52,450 million). Lending decisions are predominantly based on an obligor's ability to repay from normal business operations rather than reliance on the disposal of any security provided. Collateral values are rigorously assessed at the time of loan origination and are thereafter monitored in accordance with business unit credit policy.

The Group credit risk disclosures for unimpaired non-mortgage retail lending report assets gross of collateral and therefore disclose the maximum loss exposure. The Group believes that this approach is appropriate.

Commercial lending
Reverse repurchase transactions
At 31 December 2019 there were reverse repurchase agreements which were accounted for as collateralised loans with a carrying value of £51,624 million for the Group and the Bank (2018: £35,879 million for the Group and the Bank) against which the Group and the Bank held collateral with a fair value of £50,130 million (2018: £37,765 million for the Group and the Bank) all of which the Group was able to repledge. No collateral in the form of cash was provided in respect of reverse repurchase agreements to the Group or the Bank (2018: £nil for the Group and the Bank). These transactions were generally conducted under terms that are usual and customary for standard secured lending activities.

Stage 3 secured lending
The value of collateral is re-evaluated and its legal soundness re-assessed if there is observable evidence of distress of the borrower; this evaluation is used to determine potential loss allowances and management's strategy to try to either repair the business or recover the debt.

At 31 December 2019, Stage 3 secured commercial lending amounted to £750 million, net of an impairment allowance of £167 million (2018: £658 million, net of an impairment allowance of £215 million). The fair value of the collateral held in respect of impaired secured commercial lending was £744 million (2018: £590 million) for the Group. In determining the fair value of collateral, no specific amounts have been attributed to the costs of realisation. For the purposes of determining the total collateral held by the Group in respect of impaired secured commercial lending, the value of collateral for each loan has been limited to the principal amount of the outstanding advance in order to eliminate the effects of any over-collateralisation and to provide a clearer representation of the Group's exposure.

Stage 3 secured commercial lending and associated collateral relates to lending to property companies and to customers in the financial, business and other services; transport, distribution and hotels; and construction industries.

Stage 1 and Stage 2 secured lending
For Stage 1 and Stage 2 secured commercial lending, the Group reports assets gross of collateral and therefore discloses the maximum loss exposure. The Group believes that this approach is appropriate as collateral values at origination and during a period of good performance may not be representative of the value of collateral if the obligor enters a distressed state.

Stage 1 and Stage 2 secured commercial lending is predominantly managed on a cash flow basis. On occasion, it may include an assessment of underlying collateral, although, for Stage 3 lending, this will not always involve assessing it on a fair value basis. No aggregated collateral information for the entire unimpaired secured commercial lending portfolio is provided to key management personnel.

Financial assets at fair value through profit or loss (excluding equity shares)
Included in financial assets at fair value through profit or loss at 31 December 2018 were reverse repurchase agreements treated as collateralised loans with a carrying value of £17,127 million for the Group and the Bank. Collateral was held with a fair value of £18,910 million for the Group and the Bank, all of which the Group was able to repledge, £17,121 million for the Group and the Bank had been repledged. There were no such transactions at 31 December 2019.

In addition, securities held as collateral in the form of stock borrowed amounted to £8,867 million for the Group and £8,453 million for the Bank (2018: £45,025 million for the Group and £16,029 million for the Bank). Of this amount, £7,630 million for the Group and £8,178 million for the Bank (2018: £43,701 million for the Group and £14,809 million for the Bank) had been resold or repledged as collateral for the Group's own transactions.

These transactions were generally conducted under terms that are usual and customary for standard secured lending activities.

Derivative assets, after offsetting of amounts under master netting arrangements
The Group reduces exposure to credit risk by using master netting agreements and by obtaining collateral in the form of cash or highly liquid securities. In respect of the net derivative assets after offsetting of amounts under master netting arrangements of £4,317 million for the Group and £10,326 million for the Bank (2018: £6,769 million for the Group and £12,025 million for the Bank), cash collateral of £2,186 million for the Group and £786 million for the Bank (2018: £1,693 million for the Group and £857 million for the Bank) was held.

Irrevocable loan commitments and other credit-related contingencies
At 31 December 2019, there were irrevocable loan commitments and other credit-related contingencies of £49,199 million for the Group and £29,961 million for the Bank (2018: £51,242 million for the Group and £32,912 million for the Bank). Collateral is held as security, in the event that lending is drawn down, on £12,391 million for the Group and £1,120 million for the Bank (2018: £10,661 million for the Group and £698 million for the Bank) of these balances.

46 Financial risk management (continued)

Collateral repossessed
During the year, £413 million of collateral was repossessed (2018: £245 million), consisting primarily of residential property. In respect of retail portfolios, the Group does not take physical possession of properties or other assets held as collateral and uses external agents to realise the value as soon as practicable, generally at auction, to settle indebtedness. Any surplus funds are returned to the borrower or are otherwise dealt with in accordance with appropriate insolvency regulations. In certain circumstances the Group takes physical possession of assets held as collateral against commercial lending. In such cases, the assets are carried on the Group's balance sheet and are classified according to the Group's accounting policies.

E. Collateral pledged as security
The Group pledges assets primarily for repurchase agreements and securities lending transactions which are generally conducted under terms that are usual and customary for standard securitised borrowing contracts.

Repurchase transactions
Deposits from banks
Included in deposits from banks are balances arising from repurchase transactions of £18,105 million for the Group and £2,645 million for the Bank (2018: £21,170 million for the Group and £1,193 million for the Bank); the fair value of the collateral provided under these agreements at 31 December 2019 was £17,545 million for the Group and £2,118 million for the Bank (2018: £19,615 million for the Group and £1,188 million for the Bank).

Customer deposits
Included in customer deposits are balances arising from repurchase transactions of £9,530 million for the Group and the Bank (2018: £1,818 million for the Group and the Bank); the fair value of the collateral provided under these agreements at 31 December 2019 was £9,221 million for the Group and the Bank (2018: £1,710 million for the Group and the Bank).

Trading and other financial liabilities at fair value through profit or loss
The fair value of collateral pledged in respect of repurchase transactions, accounted for as secured borrowing, where the secured party was permitted by contract or custom to repledge was £14,148 million for the Group and the Bank at 31 December 2018 (2019: £nil for the Group and the Bank).

Securities lending transactions
The following on balance sheet financial assets have been lent to counterparties under securities lending transactions:

	The Group		The Bank	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Financial assets at fair value through profit or loss	**470**	723	**634**	715
Financial assets at fair value through other comprehensive income	**854**	1,025	**1,467**	731
	1,324	1,748	**2,101**	1,446

Securitisations and covered bonds
In addition to the assets detailed above, the Group also holds assets that are encumbered through the Group's asset-backed conduits and its securitisation and covered bond programmes. Further details of these assets are provided in notes 27 and 42.

(2) Market risk
Interest rate risk
Interest rate risk arises from the different repricing characteristics of the assets and liabilities. Liabilities are either insensitive to interest rate movements, for example interest free or very low interest customer deposits, or are sensitive to interest rate changes but bear rates which may be varied at the Group's discretion and that for competitive reasons generally reflect changes in the Bank of England's base rate. The rates on the remaining deposits are contractually fixed for their term to maturity.

Many banking assets are sensitive to interest rate movements; there is a large volume of managed rate assets such as variable rate mortgages which may be considered as a natural offset to the interest rate risk arising from the managed rate liabilities. However, a significant proportion of the Group's lending assets, for example many personal loans and mortgages, bear interest rates which are contractually fixed.

The Group's risk management policy is to optimise reward whilst managing its market risk exposures within the risk appetite defined by the Board. The largest residual risk exposure arises from balances that are deemed to be insensitive to changes in market rates (including current accounts, a portion of variable rate deposits and investable equity), and is managed through the Group's structural hedge. The structural hedge consists of longer-term fixed rate assets or interest rate swaps and the amount and duration of the hedging activity is reviewed regularly by the Lloyds Banking Group Asset and Liability Committee.

The Group and the Bank establish hedge accounting relationships for interest rate risk using cash flow hedges and fair value hedges. The Group and the Bank are exposed to cash flow interest rate risk on its variable rate loans and deposits together with its floating rate subordinated debt. The derivatives used to manage the structural hedge may be designated into cash flow hedges to manage income statement volatility. The economic items related to the structural hedge, for example current accounts, are not eligible hedged items under IAS 39 for inclusion into accounting hedge relationships. The Group and the Bank are exposed to fair value interest rate risk on its fixed rate customer loans, its fixed rate customer deposits and the majority of its subordinated debt, and to cash flow interest rate risk on its variable rate loans and deposits together with its floating rate subordinated debt. The Group and the Bank apply netting between similar risks before applying hedge accounting.

