Lloyds Bank plc

Capital and Risk Management Pillar 3 Report 2019

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Forward looking statements

This document contains certain forward looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934, as amended, and section 27A of the US Securities Act of 1933, as amended, with respect to the business, strategy, plans and/or results of Lloyds 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 or 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.

Executive summary

COMMON EQUITY TIER 1 RATIO

COMMON EQUITY TIER 1 RATIO

The Group's common equity tier 1 capital ratio reduced to 14.3 per cent (31 December 2018: 14.9 per cent) 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 (net of PPI provision charges) and the reduction in risk-weighted assets.

TOTAL CAPITAL RATIO

TOTAL CAPITAL RATIO

The reduction in the Group's total capital ratio to 22.1 per cent largely reflects the reduction in common equity tier 1 capital and eligible provisions via tier 2 capital, partially offset by the issuance of new AT1 capital instruments and the reduction in risk-weighted assets.

UK LEVERAGE RATIO

UK LEVERAGE RATIO

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

RISK-WEIGHTED ASSETS

RISK-WEIGHTED ASSETS

The reduction in risk-weighted assets primarily reflects 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.

AVERAGE LIQUIDITY COVERAGE RATIO (WEIGHTED)

AVERAGE LIQUIDITY COVERAGE RATIO

The Group's liquidity position is strong and in excess of the regulatory minimum and internal risk appetite, with an average LCR of 127 per cent as at 31 December 2019.

SPLIT OF RISK-WEIGHTED ASSETS

Risk-weighted assets by risk type[1]

Credit Risk (IRB) £121.2bn
Credit Risk (STA) £22.3bn
CCR[2] £2.1bn
Market Risk £0.2bn
Operational Risk £24.4bn

1 Numbers do not include threshold risk-weighted assets.

2 Counterparty credit risk (CCR) includes contributions to the default fund of central counterparties and credit valuation adjustment risk.

Key metrics

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

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

		a	b	c	d	e
		T	T-1	T-2	T-3	T-4
		Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1) (£m)	**24,637**	24,380	25,082	25,611	26,060
2	CET1 capital as if IFRS 9 transitional arrangements had not been applied (£m)	**24,185**	23,930	24,632	25,150	25,541
3	Tier 1 (£m)	**31,542**	29,637	30,339	30,868	31,997
4	Tier 1 capital as if IFRS 9 transitional arrangements had not been applied (£m)	**31,090**	29,187	29,889	30,407	31,478
5	Total capital (£m)	**37,976**	36,245	36,457	37,044	39,084
6	Total capital as if IFRS 9 transitional arrangements had not been applied (£m)	**38,004**	36,275	36,487	37,063	39,101
	Risk-weighted assets (amounts)					
7	Total risk-weighted assets (£m)	**171,940**	175,631	173,782	176,261	174,391
8	Total risk-weighted assets as if IFRS 9 transitional arrangements had not been applied (£m)	**172,324**	176,014	174,165	176,618	174,780
	Risk-based capital ratios as a percentage of RWA					
9	Common Equity Tier 1 ratio (%)	**14.3%**	13.9%	14.4%	14.5%	14.9%
10	CET1 ratio as if IFRS 9 transitional arrangements had not been applied (%)	**14.0%**	13.6%	14.1%	14.2%	14.6%
11	Tier 1 ratio (%)	**18.3%**	16.9%	17.5%	17.5%	18.3%
12	Tier 1 ratio as if IFRS 9 transitional arrangements had not been applied (%)	**18.0%**	16.6%	17.2%	17.2%	18.0%
13	Total capital ratio (%)	**22.1%**	20.6%	21.0%	21.0%	22.4%
14	Total capital ratio as if IFRS 9 transitional arrangements had not been applied (%)	**22.1%**	20.6%	20.9%	21.0%	22.4%
	Additional CET1 buffer requirements as a percentage of RWA					
	Capital conservation buffer requirement (2.5% from 2019)	**2.5%**	2.5%	2.5%	2.5%	1.9%
	Countercyclical buffer requirement (%)	**0.9%**	0.9%	0.9%	0.9%	0.9%
	Bank G-SIB and/or D-SIB additional requirements (%)[2]	**2.0%**	2.0%	–	–	–
	Total of bank CET1 specific buffer requirements (%)	**5.4%**	5.4%	3.4%	3.4%	2.8%
	CET1 available after meeting the bank's minimum capital requirements (%)	**9.8%**	9.4%	9.9%	10.0%	10.4%
	UK leverage ratio[3]					
15	UK leverage ratio exposure measure (£m)	**582,921**	597,876	590,895	592,506	591,391
16	UK leverage ratio (%)	**5.1%**	4.6%	4.8%	4.9%	5.0%
17	UK leverage ratio as if IFRS 9 transitional arrangements had not been applied (%)	**5.0%**	4.5%	4.7%	4.8%	4.9%
	Average Liquidity Coverage Ratio (weighted) (LCR)					
	Total High Quality Liquid Assets (HQLA) (£m)	**112,203**	113,545	112,131	111,884	
	Total net cash outflow (£m)	**88,490**	90,061	89,826	88,781	
	LCR ratio (%)	**127%**	126%	125%	126%	

1 The Group has opted to apply paragraph 4 of CRR Article 473a (the 'transitional rules') which allows for additional capital relief in respect of any post 1 January 2018 increase in Stage 1 and Stage 2 IFRS 9 expected credit loss provisions (net of regulatory expected losses) during the transition period. As at 31 December 2019 no additional capital relief has been recognised.

2 The Group is subject to a systemic risk buffer of 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.

3 The CRD IV leverage ratio at 31 December 2019 is 4.8 per cent (31 December 2018: 4.7 per cent).

Introduction

This document presents the consolidated Pillar 3 disclosures of Lloyds Bank plc ('the Group') as at 31 December 2019.

Following the implementation of UK ring-fencing legislation on 1 January 2019, the Group is now required to publish full Pillar 3 disclosures in accordance with Part Eight of the Capital Requirements Regulation ("CRR"). Prior to 2019 the Group published limited disclosures in accordance with Article 13 of the CRR, as applicable to Large Subsidiaries. Comparative information is provided where it has been included in previous disclosures made by the Group.

Pillar 3 requirements are predominately set out under the Capital Requirements Directive & Regulation (CRD IV) and are designed to promote market discipline through the disclosure of key information around capital, risk exposures and risk management. The Group's year end disclosures comply with the requirements of CRD IV and associated European Banking Authority (EBA) guidelines and technical standards in force as at 31 December 2019.

In satisfaction of certain disclosure requirements, reference has been made to the 2019 Lloyds Bank plc Annual Report and Accounts (ARA) and the 2019 Lloyds Bank plc Form 20-F. As such, this document should be read in conjunction with those disclosures as highlighted throughout the remainder of the document and in Appendix 7.

RISK STATEMENT

The effectiveness of the risk management and internal control systems is reviewed regularly by the Board and the Audit Committee, which also receives reports of reviews undertaken by the Risk Division and Group Internal Audit. A statement from the Board is included within the Lloyds Bank plc 20-F (page 85) confirming that the Board concluded that the Group's risk management arrangements were adequate to provide assurance that the risk management systems put in place are suitable with regard to the Group's profile and strategy.

The Chief Finance Officer (CFO) and the Chief Risk Officer (CRO) have also attested in writing that the 2019 Pillar 3 disclosures have been prepared in accordance with the internal control processes agreed upon at the management body level.

In addition, a risk statement is provided within the strategic report of the Lloyds Bank plc Annual Report and Accounts.

PILLAR 3 REQUIREMENTS NOT INCLUDED IN THE ANNUAL REPORT AND ACCOUNTS, FORM 20-F OR THE LLOYDS BANK PLC PILLAR 3 REPORT

LARGE SUBSIDIARY DISCLOSURES (CAPITAL REQUIREMENTS REGULATION (CRRII) ARTICLE 13)

Additional disclosures surrounding the consolidated capital resources, leverage exposures and capital requirements of Bank of Scotland plc ('BOS Group') will be published separately in conjunction with the Annual Report and Accounts for this subsidiary.

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

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

Disclosure policy

The Group is subject to the Lloyds Banking Group Pillar 3 Disclosure Policy which supports compliance with Articles 431-455 of the CRR and associated EBA guidelines and technical standards. The following sets out the key elements of the disclosure policy including the basis of preparation, frequency, media and location, verification and risk profile disclosure.

BASIS OF PREPARATION

This document contains the consolidated Pillar 3 disclosures of Lloyds Bank Group as at 31 December 2019, prepared in accordance with the requirements of CRR Part Eight (Disclosure by Institutions) and associated EBA guidelines and technical standards in force at December 2019. A CRR mapping table has been included in Appendix 7, which details how the Group has complied with each article under Part Eight.

A number of significant differences exist between accounting disclosures published in accordance with International Financial Reporting Standards (IFRS) and Pillar 3 disclosures published in accordance with prudential requirements, which prevent direct comparison in a number of areas. Of particular note are the differences in the definition of credit risk exposure and the recognition, classification and valuation of capital securities.

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

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

Article 432 of the CRR on non-material, proprietary or confidential information permits institutions to omit one or more disclosures if the information provided by such a disclosure is not regarded as material. As the Group's market risk risk-weighted assets are a small proportion of total risk-weighted assets, the Group has elected to provide only a summary of its market risk positions. Further detail of excluded tables is included in Appendix 6.

The implementation of CRD IV is subject to transitional arrangements, with full implementation in the UK required by 1 January 2022 as per PRA policy statement PS7/13. Consequently, the Group's capital position is shown by applying both the transitional arrangements as implemented in the UK by PS7/13 (PRA transitional rules) and the end-point rules under PS7/13 (the 'fully loaded' basis), as amended by provisions of the revised Capital Requirements Regulation (CRR II) that came into force in June 2019.

The impact of IFRS 9 has been reflected in the consolidated Pillar 3 disclosures. The Group has adopted the transitional arrangements for IFRS 9 as set out under CRR Article 473a.

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

BASIS OF CREDIT RISK EXPOSURES

To ensure compliance with both CRR requirements and subsequent EBA guidelines, credit risk exposures are presented on different bases throughout the document. Information on the exposure basis is given either in column headings or supporting narrative within the Pillar 3 Credit risk section (pages 19 to 75).

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

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

FREQUENCY, MEDIA AND LOCATION

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

The EBA guidelines on Pillar 3 disclosure frequency have been formally adopted by the Group. The guidelines define key information that institutions in the EU banking sector should consider disclosing on a more frequent than annual basis under Pillar 3. The Group's assessment of these guidelines has resulted in the disclosure of specific capital and leverage information at the interim quarter ends with further detailed analysis provided at half-year. The additional EBA guidelines (issued in December 2016 and that applied in full from 31 December 2017) also define specific templates that banks are required to disclose on a quarterly and semi-annual basis. These templates relate mainly to credit risk, counterparty credit risk and market risk.

VERIFICATION

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

RISK PROFILE DISCLOSURE

In accordance with the requirements of CRR Part Eight (Disclosure by Institutions), the Group is required to assess whether its external disclosures taken as a whole (including the Group's Annual Report and Accounts, Form 20-F and Pillar 3 disclosures) comprehensively portray its risk profile.

In this respect, the 2019 Lloyds Bank plc Annual report and Accounts provides an overview of the principal and emerging risks to which the Group is exposed. A more detailed analysis of the Group's principal risks is provided on pages 29 to 76 of the Lloyds Bank plc Form 20-F.

The Group's Pillar 3 disclosures focus primarily on capital risk and the key risks behind the Group's Pillar 1 capital requirements (credit, counterparty credit and operational risks).

Scope of consolidation

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

INTRODUCTION

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

REGULATORY CONSOLIDATION

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

Subsidiary undertakings included within the regulatory consolidation are fully consolidated, with capital resources determined on a line-by-line (accounting) consolidation basis. Capital requirements are determined either on a line-by-line (accounting) consolidation basis or by aggregating individual subsidiaries' risk capital requirements.

The Group's capital-efficient securitisations and conduit vehicles are fully consolidated for accounting purposes. However, the underlying assets of the capital-efficient securitisations are de-recognised from the regulatory balance sheet and replaced with retained securitisation positions, risk-weighted in line the securitisation framework. In addition, the conduit vehicles are deconsolidated for regulatory purposes and the corresponding liquidity lines are risk-weighted.

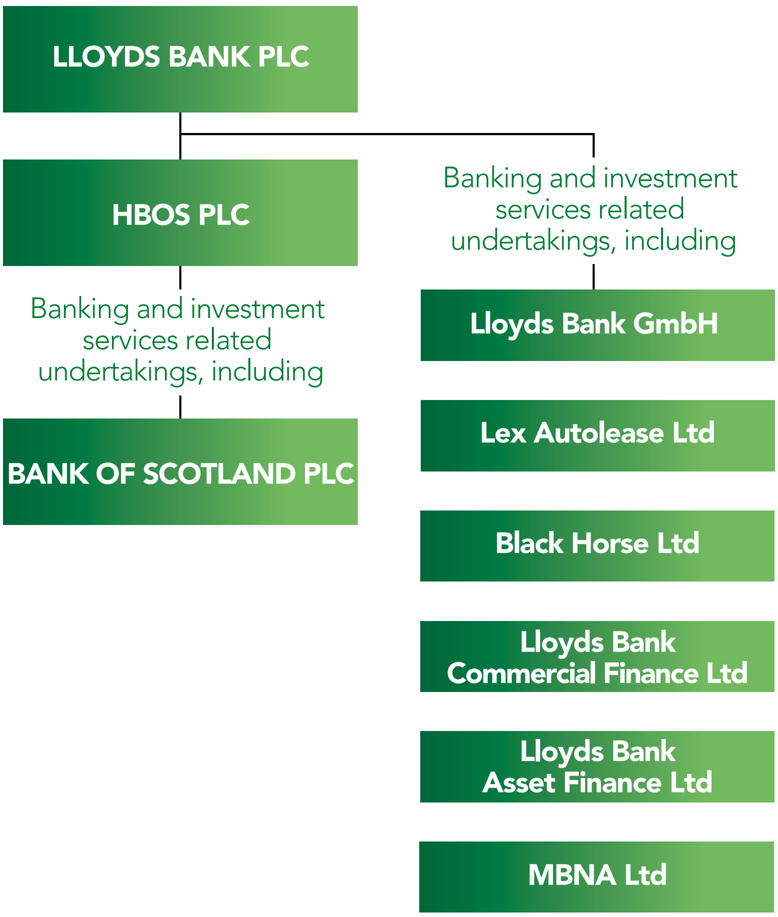
The full list of capital-efficient securisation and conduct vehicles where the regulatory treatment differs from the accounting treatment is provided in Appendix 5, Table 82.

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

The current legal and regulatory structure of the Group provides a capability for the transfer of surplus capital resources over and above regulatory and internal risk appetite requirements or repayment of liabilities when due throughout the Group. There are currently no material practical or contractual impediments to such transfers or repayments. Any such transfer would be subject to legal and regulatory requirements including those required by ring fencing to ensure the Group, as a ring-fenced banking group remains adequately capitalised and any conflicts independently governed.

REGULATORY CONSOLIDATION GROUP

A summarised diagrammatical representation (as at 31 December 2019) of the regulatory consolidation group upon which the disclosures presented within this document are based is provided below.



Scope of consolidation continued

CONSOLIDATED BALANCE SHEET UNDER THE REGULATORY SCOPE OF CONSOLIDATION

The following table provides a reconciliation of the Group's consolidated balance sheet as at 31 December 2019 on an accounting consolidation basis (as presented on pages 37 and 38 of the 2019 Lloyds Bank plc Annual Report and Accounts) to the Group's consolidated balance sheet under the regulatory scope of consolidation. It also breaks down how carrying values under the scope of regulatory consolidation are allocated to the different risk frameworks laid out in Part Three of the CRR.

Table 2: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories (LI1)[1]

	2019					
			Carrying values of items:			
	Carrying values as reported in published financial statements £m	Carrying values under regulatory scope of consolidation £m	subject to credit risk framework £m	subject to counterparty credit risk framework £m	subject to securitisation framework £m	not subject to capital requirements or subject to deduction from capital £m
	a	b	c	d	e	g
Assets						
Cash and balances at central banks	38,880	37,547	37,547	–	–	–
Items in the course of collection from banks	292	–	–	–	–	–
Financial assets at fair value through profit or loss	2,284	1,326	686	5	–	–
Derivative financial instruments	8,494	8,526	–	8,466	–	–
Financial assets at amortised cost	486,501	487,474	412,003	54,746	20,726	–
Loans and advances to banks	4,852	6,260	4,342	1,918	–	–
Loans and advances to customers	474,470	470,724	398,842	52,828	19,054	–
Debt securities	5,325	6,932	5,261	–	1,672	–
Due from fellow Lloyds Banking Group undertakings	1,854	3,558	3,558	–	–	–
Financial assets at fair value through other comprehensive income	24,617	24,617	24,617	–	–	–
Investment in group undertakings	–	–	–	–	–	–
Value of in-force business	–	–	–	–	–	–
Goodwill	474	474	–	–	–	474
Other intangible assets	3,781	3,781	–	–	–	3,781
Property, plant and equipment	9,467	9,467	9,467	–	–	–
Current tax recoverable	4	4	4	–	–	–
Deferred tax assets	3,366	3,366	707	–	–	2,659
Retirement benefit assets	681	681	–	–	–	681
Other assets	2,527	2,811	2,810	2	–	–
Total Assets	581,368	580,074	487,839	63,220	20,726	7,595

Scope of consolidation continued

	2019					
			Carrying values of items:			
	Carrying values as reported in published financial statements £m	Carrying values under regulatory scope of consolidation £m	subject to credit risk framework £m	subject to counterparty credit risk framework £m	subject to securitisation framework £m	not subject to capital requirements or subject to deduction from capital £m
	a	b	c	d	e	g
Liabilities						
Deposits from banks	23,593	–	–	–	–	–
Customer deposits	396,839	421,238	–	29,919	–	391,319
Due to fellow Lloyds Banking Group undertakings	4,893	4,893	–	–	–	4,893
Items in course of transmission to banks	354	–	–	–	–	–
Financial liabilities at fair value through profit or loss	7,702	7,702	–	–	–	7,702
Derivative financial instruments	9,831	9,831	–	7,038	–	2,793
Notes in circulation	1,079	–	–	–	–	–
Debt securities in issue	76,431	74,329	–	–	–	74,329
Other liabilities	5,600	6,999	–	–	–	6,999
Retirement benefit obligations	257	257	–	–	–	257
Current tax liabilities	166	166	–	–	–	166
Deferred tax liabilities	–	–	–	–	–	–
Other provisions	3,138	3,138	–	–	–	3,138
Subordinated liabilities	12,586	12,586	–	–	–	12,586
Total Liabilities	542,469	541,139	–	36,957	–	504,182

1 Information on exposures subject to the market risk framework has been excluded on grounds of materiality.

Differences between accounting and regulatory scopes of consolidation: Conduit securitisation vehicles are deconsolidated for regulatory purposes and the corresponding liquidity facilities are risk weighted as described in the Securitisation section on pages 64 to 75. The regulatory consolidation group diagram on page 6 highlights the key undertakings of the Group that are included in the scope of regulatory consolidation.

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

Not subject to capital requirements or subject to deduction from capital: Includes items which are not subject to capital requirements, as well as assets that are ultimately deducted from own funds and which are therefore not risk-weighted. See Table 69: Items extracted from the consolidated regulatory balance sheet and reconciliation of own funds items to audited financial statements.

Scope of consolidation continued

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

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

Table 3: Main sources of differences between regulatory exposure amounts and carrying values in financial statements (LI2)

	Items subject to:		
	Credit risk framework £m	CCR framework £m	Securitisation framework £m
	b	c	d
Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	487,839	63,220	20,726
Off balance sheet amounts	69,094	49,407	6,651
Differences due to specific regulatory adjustments	6,048	–	(1,672)
Differences due to consideration of provisions	3,103	–	–
Differences due to consideration of collateral, haircuts and netting	–	(100,250)	–
Regulatory Potential Future Exposures	–	8,186	–
Exposure amounts considered for regulatory purposes	566,084	20,564	25,705

The carrying value of assets corresponds to the balances reported in Table 2.

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

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

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

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

Risk management

THE GROUP'S APPROACH TO RISK

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

To meet ring-fencing requirements from 1 January 2019, core UK retail financial services and ancillary retail activities have been ring-fenced from other activities of Lloyds Banking Group. The Group has adopted the Risk Management Framework of the Parent Group and has supplemented the Parent Group Risk Management Framework with additional risk management related to ring-fencing as required. The Parent Group's Governance framework, which is tailored to meet the specific needs of the Group, is adopted to ensure effective Corporate Governance within Lloyds Bank Group.

Risk culture

Based on the 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 Group aspires, and sets the tone at 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.

Risk appetite

We define our risk appetite as 'the amount and type of risk that the Group is prepared to seek, accept or tolerate' in delivering our Group strategy.

Group strategy and risk appetite are developed in tandem. Business planning aims to optimise value within our risk appetite parameters and deliver on our promise to Help Britain Prosper.

The Group's risk appetite statement details the risk parameters within which the Group operates. The statement forms part of our control framework and is embedded into our policies, authorities and limits, to guide decision-making and risk management. The Board is responsible for approving the Group's risk appetite statement at least annually. Group Board-level metrics are cascaded into more detailed business appetite metrics and limits.

Governance and control

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

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

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

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

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

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

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

Risk decision making and reporting

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

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

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

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

Refer to the Risk Overview and Risk Management sections of the 2019 Lloyds Bank plc 20-F disclosure for further information

Capital management

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

CET1 ratio of 14.3%

Transitional T1 capital ratio of 18.3%

Transitional total capital ratio of 22.1%

UK leverage ratio of 5.1%

- The Group has a capital management framework that is designed to ensure that it operates within its risk appetite, uses its capital resources efficiently and continues to comply with regulatory requirements
- CET1 capital resources have reduced by £1.4bn over the year, primarily reflecting the payment of the interim dividend during 2019, additional pension contributions and an increase in the deductions for intangible assets and excess expected losses, partially offset by profits for the year
- AT1 capital resources have increased by £1bn over the year reflecting the issuance of new capital instruments
- Tier 2 capital resources have reduced by £0.7bn over the year, largely reflecting the reduction in eligible provisions
- A description of the main features of CET1, AT1 and T2 instruments issued by the Group are included in a separate document on the Lloyds Banking Group plc website. Summary information on movements and the underlying terms and conditions of capital securities is presented in the 2019 Lloyds Bank plc Annual Report and Accounts

Capital management continued

CAPITAL RISK

DEFINITION

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

EXPOSURES

A capital risk exposure arises when Lloyds Bank Group has insufficient capital resources to support its strategic objectives and plans, and to meet both regulatory and external stakeholder requirements and expectations. This could arise due to a depletion of Lloyds Bank Group's capital resources as a result of the crystallisation of any of the risks to which it is exposed. Alternatively a shortage of capital could arise from an increase in the amount of capital that needs to be held either at Lloyds Bank Group level or at the level of one or more of the regulated entities within Lloyds Bank Group. The Lloyds Bank Group capital management approach is focused on maintaining sufficient capital resources across all regulated levels of its structure in order to prevent such exposures.

MEASUREMENT

From 1 January 2019 Lloyds Bank Group became subject to separate supervision by the UK Prudential Regulation Authority (PRA) following the entry into force of UK ring-fencing legislation, with Lloyds Bank 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 Lloyds Bank plc on an individual basis.

Lloyds Bank Group maintains capital levels commensurate with a prudent level of solvency. To support this the capital risk appetite is calibrated by taking into consideration both an internal view of the amount of capital Lloyds Bank Group should hold as well as recognising external regulatory requirements.

Lloyds Bank 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 Lloyds Bank Group's own assessment of the amount of capital it needs, a process known as the Internal Capital Adequacy Assessment Process (ICAAP). The Lloyds Bank Group 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, Lloyds Bank 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.

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

Usage of the PRA Buffer would trigger a dialogue between Lloyds Bank Group and the PRA to agree what action is required whereas a breach of the CRD IV combined buffer (all other regulatory buffers, as referenced above) would give rise to mandatory restrictions upon any discretionary capital distributions.

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

The minimum leverage ratio requirement under the UK Leverage Ratio Framework is 3.25 per cent. This is supplemented by a time-varying countercyclical leverage buffer (0.3 per cent of the leverage exposure measure as 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 Lloyds Bank Group's systemic risk buffer.

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

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

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. Close monitoring of capital and leverage ratios is undertaken to ensure Lloyds Bank Group meets regulatory requirements and risk appetite levels and deploys its capital resources efficiently. Comprehensive stress testing analyses take place to evidence capital adequacy.

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. For example Lloyds Bank Group is able to accumulate additional capital through the retention of profits over time, which can be enhanced through reducing or cancelling dividend payments upstreamed to its parent (Lloyds Banking Group plc), by raising new equity via an injection of capital from its parent and by issuing additional tier 1 or tier 2 capital securities to its parent. The cost and availability of additional capital from its parent is dependent upon market conditions and perceptions at the time. Lloyds Bank Group is also able to manage the demand for capital through management actions including adjusting its lending strategy, risk hedging strategies and through business disposals.

Capital management continued

MONITORING

Lloyds Bank Group's capital is actively managed and monitoring capital ratios is a key factor in Lloyds Bank Group's planning processes and stress testing. Multi-year base case forecasts of Lloyds Bank Group's capital position, based upon the Lloyds Bank Group operating plan, are produced at least annually to inform the Lloyds Bank Group capital plan whilst shorter term forecasts are undertaken to understand and respond to variations of Lloyds Bank Group's actual performance against the plan. Lloyds Bank Group's capital plan is tested for capital adequacy using a range of stress scenarios and sensitivities covering adverse economic conditions as well as other adverse factors that could impact Lloyds Bank Group.

Lloyds Bank Group's capital plan also considers the impact of IFRS 9 which has the potential to increase bank capital volatility. Under stress this is primarily a result of provisioning for assets that are not in default at an earlier stage than would have been the case under IAS 39.

In the short to medium term the IFRS 9 transitional arrangements for capital, which Lloyds Bank Group has adopted, will provide some stability in capital requirements against the increased provisioning, measurement uncertainty and volatility introduced by IFRS 9.

For those banks subject to the 2019 Bank of England Annual Cyclical Scenario (ACS) stress test, the Bank of England took action to avoid an unwarranted de facto increase in capital requirements that could result from the interaction of IFRS 9. The stress hurdle rates for banks participating in the exercise were adjusted to recognise the additional resilience provided by the earlier provisions taken under IFRS 9. The Bank of England is considering options for a more enduring treatment of IFRS 9 provisions in the capital framework and alternative options will be explored further during the 2020 Bank of England ACS stress test. Lloyds Bank Group will become subject to the Bank of England ACS stress test from June 2020.

Regular reporting of actual and projected ratios for Lloyds Bank Group and its key regulated entities, including ratios under stressed scenarios, is undertaken, including submissions to the Group Capital Risk Committee (GCRC), Group Financial Risk Committee (GFRC), Group and Ring-Fenced Banks Asset and Liability Committee (GALCO), Group and Ring-Fenced Banks Risk Committee (GRC), Board Risk Committee (BRC) and the Board. Capital policies and procedures are well established and subject to independent oversight.

The regulatory framework within which Lloyds Bank 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). Lloyds Bank Group continues to monitor these developments very closely, analysing potential capital impacts to ensure Lloyds Bank Group continues to maintain a strong capital position that exceeds the minimum regulatory requirements and Lloyds Bank Group's risk appetite and is consistent with market expectations.

IFRS 9 TRANSITIONAL ARRANGEMENTS

Lloyds Bank Group applies the IFRS 9 transitional arrangements for capital set out under CRR Article 473a (the 'transitional rules'). This allows for the initial net impact of IFRS 9 on CET1 capital, resulting from the increase in accounting impairment provisions on 1 January 2018, to be phased in over a five year transition period. In addition Lloyds Bank Group has opted to apply paragraph 4 of the regulation which allows for additional capital relief in respect of any post 1 January 2018 increase in Stage 1 and Stage 2 IFRS 9 expected credit loss provisions (net of regulatory expected losses) during the 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.

MINIMUM REQUIREMENT FOR OWN FUNDS AND ELIGIBLE LIABILITIES (MREL)

In 2015, the Financial Stability Board established an international standard for the total loss absorbing capacity (TLAC) of global systemically important banks (G-SIBs). The standard, which applies from 1 January 2019, is designed to enhance the resilience of the global financial system by ensuring that failing G-SIBs have sufficient capital to absorb losses and recapitalise under resolution, whilst continuing to provide critical banking services.

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

The MREL SoP sets out the Bank of England's approach to setting external MREL requirements and the distribution of MREL resources internally within groups. Internal MREL resources are intended to enable a material subsidiary to be recapitalised as part of a group resolution strategy without the need for the Bank of England to apply its resolution powers directly to the subsidiary itself.

Although not classified as a G-SIB, Lloyds Bank Group's parent, Lloyds Banking Group plc, is subject to the Bank of England's MREL SoP and must therefore maintain a minimum level of external MREL resources from 1 January 2020. Lloyds Banking Group plc operates a single point of entry (SPE) resolution strategy, with Lloyds Banking Group plc as the designated resolution entity. Under this strategy, Lloyds Bank Group has been identified as a material subsidiary of Lloyds Banking Group plc and must therefore maintain a minimum level of internal MREL resources from 1 January 2020. As at 31 December 2019, Lloyds Bank Group's internal MREL resources exceeded the minimum required.

The Bank of England will review the calibration of MREL in 2020 before setting final end-state requirements to be met from 2022. This review will take into consideration any changes to the capital framework, including the finalisation of the Basel III reforms.

STRESS TESTING

Lloyds Bank Group undertakes a wide ranging programme of stress testing providing a comprehensive view of the potential impacts arising from the risks to which Lloyds Bank Group is exposed. One of the most important uses of stress testing is to assess the resilience of the operational and strategic plans of Lloyds Bank Group to adverse economic conditions and other key vulnerabilities. As part of this programme Lloyds Bank Group conducts a macroeconomic stress test of the four year operating plan.

Lloyds Bank Group will become subject to the Bank of England ACS stress test from June 2020.

ANALYSIS OF CAPITAL POSITION

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.

Capital management continued

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.

TOTAL CAPITAL REQUIREMENT

Lloyds Bank Group's total capital requirement (TCR) as at 31 December 2019, being the aggregate of its Pillar 1 and current Pillar 2A capital requirements, was £22,177 million.

CAPITAL RESOURCES

An analysis of Lloyds Bank Group's capital position as at 31 December 2019 is presented in the following section on both a CRD IV transitional arrangements basis and a CRD IV fully loaded basis, as amended by provisions of the revised Capital Requirements Regulation (CRR II) that came into force in June 2019. In addition Lloyds Bank Group's capital position reflects the application of the transitional arrangements for IFRS 9.

Capital management continued

CAPITAL RESOURCES

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

Table 4: Capital resources

	Transitional		Fully loaded	
	2019 £m	2018 £m	2019 £m	2018 £m
Common equity tier 1				
Shareholders' equity per balance sheet	**33,973**	37,063	**33,973**	37,063
Adjustment to retained earnings for foreseeable dividends	**–**	(2,100)	**–**	(2,100)
Adjustment for own credit	**26**	(280)	**26**	(280)
Cash flow hedging reserve	**(1,556)**	(1,110)	**(1,556)**	(1,110)
Other adjustments	**397**	468	**397**	468
	32,840	34,041	**32,840**	34,041
Less: deductions from common equity tier 1				
Goodwill and other intangible assets	**(4,050)**	(3,628)	**(4,050)**	(3,628)
Prudent valuation adjustment	**(220)**	(253)	**(220)**	(253)
Excess of expected losses over impairment provisions and value adjustments	**(195)**	–	**(195)**	–
Removal of defined benefit pension surplus	**(531)**	(994)	**(531)**	(994)
Deferred tax assets	**(3,207)**	(3,106)	**(3,207)**	(3,106)
Common equity tier 1 capital	**24,637**	26,060	**24,637**	26,060
Additional tier 1				
Additional tier 1 instruments	**6,905**	5,937	**4,865**	3,217
Total tier 1 capital	**31,542**	31,997	**29,502**	29,277
Tier 2				
Tier 2 instruments	**6,914**	7,096	**4,620**	4,853
Other adjustments	**(480)**	(9)	**(480)**	(9)
Total tier 2 capital	**6,434**	7,087	**4,140**	4,844
Total capital resources	**37,976**	39,084	**33,642**	34,121
Risk-weighted assets	**171,940**	174,391	**171,940**	174,391
Common equity tier 1 capital ratio (%)	**14.3%**	14.9%	**14.3%**	14.9%
Tier 1 capital ratio (%)	**18.3%**	18.3%	**17.2%**	16.8%
Total capital ratio (%)	**22.1%**	22.4%	**19.6%**	19.6%

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 5 years, cannot normally be redeemed within their first 5 years and are phased out as T2 regulatory capital in the final 5 years before maturity. 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.

Capital management continued

LEVERAGE RATIO

Table 5: Leverage ratio

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

	Fully loaded	
	2019 £m	2018 £m
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[1]		
Derivatives 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		
Adjustment for regulatory netting	(2,430)	(2,994)
Adjustment 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[2]	582,921	591,391
Average leverage exposure measure[3]	590,393	
UK leverage ratio[2]	5.1%	5.0%
Average UK leverage ratio[3]	4.8%	
CRD IV leverage exposure measure[4]	616,329	626,903
CRD IV leverage ratio[4]	4.8%	4.7%

1 Deconsolidation adjustments relate to the deconsolidation of certain Lloyds Bank Group entities that fall outside the scope of Lloyds Bank Group's regulatory capital consolidation. As at 31 December 2018 intragroup exemptions were applied to exposures between Lloyds Bank Group and Lloyds Banking Group plc and other subsidiaries of Lloyds Banking Group plc, where the relevant criteria was satisfied. From 1 January 2019 the intragroup exemptions are no longer applicable.

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

3 The average UK leverage ratio is based on the average of the month end tier 1 capital position and average exposure measure over the quarter (1 October 2019 to 31 December 2019). The average of 4.8 per cent compares to 4.6 per cent at the start and 5.1 per cent at the end of the quarter.

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

Analysis of leverage movements

Lloyds Bank Group's UK leverage ratio increased to 5.1 per cent (31 December 2018: 5.0 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.

The average UK leverage ratio of 4.8 per cent over the quarter largely reflected both a lower average tier 1 capital position during the quarter, with additional tier 1 capital increasing substantially towards the end of the quarter following the issuance of new AT1 capital instruments in November 2019 and December 2019, and a higher average exposure measure compared to the position at 31 December 2019, with reductions in balance sheet assets and off-balance sheet items largely occurring towards the end of the quarter.

Pillar 1 Capital requirements: Overview of risk-weighted assets

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

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

– Credit risk-weighted assets account for 83% of total risk-weighted assets.