Hedge ineffectiveness arises during the management of interest rate risk due to residual unhedged risk. Sources of ineffectiveness, which the Group may decide to not fully mitigate, can include basis differences, timing differences and notional amount differences. The effectiveness of accounting hedge relationships is assessed between the hedging derivatives and the documented hedged item, which can differ to the underlying economically hedged item.

At 31 December 2019 the aggregate notional principal of interest rate swaps designated as fair value hedges was £160,942 million (2018: £150,971 million) for the Group and £66,833 million (2018: £153,223 million) for the Bank with a net fair value asset of £467 million (2018: asset of £760 million) for the Group and a net fair value liability of £60 million (2018: liability of £871 million) for the Bank (note 15). There were gains recognised on the hedging instruments of £353 million (2018: £125 million) for the Group and gains of £120 million (2018: gains of £262 million) for the Bank. There were losses on

46 Financial risk management (continued)

the hedged items attributable to the hedged risk of £200 million (2018: losses of £77 million) for the Group and losses of £163 million (2018: losses of £320 million) for the Bank. The gains and losses relating to the fair value hedges are recorded in net trading income.

In addition the Group has cash flow hedges which are primarily used to hedge the variability in the cost of funding within the commercial business. The notional principal of the interest rate swaps designated as cash flow hedges at 31 December 2019 was £417,718 million (2018: £556,945 million) for the Group and £130,477 million (2018: £146,018 million) for the Bank with a net fair value liability of £393 million (2018: liability of £486 million) for the Group and a net fair value liability of £26 million (2018: asset of £nil) for the Bank (note 15). In 2019, ineffectiveness recognised in the income statement that arises from cash flow hedges was a gain of £131 million (2018: loss of £25 million) for the Group and a gain of £62 million (2018: loss of £21 million) for the Bank.

Interest Rate Benchmark Reform

As discussed in note 1, the Group has applied the hedge accounting amendments *Interest Rate Benchmark Reform* to hedge accounting relationships directly affected by the replacement of interest rate benchmarks. Under these amendments, for the purposes of:

– determining whether a forecast transaction is highly probable;

– determining whether the hedged future cash flows are expected to occur;

– determining whether a hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk; and

– determining whether an accounting hedging relationship should be discontinued because of a failure of the retrospective effectiveness test

the Group has assumed that the interest rate benchmark on which the hedged risk or the cash flows of the hedged item or hedging instrument are based is not altered by uncertainties resulting from the proposed interest rate benchmark reform. In addition, for a fair value hedge of a non-contractually specified benchmark portion of interest rate risk, the Group assesses only at inception of the hedge relationship and not on an ongoing basis that the risk is separately identifiable and hedge effectiveness can be measured.

The Group's most significant hedge accounting relationships are exposed to the following interest rate benchmarks: Sterling LIBOR, US Dollar LIBOR and Euro LIBOR. The notional of the hedged items that the Group has designated into cash-flow hedge relationships that is directly affected by the interest rate benchmark reform is £26,774 million (Bank: £12,421 million), of which £23,467 million (Bank: £12,421 million) relates to Sterling LIBOR. These are principally loans and advances to customers in Commercial Banking. In addition, the interest rate benchmark reforms affect assets designated in fair value hedges with a notional of £102,969 million (Bank: £18,977 million), of which £98,278 million (Bank: £14,286 million) is in respect of sterling LIBOR, and liabilities designated in fair value hedges with a notional of £45,183 million (Bank: £38,328 million), of which £5,890 million (Bank: £4,824 million) is in respect of sterling LIBOR. These fair value hedges principally relate to mortgages in Retail and debt securities in issue (for Bank, principally debt securities in issue).

The Group is managing the process to transition to alternative benchmark rates under its Group-wide IBOR Transition Programme. This programme is working towards ensuring that the Group has the market capability and infrastructure to deal with the reform. The programme also encompasses the associated impacts on accounting and reporting and includes dealing with the impact on hedge accounting relationships of the transition to alternative reference rates.

The significant assumptions and judgements that the Group has made in applying these requirements include the following:

– a hedge accounting relationship is assumed to be affected by the interest rate benchmark reform if the reform gives rise to uncertainties about the timing and/or amount of the interest rate benchmark-based cash flows of the hedged items and/or of the hedging instrument;

– where the hedged item is a forecast transaction then, in the absence of any certainty in relation to the interest rate benchmark reform, assessments have been determined as to whether the forecast transaction is highly probable assuming that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the interest rate benchmark reform;

– any reclassification of amounts in cash flow hedge reserves to profit or loss have been based on assessing whether the hedged cash flows are no longer

– expected to occur assuming that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the interest rate

– benchmark reform; and

– all benchmark rate referenced hedged items and hedging instruments included in hedging relationships are subject to uncertainty due to interest rate benchmark reform.

In accordance with the Interest Rate Benchmark Reform amendments to IAS 39, the Group will cease to apply prospectively the reliefs outlined above when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedged item (or for the effectiveness assessments, the hedging instrument). The reliefs will be disapplied earlier if the hedging relationship is discontinued or the entire amount accumulated in the cash flow hedge reserve with respect to that hedging relationship is reclassified to profit or loss for a reason other than interest rate benchmark reform.

At 31 December 2019, the notional amount of the hedging instruments in hedging relationships to which these amendments apply was £576,356 million (Bank: £194,827 million), of which £116,211 million (Bank: £25,070 million) relates to Sterling LIBOR fair value hedges and £391,417 million (Bank: £130,477 million) relates to Sterling LIBOR cash flow hedges.

Currency risk

The corporate and retail businesses incur foreign exchange risk in the course of providing services to their customers. All non-structural foreign exchange exposures in the non-trading book are transferred to the trading area where they are monitored and controlled. These risks reside in the authorised trading centres who are allocated exposure limits. The limits are monitored daily by the local centres and reported to the central market risk function in London. The Group also manages foreign currency risk via cash flow hedge accounting, utilising currency swaps.

Risk arises from the Group's investments in its overseas operations. The Group's structural foreign currency exposure is represented by the net asset value of the foreign currency equity and subordinated debt investments in its subsidiaries and branches. Gains or losses on structural foreign currency exposures are taken to reserves.

The Group ceased all hedging of the currency translation risk of the net investment in foreign operations on 1 January 2018.

46 Financial risk management (continued)

The Group has overseas operations in Europe. Structural foreign currency exposures in respect of operations with a Euro functional currancy are £52 million (2018: £112 million) for the Group and £2 million (2018: £6 million) for the Bank:

(3) Liquidity risk
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. Liquidity risk is managed through a series of measures, tests and reports that are primarily based on contractual maturity. The Group carries out monthly stress testing of its liquidity position against a range of scenarios, including those prescribed by the PRA. The Group's liquidity risk appetite is also calibrated against a number of stressed liquidity metrics.

The tables below analyse financial instrument liabilities of the Group and the Bank on an undiscounted future cash flow basis according to contractual maturity, into relevant maturity groupings based on the remaining period at the balance sheet date; balances with no fixed maturity are included in the over 5 years category. Certain balances, included in the table below on the basis of their residual maturity, are repayable on demand upon payment of a penalty.

The Group	Up to 1 month £m	1-3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
At 31 December 2019						
Deposits from banks	**4,099**	**2,302**	**248**	**17,142**	**317**	**24,108**
Customer deposits	**368,331**	**11,440**	**11,861**	**9,271**	**1,276**	**402,179**
Financial liabilities at fair value through profit or loss	**30**	**71**	**298**	**1,330**	**13,213**	**14,942**
Debt securities in issue	**4,174**	**8,186**	**15,117**	**41,816**	**28,696**	**97,989**
Other liabilities (lease liabilities)	**2**	**60**	**187**	**793**	**935**	**1,977**
Subordinated liabilities	**245**	**1,472**	**1,711**	**7,593**	**6,513**	**17,534**
Total non-derivative financial liabilities	**376,881**	**23,531**	**29,422**	**77,945**	**50,950**	**558,729**
Derivative financial liabilities:						
Gross settled derivatives – outflows	**2,492**	**3,053**	**10,815**	**25,935**	**13,884**	**56,179**
Gross settled derivatives – inflows	**(968)**	**(2,636)**	**(10,744)**	**(25,838)**	**(13,829)**	**(54,015)**
Gross settled derivatives – net flows	**1,524**	**417**	**71**	**97**	**55**	**2,164**
Net settled derivative liabilities	**14,654**	**(16)**	**1**	**129**	**383**	**15,151**
Total derivative financial liabilities	**16,178**	**401**	**72**	**226**	**438**	**17,315**

46 Financial risk management (continued)

The Group	Up to 1 month £m	1-3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
At 31 December 2018						
Deposits from banks	1,938	2,401	865	20,302	1,362	26,868
Customer deposits	361,233	7,298	12,066	9,825	1,554	391,976
Financial liabilities at fair value through profit or loss	3,807	6,165	5,389	931	10,771	27,063
Debt securities in issue	4,714	5,580	19,741	35,123	12,677	77,835
Subordinated liabilities	236	1,164	953	6,871	10,444	19,668
Total non-derivative financial liabilities	371,928	22,608	39,014	73,052	36,808	543,410
Derivative financial liabilities:						
Gross settled derivatives – outflows	1,161	1,704	6,503	21,645	13,207	44,220
Gross settled derivatives – inflows	(924)	(1,528)	(6,185)	(20,173)	(11,450)	(40,260)
Gross settled derivatives – net flows	237	176	318	1,472	1,757	3,960
Net settled derivative liabilities	5,778	(9)	39	285	576	6,669
Total derivative financial liabilities	6,015	167	357	1,757	2,333	10,629

The principal amount for undated subordinated liabilities with no redemption option is included within the over 5 years column; interest of approximately £28 million (2018: £27 million) per annum for the Group and £21 million (2018: £19 million) for the Bank which is payable in respect of those instruments for as long as they remain in issue is not included beyond 5 years.