Table 6: Risk-weighted assets movement by key driver

	Credit Risk IRB £m	Credit Risk STA £m	Credit Risk Total[1] £m	Counterparty Credit Risk[2] £m	Market Risk £m	Operational Risk £m	Total £m
Fully loaded risk-weighted assets as at 31 December 2018							174,391
Less: total threshold risk-weighted assets[3]							(1,442)
Risk-weighted assets at 31 December 2018	121,377	23,274	144,651	3,270	470	24,558	172,949
Asset size	(2,083)	(994)	(3,077)	(453)	(110)	–	(3,640)
Asset quality	1,308	(746)	562	(1,040)	–	–	(478)
Model updates	2,267	–	2,267	–	(4)	–	2,263
Methodology and policy	(1,188)	(456)	(1,644)	417	–	–	(1,227)
Acquisitions and disposals	–	1,326	1,326	–	–	–	1,326
Movement in risk levels (market risk only)	–	–	–	–	(185)	–	(185)
Foreign exchange movements	(509)	(88)	(597)	(92)	–	–	(689)
Other	–	–	–	–	–	(145)	(145)
Risk-weighted assets at 31 December 2019	121,172	22,316	143,488	2,102	171	24,413	170,173
Threshold risk-weighted assets[3]							1,767
Total risk-weighted assets as at 31 December 2019							171,940

1 Credit risk, risk-weighted assets and capital requirements in Table 6 are inclusive of securitisations. At 31 December 2019 IRB securitisation risk-weighted assets were £4,080m (2018: £3,625m) and standardised securitisation risk-weighted assets were £419m (2018: £209m).

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

3 Threshold risk-weighted assets reflect the element of deferred tax assets that are permitted to be risk-weighted instead of being deducted from CET1 capital.

Key movements

Credit risk, risk weighted assets:

– Asset size reduction of £3.0bn, largely driven by portfolio optimisation, includes changes in book size (both drawn and undrawn balances) and composition, excluding acquisitions and disposals.

– Asset quality increase of £0.6bn captures movements due to changes in borrower risk, including changes in the macro-economic environment

– Model updates increase in risk-weighted assets of £2.3bn includes changes to mortgage models.

– Methodology and policy decreases of £1.6bn are principally as a result of securitisation activity partially offset by the introduction of IFRS16.

– Acquisitions and disposals increase of £1.3bn reflects the purchase of the Tesco Bank UK prime residential mortgage portfolio.

Counterparty credit risk, risk weighted assets decreased by £1.2bn due to reduced contributions to the default fund of a Central Counterparty, movement in CVA, and a reduction in asset size, partially offset by increases from the introduction of ring-fencing legislation impacting intragroup exposures.

Market risk, risk weighted assets reductions of £0.3bn were driven by change in the business model following ring-fencing, and movement in risk levels.

Pillar 1 Capital requirements: Overview of risk-weighted assets continued

Table 7: Overview of risk-weighted assets (OV1)

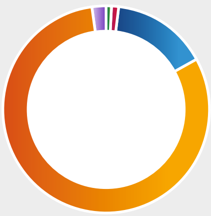
		2019 RWA £m	2018 RWA £m	2019 Minimum capital Requirements £m	2018 Minimum capital Requirements £m
		T	T-1	T	T-1
1	**Credit risk (excluding counterparty credit risk)**	138,990	140,815	11,119	11,265
2	of which: standardised approach	21,897	23,065	1,752	1,845
3	of which: the foundation rating-based (FIRB) approach	37,482	40,820	2,999	3,265
4	of which: the retail IRB (RIRB) approach	63,192	59,500	5,055	4,760
	of which: corporates – specialised lending	9,018	11,448	721	916
	of which: non-credit obligation assets	7,401	5,983	592	479
5	of which: equity IRB under the simple risk-weight or the internal models approach	–	–	–	–
6	**Counterparty credit risk**	2,102	3,270	168	262
7	of which: marked to market	1,370	1,696	110	136
8	of which: original exposure	–	–	–	–
9	of which: the standardised approach	–	–	–	–
10	of which: internal ratings-based model method (IMM)	–	–	–	–
	of which: comprehensive approach for credit risk mitigation (for SFTs)	232	438	19	35
11	of which: exposures to central counterparties (including trades, default fund contributions and initial margin)	229	831	18	66
12	of which: credit valuation adjustment (CVA)	271	305	22	24
13	**Settlement risk**	–	–	–	–
14	**Securitisation exposures in banking book**	4,497	3,835	360	307
15	of which: IRB ratings-based approach (RBA)	1,525	2,733	122	219
16	of which: IRB supervisory formula approach (SFA)	–	72	–	6
17	of which: internal assessment approach (IAA)	234	820	19	66
18	of which: standardised approach	177	209	14	17
	of which: revised framework internal ratings based approach	1,214	–	97	–
	of which: revised framework standardised approach	242	–	19	–
	of which: revised framework external ratings based approach	1,107	–	89	–
19	**Market risk**	171	470	14	38
20	of which: standardised approach	45	149	4	12
21	of which: internal model approaches	125	320	10	26
22	**Large exposures**	–	–	–	–
23	**Operational risk**	24,413	24,558	1,953	1,965
24	of which: basic indicator approach	–	–	–	–
25	of which: standardised approach	24,413	24,558	1,953	1,965
26	of which: advanced measurement approach	–	–	–	–
27	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	1,767	1,442	141	115
	of which: significant investment	–	–	–	–
	of which: deferred tax asset	1,767	1,442	141	115
28	**Floor adjustment**	–	–	–	–
29	**Total**	171,940	174,391	13,755	13,951

A detailed analysis of the key movements in credit risk exposures and risk-weighted assets is provided in Table 20.

Pillar 1 Capital requirements: Credit risk

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

IRB exposures (EAD pre CRM, post CCF)



Standardised exposures (EAD pre CRM, post CCF)

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

Table 8: Risk-weighted assets flow statements of credit risk exposures (CR8)

		Credit Risk IRB RWA amount Total £m	Credit Risk IRB Capital requirements Total £m	Credit Risk STA RWA amount Total £m	Credit Risk STA Capital requirements Total £m
		a	b	a	b
1	**Risk-weighted assets at 31 December 2018[1]**	121,377	9,710	23,274	1,862
2	Asset size	(2,083)	(167)	(994)	(80)
3	Asset quality	1,308	105	(746)	(60)
4	Model updates	2,267	181	–	–
5	Methodology and policy	(1,188)	(95)	(456)	(36)
6	Acquisitions and disposals	–	–	1,326	106
7	Foreign exchange movements	(509)	(41)	(88)	(7)
8	Other	–	–	–	–
9	**Risk-weighted assets at 31 December 2019[1]**	121,172	9,693	22,316	1,785

1 Credit risk, risk-weighted assets and capital requirements in Table 8 are inclusive of securitisations. At 31 December 2019 IRB securitisation risk-weighted assets were £4,080m and standardised securitisation risk-weighted assets were £418m.

Pillar 1 Capital requirements: Credit risk continued

OVERVIEW

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

RISK APPETITE
The Lloyds Bank Group has a conservative and well balanced credit portfolio managed through the economic cycle.

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

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

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

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

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

Credit risk is measured from different perspectives using a range of appropriate modelling and scoring techniques at a number of levels of granularity, including total balance sheet, individual portfolio, pertinent concentrations and individual customer – for both new business and existing lending. Key metrics, such as total exposure, risk-weighted assets, new business quality, concentration risk and portfolio performance are reported monthly to Risk Committees.

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

EAD includes on-balance sheet netting where permissible, however, Lloyds Bank Group does not practice off-balance sheet netting on its credit risk exposures.

For regulatory capital purposes Lloyds Bank Group's credit risk exposures are measured as risk-weighted assets, primarily calculated using Internal Ratings Based approach, with the remainder calculated under the Standardised approach.

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

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

The performance of all rating models is monitored on a regular basis, as outlined on page 29.

CREDIT RISK MITIGATION
The Group uses a range of approaches to mitigate credit risk. For detailed information on approaches to mitigate credit risk, including details of the Group's policies and principles, see pages 34 to 36 of the 2019 Lloyds Bank plc 20-F disclosure.

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

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

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

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

Pillar 1 Capital requirements: Credit risk continued

Eligible financial collateral

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

Other eligible collateral

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

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

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

Other credit risk transfers

The Group also undertakes asset sales, credit derivative based transactions and securitisations as a means of mitigating or reducing credit risk, taking into account the nature of assets and the prevailing market conditions.

- Credit derivatives are a method of transferring credit risk from one counterparty (the protection buyer) to another (the protection seller). Capital relief under regulatory requirements is restricted to the following types of credit derivative: credit default swaps (CDS); total return swaps; and credit linked notes (CLN) (to the extent of their cash funding).
- The Group makes limited use of credit derivatives as credit risk mitigation from a capital perspective.
- Further details on the application within the Group are included within the Counterparty credit risk section on page 87.

Guarantees

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

APPLICATION OF CREDIT RISK MITIGATION

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

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

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

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

Application under the Standardised Approach

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

For unfunded credit protection, for example where guarantees or credit derivatives apply, the exposure class and therefore risk weight applied to the portion of the exposure covered by the protection provider is based on the exposure class of the provider, referred to as the Substitution Approach.

Pillar 1 Capital requirements: Credit risk continued

The covered portion is determined after the application of 'haircuts' for currency and maturity mismatch applied to the protection provided. The risk weight applied to the uncovered portion of the exposure is not impacted.

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

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

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

Application under the IRB approach

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

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

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

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

Pillar 1 Capital requirements: Credit risk continued

ANALYSIS OF CREDIT RISK MITIGATION

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

Table 9: CRM techniques – Overview (CR3)

	2019				
	Exposures unsecured – carrying amount £m	Exposures to be secured[1] £m	Exposures secured by collateral[2] £m	Exposures secured by financial guarantees £m	Exposures secured by credit derivatives[3] £m
	a	b	c	d	e
Exposures subject to the IRB approach					
Central governments or central banks	2,296	679	–	679	–
Institutions	6,208	259	219	–	40
Corporates	43,914	36,738	35,730	234	774
of which: Specialised lending	–	13,104	13,104	–	–
of which: SMEs	4,086	6,697	6,697	–	–
Retail	64,368	322,513	322,459	–	–
Secured by real estate property	–	310,760	310,706	–	–
SMEs	–	8,263	8,209	–	–
Non-SMEs	–	302,497	302,497	–	–
Qualifying revolving	53,717	–	–	–	–
Other retail	10,651	11,753	11,753	–	–
SMEs	2,154	27	27	–	–
Non-SMEs	8,497	11,725	11,725	–	–
Equity	–	–	–	–	–
Non-credit obligation assets	11,001	–	–	–	–
Total – IRB approach	127,787	360,189	358,407	913	814
Exposures subject to the standardised approach					
Central governments and central banks[4]	46,659	–	–	–	–
Regional governments or local authorities[4]	476	–	–	–	–
Public sector entities[4]	4,169	–	–	–	–
Multilateral development banks	6,243	–	–	–	–
International organisations	–	–	–	–	–
Institutions	453	–	–	–	–
Corporates	9,588	800	405	344	51
Retail	33,286	174	174	–	–
Secured by mortgages on immovable property	–	6,767	6,767	–	–
Exposures in default	1,008	364	364	–	–
Items associated with particularly high risk	–	–	–	–	–
Covered bonds	–	–	–	–	–
Claims on institutions and corporates with a short-term credit assessment	–	–	–	–	–
Collective investment undertakings	–	–	–	–	–
Equity exposures	–	–	–	–	–
Other exposures	2,809	–	–	–	–
Total – standardised approach	104,691	8,105	7,710	344	51
Total exposures	232,478	368,295	366,118	1,257	865
of which: defaulted	2,362	3,385	3,385	–	–

Pillar 1 Capital requirements: Credit risk continued

	2018				
	Exposures unsecured – carrying amount £m	Exposures to be secured[1] £m	Exposures secured by collateral[2] £m	Exposures secured by financial guarantees £m	Exposures secured by credit derivatives[3] £m
	a	b	c	d	e
Exposures subject to the IRB approach					
Central governments or central banks	4,479	757	–	757	–
Institutions	3,990	68	53	–	15
Corporates	50,163	42,703	41,993	259	452
of which: Specialised lending	–	16,153	16,153	–	–
of which: SMEs	4,043	7,810	7,810	–	–
Retail	62,601	323,528	323,528	–	–
Secured by real estate property	–	312,634	312,634	–	–
SMEs	–	9,122	9,122	–	–
Non-SMEs	–	303,511	303,511	–	–
Qualifying revolving	52,509	–	–	–	–
Other retail	10,092	10,894	10,894	–	–
SMEs	2,147	29	29	–	–
Non-SMEs	7,945	10,865	10,865	–	–
Equity	–	–	–	–	–
Non-credit obligation assets	9,914	–	–	–	–
Total – IRB approach	131,146	367,056	365,574	1,016	467
Exposures subject to the standardised approach					
Central governments and central banks[4]	54,379	–	–	–	–
Regional governments or local authorities[4]	5	–	–	–	–
Public sector entities[4]	41	–	–	–	–
Multilateral development banks	2,974	–	–	–	–
International organisations	–	–	–	–	–
Institutions	154	–	–	–	–
Corporates	13,829	652	472	180	–
Retail	32,146	85	85	–	–
Secured by mortgages on immovable property	–	3,822	3,822	–	–
Exposures in default	1,230	435	435	–	–
Items associated with particularly high risk	–	–	–	–	–
Covered bonds	–	–	–	–	–
Claims on institutions and corporates with a short-term credit assessment	–	–	–	–	–
Collective investment undertakings	–	–	–	–	–
Equity exposures	–	–	–	–	–
Other exposures	3,329	–	–	–	–
Total – standardised approach	108,088	4,994	4,814	180	–
Total exposures	239,233	372,050	370,387	1,195	467
of which: defaulted	2,442	3,653	3,653	–	–

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

2 At 31 December 2019 the value of exposures secured by eligible financial collateral is £3.6bn (2018: £3.9bn) and the value of exposures secured by other eligible collateral is £362.6bn (2018: £366.5bn).

3 Exposures secured by credit derivatives mainly represents Corporate exposures where the risk has been transferred into Institutions.

4 Standardised exposures to EEA 'regional governments and local authorities' and 'public sector entities' are reported separately in 2019. In previous years, these exposures were predominantly allocated to 'central governments or central banks'.

Pillar 1 Capital requirements: Credit risk continued

INTERNAL RATING SCALES

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

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

PD master scales

Table 10: Internal Corporate master scale

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

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

Table 11: Internal Retail master scale

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

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

Pillar 1 Capital requirements: Credit risk continued

Table 12: Distribution of Exposures by approach

To illustrate the degree to which IRB models are used within the bank, the table below shows the EAD split between RIRB, FIRB, Other IRB (including Supervisory Slotting and securitisation positions) and Standardised (not modelled) approaches across the different Basel asset classes. Exposures presented in the table below are in line with Table 20, and are on a post CRM and post CCF basis.

	RIRB £m	FIRB £m	Other IRB £m	Standardised £m
Central governments or central banks	–	2,296	–	47,343
Regional governments or local authorities	–	–	–	476
Public sector entities	–	–	–	4,169
Multilateral development banks	–	–	–	6,243
Institutions	–	6,107	–	1,288
Corporates[1]	–	56,233	12,481	7,908
Retail – Secured by property	324,427	–	–	6,762
Retail – Qualifying revolving	39,159	–	–	–
Retail – Other	23,138	–	–	11,966
Other[2]	–	–	11,001	4,001
Total	386,724	64,636	23,482	90,157
% coverage	68%	11%	4%	16%

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

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

SCOPE OF THE IRB PERMISSION

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

The Group applies the Supervisory Slotting Approach to certain corporate specialised lending exposures (including the Group's income-producing real estate exposures) and no model is used for these exposures. Securitisation positions are predominantly risk-weighted under the Ratings Based Approach (RBA) and the revised framework IRB approach, with some use made of the Internal Assessment Approach (IAA), the Standardised and revised Standardised approaches and the External Ratings Based Approach (ERBA).

Further details on other areas such as the Supervisory Slotting Approach for Corporate Specialised Lending exposures, and the various approaches for Securitisations can be found in the relevant sections later in the document.

Under the Group's IRB permission, the following list comprises the rating systems that are significant at a group level, each having risk-weighted assets in excess of £2.5bn (based on risk-weighted asset figures in the latest CRR attestation). The capital models listed are the same as those used in the PD backtesting analysis (later in this section) with the exception of the Quasi State rating system which is excluded from PD backtesting due to the low level of defaults.

Approach	Basel asset class	Ratings system	Associated portfolio (risk-weighted assets)
RIRB	Retail Mortgages	HBOS Mainstream and Lloyds Bank Mortgages[1,2]	>£15bn
FIRB	Corporate Main, Corporate SME	Publicly Quoted	£10bn – £15bn
FIRB	Corporate Main, Corporate SME	Unquoted[5]	£10bn – £15bn
FIRB/RIRB	Corporate SME, Retail SME and Retail Mortgages	Business Dynamic Credit Scoring (BDCS)	£5bn – £10bn
RIRB	Retail – Other (non-SME)	HBOS and Lloyds Bank Loans[1]	£5bn – £10bn
RIRB	Retail – Qualifying Revolving	HBOS and Lloyds Bank Credit Cards[1,3]	£5bn – £10bn
RIRB	Retail Mortgages	HBOS Buy-to-Let Mortgages	£5bn – £10bn
RIRB	Retail Mortgages	HBOS Other Mortgages[4]	£2.5bn – £5bn
RIRB	Retail – Qualifying Revolving	HBOS and Lloyds Bank Overdrafts[1]	£2.5bn – £5bn
FIRB	Corporate Main, Institutions	Quasi State	£2.5bn – £5bn
FIRB	Corporate Main	UK Motor Finance (Commercial)	£2.5bn – £5bn
RIRB	Retail – Other (non-SME)	UK Motor Finance (Retail)	£2.5bn – £5bn

1 Separate rating systems exist for Lloyds Bank and HBOS but as the risk profiles are sufficiently similar, they are grouped together in this table.

2 Lloyds Bank mortgages comprise of three rating systems – Lloyds Mainstream mortgages, Lloyds Near-Mainstream mortgages and Lloyds Buy-to-Let mortgages.

3 MBNA exposures are currently rated on the Standardised approach.

4 These are all closed books with HBOS Self Certified Mortgages being the largest.

5 The Unquoted rating system has a small number of obligors which are included in the Institutions asset class.

Pillar 1 Capital requirements: Credit risk continued

KEY CHARACTERISTICS OF MATERIAL GROUP RATINGS SYSTEMS

PD rating philosophy

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

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

– Retail Mortgages use a TTC approach where this is available (the majority of Lloyds Bank and Halifax Mainstream mortgages) and a PIT approach with a PD buffer otherwise.

– Corporate PD models are largely calibrated to the long-run default experience, meaning the PD predictions are more TTC in nature. The material exception to this being BDCS, which is more PIT in nature.

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

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

EAD and LGD modelling approach

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

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

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

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

Data history

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

– Mortgage models are built on data dating back to 1987

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

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

– The UK Motor Finance (Commercial) models use data dating back to 2008

When default volumes are sufficient, the Group's PD models are built using logistic regression. Where historical default volumes are low, alternative approaches are used; in the case of the Publicly Quoted model, a ratings replication approach has been taken, thus providing consistency in rating assessments. Low default calibration methods are used as appropriate to ensure that the Group does not erroneously underestimate risk due to low volumes of default data.

INTERNAL DEVELOPMENT AND MONITORING OF IRB MODELS

Model development, validation and review

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

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

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

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

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

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

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

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

Pillar 1 Capital requirements: Credit risk continued

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

Further information on model risk, including details on measurement, mitigation and monitoring can be found in the Risk Management section of the 2019 Lloyds Bank plc 20-F disclosure (page 76).

Relationships between risk management function and internal audit function

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

OTHER APPLICATION OF IRB MODEL OUTPUTS

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

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

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

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

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

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

Pillar 1 Capital requirements: Credit risk continued

MODEL PERFORMANCE

This section splits into two parts. The first section focusses on the backtesting of the Group's most material PD models. The second provides high level analysis of the performance of EAD and LGD models using the AIRB Approach over a three year period.

Backtesting of PD models

This section focusses on the backtesting of PD models. The information in the following tables is based on the significant rating systems noted earlier in the scope of the IRB permission section, with the exception of Quasi State. Inclusion of these models would have limited value due to the low level of defaults in these portfolios.

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

- The PD ranges match those in the respective retail and commercial internal master scales.
- The external rating equivalent is the equivalent S&P rating described on page 25.
- The weighted average PD is calculated using the regulatory PD weighted by the EAD at the start of the period
- The arithmetic average PD is calculated using the regulatory PD at the start of the period. This PD is volume weighted.
- The number of obligors is shown at the beginning and end of the period. This represents the full book position at both points, with new obligors (opened during the period) included in the end of year position (if still on book). Obligors that left during the year are not included in the end of year position. Various definitions of obligor operate within the bank, reflecting how the exposures are managed within each area. This translates as follows:
  - **Cards, Loans and Overdrafts** aggregate at customer level within brand and product (an obligor's accounts are aggregated if they share the same brand and product).
  - **Mortgages** and **UK Motor Finance (Retail)** treat each account as a unique obligor. An obligor with two accounts would have two PDs.
  - The **Commercial Banking (including BDCS)** and **UK Motor Finance (Commercial)** definition is legal entity by source system (obligors reside on different source systems according to the nature of the lending). This means that one legal entity might be represented by one or more obligors in the data if that entity has borrowing across one or more businesses (source systems).

    Furthermore, obligors that are 'connected' may share the same PD subject to certain conditions (known as Obligor Risk Groups, or ORGs).These cases have been aggregated and reported as single obligors since 2018. However, where exposures within an ORG span multiple asset classes, the ORG will be counted in each of those asset classes.
- The number of defaults during the year is the total number of non-defaulted obligors at the start of the year that subsequently defaulted at any point in the following 12 months. The allocation to a risk grade is based on the PIT PD at the start of the year for Retail asset classes and regulatory PD for Non-Retail asset classes. Exposures opened during the year are not included.
- 'Defaulted obligors – new exposures' relates to obligors that opened during the year and subsequently defaulted. Only one figure is provided within this column and this is assigned to the row 'New to Book'. This figure is currently unavailable for the Corporate SME and Corporate Main tables.
- The average default rate is calculated as a simple (volume weighted) average of the default rates over the past five years.

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

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

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

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

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

The following is a list of pre-notifications approved by the PRA over the period of the 2019 backtesting. Pre-notifications represent material changes to rating systems and require PRA approval before they can be implemented. The list is restricted to the significant rating systems listed in the preceding table. Where this model change affects backtesting, this is reflected in the commentary.

- New PIT and Downturn LGD models for HBOS credit cards.

For all IRB asset classes except Corporate Main, the Group exposures shown in the following tables are the same as the Lloyds Banking Group disclosures (there are very minor exceptions in Retail Other and Corporate SME). For that reason, the average historic annual default rates shown are the equivalent figures from the Lloyds Banking Group Pillar 3 disclosure. For Corporate Main, where there are differences between the Group and Lloyds Banking Group, a different approach has been taken; see commentary below the Corporate Main table.

Pillar 1 Capital requirements: Credit risk continued

Table 13: Back-testing of PD per portfolio – Retail – Mortgages (UK) (CR9)

RWA Coverage 95-99%

	2019						
			Number of obligors				
PD Range	Weighted average PD	Arithmetic average PD by obligors	End of previous year	End of the year	Defaulted obligors in the year	of which: new defaulted obligors in the year	Average historical annual default rate
b	d	e	f		g	h	i
0.00 – 0.10%	0.25%	0.22%	1,971,745	1,700,923	867	N/a	0.04%
0.10 – 0.40%	0.84%	0.81%	469,113	613,394	1,099	N/a	0.20%
0.40 – 0.80%	1.57%	1.71%	99,781	109,857	610	N/a	0.58%
0.80 – 1.20%	2.75%	3.11%	24,622	27,675	277	N/a	0.99%
1.20 – 2.50%	6.16%	6.55%	41,176	27,411	630	N/a	1.55%
2.50 – 4.50%	10.23%	10.82%	22,401	25,482	797	N/a	3.25%
4.50 – 7.50%	14.03%	15.15%	15,137	17,660	922	N/a	5.58%
7.50 – 10.00%	25.72%	25.96%	7,475	5,990	654	N/a	8.68%
10.00 – 14.00%	26.00%	27.66%	5,662	8,339	503	N/a	9.81%
14.00 – 20.00%	35.16%	35.64%	5,421	5,408	919	N/a	17.13%
20.00 – 30.00%	49.66%	49.87%	4,326	4,563	1,106	N/a	26.10%
30.00 – 45.00%	58.28%	59.95%	5,116	4,671	1,881	N/a	37.26%
45.00 –99.99%	76.62%	77.97%	4,956	4,564	3,020	N/a	59.32%
In Default	100.00%	100.00%	26,881	22,433	N/a	N/a	N/a
New to Book	N/a	N/a	N/a	245,960	N/a	2	N/a

Key observations

– The majority of obligors are rated on a TTC basis which is conservative relative to the average historic default rates.
– Obligors are allocated to grades based on PIT PDs, so the weighted and arithmetic average PDs are above the range due to the use of more conservative TTC PDs.

Pillar 1 Capital requirements: Credit risk continued

Table 14: Back-testing of PD per portfolio – Retail QRRE (CR9)

RWA Coverage 100%

	2019						
			Number of obligors				
PD Range	Weighted average PD	Arithmetic average PD by obligors	End of previous year	End of the year	Defaulted obligors in the year	of which: new defaulted obligors in the year	Average historical annual default rate
b	d	e	f		g	h	i
0.00 – 0.10%	0.07%	0.07%	4,562,408	5,906,346	523	N/a	0.03%
0.10 – 0.40%	0.23%	0.23%	10,178,453	11,181,057	5,995	N/a	0.11%
0.40 – 0.80%	0.58%	0.58%	5,106,492	5,628,122	14,289	N/a	0.36%
0.80 – 1.20%	0.99%	1.00%	2,830,700	2,157,844	17,625	N/a	0.76%
1.20 – 2.50%	1.72%	1.67%	3,514,252	2,363,264	52,350	N/a	1.53%
2.50 – 4.50%	3.29%	3.29%	1,203,053	986,888	47,389	N/a	3.38%
4.50 – 7.50%	5.66%	5.64%	593,480	496,659	38,309	N/a	5.43%
7.50 – 10.00%	8.64%	8.65%	167,222	147,760	16,168	N/a	7.78%
10.00 – 14.00%	11.77%	11.79%	131,492	119,924	14,929	N/a	10.54%
14.00 – 20.00%	16.61%	16.67%	97,896	100,820	12,977	N/a	14.46%
20.00 – 30.00%	24.52%	24.75%	100,318	110,902	18,103	N/a	21.38%
30.00 – 45.00%	37.40%	37.20%	122,312	112,932	32,255	N/a	30.94%
45.00 –99.99%	61.86%	60.30%	122,578	101,643	52,934	N/a	51.74%
In Default	100.00%	100.00%	1,016,097	1,100,814	N/a	N/a	N/a
New to Book	N/a	N/a	N/a	2,165,808	N/a	17,101	N/a

Key observations

– All PD models are PIT with a PD buffer.

– With the exception of one PD range, average PDs are in excess of average default rates due to the presence of the PD buffer.

– The new LGD model that was implemented for the HBoS Credit Cards rating system in 2019 now includes assets in recoveries, leading to an increase in In-Default obligors at the end of the year.

– A 2019 enhancement to data, used to identify defaults for HBoS branded Overdrafts, has been retrospectively applied to the start of the latest backtesting period.

Pillar 1 Capital requirements: Credit risk continued

Table 15: Back-testing of PD per portfolio – Retail – Other (non-SME) (CR9)

RWA Coverage 100%

	2019						
			Number of obligors				
PD Range	Weighted average PD	Arithmetic average PD by obligors	End of previous year	End of the year	Defaulted obligors in the year	of which: new defaulted obligors in the year	Average historical annual default rate
b	d	e	f		g	h	i
0.00 – 0.10%	0.08%	0.08%	21,487	27,872	26	N/a	0.09%
0.10 – 0.40%	0.36%	0.36%	418,535	477,731	3,855	N/a	0.63%
0.40 – 0.80%	0.69%	0.66%	365,794	343,607	3,289	N/a	0.76%
0.80 – 1.20%	1.00%	0.99%	182,181	171,476	1,075	N/a	0.68%
1.20 – 2.50%	1.67%	1.69%	593,807	524,485	10,848	N/a	1.52%
2.50 – 4.50%	3.27%	3.30%	237,337	264,381	10,282	N/a	3.35%
4.50 – 7.50%	5.89%	5.84%	102,654	135,051	8,964	N/a	6.65%
7.50 – 10.00%	9.21%	8.73%	23,410	33,987	2,496	N/a	9.45%
10.00 – 14.00%	11.05%	11.25%	19,534	26,589	2,724	N/a	11.83%
14.00 – 20.00%	16.44%	16.42%	7,106	11,188	1,125	N/a	13.33%
20.00 – 30.00%	21.60%	21.98%	13,958	17,539	2,606	N/a	17.77%
30.00 – 45.00%	35.03%	35.23%	16,828	17,170	5,262	N/a	30.56%
45.00 –99.99%	70.30%	70.09%	19,766	22,295	12,209	N/a	64.63%
In Default	100.00%	100.00%	142,173	133,094	N/a	N/a	N/a
New to Book	N/a	N/a	N/a	637,686	N/a	3,821	N/a

Key observations

– Where default rates are under-predicted these are primarily driven by the Motor Finance definition of default which includes non-termination events which have increased through 2019. The PD models are not optimised to predict these events which are separately capitalised as Residual Value Exposure and the under prediction would not exist if these were removed.

Pillar 1 Capital requirements: Credit risk continued

Table 16: Back-testing of PD per portfolio – Retail SME (CR9)[1] RWA Coverage 100%

	2019						
			Number of obligors				
PD Range[1]	Weighted average PD	Arithmetic average PD by obligors	End of previous year	End of the year	Defaulted obligors in the year	of which: new defaulted obligors in the year	Average historical annual default rate
b	d	e	f		g	h	i
0.00 - 0.10%	–	–	–	–	–	N/a	–
0.10 - 0.40%	–	–	–	–	–	N/a	–
0.40 - 0.80%	0.61%	0.60%	56,597	59,435	155	N/a	0.26%
0.80 - 1.20%	1.12%	1.12%	15,621	16,866	104	N/a	0.78%
1.20 - 2.50%	1.67%	1.67%	13,246	14,045	211	N/a	1.47%
2.50 - 4.50%	2.79%	2.62%	11,367	12,041	248	N/a	2.31%
4.50 - 7.50%	5.67%	5.67%	13,631	15,274	567	N/a	4.56%
7.50 - 10.00%	8.04%	8.04%	662	348	33	N/a	2.21%
10.00 - 14.00%	10.61%	10.61%	5,695	6,512	413	N/a	5.84%
14.00 - 20.00%	18.14%	19.78%	23,129	22,097	711	N/a	11.54%
20.00 - 30.00%	–	–	–	–	–	N/a	–
30.00 - 45.00%	34.10%	34.10%	1,694	1,878	360	N/a	27.67%
45.00 -99.99%	78.18%	78.18%	2,094	2,997	714	N/a	31.58%
In Default	100.00%	100.00%	8,619	8,297	N/a	N/a	N/a
New to Book	N/a	N/a	N/a	N/a	N/a	N/a	N/a

1 Covers BDCS only. Exposures have been transferred from Corporate RMS to Retail RMS which leads to some 'gaps' in the risk grades.

Key observations

– Default rates are volatile in some risk grades due to low volumes. However, in all cases the average default rate is below the associated PD.

Pillar 1 Capital requirements: Credit risk continued

Table 17: Back-testing of PD per portfolio – Corporate Main (CR9) [1]

RWA Coverage 75-80%

	2019							
				Number of obligors				
PD Range	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	End of previous year	End of the year	Defaulted obligors in the year	of which: new defaulted obligors in the year	Average historical annual default rate
b	c	d	e	f		g	h	i
0.00 - 0.035%	AAA to AA-	0.03%	0.03%	57	52	–	N/a	–
0.035 - 0.050%	A+	0.04%	0.04%	36	44	1	N/a	0.56%
0.050 - 0.080%	A	0.06%	0.06%	85	48	–	N/a	–
0.080 - 0.140%	A-	0.11%	0.11%	256	164	–	N/a	0.06%
0.140 - 0.220%	BBB+	0.18%	0.19%	1,006	821	–	N/a	0.11%
0.220 - 0.340%	BBB	0.28%	0.27%	981	723	7	N/a	0.30%
0.340 - 0.500%	BBB-	0.42%	0.43%	2,503	2,440	11	N/a	0.42%
0.500 - 0.760%	BB+	0.63%	0.66%	2,738	2,788	16	N/a	0.46%
0.760 - 1.240%	BB	1.00%	1.00%	2,391	2,286	36	N/a	0.70%
1.240 - 2.000%	BB-	1.62%	1.64%	1,989	1,837	27	N/a	1.19%
2.000 - 3.200%	B+	2.60%	2.61%	471	537	13	N/a	2.98%
3.200 - 5.200%	B+	3.96%	3.83%	1,116	1,109	52	N/a	2.28%
5.200 - 7.200%	B	6.20%	6.15%	178	227	18	N/a	8.32%
7.200 - 10.200%	B-	8.70%	8.70%	120	117	4	N/a	4.13%
10.200 - 13.800%	B-	12.00%	11.76%	52	63	6	N/a	8.75%
13.800 - 99.99%	CCC to C	29.95%	29.03%	188	141	34	N/a	12.74%
In Default	Default	100.00%	100.00%	342	357	N/a	N/a	N/a
New to Book	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a

1 Covers Publicly Quoted, Unquoted and UK Motor Finance (Commercial) with very little contribution from BDCS.

Key observations

– Population volume has remained stable throughout 2019, with some movement between PD bands driven by a recalibration of the Unquoted model.

– Relatively low default volumes lead to year-on-year volatility in default rates within a given PD range.

– Prior to 2019, it is not possible to retrospectively determine which Publicly Quoted and Unquoted obligors should be assigned to the Group. The average historical annual default rate in the table above has therefore been calculated based on all Group obligors for 2019, but only UK Motor Finance (Commercial) obligors in the preceding four years.

– Due to a data processing error in UK Motor Finance (Commercial), a number of default events that occurred in late 2018 were recorded as defaults in 2019. This led to a reduced number of defaults in 2018 and an (offsetting) increase in defaults in 2019. The average historical annual default rates for 2019 are unaffected by this. As the PDs for this portfolio are calibrated on a long run basis, this had no impact on Pillar 1 capital.

Pillar 1 Capital requirements: Credit risk continued

Table 18: Back-testing of PD per portfolio – Corporate SME (CR9)[1]

RWA Coverage 75-80%

	2019							
				Number of obligors				
PD Range	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	End of previous year	End of the year	Defaulted obligors in the year	of which: new defaulted obligors in the year	Average historical annual default rate
b	c	d	e	f		g	h	i
0.00 – 0.035%	AAA to AA-	0.03%	0.03%	4	4	–	N/a	–
0.035 – 0.050%	A+	0.04%	0.04%	3	2	–	N/a	–
0.050 – 0.080%	A	0.06%	0.06%	22	6	–	N/a	–
0.080 – 0.140%	A-	0.11%	0.11%	82	24	–	N/a	–
0.140 – 0.220%	BBB+	0.18%	0.18%	121	40	–	N/a	0.15%
0.220 – 0.340%	BBB	0.28%	0.28%	234	180	–	N/a	0.32%
0.340 – 0.500%	BBB-	0.42%	0.42%	337	515	–	N/a	0.09%
0.500 – 0.760%	BB+	0.62%	0.61%	4,289	4,309	16	N/a	0.45%
0.760 – 1.240%	BB	1.07%	1.08%	2,033	2,040	18	N/a	0.73%
1.240 – 2.000%	BB-	1.65%	1.65%	1,488	1,474	14	N/a	0.95%
2.000 – 3.200%	B+	2.61%	2.61%	1,088	1,167	17	N/a	1.69%
3.200 – 5.200%	B+	4.20%	4.20%	182	203	7	N/a	2.17%
5.200 – 7.200%	B	5.81%	5.76%	849	917	51	N/a	4.53%
7.200 – 10.200%	B-	8.20%	8.25%	195	158	6	N/a	2.20%
10.200 – 13.800%	B-	10.83%	10.88%	203	252	6	N/a	6.15%
13.800 – 99.99%	CCC to C	28.94%	26.49%	303	283	17	N/a	15.20%
In Default	Default	N/a	N/a	190	203	N/a	N/a	N/a
New to Book	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a

1 Covers BDCS and Unquoted with very little contribution from Publicly Quoted.

Key observations

– Population volume has remained stable in 2019, with some movement between PD bands driven by a recalibration of the Unquoted model.
– Observed default rates generally rise through the PD ranges as expected. In all but one instance, the actual default rate is below the predicted PD.
– As over 99.9% of the Corporate SME obligors are within the Group we have elected to show the Lloyds Banking Group table in this asset class.

Performance summary of EAD and LGD models

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

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

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

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

Pillar 1 Capital requirements: Credit risk continued

For all asset classes in these tables, the Group and Parent Group exposures are the same (minor exceptions are noted below). For this reason, the tables for the previous years are the Parent Group's figures.

Table 19: Model performance

	Loss given default of defaulted assets		EAD of defaulted assets
IRB Exposure Class (2019)	**Predicted Dec 18 %**	**Actual Dec 19 %**	**Ratio of predicted to actual %**
Retail – mortgage total	**12.11%**	**5.83%**	**103%**
Retail – SME	**80.76%**	**76.77%**	**101%**
Retail – Qualifying revolving	**78.17%**	**62.64%**	**110%**
Retail – Other (non-SME)	**56.40%**	**48.39%**	**119%**

	Loss given default of defaulted assets		EAD of defaulted assets
IRB Exposure Class (2018)	Predicted Dec 17 %	Actual Dec 18 %	Ratio of predicted to actual %
Retail – mortgage total	12.02%	5.81%	103%
Retail – SME	81.83%	80.47%	105%
Retail – Qualifying revolving	78.09%	59.03%	113%
Retail – Other (non-SME)	59.72%	50.95%	116%

	Loss given default of defaulted assets		EAD of defaulted assets
IRB Exposure Class (2017)	Predicted Dec 16 %	Actual Dec 17 %	Ratio of predicted to actual %
Retail – mortgage total	13.48%	6.16%	103%
Retail – SME	80.05%	73.94%	105%
Retail – Qualifying revolving	79.09%	63.00%	107%
Retail – Other (non-SME)	63.43%	53.47%	114%

Key observations

Retail SME:

– Predicted LGDs continue to exceed actual LGDs

Retail Mortgages:

– Predicted LGDs continue to exceed actual LGDs.

Retail – QRRE:

– Predicted LGDs continue to exceed actual LGDs.

– Actual LGD has risen due to change in mix of defaulting obligors driven by previous changes to pricing structure for Retail Overdrafts and collections processes on Retail Credit Cards.

– Following PRA approval, a new LGD model has been implemented for HBoS Cards, aligning methodology across Cards, PCA and Loans portfolios.

Retail – Other (non-SME):

– Predicted LGDs continue to exceed actual LGDs.

– The reductions in actual and predicted LGDs are driven by the growing proportion of Motor Finance exposures in this asset class which, given their secured nature, have lower LGDs than Unsecured Retail Loans.

– As with the Retail – Other CR9 table, an immaterial exposure outside of the Ring-Fenced Group has been included in this asset class.

Pillar 1 Capital requirements: Credit risk continued

ANALYSIS OF CREDIT RISK EXPOSURES BY ASSET CLASS

CREDIT RISK EXPOSURES

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

Table 20: Total and average net amount of exposures (CRB-B)

		2019 EAD pre CRM and post CCF £m	2019 EAD post CRM and post CCF £m	2019 Average credit risk exposure £m	2019 Risk-weighted assets £m	2019 Minimum capital requirements £m	2019 Average risk weight %
		a	a	b			
1	Central governments or central banks	2,775	2,296	3,995	335	27	15%
2	Institutions	6,068	6,107	5,280	827	66	14%
3	Corporates	69,945	68,714	76,025	45,338	3,627	66%
4	of which: Specialised lending	12,774	12,481	14,712	9,018	721	72%
5	of which: SMEs	10,327	10,327	10,874	7,318	585	71%
6	Retail	386,724	386,724	388,191	63,192	5,055	16%
7	Secured by real estate property	324,427	324,427	326,949	35,791	2,863	11%
8	*SMEs*	8,354	8,354	8,798	2,036	163	24%
9	*Non-SMEs*	316,073	316,073	318,151	33,755	2,700	11%
10	Qualifying revolving	39,159	39,159	38,728	11,442	915	29%
11	Other retail	23,138	23,138	22,514	15,959	1,277	69%
12	*SMEs*	2,237	2,237	2,238	1,559	125	70%
13	*Non-SMEs*	20,901	20,901	20,276	14,401	1,152	69%
14	Equity	–	–	–	–	–	–
	Non-credit obligation assets[1]	11,001	11,001	10,779	7,401	592	67%
15	**Total IRB approach**	476,513	474,842	484,271	117,093	9,367	25%
16	Central governments or central banks[2]	46,658	47,343	55,039	–	–	–
17	Regional governments or local authorities[2]	476	476	96	28	2	6%
18	Public sector entities[2]	4,169	4,169	839	1	–	–
19	Multilateral development banks	6,243	6,243	5,249	–	–	–
20	International organisations	–	–	–	–	–	–
21	Institutions	483	1,288	245	219	18	17%
22	Corporates	8,107	7,908	9,454	7,056	564	89%
23	of which: SMEs	3,769	3,686	3,600	3,509	281	95%
24	Retail	11,966	11,966	11,995	8,532	683	71%
25	of which: SMEs	2,628	2,628	2,458	1,528	122	58%
26	Secured by mortgages on immovable property	6,762	6,762	4,986	2,367	189	35%
27	of which: SMEs	8	8	11	4	–	43%
28	Exposures in default	1,192	1,192	1,382	1,295	104	109%
29	Items associated with particularly high risk	–	–	–	–	–	–
30	Covered bonds	–	–	–	–	–	–
31	Claims on institutions and corporates with a short-term credit assessment	–	–	–	–	–	–
32	Collective investments undertakings	–	–	–	–	–	–
33	Equity exposures	–	–	–	–	–	–
34	Other exposures[1]	2,809	2,809	3,385	2,400	192	85%
35	**Total standardised approach**	88,865	90,157	92,670	21,897	1,752	24%
36	**Total**	565,378	564,998	576,941	138,990	11,119	25%

Pillar 1 Capital requirements: Credit risk continued

		2018 EAD pre CRM and post CCF £m	2018 EAD post CRM and post CCF £m	2018 Average credit risk exposure £m	2018 Risk-weighted assets £m	2018 Minimum capital requirements £m	2018 Average risk weight %
		a	a	b			
1	Central governments or central banks	4,947	4,479	14,825	491	39	11%
2	Institutions	3,831	3,857	5,004	692	55	18%
3	Corporates	81,260	80,356	95,298	51,086	4,087	64%
4	of which: Specialised lending	15,806	15,508	16,566	11,452	916	74%
5	of which: SMEs	11,383	11,383	11,464	8,086	647	71%
6	Retail	387,729	387,729	391,545	59,500	4,760	15%
7	Secured by real estate property	327,800	327,800	331,116	33,284	2,663	10%
8	*SMEs*	9,204	9,204	9,503	2,269	182	25%
9	*Non-SMEs*	318,596	318,596	321,613	31,015	2,481	10%
10	Qualifying revolving	38,342	38,342	39,564	11,294	904	29%
11	Other retail	21,587	21,587	20,865	14,921	1,194	69%
12	*SMEs*	2,234	2,234	2,210	1,581	126	71%
13	*Non-SMEs*	19,353	19,353	18,655	13,341	1,067	69%
14	Equity	–	–	499	–	–	–
	Non-credit obligation assets[1]	9,914	9,914	9,832	5,983	479	60%
15	**Total IRB approach**	487,681	486,334	517,002	117,751	9,420	24%
16	Central governments or central banks[2]	54,378	55,027	67,549	4	–	–
17	Regional governments or local authorities[2]	5	5	5	1	–	20%
18	Public sector entities[2]	21	21	21	21	2	100%
19	Multilateral development banks	2,974	2,974	2,132	–	–	–
20	International organisations	–	–	–	–	–	–
21	Institutions	155	609	2,681	60	5	10%
22	Corporates	9,653	9,493	13,976	8,248	660	87%
23	of which: SMEs	3,424	3,331	3,661	3,156	252	95%
24	Retail	12,137	12,137	12,498	8,729	698	72%
25	of which: SMEs	2,244	2,244	2,199	1,309	105	58%
26	Secured by mortgages on immovable property	3,817	3,817	4,364	1,337	107	35%
27	of which: SMEs	11	11	9	5	–	44%
28	Exposures in default	1,639	1,639	892	2,183	175	133%
29	Items associated with particularly high risk	–	–	–	–	–	–
30	Covered bonds	–	–	–	–	–	–
31	Claims on institutions and corporates with a short-term credit assessment	–	–	–	–	–	–
32	Collective investments undertakings	–	–	56	–	–	–
33	Equity exposures	–	–	–	–	–	–
34	Other exposures[1]	3,329	3,329	4,426	2,481	198	75%
35	**Total standardised approach**	88,109	89,053	108,600	23,065	1,845	26%
36	**Total**	575,790	575,387	625,602	140,815	11,265	24%

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

2 Standardised exposures to EEA 'regional governments and local authorities' and 'public sector entities' are reported separately in 2019. In previous years, these exposures were predominantly allocated to 'central governments or central banks'.

Pillar 1 Capital requirements: Credit risk continued

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

Exposures subject to the IRB approach – key movements

Central governments or central banks

– Exposures decreased by £2.2bn with a reduction in risk-weighted assets of £0.2bn. This was mainly due to a reduction in deposits placed with the US Treasury.

Institutions

– Exposures increased by £2.3bn and risk-weighted assets increased by £0.1bn as a result of net new, lower risk-weighted business.

Corporates

– Corporate exposure, including Specialised Lending and Corporate SME, reduced by £11.6bn, with RWA reducing £5.7bn, as a result of securitisation and other management actions, together with net customer repayments.

Retail – Secured by real estate property

– Risk-weighted assets increased by £2.5bn despite a small reduction in mortgage volumes, principally as a result of changes to mortgage models.

Retail – Other (non-SME)

– Exposures and risk-weighted assets increased by £1.5bn and £1.1bn respectively mainly due to increased lending in the UK Motor Finance and personal loan businesses.

Non-credit obligation assets

– The implementation of IFRS 16 was the principal driver of an increase in exposures and risk-weighted assets of £1.1bn and £1.4bn respectively.

Exposures subject to the Standardised approach – key movements

Multilateral development banks

– Diversification of deposits resulted in an increase in exposures of £3.3bn.

Corporates

– The net reduction in corporate exposures and risk- weighted assets of £1.6bn and £1.2bn respectively were principally a result of management activity.

Secured by mortgages on immovable property

– Exposures and risk-weighted assets increased by £2.9bn and £1.0bn largely as a result of the acquisition of the Tesco Bank UK prime residential mortgage portfolio.

Pillar 1 Capital requirements: Credit risk continued

ANALYSIS OF CREDIT RISK EXPOSURES SUBJECT TO THE FOUNDATION IRB APPROACH

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

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

The EBA guidelines include a single prescribed scale for presenting the credit quality of all IRB portfolios by asset class. The tables that follow present the prescribed scale. This does not map directly to the internal scales per tables 10 and 11, but is apportioned on the same basis.

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

Table 21: IRB – Credit risk exposures by portfolio and PD range – Central governments or central banks (CR6)

PD Scale	2019 Original on-balance sheet gross exposure £m	2019 Off balance sheet exposures pre CCF £m	2019 Average CCF %	2019 EAD post CRM and post CCF £m	2019 Average PD %	2019 Number of Obligors	2019 Average LGD %	2019 Average Maturity (years)	2019 RWA £m	2019 RWA density %	2019 EL £m	2019 Value adjustments and Provisions £m
	a	b	c	d	e	f	g	h	i	j	k	l
0.00 to <0.15	2,575	400	20.00%	2,296	0.01%	7	45.00%	4.5	335	14.60%	–	
0.15 to <0.25	–	–	–	–	–	–	–	–	–	–	–	
0.25 to <0.50	–	–	–	–	–	–	–	–	–	–	–	
0.50 to <0.75	–	–	–	–	–	–	–	–	–	–	–	
0.75 to <2.50	–	–	–	–	–	–	–	–	–	–	–	
2.50 to <10.00	–	–	–	–	–	–	–	–	–	–	–	
10.00 to <100.00	–	–	–	–	–	–	–	–	–	–	–	
100.00 (Default)	–	–	–	–	–	–	–	–	–	–	–	
Sub-total	**2,575**	**400**	**20.00%**	**2,296**	**0.01%**	**7**	**45.00%**	**4.5**	**335**	**14.60%**	**–**	**–**

Table 22: IRB – Credit risk exposures by portfolio and PD range – Institutions (CR6)

PD Scale	2019 Original on-balance sheet gross exposure £m	2019 Off balance sheet exposures pre CCF £m	2019 Average CCF %	2019 EAD post CRM and post CCF £m	2019 Average PD %	2019 Number of Obligors	2019 Average LGD %	2019 Average Maturity (years)	2019 RWA £m	2019 RWA density %	2019 EL £m	2019 Value adjustments and Provisions £m
	a	b	c	d	e	f	g	h	i	j	k	l
0.00 to <0.15	5,483	414	64.82%	5,620	0.05%	1,313	32.47%	1.6	576	10.26%	1	
0.15 to <0.25	259	44	63.77%	275	0.18%	43	38.88%	1.2	80	29.01%	–	
0.25 to <0.50	62	44	41.25%	80	0.30%	60	33.81%	1.9	32	39.92%	–	
0.50 to <0.75	1	3	22.88%	2	0.62%	24	44.90%	1.9	2	90.77%	–	
0.75 to <2.50	77	73	63.36%	124	1.38%	52	43.56%	1.0	128	103.10%	1	
2.50 to <10.00	2	4	100.00%	6	2.74%	23	44.87%	1.2	8	133.27%	–	
10.00 to <100.00	1	–	0.00%	1	12.73%	12	40.59%	1.1	2	224.10%	–	
100.00 (Default)	0	–	0.00%	0	100.00%	5	45.00%	1.0	–	0.00%	–	
Sub-total	**5,885**	**581**	**62.92%**	**6,107**	**0.09%**	**1,531**	**33.02%**	**1.6**	**827**	**13.55%**	**2**	**–**

Pillar 1 Capital requirements: Credit risk continued

Table 23: IRB – Credit risk exposures by portfolio and PD range – Corporate Main (CR6)

PD Scale	2019 Original on-balance sheet gross exposure £m	2019 Off balance sheet exposures pre CCF £m	2019 Average CCF %	2019 EAD post CRM and post CCF £m	2019 Average PD %	2019 Number of Obligors	2019 Average LGD %	2019 Average Maturity (years)	2019 RWA £m	2019 RWA density %	2019 EL £m	2019 Value adjustments and Provisions £m
	a	b	c	d	e	f	g	h	i	j	k	l
0.00 to <0.15	7,788	11,379	74.57%	15,744	0.07%	685	41.91%	3.1	4,634	29.44%	5	
0.15 to <0.25	2,445	3,216	69.96%	4,032	0.18%	2,966	44.62%	2.5	1,962	48.65%	4	
0.25 to <0.50	6,642	6,325	67.81%	9,227	0.35%	5,338	44.17%	2.3	5,723	62.02%	16	
0.50 to <0.75	3,296	1,672	70.09%	4,218	0.63%	7,100	43.58%	2.3	3,392	80.40%	12	
0.75 to <2.50	5,197	2,890	71.33%	7,050	1.24%	10,646	43.14%	2.1	6,842	97.05%	38	
2.50 to <10.00	3,023	1,318	67.19%	3,809	3.89%	5,152	42.68%	1.7	4,918	129.12%	61	
10.00 to <100.00	482	336	65.30%	681	18.26%	520	44.56%	1.9	1,531	224.87%	59	
100.00 (Default)	1,014	154	85.25%	1,145	100.00%	1,233	42.14%	1.5	–	–	495	
Sub-total	29,887	27,291	71.41%	45,906	3.45%	33,640	43.05%	2.5	29,002	63.18%	691	413

Table 24: IRB – Credit risk exposures by portfolio and PD range – Corporate SME (CR6)

PD Scale	2019 Original on-balance sheet gross exposure £m	2019 Off balance sheet exposures pre CCF £m	2019 Average CCF %	2019 EAD post CRM and post CCF £m	2019 Average PD %	2019 Number of Obligors	2019 Average LGD %	2019 Average Maturity (years)	2019 RWA £m	2019 RWA density %	2019 EL £m	2019 Value adjustments and Provisions £m
	a	b	c	d	e	f	g	h	i	j	k	l
0.00 to <0.15	598	103	96.44%	699	0.07%	126	41.98%	3.5	204	29.19%	–	
0.15 to <0.25	89	39	63.46%	114	0.19%	208	42.67%	1.9	38	33.66%	–	
0.25 to <0.50	936	440	73.51%	1,254	0.36%	910	42.01%	2.6	696	55.53%	3	
0.50 to <0.75	1,374	426	70.25%	1,672	0.57%	4,523	39.10%	3.3	996	59.55%	4	
0.75 to <2.50	2,755	785	71.00%	3,322	1.25%	7,357	38.54%	2.9	2,396	72.13%	17	
2.50 to <10.00	2,223	439	75.92%	2,555	4.23%	4,973	38.32%	2.6	2,464	96.45%	43	
10.00 to <100.00	367	31	70.32%	389	20.01%	1,644	37.52%	2.4	523	134.47%	27	
100.00 (Default)	306	25	63.21%	322	100.00%	782	39.43%	2.3	–	0.00%	127	
Sub-total	8,648	2,289	73.21%	10,327	5.46%	20,524	39.26%	2.8	7,318	70.86%	222	155

Pillar 1 Capital requirements: Credit risk continued

ANALYSIS OF CREDIT RISK EXPOSURES SUBJECT TO THE RETAIL IRB APPROACH

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

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

The Basel guidelines include a single prescribed scale for presenting the credit quality of all IRB portfolios by asset class. The tables that follow present the prescribed scale. This does not map directly to the internal scales per tables 10 and 11, but is apportioned on the same basis.

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

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

Table 25: IRB – Credit risk exposures by portfolio and PD range – Residential mortgages (SME) (CR6)

PD Scale	2019 Original on-balance sheet gross exposure £m	2019 Off balance sheet exposures pre CCF £m	2019 Average CCF %	2019 EAD post CRM and post CCF £m	2019 Average PD %	2019 Number of Obligors	2019 Average LGD %	2019 RWA £m	2019 RWA density %	2019 EL £m	2019 Value adjustments and Provisions £m	2019 Undrawn commitments (post CCF) £m
	a	b	c	d	e	f	g	i	j	k	l	
0.00 to <0.15	–	–	–	–	–	–	–	–	–	–		–
0.15 to <0.25	–	–	–	–	–	–	–	–	–	–		–
0.25 to <0.50	–	–	–	–	–	–	–	–	–	–		–
0.50 to <0.75	2,983	269	97.10%	3,252	0.54%	24,017	17.41%	400	12.31%	3		261
0.75 to <2.50	2,957	286	97.58%	3,247	1.15%	21,517	16.58%	630	19.41%	6		279
2.50 to <10.00	1,243	74	97.27%	1,317	4.21%	8,714	17.12%	572	43.42%	10		72
10.00 to <100.00	352	13	96.36%	366	22.34%	3,291	18.38%	280	76.29%	15		12
100.00 (Default)	165	5	98.10%	171	100.00%	1,168	14.51%	154	89.78%	25		5
Sub-total	7,700	646	97.33%	8,354	4.35%	58,707	17.03%	2,036	24.37%	59	83	629

Table 26: IRB – Credit risk exposures by portfolio and PD range – Residential mortgages (non-SME) (CR6)

PD Scale	2019 Original on-balance sheet gross exposure £m	2019 Off balance sheet exposures pre CCF £m	2019 Average CCF %	2019 EAD post CRM and post CCF £m	2019 Average PD %	2019 Number of Obligors	2019 Average LGD %	2019 RWA £m	2019 RWA density %	2019 EL £m	2019 Value adjustments and Provisions £m	2019 Undrawn commitments (post CCF) £m
	a	b	c	d	e	f	g	i	j	k	l	
0.00 to <0.15	221,774	11,906	99.60%	243,621	0.29%	2,009,604	10.57%	16,575	6.80%	99		11,858
0.15 to <0.25	27,973	297	62.05%	29,346	0.72%	238,382	10.03%	3,473	11.84%	27		184
0.25 to <0.50	20,163	192	66.89%	21,124	1.13%	167,656	10.25%	3,221	15.25%	29		128
0.50 to <0.75	4,675	275	73.34%	5,077	1.98%	43,483	10.93%	1,222	24.06%	13		201
0.75 to <2.50	5,593	24	84.25%	5,858	4.44%	48,260	11.13%	2,132	36.39%	32		20
2.50 to <10.00	4,898	6	77.07%	5,107	14.77%	41,753	10.09%	3,112	60.94%	91		5
10.00 to <100.00	3,041	–	48.56%	3,119	47.11%	26,011	9.90%	1,989	63.76%	181		–
100.00 (Default)	2,821	–	47.82%	2,821	100.00%	21,247	12.35%	2,031	72.00%	463		–
Sub-total	290,938	12,700	97.62%	316,073	2.08%	2,596,396	10.52%	33,755	10.68%	935	1,140	12,397

Pillar 1 Capital requirements: Credit risk continued

Table 27: Residential mortgage exposures by major portfolio

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

Major Portfolio	2019 EAD pre CRM and post CCF £m	2019 Exposure weighted average PD %	2019 Exposure weighted average LGD %	2019 Average risk weight %	2019 Undrawn commitments (pre CCF)[2] £m	2019 Undrawn commitments (post CCF) £m
UK mainstream	**242,929**	**2.02%**	**10.31%**	**10.11%**	**10,565**	**10,543**
UK buy-to-let	**52,216**	**1.44%**	**11.22%**	**12.78%**	**1,387**	**1,380**
UK self certified	**11,698**	**7.02%**	**8.14%**	**13.78%**	**432**	**220**
Dutch mortgages	**7,554**	**0.81%**	**15.70%**	**10.67%**	**315**	**254**
Other mortgages	**10,030**	**4.07%**	**16.18%**	**21.83%**	**646**	**629**
Total	**324,427**	**2.14%**	**10.69%**	**11.05%**	**13,346**	**13,026**

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

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

Pillar 1 Capital requirements: Credit risk continued

Table 28: IRB – Credit risk exposures by portfolio and PD range – Qualifying revolving retail exposures (CR6)

PD Scale	2019 Original on-balance sheet gross exposure £m	2019 Off balance sheet exposures pre CCF £m	2019 Average CCF %	2019 EAD post CRM and post CCF £m	2019 Average PD %	2019 Number of Obligors	2019 Average LGD %	2019 RWA £m	2019 RWA density %	2019 EL £m	2019 Value adjustments and Provisions £m	2019 Undrawn commitments (post CCF) £m
	a	b	c	d	e	f	g	i	j	k	l	
0.00 to <0.15	901	16,137	65.00%	11,390	0.09%	9,200,666	57.16%	382	3.35%	6		10,489
0.15 to <0.25	616	7,132	63.10%	5,117	0.20%	4,189,024	60.67%	362	7.07%	7		4,501
0.25 to <0.50	1,406	9,068	60.99%	6,936	0.36%	5,625,328	64.82%	840	12.11%	17		5,531
0.50 to <0.75	1,115	3,808	65.82%	3,621	0.62%	3,397,823	72.76%	754	20.81%	17		2,507
0.75 to <2.50	3,878	5,140	66.15%	7,279	1.37%	4,972,328	75.58%	2,861	39.31%	79		3,400
2.50 to <10.00	2,581	1,286	81.15%	3,626	4.55%	1,643,645	78.12%	3,379	93.20%	153		1,044
10.00 to <100.00	736	114	100.82%	870	31.18%	603,761	78.12%	1,850	212.60%	224		115
100.00 (Default)	320	–	–	320	100.00%	951,575	67.12%	1,014	316.45%	134		–
Sub-total	11,554	42,685	64.62%	39,159	2.43%	30,584,150	66.33%	11,442	29.22%	636	522	27,585

Table 29: IRB – Credit risk exposures by portfolio and PD range – Retail Other SME (CR6)

PD Scale	2019 Original on-balance sheet gross exposure £m	2019 Off balance sheet exposures pre CCF £m	2019 Average CCF %	2019 EAD post CRM and post CCF £m	2019 Average PD %	2019 Number of Obligors	2019 Average LGD %	2019 RWA £m	2019 RWA density %	2019 EL £m	2019 Value adjustments and Provisions £m	2019 Undrawn commitments (post CCF) £m
	a	b	c	d	e	f	g	i	j	k	l	
0.00 to <0.15	–	–	–	–	–	–	–	–	–	–		–
0.15 to <0.25	–	–	–	–	–	–	–	–	–	–		–
0.25 to <0.50	–	–	–	–	–	–	–	–	–	–		–
0.50 to <0.75	301	367	100.00%	668	0.54%	57,530	77.92%	316	47.39%	3		367
0.75 to <2.50	439	348	100.00%	787	1.15%	61,956	77.70%	523	66.48%	7		348
2.50 to <10.00	293	127	100.00%	420	4.34%	36,809	80.78%	397	94.42%	15		127
10.00 to <100.00	147	33	100.00%	180	25.34%	38,776	86.11%	244	135.25%	40		33
100.00 (Default)	178	4	100.00%	182	100.00%	9,524	7.25%	79	43.36%	13		4
Sub-total	1,357	879	99.99%	2,237	11.54%	204,595	73.30%	1,559	69.69%	77	56	879

Table 30: IRB – Credit risk exposures by portfolio and PD range – Retail Other non-SME (CR6)

PD Scale	2019 Original on-balance sheet gross exposure £m	2019 Off balance sheet exposures pre CCF £m	2019 Average CCF %	2019 EAD post CRM and post CCF £m	2019 Average PD %	2019 Number of Obligors	2019 Average LGD %	2019 RWA £m	2019 RWA density %	2019 EL £m	2019 Value adjustments and Provisions £m	2019 Undrawn commitments (post CCF) £m
	a	b	c	d	e	f	g	i	j	k	l	
0.00 to <0.15	405	–	30.00%	406	0.08%	23,274	34.07%	36	8.79%	–		–
0.15 to <0.25	87	2	30.00%	92	0.21%	21,528	74.87%	31	34.11%	–		1
0.25 to <0.50	5,471	6	30.00%	5,484	0.37%	497,501	37.13%	1,460	26.63%	11		2
0.50 to <0.75	3,322	6	30.00%	3,334	0.71%	276,201	44.15%	1,460	43.79%	13		2
0.75 to <2.50	6,650	22	30.00%	6,698	1.54%	713,742	64.57%	5,591	83.48%	73		7
2.50 to <10.00	3,831	14	30.00%	3,859	4.48%	438,258	66.40%	4,113	106.58%	124		4
10.00 to <100.00	737	4	30.00%	744	31.74%	97,609	58.46%	996	133.94%	151		1
100.00 (Default)	286	–	–	286	100.00%	114,832	49.83%	713	249.67%	99		–
Sub-total	20,788	54	30.00%	20,901	4.03%	2,182,945	53.48%	14,401	68.90%	471	620	16

Pillar 1 Capital requirements: Credit risk continued

ANALYSIS OF CREDIT RISK EXPOSURES SUBJECT TO OTHER IRB APPROACHES

Corporate specialised lending exposures subject to supervisory slotting

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

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

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

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

As at 31 December 2019, corporate specialised lending exposures subject to supervisory slotting amounted to £12.5bn. Risk-weighted assets arising from this amounted to £9.0bn as analysed in the table below.

Exposures in the table below are stated on two different bases. On-balance sheet and off-balance sheet amounts represent net carrying values (after taking into account SCRAs) before the application of CRM and CCF.

Table 31: IRB – Specialised lending (CR10)

		2019					
		Specialised lending					
Regulatory Categories	Remaining maturity	On-balance sheet amount £m	Off-balance sheet amount £m	RW %	EAD post CRM and post CCF £m	RWA £m	Expected losses £m
1) Strong	Less than 2.5 years	2,414	536	50%	2,594	1,297	–
	Equal to or more than 2.5 years	3,043	1,031	70%	3,836	2,685	15
2) Good	Less than 2.5 years	1,739	378	70%	2,050	1,434	8
	Equal to or more than 2.5 years	2,654	451	90%	3,059	2,751	24
3) Satisfactory	Less than 2.5 years	142	16	115%	158	180	4
	Equal to or more than 2.5 years	404	17	115%	433	495	12
4) Weak	Less than 2.5 years	5	–	250%	5	12	–
	Equal to or more than 2.5 years	60	1	250%	66	165	5
5) Default	Less than 2.5 years	165	2	0%	215	–	107
	Equal to or more than 2.5 years	52	–	0%	66	–	33
Total	Less than 2.5 years	4,465	932		5,021	2,923	120
	Equal to or more than 2.5 years	6,213	1,500		7,460	6,095	90

Pillar 1 Capital requirements: Credit risk continued

ANALYSIS OF CREDIT RISK EXPOSURES SUBJECT TO THE STANDARDISED APPROACH

Under this approach banks can utilise risk assessments from External Credit Assessment Institutions (ECAIs) for a number of exposure classes that cover rated counterparties, including corporates, central governments or central banks and institutions. The Group uses ratings published by Standard & Poor's, Moody's and Fitch to determine risk weights for rated counterparties under this approach.

Standardised exposures in the table below are stated on two different bases (pre-CCF and CRM and post-CCF and CRM). Note, the exposures are also net of SCRAs.

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

As at 31 December 2019, credit risk exposures risk-weighted under the Standardised Approach post-CCF and CRM, amounted to £90.2bn, generating risk-weighted assets of £21.9bn.

Table 32: Standardised approach – credit risk exposure and Credit Risk Mitigation (CRM) effects (CR4)

		2019					
		Exposures pre CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
		On balance sheet amount £m	Off balance sheet amount £m	On balance sheet amount £m	Off balance sheet amount £m	RWA £m	RWA density[1] %
		a	b	c	d	e	f
1	Central governments or central banks	46,658	1	46,937	406	–	–
2	Regional governments or local authorities	476	–	476	–	28	6%
3	Public sector entities	4,169	–	4,169	–	1	–
4	Multilateral development banks	6,243	–	6,243	–	–	–
5	International organisations	–	–	–	–	–	–
6	Institutions	401	52	506	782	219	17%
7	Corporates	6,666	3,722	6,502	1,407	7,056	89%
8	Retail	11,756	21,704	11,756	210	8,532	71%
9	Secured by mortgages on immovable property	6,758	9	6,758	4	2,367	35%
	of which: residential property	6,757	9	6,757	4	2,366	35%
	of which: commercial property	1	–	1	–	1	100%
10	Exposures in default	1,138	234	1,138	54	1,295	109%
11	Items associated with particularly high risk	–	–	–	–	–	–
12	Covered bonds	–	–	–	–	–	–
13	Claims on institutions and corporates with a short-term credit assessment	–	–	–	–	–	–
14	Collective investment undertakings	–	–	–	–	–	–
15	Equity exposures	–	–	–	–	–	–
16	Other items	2,809	–	2,809	–	2,400	85%
17	**Total**	87,073	25,723	87,293	2,864	21,897	24%

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

Pillar 1 Capital requirements: Credit risk continued

Table 33: Standardised approach – exposures by asset class (CR5)

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

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

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

		2019																
		Risk Weight																
	Exposure Classes	0% £m	2% £m	4% £m	10% £m	20% £m	35% £m	50% £m	70% £m	75% £m	100% £m	150% £m	250% £m	370% £m	1250% £m	Others £m	Total £m	Of which: Unrated £m
1	Central governments or central banks	47,343	–	–	–	–	–	–	–	–	–	–	–	–	–	–	47,343	47,018
2	Regional government or local authorities	335	–	–	–	141	–	–	–	–	–	–	–	–	–	–	476	–
3	Public sector entities	4,169	–	–	–	–	–	–	–	–	1	–	–	–	–	–	4,169	1
4	Multilateral development banks	6,243	–	–	–	–	–	–	–	–	–	–	–	–	–	–	6,243	6,243
5	International organisations	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
6	Institutions	–	–	846	–	120	–	322	–	–	–	–	–	–	–	–	1,288	885
7	Corporates	–	–	–	–	1	–	1,287	–	–	6,606	15	–	–	–	–	7,908	6,220
8	Retail	–	–	–	–	–	–	–	–	11,966	–	–	–	–	–	–	11,966	11,966
9	Secured by mortgages on immovable property	–	–	–	–	–	6,761	–	–	–	1	–	–	–	–	–	6,762	6,762
	of which: residential property	–	–	–	–	–	6,761	–	–	–	–	–	–	–	–	–	6,761	6,761
	of which: commercial property	–	–	–	–	–	–	–	–	–	1	–	–	–	–	–	1	1
10	Exposures in default	–	–	–	–	–	–	–	–	–	987	205	–	–	–	–	1,192	1,192
11	Items associated with particularly high risk	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
12	Covered bonds	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
13	Claims on institutions and corporates with a short-term credit assessment	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
14	Collective investment undertakings	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
15	Equity	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
16	Other items	71	–	–	–	423	–	–	–	–	2,315	–	–	–	–	–	2,809	2,809
17	**Total**	58,161	–	846	–	685	6,761	1,609	–	11,966	9,910	220	–	–	–	–	90,157	83,096

Pillar 1 Capital requirements: Credit risk continued

ANALYSIS OF CREDIT RISK EXPOSURES BY GEOGRAPHY

Credit risk exposures as at 31 December 2019, analysed by geographical region, based on country of residence/incorporation of the customers, are provided in the table below. Exposures are presented on a pre CRM and post CCF basis.