The Bank	**Up to 1 month £m**	**1-3 months £m**	**3-12 months £m**	**1-5 years £m**	**Over 5 years £m**	**Total £m**
At 31 December 2019						
Deposits from banks	**3,933**	**2,302**	**144**	**824**	**317**	**7,520**
Customer deposits	**227,825**	**9,620**	**4,727**	**1,330**	**1,176**	**244,678**
Financial liabilities at fair value through profit or loss	**30**	**71**	**298**	**1,330**	**13,165**	**14,894**
Debt securities in issue	**3,323**	**4,341**	**12,569**	**34,779**	**26,628**	**81,640**
Other liabilities (lease liabilities)	**1**	**35**	**109**	**446**	**513**	**1,104**
Subordinated liabilities	**173**	**1,416**	**1,572**	**6,254**	**3,497**	**12,912**
Total non-derivative financial liabilities	**235,285**	**17,785**	**19,419**	**44,963**	**45,296**	**362,748**
Derivative financial liabilities:						
Gross settled derivatives – outflows	**1,631**	**2,906**	**10,228**	**24,164**	**12,130**	**51,059**
Gross settled derivatives – inflows	**(932)**	**(2,523)**	**(10,160)**	**(24,038)**	**(11,911)**	**(49,564)**
Gross settled derivatives – net flows	**699**	**383**	**68**	**126**	**219**	**1,495**
Net settled derivative liabilities	**10,539**	**(19)**	**(6)**	**59**	**243**	**10,816**
Total derivative financial liabilities	**11,238**	**364**	**62**	**185**	**462**	**12,311**

46 Financial risk management (continued)

The Bank	Up to 1 month £m	1-3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
At 31 December 2018						
Deposits from banks	1,860	1,472	701	112	1,362	5,507
Customer deposits	219,209	4,845	3,956	693	810	229,513
Trading and other financial liabilities at fair value through profit or loss	3,839	6,216	5,434	887	10,754	27,130
Debt securities in issue	4,181	4,083	16,637	25,590	11,813	62,304
Subordinated liabilities	190	416	487	5,706	5,992	12,791
Total non-derivative financial liabilities	229,279	17,032	27,215	32,988	30,731	337,245
Derivative financial liabilities:						
Gross settled derivatives – outflows	1,083	1,630	6,364	18,279	11,908	39,264
Gross settled derivatives – inflows	(884)	(1,466)	(6,054)	(16,992)	(10,296)	(35,692)
Gross settled derivatives – net flows	199	164	310	1,287	1,612	3,572
Net settled derivative liabilities	4,302	(18)	6	152	351	4,793
Total derivative financial liabilities	4,501	146	316	1,439	1,963	8,365

The following tables set out the amounts and residual maturities of off balance sheet contingent liabilities, commitments and guarantees.

The Group	Within 1 year £m	1-3 years £m	3-5 years £m	Over 5 years £m	Total £m
31 December 2019					
Acceptances and endorsements	**17**	**–**	**–**	**–**	**17**
Other contingent liabilities	**1,422**	**349**	**99**	**683**	**2,553**
Total contingent liabilities	**1,439**	**349**	**99**	**683**	**2,570**
Lending commitments and guarantees	**90,953**	**11,756**	**10,571**	**2,983**	**116,263**
Other commitments	**5**	**71**	**43**	**52**	**171**
Total commitments and guarantees	**90,958**	**11,827**	**10,614**	**3,035**	**116,434**
Total contingents, commitments and guarantees	**92,397**	**12,176**	**10,713**	**3,718**	**119,004**
31 December 2018					
Acceptances and endorsements	32	–	–	–	32
Other contingent liabilities	1,324	551	133	747	2,755
Total contingent liabilities	1,356	551	133	747	2,787
Lending commitments and guarantees	89,567	12,445	11,554	4,215	117,781
Other commitments	524	20	13	176	733
Total commitments and guarantees	90,091	12,465	11,567	4,391	118,514
Total contingents, commitments and guarantees	91,447	13,016	11,700	5,138	121,301

46 Financial risk management (continued)

The Bank	Within 1 year £m	1-3 years £m	3-5 years £m	Over 5 years £m	Total £m
31 December 2019					
Acceptances and endorsements	**16**	**–**	**–**	**–**	**16**
Other contingent liabilities	**1,323**	**271**	**99**	**580**	**2,273**
Total contingent liabilities	**1,339**	**271**	**99**	**580**	**2,289**
Lending commitments and guarantees	**30,727**	**9,806**	**9,694**	**2,165**	**52,392**
Other commitments	**5**	**71**	**43**	**38**	**157**
Total commitments and guarantees	**30,732**	**9,877**	**9,737**	**2,203**	**52,549**
Total contingents, commitments and guarantees	**32,071**	**10,148**	**9,836**	**2,783**	**54,838**
31 December 2018					
Acceptances and endorsements	31	–	–	–	31
Other contingent liabilities	1,239	465	133	624	2,461
Total contingent liabilities	1,270	465	133	624	2,492
Lending commitments and guarantees	32,769	10,548	10,828	3,068	57,213
Other commitments	522	20	13	129	684
Total commitments and guarantees	33,291	10,568	10,841	3,197	57,897
Total contingents, commitments and guarantees	34,561	11,033	10,974	3,821	60,389

47 Capital

Capital management

Capital is actively managed on an ongoing basis, covering the Group, the Bank on an individual basis and its regulated subsidiaries, including Bank of Scotland plc. Regulatory capital ratios are a key factor in budgeting and planning processes with updates on forecast and stressed ratios reviewed by the Lloyds Banking Group and Ring-Fenced Banks Asset and Liability Committee. Target capital levels take account of regulatory requirements, capacity for growth and to cover uncertainties. Capital policies and procedures are subject to independent oversight.

From 1 January 2019 the Group became subject to separate supervision by the UK Prudential Regulation Authority (PRA) following the entry into force of UK ring-fencing legislation, with the Group becoming the Ring-Fenced Bank sub-group ('RFB sub-group') within Lloyds Banking Group. Supervision on a sub-consolidated basis as the RFB sub-group is in addition to the existing supervision applied to the Bank on an individual basis.

The Group measures both its capital requirements and the amount of capital resources it holds to meet those requirements through applying the regulatory framework defined by the Capital Requirements Directive and Regulation (CRD IV), as amended by provisions of the revised Capital Requirements Regulation (CRR II) that came into force in June 2019. Directive requirements are implemented in the UK by the PRA and supplemented through additional regulation under the PRA Rulebook.

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 common equity tier 1 (CET1) capital and at least 6 per cent of risk-weighted assets are required to be covered by tier 1 capital. These minimum Pillar 1 requirements are supplemented by additional minimum requirements under Pillar 2A of the regulatory framework, the aggregate of which is referred to as the Total Capital Requirement (TCR).

Under Pillar 2A, additional requirements are set through the issuance of an Individual Capital Requirement (ICR), which adjusts the Pillar 1 minimum requirement for those risks not covered or not fully covered under Pillar 1. A key input into the PRA's ICR process is the Group's own assessment of the amount of capital it needs, a process known as the Internal Capital Adequacy Assessment Process (ICAAP). The Group's Pillar 2A capital requirement is currently 4.9 per cent of risk-weighted assets, of which 2.7 per cent must be met with CET1 capital.

A range of additional regulatory capital buffers apply under CRD IV, which are required to be met with CET1 capital. These include a capital conservation buffer (2.5 per cent of risk-weighted assets) and a time-varying countercyclical capital buffer (0.9 per cent of risk-weighted assets as at 31 December 2019). In addition, following the entry into force of UK ring-fencing legislation, the Group became subject to a systemic risk buffer (2.0 per cent of risk-weighted assets) which came into effect in August 2019 and is designed to hold systemically important banks to higher capital standards so that they can withstand a greater level of stress before requiring resolution.