Table 34: Geographical breakdown of exposures (CRB-C)

	2019 United Kingdom £m	2019 Rest of Europe £m	2019 United States of America £m	2019 Asia-Pacific £m	2019 Other £m	2019 Total £m
Central governments or central banks	–	–	2,128	–	647	2,775
Institutions	3,540	541	163	394	1,430	6,068
Corporates	62,421	6,151	339	106	928	69,945
of which: Specialised lending	10,412	1,579	46	1	736	12,774
of which: SMEs	10,297	26	–	–	4	10,327
Retail	379,161	7,558	–	1	4	386,724
Secured by real estate property	316,864	7,558	–	–	4	324,427
SMEs	8,346	4	–	–	4	8,354
Non-SMEs	308,518	7,554	–	–	–	316,073
Qualifying revolving	39,159	–	–	–	–	39,159
Other retail	23,137	–	–	–	–	23,138
SMEs	2,236	–	–	–	–	2,237
Non-SMEs	20,901	–	–	–	–	20,901
Equity	–	–	–	–	–	–
Non-credit oligation assets	10,991	10	–	–	–	11,001
Total IRB approach	456,113	14,260	2,630	500	3,010	476,513
Central governments or central banks[1]	37,236	9,422	–	–	–	46,658
Regional governments or local authorities[1]	–	335	–	–	141	476
Public sector entities[1]	1	4,169	–	–	–	4,169
Multilateral development banks	–	–	–	–	6,243	6,243
International organisations	–	–	–	–	–	–
Institutions	417	63	2	–	–	483
Corporates	5,909	1,226	547	240	186	8,107
Retail	11,329	625	2	6	4	11,966
Secured by mortgages on immovable property	6,110	187	66	309	89	6,762
Exposures in default	558	31	4	13	585	1,192
Items associated with particularly high risk	–	–	–	–	–	–
Covered bonds	–	–	–	–	–	–
Claims on institutions and corporates with a short-term credit assessment	–	–	–	–	–	–
Collective investments undertakings	–	–	–	–	–	–
Equity exposures	–	–	–	–	–	–
Other exposures	2,774	30	–	5	–	2,809
Total standardised approach	64,335	16,088	621	574	7,247	88,865
Total	520,448	30,348	3,251	1,074	10,256	565,378

Pillar 1 Capital requirements: Credit risk continued

	2018 United Kingdom £m	2018 Rest of Europe £m	2018 United States of America £m	2018 Asia-Pacific £m	2018 Other £m	2018 Total £m
Central governments or central banks	425	–	4,146	–	377	4,947
Institutions	2,286	356	172	354	663	3,831
Corporates	71,968	6,959	838	325	1,170	81,260
of which: Specialised lending	13,107	1,988	88	1	622	15,806
of which: SMEs	11,342	30	–	–	11	11,383
Retail	380,467	7,255	–	1	6	387,729
Secured by real estate property	320,539	7,255	–	1	5	327,800
SMEs	9,192	6	–	1	5	9,204
Non-SMEs	311,348	7,249	–	–	–	318,596
Qualifying revolving	38,342	–	–	–	–	38,342
Other retail	21,586	–	–	–	1	21,587
SMEs	2,234	–	–	–	1	2,234
Non-SMEs	19,353	–	–	–	–	19,353
Equity	–	–	–	–	–	–
Non-credit obligation assets	9,913	–	–	–	–	9,913
Total IRB approach	465,060	14,570	5,156	679	2,216	487,681
Central governments or central banks[1]	44,456	9,903	–	–	19	54,378
Regional governments or local authorities[1]	5	–	–	–	–	5
Public sector entities[1]	21	–	–	–	–	21
Multilateral development banks	–	–	–	–	2,974	2,974
International organisations	–	–	–	–	–	–
Institutions	36	82	36	–	–	155
Corporates	7,230	1,454	416	290	264	9,653
Retail	11,576	547	2	7	5	12,137
Secured by mortgages on immovable property	3,053	216	76	362	109	3,817
Exposures in default	684	35	5	11	904	1,639
Items associated with particularly high risk	–	–	–	–	–	–
Covered bonds	–	–	–	–	–	–
Claims on institutions and corporates with a short-term credit assessment	–	–	–	–	–	–
Collective investments undertakings	–	–	–	–	–	–
Equity exposures	–	–	–	–	–	–
Other exposures	3,184	79	–	5	62	3,329
Total standardised approach	70,246	12,316	535	675	4,337	88,109
Total	535,305	26,886	5,691	1,355	6,553	575,790

1 Standardised exposures to EEA 'regional governments and local authorities' and 'public sector entities' are reported separately in 2019. In previous years, these exposures were predominantly allocated to 'central governments or central banks'.

Pillar 1 Capital requirements: Credit risk continued

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

Table 35: Exposures subject to the IRB approach analysed by geographical region

	2019 United Kingdom			2019 Rest of Europe			2019 United States of America			2019 Asia-Pacific			2019 Other			2019 Total		
	EAD pre CRM and post CCF £m	LGD %	PD %	EAD pre CRM and post CCF £m	LGD %	PD %	EAD pre CRM and post CCF £m	LGD %	PD %	EAD pre CRM and post CCF £m	LGD %	PD %	EAD pre CRM and post CCF £m	LGD %	PD %	EAD pre CRM and post CCF £m	LGD %	PD %
Exposures subject to the IRB approach																		
Foundation IRB approach																		
Central governments or central banks	–		0.01%	–		–	2,128		0.01%	–		–	647		0.03%	2,775		0.01%
Institutions	3,540		0.11%	541		0.11%	163		0.03%	394		0.07%	1,430		0.06%	6,068		0.09%
Corporate – main	41,712		3.80%	4,546		0.40%	293		0.15%	104		0.26%	189		0.24%	46,844		3.45%
Corporate – SME	10,297		5.47%	26		1.01%	–		–	–		–	4		15.76%	10,327		5.46%
Corporate – specialised lending[1]	–		4.91%	–		–	–		–	–		–	–		–	–		4.91%
Total – Foundation IRB approach	55,549		3.88%	5,113		0.37%	2,584		0.02%	499		0.11%	2,270		0.11%	66,014		3.33%
Retail IRB approach																		
Retail mortgages	316,864	10.57%	2.17%	7,558	15.70%	0.81%	–	–	–	–	12.66%	1.40%	4	12.67%	11.42%	324,427	10.69%	2.14%
of which: residential mortgages (SME)	8,346	17.03%	4.35%	4	12.49%	2.47%	–	–	–	–	12.66%	1.40%	4	12.67%	11.42%	8,354	17.03%	4.35%
of which: residential mortgages (non-SME)	308,518	10.39%	2.11%	7,554	15.70%	0.81%	–	–	–	–	–	–	–	–	–	316,073	10.52%	2.08%
Qualifying revolving retail exposures	39,159	66.33%	2.43%	–	–	–	–	–	–	–	–	–	–	–	–	39,159	66.33%	2.43%
Other SME	2,236	73.30%	11.54%	–	76.41%	4.29%	–	–	–	–	86.47%	4.03%	–	81.67%	2.59%	2,237	73.30%	11.54%
Other non-SME	20,901	53.48%	4.03%	–	–	–	–	–	–	–	–	–	–	–	–	20,901	53.48%	4.03%
Total – Retail IRB approach	379,161	19.06%	2.35%	7,558	15.70%	0.81%	–	–	–	–	20.06%	1.66%	4	12.87%	11.39%	386,724	19.00%	2.32%

1 Corporate-specialised lending includes those exposures subject to the Foundation IRB approach only and does not include exposures subject to supervisory slotting (refer to Table 31 on page 45).

Pillar 1 Capital requirements: Credit risk continued

ANALYSIS OF CREDIT RISK EXPOSURES BY INDUSTRY

Credit risk exposures as at 31 December 2019, analysed by major industrial sector, are provided in the table below. Exposures are presented are on a pre CRM and post CCF basis.

Table 36: Concentration of exposures by industry (CRB-D)

	2019 Agriculture, forestry and fishing £m	2019 Energy and water supply £m	2019 Manufacturing £m	2019 Construction £m	2019 Transport, distribution and hotels £m	2019 Postal and comms £m	2019 Property companies £m	2019 Financial, business and other services £m	2019 Personal: mortgages £m	2019 Personal: other £m	2019 Lease financing £m	2019 Hire purchase £m	2019 Total £m
Central governments or central banks	–	–	–	–	–	–	–	2,775	–	–	–	–	2,775
Institutions	–	–	–	–	–	–	–	5,944	–	–	60	64	6,068
Corporates	1,213	3,235	8,404	4,163	14,024	729	18,494	14,653	–	7	1,833	3,189	69,945
of which: Specialised lending	–	612	208	357	973	139	9,729	463	–	–	293	–	12,774
of which: SMEs	1,007	75	1,316	595	2,333	81	1,296	3,247	–	–	1	377	10,327
Retail	1,524	6	454	581	1,912	35	3,606	2,856	316,073	47,603	–	12,074	386,724
Secured by real estate property	1,318	4	288	258	1,381	20	3,385	1,699	316,073	1	–	–	324,427
SMEs	1,318	4	288	258	1,381	20	3,385	1,699	–	1	–	–	8,354
Non-SMEs	–	–	–	–	–	–	–	–	316,073	–	–	–	316,073
Qualifying revolving	–	–	–	–	–	–	–	–	–	39,159	–	–	39,159
Other retail	206	2	166	324	531	15	220	770	–	8,830	–	12,074	23,138
SMEs	206	2	166	324	531	15	220	770	–	3	–	–	2,237
Non-SMEs	–	–	–	–	–	–	–	–	–	8,827	–	12,074	20,901
Equity	–	–	–	–	–	–	–	–	–	–	–	–	–
Non-credit obligation assets													11,001
Total IRB approach	2,737	3,241	8,859	4,744	15,936	764	22,100	26,227	316,073	47,609	1,893	15,328	476,513
Central governments or central banks[1]	–	–	–	–	–	–	–	46,622	–	–	35	1	46,658
Regional governments or local authorities[1]	–	–	–	–	–	–	–	476	–	–	–	–	476
Public sector entities[1]	–	–	–	–	–	–	–	4,169	–	–	–	–	4,169
Multilateral development banks	–	–	–	–	–	–	–	6,243	–	–	–	–	6,243
International organisations	–	–	–	–	–	–	–	–	–	–	–	–	–
Institutions	–	–	–	–	–	–	–	477	–	–	6	–	483
Corporates	2,424	177	400	107	1,552	23	706	2,212	4	224	216	63	8,107
Retail	1,432	5	33	46	190	2	219	223	28	8,727	220	842	11,966
Secured by mortgages on immovable property	–	–	–	–	–	–	1	2	6,759	–	–	–	6,762
Exposures in default	30	–	17	1	586	–	4	5	361	184	1	4	1,192
Items associated with particularly high risk	–	–	–	–	–	–	–	–	–	–	–	–	–
Covered bonds	–	–	–	–	–	–	–	–	–	–	–	–	–
Claims on institutions and corporates with a short-term credit assessment	–	–	–	–	–	–	–	–	–	–	–	–	–
Collective investments undertakings	–	–	–	–	–	–	–	–	–	–	–	–	–
Equity exposures	–	–	–	–	–	–	–	–	–	–	–	–	–
Other exposures													2,809
Total standardised approach	3,887	181	450	154	2,328	25	931	60,429	7,151	9,135	478	909	88,865
Total	6,624	3,422	9,309	4,898	18,264	789	23,030	86,656	323,224	56,744	2,370	16,237	565,378

Pillar 1 Capital requirements: Credit risk continued

	2018 Agriculture, forestry and fishing £m	2018 Energy and water supply £m	2018 Manufacturing £m	2018 Construction £m	2018 Transport, distribution and hotels £m	2018 Postal and comms £m	2018 Property companies £m	2018 Financial, business and other services £m	2018 Personal: mortgages £m	2018 Personal: other £m	2018 Lease financing £m	2018 Hire purchase £m	2018 Total £m
Central governments or central banks	–	–	–	–	–	–	–	4,947	–	–	–	–	4,947
Institutions	–	–	–	–	–	–	–	3,685	–	–	73	73	3,831
Corporates	1,482	3,601	9,857	4,390	15,794	1,209	23,295	16,483	–	–	2,104	3,046	81,260
of which: Specialised lending	10	672	304	142	1,145	140	12,477	618	–	–	299	0	15,806
of which: SMEs	1,248	60	1,429	554	2,614	56	1,628	3,392	–	–	35	367	11,383
Retail	1,637	7	492	595	2,032	37	4,054	2,580	318,596	46,575	–	11,123	387,729
Secured by real estate property	1,435	5	326	282	1,513	23	3,820	1,799	318,596	1	–	–	327,800
SMEs	1,435	5	326	282	1,513	23	3,820	1,799	–	1	–	–	9,204
Non-SMEs	–	–	–	–	–	–	–	–	318,596	–	–	–	318,596
Qualifying revolving	–	–	–	–	–	–	–	–	–	38,342	–	–	38,342
Other retail	202	2	166	313	519	14	233	781	–	8,232	–	11,123	21,587
SMEs	202	2	166	313	519	14	233	781	–	3	–	–	2,234
Non-SMEs	–	–	–	–	–	–	–	–	–	8,229	–	11,123	19,353
Equity	–	–	–	–	–	–	–	–	–	–	–	–	–
Non-credit oligation assets													9,914
Total IRB approach	3,119	3,608	10,349	4,985	17,826	1,246	27,349	27,695	318,596	46,575	2,177	14,242	487,681
Central governments or central banks[1]	–	–	–	–	–	–	–	54,330	–	–	47	1	54,378
Regional governments or local authorities[1]	–	–	–	–	–	–	–	5	–	–	–	–	5
Public sector entities[1]	–	–	–	–	–	–	–	21	–	–	–	–	21
Multilateral development banks	–	–	–	–	–	–	–	2,974	–	–	–	–	2,974
International organisations	–	–	–	–	–	–	–	–	–	–	–	–	–
Institutions	–	–	–	–	–	–	–	149	–	–	5	–	155
Corporates	2,128	345	703	91	1,734	296	733	3,138	4	179	242	59	9,653
Retail	1,293	4	17	18	128	1	202	168	25	9,252	248	780	12,137
Secured by mortgages on immovable property	–	–	–	–	–	–	1	3	3,812	–	–	–	3,817
Exposures in default	36	–	3	7	914	–	33	23	430	190	1	3	1,639
Items associated with particularly high risk	–	–	–	–	–	–	–	–	–	–	–	–	–
Covered bonds	–	–	–	–	–	–	–	–	–	–	–	–	–
Claims on institutions and corporates with a short-term credit assessment	–	–	–	–	–	–	–	–	–	–	–	–	–
Collective investments undertakings	–	–	–	–	–	–	–	–	–	–	–	–	–
Equity exposures	–	–	–	–	–	–	–	–	–	–	–	–	–
Other exposures													3,329
Total standardised approach	3,457	349	723	116	2,777	297	968	60,813	4,272	9,621	543	843	88,109
Total	6,576	3,956	11,072	5,101	20,603	1,543	28,317	88,508	322,868	56,196	2,720	15,086	575,790

1 Standardised exposures to EEA 'regional governments and local authorities' and 'public sector entities' are reported separately in 2019. In previous years, these exposures were predominantly allocated to 'central governments or central banks'.

Pillar 1 Capital requirements: Credit risk continued

ANALYSIS OF CREDIT RISK EXPOSURES BY RESIDUAL MATURITY

Credit risk exposures at 31 December 2019, analysed by residual maturity, are provided in the table below. Exposures are presented on a pre CRM and post CCF basis.

Table 37: Maturity of exposures (CRB-E)

	2019					
	Net exposure value					
	On demand £m	<= 1 year £m	> 1 year <= 5 years £m	> 5 years £m	No stated maturity £m	Total £m
Central governments or central banks	–	30	687	2,058	–	2,775
Institutions	1,188	2,526	1,933	422	–	6,068
Corporates	6,062	15,247	36,932	11,703	–	69,945
of which: Specialised lending	99	2,492	6,892	3,290	–	12,774
of which: SMEs	769	3,262	2,621	3,674	–	10,327
Retail	41,123	18,848	36,707	290,046	–	386,724
Secured by real estate property	1,799	15,487	19,215	287,925	–	324,427
SMEs	203	1,093	738	6,320	–	8,354
Non-SMEs	1,596	14,394	18,477	281,605	–	316,073
Qualifying revolving	39,159	–	–	–	–	39,159
Other retail	165	3,360	17,491	2,121	–	23,138
SMEs	136	1,133	237	731	–	2,237
Non-SMEs	29	2,228	17,254	1,391	–	20,901
Equity	–	–	–	–	–	–
Non-credit obligation assets	1,377	1,096	1,742	43	6,743	11,001
Total IRB approach	49,750	37,747	78,001	304,271	6,743	476,513
Central governments or central banks[1]	35,863	574	5,943	4,278	–	46,658
Regional governments or local authorities[1]	–	55	280	141	–	476
Public sector entities[1]	–	306	3,241	623	–	4,169
Multilateral development banks	–	129	4,440	1,674	–	6,243
International organisations	–	–	–	–	–	–
Institutions	48	–	114	321	–	483
Corporates	352	1,128	2,331	4,296	–	8,107
Retail	7,710	415	1,788	2,053	–	11,966
Secured by mortgages on immovable property	22	152	545	6,042	–	6,762
Exposures in default	130	668	78	317	–	1,192
Items associated with particularly high risk	–	–	–	–	–	–
Covered bonds	–	–	–	–	–	–
Claims on institutions and corporates with a short-term credit assessment	–	–	–	–	–	–
Collective investments undertakings	–	–	–	–	–	–
Equity exposures	–	–	–	–	–	–
Other exposures	201	396	394	214	1,603	2,809
Total standardised approach	44,326	3,823	19,153	19,959	1,603	88,865
Total	94,077	41,571	97,154	324,230	8,346	565,378

Pillar 1 Capital requirements: Credit risk continued

	2018					
	Net exposure value					
	On demand £m	<= 1 year £m	> 1 year <= 5 years £m	> 5 years £m	No stated maturity £m	Total £m
Central governments or central banks	–	1,172	1,731	2,044	–	4,947
Institutions	1,364	1,247	1,153	67	–	3,831
Corporates	7,087	16,969	40,666	16,539	–	81,260
of which: Specialised lending	193	3,097	8,186	4,330	–	15,806
of which: SMEs	915	3,593	2,748	4,127	–	11,383
Retail	40,103	17,964	35,673	293,989	–	387,729
Secured by real estate property	1,616	14,659	19,702	291,822	–	327,800
SMEs	218	1,247	741	6,998	–	9,204
Non-SMEs	1,398	13,413	18,961	284,825	–	318,596
Qualifying revolving	38,342	–	–	–	–	38,342
Other retail	145	3,305	15,970	2,167	–	21,587
SMEs	124	1,101	239	770	–	2,234
Non-SMEs	21	2,204	15,731	1,397	–	19,353
Equity	–	–	–	–	–	–
Non-credit obligation assets	1,562	1,093	1,897	60	5,301	9,914
Total IRB approach	50,116	38,446	81,120	312,699	5,301	487,681
Central governments or central banks[1]	30,021	8,517	10,353	5,486	–	54,378
Regional governments or local authorities[1]	–	–	–	5	–	5
Public sector entities[1]	–	–	20	1	–	21
Multilateral development banks	–	394	1,369	1,211	–	2,974
International organisations	–	–	–	–	–	–
Institutions	41	113	–	–	–	155
Corporates	812	1,413	2,511	4,917	–	9,653
Retail	8,436	252	1,725	1,725	–	12,137
Secured by mortgages on immovable property	22	129	604	3,062	–	3,817
Exposures in default	110	944	108	478	–	1,639
Items associated with particularly high risk	–	–	–	–	–	–
Covered bonds	–	–	–	–	–	–
Claims on institutions and corporates with a short-term credit assessment	–	–	–	–	–	–
Collective investments undertakings	–	–	–	–	–	–
Equity exposures	–	–	–	–	–	–
Other exposures	165	147	472	292	2,253	3,329
Total standardised approach	39,607	11,910	17,162	17,177	2,253	88,109
Total	89,723	50,355	98,282	329,876	7,554	575,790

1 Standardised exposures to EEA 'regional governments and local authorities' and 'public sector entities' are reported separately in 2019. In previous years, these exposures were predominantly allocated to 'central governments or central banks'.

Pillar 1 Capital requirements: Credit risk continued

IMPAIRMENT AND CREDIT QUALITY OF EXPOSURES

IFRS 9 definition of default has been aligned to the regulatory definition of default.

Further details are provided in Note 2 (Accounting policies), Impairment of Financial assets and Note 3 (Critical accounting judgements and estimates), Allowance for expected credit losses in the 2019 Lloyds Bank plc Annual Report and Accounts.

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

Table 38: Credit quality of exposures by exposure class and instrument (CR1-A)

	2019					
	Gross carrying values of					
	Defaulted exposures £m	Non-defaulted exposures £m	Specific credit risk adjustment £m	General credit risk adjustment £m	Credit risk adjustment charges in the period £m	Net values £m
	a	b	c	d	f	g
Central governments or central banks	–	2,975	–	–	–	2,975
Institutions	–	6,467	–	–	–	6,467
Corporates	1,776	79,558	682	–	5	80,653
of which: Specialised lending	277	12,942	115	–	(44)	13,105
of which: SMEs	331	10,606	155	–	5	10,783
Retail	3,779	385,522	2,421	–	743	386,881
Secured by real estate property	2,992	308,992	1,223	–	(155)	310,760
SMEs	170	8,176	83	–	3	8,263
Non-SMEs	2,821	300,816	1,140	–	(158)	302,497
Qualifying revolving	320	53,919	522	–	475	53,717
Other retail	467	22,612	675	–	422	22,403
SMEs	182	2,055	56	–	2	2,181
Non-SMEs	286	20,556	620	–	420	20,222
Equity	–	–	–	–	–	–
Non-credit obligation assets	–	11,001	–	–	–	11,001
Total IRB approach	**5,556**	**485,523**	**3,103**	**–**	**748**	**487,976**
Central governments or central banks[2]		46,659	–	–	–	46,659
Regional governments or local authorities[2]		476	–	–	–	476
Public sector entities[2]		4,169	–	–	–	4,169
Multilateral development banks		6,243	–	–	–	6,243
International organisations		–	–	–	–	–
Institutions		453	–	–	–	453
Corporates		10,451	63	–	44	10,388
of which: SMEs		4,029	8	–	–	4,020
Retail		33,715	255	–	197	33,461
of which: SMEs		2,849	20	–	–	2,829
Secured by mortgages on immovable property		6,795	28	–	(3)	6,767
of which: SMEs		8	–	–	–	8
Exposures in default[1]	1,921	–	549	–	377	1,372
Items associated with particularly high risk		–	–	–	–	–
Covered bonds		–	–	–	–	–
Claims on institutions and corporates with a short-term credit assessment		–	–	–	–	–
Collective investments undertakings		–	–	–	–	–
Equity exposures		–	–	–	–	–
Other exposures		2,809	–	–	–	2,809
Total standardised approach	**1,921**	**111,771**	**896**	**–**	**614**	**112,797**
Total	**7,477**	**597,294**	**3,999**	**–**	**1,362**	**600,772**
of which: Loans	7,051	403,517	3,826	–	1,380	406,742
of which: Debt securities	1	5,260	–	–		5,261
of which: Off-balance-sheet exposures	425	116,050	172	–	(18)	116,303

Pillar 1 Capital requirements: Credit risk continued

	2018					
	Gross carrying values of					
	Defaulted exposures £m	Non-defaulted exposures £m	Specific credit risk adjustment £m	General credit risk adjustment £m	Credit risk adjustment charges in the period £m	Net values £m
	a	b	c	d	f	g
Central governments or central banks	–	5,236	–	–	–	5,236
Institutions	2	4,057	–	–	(12)	4,059
Corporates	1,566	92,348	1,048	–	103	92,866
of which: Specialised lending	307	16,043	196	–	(2)	16,153
of which: SMEs	277	11,768	193	–	9	11,853
Retail	4,429	384,184	2,485	–	638	386,128
Secured by real estate property	3,575	310,530	1,471	–	41	312,634
SMEs	170	9,051	99	–	10	9,122
Non-SMEs	3,405	301,479	1,372	–	31	303,511
Qualifying revolving	378	52,598	467	–	303	52,509
Other retail	477	21,057	547	–	293	20,986
SMEs	198	2,036	58	–	11	2,176
Non-SMEs	279	19,020	489	–	282	18,810
Equity	–	–	–	–	–	–
Non-credit obligation assets	–	9,914	–	–	–	9,914
Total IRB approach	5,997	495,738	3,533	–	728	498,202
Central governments or central banks[2]		54,379	–	–	–	54,379
Regional governments or local authorities[2]		5	–	–	–	5
Public sector entities[2]		41	–	–	–	41
Multilateral development banks		2,974	–	–	–	2,974
International organisations		–	–	–	–	–
Institutions		155	–	–	–	155
Corporates		14,504	23	–	3	14,481
of which: SMEs		3,754	5	–	–	3,749
Retail		32,478	248	–	162	32,230
of which: SMEs		2,396	5	–	–	2,390
Secured by mortgages on immovable property		3,855	33	–	1	3,822
of which: SMEs		11	–	–	–	11
Exposures in default[1]	1,972	–	307	–	31	1,665
Items associated with particularly high risk		–	–	–	–	–
Covered bonds		–	–	–	–	–
Claims on institutions and corporates with a short-term credit assessment		–	–	–	–	–
Collective investments undertakings		–	–	–	–	–
Equity exposures		–	–	–	–	–
Other exposures		3,329	–	–	–	3,329
Total standardised approach	1,972	111,721	612	–	198	113,081
Total	7,969	607,459	4,145	–	926	611,284

1 The breakdown of 'exposures in default' by the exposure class that corresponds to the exposure before default, comprises Corporate £1,286m (2018: £1,219m) and Retail £635m (2018: £753m).

2 Standardised exposures to EEA 'regional governments and local authorities' and 'public sector entities' are reported separately in 2019. In previous years, these exposures were predominantly allocated to 'central governments or central banks'.

Pillar 1 Capital requirements: Credit risk continued

Table 39: Credit quality of exposures by industry types (CR1-B)

2019

	Gross carrying values of Defaulted exposures £m	Gross carrying values of Non-defaulted exposures £m	Specific credit risk adjustment £m	General credit risk adjustment £m	Credit risk adjustment charges in the period £m	Net values £m
	a	b	c	d	f	g
Agriculture, forestry and fishing	171	6,782	42	–	(4)	6,911
Energy and water supply	46	4,188	5	–	(3)	4,228
Manufacturing	380	11,370	85	–	6	11,665
Construction	318	5,713	193	–	13	5,838
Transport, distribution and hotels	1,593	19,863	515	–	326	20,942
Postal and communications	4	1,071	3	–	5	1,072
Property companies	444	23,944	178	–	(25)	24,210
Financial, business and other services	350	102,081	248	–	88	102,183
Personal: mortgages	3,248	307,857	1,241	–	(167)	309,864
Personal: other	746	92,629	1,106	–	948	92,269
Lease financing	11	5,432	3	–	–	5,441
Hire purchase	167	16,363	379	–	175	16,150
Total	7,477	597,294	3,999	–	1,362	600,772

2018

	Gross carrying values of Defaulted exposures £m	Gross carrying values of Non-defaulted exposures £m	Specific credit risk adjustment £m	General credit risk adjustment £m	Credit risk adjustment charges in the period £m	Net values £m
	a	b	c	d	f	g
Agriculture, forestry and fishing	160	6,788	53	–	(11)	6,896
Energy and water supply	–	5,005	7	–	(16)	4,998
Manufacturing	225	13,922	103	–	3	14,043
Construction	494	5,708	360	–	10	5,843
Transport, distribution and hotels	1,267	22,829	217	–	46	23,878
Postal and communications	3	2,004	2	–	(12)	2,005
Property companies	597	29,386	338	–	15	29,645
Financial, business and other services	350	105,052	259	–	82	105,143
Personal: mortgages	3,904	305,371	1,487	–	32	307,789
Personal: other	823	89,816	1,025	–	683	89,614
Lease financing	8	5,998	14	–	5	5,992
Hire purchase	138	15,580	281	–	90	15,437
Total	7,969	607,459	4,145	–	926	611,284

Pillar 1 Capital requirements: Credit risk continued

Table 40: Credit quality of exposures by geography (CR1-C)

2019

	Gross carrying values of					
	Defaulted exposures £m	**Non-defaulted exposures £m**	**Specific credit risk adjustment £m**	**General credit risk adjustment £m**	**Credit risk adjustment charges in the period £m**	**Net values £m**
	a	**b**	**c**	**d**	**f**	**g**
United Kingdom	**6,199**	**549,497**	**3,570**	**–**	**1,059**	**552,126**
Rest of Europe	**193**	**32,239**	**72**	**–**	**13**	**32,359**
United States of America	**5**	**4,600**	**3**	**–**	**1**	**4,603**
Asia-Pacific	**17**	**1,074**	**7**	**–**	**–**	**1,085**
Other	**1,063**	**9,884**	**346**	**–**	**289**	**10,600**
Total	**7,477**	**597,294**	**3,999**	**–**	**1,362**	**600,772**

2018

	Gross carrying values of					
	Defaulted exposures £m	Non-defaulted exposures £m	Specific credit risk adjustment £m	General credit risk adjustment £m	Credit risk adjustment charges in the period £m	Net values £m
	a	b	c	d	f	g
United Kingdom	6,815	564,133	3,973	–	944	566,975
Rest of Europe	127	29,355	86	–	(5)	29,396
United States of America	22	6,717	17	–	(12)	6,721
Asia-Pacific	16	1,427	6	–	(1)	1,437
Other	989	5,828	63	–	(1)	6,754
Total	7,969	607,459	4,145	–	926	611,284

Pillar 1 Capital requirements: Credit risk continued

ANALYSIS OF PAST DUE, NON-PERFORMING AND FORBORNE EXPOSURES

In December 2018 the EBA published guidelines on the disclosure of non-performing and forborne exposures, to be applied from December 2019. The guidelines introduce ten new reporting templates providing a uniform disclosure format for non-performing exposures, forborne exposures and foreclosed assets.

Proportionality is embedded in the guidelines through thresholds based on the size of the Institution and the level of non-performing exposures. The Group has assessed the threshold criteria within the guidelines and has determined that six of the ten templates are not applicable on the basis that its non-performing loan ratio is significantly lower than the reporting threshold.

The remaining four templates are not subject to threshold criteria, however template CQ7 – Collateral obtained by taking possession and execution process, is not applicable to the Group as no collateral taken into possession is recognised on the Group balance sheet. The remaining three templates are disclosed in tables 41 to 43

Exposures are treated as past due when a counterparty has failed to make payment when contractually due. Detail on past due exposures within Stage 2 is included on page 38 of the Lloyds Bank plc Form 20-F (note, assets are transferred to Stage 2 after there has been a significant increase in credit risk).

Non-performing exposures included in the tables below are subject to the FINREP regulations (Annex V) and are therefore different from the Stage 3 exposures (assets are transferred to Stage 3 if defaulted or are otherwise considered to be credit impaired).

Table 41: Credit quality of forborne exposures (CQ1)

		2019							
		Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collaterals received and financial guarantees received on foreborne exposures	
		Performing Foreborne	Non-performing	of which: defaulted	of which: impaired	On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
		a	b	c	d	e	f	g	h
1	Loans and advances	2,227	8,059	4,932	5,967	(61)	(1,228)	6,579	4,723
2	Central banks	–	–	–	–	–	–	–	–
3	General governments	2	–	–	–	–	–	–	–
4	Credit institutions	–	–	–	–	–	–	–	–
5	Other financial corporations	7	53	53	53	(3)	(6)	8	6
6	Non-financial corporations	367	3,486	3,162	3,162	(9)	(872)	1,004	874
7	Households	1,901	4,520	1,717	2,771	(49)	(350)	5,567	3,844
8	Debt Securities	–	–	–	–	–	–	–	–
9	Loans Commitments Given	309	325	232	242	(1)	(1)	15	15
10	**Total**	2,587	8,385	5,165	6,229	(62)	(1,229)	6,594	4,738

Pillar 1 Capital requirements: Credit risk continued

Table 42: Credit quality of performing and non-performing exposures by past due days (CQ3)

		Gross carrying amount/nominal amount											
		Performing			Non-performing								
			Not past due or Past due <= 30 days	Past due > 30 days <= 90 days		Unlikely to pay that are not past-due or past-due < = 90 days	Past due > 90 days <= 180 days	Past due > 180 days <= 1 year	Past due > 1 year <= 2 years	Past due > 2 years <= 5 years	Past due > 5 years <= 7 years	Past due > 7 years	Of which: defaulted
		a	b	c	d	e	f	g	h	i	j	k	l
1	**Loans and advances**	509,472	507,143	2,328	11,400	6,097	2,026	1,187	1,068	813	151	59	7,080
2	Central banks	37,632	37,632	–	–	–	–	–	–	–	–	–	–
3	General governments	785	776	9	–	–	–	–	–	–	–	–	–
4	Credit institutions	5,747	5,742	4	–	–	–	–	–	–	–	–	–
5	Other financial corporations	60,021	60,013	7	65	58	–	–	2	4	–	–	65
6	Non-financial corporations	72,539	72,273	267	3,545	2,885	493	76	37	51	2	2	3,162
7	Of which: SMEs	33,456	33,430	26	789	550	207	8	19	3	2	–	786
8	Households	332,749	330,707	2,041	7,790	3,154	1,532	1,111	1,029	759	149	57	3,854
9	**Debt securities**	31,596	31,596	–	1	–	–	–	–	–	1	–	1
10	Central banks	51	51	–	–	–	–	–	–	–	–	–	–
11	General governments	13,317	13,317	–	–	–	–	–	–	–	–	–	–
12	Credit institutions	8,811	8,811	–	–	–	–	–	–	–	–	–	–
13	Other financial corporations	8,592	8,592	–	–	–	–	–	–	–	–	–	–
14	Non-financial corporations	826	826	–	1	–	–	–	–	–	1	–	1
15	**Off-balance-sheet exposures**	114,917			465								228
16	Central banks	–			–								–
17	General governments	95			3								1
18	Credit institutions	119			–								–
19	Other financial corporations	6,838			1								1
20	Non-financial corporations	32,027			271								226
21	Households	75,837			190								–
22	**Total**	655,984	538,739	2,328	11,866	6,097	2,026	1,187	1,068	813	152	59	7,309

Pillar 1 Capital requirements: Credit risk continued

Table 43: Performing and non-performing exposures and related provisions (CR1)

		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					
			Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		On performing exposures	On non-performing exposures
		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
1	**Loans and advances**	472,349	437,543	34,806	11,399	3,324	8,075	(1,572)	(669)	(903)	(1,634)	(235)	(1,399)	(277)	325,277	7,527
2	Central banks	1,779	1,779	–	–	–	–	–	–	–	–	–	–	–	–	–
3	General governments	767	767	–	–	–	–	–	–	–	–	–	–	–	224	–
4	Credit institutions	5,301	5,301	–	–	–	–	–	–	–	–	–	–	–	–	–
5	Other financial corporations	59,717	59,287	430	65	–	65	(64)	(5)	(59)	(6)	–	(6)	–	674	8
6	Non-financial corporations	72,382	66,848	5,534	3,545	383	3,162	(334)	(113)	(221)	(895)	(15)	(880)	(277)	41,376	1,007
7	Of which: SMEs	33,456	31,000	2,456	789	68	721	(225)	(43)	(182)	(104)	(4)	(100)	–	18,302	575
8	Households	332,404	303,561	28,843	7,789	2,941	4,848	(1,173)	(550)	(623)	(733)	(220)	(513)	–	283,003	6,513
9	**Debt securities**	31,549	31,549	(0)	1	–	1	(1)	(1)	–	(1)	–	(1)	–	5,948	–
10	Central banks	51	51	–	–	–	–	–	–	–	–	–	–	–	–	–
11	General governments	13,317	13,317	–	–	–	–	–	–	–	–	–	–	–	–	–
12	Credit institutions	8,811	8,811	–	–	–	–	–	–	–	–	–	–	–	512	–
13	Other financial corporations	8,545	8,545	–	–	–	–	–	–	–	–	–	–	–	5,436	–
14	Non-financial corporations	826	826	–	1	–	1	–	–	–	(1)	–	(1)	–	–	–
15	**Off-balance-sheet exposures**	114,917	111,484	3,433	465	361	104	(165)	(91)	(74)	(8)	(3)	(5)		19,144	15
16	Central banks	–	–	–	–	–	–	–	–	–	–	–	–		–	–
17	General governments	95	95	–	3	3	–	–	–	–	–	–	–		390	–
18	Credit institutions	119	119	–	–	–	–	–	–	–	–	–	–		5	–
19	Other financial corporations	6,838	6,783	54	1	1	–	–	–	–	–	–	–		172	–
20	Non-financial corporations	32,027	30,971	1,056	271	266	5	(54)	(27)	(27)	(5)	–	(5)		6,202	15
21	Households	75,837	73,515	2,322	190	91	99	(111)	(64)	(47)	(3)	(3)	–		12,375	–
22	**Total**	618,815	580,576	38,239	11,865	3,685	8,180	(1,738)	(761)	(977)	(1,643)	(238)	(1,405)	(277)	350,369	7,542

The table above excludes loans and advances classified as held for sale, cash balances at central banks and other demand deposits to allow calculation of the NPL ratio in line with EBA definitions. Debt securities classified as fair value through profit and loss have also been excluded.

Pillar 1 Capital requirements: Credit risk continued

COMPARISON OF EXPECTED LOSSES TO SPECIFIC CREDIT RISK ADJUSTMENTS

The table on page 63 provides a comparison of regulatory ELs to SCRAs (accounting impairment provisions) on loans and receivables, in respect of credit risk exposures subject to the IRB Approach.

Further details on accounting expected credit losses (ECLs) can be found in the 2019 Lloyds Bank plc Annual Report and Accounts: Note 2(h) (Accounting policies), Impairment of Financial assets and Note 3 (Critical accounting judgements and estimates).

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

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

Pillar 1 Capital requirements: Credit risk continued

Table 44: Regulatory expected losses and specific credit risk adjustments

In comparing regulatory ELs to the accounting ECLs, consideration of the above should be taken into account. Where ELs exceed SCRAs linked to the underlying credit risk exposures the resultant excess expected loss (EEL) is deducted from capital resources. Where SCRAs exceed ELs, a 'surplus provision' may be recognised in tier 2 capital subject to certain restrictions.

	2019 Regulatory expected losses £m	2019 Specific credit risk adjustments £m	2019 Excess expected losses £m
CREDIT RISK			
Foundation IRB approach			
Central governments or central banks	–	–	–
Institutions	2	–	2
Corporates	912	567	345
Retail IRB approach			
Residential mortgages	994	1,223	(230)
QRRE	636	522	114
Other SME	77	56	22
Other non-SME	471	620	(149)
Other IRB approaches			
Corporate – specialised lending	211	115	96
Counterparty credit risk	14	–	14
Total prior to additional adjustments	3,317	3,103	214
Other adjustments[1]	–	–	(20)
Total excess expected losses/(eligible provisions)[2]	–	–	195
Reconciliation of SCRAs to statutory consolidated balance sheet allowance for impairment losses on loans and receivables			
Total SCRAs applied against expected losses			3,103
SCRAs applied to Standardised Approach exposures[3]			896
Acquisition related and other adjustments			(619)
Total per statutory consolidated balance sheet			3,380

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

2 As at 31 December 2019 the Group has moved into an excess expected loss position. However, the adjustment applied against eligible provisions, reflecting the 'static' adjustment arising under the arrangements for capital, continues to be applied through tier 2 capital as required under the arrangments. Refer to table 69 for further details.

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

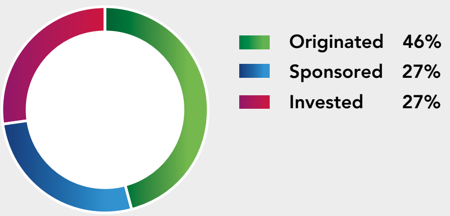
Pillar 1 Capital requirements: Credit risk – securitisation

This section details Lloyds Bank Group's securitisation profile.

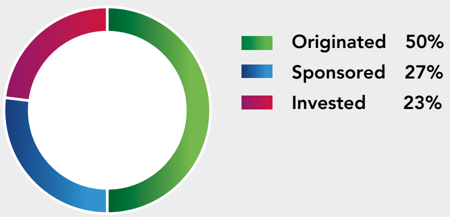
- The Group operates in the securitisation market in the following capacity:

  As an originator, sponsor of an asset-backed commercial paper (ABCP) conduit and as an arranger of and an investor in third party securitisations.
- As a provider of liquidity and funding facilities to own originated and sponsored positions as well as to third parties.
- Regulation (EU) 2017/2401 ('the revised securitsation framework') was adopted on 1 January 2019, with grandfathering provisions in place until 1 January 2020 for positions that existed prior to the implementation date.
- Securitisations represent a small proportion (2.6%) of the Group's total risk-weighted assets

% Exposure by securitisation type



% Risk-weighted assets by securitisation type



Pillar 1 Capital requirements: Credit risk – securitisation continued

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

Banking book securitisation strategy and roles

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

As an originator the Group uses securitisation as a means of managing its balance sheet. Although primarily a funding tool, the Group also uses originated securitisations to generate capital efficiencies through the use of synthetic loan securitisations which involve the use of credit derivatives.

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

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

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

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

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

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

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

Pillar 1 Capital requirements: Credit risk – securitisation continued

Summary analysis

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

Table 45: Summary of securitisation exposures and capital requirements

Securitisation type and risk weight approach	2019 Exposure value[1] £m	2019 Risk-weighted assets[2] £m	2019 Capital requirement £m	2019 Deduction from capital[3] £m
Originated:				
Ratings Based approach (RBA)	4,374	844	68	–
Standardised approach	823	177	14	–
Revised framework internal ratings based approach (IRBA)	6,542	1,214	97	–
Revised framework standardised approach (SA)	–	–	–	–
Revised framework external ratings based approach (ERBA)	–	–	–	–
Sponsored and invested:				
Internal assessment approach (IAA)	2,321	234	19	–
Ratings based approach (RBA)	4,862	681	54	185
Revised framework internal ratings based approach (IRBA)	–	–	–	–
Revised framework standardised approach (SA)	1,686	242	19	–
Revised framework external ratings based approach (ERBA)[4]	5,098	1,106	88	–
Total banking book[5]	**25,705**	**4,497**	**360**	**185**

1 Banking book exposure value is defined as the aggregate of the Group's gross retained or purchased positions, excluding those positions rated below BB- or that are unrated and therefore deducted from capital.

2 Risk-weighted assets are stated net of SCRAs where applicable. These adjustments represent a combination of impairment write downs and appropriate fair value adjustments.

3 Retained or purchased positions rated below BB- or that are unrated are deducted from capital and are stated net of SCRAs.

4 Under revised framework, sponsored positions are subject to ERBA using IAA ratings.

5 Excludes counterparty credit risk securitisation positions, further information on which can be found on page 76.

Securitisation programmes and activity

The Group's securitisation programmes are predominantly funding or collateral creation transactions, including all of the residential mortgage programmes. The Group's principal originated securitisation programmes, together with the balances of the advances subject to securitisation and the carrying value of the notes in issue at 31 December, are outlined in Note 27 (Securitisations and covered bonds) of the 2019 Lloyds Bank plc Annual Report and Accounts.

No securitisation transactions undertaken during the year were recognised as sales. During the year the Group originated three new capital efficient synthetic securitisations, referencing Commercial Banking assets.

Simple, transparent and standardised (STS) securitisations

The revised securitisation framework permits differentiated capital treatment for positions which qualify as STS (CRR Article 242 (10)). As at 31 December 2019 the Group had a small number of STS positions in its role as an Investor.

Re-securitisation

Re-securitisation transactions involve securitisations where the risk associated with the underlying pool of assets is tranched and at least one of the underlying assets is a securitisation position. The Group has no re-securitisation positions.

Pillar 1 Capital requirements: Credit risk – securitisation continued

Risks inherent in banking book securitised assets

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

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

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

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

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

Monitoring changes in the credit risk of securitised exposures

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

Monitoring changes in the credit risk of ABS portfolios

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

The credit process is the same across portfolios: credit reviews are produced at least annually for a particular sector or for a specific bond (or both) as well as for third party ABS liquidity facilities.

A credit review process will also be triggered where an ECAI applies a significant downgrade to a bond.

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

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

Banking and trading book securitisation analysis

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

Table 46: Value of exposures of retained and purchased positions in the banking book by exposure type[1]

	2019			
	Banking book			
Exposure type	Originator £m	Sponsor £m	Investor £m	Total £m
Retail (total) of which	–	4,303	5,398	9,701
residential mortgage	–	370	3,858	4,228
credit card	–	–	–	–
leases and receivables	–	2,772	689	3,461
other retail exposures	–	1,161	851	2,012
Commercial (total) of which	11,738	2,620	1,646	16,004
loans to corporates or SMEs	8,843	746	379	9,968
social housing associations	2,895	–	–	2,895
commercial mortgage	–	–	511	511
leases and receivables	–	1,674	443	2,117
other commercial	–	199	313	513
re-securitisation	–	–	–	–

1 The Group does not hold any trading book securitisations.

ORIGINATED SECURITISATIONS

Regulatory treatment

In deriving credit risk exposures associated with originated securitisations, the Group takes into account that certain securitised assets, whilst held on the balance sheet for accounting purposes, are deemed to have met the prudential SRT tests when securitised. Meeting these tests allows the retained positions in the securitisations to be included within regulatory calculations, and the risk-weighted assets on the exposures underlying the

Pillar 1 Capital requirements: Credit risk – securitisation continued

securitisation to be removed. Where the minimum requirements for recognition of SRT are not met, the underlying exposures remain part of the relevant exposure class and are risk-weighted accordingly.

Capital requirements in relation to grandfathered originated securitisation positions are primarily determined under the RBA or the Standardised approach. For those transactions originated after 1 January 2019, the capital requirements are calculated using the revised securitisation framework, specifically, IRBA. Where appropriate, the Group utilises the ratings services of several ECAIs, including Standard & Poor's, Moody's and Fitch, to rate securitisation transactions and retained or purchased positions for risk weight allocation purposes under both the RBA and Standardised approach. For synthetic securitisations any maturity mismatch between the credit protection and securitised exposures is treated in line with CRR Article 252.

On a regulatory basis, the gross securitised exposures in relation to originated securitisations where significant risk transfer is achieved amounted to £11.7bn comprising synthetic originated securitisations. An analysis is provided in the table below together with the amount of impaired exposures and past due but performing exposures.

Table 47: Analysis of gross securitised exposures on a regulatory basis, in relation to originated securitisations

	2019		
	Gross securitised exposure		
	Synthetic £m	Impaired exposures £m	Past due but not impaired exposures £m
Commercial			
social housing associations	**2,895**	–	–
loans to corporates or SMEs	**8,843**	77	12
Total	**11,738**	77	12

The gross charge to the income statement for the year to 31 December 2019 in respect of losses attributed to the gross securitised exposures noted above amounted to £4.5m.

Originated securitisations subject to the RBA

The RBA utilises a set of defined risk weights prescribed by CRD IV rules. The appropriate risk weight is dependent on the rating of the position, its classification as a securitisation position or a re-securitisation position, the maturity and the seniority of the position and the granularity of the asset pool backing the position. As at 31 December 2019, securitisation positions arising from origination activities and risk-weighted under the RBA amounted to £4.4bn, generating a capital requirement of £68m. An analysis of these positions, by risk weight category, is provided in the table below.

Pillar 1 Capital requirements: Credit risk – securitisation continued

Table 48A: Analysis of originated positions under the RBA by risk weight category (grandfathered)

S&P Equivalent Rating and RBA Risk Weight[1]		Securitisation positions – Senior – Exposure £m	Securitisation positions – Senior – Capital requirement £m	Securitisation positions – Non-Senior – Exposure £m	Securitisation positions – Non-Senior – Capital requirement £m	Total 2019 – Exposure £m	Total 2019 – Capital requirement £m
AAA	(7%, 12%)	**3,139**	**19**	**220**	**2**	**3,359**	**21**
AA	(8%, 15%)	–	–	**406**	**5**	**406**	**5**
A+	(10%, 18%)	–	–	**188**	**3**	**188**	**3**
A	(12%, 20%)	–	–	**60**	**1**	**60**	**1**
A-	(20%, 35%)	–	–	**48**	**1**	**48**	**1**
BBB+	(35%, 50%)	–	–	**126**	**5**	**126**	**5**
BBB	(60%, 75%)	–	–	**29**	**2**	**29**	**2**
BBB-	(100%, 100%)	–	–	**45**	**4**	**45**	**4**
BB+	(250%, 250%)	–	–	**110**	**24**	**110**	**24**
BB	(425%, 425%)	–	–	**3**	**1**	**3**	**1**
BB-	(650%, 650%)	–	–	–	–	–	–
Below BB- or unrated	Deduction	–	–	–	–	–	–
Total credit risk exposure/capital requirement[2]		**3,139**	**19**	**1,235**	**49**	**4,374**	**68**

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

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

Originated securitisations subject to the revised securitisation framework (IRBA)

The IRBA is set out in the revised securitisation framework and came into force 1 January 2019. The risk weight is determined by the capital requirement for the underlying assets, as calculated under the IRB approach, tranche thickness and maturity, the number of loans securitised and their loss given default.

As at 31 December 2019, securitisation positions arising from origination activities and risk-weighted under the IRBA amounted to £6.5bn, generating a capital requirement of £97m. An analysis of these positions, by risk weight category, is provided in the table below.

Table 48B: Analysis of originated positions under the IRBA by risk weight category (revised framework)

Risk Weight bands		Securitisation positions – Retail underlying – Exposure £m	Retail underlying – RWA £m	Retail underlying – Capital requirement £m	Securitisation positions – Wholesale underlying – Exposure £m	Wholesale underlying – RWA £m	Wholesale underlying – Capital requirement £m	Total 2019 – Exposure £m	Total 2019 – RWA £m	Total 2019 – Capital requirement £m
≤ 20% RW	(7%, 12%)	–	–	–	**2,895**	**434**	**35**	**2,895**	**434**	**35**
>20% to 50% RW	(8%, 15%)	–	–	–	**3,647**	**780**	**62**	**3,647**	**780**	**62**
>50% to 100% RW	(10%, 18%)	–	–	–	–	–	–	–	–	–
>100% to <1250% RW	(12%, 20%)	–	–	–	–	–	–	–	–	–
1250% RW	(20%, 35%)	–	–	–	–	–	–	–	–	–
Total credit risk exposure/capital requirement[1]		–	–	–	**6,542**	**1,214**	**97**	**6,542**	**1,214**	**97**

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

Originated Securitisations subject to the Standardised approach

The Standardised approach utilises a set of defined risk weights prescribed by CRD IV rules. The appropriate risk-weight is dependent on the rating of the position and its classification as a securitisation position or re-securitisation position. As at 31 December 2019, securitisation positions arising from origination activities and risk-weighted under the Standardised approach amounted to £0.8bn generating a capital requirement of £14m. An analysis of these positions, by risk weight category, is provided in the table below.

Pillar 1 Capital requirements: Credit risk – securitisation continued

Table 49: Analysis of originated positions under the Standardised approach (grandfathered) by risk weight category

		Total 2019	
		Securitisation positions	
Fitch equivalent rating and standardised approach risk weight		Exposure £m	Capital requirement £m
AAA to AA-	(20%)	**797**	**13**
A+ to A-	(50%)	**26**	**1**
BBB+ to BBB-	(100%)	**–**	**–**
BB+ to BB-	(350%)	**–**	**–**
Below BB- or unrated	Deduction	**–**	**–**
Total credit risk exposure/capital requirement[1]		**823**	**14**

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

Accounting treatment

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

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

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

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

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

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

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

A securitisation transaction is recognised as a sale or partial sale where derecognition is achieved. The difference between the carrying amount and the consideration received is recorded in the income statement. Securitisation transactions that do not achieve derecognition are treated as financing arrangements.

The Group's securitised residential mortgages and commercial banking loans are not typically derecognised because the Group retains substantially all the risks and rewards associated with the underlying portfolios of assets. In addition, for many of these assets, the Group has not transferred the contractual rights to receive the cash flows or assumed a contractual obligation to pay the cash flows to a third party.

Where internal transactions between the banking group and the insurance group achieve accounting derecognition from the underlying banking subsidiary balance sheet, the assets continue to be fully consolidated from a Group perspective but may achieve derecognition under the regulatory scope of consolidation. Synthetic securitisations, where credit derivatives or financial guarantees are used to transfer the economic risk of the underlying assets but the Group retains legal ownership of the assets, are accounted for under similar accounting policies to those summarised above, with the associated credit protection accounted for under the requirements of IFRS 9.

Liquidity lines provided to conduits are accounted for in accordance with the accounting policies set out in the 2019 Lloyds Bank plc Annual Report and Accounts.

The Group's retained and purchased securitisation positions are valued for accounting purposes in accordance with the Group's accounting policies as outlined on Note 2(E) (Accounting Policies: Financial Assets and Liabilities) of the 2019 Lloyds Bank plc Annual Report and Accounts.

For those positions measured at fair value, further details on the valuation methodologies applied are outlined in Note 43(2) (Financial Instruments: Fair Value measurement) of the 2019 Lloyds Bank plc Annual Report and Accounts.

Pillar 1 Capital requirements: Credit risk – securitisation continued

Use of credit derivatives and guarantees

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

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

SPONSORED AND INVESTED SECURITISATIONS

Cancara – summary of activity

Cancara	
General description	Cancara was established in 2002 by Lloyds Bank. It provides financing facilities to the Group's core corporate and financial institution clients, funded by ABCP.
Programme limit/CP outstanding as at 31 December 2019	\$20.0bn/\$5.0bn (£15.1bn/£4.5bn)
Conduit structure	Fully supported multi-seller
Credit enhancement	Full support liquidity
Liquidity provider	Lloyds Bank Plc and Bank of Scotland Plc

Structure and liquidity facilities

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

Assets purchased relate to pools of third party receivables.

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

For each new asset purchase, Cancara enters into a liquidity facility with the Group, to cover the repayment of the ABCP notes. In the absence of market disruption the conduit will usually look to fund through issuing ABCP.

Cancara Assets

All the external assets in the conduit are consolidated for accounting purposes in the Group's financial statements, following similar accounting policies to those established for originated securitisations. The total consolidated assets in the conduits are set out in Note 42 (Structured entities) of the 2019 Lloyds Bank plc Annual Report and Accounts.

Pillar 1 Capital requirements: Credit risk – securitisation continued

Capital assessment

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

The Group's IAA model is a proprietary credit rating system. This model generates a rating equivalent to an external rating. This rating then feeds the RBA in order to calculate the capital requirement. Additionally in 2019, some Cancara deals were subject to ERBA, fed by the IAA rating.

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

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

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

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

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

Table 50A: Analysis of Sponsor positions by risk weight category (grandfathered)

		2019	
S&P equivalent rating and IAA risk weight		Exposure £m	Capital requirement £m
On Balance Sheet			
AAA	7%	**363**	**2**
AA+ to AA-	8%	**33**	**–**
A+	10%	**–**	**–**
A	12%	**392**	**2**
A-	20%	**–**	**–**
BBB	60%	**8**	**3**
Off Balance Sheet			
AAA	7%	**411**	**2**
AA+ to AA-	8%	**686**	**5**
A+	10%	**–**	**–**
A	12%	**423**	**4**
A-	20%	**–**	**–**
BBB	60%	**8**	**1**
Total credit risk exposure/capital requirement		**2,321**	**19**

Pillar 1 Capital requirements: Credit risk – securitisation continued

An analysis of the credit risk exposure and associated capital requirement by risk weight bands under the ERBA, using IAA ratings, is provided in the table below:

Table 50B: Analysis of Sponsor positions by risk weight category (revised framework)

	2019		
Risk weight bands	Exposure £m	RWA £m	Capital requirement £m
On Balance Sheet			
≤ 20% RW	600	99	8
>20% to 50% RW	306	91	7
>50% to 100% RW	–	–	–
>100% to <1250% RW	–	–	–
1250% RW	–	–	–
Off Balance Sheet			
≤ 20% RW	2,307	398	32
>20% to 50% RW	1,364	389	31
>50% to 100% RW	25	19	2
>100% to <1250% RW	–	–	–
1250% RW	–	–	–
Total credit risk exposure/capital requirement	**4,602**	**997**	**80**

Pillar 1 Capital requirements: Credit risk – securitisation continued

Direct investments and liquidity facilities

In addition to sponsoring an ABCP conduit, the Group has invested directly in third party ABS and notes and is a provider of liquidity facilities to other third party securitisations.

The majority of these direct investments are accounted for as loans and receivables on the balance sheet and held at amortised cost, with the remainder held at fair value through other comprehensive income or at fair value through profit or loss. Further details on the Group's holding of ABS are presented in Note 46(c) (Financial Risk Management: Credit Quality of Assets) of the 2019 Lloyds Bank plc Annual Report and Accounts.

Invested securitisations subject to the RBA

As at 31 December 2019, securitisation positions relating to the Group's direct investments in third party ABS and notes and the provision of liquidity facilities to third party securitisations risk weighted under the RBA, amounted to £4.9bn.

Table 51A: Analysis of invested positions by risk weight category (grandfathered)

		Securitisation positions 2019						Re-Securitisation positions 2019		2019	
		Senior		Non-senior		Tranches backed by non granular pools		Senior		Total	
S&P Equivalent Rating and RBA Risk Weight[1]		Exposure £m	Capital requirement £m	Exposure £m	Capital requirement £m	Exposure £m	Capital requirement £m	Exposure £m	Capital requirement £m	Exposure £m	Capital requirement £m
On Balance Sheet											
AAA	(7%, 12%, 20%)	**2,836**	**17**	**–**	**–**	**–**	**–**	**–**	**–**	**2,836**	**17**
AA	(8%, 15%, 25%)	**–**	**–**	**346**	**4**	**369**	**8**	**–**	**–**	**715**	**12**
A+	(10%, 18%, 35%)	**–**	**–**	**56**	**1**	**–**	**–**	**–**	**–**	**56**	**1**
A	(12%, 20%, 35%)	**171**	**2**	**31**	**1**	**1**	**–**	**–**	**–**	**203**	**2**
A-	(20%, 35%, 35%)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
BBB+	(35%, 50%, 50%)	**–**	**–**	**69**	**3**	**–**	**–**	**–**	**–**	**69**	**3**
BBB	(60%, 75%, 75%)	**1**	**–**	**29**	**2**	**–**	**–**	**–**	**–**	**30**	**2**
BBB-	(100%, 100%, 100%)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
BB+	(250%, 250%, 250%)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
BB	(425%, 425%, 425%)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
BB-	(650%, 650%, 650%)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Below BB- or unrated	Deduction	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Off Balance Sheet											
AAA	(7%, 12%, 20%)	**561**	**3**	**–**	**–**	**–**	**–**	**–**	**–**	**561**	**3**
AA	(8%, 15%, 25%)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
A+	(10%, 18%, 35%)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
A	(12%, 20%, 35%)	**46**	**–**	**–**	**–**	**149**	**4**	**–**	**–**	**195**	**5**
A-	(20%, 35%, 35%)	**–**	**–**	**–**	**–**	**70**	**2**	**–**	**–**	**70**	**2**
BBB+	(35%, 50%, 50%)	**–**	**–**	**–**	**–**	**80**	**3**	**–**	**–**	**80**	**3**
BBB	(60%, 75%, 75%)	**–**	**–**	**–**	**–**	**6**	**–**	**–**	**–**	**6**	**–**
BBB-	(100%, 100%, 100%)	**–**	**–**	**–**	**–**	**40**	**3**	**–**	**–**	**40**	**3**
BB+	(250%, 250%, 250%)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
BB	(425%, 425%, 425%)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
BB-	(650%, 650%, 650%)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Below BB- or unrated	Deduction	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total		**3,615**	**22**	**532**	**11**	**715**	**21**	**–**	**–**	**4,862**	**54**
Deduction from capital										**–**	**–**
Total credit risk exposure/capital requirement[2]										**4,862**	**54**

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

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

Pillar 1 Capital requirements: Credit risk – securitisation continued

Invested securitisations subject to the revised securitisation framework (SA and ERBA)

The risk weight for SA is based on a supervisory formula and the capital requirement for the underlying assets as calculated under the standardised approach for credit risk, tranche thickness and the ratio of delinquent to total exposures. The ERBA approach calculates a risk weight with reference to the external rating of the securitisation, seniority of the tranche, tranche thickness and tranche maturity.

As at 31 December 2019, securitisation positions relating to the Group's direct investments in third party ABS and notes and the provision of liquidity facilities to third party securitisations risk weighted under the SA, amounted to £1.7bn and under the ERBA amounted to £0.5bn. This includes £0.4bn exposure (capital requirement £3m) related to on balance sheet senior STS position under the ERBA.

Table 51B: Analysis of invested positions by risk weight category (revised framework)

	Securitisation positions 2019						Re-Securitisation positions 2019		2019	
	Senior		Non-senior		Tranches backed by non granular pools		Senior		Total	
Risk Weight bands	Exposure £m	Capital requirement £m	Exposure £m	Capital requirement £m	Exposure £m	Capital requirement £m	Exposure £m	Capital requirement £m	Exposure £m	Capital requirement £m
On Balance Sheet										
≤ 20% RW	1,231	14	–	–	–	–	–	–	1,231	14
>20% to 50% RW	475	8	–	–	–	–	–	–	475	8
>50% to 100% RW	–	–	–	–	–	–	–	–	–	–
>100% to <1250% RW	–	–	–	–	–	–	–	–	–	–
1250% RW	–	–	–	–	–	–	–	–	–	–
Off Balance Sheet										
≤ 20% RW	455	6	–	–	–	–	–	–	455	6
>20% to 50% RW	12	–	–	–	–	–	–	–	12	–
>50% to 100% RW	–	–	–	–	–	–	–	–	–	–
>100% to <1250% RW	9	1	–	–	–	–	–	–	9	1
1250% RW	–	–	–	–	–	–	–	–	–	–
Total	2,182	28	–	–	–	–	–	–	2,182	28
of which:										
IRBA	–	–	–	–	–	–	–	–	–	–
SA	1,686	19	–	–	–	–	–	–	1,686	19
ERBA	496	9	–	–	–	–	–	–	496	9
1250% RW	–	–	–	–	–	–	–	–	–	–

1 The risk weights for each rating band are listed in the following order: senior securitisation positions, non-senior securitisation positions, tranches backed by non-granular pools, senior re-securitisation positions.

2 Total credit risk exposure is defined as the aggregate of the Group's gross retained or purchased positions, excluding those positions that are deducted from capital. Capital requirements are stated net of SCRA's, where applicable.

Pillar 1 Capital requirements: Counterparty credit risk

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

- The Group's counterparty credit risk strategy is to use collateral agreements and other risk management techniques, such as central clearing, to mitigate risk exposure.
- Counterparty credit risk (including credit valuation adjustment (CVA) represents a small proportion (1%) of the Group's total risk-weighted assets.

IRB exposures

Standardised exposures

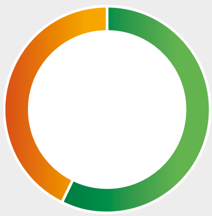


Table 52: Risk-weighted assets flow statements of CCR exposures

	RWA amounts £m	Capital requirements £m
RWA as 31 December 2018	3,270	262
Asset Size	(453)	(36)
Asset quality	(1,040)	(83)
Model updates	–	–
Methodology and policy	417	33
Acquisitions and disposals	–	–
Foreign exchange movements	(92)	(7)
Other	–	–
RWA as at 31 December 2019	2,102	168

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

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

Key movements

- **Counterparty credit risk, risk weighted assets** decreased by £1.2bn due to reduced contributions to the default fund of a Central Counterparty, movement in CVA, and a reduction in asset size, partially offset by increases from the introduction of ring-fencing legislation impacting intragroup exposures.

Pillar 1 Capital requirements: Counterparty credit risk continued

DEFINITION

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

INTERNAL CAPITAL AND CREDIT LIMITS

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

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

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

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

SECURING COLLATERAL AND ESTABLISHING CREDIT RESERVES

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

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

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

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

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

MASTER NETTING AGREEMENTS

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

COLLATERAL REQUIREMENTS IN THE EVENT OF A DOWNGRADE IN CREDIT RATING

The Group has a number of rating dependent contracts that would trigger cash and collateral outflows in the event of a credit rating downgrade. The Group manages the impact of such an eventuality by holding sufficient levels of liquidity for these outflows through both its liquidity coverage ratio and internal liquidity stress tests, which continue to exceed the regulatory minimum and internal risk appetite.

CORRELATION (WRONG WAY) RISK

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

DERIVATIVE VALUATION ADJUSTMENTS

Details on the application of derivative valuation adjustments, including Credit and Debit Valuation Adjustments (CVA and DVA), are provided in Note 43 (Financial Instruments) of the 2019 Lloyds Bank plc Annual Report and Accounts.

Pillar 1 Capital requirements: Counterparty credit risk continued

COUNTERPARTY CREDIT RISK EXPOSURES

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

Table 53: CCR: analysis by measurement approach

	2019
	EAD post CRM £m
CCR standardised approach	–
CCR mark-to-market method	2,581
CCR internal model method	–
SFT comprehensive approach	10,988
CCR central counterparty	6,899
Contributions to the default fund of a central counterparty	96
Total	**20,564**

Table 54: Analysis of CCR exposure by approach (CCR1)[3]

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

		2019						
		Notional £m	Replacement cost/current market value[1] £m	Potential future credit exposure[1] £m	Effective expected positive exposure (EEPE) £m	Multiplier x	EAD Post CRM[2] £m	RWAs £m
		a	b	c	d	e	f	g
1	Mark to market		1,981	1,043			2,581	1,370
2	Original exposure	–					–	–
3	Standardised approach		–		–	–	–	–
4	IMM (for derivatives and SFTs)				–	–	–	–
5	of which: securities financing transactions				–	–	–	–
6	of which: derivatives and long settlement transactions				–	–	–	–
7	of which: from contractual cross-product netting				–	–	–	–
8	Financial collateral simple method (for SFTs)						–	–
9	Financial collateral comprehensive method (for SFTs)						10,988	232
10	VaR for SFTs						–	–
11	**Total**	–	1,981	1,043	–	–	13,569	1,602

1 Replacement cost and PFE have been reported on a net basis where a netting agreement is in place (collateral is deducted from the replacement cost).

2 Exposure values of £0.7bn subject to CVA are embedded in this section, the CVA risk-weighted assets are excluded from this table. For CVA risk-weighted assets please refer to Table 56.

3 CCP exposures and charges are excluded from this table. For CCP balances please refer to Table 55: Exposures to CCPs (CCR8).

Pillar 1 Capital requirements: Counterparty credit risk continued

Table 55: Exposures to CCPs (CCR8)

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

		2019	
		EAD post CRM £m	RWAs £m
1	**Exposures to QCCPs (total)**	**6,995**	**229**
		a	b
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	6,818	140
3	(i) OTC derivatives	6,648	133
4	(ii) Exchange-traded derivatives	169	7
5	(iii) SFTs	–	–
6	(iv) Netting sets where cross-product netting has been approved	–	–
7	Segregated initial margin	–	–
8	Non-segregated initial margin	81	2
9	Prefunded default fund contributions	96	88
10	Alternative calculation of own funds requirements for exposures		–
11	**Exposures to non-QCCPs (total)**		
12	Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which		
13	(i) OTC derivatives		
14	(ii) Exchange-traded derivatives		
15	(iii) SFTs		
16	(iv) Netting sets where cross-product netting has been approved		
17	Segregated initial margin		
18	Non-segregated initial margin		
19	Prefunded default fund contributions		
20	Unfunded default fund contributions		

Pillar 1 Capital requirements: Counterparty credit risk continued

Table 56: Credit valuation adjustment (CVA) capital charge (CCR2)[1]

		2019 EAD post CRM £m	2019 RWA £m
		a	b
1	Total portfolios subject to the Advanced CVA capital charge	–	–
2	(i) VaR component (including the 3×multiplier)	–	–
3	(ii) Stressed VaR component (including the 3×multiplier)	–	–
4	All portfolios subject to the Standardised Method	723	271
EU4	Based on Original Exposure Method	–	–
5	**Total subject to the CVA capital charge**	**723**	**271**

1 The CVA exposures disclosed in this table are embedded in the exposures reported in Table 54: Analysis of CCR exposure by approach (CCR1).