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

The Group has adopted the IFRS9 transitional arrangements for capital set out under the relevant CRD IV amendment. The arrangements allow for the initial net impact of IFRS 9 on CET1 capital, resulting from the increase in accounting impairment provisions, plus the capital impact of any subsequent increases in Stage 1 and Stage 2 expected credit losses (net of movements in regulatory expected losses), to be phased in over a five year transition period. For 2019 the phase in factor allowed 85 per cent of the resultant transitional adjustment to be added back to CET1 capital. The phase in factor will reduce to 70 per cent in 2020. As at 31 December 2019 no additional capital relief in respect of post 1 January 2018 increases in Stage 1 and Stage 2 expected credit losses (net of movements in regulatory expected losses) has been recognised.

47 Capital (continued)

From 1 January 2019 the Group also became subject to the UK Leverage Ratio Framework. The minimum leverage ratio requirement under the Framework is 3.25 per cent. This is supplemented by a time-varying countercyclical leverage buffer (0.3 per cent of the leverage exposure measure at 31 December 2019) and an additional leverage ratio buffer (0.7 per cent of the leverage exposure measure) which reflects the application of the Group's systemic risk buffer. At least 75 per cent of the 3.25 per cent minimum leverage ratio requirement and the entirety of any leverage buffers that may apply must be met by CET1 capital.

During the year, the individual regulated entities within the Group and the Group itself complied with all of the externally imposed capital requirements to which they are subject.

Regulatory capital development
The regulatory framework within which the Group operates continues to be developed at a global level through the Financial Stability Board (FSB) and Basel Committee on Banking Supervision (BCBS), at a European level mainly through the European Commission (EC) and the issuance of technical standards and guidelines by the European Banking Authority (EBA) and within the UK by the PRA and through directions from the Financial Policy Committee (FPC).The Group continues to monitor these developments very closely, analysing potential capital impacts to ensure the Group and individual regulated entities continue to maintain a strong capital position that exceeds the minimum regulatory requirements and the Group's risk appetite and is consistent with market expectations.

Capital resources
Regulatory capital is divided into tiers depending on the degree of permanency and loss absorbency exhibited.

- Common equity tier 1 (CET1) capital represents the strongest form of capital consisting of shareholders' equity after a number of regulatory adjustments and deductions are applied. These include adjustments for IFRS 9 transitional arrangements, the accrual for foreseeable dividends (where applicable), the elimination of the cash flow hedging reserve and deductions for goodwill, other intangible assets, prudent valuation, the excess of expected losses over impairment provisions, defined benefit pension surplus and deferred tax assets.
- Fully qualifying additional tier 1 (AT1) capital comprises non-cumulative perpetual securities containing specific provisions to write down the security should the CET1 ratio fall to a defined trigger limit. Under transitional rules for capital, securities that do not qualify in their own right as AT1 capital, but were issued and recognised as eligible tier 1 capital prior to the implementation of CRD IV, can be partially included within AT1 capital ('grandfathering'), until they are phased out altogether by 2022. To the extent these securities no longer qualify as AT1 capital they may nevertheless still qualify as tier 2 capital either under transitional rules for tier 2 securities or on an end point basis.
- Tier 2 (T2) capital largely comprises certain other subordinated debt securities that do not qualify as AT1. They must have an original term of at least five years, cannot normally be redeemed within their first five years and are phased out as T2 regulatory capital in the final five years before maturity. Under transitional rules for capital, securities that do not qualify in their own right as T2 capital, but were issued and recognised as eligible T2 capital prior to the implementation of CRD IV, can be partially included within T2 capital ('grandfathering'), until they are phased out altogether by 2022. Following revisions to eligibility criteria for capital instruments under CRR II, certain tier 2 capital instruments of the Group will cease to qualify as regulatory capital after June 2025 in accordance with the revised transitional rules. Eligible provisions, reflecting the excess of IFRS 9 expected credit losses over corresponding regulatory expected losses, are added back to T2 capital, net of the application of IFRS 9 transitional adjustments.

The Group's transitional capital resources are summarised as follows:

	2019 £m	2018 £m
Common equity tier 1 capital	**24,637**	26,060
Additional tier 1 capital	**6,905**	5,937
Tier 2 capital	**6,434**	7,087
Total capital	**37,976**	39,084

48 Cash flow statements

a Change in operating assets

	The Group			The Bank		
	2019 £m	2018 £m	2017 £m	**2019 £m**	2018 £m	2017 £m
Change in financial assets held at amortised cost	**(11,832)**	(10,338)	(25,178)	**(5,482)**	(992)	(2,832)
Changes in amounts due from fellow Lloyds Banking Group undertakings	**24**	4,827	810	**(48,692)**	9,875	(23,861)
Change in derivative financial instruments and financial assets at fair value through profit or loss	**24,649**	40,137	9,285	**22,568**	37,356	15,459
Change in other operating assets	**31**	(410)	(650)	**63**	295	69
Change in operating assets	**12,872**	34,216	(15,733)	**(31,543)**	46,534	(11,165)

48 Cash flow statements (continued)

b Change in operating liabilities

	The Group			The Bank		
	2019 £m	2018 £m	2017 £m	**2019 £m**	2018 £m	2017 £m
Change in deposits from banks	**(2,670)**	(2,677)	13,415	**1,802**	(2,219)	(1,917)
Change in customer deposits	**5,593**	(11,901)	2,935	**10,360**	(5,258)	13,417
Changes in amounts due to fellow Lloyds Banking Group undertakings	**(8,142)**	(5,466)	44	**28,016**	(23,522)	12,812
Change in debt securities in issue	**11,898**	4,730	(11,968)	**11,722**	1,442	(6,079)
Change in derivative financial instruments and financial liabilities at fair value through profit or loss	**(11,527)**	(45,383)	(12,677)	**(10,776)**	(46,514)	(15,110)
Change in investment contract liabilities	**–**	(353)	(4,665)	**–**	–	–
Change in other operating liabilities[1]	**(782)**	(383)	(463)	**(1,823)**	(648)	340
Change in operating liabilities	**(5,630)**	(61,433)	(13,379)	**39,301**	(76,719)	3,463

1 Includes £43 million (2018: £27 million; 2017: £2 million) for the Group and £20 million (2018: £27 million; 2017: £4 million) for the Bank in respect of lease liabilities.

c Non-cash and other items

	The Group			The Bank		
	2019 £m	2018 £m	2017 £m	**2019 £m**	2018 £m	2017 £m
Depreciation and amortisation	**2,602**	2,374	2,370	**1,245**	1,031	932
Permanent diminution in value of investment in subsidiaries	**–**	–	–	**159**	92	302
Dividends received from subsidiary undertakings	**–**	–	–	**(1,434)**	(4,968)	(4,479)
Revaluation of investment properties	**8**	(46)	(230)	**–**	–	–
Allowance for loan losses	**1,380**	1,012	691	**490**	553	465
Write-off of allowance for loan losses, net of recoveries	**(1,457)**	(1,000)	(1,062)	**(759)**	(608)	(475)
Impairment charge relating to undrawn balances	**(17)**	(72)	(9)	**14**	(46)	(3)
Impairment of financial assets at fair value through other comprehensive income (2017: available-for-sale financial assets)	**(1)**	(14)	6	**(1)**	(2)	–
Change in insurance contract liabilities	**–**	(1,520)	9,169	**–**	–	–
Payment protection insurance provision	**2,444**	746	1,300	**1,170**	317	781
Other regulatory provisions	**395**	561	865	**137**	311	342
Other provision movements	**(129)**	(541)	(8)	**(43)**	(413)	(48)
Additional capital injections to subsidiaries	**–**	–	–	**(53)**	(72)	(149)
Charge in respect of defined benefit schemes	**245**	404	369	**131**	196	165
Unwind of discount on impairment allowances	**(52)**	(39)	(23)	**(32)**	(33)	(37)
Foreign exchange element on balance sheet[1]	**420**	(365)	209	**(230)**	(130)	718
Interest expense on subordinated liabilities	**947**	1,072	1,285	**657**	654	664
Loss (profit) on disposal of businesses	**(107)**	(1,010)	–	**–**	21	(555)
Other non-cash items	**(295)**	933	537	**(142)**	990	1,181
Total non-cash items	**6,383**	2,495	15,469	**1,309**	(2,107)	(196)
Contributions to defined benefit schemes	**(1,069)**	(868)	(587)	**(563)**	(455)	(401)
Payments in respect of payment protection insurance provision	**(2,457)**	(2,101)	(1,657)	**(1,156)**	(1,057)	(946)
Payments in respect of other regulatory provisions	**(707)**	(956)	(928)	**(229)**	(302)	(430)
Other	**–**	6	–	**–**	–	–
Total other items	**(4,233)**	(3,919)	(3,172)	**(1,948)**	(1,814)	(1,777)
Non-cash and other items	**2,150**	(1,424)	12,297	**(639)**	(3,921)	(1,973)

1 When considering the movement on each line of the balance sheet, the impact of foreign exchange rate movements is removed in order to show the underlying cash impact.