COUNTERPARTY CREDIT RISK EXPOSURES: ANALYSIS BY EXPOSURE CLASS

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

Table 57: CCR: analysis by exposure class

	2019 EAD post CRM £m	2019 Risk weighted assets £m
Foundation IRB approach		
Corporate – Main	1,474	576
Corporate – SME	2	2
Central governments or central banks	666	36
Institutions	1,314	392
Other IRB approach		
Corporate – Specialised lending[1]	789	577
Securitisation positions[2]	–	–
Total IRB approach	**4,246**	**1,584**
Exposures subject to the standardised approach		
Central governments or central banks	9,262	–
Multilateral development banks	–	–
International organisations	29	–
Institutions	6,903	144
Corporates	27	16
Total standardised approach	**16,221**	**159**
Contributions to the default fund of a Central Counterparty	96	88
Credit valuation adjustment[3]		271
Total	**20,564**	**2,102**

1 Exposures subject to the IRB Supervisory Slotting Approach.

2 No positions relating to counterparty credit risk securitisation positions were deducted from capital.

3 CVA exposure values of £0.7bn are embedded in the exposure class analysis above.

Pillar 1 Capital requirements: Counterparty credit risk continued

COUNTERPARTY CREDIT RISK EXPOSURES: FURTHER ANALYSIS OF IRB EXPOSURES

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

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

Table 58: IRB – CCR exposures by portfolio and PD scale – Corporate Main (CCR4)

	2019						
PD Scale	EAD post CRM	Average PD	Number of obligors	Average LGD	Average Maturity (years)	RWA	RWA density
Corporate – Main	£m	%		%		£m	%
	a	b	c	d	e	f	g
0.00 to <0.15	1,057	0.06%	227	42.7%	3.6	301	28.5%
0.15 to <0.25	13	0.18%	66	45.0%	2.8	6	46.7%
0.25 to <0.50	234	0.32%	377	45.0%	0.5	89	38.1%
0.50 to <0.75	38	0.63%	99	45.0%	1.4	26	67.7%
0.75 to <2.50	74	1.30%	171	45.0%	3.3	86	116.3%
2.50 to <10.00	51	3.33%	110	45.0%	1.7	65	128.3%
10.00 to <100.00	1	17.64%	10	45.0%	1.7	3	223.5%
100.00 (Default)	6	100.00%	11	45.0%	1.8	–	–
Sub-total	1,474	0.72%	1,071	43.3%	3.0	576	39.1%

Table 59: IRB – CCR exposures by portfolio by PD scale – Central government or central banks (CCR4)

	2019						
PD Scale	EAD post CRM	Average PD	Number of obligors	Average LGD	Average Maturity (years)	RWA	RWA density
Central governments or central banks	£m	%		%		£m	%
	a	b	c	d	e	f	g
0.00 to <0.15	666	0.05%	7	45.0%	–	36	5.4%
0.15 to <0.25	–	–	–	–	–	–	–
0.25 to <0.50	–	–	–	–	–	–	–
0.50 to <0.75	–	–	–	–	–	–	–
0.75 to <2.50	–	–	–	–	–	–	–
2.50 to <10.00	–	–	–	–	–	–	–
10.00 to <100.00	–	–	–	–	–	–	–
100.00 (Default)	–	–	–	–	–	–	–
Sub-total	666	0.05%	7	45.0%	–	36	5.4%

Table 60: IRB – CCR exposures by portfolio by PD scale – Institutions (CCR4)

	2019						
PD Scale	EAD post CRM	Average PD	Number of obligors	Average LGD	Average Maturity (years)	RWA	RWA density
Institutions	£m	%		%		£m	%
	a	b	c	d	e	f	g
0.00 to <0.15	1,274	0.05%	123	45.0%	2.7	357	28.0%
0.15 to <0.25	39	0.18%	14	45.0%	4.7	34	86.3%
0.25 to <0.50	–	0.29%	3	45.0%	4.0	–	95.4%
0.50 to <0.75	–	–	–	–	–	–	–
0.75 to <2.50	–	1.00%	1	45.0%	–	–	64.8%
2.50 to <10.00	–	–	–	–	–	–	–
10.00 to <100.00	–	–	–	–	–	–	–
100.00 (Default)	–	–	–	–	–	–	–
Sub-total	1,314	0.05%	141	45.0%	2.7	392	29.8%

Pillar 1 Capital requirements: Counterparty credit risk continued

Table 61: CCR corporate exposures subject to supervisory slotting

		2019 Specialised lending				
Regulatory Categories	Remaining maturity	On-balance sheet amount £m	Off-balance sheet amount £m	RW %	EAD post CRM £m	RWA £m
1) Strong	Less than 2.5 years	31	–	50%	30	15
	Equal to or more than 2.5 years	1,040	–	70%	611	428
2) Good	Less than 2.5 years	10	–	70%	10	7
	Equal to or more than 2.5 years	121	–	90%	87	78
3) Satisfactory	Less than 2.5 years	–	–	115%	–	–
	Equal to or more than 2.5 years	43	–	115%	43	49
4) Weak	Less than 2.5 years	–	–	250%	–	–
	Equal to or more than 2.5 years	–	–	250%	–	–
5) Default	Less than 2.5 years	–	–	0%	–	–
	Equal to or more than 2.5 years	8	–	0%	8	–
Total	Less than 2.5 years	41	–		40	22
	Equal to or more than 2.5 years	1,212	–		749	555

Pillar 1 Capital requirements: Counterparty credit risk continued

Table 62: Standardised approach – CCR exposures by regulatory portfolio and risk (CCR3)

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

		2019												
	Exposure Classes	0% £m	2% £m	4% £m	10% £m	20% £m	50% £m	70% £m	75% £m	100% £m	150% £m	Others £m	Total £m	of which: Unrated £m
1	Central governments or central banks	9,262	–	–	–	–	–	–	–	–	–	–	9,262	9,262
4	Multilateral development banks	–	–	–	–	–	–	–	–	–	–	–	–	–
5	International organisations	29	–	–	–	–	–	–	–	–	–	–	29	29
6	Institutions	–	6,730	169	–	–	4	–	–	–	–	–	6,903	6,899
7	Corporates	–	–	–	–	–	24	–	–	4	–	–	27	4
11	**Total – Standardised Approach**	9,291	6,730	169	–	–	28	–	–	4	–	–	16,221	16,193

Pillar 1 Capital requirements: Counterparty credit risk continued

COUNTERPARTY CREDIT RISK EXPOSURES: ANALYSIS BY CONTRACT TYPE

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

Table 63: CCR: analysis by contract type

	2019 EAD post CRM £m
Interest rate and inflation contracts	8,878
Foreign exchange contracts	414
Equity contracts	1
Credit derivatives	98
Commodity contracts	7
Securities financing transactions	11,069
Contributions to the default fund of a Central Counterparty	96
Total	**20,564**
of which: central counterparty	6,899

NET DERIVATIVES CREDIT EXPOSURE

The gross positive fair value of contracts, netting benefits, netted current credit exposure, collateral held and resultant 'net derivatives and SFTs credit exposure', as at 31 December 2019, are presented separately in the table below.

Table 64: Impact of netting and collateral held on exposure values (CCR5-A)

		2019				
		Gross positive fair value exposure amount £m	Netting benefits credit £m	Netted current credit exposure £m	Collateral held £m	Net credit exposure £m
		a	b	c	d	e
1	Derivatives	61,585	55,625	5,960	4,251	1,709
2	SFTs	101,002	–	101,002	94,151	6,851
4	**Total**	162,587	55,625	106,962	98,402	8,561

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

2 The net credit exposure value may differ from the EAD value disclosed in Table 54: Analysis of CCR exposure by approach (CCR1), due to the other parameters for the calculation of the regulatory exposure values not being disclosed in this table.

Pillar 1 Capital requirements: Counterparty credit risk continued

NOTIONAL VALUE OF CREDIT DERIVATIVE TRANSACTIONS

The notional value of credit derivative transactions outstanding at 31 December 2019 was £2.7bn. These transactions relate to CDS, total return swaps and other credit derivatives. All total return swaps, including those with gilts underlying, are classified as credit products and are reported in the table below.

Table 65: Credit derivatives exposures (CCR6)

	2019		
	Credit derivative hedges		
	Protection bought £m	Protection sold £m	Other credit derivatives £m
	a	b	c
Notionals			
Single-name credit default swaps	1,755	212	–
Index credit default swaps	349	89	–
Total return swaps	67	261	–
Credit options	–	–	–
Other credit derivatives	–	–	–
Total notionals	2,170	563	–
Fair values			
Positive fair value (asset)	6	12	–
Negative fair value (liability)	(74)	(24)	–

Pillar 1 Capital requirements: Market risk

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

- Market risk is defined as the risk that unfavourable market moves (including changes in and increased volatility of interest rates, market-implied inflation rates, credit spreads and prices for bonds, foreign exchange rates, equity, property and commodity prices and other instruments) lead to reductions in earnings and/or value.
- Market risk represents less than 0.1% of the Group's risk-weighted assets

Table 66: Market risk own funds requirements

	2019 Risk-weighted assets £m	2019 Capital requirements £m
Internal models approach	125	10
VaR	12	1
SVaR	102	8
Incremental risk charge	–	–
Comprehensive risk measure	–	–
Risks not in VaR	12	1
Standardised approach	45	4
Interest rate risk (general and specific)	13	1
Equity risk (general and specific)	–	–
Foreign exchange risk	33	3
Commodity risk	–	–
Specific interest rate risk of securitisation position	–	–
Total	171	14

As permitted by Article 432 of the CRR, no further disclosures on market risk are provided on grounds of materiality.

Pillar 1 Capital requirements: Operational risk

Lloyds Bank Group's operational risk capital requirements are determined under the Standardised Approach.

- Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, which can lead to adverse customer impact, reputational damage or financial loss.
- Operational risk is managed across the Group through an operational risk framework and operational risk policies. Details of the Group's Operational Risk profile and Risk Management Framework can be found in the Risk Management section of the 2019 Lloyds Bank plc 20-F disclosure.
- Monitoring and reporting of operational risk is undertaken at Board, Group and divisional risk committees.
- The Group calculates its operational risk capital requirements using the Standardised Approach (TSA). As at 31 December 2019, the group had £24.4bn of operational risk, risk-weighted assets.

Liquidity Risk

This section details Lloyds Bank Group's liquidity risk profile, focusing in particular on the Group's weighted average Liquidity Coverage Ratio.

- Liquidity risk is defined as the risk that the Group has insufficient financial resources to meet its commitments as they fall due. Liquidity exposure represents the potential stressed outflows in any future period less expected inflows.
- Liquidity risk is managed through a series of measures, tests and reports that are primarily based on contractual maturities with behavioural overlays as appropriate. Additionally, the Group undertakes quantitative and qualitative analysis of behavioural aspects of its assets and liabilities in order to reflect their expected behaviour.
- The Group manages and monitors liquidity risks and ensures that liquidity risk management systems and arrangements are adequate with regard to the internal risk appetite, Group strategy and regulatory requirements.
- Daily monitoring and control processes are in place to address internal and regulatory requirements. In addition, the Group carries out internal stress testing of its liquidity and maintains a Contingency Funding Plan, which is designed to identify emerging liquidity concerns at an early stage.
- The Group's liquidity surplus continues to exceed the regulatory minimum and internal risk appetite, with a weighted average Liquidity Coverage Ratio of 127 per cent at 31 December 2019.

Liquidity Risk continued

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

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

Further details on the Group's liquidity portfolio can be found in the Risk Management section of the 2019 Lloyds Bank plc 20-F disclosure (Funding and liquidity risk, page 68).

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

Table 67: Liquidity Coverage Ratio (LIQ1)

		Total unweighted value (average) £m	Total weighted value (average) £m
		At 31 Dec	At 31 Dec
	High-quality liquid assets		
1	Total HQLA		112,203
	Cash outflows		–
2	**Retail deposits and deposits from small business customers, of which:**	272,275	17,976
3	Stable deposits	215,699	10,785
4	Less stable deposits	56,576	7,191
5	**Unsecured wholesale funding:**	89,825	49,426
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	23,471	5,868
7	Non-operational deposits (all counterparties)	64,360	41,564
8	Unsecured debt	1,994	1,994
9	**Secured wholesale funding**		103
10	**Additional requirements:**	53,258	19,924
11	Outflows related to derivative exposures and other collateral requirements	12,554	12,554
12	Outflows related to loss of funding on debt products	934	934
13	Credit and liquidity facilities	39,769	6,436
14	**Other contractual funding obligations**	959	447
15	**Other contingent funding obligations**	80,051	3,887
16	**TOTAL CASH OUTFLOWS**		91,762
	Cash inflows		
17	**Secured lending (eg: reverse repos)**	15,150	65
18	**Inflows from fully performing exposures**	4,144	2,418
19	Other cash inflows	1,064	788
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countires where there are transfer restrictions or which are denominated in non-convertible currencies)		–
EU-19b	(Excess inflows from a related specialised credit institution)		–
20	**TOTAL CASH INFLOWS**	20,358	3,272
EU-20a	**Fully exempt flows**	–	–
EU-20b	**Inflows subject to 90% cap**	–	–
EU-20c	**Inflows subject to 75% cap**	19,723	3,272
			Total adjusted value £m
21	**Liquidity buffer**		112,203
22	**Total net cash outflows**		88,490
23	**Liquidity Coverage Ratio (%)**		127%

Appendices

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

OWN FUNDS DISCLOSURE TEMPLATE

Table 68: Own funds template

	Transitional rules		Fully loaded rules	
	At 31 Dec 2019 £m	At 31 Dec 2018 £m	At 31 Dec 2019 £m	At 31 Dec 2018 £m
Common equity tier 1 (CET1) capital: instruments and reserves				
Capital instruments and related share premium accounts	**2,174**	2,174	**2,174**	2,174
of which: called up share capital	**1,574**	1,574	**1,574**	1,574
of which: share premium	**600**	600	**600**	600
Retained earnings	**28,380**	30,713	**28,380**	30,713
Accumulated other comprehensive income and other reserves (including unrealised gains and losses)	**3,820**	4,655	**3,820**	4,655
Foreseeable dividend	**–**	(2,100)	**–**	(2,100)
Common equity tier 1 (CET1) capital before regulatory adjustments	**34,374**	35,442	**34,374**	35,442
Common equity tier 1 (CET1) capital: regulatory adjustments				
Additional value adjustments	**(220)**	(253)	**(220)**	(253)
Intangible assets (net of related tax liability)	**(4,050)**	(3,628)	**(4,050)**	(3,628)
Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) of the CRR are met)	**(3,207)**	(3,106)	**(3,207)**	(3,106)
Fair value reserves related to gains or losses on cash flow hedges	**(1,556)**	(1,110)	**(1,556)**	(1,110)
Negative amounts resulting from the calculation of expected loss amounts	**(195)**	–	**(195)**	–
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	**22**	(291)	**22**	(291)
Defined benefit pension fund assets	**(531)**	(994)	**(531)**	(994)
Total regulatory adjustments applied to common equity tier 1 (CET1)	**(9,737)**	(9,382)	**(9,737)**	(9,382)
Common equity tier 1 (CET1) capital	**24,637**	26,060	**24,637**	26,060
Additional tier 1 (AT1) capital: instruments				
Capital instruments and related share premium accounts	**4,865**	3,217	**4,865**	3,217
of which: classified as equity under applicable accounting standards	**4,865**	3,217	**4,865**	3,217
Amount of qualifying items referred to in Article 484 (4) of the CRR and the related share premium accounts subject to phase out from AT1	**1,384**	1,913	**–**	–
Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in CET1) issued by subsidiaries and held by third parties	**656**	807	**–**	–
of which: instruments issued by subsidiaries subject to phase out	**656**	807	**–**	–
Additional tier 1 (AT1) capital	**6,905**	5,937	**4,865**	3,217
Tier 1 capital	**31,542**	31,997	**29,502**	29,277

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

	Transitional rules		Fully loaded rules	
	At 31 Dec 2019 £m	At 31 Dec 2018 £m	**At 31 Dec 2019 £m**	At 31 Dec 2018 £m
Tier 2 (T2) capital: Instruments and provisions				
Capital instruments and related share premium accounts	**4,577**	4,606	**4,577**	4,606
Amount of qualifying items referred to in Article 484 (5) of the CRR and the related share premium accounts subject to phase out from T2	**1,268**	899	**–**	–
Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in CET1 or AT1) issued by subsidiaries and held by third parties	**1,069**	1,591	**43**	247
of which: instruments issued by subsidiaries subject to phase out	**1,026**	1,344	**–**	–
Credit risk adjustments	**–**	–	**–**	–
Tier 2 (T2) capital before regulatory adjustments	**6,914**	7,096	**4,620**	4,853
Tier (T2) capital: regulatory adjustments				
IFRS 9 transitional adjustments	**(480)**	(9)	**(480)**	(9)
Total regulatory adjustments applied to tier 2 (T2) capital	**(480)**	(9)	**(480)**	(9)
Tier 2 (T2) capital	**6,434**	7,087	**4,140**	4,844
Total capital	**37,976**	39,084	**33,642**	34,121
Total risk-weighted assets	**171,940**	174,391	**171,940**	174,391
Capital ratios and buffers				
Common Equity Tier 1 (as a percentage of risk exposure amount)	**14.3%**	14.9%	**14.3%**	14.9%
Tier 1 (as a percentage of risk exposure amount)	**18.3%**	18.3%	**17.2%**	16.8%
Total capital (as a percentage of risk exposure amount)	**22.1%**	22.4%	**19.6%**	19.6%
Institution specific buffer requirement (CET1 requirement in accordance with article 92(1)(a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)	**5.444%**	2.802%	**5.444%**	2.802%
of which: capital conservation buffer requirement	**2.500%**	1.875%	**2.500%**	1.875%
of which: countercyclical buffer requirement	**0.944%**	0.927%	**0.944%**	0.927%
of which: systemic risk buffer requirement	**2.000%**	–	**2.000%**	–
Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)[1]	**9.8%**	10.4%	**9.8%**	10.4%
Amounts below the threshold for deduction (before risk weighting)				
Direct and indirect holdings of the capital of financial sector entities where the Group does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	**229**	203	**229**	203
Direct and indirect holdings by the Group of the CET1 instruments of financial sector entities where the Group has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	**-**	-	**-**	-
Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in 38 (3) are met)	**707**	577	**707**	577
Applicable caps on the inclusion of provisions in Tier 2				
Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	**–**	–	**–**	–
Cap on inclusion of credit risk adjustments in T2 under internal ratings-based approach	**738**	728	**738**	728
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)				
Current cap on AT1 instruments subject to phase out arrangements	**2,041**	2,721	**–**	–
Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	**1,109**	336	**–**	–
Current cap on T2 instruments subject to phase out arrangements	**1,987**	2,649	**–**	–
Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	**966**	–	**–**	–

1 Of which 2.7 per cent is required to meet Pillar 2A requirements.

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

OWN FUNDS RECONCILIATION

The following table presents certain items from the Group's consolidated regulatory balance sheet (as presented on pages 7 and 8), for the year ended 31 December 2019, that are used to calculate own funds. Where necessary, the balance sheet components under the regulatory scope of consolidation have been expanded such that the components of the transitional own funds disclosure template appear separately.

Table 69: Items extracted from the consolidated regulatory balance sheet and reconciliation of own funds items to audited financial statements

			Adjustments								
Lloyds Bank Group balance sheet category	Own funds description	Items extracted from the consolidated regulatory balance sheet (1) £m	Deferred tax £m	Threshold adjustments £m	Non-eligible instruments (9) £m	Amounts excluded from AT1 and T2 due to Cap (9) £m	Regulatory and other adjustments £m	Transitional own funds £m	Notes	Reversal of IFRS 9 transitional arrangements £m	Transitional own funds (IFRS 9 full impact) (10) £m
	Common Equity Tier 1 (CET1) capital: instruments and reserves										
	Capital instruments and related share premium accounts	2,174						2,174			2,174
Share capital	of which: called up share capital	1,574						1,574			1,574
Share premium account	of which: share premium	600						600			600
Retained profits	Retained earnings	28,013					367	28,380	2	(429)	27,951
Other reserves	Accumulated other comprehensive income and other reserves (including unrealised gains and losses)	3,822					(2)	3,820	2		3,820
	Common equity tier 1 (CET1) capital: regulatory adjustments										
	Additional value adjustments						(220)	(220)	3		(220)
Goodwill and other intangible assets	Intangible assets (net of related tax liability)	(4,255)	205					(4,050)	4		(4,050)
Deferred tax assets	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related deferred tax liability where conditions in Article 38(3) of the CRR are met)	(3,366)	(808)	707			260	(3,207)	5	(23)	(3,230)
	Fair value reserves related to gains or losses on cash flow hedges						(1,556)	(1,556)	6		(1,556)
	Negative amounts resulting from the calculation of expected loss amounts						(195)	(195)	7		(195)
	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing						22	22	8		22
Retirement benefit assets	Defined benefit pension fund assets	(681)	150					(531)	5		(531)
	Common Equity Tier 1 (CET1) capital	25,707	(453)	707	–	–	(1,324)	24,637		(452)	24,185
	Additional Tier 1 (AT1) capital: instruments										
Other equity instruments	Capital instruments and the related share premium accounts	4,865						4,865			4,865
Subordinated liabilities	Amount of qualifying items referred to in Article 484 (4) of the CRR and the related share premium accounts subject to phase out from AT1	2,248				(753)	(111)	1,384	9		1,384
Subordinated liabilities	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in CET1) issued by subsidiaries and held by third parties	1,019				(357)	(6)	656	9		656
	Additional Tier 1 (AT1) capital	8,132	–	–	–	(1,110)	(117)	6,905		–	6,905
	Tier 1 capital	33,839	(453)	707	–	(1,110)	(1,441)	31,542		(452)	31,090
	Tier 2 (T2) capital: instruments and provisions										
Subordinated liabilities	Capital instruments and related share premium accounts	6,989					(2,412)	4,577	9		4,577
Subordinated liabilities	Amount of qualifying items referred to in Article 484 (5) of the CRR and the related share premium accounts subject to phase out from T2	688				286	294	1,268	9		1,268
Subordinated liabilities	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in CET1 or AT1) issued by subsidiaries and held by third parties	1,642			(65)	(142)	(366)	1,069	9		1,069
	Tier 2 (T2) capital: regulatory adjustments										
	IFRS 9 transitional adjustment						(480)	(480)		480	
	Tier 2 (T2) capital	9,319	–	–	(65)	144	(2,964)	6,434		480	6,914
	Total capital	43,158	(453)	707	(65)	(966)	(4,405)	37,976		28	38,004

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

1. Assets on the regulatory balance sheet are presented as negative amounts, liabilities and equity are presented as positive amounts.
2. The regulatory definition of eligible items for inclusion in retained earnings differs from the statutory reporting definition. The aggregate of retained earnings and accumulated other comprehensive income and other reserves is comparable on both bases but the allocation between categories differ. Retained earnings are further adjusted to reflect the application of the IFRS 9 transitional arrangements - refer to note 10.
3. The additional value adjustments of £220m reflect the prudent valuation adjustment for all assets measured at fair value in accordance with Articles 34 and 105 of the CRR. Table 70 on page 95 provides a breakdown of the constituent elements of the Group's prudent valuation adjustment.
4. Own funds intangible assets of £4,255m extracted from the consolidated regulatory balance sheet representing £474m of goodwill and £3,781m of other intangible assets. CRDIV rules require the amount to be deducted from own funds to be reduced by the amount of associated deferred tax liabilities.
5. The own funds deduction of £3,207m for deferred tax excludes the deferred tax balances relating to intangible assets, cash flow hedge and the defined pension fund asset. Additionally, only the deferred tax amounts that rely on future profitability are required to be deducted from CET1, and may be reduced by associated deferred tax liabilities where conditions specified in Article 38 of CRR are met. £707m of the deferred tax assets relating to temporary differences that may be risk weighted instead of deducted from capital as presented in the threshold adjustments column. The deferred tax assets that relate to temporary differences include an adjustment to reflect the application of the IFRS 9 transitional arrangements.
6. Cash flow hedge reserve forms part of other reserves in the consolidated regulatory balance sheet. Please refer to note 35 Other Reserves in the 2019 Lloyds Bank plc Annual Report and Accounts.
7. In accordance with Articles 36,62,158 and 159 of the CRR the excess of expected losses over specific credit risk adjustments (SCRAs) and eligible additional value adjustments are deducted from CET1. A comparison of regulatory expected losses to SCRAs on loans and receivables, in respect of credit risk exposures subject to the application of the IRB approach is presented on page 63.
8. CRD IV requires the removal of the impact of any gains or losses recorded as liabilities held at fair value through profit and loss or derivative liabilities due to changes in the credit spreads of Lloyds Bank plc.
9. A reconciliation of subordinated liabilities from the Lloyds Bank Group consolidated balance sheet to the amount recognised against each own funds description is presented in the table below.

Own funds description	Consolidated accounting balance sheet total £m
Amount of qualifying items referred to in Article 484 (4) of the CRR and the related share premium accounts subject to phase out from AT1	**2,248**
Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in CET1) issued by subsidiaries and held by third parties	**1,019**
Capital instruments and related share premium accounts	**6,989**
Amount of qualifying items referred to in Article 484 (5) of the CRR and the related share premium accounts subject to phase out from T2	**688**
Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in CET1 or AT1) issued by subsidiaries and held by third parties	**1,642**
Total subordinated liabilities as presented on the consolidated regulatory balance sheet, page 8	**12,586**

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

Additional Tier 1 instruments presented in own funds include instruments issued by either Lloyds Bank plc or its subsidiaries that qualified as Tier 1 under regulation that preceded CRD IV, subject to certain restrictions, including a cap set at 30% of the value of such Tier 1 instruments that were in issue at 31 December 2012. Any excess over the cap is included in Tier 2 capital together with certain Tier 2 instruments issued by Lloyds Bank plc or its subsidiaries that qualified as Tier 2 under regulation that preceded CRD IV subject to certain restrictions, including a cap set at 30% of the value of such Tier 2 instruments that were in issue at 31 December 2012.

Tier 2 instruments include £307m of instruments that will cease to qualify as regulatory capital after June 2025 in accordance with revisions to eligibility criteria and transitional rules implemented under CRR II. These instruments have therefore been reallocated from 'Capital instruments and related share premium accounts' to 'Amount of qualifying items referred to in Article 484 (5) of the CRR and the related share premium accounts subject to phase out from T2' per the Own Funds Reconciliation, via the regulatory and other adjustments column.

10. The application of the IFRS 9 transitional arrangements for capital is reflected through the regulatory and other adjustments column. These comprise of the following:
    - An increase in retained earnings of £429m, predominantly reflecting 85 per cent of the tax adjusted add-back for the increase in non-defaulted impairment provisions at 1 January 2018 that either could not be absorbed by regulatory expected losses (IRB portfolio) or that were netted against gross credit risk exposures (Standardised portfolio)
    - A resultant movement in DTA deductions of £23m.
    - A consequential adjustment to reduce tier 2 capital by £480m.

    As at 31 December 2019, the consequential adjustment applied to tier 2 capital reflects 85 per cent of the 'static' adjustment arising under the transitional arrangements on 1 January 2018. This adjustment arises due to the fact that expected credit losses, and the resultant increase in the level of tier 2 eligible provisions, were higher for IRB exposures at 1 January 2018 compared to 31 December 2018,resulting in the application of the 'static' consequential adjustment to tier 2 eligible provisions at 31 December 2018, which resulted in no eligible provisions being recognised. As at 31 December 2019, the Group has moved into an excess expected loss position. However, the 'static' adjustment continues to be applied through tier 2 capital as required under the IFRS9 transitional arrangements.

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

PRUDENT VALUATION ADJUSTMENTS

The table below provides a breakdown of the constituent elements of the Group's Prudent Valuation Adjustments (PVA).

Table 70: Prudent valuation adjustment (PV1)

		2019							
		Equity £m	Interest rates £m	FX £m	Credit £m	Commodities £m	Total £m	of which: In the trading book £m	of which: In the banking book £m
		a	b	c	d	e	f	g	h
1	Closeout uncertainty, of which:	5	150	–	86	–	241	–	241
2	*Mid-market value*	5	49	–	32	–	86	–	86
3	*Closeout cost*	–	101	–	7	–	108	–	108
4	*Concentration*	–	–	–	48	–	48	–	48
5	Early termination	–	–	–	–	–	–	–	–
6	Model risk	–	10	–	16	–	25	–	25
7	Operational risk	1	15	–	4	–	19	–	19
8	Investing and funding costs						11	–	11
9	Unearned credit spreads						20	–	20
10	Future administrative costs	–	9	–	5	–	14	–	14
11	Other[1]	(3)	(80)	–	(27)	–	(109)	–	(109)
12	**Total adjustment**						220		

1 'Other' adjustments capture the diversification benefit which is permitted under EBA Regulatory Technical Standards on Prudent Valuation.

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

LEVERAGE DISCLOSURE TEMPLATE (CRD IV)

Table 71: Leverage ratio common disclosure

	At 31 Dec 2019 Fully loaded £m	At 31 Dec 2018 Fully loaded £m
On-balance sheet exposures (excluding derivatives and SFTs)		
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	**519,516**	527,172
Asset amounts deducted in determining Tier 1 capital	**(7,641)**	(7,872)
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	**511,875**	519,300
Derivative exposures[1]		
Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	**2,491**	3,797
Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	**8,186**	8,956
Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	**–**	–
Deductions of receivables assets for cash variation margin provided in derivatives transactions	**(3,264)**	(4,074)
Adjusted effective notional amount of written credit derivatives	**301**	157
Adjusted effective notional offsets and add-on deductions for written credit derivatives	**(153)**	(157)
Total derivative exposures	**7,561**	8,679
Securities financing transaction exposures[2]		
Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	**56,497**	54,912
Netted amounts of cash payables and cash receivables of gross SFT assets	**(4,465)**	(5,187)
Counterparty credit risk exposure for SFT assets	**689**	1,702
Total securities financing transaction exposures	**52,721**	51,427
Other off-balance sheet exposures		
Off-balance sheet exposures at gross notional amount	**123,239**	129,446
Adjustments for conversion to credit equivalent amounts	**(79,067)**	(81,583)
Other off-balance sheet exposures	**44,172**	47,863
Exempted exposures in accordance with CRR Article 429 (7) (on and off balance sheet)		
Intragroup exposures exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet)[3]	**–**	(366)
Capital and total exposure measure		
Tier 1 capital	**29,502**	29,277
Total leverage ratio exposure	**616,329**	626,903
Leverage ratio		
Leverage ratio	**4.8%**	4.7%

1 Excludes intragroup derivative assets amounting to nil (2018: £2,557m) exempted in accordance with CRR Article 429(7).
2 Excludes intragroup SFT assets amounting to nil (2018: £1,434m) exempted in accordance with CRR Article 429(7).
3 Relates to exempted intragroup loans and receivables. Total intragroup exposures exempted in accordance with CRR Article 429(7), including derivatives and SFTs, amounted to nil (2018: £4,357m).

A description of the factors that had an impact on the leverage ratio during the year is discussed on page 16.

Table 72: Summary reconciliation of accounting assets and leverage ratio exposures

	At 31 Dec 2019 Fully loaded £m	At 31 Dec 2018 Fully loaded £m
Total assets as per published financial statements	**581,368**	593,486
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	**(1,294)**	(1,555)
Adjustments for derivative financial instruments	**(965)**	(56)
Adjustments for securities financing transactions (SFTs)	**689**	(606)
Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	**44,172**	47,863
Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) no 575/2013	**–**	(4,357)
Other adjustments	**(7,641)**	(7,872)
Total leverage ratio exposure	**616,329**	626,903

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

Table 73: Split-up of on balance sheet exposures (excluding derivatives, STFS and exempted exposures)

	At 31 Dec 2019 Fully loaded £m
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	519,516
Trading book exposures	290
Banking book exposures, of which:	519,226
Covered bonds	2,253
Exposures treated as sovereigns	56,182
Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	4,645
Institutions	3,594
Secured by mortgages of immovable properties	315,166
Retail exposures	44,785
Corporates	50,449
Exposures in default	6,679
Other exposures (eg equity, securitisations, and other non-credit obligation assets)	35,473

Description of the processes used to manage the risk of excessive leverage
Capital is actively managed and regulatory ratios, including leverage, are a key factor in the Group's internal risk appetite assessment, planning processes and stress analyses.

Capital plans include an assessment of leverage requirements over the forecast period, with capital adequacy in respect of both risk-based capital and leverage requirements subjected to a range of stress scenarios. Where relevant the scenarios consider the risk of excessive leverage and potential mitigating actions that could be undertaken in response.

The Group monitors its leverage position through a combination of actual and projected ratios, including those under stressed scenarios, ensuring that the ratio exceeds regulatory minimums and internal risk appetite and reports these on a regular basis to the Group and Ring-Fenced Banks Asset and Liability Committee, the Group Executive Committee, the Group and Ring-Fenced Banks Risk Committee, Board Risk Committee and the Board.

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

Table 74: Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

	2019 General credit exposures[2,3]		2019 Trading book exposures[2]		2019 Securitisation exposures[3]		2019 Own funds requirements					
Breakdown by Country	Exposure Value for SA	Exposure Value for IRB	Sum of long and short positions of trading book exposures for SA	Value of trading book exposures for internal models	Exposure Value for SA	Exposure Value for IRB	of which: General credit exposures[2,3]	of which: Trading book exposures[2]	of which: Securitisation exposures[3]	Total	2019 Own funds requirement weights	2019 Countercyclical capital buffer rate
United Kingdom	26,610	453,752	–	–	4,081	15,841	10,452	–	282	10,734	93.61%	1.000%
Hong Kong	136	1	–	–	–	–	5	–	–	5	0.04%	2.000%
Norway	2	79	–	–	–	–	9	–	–	9	0.07%	2.500%
Sweden	27	33	–	–	–	–	4	–	–	4	0.04%	2.500%
Czech Republic	–	–	–	–	–	–	–	–	–	–	–	1.500%
Iceland	–	–	–	–	–	–	–	–	–	–	–	1.750%
Slovakia	26	–	–	–	–	–	2	–	–	2	0.02%	1.500%
Lithuania	–	–	–	–	–	–	–	–	–	–	–	1.000%
Bulgaria	–	–	–	–	–	–	–	–	–	–	–	0.500%
Denmark	9	17	–	–	–	–	2	–	–	2	0.02%	1.000%
France	43	1,046	–	–	114	138	21	–	3	24	0.21%	0.250%
Ireland	62	612	–	–	–	80	38	–	1	39	0.34%	1.000%
i) Total[1]	26,915	455,540	–	–	4,195	16,059	10,533	–	286	10,819	94.35%	
Netherlands	674	8,514	–	–	47	–	139	–	1	140	1.21%	–
ii) Total[1]	674	8,514	–	–	47	–	139	–	1	140	1.21%	
iii) Rest of the World[1]	3,076	4,747	–	–	3,364	2,041	435	–	73	508	4.44%	
Total	30,665	468,801	–	–	7,606	18,100	11,107	–	360	11,467	100.00%	

Amount of institution specific countercyclical capital buffer	2019	2018
Total risk exposure amount	£171,940m	£174,391m
Institution specific countercyclical buffer rate	0.944%	0.927%
Institution specific countercyclical buffer requirement	£1,623m	£1,616m

1 The breakdown by country is disclosed on the following basis:
i) those countries for which a countercyclical capital buffer rate has been set.
ii) those countries for which a countercyclical capital buffer rate has not been set and have an own funds requirement weighting of greater than or equal to one per cent, the threshold having been determined by the Group in accordance with the EBA guidelines on materiality for Pillar 3.
iii) the aggregate of all remaining countries for which a countercyclical buffer rate has not been set and individually have an own funds requirement weighting of less than one per cent.

2 For the purposes of the calculation of the countercyclical capital buffer, general credit risk and trading book exposures exclude exposures to central governments, central banks, regional governments, local authorities, public sector entities, multilateral development banks, international organisations and institutions. In addition, trading book exposures are limited to those that are subject to the own funds requirement for specific risk or incremental default and migration risk.