48 Cash flow statements (continued)

d Analysis of cash and cash equivalents as shown in the balance sheet

	The Group			The Bank		
	2019 £m	2018 £m	2017 £m	**2019 £m**	2018 £m	2017 £m
Cash and balances with central banks	**38,880**	40,213	58,521	**35,741**	37,632	55,835
Less: mandatory reserve deposits[1]	**(3,177)**	(2,541)	(957)	**(764)**	(803)	(535)
	35,703	37,672	57,564	**34,977**	36,829	55,300
Loans and advances to banks	**4,852**	3,692	4,274	**4,453**	3,153	3,611
Loans and advances to banks within disposal group	**–**	–	2,337	**–**	–	–
Less: amounts with a maturity of three months or more	**(1,941)**	(1,641)	(3,193)	**(1,648)**	(1,328)	(2,791)
	2,911	2,051	3,418	**2,805**	1,825	820
Total cash and cash equivalents	**38,614**	39,723	60,982	**37,782**	38,654	56,120
Cash and cash equivalents of continuing operations	**38,614**	39,723	58,645	**37,782**	38,654	56,120
Cash and cash equivalents in disposal group	**–**	–	2,337	**–**	–	–
Total cash and cash equivalents	**38,614**	39,723	60,982	**37,782**	38,654	56,120

1 Mandatory reserve deposits are held with local central banks in accordance with statutory requirements; these deposits are not available to finance the Group's day-to-day operations.

Included within cash and cash equivalents of the Group at 31 December 2017 was £2,322 million held within the Group's long-term insurance and investments business, within a disposal group, which was not immediately available for use in the business.

e Acquisition of group undertakings and businesses

	The Group			The Bank		
	2019 £m	2018 £m	2017 £m	**2019 £m**	2018 £m	2017 £m
Net assets acquired:						
Cash and cash equivalents	**–**	–	123	**–**	–	–
Loans and advances to customers	**–**	–	7,811	**–**	–	7,311
Available-for-sale financial assets			16			–
Intangible assets	**–**	21	702	**–**	–	–
Property, plant and equipment	**–**	–	6	**–**	–	1
Other assets	**–**	6	414	**–**	–	5
Customer deposits	**–**	–	–	**–**	–	(8,114)
Deposits from banks[1]	**–**	–	(6,431)	**–**	–	–
Net balances with group undertakings	**–**	–	–	**–**	–	1,305
Other liabilities	**–**	(1)	(927)	**–**	–	(103)
Goodwill arising on acquisition	**–**	–	302	**–**	–	–
Adjustment on vesting of businesses	**–**	–	–	**–**	–	(278)
Investments in subsidiaries derecognised on vesting of businesses	**–**	–	–	**–**	–	(127)
Cash consideration	**–**	26	2,016	**–**	–	–
Less: Cash and cash equivalents acquired	**–**	–	(123)	**–**	–	–
Net cash outflow arising from acquisitions	**–**	26	1,893	**–**	–	–
Investment in subsidiary acquired	**–**	–	–	**–**	98	2,026
Acquisition of and additional investment in joint ventures	**–**	–	20	**–**	–	–
Net cash outflow from acquisitions in the year	**–**	26	1,913	**–**	98	2,026

1 Upon acquisition in 2017, the funding of MBNA was assumed by the Bank.

48 Cash flow statements (continued)

f Disposal of group undertakings and businesses

	The Group			The Bank		
	2019 £m	2018 £m	2017 £m	**2019 £m**	2018 £m	2017 £m
Financial assets at fair value through profit or loss	**–**	125,379	2,117	**–**	–	–
Loans and advances to customers	**–**	3,495	344	**–**	–	–
Due from fellow group undertakings	**–**	14,436	176	**–**	–	–
Derivative financial instruments	**–**	3,027	–	**–**	–	–
Investment property	**–**	3,639	–	**–**	–	–
Goodwill	**–**	1,836	–	**–**	–	–
Value of in-force business	**–**	4,902	–	**–**	–	–
Available-for-sale financial assets			375			–
Property, plant and equipment	**–**	48	11	**–**	–	–
	–	156,762	3,023	**–**	–	–
Customer deposits	**–**	(15,236)	(22)	**–**	–	–
Due to fellow Lloyds Banking Group undertakings	**–**	(2,584)	(1,706)	**–**	–	–
Derivative financial instruments	**–**	(2,762)	–	**–**	–	–
Liabilities from insurance and investment contracts	**–**	(117,021)	–	**–**	–	–
Subordinated liabilities	**–**	(2,494)	–	**–**	–	–
Non-controlling interests	**–**	(305)	(387)	**–**	–	–
Other net assets (liabilities)	**–**	(8,759)	50	**–**	–	–
	–	(149,161)	(2,065)	**–**	–	–
Net assets (liabilities) disposed of	**–**	7,601	958	**–**	–	–
Investment in subsidiary disposed of	**–**	–	–	**20**	7,725	37
Disposal of investment in joint ventures	**–**	–	26	**–**	–	–
Profit (loss) on sale of businesses	**107**	1,010	–	**–**	(21)	555
Cash consideration received on losing control of group undertakings and businesses	**107**	8,611	984	**20**	7,704	592
Cash and cash equivalents disposed	**–**	(7)	–	**–**	–	–
Net cash inflow	**107**	8,604	984	**20**	7,704	592

49 Adoption of IFRS 16

The Group adopted IFRS 16 *Leases* from 1 January 2019 and elected to apply the standard retrospectively with the cumulative effect of initial application being recognised at that date; comparative information has therefore not been restated. Comparative information was prepared in accordance with IAS 17. Under IAS 17, where the Group was lessee it charged operating lease rentals to the income statement on a straight-line basis over the life of the lease.

Operating lease commitments as at 31 December 2018 amounted to £2,060 million for the Group and £1,141 million for the Bank. Lease liabilities amounting to £1,752 million for the Group and £950 million for the Bank in respect of leased properties previously accounted for as operating leases were recognised at 1 January 2019. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate appropriate for the related right-of-use asset as at that date, adjusted to exclude short-term leases and leases of low-value assets of approximately £20 million. The weighted-average borrowing rate applied to these lease liabilities was 2.43 per cent. The corresponding right-of-use assets of £1,655 million for the Group and £883 million for the Bank were measured at an amount equal to the lease liabilities, adjusted for lease liabilities recognised at 31 December 2018 of £97 million for the Group and £67 million for the Bank. The right-of-use asset and lease liabilities are included within Property, plant and equipment and Other liabilities respectively. There was no impact on shareholders' equity.

In applying IFRS 16 for the first time, the Group has used a number of practical expedients permitted by the standard; the most significant of which were the use of a single discount rate to a portfolio of leases with reasonably similar characteristics; reliance on previous assessments of whether a lease is onerous; and the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease. The Group has also elected not to apply IFRS 16 to contracts that were not identified as containing a lease under IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease*.

50 Events since the balance sheet date

Since the balance sheet date there has been a global pandemic from the outbreak of Coronavirus which is causing widespread disruption to financial markets and normal patterns of business activity across world, including the UK. The Directors assess this event to be a non-adjusting post balance sheet event. In view of its currently evolving nature, the Directors are unable to estimate its financial and other effects.

51 Future accounting developments

The IASB has issued a number of minor amendments to IFRSs effective 1 January 2020 (including IFRS 3 *Business Combinations* and IAS 1 *Presentation of Financial Statements*). These amendments are not expected to have a significant impact on the Group.

52 Other information

Lloyds Bank plc and its subsidiaries form a leading UK-based financial services group, whose businesses provide a wide range of banking and financial services in the UK and in certain locations overseas.

Lloyds Bank plc's immediate parent undertaking and ultimate parent undertaking and controlling party is Lloyds Banking Group plc which is incorporated in Scotland. Copies of the consolidated annual report and accounts of Lloyds Banking Group plc may be obtained from Lloyds Banking Group's head office at 25 Gresham Street, London EC2V 7HN or downloaded via www.lloydsbankinggroup.com.

Subsidiaries and related undertakings

In compliance with Section 409 of the Companies Act 2006, the following comprises a list of all related undertakings of the Company, as at 31 December 2019. The list includes each undertaking's registered office and the shares classes in issue.