3 General credit and securitisation exposures include counterparty credit risk and are stated on a post CRM basis.

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

	2018 General credit exposures[2,3]		2018 Trading book exposures[2]		2018 Securitisation exposures[3]		2018 Own funds requirements					
Breakdown by Country	Exposure Value for SA £m	Exposure Value for IRB £m	Sum of long and short positions of trading book exposures for SA £m	Value of trading book exposures for internal models £m	Exposure Value for SA £m	Exposure Value for IRB £m	of which: General credit exposures[2,3] £m	of which: Trading book exposures[2] £m	of which: Securitisation exposures[3] £m	Total £m	2018 Own funds requirement weights %	2018 Countercyclical capital buffer rate %
United Kingdom	26,252	464,363	–	–	937	17,045	10,526	–	248	10,774	92.43%	1.000%
Hong Kong	156	3	–	–	–	–	5	–	–	5	0.04%	1.875%
Norway	3	46	–	–	–	–	6	–	–	6	0.05%	2.000%
Sweden	30	35	–	–	–	–	5	–	–	5	0.04%	2.000%
Czech Republic	–	–	–	–	–	–	–	–	–	–	0.00%	1.000%
Iceland	–	–	–	–	–	–	–	–	–	–	0.00%	1.250%
Slovakia	–	–	–	–	–	–	–	–	–	–	0.00%	1.250%
Lithuania	–	–	–	–	–	–	–	–	–	–	0.00%	0.500%
i) Total[1]	26,441	464,447	–	–	937	17,045	10,542	–	248	10,790	92.56%	
Netherlands	865	7,649	–	–	–	273	150	–	2	152	1.30%	–
British Virgin Islands	984	282	–	–	–	–	130	–	–	130	1.12%	–
ii) Total[1]	1,849	7,931	–	–	–	273	280	–	2	282	2.42%	
iii) Rest of the World[1]	2,788	8,637	–	–	–	6,815	529	–	56	585	5.02%	
Total	31,078	481,015	–	–	937	24,133	11,351	–	306	11,657	100.00%	

Appendix 2: Asset encumbrance

Table 75: Asset Encumbrance

The values reported in the tables below represent the median of the values reported to the regulator via quarterly supervisory returns over the period 31 March 2019 to 31 December 2019.

	2019							
	Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
	£m	of which notionally eligible EHQLA and HQLA, £m	£m	of which notionally eligible EHQLA and HQLA, £m	£m	of which notionally eligible EHQLA and HQLA, £m	£m	of which notionally eligible EHQLA and HQLA, £m
Encumbered and unencumbered assets								
Total assets	102,470	11,595			488,308	57,543		
Equity instruments	–	–			171	–		
Debt securities[1]	9,624	7,172	9,624	7,172	24,980	19,914	24,980	19,914
of which: covered bonds	6	6	6	6	1,991	1,991	1,991	1,991
of which: asset-backed securities	2,372	–	2,372	–	721	–	721	–
of which: issued by general governments	6,961	6,884	6,961	6,884	8,748	8,748	8,748	8,748
of which: issued by financial corporations	2,859	314	2,859	314	14,565	10,166	14,565	10,166
of which: issued by non-financial corporations	1	–	1	–	894	490	894	490
Other assets[2]	92,846	4,561			463,024	37,629		

	2019			
	Fair value of encumbered collateral received or own debt securities issued		Fair value of collateral received or own debt securities issued available for encumbrance	
Collateral received	£m	of which notionally eligible EHQLA and HQLA, £m	£m	of which notionally eligible EHQLA and HQLA, £m
Collateral received	13,829	13,827	54,517	54,465
Loans on demand	–	–	–	–
Equity Instruments	–	–	–	–
Debt securities[1]	13,829	13,827	54,517	54,465
of which: covered bonds	1	1	234	234
of which: asset-backed securities	–	–	170	170
of which: issued by general governments	13,739	13,739	54,372	54,372
of which: issued by financial corporations	90	57	399	382
of which: issued by non-financial corporations	–	–	–	–
Loans and advances other than loans on demand	–	–	–	–
Other collateral received	–	–	–	–
Own debt securities issued other than own covered bonds or asset-backed securities	–	–	–	–
Own covered bonds and asset-backed securities issued and not yet pledged			9,310	–
Total assets, collateral received and own debt securities issued	116,298	25,305		

Sources of Encumbrance	2019 Matching liabilities, contingent liabilities or securities lent £m	2019 Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered £m
Carrying amount of selected financial liabilities[3]	82,239	75,900

1 Includes debt securities accounted for as financial assets at fair value through profit or loss, financial assets at amortised cost and financial assets at fair value through other comprehensive income.

2 All remaining regulatory balance sheet assets, including loans on demand and other loans and advances. The carrying amount of other encumbered assets predominantly reflects other loans and advances.

3 Consists of derivatives, deposits and debt securities issued.

Asset encumbrance

The Board and Group Asset and Liability Committee monitor and manage total balance sheet encumbrance via a number of risk appetite metrics. The vast majority of assets encumbered are in the UK banking entities, with the Group primarily encumbering mortgages, unsecured lending and credit card receivables through the issuance programmes (covered bonds and securitisation) and tradable securities through securities financing activity (repo and stock lending). In some transactions (i.e. covered bonds and securitisations) the Group will encumber assets in excess of the matching liabilities to provide greater security for investors. The Group also separately identifies unencumbered assets which are available to meet any future possible funding requirements.

The Group provides collateralised security financing services to its clients, providing them with cash financing or specific securities. Collateralised security financing is also used to manage the Group's own short-term cash and collateral needs. For securities accepted as collateral, mandates are credit rating driven with appropriate notional limits per rating, asset and individual bond concentration. The vast majority of collateral the Group uses in repo/reverse repo and stock lending/stock borrowing transactions is investment grade government issued, primarily UK Government debt.

Appendix 3: Board of Directors

BOARD DIVERSITY POLICY

The Board Diversity Policy ('the Policy') sets out the Board's approach to diversity. The Board places great emphasis on ensuring that its membership reflects diversity in its broadest sense. Consideration is given to the combination of demographics, skills, experience, race, age, gender, educational and professional background and other relevant personal attributes on the Board to provide the range of perspectives, insights and challenge needed to support good decision making.

New appointments are made on merit, taking account of the specific skills and experience, independence and knowledge needed to ensure a rounded Board and the diversity benefits that each candidate can bring to the overall Board composition.

Objectives for achieving Board diversity may be set on a regular basis. In January 2020 the Board considered and approved aspirations set out in the Board Diversity Policy relating to gender and ethnic diversity.

On gender diversity the Board committed to maintaining at least 3 female Board members and over time expect female representation on the Board to match the 40 per cent target set for senior executives. Reflecting these aspirations, the Board will aim to meet the Hampton-Alexander objective of 33 per cent of female representation by, or as soon as possible after, the target date of 2020. Female representation on the Board is currently 31 per cent (based on five female Directors and eleven male Directors).

In addition, the Board aims to meet the objectives of the Parker Review for at least one BAME Board member by, or as soon as possible after, the target date of 2021. The appointment of Sarah Legg in 2019 supports this objective.

BOARD OF DIRECTORS

Lord Blackwell Chairman

Appointed: June 2012 (Board), April 2014 (Chairman)

Skills, experience and contribution:

– Deep financial services knowledge including in insurance and banking
– Significant experience with strategic planning and implementation
– Regulatory and public policy experience gained from senior positions in Downing Street, Regulators and a wide range of industries
– Credibility with key stakeholders
– Strong leadership qualities

Lord Blackwell is an experienced Chairman and Non-Executive Director within the financial services sector having previously been Chairman of Scottish Widows Group. He was previously Senior Independent Director and Chairman of the UK Board for Standard Life and Director of Group Development at NatWest Group. His past Board roles have also included Chairman of Interserve plc, and Non-Executive Director of Halma plc, Dixons Group, SEGRO and Ofcom. He was Head of the Prime Minister's Policy Unit from 1995 to 1997 and was appointed a Life Peer in 1997.

External appointments: Governor of the Yehudi Menuhin School and a member of the Governing Body of the Royal Academy of Music.

Anita Frew Deputy Chairman

Appointed: December 2010 (Board), May 2014 (Deputy Chairman), May 2017 – December 2019 (Senior Independent Director)

Skills, experience and contribution:

– Significant board, financial and general management experience
– Experience across a range of sectors, including banking, asset and investment management, manufacturing and utilities
– Extensive experience as chairman in a range of industries
– Strong board governance experience, including investor relations and remuneration

Anita was previously Chairman of Victrex plc, the Senior Independent Director of Aberdeen Asset Management and IMI plc, an Executive Director of Abbott Mead Vickers, a Non-Executive Director of Northumbrian Water and has held various investment and marketing roles at Scottish Provident and the Royal Bank of Scotland.

External appointments: Chairman of Croda International Plc and a Non-Executive Director of BHP Billiton.

Alan Dickinson Senior Independent Director

Appointed: September 2014 (Board), December 2019 (Senior Independent Director)

Skills, experience and contribution:

– Highly regarded retail and commercial banker
– Strong strategic, risk and core banking experience
– Regulatory and public policy experience

Alan has 37 years' experience with the Royal Bank of Scotland, most notably as Chief Executive of RBS UK. More recently, Alan was a Non-Executive Director of Willis Limited and Chairman of its Risk Committee. He was formerly Chairman of Brown, Shipley & Co. Limited, a Non-Executive Director of Nationwide Building Society where he was Chairman of its Risk Committee and a Governor of Motability.

External appointments: Chairman of Urban&Civic plc and Non-Executive Director of England and Wales Cricket Board.

Simon Henry Independent Director

Appointed: June 2014

Skills, experience and contribution:

– Deep international experience in board level strategy and execution
– Extensive knowledge of financial markets, treasury and risk management
– Qualification as an Audit Committee Financial Expert
– Strong board governance experience, including investor relations and remuneration

Appendix 3: Board of Directors

Simon was formerly Chief Financial Officer and Executive Director of Royal Dutch Shell plc. He was also previously Chair of the European Round Table CFO Taskforce and a Member of the Main Committee of the 100 Group of UK FTSE CFOs.

External appointments: Non-Executive Director of Rio Tinto plc and Rio Tinto Limited and Chair of their Audit Committee, Independent Director of PetroChina Company Limited, Member of the Defence Board and Chair of the Defence Audit Committee, UK Government, Member of the Advisory Panel of CIMA and of the Advisory Board of the Centre for European Reform.

Sarah Legg Independent Director

Appointed: December 2019

Skills, experience and contribution:

– Strong financial leadership skills
– Significant experience in financial and regulatory reporting
– Strong transformation programme experience

Sarah has spent her entire career in financial services with HSBC in finance leadership roles. She was the Group Financial Controller and a Group General Manager of HSBC until early 2019 and previously Chief Financial Officer for HSBC's Asia Pacific region. She also spent 8 years as a Non-Executive Director on the Board of Hang Seng Bank Limited, a Hong Kong listed bank.

External appointments: Honorary Vice President of The Hong Kong Society for Rehabilitation and Chair of the Campaign Advisory Board of King's College, Cambridge University.

Lord Lupton CBE Independent Director

Appointed: June 2017

Skills, experience and contribution:

– Extensive international corporate experience, especially in financial markets
– Strong board governance experience, including investor relations and remuneration
– Regulatory and public policy experience
– Significant experience in strategic planning and implementation

Lord Lupton was Deputy Chairman of Baring Brothers, co-founded the London office of Greenhill & Co., and was Chairman of Greenhill Europe. He was previously Chairman of Trustees of Dulwich Picture Gallery, a Trustee of the British Museum, Governor of Downe House School and a member of the International Advisory Board of Global Leadership Foundation. He became a Life Peer in October 2015 and is a former Treasurer of the Conservative Party. He served on the House of Lords Select Committee on Charities.

External appointments: Senior Advisor to Greenhill Europe, Trustee of the Lovington Foundation and Chairman of the Board of Visitors of the Ashmolean Museum with effect from 1 January 2020. Chairman of Lloyds Bank Corporate Markets plc.

Amanda Mackenzie OBE Independent Director

Appointed: October 2018

Skills, experience and contribution:

– Extensive experience in responsible business
– Considerable customer engagement experience
– Strong digital technology experience
– Significant marketing and brand background

Amanda was a member of Aviva's Group Executive for seven years and Chief Marketing and Communications Officer. Prior to her current role, Amanda was seconded from Aviva as Executive Adviser to Project Everyone, to help launch the United Nations Sustainable Development Goals. She has over 25 years' of commercial business practice, including director roles at British Airways AirMiles, BT, Hewlett Packard Inc, British Gas and as a Non-Executive Director of Mothercare plc. Amanda is a Life Fellow of the Royal Society of Arts and Fellow and past President of the Marketing Society.

External appointments: Chief Executive of Business in the Community – The Prince's Responsible Business Network.

Nick Prettejohn Senior Independent Director

Appointed: June 2014

Skills, experience and contribution:

– Deep financial services experience, particularly in insurance
– In-depth regulatory knowledge and experience
– Governance experience and strong leadership qualities
– Significant experience in strategic planning and implementation

Nick has served as Chief Executive of Lloyd's of London, Prudential UK and Europe and Chairman of Brit Insurance. He is a former Non-Executive Director of the Prudential Regulation Authority and of Legal & General Group Plc as well as Chairman of the Financial Services Practitioner Panel and the Financial Conduct Authority's Financial Advice Working Group. He was previously a Member of the BBC Trust and Chairman of the Britten-Pears Foundation.

External appointments: Chairman of Reach plc (formerly Trinity Mirror plc) and of their Nomination Committee. He is also Chairman of the Royal Northern College of Music and a member of the Board of Opera Ventures. Independent Director and Chairman of Scottish Widows Group.

Stuart Sinclair Independent Director

Appointed: January 2016

Skills, experience and contribution:

– Extensive experience in retail banking, insurance and consumer finance Governance and regulatory experience
– Significant experience in strategic planning and implementation

Appendix 3: Board of Directors

– Experience in consumer analysis, marketing and distribution

Stuart is a former Non-Executive Director of TSB Banking Group plc, TSB Bank plc, LV Group, Virgin Direct and Vitality Health (formerly Prudential Health). He was previously the Interim Chairman of Provident Financial plc and a former Senior Independent Director of Swinton Group Limited. In his executive career, he was President and Chief Operating Officer of Aspen Insurance after spending nine years with General Electric as Chief Executive Officer of the UK Consumer Finance business then President of GE Capital China. Before that he was Chief Executive Officer of Tesco Personal Finance and Director of UK Retail Banking at the Royal Bank of Scotland. He was a Council member of The Royal Institute for International Affairs (Chatham House).

External appointments: Chair of the Risk & Capital Committee at QBE UK Limited (formerly QBE Insurance (Europe) Limited).

Sara Weller CBE Independent Director

Appointed: February 2012

Skills, experience and contribution:

– Background in retail and associated sectors, including financial services

– Strong board governance experience, including investor relations and remuneration

– Passionate advocate of customers, the community, financial inclusion and the development of digital skills

– Considerable experience of boards at both executive and non-executive level

Sara's previous appointments include Managing Director of Argos, various senior positions at J Sainsbury including Deputy Managing Director, Chairman of the Planning Inspectorate, Lead Non-Executive Director at the Department of Communities and Local Government, a Board member at the Higher Education Funding Council, a Governing Council Member of Cambridge University, a Non-Executive Director of Mitchells & Butlers as well as a number of senior management roles for Abbey National and Mars Confectionery.

External appointments: Non-Executive Director of United Utilities Group and Chair of their Remuneration Committee, Lead Non-Executive Director at the Department for Work and Pensions, Chair of the Remuneration Committee of New College, Oxford and Trustee of Lloyds Bank Foundation for England and Wales.

António Horta-Osório Executive Director and Group Chief Executive

Appointed: January 2011 (Board), March 2011 (Group Chief Executive)

Skills, experience and contribution:

– Extensive experience in, and understanding of, both retail and commercial banking built over a period of more than 30 years, working both internationally and in the UK

– Drive, enthusiasm and commitment to customers

– Proven ability to build and lead strong management teams

Antonio previously worked for Citibank, Goldman Sachs and held various senior management positions at Grupo Santander before becoming its Executive Vice President and member of the Group's Management Committee. He was a Non-Executive Director of Santander UK and subsequently its Chief Executive. He is also a former Non-Executive Director of the Court of the Bank of England.

External appointments: Non-Executive Director of EXOR N.V., Fundacao Champalimaud and Sociedade Francisco Manuel dos Santos in Portugal, a member of the Board of Stichting INPAR Management/Enable and Chairman of the Wallace Collection.

William Chalmers Executive Director and Chief Financial Officer

Appointed: August 2019

Skills, experience and contribution:

Significant board level strategic and financial leadership experience including strategic planning and development, mergers and acquisitions, equity and debt capital structuring and risk management.

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

External appointments: None.

Juan Colombás Executive Director and Chief Operating Officer

Appointed: November 2013 (Board), January 2011- September 2017 (Chief Risk Officer), September 2017 (Chief Operating Officer)

Skills , experience and contribution:

– Significant banking and risk management experience

– International business and management experience

Juan is responsible for leading a number of critical Group functions and driving the transformation activities across the Group in order to build the Bank of the Future. He was previously the Chief Risk Officer and an Executive Director of Santander's UK business. Prior to this, he held a number of senior risk, control and business management roles across the Corporate, Investment, Retail and Risk Divisions of the Santander Group. He was previously the Vice Chairman of the International Financial Risk Institute.

External appointments: Member of the FCA Practitioner Panel

Nigel Hinshelwood Senior Independent Director Lloyds Bank plc and Bank of Scotland plc

Appointed: January 2019

Skills, experience and contribution:

– Over 30 years' experience in the financial services sector having worked across the UK and Europe, North and South America, the Middle East and Asia Pacific

– Extensive experience of large scale transformation, operations and technology

Appendix 3: Board of Directors

Nigel was a partner at Ernst & Young (subsequently Cap Gemini Ernst & Young) for many years where he held numerous positions including Head of Financial Services and Chief Executive Officer of Southeast Asia. Before becoming a Non-Executive, he was the Head of HSBC UK and Deputy CEO of HSBC Bank plc. Within the HSBC Group he held a number of executive appointments including Head of HSBC Insurance Holdings, Chief Operating Officer for Europe, Middle East and Africa, and Global Head of Operations.

External appointments: Non-Executive Director of Nordea Bank Group, Chairman of its Risk Committee and a member of the Operations Committee, Non-Executive Director of Lloyd's of London Franchise Board, Advisory Council Member of International Association of Credit Portfolio Managers and a Member of the Finance and Risk Committee of Business in the Community.

Brendan Gilligan Independent Director Lloyds Bank plc and Bank of Scotland plc

Appointed: January 2019

Skills, experience and contribution:

– Over 25 years' experience working in commercial, consumer banking and financing

– Led many global projects including acquisitions, dispositions, operational reviews and reserve standardisation

– Extensive experience of serving on the boards of regulated financial services businesses in the UK, France, Switzerland and Poland.

Brendan's career began in the Public Audit division of KPMG in Ireland and Canada. He subsequently worked in commercial and consumer banking services and financing with Woodchester Investments plc and, after its acquisition by General Electric Company, with GE Capital until his retirement in April 2018.

External appointments: Non-Executive Director of Cabot UK Holdco Limited and Cabot Credit Management Group Limited and Chairman of its Audit and Risk Committees.

Sarah Bentley Independent Director Lloyds Bank plc and Bank of Scotland plc

Appointed: January 2019

Skills, experience and contribution:

– Extensive digital and digital transformation experience

– Strong customer and marketing skills

Sarah joined Severn Trent plc in 2014 as Chief Customer Officer and is a member of its Executive Committee. She leads both the Consumer Retail division and the Wholesale Network Operations unit alongside her responsibilities as Group Chief Information Officer and head of the company's transformation portfolio.

Before joining Severn Trent, Sarah was the Managing Partner for Accenture's Digital business unit in the UK & Ireland delivering Digital Transformation programs to a range of large UK consumer facing businesses. Sarah previously worked internationally in a number of roles including Strategy, Marketing & Propositions for BT's Global Services division, CEO of Datapoint, an Alchemy backed company delivering Customer Relationship Management (CRM) technology throughout Europe, and Senior Vice President of eLoyalty, a global CRM consultancy where she led the sales and operations activity in North America and ran eLoyalty Ventures L.L.C. working in Silicon Valley, Austin and New York.

External appointments: None

Appendix 4: Remuneration disclosure

This section discloses the remuneration awards made by the Group to Material Risk Takers (MRTs) in respect of the 2019 performance year. Additional information summarising the Group's remuneration policies, structure and governance is also provided. These disclosures should be read in conjunction with the disclosures for Executive Directors contained in the Directors' Remuneration Report (DRR) on pages 98 to 114 and the Directors' Remuneration Policy (DRP) on pages 115 to 123 within the Lloyds Banking Group plc 2019 Annual Report and Accounts . Together these disclosures comply with the requirements of Article 450 of the Capital Requirements Regulation (EU) No. 575/2013 (CRR). The remuneration principles and practices detailed in the DRR apply to MRTs and non-MRTs in the same way as to Executive Directors (other than where stated in this disclosure).

The Group has applied the EBA Delegated Regulation (EU) No 604/2014 to determine which colleagues should be identified as MRTs. MRTs are colleagues who are considered to have a material impact on the Group's risk profile, and include, but are not limited to:

– Senior management, Executive Directors, members and attendees of the Group Executive Committee (GEC) and their respective executive level direct reports
– Non-Executive Directors
– Approved persons performing significant influence functions (SIFs) and/ or all colleagues performing a senior management function
– Other highly remunerated individuals whose activities could have a material impact on the Group's risk profile

DECISION MAKING PROCESS FOR REMUNERATION POLICY

The Group has a strong belief in aligning the remuneration delivered to the Group's executives with the successful performance of the business and, through this, the delivery of long-term, superior and sustainable returns to shareholders. It has continued to seek the views of shareholders and other key stakeholders with regard to remuneration policy and seeks to motivate, incentivise and retain talent while being mindful of the economic outlook.

The overarching purpose of the Remuneration Committee is to consider, agree and recommend to the Board an overall remuneration policy and philosophy for the Group that is defined by, supports and is closely aligned to its long-term business strategy, business objectives, risk appetite and values and recognises the interests of relevant stakeholders. The remuneration policy governs all aspects of remuneration and applies in its entirety to all divisions, business units and companies in the Group, including wholly-owned overseas businesses and all colleagues, contractors and temporary staff. The Committee reviews the policy annually paying particular attention to the top management population, including the highest paid colleagues in each division, those colleagues who perform senior management functions for the Group and MRTs. During 2019 the Committee had 2 scheduled meetings.

The Group has a robust governance framework, with the Remuneration Committee reviewing all compensation decisions for senior management, senior risk and compliance officers, high earners and any other MRTs within their purview. This approach to governance is cascaded through the Group with the Group People Committee having oversight for all other colleagues.

GOVERNANCE AND RISK MANAGEMENT

An essential component of the approach to remuneration is the governance process that underpins it. This ensures that the policy is robustly applied and risk is managed appropriately.

In addition to setting the overall remuneration policy and philosophy for the Group, taking into account the recommendations of Lloyds Banking Group plc Remuneration Committee, the Remuneration Committee ensures that colleagues who could have a material impact on the Group's risk profile are provided with appropriate incentives and reward to encourage them to enhance the performance of the Group and that they are recognised for their individual contribution to the success of the Group, whilst ensuring that there is no reward for excessive risk taking. The Remuneration Committee works closely with the Risk Committee in ensuring the Group Performance Share (GPS) plan outcome is moderated. The two Committees determine whether the proposed GPS outcome and performance assessments adequately reflect the risk appetite and framework of the Group; whether it took account of current and future risks; and whether any further adjustment is required or merited. The Group and the Remuneration Committee are determined to ensure that the aggregate of the variable remuneration for all colleagues is appropriate and balanced with the interests of shareholders and all other stakeholders.

The Remuneration Committee's terms of reference are available from the Company Secretary and are displayed on the Group's website, www.lloydsbankinggroup.com/our-group/corporate-governance/board-committees/. These terms are reviewed each year to ensure compliance with the remuneration regulations and were last updated in November 2019.

LINK BETWEEN PAY AND PERFORMANCE

The Group's approach to reward is intended to provide a clear link between remuneration and delivery of its key strategic objectives, supporting the aim of becoming the best bank for customers, and through that, for shareholders. To this end, the performance management process has been developed, with the close participation of the Group's Risk team, to ensure there is a clear alignment between award outcomes and individual performance, growth and development, whilst also reflecting divisional achievement. The use of a balanced scorecard approach to measure performance enables the Remuneration Committee to assess the performance of the Group and its senior executives in a consistent and performance driven way. The Group's remuneration policy supports the business values and strategy, based on building long-term relationships with customers and colleagues and managing the financial consequences of business decisions across the entire economic cycle. Further detail can be found in the DRR and the DRP within the Lloyds Banking Group plc 2019 Annual Report and Accounts. In particular, see pages 104 to 106, 110 to 111 and 117.

DESIGN AND STRUCTURE OF REMUNERATION

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

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

Remuneration for control functions is set in relation to benchmark market data to ensure that it is possible to attract and retain staff with the appropriate knowledge, experience and skills. An appropriate balance between fixed and variable compensation supports this approach. Generally, control function staff receive a higher proportion of fixed remuneration than other colleagues and the aggregate ratio of fixed to variable remuneration for all control function staff does not exceed 100 per cent. Particular attention is paid to ensure remuneration for control function staff is linked to the performance of their function and independent from the business areas they control.

Appendix 4: Remuneration disclosure

The information below summarises the different remuneration elements for MRTs (this includes control function staff) and non-MRTs. All references to pages contained within the DRR or DRP relate to Lloyds Banking Group plc 2019 Annual Report and Accounts.

Base salary

Base salaries are reviewed annually, taking into account individual performance and market information. Further information on base salaries can be found on page 115 of the DRP.

Applies to:

– Senior Management, Executive Directors, members/attendees of the GEC and their respective direct reports
– Approved Persons performing SIFs and/or all colleagues performing a Senior Management Function
– Other MRTs
– Non-MRTs

Fees

Non-Executive Director fees are reviewed periodically by the Board. Further information on fees can be found on page 112 of the DRR and page 123 of the DRP.

Applies to:

– Non-Executive Directors (NEDs)

Fixed share award

The fixed share award, made annually, delivers Lloyds Banking Group shares over a period of five years. With effect from 2020 fixed share awards will be delivered over a period of three years (subject to shareholder approval for Executive Directors). Its purpose is to ensure that total fixed remuneration is commensurate with the role, responsibilities and experience of the individual; provides a competitive reward package; and is appropriately balanced with variable remuneration, in line with regulatory requirements. The fixed share award can be amended or withdrawn in the following circumstances:

– to reflect a change in role;
– to reflect a Group leave policy (e.g. parental leave or sickness absence);
– termination of employment with the Group;
– if the award would be inconsistent with any applicable legal, regulatory or tax requirements or market practice. Further information on fixed share awards can be found on page 116 of the DRP.

Applies to:

– Senior Management, Executive Directors, members/attendees of the GEC and their respective direct reports
– Approved Persons performing SIFs and/or all colleagues performing a Senior Management Function
– Other MRTs
– Non-MRTs

Benefits

Core benefits for UK-based colleagues include pension, private medical insurance, life insurance and other benefits that may be selected through the Group's flexible benefits plan. Further information on benefits and all-employee share plans can be found on page 116 of the DRP. Benefits can be amended or withdrawn in the following circumstances:

– to reflect a change to colleague contractual terms;
– to reflect a change of grade;
– termination of employment with the Group;
– to reflect a change of Reward Strategy/benefit provision;
– if the award would be inconsistent with any statutory or tax requirements.

Details of NEDs' benefits are set out on page 123 of the DRP.

Applies to:

– Non-Executive Directors (NEDs)
– Senior Management, Executive Directors, members/attendees of the GEC and their respective direct reports
– Approved Persons performing SIFs and/or all colleagues performing a Senior Management Function
– Other MRTs
– Non-MRTs

Short-term variable remuneration arrangements

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

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

The Group applies deferral arrangements to GPS and variable pay awards made to colleagues. GPS awards for MRTs are subject to deferral and a holding period in line with regulatory requirements and market practice. Further information on the GPS plan can be found on pages 110 to 111 of the DRR as well as page 117 of the DRP.

Applies to:

– Senior Management, Executive Directors, members/attendees of the GEC and their respective direct reports

Appendix 4: Remuneration disclosure

– Approved Persons performing SIFs and/or all colleagues performing a Senior Management Function
– Other MRTs
– Non-MRTs

Group ownership share plan

The Group Ownership Share (GOS) plan is an important tool for aligning the Group's reward strategy to the long-term performance of the business. Through the application of carefully considered, stretching target measures, the Group can ensure that awards are forfeited or restricted where performance does not meet the desired level. The GOS pays out in shares based on performance against Group financial and other non-financial strategic targets measured over a three-year period. Shares are released over a minimum three to five-year period and are then subject to a holding period (MRTs only) in line with regulatory requirements and market practice. Further information on the current GOS plan can be found on pages 110 and 111 of the DRR.

Subject to shareholder approval,it is proposed that the GOS plan be replaced with a Long Term Share Plan (LTSP) for Executive Directors with effect from 2020. The LTSP will share similarities to a restricted share plan with vesting subject to a set of three financial underpins and a further discretion for the Committee to amend the underpin vesting outcome. Shares will continue to be released over a minimum three to five-year period and subject to holding. Further details of the proposed LTSP for Executive Directors can be found on page 117 of the DRP.

Applies to:

– Senior Management, Executive Directors, members/attendees of the GEC and their respective direct reports
– Approved Persons performing SIFs and/or all colleagues performing a Senior Management Function
– Other MRTs
– Non-MRTs

Deferral, vesting and performance adjustment

At least 40 per cent of MRTs' variable remuneration above certain thresholds is deferred into Lloyds Banking Group Shares. For all MRTs, variable remuneration is deferred in line with the regulatory requirements for three, five or seven years, (depending on MRT category). At least 50 per cent of each release is subject to a 12 month holding period. For all colleagues, any deferred variable remuneration amount is subject to performance adjustment (malus) in accordance with the Group's Deferral and Performance Adjustment Policy.

MRTs' vested variable remuneration (including variable remuneration subject to a holding period) can be recovered from colleagues up to seven years after the date of award in the case of a material or severe risk event (clawback). This period may be extended to ten years where there is an ongoing internal or regulatory investigation. Clawback is used alongside other performance adjustment processes. Further information on deferral, vesting and performance adjustment can be found in the DRR on pages 110 and 111 and 118 of the DRP.

Guaranteed variable remuneration

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

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

Applies to:

– Senior Management, Executive Directors, members/attendees of the GEC and their respective direct reports
– Approved Persons performing SIFs and/or all colleagues performing a Senior Management Function
– Other MRTs
– Non-MRTs

Shareholding requirement

Executive Directors: see DRR page 108.

All other MRTs and non-MRTs: 25 per cent to 100 per cent of the aggregate of base salary and fixed share award depending on grade.

Applies to:

– Senior Management, Executive Directors, members/attendees of the GEC and their respective direct reports
– Approved Persons performing SIFs and/or all colleagues performing a Senior Management Function2
– Other MRTs2
– Non-MRTs2

Termination payments

Executive Directors and GEC members: see page 96 of the 2016 DRR.

All other termination payments comply with the Group's contractual, legal and regulatory requirements and are made in such a way as to ensure they do not reward failure or misconduct and reflect performance over time.

Applies to:

– Senior Management, Executive Directors, members/attendees of the GEC and their respective direct reports
– Approved Persons performing SIFs and/or all colleagues performing a Senior Management Function
– Other MRTs
– Non-MRTs

Appendix 4: Remuneration disclosure

Table 76: Analysis of high earners by band

Number of Material Risk Takers paid €1 million[1,2] or more	2019 Material Risk Takers[3,4]	2018 Material Risk Takers
€1.0m - €1.5m	22	23
€1.5m - €2.0m	5	7
€2.0m - €2.5m	–	7
€2.5m - €3.0m	4	1
€3.0m - €3.5m	2	2
€3.5m - €4.0m	–	3
€4.0m - €4.5m	–	–
€4.5m - €5.0m	–	–
€5.0m - €6.0m	1	–
€6.0m - €7.0m	–	–
€7.0m - €8.0m	–	1

1 Converted to Euros using the exchange rate €1 = £0.8518 (average exchange rate 1 December 2019 – 31 December 2019 based on the European Commission Budget exchange rates). The exchange rate used for 2018 was €1 = £0.89135.

2 Values for LTIP/Group Ownership Share awards based on expected value at grant pre the application of the EBA discount factor.

3 Total number of Material Risk Takers earning more than €1m has decreased from 44 in 2018 to 34 in 2019.

4 2019 and 2018 data has been calculated using methodology consistent with EBA guidelines.

Table 77: Aggregate remuneration expenditure (Material risk takers)

Analysis of aggregate remuneration expenditure by division

	Retail and Community Banking £m	Commercial Banking £m	Insurance & Wealth £m	Chief Operating Office and Group Functions[1] £m	Total £m
Aggregate remuneration expenditure	18.0	27.4	–-	82.0	127.4

1 Chief Operating Office and Group Functions comprises People and Productivity, Group Transformation, Chief Information Office, Chief Security Office, COO Business Risk, Risk, Finance, Legal, Strategy, Group Corporate Affairs, Group Internal Audit, Company Secretariat, Responsible Business and Inclusion and Diversity.

Table 78: Fixed and variable remuneration (Material risk takers)

Analysis of remuneration between fixed and variable amounts

		Awarded in relation to the 2019 performance year				
		Management Body				
Remuneration £m		Executive Directors	Non-Executive Directors	Senior Management[2]	Other MRTs	2019 Total
Fixed Remuneration £m	Number of employees	4	12	115	96	227
	Total fixed remuneration	6.9	–	46.2	25.5	78.6
	Of which: Cash based	4.8	–	42.3	24.9	72.0
	Of which: Shares[1]	2.1	–	3.9	0.6	6.6
Variable Remuneration £m	Total variable remuneration	2.8	–	30.7	15.3	48.8
	Of which: Upfront cash based	–	–	0.2	0.2	0.4
	Of which: Share based[3]	2.8	–	30.5	15.1	48.4
	Of which: Deferred					–
	Vested	0.1	–	9.7	7.7	17.5
	Unvested	2.7	–	20.8	7.4	30.9
Total Remuneration £m		9.7	–	76.9	40.8	127.4

1 Released over a five-year period.

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

3 Values for LTIP/Group Ownership Share awards based on expected value at the date of grant pre the application of the EBA discount factor.