Subsidiary Undertakings
The Company directly or indirectly holds 100 % of the share class or a majority of voting rights (including where the undertaking does not have share capital as indicated) in the following undertakings.

Name of Undertaking	Notes
A G Finance Ltd	23 i #
	ii
A.C.L. Ltd	1 xx
ACL Autolease Holdings Ltd	1 xx
Alex Lawrie Factors Ltd	9 xx
Alex. Lawrie Receivables Financing Ltd	9 xx
Amberdate Ltd	1 xx
	vi
Anglo Scottish Utilities Partnership 1	+ *
Aquilus Ltd (in liquidation)	13 xx
Automobile Association Personal Finance Ltd	4 xx
Bank of Scotland (B G S) Nominees Ltd	5 *
Bank of Scotland (Stanlife) London Nominees Ltd	5 *
Bank of Scotland Branch Nominees Ltd	5 xx
Bank of Scotland Central Nominees Ltd	5 *
Bank of Scotland Edinburgh Nominees Ltd	5 *
Bank of Scotland Equipment Finance Ltd (in liquidation)	13 xx
Bank of Scotland LNG Leasing (No 1) Ltd (in liquidation)	13 xx
Bank of Scotland London Nominees Ltd	5 *
Bank of Scotland Nominees (Unit Trusts) Ltd	5 *
Bank of Scotland P.E.P. Nominees Ltd	5 *
Bank of Scotland plc	5 xx
	vi
Bank of Scotland Structured Asset Finance Ltd	1 xx
Bank of Scotland Transport Finance 1 Ltd (in liquidation)	13 xx
Bank of Wales Ltd	2 ix
Barents Leasing Ltd	1 xx
Barnwood Mortgages Ltd	12 xx
Birchcrown Finance Ltd	1 iv
	xi
Birmingham Midshires Financial Services Ltd	4 xx
Birmingham Midshires Land Development Ltd (in liquidation)	13 xx
Birmingham Midshires Mortgage Services Ltd (in liquidation)	13 xx
Black Horse (TRF) Ltd	1 xx
Black Horse Executive Mortgages Ltd (in liquidation)	13 xx
Black Horse Finance Holdings Ltd	1 i
	xii
Black Horse Finance Management Ltd	1 xx
Black Horse Group Ltd	1 xx
	vi
Black Horse Ltd	1 xx
Black Horse Property Services Ltd	1 xx
Boltro Nominees Ltd	1 xx
BOS (Ireland) Property Services 2 Ltd	16 xx
BOS (Ireland) Property Services Ltd	16 xx
BOS (Shared Appreciation Mortgages	
(Scotland) No. 2) Ltd	4 xx

Name of Undertaking	Notes
BOS (Shared Appreciation Mortgages	
(Scotland) No. 3) Ltd	4 xx
BOS (Shared Appreciation Mortgages	
(Scotland)) Ltd	4 xx
BOS (Shared Appreciation Mortgages) No. 1 plc	4 xx
	xiii #
BOS (Shared Appreciation Mortgages) No. 2 plc	4 xx
	xiii #
BOS (Shared Appreciation Mortgages) No. 3 plc	4 xx
	xiii #
BOS (Shared Appreciation Mortgages) No. 4 plc	4 xx
	xiii #
BOS (Shared Appreciation Mortgages) No. 5 plc	4 xx
BOS (Shared Appreciation Mortgages) No. 6 plc	4 xx
BOSSAF Rail Ltd	1 xx
BOS Personal Lending Ltd	4 i
	ii
British Linen Leasing (London) Ltd	5 xx
British Linen Leasing Ltd	5 xx
British Linen Shipping Ltd	5 xx
C.T.S.B. Leasing Ltd (in liquidation)	13 xx
Capital 1945 Ltd	2 xx
Capital Bank Leasing 3 Ltd (in liquidation)	13 xx
Capital Bank Leasing 5 Ltd	2 xx
Capital Bank Leasing 9 Ltd (in liquidation)	13 xx
Capital Bank Leasing 12 Ltd	5 xx
Capital Bank Property Investments (3) Ltd	25 xx
Capital Personal Finance Ltd	4 xx
Cardnet Merchant Services Ltd	1 i #
	ii
	iii ^
CF1 Ltd (in liquidation)	13 viii
	vii #
Cashfriday Ltd	9 xx
Cashpoint Ltd	1 xx
Caveminster Ltd	1 xx
CBRail S.A.R.L.	21 xx
Cedar Holdings Ltd (in liquidation)	1 xx
Central Mortgage Finance Ltd	12 xx
CF Asset Finance Ltd (in liquidation)	13 xx
Chariot Finance Ltd (in liquidation)	13 xx
Cheltenham & Gloucester plc	12 xx
Chiswell Stockbrokers Ltd (in liquidation)	13 xx
Cloak Lane Funding S.A.R.L.	18 xx
Cloak Lane Investments S.A.R.L.	18 xx
Conquest Securities Ltd	1 iv
	xi
Corbiere Asset Investments Ltd	1 i
	ii
Create Services Ltd	1 xx
Dunstan Investments (UK) Ltd	1 xx
Eurolead Services Holdings Ltd	9 xx
First Retail Finance (Chester) Ltd	4 xx
Forthright Finance Ltd	2 xx

Subsidiaries and related undertakings

Name of Undertaking	Notes
General Leasing (No. 12) Ltd	1 xx
Gresham Nominee 1 Ltd	1 xx
Gresham Nominee 2 Ltd	1 xx
Halifax Credit Card Ltd (in liquidation)	13 i
	ii
	xiv
Halifax Group Ltd	4 xx
Halifax Leasing (June) Ltd (in liquidation)	13 xx
Halifax Leasing (March No.2) Ltd	1 xx
Halifax Leasing (September) Ltd	1 xx
Halifax Ltd	4 xx
Halifax Loans Ltd	4 xx
Halifax Mortgage Services Ltd	4 xx
Halifax Nominees Ltd	4 xx
Halifax Pension Nominees Ltd	29 xx
Halifax Premises Ltd (in liquidation)	13 xx
Halifax Share Dealing Ltd	4 xx
Halifax Vehicle Leasing (1998) Ltd	4 xx
HBOS Covered Bonds LLP	4 *
HBOS Final Salary Trust Ltd	5 xx
HBOS Insurance & Investment Group Ltd	20 xx
HBOS plc	5 xx
	vi
	xiii
HBOS Social Housing Covered Bonds LLP	2 *
HBOS UK Ltd	5 xx
Heidi Finance Holdings (UK) Ltd	1 xx
Hill Samuel Bank Ltd	1 xx
Hill Samuel Finance Ltd	1 iv
	xv
Hill Samuel Leasing Co. Ltd	1 xx
Home Shopping Personal Finance Ltd	4 xx
HSDL Nominees Ltd	4 xx
HVF Ltd	2 xx
Hyundai Car Finance Ltd	7 i
	ii
IBOS Finance Ltd	2 xx
ICC Enterprise Partners Ltd (in liquidation)	32 xx
ICC Equity Partners Ltd (in liquidation)	32 xx
ICC Holdings Unlimited Company	16 xx
Inchcape Financial Services Ltd (in liquidation)	13 i
	ii #
Intelligent Finance Financial Services Ltd	4 xx
Intelligent Finance Software Ltd	4 xx
International Motors Finance Ltd	2 i
	ii #
Kanaalstraat Funding C.V.	35 *
LB Healthcare Trustee Ltd	1 xx
LB Motorent Ltd (in liquidation)	13 xx
LB Quest Ltd (in liquidation)	13 xx
LB Share Schemes Trustees Ltd	1 xx
LBCF Ltd	9 xx
LBI Leasing Ltd	1 xx
Lex Autolease (CH) Ltd	1 xx
Lex Autolease (VC) Ltd	1 xx

Name of Undertaking	Notes
Lex Autolease Carselect Ltd	1 xx
Lex Autolease Ltd	1 xx
Lex Vehicle Finance 2 Ltd (in liquidation)	13 xx
Lex Vehicle Leasing (Holdings) Ltd (in liquidation)	13 i
	ii
	x
Lex Vehicle Leasing Ltd (in liquidation)	13 xx
Lime Street (Funding) Ltd (in liquidation)	1 xx
Lloyds (Gresham) Ltd	1 xx
	xvi
Lloyds (Gresham) No. 1 Ltd	1 xx
Lloyds (Nimrod) Specialist Finance Ltd	1 xx
Lloyds Asset Leasing Ltd	1 xx
Lloyds Bank (Branches) Nominees Ltd (in liquidation)	13 xx
Lloyds Bank (Colonial & Foreign) Nominees Ltd	1 xx
Lloyds Bank (Fountainbridge 1) Ltd	5 xx
Lloyds Bank (Fountainbridge 2) Ltd	5 xx
Lloyds Bank (I.D.) Nominees Ltd	1 xx
Lloyds Bank (Stock Exchange Branch) Nominees Ltd (in liquidation)	13 xx
Lloyds Bank Asset Finance Ltd	1 xx
Lloyds Bank Commercial Finance Ltd	9 xx
Lloyds Bank Commercial Finance Scotland Ltd	37 xx
Lloyds Bank Corporate Asset Finance (HP) Ltd	1 xx
Lloyds Bank Corporate Asset Finance (No.2) Ltd	1 xx
Lloyds Bank Corporate Asset Finance (No.3) Ltd	1 xx
Lloyds Bank Corporate Asset Finance (No.4) Ltd	1 xx
Lloyds Bank Covered Bonds LLP	30 *
Lloyds Bank Equipment Leasing (No. 1) Ltd	1 xx
Lloyds Bank Equipment Leasing (No. 7) Ltd	1 xx
Lloyds Bank Equipment Leasing (No. 9) Ltd	1 xx
Lloyds Bank Financial Services (Holdings) Ltd	1 xx
	vi
Lloyds Bank General Leasing (No. 3) Ltd	1 xx
Lloyds Bank General Leasing (No. 5) Ltd (in liquidation)	13 xx
Lloyds Bank General Leasing (No. 11) Ltd	1 xx
Lloyds Bank General Leasing (No. 17) Ltd	1 xx
Lloyds Bank General Leasing (No. 20) Ltd (in liquidation)	13 xx
Lloyds Bank GmbH	17 xx
Lloyds Bank Hill Samuel Holding Company Ltd (in liquidation)	1 xx
Lloyds Bank Leasing (No. 6) Ltd	1 xx
Lloyds Bank Leasing (No. 8) Ltd (in liquidation)	13 xx
Lloyds Bank Leasing Ltd	1 xx
Lloyds Bank Maritime Leasing (No. 10) Ltd	1 xx
Lloyds Bank Maritime Leasing (No. 13) Ltd (in liquidation)	13 xx
Lloyds Bank Maritime Leasing (No.16) Ltd (in liquidation)	13 xx
Lloyds Bank Maritime Leasing (No. 17) Ltd	1 xx
Lloyds Bank Nominees Ltd	1 xx
Lloyds Bank Offshore Pension Trust Ltd	33 xx
Lloyds Bank Pension ABCS (No. 1) LLP	1 *
Lloyds Bank Pension ABCS (No. 2) LLP	1 *
Lloyds Bank Pension Trust (No. 1) Ltd	1 xx
Lloyds Bank Pension Trust (No. 2) Ltd	1 xx
Lloyds Bank Pensions Property (Guernsey) Ltd	34 i
	ii
Lloyds Bank Properties Ltd (in liquidation)	13 xx

Subsidiaries and related undertakings

Name of Undertaking	Notes
Lloyds Bank Property Company Ltd	1 xx
Lloyds Bank S.F. Nominees Ltd	1 xx
Lloyds Bank Subsidiaries Ltd	1 xx
Lloyds Bank Trustee Services Ltd	1 xx
Lloyds Banking Group Pensions Trustees Ltd	1 xx
Lloyds Capital GP Ltd	31 xx
Lloyds Commercial Leasing Ltd (in liquidation)	13 xx
Lloyds Commercial Properties Ltd (in liquidation)	13 xx
Lloyds Commercial Property Investments Ltd (in liquidation)	13 xx
Lloyds Far East S.A.R.L.	18 xx
Lloyds General Leasing Ltd	1 xx
Lloyds Hypotheken B.V.	19 xx
Lloyds Industrial Leasing Ltd	1 xx
Lloyds Investment Bonds Ltd (in liquidation)	13 xx
Lloyds Investment Securities No.5 Ltd	1 xx
Lloyds Leasing (North Sea Transport) Ltd	1 xx
Lloyds Leasing Developments Ltd	1 xx
Lloyds Offshore Global Services Private Ltd	24 xx
Lloyds Plant Leasing Ltd	1 xx
Lloyds Portfolio Leasing Ltd	1 xx
Lloyds Premises Investments Ltd (in liquidation)	13 xx
Lloyds Project Leasing Ltd	1 xx
Lloyds Property Investment Company No. 3 Ltd (in liquidation)	13 xx
Lloyds Property Investment Company No. 4 Ltd	1 xx
Lloyds Property Investment Company No.5 Ltd	1 xx
Lloyds Secretaries Ltd	1 xx
Lloyds TSB Pacific Ltd	22 xx
Lloyds UDT Asset Leasing Ltd (in liquidation)	13 xx
Lloyds UDT Asset Rentals Ltd (in liquidation)	13 xx
Lloyds UDT Hiring Ltd (in liquidation)	13 xx
Lloyds UDT Leasing Ltd	1 xx
Lloyds UDT Ltd (in liquidation)	13 xx
Lloyds Your Tomorrow Trustee Ltd	1 xx
Loans.co.uk Ltd	25 xx
London Taxi Finance Ltd	1 i
	ii
London Uberior (L.A.S. Group) Nominees Ltd	5 *
Lotus Finance Ltd	23 i
	ii #
LTGP Limited Partnership Incorporated	34 *
Maritime Leasing (No. 19) Ltd	1 xx
MBNA Direct Ltd	25 xx
MBNA Ltd	25 xx
Membership Services Finance Ltd	4 xx
Mitre Street Funding S.A.R.L.	18 xx
NFU Mutual Finance Ltd	2 i
	ii #
	vii
Nordic Leasing Ltd	1 xx
NWS Trust Ltd	5 xx
Ocean Leasing (July) Ltd (in liquidation)	13 xx
Pacific Leasing Ltd	1 xx
Perry Nominees Ltd	1 xx
PIPS Asset Investments Ltd	1 i
	ii

Name of Undertaking	Notes
Proton Finance Ltd	23 i #
	ii
R.F. Spencer and Company Ltd	2 xx
Ranelagh Nominees Ltd	1 xx
Retail Revival (Burgess Hill) Investments Ltd	1 xx
Savban Leasing Ltd	1 xx
Scotland International Finance B.V.	39 xx
Scottish Widows Pension Trustees Ltd	3 xx
Scottish Widows Services Ltd	3 xx
Seabreeze Leasing Ltd	1 xx
Seaspirit Leasing Ltd	1 xx
Share Dealing Nominees Ltd	4 xx
Shogun Finance Ltd	7 i #
	ii
Silentdale Ltd (in liquidation)	13 iv
	xi
	xvii
St. Mary's Court Investments	1 xx
Standard Property Investment (1987) Ltd	5 i
	ii
Standard Property Investment Ltd	40 xx #
Sussex County Homes Ltd	4 xx
Suzuki Financial Services Ltd	23 i
	ii #
The Agricultural Mortgage Corporation plc	28 xx
The British Linen Company Ltd	5 xx
The Mortgage Business plc	4 xx
Thistle Leasing	+ *
Three Copthall Avenue Ltd (in liquidation)	13 xx
Tower Hill Property Investments (7) Ltd	25 xx #
Tower Hill Property Investments (10) Ltd	25 xx #
Tranquility Leasing Ltd	1 xx
Uberior Nominees Ltd	5 *
Uberior Trustees Ltd	5 *
UDT Budget Leasing Ltd (in liquidation)	13 xx
UDT Sales Finance Ltd (in liquidation)	13 xx
United Dominions Leasing Ltd	1 xx
United Dominions Trust Ltd	1 xx
Upsaala Ltd	16 xx
Ward Nominees (Abingdon) Ltd	1 xx
Ward Nominees (Birmingham) Ltd	1 xx
Ward Nominees (Bristol) Ltd	1 xx
Ward Nominees Ltd	1 xx
Waymark Asset Investments Ltd	1 xviii
	xix
Wood Street Leasing Ltd	1 xx

Subsidiaries and related undertakings

Subsidiary Undertakings (continued)

The Company has determined that it has the power to exercise control over the following entities without having the majority of the voting rights of the undertakings. Unless otherwise stated, the undertakings do not have share capital or the Company does not hold any shares.