Appendix 4: Remuneration disclosure

Table 79: Total outstanding deferred variable remuneration

		Total outstanding deferred variable remuneration at 31 December 2019				
		Management Body				
	Remuneration £m	Executive Directors	Non-Executive Directors	Senior Management	Other MRTs	2019 Total
Variable Remuneration £m	Number of employees	4	12	115	96	227
	Total outstanding deferred variable remuneration	27.3	–	116.3	37.9	181.5
	Of which : Vested	4.6	–	16.3	6.2	27.1
	Of which : Unvested	22.7	–	100.0	31.7	154.4

Table 80: Other payments awarded in relation to the 2019 performance year

	Guaranteed bonuses		Sign on awards		Severance payments	
	Number of awards made	Total £m	Number of awards made	Total £m	Number of awards made	Total £m
Management Body	–	–	–	–	–	–
Senior Management	1	0.2	–	–	–	–
Other Material Risk Takers	–	–	–	–	–	–

Table 81: Deferred remuneration

Analysis of deferred remuneration at 31 December 2019

Remuneration £m	Total amount of outstanding deferred[1] and retained[2] remuneration	Of which: Total amount of outstanding remuneration exposed to ex-post explicit and / or implicit adjustment	Total amount of amendment during the year due to ex-post explicit adjustments	Total amount of deferred remuneration paid out in the performance year
Management Body[3]	27.3	27.3	–	5.9
Senior Management	116.3	116.3	–	22.9
Other Material Risk Takers	37.9	37.9	–	11.4

1 Deferred in this context refers only to any unvested remuneration.

2 Retained refers to any variable remuneration for which the deferral period has ended but which is still subject to a holding period before release.

3 Reference to the 'Management Body' relates to Executive Directors only. Non-Executive Directors are not eligible to receive variable remuneration.

Appendix 5: Differences in the accounting and regulatory scopes of consolidation

Table 82: Outline of the differences between the accounting and regulatory scopes of consolidation (LI3)[1]

2019

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation: Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	Description of entity
	a	b	c	d	e	f
Securitisation SPEs[2]						
CANCARA ASSET SECURITISATION LTD	Full Consolidation			x		Special Purpose Entity
CHELTENHAM SECURITIES 2017 LIMITED	Full Consolidation			x		Special Purpose Entity
CHELTENHAM II SECURITIES 2020 DAC	Full Consolidation			x		Special Purpose Entity
FONTWELL SECURITIES 2016 LIMITED	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 1) LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 3) LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 10) LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO.11) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 12) LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO.13) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO.14) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 15) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO.16) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 19) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 20) LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 21) LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 22) LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 23) LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 24) LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 25) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 26) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 27) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 28) LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 29) LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 30) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 31) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 32) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 33) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 34) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 35) LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 36) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 37) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 38) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 39) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 40) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 41) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 42) LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 44) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 45) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 46) UK LTD	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 47) UK LIMITED	Full Consolidation			x		Special Purpose Entity
GRESHAM RECEIVABLES (NO. 48) UK LIMITED	Full Consolidation			x		Special Purpose Entity
HOUSING ASSOCIATION RISK TRANSFER 2019 DESIGNATED ACTIVITY COMPANY	Full Consolidation			x		Special Purpose Entity
LEICESTER SECURITIES 2014 LTD	Full Consolidation			x		Special Purpose Entity
SALISBURY II SECURITIES 2016 LTD	Full Consolidation			x		Special Purpose Entity
SALISBURY II-A SECURITIES 2017 LIMITED	Full Consolidation			x		Special Purpose Entity
SALISBURY III SECURITES 2019 DAC	Full Consolidation			x		Special Purpose Entity
SALISBURY SECURITIES 2015 LTD	Full Consolidation			x		Special Purpose Entity
WETHERBY SECURITIES 2017 LIMITED	Full Consolidation			x		Special Purpose Entity
WETHERBY II SECURITIES 2018 DAC	Full Consolidation			x		Special Purpose Entity
WETHERBY III SECURITIES 2019	Full Consolidation			x		Special Purpose Entity

1 The regulatory treatment of all entities listed as subsidiaries in the 2019 Lloyds Bank plc Annual Report and Accounts, pages 198 to 201, follows the accounting treatment unless otherwise stated in the table above.

2 The Group's capital-efficient securitisations and conduit vehicles are fully consolidated for accounting purposes. The underlying assets of the capital-efficient securitisations have been de-recognised from the regulatory balance sheet and replaced with the retained securitisation positions, risk weighted in line with the securitisation framework. The conduit vehicles are deconsolidated for regulatory purposes and the corresponding liquidity lines are risk-weighted, as further described in the Securitisation section, pages 64 to 75.

Appendix 6: EBA and BCBS adopted templates

List of EBA and BCBS templates disclosed in Pillar 3 Report

Table	Abbreviation	Template name
1	KM1	Key Metrics
2	LI1	Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories
3	LI2	Main sources of differences between regulatory exposure amounts and carrying values in financial statements
7	OV1	Overview of risk-weighted assets
8	CR8	Risk-weighted assets flow statements of credit risk exposures
9	CR3	CRM techniques – Overview
13-18	CR9	Backtesting of PD per portfolio
20	CRB-B	Total and average net amount of exposures
21-26; 28-30	CR6	IRB – Credit risk exposures by portfolio and PD range
31	CR10	IRB - specialised lending
32	CR4	Standardised approach – Credit risk exposure and Credit Mitigation (CRM) effects
33	CR5	Standardised approach - Exposure by asset class
34	CRB-C	Geographical breakdown of exposures
36	CRB-D	Concentration of exposures by industry
37	CRB-E	Maturity of exposures
38	CR1-A	Credit quality of exposures by exposure class and instrument
39	CR1-B	Credit quality of exposures by industry types
40	CR1-C	Credit quality of exposures by geography
41	CQ1	Credit quality of forborne exposures
42	CQ3	Credit quality of performing and non-performing exposures by past due days
43	CR1	Performing and non-performing exposures and related provisions
54	CCR1	Analysis of CCR exposure by approach
55	CCR8	Exposures to CCPs
56	CCR2	Credit Valuation Adjustment (CVA) capital charge
58-60	CCR4	IRB – CCR exposure by portfolio and PD scale
62	CCR3	Standardised approach – CCR exposures by regulatory portfolio and risk
64	CCR5-A	Impact of netting and collateral held on exposure values
65	CCR6	Credit derivatives exposures
70	PV1	Prudential valuation adjustment
82	LI3	Outline of the differences between the accounting and regulatory scopes of consolidation

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Appendix 6: EBA and BCBS adopted templates continued

List of excluded EBA and BCBS templates

Abbreviation	Template name	Reasons for excluding
KM2	Key Metrics – TLAC Requirements	Not Applicable at Lloyds Bank Group level
INS1	Non-deducted participations in insurance undertakings	Not Applicable at Lloyds Bank Group level
CR10	IRB – Equity	Not Applicable at Lloyds Bank Group level
CQ2	Quality of forbearance	Threshold for disclosure not met
CQ4	Quality of non-performing exposures by geography	Threshold for disclosure not met
CQ5	Credit quality of loans and advances by industry	Threshold for disclosure not met
CQ6	Collateral valuation – loans and advances	Threshold for disclosure not met
CR2	Changes in the stock of non-performing loans and advances	Threshold for disclosure not met
CQ7	Collateral obtained by taking possession and execution processes	Threshold for disclosure not met
CR2-A	Changes in the stock of general and specific credit risk adjustments	Equivalent disclosures are provided in the Lloyds Bank plc ARA
CR2-B	Changes in the stock of defaulted and impaired loans and debt securities	Equivalent disclosures are provided in the Lloyds Bank plc ARA
CR7	IRB – Effect on the RWAs of credit derivatives used as CRM techniques	Excluded on materiality basis
CCR7	RWA flow statements of CCR exposures under the IMM	Not Applicable at Lloyds Bank Group level
CCR5-B	Composition of collateral for exposures to CCR	Threshold for disclosure not met
MR4	Comparison of VaR estimates with gains/losses	Excluded on materiality basis
MR3	IMA values for trading portfolios	Excluded on materiality basis
MR2-A	Market risk under the Internal Models Approach	Excluded on materiality basis
MR2-B	Risk-weighted assets flow statements of market risk exposures under an IMA	Excluded on materiality basis
MR1	Market risk under standardised approach	Excluded on materiality basis
TLAC1	Total loss absorbing capital composition	Not Applicable at Lloyds Bank Group level
TLAC2	Material sub-group entity – creditor ranking at legal entity level	Not Applicable at Lloyds Bank Group level
TLAC3	Resolution entity – creditor ranking at legal entity level	Not Applicable at Lloyds Bank Group level
CC1	Composition of Regulatory Capital	Equivalent disclosure provided in Table 68
CC2	Reconciliation of Regulatory Capital to the balance sheet	Equivalent disclosure provided in Table 4
IRRBB1	Quantitative information on IRRBB	Equivalent disclosures are provided in appendix 4
REM1	Remuneration awarded during the financial year	Equivalent disclosures are provided in appendix 5
REM2	Special payments	Equivalent disclosures are provided in appendix 5
REM3	Deferred remuneration	Equivalent disclosures are provided in appendix 5
SEC1	Securitisation exposures in the banking book	Pillar 1 Capital requirements: credit risk – securitisation contains equivalent disclosures
SEC2	Securitisation exposures in the trading book	Pillar 1 Capital requirements: credit risk – securitisation contains equivalent disclosures
SEC3	Securitisation exposures in the banking book and associated regulatory capital requirements – bank acting as originator or sponsor	Pillar 1 Capital requirements: credit risk – securitisation contains equivalent disclosures
SEC4	Securitisation exposures in the banking book and associated regulatory capital requirements – bank acting as investor	Pillar 1 Capital requirements: credit risk – securitisation contains equivalent disclosures

Appendix 7: CRR mapping

CRR ref	High-level summary	Pillar 3	ARA	20-F	Compliance reference
Scope of disclosure requirements					
431 (1)	Requirement to publish Pillar 3 disclosures.	x			Lloyds Bank plc publishes Pillar 3 disclosures.
431 (2)	Firms with permission to use specific operational risk methodologies must disclose operational risk information.	x			Page 5 (Disclosure Policy).
				x	The Group's operational risk systems, mitigation and approach to capital requirements are disclosed on page 60 of the Lloyds Bank plc 20-F
431 (3)	Institution must have a policy covering frequency of disclosures, their verification, comprehensiveness and appropriateness. Institution must also have policies for assessing whether their disclosures convey their risk profile comprehensively to market participants.	x			Page 5 (Disclosure Policy).
431 (4)	Explanation of ratings decision upon request.				Not applicable
Non-material, proprietary or confidential information					
432 (1)	Institutions may omit information that is not material if certain conditions are respected.	x			Page 5 (Basis of preparation)
432 (2)	Institutions may omit information that is proprietary or confidential if certain conditions are respected.				Not applicable
432 (3)	Where 432 (2) applies this must be stated in the disclosures, and more general information must be disclosed.				Not applicable
432 (4)	Use of 432 (1), (2) or (3) is without prejudice to scope of liability for failure to disclose material information.				Not applicable
Frequency of disclosure					
433	Disclosures must be published once a year at a minimum and more frequently if necessary.	x			Page 5 (Frequency, media and location)
Means of disclosure					
434 (1)	To include all disclosures in one appropriate medium, or provide clear cross-references.	x			Page 5 (Frequency, media and location)
434 (2)	Disclosures made under other requirements (e.g. accounting) can be used to satisfy Pillar 3 if appropriate.	x			Any cross-references to accounting or other disclosures are clearly signposted in this document, where appropriate.
Risk management objectives and policies					
435 (1)	Disclose information on:				
435 (1) (a)	The strategies and processes to manage risks.			x	Lloyds Bank plc Form 20-F pages 19-76
435 (1) (b)	Structure and organisation of risk management function.			x	Lloyds Bank plc Form 20-F pages 19-76
435 (1) (c)	Risk reporting and measurement systems.			x	Lloyds Bank plc Form 20-F pages 19-76
435 (1) (d)	Hedging and mitigating risk – policies and processes.			x	Lloyds Bank plc Form 20-F pages 19-76
435 (1) (e)	A declaration of adequacy of risk management arrangements approved by the Board.			x	Page 85 of Lloyds Bank plc 20-F (Board responsibility)
435 (1) (f)	Concise risk statement approved by the Board.			x	Page 12 of Lloyds Bank plc Annual Report and Accounts (Risk overview)
435 (2)	Information on governance arrangements, including information on Board composition and recruitment and risk committees.			x	Page 26 of Lloyds Bank plc 20-F (Risk Governance) Page 81 of Lloyds Bank plc 20-F(Corporate Governance)
435 (2) (a)	Number of directorships held by Board members.	x			Appendix 3 Board of Directors
435 (2) (b)	Recruitment policy for selection of Board members, their actual knowledge, skills and expertise.	x			Appendix 3 Board of Directors
435 (2) (c)	Policy on diversity of Board membership and results against targets.	x			Appendix 3 Board of Directors
435 (2) (d)	Disclosure of whether a dedicated risk committee is in place, and number of meeting in the year.			x	Page 81 of Lloyds Bank plc 20-F (Corporate Governance)
435 (2) (e)	Description of information flow on risk to Board.			x	Lloyds Bank plc Form 20-F pages 19-76
Scope of application					
436 (a)	Name of institution.	x			Page 4 Introduction.
436 (b)	Difference in basis of consolidation for accounting and prudential purposes, describing entities that are:	x			Page 6 (Scope of Consolidation).
436 (b) (i)	Fully consolidated;	x			Page 6 (Scope of Consolidation).
436 (b) (ii)	Proportionally consolidated;	x			
436 (b) (iii)	Deducted from own funds;	x			
436 (b) (iv)	Neither consolidated nor deducted.	x			

Appendix 7: CRR mapping continued

CRR ref	High-level summary	Pillar 3	ARA	20-F	Compliance reference
436 (c)	Impediments to transfer of own funds between parent and subsidiaries.				not applicable
436 (d)	Capital shortfalls in any subsidiaries outside the scope of consolidation.	x			Page 12 (Capital Risk) The group actively manages the capital of its subsidiaries to ensure they remain appropriately capitalised
436 (e)	Making use of articles on derogations from a) prudential requirements or b) liquidity requirements for individual subsidiaries/entities.	x			Page 6 (Scope of Consolidation).
Own funds					
437 (1)	Disclose the following information regarding own funds:				
437 (1) (a)	a full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and filters and deductions applied pursuant to Articles 32 to 35, 36, 56, 66 and 79 to own funds of the institution and the balance sheet in the audited financial statements of the institution;	x x			Page 93 own funds reconciliation
437 (1) (b)	a description of the main features of the Common Equity Tier 1 and Additional Tier 1 instruments and Tier 2 instruments issued by the institution;				Separately disclosed on Lloyds Banking Group website https://www.lloydsbankinggroup.com/investors/financial-performance
437 (1) (c)	the full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments;				Separately disclosed on Lloyds Banking Group website https://www.lloydsbankinggroup.com/investors/financial-performance
437 (1) (d)	disclosure of the nature and amounts of the following:				Page 93 own funds reconciliation
437 (1) (d) (i)	each prudential filter applied pursuant to Articles 32 to 35.	x			
437 (1) (d) (ii)	each deduction made pursuant to Articles 36, 56 and 66;	x			
437 (1) (d) (iii)	items not deducted in accordance with				
	Articles 47, 48, 56, 66 and 79;	x			
437 (1) (e)	a description of all restrictions applied to the calculation of own funds in accordance with this Regulation and the instruments, prudential filters and deductions to which those restrictions apply;	x			
437 (1) (f)	where institutions disclose capital ratios calculated using elements of own funds determined on a different basis.				Not applicable
Capital requirements					
438 (a)	Summary of institution's approach to assessing adequacy of capital levels.	x			Page 12 (Capital Risk)
438 (b)	Result of ICAAP on demand from authorities.				Not applicable
438 (c)	Capital requirements for each Standardised approach credit risk exposure class.	x			Table 20 – Total and average net amount of exposures CRB-B
438 (d)	Capital requirements for each Internal Ratings Based Approach credit risk exposure class.	x			
438 (e)	Capital requirements for market risk or settlement risk.	x			Table 7 – Overview of Risk-weighted Assets (OV1)
438 (f)	Capital requirements for operational risk, separately for the Basic Indicator Approach, the Standardised Approach, and the Advanced Measurement Approaches as applicable.	x			Page 87 – Operational Risk
438 (endnote)	Requirement to disclose specialised lending exposures and equity exposures in the banking book falling under the simple risk weight approach.	x			Page 45 Table 31: IRB-Specialised lending (CR10) Equity exposures – not applicable
Exposure to counterparty credit risk (CCR)					
439 (a)	Description of process to assign internal capital and credit limits to CCR exposures.	x			Page 77 (internal capital and credit limits)
439 (b)	Discussion of policies for securing collateral and establishing credit reserves.	x			Page 77 (securing collateral and establishing credit reserves)
439 (c)	Discussion of management of wrong-way risk exposures.	x			Page 77 (Correlation (wrong way) risk)
439 (d)	Disclosure of collateral to be provided (outflows) in the event of a ratings downgrade.	x			Page 77 (Collateral requirements in the event of a downgrade in credit rating)
439 (e)	Derivation of net derivative credit exposure.	x			Page 84 (Net derivatives credit exposures, including Table 64: Impact of netting and collateral held on exposure value (CCR5-A))
439 (f)	Exposure values for mark-to-market, original exposure, standardised and internal model methods.	x			Page 78 (Table 54: Analysis of CCR expoure by approach (CCR1))

Appendix 7: CRR mapping continued

CRR ref	High-level summary	Pillar 3	ARA	20-F	Compliance reference
439 (g)	Notional value of credit derivative hedges and current credit exposure by type of exposure.	x			Page 85 (Notional value of credit derivative transactions including Table 65: Credit Derivative Exposures (CCR6))
439 (h)	Notional amounts of credit derivative transactions.	x			
439 (i)	Estimate of alpha, if applicable.				Not applicable
Capital buffers					
440 (1) (a)	Geographical distribution of relevant credit exposures for calculation of countercyclical capital buffer.	x			Page 98 (Table 74 Geographic distribution of credit exposures relevant for the calculation of the countercyclical capital buffer)
440 (1) (b)	Amount of the institution specific countercyclical capital buffer.	x			
Indicators of global systemic importance					
441 (1)	Disclosure of the indicators of global systemic importance.				Not applicable
Credit risk adjustments					
442 (a)	Disclosure of bank's definitions of past due and impaired.	x			Pillar 3: Page 55 (Impairment and credit quality of exposures) Pillar 3: Page 59 (Analysis of past due, non-performing and forborne exposures)
442 (b)	Approaches for calculating specific and general credit risk adjustments.		x		ARA: Page 43 (Note 2(h): Accounting policies, Impairment of Financial assets)
442 (c)	Disclosure of pre-CRM EAD by exposure class.	x			Page 37 (Table 20: Total and average net amount of exposures (CRB-B))
442 (d)	Disclosure of pre-CRM EAD by geography and exposure class.	x			Page 48 (Table 34: Geographical breakdown of exposures (CRB-C))
442 (e)	Disclosure of pre-CRM EAD by industry and exposure class.	x			Page 51 (Table 36: Concentration of exposures by industry (CRB-D))
442 (f)	Disclosure of pre-CRM EAD by residual maturity and exposure class.	x			Page 53 (Table 37: Maturity of exposures (CRB-E))
442 (g) (i), (ii), (iii)	Breakdown of impaired, past due, specific and general credit risk adjustments, and impairment charges for the period, by industry.	x			Page 57 (Table 39: Credit quality of exposures by industry types (CR1-B))
442 (h)	Impaired, past due exposures, by geographical area, and amounts of specific and general impairment for each geography.	x			Page 59 (Table 40: Credit quality of exposures by geography (CR1-C)) Page 59 (Analysis of past due, non-performing and forborne exposures)
442 (i), (ii), (iii), (iv), (v)	Reconciliation of changes in specific and general credit risk adjustments for impaired exposures.		x		Page 79 (Note 18: Allowance for impairment losses)
442 (endnote)	Specific credit risk adjustments recorded to income statement are disclosed separately.		x		Page 57 (Table 39: Credit quality of exposures by industry types (CR1-B))
Unencumbered assets					
443	Disclosures on unencumbered assets.	x			Page 100: Appendix 2: Asset Encumbrance
Use of ECAIs					
444 (a)	Names of the ECAIs used in the calculation of Standardised approach risk-weighted assets and reasons for any changes.	x			Page 46 (Analysis of credit risk exposures subject to the Standardised approach)
444 (b)	Exposure classes associated with each ECAI.	x			Page 47 (Table 33: Standardised approach – exposures by asset class (CR5))
444 (c)	Description of the process used to transfer credit assessments to non-trading book items.	x			
444 (d)	Mapping of external rating to CQS.				Not applicable The Group complies with the standard association published on the EBA website.
444 (e)	Exposure value pre and post-credit risk mitigation, by CQS.	x			Page 46 (Table 32: Standardised approach – credit risk exposures and Credit Risk Mitigation (CRM) effects (CR4)) Page 47 (Table 33 Standardised approach – exposures by asset class (CR5))
Exposure to market risk					
445	Disclosure of position risk, large exposures exceeding limits, FX, settlement and commodities risk.				Not applicable
Operational risk					
446	Scope of approaches used to calculate operational risk.	x			Page 87 – Operational Risk

Appendix 7: CRR mapping continued

CRR ref	High-level summary	Pillar 3	ARA	20-F	Compliance reference
Exposure in equities not included in the trading book					
447 (a)	Differentiation of exposures based on objectives and an overview of accounting techniques and valuation methodologies.				Not applicable
447 (b)	The balance sheet value, the fair value and, for those exchange-traded, a comparison to the market price where it is materially different from the fair value.				Not applicable
447 (c)	The types, nature and amounts of exchange-traded exposures, private equity exposures in sufficiently diversified portfolios, and other exposures.				Not applicable
447 (d)	Realised gains or losses arising from sales and liquidations in the period.				Not applicable
447 (e)	Total unrealised gains or losses, the total latent revaluation gains or losses, and any of these amounts included in the original or additional own funds.				Not applicable
Exposure to interest rate risk on positions not included in the trading book					
448 (a)	Nature of the interest rate risk and the key assumptions, and frequency of measurement of the interest rate risk.			x	Page 72 of Lloyds Bank 20-F (Market risk)
448 (b)	Variation in earnings, economic value or other relevant measure used by the bank for upward and downward rate shocks according to the banks method for measuring the interest rate risk, broken down by currency.			x	Page 72 of Lloyds Bank 20-F (Market risk)
Exposure to securitisation positions					
449 (a)	Objectives in relation to securitisation activity.	x			Page 65 (Banking book securitisation strategy and roles)
449 (b)	Nature of other risks in securitised assets, including liquidity.	x			Page 67 (Risks inherent in banking book securitised assets)
449 (c)	Risks in re-securitisation activity stemming from seniority of underlying securitisations and ultimate underlying assets.	x			Not Applicable
449 (d)	The roles played by the institution in the securitisation process.	x			Page 65 (Banking book securitisation strategy and roles)
449 (e)	Indication of the extent of involvement in roles.	x			Page 66 (Table 45: Summary of securitisation exposures and capital requirements)
449 (f)	Processes in place to monitor changes in credit and market risks of securitisation exposures, and how the processes differ for re-securitisation exposures.	x			Page 67 (Monitoring changes in the credit risk of securitised exposures and Monitoring changes in the credit risk of ABS portfolios)
449 (g)	Description of the institution's policies with respect to hedging and unfunded protection, and identification of material hedge counterparties.	x			Page 71 (Use of credit derivatives and guarantees)
449 (h)	Approaches to the calculation of risk-weighted assets for securitisations mapped to types of exposures.	x			Page 66 (Table 45: Summary of securitisation exposures and capital requirements)
449 (i)	Types of SSPEs used to securitise third-party exposures as a sponsor.	x			Page 71 (Sponsored and invested securitisations)
449 (j) (i-vi)	Summary of accounting policies for securitisations.	x			Page 70 (Accounting treatment)
449 (k)	Names of ECAIs used for securitisations and type.	x			Page 67 (Originated securitisations – regulatory treatment) Page 72 (Capital assessment)
449 (l)	Full description of Internal Assessment Approach.	x			Page 72 (Capital assessment)
449 (m)	Explanation of significant changes in quantitative disclosures.	x			Key movements explained where applicable under relevant tables
449 (n)	As appropriate, separately for the Banking and trading book securitisation exposures:	x			
449 (n) (i)	Amount of outstanding exposures securitised;	x			Page 66 (Table 45: Summary of securitisation exposures and capital requirements)

Appendix 7: CRR mapping continued

CRR ref	High-level summary	Pillar 3	ARA	20-F	Compliance reference
449 (n) (ii)	On balance sheet securitisation retained or purchased, and off balance sheet exposures;	x			Page 69 (Table 48A: Analysis of originated positions under the RBA by risk weight category (grandfathered), Table 48B: Analysis of originated positions under the IRBA by risk weight category (revised framework)) Page 70 (Table 49: Analysis of originated positions under the Standardised approach (grandfathered) by risk weight category) Page 72 (Table 50A: Analysis of sponsored positions by risk weight category (grandfathered)) Page 73 (Table 50B: Analysis of sponsored positions by risk weight category (revised framework)) Page 74 and 75 (Table 51A: Analysis of invested positions by risk weight category (grandfathered) and Table 51B: Analysis of invested positions by risk weight category (revised framework))
449 (n) (iii)	Amount of assets awaiting securitisation;	x			Not applicable
449 (n) (iv)	Early amortisation treatment; aggregate drawn exposures, capital requirements.	x			Not applicable
449 (n) (v)	Deducted or 1,250%-weighted securitisation positions.	x			Page 66 (Table 45: Summary of securitisation exposures and capital requirements)
449 (n) (vi)	Securitisation activity including the amount of exposures securitised and recognised gains or losses on sales;	x			Page 66 (Securitisation programmes and activity)
449 (o)	Banking and trading book securitisations.	x			
449 (o) (i)	Retained and purchased positions and associated capital requirements, broken down by risk-weight bands.	x			Page 69 (Table 48A: Analysis of originated positions under the RBA by risk weight category (grandfathered), Table 48B: Analysis of originated positions under the IRBA by risk weight category (revised framework)) Page 70 (Table 49: Analysis of originated positions under the Standardised approach (grandfathered) by risk weight category) Page 72 (Table 50A: Analysis of sponsored positions by risk weight category (grandfathered)) Page 73 (Table 50B: Analysis of sponsored positions by risk weight category (revised framework)) Page 74 and 75 (Table 51A: Analysis of invested positions by risk weight category (grandfathered) and Table 51B: Analysis of invested positions by risk weight category (revised framework))
449 (o) (ii)	Retained and purchased re-securitisation positions before and after hedging and insurance; exposure to financial guarantors broken down by guarantor credit worthiness.	x			Not applicable
449 (p)	Impaired assets and recognised losses related to banking book securitisations, by exposure type.	x			Page 68 (Table 47: Analysis of gross securitised exposures on a regulatory basis)
449 (q)	Exposure and capital requirements for trading book securitisations, separated into traditional and synthetic.	x			Not applicable
449 (r)	Whether the institution has provided non-contractual financial support to securitisation vehicles.	x			Not applicable
Remuneration disclosure					
450	Remuneration disclosures (Material Risk Takers).	x			Appendix 4: Remuneration disclosures (Material Risk Takers).
Leverage					
451 (1) (a) 451 (1) (b) 451 (1) (c)	Leverage ratio, and breakdown of total exposure measure, including reconciliation to financial statements, and derecognised fiduciary items.	x			Page 96 (Table 71: Leverage ratio common disclosure and Table 72: Summary reconciliation of accounting assets and leverage ratio exposures) Page 97 (Table 73: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures))
451 (1) (d) 451 (1) (e)	Description of the processes used to manage the risk of excessive leverage, and factors that impacted the leverage ratio during the year.	x			Page 97 (Description of the processes used to manage the risk of excessive leverage)

Appendix 7: CRR mapping continued

CRR ref	High-level summary	Pillar 3	ARA	20-F	Compliance reference
Use of the IRB approach to credit risk					
452 (a)	Permission for use of the IRB approach from the competent authority.	x			Page 26 (Scope of the IRB permission)
452 (b)	Explanation of:				
452 (b) (i)	Internal rating scales, mapped to external ratings;	x			Page 25 Internal rating scales
452 (b) (ii)	Use of internal ratings for purposes other than capital requirement calculations;	x			Page 28 (other applications of model outputs)
452 (b) (iii)	Management and recognition of credit risk mitigation;	x			Page 20 (Credit Risk Mitigation)
452 (b) (iv)	Controls around ratings systems.	x			Page 27 (Internal development and monitoring of IRB models)
452 (c) (i)-(v)	Description of ratings processes for each IRB asset class, provided separately.	x			Page 26 (Scope of the IRB permission) and Page 27 (Internal development and monitoring of IRB models)
452 (d)	Exposure values by IRB exposure class, separately for Advanced and Foundation IRB.	x			Page 37 (Table 20: Total and average net amount of exposures (CRB-B)). This is also shown in other tables throughout the document.
452 (e)-(f)	For each exposure class, disclosed separately by obligor grade: Total exposure, separating loans and undrawn exposures where applicable, and exposure-weighted average risk weight.	x			Pages 40 to 45 (Analysis of Credit Risk Exposures subject to the Foundation IRB approach including Tables 21-31 (CR6 and CR10))
452 (g)	Actual specific risk adjustments for the period and explanation of changes.	x			Page 62 Comparison of expected losses to specific credit risk adjustments
452 (h)	Commentary on drivers of losses in preceding period.	x			Page 63 (Table 44: Regulatory expected losses and specific credit risk adjustments)
452 (i)	Estimates against actual losses for sufficient period, and historical analysis to help assess the performance of the rating system over a sufficient period.	x			Pages 30 to 36 (Model performance including Table 19: Model performance and Tables 13 -18 Back-testing of PD per portfolio (CR9))
452 (j)	For all IRB exposure classes:				
452 (j) (i)-(ii)	Where applicable, PD and LGD by each country where the bank operates.	x			Page 50 (Table 35:Exposures subject to the IRB approach analysed by geographical region)
Use of credit risk mitigation techniques					
453 (a)	Use of on and off-balance sheet netting.	x			Page 20 (Credit Risk Mitigation)
453 (b)	How collateral valuation is managed.	x			
453 (c)	Description of types of collateral used by the institution.	x			
453 (d)	Main types of guarantor and credit derivative counterparty, creditworthiness.	x			
453 (e)	Market or credit risk concentrations within risk mitigation exposures.			x	Page 34 (Credit Risk – limitations on concentrations)
453 (f)	Standardised or Foundation IRB Approach, exposure value covered by eligible collateral.	x			Page 23 (Table 9: CRM Techniques – Overview (CR3))
453 (g)	Exposures covered by guarantees or credit derivatives.	x			
Use of the Advanced Measurement Approaches to Operational Risk					
454	Description of the use of insurance or other risk transfer mechanisms to mitigate operational risk.				Not applicable
Use of Internal Market Risk Models					
455 (a) (i)	Disclosure of the characteristics of the market risk models.				Not applicable
455 (a) (ii)	Disclosure of the methodologies used to measure incremental default and migration risk.				Not applicable
455 (a) (iii)	Descriptions of stress tests applied to the portfolios.				Not applicable
455 (a) (iv)	Methodology for back-testing and validating the models.				Not applicable
455 (b)	Scope of permission for use of the models.				Not applicable
455 (c)	Policies and processes to determine trading book classification, and to comply with prudential valuation requirements.				Not applicable
455 (d) (i)-(iii)	High/Low/Mean values over the year of VaR, SVaR and incremental risk charge.				Not applicable
455 (e)	The elements of the own fund calculation.				Not applicable
455 (f)	Weighted average liquidity horizons of portfolios covered by models.				Not applicable
455 (g)	Comparison of end-of-day VaR measures compared with one-day changes in the portfolio's value.				Not applicable

Abbreviations

Abbreviation	Brief description
A	
ABCP	Asset-backed commercial paper
ABS	Asset-backed securities
AIRB	Advanced Internal Ratings-Based Approach
ALRB	Additional Leverage Ratio Buffer
AMA	Advanced Measurement Approach
ARA	Annual Report and Accounts
AT1	Additional Tier 1 capital
B	
BCBS	Basel Committee on Banking Supervision
BEEL	Best estimate of expected losses
BoE	Bank of England
BRC	Board Risk Committee
C	
CCB	Capital Conservation Buffer
CCF	Credit conversion factor
CCLB	Countercyclical Leverage Buffer
CCP	Central counterparty
CCR	Counterparty credit risk
CCyB	Countercyclical Capital Buffer
CDS	Credit default swap
CET1	Common equity tier 1 capital
CLN	Credit linked notes
CP	Commercial paper
CRD IV	Capital Requirements Directive & Regulation
CRM	Credit risk mitigation
CRR	Capital Requirements Regulation
CSA	Credit support annex
CVA	Credit valuation adjustment
D	
DVA	Debit valuation adjustment
E	
EAD	Exposure at default
EBA	European Banking Authority
ECAI	External Credit Assessment Institutions
EEL	Excess expected loss
EL	Expected loss
EU	European Union
F	
FCCM	Financial Collateral Comprehensive Method
FII	Financial Institutions Interconnectedness
FIRB	Foundation Internal Ratings-Based Approach
Fitch	Fitch Ratings
FPC	Financial Policy Committee (UK)
FRTB	Fundamental review of the trading book (BCBS)
G	
GALCO	Group Asset and Liability Committee
GEC	Group Executive Committee
GRC	Group Risk Committee
Group	Lloyds Bank plc together with its subsidiary undertakings on a consolidated basis
G-SIB	Global Systemically Important Bank
H	
HPI	House price index
HQLA	High quality liquid assets
I	
IAA	Internal Assessment Approach
IAS	International Accounting Standard
ICAAP	Internal Capital Adequacy Assessment Process
ICG	Individual Capital Guidance
IFRS	International Financial Reporting Standards
IMM	Internal Model Method
IRB	Internal Ratings-Based Approach
IRRBB	Interest rate risk in the banking book
IRC	Incremental risk charge
ISDA	International Swaps and Derivatives Association
L	
LCR	Liquidity coverage ratio
LGD	Loss given default
LIBOR	London Interbank Offer Rate
LTV	Loan-to-value
M	
MGC	Model Governance Committee
Moody's	Moody's Investors Service
MTM	Mark-to-market
O	
OTC	Over-the-counter
P	
PD	Probability of default
PFE	Potential future exposure
PIT	Point-in-time
PRA	Prudential Regulation Authority (UK)
PRR	Position risk requirement
PV1	Prudential valuation adjustment
PVA	Prudent valuation adjustment
Q	
QCCP	Qualifying Central Counterparty
QRRE	Qualifying revolving retail exposure
R	
RBA	Ratings Based Approach
RIRB	Retail Internal Ratings Based Approach
RMBS	Residential mortgage-backed security
RNIV	Risks not in VaR

Abbreviations continued

S	
STA	Standardised Approach
S&P	Standard and Poor's
SCRA	Specific credit risk adjustment
SE	Structured entity
SFTs	Securities financing transactions
SME	Small and medium-sized enterprise
SRB	Systemic risk buffer
SRT	Significant risk transfer
T	
TTC	Through-the-cycle
T1	Tier 1 capital
T2	Tier 2 capital
U	
UK	United Kingdom
US	United States of America
V	
VaR	Value-at-risk

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