Name of Undertaking	Notes
Addison Social Housing Holdings Ltd	15
Cancara Asset Securitisation Ltd	14
Cardiff Auto Receivables Securitisation 2018-1 Plc	30
Cardiff Auto Receivables Securitisation 2019-1 Plc	30
Cardiff Auto Receivables Securitisation Holdings Ltd	30
Cheltenham Securities 2017 Ltd	15
Cheltenham II Securities 2020 DAC	38
Chepstow Blue Holdings Ltd	30
Chepstow Blue plc	30
Chester Asset Options No.2 Ltd	8
Chester Asset Options No.3 Ltd	11
Chester Asset Receivables Dealings Issuer Ltd	14
Chester Asset Securitisation Holdings Ltd	8
Chester Asset Securitisation Holdings No.2 Ltd	14
Credit Card Securitisation Europe Ltd	14
Deva Financing Holdings Ltd	30
Deva Financing plc	30
Deva One Ltd	14
Deva Three Ltd	14
Deva Two Ltd	14
Edgbaston RMBS 2010-1 plc	30
Edgbaston RMBS Holdings Ltd	30
Elland RMBS 2018 plc	30
Elland RMBS Holdings Ltd	30
Fontwell Securities 2016 Ltd	15
Gresham Receivables (No. 1) Ltd	14
Gresham Receivables (No. 3) Ltd	14
Gresham Receivables (No. 10) Ltd	14
Gresham Receivables (No.11) UK Ltd	8
Gresham Receivables (No. 12) Ltd	14
Gresham Receivables (No. 13) UK Ltd	8
Gresham Receivables (No. 14) UK Ltd	8
Gresham Receivables (No. 15) UK Ltd	8
Gresham Receivables (No. 16) UK Ltd	8
Gresham Receivables (No. 19) UK Ltd	8
Gresham Receivables (No. 20) Ltd	14
Gresham Receivables (No. 21) Ltd	14
Gresham Receivables (No. 22) Ltd	14
Gresham Receivables (No. 23) Ltd	14
Gresham Receivables (No. 24) Ltd	14
Gresham Receivables (No. 25) UK Ltd	8
Gresham Receivables (No. 26) UK Ltd	8
Gresham Receivables (No.27) UK Ltd	8
Gresham Receivables (No.28) Ltd	14
Gresham Receivables (No.29) Ltd	14
Gresham Receivables (No. 30) UK Ltd	8
Gresham Receivables (No. 31) UK Ltd	8
Gresham Receivables (No. 32) UK Ltd	8
Gresham Receivables (No. 33) UK Ltd	8
Gresham Receivables (No. 34) UK Ltd	8
Gresham Receivables (No.35) Ltd	14

Name of Undertaking	Notes
Gresham Receivables (No.36) UK Ltd	8
Gresham Receivables (No.37) UK Ltd	8
Gresham Receivables (No.38) UK Ltd	8
Gresham Receivables (No.39) UK Ltd	8
Gresham Receivables (No.40) UK Ltd	8
Gresham Receivables (No.41) UK Ltd	8
Gresham Receivables (No.44) UK Ltd	8
Gresham Receivables (No.45) UK Ltd	8
Gresham Receivables (No.46) UK Ltd	8
Gresham Receivables (No.47) UK Ltd	8
Gresham Receivables (No.48) UK Ltd	8
Guildhall Asset Purchasing Company (No 3) Ltd	14
Guildhall Asset Purchasing Company (No.11) UK Ltd	8
Housing Association Risk Transfer 2019 DAC	38
Leicester Securities 2014 Ltd	26
Lingfield 2014 I Holdings Ltd	30
Lingfield 2014 I plc	30
Lloyds Bank Covered Bonds (Holdings) Ltd	30
Lloyds Bank Covered Bonds (LM) Ltd	30
Molineux RMBS 2016-1 plc	30
Molineux RMBS Holdings Ltd	30
Penarth Asset Securitisation Holdings Ltd	30
Penarth Funding 1 Ltd	30
Penarth Funding 2 Ltd	30
Penarth Master Issuer plc	30
Penarth Receivables Trustee Ltd	30
Permanent Funding (No. 1) Ltd	30
Permanent Funding (No. 2) Ltd	30
Permanent Holdings Ltd	30
Permanent Master Issuer plc	30
Permanent Mortgages Trustee Ltd	30
Permanent PECOH Holdings Ltd	30
Permanent PECOH Ltd	30
Salisbury Securities 2015 Ltd	36
Salisbury II Securities 2016 Ltd	15
Salisbury II-A Securities 2017 Ltd	15
Salisbury III Securities 2019 DAC	38
Sandown 2012-2 Holdings Ltd	30
Sandown 2012-2 plc (in liquidation)	6
Sandown Gold 2012-1 Holdings Ltd	30
Sandown Gold 2012-1 plc (in liquidation)	6
Swan Funding 2 Ltd	15
Syon Securities 2019 DAC	38
Trinity Financing Holdings Ltd	30
Trinity Financing plc (in liquidation)	6
Wetherby II Securities 2018 DAC	10
Wetherby III Securities 2019 DAC	38
Wetherby Securities 2017 Ltd	15

Subsidiaries and related undertakings

Associated Undertakings

The Company has a participating interest in the following undertakings.

Name of Undertaking	% of share class held by immediate parent company (or by the Company where this varies)	Registered office address	Notes
Addison Social Housing Ltd	20%	35 Great St Helen's, London, EC3A 6AP	
Connery Ltd	20%	44 Esplanade, St. Helier, Jersey, JE4 9WG	
Omnium Leasing Company	39%	N/A	+

* The undertaking does not have share capital
+ The undertaking does not have a registered office
# In relation to Subsidiary Undertakings, an undertaking external to the Group holds shares
^ Shares held directly by Lloyds Banking Group plc
(i) A Ordinary Shares
(ii) B Ordinary Shares
(iii) Deferred Shares
(iv) Preference Shares
(v) Preferred Ordinary Shares
(vi) Preference Non-voting Shares
(vii) C Ordinary Shares
(viii) N Ordinary Shares
(ix) Ord Stock Units
(x) Redeemable Preference Non-voting Shares
(xi) Ordinary Non-voting Shares
(xii) B Ordinary Non-voting Shares
(xiii) Non-voting Deferred Shares
(xiv) C Ordinary Non-voting Shares
(xv) Ordinary Limited Voting Shares
(xvi) Special Rights Redeemable Pref Shares
(xvii) Redeemable Non-voting Shares
(xviii) Class A Shares
(xix) Class B Shares
(xx) Ordinary Shares

Registered office addresses

(1) 25 Gresham Street, London, EC2V 7HN
(2) Charterhall House, Charterhall Drive, Chester, CH88 3AN
(3) 69 Morrison Street, Edinburgh, EH3 8YF
(4) Trinity Road, Halifax, West Yorkshire, HX1 2RG
(5) The Mound, Edinburgh, EH1 1YZ
(6) 40a Station Road, Upminster, Essex, RM14 2TR
(7) 116 Cockfosters Road, Barnet, Hertfordshire, EN4 0DY
(8) Wilmington Trust SP Services (London) Limited, Third Floor, 1 King's Arms Yard, London, EC2R 7AF
(9) No. 1 Brookhill Way, Banbury, Oxon, OX16 3EL
(10) 1-2 Victoria Buildings, Haddington Road, Dublin 4, Ireland
(11) Fifth Floor, 100 Wood Street, London, EC2V 7EX, United Kingdom
(12) Barnett Way, Gloucester, GL4 3RL
(13) 1 More London Place, London, SE1 2AF
(14) 26 New Street, St. Helier, Jersey, JE2 3RA
(15) 44 Esplanade, St. Helier, Jersey, JE4 9WG
(16) Suite 6, Rineanna House, Shannon Free Zone, Co. Clare, Ireland
(17) Karl-Liebknecht-STR. 5, D-10178 Berlin, Germany
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(19) Lichtenauerlann 170, 3062ME, Rotterdam, Netherlands
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(25) Cawley House, Chester Business Park, Chester, CH4 9FB, United Kingdom
(26) 1 Grant's Row, Lower Mount Street, Dublin 2, Ireland
(27) 1, Avenue du Bois, Luxembourg, L – 1251, Luxembourg
(28) Charlton Place, Charlton Road, Andover, SP10 1RE
(29) c/o PATRIZIA, 166 Sloane Street, London, SW1X 9QF
(30) 35 Great St. Helen's, London, EC3A 6AP
(31) 2nd Floor, 21 Palmer Street, London, SW1H 0AD
(32) McStay Luby, Dargan House, 21-23 Fenian Street, Dublin 2, Ireland
(33) 3rd Floor, Standard Bank House, 47-49 La Motte Street, St. Helier, JE2 4SZ, Jersey
(34) P O Box 186, Royal Chambers, St Julian's Avenue, St. Peter Port, GY1 4EF, Guernsey
(35) De Entrée 254, 1101 EE, Amsterdam, Netherlands
(36) 47 Esplanade, St. Helier, Jersey, JE1 0BD
(37) 110 St. Vincent Street, Glasgow, G2 4QR
(38) 5th Floor, The Exchange, George's Dock, IFSC, Dublin 1, Ireland
(39) Prins Bernhardplein 200, 1097 JB, Amsterdam, Netherlands
(40) Caledonian Exchange, 19a Canning Street, Edinburgh, EH3 8HE

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